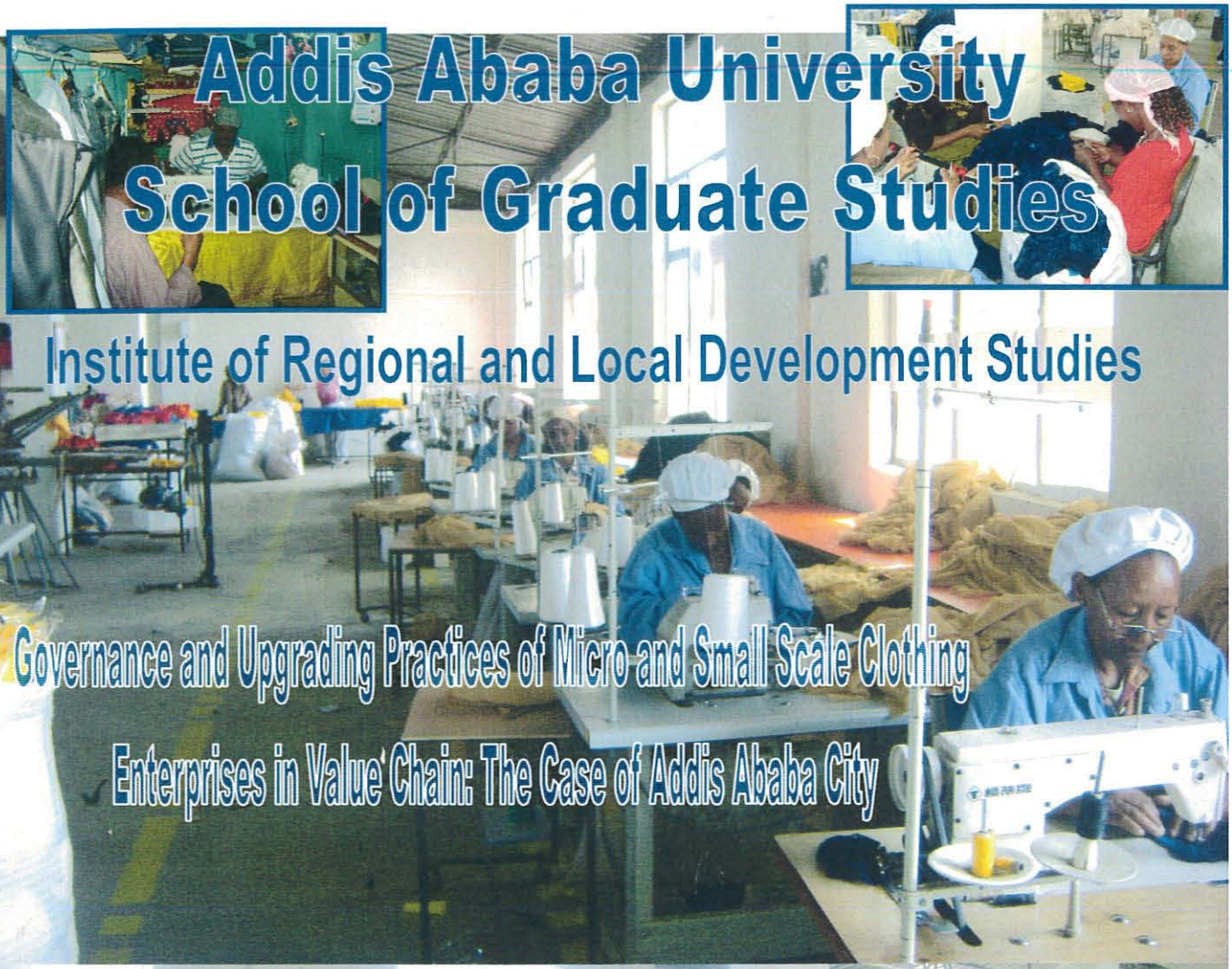

Addis Ababa University
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Governance and Upgrading Practices of Micro and Small Scale Clothing Enterprises in Value Chain: The Case of Addis Ababa City

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GOVERNANCE AND UPGRADING PRACTICES OF MICRO AND SMALL SCALE CLOTHING ENTERPRISES IN VALUE CHAIN: THE CASE OF ADDIS ABABA CITY

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This is to certify that the thesis prepared by Amanuel Kussia, entitled: *Understanding Micro and Small Scale Clothing Enterprises in Ethiopia: Governance and Upgrading in Value Chain* and submitted in partial fulfillment of the requirements for the Degree of Master of Arts (Regional and Local Development Studies) complies with the regulations of the University and meets the accepted standards with respect to originality and quality.

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ABSTRACT

Governance and Upgrading Practices of Micro and Small Scale Clothing Enterprises in Value Chain: The Case of Addis Ababa City

Amanuel Kussia

Addis Ababa University, 2012

In developing countries like Ethiopia, the role of micro and small enterprises in addressing poverty reduction and economic growth goals is indisputable. However, in Ethiopia, this sector is commonly challenged by many constraints such as inadequate working capital, limited access to market, lack of product diversification, insufficient technical and design skills, lack of infrastructures, and limited innovation and technological capabilities, among others. Nonetheless, several studies conduct so far in the areas of micro and small enterprises in general and in clothe producing enterprises in particular are often overlooked the analysis of value chain structure and its dynamics in the course of identifying the opportunities and constraints faced by these enterprises. It is in light of this that this study is instigated to look closer into the analysis of value chain with the purpose of identifying factors that enhance or hinder upgrading practices of clothe producing enterprises. This study examines key elements of value chain structure and its dynamics based on survey covering 121 randomly selected clothe producing enterprises in four sub cities of Addis Ababa. For the purpose of data triangulation, 50 buyer firms and 20 input suppliers were selected by using random and snowball sampling techniques. 34 interviewees were also purposely selected from different categories of value chain participants and supporting institutions outside the chain. Data analysis was done using descriptive statistics, a logistic regression analysis, and content analysis methods. Results show that both micro and small enterprises adopted some sort of strategies to upgrade their process and product although their functional and channel upgrading practices are found low. The study also indicates that value chain in which micro and small scale clothing enterprises have been participating is highly fragmented in terms of linkages between value chain actors and is challenged by numerous upgrading discouraging factors. It is recommended that supporting institutions, policies, and programs that aimed at sustaining clothe producing enterprises; therefore, need to focus on enhancing collaborative and mutually beneficial linkages between firms participating in the value chain.

Keywords: MSEs, value chain structure, value chain dynamics, governance, upgrading, linkages

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Acronyms

AAMSDEA	Addis Ababa city Administration Micro and Small Enterprise Development Agency
CSA	Central Statistical Authority
df	Degree of Freedom
EPRDF	Ethiopian Peoples' Revolutionary Democratic Front
FDRE	Federal Democratic Republic of Ethiopia
FeMSEDA	Federal Micro and Small Enterprises Development Agency
FGD	Focus Group Discussion
GDP	Gross National Product
GNI	Gross National Income
GTZ	German Agency for Technical Cooperation
ICT	Information Communication Technology
ILO	International Labor Organization
JMCS	Jethro Management and Consultation Service
MoFED	Ministry of Finance and Economic Development
MoTI	Ministry of Trade & Industry
MSEs	Micro and Small Enterprises
MSMEs	Micro, Small, and Medium-sized Enterprises
NGOs	Non-Governmental Organizations
OAU	Organization of African Unity
PASDEP	Plan for Accelerated and Sustained Development to End Poverty
SMEs	Small and Medium Enterprises
SPSS	Statistics Package for Social Sciences
SSA	Sub-Saharan Africa
TVET	Technical and Vocational Education and Training
UNCTAD	United Nations Conference on Trade and Development
UNICEF	United Nations Children's Fund
UNIDO	United Nations Industrial Development Organization
US	United States
US$	United States Dollar
USAID	United States Agency for International Development

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

Ethiopia is one of the poorest countries in the world with Gross National Income (GNI) per Capital of 390 US$ (The World Bank, 2010). As such, poverty has been its prominent feature for several decades. According to the statistics of UNICEF, 39% of the country's population is living below international poverty line of US$1.25 per day (UNICEF, 2010). And so, the government of Ethiopia has identified this ugly dilemma as precedence problem of the country and geared its effort towards the mitigation of this hurdle. In view of that, the government has set development objective which states "Ethiopia's overriding development objective is to achieve inclusive, accelerated and sustained economic growth to eradicate poverty" (Africa Development Bank Group, 2011). To achieve this objective, the government has formulated different strategies in its Sustainable Development and Poverty Reduction Program (SDPRP); Poverty Reduction Strategy Program (PRSP); A Plan for Accelerated and Sustained Development to End Poverty (PASDEP); and recently The Growth and Transformation Plan (GTP) documents. In all of these documents, one of the most emphasized strategies to alleviate poverty is associated with establishment and development of the micro and small-scale enterprises (MSEs).

This shows that the government of Ethiopia has recognized the contribution of MSEs to the economy and has given serious attention to their development. Particularly, in 1997 the first national micro and small enterprise (MSE) development and promotion strategy was developed by the Ministry of Trade and Investment so as to enlighten a systematic approach to alleviate the problems of MSEs and promote their growth. The government has also recently (in 2011) revised development and promotion strategy of MSEs. Based on these strategies, a multitude of governmental and Non-Governmental Organizations have directed their efforts and resources with the aim of spiraling MSEs. Likewise, Addis Ababa city administration has showed its commitment to enhance MSEs in the city. As a result, it developed a local strategy and established an institution called Addis Ababa Micro and Small Enterprise Development Agency which has given the responsibility of strengthening these enterprises. The

general objective of the strategy is to create an enabling environment for the development and growth of the MSE sector in Addis Ababa.

The focus of both federal government and Addis Ababa city administration in MSEs has been in the areas of textile and garment, metal and woodwork, food processing, construction work, and municipality services that can be cited as best practices (MoFED, 2006). Particularly, textile and garment sector has attracted the attention of government due to its potential of export and contribution to domestic economy. The sector is the largest manufacturing industry in Ethiopia. It also involves the large numbers of artesian enterprises producing traditional Ethiopian-style clothes (http://www.indianembassy.gov.et). Therefore, one can argue that the attention of the government to this sector is apt since the economic history of the world shows that the clothing and textile industry played an important role in the industrialization of today's developed countries and has been playing similar role in economies of developing countries as well. Particularly, this is owing to the industry's unique characteristics of being labor intensive and its links with other sectors of the economy such as agriculture (Loop, 2003).

According to Addis Ababa city administration Micro and Small Enterprise Development Agency (AAMSEDA) report (2011), there are about 2349 micro and small scale textile and garment enterprises in Addis Ababa. However, majority of them are found unproductive (JMCS and AAMSEA, 2010). Different constraints have been identified as challenges for the fruitfulness of MSEs. These core challenges include: limited access to market, lack of product diversification, non availability of working capital, inadequate skills with respect to technical and design matters, limited innovation and technological capabilities, and lack of infrastructures (JMCS and AAMSEA, 2010; Ali, 2007).

Literature indicates that in today's increasingly global economy, MSEs are not best studied in isolation (Pietrobelli & Rabellotti, 2006; Bloom D. et al. 2007). Rather, it is often more fruitful to examine MSEs as part of the value chains in which they belong (Bloom D. et al. 2007). According to Meyer (2007) value chain is the full range of activities and services required to bring a product or service from its conception to its end use. UNIDO (2009) describes value chain analysis as the identification of chain actors at each stage of the chain and discerning their functions and relationships; determining the chain governance or leadership, to facilitate

chain formation and strengthening; and identifying value adding activities in the chain and assigning costs and added value to each of those activities.

Since MSEs provide income to large numbers of poor people throughout the developing world, widespread participation of MSE in productive and competitive value chains offers significant opportunities to increase the income of the poor (Dunn et al. 2006). One of the means through which MSEs can enhance the competitiveness of a value chain, and thus contribute to economic growth is upgrading. According to Campbell (2008) factors which facilitate upgrading process include a clear market opportunity, a supportive enabling environment and the availability of critical services including finance, technology and information.

Therefore, the researcher believes that this study will contribute a lot in generating a significant amount of baseline information on the issue under investigation and could serve as a frame of reference for strategy and policy-related decisions taken by the government and other stakeholders.

1.2 Background of the Study Area

Addis Ababa is the capital and largest city of Ethiopia. Due to its historical, diplomatic and political significance for the African continent, Addis Ababa is often known as "the political capital of Africa." And so, the previous OAU which is replaced by the African Union (AU) is headquartered in Addis Ababa. The United Nations Economic Commission for Africa, The Federation of African Societies of Chemistry (FASC) and Horn of Africa Press Institute (HAPI) have their headquarters in Addis Ababa as well.

Based on the 2007 census results, the city has a total population of 2,738,248, consisting of 1,304,518 men and 1,433,730 women and encompasses 22.9% of all urban dwellers in Ethiopia (CSA, 2007). It is the country's commercial, manufacturing, and cultural center. Industrial facilities are concentrated around the city, depend heavily on agricultural inputs and primarily serve the domestic market. In the city there are manufactures include footwear, clothing, asbestos and metal products, processed foods, cement, and plywood. Flourishing handicraft industries produce leather, metal, and textile goods, are traded along with the agricultural produce, such as coffee, tobacco, and dairy items and imported garment items, in the vast open-air market known as the Mercato (the largest market in Africa).

1.3 Statement of the Problem

Now a days, it is generally acknowledged that micro and small enterprises (MSEs) have been playing a critical role in addressing both poverty reduction and economic growth goals of developing countries. Due to these, their significance both at national and international milieu is undeniably increasing. Hence, in majority of the countries, MSEs are considered as engine of economic growth not only because they generate employments, meet the national demand, generate tax revenue, increase the exports, and create wealth but also they constitute the largest percentage of firms in economic activity.

For example, the U.S. Department of State cited in Goldmark and Barber (2005) reported that firms of five or fewer employees account for half of the non-farm workforce in Latin America and more than 65 percent of the non-farm workforce in Africa. According to the report, in Asia as a whole, micro, small, and medium-sized enterprises (MSMEs) account for more than 90 percent of all firms outside of the agricultural sector (and typically more within) and generate a significant proportion of export earnings (Goldmark and Barber 2005). Likewise, micro, small and medium-sized enterprises (MSMEs) have been playing a central role in the European economy. For instance, European Commission notes that MSMEs are a major source of entrepreneurial skills, innovation and employment. In the enlarged European Union of 25 countries, some 23 million SMEs provide around 75 million jobs and represent 99% of all enterprises (European Commission, 2005).

In Ethiopia, micro and small scale enterprises (MSEs) form the bulk of the private sector as well. For example, according to the survey conducted by Central Statistical Authority (CSA, 2003), there are about 570,000 MSEs, of which 99.4% have fewer than ten employees and account for 88.2 percent of private sector employment. Moreover, the authority revealed that, an average micro-enterprise has a capital of Birr 3,528, a yearly production value of Birr 2,300 and an annual surplus of Birr 1,300. As far as small industries concerned, it is found that they are significantly productive and profitable than micro-enterprises, though very small in number, with an average of slightly more than three employees, 18,934 birr annual operating surplus, capital of birr 38,554, and production value of birr 68,800 (CSA, 2003).

Nonetheless, a number of recent studies have pointed to such factors as (i) unfavorable legal and regulatory environments and, in some cases, discriminatory regulatory practices; (ii) lack of access to markets, finance, business information; (iii) lack of business premises (at affordable rent); (iv) low ability to acquire skills and managerial expertise; (v) low access to appropriate technology; and (vi) poor access to quality business infrastructure, (vii) inequality in tax administration, and corruption as constraints on micro and small business in Ethiopia, and hence, inhibitors to the economic development of the country (FDRE and ILO, 2009; Amin, 2007; Kellow, 2007; Hansson, 2004; World Bank, 2004).

As far as micro and small scale clothing enterprises are concerned, even if they are in some way examined and possess some of the problems described above, only very few studies have been conducted in Ethiopia in general and in Addis Ababa in particular. For instance, FeMSEDA and MoTI joint study team (2004) carried out a research study on Ethiopian and identified factors that affect choices of export market entry and common mistakes in exporting of handloom products and proposed the ways to overcome the mistakes. Likewise, Ali (2007) analyzed the prospects and challenges faced by the handloom sector taking the Gullele Cluster in Addis Ababa as a case study. According the author, limited access to market, lack of product diversification that would match the changing consumer needs, non availability of working capital, inadequate skills with respect to technical and design matters, and limited innovation and technological capabilities impede the cluster.

Berihu (2008) also did a research study to examine the factors that determine productivity and export performance (export sales) of the garment sector in Ethiopia (Addis Ababa) by focusing on the tailors who work only on custom orders – the traditional sector (CMT), and garment makers who produce readymade (RMGs). He found that managers' education and firm size (economies of scale) have a positive impact on the export performance of an enterprise, while domestic sales have a negative impact. He reported that other factors such as investment by a firm and labor costs do not appear to be critical determinants of the export performance of an enterprise.

More recently, Jethro Management and Consultation Service in collaboration with Addis Ababa city administration Micro and Small Enterprise Development Agency conducted a comprehensive survey study that included micro and small scale clothing enterprises in Addis

Ababa. The study showed that only 36.5% of micro and small scale textile and garment enterprises are profitable (JMCS and AAMSEDA, 2010). The three top solemn problems identified in this sector include: lack of skilled manpower and material inputs, lack of infrastructure, and market. All these circumstance could lead to poor competitiveness of these enterprises and hence to the failure of their development.

In identifying the challenges and opportunities of micro and small scale clothing enterprises and examining the efficacy of different interventions, however, previously conducted studies have often overlooked the analysis of value chain in which these enterprises have been participating. In other words, previous studies described above, have either focused on examining general factors that affect the growth of micro and small enterprises or have dealt only with one segment of the value chain rather than the whole chain in which these enterprises have been participating. Value chain is "the full range of activities which are required to bring a product or service from conception, through the different phases of production (involving a combination of physical transformation and the input of various producer services), delivery to final consumers, and final disposal after use" (UNCTAD, 2010; Hellin and Meijer, 2006; Kaplinsky and Morris, 2003; Kaplinsky and Readman, 2001; Gereffi, 1999). Formerly conducted studies have also escaped the scrutiny of upgrading (innovation to add value to products or services) and governance pattern (i.e. who controls the power relationships within the chain) of clothe producing enterprises in the value chain.

Nevertheless, studies conducted so far could be taken as step forward in explaining both challenges and prospects of these enterprises in Addis Ababa. Therefore, unlike earlier studies in the area of clothing in Addis Ababa, this study relies on data set that enable the researcher to examine the structure of the value chain by giving special attention to the governance and upgrading practices of clothe producing enterprises. Because the role of governance and the role of upgrading in the value chain are crucial in enhancing the competitiveness of the micro and small scale clothing enterprises provided that competitiveness is a dynamic and continual process.

Therefore, this research is innovative in the areas of clothing enterprises in examining the value chain in which micro and small scale clothing enterprises are participating and in as-

sessing specific aspects of value chain dynamics such as governance and upgrading practices of clothe producing enterprises in Addis Ababa.

This research specifically focuses on addressing the following key research questions:

1. How can the map of value chain to which micro and small scale clothing enterprises belong be portrayed?
2. What type (s) of governance pattern characterize the value chain to which clothe producing MSEs belong? Who are the key actors in the value chain?
3. What type(s) of upgrading practices are adopted by micro and small scale clothing enterprises?
4. What are the factors that enhance or impede the upgrading practices of micro and small scale clothing enterprise?
5. How do clothe producers perceive their competitiveness? How do buyers evaluate the performance of the clothe producers?

1.4 Objective of the Study

The general objective of the study is to examine governance and upgrading practices of clothe producing MSEs in the value chain and find out the major factors that enhance or impede their upgrading practices.

The specific objectives of the research are to:

- ✓ portray the value chain map to which Addis Ababa's micro and small scale clothing enterprises belong;
- ✓ scrutinize the governance pattern of value chain to which clothe producing MSEs belong together with the firms that operate in the value chain;
- ✓ assess the upgrading practices of micro and small scale clothing enterprises;
- ✓ examine the factors that enhance or hinder the upgrading practices of micro and small scale clothing enterprise; and
- ✓ dissect the perception of producers in meeting their customers' requirement.

1.5 Scope of the Study

While upgrading and governance are issues that cut across firms of all sizes, this study focuses on micro and small scale clothing enterprises in Addis Ababa. The study is limited to MSE governance and particularly to upgrading because the role of governance and upgrading in the value chain are crucial in enhancing the competitiveness of the enterprises given that competitiveness is a dynamic and continual process. Principally, this study is focused on the analysis of key elements of value chain structure that affect the upgrading practice of micro and small scale clothe producing enterprises in Addis Ababa. It also focuses on identification of key actors, their activities, and the relationship they have with each other and other firms in the value chain (governance). Therefore, primary unit of analysis for this research is the entrepreneur who owns and/or operates micro and small scale clothing enterprise.

1.6 Significance of the Study

It can be asserted that insufficient attention was given on research that focuses on how really MSEs could enhance their competitiveness through upgrading and governance patterns. This study thus gives insight to these untouched issues and provides basic information to fill the gap in the field of research related with the governance and upgrading of micro and small scale clothing enterprises in value chain. Particularly, the contribution of the study can be seen in the following ways:

i. It generates a significant amount of baseline information on governance and upgrading issues of micro and small scale clothing enterprises that could serve as a frame of reference for strategy and policy-related decisions taken by the government.
ii. The results of the study may also help government and other concerned agencies to revise their strategies in a way that could enhance the competitiveness of micro and small scale clothing enterprises in the value chain.
iii. The results of the study may also serve as important inputs for other researchers interested in the field.

1.7 Limitations of the Study

One of the major limitations of the study was lack of data mainly on an informal clothe producing enterprises. Sufficient and organized data particularly on informal enterprises are out of stock and made the task of identifying population and sample tricky. To reduce the adverse upshot of this problem on the study, however, the researcher has tried to closely work with experts at selected sub-cities and woredas as well as with registered cloth producers so as to incorporate some of unregistered (informal) enterprises in the study.

An attempt was made to select both micro and small enterprises based on the list of enterprises provided by AAMSEDA and offices of selected sub-cities and further refined with the assistance of experts at woreda level. Yet when it comes to data collection, some of experts at woreda level do not know the exact place where clothe producers are working. In other words, they have the list of these enterprises in their document (they know them on paper) but do not know where they are manufacturing clothes. This scenario made the data collection job very difficult. Nevertheless, to solve the problem, the researcher has used different strategies. For instance, an attempt was made to search for the exact address of some of the enterprises by contacting them via phones.

1.8 Organization of the Thesis

Chapter one highlights the background to the study and study area, the problem statement, research objectives, research questions, limitations in the collection of data, scope, and significance of the study. Chapter two focuses on the specific literature related to the study including the conceptual framework that guided the whole research process. Chapter three describes research methodology where basic principles of the study, research design, research approach, data collection methods, data sources, sampling strategies, population and sample size, data collection protocols, data management and analysis were discussed. Chapter four deals with the analysis and interpretation of data based different descriptive statistical techniques. Chapter five includes the conclusions on the findings and recommendation to improve upgrading practices of cloth producing MSEs in Ethiopia in general and in Addis Ababa in particular.

CHAPTER TWO

LITERATURE REVIEW

2.1 Definition of Micro and Small Enterprise

There is no single, comprehensive, and universally accepted definition for the term micro and small enterprise (MSE). Because there is little agreement over the meaning, significance and actual characteristics of micro and small enterprises (MSEs) given that they comprise a large number of informal activities and are heterogeneous in their characteristics. Due to this, the definition of MSEs is different from country to country provided that every country has unique features and characteristics that make universally accepted definition impossible. For example, some countries use employment - size as criteria to define MSE while others use capital and asset. Some of them use the combination of all (employment – size, capital, and asset as criteria).

For the purpose of this research, the researcher has adoped the definition based on number of employees. Therefore, the working definition of a micro enterprise is one with at most 10 workers and those enterprises that constitute 11-50 workers are defined as small enterprises. This working definition is particularly based on definitions given by CSA and adopted by ILO wherein micro enterprises are defined as those enterprises with employees fewer than 10 and small as those with workers between 10 and 50.

2.2 The Role of MSEs in the Development

In most of the developing countries, MSEs are considered as engine of economic growth not only because they generate employments, meet the national demand, generate tax revenue, increase the exports, decrease the imports and create wealth but also they constitute the largest percentage of firms in the economic activity. The sector serves as an instrument of bringing economic transition by effectively using the skill and talent of the people without requesting high-level training, much capital and sophisticated technology (MoTI, 1997).

However, Ayyagari and Maksimovic (2006) argue that majority of the earlier literature takes a very static perspective on MSEs and has focused predominantly on their job creation aspect. The authors identify several unexplored pathways to growth that could be just as equal-

ly important, if not more important, than looking at direct contributions of the MSE sector to macroeconomic growth. They categorize these key pathways to growth for MSEs as: innovation and entrepreneurship, economic dynamism, and linkages with large firms. They further classify these different pathways into primary and secondary pathways. According to them the primary pathways to growth are the avenues through which micro and small enterprises have the most direct and biggest impact on growth. These include the role of the MSE sector in promoting entrepreneurship, dynamism, and creation of linkages with large firms. Secondary paths encompass: human capital (employment generation, poverty alleviation, training and experience learning, and social capital), finance, rural or regional development, and contribution to other industry sector (Ayyagari and Maksimovic, 2006).

The link between economic development and small business was first launched by Schumpeter in 1934. He argued that development is highly rooted in innovation. He further perceived that more than capitalist, entrepreneur and government that support the innovative activities of the entrepreneurs could play key role in economic growth. Likewise, Porter (1990) argued that competitive clustering, consolidation, and inspiration for international competitive advantage could be achieved when there is strong domestic demand and domestic rivalry at the small business level.

One way of enabling MSEs to play key role in poverty reduction programs in developing countries resembling Ethiopia is, by linking them to competitive value chain at national and international levels. According to Dunn et al. (2006) since MSEs provide income to large numbers of poor people throughout the developing world, widespread MSE participation in productive, competitive value chains offers significant opportunities to increase the income of the poor.

Since the purpose of the current study is to scrutinize factors affecting the upgrading practices of clothe producing MESs by using value chain as a lens, it is imperative to focus on the literature pertaining to the issue under investigation. Therefore, with the intention of thoroughly understanding the key factors that influence the growth of micro and small scale clothing enterprises in the value chain, it is essential to discuss some of the core concepts associated with value chain. The following section focuses on discussion of these concepts and other related issues in the value chain literature.

2.3 Value Chain: Concepts and Key Issues

The following section discusses key concepts associated with value chain, governance, and upgrading and their relationships.

2.3.1 Definition of Value Chain

Most of the scholars defined value chain in light of an array of activities involved to bring product from its conception to consumption and reprocess. More comprehensively, value chain is defined as "the full range of activities which are required to bring a product or service from conception, through the different phases of production (involving a combination of physical transformation and the input of various producer services), delivery to final consumers, and final disposal after use" (UNCTAD, 2010; Meyer, 2007; Hellin and Meijer, 2006; Kaplinsky and Morris, 2003; Kaplinsky and Readman, 2001; Gereffi, 1999). In the same way, UNIDO, McCormick and Onjala define it as "the range of activities involved in the design, production and marketing of a product" (UNIDO, 2009; McCormick and Onjala, 2007).

The concept of value chain was first introduced in the 1960s by analysts mapping a development path for mineral-exporting economies (Girvan, 1987 cited in Bloom et al. 2008). Then, the concept was systematically described by M. E. Porter in his book called Competitive Advantage: Creating and Sustaining Superior Performance in mid the 1980s.

Kaplinsky and Morris (2003) in their handbook explained that the concepts of earlier value chain such as value system pioneered by Porter (1985), value stream commenced by Womack and Jones (1996), the term *filiere* used by Raikes, Jensen and Ponte (2000), and global commodity chain introduced by Gereffi (1994) could be subsumed by concept of modern value chain analysis. And so, the authors argued that all of these earlier concepts resemble to the contemporary concept of the value chain.

Thus, it is argued that, at its most basic level, a value chain is a construct to collect data (Kaplinsky, 2000). Yet, more recent developments in the literature have used value chains as an analytical tool to identify opportunities for and constraints to industry growth (Keyser, 2006; USAID, 2005; Kaplinsky, 2000). From an analytical perspective, the value chain approach is useful because the focus shifts from manufacturing alone to include the other ac-

tivities involved in the supply of goods and services, including "intangibles" phases such as distribution and marketing (Kaplinsky, 2000; Wood, 2001 cited in Pietrobelli & Rabellotti, 2006).

2.3.2 Value Chain Analysis

Value chain analysis is the process of breaking a chain into its constituent parts in order to better understand its structure and functioning. The analysis consists of identifying chain actors (input suppliers, producers, traders, exporters/importers, transporters, wholesalers, retailers, and final consumers) at each stage and discerning their functions and relationships; determining the chain governance or leadership, to facilitate chain formation and strengthening; and identifying value adding activities in the chain and assigning costs and added value to each of those activities. The flows of goods, information and finance through the various stages of the chain are evaluated in order to detect problems or identify opportunities to improve the contribution of specific actors and the overall performance of the chain (UNIDO, 2009).

Value chain analysis moves away from individual actors, and considers interaction between firms as well as external factors. Value chain analysis considers the actors themselves (firms), linkages among firms, supporting markets, end markets, and the enabling environment (international, national, and local) (Bloom et al. 2008). All the activities in the value chain work together to add value (Guiliani et al., 2005).

2.3.3 The Structure of Value Chain

A multitude of factors possibly will enhance or impede the upgrading practices of MSEs. However, this study focuses on those factors in the structure of the value chain that can be either incentive or disincentive for upgrading practices. And so, this literature review is confined to the elements of value chain. The structure of a value chain includes all the firms in the chain and can be characterized in terms of five elements: end markets; business and enabling environment; vertical linkages; horizontal linkages; and supporting markets (Campbell 2008; Kula et al. 2006; Dunn et al. 2006).

2.3.3.1 Relationships between Firms in the Value Chain

A primary focus of value chain analysis is on the relationships of various firms in the value chain, and their impact on competition (Humphrey, 2003). Particularly, researches demonstrate that links between firms, in the form of coordination and cooperation, reduce transaction costs, increase the ability of the chain to meet and adjust to consumer demands, and affect the distribution of learning and benefits within the chain (Goldmark and Barber, 2005; Morris and Barnes, 2004; Humphrey, 2001). When functioning efficiently and effectively, these elements of chain dynamics can potentially improve the competitiveness of participating firms, and as a result, the entire value chain (Dyer and Singh, 1998). The value chain literature describes two main types of linkages: i) horizontal linkages – relationships among firms at the same level of the value chain; and ii) vertical linkages – relationships between buyers and their suppliers. Empirical evidences show that these linkages provide a means for MSEs to actively participate in, and benefit from, an increasingly global market (Dunn et al. 2006; Guiliani et al., 2005; USAID, 2005; Schmitz, 2004; Humphrey, 2003; Humphrey and Schmitz, 2002).

Beside these linkages, there are secondary factors that have been demonstrated to significantly influence coordination and cooperation and thus value chain competitiveness. The literature finds that trust is central to sustaining cooperation and reducing transaction costs (Morris, 2004). Long-term competitiveness is also associated with long-term relationships, which have been shown in part to depend in part on trust (Morris, 2004).

2.3.3.2 End Markets

The term end market is used to indicate where the final transaction takes place in a value chain. Typically it is where the end-user is located, meaning the individual or organization for whom the product or service has been created, and who is not expected to resell that product or service (http://apps.develebridge.net). Therefore, within a value chain there can be a series of buyers from local traders and processors to retailers and final consumers (Barber, 2008). Experienced and helpful buyer can provide information and recognize a product's source of weaknesses and potential competitive advantages in multiple channels and niches, and can help producers to identify and prioritize the constraints and necessary upgrades to leverage advantages (Barber, 2008).

It is well noted by practitioners that building the capacity of MSEs to meet the requirements of end markets can lead to upgrading necessary to enter more sophisticated global markets (apps.develebridge.net). Studies also show that producers rely on too few buyers significantly increase the risk of failure (Barber & Marina, 2006). If a single buyer dominates production capacity, value chain actors should seek ways to maintain other customer relationships as well (apps.develebridge.net).

2.3.3.3 Business Enabling Environment

According to Campbell (2008), business enabling environment involve factors such as: norms and customs, laws, regulations, policies, international trade agreements and public infrastructure (roads, electricity, etc.) that can either facilitate or hinder the movement of a product or service along its value chain. Moreover, national policy and regulatory environment is critical to the functioning of markets and enterprises. Poor local government operations and weak enforcement of legal and regulatory regimes increase transactions costs and risks, limiting investments in relationships and upgrading (Campbell, 2008). Becker (2004) notes that a growth oriented small businessperson faces a choice: comply with regulations and incur costs so high that they endanger the business's possibility or try to survival in the informal sector without bank credit or enforceable contracts and at constant risk of harassment from authorities.

2.3.3.4 Supporting Markets

Supporting market services include: financial services; cross-cutting services such as business consulting, legal advice and telecommunications; and sector-specific services, such as, handicraft design services (Campbell, 2008). It is generally understood that these services would be provided either commercially or by markets. These markets include services provided by actors in the chain or by stand-alone service providers (actors outside the value chain such as government organizations, non-governmental organizations, and trade associations) (Campbell, 2008). The author notes that services provided by actors in the chain tend to be embedded, such that the cost of the service is built into an existing commercial transaction. New technologies or technical services can have a substantial effect on the performance of an industry and can even change the competitive dynamic in certain markets (Ibid).

Research indicates that services provided through supporting markets are directed related to improvement in capacity of producers (Nichter and Goldmark, 2005). For example, training may allow enterprises to offer new products, while finance may allow them to produce greater volumes. Moreover, access to market information or new technologies may help firms to respond to new opportunities in the market (Nichter and Goldmark, 2005).

2.3.4 Value Chain Dynamics

2.3.4.1 Upgrading

According to Dunn et al., upgrading is "a process through which those who run enterprises acquire new knowledge, often through relationships with other firms in the value chain or with firms in supporting markets, and increase 'value added' of their offerings" (Dunn et al. 2006). Upgrading is essential to value chain competitiveness (Ernst, 2004), as it ensures that the chain is able to meet the consumer's changing preferences for lower price, improved quality, and, in the case of the clothing sector, improved design (Bloom et al., 2008).

