ETHIOPIA

TEXTILE AND CLOTHING VALUE CHAIN ROADMAP

2016-2020

International Trade Centre

TEXTILE & CLOTHING VALUE CHAIN ROADMAP OF **ETHIOPIA**

TEXTILE & CLOTHING
VALUE CHAIN ROADMAP OF ETHIOPIA

This value chain roadmap was developed on the basis of the process, methodology and technical assistance of the International Trade Centre (ITC) within the framework of its Trade Development Strategy programme.

ITC is the joint agency of the World Trade Organization and the United Nations. As part of the ITC mandate of fostering sustainable development through increased trade opportunities, the Export Strategy section offers a suite of trade-related strategy solutions to maximize the development payoffs from trade. ITC-facilitated trade development strategies and roadmaps are oriented to the trade objectives of a country or region and can be tailored to high-level economic goals, specific development targets or particular sectors, allowing policymakers to choose their preferred level of engagement.

The International Trade Centre (ITC)

Street address: ITC, 54-56, rue de Montbrillant, 1202 Geneva, Switzerland
Postal address: ITC Palais des Nations 1211 Geneva, Switzerland
Telephone: +41-22 730 0111
Postal address: ITC, Palais des Nations, 1211 Geneva, Switzerland
Email: itcreg@intracen.org
Internet: http://www.intracen.org

Layout: Jesús Alés – www.sputnix.es

ACKNOWLEDGMENTS

This value chain roadmap was elaborated as a component of the ITC Supporting Indian Trade and Investment in Africa (SITA) project, a south-south trade and investment initiative that aims to improve the competitiveness of select value chains through the provision of partnerships by institutions and businesses from India. SITA is funded by the United Kingdom Department for International Development (DFID).

The formulation of the value chain roadmap was led by the Ethiopian Textile Industry Development Institute (ETIDI) and the Ethiopian Textile and Garment Manufacturers Association (ETGAMA) with the technical assistance of ITC. This document represents the ambitions of the private and public sector stakeholders for the development of the sector. Stakeholders' commitment and comprehensive collaboration have helped build consensus around a common vision that reflects the realities and limitations of the private sector, as well as of policymakers and trade-related institutions.

The document benefited particularly from the inputs and guidance provided by the members of the sector team.

Name	Organization	Position
Mr. Sileshi Lemma	Ethiopian Textile Development Institute	Director General
Mr. Fassil Tadesse	Ethiopian Textile and Garment Manufacturers Association	President
Mr. Asefa Aga	Ethiopian Cotton Producers Ginners Exporters and Association	General Secretary
Miss. Aberash Alemu	South Region TVET Bureau	Training Materials Supply Head
Mr. Goshu Negash	Vitcon Plc	General Manager
Mr. Mustefa Jemal	Kombolcha Textile S.C	General Manager
Mr. Addisu Fulli	Welkite University	Engineering College Dean
Addisu Ferede (Asst. Professor)	Ethiopian Institute of Textile and Fashion Technology	Scientific Director
Mr. Eyob Beklele	Desta Garment Plc	General Manager
Mr. Mohammed Umer	Novastar Garment Factory Plc	General Manager
Mr. Kehase G/michel	Federal TVET	
Mr. Yared Mesfin	Ethiopian Textile Development Institute	Cotton and Textile Marketing Directorate Director
Mr. Yitbarek Tilahun	Ethiopian Textile Development Institute	Ginning and Spinning Directorate Director

Technical support and guidance from ITC was rendered through Eric Buchot, Alexandra Golovko, Olivier Marty, Hanna Bucher, Varun Vaid, Robert Kafafian, Carla Vaca and Carlos Griffin. Assefa Yohannes and Genzeb Akele Zewdie both provided valuable support as national SITA coordinators.

CONTENTS

FIGURES

TABLES

Photo: Kara Newhouse, *Textile Factory.*

ACRONYMS

The following abbreviations are used:

ACTIF	African Cotton and Textiles Industries Federation
AGOA	African Growth and Opportunity Act
CAGR	Compound Annual Growth Rate
CMT	Cut, Make & Trim
COMESA	Common Market for Eastern and Southern Africa
CSR	Corporate Social Responsibility
EAC	East African Community
ECAE	Ethiopian Conformity Assessment Enterprise
ECPGEA	Ethiopian Cotton Producers, Exporters and Ginners Association
EC–EQM	Enterprise Competitiveness (section of ITC) – Export Quality Management
EC–SCM	Enterprise Competitiveness (section of ITC) – Supply Chain Management
EIA	Ethiopian Investment Agency
EIC	Ethiopian Investment Commission
EIIDE	Ethiopian Industrial Inputs Development Enterprise
ENAO	Ethiopian National Accreditation Office
ERCA	Ethiopian Revenues and Customs Authority
ERP	Enterprise Resource Planning
ESA	Ethiopian Standards Agency
ETGAMA	Ethiopian Textile and Garment Manufacturers Association
ETIDI	Ethiopian Textile Industry Development Institute
EU	European Union
FDI	Foreign Direct Investment
FOB	Free on Board
GTP	Growth and Transformation Plan
HR	Human Resource
HS	Harmonized System
IAF	International Accreditation Forum
ICAC	International Cotton Advisory Committee
ICT	Information and Communications Technology
IIHT	Indian Institute of Hardware Technology
IL&FS	Infrastructure Leasing and Financial Services (India)
ILAC	International Laboratory Accreditation Cooperation
IPDC	Industrial Parks Development Corporation
ISO	International Organization for Standardization
IT	Information Technology
ITC	International Trade Centre
MFA	Multi-Fibre Arrangement
MLA	Multilateral Recognition Agreement
MLS–SCM	Modular Learning System – Supply Chain Management
MoFED	Ministry of Finance and Economic Development
MoU	Memorandum of Understanding
MRA	Mutual Recognition Arrangement
MSME	Micro, Small and Medium-Sized Enterprise
NID	National Institute of Design (India)
NIFT	National Institute of Fashion Technology (India)
NMI	National Metrology Institute of Ethiopia
OECD	Organisation for Economic Co-operation and Development
PoA	Plan of Action
PPP	Public–Private Partnership
REACH	Registration, Evaluation, Authorization and Restriction of Chemicals
SADC	Southern African Development Community
SC	Sector Competitiveness (section of ITC)
SITA	Supporting Indian Trade and Investment in Africa
SME	Small and Medium-sized Enterprise
T&C	Textile & Clothing
TFPB	Trade Facilitation and Policy for Business (section of ITC)
TIS	Trade Information Services (section of ITC)
TISI	Trade and Investment Support Institution
TNC	Transnational Corporation
TS	TISI Strengthening (section of ITC)
TVET	Technical and Vocational Education and Training
UAE	United Arab Emirates
UNIDO	United Nations Industrial Development Organization
WTO	World Trade Organization

FOREWORD

MR. SILESHI LEMMA
DIRECTOR GENERAL
ETHIOPIAN TEXTILE INDUSTRY
DEVELOPMENT INSTITUTE

Ethiopia is the second largest populist country in Africa with over 95 million people and is known as the water tower of Africa, which provides one of the best competitive environmentally friendly hydroelectric power supplies in the world as well. It is also a well recognized fact that Ethiopia is ranked at the second fastest growing economy in Sub Saharan Africa. It has registered an average 11% annual GDP growth over the last decade. The country has achieved an average annual export growth of 27.4% over the last decade where the manufacturing Industry contributes 13% to the GDP. The Industry has been growing on average annually 10.2% for the same period.

The adopted Industrial Development policy of the Government of Ethiopia focuses on transforming the agricultural led economy of the country to industry based, and for that strategic sectors have already been selected and prioritized based up on the facts and findings of actual situation of the country and the global environment.

Textile Industry is considered as number one priority sector by the Government's Industrial Development Strategy. It is believed that the textile industry would play major role in the industry development strategy of the nation due to its advantages such as its labour intensiveness, ability to mobilize the masses up to the micro level, long chain characteristics of the sector which could pull many players along the value chain, linkage to the cotton agriculture for which Ethiopia has a big potential.

In order to improve utilizations of the potential of the sector, the government has formulated the Second Growth and Transformation Plan (GTP II) based on the experience we have accumulated from the first Growth and Transformation Plan (GTP I) in the last five years (2010-2014). The GTP II (2015-2019) is a plan that aims at obtaining 1 billion USD from the sector export at the end of 2019 and also going to serve as a spring-board to realize the vision of the nation to put the country in the first rank in light manufacturing in Africa and also among the top ten world exporters by the end of 2025.

On behalf of the Ethiopian government, the Ethiopian Textile Industry Development Institute and on my own, I am very much grateful to the technical assistance extended by SITA/ITC on the development of this Textile & Clothing Value Chain Roadmap, which was made possible by funding from UKAID/DFID. I therefore, call upon our regional and global developmental partners from all over the globe to unlock their development finance and technical assistance needed to enable us to translate the roadmap in to concrete action.

Once again, please allow me to extend our appreciation and thank for both the private and public sector for their unreserved collective hard work put towards in the preparation of this document, which will undoubtedly enable the successful launch of yet another visible and concrete milestone in our long journey to achieve the II Growth and Transformation Plan of the sector.

FOREWORD

MR. FASSIL TADDESSE
PRESIDENT
ETHIOPIAN TEXTILE AND GARMENT MANUFACTURING ASSOCIATION

While the African economy is based on agriculture, the way forward lies in industrialization. There are three reasons for which the textile and clothing value chain will play a critical role in this process. First, the textile and clothing sector acts as a link between agriculture and industry: industry obtains its input from agriculture and vice versa, thereby facilitating the shift towards a market-oriented economy. Secondly, it creates massive employment, both directly and indirectly. Lastly, textile and clothing exports are an important source of hard currency, which is then used to buy technology for further development. However, such change does not simply come. There are three key players that must act in concert as facilitators:

i. The private sector must drive the economy, although it is in an infant stage in some developing countries.
ii. The government plays a critical role in creating a conducive business environment and investing in infrastructure.
iii. The development partners support in the creation of a conducive market environment with incentives, until the weak private sector becomes competitive in efficiency and price.

Understanding this process, and having become an attractive location for international investors, Ethiopia is moving forward with a clear strategic Roadmap for its Textile & Clothing sector. 60% of the country's budget is being invested in infrastructure, and both the public and private sectors are working closely with investors to understand and meet their needs. As such, we expect the textile and clothing sector will play a key role in Ethiopia's process of industrialization.

EXECUTIVE SUMMARY

The goal of Ethiopia's Textile and Clothing Value Chain Roadmap

The goal of Ethiopia's Textile and Clothing (T&C) Value Chain Roadmap is to set the sector on the course of strategic development by addressing constraints in a comprehensive manner and defining concrete opportunities that can be realized through the specific steps detailed in its Plan of Action (PoA). Ethiopia's current model has performed well, yielding strong economic and social returns. Even so, performance has fallen short of the sector's targets and it has become clear that the industry must unite and evolve in order to leapfrog into higher growth and value addition.

The sector's strategic orientation should follow a twofold approach. Firstly, Ethiopia can build on its current success and leverage its cost competitiveness to expand market diversification and penetration. Secondly, the sector can capture greater value by pursuing full value chain integration, first by bridging the skill gap to increase productivity, especially considering upcoming wage increases, and later by enhancing weak upstream capacities. The PoA responds to this vision by setting four strategic objectives to support its implementation.

1. Improve productivity and employment outcomes through skills development.
2. Strengthen the enabling environment to favour sector development.
3. Establish conditions to harness foreign direct investment (FDI) as an engine for growth in T&C.
4. Foster product and market development through the use of trade information.
5. Enable market penetration and product development through trade intelligence.

The global T&C sector has been in a constant state of change since the turn of the century, characterized by a continual evolution in the location of both the most significant producing and exporting countries and regions, and the main end markets. Demand surged in developing countries, production was consolidated in Asia, and new countries such as Viet Nam, Myanmar and Cambodia emerged as fast-growing exporters of T&C products. Buyers are looking to shift more activities to their suppliers (while at the same time demanding larger volumes and quicker turnaround times); consumers are pressuring the industry to adhere to CSR standards; information and communications technology (ICT) is becoming critical to modern production and inventory management; and man-made fibres have taken their place as the sector's preferred material.

Ethiopia's T&C sector has experienced a boom in export-led growth in recent years, and today the sector is characterized by strong value addition throughout the entire value chain from cotton to clothing, with high local processing of cotton lint into textile and apparel products. Ethiopia's comparative advantages – namely its low labour cost, cheap and sustainable electricity, preferential market access, and relative proximity to important markets – have been complemented by reforms to the business environment that have reduced trade hurdles. In conjunction with attractive incentives for investors, the sector has engaged significant capital from abroad. Over the past few years exports have expanded rapidly, due in large part to the arrival of foreign investment.

Nevertheless, the sector has yet to realize its full potential: sales are heavily concentrated among a few product categories of fairly low value addition, and market diversification is limited. While larger companies have succeeded in entering global value chains, small and medium-sized enterprises (SMEs) continue to be relatively excluded from external trade, having experienced only a limited amount of economic integration with larger market players. Despite the influx of FDI, much of the value chain remains underdeveloped, including accessories, materials, textiles and higher value added garment activities. Productivity meanwhile continues to suffer as a result of limited skills in the workforce, weak management capacities and reliance on outdated equipment, among other issues. In addition, remaining problems in the business environment create unnecessary cost burdens and delays.

This diagnosis lends itself to certain key considerations that the value chain roadmap should tackle. In order to move forward, public and private stakeholders must work together and build on the successes achieved thus far. To this end, the continued stimulation of FDI will play a crucial role. The Government must do more to effectively target investors and promote development of underserved opportunities in Ethiopia's value chain. Skills development must also be a priority, particularly with a view towards increasing productivity, quality and the capacity for value addition. Lastly, the Government must do more to remove the remaining policy and business environment roadblocks to competitiveness.

Photo: ITC

This value chain roadmap was the result of extensive consultations with public and private sector stakeholders, leading to unprecedented levels of cooperation among sector operators. Key private sector stakeholders and leading institutions facilitated an exhaustive analysis of the sector. Market-led strategic orientations, prioritized by stakeholders and embedded into a detailed implementation plan, provide a clear road map that can be leveraged to address constraints to trade, maximize value addition and support regional integration. In addition, the inclusive approach ensured that all stakeholders were committed to the process and a core team of key representatives of the sector has been formalized to carry on the implementation.

The value chain roadmap provides Ethiopia with a detailed PoA to achieve growth in the sector within the next five-year period. The value chain roadmap is articulated around four strategic objectives.

Photo: www.tidi.gov.et.

The full implementation of the value chain roadmap aims to deliver the following production, export-related and developmental targets by 2020:

- More than 200 firms have acquired new equipment and related technical capacities
- Six hundred new production lines developed by Ethiopian firms in yarn, textile and apparel production
- Exports of textiles and garments to increase annually by 35% to US$320 million
- More than 45,000 new jobs in the T&C sector
- All companies comply with international standards related to working conditions, quality management and sustainability.

THE VALUE CHAIN ROADMAP FOR THE NEXT FIVE YEARS

Photo: (CC BY-SA 2.0) flickr.com/photos/ustr, *Ambassador Kirk tours the Almeda Textile and Apparel Factory on August 7, 2009 in Axum, Ethiopia.jpg*

GLOBAL TRENDS 2025 – LIVING THROUGH A TRANSFORMATIVE PERIOD

THE ONLY CONSTANT IS CHANGE

While the global T&C industry has always been a fast-evolving sector, the structure of the sector has been constantly redefined by the changes that have occurred in the past 15 years. These changes have been characterized by a continual evolution in the location of both the most significant producing and exporting countries and regions, and the main end markets. While disjointed production was consolidated in Asia and China grew to dominate the market, new players including Viet Nam, Myanmar and Cambodia have recently emerged as some of the fastest-growing exporters of T&C products. Changing demographics and economic performance, meanwhile, have resulted in a proliferation of demand in new and fast-progressing markets such as South Africa, the Russian Federation, the United Arab Emirates (UAE), China and India.

One of the key drivers behind these transformations is the ever-changing policy environment; while the dismantling of the Multi-Fibre Arrangement (MFA) facilitated a consolidation of production in Asia, the introduction of the African Growth and Opportunity Act (AGOA) catalysed renewed competitiveness in Africa. In turn, the Trans-Pacific Partnership will surely redefine the competitive landscape once again. Changes in the policy environment have been complemented by technological evolutions that have stimulated remarkable gains in productivity, and product diversity and quality, thereby allowing polyester and blended fabrics to take their place as preferred materials. Together with advancements in logistics and supply chain management that allow for greater and more flexible speed to market, these technical improvements have contributed to the increasingly rapid rotation of collections.

For now, Western countries have retained many of the higher value added portions of the value chain, including research, design, marketing and financial services. More tangible activities, which are frequently labour-intensive, continue to be concentrated in developing markets. Yet even this has been subject to the pressures of change in recent years. Given the low profit margins in the manufacturing segment of the value chain, one of the few ways for retailers to reduce costs, and for producers to add more value, is to shift more of the design and development work to the manufacturing country. This has stimulated a shift in developing countries, where suppliers who were once engaged only in cut, make and trim (CMT) activities are being entrusted with larger portions of the value chain.

Large international retailers (transnational companies (TNCs) have grown to dominate the T&C value chain. They have gained significant influence over the choice of production locations and enjoy considerable bargaining power. These companies, which are generally based in the United States of America, the European Union (EU) and Japan, purchase large quantities of goods. Following the elimination of the MFA they have been consolidating production in fewer and fewer countries. Where they exist, foreign affiliates of TNCs often account for the majority of T&C exports from developing countries.

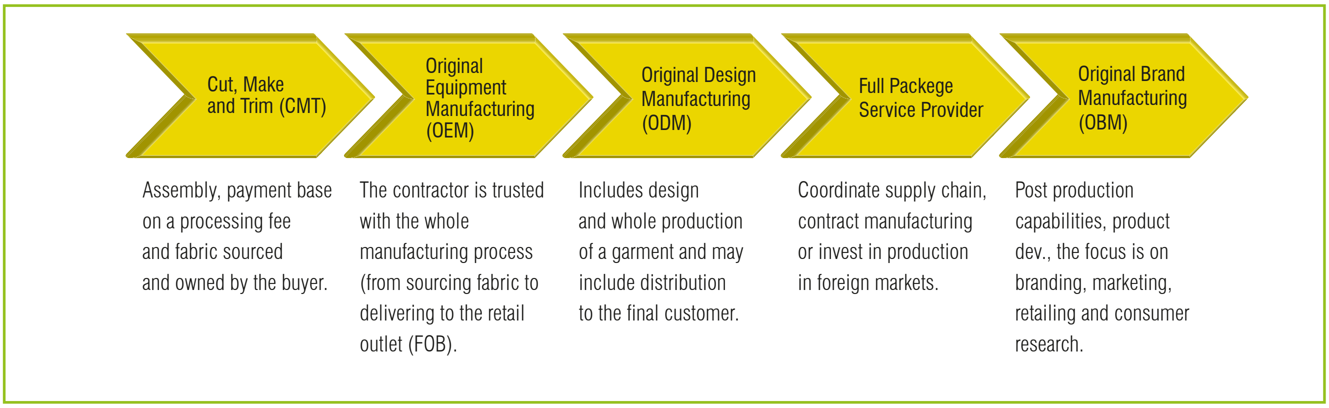
While acceptable price levels are a condition that potential suppliers must meet, the world's leading buyers consider a number of fast-evolving criteria to be key success factors, including quality production and assurance (product testing); timely delivery; competitive pricing; product development capacities; social compliance (health and safety, workers' rights, environment); adequate distribution capacities; and vendor-managed inventory capacities.[1]

From a macro perspective, buyers often take care to mitigate the following risks: inflation, poor energy and water provision, wage increases, unstable currency exchange rates, weak rule of law, barriers to trade, political instability, weak intellectual property protection, difficult physical access to markets and unattractive credit environments.

This highlights the role of government in ensuring a stable and attractive overall business environment.

1.– Price Waterhouse Coopers (2008). *Global Sourcing: Shifting Strategies*.

Figure 1: Trend towards greater value addition



Source: Based on Gereffi, G. and Frederick, S. (2010).[2]

2.– In: Gereffi, G. and Frederick, S. (2010). The Global Apparel Value Chain, Trade, and the Crisis: Challenges and Opportunities for Developing Countries. In *Global Value Chains in a Postcrisis World: A Development Perspective,* Cattaneo, O., Gereffi, G. and Staritz, C., eds. Washington, D.C.: World Bank, pp.157–208; and Staritz, Cornelia (2012). Apparel exports – still a path for industrial development? Dynamics in apparel global value chains and implications for low-income countries. Working Paper, No. 34. Austrian Foundation for Development Research.

More specific to the T&C sector, suppliers such as Ethiopia wishing to enter the global value chain must be able to adapt to the following trends and market requirements.[3]

Lean retailing

Retailers increasingly want to focus on sales, while transferring all other supply chain activities to their suppliers. Retailers are also beginning to engage more directly with producers, removing the middlemen of the past. As such, they are requiring suppliers to act as 'full package' service providers. Suppliers are expected to provide more services than before, from the sourcing of materials to logistics and delivery. While the ability to provide such full package services requires integration and significant management skills, it does present an opportunity for low-cost manufacturers to capture greater value.

Speed to market

Fast fashion brands such as Zara have revolutionized supply chain management. Point-of-sale technologies now allow retailers to analyse trends. This analysis is then used to quickly produce and stock goods according to the latest market dynamics. This has resulted in fast turnover, where products have short life spans and suppliers need the capacity to respond to variable orders. Upstream and downstream service providers (and material suppliers) must also support clothing manufacturers in their efforts to turn around and deliver finished products in such a short time frame.

3.– Information for Development Programme (2008). *The Global Textile and Garments Industry: The Role of Information and Communication Technologies (ICTs) in Exploiting the Value Chain.*

ICT

The growing role of ICT is a direct response to some of the other trends. Disaggregated production and fast fashion both require efficient and timely information sharing. ICT also allows suppliers to vertically integrate and provide full package services to lean retailers. Technologies such as computer-aided design are required for modern production. ICT can also aid communication between supplier and buyer, allowing for the automated checking of orders, stocks and prices. Enterprise resource planning integrates orders, sourcing, manufacturing, account handling and logistics, thereby helping companies optimize operations. In addition, modern ICT tools can allow manufacturers to track units throughout the production line in real time, facilitating more effective monitoring.

Consumer pressures

Consumers have become increasingly concerned about the treatment of workers in the T&C sector. This has put pressure on the industry to begin adhering to Corporate Social Responsibility (CSR) programmes and codes of conduct. These schemes, which also cover suppliers and subcontractors, require that firms be audited in order to ensure compliance with various health, safety and environmental issues. While this results in higher costs, some United States and EU buyers have begun excluding suppliers that do not meet such criteria.

Man-made materials

The past decade has seen a marked shift away from natural fibres and towards man-made materials. In 2013 man-made fibres accounted for 70% of fibre production worldwide, compared with just 55.5%[4] in 2007.[5] Spurred in part by technological advancements that allowed for enhanced productivity, increased quality, lower costs and greater diversity, a turning point came with the financial crisis of 2008. At this time retailers turned to synthetic materials as a means of cutting costs in an effort to survive.[6] The trend was reinforced when cotton prices spiked considerably in 2011. Consumers meanwhile have also developed a preference for synthetic or blended materials. In light of these trends, it is of the utmost importance that Ethiopia expands its multi-fibre expertise, particularly given that Ethiopia enjoys a higher preferential margin for man-made fibres under AGOA. This will require improved sourcing practices or the development of a parallel chemical industry for the production of synthetic materials.

Another important trend is the increased volumes required by retailers. Retailers are growing in size and they require significant quantities of product. While these volumes used to be sourced from a variety of locations during the MFA era, retailers want to streamline their production by reducing the number of countries/suppliers they source from. Suppliers must therefore be able to meet buyer volume requirements, either alone or in partnership through consolidation, if they are to enter some of the most attractive supply chains.

In light of these trends, Ethiopian stakeholders must build capacities in a strategic manner so that their enterprises are enabled to meet the rigorous demands of today's buyers. Growth must be consumer-oriented and ICT integration will be crucial. To this end, efforts must be made to attract FDI to specific domains that require investment, technology and knowledge transfer, including online inventory management and Enterprise Resource Planning (ERP). While technical skills must be enhanced in order to allow for greater productivity, improved managerial skills will be required to engage in complex, full package service delivery. In addition, stakeholders must increase coordination so that they can supply adequate volume through consolidation and advocate for necessary policy support. The Government, meanwhile, must be sure to address policy constraints (particularly with regards to CSR issues), facilitate the upgrading of logistical infrastructure, and remove other trade hurdles so that enterprises can bring goods to market without undue delays.

4.– Food and Agriculture Organization of the United Nations and International Cotton Advisory Committee (2013). *World Apparel Fiber Consumption Survey*. Washington, D.C.: ICAC

5.– Leonie Barrie (2015). Man-made fibres climb to 70% of total production. *Just-Style*, 14 January. Available from http:/ /www.just-style.com/news/man-made-fibres-climb-to-70-of-total-production_id124084.aspx.

6.– Alexandra Wexler (2014). Cotton's crown threatened by man-made fibers. *The Wall Street Journal*, 25 April. Available from http:/ /www.wsj.com/articles/SB10001424052702304049904579516282130809074.

RESILIENT TRADE IN THE FACE OF GLOBAL UNCERTAINTY

Global T&C exports have grown by 6% annually since the turn of the century, despite the 2008 financial crisis. Exports of clothing fell by only 12% in 2009, whereas total exports declined by 23%. This resilience is one of the reasons that the sector continues to attract investment. The steady demand for T&C products makes it a relatively stable source of foreign exchange earnings for many countries.

Valued at US$781 billion in 2013, sectoral exports currently account for 4% of international trade. The most important product categories include knitted apparel (US$192 billion), woven apparel (US$187 billion), cotton fibre and textiles (US$55 billion), made-ups (US$50 billion), man-made filaments and textiles (US$38 billion), and man-made staple fibre and textiles (US$36 billion).

Apparel accounts for 57% of the global T&C sector. The largest markets for clothing imports are the United States (21.2%), Germany (9%), Japan (8%) and the United Kingdom of Great Britain and Northern Ireland (6.3%). A number of markets, including the Russian Federation, the UAE, Viet Nam, Korea, Australia and China have been growing at a very fast pace. The top 10 markets account for 65.5% of total imports today, down from 77.3% in 2003, highlighting the growing consumer base in developing and frontier markets.

Production has concentrated significantly over the past decade: whereas the top 10 exporters accounted for 59% of global exports in 2003, that share had grown to 73% in 2013. This period saw China solidify its position as market leader, its share of exports having nearly doubled from 20% in 2003 to 38.8% today. Export growth in Bangladesh, Viet Nam and India has also been quite notable; the former two have in fact gained relative market share with respect to China.

Clothing production has shifted steadily towards Asia, which now accounts for 65% of world exports, compared with 32% in 2004. This shift was stimulated by the dismantling of the MFA, after which producers sought to consolidate production in low-cost locations throughout Asia. In addition, international buyers have been steadily shifting greater responsibility to their suppliers. By moving away from simple CMT, larger portions of the value chain are now concentrated in supplier countries. It should be noted that despite the shift to Asia, a variety of countries still maintain competitive advantages based on factors such as proximity to markets (for example Turkey to the EU) or access to specific markets under preferential trade agreements.

Table 1: Top exporters of clothing, 2003-2013

No.	Exporters	Exported value in 2003 (US$)	Exported value in 2013 (US$)	CAGR*	Share
1	China	45 757 114	165 044 601	13.7%	38.8%
2	Bangladesh	5 040 792	26 258 818	17.9%	6.2%
3	Italy	15 449 056	21 625 743	3.4%	5.1%
4	Viet Nam	3 386 376	18 496 564	18.5%	4.3%
5	Germany	9 127 940	18 320 287	7.2%	4.3%
6	India	5 916 206	15 702 657	10.3%	3.7%
7	Turkey	9 546 445	14 961 774	4.6%	3.5%
8	Spain	3 384 396	11 065 848	12.6%	2.6%
9	France	6 580 732	10 079 791	4.4%	2.4%
10	Belgium	5 167 839	8 678 581	5.3%	2.0%

Table 2: Top exporters of textiles, 2003-2013

Exporters	Exported value in 2003 (US$)	Exported value in 2013 (US$)	CAGR	Share
China	27 454 487	108 898 007	14.8%	33.4%
India	6 521 615	19 854 948	11.8%	6.1%
Germany	13 973 846	16 493 995	1.7%	5.1%
United States of America	11 888 902	16 080 252	3.1%	4.9%
Italy	14 008 743	13 926 994	-0.1%	4.3%
Republic of Korea	11 579 132	13 782 165	1.8%	4.2%
Turkey	5 430 513	12 560 332	8.7%	3.9%
Chinese Taipei	10 052 788	10 920 608	0.8%	3.3%
Pakistan	5 862 994	9 398 146	4.8%	2.9%
Japan	7 139 211	8 209 987	1.4%	2.5%

Source: International Trade Centre (2015) (b). *Compound Annual Growth Rate.

Textiles account for the remaining 43% of sectoral trade. The structure of textile imports has remained fairly static over the last 10 years, and the United States and China have continued to be the top two importers. Even so, a number of new markets have begun to grow in importance. These include Viet Nam, whose imports had a CAGR of 18.1%, Bangladesh (15.9%), Indonesia (22.9%), the Russian Federation (15.9%) and the UAE. Markets meanwhile have become slightly less concentrated: the top 10 importers now account for 46.7% of the market, down from 53.5% in 2003.

As with apparel, the largest exporter is China, which enjoys a 29.7% market share. The textile supplier base has also grown more concentrated: the top 10 exporters now account for 70.6% of total exports, compared with 63% in 2003. As textile production requires more technology and skill that the apparel segment, it is generally less flexible. It requires significant financial resources as well as time, and most developing countries are engaged in textile production to only a limited extent. Nevertheless, a number of such countries, including China, India, Turkey and Viet Nam, have registered considerable growth over the past 10 years.

Trade statistics highlight the fact that the sector continues to favour developing countries with competitive cost structures. This bodes particularly well for Ethiopia, which enjoys some of the lowest factor costs in the world. It should also be noted that while a significant portion of the market is dominated by the main exporters, smaller countries have recently succeeded in capturing greater market share. This, in conjunction with the sector's continued growth even in times of crisis, indicates that there is ample space for relatively new entrants such as Ethiopia. Today, Africa contributes only 2.3% to global apparel exports, down from 3.7% at the turn of the century. Even so, renewed interest in Africa may present Ethiopia with an opportunity to capitalize on its competitors' diminishing advantages.

THE DECADE AHEAD

Experts indicate that these market trends are likely to continue, helping to shape the sector throughout the next decade. The apparel market is expected to grow to US$2.1 trillion in 2025, up from US$1.1 trillion today. This will be driven largely by the growing consumption of T&C products in developing countries. Per capita spending on clothing will likely grow at the fastest pace in India (11%), China (10%), the Russian Federation (8%) and Brazil (4%). It should be noted that despite slower growth in developed countries, per capita spending on clothing will still be higher in the West. Nevertheless, quicker per capita expansion, together with strong population growth, will help the developing world overtake the West as the main market for T&C products.[7]

The two fastest-growing markets will be China and India. This growth will be supported by the following trends in the two countries:

7.– Wazir Management Consultants (2013). *The Road to 2025: 5 Market, Trade, and Investment Trends That Will Define the Course of Textile and Apparel Industry.*

- Economic expansion and growth of disposable income
- Population growth
- Growing preference among Chinese consumers to buy for fashion rather than utility
- Increased exposure to organized retail and branded clothing in India
- Expansion of domestic brands
- Growth of online retail.

By 2025, China will account for 27% of the total market for apparel products, and the combined market size of China and India will surpass that of the EU and the United States.

Experts also note that the sector will require significant investment in the coming years. The T&C sector is relatively capital-intensive: the investment to turnover ratio is 1:1 for spinning, 1:1.5 for fabric production and 1:4 for clothing production. Therefore an investment of $85 million (land, building, equipment and other fixed assets) is required to produce a $100 million value of production at the garment stage of the value chain. Enterprises must make investments to both increase capacity and replace existing machinery.

Experts calculate that the growth in global apparel demand will require an additional US$ 165 billion of value of production by 2025.[8] Given the investment turnover ratios, this will require US$ 142 billion of investments throughout the value chain. At the same time, the replacement/upgrading cost of current equipment is expected to be roughly $210 billion. The total investment required in the sector is therefore expected to be $350 billion.

8.– Apparel demand is expected to grow by US$1 trillion (from US$1.1 trillion to US$2.1 trillion). Given that this increase will be due to both price and volume growth, and assuming an average of 3% price inflation, demand will grow by US$410 billion (retail) or US$165 billion value of production. (Wazir Management Consultants (2013). *The Road to 2025: 5 Market, Trade, and Investment Trends That Will Define the Course of Textile and Apparel Industry,* p. 22.)

Box 1: Changing dynamics in China will lead to a US$ 100 billion trade gap

While China currently accounts for nearly 40% of the sector's total exports, its economy is at a crossroads in which private consumption will begin to overtake investment as the main driver of economic growth. This shift will likely result in structural changes to export-oriented sectors such as T&C.

As domestic demand for apparel grows, Chinese firms will become more oriented towards the local market, thereby reducing their exports. In addition, supply-side shifts are expected to reduce garment production. As a result of increasing costs and a greater focus towards service servitors, T&C output growth is expected to drop from 7% to a more moderated 5% to 6% per year. The combination of these demand- and supply-side shifts will result in a global trade gap: worldwide clothing exports are expected to grow to US$ 1,700 billion by 2025 (CAGR of 6.5%), whereas Chinese T&C exports will only grow by a CAGR of 6%. The net result of this lag will be a US$ 108 billion market gap that represents an opportunity for other countries wishing to increase their share of the global market.

Source: Wazir Management Consultants (2013).

Box 2: Implications for Ethiopia

Developments in the sector have a number of implications for Ethiopia as it seeks to find its place in the global value chain.

- Consumers are putting increased pressure on the T&C sector to improve social responsibility: suppliers are required to comply with CSR.
- The demand for full package services from lean retailers requires that suppliers expand their service offerings and create strategic partnerships with vendors rather than transaction-based relationships. This presents an opportunity for low-cost manufacturers to capture greater value.
- Firms must increase volume capacity, either internally or through consolidation/partnership agreements, to meet large and often unpredictable buyer requirements.
- Firms must increase their ability to supply the market quickly in response to fast fashion demands.
- Companies are encouraged to invest in quality, increase their product development competency, and develop their multi-fibre expertise.
- Increased management and ICT capacities will be required to satisfy buyer demands.
- So far, Asian countries have emerged as winners in global trade. In the next few years, some of them will become important markets as well. The increasing focus of China on the domestic market and value added production will result in multibillion dollar trade opportunities for suppliers in competing nations. Trade intelligence will be essential to tapping into these opportunities.

Photo: Jai79@pixabay, *weaving*.

TEXTILES AND APPAREL IN ETHIOPIA: AN INDUSTRY OF GREAT PROMISE

A COLOURFUL HISTORY

It was in the early twentieth century that Ethiopia's cotton sector, and consequently the T&C sector, began to grow on a commercial scale. The Italians introduced the first garment factory in 1939, as well as the first modern, integrated textile mill. The sector continued to expand in line with the growing cotton production, and the 1960s saw the establishment of five large, private, integrated textile enterprises. While the socialist Government (1974 to 1991) nationalized textile and apparel companies, it also established additional enterprises to fulfil domestic demand. Nonetheless, the sector eventually suffered under this regime: the lack of competition, limited investment, and reliance on outdated technology eventually left the T&C sector significantly handicapped. Indeed, it was unable to meet international standards and was operating well below capacity.

Since the return to a market economy in 1991, the Government has identified the T&C sector as a priority for poverty reduction and economic development, given its labour intensity. From 2000 onward, the Government began to privatize state cotton farms and ginneries and to sell or lease state textile mills. However, it is only in the last few years that the sector has truly started to grow according to its potential.

