ETHIOPIA's NATIONAL AGOA RESPONSE STRATEGY

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TABLE OF CONTENTS

Content page number

1. INTRODUCTION

The African Growth and Opportunity Act (AGOA), enacted in May 2001, is a signature US trade initiative that provides Sub Saharan African Countries with a most liberal access to the U.S. market. Much progress has been made under the Act over the last thirteen years. Since 2000, exports under AGOA have increased more than 500 percent, from $8.15 billion in 2001 to $53.8 billion in 2011. However, compared to the potential, many agree that much remains to be done to exploit the full potential of AGOA. In many African countries, AGOA exports have been limited to few products.

At every AGOA forum over the last thirteen years, African Minsters of trade have deliberating on how better to utilize the African opportunity. Especially over the last three years, there was a more focused discussion and a decision was made to approach this question in a more strategic manner. At the 10th AGOA forum in Zambia, African Trade Minsters have underscored the need for AGOA eligible African countries to develop their respective National AGOA response strategy. And UNECA and the African Union Commission have been instructed to provide technical assistance to African countries that wish to undertake this exercise.

Ethiopia is a first pilot country to undertake this strategic initiative. The Ethiopian Ministry of Trade, in cooperation with the African Trade Policy Center of the UNECA, has undertaken a grand initiative to develop a National AGOA Response Strategy to identify key supply side constraints that impede the performance of the export sector and suggest possible interventions to help overcome these constraints.

In the process of preparing the National AGOA Strategy, very robust consultations have been made with key stakeholders. In July 2013, the Ministry of Trade has organized a National AGOA Response Strategy consultative meeting **b**ringing together relevant stakeholders from the private sector, the government and the donor community to provide input for the National AGOA Response strategy. The meeting identified priority areas that should be the national strategy should focus on; namely, textile and garment,

handicrafts, leather and leather products, horticulture and Agro processing. The meeting also identified sector specific constraints in selected priority areas and the appropriate support programs and policy interventions to overcome them. In addition to providing valuable input for the National Strategy which is expected to be finalized in few months time, the meeting also agreed on the need to set up a National Institutional Structure that oversees the development and implementation of the Strategy. A meeting agreed on the need to set up a High Level National Steering Committee and Sector and area specific Technical Working Groups, and a full-fledged AGOA center to oversee the implementation of the National Strategy.

Several consultations and factory visits have also been made since then with key industry operators in the identified priority areas. Once the draft agenda was developed, sector specific validation meetings have been organized to validate the key elements of the strategy.

The strategy also heavily draws from the Growth and Transformation Plan. In fact the strategy can be seen as an integral part of the GTP. The underlying objective of the GTP is to increase the share and the benefits gained from the global economic integration with an ultimate goal of becoming a middle-income country by 2025. This strategy aims to achieve the same goal by focusing on the US market opportunity opened through AGOA.

Including the introduction, the strategy document is organized in two five parts. The next section provides a general overview of AGOA and touches upon Ethiopia's' performance under AGOA. The third part provides a rationale for the development of a National AGOA strategy. The fourth part, which is the main part of the strategic document, presents the key elements of the strategy. Sector specific strategic goals and objectives are presented in this section. The strategic goals and objectives and the operational framework for their implementation is outlined by sub sector. This is done deliberately to ensure that the particular nature of the challenge in the sub sectors is captured well. For instance, the operational framework for implementation for the textile subsector and the garment sub sector are not the same even though they are both in the same sector. This

might create some repetition. To minimize possible repetitions, detailed justification and analysis for objectives and the operational framework is presented only once except when there are new elements that need addition elaboration.

2. AGOA OVERVIEW

The Africa Growth and Opportunity Act (AGOA) is a unilateral trade act, passed by US Congress in 2000, that provides the most liberal access to the United States' to eligible beneficiary countries in Sub-Saharan Africa (SSA). The market opportunity AGOA opens up is the most generous one compared to any other opportunity available to any country or region with which the US does not have a free trade agreement.

It can be said that that AGOA has built up further on the idea of a Generalized System of Preferences (GSP). As a non-reciprocal concession under which developed countries allow duty-free or low-duty entry of imports from selected developing countries up to a certain limit or quota, covering 4600 products, GSP, has been in use in international trade regime since 1971. AGOA goes beyond GSP as it includes critical export products that are not part of GSP such as textiles, clothing and footwear. All in all, AGOA expanded product coverage by more than 1800 additional product lines many of which are major export products for developing countries in SSA.

As the name itself implies, the key expectation from AGOA has ben that the market opportunity it opens up will provide genuine opportunity for SSA countries to build light manufacturing industries (such as textile and garment and leather industries) that can be used as potential engines of economic growth, the same way countries in South and South East Asia have been able to do. [1] In the case of the textile and garment sector, for instance, the so called "third country fabric provision" is included in the AGOA act to

[1] Some countries in Africa such as Lesotho and Mauritius have been able to build an entirely new industry in response to the opportunity AGOA offers.

give SSA countries more room to build their garment industry as it allows them to import fabric manufactured anywhere in the world under a "special rule" that only applies for LDCs in Africa.[2] Introduced in the original AGOA Act of 2000, this special rule allowed LDC countries duty-free access for apparel made from non-originating fabric for an initial four-year period. The expectation back then was that SSA countries could create enough capacity to produce enough fabric within the region. As that was not the case, the provision was extended for a 4-year period until September 30, 2004. AGOA III extended this provision by a further three years to September 2007, and AGOA IV to 2012. This was extended in September 2012 to the end of 2015. African countries are now calling for the third country fabric to run concurrently with the AGOA Act itself.

Despite its strong promise, many agree that AGOA has not fulfilled its expectations. In addition to demand side challenges that the US markets poses, country response to AGOA has been stymied by supply-side constraints. Overcoming these constraints requires a strategic coordinated effort at country level to deal with sector specific constraints.

Ethiopia Under AGOA

Ethiopia has been an AGOA beneficiary country from since 2000 when the AGOA Act was enacted. A review of Ethiopia's performance under AGOA over the last thirteen years shows a mixed result. On the one hand, AGOA exports have shown a steady growth in volume and product mix. As is shown in the table below, Ethiopia's AGOA exports have increased from a very low base of 215 thousand USD in 2001 to 18.2 million USD in 2012, with an average growth of 80 percent per annum. On the one hand, AGOA has opened up new export opportunities. Ethiopia has exported non-traditional export items such as textile and apparel, leather products, hand made goods, in increasing volume to the US market. In the case of textile and apparel, for instance, exports have grown from $163 thousand in 2001 to $9.9 million in 2012, with an average growth of about 90 percent per annum.

[2] This excludes countries like South Africa, Gabon and the Seychelles

Table Ethiopia's AGOA Exports(2001-2012)

(Custom Value, at HTS2 level) (In 1000 Dollars)

Year	Gross APPAREL AND CLOTHING ACCESSORIES (in 1000 USD)	Growth
2001	163	
2002	1298	696.32
2003	1750	34.82
2004	3329	90.23
2005	3509	5.41
2006	4864	38.61
2007	4559	(6.27)
2008	9357	105.24
2009	6622	(29.23)
2010	6511	(1.68)
2011	9967	53.08
2012	9964	(0.03)
	Average	89.68

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Percentages may actually hide the real facts. Compared to countries in the region and elsewhere around the world, Ethiopia performance under AGOA is unacceptably low. As is shown in the table below, Ethiopia's share of AGOA exports at its peak is only 3.55% and 0.15 % of total East African and SSA AGOA Exports respectively.

Table 11 Ethiopia's share of AGOA Exports compared to **other Eastern African & SSA AGOA beneficiary countries.**

Year	Ethiopia (Value in USD)	Eastern Africa (Value in USD)	Share in %	SSA	Share in %
2001	215	118,668.00	0.18	5,026,510.00	0.004
2002	1,319	285,148.00	0.46	4,892,732.00	0.03
2003	1,706	376,791.00	0.45	7,235,206.00	0.02
2004	3,532	473,162.00	0.75	18,220,559.00	0.02
2005	3,646	468,661.00	0.78	25,145,996.00	0.01
2006	5,000	443,848.00	1.13	21,088,727.00	0.02
2007	4,741	395,881.00	1.20	23,571,685.00	0.02
2008	9,392	386,097.00	2.43	27,871,053.00	0.03
2009	6,723	353,459.00	1.90	12,649,968.00	0.05
2010	6,875	396,179.00	1.74	15,271,922.00	0.05
2012	18,294	514,741.00	3.55	12,585,551.00	0.15

Comparing Ethiopia's performance with individual countries further reveals the very weak performance of Ethiopia's Export under AGOA. As the figure below shows, even though Ethiopia is one of the top ten exporters of AGAO, its export share is less than 1% of total SSA exports to the US under AGOA. Between 2001 and 2012, the top two performers, namely, Lesotho and Kenya respectively exported to the U.S almost 135 and 68 times more than what Ethiopia exported.

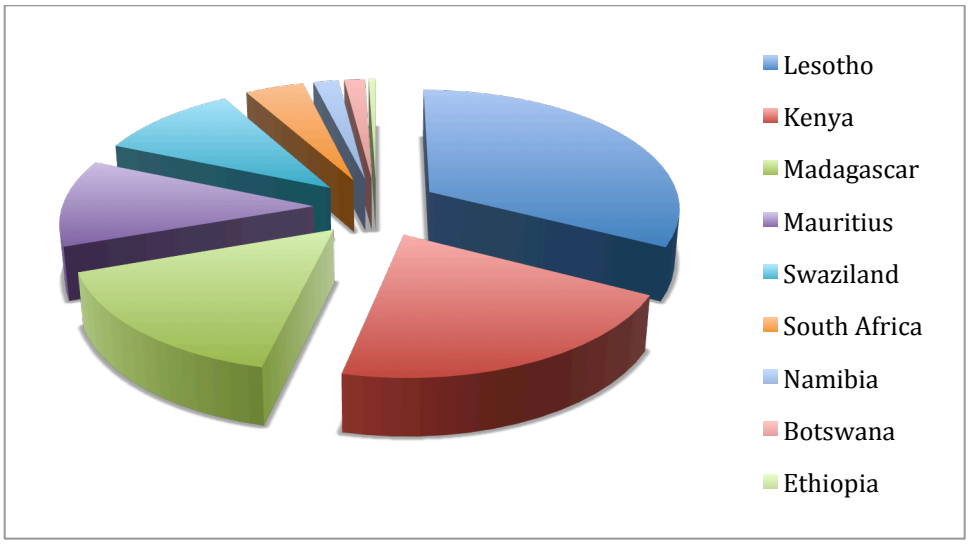

Figure: AGOA export share of the top ten SSA Exporters

For the fourth largest economy in Africa, this is a meager performance by any measure. As Ethiopia continues to strive its modern economy, AGOA offers unparalleled opportunity that it cannot afford to pass up. Given AGOA's huge potential, it is

paramount that Ethiopia's approach the AGOA market in a more strategic manner: hence the need for the National AGOA Response Strategy.

3. WHY A NATIONAL AGOA RESPONSE STRATEGY

Before getting to the details of the strategy, it will be useful to highlight why an AGOA National Response strategy is needed. At least eight major reasons can be identified.

AGOA Offers Ethiopia Opportunities That It Cannot Afford To Pass Up.

One important reason for developing AGOA National strategy is due to the fact that the opportunity AGOA offers should not in any way be passed up. As indicated in its five years Growth and Transformation plan, Ethiopia aims to achieve middle level income status by building modern industrial economy by 2025. This is the very thing AGOA aims to achieve. When the AGOA Act was enacted in 2000, the champions of the Act strongly believe that by opening up access to the largest US market, AGOA would stimulate the development of light manufacturing industries (e.g., textiles and apparel, leather products and shoes) enabling African economies to use these sectors as potential engines of economic growth, in much the same way as historically happened in South and South East Asia.

The US market is indeed a huge market that offers Ethiopian firms great opportunities for business growth. For instance, by 2014, the global apparel retail industry is forecast to have a value of US$1.222 trillion. The largest market is the Americas, which accounts for over a third of the global apparel retail industry value (35.7 percent). If we look at the footwear market, the global footwear market was worth USD 185.2 billion in 2011 and is expected to reach USD 211.5 billion in 2018. The US is the major destination for, consuming …pairs of shoes every year. Having a duty free and quota free access to this huge market offers Ethiopian firms great opportunities for business growth and expansion

Access to the US market can do for Ethiopia/Africa, what it did for China and Others.