Five types have been singled out in the literature through which enterprises could achieve upgrading: a) process upgrading: increasing efficiency (more output for same level of inputs); b) product upgrading: improving product quality; c) functional upgrading: moving to a new, higher value-added level in the value chain; d) channel upgrading: selling into a new market channel within the value chain; (Humphrey and Schmitz 2002; Kaplinsky and Morris 2000; Humphrey and Schmitz 2000; Dunn et al. 2006) and e) chain upgrading: moving to a new value chain (Dunn et al. 2006; Bloom et al. 2007). Since some of these forms of upgrading can be inter-related, it is not unusual for firms to undertake more than one type of upgrading, either simultaneously or in sequence (Dunn et al. 2006). The forms of upgrading have been suggested to be inter-related through a hierarchal chain, where a firm begins process upgrading, and gains progressively more technical knowledge and skills, working its way up to chain upgrading (Kaplinsky, 2000; Gereffi, 1999). Therefore, the existence of one form of upgrading could signal the increase in likelihood of having another form of upgrading, or undertaking another form of upgrading in the future (Bloom et al., 2008).

Benefits from upgrading on MSE performance are well documented. It has been theorized that upgrading leads to higher returns for MSEs due to offerings which are more desired by

consumers and thus have increased value add, as well as increases in value chain growth and competitiveness (Dunn et al. 2006). Moreover, upgrading results in gaining a more secure and steady income source, as well as providing knowledge and capacity which will allow firms to remain flexible in changing market and competitive environments (Dunn et al. 2006).

2.3.4.2 Value Chain Governance

The concept of value chain governance is one of the fundamental premises in the value chain literature. Humphrey and Schmitz (2001) used the term governance to express the situation in which some firms in the chain set and/or enforce the parameters under which others in the chain operate. They define governance as "any coordination of economic activities through non market relationships" (Humphrey and Schmitz, 2001). By the same token, UNIDO states that within the concept of value chain, governance defines the structure of relationships and coordination mechanisms that exist among chain actors (UNIDO, 2009).

Gereffi (1994) defines value chain governance as "authority and power relationships that determine how financial, material, and human resources are allocated and flow within a chain." Besides, Gereffi states that chains are characterized by a dominant party (or parties) that determine the overall character of the chain, and that becomes responsible for upgrading activities within individual links and coordinating interaction between the links (Gereffi 1994).

Bloom D. et al. (2007) explain governance as the dynamic distribution of power, learning, and benefits among firms in a value chain. More specifically, Humphrey and Schmitz (2001) identified five key parameters which define what is to be done in the production process. These parameters include the following: What is to be produced? - involves the design of products, both in broad conception and detailed specifications; how it is to be produced? - involves the definition of production processes; according to the authors these include elements such as the technology to be used, quality systems, labor standards and environmental standards; physical product flow: how much is to be produced, when, and how the flow of product along the chain is to be handled; When it is to be produced?; and price (Humphrey and Schmitz, 2001). According to Humphrey and Schmitz (2001), these parameters are often set by buyers.

The most recent literature on governance and upgrading has analyzed the implications of the full typology of governance (market, modular, relational, captive, hierarchy) in terms of opportunities for firm-level upgrading in developing countries (Bloom et al. 2007; Schmitz, 2006; Gereffi et al. 2005). These types of governance are briefly discussed as follows:

a). ***Markets value chains*** - according to Gereffi et al. in this type of governance, market linkages do not have to be completely transitory, as is typical of spot markets; rather they can persist over time, with repeat transactions (Gereffi et al. 2005). Likewise, Bloom et al. (2007) note that buyer and supplier do not need to communicate extensively because product and process specifications are standard, and suppliers have the capability to meet the specifications without assistance or monitoring from the buyer. Therefore, in this arm's length market relations, buyer and supplier do not develop close relationships (Humphrey and Schmitz 2001).

b) ***Modular value chains*** - typically, suppliers in modular value chains make products to a customer's specifications, which may be more or less detailed (Gereffi et al. 2005). However, when providing 'turn-key services' suppliers take full responsibility for competencies surrounding process technology, use generic machinery that limits transaction-specific investments, and make capital outlays for components and materials on behalf of customers (Gereffi et al. 2005). In this type of governance, products are nonstandard and each buyer has unique requirements, so complex information must be communicated between buyers and suppliers (Bloom et al. 2007). However, product and process specifications can be codified and suppliers have a high level of competence, which reduces the communication costs and makes it relatively easy for new buyers and suppliers to begin working together (i.e., switching costs are low) (Bloom et al. 2007).

c) ***Relational value chains*** - in these networks there are complex interactions between buyers and sellers, which often create mutual dependence and high levels of asset specificity which may be managed through reputation, or family and ethnic ties (Gereffi et al. 2005). Information complexity is high, buyers require nonstandard products, and suppliers are highly competent (Ibid). However (unlike modular governance), product and process specifications cannot be easily codified, so that buyers and suppliers must communicate extensively and develop idiosyncratic methods for conveying this type of information (Bloom et al. 2007). This

makes it relatively expensive for new buyers and suppliers to begin working together (i.e., switching costs are high) (Bloom et al. 2007).

d) ***Captive value chains*** - according to Gereffi et al., (2005) in these networks, small suppliers are transactionally dependent on much larger buyers and suppliers face significant switching costs and are, therefore, 'captive'. Particularly, such networks are frequently characterized by a high degree of monitoring and control by lead firms (Gereffi et al. 2005). Information complexity is also high and buyers require nonstandard products but (for instance, unlike relational governance) suppliers have limited abilities to meet product and process specifications on their own (Bloom et al. 2007). Therefore, buyers in these networks are expected to monitor suppliers and also invest in building supplier competence and this situation creates a dependency relationship that buyers have a vested interest in maintaining (Bloom et al. 2007).

e) Hierarchy - vertical integration is typical characteristics of this type governance. The dominant form of governance is managerial control, flowing from managers to subordinates or from headquarters to subsidiaries and affiliates (Gereffi et al. 2005). The functions of the buyer and supplier are vertically integrated under the ownership of a single firm. Coordination costs are internal to the firm as well (Bloom et al. 2007).

2.3.4.3 Learning

Learning is recognized as one of central issues in enhancing the competitiveness of MESs in the value chain. Particularly, according to Campbell (2008), learning and innovation are closely related to the incentives that encourage or discourage the delivery and absorption of new knowledge or skills, and the types of mechanisms that are in place to affect their transfer. Therefore, it is found that the most competitive industries are those that institutionalize learning mechanisms.

Principally, Kaplinsky and Morris (2001) note that capacity of a firm to innovate is critical in determining the path of a firm insertion into the global economy. The argument here is that those firms which have capacity to innovate can be inserted into the global economy and enjoy sustained income growth. If this is the case, according to Lundvall (1992); Nelson and Winter (1993) cited in Kaplinsky and Morris (2001) then the emphasis in production there-

fore needs to be placed on the ability to learn and this has implications not just for the productive sector itself, but also for the whole National System of Innovation.

Nonetheless, Kaplinsky and Morris (2001) argued that innovation in itself may not be adequate. For example, according to the authors, if the rate of innovation is lower than that of competitors, this may result in declining value added and market shares; in the extreme case it may also involve immiserising growth (Kaplinsky and Morris 2001). And so, they suggested that innovation has to be placed in a relative context – how fast compared to competitors - and this is a process, which can be referred to as one of upgrading (Ibid).

2.3.5 Links between Value Chains (elements and dynamics) and Upgrading

At this juncture, the discussion of the relationships between upgrading and different components of value chain as well as value chain dynamics is imperative since the focus of this study is to examine various factors that positively or negatively affect the upgrading behavior of micro and small scale clothing enterprises in Addis Ababa. These aspects of value chain could be incentive or disincentive for the upgrading of micro and small scale clothing enterprises. The following paragraphs are thus hub on these discussions.

2.3.5.1 Relationship between Governance and Upgrading

Governance structures characterizing vertical linkages between buyer and producers may uniquely impact MSE upgrading opportunities (Bloom et al., 2008). The discussion of the links between governance and upgrading has placed particular emphasis on process, product, and functional upgrading (Schmitz 2006; Giuliani et al., 2005). Captive relationships are generally assumed to provide the strongest support for process and product upgrading, because buyers have a material interest in improving supplier capability. In captive relationships, buyers can be both very demanding and very supportive in assisting suppliers' efforts to improve products and processes. On the other hand, buyers in captive relationships seek to maintain control over the design and marketing functions, thus seeking to discourage functional upgrading on the part of their suppliers (Schmitz 2006; Giuliani et al., 2005). Similarly, buyers in a relational system have incentives to support process and product upgrading among their existing suppliers, since there are high costs associated with switching to new suppliers and developing efficient communication mechanisms. By contrast, market relationships are as-

sumed to be neutral with respect to upgrading; they neither support nor block it (Bloom et al. 2008).

2.3.5.2 Link between Horizontal Linkages and Upgrading

Value chain relationships can play a decisive role in a firm's ability to upgrade, and sometimes influence a firm's decision to upgrade (Kaplinsky and Morris, 2001; Kaplinsky, 2000; Humphrey and Schmitz, 2000; McCormick, 1999). Value chain linkages are potential sources of learning, technical assistance, and efficiencies, which can facilitate MSE upgrading (Goldmark and Barber, 2005; Morris and Barnes, 2004; Humphrey, 2001). Further, linkages provide what the literature defines as "collective efficiency" or competitive advantages from local external economies and joint action with firms operating both vertically and horizontally (Nadvi, 1999 and Schmitz; Schmitz, 1995).

Horizontal linkages can encourage upgrading by providing learning opportunities and production efficiencies. The literature draws upon network theory and transaction cost analysis (Williamson, 1986; 1993). Firms operating individually offer few advantages to buyers other than lower prices due to competitive pressures. If firms work together through cooperatives, associations, producer groups, or other structures they are often able to benefit from synergistic collaboration, resulting in increased capacity and decreased transaction costs (Nadvi, 1999).

2.3.5.3 Link between Vertical Linkages and Upgrading

Vertical linkages are often the primary mechanism through which MSEs obtain information about upgrade opportunities, and access the knowledge and capital to fulfill these opportunities (Bloom, et al., 2008). This has been characterized by backward linkages (from buyer to seller). Sometimes the buyer will present the MSE with "market prerequisites" (e.g., policy, upgrading, financing, and technology) that MSEs do not know about or are not equipped to provide for themselves (USAID, 2005). This happens because the competitiveness of individual firms is linked to the competitiveness of the entire value chain, therefore buyers sometimes have a financial interest in the ability of their suppliers to meet the quality, price, and safety demands placed on them (Bloom, et al., 2008). MSEs are constrained in their decisions to make the investments necessary to keep up with the demands placed on them in the public

sector. Given this market failure (i.e., the fact that credit is not adequately available to MSEs) and the need to obtain consistent supplies of high-quality, low priced products, buyers might do well to provide some form of assistance (Goldmark and Barber, 2005; Humphrey, 2001). Ultimately, the knowledge, training, and capital that lead firms might provide can be a key catalyst for upgrading (Bloom, et al., 2008).

2.3.5.4 Relationship between Supportive Service and Upgrading

Support services could also play either positive or negative role at firm-level upgrading. For instance, when supporting markets are weak and end market demand for product upgrading is strong, lead firms have an incentive to provide embedded services to encourage MSE upgrading. In general, weak financial markets for MSE investment capital represent a critical constraint to MSE upgrading (http://apps.develebridge.net).

2.3.5.5 Relationship between Business Enabling Environment and Upgrading

The business and enabling environment at the local, national and international levels can also play vital role in facilitating or inhibiting the upgrading practice of MSEs. For example, according to Campbell (2008), some international trade agreements and quality standards could present opportunities for market expansion but can be extremely expensive for firms, especially for MSEs, and can easily prevent a developing country from being competitive. On the other hand, poor national and/or local government policies, rules, regulations, operations and weak enforcement of legal and regulatory regimes increase transactions costs and risks, limiting investments in relationships and upgrading (Campbell, 2008). Moreover, micro and small enterprises operating in areas where transportation and communication infrastructure are poor, can generally pay more for inputs and services and realize lower returns from upgrading (http://apps.develebridge.net).

2.3.5.6 Link between End markets and Upgrading

Campbell (2008) states that end markets are people, not a location that determine the characteristics—including price, quality, quantity and timing—of a successful product or service. The end markets into which a product or service is sold whether local, regional or international thus provide the opportunities and set the parameters for economic growth (Campbell, 2008). Generally there are multiple actual and potential end markets, each with different de-

mand characteristics and returns. By benchmarking key attributes (e.g., quality, price, reliability of supply, flexibility, time from order to delivery) against competitors, industry stakeholders can see where they have a competitive advantage and where they need to upgrade in order to compete (Campbell, 2008). For example, when end market opportunities are strong, firm owners innovate in response to the incentives provided by higher profits and expectations of continued future sales (Dunn et al. 2006).

2.3.5.7 Link between Learning and Upgrading

In many cases, according to Dunn et al. (2006), upgrading is preceded and accompanied by a learning process in which MSE owners acquire new information, knowledge and skills. The authors identify two stages of learning. The first stage precedes the upgrading decision and primarily concerned with the acquisition of information. Information about the basic awareness of the existence of upgrading and obtaining information that can be used to evaluate the upgrading opportunities is the key in the first stage of learning. Information associated with prices and costs, intermediary and end markets, as well as risks which could enable the MSE owner to calculate the risk-adjusted returns to upgrading is mainly the part of the first stage of learning (Dunn et al. 2006).

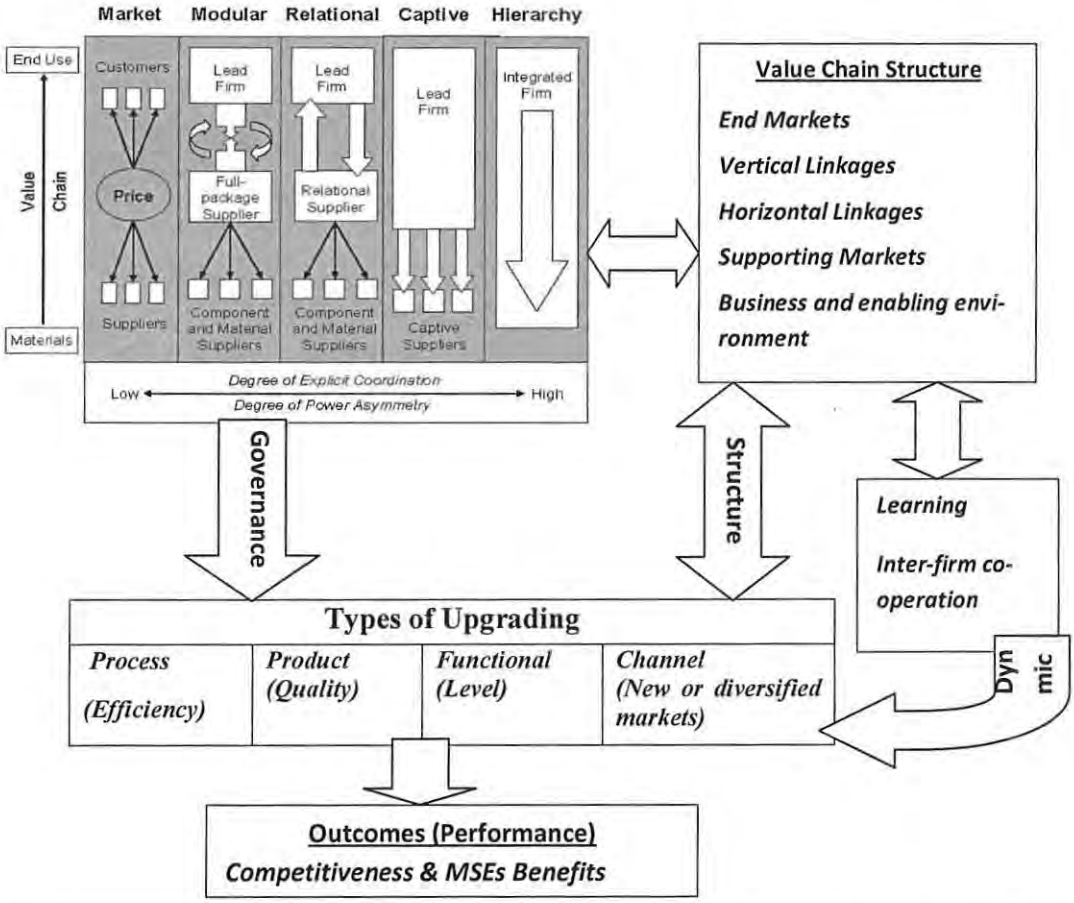
After the MSE owner has decided to upgrade, the second stage begins. According to Dunn et al, the second-stage learning represents a continual process involving recurrent innovation and is associated with acquisition of knowledge and skills for successful implementation of the innovation (Dunn et al. 2006). MSE owners seek for information about new technical and production skills which could enable them to effectively deal with process and product upgrading. They also require extra information related with the business and communication skills so as to put into practice functional upgrading. Channel upgrading may call for the handling of all of these skills (Dunn et al. 2006).

2.4 Conceptual Framework

Based on theoretical and empirical literature, the researcher developed a conceptual framework that would guide the whole research process. In this framework two key issues such as value chain structure and value chain dynamics are scrutinized so as to comprehend how these factors linked with each other and with firms' upgrading. According to Dunn et al.

(2006), firm owners' upgrading decisions are made within the context of the value chains in which they operate. In reference to the model described below, the structure of the value chain and value chain dynamics (governance, learning and inter-firm cooperation) affect upgrading decision of the firms and upgrading in turn determines the performance of micro and small scale clothing enterprises in terms of competitiveness and benefits.

Figure 2.1: Conceptual Model, modified from Dunn et al. (2006) and Gereffi and Stacey (2009)



Firstly, five structural elements of the value chain (end markets, vertical linkages, horizontal linkages, supporting markets and business enabling environment) influence upgrading and shape the behavior of individual firms and the dynamics of the value chain. For instance, when there is favorable condition in the end markets, firm owners can respond to this positive situation by innovating either in process or product so as to reap the benefits created in the market. Therefore, according to Dunn et al., upgrading can be considered as a dynamic response to value chain conditions (Dunn et al. 2006).

The quality of both horizontal and vertical linkages between and/or among different actors in the value chain is a key factor that could affect the proper functioning of a value chain. For example, if there are compelling and mutually beneficial relationships between firms in the value chain and when these linkages allow the transmission of information, skill, technology, services, etc, the opportunity of a firm to upgrade will be high.

The availability of supporting market services, sometimes called business development services such as: financial services mainly related with lending, capital investing, leasing, etc; provision of business consultation, information and communication technology, and legal advice services; marketing services; design services; etc could favorably influence the upgrading behavior of micro and small scale clothing enterprises.

The business enabling environment at the local, national and international levels can also be incentive or disincentive for upgrading of a firm. For example, enhanced business enabling environment at different levels which focuses on the elimination of constraints associated with legal and administrative mechanisms, would positively influence the upgrading practice of micro and small scale clothing enterprises.

Secondly, upgrading largely depends on learning – knowledge about the requirement of market, knowledge concerning potential returns on investment, awareness of upgrading opportunities, information to evaluate upgrading opportunities, knowledge and skills for successful implementation of the innovation, business and communication skills, etc.

Thirdly, inter-firm cooperation can also play critical role in determining upgrading behavior of MSE. For example, links between firms, in the form of coordination and cooperation, reduce transaction costs, increase the ability of the chain to meet and adjust to consumer demands, and affect the distribution of learning and benefits within the chain and facilitate the upgrading of MSEs.

Finally, different elements of the value chain structure and dynamic elements of the value chain (such as: learning, inter-firm cooperation and governance) could facilitate or hinder the upgrading behavior of micro and small scale clothing enterprises which is decisive in determining value chain performance in terms of competitiveness and MSE benefits - the two critical outcomes of value chain.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Basic Principles of the Study

This study was conducted in Addis Ababa city by focusing on micro and small scale clothe producing enterprises. The following basic principles governed the sample design and the research as a whole. First, the study is concerned with the exploration of the major research questions stated under the statement of the problem section. Second, all firms in the value chain and supporting institutions outside the chain in Addis Ababa need to be studied though some of them could not be reached due to resource constraints and impracticability. Third, as the nature of the problem under consideration dictates the type of research methods, approach, and techniques; the use of mixed approaches is mainly considered as influential and relevant for this study.

3.2 Research Methods

This study was conducted in two phases and employed exploratory and descriptive research methods in apiece phase. Given that the study involves the exercise of mapping the value chain of micro and small scale enterprises in Addis Ababa, in the first phase, the researcher has collected information that enabled him to sketch the initial map of the value chain. In general, the purpose of the first phase of the research was to collect information that could enable the researcher to have initial understanding of the value chain of micro and small scale clothing enterprises, develop key research questions, and verify selection of subjects and data collection methods. To achieve the purpose of the first stage, the researcher has reviewed diverse secondary sources so as to explore information that is related to the research problem, conducted experience survey – gathered information from those thought to be knowledgeable on the issue related with the research problem, and carried out interview with the key informants.

In the second phase, descriptive research method was used as the study intends to examine and describe the value chain of micro and small scale clothing enterprises in Addis Ababa. This method has been chosen because of its appropriateness in describing the most important

factors that affect MSE owners' ability and willingness to upgrade their businesses, to identify firms that operate in the value chain in conjunction with the ways in which they are related with each other and other firms in the value chain based on the analysis of opinions and various facts that were gathered from selected value chain participants. According to Calderon, descriptive research is concerned with conditions of relationships that exist; practices that prevail; beliefs and process that are going on; effects that are being felt; or trends that are developed (Calderon, 1993).

3.3 Research Approach

Designing a research project is one of the most important endeavors in the research which requires cautious and intellectual decision. According to McCormick and Schmitz (2002), it involves collecting and analyzing data to provide the information that is needed. And so, the primary rule in research design is that what we want to know determines the way we carry out our research. Because of the complex nature of value chain analysis, majority of the researchers on the subject favor the use of both quantitative and qualitative approaches. Therefore, for the purpose of triangulating quantitative and qualitative methods and data collection tools, the researcher has utilized mixed approaches. This is because triangulation is a powerful technique that facilitates validation of data through cross verification from more than two sources.

Moreover, as McCormick and Schmitz (2002) clearly note, the main reason to use multiple approaches is that most studies, even small and well-focused ones, require a considerable amount of information. Some is background information that is needed to put the study into its proper context. Moreover, some questions are aimed at qualitative or elusive realities, such as perceptions, feelings or ideas and require a different method from those whose answers are more easily measurable (quantitative questions). These authors also argued that using multiple methods has to do with the reliability of available information and the importance of that information to the research. More importantly, the application of multiple methods in the study could enable the researcher to check the results of different research methods against each other so as to validate the results (McCormick and Schmitz 2002).

3.4 Data Sources and Data Collection Methods

For the purpose of addressing the wide range of research objectives and securing appropriate data, both primary and secondary sources were explored. Primary data were gathered from various actors of value chain and different supporting institutions outside the chain via individual and group interviews and survey questionnaire.

To organize individual interviews, separate interview guide was prepared for each category of informants: exporters, designers/exclusive shop owners, middlemen (brokers), and input suppliers. The interview guide includes issues like main client/buyers of the informants, their key suppliers, the relationships that they have with producers and with each other, the competitiveness of the values chain, support provided for producers, and other several probed questions. Besides, discussion guide was also prepared for group interview, mainly for clothe producers. The guide for the group interview includes issues like producers' upgrading experiences, information about ways of selling product, the kinds of relationships with buyers in each of channel of market, etc.

Survey questionnaire was also developed for three categories of value chain actors namely: producers, buyers, and input suppliers. Producers' survey questionnaire was developed with the intention of examining the factors that affect the upgrading practices of MSEs in the clothing sector. The questionnaire for producers covered information on enterprise characteristics, marketing practices, flow of information and services in the value chain, relationships between and/or among firms in the value chain, trust between firms, upgrading knowledge and practices, enabling environment, and perception of producers towards their performance.

On the other hand, questionnaire for buyers and input suppliers was developed with the purpose of examining the nature of vertical relationships in the value chain, cross checking responses from cloth producers' survey, and developing understandable map of the value chain. The main parts of the questionnaire for these categories of research participants include: enterprise information, relationship with clothe producers, mode of communication, the level of trust, agreements made with cloth producers, support provided to producers, and cooperation with producers. Some of the items in survey questionnaire and interview guides were adapted from Accelerated Microenterprise Advancement Project (AMAP), USAID.

Before actual data collection, the questionnaire was translated into the Amharic language to make it comprehensible and to circumvent any elusiveness to the enumerators. The researcher hired five experienced enumerators to administer survey questionnaire. The enumerators have been given training on the essence of each question, on how to administer the questionnaire, and on how to record responses since the questionnaire survey was done through one – to - one interview or scheduled interview.

However, before commencement of actual data collection, the researcher has conducted pilot test by focusing on clothe producing enterprises that have similar characteristics with actual sample respondents. The purpose of pilot test was to examine the length of time to fill out the questionnaire, to test the aptness of the wording of the survey questionnaire, to scrutinize whether the respondent provide no answer, multiple answers, qualified answers, or unexpected answers to the study questions, and to identify complexity of each item included in the questionnaire. Pilot test was thus conducted in Yeka sub-city (Woreda 3, 4, 8, and 9) lying on 15 clothe producing MSEs. And so, based on the results of the pilot test and observation during data collection, the researcher was able to refine and modify some items that are found inappropriate and time consuming and included some questions which were overlooked during questionnaire development.

Secondary data were gathered from diverse documents such as reports, archives, brochures, journal articles, books, electronic source from the internet, and other relevant materials. These data could be related to policy, rules, regulations and program documents; performance reports of the micro and small scale clothing enterprises; and other relevant theoretical and empirical literature to capture/gain insight on the conceptual, methodological, and empirical evidences from studies conducted so far.

3.5 Sampling Strategy and Sample Size

3.5.1 Sampling Strategy and Sample Size for Qualitative Part

As indicated in the section 3.2, this study was conducted in two phases. The first phase was focused on qualitative assessment which enabled the researcher to gain more information about the problem under investigation. Hence, in the first phase, purposive sampling technique/strategy was used so as to choose study subjects that are thought to be knowledgeable

on the issue relevant to the research problem. The number of participants, sampling techniques, and data collection methods used for the first phase of the study is summarized in the following table.

Table 3.1: Categories of Respondents Participated in the First Phase of the Study

Category of respondents	*No of respondents*	*Sampling technique*	*Data collection method*	*Remark*
Exporter	2	Purposive	In-depth Interview	
Retailer	4	Purposive	In-depth Interview	Two traditional clothe sellers and two modern clothe sellers
Intermediary	3	Purposive	In-depth Interview	One distributors and one broker
Input suppliers	2	Purposive	In-depth Interview	One at distribution level and one at retail level
Clothe producers	10	Purposive	Group Interview	Group interview in three sites: (Didmasichia, Rimo Hintsa, and Ginfle sites with clothe producers). In Didmasichia site three interviewees (one female and two males) from small enterprises producing both modern and traditional clothes; in Rimo Hintsa site four participants (two females and two males) from micro enterprises producing modern clothes, and in Ginfle site three interviewees (two females and one male) from micro enterprises producing both modern and traditional clothes were approached.
Total	21			

Moreover, ***ten*** interviewees from governmental and non-governmental organizations who are engaged in the provision of different supportive services for the enterprises under investigation were purposely selected and included in the study. More specifically, ***three*** participants from government organizations, one each from FeMSEDA, AAMSEDA and Ethiopian Textile Industry Development Institute; ***four*** experts whose job is strongly linked with cloth producing MSE one from each of the sampled sub city; ***one*** interviewee from Ethiopian Textile and Garment Manufacturer Association; ***one*** interviewee from Engineering Capacity Building Program; and ***one*** interviewee from Ethiopian Women's Exporters Association were approached. Unfortunately, the researcher was unable to interview NGOs such as ***GTZ, Plan Ethiopia, Wise and Concern*** as per the research proposal either because of the phase out of the projects in the sector under investigation or because of the non existence of such NGOs who have been vigorously participating in supporting micro and small scale clothing enterprises.

3.5.2 Sampling Strategy and Sample Size for Survey Part

In the second phase of the study, survey questionnaire in conjunction with some interview with key informants was conducted. The survey questionnaire was collected data from wide range of buyers at different levels of the value chain, input suppliers and micro and small scale cloth producing enterprises. The population and sample size of respondents participated in survey are briefly discussed below.

3.5.2.1 Population

Population is the total group of people or entities from which information is required (Tustin et al., 2005). It is a large collection of persons or objects from which a sample is selected. In view of that, the principal population for the study is micro and small scale cloth producing enterprises located in four sub-cities of Addis Ababa namely: 1) Gulele 2) Addis Ketema 3) Kirkos and 4) Arada. These sub-cities were purposively selected because of high concentration of micro and small scale clothing enterprises in the areas. According to the data obtained from AAMSEA (2011), more than 65% of micro and small scale clothing enterprises in Addis Ababa are located in these sub-cities.

3.5.2.2 Sampling Strategy

After identifying the population including its list, the researcher has used stratified sampling technique. Stratified sampling is commonly used probability method that is superior to random sampling since it reduces sampling error. The researcher first identified the relevant stratum and their actual representation in the population. In view of that, at the outset the researcher has stratified the population into micro and small enterprises. Based on this, 803 enterprises consisting of 649 micro and 154 small clothe producing enterprises were identified. The researcher used the number of workers employed in the enterprises as criteria for stratification. Here, enterprises with at most 10 workers including the owner (s) are defined as micro and those with employees including the owner (s) between 11 and 50 are defined as small. Total population in each of sub city and relevant stratum with their actual representation in the population is summarized as follows:

Table 3.2: Distribution of Population in each Sub City

Sub city	Type of enterprise		Total
	Micro	Small	
Gulele	257	61	318
Addis Ketema	178	42	220
Arada	109	26	135
Kirkos	105	25	130
Total	649	154	803

3.5.2.3 Sample Size

Based on proportion of population in each stratum, 10% of micro enterprises (10%*649=65) and 36% of small enterprises (36%*154=56) in sum 121 enterprises were taken as sample size of the study showing that the researcher has used disproportionate sampling technique. Small clothe producing enterprises were over sampled due to small size of their population in an attempt to make the sample suitable for comparison. Consequently, the list of names of enterprises in each stratum was taken as sampling frame of the study. The sample size of the study from producers' side in each sub city is computed as follows:

Table 3.3: Sample Size for Producers

Sub-city	Type of enterprise		Total
	Micro	Small	
Gulele	257/649*65=26	61/154*56=22	48
Addis Ketam	178/649*65=18	42/154*56=15	33
Arada	109/649*65=11	26/154*56=10	21
Kirkos	105/649*65=10	25/154*56=9	19
Total	65	56	121

Based on the sampling frame, a systematic sampling technique was used to select subjects included in the study. A systematic sampling technique is a technique in which every k^{th} element in the frame is going to be selected, where k, denotes the sampling interval. This technique is used to select a *sufficient* number of subjects from each stratum. And so, the size of the sampling interval (k) for each stratum is calculated as follows:

For micro enterprises, ***k=Nmi/nmi;*** where ***Nmi*** is the population of micro clothe producing enterprise and ***nmi*** is the sample size of micro clothe producing enterprise. Thus, k = 649/65 = 9.98, and by rounding to the nearest value ***k*** = 10. Therefore, for micro clothe manufacturing enterprises every 10^{th} element in the sampling frame was selected. Likewise, the sampling interval for small clothe producing enterprises is calculated as: ***k = Nsm/nsm***; where ***Nsm*** stands for the population of small clothe producing enterprises and ***nsm*** stands for the sample size of the population of small clothe producing enterprises. Accordingly, k = 154/56 = 2.75, by rounding to the nearest value ***k*** = 3, hence for small clothe producing enterprises, every 3^{rd} element in the sampling frame was selected and included in the study. At the beginning, the researcher selected one element at the random in the sampling frame of each stratum as the starting point; and from this point on ward, the rest of sample was selected systematically by applying 10^{th} and 3^{rd} intervals for micro and small scale clothe producing enterprises, respectively.

As far as sample size of buyers and input suppliers concerned, five types of buyers namely: exporters; middlemen (distributors and brokers); retailers; advert and printing enterprises and

exclusive shops/designers at different levels of the value chain were selected. Sample size for buyers' and suppliers categories is summarized in the following table:

Table 3.4: Sample Size for Buyers and Input Suppliers

Type of buyer	*Buyer level*	*Population*	*Sample Method*	*Sample size*
1. Exporters	Wholesales	Unknown	Referral/snowball	5
2. Middlemen	Wholesales	Unknown		
2.1 Distributors	Wholesales	Unknown	1. Selection of largest markets in the study area 2. Random walk	5
2.2 Brokers	Wholesales	Unknown	Referral/snowball	5
3. Advert and printing enterprises	Wholesales	Unknown	Referral/snowball	5
Subtotal (Wholesales)				20
Markets & popular shops	Retail	Unknown	1. Selection of largest markets in the study area 2.Random walk	25
Exclusive shops	Retail	Unknown	Referral/snowball	5
Subtotal (retail)				30
Subtotal buyers side				50
Input suppliers		Unknown	1. Selection of largest markets in the study area 2.Random walk 3.Referral/snowball	20
Total				70

As can be seen from Table 3.3 above, a total of 50 and 20 participants were selected from different categories of buyers and input suppliers, respectively by using snowball (referral) and random walk methods.

To select the exporter category of buyers who have linkage with micro and small scale producers, the researcher has tried to talk to different concerned agencies and associations. However, he could not get the exact number and list of this category of buyers. For example, one of the responsibilities of Ethiopian Textile Industry Development Institute is carrying out market study for textile and garment industries products. And it was asked to notify whether micro and small scale cloth producing enterprises have been participating in export market or linked with other exporters. However, the institute reported that none of these enterprises are participated in exporting their products and their linkage with exporters is very weak. Likewise, Ethiopian Textile and Garment Manufactures' Association which focuses on building relationships between its members (exporters) and international buyers as well as helping its members to meet national and international standard was asked to enlighten whether any of the micro and small scale clothing enterprises have been a member in their association. Unfortunately, none of them are found as members in this association. Ethiopian Women's exporters association was consulted as well. It is here that some of the members of this association linked with producers particularly in the area of traditional clothes. And so, ***two*** exporters who have strong linkage with producers were selected by the assistance of chair person of the association. Additional ***three*** exporters who participated in this study were referred by the cloth producers, as well.