As production costs in Asia continue to rise and Western buyers become more interested in ensuring ethical working conditions, a number of sourcing companies have turned away from Asia and towards Africa. Brands including H&M, Tesco and Primark have all begun to source from Ethiopia over the last few years as they seek to increase control of the entire supply chain from cotton to garment. They are drawn not only by low labour costs but also by the availability of raw materials and by the geographical proximity; Europe can be reached easily via the Suez Canal, reducing delivery times by a third when compared with the Far East. In addition, many companies are drawn to the perceived social responsibility of the sector in Ethiopia; Ethiopian labour laws conform to International Labour Organization standards.[9]

Nowhere is Ethiopia's potential more evident than in trade statistics since the turn of the century. Over the last decade, T&C exports have grown by a CAGR of 26%, reaching US$82 million in 2014. During the same period, T&C subsector exports grew by CAGRs of 37% and 19% respectively.

9.– Ethiopian Textile Industry Development Institute (2014). *Textile Industry Development in Ethiopia: an Overview of Facts and Opportunities*.

A SECTOR IN FULL BLOOM AND ON THE VERGE OF FULL VALUE CHAIN INTEGRATION

The Ethiopian Government continues to actively engage with the T&C sector as part of its Industrial Development Strategy, with the ultimate goal of attracting investors and enhancing competitiveness in international markets. To this end, the Ethiopian Textile Industry Development Institute (ETIDI) was established by the Council of Ministers in 2010. In order to assist the sector in reaching the goals set by the Government five-year Growth and Transformation Plan (GTP) (increase textile exports to US$1 billion by the end of 2015), ETIDI is mandated to provide investment promotion, training and consulting services; engage in research and development; and provide various testing and marketing support services. As such, it has become the focal point for activity in the sector and the main provider of support services.

Together with Government support, Ethiopia's competitive advantages have allowed the sector to successfully attract key foreign investors and buyers including Asda,

Photo: Cottco Chiredzi.

H&M, Primark, Phillips Van Heusen, Tchibo, Tesco, Marks & Spencer, VF Corporation, and Inditex. These advantages include:

- Low labour costs (for skilled and unskilled workers)
- Large and trainable workforce
- Accessible and sustainable hydraulic energy
- Lowest electricity costs in Africa
- Relative proximity to Europe
- Preferential market access (AGOA, Everything But Arms, Common Market for East and South Africa (COMESA) and soon the tripartite agreement for a Free Trade Area between COMESA, the East African Community (EAC) and the South African Development Community (SADC), and improved access to South Africa)
- Significant state support/incentive programmes
- Availability of quality raw materials
- Political stability and macroeconomic growth.

Foundations for growth

The sector produces a full range of products, from natural and man-made yarns, fibre, threads and textiles, to various garments, carpets and home textiles. Annual production is estimated to include 102,000 tons of yarn, 207 million metres of woven fabric, 50 million kg of knitted fabric, 63 million pieces of knitted garments, and 28 million pieces of woven garments. T&C production occurs in all regions of Ethiopia, although particular concentrations can be found in Oromia, Addis Ababa and, to a lesser extent, Amhara[10].

The sector is an important source of income that provides employment for over 450,000 people (2013), up more than 200% from 2010/11. The majority (416,913 employees) are employed by the textile segment. It should be noted that textile employment is predominantly rural (64% of employees) and female (60%), whereas apparel is more urban (82% of employees work in urban areas) and male (only 27% of employees are female).[11]

Large firms (those with 50 or more employees) constitute 78% of companies in the textiles segment (2010/11). The size of apparel firms is more varied, and they include 17 large, 16 medium (20-49 employees), and 7 small (10-19 employees) enterprises. Even so, large firms account for the majority of employment in both segments: 98% of employment in the textile segment and 92% of employment in the apparel segment.

Although Ethiopia has made great progress in increasing its production capacities, it has yet to reach a level of output that will allow it to play a major role in world markets. Productivity must be increased through capital upgrades and skills development, stimulated by FDI and its accompanying spillover effects. Efforts must also be made to increase value addition through product development and diversification. These improvements will all lead to greater income and employment generation, solidifying the sector's role as a driver of sustainable economic development in Ethiopia.

On the verge of full value chain integration

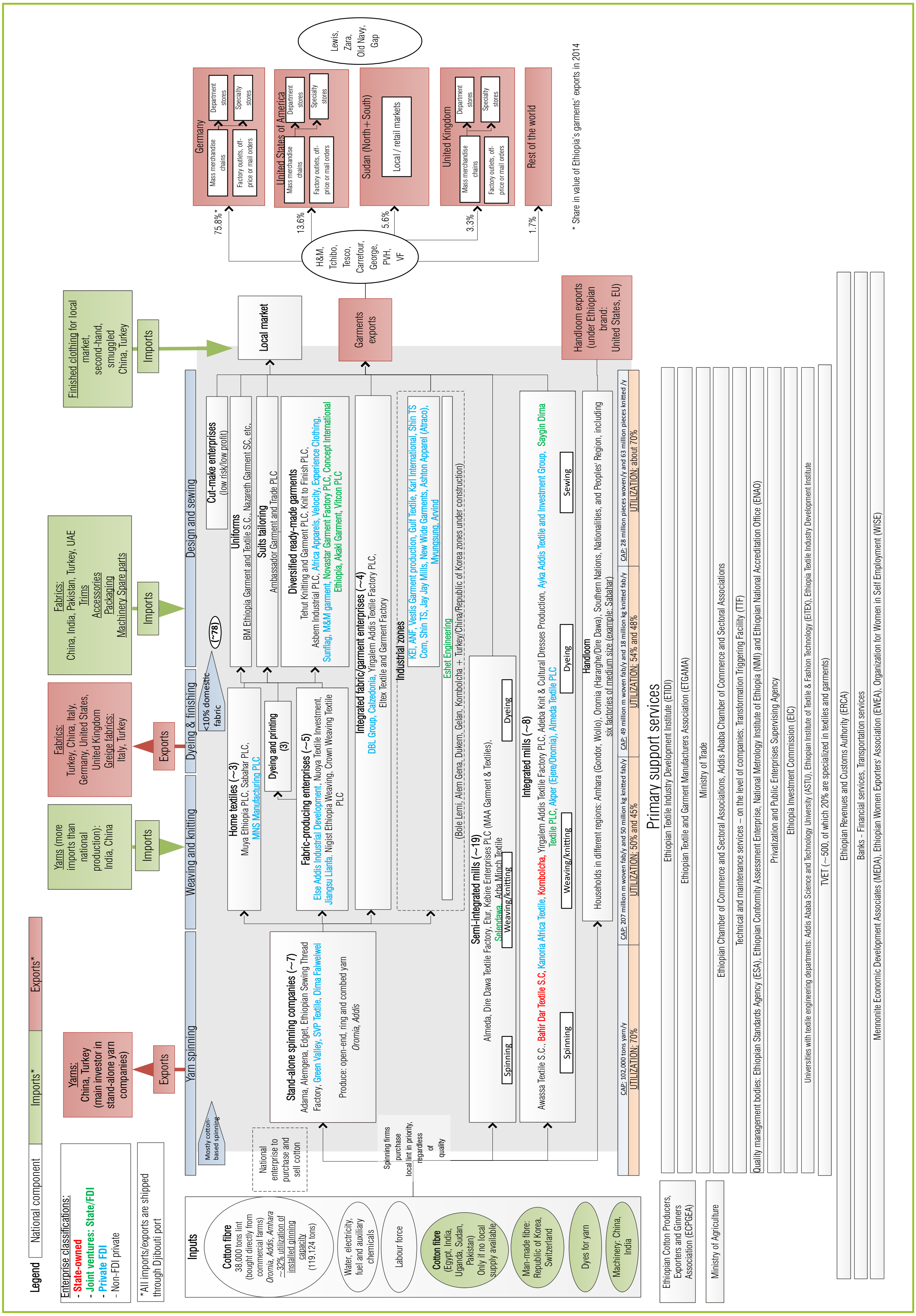
Ethiopia's T&C sector is characterized by strong value addition throughout the entire value chain, from cotton to clothing, with high local processing of cotton lint into textile and apparel products. The sector currently counts over 130 active enterprises that cover the entire value chain, including ginning, spinning, weaving/knitting, dyeing and printing, home textiles, and knitted/woven garment production. The sector's enterprises range from those with only a handful of employees to those employing over 6,000 workers. The majority of enterprises are privately owned, although there are two state-owned integrated textile mills and a number of joint ventures between the state and foreign investors.

Foreign investors have contributed significantly to growth in recent years and are expected to be the drivers of growth in an Ethiopian garment boom. Figure 3 shows that foreign firms dominate the design and sewing segment. Not only are foreign projects more numerous, they are larger on average, better endowed technically and better connected to international markets. As foreign investors drive high growth in Ethiopia's garment production and exports, a major challenge to sector stakeholders will be ensuring that that growth is well-linked to other segments, translating into an evolution of the value chain as a whole.

10.– See Appendice – section A Main Ethiopian T&C producing areas (in pink)

11.– See Appendice Section B - Number of employees in Ethiopia's T&C sector, 2013 and 2014

Figure 2: Ethiopia's T&C value chain



Inputs

Cotton

The most widely used input is cotton, which is supplied mainly by the local market. Ethiopia ranked thirteenth among African cotton-producing countries in 2013/14, and produces a medium staple length cotton of 25-30 mm. Cotton production is concentrated in the Awash valley, although significant potential exists for expansion in the Omo-Gibe, Wabi Shebelle, Baro Akobo, Blue Nile and Tekeze river basins.[12] In total, only 123,000 hectares of land are cultivated, despite the availability of roughly 3 million suitable hectares. Seventy per cent of cotton is produced by commercial farms. Most of the cotton is grown under irrigation. The first organic cotton farm has just recently begun operations; its output is expected to help the sector increase its penetration of the European market.[13]

According to the International Cotton Advisory Committee (ICAC), the average yield in Ethiopia is 321 kg of lint per hectare (2013/14). While close to the average yield in Africa, it is quite low for cotton cultivated under irrigation. The Food and Agriculture Organization (FAO) of the United Nations estimates that Ethiopia produced 600,000 tons of cotton seed in 2013, nearly double the levels achieved in 2010.[14] Expansion of cotton cultivation is being hindered largely by two factors: (i) limited attractiveness of cotton when compared to other agro-speculative crops (particularly considering that the average cotton yields are well below potential); and (ii) insufficient availability of inputs (seeds and pesticides) for rain-fed culture, and limited access to finance for irrigated culture.

Ethiopia's 20 ginneries have a total capacity of roughly 330,000 bales of cotton, or 70,000 tons of lint per year. Most of these ginneries are affiliated with textile firms and their outturn is relatively low (37%). Indeed, using the same amount of cotton seed, Ethiopian ginneries produce 12% less lint when compared with ginneries in West and Central African countries of the franc zone (see figure 4). Increasing productivity at ginneries will therefore be of paramount importance when seeking to increase profitability in the cotton sector and expanding local production of cotton to meet T&C sector demand.

Total lint production has varied wildly over the years (see figure 5), reaching a peak of 48,000 tons in 2004/05. In 2013, Ethiopia produced 38,000 tons of lint, making it the thirteenth-largest producer in Africa.

Despite the widespread presence of cotton cultivation and its significant potential for expansion, the entire national production is consumed locally and T&C enterprises must import a portion of their cotton requirements in order to meet demand. Cotton fibres are imported from Egypt, India, Uganda, Sudan and Pakistan when needed. Imports have risen markedly over the last few years along with mill use[15].

With regards to locally produced cotton, Ethiopia is establishing a national enterprise that will be responsible for purchasing and selling Ethiopian cotton. This entity will strengthen the linkages between cotton producers and textile mills in an effort to increase domestic value addition.

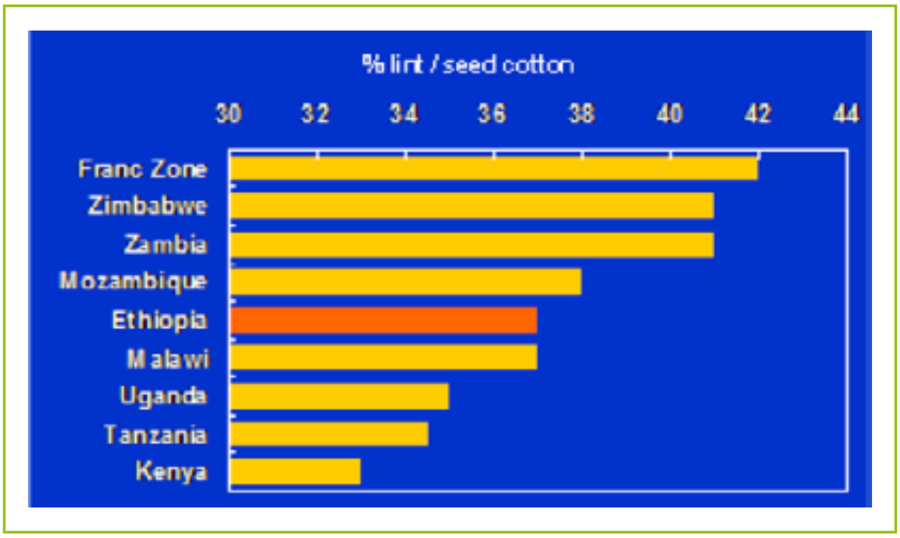
12.– Embassy of Ethiopia, Economy and Business Section (n.d.). *Investing in Ethiopia: Textiles*. Washington, D.C.: Embassy of Ethiopia.

13.– Deloitte (2014). *Ethiopia: a Growth Miracle,* p. 10. Johannesburg: Deloitte & Touche.

14.– Food and Agriculture Organization of the United Nations (2015). Statistics database. Available from http:/ /www.fao.org/statistics/en/. Accessed 7 June 2015.

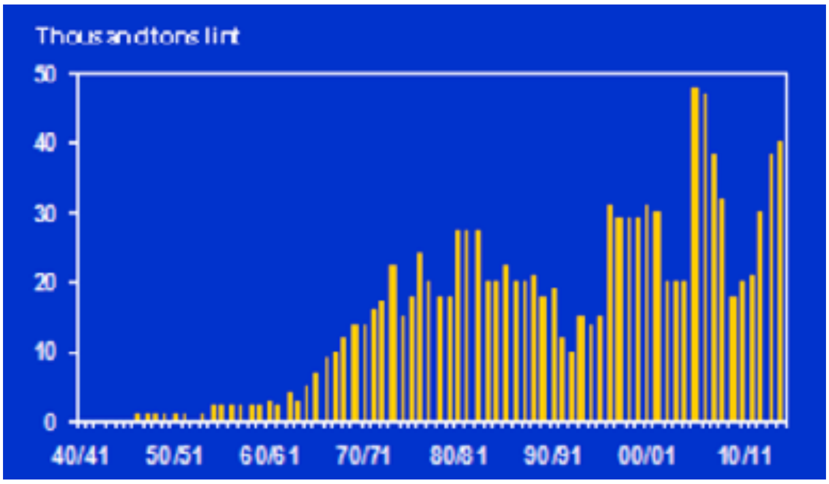
15.– See Appendice section C - Cotton supply and demand in Ethiopia 1990/91 to 2010/11

Figure 3: Ginning outturn of selected African countries (2013)



Source: ITC

Figure 4: Cotton lint production in Ethiopia, 1940/41 to 2010/11



Source: ICAC

Other inputs

Other inputs such as dyestuffs, agrichemicals (for cotton production), finishing/processing chemicals, man-made fibre, wool and machinery (mainly from China and India) are also imported from abroad (handlooms are however sourced domestically).[16/17] With regards to employment, the sector relies on domestic workers. While labour costs are low and workers are motivated and highly trainable, labour productivity remains an issue. Water, electricity and fuel are also supplied domestically.

Yarn spinning and combing

Ethiopia's spinning enterprises produce rotor spun carded yarn, ring spun carded yarn, combed yarn and sewing thread from cotton lint purchased from domestic ginneries and abroad.[18] Enterprises have 288,480 ring frame and 14,480 open-end spindles available, and output is estimated to be roughly 102,000 tons of cotton yarn (representing a utilization rate of roughly 70%). Spinning firms purchase local lint regardless of quality as a result of the underutilization of ginneries. Because local lint supplies are not large enough to cover demand, additional lint is imported.

There are eight stand-alone spinning companies that produce open-end, ring and combed yarn at quantities of roughly 357.3 tons per day. In addition, 19 semi-integrated mills and eight integrated mills also engage in spinning. It should be noted that Ethiopia was the only country in Africa to register an increase in mill use from 2005/06 onwards. While the majority of output continues through the domestic value chain, a portion (valued at US$14.3 million of cotton yarn in 2014) is exported directly. Most of these exports are sold to China and Turkey, the latter's enterprises being the main investors in Ethiopia's stand-alone yarn companies.

Weaving and knitting

The T&C sector contains a heterogeneous mix of companies that are active in the weaving and knitting segment of the value chain, including three home textile companies, six fabric producing companies, four integrated fabric/textile enterprises, 19 semi-integrated mills and eight integrated mills, as well as various households operating handlooms. Total production is estimated to be roughly 207 million metres of woven fabric and 50 million kg of knitted fabric (50% and 45% capacity utilization respectively).[19] These enterprises produce cotton fabrics, polyester fabrics, warp and Rachel knitted fabrics, jacquard fabrics, jersey fabrics, and various home textiles.

The materials for cotton fabrics are purchased mainly from domestic spinning companies, although some foreign supply must be imported in order to meet demand. Synthetic filaments are imported from a variety of countries including China (US$100 million in 2014), India (US$12,650,000), Korea (US$3,535,000), Chinese Taipei (US$2,520,000), Indonesia (US$2,490,000) and Turkey (US$1 million).[20]

16.– Embassy of Ethiopia in China (n.d.). Profile of the textile industry in Ethiopia. Available from http://www.ethiopiaemb.org.cn/bulletin/209/003.html.

17.– Ethiopian Textile Industry Development Institute (2014). *Textile Industry Development in Ethiopia: an Overview of Facts and Opportunities*.

18.– *Ibid.*

19.– *Ibid*.

20.– Data calculated from United Nations Comtrade statistics.

Textile finishing and processing

Increasing the finishing and processing content of textiles is one of the main ways in which the T&C sector has sought to increase value addition in recent years.[21] ETIDI estimates that there are roughly 16 units throughout the value chain capable of processing textiles; this includes three stand-alone dyeing and printing enterprises as well as a number of the semi-integrated and integrated textile mills. Thirteen of these units are privately owned, two are state-owned, and one is a joint venture between the Government and Turkish investors. The textile processing sub-segment employs around 2,000 people.

Seven enterprises process woven fabrics and three process knit fabrics. The remainder process a combination, while a few also engage in yarn and fibre processing. In total, the segment has the following daily processing capacities: fibre dyeing (17 tons), yarn dyeing (91 tons), knitted finishing (72 tons), woven finishing (555,200 square metres) and garment processing (24,000 pieces). In total 49 million metres of woven fabric and 18 million kg of knitted fabric are produced per year, representing a utilization of between 48% and 54%.

Capacities vary along with technological complexity: while some enterprises make use of modern machinery, others use semi-automated processes. Various technologies are currently being used in Ethiopia's textile processing/finishing segment[22]. It should be noted that while some of these equipment was recently purchased, other date back to the middle of the twentieth century.

The dyes and chemicals that form the backbone of the operations are mainly imported from Japan, China, India, Pakistan, Switzerland, Turkey, Germany and Italy.[23] They are purchased directly from international manufacturers (such as CHT/BEZEMA and Rose Color Inc.) who sell their products from bonded warehouses in Ethiopia. This allows for reduced delivery times and decreased risk of spoilage during storage and transportation. Agents of other manufactures are also present in the country. It has been estimated that processing units consume roughly 15 million kg of these inputs per year.

Only 10% of the fabric used by the garment segment is local, as domestic producers are unable to produce an adequate quantity and quality of textile. The fabric that is not used by the domestic value chain is exported to Turkey, China, Italy, Germany, the United States and the United Kingdom.

21.– Ethiopian Textile industry Development Institute (2012). An abstract to Ethiopia's textile chemical processing/finishing industry. Available from http://www.tidi.gov.et/An%20abstract%20to%20Ethiopia%E2%80%99s%20Textile%20Chemical%20ProcessingFinishing%20Industry.html.

22.– Ethiopian Textile Industry Development Institute (2014). *Textile Industry Development in Ethiopia: an Overview of Facts and Opportunities*.

23.– Ethiopian Textile industry Development Institute (2012). An abstract to Ethiopia's textile chemical processing/finishing industry. Available from http://www.tidi.gov.et/An%20abstract%20to%20Ethiopia%E2%80%99s%20Textile%20Chemical%20ProcessingFinishing%20Industry.html.

Sewing and design

Ethiopia's 78 garment factories produce 63 million pieces of knitted garments and 28 million pieces of woven garments per year (~70% utilization rate).[24] The sector produces a wide range of apparel products, including casual and formal menswear and womenswear, military wear and other uniforms, undergarments, accessories, sportswear, home textiles, and handwoven accessories and home furnishings.

The most basic enterprises operate low risk/low profit CMT businesses. Others specialize in uniforms and suits, while still more are diversified ready-made garment companies. The majority of stand-alone garment companies rely on imported fabrics from China, India, Pakistan, Turkey and the UAE. The integrated textile mills, however, use local cotton. These mills are able to produce goods of internationally acceptable quality (T-shirts, trousers). Other enterprises that use domestic fabrics include the integrated fabric/garment companies and, at times, handloom undertakings. Trims, accessories, packaging, machinery and spare parts are imported from abroad.

Handloom products tend to be exported under Ethiopian brands to the United States and EU, while the remainder is sold on the local market. Garments are exported by a variety of companies, including some of the most important Western brands (such as H&M, Tchibo, Tesco, Carrefour, George, PVH, VF, Lewis, Zara, Old Navy and Gap). The most important markets for garment exports include the following.

Primary support services

The value chain is supported by an array of public and private institutions. Chief among them is Ethiopian Textile Industry Development Institute (ETIDI), which formulates and implements strategies and programmes aimed at stimulating the cotton, textile and apparel industries. In its the focal point for the sectoral development, ETIDI conducts market studies and disseminate trade intelligence, advises potential investors, provides trainings and technical assistance to enterprises (in production, quality and human resource (HR) management), provides testing and quality evaluation services, helps textile companies improve wastewater treatment, provides quality and consulting services for inputs and finally, assists in all other areas related to sectoral development and sector-specific investment promotion.

The Ethiopian Textile and Garment Manufacturers Association (ETGAMA) is the private sector organization that represents the interests of enterprises in the T&C sector. Its goal is to foster the development of the T&C sector. Its activities include: updating members on contemporary global business trends; conducting seminars & dialogues with Government regarding policy issues; holding trainings & workshops with development partners; promoting

24.– Ethiopian Textile Industry Development Institute (2014). *Textile Industry Development in Ethiopia: an Overview of Facts and Opportunities*.

member factories & their products; providing advisory services on technical & operational concerns; building relationships between exporters & international buyers; [and helping] members meet national & international standards.[25]

The Ethiopian Investment Commission (EIC) and its regional equivalents look to attract investors to the country, while the Privatization and Public Enterprises Supervising Agency is responsible for implementing the Government's privatization plan and supervising public enterprises, including the remaining public T&C enterprises.

Standards and quality management in Ethiopia are governed by the following institutions: Ethiopian Standards Agency (ESA) provides a range of services in its role as the national standards body; Ethiopian Conformity Assessment Enterprise (ECAE) provides inspection, laboratory and certification services; Ethiopian National Accreditation Office (ENAO) provides various training, accreditation and monitoring services in its role as the national accreditation body and the National Metrology Institute of Ethiopia (NMI) maintains national measurement standards and provides various calibration, training and consulting services.

The Ethiopian Cotton Producers, Exporters and Ginners Association (ECPGEA) provides advocacy, consulting and trade promotion services to its members according to demand. It should be noted that, in general, public–private dialogue is weak and capacities at private sector associations must be enhanced in the areas of policy advocacy, marketing and management.

The sector relies on about 500 technical and vocational education and training (TVET) institutions (up from 153 in 2003),[26] of which roughly 20% are specialized in the textile and garment sector. A number of universities also have textile engineering departments, including Addis Ababa Science and Technology University, the Ethiopian Institute of Textiles and Fashion Technology, and ETIDI.

Other organizations providing key support to the sector include Mennonite Economic Development Associates, the Ethiopian Women Exporters' Association and the Organization for Women in Self Employment. Key technical consulting services are also provided by the Transformation Triggering Facility, an EU project that seeks to assist Ethiopia in its economic development.

25.– Ethiopian Textile and Garment Manufacturers Association (2015). About ETGAMA. Available from www.etgama.com/about.php.

26.– Textiles Intelligence (2015). Sourcing apparel from Kenya and Ethiopia. *Textile Outlook International*, No. 173, February.

Box 3: Salient issues of the current value chain

Ethiopian enterprises are actively engaged in nearly all areas of the value chain. As such, the industrial base for further expansion and value addition exists. While some manufacturers are already producing high quality goods for demanding markets, the proliferation of such production will require lagging enterprises to increase skills and technical capacities.

Full value chain integration is being hindered largely by weak upstream capacities: cotton production is insufficient to meet demand, with regards to both quality and quantity, while the domestic provision of other inputs such as garment accessories is limited. The weak quality and limited diversity of the domestic inputs that do exist make it difficult for garment companies to produce high value added goods. To this end, FDI will play a key role in improving domestic provision of inputs and enhancing the ability of SMEs to produce high quality goods. It is of the utmost importance that efforts are made to direct this FDI to the portions of the value chain where capacities are currently lacking.

Full integration will also require the increased participation of support institutions. In particular, sectoral associations must improve their capacity to provide services to SMEs and coordinate value chain participants. Efforts must also be made to support necessary policy reform (for example, with regards to CSR issues), align the TVET system with industry needs, and facilitate the provision of better consulting, banking and logistical services.

STIMULATING GROWTH THROUGH A CONDUCIVE POLICY FRAMEWORK

Industrial and development policy

The Government strives to promote pro-market policies that will facilitate sustainable economic development and poverty eradication. To this end, Ethiopia's current industrial policy is formalized in the GTP 2010–2015. (The GTP succeeded the previous five-year Plan for Accelerated and Sustained Development to End Poverty, while the National Development Plan for the period 2015-2020 is currently under preparation). The GTP established the following priorities for policy support, regulatory reform, and public and private investment: agriculture and rural development, industry, trade, mining, infrastructure, health and social development.

Within this framework, the T&C sector was identified as a priority industrial sector for development. As such, the

Photo: Activedia@pixabay, *sewing machine.*

Government has supported the T&C sector both directly and by fostering a more conducive business environment. In particular, ETIDI was established as the focal point for the sector. In order to support the GTP goal of increasing T&C exports to US$1 billion by 2015, ETIDI provides various investment promotion, training and consulting, research and development, testing, and marketing services, among others. In line with the GTP, the Government is also promoting FDI through various incentive and promotional programmes (a more detailed discussion of FDI policy will be presented in the following section). In addition, the GTP calls for a number of large-scale infrastructure projects that are expected to enhance T&C competitiveness by drastically improving trade facilitation and logistics in the country.

The Agricultural Development Led Industrialization strategy is relevant for the cotton sector. With the objective of enhancing agricultural productivity, this strategy seeks to promote organic cotton production, foster the creation of growth corridors, and improve input provision so as to facilitate rural development. It should also be noted that the Private Enterprise Programme Ethiopia (funded by the United Kingdom Department for International Development) is currently formulating a national cotton development strategy (2015–2030).

Trade policy

Ethiopia is party to a relatively small number of trade agreements, including the Sino-Ethiopian Agreement for Trade and the Ethiopia–Sudan Trade Cooperation Agreement. While it is a member of COMESA and benefits from reduced tariff rates, it has yet to become a part of the group's Free Trade Area. Even so, in recent years the Government has stepped up its efforts to liberalize its trade policy. To this end, it is undertaking negotiations to finalize its membership at the WTO, complete the Economic Partnership Agreement with the EU as part of the Eastern and Southern African countries, and conclude the tripartite agreement for a Free Trade Area between COMESA–EAC–SADC.

The conclusion of the tripartite agreement is particularly promising: while it must be ratified by member countries, it is expected to come into force in 2017. Once it does, it will improve Ethiopia's access to regional markets including South Africa, which imported US$1.8 billion of garments in 2013. The tariffs faced by Ethiopian clothing exporters are quite high in the South African region. The agreement will therefore significantly increase Ethiopian competitiveness in a large and growing market[27].

In addition to these agreements, Ethiopia has taken a number of unilateral steps towards improving its trade environment. In its efforts to promote industrial production, it has withdrawn export tariffs (with some exceptions). Even so, import tariffs remain quite high: the ad valorem applied tariff for special woven fabrics (HS-58) is 32.6% (29.5% for neighbouring countries) and man-made filaments (HS-54) is 26.1%. Of particular importance, the import tariff on woven fabrics (HS-540769) is 31.5%. In addition, tariff rates rarely differ between neighbours and the rest of the world. As a result, there is little incentive for regional integration of the supply chain.

The Ethiopian Government has made great strides in improving the business environment through its industrial and trade policy reforms. The T&C sector now enjoys enviable market access and a supportive policy framework. In order to fully capitalize on these advances, however, the sector must increase awareness among potential investors of the opportunities offered by Ethiopia.

27.– See Appendice section D – Tariffs faced by Ethiopian apparel exports (Harmonized System (HS-61)

Box 4: Non-reciprocal preferential market access

Roughly 21 countries (including the EU as a single entity) grant zero tariffs or reduced rates to least developed countries' goods in a non-reciprocal manner. It is important to disseminate this information in a more efficient manner in order to stimulate T&C market diversification. Several studies on non-reciprocal preferential arrangements find that limited awareness in the private sector, and sometimes even in the public sector, is one of the main reasons that preferential duties are not leveraged to their full extent.

Ethiopia: the new buzzword among investors

Ethiopia has gained a notable reputation in investor circles over the past few years. There is a significant buzz surrounding the opportunities offered and investment attractiveness of the country, and Ethiopia is frequently investigated as a potential location for investment by multinational firms. In the T&C sector, this buzz has led to concrete results in the form of ever-increasing investment: in 2014, 36 T&C FDI projects were licensed in Ethiopia, with an average capital investment of US$ 140 million. These projects employ an estimated average of 2,500 people each.[28]

Ethiopia's attractiveness as a destination for investment in the T&C sector is the result of several features, including low factor costs, factor availability, duty-free access to major markets, a stable Government, good law and order, and the Government's proactive efforts to attract investment in this labour-intensive and export-oriented industry.

One promising aspect of Ethiopia for T&C investment is cotton availability. The area under cotton cultivation in this period was reported to be 120,000 hectares. However, Ethiopia has 3 million hectares of land suitable for cotton production (two-thirds identified as highly suitable). This is almost equal to the amount of land under cotton cultivation in Pakistan, the fourth-largest world cotton producer. Presently only 4% of this area is under cotton cultivation. Improvement in farm yields from current levels, coupled with the possibility of an increase of the area under cultivation, will prove extremely attractive for cotton textile value chain producers, specifically spinners.

Labour and power are two key inputs that form a substantial part of product costs (e.g. raw materials). It is therefore important that T&C companies can access a continuous supply of labour and power at competitive rates. Ethiopia, fortunately, boasts labour and power costs that are among the cheapest in the world. The prevailing wage rate in Ethiopia is approximately US$ 50 per month and the power cost is US$ 0.03 per unit. Land lease rates in Ethiopia are also kept very competitive by the Government in order to attract investors. A quick comparison between Ethiopia and its regional neighbours and other T&C exporting nations highlights Ethiopia as the most cost-competitive manufacturing base.

28.– Averages are for 18 projects, for which capital and jobs data has been announced and/or estimated. Source: World Bank Group project in Ethiopia.

Table 3: Comparison of costs and competitive factors between Ethiopia and competitors

Estimated values	Kenya	Ethiopia	United Republic of Tanzania	India	China	Viet Nam
T&C export value (US$ millions, 2013)	377	**94**	248	40 192	273 959	21 534
Cotton production (thousands of 480 lb. bales)	32	**175**	375	30 000	30 000	17
Cost of labour (US$ per month)	110–150	**50–60**	70	175	550	180–200
Labour skills	Low–medium	**Low**	Low	High	Very high	High
Cost of electricity (US¢ per kilowatt hour), estimated average	16–18	**2–5**	12	7–12	9–15	8
Percentage of annual sales lost to electrical outages	5.6	**2.6**	5.5	2.0	0.1	1.1
Cost of construction (US$ per ft2)	21	**40**	34	18–20	15–20	20–25
Lending rates (Annual Percentage Rates, estimated)	14–18	**8.5**	19	7–13	7	6–7
Time to clear Customs, inputs + exports (days)	31	**37**	44	12	17	15

Box 5: The need to improve the qualified labour supply

While affordable labour is plentiful for the labour-intensive T&C sector, productivity remains quite low. Even so, at least one existing investor believes that his newly trained Ethiopian workforce will achieve the same productivity levels as his Vietnamese workforce after a year of experience and training. In terms of workforce development, the Government of Ethiopia created ETIDI and empowered it to provide training and consulting services. The Government has also sponsored a skills gap assessment as a precursor to more effective intervention. Yet more efforts are needed: in Ethiopia, workforce development is mostly company-led, which is inefficient on a macroeconomic scale, can lead to inconsistent standards across the labour pool, and takes longer to ramp up. In countries such as India, China and Bangladesh, workforce development is government-led and can be managed to produce large numbers of work-ready trainees.

Box 6: A safe haven in a conflicted region

Ethiopia also has a very favourable law and order environment, which is sometimes the first point of concern for international investors. According to Ashish Agarwal, CEO of Kanoria Textiles, an Indian investor in Ethiopia 'I can walk around at 10 p.m. with dollars in one hand and passport in the other without any fear whatsoever'. It is highly unlikely international investors in competing African countries could say the same. One of the reasons behind the safe environment is the existence of a stable and progressive Government that is working hard to attract investors. The Government is not only providing special investment incentives (see box 9), but also working to foster a conducive business environment.

Trainable labour is also abundant: approximately 54 million people (out of a population of 97 million) are of working age.[29] With regards to power, while Ethiopia enjoys a ready supply of hydropower, the transmission and distribution systems need improvement.

Another advantage is the comprehensive market access that Ethiopia enjoys in major T&C markets (such as the United States, EU and Japan) as a result of its least developed country status and various trade agreements/arrangements (e.g. AGOA and Everything But Arms). Under COMESA, Ethiopia has preferential access to regional markets as well. In addition, Ethiopia is expected to be a part of the Tripartite Free Trade Area between COMESA, SADC and EAC, which will see its access to regional markets expanded significantly.

Chief among the Government's business environment reforms have been large public investments in infrastructure and power generation; creation of industrial zones with dedicated infrastructure and special incentives; and streamlining of Government procedures through clarification of the commercial code and setting up of an effective one-stop shop. Most sectoral restrictions on FDI have been lifted, and investors enjoy standard protection from expropriation as well as unrestricted repatriation of profits, although a shortage of foreign exchange can cause delays[30].

Ethiopia does not rank highly in international business rankings compared with its competitors in the T&C sector[31] . Even so, the country is making steady progress on all fronts. Policymakers are open and willing to learn from international examples and adopt best practices. These efforts attracted significant investment from notable companies. While word of mouth and more active investment promotion should attract even more investors, the Government must also make strides to remove the remaining hurdles to trade.

Trade growth is impressive but falls short of potential

Ethiopian T&C exports have grown dramatically over the past few years, expanding from US$8 million in 2004 to US$82 million in 2014 (10-year CAGR of 26%). While the sector had been growing modestly since the turn of the century, it was not until the Government's implementation of policies to support the sector in 2010 that growth truly took off. While impressive, it should be noted that this growth falls far short of Government objectives. Whereas the Government called for sectoral exports of US$500 million by 2013 and US$1 billion by 2016, current levels are only a fraction of the latter target. As illustrated in figure 6, the majority of growth was due to an expansion of apparel exports (five-year CAGR 74%), followed by home textiles and carpets (22%), and textiles (10%).

Ethiopia has experienced a period of enviable market and product diversification that has served to increase income and decrease the risk of economic shocks that would otherwise be associated with significant market concentrations. Whereas Ethiopia exported only a handful of products to an average of five markets in 2004, it is now exporting a wide array of goods to over 20 destinations. The largest source of growth over the past 10 years has been the introduction of old products to new markets.