Experiences of other countries show that the U.S. market is a critical factor in their successful economic transformation. From Europe to Asia to Latina America, a number of developing countries and transition economies have been able to build a modern economy on the back of the US market. China, for instance, has been able to become the second largest economy in just few decades due to its export –led economic growth strategy, effectively exploiting the US market. By 2009, for instance, one- third of world‘s clothing exports came from China compared to less than 10 percent twenty years earlier. The same can be said of a number of successful Asian economies such as Taiwan, Korea, Singapore and also those making remarkable progress like Vietnam, Cambodia, Bangladesh, etc.

Countries like China are already losing their comparative advantage in light manufacturing. International trade experts and practitioners agree that China, for instance, is at the fringes of its low-wage, high-growth era. It is natural that other countries will fill this vacuum replacing China. Low-wage countries like Ethiopia can seize the opportunity and climb upon the escalator of the international global market. In its recent analysis, the Forbes Magazine has identified 16 countries best suited to succeed China as the world's low-cost, export-oriented economy. Ethiopia is identified as one of these Post-China 16, or PC16 -- the 16 countries. The PC 16 forecast sees a continual flow of companies leaving China, or choosing not to invest in China, and going to these countries to involve in labor-intensive light manufacturing activities such as garment and footwear manufacturing. Even if such recognition is potentially huge its practicality largely depends on whether countries like Ethiopia can approach this opportunity strategically; hence a need to develop and implement a National AGOA Strategy.

Piecemeal Efforts Have Not Worked.

If AGOA exports from Ethiopia have not picked up as much as they should have, it is not for lack of effort. Several government Ministries and agencies, donors, regional and National Chambers, Ethiopian embassies abroad, and associations' provide support to exporters. However, these programs of support are not well coordinated to have had a meaningful difference so far. These piecemeal efforts have not worked as they lack coordination and strategic direction to help overcome key constraints. Developing a National Agenda helps overcome these coordination issues ensuring better outcome.

GTP Targets May Not Be Achieved Business As Usual.

The Ethiopian government has ambitious development plan that aims to build an economy in which the industry plays a major role. To this end, the GTP outlines various support measures for export oriented and import substituting industries. The GTP also sets ambitious export targets. For instance the GTP envisages export revenue of a billion dollars from textile and apparel exports and half a billion dollars from exports of leather and leather products by 2015. More than half way through the plan, the current export performance is far away from the GTP targets. The 2012 export figures show that Ethiopia was able to generate only $ 84.63 million and $112.06 million export earning from textile and apparel and leather and leather products respectively. This shows that it may be impossible to achieve GTP targets business as usual. By providing a more focused and coordinated approach, the National AGOA Strategy provides a quickened version of the GTP.

Ensure Public-Private Synergy

One key objective of Ethiopia's Growth and Transformation Plan (GTP) is to establish suitable condition for sustainable nation building through the creation of a stable democratic and developmental state. And an essential feature of a developmental state is that it should have embedded autonomy., which enables it to work in effective synergy

with the private sector. Such notion of embededdness requires that the public and private sector work in tandem, each focusing on areas where it has comparative advantage. The AGOA National Strategy fosters such strong synergy between the public and private sectors as its formulation and implementation rests on a strong pubic-private collaboration. The National Strategy is developed in a collaborative manner by bringing all stakeholders from the private and public sectors together. The institutional support mechanism envisaged under the implementation framework (see section five) also puts strong emphasis on public private partnership. As the steering committee and the TWGs established to implement the strategy are composed of the private sector and the pubic sector, there is ample opportunity to work together in a coordinate manner. This creates more synergy between the private and the public sectors.

As the former WB Chief Economist and Vice President Justin Lin argues in what he calls "New Structural Economics" framework, a focused approach that ensures that both the private sector and the public sector use their comparative advantage--where they can produce products most effectively--and use them as a basis for development. At the same time, states need to recognize the power of markets, limiting the role of government to allow firms to flourish and lead the process of technological innovation and industrial upgrading. By following this ", Lin shows how even the poorest nations can grow at eight percent or more continuously for several decades, significantly reduce poverty, and become middle- or even high-income countries in the span of one or two generations

Path For Sustainable Economic Transformation

Economic development is a process of continuous technological innovation, industrial upgrading, and structural change, which requires a focused strategic approach to deal with selective industries where the country has comparative advantage. This strategy offers such path as it aims to build competitive industries in selected priority areas. This strategic approach enables the country to create firm level competitiveness. This ensures that our firms become competitive even after the AGOA policy advantage is gone. In a

sense the AGOA market is used as an excuse to build globally competitive industries in priority sectors, which ensures the sustainability of the current growth trajectory.

Help Identify and Resolve Binding Constraints that growth of Firms on the Growth of Light Manufacturing and Exporting Firms.

A number of binding constraints limit the growth of light manufacturing and exporting firms in Ethiopia. Among other things,

- The availability, cost and quality of inputs
- Production constraints
- Inadequate access to finance
- Poor trade logistics
- Low quality of labor
- Short supply of entrepreneurial capability, both technical and managerial significantly undermines the competitiveness of Ethiopian firms.

Even tough some of these constraints can be overcome by general business reform, their fundamental resolution call for sector specific strategy to come up with specific policy and program supports. Since AGOA National Strategy is sector specific, it offers a meaningful opportunity to look at sectoral challenges more closely and overcome the major constraints.

4. KEY ELEMENTS OF THE STRATEGY

IDENTIFICATION OF PRIORITY SECTORS

It is very difficult operationally to try and address economy wide issues across many sectors under one initiative. Besides, addressing major barriers to US market entry such as production challenges, logistic challenges, market knowledge, shortage of finance and technical know how requires considerable resources to deliver. Therefore, the sectors to which the strategy will be directed will have to be carefully selected.

Accordingly, the sectors covered under this strategy are selected based on past export performance and future export potential. Ethiopia's comparative advantage in these sectors and US end market analysis has also informed the selection of the sectors. For the first phase of implementation of the strategy (2014-1018), five priority sectors are selected.[3] These are

- Garment and Textile
- Hand Woven Textile Products
- Leather and Leather Products
- Horticulture and
- Agro processing

[3] After the first five years of implementation, more sectors can be added during the second five years plan.

SECTOR SPECIFIC STRATEGIES

I. PRIORITY SECTOR I: GARMENT &TEXTILE SECTOR

Overview

Ethiopian traditional apparel (cottage industry) produced by handloom has a long history, The activities were traditionally held by small artisans called “shemane” (weavers). This traditional cottage industry is continues up to now, expanding even further as the use of handloom products continues further. The first Mechanize integrated mill in Ethiopia, namely, Diredawa Textile S.c, was established in 1939, marking the beginning of textile industrialization in the country. . Similarly, Addis Garment (Augesta) PLC, which is the pioneer of modern garment set up in the country, was established in 1958. The sector has grown remarkably since then, boasting a total of 108 firms currently as is shown in the table below.

S. No.	Area of Operation	Number of Factories
1	Ginning	17
2	Integrated Textile Mills	21
3	Spinning	1
4	Weaving and/or Knitting	8
5	Handloom	4
6	Dyeing and Printing	1
8	Garment Factory	51
9	Blanket Factory	5
	Total	**108**

The product range of the sector includes:

- Lint cotton
- Variety of yarns (cotton and cotton blended, acrylic, mélange)
- Fabrics (cotton & blended)
- Blanket (woolen, waste cotton, others)
- Bed-sheets
- Shirts
- Carpets
- Bags

- Hosieries
- Wearing apparels, sweater, etc..

Despite its age and its growth particularly over the last two decades, the performance of the existing Garment and textile mills in Ethiopia is relatively poor and the sector is not in a position to produce world-class competitive products due to: -

- Lack of raw materials
- Lack of skilled human resource (technical and managerial)
- Low level of technology use
- Financial constraints
- Low capacity utilization (The industry's capacity utilization is 40% on average)
- High cost and inefficient logistics, transportation and Custom service

Compared to the potential, the current production capacity of the industry is significantly small. The industry as a whole has annual production capacity of:

- 185 million kg of cotton ginning
- 93 million kg of yarn spinning
- 176 million meter fabric weaving
- 32 million kg of fabric knitting
- 110 million meter woven fabric finishing
- 36 million kg of knitted fabric finishing
- 57 million pcs of knitted garment and
- 22 million pcs of woven garment
- Employed more than 30,000 workers

With the current capacity, Ethiopia is only able to generate $ 84.63 million export earning from the textile and apparel sector as of 2012. This is significantly below the export target set under the GTP as mentioned above. Achieving this ambitious target requires dealing with key sector specific constraints in a strategic manner.

In the following pages, the strategic goals and objectives and operational framework is outlined by sub sector.. As mentioned in the introduction, the strategic objectives and operational framework are specified by sub sector duet to the particular nature of the challenge in the sub sectors. However, to avoid duplication detailed justification analysis for objectives and the operational framework is presented only once except when there are new elements that need addition elaboration,

The following subsection outlines the strategic goal and objectives for garment sub sector.

1.1. STRATEGIC GOALS AND OBJECTIVES (GARMENT SUB SECTOR)

1.1.1. DEFINITION OF GOAL

- The goal of the strategy is to build an internationally competitive Garment Industry in order to promote Garment Export to the US under AGOA.

1.1.2 OVER ALL STRATEGY

To achieve the above goal, the overall focus of the strategy will be to

- Attract significant Foreign Direct investment in to the Sector
- Build capacity of existing garment companies to make them internationally competitive

- Encourage and facilitate the opening of new garment factories in big numbers

1.1.3. STRATEGIC OBJECTIVES

To achieve the strategic goal, the following strategic objectives are devised.

1.1.3.1 Strategic Objective I- Increase The Number Of Foreign And Local Garment Factories To 600 by 2018

Even though the textile and garment sector in Ethiopia has shown remarkable progress over the last two decades, it falls significantly behind compared to its major competitors. It is only recently that major buyers from the US and elsewhere began to look at Ethiopia as a potential sourcing country. As recent buyers survey indicates that one major reason for buyers not to look at Ethiopia is a fear that they may not be able to find enough volume of products in sufficient quality from Ethiopia. [4]Putting Ethiopia on the global map of the textile and garment industry requires changing the industry population in terms of numbers, size and mix. The strategy aims to increase the number of garment factories in Ethiopia to 600 from its current number of 108 by 2018. At the first look this might sound too ambitious. But experience of other countries shows that this is achievable if the government and the private sector work hand in hand in a s strategic manner.

Experience of countries like China, Vietnam and Cambodia show that a decade or two can make a significant difference in countries' effort to industrialize. In Cambodia, for instance, the garment industry has evolved from nowhere in the mid- 1990s to become the country's most important manufacturing sector. Vietnam was able to build an international competitive industry in just about two decades. While the garment industry was practically non-existent in the early 1990s, Vietnam now has more than 2876 firms. Another Asian competitor, Bangladesh, has more than 5,000 firms in the sector.

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[4] USAID COMPETE, The Competiveness and Trade Expansion Project, "*US Apparel End Market Analysis*", June 2011.

Cambodia, on the other hand has only 258 firms but it has been able to create a very completive and dynamic industry that generates export revenue of about 2.5 billion from the US alone.

This strategy largely draws on the Experience of countries like Cambodia, Vietnam and Bangladesh for a reason. The focus on countries like Bangladesh and Cambodia is based on the theory of benchmarking that generally requires a selection of target benchmarking country based on the size of GDP per capita. It is generally recommended that a target country should not have a GDP per capita that is more than 100 percent higher than the benchmarking country. If we take the case of Cambodia, its GDP per capita is $946, which is within the hundred percent range when compared to Ethiopia's GDP per capita of $470. In the case of Vietnam, the GDP per capita may be slightly higher ($1596), but it has interesting similarity with Ethiopia in terms economic and political history and population size. Like Ethiopia, Vietnam was a communist country whose private sector is two decades young. Besides, its textile and garment industry structure is also similar to Ethiopia's.

A recent comparative analysis of Asian countries and selected SSA countries by the World Bank shows that the Conditions facing Ethiopia and other SSA countries today are not different from the conditions facing countries like Vietnam and China in their early years of industrialization, justifying the argument that the strategic objective is achievable. Dinh et al (2011), for instance, note that economies like China managed to expand production and exports of light manufactures without first resolving the same sorts of constraints currently observed in Sub-Saharan Africa. They note that:

> …Visitors to China in the mid- 1970s and early 1980s were appalled by low product quality (for example, sewing machines that leaked oil onto the fabric, electric motors that failed in hot, humid weather), passive management (one manager at a large plant insisted that he did not know the unit cost of his product; another, asked to explain the presence of numerous idle workers, said, "If we didn't employ them, where would they go?"), administrative confusion (would-be investors left the Xiamen Special

> Economic Zone in disgust after managers failed to provide firm prices for land, electricity, or water), delays in moving merchandise through customs and port facilities, lackadaisical attitudes toward customer needs, and others.