Particularly, in the first phase of the study, producers were asked to describe the place where they frequently sold their products. The purpose of this question was to identify the largest market in the study area so as to select different categories of buyers. Besides, secondary sources as well as experts who are working in the department of market promotion at micro and small scale enterprise offices of sampled sub cities and woreda were also consulted in an attempt to identify the largest markets in Addis Ababa. Accordingly, ***Markato***, ***Kolfe***, and ***Shiro Meda*** were selected as the three largest markets where both modern and traditional clothe producers have been selling their products. Based on this, ***five*** distributors - ***two*** from ***Markato (Libs Terra)***, ***two*** from ***Kolfe*** market, and ***one*** from ***Shiro Meda*** were selected via

random walk, respectively. ***Five*** brokers, ***three*** from ***Shiro Meda*** and the remaining ***two*** from ***Markato*** were selected using referral sampling technique. At retail level, ***nine*** retail shops from ***Kolfe Gebeya***, ***eight*** from ***Markato*** (***Shema Terra and Minalesh Terra***), ***five*** from ***Shiro Meda*** and ***three*** from the shops around Ethiopian Post Office were selected via random walk. Then again ***five*** advert and printing enterprises who buy clothes from micro and small enterprises were selected by using snowball sampling technique. Likewise, ***five*** exclusive shops (shops owned by designers) were selected via referral method.

As far as the selection of input suppliers are concerned, four largest markets from where cloth producers frequently purchase inputs (such as fabric, accessories, sewing threads, dyes, etc) were identified. Consequently, ***Military terra and Takka Terra*** in the ***Markato***, ***Kolfe Gebeya, Shiro Meda,*** and ***Kechene*** were found the largest markets of inputs for cloth producers. Anchored in this, ***five*** input suppliers from Marakto, ***three*** from Kolfe Gebeya, ***five*** from Shiro Meda and ***four*** from ***Kechene*** were selected using random walk. Moreover, ***three*** large textile and garment manufacturing factories (Awassa, Kombolcha, and Alemeda) who serve as a source of inputs for some micro and small scale cloth producing enterprises were selected through referral method.

Succinctly, reaching/covering a total of 191 firms and 10 government institutions and NGOs, the study had the following total sample size (222) of the study participants: a) 191 respondents for survey questionnaire (producers, buyers, and input suppliers); and b) 31 for interview.

3.7 Data Collection Protocol, Data Management and Analysis

Data collection protocol is a procedure for planning, implementing, and monitoring data collection, recording, and monitoring functions so as to ensure quality. In view of that, the principal researcher has developed data collection protocols, tools, and training contents for data collectors who were selected and appropriately trained on the basic principles, techniques, and protocols before commencing actual field work. The whole business process of data collection was managed and supervised by the principal researcher. Besides, methods; data; and responses were triangulated.

Data analysis process begins with data editing and coding. Editing is the process of checking the completeness, consistency, and legibility of data and making the data ready for coding. Therefore, editing can be done on field while enumerators are collecting data or in-house after data collection is concluded. Since data for this study were collected via scheduled interview where enumerators contacted respondents in person and recorded responses instantly, conducting field editing was imperative. And so, the principal researcher had frequently supervised enumerators so as to identify technical omissions such as blank pages or jumped items in questionnaire, to clarify responses that are logically or conceptually inconsistence, and to check the proper and legibility of recorded responses. In doing so, the principal investigator was able to correct a number of errors that would otherwise invalidate a lot of questionnaire. For example, he corrected jumped items, inappropriately recorded responses, and the hitch of not rigorously chasing instructions indicated in the questionnaire.

However, mere field editing cannot be assurance for nonexistence of errors, so it should be followed by in-house editing which is meticulous job performed by well experienced data editor and data entry clerks at office. Hence the principal researcher did this task closely with well experienced data entry clerk by particularly checking unanswered questions, questions answered out of instruction, and inconsistence of responses. In doing so, two questionnaires were discarded because of lack of quality.

Thus the activity of editing was followed by data coding in which numerical values were assigned to edited data. Providentially, the principal researcher has performed this activity in advance while he was developing questionnaire though the deeds of checking and undertaking coding in more meaningful and organized manner were emphasized at this juncture. Therefore, data were coded in such a way that facilitates data analysis. For example, closed ended questions in the form dichotomy - questions that have two responses like "yes" or "no", number 1 was assigned for "yes" and 2 for "no" responses. For multiple choice questions, in the same way, the coding begun by assigning number 1 to first choice and continued successively till last choice. For open ended questions, the researchers first read the answers of different respondents repeatedly in an attempt to identify common themes and patterns and finally assigned codes in similar way. After the job of coding is accomplished, coded data

were entered into the 17th version of SPSS program. Based on this, descriptive analysis using mean, tables, graphs and charts were carried out.

Nevertheless, some items in the codebook which is generated by SPSS were recorded to facilitate the analysis of data mainly for the purpose of logistic regression. Here number one and zero were assigned to "yes" and "no" responses, respectively, to smooth the progress of testing the effect of different factors on upgrading practices of clothe producing MSEs. Logistic regression analysis was used because of its suitability in predicting a categorical usual dichotomy variable from a set of predictor variables. It is generally acknowledged that logistic regression is usually used to determine the impact of multiple independent variables presented simultaneously to predict membership of one or other of two dependent variable categories (www.uk.sagepub.com).

Variables such as: demand and favorableness of the ways of sales (from the end markets), trust in meeting agreements (from the vertical relationship), joining associations (from the horizontal relationship), captive and relational patter of governance (from the governance), information exchange (from inter-firm cooperation), and training on production techniques and management (from the supporting markets) were used as predictors. Process and product upgrading were taken as dependent variable and predictors indicated above were used to test influence they have on upgrading practices of clothe producing MSEs. Functional and channel upgrading were dropped from regression analysis since the number of respondents undertake these types of upgrading were small which violate one of the assumptions of logistic regression that states the number of cases for analysis must be at least fifty. Based on this, SPSS was used to deal with mathematical complications and analysis.

Data collected via group interview and key informant interview reports were sorted thematically and reduced to fit specific research objectives. Content analysis was thus used to analyze qualitative data in which the researcher firstly gave due attention to understand the data by reading and re-reading the texts generated by qualitative data. Then the data were organized by questions and individual respondents in attempt to identify consistencies and differences in responses. Finally, data were categorized so as to make out common themes and patterns across respondents and question. These themes and patterns were brought together for interpretation. Data collected from diverse sources were used to triangulate the findings.

CHAPTER FOUR

ANALYSIS OF EMPIRICAL RESULTS

4.1 Introduction

This chapter focuses on the analysis and interpretation of data collected via questionnaire and interview. And so, results of analysis are discussed in the following sections.

4.2 Demographic and Enterprise Information

Background information is crucial in putting study into appropriate context. This study thus has examined some general information on the core characteristics of owners or managers of firms as well as of their enterprises and the results are summarized in the Table 4.1 below.

4.2.1 Demographic Information

Table 4.1: Demographic Information of the Respondents

Variables		Micro		Small		Total	
		N	%	N	%	N	%
Sex	Male	33	52.4	39	69.6	72	60.5
	Female	30	47.6	17	30.4	47	39.5
	Total	63	100.0	56	100.0	119	100.0
Age	<=20	0	0	1	1.8	1	0.8
	21-35	39	61.9	32	57.1	71	59.7
	36-50	18	28.6	19	33.9	37	31.1
	51 and above	6	9.5	4	7.1	10	8.4
	Total	63	100.0	56	100.0	119	100.0
Marital	Single	22	34.9	10	17.9	32	26.9
	Married	41	65.1	45	80.4	86	72.3
	Divorced	0	0.0	1	1.8	1	0.8
	Widowhood	0	0.0	0	0.0	0	0.0
	Total	63	100.0	56	100.0	119	100.0
Level of Education	Illiterate	1	1.6	0	0.0	1	0.8
	Primary (1-6)	3	4.8	7	12.5	10	8.4
	Junior Primary (7-8)	9	14.3	10	17.9	19	16.0
	Secondary (9-12)	39	61.9	32	57.1	71	59.7
	Diploma	10	15.9	7	12.5	17	14.3
	First Degree & above	1	1.6	0	0	1	0.8
	Total	63	100.0	56	100.0	119	100.0

Source: Own survey, 2012

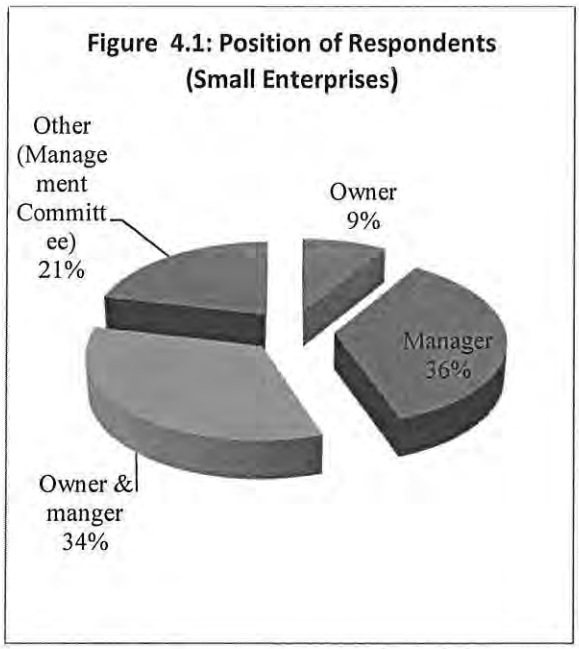
Table 4.1 describes demographic information of the sample across sex, age, marital status, ethnicity, and educational level. In micro enterprises, the distribution of sex to some extent was closer in proportion to each other where male and female respondents constitute 52.4% and 47.6% of the sample, respectively. However, in small scale enterprises the majority of respondents accounting for 69.6% were male while female respondents represent only 30.4%. This may be due to the fact that entrance to the micro enterprise is easier for women than to small enterprise given that micro enterprise requires small startup capital and are mainly informal in its characteristics. This finding is in line with the argument of Haftu Berihun et al. (2009) who assert that the level of investment, knowledge and infrastructural services required to start and/or run a business enterprise is lesser for micro than small scale business and women tend to engage in the former because of their limited access to such resources. Likewise, Riba et al. (2005) found that though many women own or run micro enterprises (and in many cases form the majority of micro enterprises), few of them enter the formal sector, and as a result, only a small number of women's micro business graduate in to small.

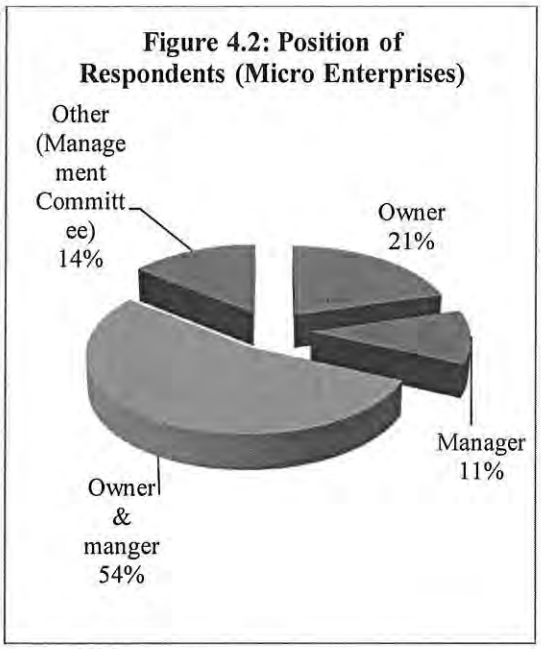
As far as age distribution is concerned, for both micro and small enterprises, the dominant age group was 21-35 accounting for almost 60% of the respondents followed by those age group 36-50 constituting 31.1%. Those younger than 20 and over 50 comprise only 0.8% and 8.4%, in that order. When the dominant age group examined separately for micro and small enterprises, the data show moderate differences. In the case of micro enterprises, the 21-35 age group accounts for almost 62% compared to 57.1% for small enterprises. The mean age for both enterprises is 35 with minimum age of 20 and maximum age of 64. In both cases, however, it is clear that this sector has been the source of employment for economically active section of the society.

In terms of marital status, for both micro and small enterprises the vast majority of respondents representing 72.3% were married followed by single that accounts for 26.9%. Only 0.8% of respondents were divorced and none of them lost their spouse. This finding is important given that it indicates that about 80% of respondents from micro enterprises and 72% of them from small enterprises were married showing that they are beholden for attendant income earning responsibilities.

In terms of education, about 62% of respondents from micro enterprises attained secondary education followed diploma (15.9%) and junior primary (14.3%). In contrast, 57.1% of respondents from small scale enterprises completed secondary education chased by 17.9% and 12.5% of respondents who attained junior primary and diploma, in that order. Only 4.8% of respondents from micro category attained primary education where as 12.5% in small enterprise category achieved the same level education. Interestingly, the number of respondents without any sort formal education was almost absent (1.6% for micro enterprises and nil for small enterprises). Likewise, the number of respondents achieved tertiary level of education (first degree and above) was insignificant (1.6% for micro enterprises and nil for small enterprises). This educational attainment may be due to the government's attention to expand educational services and accessibility of education predominantly in urban vicinities. This finding contradicts with a common perception that most micro and small entrepreneurs achieve an educational level of no more than secondary school (Anderson, 2000) given that some of the entrepreneurs (about 14%) participated in this survey went further than secondary school. This shows that unlike earlier periods in Ethiopia wherein citizens who completed secondary education await a job from the government, now, more of the productive age group of society particularly graduating from high schools and colleges are getting keen to participate in the micro and small scale businesses either in search for self-employment or setting up entrepreneurship.

Respondents were also asked to verify position they held in the enterprise they are working. It is found that all of the respondents from both micro and small scale enterprises had the position of decision making in their firms. As can be seen from figures 4.1 and 4.2 below, 54% of respondents from micro enterprises operated their business both as an owner and manager while 34% of respondents from small enterprises operated their business both as an owner and manager implying that micro enterprises are dominated by sole proprietorship form of ownership. This finding is in line with the argument of Gebrehiwot and Wolday (2004) who assert that micro and small enterprises subsectors are different in that the former tend to operate on informal basis or as sole proprietorship. In sole proprietorship, the entrepreneur is the owner as well as the managers of the enterprise (Haftu Berihun et al., 2009).





Source: Own Survey, 2012

Unlike micro enterprises where proportion of respondents held managerial position account for only 11%, in small enterprises relatively high proportion of respondents (36%) were managers. This may imply that small enterprises are tend to employ mangers (either from outside or inside the firm) than micro ones so as to effectively coordinate people, money and other resources to meet demand created in the market and in doing so generate wealth. This may be due to the characteristics of this subsector where micro enterprises are typified by hand-to-mouth existence while small ones are characterized by predictable continuity (Haftu Berihun et al., 2009).

Moreover, as can be seen from figures 4.1 and 4.2 above, 21% of respondents from micro enterprises expressed their position as owner while only 9% from small enterprises expressed themselves as owner. Finally, 12% and 21% of respondents were management committee members in micro and small enterprises, respectively. This shows that the researcher has approached the right persons in the enterprises particularly those who have power to make upgrading decision.

4.2.2 Characteristics of the Enterprise

4.2.2.1 Age of the Enterprise

The result of this survey shows that a high percentage (60.3%) of micro enterprises have been operating for 1 to 5 years compared to just about 52% of small enterprises. The next longest stay period was the time range between 6 to 10 years for both micro (23.4%) and small enterprises (44.6%). Almost 16% of micro enterprises have been in operation for at least 11 years compared to only 3.6% for small enterprises (figures 4.3 and 4.4). Besides slight variations in proportion, however, this finding indicates that the vast majority of both micro and small enterprises are young.

Figure 4.3: Age of the Enterprise in Years (Micro)

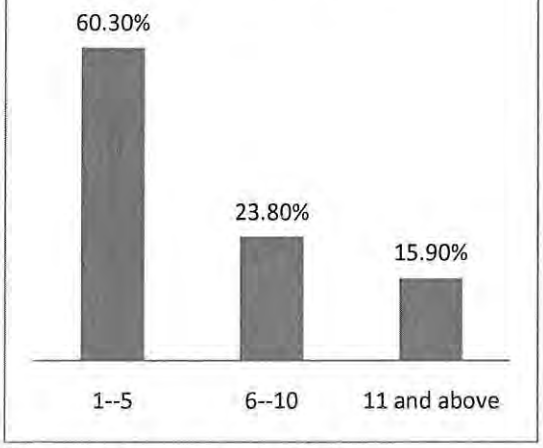
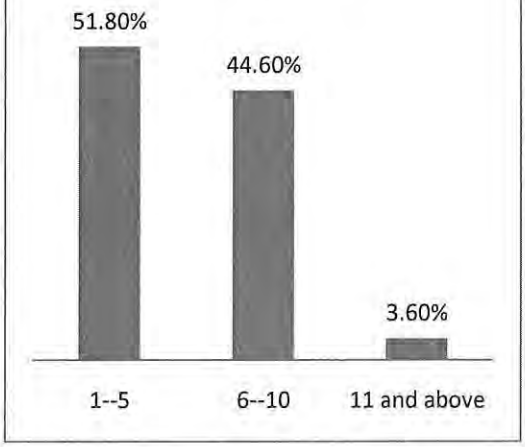


Figure 4.4: Age of the Enterprise in Years (Small)



Source: Own Survey, 2012

The average age of enterprises was found as 6.48, 6.98, and 14.7 for producers, buyers and input suppliers, respectively, showing that producers and buyers are relatively younger than input suppliers. As far as the number of employees concerned, the average number of employees in both micro and small scale clothe producing enterprises was 13. More specifically, the average number of employees in micro enterprises was about 4 where as it was 23 for small enterprises. Equally, majority of both buyers and input suppliers were found as micro and small enterprises. For example, the average numbers of employees in the buyers' category was 12 with minimum 1 and maximum 80 employees. On the other hand, in the input suppliers' category, 65% of interviewed enterprises had 1-10 employees followed by 20% and

15% that had 10-50 and more than 50 employees, respectively. In this category, the average number of employees was 396 with minimum 1 and maximum 5500 employees (in large factories).

4.2.2.3 Access to Information Communication Technologies

Information and Communication Technology provides many benefit across a wide range of intra and inter firm business processes and transactions. Its applications improve information and knowledge management inside the firm and can reduce transaction costs and increase the speed and reliability of transactions for both business-to-business (B2B) and business-to-consumers (B2C) transactions (Vickery et al. 2004). If effectively utilized, ICT can enhance linkages between and/or among value chain actors by narrowing information gap and thereby opening up learning and business opportunities for MSEs (Adeya, 2003). This survey assesses the possibility of value chain actors' access to ICT and the results are discussed below.

Table 4.2: Access to Information Communication Technology

Type of ICT			Producers		Total	Buyers	Input Suppliers
			Micro	Small			
Do you have a cell phone?	Yes	Count	47	44	91	49	17
		%	74.6%	78.6%	76.5%	98%	85%
	No	Count	16	12	28	1	3
		%	25.4%	21.4%	23.5%	2%	15%
Total		Count	63	56	119	50	20
		%	100%	100%	100%	100%	100%
Do you have a land telephone?	Yes	Count	9	8	17	19	11
		%	14.3%	14.3%	14.3%	38%	55%
	No	Count	54	48	102	31	9
		%	85.7%	85.7%	85.7%	62%	45%
Total		Count	63	56	119	50	20
		%	100%	100%	100%	100%	20%
Do you have access to internet connection?	Yes	Count	3	2	5	19	7
		%	4.8%	3.6%	4.2%	38%	35%
	No	Count	60	54	114	31	13
		%	95.2%	96.4%	95.8%	62%	65%
Total		Count	63	56	119	50	20
		%	100%	100%	100%	100%	100%

Source: Own Survey, 2012

Respondents were asked about whether they had access to information technologies which could facilitate communication with their customers. As can be seen from Table 4.2, the vast majority of respondents accounting for 74.6% and 78.6% from micro and small enterprises have cell phone, in that order. Correspondingly, 98% and 85% of respondents from buyers and input suppliers category reported that they had cellular telephone, respectively. On the other hand, about 14% of respondents from both micro and small enterprise, 35% from buyers and 55% from input suppliers replied that they had landline telephone (a fixed line – a line that is not a mobile phone line). This also corroborates with the information obtained from group interview of producers. Almost all of them explained that cell phones are the main channel of communication which enabled them to easily communicate with their buyers for the reason that it is opportune for communication than landline telephone.

Unfortunately, the highest proportion (95.2%) of respondents from micro and (96.4%) of them from small enterprises did not have access to internet. Nevertheless, relatively good proportions of respondents from buyers (38%) and from input suppliers (35%) had access to internet. This implies that the opportunity of MSE clothe producers to join and compete in an extensive array of market channels and expand their customer base via ICT (internet) is limited due to their extremely low access to it which in turn may discourage the upgrading practice of producers. Because research has shown that internet and e-commerce enable MSEs that remain in regional and local markets because of lack of information and marketing capability to gain access to new customers and to expand their markets geographically (Vickery et al. 2004).

4.2.2.5 Source of Startup Capital

Several studies show that the problem of startup capital is one of the major constraints that impede the growth of MESs. For example, CSA (2006) report indicates that shortage of initial capital was the major problem for 38% of small scale manufacturing industries in Ethiopia. Another survey report by the CSA on Urban Informal Sector (2003) indicates that, the top three problems faced by urban informal sector operators (micro enterprise operators) during start up stage are: lack of sufficient capital (38%) inadequate skill (10%) and lack of premises (6%) showing that shortage of initial capital has been critical problem for both mi-

cro and small enterprises that caught up them from being what they want to be. However, literature indicates that those entrepreneurs who succeed to start businesses usually use multiple sources of finance (Haftu Berihun et al., 2009). This survey so assesses the source of startup capital for the entrepreneurs and the responses are summarized as follows.

Table 4.3: Source of Startup Capital

Source of Startup Capital reported as "Yes"	Micro		Small		**Total**	
	N	%	N	%	N	%
Own saving	52	71.2	51	66.2	103	68.7
Loan or resource from family	6	8.2	6	7.8	12	8.0
Loan from friends	2	2.7	1	1.3	3	2.0
Loan from commercial banks	0	0.0	0	0.0	0	0.0
Loan from micro finance Institutions	9	12.4	11	14.3	20	13.3
Grantor loan from NGOs	3	4.1	1	1.3	4	2.7
Loan from 'Iquib'	0	0.0	0	0.0	0	0.0
Others (Members contribution)	1	1.4	7	9.1	8	5.3
Total	73*	100.0	77*	100.0	150*	100.0

Source: Own Survey

*The sum is greater than the sample on account of multiple answers

Respondents were asked to state the source of startup capital for their business. Data presented in the Table 4.3 show that the main source of finance for both micro and small enterprises was internal. Own saving as a source of startup capital was reported by respondents constituting about 72% and 66% from micro and small enterprises, respectively. The second source of set up capital reported was loan from micro finance institutions although accounting merely for 12.4% of micro and 14.3% of small enterprises. About 8% of respondents (from both micro and small enterprises alike) replied that they have received finance from their family for the purpose of commencing their business. Unfortunately, none of the enterprises (both micro and small) had received credit from commercial banks and Iquib[1]. 2.7% of both micro and small enterprises obtained grantor loan from NGOs where as just 2% of them received loan from their friend to start their business. This finding implies that micro and small enterprises mainly depend on limited internal source of capital (own saving) rather than on formal financial institutions to commence their business. This also indicates that formal

[1] Iquib is a tradition financial institution established for the purpose of saving and credit

financial institutions that are responsible for formal saving and lending did not play significant role in financing new MSE cloth producing ventures. This finding agrees with the results of study conducted by Haftu Berihun et al. (2009) who found that only 19% of MSEs in Ethiopia had got credit from formal financial institutions due to difficulty of entry and lack of formal support for new and dynamic potential entrepreneurs.

Table 4.4: Type of Clothe Produced by the Enterprises

Type of product	Micro		Small		**Total**	
	N	%	N	%	N	%
Modern men's and boys' clothe	43	31.9	32	23.7	75	27.7
Modern women's and girls' clothe	40	29.6	31	23.0	71	26.3
Traditional men's and boys' clothe	23	17.0	35	25.9	58	21.5
Traditional women's and girls' clothe	29	21.5	37	27.4	66	24.5
Total	135*	100.0	135*	100.0	270	100.0

Source: Own Survey, 2012

*The sum is greater than the sample on account of multiple answers

Respondents were asked about the type of clothe product they have been producing. In spite of the differences in proportion, both of micro and small clothe producing enterprises were engaged in the production of modern and traditional clothes for both sexes and all age groups. Almost 32% of micro and 24% of small enterprises have been producing modern men's and boys' clothe, respectively. Likewise, with slight difference in percentage compared to men's and boys' modern clothe, about 30% of micro and 23% of small enterprises are engaged in production of modern women's and girls' clothe. However, within enterprises there were some differences in production orientation. For example, the proportion of micro enterprises producing tradition clothe is smaller (17% for traditional men's and boys' cloth and 21.5% for traditional women's and girls' cloth) when compared to those engaged in the production of modern clothes (32% for men and boys and 30% for women and girls). Conversely, the proportion of small enterprises producing traditional clothe is slightly higher than (about 26% for traditional men and boys clothe and 27% for traditional women and girls clothe) those engaged in production of modern clothe (24% for modern men and boys and 23% for women and girls clothe).

It is found from observation and group interview that the main type of clothes produced by micro and small enterprises in the modern category includes: school uniforms, uniform for

employees working in both private and private sectors, different kind of sport wears, complete suit for both sexes and all age groups, Gowons, T-shirts, dress shirts, etc. Conversely, the type of clothes produced in traditional category encompass any type of garment for both sexes and all age groups made from traditional handloom fabric or dyed fabric that reflect the cultural dress of different ethnic group of Ethiopian society.

Figure 4.5: Pictures Showing Modern and Traditional Clothes

Source: Own Photos School Uniform Male Suit T-shirt Gowon Traditional women and men wear

4.2.2.6 Source of Inputs

With regard to the source of inputs such as: fabric (made from cotton, nylon, woolen, etc), accessories (buttons, zippers, elastic tape, ribbon, etc), sewing thread, yarn, etc which are the main inputs in clothe production, are either locally produced by domestic textile factories or weavers or imported from abroad. And so, clothe producing MSEs could acquire these inputs from a wide range of sources. Respondents were thus asked about the source of their input and the responses are summarized in the table 4.5.

Table 4.5: Source of Input

Source of Inputs	Micro		Small		**Total**	
	N	%	N	%	N	%
Collected by the owner or family	0	0	0	0	0	0
Purchased from neighbors	0	0	4	5.0	4	2.6
Supplied by factory	0	0	3	3.8	3	2.0
Purchased locally from retailers	55	76.4	48	60.8	103	68.2
Purchased locally from wholesalers	9	12.5	13	16.4	22	14.6
Imported via agents	1	1.4	1	1.3	2	1.3
Others (purchased from weavers)	7	9.7	10	12.7	17	11.3
Total	72*	100.0	79*	100.0	151*	100.0

Source: Own Survey

*The sum is greater than the sample on account of multiple answers

As can be seen from Table 4.5, majority of the enterprises (both micro and small) sourced the largest part of their inputs from retailers. That is, 76.4% of micro and 60.8% of small enterprises sourced their inputs from retailers. The second source of inputs reported by 12.5% of respondents from micro enterprises and 16.4% of them from small enterprises was wholesalers. Some of the enterprises particularly those in traditional cloth category sourced their input from weavers (9.7% of micro and 12.7% of small enterprises). None of micro enterprises sourced their inputs from factory where as about 4% of small enterprises purchased them from factories. Merely 1.3% of both micro and small enterprises imported their inputs via agents. This finding indicates that retailers and wholesalers are the main sources of inputs for clothe producing MSEs.

This finding is akin to the information obtained from the group interview carried out with producers. Almost all of interviewees from micro enterprises said that the main source of their input is retailers who are, particularly, located in Markato, Kechene, and Kolfe Gebeya. The main reason they raised for sourcing inputs from retailers was associated with capacity (shortage of finance) and marketing problems. One of participants expressed the issue as follows: "*I do not have money to buy input from wholesalers since they sell it in large quantity. Currently, I am producing clothe in very small quantity but I could not manage to sell it because of lack of market. Therefore, I procure inputs such as fabric and accessories from retailers because of lack of money and access to market.*" Another respondent says "*I prefer to source inputs from retailers because my capacity restricts me to do so. My financial capacity is weak so that I could not buy inputs in bulk. Another reason is that wholesalers may not have the type and quality of input that I want, so my only option is retailers.*"

4.3 Value Chain Map and Governance in the Value Chain

The first phase of the study which was focused on qualitative data collection and document analysis has generated significant information about the structure of the value chain in which micro and small clothe producing enterprises have been participating, different actors that participate in it, the relationship between and/or among these actors, and the major functions being carried out by actors in the value chain. To have comprehensive understanding about the value chain, the researcher has tried to map two chains: the first value chain is associated with modern garment and the second is related with traditional clothing. Independent exami-

nation of these chains is imperative, particularly due to the fact that the majority of both type of enterprises (micro and small) manufacture both modern and traditional clothes but sell some of their products in different market channels.

A value chain map is graphic representation of the types of firms in the value chain and how they are linked to each other (Kaplinsky and Readman 2001). It is useful in communicating the basic structure of the value chain and can be used as a framework for recording information about the value chain (McCormick and Schmitz 2002). It is also valuable to easily identify the location of MSEs in the value chain in terms of the functional levels at which MSEs are operating: input supply, production, wholesale, and/or retail (Dunn and Villeda 2005). Therefore, this section presents the value chain map of clothing enterprises, participant actors, and governance pattern in the chain.

The value chain map of cloth producing MSEs shows four major levels of the value chain in which four key functions namely: input supply, production, wholesale and retail have been undertaken by varied actors of the value chain (figures 4.7 and 4.9). Major firms participating (actors) in the value chain include input suppliers, clothe producers (MSE), brokers, distributors, designers, advert and printing enterprises, exporters, and retailers. It is found that the governance pattern between and/or among different actors in the value chain is characterized by a varied range of relationships, and thus none of the chains identified can be illustrated with the single governance pattern. This is because the patterns of value chain evolves over time with changes in market, products and inter firm relationships (Campbell, 2008).

4.3.1 Actors of the Value Chain and their Key Functions

Input suppliers: are firms that make key inputs like accessories (buttons, zippers, ribbon, elastic tape, etc); sewing thread; fabric; yarn; sewing machine and its spare parts; and packaging materials available for clothe producers. Except few large textile factories that supply fabric and yarn, majority of input suppliers are MSEs which operate as retailers and/or distributors.

Producers: manufacture both traditional clothes (made from hand loom or dyed fabric) and modern garments (made from factory products) for both sexes and all age groups. They procure inputs (listed above) from input suppliers or are given from buyers, layout the pattern

(mainly by their own), cut, sew, finish, iron, pack, and sell the product. However, these activities are differing from modern segment to traditional one. In modern segment the sequence of activities described above are common whereas in tradition section there are slight variations in the sequences. For example, rather than sourcing the inputs from suppliers such as fabrics, some producers fabricate them although procure some accessories, layout the pattern themselves or be given by designers, cut, sew, finish, iron (some of the clothes), and sell.

Brokers: are individuals or groups who receive cloth products from producers either on lot or in tad and resell them to retailers or distributors located in Addis Ababa and/or different regions of Ethiopia. They usually operate at a wholesale level and connect the buyer and seller of cloth product. Sometimes, rather than procuring clothes from producers and reselling them, they simply hook up buyers and producers and claim commission from both sides. According to producers, this category of buyer adds nothing to the product but reap the highest benefit in the chain.

Distributors: are actors that procure cloth on lot from producers and resell them to retail or non-retail firms in Addis Ababa and/or other regions of the country. They are playing the role of connecting producers and retailers. They collect clothes from various producers or order producers to transport the cloth to their location.

Designers: are individuals or firms that design clothes by considering different aspects such as: seasons (warm or cold seasons), work setting, cultural (tradition, religion, adornment, etc), age, gender differences, etc. Particularly, in traditional clothing, they collect a variety of materials to work with and varied colors, styles, and design to select from. In modern clothing, except few small enterprises that employ designers who have been working as in-house designers though majority of the owners of micro and small enterprises carry out the function of design by their own. They carry out this function either by directly copying the design from readymade imported and/or domestically manufactured clothes or by adopting some modification in readymade clothes. Some of them (novel once) sketch the design on paper to reduce errors that would otherwise happen to be reason for wastage of fabric whilst others who have experience and confident directly draft the design on fabric. In traditional clothing segment, some of the designers are highly trained and have their own design shops (exclusive shops); few of them are self-employed who perform the function of design for different

clients; and others are working as freelance designers who sell their design to varied fashion houses and exclusive shops. Some of them use their own creativity to keep pace with highly changing fashion while others download the designs from the internet or copy from others and modify them to fit the preference of the customers.

Figure 4.6: Designer sketching the pattern on fabric Designers sketching the pattern on paper

Source: Own Photograph, 2012

Advert and printing enterprises: are mainly engaged in printing different kinds of pictures and/or texts conveying different massages on garments. These enterprises are highly dispersed throughout the city and are focused on printing eye catching portrait or lexis on clothes particularly T – shirts. They source clothes either from MESs or large garment factories, print something on it and resell them to distributors or retailers. Or they simply provide printing service to their clients on already supplied clothes.

Exporters: are firms that sell clothes to firms located outside Ethiopia. Some of them are designers who have good skill and knowledge acquired via formal training and experiences. They learn the preferences of their clients by participating in international trade fairs; contacting their buyers in person or via internet or phone. They also conduct market assessment and provide the clothes according to the demand and preferences of the market. Based on these, some of them robustly work with MSEs by providing inputs, design, color, etc demanded in the market however exercise strong control over producers. Some of them produce the clothes in vertically integrated firm.