Despite significant progress, the sector continues to face a number of challenges. Of particular note is the difficulty with which Ethiopian companies maintain export relationships. The probability of an Ethiopian T&C company supplying exports to the same market for two consecutive years is about 42%. This drops to less than 11% for an additional year, and approaches 0% as the horizon is extended[32].

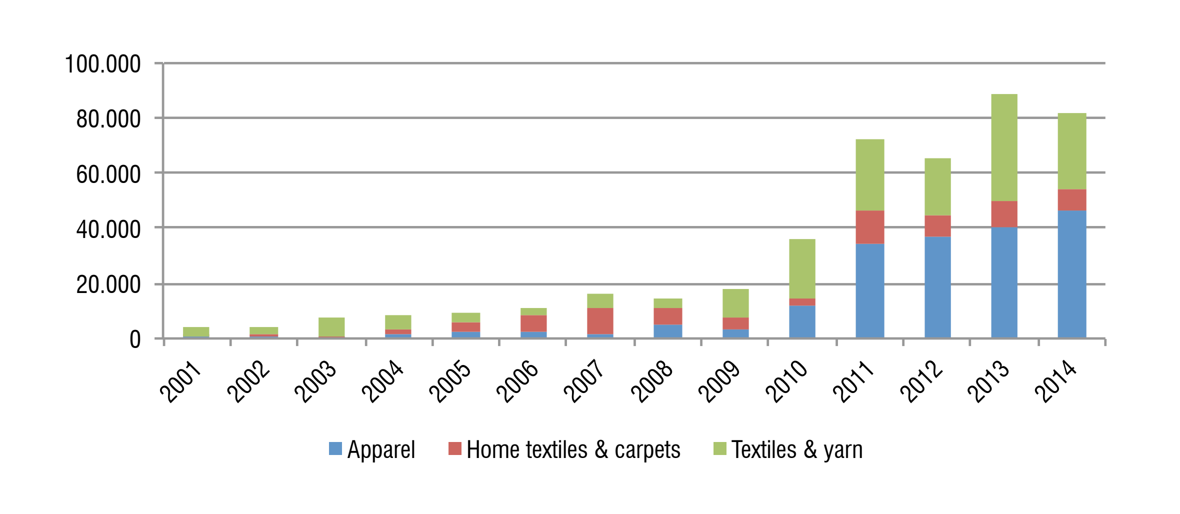
29.– Source: United Nations Population Division database.

30.– See Appendice section E – Incentives for sectoral development in Ethiopia

31.– See Appendice Section F – International business rankings of Ethiopia and its competitors

32.– See Appendice Section G – Trade Analysis — Fig.2 Probability of export survival, 2002–2014

Figure 5: Ethiopia's T&C exports, 2001–2014 (US$ thousands)



Source: International Trade Centre (2015) (b).

Clothing

Ethiopian firms exported US$ 46.1 million of clothing products in 2014, up from US$ 2.9 million in 2009 (five-year CAGR 74%). Clothing is an increasingly important source of income and foreign exchange, and exports have been steadily increasing as a share of Ethiopia's total exports, rising from 0.2% in 2009 to 1.6% in 2014. Even so, the country continues to be a net importer of garments (total imports of US$ 275 million, trade balance of minus US$ 229 million). Imports have increased dramatically over recent years in order to meet a surge in domestic demand.

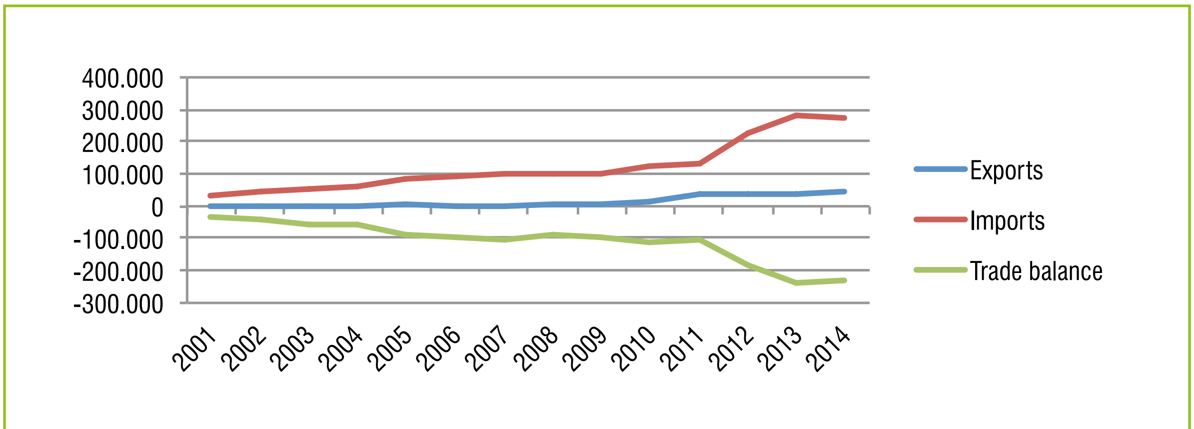
Seventy-five per cent of the negative trade balance is due to the eight most-imported products, which include menswear, T-shirts, womenswear and technical wear. These product categories may represent interesting opportunities for import substitutions, should Ethiopian firms be able to increase production capacity in line with market demand[33].

The most important importing market for Ethiopian clothing is Germany, which receives 76% of the subsector's total exports, followed by the United States (14%), Sudan (6%) and the United Kingdom (3%). Until 2010 the United States was the largest market due to the market access provided under AGOA, at which point it was overtaken by Germany. The impressive growth of exports to Germany is due to the relocation of many German-oriented Turkish firms to Ethiopia. These companies were attracted by Ethiopia's low labour costs and preferential market access to the EU under the Everything But Arms programme[34].

33.– See Appendix – Section G – Trade Analysis – Fig.3 Contribution to Ethiopia's clothing trade deficit, 2014

34.– See Appendix – Section G – Trade Analysis – Fig.4 Top importers of Ethiopian garments, 2001–2014 (US$ thousands)

Figure 6: Ethiopia's trade in clothing products, 2001–2014 (US$ thousands)



Source: International Trade Centre, Trade Map database <www.trademap.org>

In 2004 there were only two countries to which Ethiopia exported more than US$100,000 of garments, including one country that imported over US$1 million. In 2014 there are seven countries importing over US$100,000, including four that import more than US$1 million. Despite its success in the United States and Europe, Ethiopia is not exporting to many other developed, emerging or frontier markets, even if many of them offer Ethiopia duty-free market access as a result of its least developed country status.

Ethiopia's most important garment exports were T-shirts (19%), Men's underpants, pyjamas, bathrobes, etc. (12%), Women's blouses & shirts (9%), Women's suits, jackets, dresses, skirts, etc. (7%), Jerseys, pullovers, cardigans, etc. (7%), Women's suits, jackets, dresses, skirts, etc., knitted/crocheted (7%).Growth has been impressive for all of these products, ranging from a five-year CAGR of 63% for jerseys, pullovers, cardigans, etc., to a CAGR of 393% for pantyhose, tights, stockings and other hosiery[35]. Exports have become significantly less concentrated over the past decade as the sector diversifies its product offerings. Today, the top five products account for 55% of total garment exports, as opposed to 70% in 2004. In addition, today there are 12 products that export more than US$1 million worth of goods, while in 2004 there were none[36].

Textiles

Ethiopian firms exported US$35.9 million of textile products in 2014 (including home textiles), up from US$14.9 million in 2009 (five-year CAGR 19%). Nevertheless, the trade deficit has nearly tripled over the past decade (trade deficit of US$235 million in 2014) because the rapidly expanding garment sector has relied largely on foreign inputs (see figure 8).

The majority of the textiles trade deficit is due to imports of man-made filaments (52%) and home textiles (26%). The US$152 million and US$28 million trade deficits with China and India respectively account for 65% and 12% of the total trade deficit[37] .

The most important importing market for Ethiopian textiles is Turkey, which receives 58% of total exports, followed by Germany (14%), Italy (13%), China (11%) and the United States (2%). The heavy concentration in Turkey is due to significant investments in Ethiopia made by Turkish firms who are integrating this textile production into their global value chains.

Despite the increase in textile exports, recent trends have been less than enthusiastic. Market concentration has worsened: in 2004, the top five destinations imported 83% of total textile exports, whereas today the top five importers account for 98% of sales. In addition, there were eight markets in 2004 that purchased more than US$100,000 of textile goods from Ethiopia. In 2014, there were only seven markets in this category. It is also worrisome that exports have fluctuated significantly over recent years. Exports to Turkey and China fell by 10% and 67% respectively in 2014, following significant upswings in the year prior[38].

Ethiopia's most important textile exports were cotton yarn (39.8%); cotton fabrics (14.5%); bed, table, toilet and kitchen linens (13.6%); and special woven or tufted fabric, lace, tapestry, etc. (8.1%). Growth has been impressive for all of the top product categories, although the baseline is quite low (see table 9)[39].

It should also be noted that exports have become slightly less concentrated over the past five years. The top five and top 10 products (four-digit HS level) accounted for 74% and 91% of textile exports respectively in 2014, as opposed to 81% and 95% in 2009. Even so, product concentrations remain significant.

35.– See Appendix – Section G – Trade Analysis – Table 1 Ethiopia's top 10 garment exported garments, 2009–2014 (US$ thousands)

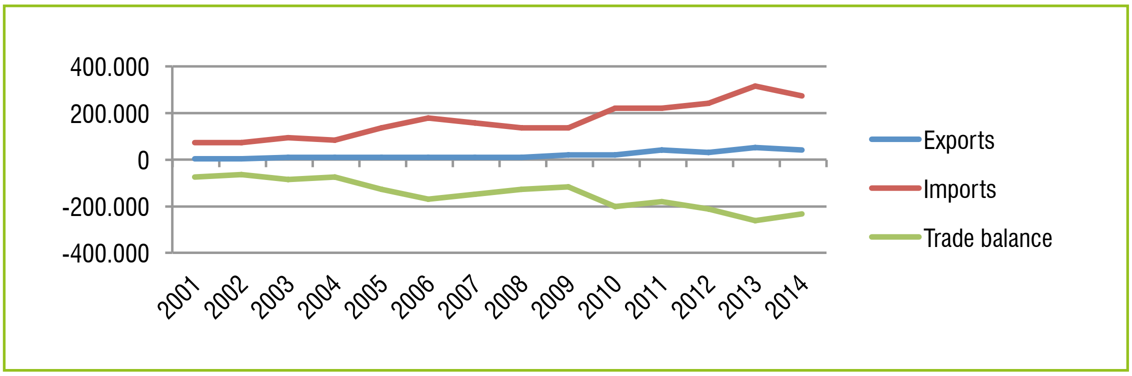
36.– See Appendix – Section G – Trade Analysis – Table 2 Top changes in market share by product

37.– See Appendix – Section G – Trade Analysis – Fig.5 Contribution to Ethiopia's textiles trade deficit (2014)

38.– See Appendix – Section G – Trade Analysis – Fig.6 Top importing markets for Ethiopian textiles, 2001–2014 (US$ thousands)

39.– See Appendix - Section G – Trade Analysis – Table 3 Ethiopia's top 10 textile exports, 2009–2014 (US$ thousands)

Figure 7: Ethiopia's trade in textile products, 2001–2014 (US$ thousands)



Source: International Trade Centre (2015) (b).

Table 4: Ethiopia's top 5 textile exports, 2009 and 2014 (US$ thousands)

Product label	2009	2014	Five-year CAGR	Share (%)
Total	**14 957**	**35 975**	**19.2%**	**100.0%**
Cotton yarn	6 187	14 334	18.3%	39.8%
Cotton fabrics	3 108	5 214	10.9%	14.5%
Bed, table, toilet and kitchen linens	55	4 894	145.4%	13.6%
Special woven or tufted fabric, lace, tapestry, etc.	65	2 904	113.8%	8.1%
Furnishing articles n.e.s., excluding 94.04	783	2 855	29.5%	7.9%

Source: International Trade Centre (2015) (b).

Trade statistics make it clear that the T&C sector has yet to find a strategy that will allow it to expand to new markets and ensure its survival in existing ones. Product and market concentrations continue to be worrisome, and enterprises are not taking advantage of Ethiopia's preferential market access to the fullest extent. While growth has certainly been impressive, it has fallen well short of the Government's ambitious targets. The sectoral analysis sheds light on a number of issues that seem to be inhibiting greater competitiveness and stronger growth. Skills are often unaligned to the demands of the industry, value addition and integration are lacking, and institutional support is limited. Although the Government has made positive strides with regards to policy, a number of issues continue to constrain the business environment. It is necessary to analyse these competitive issues in more depth, using evidence from the field. A greater analysis of these challenges will allow stakeholders to develop an effective roadmap that can adequately tackle the key constraints.

STRATEGIC ISSUES AND COMPETITIVE CONSTRAINTS

Traditionally, the scope of export strategies and value chain roadmaps has been defined in terms of market entry, such as market access, trade promotion and export development. This ignores several important factors in a country's competitiveness. For an export strategy to be effective it must address a wider set of constraints, including any factor that limits: the ability of firms to supply export goods and services; the quality of the business environment; and the development impact of the country's trade, which is important to its sustainability. This integrated approach is illustrated by the four gears framework schematic on the right.

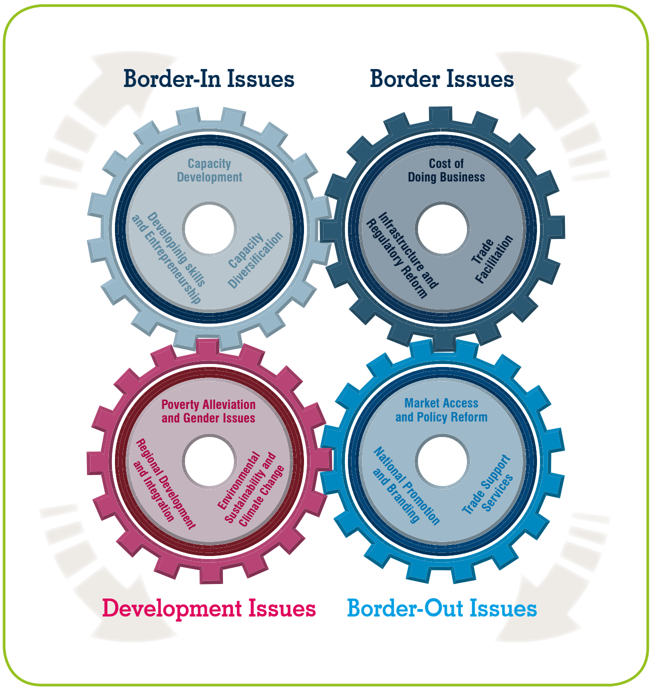
To increase the specificity of constraint analysis for the T&C sector, a detailed constraint overview is provided for each subsector of the industry, namely: textiles and clothing. In cases where the same constraints are shared, they will be detailed under the subheading 'across the value chain.'

Supply-side issues affect production capacity and include challenges in areas such as availability of appropriate skills and competencies, diversification capacity, technology, and low value addition in the sector's products.

Business environment constraints are those that influence transaction costs, such as regulatory environment, administrative procedures and documentation, infrastructure bottlenecks, certification costs, Internet access, and cost of support services.

Market entry constraints are essentially external to the country (but may also be manifested internally), such as market access, market development, market diversification and export promotion.

Social and economic concerns include poverty reduction, gender equity, youth development, environmental sustainability and regional integration.



Box 7: Competitive constraints in the Ethiopian T&C sector

Border-in (supply-side)

Across the value chain

Skill gap:

- Limited availability of skilled specialists hinders productivity, quality and value addition
  - Inadequate TVET system impacts the development of a qualified labour supply
  - Insufficient in-company training hinders the development of a qualified labour supply
  - Weak HR management capacities reduce incentives and lead to high turnover
  - Other factors
- Limited availability of competent managers limits operational, systems and process efficiency
  - Inadequate education affects the development of necessary management skills
  - Inexperienced T&C managers and resistance to change
  - Limited access to foreign expertise
- Lack of modern information technology (IT) systems hinders the ability of enterprises to increase value addition and access demanding markets
- Lack of a market-driven approach within companies leads to a disconnect between the sector and foreign demand
- Difficulties adhering to quality standards reduce competitiveness in international markets

Machinery: Obsolete equipment diminishes productivity and quality, and hinders value addition

Textiles

Input supply:

- Limited quantity and quality of local cotton reduces competitiveness and diminishes opportunities for local value addition
  - Limited quality of local cotton
  - Limited and unpredictable production of cotton
- Low quality of yarn diminishes profitability and reduces quality throughout the value chain
- Low capacity utilization limits profitability

Clothing

Input supply:

- Suboptimal sourcing practices reduce cost competitiveness and hinder product development
- Limited value addition reduces competitiveness in international markets

Border (business environment)

Across the value chain

Trade facilitation issues: Inefficient Customs system leads to high costs and delays

Organization:

- Limited institutional capacity and poor sector coordination
- Weak quality management infrastructure hinders compliance with market requirements

Infrastructure:

- Weak communications infrastructure diminishes the ability of companies to meet buyer requirements
- Energy shortfalls reduce profitability and diminish the ability of companies to meet buyer requirements

Cost of doing business:

- Limited access to finance hinders investment in value addition
- Expensive and unreliable transportation reduces the price competitiveness of Ethiopian goods in international markets and hinders the ability of enterprises to deliver goods in a timely fashion

Border-out (market access)

Across the value chain

Trade information:

- Limited awareness of preferential trade agreements hinders export expansion
- Inadequate access to and use of trade intelligence limits growth opportunities

Trade promotion:

- Lack of a national branding strategy hinders market development
- Lack of trade promotion capacities hinders the sector's strategic development
- Lack of targeted investment promotion efforts reduces the attraction of foreign capital, technology and expertise

Market access policies: Prevalence of short-term export relationships hinders the sector's strategic development

Development issues

Across the value chain

CSR:

- Subpar working conditions have the potential to pose health and safety risks
- Environmentally and socially responsible practices are not an integral part of doing business in the sector, threatening negative social impacts and ineligibility to supply socially concerned buyers

Textiles

Water pollution:

- Outdated dyeing methods pollute waterways
- Rapid expansion of cotton fields may impact indigenous livelihoods and local ecosystems

SUPPLY SIDE ISSUES

Box 8: Supply-side constraints in Ethiopia's T&C sector

Border-in (supply-side)

Across the value chain	**Skill gap:** • Limited availability of skilled specialists hinders productivity, quality and value addition – Inadequate TVET system impacts the development of a qualified labour supply – Insufficient in-company training hinders the development of a qualified labour supply – Weak HR management capacities reduce incentives and lead to high turnover • Limited availability of competent managers limits operational, systems and process efficiency – Inadequate education affects the development of necessary management skills – Inexperienced T&C managers and resistance to change – Limited access to foreign expertise • Lack of modern IT systems hinders the ability of enterprises to increase value addition and access demanding markets • Lack of a market-driven approach within companies leads to a disconnect between the sector and foreign demand • Difficulties adhering to quality standards reduce competitiveness in international markets
	Machinery: Obsolete equipment diminishes productivity and quality, and hinders value addition
Textiles	**Input supply:** • Limited quantity and quality of local cotton reduces competitiveness and diminishes opportunities for local value addition – Limited quality of local cotton – Limited and unpredictable production of cotton • Low quality of yarn diminishes profitability and reduces quality throughout the value chain • Low capacity utilization limits profitability
Clothing	**Input supply:** • Suboptimal sourcing practices reduce cost competitiveness and hinder product development • Limited value addition reduces competitiveness in international markets

Across the value chain

Skill gap

Limited availability of skilled specialists hinders productivity, quality and value addition

> *'I do not encounter problems in finding workers for my firm. People that I recruit are also very open to the learning process. The problem that I face is that workers have not had the experience of working in modern industrial plants; they are not aware of some basics related to the functioning of this environment. I need to start from scratch, and it takes time… and money.'*
>
> Industry opinion

Ethiopia's T&C sector suffers from a lack of sufficiently skilled technicians and specialists, despite the presence of a large labour pool in the country. The lack of skills leads directly to lower productivity and quality, which inhibit the ability of the sector to add value, meet buyer requirements and increase profitability.

While the lack of qualified operators is the key problem for the textile segment, clothing companies lack both operators and designers: the lack of operators reduces productivity and quality, and the lack of designers hinders the ability of clothing companies to move up the value chain and produce more value added goods.

Not only is the lack of skills a drag on growth in and of itself, but it also diminishes the positive gains that would otherwise be achieved through capital investment: though many companies have upgraded their capacities through the purchase of new equipment, for example, they lack the staff needed to operate it. As a result, much of this equipment either remains idle or operates below capacity, leading to lower productivity and questionable quality. The reasons for the dearth of adequately skilled workers are numerous, and include factors that are both internal and external to the sector's enterprises.

Inadequate TVET system impacts the development of a qualified labour supply

The T&C sector requires both skilled and semi-skilled workers, and there are a number of universities and around 100 TVET institutions specialized in T&C. Nevertheless, these institutions find it difficult to prepare students in accordance with the sector's requirements. The TVET system has seen few notable improvements over recent years with regards to the quality of training, teachers and infrastructure. The links between universities and TVET institutions and industry are weak, so trainings do not adequately reflect the needs of industry. In addition, the lack of internship programmes (and the questionable quality of those that exist) means that students are not gaining enough practical experience. It should be noted that there are no standardized certifications for trainings in the sector. There is also a lack of available training institutes in most regions outside of Addis Ababa. In addition, the TVET system does not have enough capacity to provide training for a sufficient number of trainees.

In the PoA, activities 1.1.1, 1.1.7, 2.3.1 to 2.3.6, 2.3.10, 2.3.11, and 2.4.1 to 2.4.3 respond to this issue.

Insufficient in-company training hinders the development of a qualified labour supply

In the absence of an adequate TVET system, companies themselves should be preparing their own specialists. Nevertheless, few companies provide adequate training. While most companies do provide at least some training for operators, the scope of such trainings is quite narrow. Not many companies have internal training schools and appropriate HR development facilities. Some companies have hired foreign firms to perform more appropriate trainings, but it should be noted that local owners often lack access to such expertise. This may lead to a disconnect, wherein foreign owners gain an uneven edge in their competition with local entrepreneurs. However, the need for training goes beyond technical competency: employees also require behavioural training (dress code, basic security, time management, etc.). All of these factors together would lead to more productive employees.

In the PoA, activities 1.1.1, 1.1.2, 1.1.5, 1.1.7, 1.2.1, 1.6.1, 1.6.2, 1.7.1 to 1.7.3, 1.8.1, 2.3.4, and 2.4.1 to 2.4.3 respond to this issue.

Weak HR management capacities reduce incentives and lead to high turnover

Salaries within the sector are quite low, averaging around US$50 per month. Low wages, together with the lack of other financial incentives, do little to promote productivity and enhance loyalty. In addition, the low salaries lead to high levels of absenteeism, which are estimated to be as high as 10%. Many workers skip work in order to pursue better-paying, opportunistic side jobs, knowing that they cannot be fired as long as they are not absent for more than five days at a time.

Another issue to be considered is poor working conditions, including inadequate housekeeping and lighting as well as unhygienic amenities.[40] In addition, employers do little to promote a sense of belonging or loyalty among staff. Festivities and other team-building exercises, as well as the introduction of benefits such as transportation, medical services, subsidized meals would go a long way towards fostering allegiance among staff.

In addition to affecting productivity, all of these issues lead to high employee turnover. This results in a constant brain drain in which trained workers leave a company, only to be replaced by untrained substitutes. This in turn makes companies less motivated to invest in the appropriate training and prevents companies from capitalizing on acquired skill sets.

In the PoA, activities 1.1.1, 1.1.2, 1.1.5 to 1.5.3, and 1.8.1 and 1.8.2 respond to this issue.

Limited availability of competent managers limits operational, systems and process efficiency

Despite the fact that, overall, mid- and high-level management skills are relatively good within SMEs, there is still room for improvement. Many managers continue to make use of outdated management methods that do little to spur higher productivity, reflecting the legacy of public sector planning[41].

Quality management is neglected due to limited knowledge among management of both modern practices and market requirements; this limits value addition and profitability. Lack of manager exposure to modern technologies is also a detriment: they lack knowledge about the latest machinery, hindering the upgrading of equipment. Similarly, limited knowledge of IT hinders the uptake of more integrated systems that would allow for greater value addition and service provision as required by modern TNCs. Lastly, managers have a poor understanding of HR management, thereby resulting in inadequately skilled specialists, high turnover, and limited workforce loyalty.

Inadequate education affects the development of necessary management skills

> *'I entered the textile industry recently because it seemed to be very promising. I was a farmer before, and T&C looked very attractive to me. Now I am facing some problems identifying the right product for my clients, and I do not know much about machinery in textiles. I came to know that this is a crucial aspect of this industry.'*
>
> Industry opinion

As with the training of specialists and technicians, a key constraint is the lack of adequate TVET and university programmes. Weak linkages with industry result in an education system that does not reflect the needs of the T&C sector. Teachers lack adequate knowledge of how Ethiopia's T&C companies operate: such knowledge would provide valuable insight into current processes and needs for improvement. In addition, teachers lack knowledge of international

40.– Lee, David Yuen Hoi (2010). *Benchmarking of the Ethiopian Textile Industry Vision 2015,* p. 124. Project No. YA/ETH/001. UNIDO.

41.– *Ibid.*: p. 112.

best practices within the sector, hindering their ability to stimulate modern management practices in Ethiopia. In addition to sector-specific topics, management also lacks training in generic management skills such as HR management, planning, costing and pricing.

In the PoA, activities 1.1.3, 1.1.4, 1.1.6, 1.4.6, 1.4.7, 1.8.1, 1.8.2, 2.3.2, 2.3.4, and 2.3.7 to 2.3.11 respond to this issue.

Inexperienced T&C managers and resistance to change

Ethiopia's T&C sector is relatively young. As such, many managers do not have adequate sector-specific knowledge, having frequently worked in other sectors before moving to T&C. Most industrialists do not have an industrial background but instead come from areas of the economy such as agriculture. As a result, it is even more important that the education system be able to offer adequate sector-specific training. It should also be noted that many managers have a strong resistance to change. This reinforces the status quo, preserving current production and technology levels.

In the PoA, activities 1.1.3, 1.1.4 and 1.5.3 respond to this issue.

Limited access to foreign expertise

As with specialists, there is also a gap between the expertise that can be accessed by local companies and that which can be accessed by foreign-owned companies. As a result, locally owned companies generally have weaker management in place.

In the PoA, activities 1.1.6, 1.4.6, 1.4.7, 1.4.9, 1.5.3, 1.8.1 and 1.8.4 respond to this issue.

Lack of modern IT systems hinders the ability of enterprises to increase value addition and access demanding markets[42]

The increasing importance of IT capacities for T&C suppliers is largely the result of two trends[43]. Firstly, international T&C buyers are shifting more towards lean retailing and they are looking for 'full package' service providers assuming most of the non-sale portions of the value chain, including the sourcing of materials, design and logistics. Secondly, fast fashion has revolutionized supply chain management and modern suppliers must be able to face fast turnovers. Given Ethiopia's proximity to Europe when compared with Asian competitors, capturing the fast fashion market is a particularly attractive option for sectoral development. Both of these opportunities require IT capacities that allow companies to share, analyse and use information flows, and optimize systems processes. Ethiopia's T&C companies lack modern IT capacities such as Entreprise Resources Systems.

Improvements have been hindered by the limited exposure of company management to these modern IT systems, and the education system does little to fill the gaps. Increased awareness of the costs and benefits of such systems will be needed to convince managers that such systems are a worthy investment. Visits to companies abroad would also expose management to best practices and motivate necessary upgrades.

While external to enterprises, it must be noted that Ethiopia suffers from poor (slow and unreliable) connectivity. In order for Ethiopian T&C companies to be considered for the most attractive contracts, IT capacities and reliability will need to be improved.

In the PoA, activities 1.2.1 and 1.8.4 respond to this issue.

Lack of a market-driven approach within companies leads to a disconnect between the sector and foreign demand[44]

> *'I invested in a textile plant recently with some fairly new machinery. However it seems I cannot find any buyers for my products. So at the end of the day, I often operate under capacity.'*
>
> Industry opinion

A key constraint that lies at the root of many of the sector's problems is the lack of a market-driven approach. Instead, enterprises are production-driven. Disconnected from final buyers, SMEs are unable to align product development, supply chain management and internal skills development with the requirements of final buyers.

The reasons for this disconnect are numerous and include the lack of a market-oriented mentality among managers. This stems largely from limited trade intelligence, as both SME and trade support network capacities for gathering and using such intelligence is lacking. With regards to SME capacities, market research departments are poorly developed, their personnel lack adequate expertise, and there is little contact with potential customers in the field.

In the PoA, activities 1.8.1 to 1.8.3, and 2.2.3 to 2.2.4 respond to this issue.

Difficulties adhering to quality standards reduce competitiveness in international markets

There is a lack of awareness in the private sector, and especially among SMEs, regarding international voluntary standards related to T&C. This is due largely to the young nature of the industry, which lacks adequate exposure to export markets. In addition to being unfamiliar with international quality standards, firms are also unaware of the benefits of compliance for exports. There is poor understanding among businesses of the importance of establishing control systems within their production structures. This is particularly

42.– Information for Development Programme (2008). *The Global Textile and Garments Industry: The Role of Information and Communication Technologies (ICTs) in Exploiting the Value Chain*.

43.– See Global Trends

44.– *Ibid.*: p. 107, 108.

problematic in the spinning and weaving subsegments of the chain.

In the PoA, activities 1.3.1-1.3.5 respond to this issue.

Machinery

Obsolete equipment diminishes productivity and quality, and hinders value addition

While many companies have upgraded their equipment over the years, SMEs in particular, continue to rely on outdated technology. Retooling should be done ideally every 10 to 15 years, particularly in the textile segment, as rapid technological advancements result in improved productivity, quality and automation, all of which provide a cost advantage. Nevertheless, many companies suffer from a cost and quality disadvantage vis-à-vis both domestic and foreign competitors because of a lack of upgrading. For many companies, particularly spinning mills, the lack of newer machinery leads to overstaffing. Even where equipment has been upgraded, it is often not used to its full potential. This is due to both a dearth of adequately skilled workers and the proliferation of basic production. Access to finance is one of the key constraints hindering necessary upgrading.

Management often finds it difficult to identify the appropriate technology. They generally lack exposure to international best practices, are unaware of what machinery is on the market, and are unable to appropriately evaluate their needs (it should however be noted that ETGAMA works with the Italian Association of Textile and Apparel Manufacturers and Related Industries to ensure the transfer of technological knowledge). Another problem is the lack of maintenance planning and budgeting. In some cases spare parts cannot be purchased: the equipment is so old that suppliers have stopped producing the parts.

In the PoA, activities 1.2.1 and 1.6.1 to 1.6.3 respond to this issue.

Textiles

Input supply

Limited quantity and quality of local cotton reduces competitiveness and diminishes opportunities for local value addition

The ability to integrate domestic cotton into the T&C value chain represents a key opportunity for local value addition. However, local production is unable to supply an adequate quantity and quality of cotton. Where quantity is limited, the sector has no choice but to import the difference. When quality is poor, textile companies have the option of producing lower-quality products or importing higher quality cotton.

Importing cotton is less than ideal because it creates a number of cost and operational burdens: importing adds roughly US$0.30 per kilogram of ginned cotton, reducing profitability. It also reduces the flexibility with which the local sector can operate. Since cotton is subject to lengthy transport, a textile company would be less able to respond to rapid changes in market demand. The underlying reasons for limited quantity and quality of local cotton are as follows.

Limited quality of local cotton

Cotton quality is affected at both the production and ginning stages of the value chain. Suboptimal production and post-harvest techniques limit quality at the production stage. Indeed, the fragmented farming system makes it difficult for farmers to access knowledge and extension services that would improve such techniques. Farmers also lack access to finance that would allow them to ensure quality through the use of appropriate inputs. Ginneries meanwhile use very outdated equipment, leading to frequent spoilage of cotton fibre. Their skills also need to be improved, and the improvement of TVET services for the ginning segment would be welcomed.

Both producers and ginners have little motivation to invest in quality due to the existence of a preferential marketing scheme: under this scheme, spinning mills are required to buy the totality of local production before importing. While ensuring a market and price for local cotton producers, it discourages them from improving quality. Similarly, the state enterprise tasked with acting as the sole buyer of cotton is not yet fully functioning. As a result, prices are still being set without regard to quality.

In the PoA, activity 1.2.3 responds to this issue.

Limited and unpredictable production of cotton

Quantity is limited first and foremost by the fact that only 4% of cultivable Ethiopian land is being used to grow cotton; investors must be motivated to invest in production. Quantity is often unreliable as well, since farmers frequently shift to other crops. Since the cost to shift from cotton to another crop (such as sesame) is quite low, such switches will always remain a risk.

The other reason for low quantity is the low yields achieved by the cotton sector in Ethiopia. This is a result of inadequate harvest and post-harvest practices, and the limited use of appropriate inputs such as agrichemicals and improved seed varieties. The diffusion of best practices and inputs is hindered by the fragmented farming system and the inability of extension services to adequately reach producers. The availability of inputs is also limited: the quality of seed supply is quite low (the varieties used are weak with regards to productivity and resistance), research is inadequate, Bt[45] cotton is not yet allowed, and there is no institution responsible for cotton inputs. Even where appropriate inputs exist, farmers cannot finance them.

In the PoA, activity 1.2.2 responds to this issue.

45.– A popular genetically modified variety of cotton that combats insect pests by producing *Bacillus thuringiensis* toxins.

Low quality of yarn diminishes profitability and reduces quality throughout the value chain

> *'I am a supply manager in a garment company. It is not that I do not want to buy local yarn. I would love to contribute to the industry. But the level of quality of available yarn is insufficient for me to ensure the final product demanded by our clients. We also require some varieties of yarn that are simply not available on the local market.'*
>
> Industry opinion

Many Ethiopian spinning companies find it difficult to produce high quality yarns. Only a few companies produce >25% Uster. The reasons for the inability to improve quality are numerous. Some spinning companies do not have laboratory instruments to measure yarn quality. In addition, there is a low awareness of current international standards when it comes to yarn quality. Both worker skill levels and outdated machinery play a role in diminishing yarn quality.

The effects of the dearth in quality are numerous. Not only are the spinning companies forced to sell their yarn for lower prices, it also means that the local T&C sector finds it difficult to purchase local inputs of an acceptable quality. A textile company might be constrained to produce lower-quality fabrics, and the garment producer will in turn sew clothes that are less competitive in international markets. The alternative for T&C producers is to import the necessary materials with all of the cost and flexibility burdens that such imports entail.

In the PoA, activities 1.2.2 and 1.2.3 respond to this issue.

Low capacity utilization limits profitability

Overall, Ethiopia's textile mills operate well below capacity, particularly with regards to fabric production and finishing (yarn spinning is approximately at 70% capacity utilization, and fabric production and finishing at ~50% capacity utilization). Low capacity utilization has a number of effects on the industry. First and foremost, profitability is limited. In addition, reduced productivity it may be a contributing factor to low wages, thereby contributing to the host of problems that arise in conjunction with weak HR practices. Low capacity utilization also affects the ability of enterprises to afford technological upgrades as it diminishes their ability to pay off the loans for that old equipment.

Although capacity utilization is 35% lower than the industry average in mills that use old equipment, it is still 10% below average in mills with new equipment. It is thus clear that obsolete machinery plays a role in diminishing capacity utilization but that it does not account for 100% of the deficiency. Part of the difference is accounted for by the lack of skilled labour and inefficient management, as detailed previously in this value chain roadmap.

In the PoA, activity 1.2.2 responds to this issue.

Clothing

Input supply

Suboptimal sourcing practices reduce cost competitiveness and hinder product development

Most of the garment sector's requirements in terms of fabrics, accessories, threads and buttons are imported from abroad. This puts Ethiopia at a price disadvantage compared with most of its Asian competitors, who can leverage ample domestic supply and/or import inputs more easily. It also reduces the flexibility with which Ethiopian producers can respond to buyer demands. Similarly, most Ethiopian apparel factories have little experience in sourcing their own materials. At the moment, garment producers are unaware of best practices with regards to sourcing.