This clearly shows that Ethiopia should not necessarily wait until all the constraints are resolved before embarking in to transforming its garment industry. As a latecomer, Ethiopia can not only learn form experiences of these countries but also do it in a much better way. For instance, the current development in countries likes Bangladesh and Cambodia that saw a massive unpacking of forewing firms shows that exclusively relying on FDI is not a sustainable way of building a competitive industry. As the following strategic sub objectives show, in the case of Ethiopia the focus is not only on attracting FDI, which is an essential part of the strategy, but also to build local capacity by building the capacity of existing companies and facilitating the establishment of new firms. The breakdown of the strategic objective is presented below based on firm size; namely large-scale firms, medium sized firms and small-scale firms. The strategy carefully avoids the usual bias in favor of larger firms. In export market, there is always a tendency to favor large firms, as the market prefers large firm operations. . An important prerequisite for exporting tis having the capability to fulfill large orders competitively (both in terms of price and quality) and quickly. This understandably requires tapping into scale economies associated with labor-intensive, assembly-line production chains, something small firms have difficulty with. That is why it is important to create strategic linkage between the first tier, second tier and third tier firms in terms of sub contracting arrangement and consolidation of orders. Operationally, small and large firms need to be treated separately, with the eventual goal of integrating smaller firms into comprehensive value chains (See section 1.1.4 of the operational framework in the next part for details).

1.1.3.1.1. Increase the number of large scale garment factories to 52 by 2018

Currently there are only 4-5 large-scale firms in Ethiopia.[5] The big part of the envisaged increase comes by attracting Foreign Direct Investment. The strategy aims to attract FDI to establish **40 new large-scale plants** in Ethiopia. To archive this, the focus will be on key US buyers that can help attract significant investment from countries such as China, Vietnam, Indonesia, Turkey, India, Bangladesh, and Cambodia that are losing their competitive advantage. Experiences of these countries show that FDI is the single most important factor in the successful transformation of their industries. Vietnam and Cambodia' success, for instance, can be traced to the large amount of FDI they were able to attract.

Attracting such an investment may appear an uphill by looking at Ethiopia's performance over the last decade. As of 2011, the sector was only able to attract less than US$3 million in foreign investments, mainly from United States, Italy and Turkey.[6]

Industrial parks play a critical role in the effort to attract FDI. Ethiopia is currently undertaking a massive program to build industrial zones. In addition to the industrial parks that are already built around the capital and in Mojo area, the government is working on establishing huge industrial zones in Diredawa, Awassa, and Combolcha area. The World Bank is also currently working on a new project worth 250 million to build industrial parks. [7]

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[5] Firms scale is defined based on company profile produced by Ethiopian Textile Institute. Large, medium and small-scale firms are those that have average production capacity of 30,000; 7,000 and 600 pcs of garment per day respectively.

[6] The figure will be slightly higher when investment from China over the last two years is taken in to account.

[7] Interview with officials at the Ministry of Trade.

The strategy also focuses on building the capacity of **existing 8 medium and 4 large-scale** garment companies to help them grow in to large-scale operation. The large-scale firms will be strategically tied with the medium scale firms and the latter with small-scale firms through sub contacting arrangements.

1.1.3.1.2. Increase the number of Medium sized local garment companies to 128 by 2018

During the plan period, effort will also be made to increase the number of medium sized garment companies from eight to 188 by 2015. The preliminary capacity analysis of existing firms shows that only **about ten of the existing small-scale firms** can potentially expand in to medium scale operation during the plan period by building their capacity. This means the rest of the second tier firms are going to be newly established firms. The strategy, therefore aims to the establishment **of 178 new medium** sized companies. The big part of these firms will be local companies though foreign investment, especially investment form the Ethiopian Diaspora will be encouraged.

1.1.3.1.3. Increase the number of small-scale garment companies to 420 by 2018

As mentioned above, there will be specific emphasis on small-scale firms in the implementation of the strategy. In the coming five years, the number of small- scale garment factories will increase from 30 to 420. Since 10 of the existing small scale firms are expected to grow into medium size operation, , only 20 firms can be identified as small scale companies during the plan period. This means the establishment of **400 new firms** will be facilitated during the plan period, most of which will be local companies while investment form the Ethiopian Diaspora will also be encouraged.

These new firms may not necessarily be new as such. In Ethiopia, like elsewhere in Africa, a good large number of small, mostly informal, firms engage in low-productivity work in various sectors, including the garment industry. With targeted support these informal, mostly household own businesses can be encouraged to join the formal sector,

making part of the new pool of small scale garment companies in the country.

1.1.3.2. Strategic Objective II: Increase the volume of garment export to the US to 284, 340,000 pcs of garments by 2018

This export estimate is based on average productivity of 30,000; 7,000 and 600 pcs of garment per day for large, medium and small-scale firms respectively. As the number of garment factories is expected to increase to 600 by 2018, total annual industry production can increase to 812,400,000 pieces of garment assuming 300 working days per year. It is also assumed that 70 percent of total production can be exported once a comprehensive support is in place to support garment factories with the effective implementation of the strategy. Out of the expected export volume, fifty percent is expected to go the US market. [8]

*1.1.3.3*Strategic Objective III: Increase the value of garment exports to the US to 682 million by 2018

As mentioned above, the US is a huge market, constituting about a third of global apparel market. In 2011, for instance, US import of yarn, fabrics, apparel, and textiles stood at about 53.7 Billion, half of which is apparel. If Ethiopia can deal with its supply side constraints by effectively implementing this strategy, the US market is big enough to easily absorb increased exports from Ethiopia. In fact this value of the export target is estimated in a very conservative manner using current prices for Ethiopian products, which generally go to the lower end of the market fetching smaller prices. With increased quality, Ethiopia's products can fetch better prices in the future. Besides, prices of textile and closing are showing a sign of increase in recent years. In 2012, for instance, average price of US textile and clothing imports grew by 12.2%.

[8] Currently forty percent of Ethiopia's garments export goes to the US market.

1.1.3.4. Strategic Objective IV: Increase Number Of People Employed In Garment Factories To 260,000 By 2018

The garment industry in Ethiopia currently employs less than 20,000 people. With the envisaged change in the structure of the industry, the sector will employ significantly higher number of people. Based on presumed size and structure of the garment industry in five years time, the sector can generate about 260,000 number of employment. Even though this looks like a significant jump from the current figure, experience of other countries show that such level of employment is achievable. As mentioned earlier, other countries that had the same constraints that Ethiopian firms face to grow were able to overcome them to achieve similar objectives. In just two decades, Cambodia, for instance, was able to crate an industry that hires more than half a million people. In Bangladesh, the sector employs about 3.6 million people.

In a nutshell, the strategic goal of building an internationally competitive Garment Industry in order to promote Garment Export to the US under AGOA is achievable if all stakeholders work together in a more coordinated and strategic manner. Creating such a dynamic industry may require significant amount of resource, but it is definitely worthy of the investment. The following section deals with the operational framework to be followed to achieve the above strategic goals and objectives.

1.1.4. OPERATIONAL FRAMEWORK (GARMENT INDUSTY)

As mentioned above, a number of binding constraints such as the availability, cost and quality of inputs, production constraints, and inadequate access to finance, poor trade logistics and cumbersome bureaucratic procedures, lack of skilled human power, among others, hinder garment firms in Ethiopian from becoming globally completive. The

operational framework outlined in this section is built around these key challenges in order to overcome them in a strategic and coordinated manner. The framework covers the entire value chain from production to marketing end suggest possible policy and programmatic intervention that will help transform the sector.

A. **Identification and Selection of Companies**

The first operational step in the strategic operational framework is identifying and selecting companies that will be part of the strategic intervention. The identification exercise will be undertaken based on the ownership type and size of firms. For existing local companies the first task will be identify small, medium, and large scale local garment companies and undertake a capacity audit. This will be done by the AGOA center (to be discussed in the last section of this document), in cooperation with Ethiopian Textile Industry Development Institute (ETIDI), with the objective of understanding specific challenges facing these firms and provide targeted program support in order to integrate them to the global supply chain. As constraints that impede Ethiopian firms from becoming globally competitive vary by sector and firm size, a capacity audit undertaken thoroughly will help inform the required specific intervention as a one-size-fits-all approach is unlikely to be effective. In the case of foreign companies, the stock taking exercise of existing foreign companies will be undertaken with the goal of solving operational challenges they may encounter.

As is captured in the strategic objectives, a good number of new firms will be established during the plan period. Hence, facilitating the establishment of new garment companies will be an essential part of the identification and selection exercise. For new foreign companies this involves developing a comprehensive program to attract specialized large-scale companies to invest in Ethiopia. Unlike existing investment recruiting activities that are too general in nature, the investment attraction exercise will be specific in its nature focusing on key US buyers that the investors generally follow and targeting countries that are losing their competitive advantage.

In the case of small and medium scale local companies, a targeted incentive will be provided to encourage local business people to invest in the sector. These range from facilitating access to key production infrastructure to raw materials and human resource as discussed in the subsequent sections.

B. **Improve Production Infrastructure**

Factory Space

Even though the degree differs between small and large firms, factory space is a serious obstacle to firms that want to start new business or expand their existing business. As garment sector is one of the priority areas in the GTP, getting access to land is not generally a big challenge for firms that start new medium or large-scale garment operation. However, a number of existing firms indicate that getting access to more land is a huge challenge for firms that wish to expand their operation. The envisaged increase in the industry population during the plan period may make access to industry land more problematic. One effective way of dealing with this problem is to increasingly utilize the industrial park strategy. Countries like China and Vietnam were able to resolve the problem of factory space by effectively facial ting access to factory space through the special economic zone they were able to set up. (Dinh et al, 2011)

In Ethiopia, industrial parks are of recent phenomenon and there are encouraging signs that they are working well specially to attract foreign investment. However, the industry parks are not consciously availing space for small and medium scale local firms that will constitute the big part of the industry population during the plan period.

In this connection, there is a need to

- Undertake studies to identify possible areas for more industry parks
- Ensure that appropriate consideration is made to the factory space need of small scale local companies in the design of new industrial zones and provide special concessions as far as rental fee goes.

- Identify possible existing sites (such as old factories or warehouses) that can be transformed in to production shades
- Develop an industry cluster strategy
- Facilitate access to factory space for foreign and local investors that wish to invest in the sector

Production Equipment

Another important element in terms of improving production infrastructure relates to production equipment. A good number of existing firms in Ethiopia use old equipment, which affects their productivity. Capacity utilization in Ethiopian firms averages 50-60 percent, compared with 90 percent in China and about 80 percent in Vietnam. This difference in capacity utilization stems from usage of old equipment, power shortage, and less continuous order flow. Hence, facilitating access to industrial machinery by identifying alternative sources should be an important intervention.. In Vietnam, significant investment in technology has radically transformed the competiveness of the industry. For the new firms to be established over the next five years as well, such facilitation makes their investment decision easier.

C. Raw Materials and Other Inputs

Garment factories in Ethiopia identify input supply—including availability, quality, and cost—as a major impediment in their operation. As inputs roughly constitute more than 70 percent of total production costs on average (for instance, raw materials (fabrics, collars, threads, buttons, and the like) account for more than 70 percent of polo shirt production costs), inability to acquire large volumes of diverse inputs at required price, quality and time makes Ethiopian firms highly uncompetitive.. One great advantage firms in China have is their ability to source high quality inputs with decent price and time as China was able to build industrial clusters. Countries like Cambodia that lack such clusters, have simplified trade logistics making access to raw material relatively easier. Ethiopia can significantly improve its competiveness in the short run by improving its trade logistic.

The raw materials for garment production can broadly be classified in to fabrics and accessories. In the case of fabrics, the focus will be on,

- Identifying and build capacity of existing textile mills capable of supplying fabric for local companies
- Identifying and facilitating access to (alternative) external sources of fabric
- Reducing the amount of time it takes to import fabrics by significantly improving trade logistics.

In the case of accessories, the focus will be on

- Identifying and facilitate external access to key accessories
- Identify and build capacity of existing firms that produce some of the accessories
- Facilitate the establishment of new plants to produce accessories (zippers, buttons, labels, collars, threads cartoons and other packing materials, etc.),
- Develop industrial clusters making input supply a profitable separate business within the clusters

D. Utilities

Poor access to utilities such as electric power and communication is another major challenge that affects the competiveness of Ethiopian firms. Hence, there is a need to ensure provision of reliable and efficient access to electric power, water supply, and telecom services.