Retailers: are firms that sell clothes to final consumers. They procure clothes from a wide range of producers or distributors and resale them to any buyer who have interest in purchasing the clothe. Some of them have created strong bond with final consumers and call them as loyal customers. For this type of final buyer they give special attention and provide clothes

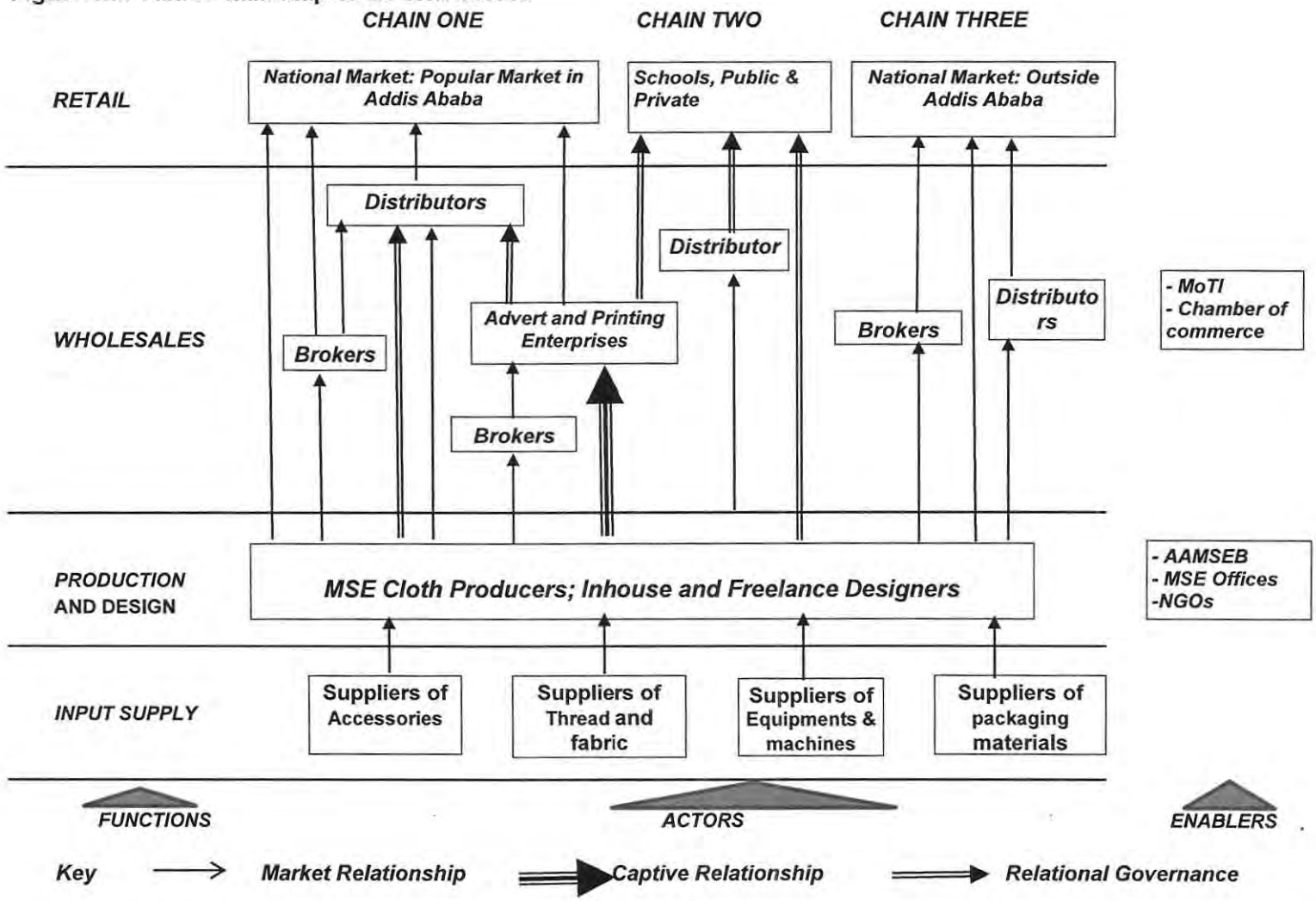
that satisfy their wants. To gratify these customers they procure clothes with different quality grades (grade one- high quality, grade two- moderate quality, grade three-low quality, grade four-very low quality) and sell grade one to the loyal customer and charge reasonable price. However, they request very unalike prices for the same product, for example, for loyal customers (less) price and any buyer (very high) price. For any buyer, they put forward clothes with different quality and prices and let the buyer to make decision. However, when the buyer is not knowledgeable about the quality of the clothe, they betray him/her by giving low quality product and charge the price of high or moderate quality clothe.

4.3.2 Value Chain of Modern Clothing and its Governance Pattern

The value chain for modern clothe encompasses three domestic market channels (Figure 4.7): popular market in Addis Ababa, various public and private organizations, and domestic market outside Addis Ababa (regional markets).

The first domestic market channel in the modern value chain is popular markets, which include small shops, open markets, and street vending in Addis Ababa. These markets are chiefly concentrated in Markato (the largest market in Africa), Kolfe Gebeya, Shola Gebeya, and Jan Meda (Sunday market). This channel is the largest of all markets in this chain and comprises thousands of firms where bulks of them are MSEs. Products like school uniforms, sport wears, T-shirts, men and women suits, gowns, children clothes, etc are mostly marketed in this channel. It is in this market channel that some producers sell their products intermittently to direct final consumers in either open markets or Sunday markets or in own small retail shops. Retailers in this channel purchase clothes from producers wherein sometimes producers transport the product to them or they procure from distributors. And so, retail shop owners in this chain resell clothes made by an array of numerous producers to final consumers.

Figure 4.7: Value Chain Map of Modern Clothe



Source: Map Contructed by the Researcher based on Qualitative and Survey Data

All brokers in this channel are operating informally and it is tricky to find them. They are well known to producers and buyers with whom they are connected. The major job of these brokers is hunt for buyers and connects them to producers. Majority of them are working on the commission basis where both producers and buyers pay fee for service provided. However, some of them purchase clothes from the producers and resale them either to distributors or final consumers. Majority of producers participated in interview claimed that they do not have curiosity to sell their product to brokers. But due to lack of information about the market (price, buyers and their preference, etc) and lack of product display and sales places, sometimes the only available option to them is selling their product for cheap price to brokers. Distributors are also one of the actors in this chain who buy clothes directly from producers and resale them to retailers.

Governance pattern in this channel is dominated by arms length relationship where producers principally manufacture the standard clothes and sell them in the market. In other words, producers' interaction with their buyers is limited to the exchange of the cloth they produced for money and such type of transactions are repetitively occurring in this market. However, some relational pattern of governance is also observed between producers and distributors where some of the producers make agreement (negotiation) in advance with these buyers on prices, quantity to be produced, quality, delivery time, and type of inputs used. This agreement is accompanied by frequent face-to-face interaction between producers and distributors. This pattern of governance is, however, occurred occasionally particularly when distributors have high orders; otherwise, the relationship between buyers and distributors is characterized by arm's length market.

Advert and printing enterprise are connected to different firms in the chain (figure 4.9). For example, they have linkage with distributors where distributors learn demand for the cloth in the market based on frequently asked embellished clothes either from retailers or send their messenger (broker) to collect information from different buyers. Based on this information, they invite advert and printing enterprises to print different type of pictures or texts on the cloth that is highly demanded in the market. Hence advert and printing enterprises are not producers of cloth rather printing something on it; they are expected to buy the cloth either from producers (when the cloth is not provided by distributors) or simply provide printing service on the cloth provided by the distributors. In either case, however, the source of gar-

ment is cloth producers. That is, each of them is expected to source the product from the producers and majority of them are sourcing these clothes from MSEs that are engaged in production of T-shirts. However, sometimes when the orders are very high, advert and printing enterprises use brokers to supply clothes that they are looking for or brokers themselves search for the market and invite these enterprises to print what they want on the clothes demanded in the market and again sell them either to distributors or retailers.

Governance pattern between and/or among these actors is mixed. The relationship between distributors and advert and printing enterprises is characterized by relational due to the fact that they usually carry out activities based on negotiation/agreement. On the other hand, the link between advert and printing enterprises and producers tends to be captive since these enterprises specify quality, color, and shape of cloth to be produced and apply sturdy control over the producers to ensure whether the production is being carried out as per specification or not. However, the relationship between distributors and producers, brokers and producers, as well as brokers and advert and printing enterprises is dominated by arm's length market pattern of governance.

The second market channel for modern cloth is the chain through which MSE producers reach different public and private organizations. These organizations involve: schools (from kindergarten to high school) where schools take the responsibility of purchasing uniforms to their students to reduce the burden of search for uniforms from families; public organizations (civil service institutions, public enterprises), private sector (factories owned by individuals, group or shareholders, hotels, cafes, etc). In this chain, producers manufacture uniforms for students and employees working in both private and public sectors. Small enterprises are the principal producers in this chain than micro ones given that the former relatively have good capacity to participate and win different bidding competitions and produce the required amount and quality of cloth. Nonetheless, some micro enterprises are also participating in this chain.

There are two methods in which producers have been participating in this channel. The first method is the condition in which micro and small enterprise offices at different level of the Addis Ababa city administration search for markets, particularly by contacting different organizations and link producers to them. Or else these offices write a letter of support that en-

courages different public organizations to give priority to MSE cloth producers while procuring uniforms for their employees. The second method involves active awareness of MSEs to chase different advertisements in which organizations invite various producers to compete for production of uniforms. In either of the cases, however, producers are required to have necessary capacity of producing clothes in terms of skills, knowledge, finance, and equipments. In general, the governance pattern of this chain is tending to be relational where both parties (producers and buyers) usually base their deal on written agreement and solve whichever obstacles based on negotiation rather than intimidation.

Figure 4.8: A Photo Showing an Enterprise Manufacturing Uniform for the Employees of Addis Ababa University during Data Collection

Source: A Picture Taken by the Researcher, 2012

Advert and printing enterprises are also among the actors who have been participating in this chain. They search for organizations which have aim to celebrate a special occasion which demand a unique dress that would adorn the day. Or organizations which have such plan are engaged in search for these enterprises. In that situation advert and printing enterprises approach cloth producers and order the color, design, quantity and quality of cloth to be produced and strongly monitor them in accordance with these specifications. Therefore, the relationship between producers and advert and printing enterprises is likely to be captive. On the other hand, the pattern of governance between advert and printing enterprises, and public and private organization is explained by relational one since they make every agreement in writing in advance.

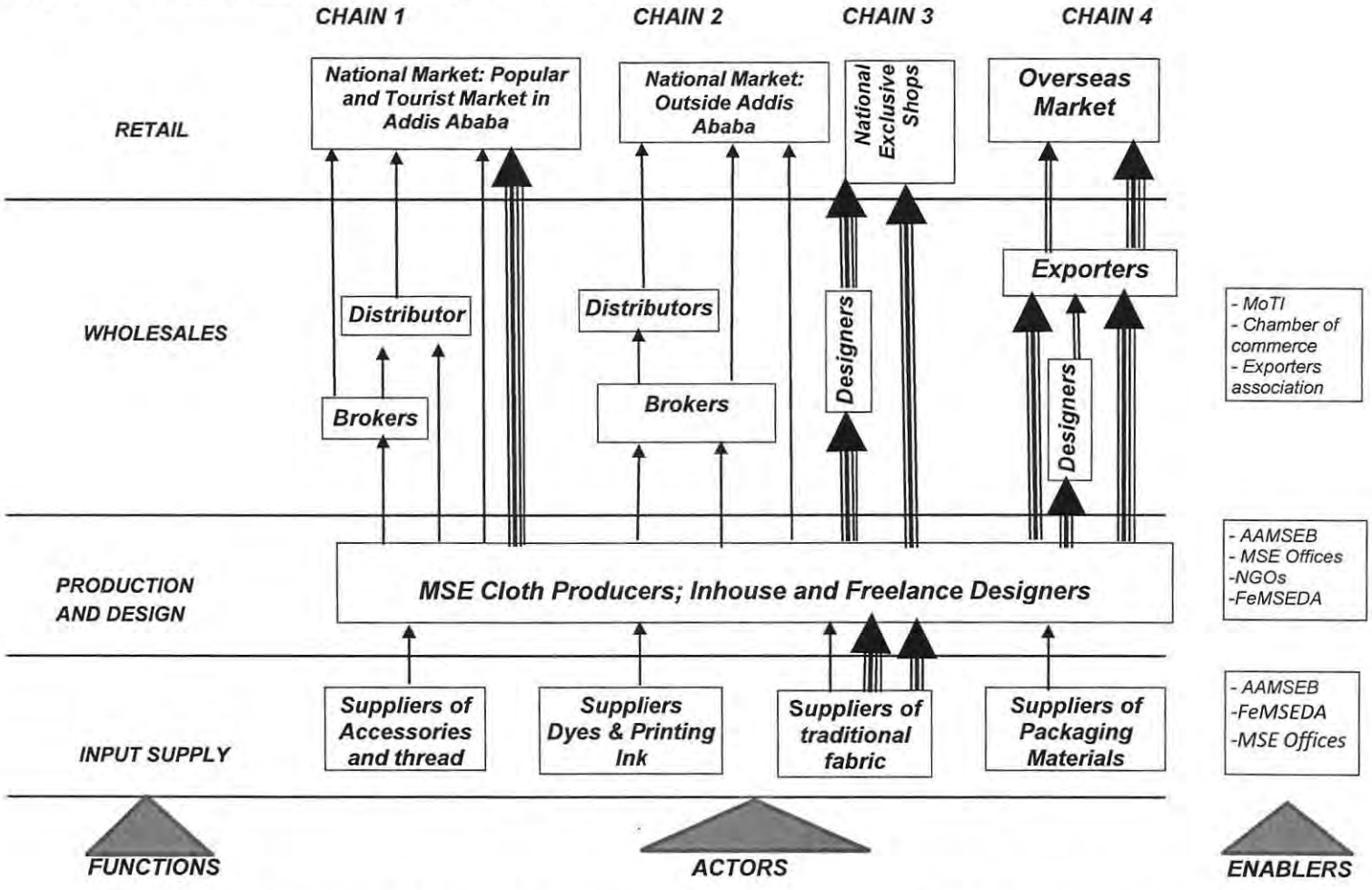
The third chain in the modern cloth is domestic market outside Addis Ababa. Producers reach this market either through distributors or brokers or directly sell their product to re-

gional buyers. Brokers know regional buyers well and sometimes link them with producers and charge commission from both parties. However, usually they communicate with producers and regional buyers via cellular phone. They ask regional buyers the exact time when they will come to Addis Ababa and before their arrival, they buy clothes from producers for credit or tell them to manufacture within specific time period that they clued-up by the regional buyers. Brokers contact as many producers as possible to identify those who agree to offer the cloth for cheapest price.

Another actor in this chain is distributor who sources the clothe from producers and resells for regional buyers. Hence these distributors are mainly located in Markato and Kolfe Gebeya, regional buyers find them effortlessly and simply pay money and pick the amount and type of cloth they want. However, sometimes, producers find these buyers and sell their products directly to them. This chain is dominated by the arm's length market pattern of governance given that it is characterized by repeated transaction between/or among actors participating in it, absence of technical assistance to producers, and transactions restricted to the exchange of cloth for money with diminutive information flows.

Input suppliers provide inputs such as accessories (buttons, zippers, ribbon, elastic tape, etc) whish are mostly imported; sewing thread and fabric – imported or locally produced; sewing machines and their spare parts; and packaging materials. The largest parts of input suppliers in the modern cloth chain are micro and small enterprise mainly operate at retail and distributor levels though hardly any of them operate as wholesaler. However, a handful of small cloth producing enterprises sources their input from large textile factories (such as Almeda, Kombolcha, Awassa, Ma Garment, Arbamich, etc) which have sales agent in Addis Ababa. Majority of input suppliers are located in Markato (in Military and Takka Terra), Kechene, and Kolfe Gebeya where producers visit the shops and purchase the amount and quantity of inputs that match up with their needs and financial capacity. The governance pattern between input suppliers and producers is tend to be market based given that the transaction between these actors is purely based on arm's length market relationships.

Figure 4.9: Value Chain Map of Traditional Clothe



Source: Map Contructed by the Researcher based on Qualitative and Survey Data

4.3.3 Value Chain Map of Traditional Clothing and its Governance Pattern

As far as market channel for traditional clothe is concerned, four chains were identified: popular and tourist markets in Addis Ababa, domestic market outside Addis Ababa, exclusive shops in Addis Ababa, and overseas market chains (figure 4.9).

Popular and tourist market chain involves small and large retail shops, open markets, street vending, and Sunday markets in Addis Ababa. These markets are highly concentrated in Markato (Shema and Minalesh Tera), Shiro Meda, Addisu Gebeya, and Jan Meda. This chain serves final consumers reside in Addis Ababa, visitors from other regions of Ethiopia, and foreign tourists. The chain is greatly overcrowded during public holiday where demand for the clothes reaches its peak. It is not unusual to see foreign tourist who visit these areas particularly Shiro Meda and Addisu Gebeya and buy some Ethiopia traditional clothes as well. It is through this chain that MSE producers get in touch with final consumers by either selling clothes in their own small shops or sell them in Sunday market or in streets. Sometimes brokers collect clothes from producers and resale them either to distributors or retailers. This practice is particularly extensive during holidays where the demand for the product augments and producers are busily betrothed in production. Producers also sell their products to distributors mostly located in Markato and Shiro Meda.

The most common pattern of governance observed in the popular and tourist market were market and hierarchical relationships. The preponderance relationships in this chain however were market relationships in which producers sell their product to local buyers (final consumers, retailers, brokers, and distributors) based on arm's length transaction. The same type of relationships was observed between buyers and brokers where brokers sometimes collect cloth from producers and resell it either to distributors or retailers. Distributors also resell the cloth they collected from producers to retailers in arm's length transaction. Most of the time retailers in popular and tourist market learn the preference of buyers by scrutinizing the type of cloth (in terms of sex, age, color, design, etc) sold swiftly or ask buyers to learn about their favorite type of cloth. Very few thriving enterprises in this chain function under hierarchical pattern of governance where major functions like design, manufacturing, and retailing are vertically integrated.

The second chain in tradition cloth involves domestic markets outside Addis Ababa in which producers sell their product either through intermediaries or directly to buyers in different regions of Ethiopia. However, compared to the first chain (popular and tourist market) sales volume is lower in this chain due to the fact that producers of traditional clothes are distributed all over the regions. Therefore, regional buyers come to Addis Ababa to purchase clothes that are unique (in design and color) and/or cheap when compared to regional prices. They buy clothes from distributors or brokers or directly from producers. The type of governance in this chain is totally market based in which each of these actors make transactions based on arm's length market relationship.

The third chain in which the retailing of traditional cloth occurs in Addis Ababa is exclusive shops. Majority of these shops are owned by designers and are dispersed throughout the city. However, they are more concentrated in Bole, Shiro Meda, and Kirokos market center. The main customers of these actors of the value chain are domestic higher class (affluent) Ethiopians, Diaspora, and tourists. They provide high quality products with unique design and style which is being dressed in special occasions such as wedding, celebration of particular event, holidays, etc. Most of them have their own weavers who are responsible to produce traditional fabric and tailors who took the responsibility of manufacturing traditional garment. Owners of exclusive shop also work with MSE producers where they define the product (design, color, and specific requirement associated with quality) and monitor producers closely so as to ensure whether the production is carried out according to the specification or not.

Figure 4.10: Picture Showing One of Exclusive Shops in Shiro Meda

Source: Own Photo, 2012

The governance pattern in this chain tends to be hierarchical and captive. It is hierarchical in that a single exclusive shop owner has been carrying out the major functions in the value chain such as input supply, design, production and retailing in vertically integrated manner. Captive governance pattern is also observed between exclusive shop owners and producers due to the fact that shop owners define the product to be produced and exercise strong control over the producers. Designers do not want producers to have more than one buyer (apart from them) because of the fear of losing design. Designers condemn producers on the basis of design mislay in which they perceive that when producers work with many buyers they might transfer their design to others. One of the interviewee says *"……I remember the producers who sold my design for one thousand Birr."*

The fourth chain in this traditional clothe production sectors is overseas market. Producers do not directly get in touch with buyers located outside Ethiopia. Rather they participate in this chain by selling their product to exporters located in Ethiopia. Some of the exporters form an association and sell traditional cloth to buyers located outside Ethiopia while others reach foreign markets by operating individually. The best example for exporters association in this sector is Ethiopian Women's Export Association whose vision is "To see successful Ethiopian women exporters in the international market and contributing to the economic empowerment of women and poverty reduction at all level." The association focuses on five export sectors where textile and garment is one of them. Both of the exporters (association and individual) however source the product either from the producers or manufacture them in their own firms. Since the production of clothes in this chain requires high heed in terms of quality and design, majority of exporters established vertically integrated firm in which functions like input supply (handloom fabric), design, production, and selling are carried out by a single firm. Some of the exporters are sourcing clothes from producers where product specifications (quality, design, style, etc) are defined in advance by them. However, before the commencement of actual production, exporters select producers by carefully evaluating their skills since manufacturing traditional clothes require deep talent and carefulness. Some of the exporters closely work with designers and source clothes from them.

When orders are high, designers outsource the function of production to producers by providing clear requirements including inputs and exercising hard-hitting controlling to ensure the

fulfillment of the specifications. Exporters sell their product either to final consumer dwells abroad via their retail shops located there or retailers outside Ethiopia or individual buyers abroad who ordered them.

And so, the governance pattern observed in this chain is varied. The chain is particularly dominated by hierarchical relationship where cloth producers have been working as wage employees and the exporter manufactures clothes in vertically integrated structure. The relationship between exporters and importers is typified by the relational wherein information flows between them is thick and buyers (importers) and exporters (seller) define the product together. Exporters learn the preference of buyers via internet communication, visiting buyers in person, participation in global trade fairs, etc. Likewise, the relationship between designers and exporters is characterized by relational one in which they work together, equally negotiate on each specification provided by exporters and frequently exchange information. On the other hand, the link between producers and exporters is observed as captive one in that exporters define the product to be produced and exercise tough control over the producers.

As far as input suppliers in this chain concerned, almost all of them are MSEs. They supply accessories (like elastic tape, buttons, zippers, etc); thread and dyes (yarn and sewing thread - imported as well as locally produced), fabric - locally produced by weavers, and packaging materials mostly imported. Suppliers of accessories, thread, and dyes are mainly retailers although few of them are engaged in wholesales of inputs. All of the weavers are micro and small enterprises that produce different kinds of fabric mostly from locally grown, ginned, and spun cotton. The governance pattern between producers and input suppliers in chain one and two tends to be market based in that transaction between these actors of the value chain is mainly based on arm's length market. Suppliers provide different kinds of inputs with varied qualities in which producers visit them, select what they want, pay money, and pick the inputs to their work place. However, in chain three and four where designers and exporters own vertically integrated firms, particularly, some of the weavers (fabric suppliers) have been operating as the part of the firms that are vertically integrated. Otherwise, these weavers supply their product to different markets in Addis Ababa (mostly to Markato, Shiro Meda, Addisu Gebeya, Kechene, Shola Gebeya, Jan Meda and Kolfe Gebeya).

4.4 Upgrading Practices of Clothe Producers

Upgrading is a process through which those who run enterprises acquire new knowledge, often through relationships with other firms in the value chain or firms in supporting markets, and increase value added of their offerings (Dunn et al. 2006). It is essential to the overall competitiveness of the value chain (Ernst 2004), as it ensures that chain is able to meet consumers' preferences for lower price and improved quality (Bloom et al. 2007). This study examines four types of upgrading such as process, product, functional, and channel upgrading. First, respondents were asked to state whether they adopted any type of upgrading in their firm. Then each type of upgrading is measured by different indicators particularly associated with core strategies or actions taken by each enterprise hitherto.

4.4.1 Process Upgrading

The focus of process upgrading is on improving the efficiency of production process in the course of transforming inputs into outputs more competently so as to attain greater production using fewer inputs. According to Bloom et al. (2007), process upgrading reduces the cost of production and may be attributable to improved organization and management of production process or to the use of improved technology.

Table 4.6: Process Upgrading Reported by Respondents

			Type of enterprise		
			Micro	Small	Total
Did your firm undertake any strategy listed under question F2 to improve production process in transforming inputs into output more efficiently?	Yes	Count	27	32	59
		% within type of enterprise	42.9%	57.1%	49.6%
	No	Count	36	24	60
		% within type of enterprise	57.1%	42.9%	50.4%
Total		Count	63	56	119
		% within type of enterprise	100.0%	100.0%	100.0%

Source: Own Survey, 2012

Respondents were asked about whether their firm has undertaken any action to improve production process in transforming inputs into outputs efficiently. Slightly higher than average, 57% of respondents from small enterprises and about 43% of them from micro enterprises

reported that they took actions to improve the production process of their enterprises (Table 4.6). This indicates that both type of enterprises adopted some sort of strategy to improve their production process. Nevertheless, the finding implies that small enterprises have more propensities to improve their production process than micro ones. This might be due to difference in capacity, access to different services provided by actors outside the chain, ability to exploit opportunities created in the market, and business orientation.

Table 4.7: Evidence for the Existence of Process Upgrading

Indicators of process upgrading (reported as "yes")	Micro		Small		**Total**	
	N	%	N	%	N	%
Introduced new managerial technique	2	4.4	13	16.3	15	12
Changed the layout of production technique	13	28.9	26	32.5	39	31.2
Put in place a system that expedite deliveries	5	11.1	17	21.3	22	17.6
Invested resources to quire new machinery or equipment	20	44.4	15	18.8	35	28
Invested resource in research and development	0	0	1	1.2	1	0.8
Reduced rejection rate	5	11.1	8	10	13	10.4
Total	45*	100	80**	100	125	100

Source: Own Survey, 2012

*The sum is less than the sample for micro enterprises due to less number of respondents undertook process upgrading

**The sum is greater than the sample for small enterprises on account of multiple answers

It was imperative to ask the type of action/activity carried out by the enterprises in attempt to improve their production process. As can be seen from Table 4.7, the main activities undertaken by micro enterprises to improve their production process include: investment to acquire new machinery or equipment (44.4%) and changing the layout of production process (29%). It was clear from observation and group interview that a number of enterprises invested their resources and purchased sewing machines that operate by electric power. Thus, majority of group interview participant who undertook such investment explained that the change from manually operating sewing machine to the one that is operate electrically enabled them to increase clothe produced per day. On the other hand, the major strategies for small enterprises to improve production system encompass: changing the layout of production process (32.5%), adopting a system that expedite delivery (21.3%) and investment in new machines or equipment (18.8%).

This finding shows that both type of enterprises adopted some sort of strategies to improve their production process although their strategies in terms of priority illustrate some difference. That is, while micro enterprises give the first priority for investment in machines, small enterprises focus on changing the layout of production process. This may be due to the fact that many small enterprises observed during data collection already have electrically operated sewing machines and now turn their focus to improve their layout of production process where all functions such as input storing, designing, cutting, sewing, finishing, and packaging are undertaken in close proximity so as to reduce wastage of resources (time, effort, etc).

4.4.2 Product Upgrading

Product upgrading involves a qualitative improvement in the product that makes it more desirable to consumers (Bloom D. et al. 2007). It focuses on introducing new products or improving old products faster than rivals. For example, it involves strategies like changing new product development processes both within individual links in the value chain and in the relationship between different chain links (Kaplinsky and Morris 2000). This type of upgrading could enable MSEs to earn a higher unit price since the higher quality product commands it (Dunn 2006).

Table 4.8: Product Upgrading Reported by Respondents

			Type of enterprise		
			Micro	Small	Total
Did your firm carry out any one of activities listed in question F4 to make clothes more desirable to the customers?	Yes	Count	21	33	54
		% within type of enterprise	33.3%	58.9%	45.4%
	No	Count	42	23	65
		% within type of enterprise	66.7%	41.1%	54.6%
Total		Count	63	56	119
		% within type of enterprise	100.0%	100.0%	100.0%

Source: Own survey, 2012

As far as product upgrading concerned, 33.3% of respondents from micro and about 59% from small enterprises reported that their enterprises adopted some strategies to advance clothe products (Table 4.8). This finding indicates that both types of enterprise have been trying to improve their product. However, alike in process upgrading, small enterprises are improving their product more than micro ones.

Table 4.9: Evidence for the Existence of Product Upgrading

Indicators for product upgrading (reported as "yes")	Micro		Small		**Total**	
	N	%	N	%	N	%
Improved the quality of the product	18	27.7	31	31	49	29.7
Changed the design of the product	15	23.1	25	25	40	24.2
Innovate in the usage of inputs, colors, shape, etc	17	26.1	23	23	40	24.2
Involved in the development of new product	15	23.1	21	21	36	21.9
Total	65*	100	100*	100	165*	100

Source: Own survey, 2012

*The sum is greater than the sample on account of multiple answers

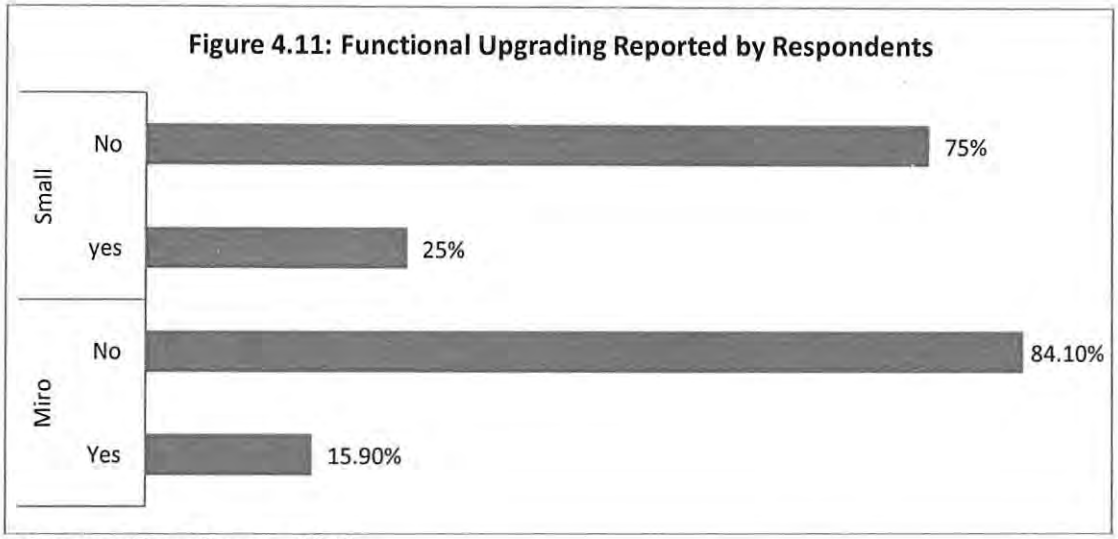
Those respondents who reported that they adopted strategy to improve products were asked to state the type of strategy they used. And so, the first main strategy adopted by both type of enterprises was advance in product quality (reported by almost 30%), followed by change in design (24.2%) and innovation in the usage of inputs, colors and shape of the product (24.2%). Some enterprises (about 22%) were also involved in the development of new product (Table 4.9). This finding indicates that regardless of type of enterprise; clothe producers adopted different type of strategies in an attempt to make their product attractive to their customers.

This find corroborates with results of qualitative data. Majority of participants from both type of enterprises explained that they produce clothes based on a number of criteria. One of these criteria is the purchasing power of customers. They explained that several producers fabricate clothe products with different grades. Grade one is labeled as high quality product and has high value, grade two is identified with moderate quality and moderate price, and grade three with lower quality and price. Therefore, they reported that their focus is on grade one and two where they make more money. These grades require high care in terms of input selection, color and shape so as to satisfy customers. Buyers whether they are distributors or retailers or brokers who give order or directly procure the cloth, select from these different grades based on purchasing power of the society.

4.4.3 Functional Upgrading

Functional upgrading encompasses the entry of a firm into a new, higher value-added level in the value chain (Dunn *et al,* 2006). This movement of a firm closer to the final consumer, requires the firm to take on new functions, and positions the firm to receive a higher unit price

for the product (Bloom *et al,* 2007). Particularly, this type of upgrading allows MSEs to increase value added by changing the mix of activities conducted within the firm or moving the locus of activities to different links in the value chain (for example from manufacturing to design) (Kaplinsky & Morris, 2000). The findings of the survey for this type of upgrading are presented below.



Source: Own Survey, 2012

As far as functional upgrading is concerned, results show that only few proportion of micro (about 16%) and small (25%) enterprises were engaged in non-production activity to acquire new or superior function that could enable them to reap the benefit created in the value chain (Figure 11). This might be due to shortage of capital, lack of information about upgrading opportunities, low level of knowledge and skills to analyze business environment, and weak relationships in the value chain.