While integrated mills make use of their own fabrics, Ethiopia's stand-alone textile producers offer inadequate fabric types with regards to diversity and, at times, quality. Garment producers must look outside the country for their fabrics in order to find greater variety. With regards to other inputs (such as accessories), investors have been slow to enter the segment. Foreign investors have been concerned by the single borrower's limit,[46] the limited cost competitiveness of local supplies, and the size of the domestic market, which at the moment is seen as too small to be attractive. Local investors have also been unmotivated thus far to move into the segment.

It should be noted that the Government is trying to provide incentives for investors who might be interested in moving into accessories production. In line with this goal, EIC has conducted feasibility studies for accessories and is actively seeking investors for the segment.

In the PoA, activities 1.2.3 to 1.2.6, and 2.3.3 responds to this issue.

Limited value addition reduces competitiveness in international markets

Despite the arrival of many large, Western buyers, much of Ethiopia's garment sector continues to be focused on the production of basic, low-cost goods. However, a number of factors are hindering such a scenario. Chief among them is the lack of adequate design skills. Such skills have thus far not been fostered by universities or TVET institutions, or within companies themselves. Enhanced curricula and partnerships with foreign design institutions would go a long way to enhancing design capacities. Closely related is the limited use of trade intelligence –which would alert enterprises to the changing demands of sophisticated consumers– as well as the continued prevalence of a production-driven mentality. In order to move up the value chain, enterprises will need to leverage a greater quality and variety of inputs that are selected based on characteristics of target markets.

In the PoA, activities 1.2.4 to 1.2.6, and 2.5.1 respond to this issue.

46.– Limit of US$22 million imposed for each borrower.

BUSINESS ENVIRONMENT ISSUES

Box 9: Business environment constraints in Ethiopia's T&C sector

Border (business environment)

Across the value chain

Trade facilitation issues:
- Inefficient Customs system leads to high costs and delays

Organization:
- Limited institutional capacity and poor sector coordination
- Weak quality management infrastructure hinders compliance with market requirements

Infrastructure:
- Weak communications infrastructure diminishes the ability of companies to meet buyer requirements
- Energy shortfalls reduce profitability and diminish the ability of companies to meet buyer requirements

Cost of doing business:
- Limited access to finance hinders investment in value addition
- Expensive and unreliable transportation reduces the price competitiveness of Ethiopian goods in international markets and hinders the ability of enterprises to deliver goods in a timely fashion

Across the value chain

Organization

Limited institutional capacity and poor sector coordination

Institutional capacities, and particularly those of sector associations, are relatively weak. These organizations lack the necessary financing and expertise to provide relevant and quality services to exporters in the areas of policy advocacy, market intelligence, trade promotion and quality management, among other issues. Sectoral growth will require the private sector to advocate for necessary regulatory reform. Improvements in market intelligence and quality management will allow enterprises to produce goods in accordance with market demand. Trade promotion services will facilitate market expansion through the effective and coordinated promotion of Ethiopian goods.

Institutions are also unable to coordinate sector participants effectively. This lack of coordination is a key roadblock to greater vertical integration, which would require enhanced communication between the different segments of the value chain. Coordination would also allow for group bargaining and the consolidation of orders in order to meet larger orders flexibly. A key issue will be building trust and reducing competition between associations so that they come to view each other as partners rather than competitors.

In the PoA, activities 2.1.1 to 2.1.5, 2.2.1 to 2.2.54, and 2.5.1 and 2.5.2 respond to this issue.

Weak quality management infrastructure hinders compliance with market requirements

While the lack of quality management in the sector is due in part to deficiencies within companies, the problem is compounded by a weak national quality management infrastructure. ENAO is responsible for accrediting all conformity assessment bodies in Ethiopia. Nevertheless, its accreditation is only valid at the national level, as it is not yet recognized by International Laboratory Accreditation Cooperation (ILAC) and the International Accreditation Forum (IAF). The test results of Ethiopian conformity assessment bodies, such as laboratories, are therefore not recognized internationally. This means that even where enterprises are able to produce goods of adequate quality, they are unable to prove compliance without resorting to expensive foreign testing.

> *'If I want to certify my production to international standards, I need to send it to another country; sometimes even to Europe. This is adding to my costs tremendously. If national laboratories were accredited to do the same work it would have spared me a lot of money.'*
>
> Industry opinion

Laboratory capacities are also lacking. Not only are there not enough laboratories, those that do exist have limited abilities to test inputs such as fabrics and accessories for compliance with international quality requirements. In addition, there is a lack of third-party consulting services available to enterprises for quality issues. Of particular note, there are limited domestic capacities for chemical and environmental certification. Each time an enterprise requires a relevant audit, an expert must be brought in from Egypt. This increases the cost of compliance and reduces the ability of enterprises to act in a timely matter.

In the PoA, activities 1.3.2, 1.4.1 to 1.4.3, and 2.5.1 to 2.5.4 respond to this issue.

Trade facilitation issues

Inefficient Customs system leads to high costs and delays

77% of the time required to trade across borders is needed for document preparation and customs clearance and inspections[47]. Indeed, documentation and clearance can also add over US$1,000 to the cost of the trade procedure. To put this in context, document preparation and Customs clearance for import costs an average of US$1,090 in Ethiopia. This is roughly equivalent of the US$1,100.40 total cost of import registered in OECD countries: by the time documents are prepared and the goods are cleared, Ethiopian companies have already spent as much money as their OECD competitors will have spent on the entire trade operation.T&C stakeholders note that Customs IT infrastructure needs upgrading in order to streamline their operations. In addition, Customs officials are not familiar with textile products and classifications. For example, imported fabrics are taxed based on fabric type. Agents, however, have trouble identifying the fibre type. Clearance therefore takes a long time and agents sometimes apply the wrong taxation. Other problems include limited knowledge of international standards for commodities, as well as some cases in which the wrong price is set for products because duty prices were not updated at the Customs post. Significant strides could be made if agents were better trained in identifying and classifying T&C products.

Clearly, simplification of trade procedures and documentation requirements would go a long way to reducing costs and time burdens. Creating a streamlined process (fast track) for reputable exporters could be another solution in the absence of such reforms.

The high cost of trade is particularly troubling: most inputs are imported, meaning that many exporting companies are hit twice with the cost burden. The length of time required for trade procedures is just as worrisome, as it reduces the ability of the sector to respond flexibly to buyer demands. After receiving an order from a buyer, T&C companies in Ethiopia might have to wait 1.5 months to receive materials. Exporting once the goods are ready would take an additional 1.5 months. In total, Ethiopian companies could require up to three months of lead time due solely to trade procedures, without accounting for production.

In the PoA, activities 2.7.1 to 2.7.4 respond to this issue.

Infrastructure

Weak communications infrastructure diminishes the ability of companies to meet buyer requirements

In addition to energy supply, another infrastructure concern is the poor communications network. Mobile communication and high speed Internet are not available in all areas of the country and service can be quite inconsistent outside of major urban areas. Ethiopia continues to allow its national telecom company (Ethio Telecom) to have a monopoly and, despite some improvements over recent years, the lack of competition has hindered progress. While the market for mobile and Internet technologies is growing rapidly, albeit from a small base, the quality of such services remains questionable: Ethio Telecom has been unable to meet the growing demand.[48] In addition, fixed-line penetration is extremely low, hindering the development of Internet services. Despite deficiencies, it should be noted that the Government is committed to investing heavily in the ICT sector.

Success in the modern T&C marketplace, lean retailing and fast fashion buyers, requires connected ERP systems based on reliable and modern communications networks.

In the PoA, activities 1.3.1 to 1.3.5 respond to this issue.

Energy shortfalls reduce profitability and diminish the ability of companies to meet buyer requirements

Ethiopian enterprises enjoy some of the lowest electricity costs in the world thanks to the prevalence of affordable and sustainable hydropower. Costs are especially attractive in industrial zones with the preferential 'low voltage time of day' tariff. Nevertheless, and despite the generation of adequate electricity, power outages are common.

While the Government is working to address this problem through the modernization of the substation network, the current power outages represent a pressing challenge for the T&C sector. Blackouts result in underproduction and can also lead to failure to deliver orders and breach of contract, resulting in both reputational and financial damage that may be irreparable. Lastly, the outages themselves may contribute to the continued reliance on basic, low value added and low-risk goods.

In the PoA, activities 3.1.1 to 3.1.3 respond to this issue.

Cost of doing business

Limited access to finance hinders investment in value addition

> *'As a small enterprise owner, it is still very difficult to get a loan. There are not many affordable services available. Additionally, there are only a few people in the enterprise and none of us is a specialist in financial management. As a result, we often do what we can with whatever we have at hand.'*
>
> Industry opinion

47.– See Appendice Section H: Time and cost involved in trading across borders in Ethiopia

48.– Baron, Dominique et al (2010). *The Impact of Telecommunications Services on Doing Business in Ethiopia*. Addis Ababa: Addis Ababa Chamber of Commerce and Sectoral Associations.

Ethiopia ranked 165 in the World Bank *Doing Business Report 2015* for getting credit. The financial system is not well-developed, and skills within local financial institutions, particularly for performing risk and loan analyses, are lacking. As a result, credit is offered to T&C enterprises at unfavourable terms with stringent collateral requirements that many SMEs cannot afford.

There is also a scarcity of working capital and a shortage of foreign exchange. In addition, banks tend to be both slow and inefficient. Bank services are also quite expensive: commercial banks charge 3% for import letters of credit and 2% for export letters of credit; Chinese banks, in comparison, charge less than 1%. In addition, the National Bank of Ethiopia charges a 1.5% foreign exchange commission for the dollars required to purchase inputs. In total, manufacturers looking to import materials are penalized 4.5%. It should be noted that the Development Bank of Ethiopia does provide specific schemes for T&C companies that are more advantageous than commercial banks. Nevertheless, while a special programme for MSMEs has recently been opened, the Development Bank of Ethiopia generally caters to larger companies.

Finally, one of the key constraints for foreign investors is the single borrower's limit. This limit ensures that no entity can borrow more than US$22 million. It has been imposed due to a shortage of foreign currency, as well as to combat the 'misuse' of borrowing in the past.

The lack of a properly functioning financial system makes it difficult for T&C SMEs to engage in adequate capital upgrading and to invest in value addition. Stakeholders note that even a common fund or a simplified machinery (or spare parts) purchase scheme would go a long way towards improving productivity within the sector.

In the PoA, activities 2.8.1 to 2.8.6, 3.2.1 to 3.3.9, and 3.4.1 respond to this issue.

Expensive and unreliable transportation reduces the price competitiveness of Ethiopian goods in international markets and hinders the ability of enterprises to deliver goods in a timely fashion

> *'Overall I am happy that I chose Ethiopia as the place for my investment. The Government has been extremely welcoming and supportive. However, I have to point out that by the time I transport my production to Djibouti, the cost of transport and the fees almost annihilate my margin. This is a crucial point, and the situation must be improved for us to really benefit from all the advantages Ethiopia has to offer.'*
>
> Industry opinion

Photo: ITC

As a landlocked country, Ethiopian goods must travel long distances before reaching the port of Djibouti, from where they are shipped throughout the world. It costs about US$4,000 to send a container from Ethiopia to Kenya: at this cost, fabrics from Asia are more price-competitive than those from Ethiopia, despite Ethiopia's proximity and lower labour and electricity costs. Similarly, it costs 60% more to ship through Djibouti to the United States and EU than it does to ship from China.

There are a variety of causes for the weak logistics system. Firstly, the road infrastructure in rural areas where many textile mills are located is quite poor. As a result, transport to and from these facilities can be slow and unpredictable. Next, transport from Addis Ababa to the port of Djibouti (~800 km) is artificially high: it costs roughly US$2,000 to send a 40-foot container on this route. For comparison, transporting a container in India over the same distance would cost one-fourth as much.

A key constraint is the lack of competition within the trucking sector, which is dominated by a state-owned enterprise. Not only is there no competition, but there is a shortage of trucks during certain times of the year (it should however be noted that the Government has imported more than 300 additional trucks in an effort to support exporters). This is further complicated by the absence of duty-free trucking in Ethiopia. Exporters are legally allowed to have only two duty-free trucks, significantly below required capacity. High fuel taxes also play a role. Furthermore, the lengthy Customs procedures and costs of export finance detailed under the previous constraint also increase final logistics costs.

The Government is building a new railway to Djibouti which is expected to reduce transport costs by 25%. In addition, a new road and rail corridor is being built in conjunction with Kenya. While it won't be completed for a few years, it will eventually connect the two countries and allow for more cost-efficient transportation as well as competition between the ports in Kenya and Djibouti.

In the PoA, activities 2.9.1 to 2.9.3 respond to this issue.

MARKET ENTRY ISSUES

Box 10: Market entry constraints in Ethiopia's T&C sector

Border-out (market access)

Across the value chain

Trade information:

- Limited awareness of preferential trade agreements hinders export expansion
- Inadequate access to and use of trade intelligence limits growth opportunities

Trade promotion:

- Lack of a national branding strategy hinders market development
- Lack of trade promotion capacities hinders the sector's strategic development
- Lack of targeted investment promotion efforts reduces the attraction of foreign capital, technology and expertise

Across the value chain

Trade information

Limited awareness of preferential trade agreements hinders export expansion

Ethiopia enjoys various preferential market access conditions and its goods can enter duty-free to some of the most important regional and global markets. This has been a significant factor behind the growth of the T&C sector over the past decade. Even so, stakeholders have thus far been unable to fully leverage these market access opportunities.

The key constraint is limited awareness with regards to both the opportunities offered by these markets and the requirements of entry. With regards to the former, there is a lack of trade intelligence that explains to exporters the details and benefits of existing trade agreements. With regards to the latter, exporters do not understand the requirements of these markets. Moreover, even where exporters understand the requirements, they find it difficult to meet the stringent demands of preferential markets (i.e. price competitiveness, delivery time, quality, etc.). To this end, advances in trade intelligence will require that enterprises improve the competitiveness of their products in parallel.

In the PoA, activities 4.2.1 to 4.2.7, and 4.5.1 respond to this issue.

Inadequate access to and use of trade intelligence limits growth opportunities

The T&C sector has little access to reliable and timely sources of trade intelligence in areas such as market characteristics and buyer requirements. Some information is provided by ETIDI, ETGAMA and the Chambers of Commerce, but the data is often outdated and limited in quality. Good quality trade intelligence is available from the private sector but the cost is quite high.

> *'European consumption habits differ from those of the United States, African or Asian countries. The structure of the marketplace, the prices, the packaging, the contractual arrangements, etc. are also different. We will achieve effective and profitable trading relationships only if we understand the specific market requirements of each of our existing and future trading partners.'*
>
> Industry opinion

SME staff lack the skills required to engage in their own market research and analysis, while the capacities of trade and investment support institutions (TISIs) are similarly lacking. Institutions do not provide any market studies with buyer contact information. Another roadblock is poor coordination between domestic stakeholders and commercial and ministerial representatives stationed abroad: ideally, such representatives should be able to provide up-to-date information on market dynamics. Nevertheless, these representatives currently do not serve as a major source of trade intelligence.

If Ethiopia's T&C sector is to pursue sustainable market expansion, it must increase its ability to identify and respond to requirements and trends in target markets.

In the PoA, activities 2.2.5, 2.2.6, 2.3.3, 4.1.1 to 4.1.7, 4.4.1, 4.4.2 and 4.5.1 respond to this issue.

Trade promotion

Lack of a national branding strategy hinders market development

There has thus far been little interest in developing a single brand for Ethiopian T&C products. Companies, associations and the Government could all work together to promote the sector's goods under a common theme. Such a strategy would have far greater impact than a collection of small, disjointed initiatives. Due to the lack of a national branding strategy, there is limited name recognition for products 'Made in Ethiopia'. In the absence of strategic branding efforts, the country continues to be defined in part by its historical challenges. As long as they persist, these negative associations may continue to present roadblocks to market expansion and investment promotion.

In the PoA, activities 2.6.1, 2.6.2, 4.3.5 to 4.3.7, and 4.4.3 respond to this issue.

Lack of trade promotion capacities hinders the sector's strategic development

In order to successfully enter new markets and expand in existing ones, Ethiopia's stakeholders must engage in more effective trade promotion efforts. SMEs lack skills in the areas of marketing and promotion and they find it difficult to formulate and engage in effective marketing and sales strategies. A key challenge in this regard is the lack of sufficiently prepared managers: university curricula do not adequately reflect the needs of industry. Managers also have limited exposure to foreign markets, a fact that is further complicated by the lack of trade intelligence detailed above. In the absence of such market information, managers find it difficult to formulate and implement targeted marketing and sales strategies.

Institutional and Government support is also lacking. Little in-market support is provided to SMEs in areas such as trade fair participation or buyer–seller meetings. The ability of sector associations to assist in trade promotion efforts is limited by weak financial and technical capacities. The recently formed Ethiopian Export Promotion Agency also lacks adequate capacities; it engages in limited and unstructured participation in trade fairs. Marketing capacities within Government support institutions are also weak and their efforts are uncoordinated. Similarly, embassies and trade attachés do little to promote Ethiopian products abroad.

In the PoA, activities 4.3.1 to 4.3.6, and 4.4.3 and 4.5.1 respond to this issue.

Lack of targeted investment promotion efforts reduces the attraction of foreign capital, technology and expertise

FDI has long been a driver of growth for the T&C sector as foreign investors continuously look to leverage cost advantages around the globe. Such investment brings not only the capital required for strategic investment, it also stimulates the transfer of technology, expertise and know-how. Although Ethiopia has succeeded in attracting FDI over recent years, the scale of investment could be increased substantially given adequate Government support.

However, the Government has limited itself largely to securing investment from investors who have already shown interest in Ethiopia while helping those same investors identify the most attractive opportunities. There is little activity in the way of identifying and approaching foreign investors from scratch: reaching out and introducing them to the idea of Ethiopia as a target for investment.

One of the key constraints is the lack of skills in relevant agencies: staff lacks the capacities to identify, approach and engage with potential investors. Another roadblock is the limited coordination among actors within this sphere; in addition to the EIC, each region has its own investment promotion agency. As such, there is little coordination among agencies. More targeted investment promotion can best be achieved if mechanisms for greater cooperation are established between all interested parties.

In the PoA, activities 4.3.1 to 4.3.6, and 4.5.1 respond to this issue.

SOCIO-ECONOMIC AND ENVIRONMENT ISSUES

Box 11: Social and economic constraints in Ethiopia's T&C sector

Development issues

Across the value chain	**CSR:**	• Subpar working conditions have the potential to pose health and safety risks • Environmentally and socially responsible practices are not an integral part of doing business in the sector, threatening negative social impacts and ineligibility to supply socially concerned buyers
Textiles	**Water pollution:**	• Outdated dyeing methods pollute waterways • Rapid expansion of cotton fields may impact indigenous livelihoods and local ecosystems

Photo: ITC

Across the value chain

CSR

Subpar working conditions have the potential to pose health and safety risks

Some factories continue to maintain inadequate working conditions, characterized by poor lighting, a lack of cleanliness, and unhygienic cafeterias and amenities.[49] While these factors have been cited as contributing to employee dissatisfaction, they also represent health and safety risks. Poor lighting can lead to accidents, particularly when working with heavy machinery such as in the T&C industry. Unhygienic facilities may foster the spread of disease. It should also be noted that in addition to the risks posed to physical health, working under these conditions could lead to psychological malaise, reducing the general sense of well-being among staff.

In the PoA, activities 1.3.2, 1.3.3, 1.4.1, 1.4.2, and 1.4.4 to 1.4.7 respond to this issue.

Environmentally and socially responsible practices are not an integral part of doing business in the sector, threatening negative social impacts and ineligibility to supply socially concerned buyers

Few Ethiopian factories are certified under (or aware of) the EU's Business Social Compliance Initiative or the United States Worldwide Responsible Accredited Production. Factory workers frequently exceed the maximum number of working hours allowed per week and are sometimes subjected to unhealthy breathing environments. Machinery used is often technologically outmoded and environmentally dirty. Obtaining Business Social Compliance Initiative and Worldwide Responsible Accredited Production certifications can be useful in accessing European and North American markets – which are increasingly conscious of the negative environmental and social spillovers of textile and garment production – as well as in ensuring a healthy and happy workforce. Moreover, as Ethiopian fabrics and garments represent some of the country's major manufactured goods, the sector's environmental and social practices will set important precedents for the country as its economy grows.

In the PoA, activities 1.3.1 to 1.3.4, and 1.4.1 to 1.4.10 respond to this issue.

Textiles

Water pollution

Outdated dyeing methods pollute waterways

Ethiopia enjoys vast water resources[50] which do not exist in isolation as many of its rivers continue through other countries. As such, any misuse of water resources has implications not only in Ethiopia but also in neighbouring countries. The textile industry consumes a considerable amount of water resources in dyeing and finishing processes. In addition, outdated dyeing methods release chemical waste, including persistent organic pollutants, into the water. New methods exist that would allow textile companies to use less water and minimize pollution. Such methods include optimization of the dyeing process itself and improved wastewater treatment. Stakeholders, however, do not consider the issues to be a major concern. In addition, they are unaware of the benefits that might come from transitioning to more sustainable processes. Not only would improvements lead to environmental preservation, they could also be leveraged as marketing tools to add value to final products. Other markets have strict regulations that must be met as a condition for import: as an example, the EU market restricts the use of azo dyes for any imported T&C product.

In the PoA, activity 2.6.1 responds to this issue.

Rapid expansion of cotton fields may impact indigenous livelihoods and local ecosystems

The Government goes to great lengths to help investors locate suitable land in their efforts to attract foreign investment. Sometimes the best land is located in inconvenient areas: areas of great biodiversity and areas that have been traditionally occupied by indigenous peoples. With regards to the former, land is often designated for large-scale farming without an appropriate environmental impact assessment.[51] This is especially worrisome given that even land

49.– Lee, David Yuen Hoi (2010). *Benchmarking of the Ethiopian Textile Industry Vision 2015*, p. 124. Project No. YA/ETH/001. UNIDO.

50.– Encyclopedia of the Earth (2008). Water profile of Ethiopia. Last updated 10 June 2012. Available from http://www.eoearth.org/view/article/156941/.

51.– Mursi Online (2013). Website. Available from http://www.mursi.org/.

from national parks has been turned over to farming operations (30,000 hectares of land in Mago National Park will be used for sugar cultivation).

With regards to indigenous rights, there have been reports that land has been forcibly confiscated.[52] In other cases, nearby land may be used for cultivation without a proper environmental impact assessment. The dramatic changes to the land may affect the local climate, thereby affecting the ability of nearby indigenous peoples to continue their traditional agropastoral lifestyle. In either case, meaningful consultations with the local community seem to be lacking and impact assessments are not undertaken. The issue has gained enough prominence that some donors have passed legislation touching on the subject.[53] For example, the United States created a law requiring that funds appropriated by American directors of international financial institutions for the Lower Omo and Gambela regions must be subject to consultation with affected populations and must not be used to support evictions, directly or indirectly.

These issues are further complicated by the fact that the Lower Valley of the Omo, home to many of Ethiopia's indigenous peoples, is a United Nations Educational and Scientific Organization world heritage site. As such, every effort should be made to ensure that impacts to its ecosystems and cultural landscape are adequately assessed and considered before the implementation of large-scale projects.

In addition to the obvious human rights and environmental concerns, such practices could potentially damage the reputation of Ethiopia's T&C sector. Indeed, CSR is becoming a core requirement for many of the most important buyers. If these buyers believe that a part of the T&C value chain regularly benefits from unethical practices, the sector's growth potential may be imperilled as TNCs look for more socially responsible suppliers.

In the PoA, activity 2.3.3 responds to this issue.

52.– Human Rights Watch (2012). What will happen if hunger comes? Abuses against the indigenous peoples of Ethiopia's Lower Omo Valley, 18 June. Available from https://www.hrw.org/report/2012/06/18/what-will-happen-if-hunger-comes/abuses-against-indigenous-peoples-ethiopias-lower.

53.– Mursi Online (2013). Website. Available from http://www.mursi.org/.

The need for coordinated action

The analysis of competitive constraints makes it clear that the sector's sustainable development will require an integrated set of interventions that holistically address challenges across the entire value chain. Roadblocks are not limited simply to enterprise capacities or Government policy, and many challenges are the result of a combination of factors that require wide-ranging remediation. It is for this reason that a comprehensive road map becomes all the more necessary; individual stakeholders, and even small groups of stakeholders, will not be able to adequately deal with the constraints on their own. It is only through strategic cooperation that the most effective results will be achieved.

STRATEGIC IMPLICATIONS FOR THE VALUE CHAIN ROADMAP

Since identifying the T&C sector as a priority area for development in the GTP 2010–2015, the Government has succeeded in fostering a policy environment that is conducive to investment. Ethiopia's comparative advantages, namely its low labour cost, cheap and sustainable electricity, preferential market access and proximity to important markets, have been complemented by reforms to the business environment that have reduced trade hurdles. In conjunction with attractive incentives for investors, the sector has engaged significant capital from abroad. Indeed, over the past few years exports have expanded rapidly due in large part to the arrival of foreign investors.

Nevertheless, Ethiopia's T&C sector has yet to realize its full potential: sales are heavily concentrated among a few product categories of fairly low value addition, and market diversification is limited. While larger companies have succeeded in entering global value chains, SMEs continue to be relatively excluded from external trade, having experienced only a limited amount of economic integration with larger market players. Despite the influx of FDI, much of the value chain remains underdeveloped, including accessories, materials, textiles and higher value added garment activities. Productivity meanwhile continues to suffer as a result of limited skills in the workforce, weak management capacities and reliance on outdated equipment, among other issues. In addition, remaining problems in the business environment create unnecessary cost burdens and delays.

This diagnosis lends itself to certain key considerations that the value chain roadmap should tackle. In order to move forward, public and private stakeholders must work together and build on the successes that have been achieved thus far. To this end, the continued stimulation of FDI will play a crucial role. The Government must do more to effectively target investors and promote development of the underserved opportunities in Ethiopia's value chain. Skills development must also be a priority, particularly with a view to increasing productivity, quality and the capacity for value addition. Lastly, the Government must do more to remove the remaining policy and business environment roadblocks to competitiveness.

THE WAY FORWARD

Figure 8: The way forward

The previous sections of this document delineate various aspects of the T&C value chain in Ethiopia – and examine the current state of the sector. In other words, the previous sections comprehensively answer the question 'where are we now?' The following sections discuss the way forward and the implementation modalities through the PoA. In doing so, the sections discuss two questions – 'where do we want to go?' and 'how do we get there?'

Through the definition of broad sector targets and specific strategic objectives, the value chain roadmap sets the goals to be achieved in the following five years. The depiction of the 'future value chain' (see figure 11), the highlighting of specific market opportunities, and the identification of target areas for investment will then outline the concrete steps required to achieve these goals. These steps are then further detailed in a structured and prioritized manner in the PoA.

The current model on which the sector has based its growth has certainly yielded strong economic and social returns. Indeed, sectoral development has progressed despite constrained productivity and the continued reliance on a narrow set of products and markets. Even so, there are signs that the approach must be modified in accordance with evolving global conditions. True sustainability will only be achieved through increased competitiveness and investment in greater value addition.

The sector's strategic orientation should follow a twofold approach. Firstly, Ethiopia can build on its current success and leverage its cost competitiveness to expand market diversification and penetration. Secondly, the sector can capture greater value by pursuing full value chain integration, first by bridging the skill gap to increase productivity, especially considering upcoming wage increases, and later by enhancing weak upstream capacities.

In order to realize these goals, structural deficiencies identified as competitive constraints (based on the four gear approach including supply-side, business environment, market entry and development issues) will be addressed and opportunities will be leveraged. The following is a delineation of the sector development targets and strategic objectives to achieve them.

Indicative sector development targets

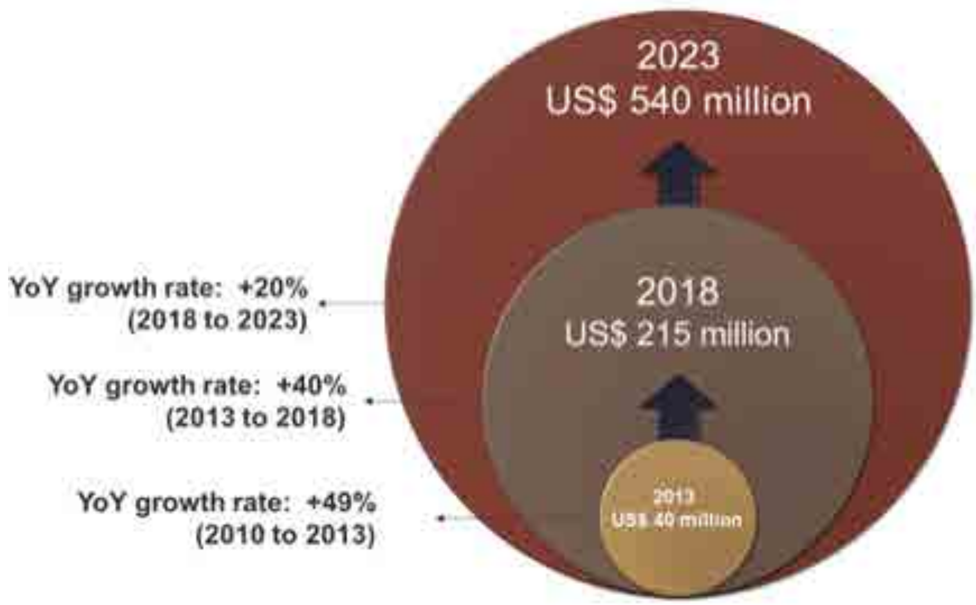
One of the main focus areas of this value chain roadmap will be to build on the current conjuncture and benefit from the growing interest of international investors in T&C in the East Africa region. FDI can lead to transformative effects in a country's home-grown sector, as international investors are likely to possess and transfer a wide range of assets otherwise unavailable to local enterprises. These may include technologies, skills, management practices, operational experience, economies of scale and international distribution channels.

Ethiopia's apparel exports were worth US$ 40 million in 2013, having grown at a remarkable CAGR of 49% from 2010. Although the growth rate will slow as the base expands, apparel exports are still expected to grow by 40% in the next five years, and then by 20% in the following five years. At these rates, Ethiopia's apparel exports would reach US$ 215 million by 2018 and US$ 540 million by 2023.

An additional US$ 500 million of export value through 2020 will have an impact on the entire value chain:

- Clothing: it will call for the production and export of another 100 million to 125 million pieces of apparel. This will require an investment of approximately US$ 135 million on garment production facilities alone, including 25,000 sewing machines, 3 million square feet of built-up area, and roughly 45,000 workers.
- Textiles: On the textile front, this would mean an additional demand of approximately 225 million metres of fabrics and 35 million to 40 million kg of yarn.

Figure 9 : Projections of Ethiopia's apparel export growth



Based on the logic above, the value chain roadmap aims to deliver the following production, export-related and developmental targets by 2020:

- More than 200 firms have acquired new equipment and related technical capacities
- Six hundred new production lines developed by Ethiopian firms in yarn, textile and apparel production
- Exports of textiles and garments to increase annually by 35% to US$320 million
- More than 45,000 new jobs in the T&C sector
- All companies complying with international standards related to working conditions, quality management and sustainability.

The indicative targets have been set in collaboration with national stakeholders and international sector experts. They are based on the hypothesis that the current socioeconomic conditions and political stability, as well as the investment climate overall, will remain unchanged.

Photo: www.tidi.gov.et.

THE STRATEGIC OBJECTIVES

The strategic objectives aim to define the main thrusts that will guide the value chain roadmap design process and implementation. They represent the final goals and effects expected by the policies or the actions to be undertaken. To achieve the twofold approach of the T&C sector's strategic orientation and related indicative targets, four strategic objectives have been identified as being the cornerstones to enhance the competitiveness of Ethiopian T&C export sector.

Strategic objective 1: improve productivity and employment outcomes through skills development

Although Ethiopia enjoys a large workforce, it requires extensive training in a wide range of areas and at different levels of specialization. This training, which will ensure that the industry's growth is supported by an adequate labour supply, is all the more necessary in light of upcoming, progressive wage increases. In particular, workers as well as line managers must be trained in the latest techniques and best practices so as to improve plant efficiency. Given the recent investment of many Ethiopian companies in new machinery, a priority will be ensuring that firms have the necessary skills to fully capitalize on these capital investments. This will require increasing worker skills, while at the same time helping managers understand the functioning, as well as the productivity and diversification potential, of the new equipment.

At the managerial level, skills need to be strengthened in the areas of input sourcing, quality assurance and compliance, as well as HR management. The latter will not only allow the industry to retain quality workers but will also help it to meet the international market's growing demand for socially responsible products. Finally, specific focus needs to be given to the handloom subsector and MSMEs to ensure that they are fully integrated in overall sector growth. These issues are therefore of the utmost priority and will require immediate action on a variety of fronts, including the Government, institutions and enterprises themselves.

The first strategic objective is therefore: improve productivity and employment outcomes through skills development.

The following operational objectives have been defined to achieve the first strategic objective.

1.1 Increase the level of technical and supervisory skills at T&C firms.
1.2 Improve sourcing and supply chain management performance.
1.3 Improve quality management skills in line with international standards.
1.4 Design and implement a nationwide compliance programme.
1.5 Improve HR policies, employee retention and incentives at T&C firms.

1.6 Ensure maximum equipment usage within Ethiopian firms.
1.7 Develop skills specific to the handloom subsector.
1.8 Develop skills specific to MSMEs.

Photo: www.dw.com. Low wages draw international textile companies to Ethiopia.

Strategic objective 2: strengthen the enabling environment to favour sector development.

The second focus area is to ensure that the sector's development is supported by an appropriate enabling environment. The Ethiopian Government is strenuously working to support business by fostering conducive policies and conditions. Even so, much remains to be done, particularly with regards to improving the quality of institutional support. To this end, a priority will be aligning the offerings of training institutions and universities to the needs of the sector.

An effective framework for cooperation must also be established in order to ensure synergies between larger companies and SMEs. Another area for improvement is international accreditation and quality infrastructure; Ethiopian companies must be able to certify their production to the relevant standards of their target markets. To support these changes, key regulations must be adjusted so as to streamline the sector's functioning. Lastly, additional efforts must be made to improve Customs services, access to finance, and transportation and logistics services.

Those issues will also constitute a specific pillar of this value chain roadmap, through the second strategic objective: strengthen the enabling environment to favour sector development.

The following operational objectives have been defined to achieve the second strategic objective.

2.1 Reinforce sector coordination to favour workforce development and policy advocacy.
2.2 Provide high quality institutional support and business services to T&C firms.
2.3 Improve existing training and educational offerings and align them to industry's needs.
2.4 Enable the development of skills through lead firm and cluster arrangements.
2.5 Ensure that national quality management infrastructure responds to industry's needs and international ambitions.
2.6 Improve the legal and regulatory framework relevant to the T&C industry.
2.7 Increase the capacity of the Customs service to regulate imports of T&C products.
2.8 Ensure availability of accessible financial tools for MSMEs.
2.9 Improve the efficiency and cost competitiveness of transportation and logistics.

Strategic objective 3: establish conditions to harness FDI as an engine for growth in T&C.

Due to the growing importance of FDI, it is crucial that Ethiopian TISIs establish the conditions that will allow the sector to take advantage of the capital and skills flowing into the country. Investment is therefore another key strategic focus area of the value chain roadmap. As a prerequisite, initial efforts must be made to guarantee that the operating environment is suited to investment. A key priority will then be to ensure that a high level of institutional support is provided in the areas of investor identification and attraction. To this end, stakeholders must reinforce the promotion of Ethiopia as an attractive destination for investment. Ethiopia can be promoted as more than a 'low wage' country, and efforts may include the showcasing of ongoing efforts in skills development and social and environmental standards compliance. Lastly, specific schemes must be developed to guarantee that SMEs are included in the global value chain.

Thus the third strategic objective of the value chain roadmap: establish conditions to harness FDI as an engine for growth in T&C.

The following operational objectives have been defined to achieve the third strategic objective.

3.1 Establish an internationally competitive operating environment conducive to T&C sector development.
3.2 Increase capacity of TISIs to identify and attract appropriate investments for the sector.
3.3 Further promote Ethiopia as a key destination for FDI.
3.4 Increase collaboration between local SMEs and FDIs to ensure synergies.