E. Human Resources

Even though theoretically, Ethiopia has significant comparative advantage in terms of labor resources due to the availability of abundant inexpensive labor force, it has not been able to change this in to a competitive advantage as proper training and human resource management is not put in place. Firms in Ethiopia have difficulty recruiting and retaining

quality labor force across the whole production process. Workers lack basic skills due to poor training and incentives, justifying major intervention in this regard.

To overcome this challenge, the strategy aims to develop a comprehensive Human Development Plan for the sector. As mentioned above, one of Ethiopia's greatest assets is its large pool of low-wage, less-skilled workers. This pool of trainable inexpensive labor can be turned in to a great competitive advantage if effective human development plan is put in place. As garment manufacturing is a sector with low skill requirements even a few weeks proper training can make a significant difference. Currently, labor efficiency in medium and large firms is about 50 percent of Chinese and Vietnamese levels. Poorly trained and less incentivized human resource (in addition to smaller-scale operations and poor organization of firms) is a major reason for this level of inefficiency observed. On the hand, there are indications that labor productivity in some well-managed Ethiopian firms may already approach levels observed in China and Vietnam. A recent World Bank Study indicates that in few well managed firms, labor productivity per employee per day is 19 pieces, which is comparable to productivity levels in Chin and Vietnam, which respectively are 8-34 and 8-14 pieces per employee per day.[9] This sows that, if proper training is put in place average productivity of labor for Ethiopian firms can be improved significantly.

It is important to note here that raising average productivity in Ethiopian firms does not necessarily require providing costly training for all workers. As 2011 study by Sonobe, Suzuki, and Otsuka indicates improved enterprise management (by providing short term supervisory and management trainings) coupled with practical training for low-skilled workers can significantly enhance productivity levels across the whole industry.

[9] Dinh et al, 2013.

In this connection, the following key activities are recommended.

- ✓ Identify existing training facilities and build their capacity for training garment-sewing operators as well as technical and managerial personnel.
  Currently trainings are provided through TVETs, in a training facility of Ethiopian Textile Industry Development Institute and in Bahir Dar University. The existing training facilities lack capacity to train enough workers at the required quality level. Hence, an all rounded support is required to enhance their capacity. This support may range form supporting curriculum development and revision activities to fulfilling staffing needs.
- ✓ Expanding training opportunities by setting up new state of the art training center.

The following table indicates some of the possible training programs

Training Area	Time Frame
Garment Stitching	Short term
Factory Supervision	Short term
Firm Management	Short term
Shipping and Document Review	Short term
Merchandizer Training	Short term
Compliance Laws and Inspection	Short term
Fashion trends	Medium to Long Run
Marketing	Medium to long Run

- ✓ Recruit foreign supervisory and managerial personnel to support local companies
- ✓ Facilitate access to temporary work permits for technical personnel at large scale foreign companies
- ✓ Organize short-term training seminars for supervisors and managers.

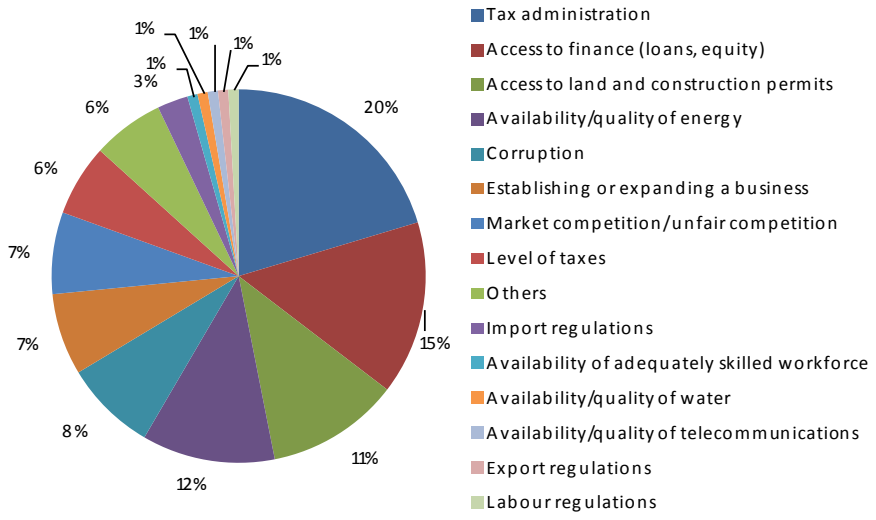
- ✓ Facilitate experience sharing between well-managed large-scale firms and medium and small-scale local firms to provide hands-on production and marketing experience. This is one effective way of establishing strategic relationship between firms in the first, second and third tiers, which will accelerate the process of industrial expansion and structural change by building the capacity of the entire industry.

F. Access To Finance

Access to finance is often identified by Ethiopian firms as one of the key constraints they face. The 2012 ***World Bank Enterprise Survey*** (WBES) for Ethiopia, for instance, identifies 'access to finance' as the top barrier for businesse***s***. The problem is particularly severe with young and small firms, who lack strong relationship with banks compared to well establish bigger firms. A recent survey conducted by IFC[10] also shows that Ethiopian businesses consider 'access to finance' as the second most critical problem after tax administration issues as the following figure shows. The study shows that that smaller firms are more credit constrained than larger firms.

[10] Economist Associati (2013), Access To Finance In Ethiopia: Policy, Regulatory And Administrative Impediments, a Study Report Submitted to the Ethiopian Chamber of Commerce and Sectoral Association and IFC .

Figure: Most important problems for doing business



Source: Economist Assocati , 2013.

A stakeholder consultation held during the preparation of this strategic document reaffirms pervious studies as access to finance was identified as key constraint by a number of garment factories. Stakeholders characterized the industry by working Capital shortage and lack of flexibility in foreign trade financing. Firms are often using old and out dated machineries as they lack capacity to invest on modern machinery and/or undertake proper maintenance. Therefore, the strategy needs to deal with this challenge. Accordingly, the following strategic initiatives need to be undertaken in the course of the implementation of the strategy.

- ✓ Facilitate access to short, medium, and long term financing for local garment factories from existing financial institutions
    - Even though there is a clear policy set by government that priority sectors should get priority access to bank loan, in practice entrepreneurs have to wait for months to get bank loans. And this would negatively affect competitiveness of Ethiopian firms, as they cannot fulfill their orders in time. This problem can partly resolved with effective communication between different agencies, including banks. The TWGs on Finance and

the high level steering committee that will be established to oversee the implementation of the plan (see implementation framework in part 5) can continuously monitor the implementation of this.

- ✓ Establish special purpose financing schemes dedicated to textile and garment companies
- ✓ Improve DBE's protracted loan procedures
- ✓ Explore and introduce innovative sources of financing mechanism such as equity financing from private equity firms
- ✓ Facilitate access to trade finance for foreign companies
- ✓ Establish special Foreign exchange window to exporting firms for their accessory needs Currently firms have to wait for months to get approval for foreign exchange to import key accessories. One entrepreneur, for instance, reported during the stakeholder consultation meeting that she had to wait for a year to get a foreign currency approval for 250 US dollars to import sample accessories. Establishing a special window would significantly shorten the waiting period.
- ✓ Reduce the 100% deposit of the transaction value to open a LC**.** The requirement that 100% of the transaction value should be deposited to open a LC makes it extremely difficult for small exporters to operate. In consultation with NBE, this requirement can be reduced to a more reasonable percentage. One option could be to revert to the previous practice of depositing 30% of the transaction value.

G. Trade Logistics

Efficient trade logistic is an essential element of competiveness in international trade. Poor trade logistics penalize firms that rely on imported inputs and doubly hit garment exporters n Ethiopia by significantly adding to production cost. The kind of poor trade logistics currently prevalent in Ethiopia that causes long and uncertain delays is unacceptable to most global buyers. Poor trade logistics in Ethiopia is caused by, among others, cumbersome documentation requirements, inefficient customs procedures, poor handling of port facilities, etc. In Ethiopia, importers and exporters are required to produce close to eight documents to process their imports or exports in. Some of the

documentation requirements are redundant and unnecessary, simply contributing to unnecessary delays and costs to businesses. Multiple inspections, cumbersome documentation requirements and poor automation puts Ethiopian firms at a great disadvantage. For instance, it costs twice as much to move a 20-foot container between Addis and Guangzhou as compared to between Guangzhou and Los Angeles though the distance is double in the latter.

Countries like China and Vietnam succeeded in their export strategies by putting a very good trade logistics system in place. These countries pursued a two-track strategy to facilitate access to inputs. For those inputs hat could not be competitively sourced domestically, they developed world-class trade logistics to ensure their efficient importation. Simultaneously they developed their domestic input industry by reforming and provided support to help key input industries, making them competitive through time.

Improving trade logistics is a must if Ethiopia to increase the competiveness of Ethiopia's garment industry. A number of studies have long established a direct link between reduced export time and increased export. Below are some areas of improvements identified by stakeholders to improve trade logistic in Ethiopia.

- ✓ Simplify customs procedure (in the new customs procedure law) and establish a special AGOA Customs window that will help address some of the existing problems
- ✓ Support the existing Inter-Ministerial Coordination committee by providing industry information and global best practices
- ✓ Strengthen the Authorized Economic Operators scheme and increase the number of firms that benefit from this scheme
- ✓ Consider selected Incentives- Eg. Providing a certain percentage of rebate on the exported price of apparel (eg. Chinese firms get such an incentive gaining significant room for price discounts when negotiating with foreign buyers)

H. Marketing & Merchandizing Support

The garment industry in Ethiopia is characterized by acute limitations in market knowledge and marketing expertise. Stakeholders also identified major limitations in

merchandizing, costing and pricing of products. Huge training needs have been identified in customer handling, marketing, market strategy design, branding, merchandizing, costing and pricing, etc. Experience form Asia shows that countries like China and Vietnam have taken succeeded in integrating their small and medium enterprises in to the global supply chain by providing public goods and market information about suppliers and buyers. In the case of Ethiopia as well, providing a comprehensive marketing and merchandize support is critical to ensure the competiveness of Ethiopian firms.

To achieve this, the following strategic initiatives are required.

- ✓ Identify (based on market research) and establish strategic alliance with key buyers and sourcing companies of major US retail business in the US
- ✓ In cooperation with key stakeholders organize (Annual) Textile and Garment Trade fair and Exhibition in Ethiopia
- ✓ Provide Comprehensive Support for garment companies in their marketing and merchandizing activities

- ✓ Develop a comprehensive marketing and branding program by working with institutions that provide comprehensive merchandizing, branding, and marketing solutions
    - The Chinese government is working with institutions like Alibaba to provide comprehensive support to Chinese SMEs.
- ✓ Undertake high level executive outreach missions to major US buyers
- ✓ Facilitate access for local garment companies to attend international trade fairs and exhibitions
- ✓ Provide merchandizing trainings by placing expatriate merchandizers in selected firms.

1.2. STRATEGIC GOALS AND OBJECTIVES (TEXTILE SUB SECTOR)

1.2.1 DEFINITION OF GOAL

The goal of the strategy is to build a dynamic textile sub sector in order to create a fully integrated textile and garment industry to promote Garment Export to the US under AGOA.

1.2.2. OVER ALL STRATEGY

To achieve the above goal, the overall focus of the strategy will be to

- Build capacity of existing textile companies to make them internationally competitive
- Attract significant Foreign Direct investment in to the Sector
- Encourage and facilitate the opening of new local textile factories

1.2.3. STRATEGIC OBJECTIVES (TEXTILE SUB SECTOR)

To achieve the strategic goal, the following strategic objectives are devised.

1.2.3.1 Strategic Objective I- Increase the number of Medium and large scale textile factories to 39 by 2018

1.2.3.1 .1. Increase the number of large scale textile factories to 19 by 2018

The following activities will be undertaken to achieve this objective

✓ Attract Foreign Direct Investment to establish 7 **new** large scale plants

- ✓ Increase the capacity of **existing 10 large scale** textile companies to grow in to full scale operation
- ✓ Increase the capacity of 2 existing **medium sized textile companies** to help them grow in to large scale operation

1.2.3.1.2. Increase the number of Medium sized local textile companies to 20 by 2018

To achieve these objective, the following activities will be undertaken.