Table 4.10: Evidence for the Existence of Functional Upgrading

Indicators for product upgrading (reported as "yes")	Micro (%)	Small (%)
The function of designing	7.9	8.9
The development of own brand	3.2	3.6
The function of intermediary	1.6	1.9
The function of retailing	11.1	14.3
The function of wholesales	0	5.4
The function of export	0	0
N	63	56

Source: Own survey, 2012

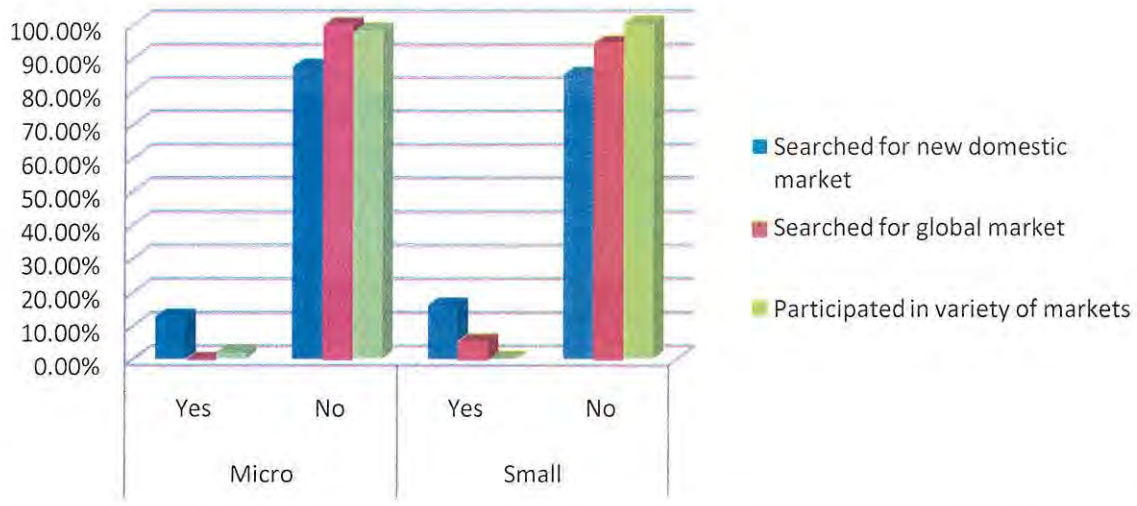
Besides production of clothes, 11.1% of respondents from micro enterprises were engaged in retailing while 14.3% of small ones were engaged in the same activity (Table 4.10). Another scrutiny that can be made from the Table 4.10 is that, few enterprises (about 8%) and (about 9%) were also engaged in the function of designing. However, it is found from the interview that this function is not for commercial purpose rather producers use it to manufacture their own clothe (internal purpose). A small proportion (5.4%) of small enterprises was also engaged in the function of wholesales. These findings indicate that clothe producers are focusing on production function rather than upgrading themselves to a new or superior function that could change their livelihood. This may be due to the existence of weak horizontal linkage between cloth producers. Because literature suggests that producers associations arise in an attempt to eliminate the role of intermediaries in such a way that offer producers the chance to engage in functional upgrading and earn higher revenue (Bloom et al. 2008).

4.6.4 Channel Upgrading

Channel upgrading involves selling a product into a new market channel within the value chain (Bloom et al 2007). When MSEs perform this type of upgrading successfully, these enable them to enter into a pathway leading to a new, higher value-added end market, such as a local, national, regional and/or global end markets (Dunn et al. 2006). Therefore, firms may operate in more than one channel at the same time, and they may move in and out of channels over time (Bloom et al 2007). Thus, this study examines the practice of this type of upgrading and the results are summarized below.

Respondents were asked about whether they entered into a new higher value added end market such as a local, national, global end markets. This type of upgrading was measured by the indicators such as: searching for new domestic market, searching for global new markets, and participation in a variety of markets. Except very few micro (12.7%) and small (16.1%) of enterprises who tried to search for new domestic market, the attempt made to search for global market is nil for micro enterprises and scanty (5.4%) for small ones. Almost none of the enterprises were participated in variety of markets so as to reduce the risks associated with market failure (Figure 4.12). These findings show that channel upgrading practice is very weak in both type of the enterprises.

Figure 4.12: Channel Upgrading Reported by Respondents



Source: Own survey, 2012

The finding that states channel upgrading practice of clothe producers is very weak is confirmed by qualitative information obtained from group interview carried out with producers. Hardly any participants explained that they participated in bazaars and trade fairs administered by AAMSEDA in Addis Ababa and searched out for new buyers. They noted that searching for buyers in global market is beyond their capacity due to financial, knowledge, and information constraints. This might also be due to lack of enterprises' access to information technology particularly to the internet (Table 4.2). This weak channel upgrading practice may be due to weak vertical and horizontal linkages between value chain actors as well. Because literature explains that producers associations might be formed as a way to lower the costs of inputs, marketing and business services and these efficiencies could encourage those higher up the value chain to include MSEs into their networks, resulting in channel upgrading (Bloom et al. 2008).

4.5. Factors that Enhance or Impede the Upgrading Practice of MSEs

For clothe producing MSEs to play key role in the economy of Ethiopia in general and of Addis Ababa in particular, they need to upgrade themselves by improving their production techniques, expanding their product array, engaging in superior functions that would boost their growth, and diversifying their marketing channels. In doing so, they can meet the requirements of the end markets at both local and international levels and grown to be competi-

tive in the market. Literature indicates that under right conditions, entrepreneurs, regardless of their background, can start and grow, generate profits, and create employment opportunities (Baily, 2008). However, in actuality, upgrading is not an easily task particularly for MSEs which are hemmed in by a lot of discouraging factors ranging from internal financial constraint to inauspicious business environment in which they are operating. Among many factors that may perhaps be incentive or disincentive for upgrading practice of cloth producing MSEs, this study focuses on the examination of factors related with the structure of value chain such as: end markets, vertical linkages, horizontal linkages, supporting market, enabling business environment, governance, and inter-firm cooperation. And so, the result of the assessment is presented in the following section.

4.5.1 Marketing Practice and End markets

Favorableness of the ways via which producers sell their product to end markets as well as demands in these markets may well encourage or discourage entrepreneurs to upgrade their process, product, and functions. For example, when the ways through which producers sell their product is found as favorable (because of better information about the market, convenient sales, more assistance from buyers, dependable sales, many buyers, high profit, etc), this would be an incentive to them to improve their production process and product quality so as to garner the opportunity created as a result of this situation. Therefore, to have clear understanding about the marketing practices of cloth producers, it was imperative to ask respondents about the ways via which they have been selling their products. The result of this item is summarized in the table 4.11 below.

4.5.1.1 Marketing Practices

Table 4.11 below indicates that relatively hefty proportion of respondents from micro enterprises (37.4%) sold their product directly to final consumers while about 24% of respondents from small enterprises sold their product to similar buyer. The second channel of sales for micro enterprises was retailers located in Addis Ababa where 27.3% of respondents sold their product to this buyer. However, 28.5% of respondents from small enterprise sold their product to retailers in Addis Ababa which makes this channel the first for small enterprises compared to the proportion of respondents sold to final consumers (24%). Only 7.5% of respondents from micro and slightly higher (12.6%) of them from small enterprises (compared to micro) sold their product to distributors/brokers in Addis Ababa. Likewise, merely 9.5% of respondents from micro enterprise sold their product to wholesalers located in Addis Ababa compared to about 17% of small enterprises. Almost 13% of respondents from both micro and small enterprises alike sold their product to buyers located outside Addis Ababa but operate within Ethiopia. Very small proportion of respondents from both type of enterprises (2.3%) sold their product to exporters located in Addis Ababa.

Table 4.11: Ways in which Producers Sold their Product

	Micro		Small		Total	
Ways in which products are sold reported as "Yes"	N	%	N	%	N	%
Directly to final consumers in Addis Ababa	55	37.4	36	23.9	91	30.5
To intermediary distributor/broker in Addis Ababa	11	7.5	19	12.6	30	10.1
To a retailer in Addis Ababa	40	27.3	43	28.5	83	27.8
To a wholesaler in Addis Ababa	14	9.5	25	16.6	39	13.1
To exclusive local shops (designers) in Addis Ababa	4	2.7	6	3.9	10	3.6
To buyers inside Ethiopia but outside Addis Ababa	19	12.9	19	12.6	38	12.7
To an exporter located in Ethiopia	4	2.7	3	1.9	7	2.3
To an importer located outside Ethiopia	0	0	0	0	0	0
Total	147*	100	151*	100	298*	100

Source: Own Survey, 2012

*The sum is greater than the sample on account of multiple answers

Unfortunately, none of the enterprises sold their clothe products to importers located outside Ethiopia. This finding shows that final consumers, retailers, and buyers outside Addis Ababa but inside Ethiopia are the main clients for micro enterprises. However, for small enterprises the first largest clients are retailers followed by final consumers, wholesalers, and regional buyers, in that order. It also implies that micro enterprises tend to sell their products directly

to final consumers than small enterprises not because of functional upgrading (eliminating middlemen and coming closer to final consumers) rather it is due to diminutive quantity produced and sold for survival purpose.

This finding corroborates information obtained from qualitative data. One of the discussants from micro enterprise says *"I produce clothe of all kind (traditional and modern) in small quantity. I never sold my product to middlemen for varied reasons. For example, the major reason is that, I produce small quantity of clothe due to financial constraint and low demand in the market, sell it for cheap and earn very small profit or sometimes nothing. I use this marginal profit for daily consumption, so how can I share this trivial profit to others? Due to this, I prefer to sell my cloth directly to final consumers either on street or in my work place."* This finding is substantiated by the research finding of FeMSEDA which assert that a number of MSEs do not have the necessary retail outlets and sell their product at break-even or even below cost(www.mse.org.et)

4.5.1.2 Favorableness of Ways via which Products Sold

Table 4.12: Favorableness of Ways via which Producers Sold their Product

Do you think the way (s) in which you sold your cloth product are favorable for the producers like you?			Type of enterprise		Total
			Micro	Small	
	Yes	Count	22	29	51
		% within type of enterprise	34.9%	51.8%	42.9%
	No	Count	41	27	68
		% within type of enterprise	65.1%	48.2%	57.1%
Total		Count	63	56	119
		% within type of enterprise	100.0%	100.0%	100.0%

Source: Own Survey, 2012

When asked whether the channels in which producers sold their product is favorable or not, respondents gave different answers. As can be seen from Table 4.12, the majority (65%) of respondents from micro enterprises reported that the way in which they sold their product was unfavorable whereas slightly less than average (48%) of respondents from small enterprises reported that the channels was unfavorable. This finding may indicate that marketing channel via which enterprises have been selling their product is not favorable particularly for

micro enterprises and the situation could be disincentive for some owners to make upgrading decision. However, for slightly more than half small enterprises the marketing channel is favorable implying that some of small enterprises have good prospect to engage in an array of upgrading activities than micro ones due to opportunities created in the channel via which they sold their products.

Table 4.13: Reasons for Unpromising Marketing Channel

Reasons	Micro		Small		Total	
	N	%	N	%	N	%
High cost of inputs	9	8.4	7	8.6	16	8.6
Difficult to find buyers	37	34.6	23	28.8	60	32.1
Lack of information about the market	11	10.3	10	12.5	21	11.2
Low bargaining power of producers	11	10.3	12	15.0	23	12.3
Low profit	33	30.8	23	28.8	56	29.9
Unreliable and unpredictable sales	6	5.6	5	6.3	11	5.9
Total	107*	100	80*	100	187*	100

Source: Own Survey, 2012

*The sum is greater than the sample on account of multiple answers

Respondents were asked to indicate the reason(s) why they said the way in which they sold their product is unfavorable. Majority of respondents accounting for 34.6% from micro and 28.8% of them from small enterprises reported that obscurity of finding buyers made the market unpromising. The next highest reason for discouraging marketing channel which is reported by 30.8% of micro enterprises and 28.8% of small enterprises was low profit. Other reasons involve: low bargaining power of producers (reported by 10.3% respondents from micro and 15% from small enterprises), lack of information about market (reported by 10.3% of micro and 12.5% of small enterprises), high cost of inputs (replied by 8.4% of micro and 8.6% of small enterprises) and unreliable sales (reported by 5.6% of micro and 6.3% of small enterprises) (Table 4.13). This finding suggests that the problem of finding buyers, low profit, low bargaining power of producers, and lack of information about the market are the major reasons that made the conduit via which producers sold their products inauspicious.

4.5.1.3 Demand in the Market

Within a value chain there can be a series of buyers, from local and international traders to retailers and final consumers who server as destination market entity (Barber 2008). These end markets are a core driver of value chain growth and development (microlinks.kdid.org).

And so, literature indicates that strong demand in end markets encourages MSEs to upgrade (Dunn et al. 2006). For example, end market demand informs supply chain actors (producers) who in turn build the capacity to meet demand and compete in the market place (Barber 2008). Particularly, Nichter and Goldmark (2005) note that an important dimension of growth or potential growth for MSEs in a value chain is strong demand in the end markets, whether local, regional or international. In this survey the perception of producers towards their product demand was assessed and the findings are summarized as follows.

Table 4.14: Respondents' Evaluation about Demand in the Market

Overall demand for your product over the last 2 years			Type of enterprise		
			Micro	Small	Total
	Increased	Count	23	28	51
		% within type of enterprise	36.5%	50.0%	42.9%
	No change	Count	20	25	45
		% within type of enterprise	31.7%	44.6%	37.8%
	Decreased	Count	20	3	23
		% within type of enterprise	31.7%	5.4%	19.3%
Total		Count	63	56	119
		% within type of enterprise	100.0%	100.0%	100.0%

Source: Own Survey, 2012

When asked about overall demand in the market, respondents gave varied answers. For 36.5% of respondents from micro enterprises the overall demand in the market was increased though 50% of respondents from small enterprises reported that it was increased. For micro enterprises that constitute 63.5% of respondents, demand in the market was either decreased or showed no change. In contrary, for 44.6% of small enterprises, the overall demand in the market did not show any change and only 5.4% of respondents from small enterprises reported that the demand in the market is decreased (Table 4.14). This indicates that for majority of micro enterprises decline in market demand is bad news which may discourage them to upgrading their firms. However, for small enterprises since average proportion of respondents evaluated the demand in the market as increasing this would encourage them to upgrade themselves to reap the benefit created in the market. In general, this finding implies that increasing in demand in the market is incentive for clothe producers to upgrade their process and product.

This finding is in also line with the crosstab report presented in the table 4.15 (appendix A) wherein among respondents who reported that demand in the market is increasing, 66.7% and 72.5% of them adopted some sort of strategies to upgrade their enterprises' process and product, respectively. Moreover, among respondents who assessed demand as increasing in the market, 43.1% and 23.5% of them also engaged in functional and channel upgrading practices, in that order. From logistic regression analysis, it was found that increase demand in the market positively influence process and product upgrading practices of clothe producers and the influence is statistically significant (see Tables 40 and 42, appendix A).

4.5.1.4 Trend of Sales

In terms of sales trend, majority of respondents from micro enterprises accounting for about 43% responded that their sales declined whereas only 25% of respondents from small enterprises reported that sales were declined. On the other hand, 25.4% of respondents from micro and 35.7% of them from small enterprises replied that sales remained the same over time. In the same manner, 31.7% of micro and slightly higher proportion (39.3%) of small enterprises reported that their sales were increased over time (Table 4.16). This indicates that for majority of micro enterprises sales are lower now than before while sales are higher now than before for greater part of small enterprises. This might be associated with the assessment of respondents' demand in the market where majority of the respondents from micro enterprises evaluated the market demand as either declining or showing no change while about half of respondents from small enterprises assessed it as increasing overtime (Table 4.14).

Table 4.16: Trend of Sales to Top Buyers

			Type of enterprise		
			Micro	Small	Total
Trend of sales to top buyer	Same level of sales over time	Count	16	20	36
		%	25.4%	35.7%	30.3%
	Sales have increased over time	Count	20	22	42
		%	31.7%	39.3%	35.3%
	Sales have decreased over time	Count	27	14	41
		%	42.9%	25.0%	34.5%
Total		Count	63	56	119
		%	100.0%	100.0%	100.0%

Source: Own Survey, 2012

It was found that there is statistically significant positive relationship between demand in the market and trend of sales at ***P=0.02*** (Table 4.17). This implies that strong demand in the market is related with increase in sales which possibly will motivate clothe producers to take on upgrading. In contrary, weak demand in the market is associated with decline in sales and could be one of the discouraging factors for upgrading. Therefore, it is clear from this finding that for micro enterprises declining demand in the market coupled with turning down of sales could be one of the disincentives for their upgrading practice though increasing demand in the market in conjunction with increase of sales will be incentive for small enterprises to engage in upgrading activities. This finding confirms the data presented in the table 4.6 and 4.7 where majority of small enterprises reported that they were adopted various strategies to upgrade their process and product more than micro ones.

Table 4.17: Correlation between Demand and Trend of Sales

Control Variables			Overall demand for product over the last 2 years	Trend of sales to top buyer
Type of enterprise	Overall demand for product over the last 2 years	Correlation	1.000	.276
		Significance (2-tailed)	.	.002
		df	0	116
	Trend of sales to top buyer	Correlation	.276	1.000
		Significance (2-tailed)	.002	.
		df	116	0

Source: Own Survey, 2012

This find also confirms information obtained from the group interview with producers where greater part of participants from micro enterprises explained that their market and sales are diminishing from time to time. When asked about the demand in the market, one of the participants says *"the demand for my market is declining with the pace that I could not believe. The market becomes cold just like ice. I am struggling in the game of life and it appears that I am going to lose. Because my sales are highly declining and the revenue that I could generate is approaching zero. Therefore, in this dark situation thinking about upgrading is difficult and even impossible. In my view, survival comes first and after I survive in the market, the next issue will be looking for different alternatives of growth."*

4.5.2 Vertical Linkages

Literature indicates that product markets usually grow vertically before they grow horizontally (Olaf, Downing, and Field 2006). According to these authors without the capacity to get a product to market through input suppliers, producers, processors, wholesalers/exporters and finally to retailers, industries are unable to generate sufficient income for investment in upgrading services, such as product development, training, and other business services. Thus, the vertical chain must be developed and strengthened before first or subsequent tiers of services emerge.

And so, the importance of vertical relationships between and/or among different firms in the value chain is well documented in the literature. For instance, according to Dyer and Singh (1998), collaboration through vertical relationships is vital for value chain competitiveness. Likewise, Galizzi and Venturinil (1999) noted that closer cooperation and coordination enhance value chain competitiveness by reducing transaction costs and increasing the ability of the chain to meet and adjust to consumer demand. Therefore, the nature of the vertical linkages often defines and determines the distribution of benefit along the chain and creates incentive for, or constrains upgrading (Humphrey and Schmitz 2006).

This study thus assesses the vertical linkages between and/or among different firms in the value chain based on the following indicators. Category of producers' top buyer, personal connection between buyers and producers, level of trust in the value chain, kind of agreements made between producers and top buyers, mode and frequency of communication between producers and buyers, and information about the distribution of benefits in the value chain. The results are summarized as follows.

4.5.2.1 Top Buyers of Producers

Respondents were asked to state the top buyer to whom they sold cloth products. Massive proportion of the respondents (constituting 90.5%) from micro enterprises and 75% of them from small enterprise reported that buyers in Addis Ababa were their pinnacle buyers. Likewise, 60% of respondents from buyers category resold producers product in Addis Ababa while 80% of respondents from input suppliers reported that their top buyer are located in Addis Ababa (Table 4.18). This finding shows that top buyer of clothe producers are concen-

trated in Addis Ababa. This is in congruent with the data presented in the Table 4.11 where the major channel of market for both micro and small enterprises was final consumers and retailers in Addis Ababa, respectively. This finding implies that concentration of buyers in one location mean limited marketing network and could be risk for producers in the case of market malfunction.

Table 4.18: Category of Top Buyer for Producers, Buyers, and Input Suppliers

Which category of buyer is your top buyer?		For Producers		Total	For Buyers	For Input Suppliers
		Micro	Small			
Buyers in Addis Ababa	Count	57	42	99	30	16
	%	90.5%	75.0%	83.2%	60%	80%
Buyers in Ethiopia but outside Addis Ababa	Count	6	14	20	12	4
	%	9.5%	25.0%	16.8%	24%	20%
Buyers located outside Ethiopia	Count	0	0	0	8	0
	%	0.0%	0.0%	0.0%	16%	0.0%
Total	Count	63	56	119	50	20
	%	100%	100%	100%	100%	100%

Source: Own Survey, 2012

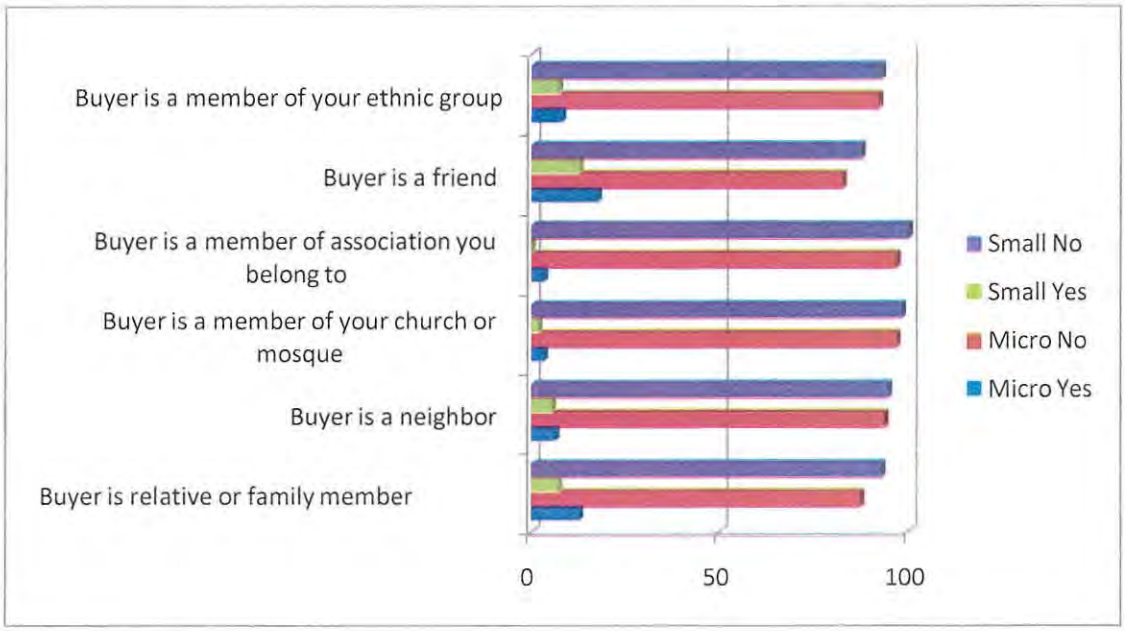
This finding matches with the market research result of FeMSEDA that says "... the experience of MSEs is limited only to local condition and they are not well aware of what is going on in the other parts of the country" (www.mse.org.et). This is also an assurance for diminutive channel upgrading practice of micro and small cloth producing enterprises in which they are subdued to diversify their market channels so as to reduce risks associated with low demands in the market. This is also in line with findings presented in the figure 4.12 where vast majority of respondents reported that their channel upgrading practice (diversifying market channel) in the value chain was very weak.

4.4.2.3 Social Network

Having an extensive social network is a valuable asset, as it can help an entrepreneur obtain access to information (e.g. about profitable business opportunities) and resources (e.g. credit) (Nichter and Goldmark 2005). Particularly, McGrath and Sparks (2006) described the importance of social relationships magnificently by saying "Friends and family trade more and on different terms than do the estranged and strangers." This survey thus assesses the level of

personnel connection between buyers and producers and the findings are summarized in the figure 4.13.

Figure 4.13: Producers' Personal Connection with Top Buyer



Source: Own Survey, 2012

When respondents were asked about personal connection they had with their top buyer, very small proportion from both micro (on average 8.5%) and small (merely on average 5.7%) enterprises reported that they had personal relationship with their buyer (figure 4.13). This indicates that social network between and/or among cloth producers and their top buyer is very weak. However, literature indicates that bridging social capital such as having a personal relationship with a buyer or linking to other producers is an investment in a more competitive value chain (Bloom D. et al. 2007).

4.4.2.4 Kinds of Agreement Made between Producers and Buyers

Agreements of producers with buyers can decrease the risks and costs associated with entering new markets by providing guaranteed flow of orders, critical information about market requirements, and, in some cases, reducing the need for capital investments (Aw 2001 cited in Nichter and Goldmark 2005). Research has demonstrated the positive impact on learning and benefits to micro and small scale producers from entering into contractual relationships

with buyers (Olaf, Downing and Field 2006). Therefore, mutual beneficial agreements among vertically related firms can improve MSEs' access to market, new skills, and a wide range of services, and can reduce market risks by securing future sales (Olaf, Downing and Field 2006). This study so scrutinizes the kinds of agreement made between producers and buyers as well as their formality and the findings are summarized as follows.

Respondents were asked about the type/kind of agreement they made in advance with their top buyer. About 64% of respondents from small enterprises reported that they either always or sometimes made agreement about different aspects of their sales (dates, kinds, price, quality and types of inputs) compared to about 55% of respondents from micro enterprises that either always or sometimes made agreement in advance about the same aspects of sales with their buyers (Table 4.19, appendix A). This indicates that both type of enterprises made some sort of agreement with their buyers. Even if majority of the respondents from both micro and small enterprises made agreement always or sometimes with their top buyers, however, it is plain from the data that small enterprises were more likely to report that they either always or occasionally made agreement in advance about quantity, dates, kinds, price, quality and types of inputs with their top buyers than micro enterprises. This implies that the relationship of cloth producers in both micro and small enterprises with their buyers is characterized by some form of agreements which is one of the aspects of relational governance.

Buyers and input suppliers were asked about whether they ever made agreement with producers as well. And so, 78% of respondents from buyers and 70% from input suppliers reported that they made agreements in advance with producers (Table 4.20). This finding corroborates with producers' response where majority of them affirmed that they made agreements with their buyers.

Table 4.20: Agreement between Buyers and Producers, and Producers and Input Suppliers

Have you ever made agreement with cloth producers in advance?	Buyers		Input Suppliers	
	N	%	N	%
Yes	39	78.0	14	70%
No	11	22.0	6	30%
Total	50	100.0	20	100%

Source: Own Survey, 2012

However, agreements made between and/or among value chain actors are dominated by informal contract. Majority of respondents represented by 69% from both micro and small enterprises, 92.3% from buyers' category, and 64.3% from input suppliers reported that they did not make agreements in writings (Table 4.21). This indicates that bulk of agreements made between value chain actors were informal which are chiefly based on verbal communication. Reliance of all actors on unwritten agreements may also imply that the potential to enforce these agreements could be very uncertain. Literature, however, shows that trust between actors of the value chain works very well in the situation where there is general absence of enforceable contact to secure agreements (Bloom et al. 2007). But as can be seen from the subsequent discussions, trust among actors of clothing value chain is awfully weak.

Table 4.21: Agreements Made between Producers and Buyers in Writing

			Producers View			Buyers view	Input Suppliers View
			Micro	Small	Total		
If you make agreement always or sometimes, did you make it in writing?	Yes	Count	9	13	22	3	5
		%	25.7%	36.1%	31.0%	7.7%	35.7
	No	Count	26	23	49	36	9
		%	74.3%	63.9%	69.0%	92.3%	64.3
Total		Count	35	36	71	39	14
		%	100%	100%	100%	100%	100%

Source: Own Survey, 2012

The finding that bulk of agreements made among value chain actors are chiefly based on verbal communication is supported by interview conducted with producers and buyers. One of the interviewees from distributors says *"Producers do not want to have contractual agreements that involve script because such agreements will have legal consequences when either of us breaks them. In my understanding, producers are frequently failed to observe verbal agreements made so far between us. Had the agreement made in writing, they would have been taken to the court. Therefore, to avoid such risk they prefer verbal agreement."* On the other hand, one of the participants from clothe producers explained that: *"Almost all of the buyers that I am working with do whatever available to them to avoid formal contractual agreements. Because their behavior is volatile in that they simply switch from one producer to another by finding minor errors from us. Since we usually make verbal agreements even without having eye witnesses in place, most of them violate such agreements. I lost a*

lot of money because of this ugly action of my buyer." This implies that both producers and buyers do not like written agreements and the level of trust between them is very weak as well.

However, these findings could not be misinterpreted with the agreement made between producers and buyers in different public and privates sectors. Majority of producers who have been selling their product to these organizations, during interview explained that, they always made agreement with these buyers and reported that they did not experience any failure in these agreements from their buyers and so they trust them.

Table 4.22: Buyers' and input suppliers' evaluation about the Cost of Written Agreement

How much time it takes to arrange a written agreement compared to the amount of time it takes to arrange an unwritten agreement?	Buyers' View		Input Suppliers' View	
	N	%	N	%
Written agreement takes less time	12	28.6	5	27.8
Written agreement takes more time	30	71.4	13	72.2
Total	42	100	18	100
How much money it costs to arrange a written agreement compared to the amount of money it costs to arrange an unwritten agreement?	N	%	N	%
Written agreement costs less money	11	26.2	4	22.2
Written agreement costs more money	31	73.8	14	77.8
Total	42	100	18	100

Source: Own Survey, 2012

The finding that buyers, producers, and suppliers prefer informal or unwritten agreement is supported by the evidence obtained from the buyers' and input suppliers' survey. 71.4% and 72.2% as well as 73.8% and 77.8% of respondents from buyers and input suppliers category reported that written agreement takes more time and costs more money, respectively, showing preference of value chain actors towards unwritten agreement (Table 4.22).

4.4.2.5 The Level of Trust between Value Chain Actors

Trust is a key element in vertical relationship, particularly when transactions involve advance credits for inputs in exchange for future products, and there is general absence of enforceable contact to secure these agreements (Bloom et al. 2007). The literature indicates that trust is critical to sustaining cooperation (Galizzi 1999; Morris 2004) and to reducing transaction costs (Levi 2000). However, it may take years to build trust and a single mistaken transaction may be enough to break it (Choudhary 2008). Thus respondents were asked about whether they trust their buyer in both business and personal dealings and the results are summarized in the Table 4.23 below.

Table 4.23: Respondents Disagreed with Statement on Trust with Top Buyers

Type of trust	Micro N(%)	Small N(%)	Total N(%)
Producer trusts top buyer to look out for producer's interests in business dealings	42(66.6)	29(51.8)	71(59.6)
Producer trusts top buyer to be fair	39(61.9)	35 (62.5)	74(62.2)
Producer trusts top buyer to look out for welfare of producers	43(68.2)	35(62.5)	78(65.5)
Producer trusts top buyer to help producers if they need it	47(74.6)	40(71.4)	87(73.1)
Buyers can take advantage of producers if they are not careful	11(17.5)	10(17.9)	21(17.6)
Producer trusts top buyer to meet agreed upon conditions	49(77.8)	44(78.50)	93(78.2)

Source: Own Survey, 2012

This paragraph explores the level of trust between clothe producers and their top buyer. 66.6% and about 52% of respondents from micro and small enterprises reported that they did not trust their top buyers in terms of attention given to their interest in business dealings, respectively. Likewise, 62.2% respondents from both micro and small enterprises reported that they did not trust top buyer to be fair with them. Moreover, 68.2% of respondents from micro and about 63% of them from small enterprises replied that top buyer could not be trusted to look out for their welfare. As far as support that producers expect from their top buyer concerned, high proportion of respondents from both type of enterprises (73.1%) reported that they did not trust top buyer to assist them if they need such assistance. About 82% of respondents from both enterprises reported that if cloth producers are not careful, buyers can take advantage of them. Finally, more than three-quarters (78%) of respondents from both type of enterprises indicated that producers could not trust top buyers to meet agreed upon conditions

(Table 4.23). These findings point out that trust which is critical for the value chain competitiveness is incredibly feeble in the value chain.

Table 4.24: Buyers' Assessment about Trustworthiness of Producers

How much do you trust producers to meet agreed upon conditions?	Frequency	Valid Percent	Cumulative Percent
They are reliable	8	20.5	20.5
They are unreliable	25	64.1	84.6
They are highly unreliable	6	15.4	100.0
Total	39*	100.0	

Source: Own Survey, 2012

*The sum is less than sample due to exemption of respondents who did not make agreement

Buyers were also asked whether they trust producers to meet agreed upon conditions such as: quantity, quality, delivery time, etc. Vast majority (79.5%) of respondents from buyers' category reported that producers are untrustworthy in meeting agreed upon conditions (Table 4.24). Furthermore, input suppliers were also asked about whether they trust their buyers or not. Accordingly, 64.3% of respondents from input suppliers' category reported that they did not trust their buyers. This finding substantiates the qualitative result explained above and reinforces the information acquired from producers' survey where it is found that trust between producers and buyers which is critical for the value chain competitiveness is very weak. Low level of trust between and/or value chain actors implies that vertical linkage between them is weak because trust which is found as critical to sustaining vertical cooperation (Galizzi, 1999; Morris & Barnes, 2004) is missing in the value chain. This finding is in line with the argument that in Ethiopia the vertical linkage between different enterprises is weak in that they want to accomplish the job independently because firms do not have enough trust in each other (Netsanet, 2009).

Albeit buyers evaluated producers as untrustworthy, majority of them hitherto prefer to do business directly with them than intermediaries given that the transaction cost associated with dealing with many clothe suppliers at different levels of the chain may reduce their earnings. As can be seen from the Table 4.25, almost half (49.3%) and 15.1% of buyers reported that they frequently source clothes that they sold directly from MSEs and medium and large enterprises, respectively.

Table 4.25: Category of Cloth Suppliers Preferred by Buyers

From which one of the following category of supplier did you frequently procure the item of clothe that you sell?	Frequency	%
Intermediaries	26	35.6
Directly from MSEs	36	49.3
Directly from medium and large industries	11	15.1
Total	73*	100

Source: Own Survey, 2012

*The sum is greater than the sample on account of multiple

This finding is reinforced by additional information obtained from buyers wherein majority of them reported that doing business directly with producers takes less time and costs less money. For example, 78% and 86% of buyers reported that it takes less time and costs less money to deal with producers than intermediaries, in that order (Table 4.26). This preference of buyers may be to reduce transaction costs which are a major constraint to the formation of vertical relationships with MSEs (Bloom D. et al. 2007).

Table 4.26: Buyers Evaluation about the Cost of Doing Business with Cloth Suppliers

How much time it takes to deal with intermediaries when compared to the time it takes to directly deal with producers?	Frequency	%
Less time with intermediaries	10	20.0
Less time with producers	39	78.0
There is no difference	1	2.0
Total	50	100.0
How much it costs to deal with intermediaries when compared to the cost of directly dealing with produc-ers?	Frequency	%
Less cost with intermediaries	6	12.0
Less cost with producers	43	86.0
There is no difference	1	2.0
Total	50	100.0

Source: Own Survey, 2012

4.4.2.6 Mode of Communication between Value Chain Actors

Consistence communication and relationship can reduce financial risks by establishing agreement on volume sales and price for produce (Bloom, et al. 2008). Respondents were

asked about the method of communication frequently used by them while they communicate with each other. The response of this item is summarized in the Table 4.27 (see appendix A).