Strategic objective 4: foster product and market development through the use of trade information.

The analysis of the sector makes clear that there is much scope for Ethiopian firms to further diversify their markets and products. The first requirement is that high-end and up-to-date trade and market access information is made available to all stakeholders. In parallel, firm-level capacities must be increased to ensure that this information is properly analysed and used as a basis for product development and market diversification efforts. In order to support market diversification, Ethiopian T&C products must be promoted through a variety of channels, including trade fairs, side events, branding strategies, etc. Finally, handloom firms and MSMEs need to be promoted in a targeted manner; this will begin with an assessment of the domestic and regional market opportunities for their products.

The fourth strategic objective of this value chain roadmap is therefore: foster product and market development through the use of trade information.

The following operational objectives have been defined to achieve the fourth strategic objective.

4.1 Ensure easy and timely access to strategic trade intelligence for T&C firms.
4.2 Increase firms' capacity to understand regional and international market requirements and how to best align product development/offerings.
4.3 Expand market access and promote Ethiopia's T&C products.
4.4 Provide targeted assistance on market information analysis to handloom firms.
4.5 Assess the Ethiopian T&C market in order to identify domestic and regional opportunities.

LEVERAGING MARKET OPPORTUNITIES

As indicated in figure 11, the most attractive course of action will be for Ethiopia to focus on exports of finished goods (apparel and home textiles) in order to capture greater value addition and generate the most employment.

Focusing sector development efforts to connect with TNCs

Ethiopian garment producers (except for technical wear) will most certainly need to connect with TNCs if they aim at international markets such as Europe and the United States, or fast-growing markets such as India and China. However, it is important to keep in mind that the global T&C sector is fast-evolving and very competitive, as put forth in the first section of this value chain roadmap. It is also governed by different dynamics depending on whether we look at the textile or garment segments. TNC requirements evolve with every fashion trend, making it particularly difficult to provide recommendations on products' development and related design. Nevertheless, the following success factors need to be taken into account by Ethiopian garment firms to be able to target TNCs successfully as a market segment.

iv. As consumers are putting increased pressure on the T&C sector to improve social responsibility, there will be an absolute need for Ethiopian firms to comply with CSR.
v. The demand for full package services from lean retailers requires that Ethiopian garment suppliers expand their service offerings and create strategic partnerships with vendors rather than purely transaction-based relationships.
vi. Ethiopian firms must increase volume capacity, either internally or through consolidation/partnership agreements, to meet large TNCs' requirements.
vii. Ethiopian firms must increase their ability to quickly supply the market in response to fast fashion demands.
viii. Companies are highly encouraged to invest in quality, increase their product development competency, and develop their multi-fibre expertise.
ix. Increased management and ICT capacities will be required to satisfy buyer demands and to secure partnerships with TNCs in the long term.
x. So far, Asian countries have emerged as winners in global trade. In the next few years, some of them will become important markets as well. The increasing focus of China on the domestic market and value added production will result in multibillion dollar trade opportunities for suppliers in competing nations. Trade intelligence will be essential to tap into these opportunities.

All points except point (iv) also apply to textile and technical garment producing firms that aim to connect with TNCs. Finally, considering TNCs' paramount focus on cost competitiveness, Ethiopian firms should leverage the duty-free advantages for garments that have been granted through various preferential trade agreements.

Whatever market segment is chosen by Ethiopian firms (TNC, regional or national market peers), the market diversification phase must be accompanied by a trade regime that allows for the hassle-free import of inputs (fabrics, trims, accessories, etc.). Upstream capacities will be developed later on.

Gaining market share in traditional growing markets

Ethiopia's T&C exports are concentrated in a few importing markets which rank among the largest in the world and present stable import growth. The market penetration strategy is less uncertain since it leverages the sector's existing resources and current business linkages. In a growing market, simply maintaining market share will result in growth. In this way, the Ethiopian T&C sector should seek to achieve growth with its existing products in its traditional importing markets. Thus the apparel segment should focus its initial efforts on expanding its exports to TNCs or medium-sized apparel companies in its main importing country, Germany, followed by the United States, the largest world importer. Ethiopia has constantly increased its exports over the last four years in its two top destination markets and could easily build on its success. Yarn spinners could also further increase their market penetration to the textile mills of its main importers, Turkey and China, the world's biggest and fastest-growing yarn importer.

However, Ethiopia's T&C exports' concentration in and dependency on a few importing markets carries a risk of significant losses in the event of a drop of demand or increase in the level of competition. Therefore, the sector has to strengthen its market and product diversification efforts and look for opportunities.

Leveraging existing market linkages to build capacities for more value added textiles and garments

When looking to sell new products, enterprises can leverage existing market linkages and enter product categories that can be distributed either to existing TNC buyers in Germany and the United States or along the same distribution network, such as other overseas buying offices of mass merchandise stores and department stores.

At the same time, textiles enterprises can build capacities to produce more value added fabrics. Cotton and woven moisture management fabrics, and synthetic and blended yarns, are products in high demand by textile mills in Turkey.

In the medium term, Ethiopia should take steps to develop upstream capacities in order to reduce import dependency and drive domestic value addition. As the Ethiopian garment sector will keep developing, local textile producers could target manufacturers in Ethiopia and in regional markets for high quality cotton fabrics.

Taking advantage of preferential market access to penetrate new large markets

Market development options include the search for new market destinations for currently exported products, especially where the country benefits from preferential market access conditions. The garment sector can thus leverage the duty-free advantage that Ethiopia has been granted for garments in many of the larger markets, in particular EU markets such as the United Kingdom, where Ethiopia is already gaining market share, or Italy and France. Yarn spinners could also target major COMESA yarn importers such as Egypt, Mauritius and Madagascar.

It should be noted that, to do this, enterprises must be able to provide larger orders. The recent signature of the tripartite agreement between COMESA-EAC-SADC is also an opportunity to enter South Africa, the largest African garment importer.

Diversifying in intermediate products in regional markets and local supply of accessories and embellishments

In the medium term, the Ethiopian T&C sector should consider new product and market development opportunities. With regards to its existing exported products portfolio, the sector could develop its exports of intermediate products (yarn and fabrics) in the regional market. The development of the garment industry in the region will increasingly require the provision of value added inputs, fabrics and embellishment products. However, the main focus of developing intermediate products should be indigenizing the entire value chain. These new value added and higher quality fabrics should target Ethiopian garment manufacturers and could also be exported to new markets, in particular the regional market. Additionally, as Ethiopia's T&C sector further develops with its current buyers, valued added garments will integrate locally produced accessories and embellishments.

Box 15 summarizes the product and market opportunities available to Ethiopia's T&C sector based on consultations with international experts and feedback from leaders of the industry in the country.

Box 12: Ethiopia's product and market opportunities

	Existing products	New products
Existing markets	**Market penetration** • Apparel to TNCs or medium-sized apparel firms in Germany and the United States, and to regional buyers in Ethiopia and Sudan • Yarn to textile mills in Turkey and China	**Product development** • Woven trousers, skirts and outerwear, and knitted jerseys to TNCs in Germany and the United States, and other overseas buying offices of mass merchandise stores and department stores • Cotton and woven moisture management fabrics, and synthetic and blended yarns to textile mills in Turkey • High quality cotton fabrics dyed and finished to garment factories in Ethiopia and regional markets
New markets	**Market development** • Apparel – other large European markets (Italy, Spain and France) through new TNCs or medium-sized apparel firms; and South Africa with new preferential access • Yarn – to textile mills in major COMESA markets (Egypt, Mauritius and Madagascar), the Russian Federation and EU markets (Italy and Spain)	**Diversification** • Fabrics (shirting, bottom weight and denim) to garment firms in regional markets • Woven trousers, skirts and outerwear, knitted jerseys to other EU markets through new TNCs or medium-sized apparel firms • Accessory/embellishment manufacturing for garment factories in Ethiopia and regional markets

INVESTMENT TARGETING FOR SUSTAINABLE EXPORT GROWTH

FDI has long been a driver of growth in the T&C sector as investors look to capture the comparative advantages offered by low-cost destinations. Global greenfield FDI in the T&C sector reached US$24 billion in 2013, an all-time high, and more than double the level achieved in 2012. Moreover, Africa is receiving a greater share of this investment as rising wages in China, compliance issues in Bangladesh, and labour unrest in Cambodia, together with other factors, have accelerated a shift to new locations. Total FDI inflow to Africa in 2013 was valued at US$57 billion, of which US$1.75 billion was in the T&C sector.

TARGET FDI BY COUNTRY WITH A SPECIAL FOCUS ON INDIA

In recent years the Ethiopian T&C sector has received significant FDI inflows from Chinese, Turkish and Indian investors. While these countries will continue to be sources of FDI, additional investments may be attracted from Germany, France, the Republic of Korea, the United States, Italy, Bangladesh and Israel. While attracting FDI from Japan may also be possible, it will require more time given the stringent quality, technical and product development orientation of Japanese companies. It should therefore be only a medium-to-long-term objective.

Special attention needs to be paid to attracting FDI from India. India is not only one of the largest T&C producing and exporting nations, it is also a large market which is growing in the double digits. T&C exports from India currently stand at approximately US$40 billion, whereas its domestic consumption is estimated to be US$75 billion (including apparel, home textiles and technical textiles). Continuous growth of consumers' disposable income has ensured high demand growth.

For Indian T&C investors, Ethiopia's low input costs and duty-free access to important markets will be the biggest attractions. Some Indian investors, including Arvind Ltd. and Kanoria Textiles, have already invested in Ethiopia, and there have been a few other major investment announcements as well. There are several other T&C companies in India willing to invest overseas in order to cater to their traditional buyer base while benefiting from foreign advantages. It will be important and fruitful for Ethiopian authorities to invest time and effort to identify and reach out to potential Indian investors and showcase the advantages of investing in Ethiopia.

Box 13: Trade as a precursor to Investment

Trade initiation is the first step towards investment. Consider an example of an Indian company buying certain inputs from East Africa for its production in India. If imports remain profitable, then with growth of its business, the company will weigh imports (using trade intermediaries such as agents) vis-à-vis establishing an East African affiliate to procure the material. Having its own office can reduce the bulk sourcing cost and give better supply chain control to the company. Over time, successful procurement operations in East Africa might evolve into a manufacturing facility and continue to add other higher value functions over time, such as design, research and development, or regional sales and distribution.

In short, trade and FDI are very often part of the same continuum. As more and more Indian businesses evolve further down that continuum, trade and investment linkages between India and East Africa will strengthen and there will be greater spillovers of technology and skill in East Africa. This will help East African businesses become more efficient, improve the marketability of their products and services, and deepen their participation in global value chains.

FDI TARGETS IN SUBSEGMENTS OF THE T&C VALUE CHAIN

There is broad consensus within the sector that Ethiopia's garment sector is at the start of a significant boom, and there is immediate opportunity to invest profitably in garment manufacturing and assembly for basic (i.e., low-skill) garments to be marketed to the EU and United States.

The boom in garment manufacturing will in turn create high demand for fabrics and yarns, which the Ethiopian manufacturing value chain is currently not positioned to cater to. Enterprises that can establish yarn and manufacturing set-ups that are capable of producing export-quality goods for garment producers can meet domestic and regional demand by leveraging comparatively lower costs and short delivery times.

Sector experts also see an opportunity for foreign investors to produce accessories and embellishments in Ethiopia, such as thread, labels, hangtags, buttons, zippers and elastics. These are almost completely imported, and China is historically the most important supplier for many of these products. Accessories and embellishments may represent a significant value option for domestic or foreign investors in Ethiopia. Such products generally require low technological and capital investments.

The most promising short- and medium-term opportunities for private investment are listed below. They are promising because both cost data and the experiences of existing investors suggest that investment projects with similar products and target markets could operate not only profitably and securely, but more so than if the project were in a competing location.

- Garment manufacturing – CMT and FOB (and original design manufacturers in the medium term)
  Products: T-shirts, shirts, uniforms, jeans and other similar products with low design variation
  Target investors: companies that are qualified suppliers to low- and mid-range retailers and brand apparel companies from the United States, the EU, China, India and the Republic of Korea
- Fabric manufacturing
  Products: high quality cotton fabrics, dyed and finished
  Target companies: Turkey, India, China, domestic firms
- Accessory/embellishment manufacturing
  Products: thread, labels, hangtags, buttons, zippers, elastics
  Target investors: companies from China, which dominate global production but are losing their price advantage as labour costs in China rise
- Sector infrastructure
  Products: engineering, construction and management of private industrial zones, water purification facilities
  Target investors: firms that have built and/or managed zones and related facilities for T&C clusters in China, Viet Nam and India. The Government of Ethiopia for possible PPPs.
  Target markets: Ethiopia investors and Industrial Parks Development Corporation (IPDC) (through the Ministry of Industry)
- Trucking and logistics providers
  Target investors: domestic firms
  Note: liberalization of the sector would almost certainly attract quick investment from a number of investors and have the knock-on effect of strengthening T&C competitiveness

ATTRACTING NEW INVESTORS AND DEVELOPING INVESTMENT AFTERCARE PROGRAMMES

Beyond creating a favourable business environment for the T&C sector, the Government of Ethiopia must broadcast the advantages of doing business in Ethiopia to those companies considering international expansion. Some companies will invest without any government information or assistance, some will not invest under any circumstances, and some are in between those two extremes, where they might be persuaded to choose Ethiopia over other locations if the right information and assistance is provided to them at the right time.

Identifying investors in this last group, securing meetings with them, and persuasively making the case for one's country over others is known as investor targeting, and it is arguably the most difficult function for the typical investment promoter to perform. One of the main reasons for this is the difficulty in identifying high-potential investors. Before each investor is approached, the investment promoter should take the time to 'qualify' the investor. This means researching the company to see that its products and markets correspond to Ethiopia's strengths and that it is at a strategic and financial point where international expansion is likely. To this end, the following types of investors can be targeted.

Existing investors

In developed economies, reinvestment from existing investors is recognized as the largest source of new FDI. Moreover, significant reinvestment is the only path to large-scale sectoral development and economic diversification. Reinvestments represent growing commitments from foreign investors to doing business in a country, often increasing production volume or moving the company into new value chain segments. This can bring levels of local sourcing, exports, technology, worker skills and general value added, which first-time investors might not. Furthermore, from the perspective of an investment-promoting institution, it is much less expensive to court the community of existing investors than to find new investors among the scattered global pool of companies with no demonstrated interest in the promoter's country.

In Ethiopia, to date, Government relationships with investors have tended to be developed very little beyond the issuance of permits, certificates and licences, or the provision of industrial park space and services. Recognizing this and seeking to better maximize benefits from existing investors, the Ethiopian Government has committed to implementing a programme of investor aftercare through EIC and IPDC. Still under development as part of a World Bank project, this programme of investor aftercare would involve a range of investor services and business environment advocacy designed to achieve the objectives summarized in 'the aftercare provider's C.R.E.E.D.', or:

- Conversion of announced investments into operational projects, minimizing the number of investors who cancel investment plans because of unexpected problems during the start-up process;
- Retention of existing investment projects, by assisting their smooth operation and ensuring investor satisfaction with their experiences in the country;
- Expansion of existing investment projects, by production volume, number of employees and number of local facilities;

Photo: flickr.com/photos/ustr, Ambassador Kirk tours the Almeda Textile and Apparel Factory on August 7, 2009 in Axum, Ethiopia.

- Embedding of projects more deeply in the local economy, through greater use of domestic inputs and labour and/or greater sales to a domestic market;
- Diversification into new product lines, value chain segments and business lines, which typically entails higher value addition, new technologies and new worker skills.

These would be accomplished through a system of account management, whereby an EIC or IPDC staff member – depending on the location of the project – would be assigned to take primary responsibility for the customer service and long-term success of each investor, directing a programme of regular company visitation, ongoing problem-solving, investor surveys, investor seminars and networking events, and participation in a planned public-private forum for business environment reform.

At the core of every activity employed in the delivery of aftercare is a relationship-building initiative. An investment facilitator transitioning into the position of aftercare provider must stop thinking of his work as transaction-based, where each investor coming into the office represents a bureaucratic problem to be solved and then forgotten. Rather, he must become an account manager, providing tailored support at every stage of the life of a business and proactively finding ways to help the investor achieve long-term goals and identify new opportunities.

Investors having expressed interest in the sector

This category of investor is the low-hanging fruit; companies that have been in contact with the Ethiopian Government at their own initiative. EIC, IPDC, ETGAMA, privately managed industrial parks, the Ethiopian Chamber of Commerce and Sectoral Associations, and the Addis Ababa Chamber of Commerce and Sectoral Associations are among the stakeholders that have likely received many inquiries from interested investors. These should be consolidated by this value chain roadmap's implementing team for direct follow-up or for tracking of the stakeholder's follow-up, as appropriate.

Potential investors

Before potential investors can be 'qualified,' investment promoters need a 'long list' of investors in each of the countries where they think they might have success in targeting investors. See the example from India in Appendice F - List of potential investors based in India.

FUTURE VALUE CHAIN

Unlocking the potential of the T&C sector will require transformations throughout the value chain. These adjustments, as reflected in the future value chain schematic (figure 11), will be the result of the targeted efforts detailed in the PoA that address the constraints identified in the four gears analysis. The future value chain will be characterized by:

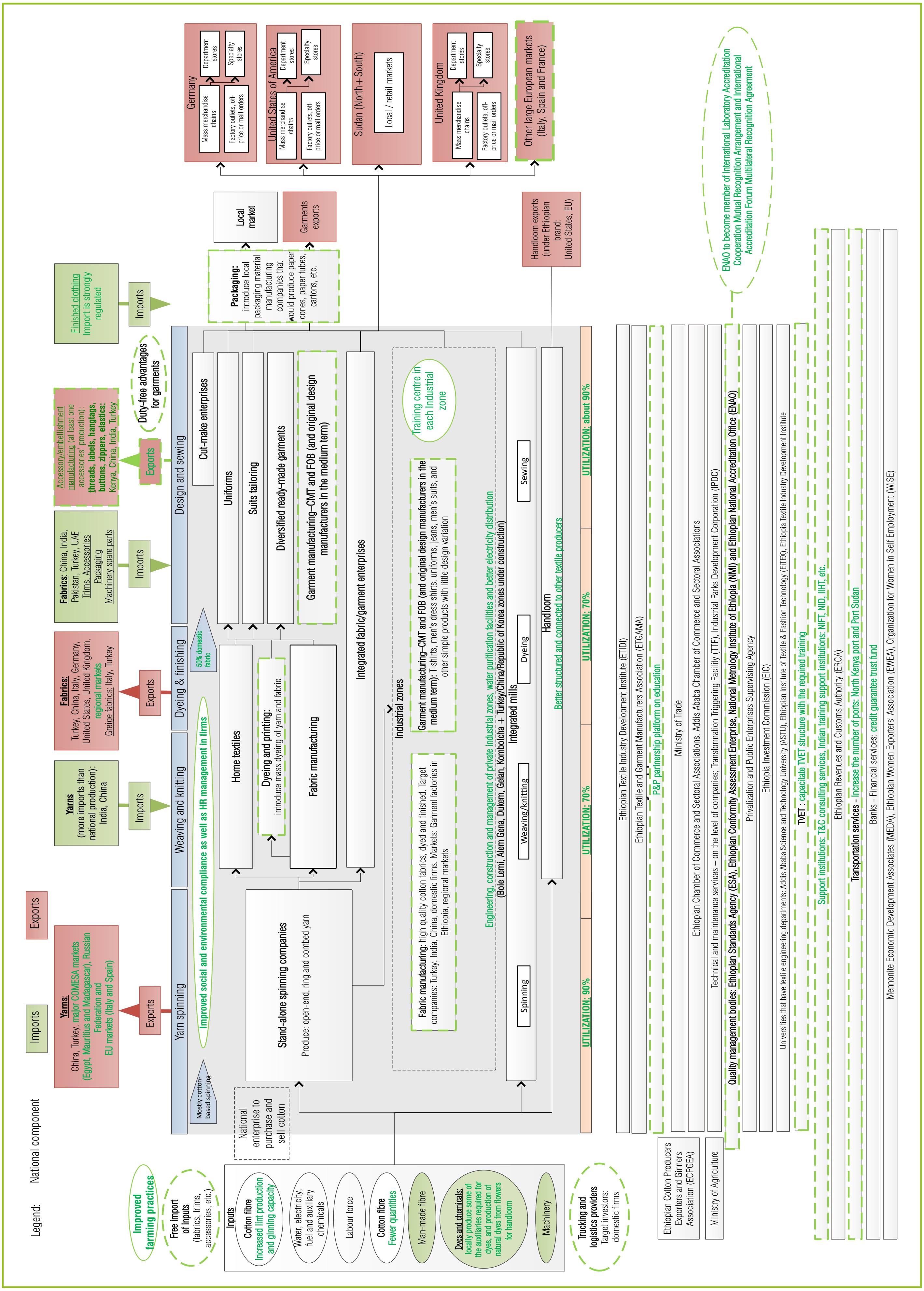
1. Greater use of domestic inputs, including raw materials (cotton, dyes and chemicals) and intermediary inputs (fabrics, accessories and packaging materials)
2. Greater value addition in the garment segment as well as market and product diversification
3. Further development and integration of industrial zones
4. Enhanced support services, particularly in the areas of TVET, quality management, finance and logistics.

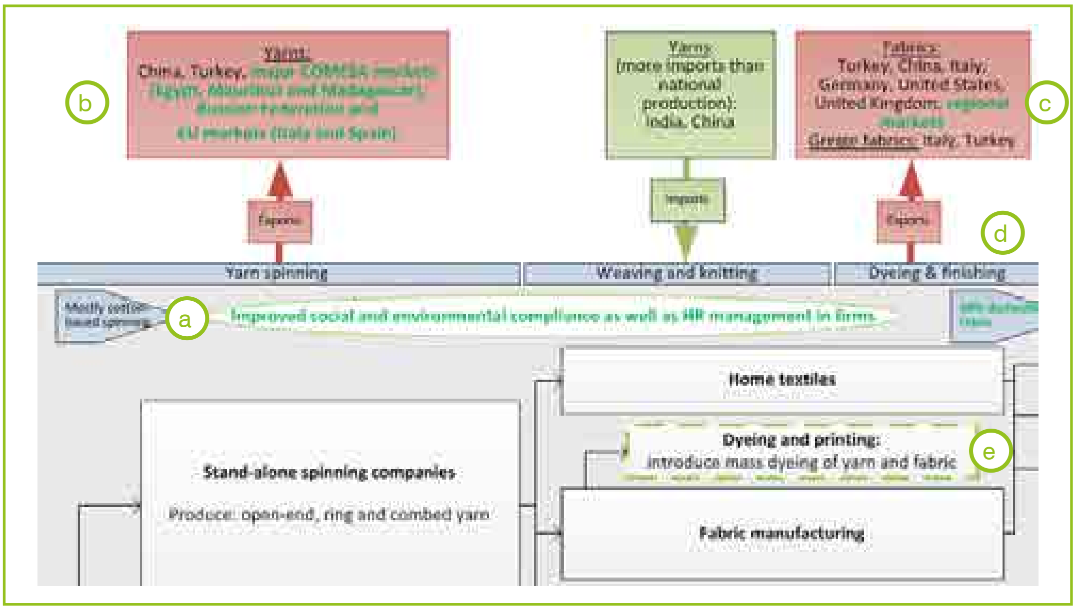
Of the value chain segments depicted in figure 11, FDI in garment manufacturing will be the sector's main engine of growth over the next several years. Realizing a future value chain with the four aforementioned characteristics depends heavily on the ability of sector stakeholders to:

- Create linkages between garment FDI and domestic suppliers
- Nimbly address the infrastructural, bureaucratic and logistical constraints which harm Ethiopia's competitiveness vis-à-vis other destinations for garment FDI
- Proactively develop the workforce needed for this highly labour-intensive industry.

FDI in support services and industrial zone development would follow closely. As domestic supply of yarn and thread improves, and power-and water-related constraints are alleviated, a greater proportion of FDI may flow to integrated textile mills, thereby further reinforcing the national value chain from spinning onward.

Figure 10: Ethiopia's T&C future value chain



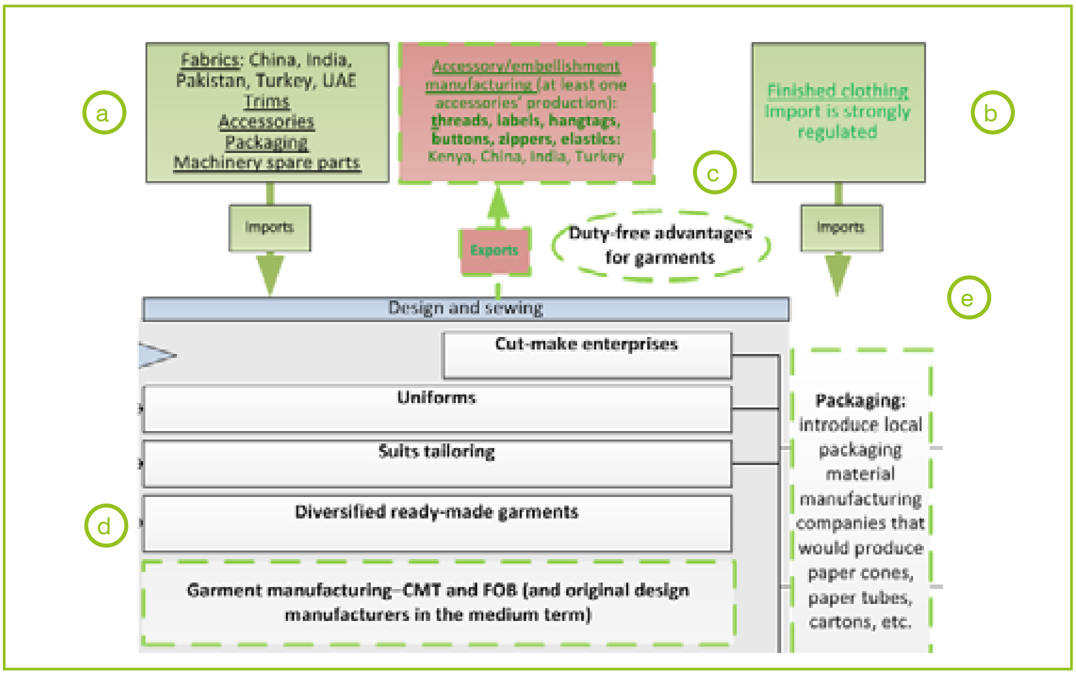


I. FORESEEN ADJUSTMENTS IN THE TEXTILE SEGMENT

a. Overall compliance to CSR is achieved through better HR management practices and implementation of environmental standards
b. Diversification of yarn exporters is realized to major COMESA markets, the Russian Federation and the EU
c. Fabrics exports to regional markets are increased
d. Half of domestic fabric demand for the clothing industry is provided by local textile firms
e. Stand-alone dyeing and printing plants are created, acting as service providers to fabric producers

II. GREATER VALUE ADDITION IN THE GARMENT SEGMENT AS WELL AS MARKET AND PRODUCT DIVERSIFICATION

a. Accessories and embellishment manufacturing and exports are developed
b. Finished clothes imports are strongly regulated
c. Duty-free advantages for garments are set up
d. Free on Board (FOB) garments manufacturing and original design manufacturers are introduced into the value chain
e. Packaging manufacturing and companies producing paper cones, paper tubes, cartons etc. are created

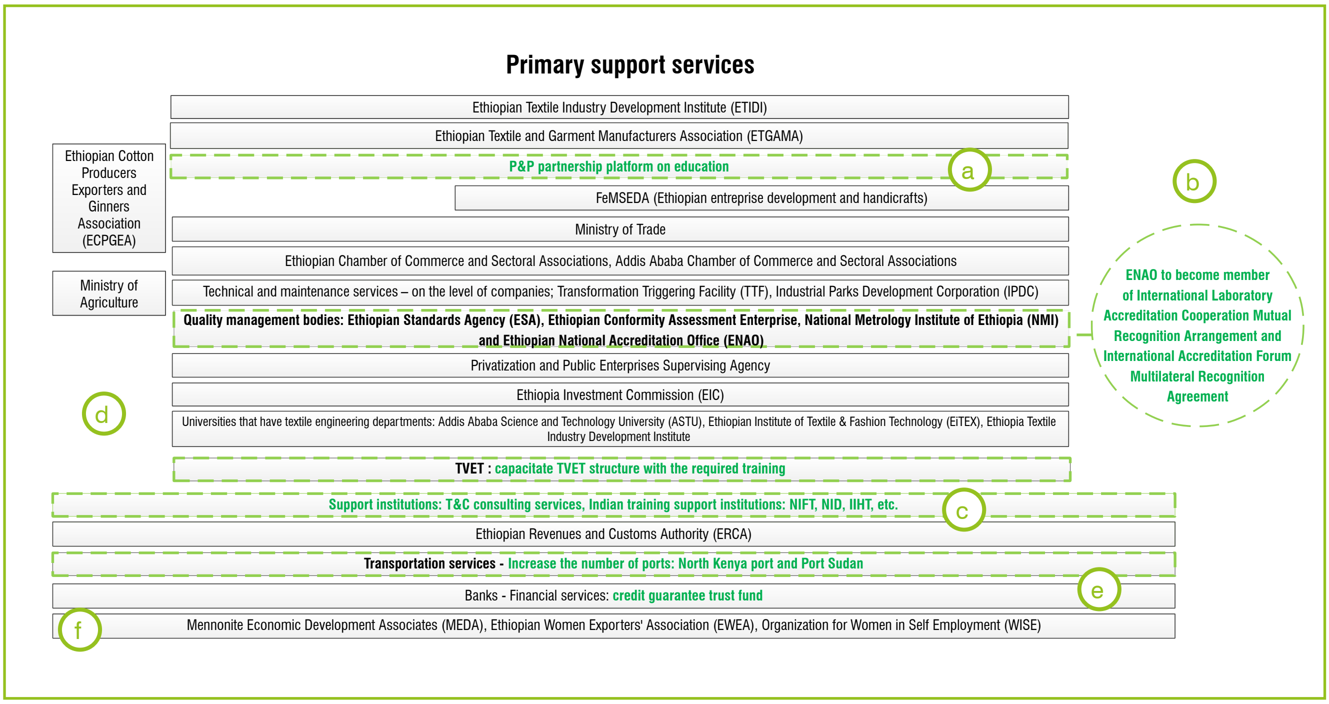


III. FURTHER DEVELOPMENT AND INTEGRATION OF INDUSTRIAL ZONES

a. Fabric manufacturing (high quality cotton fabrics, dyed and finished) has grown in quality and quantity in the framework of industrial zones due to cost advantages provided
b. CMT and FOB garment manufacturing and original design manufacturers are present in Industrial zones
c. Training centres of excellence are established in each Industrial zone

IV. ENHANCED SUPPORT SERVICES, PARTICULARLY IN THE AREAS OF TVET, QUALITY MANAGEMENT, FINANCE AND LOGISTICS

a. Public–private partnership (PPP) platform on education (TVET and university education) is launched
b. ENAO becomes a member of the ILAC Mutual Recognition Arrangement (MRA) and the IAF Multilateral Recognition Agreement (MLA)
c. TVET institutions are equipped with the required training machinery, second-hand and miniature models (through agreements with major machinery providers)
d. New T&C consulting services are developed and partnerships with Indian training support institutions are brought into Ethiopia: National Institute of Fashion Technology (India) (NIFT), National Institute of Design (India) (NID), Indian Institute of Hardware Technology (IIHT), etc.
e. Transportation services are improved: increased number of ports (North Kenya Port and Port Sudan)
f. Financial services to T&C enterprises are improved: a credit guarantee trust fund is created



MOVING TO ACTION

The development of the future value chain for the T&C sector is a 5 year project defined through a consultative process between public and private sector stakeholders in Ethiopia.

Achieving the strategic objectives and realizing the future value chain of the T&C sector in Ethiopia depends heavily on the ability of sector stakeholders to start implementing and coordinating the activities defined in the Value Chain Roadmap's Plan of Action. For this reason, a list of key priority activities has been identified in order to kick-start the implementation of T&C Value Chain Roadmap.

The plan of priority actions to kick start implementation

Activity	Target measures	Leading national institution and possible implementing partners
Strategic objective 1: Improve productivity and employment outcomes through skills development		
1.1 Increase the level of technical and supervisory skills at T&C firms.		
1.1.1 Conduct a skills gap and needs assessment study covering the entire value chain from workers up to managers, and develop course curricula, assessment standards and infrastructure requirements for training programmes. The skills gap assessment should also factor in learnings from leading T&C manufacturing nations. Build this analysis on the 10-year skills development plan and gap assessment study carried out by Adama Science and Technology University and ETIDI.	• Reports indicating specific numbers to be trained for various activities • Course curriculum for each area, based on skills gap assessment, assessment standards for certification agency, and identification of ways to train (on-job, theory, mix)	ETIDI, ETGAMA, Adama Science and Technology University, Federal TVET Agency, TVET centres responsible for curriculum development under regional departments, Ministry of Education, regional support from African Cotton and Textiles Industries Federation (ACTIF)
1.5 Improve HR policies, employee retention and incentives at T&C firms.		
1.5.1 Support companies in developing HR policies and practices – after comprehensive review of applicable local laws, international compliance standards and global best practices – leveraging the experience from other successful countries, which can help Ethiopian firms recruit, develop and retain a productive workforce. Foster the development of HR departments within companies to encompass a wider scope of services, including learning and development.	• At least 40 companies (of which 20 are SMEs) trained per year on HR practices	ETIDI, ETGAMA, regional support from ACTIF in terms of benchmarking Ethiopian HR professional associations
1.6. Ensure maximum equipment usage within Ethiopian firms.		
1.6.1 Conduct training, involving machinery suppliers' representatives, at firm level for middle-level and high-level managers on: • Knowledge of existing equipment and their advantages in order to ensure proper identification and purchase of equipment within companies • Understanding the potential of newly purchased equipment and the training requirements for operators to ensure its full-capacity functioning • Modern budgetary practices that account for regular equipment upgrading. Machinery suppliers should not be involved to ensure that the data is unbiased. This should be done by: **a.** Using industry experience-sharing platforms **b.** Institutionalizing technology comparison studies through universities or technical experts.	• One hundred and sixty company technical machinery supply managers trained per year	ETIDI, ETGAMA, regional support from ACTIF, Ministry of Education and Ministry of Industry, universities
Strategic Objective 2: Strengthen the enabling environment to favour sector development		
2.1. Reinforce sector coordination to favour workforce development and policy advocacy		
2.1.1 Set up a high-level PPP platform to represent the interests of the industry and to ensure alignment between ETIDI, ETGAMA, public universities and vocational schools, with a view to upgrading the quality and capacity of the T&C training and educational offering. The partnership platform should comprise representatives of lead firms / foreign buyers / retailers.	• High-level PPP set up, comprised of ETIDI, ETGAMA, universities and TVET institutions	Ministry of Industry, ETIDI and ETGAMA
2.3 Improve existing training and educational offerings and align to industry's needs		
2.3.1 Reinforce existing TVET offering targeting both textile and clothing companies. Specific technical areas requiring skill reinforcement are: • Spinning operations for ring spinning, open end and airjet • Weaving and weaving preparatory operations for major shuttleless technologies – airjet and rapier • Knitting operations • Fibre / yarn / fabric dyeing and finishing processes • Garment manufacturing operations • *List of skills to be completed based on the assessment study.* In each of these areas, create highly specific short-term courses (one to three weeks), adapted to the time constraints of employees. For more specialized training, a higher period of four to six weeks may be required. The timeline should be decided while developing the courses.	• At least two new courses created and available in each field within the five- year period	PPP, ETIDI, ETGAMA

Photo: www.tidi.gov.et,

Activity	Target measures	Leading national institution and possible implementing partners
Strategic objective 3: Establish conditions to harness FDI as an engine for growth in T&C		
3.4 Increase collaboration between local SMEs and FDIs to ensure synergies		
3.4.1 Support the implementation of the existing programme (of the Ethiopia Chamber, the Addis Ababa Chamber) to help establish linkages between new international investors and local suppliers in a more systematic manner, taking into account the SMEs' perspective. E.g. Ensure that foreign-owned firms in industrial zones begin to provide more systematic and organized in-house training, opened to local firms. • Assist in finding new local suppliers • Facilitate transfer of knowledge from investors (includes product technology, process technology and organizational managerial know-how and assistance, etc.) • Provide training on pertinent issues to enhance meaningful relations between investors and local SMEs (includes cooperative learning among suppliers; internal training to affiliates; in-plant training; etc.).	• Exchange mechanism established within at least four Industrial zones using the training centres created (linked with activity 2.3.4)	ETIDI, IPDC and ETGAMA
Strategic Objective 4: Foster product and market development through the use of trade information		
4.1 Ensure easy and timely access to strategic trade intelligence for T&C firms.		
4.1.1 Create a strategic monitoring cell, hosted at ETIDI, then co-shared with ETGAMA, to gather up-to-date and T&C-specific trade information, and to detect early signals on targeted markets and products. The website of ETIDI can be used to host the monitoring cell and connected to the Ethiopia Chamber of Commerce website. This implies supporting ETIDI and ETGAMA to subscribe to important textile journals and websites to be able to update its members with latest market information. These include: http:/ /www.emergingtextiles.com/ ; www.fibretofashion.com ; www.cotlook.com	• One monitoring cell set up in ETIDI • Recommendation report on implementation of the competitive intelligence system	ETIDI, co-responsibility with ETGAMA and ECPGEA
4.2 Increase firms' capacity to understand regional and international market requirements and how to best align product development / offerings		
4.2.3 Provide training on the contemporary trends of fashion design (e.g. colour palettes silhouettes, etc.), as well as the role and importance of fashion designers.	• At least two training institutions acquire knowledge and competences to replicate trainings • Minimum of 10 companies trained per year	ETIDI, ETGAMA, regional support from ACTIF

THE PLAN OF ACTION

The PoA contains a detailed list of activities organized by operational objectives and strategic objectives. The PoA serves as an exhaustive framework for the implementation of the Value Chain Roadmap.