- ✓ Facilitate the establishment **of 10 new medium** size local textile companies
- ✓ Build the capacity of 10 **selected small and medium sized textile and yarn producing companies to turn them in to medium** scale companies with full capacity operation

1.2.3.1.3. Increase the efficiency of small scale ginning, spinning and weaving companies to 90%

This objective will be realized by establishing strategic sourcing alliance with medium and large-scale textile companies

1.2.3.2. **Strategic Objective II: Increase volume of locally produced fabric to 60% of total fabric use by 2018**

The third country fabric provision offers a unique advantage for AGOA beneficiary countries by permitting the sourcing of fabric used in garment production from a third country rather than restricting it to the US and SSA countries alone. However, unlike countries like Cambodia in Asia and Lesotho in Africa, Ethiopia has an opportunity to develop a well-integrated industry by encouraging increased sourcing of fabric locally.

1.2.3.3. Strategic Objective III: Increase number of people employed in textile factories to 70,000 by 2018

The number of people employed in the textile industry currently is a little bit more than 10,000 people. With the envisaged change in the structure of the industry, the sector will employ significantly higher number of people. Based on presumed size and structure of the textile sub sector in five years time, the sector can employ about 70,000 people.

1.2.4 OPERATIONAL FRAMEWORK (TEXTILE SUB SECTOR)

Binding constraints that make the textile industry in Ethiopia to perform poorly are more or less similar to the constraints outlined in the pervious section in connection with garment sub sector. The availability, cost and quality of inputs; production constraints; inadequate access to finance; poor trade logistics and cumbersome bureaucratic procedures; lack of skilled human power, among others, make the performance of the textile industry in Ethiopia very poor. Hence, the operational framework outlined in this section is built around these key challenges in order to overcome them in a strategic and coordinated manner. In this sector as well, the operational framework covers the entire value chain from production to marketing end to ensure that a comprehensive policy and programmatic intervention is devised.

A. **Identification and Selection of Companies**

Foe textile sector, the identification exercise will be undertaken based on the size of firms. Below is the list of key activities to be undertaken in this regard based on firm size.

For Large Scale Textile Companies, the key activities include:

- ✓ Taking stock of existing large scale integrated textile companies in the country that can produce more fabric than they internally consume
- ✓ Develop a comprehensive program to attract specialized large scale textile companies to invest in Ethiopia
- ✓ Identify Medium sized companies that can grow in to large scale operations with targeted support

For Medium size Textile Companies, the key activities include:

- ✓ Identify existing small and Medium scale textile companies and undertake a capacity audit, to increase their productivity
- ✓ Identify yarn manufacturers that can grow in to full fledged textile mill with targeted support
- ✓ Facilitate the establishment of new textile companies
- ✓ Small Scale Companies
- ✓ Provide overall support to small scale ginning, spinning, and textile companies
- ✓ Establish strategic sourcing alliance with medium and large scale textile companies

B. **Improve Production Infrastructure**

Factory Space

The first important area of intervention in terms of improving production infrastructure is ensuring that textile firms of all scale and type have enough factory space to undertake or expand their operation. The envisaged increase in the industry population during the plan period may make access to industry land more problematic. As discussed in the precious section, one effective way of dealing with this problem is to increasingly utilize the industrial park strategy.

In this connection, there is a need to

- ✓ Undertake a study to identify possible areas for industry parks
- ✓ Identify possible existing sites (such as old factories or warehouse) that can be transformed in to textile production shades

- ✓ Help develop an industry cluster strategy
- ✓ Help foreign and local investors that need to acquire land

Production Equipment

As a good number of existing textile firms in Ethiopia use old equipment, which affects their productivity, ensuring aces to better production equipment is another important element in terms of improving production infrastructure. Key activities in this regard relate to **f**acilitating access industrial machinery by identifying alternative sources. Vietnam, for instance has significantly increased production capacity for spinning and weaving by improving its obsolete technology. At one point 800,124 old spindles and 3,520 old rotors and about 10,000 weaving machines were replaced by new ones.

C. Raw Materials and Other Inputs

The raw materials for textile production are mainly cotton and chemicals. Even though Ethiopia has huge capacity in terms of cotton production, availing enough amount of cotton to textile mills in Ethiopia continues to be a huge challenge. The recent decision by the government to transfer the responsibility of cotton development to Ethiopia's Textile Industry Development Institute is a positive development as it provides a chance to deal with the entire value chain in a coordinated manner. In this regard, the major focus of the strategy will be to

- ✓ Support the effort by ETIDI to develop high quality cotton for use in textile mills
- ✓ Identify alternative sources of chemicals and other inputs used by textile mills
- ✓ Prepare project profiles to attract investors engaged in cotton development
- ✓ Facilitate the establishment of chemical industries locally

D. Utilities

Poor access to utilities such as electric power and communication is another major challenge that affects the competiveness of textile firms in Ethiopia. Hence, there is a

need to ensure provision of reliable and efficient access to electric power, water supply, and telecom services.

E. Human Resources

In this regard, the focus of the strategy will be to transform the huge comparative advantage Ethiopia has in terms of human resources to a competitive advantage given its large pool of low-wage, less-skilled workers. To achieve this, a comprehensive human development plan will be developed. The major elements of the human development plan include:

- ✓ Support ginning and spinning training center at the ETIDI to help train the required human capital for the textile industry
- ✓ Undertake a benchmarking exercise using foreign experts as needed
- ✓ Provide supervisory and managerial training for key personnel
- ✓ Facilitate access to temporary work permits for technical personnel at large scale foreign textile or integrated textile mill companies
- ✓ Recruit foreign supervisory and managerial personnel to provide on e job training to employees of local companies
- ✓ Organize short-term training seminars for supervisors and managers.

F. Access To Finance

As discussed earlier, access to finance is often identified by Ethiopian firms as one of the key constraints they face. A consultation with Stakeholders at a national Consultative forum on AGOA strategy and subsequent validation meeting reaffirms the severity of access to finance problem. Firms report that they are often using old and out dated machineries as they lack capacity to invest on modern machinery and/or undertake proper maintenance. Therefore, the strategy aims to focus on the following initiatives to deal with this challenge.

- ✓ Facilitate access to short, medium, and long term financing for local textile factories from existing financial institutions
- ✓ Establish special purpose financing schemes dedicated to textile and garment companies
    - Improve DBE's protracted loan procedures
- ✓ Explore and introduce innovative sources of financing mechanism such as equity financing from private equity firms

1.3. STRATEGIC GOALS AND OBJECTIVES (HAND WOVEN TEXTIEL PRODUCTS SUB SECTOR)

1.3.1 DEFINITION OF GOAL

The goal of the strategy is to build an internationally competitive hand woven textile products industry in order to promote exports to the US under AGOA.

1.3.2. OVER ALL STRATEGY

To achieve the above goal, the overall focus of the strategy will be to

- Build capacity of existing hand woven textiles producing companies and traditional ginning companies to make them internationally competitive
- Attract significant Foreign Direct investment in the form of equity partnerships
- Encourage and facilitate the opening of new hand woven textiles producing companies
- Improve the value chain

1.3.3. STRATEGIC OBJECTIVES (HAND WOVEN TEXTIEL PRODUCTS SUB SECTOR)

To achieve the strategic goal, the following strategic objectives are devised.

1.3.3.1 Strategic Objective I- Increase the number of hand woven textile producing factories to 20 by 2018

1.3.3.1.1. Increase the number of medium size hand woven textile producing factories to 5 by 2018 by:

- ✓ Increasing the capacity of existing 5 hand woven textiles producing companies to grow them in to medium scale operation
- ✓ Attracting at least 3 foreign investors in the form of equity partnership

1.3.3.1.2. Increase the number of small scale hand woven textiles producing factories to 15 by 2018

This strategic objective will be realized by facilitating the establishment of 10 new small-scale hand woven textiles producing firms. With the required support, existing cooperatives can potentially become one of these new firms. There is also potential investment from the diaspora as Ethiopian diaspora is the largest consumer of hand woven products.

1.3.3.2 Strategic Objective II: Increased the export volume of hand woven textile products to the us to 420,000 PCs by 2018

1.3.3.3 Strategic Objective III: Increase the value of hand woven textile products exports to the US to 12 million by 2018

1.3.3.4 Strategic Objective IV: Increase the number of people employed in hand woven textile producing firms to 6,000 by 2018

1.3.4 OPERATIONAL FRAMEWORK

A. Identification and selection of companies

In the case of hand woven textile products, the focus will be on identifying small scale cooperatives that produce handloom products with the objective of creating effective outsourcings scheme with existing medium sized handloom textile producing firms.

B. Improve Production Infrastructure

In terms of improving production infrastructure, the focus of the strategy will be on improving factory space and establishing a design studio. In the case of the former, the focus will be on

- ✓ Facilitating access to more production space for existing hand loom textile producing firms to enable them expand their production capacity
- ✓ Facilitating access to factory space for newly established firms and
- ✓ Ensuring that the production facilities meet international labor standards, which is an important consideration for potential buyers.

The strategy also aims to establish a Design Studio that guides the industry on product development based on western fashion trends, seasonal demands, color trends, etc. The studio gradually will eventually evolve in to a bigger studio that serves the whole garment industry

C. Raw Materials and Other Inputs

- ✓ Facilitate access to yarn and other fabrics from textile companies by consolidating orders for smaller firms and cooperatives
- ✓ Support ginning companies and traditional spinning and weaving establishments to increase their production capacity
- ✓ Encourage more outsourcing between medium sized firms and small size firms and cooperatives

D. Human Resources

As far as human resource goes, the focus will be on,

- ✓ Training the required human capital for the hand woven textile products industry focusing on traditional spinning and weaving, product design, color and fashion trends, marketing and commercial skills, etc.
- ✓ Provide supervisory and managerial training for key personnel

E. Access to Finance

- ✓ Facilitate access to short, medium, and long term financing for hand woven textile products factories from existing financial institutions. The hand woven textile products' industry is particularly characterized by shortage of capital to expand production.
- ✓ Establish special purpose financing schemes dedicated to textile and garment companies and improve DBE's existing protracted loan procedures
- ✓ Explore and introduce innovative sources of financing mechanism such as equity financing from private equity firms
- ✓ Identify potential foreign partners that can form equity partnership with existing firms by focusing on foreign firms that have the market for high end products
- ✓ Revisit commercial Banks' "delinquency list' system to avoid unnecessary burden and restriction on exporting firms

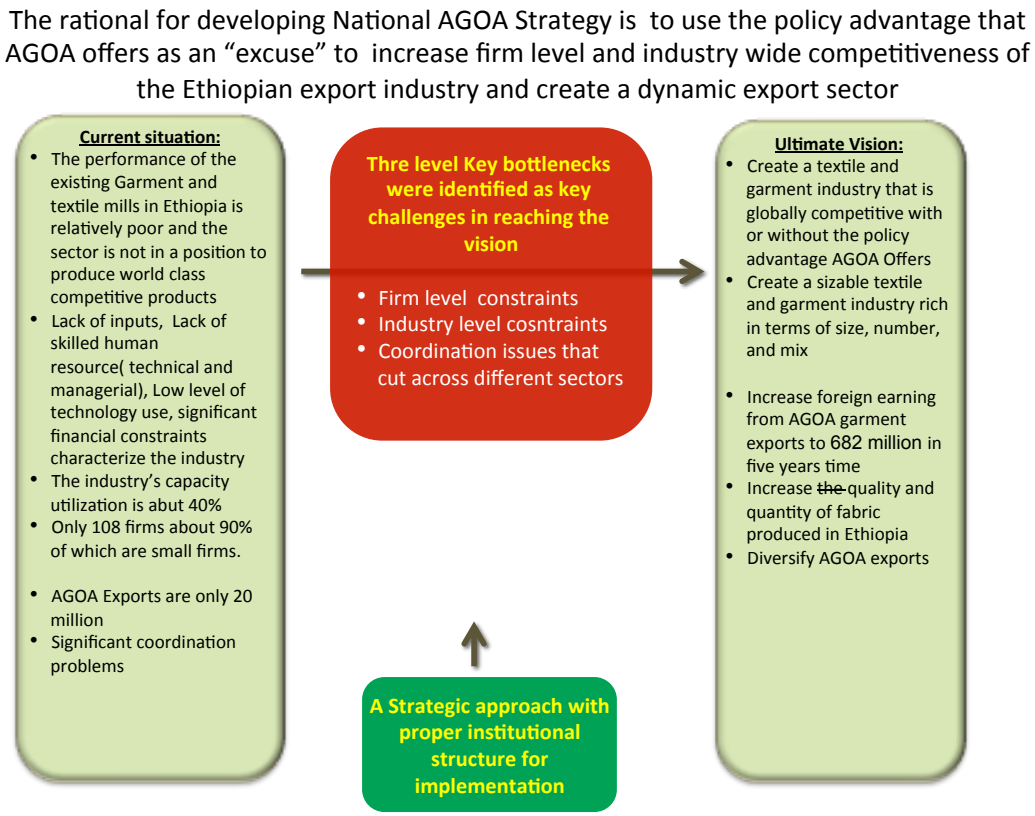
F.. Marketing and Merchandise Support

- ✓ Identify (based on market research) and establish strategic alliance with key buyers and sourcing companies of major US retail business in the US by focusing on buyers of high end products
  - Develop a comprehensive marketing and branding program by working with institutions that provide comprehensive merchandizing, branding, and marketing solutions.