A vast majority of the cloth producers from micro (82.5%) and (92.9%) from small enterprises reported that they communicated face-to-face with their top buyers in the past two years. When asked similar question, 92% of buyers and 100% of input suppliers reported that face-to-face communication was the most frequent form of communication between them and producers.

The second most frequently used mode of communication between producers and their top buyers was cellular telephones which was reported by 76.2% of respondents from micro and about 70% of them from small enterprises (Table 4.27). Likewise, 78% of buyers and 80% of input suppliers reported that they used cellular phone frequently to communicate with producers. On the other hand, only 6.4% and 12.5% of respondents from micro and small enterprise reported that they communicated with their top buyer through landline telephones which was also reported by merely 6% of buyers and 15% of input suppliers (Table 4.27).

Unfortunately, none of micro enterprises were using internet as a means of communication while merely 1.8% of small enterprises and 2% of buyers have been using it as a means of communication. In contrast, 15% of input suppliers reported that they were using internet as a medium of communication although all of the respondents were from large textile manufacturing companies showing that MSE input suppliers did not use the internet. These findings imply that for producers, buyers and input suppliers, face-to-face and cellular telephones were the principal form of communication. High reliance on face-to-face communication may be due to the pervasiveness of the tradition of informal agreements made between buyers and producers which mainly involve advance payment (called ***'Kebid'***[2] in Amharic).

On the other hand, the convenience and expansion of mobile phones services in the country also enabled value chain actors to frequently use them as one of the primary modes of communication. However, it is found from the interview that rather than using cellular phones to equip producers with necessary information that could enable them to be knowledgeable

[2] Kebid – advance payment made by buyer before actual production and mainly serves as guarantee for any breach of agreement

about prices, new trends in the market, etc, buyers use them to give orders or supply information that mainly benefit themselves. This finding matches with data presented in the Table 4.28 where majority of producers lack information on the place where their products are sold and the prices charged for cloth products. It also matches with the finding that information exchange between and/or among value chain participants does not have any effect on upgrading practices of cloth producers (Tables 40 and 41).

4.4.2.7 Information about Distribution of Benefit

Prompt information transfers and transparency between vertically linked firms help a value chain respond effectively to change in market demand (Choudhary 2008). Hence information about the distribution of benefits can create incentive or disincentive for upgrading (Olaf, Downing and Field 2006). A well-functioning value chain thus transmits information to producers about consumer preferences and the price signals associated with those preferences (Dunn 2006). Particularly, transparency in the sharing of benefits in the value chain is one of the most important factors in enhancing vertical linkage, promoting trust in the chain and encouraging MSE owner's upgrading practices. In this survey, this is measured in terms of the knowledge that the producers have about the place at which the top buyer sells the products they produce, the price this buyer charges for these same produce, and buyers' information about the level of profit that producers earn. Results of the finding are summarized in the table 4.28 below.

As can be seen from Table 4.28, about three-quarter (75%) of micro and almost 60% of small enterprises reported that they did not know about the place where their top buyer sold the product they supplied. Yet again, vast majority of respondents 93.2% from micro and 80% from small enterprises replied that they did not have information about the price that their top buyer charges for the product they supplied. This finding shows that small enterprises relatively have some information about the location at which their top buyer sells cloth products as well as the price they charge. Albeit this finding is correct for the comparison between the type of enterprises under investigation, however, vast majority of both type of enterprises were ignorant about the location where their buyers sold clothes they supplied (67%) and price charged (87%). This implies that transparency in the distribution of benefits as well as information flows in the value chain is poor.

Table 4.28: Producers Knowledge of Top Buyer's Sales Location and Price

			Type of enterprise		
			Micro	Small	Total
Do you know where your buyer sells the product that you supply?	Yes	Count	15	23	38
		%	25.4%	41.1%	33.0%
	No	Count	44	33	77
		%	74.6%	58.9%	67.0%
Total		Count	59	56	115
		%	100.0%	100.0%	100.0%
Do you know the amount of price that your buyer charges when he/she sells the product that you supplied?	Yes	Count	4	11	15
		%	6.8%	19.6%	13.0%
	No	Count	55	45	100
		%	93.2%	80.4%	87.0%
Total		Count	59	56	115
		%	100.0%	100.0%	100.0%

Source: Own survey, 2012

This finding is supported by the evidence obtained from buyers' survey in which they were asked about the knowledge that they have regarding the level of profit that producers and intermediaries make. As can be seen from the Table 4.29 below, 90% and 86% of respondents from buyers category reported that they did not have information about the profit that intermediaries and producers earned, respectively. This finding fortifies the result of producers' survey where producers lack information about the place where their product sold and the price that their buyers charged, implying limited flow of information and lack of transparency in the whole value chain.

Table 4.29: Buyers' Information about Producers and Intermediaries the Level of Profit

How much information do you have about the level of profits that intermediaries earn?	Frequency	%	Cumulative %
I have no information	45	90.0	90.0
I have moderate information	3	6.0	96.0
I have complete information	2	4.0	100.0
Total	50	100.0	
How much information do you have about the level of profits that cloth producers earn?			
I have no information	43	86.0	86.0
I have moderate information	6	12.0	98.0
I have complete information	1	2.0	100.0
Total	50	100.0	

Source: Own Survey, 2012

4.4.2.8 The Actor that Determines Price and Quality

End Market buyers determine the characteristics including price, quality, quantity, and timing of a successful product or service (Dunn et al 2006). This survey thus identifies the end market buyer who has the most power in determining price and quality. The findings are summarized in the Table 4.30 (appendix A).

Respondents were asked about the actor who determines price and quality in the value chain. The purpose of this question was to identify the actor who has the most power in the value chain in specifying quality and price which are the key indicators for competitiveness. As can be seen from Table 4.30, just half (50%) and slightly less than average (48%) proportion of respondents from micro enterprises reported that retailers determine price and quality in the market, respectively. On the other hand, 45% of respondents from small enterprises replied that retailer specifies price while 39% of them reported that same actor determines quality. Almost 19% of both types of enterprises reported that wholesalers determine price and quality in the market. Nonetheless, 24% and 15.7% of respondents from both type of enterprises reported that producers determine quality and price, in that order. Moreover, 10% and 3.8% of respondents from both type of enterprises reported that they negotiate the price and quality with buyers, respectively. This finding shows that retailers have been playing dominant role

in determining the price and quality of the cloth in the value chain. This result is in line with the inspiration of Gereffi and Memodovic (2003) who assert that apparel industry is now a buyer-driven value chain that contains three types of lead firms: retailers, marketers and brand manufacturers. Likewise, Morris et al. (2004) conducted study and found that retailers increasingly dominate the supply chain of both textile and clothing sectors.

4.4.2.9 Nature of Relationships between Actor of the Value Chain

Micro and small scale clothe producing enterprises are linked to wide range of actors in the value chain encompassing input suppliers, wholesalers, distributors, brokers, retailers, exporters, and different service providers outside the chain. The ability of a value chain to respond to market demand via upgrading is thus facilitated or hampered by the nature of relationships between actors in the value chain (Campbell 2008). Literature indicates nature of vertical relationship including the volume and quality of information and services disseminated often defines and determines the distribution of benefit along the value chain and create incentives or constraints for firm level upgrading (Vikas, 2008). Research suggests that captive relationships are generally assumed to provide the strongest support for process and product upgrading although discourage functional upgrading (Schmitz 2006; Giuliani et al. 2005). Likewise, relational nature of linkages in the value chain facilitate both process and product upgrading while market relations are assumed to be neutral with respect to upgrading (Bloom et al. 2006). And so, major actors of the value chain were asked to state the nature of relationships between and/or among themselves. The results are summarized in the Table 4.31.

Table 4.31: Nature of Relationship between Value Chain Actors

Relationship Reported as "Yes"	Producers %	Buyers %	Input Suppliers %
Relationship merely based on market	48.6	50.0	54.6
Dominance of one actor (Captive)	31.8	26.8	22.7
Relationship based on mutual dependence	16.9	19.6	9.0
Vertical linkages with other actor (s)	2.7	3.6	13.7
Total	100	100	100

Source: Own Survey, 2012

Majority of respondents accounting for almost 49%, 50%, and 55% from producers, buyers, and input suppliers reported that the nature of relationship between them was characterized by arm's length market link, respectively. The second pattern of relationship reported by

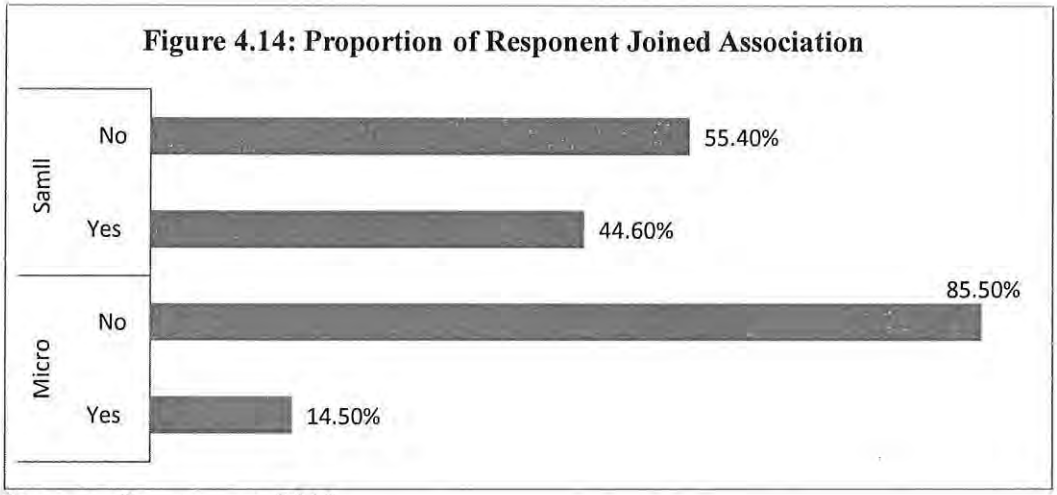
about 32% of producers, 27% of buyers and 23% of input suppliers was captive where a single buyer or few buyers dominate the chain. Relational pattern of governance was also reported by 17%, 20%, and 9% of producers, buyers, and input suppliers, in that order. On the other hand, only 2.7% of producers, 3.6% of buyers, and 14% of input suppliers replied that all functions in the value chain such as input supply, production, and marketing are undertaken by vertically integrated single firm. This finding shows that the nature of relationship in the value chain is dominated by arm's length market where actors are connected with each other via price in the market. However, it is clear from the data that this value chain is characterized by captive as well as relational pattern of relationships as well. This finding corroborates with qualitative information where market based relationship was found as overriding pattern of relationship between actors of the value chain (see figures 4.7 and 4.9 and succeeding discussion).

The existence of captive and relational pattern of relationship might be incentive for producers to take on process and product upgrading. Hence literature indicates that captive relationships are generally assumed to provide the strongest support for process and process upgrading, because buyers have a material interest in improving suppliers (producers) capability (Schmitz 2006; Giuliani et al. 2005). Likewise, literature states that in relational pattern of governance buyers have incentives to support process and product upgrading among their existing suppliers, since there are high costs associated with switching to new suppliers and developing efficient communication mechanisms (Bloom et al., 2008).

4.5.3 Horizontal Relationship

Horizontal relationships such as formal and informal producer groups provide a means to improve MSE capacity and reduce transaction costs (Bloom et al. 2007), create economies of scale, and contribute to increased efficiency and competitiveness of the industry (McCarthy 2008). Nichter and Goldmark (2005) note that horizontal linkages in the form of cooperatives, associations, producers group, and other collaborative structure help MSEs to overcome many of the disadvantages of being small, for instance by providing a way to consolidate production, improve their negotiation position with buyers or suppliers, and access market information or services. Therefore, this study assesses the existence of such linkages between clothe producing and the findings are discussed below.

Figure 4.14: Proportion of Responent Joined Association



Source: Own survey, 2012

Respondents were asked to affirm whether they joined any clothe producing association/group or not. Unfortunately, as can be seen from Fgure 4.14, immense majority (85.5%) of respondents from micro enterprises reported that they did not join any producers' association. On the other hand, more than average (55.4%) of respondents from small enterprise replied that they did not join association of cloth producers. This implies that the horizontal linkage between cloth producers particularly for micro enterprises is meager. However, it is clear from the data that small enterprises are more likely to join associations than micro ones. This might be due to government's strategy that focuses on organizing entrepreneur into varied associations of MSEs particularly by giving due attention to growth oriented enterprises.

The finding that horizontal linkage between clothe producing enterprises is meager is substantiated by qualitative information obtained from experts, government officials, and leaders of garment manufacturing associations. For example, one of the interviewees from government officials says *"the linkage between cloth producers is very weak and the link these producers have with large garment manufacturers is non-exist."* One of interviewed manager from garment manufacturing associations explained that, hitherto none of micro and small enterprises joined their association which could otherwise be an opportunity to them to learn, increase their bargaining power, and enjoy the benefit of collaboration. Likewise, interviewee from Ethiopian Textile Industry Institute notes that none of micro and small enterprises are linked with medium and large garment manufacturing firms although he asserts that his institute has plan to create such type of linkages in the future.

Respondent were asked to state the main reason that restrain them to join the association. 33% of respondents from both enterprises reported that lack of information about the existence of such association was the main reason that impedes them from joining the association. The second major reason reported by almost 30% of both enterprises was the problem of trust wherein respondents perceived that the leaders and members of associations are not honest and fair. The third major reason was reported by about 24% of respondent from both types of enterprise which is labeled under others category (Table 4.32). Within this category majority of respondents reported that lack of interest, absence of incitement from concerned bodies to join the association and difference in capacity (skill, knowledge, finance) were among major factors that constrained them to be the members of an association. Therefore, lack of information, mistrust, and difference in capacity are the major reasons that restrained MSE entrepreneurs to join associations.

Table 4.32: Reasons Reported by Producers as Hindrance to Join Association

	Micro		Small		**Total**	
Reasons reported as "yes"	N	%	N	%	N	%
Not having clothes to sell	3	3.2	3	5.2	6	3.9
Low price received by association	0	0	1	1.7	1	0.7
Not permitted to sell product	0	0	1	1.7	1	0.7
Rejection of cloth products by the group	0	0	0	0	0	0
Leaders and members are not honest and fair (not trusted)	31	33.3	14	24.1	45	29.8
It takes too much time to be an active member	0	0	1	1.7	1	0.7
High membership fee and members expenses	1	1.1	3	5.2	4	2.6
Busy doing something else	4	4.3	3	5.2	7	4.6
Lack of information about the existence of association	33	35.5	17	29.3	50	33.1
Others	21	22.6	15	25.9	36	23.8
Total	93*	100	58*	100	151	100

Source: Own survey, 2012

*The sum is greater than the sample on account of multiple answers

This finding is in line with information acquired from group interview conducted with clothe producers. One of the participants from the small enterprise says *"We producers are extremely differing in skills, knowledge, capital, experience and commitment to work hard and grow. Some of producers are pessimists and are working to survive. Others are struggling with different challenges to at least upgrade themselves to certain level by thinking that one*

day they will succeed. Some of them have long experience and skill of cloth making while others lack theses. How can you match these two disparate groups of individuals? It is difficult and even impossible. You may try it but I am 100% sure that they will operate only for short period of time. And this is the reality that we are currently observing all around Addis Ababa where a number of enterprises have been established every month but break up every day." This finding corroborates the argument of Roessl (2005) who asserts that the firms who form association have to be capable of survival separately; otherwise, they cannot afford to risk a breach of trust. Another respondent from micro enterprise explained the problem of trust as follows: *"Before two years I was founder and member of one association. Rather than working together, every day there was clash among the members. The environment of the work was full of suspicion. No one trusts the other. I lost 1240 Ethiopian Birr and since then I hate to even hear the name 'association'."*

This finding also matches with results of different studies conducted in Ethiopia on MESs where it is found that horizontal relationships between MSEs are weak in that many of the firms do not work jointly because of several reasons: capacity variation with similar enterprises, taste difference, financial limitation, lack of awareness in joint purchasing, variation on volume of purchase, lack of trust, uniqueness of certain materials, and also due to independence and individualism (Netsanet, 2009).

4.5.4 Business Service Provided to Producers

For small producers to compete and upgrade in response to market opportunities, they must have access to new skills, know-how and learning on a continuous basis (Olaf, Downing and Field 2006). This access can be explained in terms of varied supporting services that could increase operational capacity of MSEs, facilitate their access to markets, enhances their management skills, and boost their financial efficiency and access to information. As Campbell (2008) clearly notes MSEs can be provided these services either commercially or by markets. However, research has demonstrated that MSEs often appear unwilling to purchase services (commercial) and those that are on offer in the private sector are predominantly designed for large and formal business and therefore too expensive for MSEs (Anderson 2000). And so, available option for service provision is via market which include service provision by actors in the chain (in the form of embedded services) or by actors outside the value chain such as

government organizations, NGOs, trade associations, etc (in the form of standalone services) (Campbell 2008). This study thus examines embedded as well as standalone services provided for MSEs and the results are discussed below.

Table 4.33: Services Provided from Buyers and Other Sources to Producers

Form of service reported as "Yes"	Service provided by buyers		Service provided by other sources	
	Micro	Small	Micro	Small
	%	%	%	%
Cash advance or cash credit	54	37.5	15.9	32.1
Advances of inputs: fabric, thread, accessories, etc	44.4	33.9	4.8	3.6
Assistance, advice or training in production technique	3.6	1.8	22.2	48.2
Assistance or training on how to meet local standard	6.3	1.8	14.3	26.8
Assistance or training on how to meet international standard	3.2	0	1.6	5.4
Assistance, advice or training with new design	6.3	0	9.5	23.2
Marketing assistance or help finding other buyers	4.8	5.4	19	44.6
Management or business training	0	0	15.9	58.9
Training in team management or leadership skill	0	0	12.7	48.2
Research assistance	0	0	0	1.8
Credit for personal needs or emergencies	0	0	1.6	7.1

Source: Own Survey, 2012

In order to ensure their access to a reliable product supply, buyers may be motivated to provide their suppliers with cash or in-kind credit, technical assistance, training, or other forms of assistance as embedded services within the vertical relationship (Dunn et al. 2006; Humphrey and Schmitz 2002 cited in Bloom D. et al. 2007). In this survey, despite difference in proportion regarding the form of support provided by buyers to producers, respondents from both micro and small enterprises reported that the most frequent form of support that they received from their top buyer was cash advance which accounts for 54% for micro and 37.5% for small producers, respectively (Table 4.33). Buyers were also asked similar question and 43% of them reported that they provided cash advance for their suppliers (Table 4.34). The second most frequent form of support reported was advance of inputs which constitutes 44.4% of micro and almost 34% of small scale cloth producers, in that order (Table 4.33). However, the second most frequent form of support reported by buyers was assistance with new design (24.7%) though none of small enterprises and merely 6.3% of micro enterprises reported that they received such assistance. Moreover, 23.5% of buyers reported that they provided assis-

tance in the form of advance of inputs (Table 4.34). This difference in opinion may be due to the fact that buyers are able to deal with numerous producers and may not provide such service for all of them. This finding indicates that cash and input advances are the major type of services provided by buyers to producers.

Table 4.34: Buyers Report Services Provided to Producers

Type service reported as "yes"	N	%
Cash advance or cash credit	35	43.2
Advances of inputs: fabric, thread, accessories, etc	19	23.5
Assistance, advice or training in production technique	6	7.4
Assistance, advice or training with new design	20	24.7
Marketing assistance or help finding other buyers	1	1.2
Management or business training	0	0
Total	81*	100

Source: Own Survey, 2012

*The sum is greater than the sample on account of multiple answers

This finding is substantiated by the information obtained from interview with producers. Majority of them explained that before they commence the actual production particularly at the time buyers order them, they request cash advance where on average the buyer usually pays 2 to 5 percents of the total volume of order. However, they strongly argued that this should not be considered as assistance rather it serves as a guarantee for both buyers and producers to avoid the risk associated with the failure to obey agreements which are usually done verbally. They also explained that when buyers come with orders, occasionally they give inputs particularly fabric for producers. Buyers provide this input to fulfill their interest that is, to reduce the suspicion associated with plunge of quality. Nevertheless, they indicated that whatever the case is, this action of buyers should be considered as assistance since it avoid the risk associated with financial constraint that could otherwise increase the possibility of idleness.

As far as assistances or trainings associated with production techniques, meeting local and international standards, design, management and business are concerned; their provision from top buyers to producers is either trivial or minimal (Table 4.33). This implies that embedded services that could enhance the capacity of producers and enable them to upgrade are missing in the value chain.

In terms of services provided by other sources in the form of standalone, both types of enterprises in one or other way received this type of service. However, the proportions of enterprises receiving such services vary according to the type of enterprise. As can be seen from Table 4.33, relatively large proportion (58.9%, 48.2%, 44.6%, and 32.1%) of respondents from small enterprises reported that they received assistance/training in the area of management or business, production technique and leadership skills, marketing, and cash credit, in that order. Conversely, assistance or training in production technique was the most frequently reported form of support among micro enterprises (22.2%) followed by management training and cash credit (15.9%), training on how to meet local standard (14.3%), and training in team management or leadership skills (12.7%). These findings indicate that both enterprises have received some sort of supports from other source. However, small enterprises received more support than micro enterprises.

Other sources engaged in service provision and reported by majority of respondents include: government organizations particularly offices of MSEs at different levels of the city administration, TVET colleges, NGOs (such as Abebech Gobena, AMREF Ethiopia, Sheger, and Arat Kilo Children Care), and Addis Credit and Saving Institution.

A crosstab report (Table 4.35, appendix A) shows the relationship between four types of upgrading and training in the area of production technique. It was observed from the Table 4.35 that among those respondents who received training in the area of production technique; 53.7%, 73.2%, 24.4%, and 26.8% of them reported that they adopted some sort of strategies to upgrade their process, product, functions, and channels, respectively. This finding indicates that training in the area of production technique is encouraging clothe producers to upgrade their production process and products. However, result of regression analysis (Table 40 and 41) shows that the influence of training in this area on process upgrading is not statistically significant though is significant on product upgrading.

From qualitative information collected via interview and observation as well as literature, it is clear that the majority of micro enterprises are survival oriented (produce, sell, consume - earn income for survival) compared to small once that are relatively strong in terms of capacity (finance, machinery, etc) and are business oriented. Therefore, more assistance to small enterprises may be due to government's attention to more growth oriented enterprises rather

than survival one. Research indicates that small enterprises are significantly productive and profitable than micro-enterprises (CSA, 2003). This is in line with the opinion of one of my interviewees from one of the sampled sub city MSE offices. He says *"our focus is not on those enterprises that are survival oriented rather it is on those that have been showing the tendency of growth. We organize growth oriented enterprises into different associations or cooperatives so as to make them eligible to different supports such as trainings, access to working premises, etc. Therefore, one of the most central criteria to have access to supportive service is involvement of producers in associations."*

This is also substantiated by the information obtained from interview carried out with respondents from TVET colleges. When asked about the requirements to be fulfilled by producers for receiving the services that TVET colleges provide, one of the interviewee from Entoto says *"we do not have the responsibility of setting criteria to accept trainee rather we simply provide training services according to the order of AAMSEDA. Nevertheless, I know that sub cities are giving priority for enterprises that form associations and the documents that we received from them are evidence for this condition."* This is also in line with the data presented in the Figure 4.14 and Table 4.33 where majority of small enterprises joined associations (Figure 4.14) and reported that they received more services from different sources than micro ones (Table 4.33). This finding indicates that enterprises are joining associations to get services rather than creating synergistic collaboration which would increase their capacity and reduces transaction cost. This result corroborates with Haftu Berihun et al., (2009) notion who assert that the present trend in MSEs is to form service cooperatives rather than producers cooperative and thousands of MSE cooperative are being established to access common services such as production and infrastructure facilities.

It is also found from the interview that most of the training programs are designed for the purpose of enabling producers to set up their production and are mainly short term oriented. Moreover, majority of the training programs are supply driven rather than demand wherein almost all of interviewed TVETs' and other institutions reported that they did not undertake need assessment before the provision of training. For example, one of the interviewees from TVET says *"we receive trainees that are drawn from different sub cities and just equip them with minimum skills that could enable them to commence their business. The training is*

meant to keep on for one to three weeks. Particularly, we simply provide trainings based on the requests of sub cities without knowing knowledge or skill gap to be filled." One of the interviewees from producers' affirms the situation by saying *"woreda organized as into association and sent us to Entot TVET College for training. I have 11 years experience in garment manufacturing. I expected new skill particularly associated with designing from the training but trainers are showing us what we already know (sewing). I wasted my precious time there."*

Conversely, one of novel clothe producers says *"I never had garment manufacturing skill so far. My woreda sent me to Addis Ababa TVET College to learn how to manufacture clothes. They showed me how to operate sewing machine to manufacture clothes for one week. However, when I started the actual job, really I could not manage to produce good clothes which are demanded in the market particularly due to lack of knowledge and skill. I need more and continuous training to keep pace with the preference of my customers, unless otherwise, I could not survive. And so, I have strong desire to join some training institutions, but due to financial constraint I could not make my desire practical."* In general, these findings suggest that array of services are not divided according to the needs of micro and small enterprises under different stages such as startup, embryonic, and development stages.

4.5.5 Business and Enabling Environment

Building a business-friendly enabling environment that offers MSEs a chance to compete is necessary for broad-based growth (Goldmark and Barber 2005). Research shows that a good business environment boosts the growth of industries that are naturally composed of small firms more than large-firm industries (Ayyagari and Maksimovic, 2008). For example, Tolentino (1995) and Hallberg (2000) assert that a legal and regulatory framework which results into excessively complex registration and licensing requirements and demands tiresome and costly reporting practices is likely to impose constraints on the MSE business activities in addition to imposing intense encumber on entrepreneurs and their business. Similarly, Mead and Liedholm (1998) note that biased policy framework against MSEs among other things can restrict access to essential inputs such as star-up and working capital, machinery and equipment, and raw materials.

In general, according to ILO (2006) basic components of a conducive business environment for growth of MSEs include sound macroeconomic policy (including monetary, fiscal and trade policies); aggregate demand; the structure and access to market; access to inputs and credits; availability of infrastructures such as electricity, transport and communication; responsive enterprise promotion policies; and supportive regulatory environment. Several studies also acknowledged the importance of information in enhancing the upgrading practice of MSES. For instance, Stiglitz (1989) and Kristiansen (2002a) consider, information to be one of the areas where market failures are most apparent and that these failures are easily regressive, continuously marginalizing micro and small entrepreneurs. Thus, this study identifies the key factors mainly vis-à-vis business environment that constrain the upgrading practice of micro and small cloth producing enterprises and the results are discussed below.

In relation to business environment in which clothe producing enterprises are operating, the survey participants were asked to state the most constraint (s) they faced in the course of upgrading their enterprises. Accordingly, the main environment related constraints reported include: lack of finance or capital (8%), high level of inflation (8%), unpredictability or fluctuation of prices (7.5%), low purchasing power of the society (7.1%), lack of access to information about upgrading opportunities (6.8%), lack of access to market opportunities (6.8%), lack of machines or tools (6.8%), electric power interruption (5.7%), and lack of access to quality inputs (5.5%) (Table 4.36, appendix A). This finding is in line with that of CSA (2006) that found shortage of capital as a pressing constraint for manufacturing MSEs in Ethiopia. Other problems reported by CSA include absence of market demand, shortage of raw materials, and shortage of machines and tools. FeMSEDA also found that lack infrastructure such as electricity, lack of information regarding existing market and capacity to exploit more market opportunities are among many factors that prevent effective operation of MSEs.

4.5.6 Learning

Learning is vital to enterprise growth and survival since it is a means by which capability is acquired (Adeya, 2003). Therefore, for micro and small enterprises to actively take part in the economy of the country in the form of poverty reduction via employment generation, they have to be equipped with necessary skills that could allow them to boost their competi-

tiveness and vigorously play the role that they are expected to play in the economy. Yet method of learning depends on variety of factors such as the nature and type of the enterprise, existing level of capacity to learn, internal culture, and environment (economical, social, political, and social) within which it operates. For these reasons, methods of learning could widely vary from enterprise to enterprise (Adeya, 2003). And so, different mechanisms by which clothe producing micro and small enterprises learned cloth manufacturing skills are discussed below.

Table 4.37: Method of Skill Learning

	Micro		Small		Total	
Method of skill learning	N	%	N	%	N	%
Family	14	17.0	27	41.0	41	27.7
Previous employment	18	22.0	13	19.7	31	20.9
Formal training	15	18.3	8	12.1	23	15.5
Friends	10	12.2	8	12.1	18	12.2
Other (Own experience)	25	30.5	10	15.1	35	23.7
Total	82*	100.0	66*	100.0	148*	100.0

Source: Own Survey, 2012

*The sum is greater than the sample on account of multiple answers

Even though the respondents achieved a relatively high level of education (see Table 4.1), their exposure to formal training is minimal wherein barely 18.3% respondents from micro enterprises and 12% from small enterprises took formal training. The survey result shows that relatively a high proportion (about 41%) of respondents from small enterprises learned cloth manufacturing skill from their family while 17% of them from micro enterprises learned the skill from family. On contrary, slightly a higher percentage (about 31%) of respondents from micro enterprises acquired their cloth making skill from their personal experience. This implies that the principal method of skill learning for micro enterprises was personal experience whilst family had been the main source of skill learning for small enterprises. Friends had also been the source of skill learning for almost 12% of respondents from both micro and small enterprises. Moreover, previous employment had been a source of skill for 22% of micro enterprises and almost for 20% of small enterprises, in that order showing that pervious employment was the second major method through which producers learned cloth manufacturing skills.

The least exposure to formal training may point out that entrepreneurs lack information about modern techniques of production as well as technologies which could be the source of upgrading and competitiveness of the firms. Because absorption and utilization of new technology often demand that an enterprise arranges formal training for relevant employees (Adeya, 2003) including owners. This finding corroborates the argument of Gaillard and Beernink (2001) who assert that generally small business entrepreneurs receive their training in the informal sector, either on the job or through an apprenticeship. Likewise, Velenchik (1995) cited in Adeya (2003) found that widespread apprenticeship system as an important source of learning, particularly among the self-employed and sole-proprietor small enterprises engaged in crafts, repairs and maintenances.

Besides formal training, strong vertical and horizontal linkages can encourage upgrading by providing learning opportunities and production efficiencies for MSEs (Williamson, 1986; 1993). As Dunn *et al.* (2006) note, upgrading is preceded and accompanied by a learning process in which MSEs acquire new information, knowledge and skill. Hence information about the existence of upgrading opportunities; prices and costs; intermediaries and end markets; business and communication skills as well as skills related with the operation of new technical/technology and production system could enable producers to effectively deal with process, product, and functional upgrading (Dunn *et al.*, 2006).

Nonetheless, the likelihood of clothe producing MSEs to have access to learning in the value chain is dreadfully low for a number of reasons. The first and the most prevailing reason is the existence of weak vertical and horizontal linkages between and/or among value chain actors which could otherwise be the source of learning for producers. For example, vertical cooperation in the areas of quality improvement, technological upgrading, human resource training, and marketing which are critical for upgrading of MSEs were found as either nil or exist with very minimum level between and/or among chain actors. It is also found that the flow of information from bottom to up as well as from up to bottom in the value chain is very thin where producers are ignorant about prices that buyers charge and the place where buyers sell their product. Likewise, buyers lack information about the level of profit that other actors in the value chain earn. Moreover, cooperative deeds between producers in the form of supporting each other in learning new technologies (production techniques), seeking out buyers,

searching for technical assistance together which could enhance their knowledge and boost their competitiveness is negligible. Likewise, trust which is critical for learning is tremendously fragile in the value chain. Majority of entrepreneurs also lack access to information about upgrading opportunities and have little exposure to formal training which could enable them to absorb and utilize new technology and modern techniques of production

4.5.7 Level of Inter-firm Cooperation

The role of inter firm cooperation in enhancing the competitiveness of the value chain is well documented in the literature. Above all, it is noted that cooperation requires a long – term perspective of calculated advantages rather than short – term advantage seeking which would prompt the cooperating parties to take advantage of exploitation opportunities presented by cooperative contributions, thus frustrating the evolution of strong cooperation (Roessl, 2005). Therefore, why firms in competitive environment need to cooperate? Rademakers (1999) had answered this question by saying motive behind cooperation is strategic (long – term) considerations such as linking products and skills; getting access to markets, knowledge (information), investment capital, production capacity, labor force and brain power; lowering transaction costs; achieving economies of scale, and improving lead times.

Several studies also explored the value of inter firm cooperation in improving the performance enterprises. For example, Schmitz (1999) studied footwear cluster of Sinos Vally in Brazil and found that greater cooperation between manufacturers and intermediary input producers improved the quality of goods and decreased delivery times and batch sizes of the footwear in response to the demand of foreign buyers. Likewise, Knorriga (1999) examined the knit footwear industry in India and found that cooperation with suppliers, subcontractors, buyers and business associations have influenced firm performance. This study thus examines the types as well as the existence of cooperation between and /or among actors participating in the value chain of micro and small scale cloth manufacturing enterprises. The results are described below.

When producers asked about the form of cooperation between them and their buyers, 19% of respondents from both type of enterprises reported that they cooperate with buyers in the area of information exchange. Likewise, buyers were also asked similar question and 20% of

them reported that information exchange was the main form of cooperation between them and producers (Table 4.38, appendix A). Group interview with producers and individual interview conducted with buyers showed that producers ask buyers for additional or new orders and any changes on conditions agreed up on so far. Likewise, buyers transfer information pertaining to changes in quantity ordered and agreements made so far. Information exchange was also the major form of cooperation between producers and input suppliers for both types of enterprises (37%). Almost 33% of input suppliers also reported that they cooperate with producers in the area of information exchange. It was found from interview that this form of cooperation was largely focused on exchange of information related with change in prices, availability of inputs, as well as orders. This finding implies that the major form of cooperation between buyers and producers as well as producers and suppliers is information exchange. This may be due to ease use of mobile phones.