Photo: pixabay, *Phil Shettig.*

Strategic objective 1: Improve productivity and employment outcomes through skills development.										
Operational objective	Activities	Priority 1=high, 3=low	Starting period 16	17	18	19	20	Target measures	Leading national institution and possible implementing partners	Ongoing / future development programmes + international partners
1.1 Increase the level of technical and supervisory skills at T&C firms.	1.1.1 Conduct a skills gap and needs assessment study covering the entire value chain from workers up to managers, and develop course curricula, assessment standards and infrastructure requirements for training programmes (linked with activities 2.1.2 and 2.1.3). The skills gap assessment should also factor in learnings from leading T&C manufacturing nations. Build this analysis on the 10-year skills development plan and gap assessment study carried out by Adama Science and Technology University and ETIDI.	1		X				• Reports indicating specific numbers to be trained for various activities • Course curriculum for each area, based on skills gap assessment, assessment standards for certification agency, and identification of ways to train (on-job, theory, mix)	ETIDI, ETGAMA, Adama Science and Technology University, Federal TVET Agency, TVET centres responsible for curriculum development under regional departments, Ministry of Education, regional support from African Cotton and Textiles Industries Federation (ACTIF)	International training agencies such as Wazir and Infrastructure Leasing and Financial Services (IL&FS) from India
	1.1.2 Provide technical trainings to T&C machine operators on-site and in selected training centres to increase productivity and quality of skills. Training to workers: four to six weeks. Specific focus areas required are: • Shift workers / machine operators from spinning up to garmenting • Line leaders and production flow supervisors • Middle managers • Pattern makers and computer-aided design operators • Quality inspectors • Lab technicians • Fashion designers • Merchandizers • Industrial engineers • Electronics / electrician skills • Mechanics • Practices on machinery maintenance.	1		X				• Ten thousand workers per year in seven training locations • At least 5,000 employees trained per year under other categories (to be refined based on the skill gap assessment under activity 1.1.1)	ETIDI, ETGAMA, regional support from ACTIF TVET institutions / universities	International training agencies such as Wazir and IL&FS from India
	1.1.3 Provide on-the-job managerial training to line managers who have supervisory roles, to ensure work flows expeditiously along the line. Training to supervisors: two to four weeks.	2		X				• One thousand line supervisors per year in multiple locations (including training within factory and, for some, in a training centre)	ETIDI, ETGAMA, regional support from ACTIF, Kaizen Institute, TVET institutions / universities, public–private platform	International training agencies such as Wazir and IL&FS from India
	1.1.4 Train production flow supervisors to best oversee the pace of the work and ensure stoppages are minimized, monitor production levels, train new workers, and manage constant problem solving. Training managers: two weeks (to be linked with activity 1.3.3).	2		X				• One hundred and sixty managers per year in multiple locations (including training within factory and, for some, in a training centre)	ETIDI, ETGAMA, regional support from ACTIF, Kaizen Institute, TVET institutions / universities	Universities, e.g. Addis Ababa, Bahir Dar, Wollo; international training agencies such as Wazir and IL&FS from India

Strategic objective 1: Improve productivity and employment outcomes through skills development.										
Operational objective	Activities	Priority 1=high, 3=low	Starting period 16	17	18	19	20	Target measures	Leading national institution and possible implementing partners	Ongoing / future development programmes + international partners
1.1 Increase the level of technical and supervisory skills at T&C firms.	1.1.5 Support firms to provide systematic training / induction process to new operators and develop training manuals on manufacturing operations – production, quality, maintenance and housekeeping – for operators.	2		X				• Published handbooks with standard operating procedure for each activity • Train 40 companies per year to develop process and training manuals • Training of trainers under exchange programme in one year	ETIDI, ETGAMA, regional support from ACTIF	International training agencies such as Wazir and IL&FS from India
	1.1.6 Showcase to others the level of effort made by successful companies in skills development, and how their productivity levels and cost efficiency have improved as a result.	2		X				• At least five success stories showcased through ETGAMA and ETIDI	ETGAMA and ETIDI	
	1.1.7 Monitoring and evaluation of the training programmes based on the skills gap assessment (under 1.1.1) create a labour database to reflect the current situation identified in the study (showing numbers of workers at each level of specialization), and monitor evolution and quantify trained employees in each category.	2		X				• One monitoring database created and managed by ETIDI, with ETGAMA's inputs	Ministry of Labour and Social Affairs, ETIDI, ETGAMA	
	1.1.8 Solicit large-scale investments and world-class management to vastly ramp up the country's capacity for garment worker training that is both technically excellent and socially responsible. Further build on the Swedfund / H&M project in Ethiopia to build the training programmes required, liaising with other financial and technical partners experienced in large garment worker training initiatives in Asia and / or Africa. This will likely include private investors, development agencies of major garment-producing countries, state-run venture capital firms (such as Swedfund), consultancies, international organizations, and non-government organizations (Benefits for Business and Workers programme in India and Bangladesh is an example of such a large-scale project, reaching over 350,000 workers).	2		X				• At least one large-scale investment programme initiated, involving industry-wide training	ETIDI and ETGAMA	
1.2 Improve sourcing and supply chain management performance.	1.2.1 Provide overall training to firms on quality input sourcing, financial management and supply chain optimization. To increase the awareness of enterprises on the need to source high quality inputs, complement trainings by organizing face to face meetings with Japanese companies (due to their high quality requirements – to be supported by the Japan International Cooperation Agency) and American companies to see the level of quality required by sourcing firms.	2		X				• Three to four T&C customer workshops per year • One hundred and sixty company managers trained per year	ETIDI, ETGAMA, regional support from ACTIF, Ethiopian Industrial Inputs Development Enterprise (EIIDE)	Japan International Cooperation Agency, Supporting Indian Trade and Investment in Africa (SITA) / Sector Competitiveness (SC) (section of ITC) –Enterprise Competitiveness (EC) (section of ITC) – Supply Chain Management (SCM), local institutions, including BCaD Consulting (Ethiopia Modular Learning System – Supply Chain Management (MLS–SCM) partner)
	1.2.2 Ensure that external private sector support on sourcing is available to enterprises: • Involve sourcing companies / traders in the sourcing of T&C products (and logistics) for those firms that do not have this capacity internally yet – get assistance from local or regional private traders and replicate it in the garment sector, involving leading firms (pilot in leather industry with FeMSEDA); • Promote development of Ethiopian sourcing companies (including reaching out to the key players in the sourcing industry to bring them into Ethiopia).	2			X			• At least 10 companies without sourcing divisions connected with sourcing companies / traders • At the end of five years, at least two new T&C sourcing companies in Ethiopia	ETIDI, regional support from ACTIF	Pilot in leather industry with FeMSEDA

Strategic objective 1: Improve productivity and employment outcomes through skills development.										
Operational objective	Activities	Priority 1=high, 3=low	Starting period 16	17	18	19	20	Target measures	Leading national institution and possible implementing partners	Ongoing / future development programmes + international partners
1.2 Improve sourcing and supply chain management performance.	1.2.3 Coach companies on how to put into practice the most suitable systems and processes for managing operations and inventory (e.g. sourcing and planning for constant availability of inputs used in production such as raw materials, spare parts, dyes and chemicals).	1	X					• One hundred and sixty company managers trained per year • Twenty SMEs coached per year on inventory management	ETIDI, ETGAMA, regional support from ACTIF, EIIDE	SITA / EC–SCM, local institutions, including BCaD Consulting (Ethiopia MLS–SCM partner)
	1.2.4 Provide consulting advice through international experts to selected progressive and committed companies to help them implement lean management, logistics management and other techniques for productivity and quality improvement.	2		X				• At least 40 companies (of which 20 are SMEs) trained per year on lean / logistics implementations	ETIDI, ETGAMA, regional support from ACTIF, EIIDE	SITA / SC / EC–SCM, Wazir, local institutions, including BCaD Consulting (Ethiopia MLS–SCM partner)
	1.2.5 Coach companies to implement cost-efficient and buyer-oriented sourcing strategies and techniques (also ensuring that responsible staff have financial skills related to purchasing inputs and coordinating production schedules).	1	X					• At least 40 companies (of which 20 are SMEs) trained per year in sourcing strategy implementations	ETIDI, ETGAMA, regional support from ACTIF, EIIDE	SITA / SC
	1.2.6 Explore new sourcing markets for inputs (yarns, fabrics and accessories), identifying potential suppliers and facilitating long-term relationship building.	2		X				• Linkages developed with 10 new suppliers from different sourcing destinations • Ten per cent reduction in costs of selected inputs, or improved delivery time	ETIDI, ETGAMA, regional support from ACTIF, EIIDE	SITA / SC
1.3 Improve quality management skills in line with international standards.	1.3.1 Promote the adoption of instruments related to quality assurance and standards (such as ECOTECO, Kaizen, ISO, social responsibility and environmental / energy standards) and services in support to enterprises. • Guide: 'Exporting clothing and textiles to target markets' • Guide: 'Managing quality in Ethiopia: a directory of services'	2		X				• Guide: 'Exporting clothing and textiles to target markets' made available • Guide: 'Managing quality in Ethiopia: a directory of services' made available	ETIDI, ETGAMA, regional support from ACTIF,ESA (including ECAE, NMI, and ENAO)	SITA / EC–Export Quality Management (EQM)
	1.3.2 Conduct sensitization workshops on mandatory and voluntary requirements in target markets (India, region, EU) for SMEs and TISIs. This would cover international and other requirements, buyers' requirements, labelling, packaging, clothing size, and the Registration, Evaluation, Authorization and Restriction of Chemicals (REACH) regulation: • Breakout sessions to identify the quality-related needs of participating SMEs (and TISIs) • Identification of a way forward for a pool of enterprises (ISO 9001, ISO 14001, ISO 50001, productivity improvement, 5S, basic quality tools, lean manufacturing, packaging, labelling) • Identification of a way forward for TISIs (labs, certification bodies, inspection bodies, consultancy companies).	2		X				• At least 40 companies (of which 20 are SMEs) per year sensitized on mandatory and voluntary requirements in target markets • Ten TISIs sensitized on mandatory and voluntary requirements in target markets	ETIDI, ETGAMA, regional support from ACTIF, ESA, ESA (including ECAE, NMI, and ENAO)	SITA / EC–EQM
	1.3.3 Conduct capacity-building for a pool of selected SMEs to comply with mandatory and voluntary requirements and implement required certification schemes (ISO 9001, ISO 14001, ISO 50001, productivity improvement, 5S, basic quality tools, lean manufacturing, packaging, labelling).	1	X					• At least 40 companies (of which 20 are SMEs) per year coached to implement appropriate certification schemes and management tools per year • Training materials available	ESA and ETIDI (including ECAE, NMI, and ENAO)	SITA / EC–EQM
	1.3.4 Training on understanding, and guidance on implementation of, the REACH regulation.	2		X				• One workshop for personnel from four relevant regulatory bodies, SMEs and relevant stakeholders • Road map to implement REACH regulation	ESA and ETIDI (including ECAE, NMI, and ENAO)	SITA / EC–EQM
	1.3.5 In order to ensure the sustainability of the certification; establish partnerships with buyers to promote the certification process among Ethiopian companies.	2		X				• At least one buyer involved	ETIDI, ETGAMA, ESA	

Strategic objective 1: Improve productivity and employment outcomes through skills development.										
Operational objective	Activities	Priority 1=high, 3=low	Starting period 16	17	18	19	20	Target measures	Leading national institution and possible implementing partners	Ongoing / future development programmes + international partners
1.4 Design and implement a nationwide compliance programme.	1.4.1 Develop a reference book on existing social and environmental guidelines applied in the T&C sector in Ethiopia, including the monitoring and reporting mechanisms in place	1	X					• Reference book on existing social and environmental guidelines created with implementable recommendation based on global practise	ETIDI as leading institution Ministry of Labour and Social Affairs; ETGAMA; Confederation of Ethiopian Trade Unions,; National Federation of Textile, Leather and Garment Industry Trade Unions; Ministry of Trade	
	1.4.2 Establish an advisory committee composed of buyers, employers' and workers' organizations, TISIs, and other relevant stakeholders and agree on implementation of global compliance standards and modalities in the country and for the clothing and textile sectors, including monitoring and reporting.	2	X					• Committee on compliance programme set up		
	1.4.3 Establish modalities for buyer and enterprise engagement in implementation, monitoring, reporting and taking corrective actions related to compliance.	2		X				• Overall terms of reference drafted on buyer and enterprise implementation • Involvement of individual buyers defined through respective terms of reference (at least two)		
	1.4.4 Agree on and sign a countrywide compliance framework for the T&C industry in Ethiopia.	1	X					• Countrywide compliance framework signed		
	1.4.5 Work with buyers to build compliance buy-in through building trust and ownership with management and workers – establish a working team (management and workers) at the enterprise level to promote compliance.	2	X					• At least 20 working teams established in Ethiopian companies		
	1.4.6 Train workers, employers and other stakeholders on the agreed-upon compliance framework for the T&C industry in Ethiopia, including social and environmental standards and their implications for attracting FDI and global buyers.	2		X				• At least 2,000 workers and 50 managers trained per year (from participating companies)		
	1.4.7 Train employers and workers on the link between compliance and improved working conditions for quality, productivity, cleaner production and HR management.	2		X				• At least 2,000 workers and 50 managers trained per year (from participating companies)		
	1.4.8 Agree with buyers on an appropriate verification system for the country, including the use of accredited Ethiopian service providers (select and train advisory service providers to carry out factory-level assessments, monitoring and reporting (service could be integrated within a TISI or established using the International Labour Organization Better Work programme approach)).	2		X				• All modalities of a verification system developed • Verification system implemented		
	1.4.9 Train advisory service providers on how to follow up and work with companies to improve on compliance gaps.	2	X					• At least five consultancy firms trained per year		
	1.4.10 Establish a system to regularly publish highlights about efforts to adhere to global social and environmental principles being undertaken, via various outlets and in collaboration with buyers and investment promotion agencies, to build global transparency about the country's effort to adhere to global social and environmental principles.	2		X				• Centralized communication system on compliance established	Ministry of Labour and Social Affairs; ETGAMA; Confederation of Ethiopian Trade Unions, ETIDI as a partner; National Federation of Textile, Leather and Garment Industry Trade Unions; Ministry of Trade, EIC	

Strategic objective 1: Improve productivity and employment outcomes through skills development.										
Operational objective	Activities	Priority 1=high, 3=low	Starting period 16	17	18	19	20	Target measures	Leading national institution and possible implementing partners	Ongoing / future development programmes + international partners
1.5 Improve HR policies, employee retention and incentives at T&C firms.	1.5.1 Support companies in developing HR policies and practices –after comprehensive review of applicable local laws, international compliance standards and global best practices – leveraging the experience from other successful countries, which can help Ethiopian firms recruit, develop and retain a productive workforce. Foster the development of HR departments within companies to encompass a wider scope of services, including learning and development.	1	x					• At least 40 companies (of which 20 are SMEs) trained per year on HR practices	ETIDI, ETGAMA, regional support from ACTIF in terms of benchmarking Ethiopian HR professional associations	
	1.5.2 Support firms to create a proper working environment, incentivizing workers to gain skills and develop in T&C sector companies: • Train recruiting staff to identify proper soft skills sets during interviews (for all types of roles – from operators to managers) • Establish a collaboration with Kaizen Institute to transfer ideas on company corporate subculture management • Increase career growth opportunities for operators (and incentivize through merit-based salary growth) • Recognize well-performing workers and provide them with a trainer's role • Ensure transparency of the company's functioning and meritocracy culture • Establish a regular interaction mechanism between management and workers • Require greater dedication to training newcomers and interns • Connect the company subculture to the national brand 'Made in Ethiopia' in order to create a sense of pride among workers.	2	x					• At least 40 companies (of which 20 are SMEs) trained per year/ per category • At least 160 recruiting staff trained per year • Memorandum of Understanding(MoU) with Kaizen signed • At least 10 companies establish an interaction mechanism per year	ETIDI, ETGAMA, regional support from ACTIF in terms of benchmarking Ethiopian HR professional associations	
	1.5.3 Train managers on the development of a company subculture in their firms to retain workers' interest in career development, and improve working conditions. Training of mid-level managers will also focus on proper floor management techniques and required soft skills.	2		x				• One hundred and sixty company managers trained per year	ETIDI, ETGAMA and National Textile Universities	
	1.5.4 Promote skill development contracts between employers and workers whereby employees receive advanced training from firms in exchange for commitments to stay with those firms for an agreed period, thereby incentivizing employer investment in labour.	2		x				• At least 15 companies adopt such schemes per year	ETIDI, ETGAMA	
1.6 Ensure maximum equipment usage within Ethiopian firms.	1.6.1 Conduct training, involving machinery suppliers' representatives, at firm level for middle-level and high-level managers on: • Knowledge of existing equipment and their advantages in order to ensure proper identification and purchase of equipment within companies • Understanding the potential of newly purchased equipment and the training requirements for operators to ensure its full-capacity functioning • Modern budgetary practices that account for regular equipment upgrading. Machinery suppliers should not be involved to ensure that the data is unbiased. This should be done by: **a.** Using industry experience-sharing platforms **b.** Institutionalizing technology comparison studies through universities or technical experts.	1	x					• One hundred and sixty company technical machinery supply managers trained per year	ETIDI, ETGAMA, regional support from ACTIF, Ministry of Education and Ministry of Industry, universities	International training agencies such as Wazir and IL&FS from India (coordination with machinery suppliers)
	1.6.2 Provide systematic on-site training to companies' operators on the use of newly purchased machinery and best practices in its handling (e.g. best practices in process control and machine maintenance).	2	x					• Ten thousand workers per year in seven training locations	ETIDI, Ministry of Industry, Ministry of Education and universities	

Strategic objective 1: Improve productivity and employment outcomes through skills development.										
Operational objective	Activities	Priority 1=high, 3=low	Starting period 16	17	18	19	20	Target measures	Leading national institution and possible implementing partners	Ongoing / future development programmes + international partners
1.6 Ensure maximum equipment usage within Ethiopian firms.	1.6.3 Enable exchange programmes for technical staff with international companies (and leading Ethiopian firms), machinery suppliers and international training institutes (foremen, fitters, jobbers, sewing technicians, designers, etc.).	2		x				• At least five exchange programmes carried out targeting 30 companies	ETIDI, Ministry of Industry, Ministry of Education and universities	Wazir (coordination with institutes); Northern India Textile Research Association and South India Textile Research Association for foremen, fitters and jobbers; National Institute of Fashion Technology (India) (NIFT); Pearl Academy and Apparel Training & Design Centre(India) for designers
1.7 Develop skills specific to the handloom subsector.	1.7.1 Learn from India's rich handloom woven culture: • Organize skills upgrading training for selected Ethiopian weavers in India • Establish links between handloom producers and Indian training institutions (possibly with NIFT, NID and IIHT) for weavers to learn various weaving techniques: screen printing / block printing, jacquard / dobby weaving, preparation and use of natural dyes, etc.	1	x					• At least 20 handloom firms advised per year • At least three linkages established with Indian partner training institutions	ETIDI, ETGAMA, regional support from ACTIF	SC–Wazir (coordination with Indian partners), NIFT, NID, IIHT
	1.7.2 Conduct training in the following additional areas: • Sales and marketing • Trend research – colours, shapes, etc. • Translating trends into unique / marketable product items • Diversification of products (with Indian support) • Branding of handloom technologies • Use of home dyes • Finishing techniques.	1	x					• At least 50 handloom firms advised per year	ETIDI, ETGAMA, regional support from ACTIF	SC–Wazir (coordination with Indian partners)
	1.7.3 Seek cooperation with the Office of the Development Commissioner for Handlooms at the Indian Ministry of Textiles to develop a national handloom development programme for Ethiopia. Similarly to the Indian National Handloom Programme, the Ethiopian scheme should merge all the major components, namely an integrated handlooms development scheme, a marketing and export promotion scheme, and a diversified handloom development scheme.	2	x					• National handloom development programme created	ETIDI, ETGAMA, regional support from ACTIF	Confederation of Indian Textile Industry (CITI), SC–Wazir (coordination with Indian partners)
1.8 Develop skills specific to MSMEs.	1.8.1 Identify specific skill development needs of MSMEs (can be enterprises in the informal economy) and develop tailor-made on-site training to increase their capacity and productivity, and for making the transition to the formal economy.	2		x				• At least 20 SMEs advised per year	ETIDI, ETGAMA, regional support from ACTIF	
	1.8.2 Consequently train MSME owners and managers on skills that can be of immediate use and are relevant to their scale of operations.	2	x					• At least 20 SMEs advised per year	ETIDI	
	1.8.3 Conduct audits and diagnostics of individual units and provide support to objectively selected MSMEs through the development of a strategic technology plan, considering their product range, product diversification potential and existing potential buyers' needs.	1	x					• At least ten SMEs advised per year and technology plans developed	ETIDI	
	1.8.4 Increase MSMEs' capacity to source quality inputs for their production through cluster arrangements, in order to increase bargaining power and ensure knowledge dissemination on sourcing practices. Clusters should group MSMEs in common production areas. Successful examples of small weavers should be disseminated across clusters and a common branding for Ethiopian hand-made garments should be developed.	2		x				• At least five MSME clusters created in the five-year period • Success stories developed and disseminated among MSMEs (e.g. Sabahar, Muya, Salem's Design) • Brand for Ethiopian handmade developed	ETIDI, ETGAMA, regional support from ACTIF	

Strategic objective 2: Strengthen the enabling environment to favour sector development.										
Operational objective	Activities	Priority 1=high, 3=low	Starting period 16	17	18	19	20	Target measures	Leading national institution and possible implementing partners	Ongoing / future development programmes + international partners
2.1 Reinforce sector coordination to favour workforce development and policy advocacy.	2.1.1 Set up a high-level PPP platform to represent the interests of the industry and to ensure alignment between ETIDI, ETGAMA, public universities and vocational schools, with a view to upgrading the quality and capacity of the T&C training and educational offering. The partnership platform should comprise representatives of lead firms / foreign buyers / retailers.	1		x				• High-level PPP set up, comprised of ETIDI, ETGAMA, universities and TVET institutions	Ministry of Industry, ETIDI and ETGAMA	Building on existing PPP experiences in Ethiopia
	2.1.2 Based on standards for skill development set by lead firms, the platform coordinates the development of curricula and training modules and materials.	2		x				• Course curriculum for each area, assessment standards for certification agency, and identification of ways to train (on-job, theory, mix) – (linked to activity 1.1.1)	PPP, ETIDI, ETGAMA	
	2.1.3 The partnership platform plays a leadership role in the design of a national factory improvement programme (as an effective and nationwide means of increasing Ethiopian enterprises' capacity and competitiveness). The programme is based around the delivery of seven programme modules: • Workplace cooperation • Quality • Productivity • Cleaner production and continuous improvement • HR management • Health • Safety.	2		x				• Inputs provided by PPP during design stage • Implementation mechanism developed • Administer implementation programme	PPP, ETIDI, ETGAMA	
	2.1.4 The partnership platform contributes to mobilizing and securing resources for programme implementation and puts in place the proper mechanisms to monitor and audit its execution.	2			x			• Resources mobilized for the programme • Implementation agencies identified	PPP, ETIDI, ETGAMA	
	2.1.5 Members of the high-level partnership platform build a common positioning on key issues affecting the sector and build the necessary advocacy to support required policy or regulation changes.	2			x			• At least five documents produced to convey common positioning (declarations, white papers, etc.)	PPP, ETIDI, ETGAMA	
2.2 Provide high quality institutional support and business services to T&C firms.	2.2.1 Carry out an institutional benchmarking programme for ETIDI and ETGAMA to improve their performance by measuring the effectiveness and efficiency of their business practices. The programme should survey all activity areas, including strategy and governance, resources and processes, products and services, and results measurement.	2		x				• Benchmarking reports produced and validated by the TISIs • Both institutions report performance improvement through survey questionnaires • A 20% improvement in benchmarking score by the end of the project	Regional support from ACTIF	SITA / TISI Strengthening (TS) (section of ITC)

Strategic objective 2: Strengthen the enabling environment to favour sector development.										
Operational objective	Activities	Priority 1=high, 3=low	Starting period 16	17	18	19	20	Target measures	Leading national institution and possible implementing partners	Ongoing / future development programmes + international partners
2.2 Provide high quality institutional support and business services to T&C firms.	2.2.2 Sensitize textile and apparel companies to invest in an ERP solution which is customized to their requirements, and help them streamline processes and improve control. ETIDI / ETGAMA should conduct collective bargaining with ERP solution providers on behalf of the entire industry and empanel a few of them. ETIDI / ETGAMA should also mobilize funds to partially finance the cost of ERP implementation in companies.	2	x	x				• Organize four workshops in partnership with industry, experts and ERP solution providers • Negotiate with and enlist four ERP solution providers with proven experience in the T&C sector • Provide 25% of the cost of ERP implementation in 10 selected companies	ETIDI, ETGAMA	Adama Spinning has introduced this system with World Bank support
	2.2.3 Reinforce ETIDI's capacities: 1. In the latest international best practice and technology available to the sector, to ensure up-to-date capacity-building provisions 2. In the latest training practices and tools 3. To establish professional standards, job profiles, qualifications, testing centres and certifications 4. To facilitate transfer of know-how from Indian institutions to develop vocational training programmes.	1		x				• At least one training provided to all relevant ETIDI staff on points 1, 2, and 3 per year • MoU with one Indian institute signed	ETIDI, regional support from ACTIF	SITA / SC / TS, Wazir (coordination with institutes), Indian textile research associations (NIFT, ICT and IIT, Northern India Textile Research Association, South India Textile Research Association, Ahmedabad Textile Industry's Research Association, etc.)
	2.2.4 Reinforce ETGAMA's capacities: 1. To provide formal internal training on quality control, logistics, management, marketing and sales 2. To have greater bargaining power and advocacy to influence sector-related policies 3. In fundraising and resource mobilization, directing public and donor funds towards the acquisition of world-class curricula and the latest manufacturing technology to train on 4. To reduce the sourcing costs of its members through collective sourcing for non-competitive inputs (i.e. bulk orders to ensure best possible prices for all players).	1		x				• At least one training provided to all relevant ETGAMA staff on points 1, 2, 3 and 4 per year	ETGAMA, regional support from ACTIF	SITA / TS
	2.2.5 Support ETIDI to demonstrate the potential of the handloom sector for job creation and income generation: • Organize a study tour to India for selected support institutions to understand the vast potential of handloom weaving and the possibilities of operating as a large manufacturing unit; • Link MSMEs with educational institutions, TISIs, etc. to allow them to benefit from similar opportunities and access in areas such as research, market intelligence, financial support, training, etc. as the textile and garment subsectors; • Facilitate information exchange between key actors in the T&C and hand weaving support institutions to share skills and know-how beneficial to both; • Ensure the needs of the handloom sector are duly considered and reflected in T&C development strategies.	2		x				• One study tour to India carried out	ETIDI, ETGAMA, PPP, regional support from ACTIF	Wazir (coordination with Indian partners), NIFT, NID, IIHT SC
	2.2.6 Promote and facilitate the creation of local consulting firms and business services of international consulting firms to provide assistance and effective business support to T&C companies.	2			x			• Business services and pool of local advisers in the area of quality (ISO 9001, ISO 14001, ISO 50001, 5S, quality tools)	ETGAMA and ETIDI	SITA / EC–EQM
	2.2.7 Encourage greater use of modern machinery by having the Government guarantee long-term credit arrangements between Ethiopian buyers and foreign suppliers.	2			x			• At least five such arrangements in the five-year period.	Ministry of Finance and Economic Development (MoFED), ETIDI	ETIDI, ETGAMA

Strategic objective 2: Strengthen the enabling environment to favour sector development.										
Operational objective	Activities	Priority 1=high, 3=low	Starting period 16	17	18	19	20	Target measures	Leading national institution and possible implementing partners	Ongoing / future development programmes + international partners
2.3 Improve existing training and educational offerings and align to industry's needs.	2.3.1 Reinforce existing TVET offering targeting both textile and clothing companies. Specific technical areas requiring skill reinforcement are: • Spinning operations for ring spinning, open end and airjet • Weaving and weaving preparatory operations for major shuttleless technologies – airjet and rapier • Knitting operations • Fibre / yarn / fabric dyeing and finishing processes • Garment manufacturing operations • *List of skills to be completed based on the assessment study.* • In each of these areas, create highly specific short-term courses (one to three weeks), adapted to the time constraints of employees.For more specialized training, a higher period of four to six weeks may be required. The timeline should be decided while developing the courses.	1		x				• At least two new courses created and available in each field within the five-year period	PPP, ETIDI, ETGAMA	International training agencies such as Wazir and IL&FS from India
	2.3.2 Work with Indian and local training institutions to develop or update the handloom weaving training curriculum to include advanced techniques: • Train staff and management to establish and manage quality systematically to meet client needs • Establish a feedback mechanism between MSMEs and buyers for continuous improvement to satisfy buyers' needs and expectations.	1		x				• MoU signed with one Indian institute • Obtain two experts or an agency on-board • At least two new courses for handloom weavers on quality • Feedback loop mechanism established	ETIDI, PPP	Indian consulting firm such as Wazir (coordination with Indian institutes, agencies and experts)
	2.3.3 Replicate in Ethiopia global best practices for cotton production, in consultation with experts, e.g. contract farming, rainwater harvesting, etc., and link with international institutes for seed research.	1		x				• Sign one MoU with an international seed research institute	ETIDI and ECPGEA, EIIDE, regional support from ACTIF	
	2.3.4 Establish a training centre in each industrial zone: Bole Lemi and the zones under construction: Alem Gena, Dukem, Gelan, Kombolcha and the Turkish / Chinese / Republic of Korea zones. In priority, equip the following zones with training centres: Around Addis Ababa; Makale to start construction in August; Kombolcha; Hawassa, Diredawa, Jima and Adama industrial zone Whenever an additional industrial zone is planned, a training centre should be systematically included.	1		x				• At least 7training centres established in industrial zones within the five-year period. • Regulation issued by government on the requirement for a training centre in each newly planned industrial zone	PPP, ETIDI, ETGAMA, IPDC, regional support from ACTIF	
	2.3.5 Systematize the use of TVET by creating a requirement to undergo a relevant three-week course (based on the specifications) for each new operator in Ethiopian companies. For some trainings, a higher period of four to six weeks may be required. The timeline should be decided while developing the courses. Establish an MoU between T&C companies and TVET institutions to share costs for the training.	2		x				• At least 10 firms implement mandatory training for new operators each year • An MoU is signed between TVET institutions and firms	PPP, ETIDI, ETGAMA	
	2.3.6 Capacitate the TVET structure with the required training equipment to teach trainees the proper handling of new equipment used in the industry. Second-hand / small scale models of machinery can be imported from current industry leaders (India for instance). Machinery suppliers can also be approached to donate some of the machinery for training purposes.	2		x				• Obtain a letter of support from two to three companies or machinery suppliers	PPP, ETIDI, ETGAMA	Wazir (coordination with Indian companies and machine suppliers); large Indian textile companies – Arvind, Vardhman, Alok, Raymond;machinery suppliers – Lakshmi Machine Works, Rieter,Dornier, etc.