- Support hand woven textile products' companies to increasingly engage on e-commerce
- Facilitate access for hand woven textile producing companies to attend international trade fairs and exhibitions

The following figure captures the dynamic transformation of the textile and leather industry during the plan period.

Fig: Garment and Textile Sector now and then



II. PRIORITY SECTOR II: LEATHER AND LEATHER PRODUCTS INDUSTRY

OVERVIEW

Ethiopia has one of the largest livestock populations in the world and the largest in Africa providing a strong raw material base for the leather industry. Reliable estimates show that Ethiopia has a livestock population of about 50 million cattle, 25 million sheep and 23 million goats. About 80% of all hides and skins entering the formal market are from rural areas where private traders collect them. The remaining 20% are derived from slaughtering facilities in major towns and cities.

The number of registered private traders dealing in raw hides and skins in the country is about 1500 with a long supply chain composed of small collectors, small traders, middle and heavy suppliers, that supply ides and skins to the tanneries. It is estimated that per annum around 8.5 million pieces of sheepskin, 7 million pieces of goatskin and 1.2 million pieces of hides are supplied to the tanneries. Even though the collection of sheep and goat skin is very good (respectively 96%, and 93%), it only 36% of cattle hides that is estimated to be collected. [11]Despite abundant livestock and skins in Ethiopia, firms have difficulty finding large volumes of quality leather. This happens because of the poor quality of hides and skins due to poor animal husbandry and lack of effective veterinary services (diseases reduce the quality of skins) significant wastage in the process of hides and skins.

The history of the Ethiopian leather industry goes back to the establishment of Asco Tannery, (now called Addis Ababa Tannery S/C) in 1928 and the subsequent establishment of Asco Shoe factory(currently named Tikur Abay Share Company.) The tanning industry in Ethiopia produces and exports all types of finished leather from hides,

[11] The estimates vary. This is the information obtained from Ethiopian Leather Industry Association

sheepskins and goatskins. Recently the government has banned the export of wet blue and crust to encourage Ethiopian tanneries to capture more value from export of leather products. The tanning industry in Ethiopia is growing fast. Though there were only few tanneries a decade ago, the industry now has 26 tanneries as is shown in the table below. Sheep and goatskins represent the bulk of Ethiopian leather production. . The sheepskin in particular has a reputation for its fiber strength and other qualities attractive to the international market, which are best suit for dress gloving and shoe upper. Cowhides are mainly used for shoe uppers.

The footwear and leather products industry is also growing significantly in Ethiopia. Currently there are 21-foot wear factories in Ethiopia (excluding small firms in Merkato area) with a daily production capacity of ten thousand pairs. Five years ago the capacity per day was less than two thousand only, which shows that the industry has grown significantly in recent years. With increasing number of foreign companies in the industry, it is expected that the industry would see tremendous growth in recent years. Industry experts estimate that daily production would reach twenty thousand pairs in the coming two years when new facilities go operational.

The leather goods industry has also witnessed significant growth in recent years. There are eight firms that are engaged in leather products industry. Glove making has also appeared in the country signifying the positive development in the industry. This development might change the narrative that Ethiopia is giving away its top quality leather-to-leather products manufacturers worldwide. As will be discussed in the strategic objectives below, the country can capitalize on these developments by significantly expanding production and export of leather products.

Current status of the Industry

S. No.	Area of Operation	Number of Factories
1	Tanneries	25
2	Shoes Factories	21
3	Manufacturers of Leather Products	8
	Total	**54**

Despite these encouraging trends, the leather and leather products' industry faces enormous challenges that require grand strategic initiative to solve. Firms in the industry lack lack skilled human resource (both technical and managerial). Besides, high cost and inefficient logistics, transportation and custom services; low level of technology use and financial constraints (specially access to working capital) limit the competiveness of the leather industry in Ethiopia. Solving these challenges will be at the heart of this strategy by putting together an effective operational framework that takes these challenges in to account. The operational framework will be discussed following the presentation of the strategic goals and objectives, which are outlined below.

2.1. STRATEGIC GOALS AND OBJECTIVES (FOOTWEAR SUBSECTOR)

2.1.1 Definition of Goal

The goal of the strategy is to build internationally competitive footwear industry industry in order to promote footwear export to the US under AGOA.

2.1.2 OVER ALL STRATEGY

To achieve the above goal, the overall focus of the strategy will be to

- Build capacity of existing footwear factories, to make them internationally competitive
- Attracting significant Foreign Direct investment in to the Sector
- Encourage and facilitate the opening of new local footwear factories in big numbers.

To achieve the strategic goal, the following strategic objectives and operational framework is devised. As mentioned in the introduction, the operational framework is also specified by sub sector duet to the particular nature of the challenge in the sub sectors.

2.1.3. STRATEGIC OBJECTIVES (FOOTWEAR SUB SECTOR)

2.1.3.1. Strategic Objective I- Increase the number of foreign and local footwear factories from 21 to 90 by 2018

2.1.3.1.1 Increase the number of large scale footwear factories from 7 to 28 by 2018

In the case of footwear sub sector, the big part of the envisaged increase of large scale companies comes form foreign Investment. The strategy aims to attract FDI to establish

15 new large-scale plants in Ethiopia. To achieve this, the focus of the strategy will be on key USA buyers that can help attract significant investment from countries such as China, Vietnam, Italy, Turkey, India, and Brazil. Some of these countries are already Industrial parks play a critical role in the effort to attract FDI. As mentioned earlier, Ethiopia is currently undertaking a massive program to build industrial zones., which will make investment in Ethiopia quite attractive as companies can plug and play. In addition to attracting new investment, the strategy will also focus on increase the capacity of **existing 6 medium scale** footwear factories to grow them in to large-scale operation

2.1.3.1.2. Increase the number of Medium sized local footwear factories to 22 by 2018

In the case of medium scale companies, the focus will be on:

- ✓ Facilitating the establishment **of 10 new medium** size local companies including investment from the diaspora and

- ✓ Building the capacity of 12 **existing small** companies to grow them to medium scale of production

2.1.3.1.3. Increase the number of small-scale footwear companies to 40 by 2018

In this regard, the focus will be on facilitating the establishment **of 30 new small**-scale local companies and building the capacity of 10 **existing small-scale** companies in Merkato area.

2.1.3.2. Strategic Objective II: Increase the volume of footwear exports to the US to 18, 000,000 pairs by 2018

As mentioned in the overview section, the average daily production capacity in the Ethiopian footwear industry has reached about 20,000 pairs of shoes per day. With the

envisaged change in the size of the industry, by the end of the plan period the daily capacity can increase to 60,000 pairs of shoes per day. This is a conservative estimate assuming only 300 working days per year.

2.1.3.3. Strategic Objective III: Increase the value of footwear exports to the US from 7.7 million to 300 million by 2018

The export projection is calculated assuming an average price of $17 dollar per piece. This again is relatively conservative as the newly built sophisticated footwear companies will be able to produce high quality brand shoes that can fetch higher prices.

2. 1.3.4. Strategic Objective IV: Increase number of people employed in footwear factories from about 8,000 to 40,000 by 2018

The projected employment is based on the presumed size and mix of the footwear industry during the plan period.

2.1.4. OPERATIONAL FRAMEWORK (FOOTWEAR SUB SECTOR)

As mentioned above, due to a number of constants, the leather and leather products' industry in general and the foot wear industry in particular is performing significantly below capacity. Lack skilled human resource (both technical and managerial), high cost and inefficient logistics, transportation and custom services; low level of technology use, shortage of raw material and financial constraints limit the competiveness of the footwear industry in Ethiopia.. The operational framework below is built around these challenges to ensure the realization of the goal of building a globally competitive footwear industry in Ethiopia.

A. **Identification and Selection of Companies**

In the case of Foreign Companies, the identification and selection of footwear companies require development of a comprehensive program to attract specialized large-scale companies to invest in Ethiopia. The investment recruitment takes a targeted approach focusing on key US buyers to attract investment from other countries' that are losing their competitive advantage

In the case of local companies, the implementation of the strategy requires identification of small, medium, and large scale local footwear companies and undertake a capacity audit, in cooperation with Ethiopian Leather Industry Development Institute (ELIDI), with the objective of integration them to the global supply chain by providing targeted program support. Besides, the implementation of the strategy involves facilitating the establishment of new footwear companies as per the strategic objective above.

B. **Improve Production Infrastructure**

To deal with problem of factory space, the strategy implantation involves:

- ✓ Undertaking a study to identify possible areas for industry parks
- ✓ Identifying possible existing sites (such as old factories or warehouses) that can be transformed in to production shades
- ✓ Developing an industry cluster strategy
- ✓ Helping foreign and local investors that require land

The other key element in improving production infrastructure is production equipment. This involves facilitating access to industrial machinery by identifying alternative sources.

C. **Raw Materials and Other Inputs**

As discussed above, one of the key impediment in footwear industry is poor quality of leather despite the huge potential Ethiopia has given its abundant animal resources. To overcome this challenge, the strategy focuses on:

- ✓ Build capacity of tanneries to increase the quality of leather produced by the tanneries (as discussed in the following section 2.2 below)
- ✓ Increase the supply of quality hides and skins by radically transforming the current inefficient animal husbandry.

Another serious challenge facing the footwear industry relates to ensuring realizable access to essential accessories. In this regard, the strategy aims to:

- ✓ Identify and facilitate external access to key accessories
- ✓ Identify and build capacity of existing firms that produce some of the accessories
- ✓ Facilitate the establishment of new plants to produce accessories (lasers, labels, cartoons and other packing materials, etc.) by putting together an effective industrial cluster strategy. As experience of other counties show, industrial clusters make input supply a profitable separate business within the clusters through the agglomeration of similar firms.

D. Utilities

The utility challenge is similar across all sectors as footwear companies also report having major challenge in terms of access to essential utilities such as electric power and communication. Hence, there is a need to ensure provision of reliable and efficient access to electric power, water supply, and telecom services.

E. Human Resources

Despite remarkable effort by Ethiopian Leather Industry Development Institute by providing training in various areas, skill human resource continues to be a major challenge facing the industry. Hence the strategy aims to develop a comprehensive human development plan for footwear factories by:

- ✓ Providing supervisory and managerial training for key personnel

- ✓ Provide special training on product finishing
- ✓ Facilitate access to temporary work permits for technical personnel at large scale foreign firms
- ✓ Recruit foreign supervisory and managerial personnel to provide on the job training to employees of local companies
- ✓ Organize short-term training seminars for supervisors and managers.
- ✓ Increase training opportunities through TVETs and increase the capacity of ELIDI, as employ retention is a particular challenge to the industry. Significantly increasing the number of graduates is one effective way to deal with the retention problem.

2.2. STRATEGIC GOALS AND OBJECTIVES (TANNERIES)

2.2.1 Definition of Goal

The goal of the strategy is to build an internationally competitive tanning industry in order to promote leather exports to the US under AGOA and increase the supply of quality leather to the local footwear and leather products' industry.

2.2.2 OVER ALL STRATEGY

To achieve the above goal, the overall focus of the strategy will be to

- Build capacity of existing tanneries to increase the production and export of finished leather
- Increase the supply of leather to local footwear and leather products' factories
- Improve animal husbandry to ensure effective utilization of the abundant hides and skins resource in the country

In the following sections outline the strategic objectives and operational framework devised to achieve the strategic goal.

2.2.3. STRATEGIC OBJECTIVES (TANNERIES)

2.2.3.1 ***Strategic Objective I- Increase the supply of quality hides and skins by radically transforming the current inefficient animal husbandry***.