Table 4.39 (appendix A) presents the result of crosstab that shows the relationship between four types of upgrading and cooperation in the area of information exchange. It was found that respondents who reported that they cooperated in the area of information exchange are also engaged in upgrading practices more than those which did not cooperate in this area. For example, among those respondents who cooperated in the area of information exchange, 58%, 63%, 21%, and 13.6% of them reported that they engaged in process, product, functional, and channel upgrading practices, in that order. This finding may illustrate that cooperation in the area of information exchange is encouraging process and product upgrading practices of clothe producers. Nevertheless, logistic regression analysis result (Tables 40 and 41) shows that the influence of cooperation in this area on process and product upgrading practices of clothe producers is not statistically significant.

The second area of cooperation between buyers and producers was hastening of a delivery which was reported by 17.4% of respondents from both types of enterprises. 17% of respondents from buyers also reported that they cooperated with producers in the area of expediting deliveries. Similarly, 15% of respondents from both enterprises and almost 13% of respondents from input suppliers replied that they cooperated in the area of speeding up deliveries. This was observed in both traditional and modern cloth producing micro and small enterprises. For example, in traditional cloth producing enterprises buyers strongly push producers

during holidays to manufacture clothes within specified time wherein the demands for new traditional clothes reach peak stage.

It was also reported during interview that for the enterprises that are producing uniform for employees working in either public or private sector, one of the first criteria set by buyers is the capacity of producers to finish and deliver the product on time. For instance, one of participants of group interview conducted with producers says *"Our enterprise won tender which is offered by Ethiopian Airlines to manufacture uniform for its workers. And Ethiopian Airlines sent a committee that has given the responsibility to evaluate our capacity (equipments, employees, management, etc). Unfortunately, it canceled our proposal by saying you could not finish it on time because; you do not have necessary capacity to finish it in good time."* All of these evidence show that delivery time is one of the most important prerequisite in the domestic market. However, it also implies that this area of cooperation is simply focused on passing instructions or orders from buyers to producers (showing power imbalance), rather than joint action that could benefit both producers and buyers and enhance the competitiveness of the value chain.

The third form of cooperation reported by about 17% of respondents from both type enterprises and same proportion of buyers (17%) was in the area of product development followed by product specification reported by (15.1% of producers and 16.5% of buyers) and quality control replied by (14.8% of producers and 16% of buyers). With regard to these aspects of cooperation, producers during interview claimed that sometimes buyers come up with new order involving new type of cloth product to be produced with its specification (design). However, they asserted that this order is followed by strong control. They claimed that application of such type of control is not to help producers to continually improve the quality of the product; rather some buyers apply it to minimize the suspicion they had towards producers (quality cutback, design loss, etc).

One of interviewee from buyers says *"I could not trust producers. They waste my design. I down loaded some of the designs from the internet and made some modification on them. However, some of producers distributed the design throughout the city within 24 hours."* This finding implies that cooperation between buyers and producers is characterized by distrust and asymmetrical power in which buyers strongly monitor producers for their own short

term benefit rather than creating joint action that could benefit both of them. This finding is in line with the notion of Roessl (1999) who says when cooperating parties seek short – term benefit to take advantage of exploiting opportunities presented by cooperation contributions; this frustrates the evolution of cooperation in which both parties get what they want.

For input suppliers and producers quality control has been the third area of cooperation (reported by 13.2% of producers and 16.4% of input suppliers). This is particularly observed in the traditional cloth production where designers and exporters robustly control producers and producers in turn control input suppliers so as to meet quality standards demanded by their buyers. This type of control was also reported by large textile factories which are subject to the control of external bodies especially to the quality and standard control agency although for export products. This finding indicates that alike cooperation between buyers and producers, the cooperation between producers and suppliers is typified by power unevenness where pressure from buyers sway both producers and input suppliers. And so, rather than considering mutual benefit as motivation to cooperate in this area, influence from buyers has triggered quality control in the value chain.

Other forms of cooperation such as quality improvement, technological upgrading, human resource training, and marketing which are critical for upgrading of MSEs were either nil or exist with very minimum level among chain actors (Table 4.38, appendix A). These results suggest that inter firm cooperation between value chain participant is weak provided that joint action that could boost mutual benefit is lost and in its place mistrust and power asymmetry dominate the cooperation. However, literature indicates that such cooperation provides collective efficiency or competitive advantages from local external economies and joint action with firms operating both vertically and horizontally (Nadvi, 1999; Schmitz, 1995) though this is missing in value chain in which cloth producing MSEs are participating.

4.6 Logistic Regression Analysis

As explained in methodology part, logistic regression analysis was utilized to examine the influence of some factors on upgrading practices of clothe producers. Tables 4.40 and 4.41 show that a test of complete model against a constant only model for both of two dependent variables was statistically significant, implying that the predictors as a set unfailingly differentiated between enterprises that undertake (yes) and failed to undertake (no) process and

product upgrading *(Chi square = 34.452, p < .000 with df = 11 for model testing process upgrading and Chi square = 42.317, p < .000 with df = 11 for product upgrading)* (appendix A).

Nagelkerke's R^2 of 0.335 and 0.402 for the influence of predictors on process and product upgrading, respectively, indicated a moderate relationship between predictions and grouping. Prediction overall success was 72.3% for process upgrading (74.6% for yes engaged in process upgrading and 70% for not engaged) and was 75.6% for product upgrading (77.9% for yes engaged in product upgrading and 72.5% for not engaged) (Tables 40 and 41, appendix A).

The Wald criterion demonstrated that when all other variables in the model controlled, only increase in demand in the market (at p=0.011) and captive pattern of governance (at p=0.006) positively influence the process upgrading practices of cloth producing MSEs (Tables 42 and 43). Other variables such as sex, age of the enterprise, favorableness of method of product sales, relational pattern of governance, producers' trust towards their buyers in meeting agreements, cooperation in the area of information exchange, training in production technique, training in management skills and forming association do not influence process upgrading (Tables 40 and 41).

As far as the effect of predictors on product upgrading concerned, four predicting variables were found as having significant influence on product upgrading. For example, as can be seen from Tables 40 and 41, controlling for other variables in the model, increased demand in the market, captive pattern of relationship, relational pattern of governance, and training on production techniques positively influence product upgrading at P=0.026, 0.006, 0.008, and 0.011, respectively showing that existence of these factors increase the likelihood of enterprises' towards adoption of different strategies to upgrade their product.

When the influence of favorableness of ways of sales and amplification of demand in the market on upgrading practice of MSE cloth producers is tested at a 5% level of significance using logistic regression, it was found that increased demand in the market positively influence both process and product upgrading at P=0.011 and 0.026, respectively. Likewise, favorableness of methods of product sales also positively influence both process and product

upgrading but the influence is not statistically significant (P=0.106 for process upgrading and 0.125 for process upgrading) (Tables 40 and 41). EXP (B) values for demand (3.402 for process up grading and 3.229 product upgrading) indicates that increase in demand in the market increases the likelihood of clothe producing MSEs to engage in both process and product upgrading by three times more than no change in demand (Tables 40 and 41). This finding shows that those enterprises which assessed their market as increased are three times more likely to undertake different strategies to upgrade their production process and product than those which did not.

When the influence of producers' trust towards their buyers in meeting agreements on upgrading practice of MSE cloth producers is tested at a 5% level of significance using logistic regression, it was found the influence of trust on process and product upgrading practices of cloth producing is not statistically significant (P=0.951 for process upgrading and 0.766 for product upgrading) (Tables 40 and 41) showing that the trust that could boost the upgrading practices of MSEs is failed to play its role in the value chain. This finding is in line with the descriptive finding that says trust between producers and buyers which is critical for the value chain competitiveness is very weak.

It was also found from the logistic regression analysis that captive and relational pattern of relationships significantly influence process and product upgrading although the influence of relational pattern of governance on process upgrading is not statistically significant (P=0.076). It was observed from Tables 40 and 41 that captive pattern of relationships positively influence process and product upgrading at P=0.006. Likewise, relational pattern of governance positively influences product upgrading at P=0.008 and process upgrading at P=0.076 (not statistically significant), respectively. This finding is in line with notions indicated in the literature where captive and relational pattern are assumed to boost process and product upgrading. This implies that enterprises whose relationships are characterized by captive and relational pattern of governance are more likely to engage in process and product upgrading.

EXP (B) values for captive pattern of governance (4.291 for influence on process upgrading and 4.448 for product upgrading) (Tables 40 and 41) indicate that those enterprises which have captive pattern of relationship with their buyers are four times more likely to engage in

process and product upgrading than those whose relationship is not characterized by captive pattern of governance. Similarly, EXP (B) value for relational pattern of governance (7.444) (Table 41) indicates that enterprises that have relational pattern of governance with their buyers are seven times more likely to engage in product upgrading than those which do not have such pattern of relationship.

When the effect of joining associations/groups on process and product upgrading tested at 5% level of significance using logistic regression analysis, it was found that joining associations does on have effect on upgrading practices of cloth producers. It was observed that (Tables 40 and 41) joining association is negatively influence process upgrading at P=0.486 showing that enterprises joined associations are less likely to engage in process upgrading although is not statistically significant. On the other hand, joining associations is positively influence product upgrading at P=0.278 indicating that enterprises joined associations are more likely to engage in product upgrading though the influence is not statistically significant. This finding implies that enterprises that joined associations are not acting in such ways that improve their production processes and product quality.

Among a wide array supportive services provided by governmental and NGOs, training in production technique and management or business skills were chosen to see their influence on upgrading practices of cloth producing MSEs since they are reported by majority of enterprises. Consequently, when the influence of training in production technique and management on upgrading practice of MSE cloth producers is tested at a 5% level of significance using logistic regression, it was found that assistance/training on production technique positively influence product upgrading practice at P=0.011 and process upgrading at P=0.650. However, the influence of training in the area of production technique on process upgrading is not statistically significant (Table 40). As far as the effect of training in management or business skills on process and product upgrading concerned, it was found that the influence of such training on upgrading practice is not statistically significant (P=0.255 for process upgrading and 0.460 for product upgrading) (Tables 40 and 41).

EXP (B) value for training in production technique (4.301) (Table 41) indicates enterprises that have got support in the form of training in production technique are four times more likely to engage in product upgrading than that did get any type of training in production tech-

nique. This finding implies that even if training program particularly in the area of production technique is short-term oriented and supply driven one, it is encouraging producers to upgrade their product.

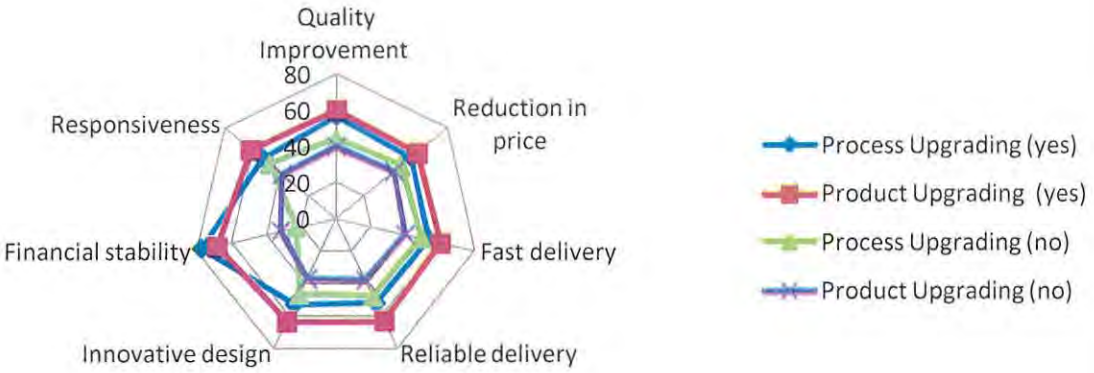
The influence of information exchange which was reported by the majority of respondents was also tested using logistic regression at 5% of significant level and unfortunately, it was found that cooperation in the area of information exchange does not have influence on process and product upgrading. The reason for this finding could be one of the rich areas for further research. It was observed that (Tables 40 and 41) information exchange positively influence process upgrading at P=0.113 and product upgrading at 0.553 showing that enterprises which exchanged information are more likely to engage in process and product upgrading than which did not but the influence is not statistically significant. This finding supports the result of descriptive analysis where it was found that information exchange is not focused on transfer of key information associated with distribution of benefits in the value chain (profit and prices), upgrading opportunities, as well as place of sales that could encourage producers to boost their upgrading practices.

4.7 Producers Performance

The responses of those enterprises which reported that they adopted some strategies to upgrade their production process and products were examined against those which did not adopt any strategy to see differences in perception regarding their performance. The purpose of this analysis was to scrutinize whether upgrading is helping clothe producing enterprises to improve their performance or not. The result is presented in the Figure 15 below.

As can be seen from Figure 15, those enterprises which reported that they adopted some sort of strategies to upgrade their process and product perceived that they are successful in all of the critical success factors (quality improvement, price reduction, fast deliveries, reliable deliveries, innovation in design, financial stability, and responsiveness) than those which did not engage in process and product upgrading practices. Nevertheless, as can be observed from the figure, except in financial stability, those enterprises which engaged in product upgrading are outperforming those which engaged in process upgrading in all other critical success factors. Whatsoever the case is, however, this finding shows that enterprises which tried to upgrade their process and product are performing well than which did not.

Figure 4.15: Producers' Upgrading Practices and their Performance



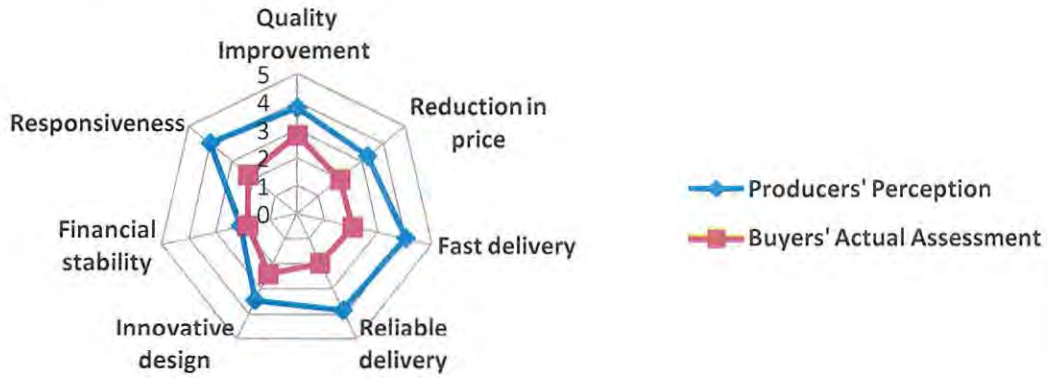
Source: Own Survey, 2012

Chi-Square tests for association between process upgrading and performance show the existence of statistically significant difference between enterprises which undertook process upgrading and which did not in terms of performance indicators such as quality improvement (at p=0.001), fast delivery (at p=0.014), and financial stability (at p=0.002). However, in terms of critical success factors such as price reduction, reliable delivery, innovative design, and responsiveness, there is no statistically significant difference between the performance of those firms which adopted process upgrading strategies and which did not (Table 4.42, appendix A).

Likewise, Chi-Square tests for association between product upgrading and performance show the existence of statistically significant difference between enterprises which upgraded their product and which did not in terms of performance indicators such as quality improvement (at p=0.05), reliable delivery (at p=0.025), and responsiveness (at p=0.042). In terms of other performance indicators such as price deduction, fast delivery, innovative design, and financial stability, there is no statistically significant difference between the performance of those firms which adopted various product upgrading strategies and which did not (Table 4.42, appendix A). These findings show that enterprises which tried to upgrade their process and product are performing well in the areas of quality, delivery, financial strength, and responsiveness than which did not.

Comparison of perceptions of different actors in the value chain is also vital so as to identify differences in outlook and discover problems that need to be tackled (McCormick and Schmitz, 2001). For comparison purpose, seven critical success factors (figure 4.16) that are essential in assessing the performance of producers were used. The same question was raised for both producers and buyers so as to facilitate the comparison. According to Kaplinsky and Morris (2000) asking mirror questions for both parts serve as dual functions both of triangulation data and of assessing the capacity producers to hear their final markets effectively which is a precondition for value chain systemic efficiency.

Figure 4.16: Buyers' Actual Assessment About the Performance of Producers and Producers' Perecption towards their Performance



Source: Own Survey, 2012

Respondents from producers' side were asked to rate their performance in terms of seven decisive factors such as quality improvement, price reduction, fast deliveries, reliable deliveries, innovation in design, financial stability, and responsiveness in the course of attending their buyers' requirement on a scale of 1 (very unsuccessful) to 5(very successful). Respondents from buyers' side were also asked similar question to rate how successful are producers in meeting their requirements. Data obtained from survey were entered into a software program called EXCEL and subsequently the responses from both producers and buyers category were averaged to produce radar chart described in the form of Figure 4.16 above.

As can be seen from the figure, except in terms of financial stability where producers felt that they were unsuccessful, nearly all of them perceived that they are successful in meeting the requirements of their buyers. Nonetheless, buyers evaluated the performance of producers as

lower than their expectation in almost all of critical success factors indicated in the question showing their dissatisfaction with the performance of the producers. This finding indicates that even if producers perceived that they are doing well, they are ineffectual in meeting buyers' expectation. Accordingly, the conclusion that clothe producers upgrading practices are improving their performance contradicts with buyers' evaluation showing that upgrading practices of clothe producers are not carried out in such a way that satisfy buyers' requirements. This gap may be due to disintegration of value chain where cooperation between value chain actors, information flows and transparency, and trust are found very low.

CHAPTER FIVE

CONCLUSION AND RECOMMENDATION

5.1 Conclusion

The purpose of current study was to examine the value chain in which micro and small scale clothing enterprises in Addis Ababa are participating with the aim of understanding the major factors that bolster or daunt their upgrading practices. Particularly, the study has focused on the analysis of key elements of the value chain (end markets, vertical linkages, horizontal linkages, supporting markets, and business enabling environments) and value chain dynamics (upgrading, learning, inter-firm cooperation and governance).

The study has shown that the participation of all modern clothe producing and greater part of traditional clothe producing enterprises in the value chain is limited to the domestic markets though hardly any of the traditional clothe producing enterprises are connected to global market via exporters. It is found that the governance pattern between and/or among different actors in the value chain is characterized by a varied range of relationships, and thus none of the chains identified can be illustrated with the single governance pattern yet the chain is dominated by arm's length market relationship. The study also revealed that enterprises whose relationships are characterized by captive and relational pattern of governance are more likely to engage in process and product upgrading.

The analysis shows that micro and small scale clothing enterprises adopted some sort of strategies to upgrade their production process and improve clothe product though their functional and channel upgrading practices are found low. Nevertheless, the study shows that small enterprises have more propensities to improve their production process than micro ones. This tendency is due to difference in capability and access to different services to exploit varied incentives presented in the value chain. This study discovered that enterprises which assessed their market as increasing are three times more likely to undertake different strategies to upgrade their production process and product than those which did not. Therefore, it is safe to conclude that increase in demand in the end market is the key driver of process and product upgrading in the value chain.

Another major finding was that vertical linkages between and/or among value chain participants are weak. This flimsy of vertical linkages can be explained by various factors such as: limited marketing network, weak social network, informal agreements, lack of transparency and limited information flows in the value chain, and low level of trust among others. The study finds that trust does not influence the upgrading practices of clothing enterprises showing that trust that could enhance the upgrading practices of MSEs is failed to play its role in the value chain. Therefore, the incidence of weak vertical linkage in the value chain could be one of the discouraging factors for upgrading practices of clothe producing enterprises.

One of more significant findings to emerge from this study is that the horizontal linkage among clothe producers is insubstantial. Particularly, the participation of clothe producers in diverse producers' associations was limited due to lack of information about the presence of such associations, mistrust, and capacity variation with similar enterprises. It was also found that cloth producing MSEs do not have linkages with medium and large garment producing enterprises. Moreover, the result of the study shows that enterprises that joined associations are not acting in such ways that improve their production processes and product quality.

A further most obvious finding to emerge from this study is that bulk of supporting services in the form of either embedded or standalone services were either weak or extemporized. It was found that the provision of assistances or training from buyers to producers (embedded services) in the areas of production techniques, meeting local and international standards, design, management and business were either trivial or minimal implying that embedded services that could enhance the capacity of producers and enable them to upgrade are missing in the value chain.

However, as far as supporting services from governmental and NGOs to producers are concerned, both micro and small enterprises received some sort of such service though small enterprises were found to obtain more services than micro ones. This difference is attributable to discriminatory criteria applied by MSE offices to make services available for growth oriented enterprises. The study finds that enterprises that have got support in the form of training in production technique are four more times likely to engage in product upgrading than that did get any type of training in production technique. This suggests that that, even if training programs particularly in the area of production technique is short-term oriented and

supply driven one, it has been encouraging producers to upgrade their product. Nonetheless, it was found that array of standalone services are not divided according to the needs of micro and small enterprises under different stages such as startup, embryonic, and development phases.

This study has further shown that inter-firm cooperation between value chain actors is limited in that it basically focuses on passing instructions or orders from buyers to producers rather than joint action that could benefit both of them and thus enhance the competitiveness of the value chain. Moreover, other forms of cooperation such as quality improvement, technological upgrading, human resource training, and marketing which are critical for upgrading of MSEs were found either nil or exist with very minimum level implying that learning that could otherwise be acquired from such cooperation and be corner stone for upgrading practices of cloth producing MSEs is also lacking in the value chain.

The analysis finds the incidence of several upgrading constraining factors in the business environment in which cloth producing enterprises are operating. Factors such as: lack of finance or capital, high level of inflation, unpredictability or fluctuation of prices, low purchasing power of the society, lack of access to information about upgrading opportunities, lack of access to market opportunities, lack of machines or tools, electric power interruption, and lack of access to quality inputs were found as the main upgrading discourage factors in the business environment. Finally, the study has shown that buyers were dissatisfied with the performance of the producers showing the ineffectiveness of producers in meeting buyers' expectation.

This study has tried to cover a wide range of issues associated with value chain elements and its dynamics. It examined varied factors particularly allied with the structure of the value chain in breadth rather than in depth. Further research should therefore concentrate on the in-depth investigation of each of the value chain elements separately. Auspiciously, this study could be base for researchers who have curiosity to take further in depth studies mainly related with micro and small enterprises. Because the study has gone some way towards enhancing our understanding of governance pattern and upgrading practices of cloth producing MSEs via the lens of value chain model and contribute a lot to the so far inadequate empirical literature in the area.

5.2 Recommendation

The fundamental concern of this thesis is to examine the value chain in which micro and small scale clothing enterprises are participating by looking into how key elements of the value chain structure and its dynamics encourage or discourage the upgrading practices of these enterprises and to propose some strategies that could enhance the competitiveness of cloth producers. The value chain in which micro and small scale clothing enterprises have been participating is found as highly fragmented in terms of linkages between value chain actors and is challenged by a number of upgrading discouraging factors.

The task of improving the effectiveness of the value chain linkages and tackling other numerous problems impeding the upgrading practices of cloth producers can only be successful by applying multidimensional and concentrated approaches and by effectively involving all stakeholders such as government (FeMSEDA, AAMSEDA, MSE office at different levels of Addis Ababa city administration, and Ethiopian Textile Industry Development Institute), financial institutions, MSEs (owners and managers), employees of MSEs, TEVT Colleges and Universities, regulatory and tax agencies, different business and producers associations (chamber of commerce, Ethiopian Garment Manufacturers Association, Garment Exporting Associations), and local and international NGOs in the deeds of promoting these enterprises. Therefore, the researcher has suggested the following measures to be carried out by every concerned body.

It is found that marketing network of cloth producing enterprises is limited (concentrated in Addis Ababa), perceived as unfavorable and declined in demand by majority of micro enterprises. This verdict has strong implication for all concerned bodies particularly for government agencies that are responsible for supporting the growth of MSEs in general and of clothing producing ones in particular. Because, it is reciprocally acknowledged in theory and empirical investigations that branched out marketing channels and strong demand and encouraging conditions in the market are key drivers of upgrading practices of MSEs.

Therefore, concerned bodies should rigorously work up marketing research that focuses on the identification of domestic and overseas actual and potential markets in favor of clothe producing MSEs along with the unearthing of opportunities for strong linkages that facilitate the expansion of enterprises' access to a wide range of marketing channels. Besides, aggres-

sive and frequent promotion campaign should be undertaken by government via all available Medias in order to promote clothes locally produced by micro and small producers to all citizens as well as foreigners given that almost all of MSEs lack capacity (in terms of fiancé and knowledge) to undertake such activity. More specifically, the promotion campaign should be accompanied by measures such as: establishing market information centers in each kebele and work premises of producers; construction of easily reached product display centers; availing information on market opportunities and enhanced technologies; provision of pre, during, and post training on quality upgrading and cost cutback schemes, and linking cloth producing MSEs with medium and large companies to serve up as market outlets. The current emerging practices of creating inter-face between producers and buyers through bazaars and exhibitions should be reinforced. In this regard, the focus should be on institutions and instruments that incessantly facilitate inter-face between buyers such as trade fairs, export visits, etc to enable producers to have access to marketing information, product development, fashion trends, and gaining technical knowhow.

Understanding the nature of value chain linkages and strengthening such linkages between and/or among value chain actors is nucleus in boosting the competitiveness of clothe producing MSEs in both domestic and abroad markets. However, in this study it was found that both horizontal and vertical linkages between actors of the value chain that could increase clothe produces opportunities in the form of increased and stable product demand and expand their capabilities via transfer of skills and knowledge are gone astray.

Therefore, producers associations, that could facilitate access of clothe producers to functional upgrading, help out them to earn higher prices, and acquire discounted inputs and other services need to be fortified. The current practices of expanding producers association in terms of number for the purpose of making varied services accessible to them need to be shifted to establishing new and strengthening exiting associations in such a way that improve their trust, attitudes, work culture (the culture of team work that intensify synergy and collective actions), and learning (cooperate in the area of knowledge and skill transfer). Measures such as training in group development, ethics (transparency, honesty, accountability, etc), non-judgmental attitude, conflict management, and leadership skills; collection and distribution of vital information associated with the benefit of associations; improving access of clothe producers to financial and non-financial services; instilling the principles of good go-

vernance into the management of associations before they commence service to their members; and identifying model associations and enable others to learn from them, should be adopted by concerned bodies. Finally, clustering and networking that could encourage inter-firm cooperation and competition among clothe producing enterprises and generate specific location advantage should be strongly promoted.

Micro and small scale cloth producing enterprises need to robustly linked to buyers and input suppliers in the value chain. Because the nature of vertical linkages together with amount and quality of information and services distributed defines the distribution of benefit in the chain and encourage or discourage upgrading practices of MSEs. However, this study finds that the vertical linkage between value chain actors is ineffective due to a number of reasons: high prevalence of mistrust, limited information flow, lack of transparency among others. This situation limited the ability of cloth producers to supply their buyers with a product that meet all the buyers' requirements. Thus, all concerned bodies should comprehend the ever changing vertical relationships in the value chain and their potential tradeoffs and divergences between social and business enticements so as to smooth the progress of cloth producers towards obtaining high benefit from the value chain. The following specific measures should be adopted to enhance vertical linkages:

- ***Fostering trust*** – trust is one of the key components of value chain that enhance the competitiveness of the chain in general and of clothing producers in particular. Alas, it is difficult and even impracticable to build trust within short period of time. It requires great attentiveness from all value chain participants and business service providers. Therefore, concerned bodies should be unwearied while trying to foster new vertical linkages since it requires time to put up confidence and reciprocated trust between MSE clothe producers and their buyers. At this juncture, comprehending line of communications in the chain, roles and responsibilities of varied actors, and commitments needed to complete the terms of agreement are critical in building trust in the value chain. Hence both governmental and NGOs need to invest their resources in trust enhancing activities that could bring about coolness and ingenuousness between value chain actors.
- ***Facilitating mutual beneficial relationships between value chain actors*** – effective vertical linkage in the value chain is characterized by mutually beneficial relation-

ships that benefit all of the participants of the value chain and encourage the upgrading practices of MSE clothe producers. In such type of relationships, value chain actors are mainly spotlight on their key competencies and via joint action they realize synergies that boost the competitiveness of the whole value chain. Therefore, concerned bodies should focus on enabling actors to develop long term joint vision, identify and abolish the causes of mistrust in the entire chain, and create an environment of mutual respect that advance symbiotic relationships.

Provision of services such as managerial and technical trainings, financial and non-financial supports, advisory and counseling services, etc in the form of both embedded and standalone are indispensable for the upgrading practices of MSEs. However, this study finds that embedded services that buyers are supposed to provide to cloth producers are dreadfully low. Likewise, services provided by governmental and non-governmental organizations are focused on limited enterprises, short term, and supply driven.

With regard to embedded service, concerned bodies need to promote business-to-business mentoring in which large firms that either buy the product of producers or outsource the production undertaking to producers could take part in encouraging micro and small clothe producing enterprises to innovate and play a part in high value adding functions (e.g. exporting) by making available highly skilled managers and experts to producers for short term advisory sessions. An additional measure that needs to be taken by support providers to cultivate embedded services is spiraling vertical linkage between producers and buyers by adopting strategies suggested in the second bullet above.

As far as standalone services concerned, business development service providers (both governmental and non-governmental organizations) need to adjust and branch out their services by comprehending the needs of MSE cloth producers via tirelessly assessing their needs, measuring their performance, continually enhancing their capacity based on the level of their performance, and undertaking analysis of the BDS market in their environment. Support agencies should also tailor their training and advisory services to diverse stages of enterprise growth such as start up, embryonic, and development phases so as to enable producers to choose and gain greatest assistance that meet their specific need and situation and upgrade their business.

Even if there is strong debate about who should be targeted in enterprise assistance, for instance, survival oriented or entrepreneurs with growth potential one, the researcher recommends that interventions should be aimed at both entrepreneurs (those with survival and growth orientations) and adapted to the respective needs of apiece. Because, if well organized supports that critically address both existing and potential problems of survival oriented enterprises are in place, there will be no reason for these enterprises to remain in survival outlook. Yet again, if helpful environment is created to enhance strong cooperation (among survival oriented enterprises); (between growth oriented and survival oriented enterprises); (among survival oriented, growth oriented and large firms); there would be no reason for these enterprises to be unsuccessful together since one will be remedy for other in the area where one of them is dwindling.

Improving the business environment for clothe producing MSEs should be one of the areas of government intervention. Here improving business environment means making the business environment in which clothe producing MSEs operating full of opportunities and inducements which would make the existing entrepreneurs productive and attract prospective entrepreneurs including young school leavers who would be motivated enough to decide on to be self employers rather than government jobs seeker. It is documented that both federal government and Addis Ababa city administration have given due attention to the promotion of MSEs. At both levels of the government, sound policies and strategies have been developed and adopted. However, the assessment of business environment of this study indicates that a large number of upgrading discouraging defies linger in this area. The following paragraph focuses on suggestions with regard to how concerned bodies go about the issues of business environment.

Lack of capital is found as the first upgrade constraining factor in the clothing sector of MSEs. Government and other support providers should adapt and adopt a holistic approach that could enhance cloth producers' access to finance. This should involve measures such as: promoting financial sector development that is aimed at diversifying sources of funds and enlarging the range of lending opportunities for clothe producing enterprises, training and advisory programs to enhance investment readiness of clothe producers, building capacity on the part of clothe producers to upgrade their operations, developing cloth producers' negotiations skills, rising the participation of commercial banks in provision of loan to MSEs, devel-

oping the capacity for micro lending institutions (particularly of Addis Saving and Credit Association), and increasing the amount of loan that could enable entrepreneurs to run their enterprises appropriately.

Majority of micro and small enterprises are found as having narrow perspective in that they are focused on production of clothes for domestic consumption. However, in this globalization era, they should have a global view. In doing so, they can interact and share information, technologies, and products that could facilitate their upgrading practices. They should consider what and how local and global trends are influencing the availability of resources, increasing or decreasing demand for their products, and where there is unsatisfied need that they might be able to meet. Nevertheless, this state of affairs would be difficult and even impossible to the majority of clothe producers since it requires among many things access to decisive information and capital. It is at this juncture that government can intervene to supply information on business trends at local, national, and international levels. Therefore, government should focus on collection, analysis and distribution of information about upgrading opportunities, demands, prices, and trends in the market to micro and small scale clothe producers; and inaugurate efficient and effective knowledge sharing system (improve market intelligence) so that cloth producers can have access to learning and enhance their upgrading practices. Improved information and knowledge sharing systems would not only generate the benefits discussed above but also they are vital in addressing the problem of mistrust and disintegration that have characterized the value chain in which clothe producing MSEs are participating.

Finally, this study finds factors such as strong demand in the market, relational pattern of governance, and training in the area of production technique as key in increasing the likelihood of enterprises' towards adoption of different strategies to upgrade their process and products. Therefore, concerned bodies should take these factors into consideration whenever they are devising different strategies aimed at developing MSEs in general and clothe producing enterprises in particular and use them as policy instruments to achieve the intention of the government and entrepreneurs. Specific measures to be taken regarding these factors discussed somewhere in this section of research should also be vigilantly applied by all stakeholders working in the area of clothing.