Strategic objective 2: Strengthen the enabling environment to favour sector development.										
Operational objective	Activities	Priority 1=high, 3=low	Starting period 16	17	18	19	20	Target measures	Leading national institution and possible implementing partners	Ongoing / future development programmes + international partners
2.3 Improve existing training and educational offerings and align to industry's needs.	2.3.7 Strengthen linkages between Ethiopian universities and enterprises. • Create a partnership platform between the industry, and universities and training institutions (activity 2.1.1). • Invite international professors in order to share best practices on TVET and improve inter-university partnerships. • Send teachers on national and international industry visits to provide them with first-hand learning experiences and to help build industry linkages. • Invite guest teachers from industry to deliver special training sessions for Ethiopian students. • ETIDI / ETGAMA to initiate research studies covering specific challenges faced by industry to generate thought leadership and find appropriate solutions (disseminate results through their network and through universities). • Involve students and teachers in international exposure / exchange and internship programmes. Specifically create a partnership between NIFT and the Indian Institute of Technology Delhi, and Ethiopian universities. • Give research / student project briefs to industry and get industry feedback and suggestions in order to improve research / student projects.	2		x				• At least five professors invited per year • Requirement put in place to have a national or international industry visit per year • At least one industry representative visits universities per curriculum • At least five new studies initiated • At least five exchange programmes carried out per year • MoU signed with three to four experts or institutes • Systematize connections between students and companies for project reviews	PPP, ETIDI, ETGAMA, universities	SITA / SC (coordination with Indian institutes and experts)
	2.3.8 Establish university cooperation with selected leading T&C countries' universities that have up-to-date market analysis curricula. In addition to increasing market analysis capacity, this would establish links with countries that could become potential markets for Ethiopian T&C products.	2			x			• MoU signed with one to two Indian and international institutes	PPP, ETIDI, ETGAMA, universities	Wazir (coordination with Indian institutes), Indian Institute of Technology, DKTE Society's Textile & Engineering Institute, Technological Institute of Textile and Sciences, Uttar Pradesh Textile Technology Institute, SITA–SC
	2.3.9 Based on the agreements reached by the university partnership platform and international benchmarking, update curricula within universities and training programmes of training institutions.	2			x			• Development of course curricula for textile engineering programmes in universities and training intuitions	PPP, ETIDI, ETGAMA, universities	International training agencies such as Wazir and IL&FS from India
	2.3.10 Based on a gap assessment study and course curriculum development in line with industrial requirements and international standards, help institutes to link with: • International institutes for student and faculty exchange / knowledge exchange programmes • Help institutes develop a strong industry interface – guest lectures, scholarships, sponsorships, training, placements, etc.	2			x			• At least five exchange programmes developed • At least three interfaces developed	PPP, ETIDI, ETGAMA, universities	
	2.3.11 Advertise available capacity-building services to firms and illustrate success stories to show quick benefits from investing in highly qualified labour. Invite successful Ethiopian T&C companies to give speeches at universities (campaigns to be promoted by ETGAMA and ETIDI).	2			x			• Information campaign developed and running	PPP, ETIDI, ETGAMA, universities	

Operational objective	Activities	Priority 1=high, 3=low	Starting period 16	17	18	19	20	Target measures	Leading national institution and possible implementing partners	Ongoing / future development programmes + international partners
Strategic objective 2: Strengthen the enabling environment to favour sector development.										
2.4 Enable the development of skills through lead firm and cluster arrangements.	2.4.1 Have lead firm / foreign buyers (e.g. H&M, PVH etc.) establish policies and procedures for local firms to follow. Lead firms to directly engage local firms in their implementation through the exchange of personnel between firms and through the development of networking activities. In some cases lead firms will provide the facilities and personnel to deliver training.	2		x				• Exchanges between four firms per year	ETIDI, ETGAMA	SC / SITA
	2.4.2 Foreign buyers to establish small-scale training academies and technical assistance projects financed through their CSR budgets, to offer skill formation programmes offering TVET to supply the T&C industry with qualified workers at both the operator and mid-management levels.	1		x				• At least two training academies created by lead firms • At least four training centres supported by lead firms within the five-year period. (linked with 2.3.4)	ETIDI, ETGAMA	SC / SITA
	2.4.3 Support inter-firm arrangements through the formation of knowledge / competencies sharing clusters (e.g. knowledge sharing and problem solving; transferring knowledge on traditional garment design from MSMEs to lead firms; joint marketing and distribution).	2			x			• At least five MSME clusters supported in the five-year period (linked with 1.8.4)	ETIDI, ETGAMA	
	2.4.4 ETGAMA incentivizes high performance by encouraging enterprises that significantly improve their productivity and apply new management techniques (through industry / state awards). Supplier clubs and associations may be created, and a key focus of these organizations is the implementation of production practices, work practices and management systems.	2			x			• Reward programme established by ETGAMA	ETGAMA	
2.5 Ensure that national quality management infra-structure responds to the industry's needs and interna-tional ambitions.	2.5.1 Support ESA to develop and publish national quality standards for garments, and promote the use of those standards to members through circulars and seminars.	2	x					• Advisory service to ESA on code of practice for the development of standards • Five standards adopted • Two sensitization seminars conducted • Regular circulars	ESA (including ECAE, NMI, and ENAO)	SITA / EC–EQM
	2.5.2 Build ETIDI and ECAE capacity as a testing and certifying body for garment quality. Attract international conformity assessment bodies – e.g. SGS – in order to cover the international standards.	1		x				• At least two testing and certifying bodies trained • At least one international institution involved	ETIDI, ENAO	SITA / EC–EQM
	2.5.3 Involve sector institutions in sensitizing and supporting the private sector on quality manage-ment and conformity assessment (testing, certification, inspection): • ETIDI and ETGAMA to conduct awareness-raising courses for MSMEs about international mandatory and voluntary standards related to T&C.	2		x				• ETIDI and ETGAMA develop sensitization campaigns for their members	ETIDI, ETGAMA	
	2.5.4 Take the following measures to streamline international accreditation of Ethiopian certification and accreditation bodies: • Support the accreditation of laboratories for key textiles and clothing tests for exports to ISO / International Electrotechnical Commission17025 • Support the accreditation process for ENAO to become a member of ILAC MRA and IAF MLA • Guidance on selecting foreign certification and accreditation bodies in the absence of adequate national bodies.	2		x				• One testing / certification body upgraded • ENAO ready to apply for ILAC MRA / IAF MLA • Guide on foreign certification and accreditation bodies available	ESA (including ECAE, NMI, and ENAO)	SITA / EC-–EQM

Strategic objective 2: Strengthen the enabling environment to favour sector development.										
Operational objective	Activities	Priority 1=high, 3=low	Starting period					Target measures	Leading national institution and possible implementing partners	Ongoing / future development programmes + international partners
			16	17	18	19	20			
2.6 Improve the legal and regulatory framework relevant to the T&C industry.	2.6.1 Introduce T&C (including ginneries) -specific regulations: • Introduce a requirement for product origin labelling • Establish a requirement for an origin certificate / respect of phytosanitary norms • Fine-tuning of labour laws to meet industry requirements while ensuring the interests of workers • Advocate for the approval of Bt cotton • Introduce regulations limiting human exposure to harmful working conditions, and create penalties for failure to comply • Introduce regulations on wastewater and penalties for failure to comply • Allow zero FOB transactions to CMTs (following Morocco example) in order for firms to circumvent the foreign exchange shortage.	2		x				• Seven new regulations designed and submitted for approval	ETIDI, Ministry of Justice	
	2.6.2 Formalize technical assistance provided to subcontractors by global brands with management and occupational safety training programmes.	2			x			• A new regulation related to systemized capacity-building for subcontractors designed and submitted for approval	ETIDI, MoLSA Ministry of Justice	SC–SITA
	2.6.3 Advocate for laws on employment and skill development. Articulate regulations for the trained worker retention clause and enforce them, so that employers and workers may engage in meaningful contracts by which employees receive advanced training from firms in exchange for commitments to stay with those firms for an agreed period, thereby incentivizing employer investment in Ethiopian labour.	1		x				• Three new employment and skill development regulations designed and submitted for approval	ETIDI, Ministry of Justice	
	2.6.4 Facilitate the procurement of work permits for foreign technicians and professionals for periods of from three months to one year, with the possibility of renewal, so that Ethiopian firms can predictably fill critical skill gaps while domestic skills and worker retention policies are being improved.	2		x				• The amendment to the regulation on work permits is designed and submitted for approval	ETIDI, MoLSA, Ministry of Justice	
2.7 Increase the capacity of the Customs service to regulate imports of T&C products.	2.7.1 Provide training to Customs officers to: recognize product country of origin based on the origin certificate; comply with new import regulation norms; and get them familiarized with textile products, their uniqueness and needed flexibility.	2		x				• At least 20 officers of the Ethiopian Revenues and Customs Authority (ERCA) trained	ERCA and ETIDI	
	2.7.2 Introduce modern tracking systems within Customs offices and conduct training of Customs officials in classifying (tariffs) import items correctly.	1		x				• Tracking system established • At least 20 officers of ERCA trained on the system	ERCA, ETIDI	
	2.7.3 Increase governmental funding to capacitate the Customs service and reduce risks of bribery at the borders. Identify good practices of other countries on improving Customs practices – to reduce room for corruption.	2		x				• Funding to Customs services increased by 10% • Good practices to alleviate corruption implemented	ERCA, ETIDI	
	2.7.4 Reinforce the control of inter-border areas, specifically those that are known to be used for smuggling of T&C products.	2		x				• At least two new control points established	ERCA, ETIDI	

Strategic objective 2: Strengthen the enabling environment to favour sector development.										
Operational objective	Activities	Priority 1=high, 3=low	Starting period 16	17	18	19	20	Target measures	Leading national institution and possible implementing partners	Ongoing / future development programmes + international partners
2.8 Ensure availability of accessible financial tools for MSMEs.	2.8.1 Incentivize the development of financial tools and services tailored to MSMEs in the T&C sector, including leasing and small loans with low collateral.	1		x				• At least 50 employees of financial institutions trained per year on the T&C sector's financial needs and the development of adapted financial tools	MoFED, ETIDI	Existing schemes for SMEs under the National Bank of Ethiopia, but micro enterprises are serviced by microfinance institutions
	2.8.2 Strengthen capacity of financial institutions on payment conditions specific to international clients, and specific international best practices and requirements.	2			x			• At least 50 employees of financial institutions trained per year	MoFED, ETIDI	
	2.8.3 Advocate for the creation of a credit guarantee trust fund: development of a framework to identify eligible investment types and borrowers; mechanism for providing guarantee (funding institutions, process of availing credits, etc.); and a monitoring system.	2			x			• Credit guarantee trust fund created	MoFED, ETIDI, existing microfinance institutions (around 10–12)	Credit guarantee schemes were created under Mennonite Economic Development Associates with Buna Bank (private bank), especially for handloom, designers, retailers
	2.8.4 Provide training (and training of trainers) in financial literacy to enable managers to define their financing needs, develop a financing strategy, and evaluate financing options. This will include training on modern budgeting techniques and accounting transparency.	2			x			• 160 company managers per year in multiple locations • At least one trainer formed per trained company	MoFED, ETIDI	
	2.8.5 Help SMEs identify appropriate lenders, understand lending requirements, and prepare and submit adequate applications to various sources of financing including export insurance, factoring / reverse factoring, credit guarantee schemes, leasing and traditional loans, according to the needs of each enterprise.	2		x				• One hundred and sixty company managers per year in multiple locations • At least one trainer formed per trained company	MoFED, ETIDI	
	2.8.6 Provide financial incentives to MSMEs to advance private sector and individual investment in training (e.g. levy grant schemes; compulsory or voluntary taxes on payroll or outcome; levy rebate schemes, in which MSMEs are partially reimbursed for approved training).	2		x				• At least three new incentive mechanisms developed by Ethiopian financial institutions	MoFED, ETIDI	
2.9 Improve the efficiency and cost competitive-ness of transportation and logistics.	2.9.1 Increase the number of options for selection of ports (to develop bargaining power) by liaising with the North Ethiopia Port project and Port Sudan.	2			x			• Two new ports available for trading from Ethiopia at the end of the five-year period	Ministry of Transport,, Ministry of Industry and ETIDI	
	2.9.2 Enable competition in the trucking sector – and cancel duties on this service to reduce prices – through a programme of privatization and best practice competition policy for Ethiopia's trucking and logistics sector, in collaboration with international organizations.	2		x				• New regulation on trucking established to ensure liberalization • Duties system on trucking services cancelled	Ministry of Transport and Ministry of Industry, ETIDI	
	2.9.3 Promote and facilitate the creation of T&C-specific logistics companies that could respond to the requirements of the T&C sector (especially clothing), such as time sensitivity.	1		x				• At least two T&C-specific logistics companies created by the end of five years	ETIDI, Ministry of Transport and Ministry of Industry	

Strategic objective 3: Establish conditions to harness FDI as an engine for growth in T&C.										
Operational objective	Activities	Priority 1=high, 3=low	Starting period					Target measures	Leading national institution and possible implementing partners	Ongoing / future development programmes + international partners
			16	17	18	19	20			
3.1 Establish an internationally competitive operating environment conducive to T&C sector development.	3.1.1 Following the example of Bole Lemi I Industrial Park, secure more stable electricity supply for T&C clusters by purchasing and installing dedicated electricity substations at each of the country's industrial parks where T&C is being promoted. This would include industrial parks at Bole Lemi II (clothing), Kombolcha (textiles), Dire Dawa (textiles), and eventually Eastern Industrial Park (clothing) and Addis Industrial Village (clothing), among others.	2		x				• A dedicated electricity substation for each industrial park	Ministry of Industry, IPDC, ETIDI	
	3.1.2 Identify all the infrastructure requirements for a textile mega cluster in line with the type of investment to be attracted (integrated, only apparel, theme-based, targeting investors from a specific country, etc.) and then proceed to development.	1		x				• Detailed project report for proposed textile park	Ministry of Industry, IPDC, ETIDI	International training agencies such as Wazir and IL&FS from India
	3.1.3 Based on the report developed under 3.1.2, support further creation of textile mega clusters through industrial parks with all necessary infrastructures (Effluent Treatment Plants (ETPs), dormitories, sheds, uninterrupted power and water supply, expressway connectivity to ports / main cities, etc.)	2			x			• Start of company operations at industrial parks Bole Lemi II, Kombolcha, Dire Dawa	Ministry of Industry, IPDC, ETIDI	
	3.1.4 Having established a mechanism for rapidly ramping up the number of trained garment factory workers (see activity 1.1.8), make agreements between garment factories and training institutions, whereby factories guarantee a fixed number of jobs in return for the training institution guaranteeing the same number of workers with agreed skills.	2		x				• First 10,000 workers employed under placement MoU between factories and participating training institutions	ETIDI, Ministry of Labour and Social Affairs	
3.2 Increase capacity of TISIs to identify and attract the appropriate investments for the sector.	3.2.1 Build capacity of EIC and Ethiopian Investment Commission (EIC) officers to effectively facilitate and target T&C investment, and improve their investment analysis and targeting capacity / techniques to narrow down and best target potential investors based on investment requirements and specifications (this implies investing in data access and management services such Dun and Bradstreet, Financial Times, fDi Markets).	2	x					• First fabric and accessory projects come online as a result of EIC targeting campaigns	EIC, EIA	
	3.2.2 Strengthen the capacities of EIC and EIA in branding and outreach (e.g. social media, events, etc.), including through trade attachés.	2	x					• At least 20 staff from EIC and EIA trained in branding and outreach	EIC, EIA	
	3.2.3 Collaborate with the Confederation of Indian Industry (CII) and the Indian Exim Bank to further strengthen existing sector–product competitiveness studies for fabrics, threads, accessories and packaging. • Collaborate with CII and Exim Bank to further identify the subsegments, companies and countries from which to attract FDI: • Development of customized promotional material to attract FDI • Prepare investment profiles for investors.	2	x					• Development of investment guide, feasibility studies, brochures and website content (two to three months for promotional material) • Development of profiles for identified projects,six to eight weeks for each project profile (more than one can be taken up simultaneously though)	EIC, TIDI and EIA	SITA / Trade Facilitation and Policy for Business (TFPB) (section of ITC) / international training agencies such as Wazir and IL&FS from India
	3.2.4 Strengthen the ability of EIC–IPDC–ETGAMA–ETIDI to respond effectively to direct inquiries from investors through a systematic joint approach, relying on shared investor data and materials. Also strengthen these institutions' capacity on aftercare services to existing investors.	1	x					• Signed MoUs among the four partners, and shared adoption of technically consistent and uniformly branded promotional materials for the sector	EIC–IPDC–ETGAMA–ETIDI	SITA / TFPB

Strategic objective 3: Establish conditions to harness FDI as an engine for growth in T&C.										
Operational objective	Activities	Priority 1=high, 3=low	Starting period					Target measures	Leading national institution and possible implementing partners	Ongoing / future development programmes + international partners
			16	17	18	19	20			
3.3 Further promote Ethiopia as a key destination for FDI.	3.3.1 Promote and incentivize national / international investments in the following specific machinery required in the value chain: • Spinning: modernize lagging spinning mills • Weaving and knitting: modernize all weaving looms to airjet and rapier technology • Dyeing and finishing: introduce mass dyeing of yarn and fabric • Packaging: introduce local packaging material manufacturing companies that would produce paper cones, paper tubes, cartons, etc. • Accessories: invest in at least one accessories' production plant in one of the industrial zones in Ethiopia • Dyes and chemicals: locally produce some of the auxiliaries required for dyes to increase reactivity (carbonates, etc.) and produce natural dyes from flowers for handloom production.	1		x				• ETGAMA and ETIDI, with EIC and EIA as multipliers, advertise the six key areas and have prepared promotional material for each of them	ETGAMA, ETIDI and Ethiopian Investment Commission	SITA / TFPB
	3.3.2 Facilitate linkages and investment in handloom technology from India for value addition to: • Set up screen printing shops • Set up block printing units • Upgrade to advanced types of handlooms and accessories.	1		x				• At least three linkages established with Indian partner training institutions	ETGAMA–ETIDI	
	3.3.3 Carry out investment promotion activities in target countries (India) – road shows, facilitating direct interactions between Ethiopian firms and targeted investors, helping foreign representatives to promote the sector, etc. Use side events to showcase investment profiles developed as well as build understanding of the business / investment climate. Example of side events could be Africa–India Conclave or Origin Africa. Invite potential investors to strategic locations to showcase the infrastructure and business climate.	2			x			• One road show each in six major textile cities - Ludhiana, Delhi, Ahmedabad, Mumbai, Bangalore and Tirupur • Meetings with 8–10 investors in each location • Visits of interested investors (total 8–10) to Ethiopia	ETIDI, ETGAMA, regional support from ACTIF	SITA / TS / SC / TFPB, international training agencies such as Wazir and IL&FS from India
	3.3.4 Strengthen the investment promotion mandate / responsibility part of the diplomats' role and provide regular training to staff. Revise and enhance the investment promotion programme for embassies, reflecting latest trends. Subsequently support and plan enquiry and promotional visits to appropriate and targeted international investors by embassy staff	2		x				• MoU and standard operating procedures drafted and agreed between EIC and the Ministry of Foreign Affairs and Ministry of Industry • Conclude investment promotion training for economic / commercial counsellors and secretaries at embassies and consulates in target countries • Finalize investment promotion manual for new diplomats	Ministry of Foreign Affairs and Ministry of Industry	SITA / TFPB

Strategic objective 3: Establish conditions to harness FDI as an engine for growth in T&C.										
Operational objective	Activities	Priority 1=high, 3=low	Starting period					Target measures	Leading national institution and possible implementing partners	Ongoing / future development programmes + international partners
			16	17	18	19	20			
3.3 Further promote Ethiopia as a key destination for FDI.	3.3.5 Support the development of (existing and new) customized FDI promotional material: • Develop well-crafted value propositions for potential investors, comprising feasibility studies on threads, accessories and packaging • Develop a comprehensive sector profile • Develop a centralized database of the critical information and intelligence required by investors.	2		x				• Publication of technically consistent, uniformly branded and regularly updated promotional materials for the sector, including websites, Power Points, sector profiles, start-up roadmaps and supplier databases	ETIDI, ETGAMA,EIC regional support from ACTIF	SITA / TFPB / an Indian consulting firm such as Wazir
	3.3.6 EIC and IPDC, together with ETIDI and ETGAMA, are supported to collaborate with existing garment manufacturers to: • Identify the needs of existing suppliers to invest near their customers (e.g. water purification facility to reduce water hardness at Bole Lemi to a level conducive to fabric production) • Prepare an investor-targeting campaign for manufacturers of fabrics and accessories.	2		x				• Two foreign fabric manufacturers and two foreign accessory manufacturers started, resulting from investor-targeting	EIC–IPDC–ETGA-MA–ETIDI	SITA / TFPB
	3.3.7 Enhance collaboration and partnership between EIC and Ethiopian Airlines, using Ethiopian Airlines resources to help promote investment opportunities (see Turkish Airlines model).	2		x				• First advertising campaign implemented on flights from Addis Ababa to three top target markets for investors	EIC, Ethiopian Air-lines, ETIDI	
	3.3.8 Review the current Government Diaspora policy to further encourage and incentivize members of the Diaspora to engage in investment activities, e.g. Government offers to match the amount invested, partner with national banks and international financial institutions to reduce the cost of transfer of remittances. Support the Diaspora Affairs Officer at EIC to raise awareness of the Government Diaspora policy, to encour-age Ethiopian businesspeople abroad to invest in Ethiopia and to use their experience to target appropriate and realistic TNCs in their promotion efforts.	2		x				• The amendment to the regulation on Diaspora is designed and submitted for approval	Ministry of Foreign Affair with EIC and ETIDI	SITA / TFPB
	3.3.9 Have EIC and IPDC implement the World Bank-designed investor aftercare programme – currently under consideration at IPDC – of regular company visitation, ongoing problem-solving, investor surveys, investor seminars and networking events, and participation in a public–private forum for business environ-ment reform. This programme would support investor retention and expansion, but it would also be a primary mechanism for exploring ongoing opportunities for and obstacles to private sector-led value chain develop-ment, as well as for fostering backward linkages between foreign investors and local suppliers.	2			x			• Account manager assigned to each investor • Biannual meetings of EIC with stakeholders carried out • Annual investor survey carried out	EIC, IPDC	
3.4 Increase collaboration between local SMEs and FDIs to ensure synergies.	3.4.1 Support the implementation of the existing programme (of the Ethiopia Chamber, the Addis Ababa Chamber) to help establish linkages between new international investors and local suppliers in a more sys-tematic manner, taking into account the SMEs' perspective. E.g. Ensure that foreign-owned firms in industrial zones begin to provide more systematic and organized in-house training, opened to local firms. • Assist in finding new local suppliers • Facilitate transfer of knowledge from investors (includes product technology, process technology and organizational managerial know-how and assistance, etc.) • Provide training on pertinent issues to enhance meaningful relations between investors and local SMEs (includes cooperative learning among suppliers; internal training to affiliates; in-plant training; etc.).	1		x				• Exchange mechanism established within at least four Industrial zones using the training centres created (linked with activity 2.3.4)	ETIDI, IPDC and ETGAMA	SITA / TFPB

Strategic objective 4: Foster product and market development through the use of trade information.										
Operational objective	Activities	Priority 1=high, 3=low	Starting period					Target measures	Leading national institution and possible implementing partners	Ongoing / future development programmes + International partners
			16	17	18	19	20			
4.1 Ensure easy and timely access to strategic trade intelligence for T&C firms.	4.1.1 Create a strategic monitoring cell, hosted at ETIDI, then co-shared with ETGAMA, to gather up-to-date and T&C-specific trade information, and to detect early signals on targeted markets and products. The website of ETIDI can be used to host the monitoring cell and connected to the Ethiopia Chamber of Commerce website. This implies supporting ETIDI and ETGAMA to subscribe to important textile journals and websites to be able to update its members with latest market information. These include: http:/ /www.emergingtextiles.com/ ; www.fibretofashion.com; www.cotlook.com	1		x				• One monitoring cell set up in ETIDI • Recommendation report on implementation of the competitive intelligence system	ETIDI, co-responsibility with ETGAMA and ECPGEA	SITA / Trade Information Services (TIS) (section of ITC)
	4.1.2 Improve the websites of ETIDI / ETGAMA / ECPGEA through web-based solutions for effective trade intelligence gathering and dissemination, and insure a constant supply of timely market intelligence, etc. Additional activity: regular updates of company profiles on ETGAMA website – companies are responsible for the updates. ETGAMA to establish a notification mechanism as a reminder.	2		x				• Three websites revamped	ETIDI, ETGAMA (in collaboration with Ethiopia Chamber of Commerce)	SITA / TIS
	4.1.3 Organize trainings of commercial attachés based in key target markets and trade promotion officials to best coordinate, collect, compute and disseminate trade information and promotion matters.	2		x				• One training organized and conducted on a yearly basis	ETIDI, ETGAMA, Ministry of Foreign Affairs	SITA / TIS
	4.1.4 Put in place a cooperation framework to promote the exchange and dissemination of T&C trade information among government agencies, TISIs, media, academia, research organizations and the private sector.	2			x			• One network established	ETIDI, co-responsibility with ETGAMA and ECPGEA	SITA / TIS
	4.1.5 Build capacity of ETGAMA, ETIDI and the Ethiopia Chamber of Commerce to develop market profile and use market analysis tools and research methodologies. These market profiles include production and consumption trends, trade analysis, market requirements, price information, distribution channels, logistics (tariff and non-tariff barriers) and key business contacts	1		x				• Development of two market profiles and training of ETIDI, ETGAMA and Chamber staff to develop them and coach them for preparing two more such profiles • Three trainings on competitive intelligence and market profiles organized and conducted	ETIDI, ETGAMA, ECPGEA	SITA / TIS / international training agencies such as Wazir and IL&FS from India
	4.1.6 Introduce courses on modern market analysis tools and techniques, as well as on how to use them to create business plans, into the curricula of educational institutions, and conduct seminars at faculties / universities.	2		x				• Minimum of 40 companies trained per year, of which at least 20 are SMEs	ETIDI, ETGAMA, ECPGEA	SITA / Market Analysis and Research (section of ITC)
	4.1.7 Encourage existing international trading companies in Ethiopia to create T&C trading services for exports and / or encourage sourcing companies from major markets like India to open offices in Ethiopia to promote market linkages.	2		x				• MoU signed between one Indian sourcing company and the Ethiopian Government	ETIDI, ETGAMA, ECPGEA	SITA / SC, Wazir
4.2 Increase firms' capacity to understand regional and international market requirements and how to best align product development / offerings.	4.2.1 Sensitize firms on the need to have a market prospecting function and how it will help them to best develop their offering and generate new business. Subsequently support selected firms to establish market prospecting departments / responsible officers within firms. ETIDI and ETGAMA to advertise this among firms and select a first group of firms for pilot.	2			x			• Establishing market prospecting departments in 10 firms per year	ETIDI, ETGAMA	Wazir

Strategic objective 4: Foster product and market development through the use of trade information.										
Operational objective	Activities	Priority 1=high, 3=low	Starting period					Target measures	Leading national institution and possible implementing partners	Ongoing / future development programmes + International partners
			16	17	18	19	20			
4.2 Increase firms' capacity to understand regional and international market requirements and how to best align product development / offerings.	4.2.2 Conduct training, targeting mid-level managers in T&C enterprises, in new available textile construction technologies, latest cost efficiency techniques, product design and merchandising.	2		x				• At least two training institutions acquire knowledge and competences to replicate trainings • Minimum of 40 companies trained per year, of which at least 20 are SMEs	ETIDI, ETGAMA, regional support from ACTIF	SITA, international training agencies such as Wazir and IL&FS from India
	4.2.3 Provide training on the contemporary trends of fashion design (e.g. colour palettes silhouettes, etc.), as well as the role and importance of fashion designers.	1		x				• At least two training institutions acquire knowledge and competences to replicate trainings • Minimum of 10 companies trained per year	ETIDI, ETGAMA, regional support from ACTIF	SITA / SC
	4.2.4 Provide trainings to top- and mid-level managers about different types of yarn and textiles, and possible sources of inputs for their enterprises, in order to increase efficiency and product range.	1		x				• At least two training institutions acquire knowledge and competences to replicate trainings • Minimum of 10 companies trained per year	ETIDI, ETGAMA	SITA / SC, Wazir
	4.2.5 Train firms on how to enhance customer focus through value added services such as vendor-managed inventory, multi-fibre expertise, ICT capacity (IT-enabled teaching), drop shipment.	2			x			• At least two training institutions acquire knowledge and competences to replicate trainings • Minimum of 10 companies trained per year	ETIDI, ETGAMA, universities	SITA / SC, Wazir
	4.2.6 Enhance understanding of product design trends . Assist companies to interpret and understand consumer / buyer needs in specific textile and apparel product categories and target markets. Monitor the companies' use of the acquired knowledge.	2			x			• At least two training institutions acquire knowledge and competences to replicate trainings • Minimum of 15 companies trained per year	ETIDI, ETGAMA	SITA / SC
	4.2.7 Conduct visits with sector participants (industrial associations, clothing enterprises) to regional and international trade shows for T&C entrepreneurs on productivity technologies and new machinery.	2			x			• Participate in at least two trade show per year	ETIDI, ETGAMA, regional support from ACTIF	SITA / SC

Strategic objective 4: Foster product and market development through the use of trade information.

Operational objective	Activities	Priority 1=high, 3=low	16	17	18	19	20	Target measures	Leading national institution and possible implementing partners	Ongoing / future development programmes + International partners
4.3 Expand market access and promote Ethiopia's T&C products.	4.3.1 Enhance awareness among Ethiopian firms (through ETGAMA) of the existence and benefits of Ethiopia's regional and international preferential market access conditions.	2		x				• Brochure produced and disseminated to members of ETGAMA • One wwareness creation training has to organized per year	ETIDI, ETGAMA, regional support from ACTIF	SITA / Market Analysis and Research (section of ITC)
	4.3.2 Train Ethiopian firms on the need to sustain existing buyer–seller relationships / mutual trust and provide training on marketing and after-sales services / creation of a company website / communications / promotional materials, etc.	2		x				• One hundred and sixty company managers trained per year	ETGAMA and ETIDI	SITA / SC
	4.3.3 Set up a company cost-sharing mechanism to support the cost of market development undertaken by the companies. E.g. Ethiopian textile exporters to participate in important international textile fairs such as Yarn Fair, Heimtextil, Material World, etc.	1		x				• Cost sharing mechanism set up and running	ETIDI, ETGAMA	
	4.3.4 ETIDI, in collaboration with overseas Ethiopian trade missions (embassies) arranges buyer–seller meetings to facilitate interaction between Ethiopian exporters and foreign buyers in target markets.	2			x			• At least 20 buyer–seller meetings conducted by ETIDI with targeted markets	ETIDI, ETGAMA	SITA–SC
	4.3.5 Develop appropriate national brand / sign promotion policy and coordinate implementation of activities under a 'Made in Ethiopia' tag. Promote the brand through ETGAMA, the Ethiopian Chamber of Commerce and ETIDI, as well as through individual companies. Build on local cotton production and articulate branding around it, together with compliance.	1		x				• One national branding strategy developed	ETIDI, ETGAMA, ECPGEA	SITA–EC / SC
	4.3.6 Subsequent to 4.3.5, conduct training on development of company level brands to be linked with the national brand.	2			x			• Assistance provided to at least 10 firms to create or improve their branding	ETIDI	SITA–EC
	4.3.7 Organize an annual promotional event (e.g. trade fair, fashion show on the model of Origin Africa) in Ethiopia to advertise Ethiopia's firms and attract further investment / buyers. Also organize buyer–seller meetings and other business generation events that provide platforms for Ethiopian companies to present their offer to Indian / international buyers and investors.	2		x				• Organization of / participation in at least three events in the next five years, with a minimum participation of 50 companies over five years	ETIDI, ETGAMA, ECPGEA, regional support from ACTIF	SITA / TS / SC
4.4 Provide targeted assistance on market information analysis to handloom firms.	4.4.1 Conduct a benchmarking of selected handloom woven product producers to gain insight on: • Product offerings • Skills (design, weaving, marketing, quality management) • Target market(s) (local, tourist, export, etc.) • Current buyers • Business plan / positioning strategy • Management practices including HR, facilities, strategic planning, day to day operations, etc. • Access to material inputs, yarn, dyes, etc. • Links with institutions – academic, (national and international) and TISIs – and mode of engagement / or in what capacity • The objective is to gauge market opportunities for MSMEs and identify areas for improvement to gain share / expand into other markets.	1		x				• Report on Ethiopian handloom sector as per stated coverage	ETIDI, ETGAMA, regional support from ACTIF	SITA / SC / interna-tional training agencies such as Wazir and IL&FS from India

Strategic objective 4: Foster product and market development through the use of trade information.										
Operational objective	Activities	Priority 1=high, 3=low	Starting period 16	17	18	19	20	Target measures	Leading national institution and possible implementing partners	Ongoing / future development programmes + International partners
4.4 Provide targeted assistance on market information analysis to handloom firms.	4.4.2 Establish linkages between Ethiopian handloom producers and foreign buyers: • Create demand for unique handloom product designs in collaboration with local and / or international designers / buyers • Link local designers with handloom weavers to develop unique fabrics, which can then be used to develop products for local / export markets.	2		x				• Two to three Indian or international designers sign an MoU with the Ethiopian Government for producing a handloom product range in Ethiopia	ETIDI and ETGAMA	SC--Indian consulting firm such as Wazir
	4.4.3 Ensure promotion of Ethiopian handloom products: • Promote handwoven products through fairs, exhibitions, media and retail outlets • Develop a handloom mark that identifies / certifies it is indeed handmade • Promote the value of handmade products • Promote the use of organic or natural fibres in all handwoven products for the purpose of market differentiation • Develop handloom sector / product promotional material.	2	x					• Participation in at least two trade fairs per year • Specific branding developed for Ethiopian handloom products, emphasizing the high social / environmental value of products • At least one brochure and one factsheet developed and disseminated through ETIDI	ETIDI and ETGAMA	SITA / TS / SC
4.5 Assess the Ethiopian T&C market in order to identify domestic and regional opportunities.	4.5.1 Evaluate Ethiopian T&C market size and potential with the following criteria: • Total size of the Ethiopian T&C market and the regional market (South Sudan, Burundi, Uganda) • Total import value for each T&C product category and Ethiopian companies' share in the national market • Product categories that offer higher potential for Ethiopian T&C companies to recapture market from importers in the national and regional market. The study should also conduct a competition / price analysis and recommend concrete steps that can be taken to allow Ethiopian firms to recapture market share.	1	x					• Report about Ethiopian and regional T&C market as per stated coverage	ETIDI, ETGAMA, regional support from ACTIF	SC–international training agencies such as Wazir and IL&FS from India

REFERENCES

Africa Fashion Guide (2013). Ethiopia is the new sourcing destination. Available from http://www.africafashionguide.com/ethiopia-is-the-new-sourcing-destination/.

Alderin, C. (2014) Made in Ethiopia: Challenges and Opportunities in the Emerging Textile Industry in Ethiopia. Uppsala University Department of Social and Economic Geography. Arbetsrapportserie No. 951. Uppsala: Uppsala University.

Alexandra Wexler (2014). Cotton's crown threatened by man-made fibers. *The Wall Street Journal*, 25 April. Available from http://www.wsj.com/articles/SB10001424052702304049904579516282130809074.

Baron, Dominique and others (2010). *The Impact of Telecommunications Services on Doing Business in Ethiopia*. Addis Ababa: Addis Ababa Chamber of Commerce and Sectoral Associations.

Chavan, R.B. (2013). *Ethiopian Textile Industry: Status and Growth Prospects*. Lambert Academic Publishing.

Crawford, O.G.S., ed. (1958). *Ethiopian Itineraries: Circa 1400–1524, Including Those Collected by Alessandro Zorzi at Venice in the Years 1519–24*. Cambridge: Hakluyt Society at the University Press.

Deloitte (2014). *Ethiopia: a Growth Miracle*. Johannesburg: Deloitte & Touche.

Deutsche Welle (2015). Ethiopia: next stop for textile industry? 26 August. Available from http://www.dw.de/ethiopia-next-stop-for-textile-industry/a-17043826.

Embassy of Ethiopia, Economy and Business Section (n.d.). *Investing in Ethiopia: Textiles*. Washington, D.C.: Embassy of Ethiopia.

Embassy of Ethiopia in China (n.d.). Profile of the textile industry in Ethiopia. Available from http://www.ethiopiaemb.org.cn/bulletin/209/003.html.

Encyclopedia of the Earth (2008). Water profile of Ethiopia. Last updated 10 June 2012. Available from http://www.eoearth.org/view/article/156941/.

Ethiopian Central Statistical Agency (2014) (a). *Statistical Report on the 2014 Urban Employment and Unemployment Survey*. Addis Ababa: CSA.

Ethiopian Central Statistical Agency (2014) (b). *Statistical Report on the 2013 National Labour Force Survey*. Addis Ababa: CSA.

Ethiopian Textile and Garment Manufacturers Association (2015). About ETGAMA. Available from www.etgama.com/about.php.

Ethiopian Textile Industry Development Institute (2014). *Textile Industry Development in Ethiopia: an Overview of Facts and Opportunities*.

Ethiopian Textile Industry Development Institute (2012). An abstract to Ethiopia's textile chemical processing/finishing industry. Available from http://www.tidi.gov.et/An%20abstract%20to%20Ethiopia%E2 %80%99s%20Textile%20Chemical%20 ProcessingFinishing%20Industry.html.

Ethiopian Textile Industry Development Institute (2012). Background. Available from http://www.tidi.gov.et/Background.html.

Ethiopian Textile Industry Development Institute. Company profiles. Available from http://www.tidi.gov.et/final%20edited%20company%20profile.pdf.

Ethiopian Textile industry Development Institute (2012). Message from the Director General. Available from http://www.tidi.gov.et/Message%20of%20D.G.html.

Food and Agriculture Organization of the United Nations (2015). Statistics database. Available from http://www.fao.org/statistics/en/. Accessed 7 June 2015.

Food and Agriculture Organization of the United Nations and International Cotton Advisory Committee (2013). *World Apparel Fiber Consumption Survey*. Washington, D.C.: ICAC.

Gereffi, G. and Frederick, S. (2010). The Global Apparel Value Chain, Trade, and the Crisis: Challenges and Opportunities for Developing Countries. In *Global Value Chains in a Postcrisis World: A Development Perspective,* Cattaneo, O., Gereffi, G. and Staritz, C., eds. Washington, D.C.: World Bank, pp.157–208.

Human Rights Watch (2012). What will happen if hunger comes? Abuses against the indigenous peoples of Ethiopia's Lower Omo Valley, 18 June. Available from https://www.hrw.org/report/2012/06/18/what-will-happen-if-hunger-comes/abuses-against-indigenous-peoples-ethiopias-lower.

Information for Development Programme (2008). *The Global Textile and Garments Industry: The Role of Information and Communication Technologies (ICTs) in Exploiting the Value Chain*.

International Trade Centre (2015) (a). Market Access Map. Available from http://www.macmap.org/.

International Trade Centre (2015) (b). Trade Map Database. Available from http://www.trademap.org/Index.aspx.

Khurana, Karan (2014). Marketing as a quintessential tool for growth of Ethiopian textile and garment sector. *International Journal of Research in Business Management*, vol. 2, Issue 1 (January), pp. 1–8.