Pervious studies undertaken regarding the Ethiopian livestock show that the infestation rate of ectoparasites, which cause a skin disease in animals in Ethiopia, could be substantially reduced from 90 to 5 per- cent with four treatments a year for each animal. Interestingly, the cost for such is only about US$0.10 for all four treatments.[12]. The total cost for such a program (covering the whole country) is estimated to be be less than US$10 million a year. Compared to the potential export revenue that can be obtained from the sector, there is no question that the cost is insignificant. Rather than lack of resource, it appears leaving this kind of initiative to the mercy of donor projects that are not sustainable is the reason behind the failure to once and for all deal with this problem. Hence, the major focus of the strategy will be to put together a national program that aims to eradicate ectoparasites once and for all. The Ministry of Agriculture will lead the implementation of this strategic objective.

2.2.3.2. Strategic Objective II: Increase the capacity utilization of existing tanneries to 90 percent of total capacity by 2018

This strategic objective will be achieved by

- ✓ Providing comprehensive support to tanneries to increase their capacity utilization
- ✓ Attracting Foreign Direct Investment in terms of equity partnership

In this regard, the focus will be on firms that can transfer technology in finishing wet blue and crust in to finished leather (specially for cattle skin). Unlike other sectors, there is no

[12] USAID, 2008.

plan to attract new foreign investment in tanneries. The major reason behind this is that with increased capacity utilization, the existing tanneries can fully absorb the hides and skins supplied to the tanneries. In fact a owners of tanneries and officials at ETIDI estimate that if all existing tanneries utilize even 80 percent of their capacity, the current supply of hides and skins (specially for sheepskin and goat skin) can be fully absorbed.

2.2.3.3. Strategic Objective III: Increase the volume of finished leather exports to the US to 250 million square feet by 2018

2.2.3.4. Strategic Objective IV: Increase the value of finished leather exports to the US to 150 million by 2018

2.2.3.5. Strategic Objective V: Increase number of people employed in tanneries to 12,000 by 2018

The employment projection for tanneries is relatively small as new investment is not expected in this sub sector.

2.2.4. OPERATIONAL FRAMEWORK (TANNERIES)

A. **Identification and Selection of Companies**

In the case of tanneries as well, the identification and selection of companies involves undertaking a capacity audit, for small, medium, and large-scale local tanneries, in cooperation with Ethiopian Leather Industry Development Institute (ELIDI). The objective of the capacity audit is to increase the production capacity of existing tanneries to at least 90 percent. As mentioned above in the case of new foreign investment, the identification process will be limited to firms that can bring state of the art technology in

producing finished leather products through equity investment. The focus will be on tanneries that formerly purchase crust, wet blue, and pickle products form Ethiopia.

B. **Improve Production Infrastructure**

Factory Space is relatively less of a concern in the case of existing tanneries. Only few tanneries mention that they require physical expansion for full capacity utilization. Facilitation of access to land will be limited to these firms. As far as production equipment goes, however, there will be facilitation of access to industrial machinery to help local tanneries produce more finished products.

C. Raw Materials and Other Inputs

As the quality of hides and skins is a significant impediment for the Ethiopian tanning industry, there will be concerted effort to improve quality of hides and skins as discussed above. In the case of accessories, the focus will be on:

- ✓ Facilitating access to key chemicals and other inputs used by tanneries
- ✓ Supporting the Ethiopian Leather Industry Share Company (ELISC) by providing information on alternative sources of key industry inputs. [13]
- ✓ Facilitate the establishment of new chemical factory (keeping regional market in mind). The feasibility study for the chemical industry should be undertaken by the end of 2014.

D. Utilities

Ensure provision of reliable and efficient access to electric power, water supply, and telecom services

[13] ELISC is established by members of the Ethiopian Leather Industry Association for the purpose of importing key chemicals and accessories that the industry requires.

E. Human Resource

The tanning industry also faces significant technical and managerial skills limitations. Hence a comprehensive human development plan will be developed for the sector. Particularly, there will be huge training needs in coloring and processing of low quality finished leather in to a better quality one.

2.3. STRATEGIC GOALS AND OBJECTIVES (LEATHER PRODUCTS' MANUFACTURERS)

2.3.1 DEFINITION OF GOAL

The goal of the strategy is to build internationally competitive Leather Products' Manufacturers in order to promote leather products export to the US under AGOA.

2.3.2 OVER ALL STRATEGY

To achieve the above goal, the overall focus of the strategy will be to

- Build capacity of existing leather products' manufactures to make them internationally competitive
- Attracting significant Foreign Direct investment in to the Sector
- Encourage and facilitate the opening of new leather products' manufactures in big numbers.

The following sections present strategic objectives and operational framework developed to achieve the above strategic goal.

2.3.3. STRATEGIC OBJECTIVES (LEATHER PRODUCTS' MANUFACTURERS)

2.3.3.1 Strategic Objective I- Increase the number of leather products' manufacturers factories to 100 by 2018

Though currently small in size, there is huge potential to develop dynamic leather products' industry in Ethiopia. The growth of this industry ensures that Ethiopia take a full value of its abundant resource by exporting finished products instead of exporting leather. For this reason, this sub sector will receive major attention in the implementation of the National AGOA Strategy. And effort will be made to increase the size and mix of the industry as outlined below.

2.3.3.1.1. Increase the number of large-scale leather products' manufacturers to 23 by 2018

This will be accomplished by

- ✓ Increase the capacity of **existing 8 medium scale** factories to help them grow in to large scale operation
- ✓ Attract Foreign Direct Investment to establish 15 **new** large scale plants

2.3.3.1.2. Increase the number of Medium sized leather products' manufacturers to 15 by 2018 by:

- ✓ Facilitating the establishment **of 10 new medium** size local companies
- ✓ Building the capacity of 5 **existing small** companies to grow to medium scale of production

2.3..3.1.3. Increase the number of small-scale leather products' manufacturers to 62 by 2018

For small-scale firms, the primary focus will be on existing small-scale operators that currently cater to local markets though attention will also be given to facilitating the establishment of new firms. Another possible pool is the Micro project as graduates from

Micro projects can also enter in to the export market if they are provided with targeted support.

2.3.3.2 Strategic Objective II: Increase the volume of leather products'' to the US by nine fold by:

- ✓ Increasing leather gloves exports to the US to 1,250,000 pieces by 2018 and
- ✓ Increasing leather garment, bags and other goods export to the US to 1, 350,000 pieces by 2018

2.3.3.3.Strategic Objective III: Increase the value of leather products' exports to the US to 90 million by 2018

2.3.3.4.Strategic Objective IV: Increase number of people employed in leather products factories to 8,000 by 2018

2.3.4. OPERATIONAL FRAMEWORK (LEATHER PRODUCTS' INDUSTRY)

A. **Identification and Selection of Companies**

For leather products' industry as well, a comprehensive program will be developed to attract specialized large scale companies to set up leather products factories in Ethiopia by focusing on key US buyers to attract investment. Besides, capacity gaps of existing Leather Products factories in Ethiopia will also be identified through capacity audit. Finally, the establishment of new Leather Products manufacturers' will be facilitated.

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B. **Improve Production Infrastructure**

As outlined in the context of the other sub sectors, to improve the production infrastructure, focus will be given to availing factory space and production machinery. Especially in the case of small scale firms, that make the big part of the

sub sector, access to production space and machinery can be used as an incentive to attract new entrants in to the industry.

C. Raw Materials and Other Inputs

- ✓ Ensure consistent supply of quality finished leather in sufficient quantity by building capacity of tanneries to increase the quality of leather produced by the tanneries
- ✓ Consolidate orders to make it manageable to tanneries
- ✓ Identify and facilitate external access to key accessories
- ✓ Identify and build capacity of existing firms that produce some of the accessories
- ✓ Facilitate the establishment of new plants to produce accessories (zippers, buttons, labels, cartoons and other packing materials, etc.)

D. Utilities

Ensure provision of reliable and efficient access to electric power, water supply, and telecom services

E. Human Resources

To develop the required human resources, the strategy will focus on

- ✓ Providing training on product finishing
- ✓ Providing technical and managerial skills training
- ✓ Recruit foreign supervisory and managerial personnel to support local companies
- ✓ Increase training opportunities through TVET's
- ✓ Support curriculum development and revision activities

2.4. Industry wide issues

A.. Access to Finance

Industry characterized by working Capital shortage and lack of flexibility in foreign trade financing. Hence,

- ✓ Facilitate access to short, medium, and long term financing for leather industries from existing financial institutions
- ✓ Arrange Special Foreign exchange window to small scale firms for their accessory needs
- ✓ Explore and introduce innovative sources of financing mechanism such as equity financing from private equity firms

B. Trade Logistics

Strategic Initiatives to improve trade logistic include:

- ◆ Simplifying customs procedure and establish a special AGOA Customs window that will help address some of the existing problems
- ◆ Strengthen the existing Inter-Ministerial Coordination committee by providing industry information and global best practices
- ◆ Strengthen the Authorized Economic Operators scheme and increase the number of firms that benefit from this scheme

C. Marketing & Merchandizing Support (leather industries)

A comprehensive marketing plan will be developed to introduce Ethiopia and its leather industry to the world. In this regard, the strategy will focus on:

- ✓ Identifying (based on market research) and establishing strategic alliance with key buyers and sourcing companies of major US retail businesses and tanneries. Some of the entry points in this regard include:
  - Specialty Stores: Nordstrom, Urban Outfitters, Shi (Genesco), Pac Sun, Gap and Eddie Bauer
  - E-Tailers (Upper Tier/Better Quality): Zappos, Amazon, Piper (Gap Division), Shoes.com (Brown Shoe Division) and Mason

- Department Stores (Mid-to-Upper Retail Price Points): Saks, Neiman Marcus, Dillards, Macy' and Belks.
- Department Stores (Mid Tier, Popular Price): Penny's, Sears and Kohls.
- Value Retailers (Lower Price, Promotional Retailers): Famous Footwear, Shoe Carnival, DSW, Rack Room, Shoe Station and Men's Warehouse
- Catalogues: J.Jill, Sundance and Mason
- Department Chain Stores: Customers are often pursuing athletic, casual/sport and dress shoe/luxury styles.

✓ Providing Comprehensive Support for footwear companies, leather goods factories and tanneries in their marketing and merchandizing activities

✓ Developing a comprehensive marketing and branding program by working with institutions that provide comprehensive merchandizing, branding, and marketing solutions

- Strengthening the annual Leather Fair and Exhibition by closely working with key stakeholders
- Facilitating cooperation among firms by encouraging 'subcontracting' arrangements
- Undertaking high level executive outreach missions to major US buyers
- Facilitating access for local leather and leather products manufactures' to attend international trade fairs and exhibitions
- Undertaking selected advertisement in trade publications; mailing campaigns and email blast as needed.

III. PRIORITY SECTOR III: HORTICULTURE AND AGRO PROCESING

OVERVIEW

The horticulture sector, particularly floriculture, is a recent development in Ethiopia. A very supportive environment created by the government including access to land, identification of horticulture development corridors, access to bank loan for initial investment, and a number of other incentives including 100% tax exemption on capital goods, income tax holiday, duty drawback scheme, voucher scheme and bonded warehouse schemes among others, has created a booming industry that was non existent a decade ago. This has resulted in significant export earning that is now garnering an export earning comparable to coffee (30 % vs. 40 % respectively)

Despite the significant growth of the horticulture sector over the course of the last decade, reaching the US market has been an elusive quest for some reason. As the following figure shows, export to the US has been practically non-existent over the last eight years. Europe, particularly, Netherlands remains the major market for Ethiopia's flowers.

Overview of export performance 8 years:

Top ten flower market destinations

Market destination	Top ten flower market destinations	
	% of quantity	% of value
Netherlands	83.7	83.4
Germany	5.2	4.3
Saudi Arabia	1.6	2.5
Norway	1.8	2.1
Belgium	1.2	1.2
United Arab Emirates	0.6	1
France	0.9	0.9
Japan	1	0.8
Italy	0.9	0.8
USA	0.9	0.8

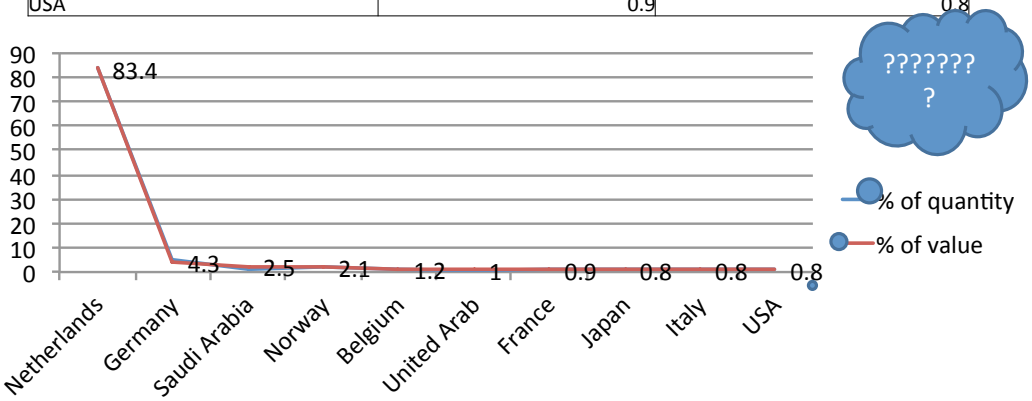


Fig: Ethiopia's Top Ten Flower market destinations

Overview of export performance 8 years:

Top ten VHF market destinations

Market destination	Top ten VHF market destinations	
	% of quantity	% of value
Somalia	46.3	37.2
Djibouti	44	26.4
United Arab Emirates	3.3	9.3
Netherlands	3	17.1
Sudan	1.8	1.8
United Kingdom	0.2	1.8
Belgium	0.4	1.8
Yemen	0.3	1
Saudi Arabia	0.4	
Russian Federation	0.1	

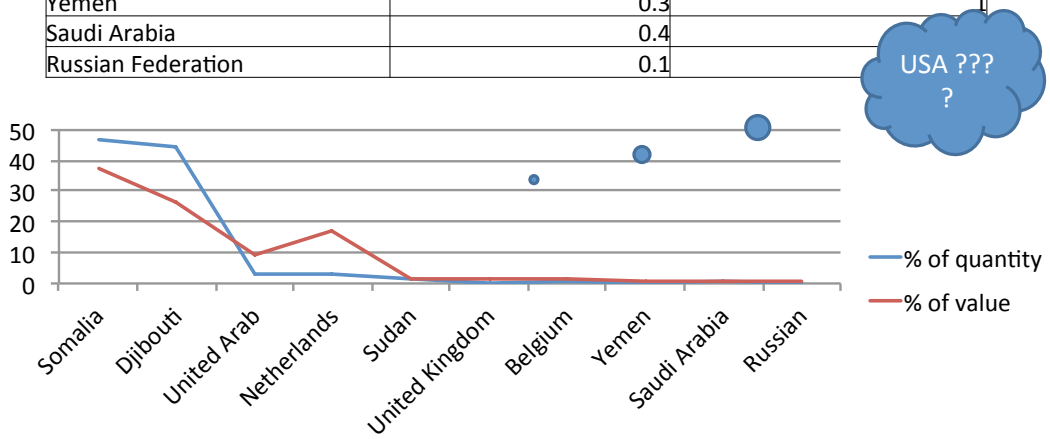


Fig: Ethiopia's Top Ten Vegetables, Herbs and Fruits market destinations

3.1. STRATEGIC GOALS AND OBJECTIVES (HORTCULTURE SECTOR)

3.1.1. DEFINITION OF GOAL

The goal of the strategy is to build further on the flourishing horticulture sector by promoting exports to the US to fully exploit the AGOA opportunity.

3.1.2 OVER ALL STRATEGY

To achieve the above goal, the overall focus of the strategy will be to

- Create strategic alliance with major flower buyers in the US
- Attract significant Foreign Direct investment in to the Sector
- Add value to horticulture export by prompting light manufacturing agro processing enterprises for vegetable and fruit caning

3.1.3. STRATEGIC OBJECTIVES

To achieve the strategic goal, the following strategic objectives are devised.

3.1.3.1 ***Strategic Objective I- Increase US share of floriculture exports to 30 percent by 2018***

- ✓ By aggressively promoting flower exports to the US
- ✓ Focusing on buyers that reimport Ethiopian flowers from the Netherlands.

3.1.3.2 ***Strategic Objectives II: Attract Foreign Direct Investment to establish 1 5 new flower plants***

3.1.3.3. ***Strategic Objective III: Increase the US Share of Vegetables, Herbs and Fruits (VHF) Export to 15% of total exports by 2018.***

- ✓ Exports currently non-existent
- ✓ Focus on value addition through Agro processing

3.1.3.4. ***Strategic Objective IV: Generate an export value of 150 million USD form floriculture exports to the***

3.1.3.5. ***Strategic Objective V: Increase the export value of VHF exports to the US to 180 million by 2018.***

3.1.3.6. ***Strategic Objective VI: Increase number of people employed in the horticulture industry to 800,000 by 2018***

3.1.4. OPERATIONAL FRAMEWORK

A. Identification and Selection of Companies

- ✓ In cooperation with Ethiopia's Horticulture Agency, undertake capacity audit for Horticultural agencies to identify firm level interventions needs focusing on training, capacity building, machinery and space needs.
- ✓ Identify possible sources of new investment from the US by focusing on the key US buyers of horticultural products

B. Improve Production Infrastructure

Production land

- ✓ Facilitate new investment in all of the five horticulture development corridors

Improve supply chain

- ✓ Improve of inland hauling by increasing the number and type of reefer-mounted trucks.
- ✓ Improve sea transport through cool chain equipped vessels.
- ✓ Construction cold stores at each development corridors
- ✓ Increase the capacity of Ethiopian Airline Cargo facility

C. Utilities

Ensure provision of reliable and efficient access to electric power, water supply, and telecom services

D. Human Resources

- ✓ Develop a comprehensive human development plan for the sector

- One of Ethiopia's greatest asset is its large pool of low-wage, less-skilled workers, whose productivity can significantly be increased with proper training

✓ Significant technical and managerial skills limitations
✓ Huge training needs in marketing, merchandizing and cold chain technology

E. Trade Logistics

✓ Simplify customs procedure and establish a special AGOA Customs window
✓ Support the existing Inter-Ministerial Coordination committee by providing industry information and global best practices
✓ Develop a full cool-chain facility from farm get to market end.

5. INSTITUTIONAL SUPPORT MECHANISM

One of the characteristics of a lack of an export policy, which is the case in Ethiopia, is lack of focused strategic approach to exploit market opportunities. Trade promotion efforts take ad hoc form sometimes getting serious attention while being ignored at other times. There is discontinuity of work on the various markets where the country does business. AGOA has no exception. Efforts to promote exports under AGOA have gained varying level of focus over the last decade. There are times when AGOA has gained serious attention while it has been put to the backburner at times. Donor funded trade promotion effort also face this seasonality problem depending on the life cycle of donor program,

This strategy avoids this problem by putting together an institutional support mechanism that facilitates effective implementation and continuous improvement of the strategy. The National AGOA Institutional Structure to be established to oversee the implementation of the strategy has the following components.

National Export Steering Committee
High Level AGOA Task Force
AGOA Center
Technical Working Groups.

National Export Steering Committee

For this strategy to be effective, a high-level government commitment is absolutely essential. Hence, it is suggested that the National Export Steering Committee (NESC) oversee its implementation. . The NESC, chaired by H.E the Prime Minister meets regularly to evaluate the performance of the export sector and solve existing challenges. Given the importance of AGOA, it is suggested that the National Export Steering Committee oversee the implementation of the National strategy.

National AGOA Steering Committee.

The next level in the institutional support mechanism is National AGOA Steering Committee. The Steering Committee should have overall responsibility for AGOA and provide detailed strategic guidance on its implementation. The steering committee will be chaired by H.E Minster of Trade of the FDRE and should be composed of senior officials from relevant government Ministers/ and representatives of the private sector. Members of the steering committee should be the Co-chairs of the Technical Working Groups (see below) and meet at least once a month to oversee the implantation of the strategy.

Since members of the TWGs come from different government institutions and the private sector, the steering committee also helps solve coordination problems among different agencies. The wide range of constraints that face the export sector indicates that the solution also cuts across many sectors. For instance, solving the problem of manufacturing inputs requires solving issues in customs, transportation, financial

institutions, etc. By bringing all relevant agencies together, the AGAO steering committee solves coordination issues.

National AGOA Center

The effective implementation of the National AGOA Strategy requires setting up an entity that will be fully entrusted with the task of overseeing the implementation of the strategy. The Center works under the oversight of *the AGOA steering* committee and maintain responsibility for developing and implementing the National AGOA Response Strategy. This center should be having robust mandate, strong leadership, appropriate staff and sufficient capacity. The center should have independence operationally though it will be set up under the auspices of the Ministry of Trade. The center should have a team of technical experts and administrative support staff. The technical experts should have the following expertise:

- ✓ Industrial expertise;
- ✓ Agribusiness expertise;
- ✓ Financial expertise;
- ✓ Investment expertise;
- ✓ Logistics management expertise; and
- ✓ Marketing and communication expertise.

The center should have the main call of duty on any AGOA related issues and should:

- ✓ Provide one stop shop facility
- ✓ Serve as a clearing house for export products
- ✓ Serves as a principal information hub
- ✓ Serves as a marketing wing for exporting firms

- ✓ Provide technical assistance on SPS requirements
- ✓ Provide technical assistance on customs and trade facilitation issues
- ✓ Support institutions such as Chambers and sectorial associations

The Following graph summarizes the proposed institutional structure.

Fig: AGOA Strategy Institutional Support Mechanism

Technical Working Groups (TWGs)

The implementation of the strategy requires that TWGs be set up focusing around the following key areas:

- ✓ TWG Leather and Leather Products

- ✓ TWG Textile and Garment
- ✓ TWG Horticulture and agro-processing;
- ✓ TWG Finance;
- ✓ TWG Investment; and
- ✓ TWG Customs and Logistics management.

These TWGs should have responsibility for developing the detailed action plan of the draft National AGOA Strategy in their key area of focus. In addition, TWGs should coordinate the implementation of the National AGOA Response Strategy and provide a platform for public-private partnerships. Membership of the TWGs should be equally composed of the private sector and public sector and they should be co-chaired by a representative from the private sector and a representative form the public sector. The two co-chairs would automatically be members of the National AGOA Steering Committee. The following graph summarizes some of the major activates to be undertaken by the AGOA center, the TWGs and other supporting institutions.

Fig: Summary of Activities.

The Center and the TWGs undertake the following to achieve the strategic objectives

How:

- Capacity building by identifying key program supports by firm size and production area
- Focus on key production infrastructure, human resource, and marketing constraints

Key players

1. TWGs
2. Textile Industry Development Institute
3. Ministries

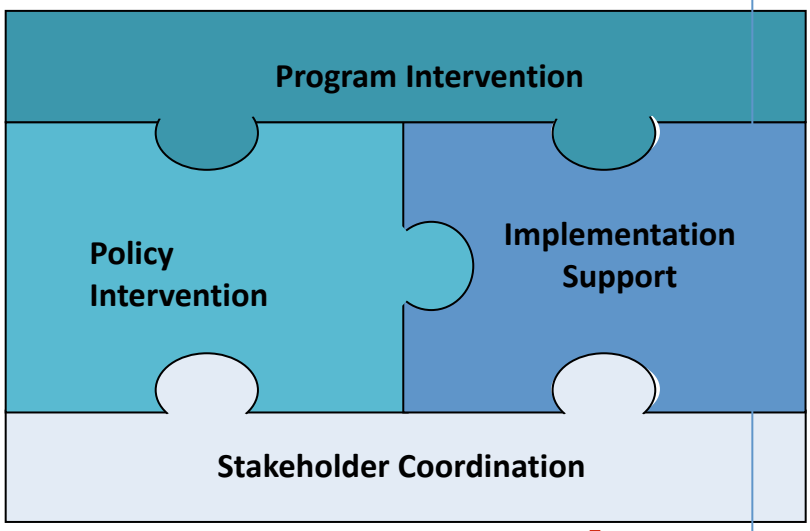
How:

- By undertaking rigorous studies to identify key policy constraints and suggesting policy improvements that help overcome key bottlenecks

Key Actors

1. TWGS
2. Textile Industry Development Institute

2. The Public Private Dialogue Forum of the Ethiopian Chamber of Commerce and Sectoral Associations



How:

- Support the implementation of the strategy by providing continuous all encompassing support to exporting firms
- Provide one stop shopping facility serving as a principal information hub, marketing wing and technical advisor for exporting firms

Key Players

1. AGOA Center
2. Addis Ababa Chamber of Commerce and Sectoral Associations
3. TWGs

How:

- By working through the TWGs to create better coordination and collaborations among key stakeholders
- Resolve critical policy issues through the steering committee
- **Key Players**

1. TWGS

6. **MONITORING AND EVALUATION FRAMEWORK**

To ensure the implementation of the Strategy, the TWGs and the AGAO center will develop and operationalize a result based M&E framework that tracks performance of exporting companies on a regular basis and provide relevant report to the government and other stakeholders.