Lee, David Yuen Hoi (2010). *Benchmarking of the Ethiopian Textile Industry Vision 2015*. Project No. YA/ETH/001. UNIDO.

Leonie Barrie (2015). Man-made fibres climb to 70% of total production. *Just-Style*, 14 January. Available from http://www.just-style.com/news/man-made-fibres-climb-to-70-of-total-production_id124084.aspx.

Michelle Russell (2014). Part one: Ethiopia a rising star for sourcing garments. *Just-style*, 6 March. Available from http://www.just-style.com/analysis/ethiopia-a-rising-star-for-sourcing-garments_id120731.aspx.

Mursi Online (2014). US bans financing for activities in Lower Omo that 'directly or indirectly involve forced evictions'. Available from http://www.mursi.org/news-items/us-appropriations-act-prohibits-support-for-development-activities-in-the-lower-omo-which-2018directly-or-indirectly-involve-forced-evictions2019.

Mursi Online (2013). Large-scale irrigation. Available from http://www.mursi.org/change-and-development/large-scale-irrigation.

Mursi Online (2013). Website. Available from http://www.mursi.org/.

Nicholson, G. Edward (1960). The production, history, uses and relationships of cotton (*Gossypium* spp.) in Ethiopia. *Economic Botany*, vol. 14, Issue 1 (January), pp. 3-36.

Price Waterhouse Coopers (2008). *Global Sourcing: Shifting Strategies*.

Staritz, Cornelia (2012). Apparel exports – still a path for industrial development? Dynamics in apparel global value chains and implications for low-income countries. Working Paper, No. 34. Austrian Foundation for Development Research.

Textiles Intelligence (2015). Major brands are beginning to source from Ethiopia and Kenya. Available from https://www.textilesintelligence.com/til/press.cfm?prid=500.

Textiles Intelligence (2015). Sourcing apparel from Kenya and Ethiopia. *Textile Outlook International*, No. 173, February.

United States Congress (2014). *Consolidated Appropriations Act, 2014.* (H. R. 3547. Division K, Title VII, General Provisions, Africa, Section 7042, Ethiopia, paragraphs 3-4, p. 524.)

Vena, Celeste Montera (2013). CSR in the Bangladesh textile industry: responsible supply chain management. European Institute for Asian Studies Briefing Paper 2013, No. 06, November. European Institute for Asian Studies.

Wazir Management Consultants (2013). *The Road to 2025: 5 Market, Trade, and Investment Trends That Will Define the Course of Textile and Apparel Industry.*

World Bank (2015). *Doing Business 2015: Going Beyond Efficiency*. Washington, D.C.: World Bank.

World Trade Organization (2015). Textiles Monitoring Body (TMB): The agreement on textiles and clothing. Available from https://www.wto.org/english/tratop_e/texti_e/texintro_e.htm.

APPENDICES

Photo: ITC

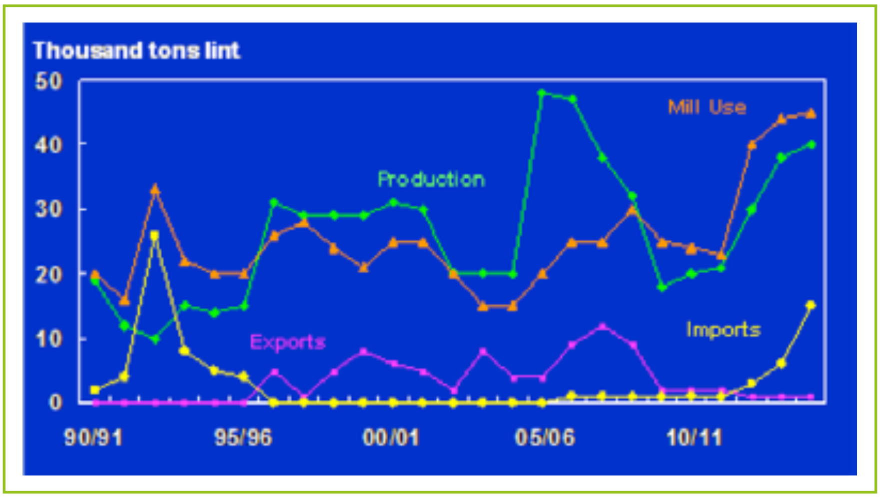
SECTION A: MAIN ETHIOPIAN T&C PRODUCING AREAS (IN PINK)

SECTION B: NUMBER OF EMPLOYEES IN ETHIOPIA'S T&C SECTOR, 2013 AND 2014

		Country 2013	Urban areas only	
			2013	2014
Textiles	Total	416 913		
	Urban	36.0%	150 009	178 480
	Female	60.3%		43.4%
	Share in T&C	86.0%	72.8%	76.0%
Spinning, weaving and dyeing	Total	254 908		
	Urban	41.1%	104 655	134 199
	Female	52.3%		38.9%
Other textiles	Total	158 854		
	Urban	27.8%	44 203	44 281
	Female	72.8%		57.3%
Wearing apparel	Total	68 148		
	Urban	82.2%	56 004	56 221
	Female	26.7%		21.4%
	Share in T&C	14.0%	27.2%	24.0%
Wearing apparel	Total	53 350		
	Urban	80.3%	42 280	44 730
	Female	24.3%		16.4%
Knitted and crochet	Total	11 137		
	Urban	100.0%	11 137	9 558
	Female	26.0%		39.7%
Share in total manufacturing	Textiles	21.9%	16.3%	18.7%
	Wearing apparel	3.6%	6.1%	4.7%

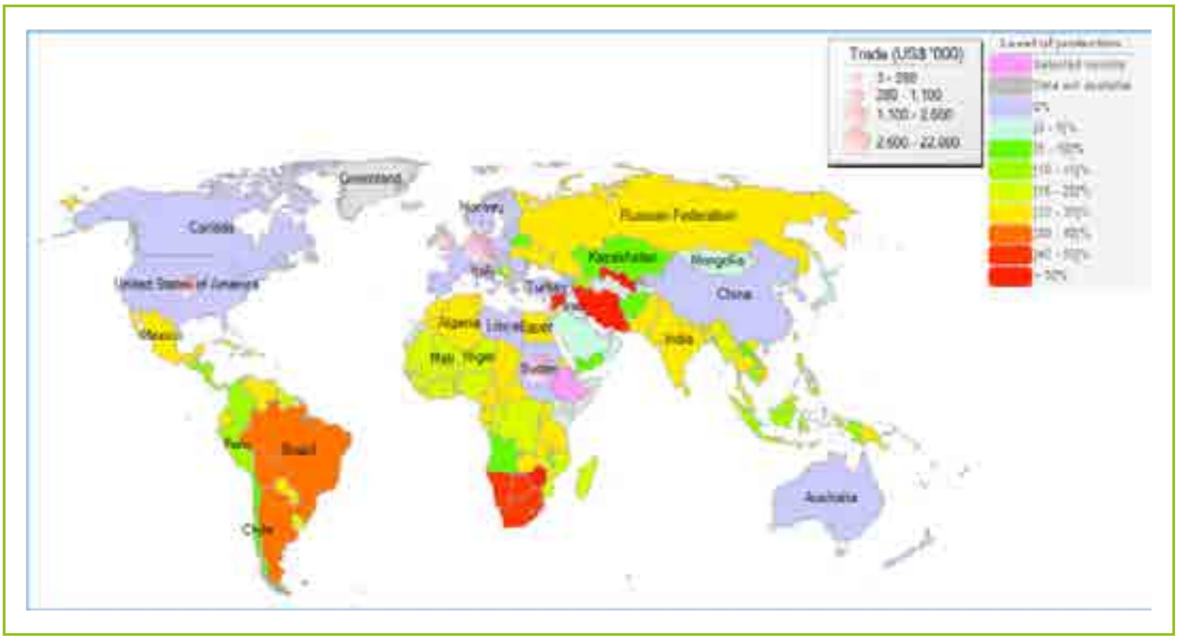
Sources: Ethiopian Central Statistical Agency (2014) (a); and Ethiopian Revenues and Customs Authority (2014) (b).

SECTION C: COTTON SUPPLY AND DEMAND IN ETHIOPIA 1990/91 TO 2010/11



Source: ICAC

SECTION D: TARIFFS FACED BY ETHIOPIAN APPAREL EXPORTS (HARMONIZED SYSTEM (HS-61)



Source: International Trade Centre (2015) (a).

SECTION E: INCENTIVES FOR SECTORAL DEVELOPMENT IN ETHIOPIA

The Government of Ethiopia has implemented or encouraged a number of measures in order to promote a favourable business environment and attract investment. Among these incentives, major ones are:

- International human resources are exempted from income tax if their stay is under two years;
- Value Added Tax exemptions for locally purchased materials, subject to certain restrictions;
- The Development Bank of Ethiopia runs a number of programmes, including (i) the financing through loans of up to 70% of capital requirements for new establishments; (ii) loans that charge 8.5% interest with five-year grace periods; and (iii) the operation of an Export Guarantee Scheme, which charges 1% interest without collateral requirements for working capital;
- Income tax holidays are granted based on export performance;
- A number of schemes, including the duty drawback, voucher, and bonded manufacturing warehouse schemes, allow for the exemption of Customs taxes and duties for raw materials;
- Investors can import machinery and fabrics free of duty for export production;
- Various other Customs and tax incentives;
- Availability of land and sheds for lease at competitive rates.

Ethiopia has low domestic supply of garment inputs yet strives to become a major producer of garments for export. The incentives allowing duty-free import of capital goods and raw materials are indispensable to this objective. Government provision of space and facilities at competitive rates further supports the bottom lines of garment manufacturers, but it also establishes poles around which more manufacturers, and their suppliers and TVET partners, can cluster.

Value Added Tax exemptions on locally procured inputs and the Development Bank of Ethiopia's preferential financing terms, which would be most important for domestic entrepreneurs, will be important in linking domestic suppliers and foreign garment manufacturers operating in Ethiopia.

Source: Ethiopian Textile Industry Development Institute (2014).

SECTION F: INTERNATIONAL BUSINESS RANKINGS OF ETHIOPIA AND ITS COMPETITORS

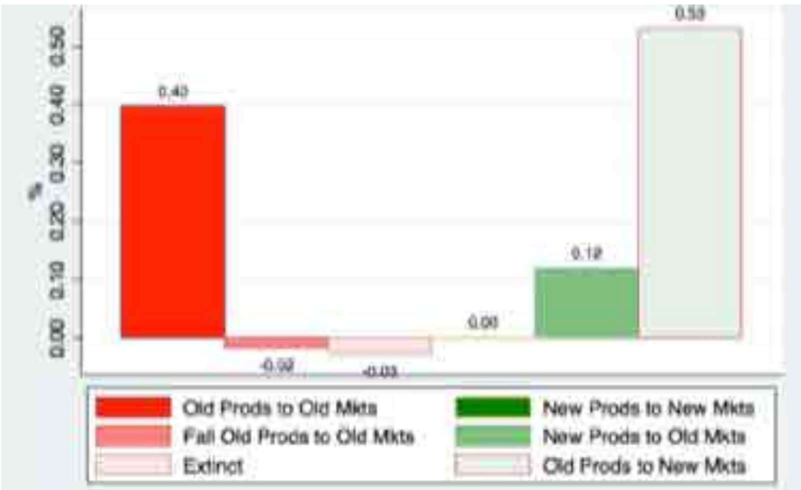
International benchmark	East African countries			Selected Asian textile and apparel exporters					
	Ethiopia	Kenya	United Republic of Tanzania	China	India	Bangladesh	Viet Nam	Pakistan	Myanmar
Ease of Doing Business ranking (1)	**132**	136	131	90	142	173	78	128	177
Competitive Industrial Performance ranking (2)	**130**	102	106	7	43	78	54	74	Not ranked
Global Competitiveness Index (3)	**118**	90	121	28	71	109	68	129	134
Inward FDI Performance Index (4)	**120**	129	59	86	97	114	22	110	52
Corruption Perception Index (5)	**110**	145	119	100	85	145	119	126	156
Economic Freedom Index (6)	**149**	122	109	139	128	131	148	121	161

1-World Bank Group, 2015); 2 United Nations Industrial Development Organization (UNIDO), 2010; 3 World Economic Forum, 2014; 4-United Nations Conference on Trade and Development, 2010; 5-Transparency International, 2014; 6-Heritage Foundation, 2015

SECTION G: TRADE ANALYSIS

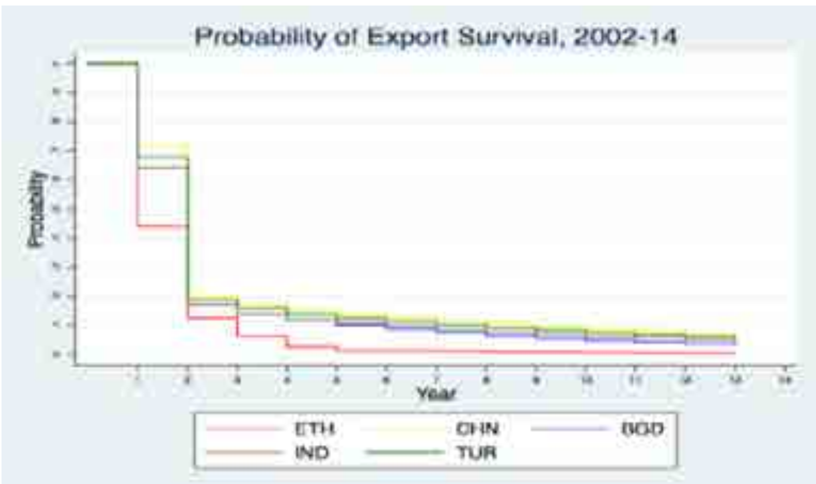
The largest source of growth over the past 10 years has been the introduction of old products to new markets (53% of 10-year growth), followed by the continued penetration of old products in old markets (40%) and the introduction of new products to old markets (12%). Given the young state of the industry, together with the high levels of international competition, it should be no surprise that firms are not yet exporting new products to new markets.

Figure 1: Decomposition of Ethiopia's export growth of garments and textiles, 2004–2013



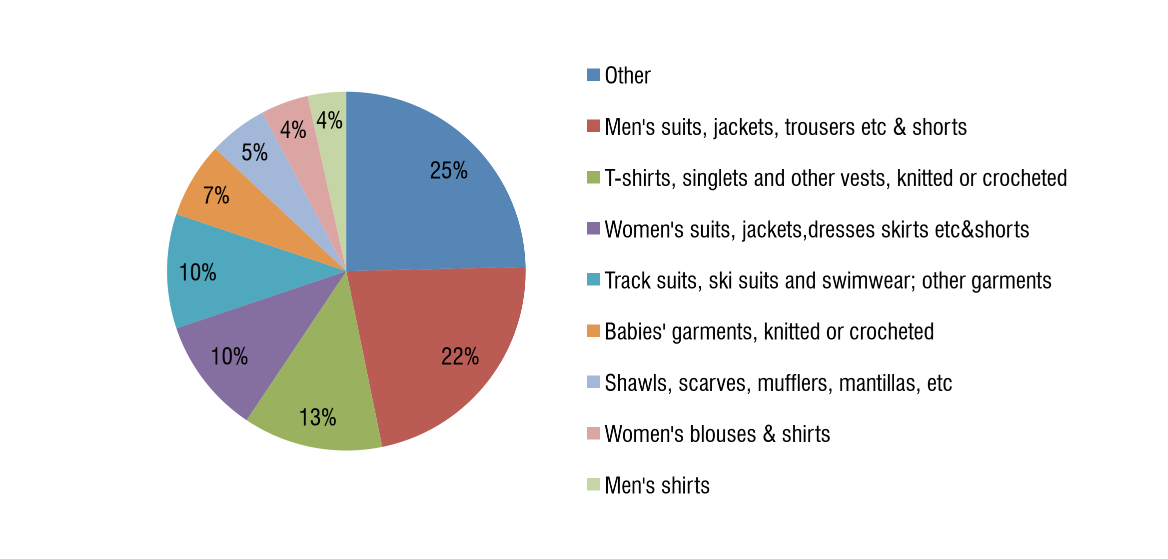
Source: International Trade Centre (2015) (b).

Figure 2: Probability of export survival, 2002–2014



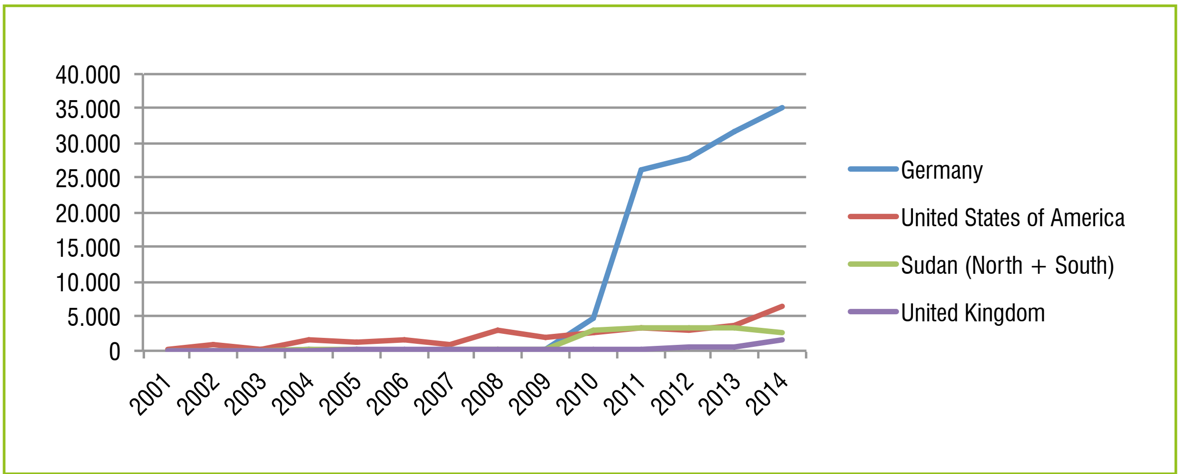
Source: International Trade Centre (2015) (b).

Figure 3: Contribution to Ethiopia's clothing trade deficit, 2014



Source: International Trade Centre (2015) (b).

Figure 4: Top importers of Ethiopian garments, 2001–2014 (US$ thousands)



Source: International Trade Centre (2015) (b).

Table 1: Ethiopia's top 10 exported garments, 2009–2014 (US$ thousands)

Product label	2009	2010	2011	2012	2013	2014	Five-year CAGR	Share
Total	**2 915**	**11 786**	**33 971**	**37 156**	**40 262**	**46 177**	**74%**	**100%**
T-shirts, singlets and other vests, knitted or crocheted	554	944	5 297	5 065	11 616	8 855	74%	19%
Men's underpants, pyjamas, bathrobes, etc., knitted/crocheted	151	2 004	2 276	2 618	3 816	5 514	105%	12%
Women's blouses & shirts, knitted or crocheted	33	0	165	12	695	4 375	166%	9%
Women's suits, jackets, dresses, skirts, etc. & shorts	127	242	3 010	2 699	614	3 314	92%	7%
Jerseys, pullovers, cardigans, etc., knitted or crocheted	281	425	1 064	627	1 173	3 202	63%	7%
Women's suits, dresses, skirts, etc. & shorts, knitted/crocheted	64	206	77	720	2 250	3 144	118%	7%
Men's singlets, briefs, pyjamas, bathrobes etc.	124	166	1 691	2 303	2 125	2 954	89%	6%
Pantyhose, tights, stockings & other hosiery, knitted or crocheted	1	0	1 916	2 953	2 677	2 926	393%	6%
Men's shirts, knitted or crocheted	85	180	1 707	330	2 603	2 837	102%	6%
Women's blouses & shirts	109	148	5 523	4 117	1 768	1 806	75%	4%

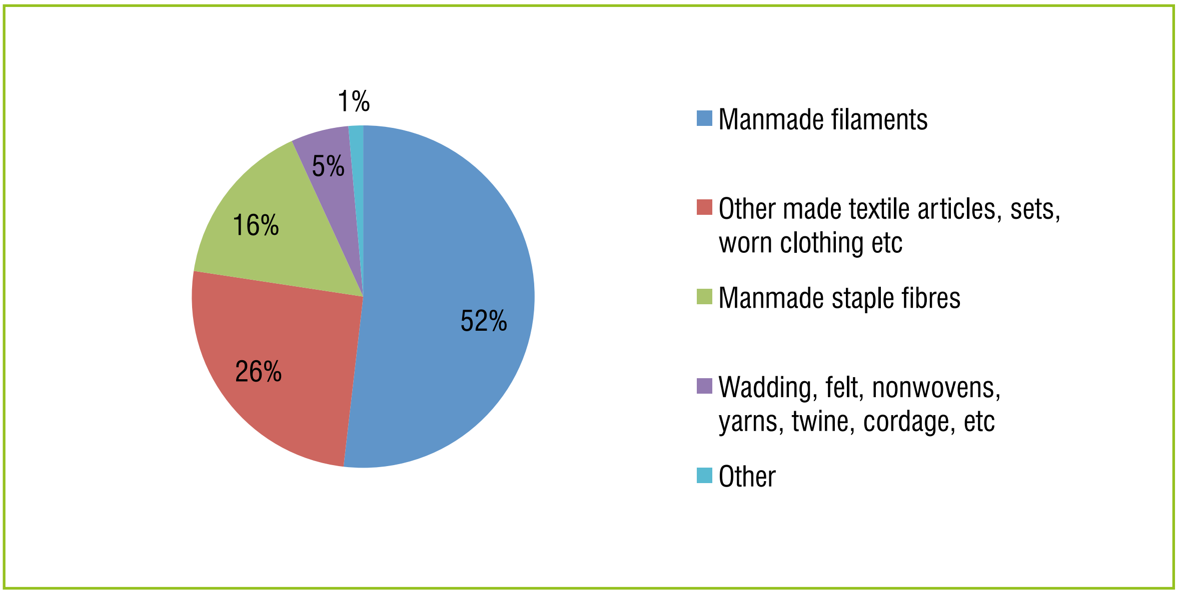
Source: International Trade Centre (2015) (b).

Table 2: Top changes in market share by product

Product label	Export share 2004	Export share 2014	Difference
T-shirts, singlets and other vests, knitted or crocheted	2.90%	19.18%	16.27%
Jerseys, pullovers, cardigans, etc., knitted or crocheted	0.16%	6.93%	6.78%
Pantyhose, tights, stockings & other hosiery, knitted or crocheted	0.31%	6.34%	6.03%
Women's suits, jackets, dresses, skirts, etc. & shorts	1.19%	7.18%	5.98%
Men's shirts, knitted or crocheted	0.36%	6.14%	5.78%
Men's underpants, pyjamas, bathrobes, etc., knitted/crocheted	6.22%	11.94%	5.72%
Women's blouses & shirts, knitted or crocheted	4.35%	9.47%	5.12%
Women's suits, dresses, skirts, etc. & shorts, knitted/crocheted	1.71%	6.81%	5.10%

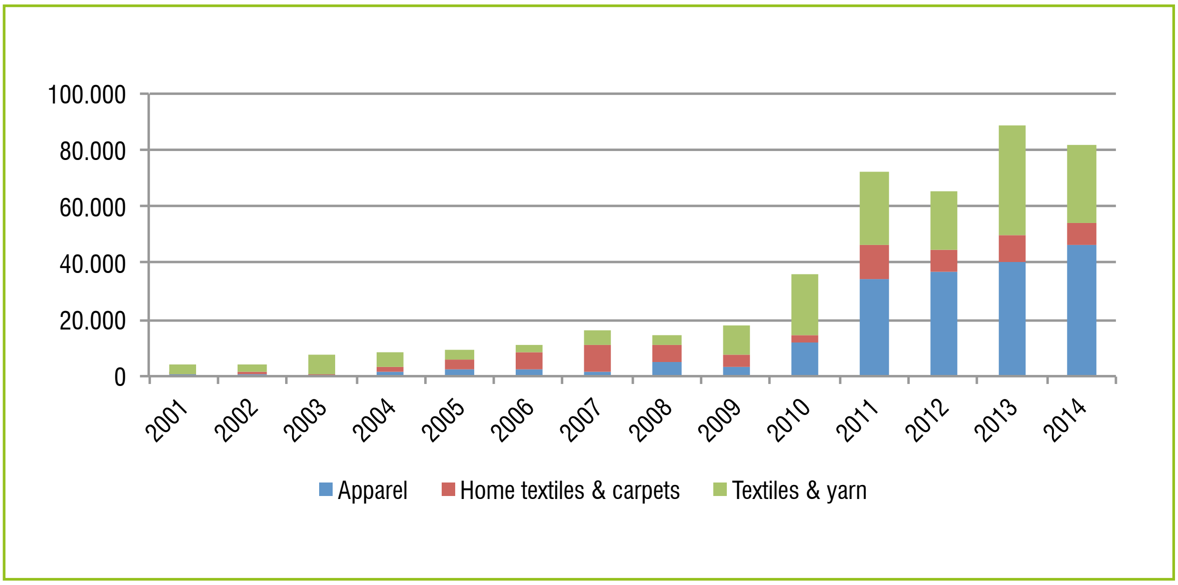
Source: International Trade Centre (2015) (b).

Figure 5: Contribution to Ethiopia's textiles trade deficit (2014)



Source: International Trade Centre (2015) (b).

Figure 6: Top importing markets for Ethiopian textiles, 2001–2014 (US$ thousands)



Source: International Trade Centre (2015) (b).

Table 3: Ethiopia's top 10 textile exports, 2009–2014 (US$ thousands)

Product label	2009	2010	2011	2012	2013	2014	Five-year CAGR	Share (%)
Total	**14 957**	**24 134**	**38 672**	**28 242**	**48 652**	**35 975**	**19.2%**	**100.0%**
Cotton yarn	6 187	6 415	8 481	11 547	27 992	14 334	18.3%	39.8%
Cotton fabrics	3 108	10 094	12 621	5 228	6 730	5 214	10.9%	14.5%
Bed, table, toilet and kitchen linens	55	565	9 157	1 776	2 400	4 894	145.4%	13.6%
Special woven or tufted fabric, lace, tapestry, etc.	65	834	322	116	17	2 904	113.8%	8.1%
Furnishing articles n.e.s., excluding 94.04	783	722	1 290	3 413	4 455	2 855	29.5%	7.9%
Knitted or crocheted fabric	195	0	353	1	585	1 933	58.2%	5.4%
Man-made filaments	51	4 280	3 751	1 482	1 812	1 776	103.4%	4.9%
Man-made staple fibres	230	3	863	1 864	1 539	1 563	46.7%	4.3%
Sacks and bags of a kind used for the packing of goods	312	205	184	434	557	166	-11.9%	0.5%
Carpets and other textile floor coverings	30	151	100	163	297	165	40.6%	0.5%

Source: International Trade Centre (2015) (b).

SECTION H: TIME AND COST INVOLVED IN TRADING ACROSS BORDERS IN ETHIOPIA INVESTMENT

Nature of procedures	Export		Import	
	Duration (days)	Cost (US$)	Duration (days)	Cost (US$)
Documents preparation	27	520	29	700
Customs clearance and inspections	7	290	5	390
Ports and terminal handling	3	270	3	270
Inland transportation and handling	7	1 300	7	1 600
Totals	**44**	**2 380**	**44**	**2 960**

Source: World Bank (2015).

SECTION I: INVESTMENT

Table 1: Potential investors based in India

Company	Products / activities	Turnover (US$ millions)
Vardhman Textiles	Yarn, fabric, threads, fibre & garment	834
JBF Industries Ltd	Synthetic fibre	772
Arvind Limited	Denim, fabric, apparel, advanced materials	770
Trident Group	Towels	624
Welspun India Ltd	Home textiles and synthetic yarns	570
SRF Limited	Tyre cord yarn	551
Garden Silk Mills	Polymers, yarn, filament and fabric	495
SEL Manufacturing Company Ltd.	Yarns, knitted fabric, terry towels, ready-made garments	477
Bombay Rayon Fashions Ltd	Fabrics, apparel	469
RSWM Ltd	Synthetic and blended yarn, fabric, denim fabric	463
Indo Rama Synthetic Ltd	Synthetic fibre and filament	424
Lakshmi Machine Works	Textile machinery	362
Nahar Spinning Mills Limited	Yarn and fabric	356
Raymond Limited	Suiting and shirting fabric, apparel	353
KPR Mill Limited	Yarn and fabric	316
Sutlej Textiles	Synthetic and blended yarn, fabric, home textiles	303
Filatex India Ltd	Synthetic yarn	285
Mandhana Industries Pvt. Ltd	Yarn dyeing, weaving, fabric printing, processing & garmenting	245
Century Enka Ltd	Nylon & polyester filament yarns, polyfill yarn	237
Sangam India Limited	Yarn, fabric, denim fabric	231
Indo Count Industries Ltd	Yarn & knitted fabrics	227
Siyaram Silk Mills Ltd	Suiting	210
Page Industries	Knitwear	192
Spentex Industries Ltd	Yarn and fabric	184
Gokaldas Exports Ltd	Garments	179

Similar lists can be obtained for each target country from their respective sector associations or through independent sector research. As an example, the following list offers the names of three of the top clothing brands and retailers in each of Ethiopia's most likely sources for T&C FDI. Investment promoters would investigate the top garment factories supplying such firms and target them for investment in Ethiopia.

Table 2: Potential prospects in target markets

Likely FDI source countries	Major brand, retailer or manufacturer	Type of business
United States	GAP	Specialty store
	Limited Brands	Specialty store
	Polo Ralph Lauren	Specialty store
Republic of Korea	Lotte	Department store
	Shinsegae	Department store
	Hyundai	Department store
China	Youngour Group	Ready-made garment manufacturer
	Hongdou Group	Ready-made garment manufacturer
	Heilan Group	Ready-made garment manufacturer
Germany	C&A	Specialty store
	H&M (Sweden)	Specialty store
	KiK	Specialty store
Spain	Inditex (Zara)	Specialty store
	Mango	Specialty store
	El Corte Inglés	Department store
United Kingdom	Next	Specialty store
	Marks and Spencer	Department store
	Heilan Group	Ready-made garment manufacturer
Turkey	Aksa Akrilik Kimya	Ready-made garment manufacturer
	Korteks Mensucat	Ready-made garment manufacturer
	Advansa Sasa Polyester	Ready-made garment manufacturer

SECTION J: LIST OF PARTICIPANTS IN PUBLIC PRIVATE CONSULTATIONS

	Name of Institution	Name
1.	Ministry of Trade - National AGOA Center	Mr Tiglumanaye
2.	Ministry of Trade - Trade promotion Directorate	Mr.Yetsedaw Emagne
3.	Ministry of Industry	Mr.y.van Frausum
4.	Ministry of Industry	Mrs Selamawit H.Micheal
5.	Ministry of Industry -Transformation Triggering Facility	Mr. Shunum khalid
6.	Ministry of Environment	Mr.Tolosa Yadessa
7.	Ministry of Industry	Mr. Simon Baryou
8.	Abeba Texilte and Garment	Mr. Wolle Abegaz
9.	Adama Spinning Factory	Mr. Yimer Yimama
10.	Addis Ababa science and technology university	Mr. Kibebe Sahile
11.	Addis Ababab Chamber of commerce	Mr. Getache Regassa
12.	Africa Center for Texitel Industries Federation	Mr. Joseph Nyagari
13.	Almeda Textile Plc	Mr. Amanual Girmay
14.	Awassa Textile S.C	Mr. Eyasu Atnafu
15.	Bahirdar Textile S.C	Mr. Abyay Melaku
16.	COMESA	Mr. Fred Kongongo
17.	Commercial Bank of Ethiopia	Mrs. Ejigayehu Demeke
18.	Commercial Bank of Ethiopia	Mr. Nigatu Wolde
19.	Commercial Bank of Ethiopia	Mr. Hirut Bekele
20.	DFID	Mr. John Primrose
21.	Ethiopia Cotton producers Ginners and exporters Association	Mr. Hadish Girmay
22.	Ethiopia Cotton producers Ginners and exporters Association	Mr. Assefa Aga
23.	Ethiopia Textile and Garment Manufacturers Association	Mr. Ageazi H Mariam
24.	Ethiopia Textile and Garment Manufacturers Association	Mr. Fassil Taddesse
25.	Ethiopia Textile Industry Development Institute	Mr. Sileshi Lema
26.	Ethiopia Textile Industry Development Institute	Mr. Yared Mesfin
27.	Ethiopia Textile Industry Development Institute	Mr. Enwagaw Nugusse
28.	Ethiopia Textile Industry Development Institute	Mr. Yitbarek Tilahun
29.	Ethiopia Textile Industry Development Institute	Mr. Epherm Bekele
30.	Ethiopia Textile Industry Development Institute	Mr. Fikr Tesfu
31.	Ethiopia Textile Industry Development Institute	Mr. Banthun Gessesse
32.	Ethiopia Textile Industry Development Institute	Mr. Demele Asrate
33.	Ethiopia Textile Industry Development Institute	Mr. Eshetu Shanko
34.	Ethiopia Textile Industry Development Institute	Mr. Erias Minda

	Name of Institution	Name
35.	Ethiopia Textile Industry Development Institute	Mr. Mulugeta Abera
36.	Ethiopian chamber of commerce	Mr. Wube Nengstu
37.	Ethiopian Institute of Textile and Fashion Technology	Mr. Addisu Ferede
38.	Ethiopian Investment Commission	Mrs. Meskerem Yeshitla
39.	Ethiopian Investment Commission	Mr. Dawit Lemma
40.	Ethiopian Shipping & Logistics service enterprise	Mr. Dereje Wassie
41.	Ethiopian Standard Agency	Mr. Wondale Mognehodie
42.	FEMESEDA	Mr. Esayas Tsegaye
43.	Indian Business Forum	Mr. Rajeev Sharma
44.	Kebire enterprise	Mr. Fassil Taddesse
45.	Kestis Garment Production Plc	Mr. Girima Wondimu
46.	Kombolcha Textile S.C	Mr. Mustefa Jemal
47.	Konoria Africa Textile Factory	Mr. Arun Gorodia
48.	KOTRA	Mr. Sewnet Hailu
49.	KOTRA	Mr. Kim Ju Hee
50.	MAA Garment	Mr. Kibrom Fitsum
51.	PEPE TEAM	Mr. Twodros Belachew
52.	PEPE TEAM	Mr. Addis alem Tesfaye
53.	PEPE TEAM	Mr. Nebil Kellow
54.	PEPE TEAM	Mr. Luc Boyolens
55.	Private Enterprise Programme	Mr. Tewodros Yilma
56.	Raymond Ltd	Mr. Ratesh Kr Singh
57.	Saygindima Textile S.C	Mr. Baye Hunegnaw
58.	Saygindima Textile S.C	Mr. Fatih Mehamet Yangin
59.	Shashikant prabhudas & Co Ltd	Mr. Kaushal Sheth
60.	Velocity Apparel	Mrs. Tesfanesh Lukw
61.	Velocity Apparel	Erica
62.	Wollo University	Mr. Negash Balcha
63.	Women In Self Employment - WISE	Mrs. Abeba Zenebe
64.	Women In Self Employment - WISE	Mrs. Etalem Yetayew Bekele,
65.	Women In Self Employment - WISE	Mrs. Misrach Kekonnen
66.	Women In Self Employment - WISE	Mrs. Worknesh Wade Oshie
67.	Women In Self Employment - WISE	Mrs. Kidist Buzuneh Yelesho
68.	Women In Self Employment - WISE	Mrs. Selemawit, Wondmagegnehu Eshete
	Yirgalem Addis Textile Factory	Mr. Nahom Aron

FSC

FSC is an independent, non-governmental, not for profit organization established to promote the responsible management of the world´s forests.

Printed by ITC Digital Printing Service on FSC paper, which is environmentally-friendly paper (without chlorine) using vegetable-based inks. The printed matter is recyclable.

International Trade Centre

Street address: ITC,
54-56, rue de Montbrillant,
1202 Geneva, Switzerland

Postal address: ITC,
Palais des Nations,
1211 Geneva 10, Switzerland

Telephone: +41-22 730 0111
Fax: +41-22 733 4439
E-mail: itcreg@intracen.org
Internet: www.intracen.org

financial support from:

UKaid from the British people

ETGAMA ETHIOPIA