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Appendix A: Additional Tables

Table 4.15: Cross Tabulation for Upgrading Practices and Demand in the Market

			Overall demand in Market			
			Increased	No change	Decreased	Total
Process Upgrading	Yes	Count	34	20	5	59
		%	66.7%	44.4%	21.7%	49.6%
	No	Count	17	25	18	60
		%	33.3%	55.6%	78.3%	50.4%
Total		Count	51	45	23	119
		%	100.0%	100.0%	100.0%	100.0%
Product Upgrading	Yes	Count	37	23	8	68
		%	72.5%	51.1%	34.8%	57.1%
	No	Count	14	22	15	51
		%	27.5%	48.9%	65.2%	42.9%
Total		Count	51	45	23	119
		%	100.0%	100.0%	100.0%	100.0%
Functional Upgrading	Yes	Count	22	0	2	24
		%	43.1%	.0%	8.7%	20.2%
	No	Count	29	45	21	95
		%	56.9%	100.0%	91.3%	79.8%
Total		Count	51	45	23	119
		%	100.0%	100.0%	100.0%	100.0%
Channel Upgrading	Yes	Count	12	2	3	17
		%	23.5%	4.4%	13.0%	14.3%
	No	Count	39	43	20	102
		%	76.5%	95.6%	87.0%	85.7%
Total		Count	51	45	23	119
		%	100.0%	100.0%	100.0%	100.0%

Source: Own survey, 2012

Table 4.19: Kinds of Agreement Made in Advance between Producers and their Buyers

Kinds of agreement reported as "yes"	Responses	Micro	Small	Total
		N(%)	N(%)	N(%)
Agreement in advance about the quantity	Always make agreement	12(19.0)	11(19.6)	23(19.3)
	Sometimes make agreement	22(34.9)	24(42.9)	46(38.7)
	Never make agreements	29(46.1)	21(37.5)	50(42.0)
	Total	63(100)	56(100)	119(100)
Agreement in advance about the dates	Always make agreement	12(19.0)	12(21.4)	24(20.2)
	Sometimes make agreement	23(36.5)	24(42.9)	47(39.5)
	Never make agreements	28(44.5)	20(35.7)	48(40.3)
	Total	63(100)	56(100)	119(100)
Agreement in advance about the kinds of cloth	Always make agreement	11(17.5)	12(21.4)	23(19.4)
	Sometimes make agreement	24(38.1)	24(42.9)	48(40.3)
	Never make agreements	28(44.4)	20(35.7)	48(40.3)
	Total	63(100)	56(100)	119(100)
Agreement in advance about the price	Always make agreement	12(19.0)	13(23.2)	25(21.0)
	Sometimes make agreement	23(36.5)	23(41.1)	46(38.7)
	Never make agreements	28(44.5)	20(35.7)	48(40.3)
	Total	63(100)	56(100)	119(100)
Agreement in advance about the quality	Always make agreement	14(22.3)	11(19.6)	25(21.0)
	Sometimes make agreement	21(33.3)	25(44.6)	46(38.7)
	Never make agreements	28(44.4)	20(35.7)	48(40.3)
	Total	63(100)	56(100)	119(100)
Agreement in advance about the type of inputs to be used	Always make agreement	13(20.6)	13(23.2)	26(21.8)
	Sometimes make agreement	22(34.9)	23(41.1)	45(37.8)
	Never make agreements	28(44.4)	20(35.7)	48(40.3)
	Total	63(100)	56(100)	119(100)

Source: Own Survey, 2012

Table 4.27: Producers', Buyers', and Input Suppliers Methods for Communiqué with each other

Frequency of communication		Micro	Small	Total	Buyers sup.	Input
		N(%)	N(%)	N(%)	N(%)	N(%)
Face-to-face meeting	Daily	9(14.3)	6(10.7)	15(15.6)	6(12)	3(15)
	Once a week	14(22.2)	18(32.1)	32(26.9)	20(40)	6(30)
	At least once a month	13(20.6)	12(21.4)	25(21.0)	10(20)	8(40)
	At least once every three month	10(15.9)	11(19.6)	21(17.6)	7(14)	3(15)
	About once a year	6(9.5)	5(8.9	11(9.2)	3(6)	0(0)
	Not at all	11(17.5)	4(7.1)	15(12.6)	4(8)	0(0)
	Total	63(100)	56(100)	119(100)	50(100)	20(100)
Cellular telephone call	Daily	5(7.9)	11(19.6)	16(13.4)	14(28)	4(20)
	Once a week	23(36.5)	12(21.4)	35(29.4)	16(32)	7(35)
	At least once a month	11(17.5)	13(23.2)	24(20.2)	4(8)	3(15)
	At least once every three month	6(9.5)	1(1.8)	7(5.9)	5(10)	2(10)
	About once a year	3(4.8)	2(3.6)	5(4.2)	0(0)	0(0)
	Not at all	15(23.8)	17(30.4)	32(26.9)	11(22)	4(20)
	Total	63(100)	56(100)	119(100.0)	50(100)	20(100)
Landline telephone call	Daily	3(4.8)	2(3.6)	5(4.2)	3(6)	2(20)
	Once a week	0	0	0	1(2)	3(15)
	At least once a month	1(1.6)	4(7.1)	5(4.2)	1(2)	0(0)
	At least once every three month	0	0	0	3(6)	0(0)
	About once a year	0	1(1.8)	1(0.8)	0	0(0)
	Not at all	59(93.7)	49(87.5)	108(90.8)	42(84)	15(65)
	Total	63(100)	56(100)	119(100)	50(100)	20(100)
Communication via internet						
	Once a week 2(10)					
	At least once a month	0	1(1.8)	1(0.8)	1(2)	1(5)
	Not at all	63(100)	55(98.2)	118(99.2)	49(98)	17(85)
	Total	63(100)	56(100)	119(100)	50(100)	20(100)
Communication via Fax						
	Daily					1(5)
	Once a week					1(5)
	At least once a month	0	1(1.8)	1(0.8)	0(0)	0(0)

	Not at all	63(100.0)	55(98.2)	118(99.2)	50(100)	18(90)
	Total	63(100)	56(100)	119(100)	50(100)	20(100)
	Once a week					2(10)
	Not at all	63(100)	56(100)	119(100)	50(100)	18(90)
Mail/post	Total	63(100)	56(100)	119(100)	50(100)	20(100)

Source: Own survey, 2012

Table 4.30: Actor of the Value Chain that Determines Price and Quality in the Market

	Price reported as "yes"			Quality reported as "yes"		
	Micro	Small	Total	Micro	Small	Total
Actors	N(%)	N(%)	N(%)	N(%)	N(%)	N(%)
Exporter	0(0)	2(2.2)	2(1.1)	2 (2.0)	2(2.3)	4(2.2)
Importer	0(0)	0(0)	0(0)	0(0)	0(0)	0(0)
Cloth producer	15(16.3)	14(15.0)	29(15.7)	24(24.3)	21(24.1)	45(24.2)
Designer	0(0)	0(0)	0(0)	0	1(1.1)	1(0.5)
Broker	1(1.1)	3(3.3)	4(2.2)	1(1.0)	4(4.6)	5(2.7)
Wholesaler	13(14.2)	22(23.6)	35(18.9)	16(16.1)	19(21.8)	35(18.8)
Retailer	46(50.0)	42(45.1)	88(47.6)	47(47.5)	34(39.1)	81(43.5)
(Other - final consumers)	5(5.4)	3(3.3)	8(4.3)	6(6.1)	2(2.3)	8(4.3)
(Other - negotiation)	12(13.0)	7(7.5)	19 (10.2)	3(3.0)	4(4.6)	7(3.8)
Total	92*(100)	93*(100)	185*(100)	99*(100)	87*(100)	186*(100)

Source: Own Survey, 2012

*The sum is greater than the sample on account of multiple

Table 35: Cross Tabulation for Upgrading Practices and Training in Production Technique

			Assistance or training in clothe production techniques		
			Yes	No	Total
Process Upgrading	Yes	Count	22	37	59
		%	53.7%	47.4%	49.6%
	No	Count	19	41	60
		%	46.3%	52.6%	50.4%
Total		Count	41	78	119
		%	100.0%	100.0%	100.0%
Product Upgrading	Yes	Count	30	38	68
		%	73.2%	48.7%	57.1%
	No	Count	11	40	51
		%	26.8%	51.3%	42.9%
Total		Count	41	78	119
		%	100.0%	100.0%	100.0%
Functional Upgrading	Yes	Count	10	14	24
		%	24.4%	17.9%	20.2%
	No	Count	31	64	95
		%	75.6%	82.1%	79.8%
Total		Count	41	78	119
		%	100.0%	100.0%	100.0%
Channel Upgrading	Yes	Count	11	6	17
		%	26.8%	7.7%	14.3%
	No	Count	30	72	102
		%	73.2%	92.3%	85.7%
Total		Count	41	78	119
		%	100.0%	100.0%	100.0%

Source: Own survey, 2012

Table 4.36: Constraints Related with Business Environment

Constraints reported as "yes"	Responses		% of Cases
	N	%	
Lack of machines, tools, etc	87	6.8%	73.1%
Electric power interruption	72	5.7%	60.5%
Lack of access to work premises	41	3.2%	34.5%
Lack of access to market opportunities	87	6.8%	73.1%
Lack of finance or capital	101	7.9%	84.9%
Lack of access to quality inputs	70	5.5%	58.8%
Lack of access to design services	57	4.5%	47.9%
Lack of skills and knowledge	58	4.6%	48.7%
Lack of access to training	61	4.8%	51.3%
High tax rates or levies	14	1.1%	11.8%
Bureaucracy (time consuming business licensing or operating permits)	54	4.2%	45.4%
Uncertainty of government rules, regulations, policies, etc	24	1.9%	20.2%
Unfavorable business law	19	1.5%	16.0%
High inflation	100	7.9%	84.0%
Corruption	15	1.2%	12.6%
High level of theft, crime, or disorder in work area (insecurity)	14	1.1%	11.8%
Widespread of second hand clothes	37	2.9%	31.1%
Cheap imported clothes	55	4.3%	46.2%
Lack of access to information about upgrading opportunities	87	6.8%	73.1%
Unpredictability or fluctuation of prices	96	7.5%	80.7%
Unfair competition from unregistered enterprises	32	2.5%	26.9%
Low purchasing power of customers	90	7.1%	75.6%
Other discouraging factors	2	.2%	1.7%
Total	1273*	100.0%	1069.7%*

Source: Own survey, 2012

Table 4.38: Producers' Cooperation with Buyers and Input Suppliers

Cooperation of Producers with Buyers				Buyers' cooperation with Producers
	Micro	Small	Total	
Form of Cooperation reported as "yes"	%	%	%	%
Information exchange	20.6	17.3	19.1	20
Product Development	17	16.8	16.9	17
Accelerate delivery	17	17.8	17.4	17
Product specification	15.3	14.9	15.1	16.5
Quality control	14.8	14.9	14.8	16
Quality improvement	13	13.8	13.4	13.5
Technological upgrading	0	0.5	0.2	0
Human resource training	0	0.5	0.2	0
Marketing	2.3	3.5	2.9	0
Total	100	100	100	100
N	223*	202*	425*	200*
Cooperation of Producers with Input Suppliers				Suppliers' coopera-tion with Buyers
Information exchange	34.3	39.5	37.1	32.7
Product Development	10	9.9	9.9	10.9
Accelerate delivery	15.7	14.8	15.2	12.7
Product specification	8.6	6.2	7.3	10.9
Quality control	12.9	13.6	13.2	16.4
Quality improvement	12.9	8.6	10.6	10.9
Technological upgrading	0	0	0	1.8
Human resource training	0	0	0	1.8
Marketing	5.7	7.4	6.7	1.8
Total	100	100	100	100
N	70*	81*	151*	55*

Source: Own Survey, 2012

*The sum is greater than the sample on account of multiple answers

Table 4.39: Cross Tabulation for Upgrading Practices and Cooperation

			Cooperated of producers with buyers in the area of information exchange		
			Yes	No	Total
Process Upgrading	Yes	Count	47	12	59
		%	58.0%	31.6%	49.6%
	No	Count	34	26	60
		%	42.0%	68.4%	50.4%
Total		Count	81	38	119
		%	100.0%	100.0%	100.0%
Product Upgrading	Yes	Count	51	17	68
		%	63.0%	44.7%	57.1%
	No	Count	30	21	51
		%	37.0%	55.3%	42.9%
Total		Count	81	38	119
		%	100.0%	100.0%	100.0%
Functional Upgrading	Yes	Count	17	7	24
		%	21.0%	18.4%	20.2%
	No	Count	64	31	95
		%	79.0%	81.6%	79.8%
Total		Count	81	38	119
		%	100.0%	100.0%	100.0%
	Yes	Count	11	6	17
		%	13.6%	15.8%	14.3%
	No	Count	70	32	102
		%	86.4%	84.2%	85.7%
Total		Count	81	38	119
		%	100.0%	100.0%	100.0%

Source: Own survey. 2012

Table 4.40: Logistic Regression Result for the Influence of Some Key Factors on Process Upgrading

Omnibus Tests of Model Coefficients

		Chi-square	df	Sig.
Step 1	Step	34.452	11	.000
	Block	34.452	11	.000
	Model	34.452	11	.000

Model Summary

Step	-2 Log like-lihood	Cox & Snell R Square	Nagelkerke R Square
1	130.509(a)	.251	.335

a. Estimation terminated at iteration number 5 because parameter estimates changed by less than .001.

Hosmer and Lemeshow Test

Step	Chi-square	df	Sig.
1	5.851	8	.664

Classification Table (a)

Observed			Predicted		
			Process upgrading		Percentage Correct
			0	1	
Step 1	Process upgrading	0	42	18	70.0
		1	15	44	74.6
	Overall Percentage				72.3

a. The cut value is .500

Variables in the Equation

		B	S.E.	Wald	df	Sig.	Exp(B)
Step 1(a)	sex(1)	.056	.491	.013	1	.910	1.057
	A9yearsofoper	-.014	.036	.143	1	.706	.987
	favorable(1)	.776	.480	2.610	1	.106	2.172
	demand1(1)	1.224	.484	6.411	1	.011	3.402
	captive(1)	1.456	.527	7.644	1	.006	4.291
	relational(1)	1.196	.674	3.151	1	.076	3.308
	C8trustbuyers(1)	.032	.518	.004	1	.951	1.032
	infoexchange(1)	.842	.531	2.511	1	.113	2.321
	D2.3traing(1)	.232	.511	.205	1	.650	1.261
	D1.8mgttraining(1)	.568	.499	1.293	1	.255	1.765
	horizontal(1)	-.350	.502	.485	1	.486	.705
	Constant	-2.437	.731	11.119	1	.001	.087

a. Variable(s) entered on step 1: sex, A9yearsofoper, favorable, demand1, captive, relational, C8trustbuyers, infoexchange, D2.3traing, D1.8mgttraining, horizontal.

Source: Own Survey, 2012

Table 4.42: Logistic Regression Result for the Influence of Some Key Factors on Product Upgrading

Omnibus Tests of Model Coefficients

		Chi-square	df	Sig.
Step 1	Step	42.317	11	.000
	Block	42.317	11	.000
	Model	42.317	11	.000

Model Summary

Step	-2 Log like-lihood	Cox & Snell R Square	Nagelkerke R Square
1	120.215(a)	.299	.402

a. Estimation terminated at iteration number 5 because parameter estimates changed by less than .001.

Hosmer and Lemeshow Test

Step	Chi-square	df	Sig.
1	3.845	8	.871

Classification Table (a)

Observed			Predicted		
			Product upgrading		Percentage Correct
			0	1	
Step 1	Product upgrading	0	37	14	72.5
		1	15	53	77.9
	Overall Percentage				75.6

a. The cut value is .500

Variables in the Equation

		B	S.E.	Wald	df	Sig.	Exp(B)
Step 1(a)	sex(1)	-.411	.512	.647	1	.421	.663
	A9yearsofoper	.009	.039	.055	1	.814	1.009
	favorable(1)	.803	.523	2.353	1	.125	2.232
	demand1(1)	1.172	.525	4.988	1	.026	3.229
	captive(1)	1.492	.541	7.608	1	.006	4.448
	relational(1)	2.007	.762	6.933	1	.008	7.444
	C8trustbuyers(1)	-.168	.562	.089	1	.766	.846
	infoexchange(1)	.324	.546	.352	1	.553	1.382
	D2.3traing(1)	1.459	.575	6.436	1	.011	4.301
	D1.8mgttraining(1)	.381	.516	.546	1	.460	1.464
	horizontal(1)	.576	.531	1.176	1	.278	1.779
	Constant	-2.179	.740	8.659	1	003	.113

a. Variable(s) entered on step 1: sex, A9yearsofoper, favorable, demand1, captive, relational, C8trustbuyers, infoexchange, D2.3traing, D1.8mgttraining, horizontal.

Source: Own Survey, 2012

Table 4.42: Association between Upgrading and Performance

Association between upgrading and Performance	Result of Chi-Square Test		
	Pearson Chi-Square (Value)	**df**	**Asymp. Sig.(2-sided**
Process up. * quality improvement	11.403	1	*0.001*
Process up. * price reduction	2.865	1	0.091
Process up. * fast delivery	6.029	1	*0.014*
Process up. * reliable delivery	1.93	1	0.165
Process up. * innovative design	1.3	1	0.254
Process up. * financial stability	9.199	1	*0.002*
Process up. * responsiveness	3.476	1	0.062
Product up. * quality improvement	3.858	1	*0.05*
Product up. * price reduction	0.585	1	0.444
Product up. * fast delivery	2.461	1	0.117
Product up. * reliable delivery	5.049	1	*0.025*
Product up. * innovative design	3.493	1	0.062
Product up. * financial stability	1.605	1	0.205
Product up. * responsiveness	4.153	1	*0.042*

Source: Own Survey, 2012

Appendix B: Definition of terms

Buyers: firms that buy the product for resale, including firms that buy the product from MSE producers. Buyer firms may resell the product in national and/or international markets. These firms may also participate in activities at other levels of the value chain, including supplying raw materials and production.

Competitiveness: the ability of micro and small scale clothing enterprises or value chain in which they participate to achieve or maintain an edge over market rivals which can be based on price, efficiency, quality, quantity, asymmetric access to information, uniqueness, branding, advertising, good service, and/or other environmentally or socially valued standards.

Exporters: firms that sell cloth product to buyers outside Ethiopia.

Governance: a description of the dynamic distribution of power, learning, and benefits among micro and small scale clothing enterprise and other firms in a value chain. (The patterns of vertical relationships between actors of the value chain which are characterized by **a/.** the level of control that one firm exercises over another and **b/.** the flow of information between firms).

Horizontal linkages: market and non-market interactions and relationships between micro and small scale clothing enterprises performing the same function (i.e., operating at the same level) in the value chain

Input Suppliers: firms that provide raw materials and inputs used in production of clothes to micro and small enterprise clothe producers.

Inter-firm cooperation: joint action between two or more micro and small scale clothing enterprises and other firms in a value chain. Includes horizontal and vertical linkages between firms and can be formal or informal.

Intermediary (middleman/broker): an individual or firm connecting the buyer and seller of a clothe product.

Learning: the ongoing acquisition of information, skills, and capabilities by micro and small scale clothing enterprises and by other firms in order to improve or maintain competitiveness

Market channel: a single branch of a value chain normally defined by similarities at the final retail level

Micro cloth producing enterprises: firms at the production level of the value chain that produce clothes by using at most 10 employees.

Modern clothing: is garment made from any fabric woven by a textile factory (machine spun and machine woven fabric).

MSEs Benefits – are benefits that MSEs acquire in the form of higher returns, more dependable or timely returns, reduced risk, the increased value of assets and opportunities for learning.

Retailers: firms that sell the product of cloth to final consumers.

Small cloth producing enterprises: firms at the production level of the value chain that produce clothes by using 11-50 employees.

Traditional clothing: is garment made from handloom or frame loom (hand spun and hand woven or machine spun and hand woven) fabric or from dyed fabric in which colored designs in fabric are created by weaving strands of different colors and adding colored stitches to finish fabric (embroidery) in such a way that reflect the cultural identity of a particular ethnic group in Ethiopia.

Transaction Costs: non-price costs associated with a transaction, including the costs of gathering information, the costs of negotiating a contract, and the costs of enforcing the terms of a contract.

Trust: unyielding certainty among value chain actors concerning reliability and truth in business dealings and agreements

Vertical linkages: market and non-market interactions and relationships between firms performing different functions (i.e., operating at different levels) in the value chain

Wholesalers: firms that do not produce the cloth and do not sell to the final consumer. In the most direct case, these firms buy from MSE producers and sell

Appendix C: Questionnaire

Addis Ababa University

Institute of Regional and Local Development Studies

Understanding Micro and Small Scale Clothing Enterprises in Ethiopia: Governance and Upgrading in Value chain

A. Scheduled Interview for the Micro and Small Scale Clothe Producing Enterprises

Dear respondents,

First and foremost I would like to extend my sincere thankfulness for your cooperation, accurate, and timely responses to the questionnaire. My name is Amanuel Kussia, a Master Degree student at Addis Ababa University. Currently, I am conducting research study on factors that affect the upgrading practices of micro and small scale cloth producing enterprises in Addis Ababa. The purpose of this study is to examine the value chain in which these enterprises have been participating and identify core factors that encourage or discourage their upgrading behavior. The information the researcher gathers will be used to help garment producers like you to improve the competitiveness of their enterprises and increase benefits to them. Your name was selected from a list of the enterprises registered in your sub-city. I am talking with many clothing enterprises and several other organizations so that I can learn about cloth producers.

I may wish to use some of the information generated by this process for journal articles or in presentation for some interest group. Thus, your identity and inputs will be kept confidential by assigning numbers and referring to participants by numbers.

Thank you so much again for your time and cooperation!

Section A. – Demographic and Background Information

The following items are concerning your personal as well as enterprise information. Please, respond to the question honestly.

No	Variable	Response
A1	Sex of the respondent	1. Male 2. Female
A2	Age of the respondent	_____
A3	Marital status of the respondent	1. Single 2. Married 3. Divorced 4. Widowhood
A5	Educational Level of the respondent	1. Illiterate 2. Primary (1-6) 3. Junior Primary (7-8) 4. Secondary (9-12) 5. Diploma 6. First degree and above
A6	Method of skills learning	1. Family 2. Pervious employment 3. Formal training 4. Friends 5. Other (specify)_____
A7	Position of the respondent	1. Owner 2. Manager 3. Owner and Manager 4. Other (specify)_____
A8	How many employees including your-self work at your firm?	Number of employees_____ Male_____ Female_____ Full time – male_____ Female_____ Part-time– male_____ Female_____
A9	How many years has your firm been operating?	Number of years_____
A10	Do you have a cell phone that you can use for your enterprise?	1. Yes 2. No
A11	Do you have a land telephone that you can use for your enterprise?	1. Yes 2. No
A12	Do you have access to an internet/email connection that you can use for your enterprise?	1. Yes 2. No

A14. What is the source of start – up capital for your enterprise? (Check all that apply)

1. Own saving
2. Loan or resources from family
3. Loan from friends
4. Loan from commercial banks
5. Loan from micro finance institutions
6. Grantor loan from NGOs

7. Loan from 'Iquib'
8. Others (specify) _____

A15. What type (s) of cloth product your firm has been producing?

_____

_____

A16. Principal source of inputs for your firm is: (Check all that apply)?

Collected by yourself or by your family	Purchased from neighbors	Supplied by factory	Purchased locally from retailer	Purchased locally from wholesales	Imported via agents	Others (specify)
1	2	3	4	5	6	7

Section B – Marketing Practice

Now I want to learn the different ways that you sell your product. You might sell your product in only one way, or might sell them in more than one way. I would like for you to think all of the different ways that you have sold your product in the past 24 months. I am going to read a list of different ways that a producer of cloth sells his/her product. For each of different ways to sell products that I name, please tell me if you have sold your products in that way in the past 24 months.

B1. Has your firm sold any cloth products in the past 24 months……?

Ways in which a product sold	YES	NO
1. Directly to final consumers in Addis Ababa		
2. To intermediary (broker) in Addis Ababa		
3. To a retailer in Addis Ababa		
4. To a wholesaler in Addis Ababa		
5. To exclusive local shop (designer) in Addis Ababa		
6. To buyers inside Ethiopia (but outside Addis Ababa)		
7. To an exporter located in Addis Ababa		
8. To an importer located outside Ethiopia		
9. Other (specify)_____		

B2. Do you think the way (s) in which your firm sold its product in the past two years are favorable for producers like you? 1. Yes 2. No

B3. If your answer for question B2 is "Yes", what are your key reasons? (Check all that apply)

1. Higher unit profit (price per item is higher)
2. Total value of sales are higher
3. Dependable sales (sales are more reliable and predictable)
4. Many buyers (buyers are easy to find)
5. More assistance (buyers are helpful to producers)
6. Sales are closer and/or more convenient, take less time or travel
7. Better information (information about this market is more available and/or easier to obtain
8. other (specify): _____

B4. If your answer for question B2 is "No", what are your reasons? _____

_____

_____

B6. Assessing overall demand for your products over the last 2 years in the markets listed in **the table under question B1**, it is:

1. Increased 2. No change 3. Decreased

Section C: Vertical Linkages

The questions in this section are about the respondent's linkage with buyers. Please, think about the buyer with whom you have relationships and respond to the following questions honestly.

C1. Which one of the following category of buyer is your top buyer (the buyer with whom you had the highest value of sales)?

1. Buyers in Addis Ababa
2. Buyers in Ethiopia but outside Addis Ababa
3. Buyers located outside Ethiopia
4. other (specify)_____

C2. Have your sales to this buyer stayed about the same over time, increased over time, or decreased over time?

1. Same level of sales over time
2. Sales have increased over time (sales are higher now than before)
3. Sales have decreased over time (sales are lower now than before)

C3. Are you connected to this buyer in any of the following ways?

	YES	NO
1. Buyer is a relative or family member		
2. Buyer is a neighbor		
3. Buyer is a member of your church or mosque		
4. Buyer is a member of a group or association that you belong to		
5. Buyer is a friend		
6. Buyer is a member of your ethnic		
7. Other connection (specify):		

C4. I am going to read you some statements about your top buyer and ask you to answer by saying whether you agree, disagree, or neither agree nor disagree (undecided) with each statement **5. Strongly Agree 4. Agree 3. Undecided 2. Disagree 1. Strongly disagree**

Statement	Response
1. This buyer can be trusted to look out for interests of cloth producers like you in your business dealings.	
2. This buyer can be trusted to be fair with cloth producer like you.	
3. This buyer is concerned with the welfare of cloth producers like you.	
4. This buyer will help cloth producers like you if you need it.	

5. This buyer will take advantage of producers like you if you are not careful	
6. This buyer can be trusted to keep agreements made with producers like you	

C5. Please tell me about the kinds of agreements you made with this buyer before the day that you actually deliver (supply) cloth to the buyer. I am going to read a list of items and you tell me if you always make agreements with the buyer in advance, sometimes make agreements in advance, or never make agreements in advance.

1. Always make agreements in advance
2. Sometimes make agreements in advance
3. Never make agreements in advance

Statement	Response
1. Do you ever make agreements with the buyer in advance about the ***kinds (types)*** of cloth you will supply to the buyer?	
2. Do you ever make agreements with the buyer in advance about the ***quantity*** of cloth you will supply to the buyer?	
3. Do you ever make agreements with the buyer in advance about the ***dates*** that you will supply your product to the buyer?	
4. Do you ever make agreements with the buyer in advance about the ***price*** the buyer will pay for the cloth?	
5. Do you ever make agreements with the buyer in advance about the ***quality*** that the buyer will accept, for instance in color, shape, size, design, etc	
6. Do you ever make agreements with the buyer in advance about the ***types of inputs*** (notions, looms, threads and dyes, etc) that you will use when producing the cloth?	

Note for enumerator: If all answers to C6 are "3-Never make agreements in advance" then skip to question C9

C6. For those things that you and the buyer made agreements/arrangements in advance about in the past 24 months, did you make any of these agreements in writing?

1. Yes 2. No

C7. Do you trust this buyer to meet these agreements?

1. Yes 2. No

C8. In the past 24 months, about how many times have you met with or communicated with this buyer or the buyer's representative (e.g., employee, agent, assistant) in each of the following ways?

1. Daily 2. Once a week 3. At least once a month
4. At least once every three month 5. About once a year
6. Not at all

Means of communication	Response
1. Face-to-face meeting	
2. Cellular telephone call	
3. Land line telephone call	
4. Email or internet	
5. Fax	
6. Mail/post/package	

C9. Do you know where this buyer sells the products that you supply?

1. Yes 2. No

C10. Do you know what price your buyer charges when he/she sells the product?

1. Yes 2. No

C11. What is the nature of relationship between you and your buyer(s)?

1. I have loose relationship with my buyers\relationship merely based on market
2. My buyer dictates the terms/I depend on my buyer
3. I and my buyer have equal rights relationship/mutual dependence
4. My firm has vertical linkage with buyer

C12. Who determines price in the market?

1. Exporter in Ethiopia mostly determines price
2. Importer outside Ethiopia mostly determines price
3. Producers like you largely determine price
4. Designers largely determine price
5. Brokers determine price
6. Wholesalers in Ethiopia mainly determine price
7. Retailers in Ethiopia largely determine price
8. Other (specify):_____

C13. Who specifies the quality of the product to be produced?

1. Exporter in Ethiopia mostly specifies
2. Importer outside Ethiopia mostly specifies
3. Producers like you largely stipulate the quality
4. Designers largely specify the quality
5. Brokers determine price
6. Whole sellers in Ethiopia mainly stipulate the quality
7. Retailers in Ethiopia largely specify the quality
8. Other (specify):_____

Section D: Business Service

Note for enumerator: for D1 and D2 read each alternative in the table and record response in the appropriate column.

D1. In the past 24 months, have any of your buyers provided you with any of the following kinds of assistance? 1. Yes 2. No

D2. In the past 24 months, have you received any of the following types of assistance from some source other than your buyers? 1. Yes 2. No

Type of assistance	Buyers (D1)	Other source (D2)
1. Cash advances or cash credit for making		
2. Advances of inputs: notions, looms, threads and dyes, materials, equipments, etc		
3. Assistance, advice, or training in cloth production techniques		
4. Assistance, advice, or training on how to meet local standards		
5. Assistance, advice, or training on how to meet international standards		
6. Assistance, advice, or training in design		
7. Marketing assistance or help finding other buyers		

8. Management and/or business training		
9. Training in group management or leadership skills		
10. Research assistance		
11. Credit for personal needs or emergencies		
12. Other assistances (specify):_____ _____ _____ _____ _____	For any type of assistance where D2 = "1 - Yes" record name or type of Other Source. A. ---------- ---------- ---------- B. ---------- ---------- C. ---------- ---------- D. ---------- ----------	

Section E: Relationships between Cloth Producers (Horizontal Relationship)

E1. Have you ever been a member of any of clothing producer association/group?

1. Yes 2. No

E2. If your answer for question E1 is "yes", which of the following activities do the members of this group do together?

Activities	Response	
	YES	NO
1. Sell product together		
2. Buy supplies and materials together		
3. Negotiate price as a group		
4. Transport products together		
5. Operate retail location together		
6. Advertise and search for customers together		
7. Help each other in learning new production technique (product development)		
8. Seek technical assistance (training)from other sources		
9. Borrow and lend money to each other		
10. Rent equipment or machinery together		
11. Borrow money outside the group		
12. Exchange information		
13. Other (specify): _____ _____		

E3. If your answer for question **E1** is ***No***, what is the most important reason that you have not joined this group? (

1. I have not had clothes to sell.
2. The prices received by the group were too low.
3. The group did not have enough orders/I was not permitted to sell with the group.
4. Too much of my cloth is rejected (does not meet the quality standards) for the group sales.
5. I don't trust the leaders or other group members to be honest and fair.
6. It takes too much time to be an active member.
7. The membership fees and member expenses are too high.

8. I was busy doing something else.
9. I do not have information about the existence of such association/group
9. Other (specify)_____

F. Upgrading practices

I have some questions about your upgrading practices. Thus, I am going to read you some questions about your upgrading practices and ask you to choose the type of upgrading that your firm has been adopted. Please take your time and try to give the best and most honest answer.

Process upgrading

F1. Did your firm undertake any action (s) to improve production process to transform inputs into outputs more efficiently? 1. Yes 2. No

F2. If your answer for question No F1 is **"Yes"**, please indicate which activity(s) your firm has carried out to improve production process? (Check all that apply)

1. Introduced new managerial technique to increase efficiency
2. Changed the layout of production process to increase clothes produced per worker
3. Put in place a system that expedite deliveries
4. Invested resources to acquire technology (new equipment or machinery)
5. Invested resources in research and development
6. Put in place a system that reduce rejection rate of the cloth produced
7. Others (specify) _____

Product upgrading

F3. Did your firm carryout any activity to make improvement in the clothes so as to make them more desirable to customers? 1. Yes 2. No

F4. If your answer for question No F3 is **"Yes"**, what step(s) have your firm taken to improve the cloth that it produces? (Check all that apply)

1. Improved the quality of the product
2. Changed the design of the product
3. Innovated in the usage of inputs, color, shape, etc
4. Involved in the development of new product
5. Others (specify) _____

Functional upgrading

F5. Did your firm ever take on non-production activity(s) to acquire new or superior function(s) in the value chain it has been participating? 1. Yes 2. No

F6. If your answer for question No F5 is **"Yes"**, in which one of the following non-production activity(s) did your firm engage? (Check all that apply)

1. The function of designing
2. The development of own brand
3. The function of intermediary

4. The function of retailing
5. The function of wholesales
6. The function of exporting
7. Others (specify)_____

Channel upgrading

F7. Did your firm yet entry into a pathway leading to a new, higher value-added end market such as a local, national, or global end market? 1. Yes 2. No

F8. If your answer for question No F7 is **"Yes",** please indicate below which action(s) your firm has taken to improve the channel through which it sales its product? (Check all that apply)

1. Searched for domestic new markets
2. Searched for global new markets
3. Participated in a variety of markets
4. Others (specify)_____

G. Business and enabling environment

Now I have some questions about the business environment in which your firm operates. I am going to read you some statements about some critical issues that may encourage or discourage the operation and upgrading of your business. Please take your time and try to give the best and most honest answer.

G1. Please refer to questions **F1, F3, F5,** and **F7** above. If your answer to these questions is "No", what do you think are the factors that discouraged you to upgrade your business? (Check all that apply).

1. Lack machines, tools, etc
2. Electric power interruption
3. Lack of access to work premises
4. Lack of access to marketing facilities or market opportunities
5. Lack of finance or capital
6. Lack of access to quality inputs
7. Lack of access to design services
8. Lack of skills and knowledge
9. Lack of training
10. High tax rate or levies
11. Bureaucracy (time consuming business licensing or operating permits)
12. Uncertainty of government's rules, regulations, policies…
13. Unfavorable business laws
14. High inflation increased input prices
15. Corruption
16. Insecurity (high level of crime, theft or disorder in the city)
17. Widespread of second hand clothes
18. Cheap imported cloth products, particularly from china
19. Lack access to information about upgrading opportunities
20. Unpredictability or fluctuation of prices
21. Unfair competition from unregistered enterprises

22. Low purchasing power of the customers
23. Others (specify)_____

Section H: Inter-firm cooperation

In this section I would like to ask you about the relationships that you have with your product buyers and input suppliers. Please take your time and try to give the best and most honest answer.

H.1. Cooperation with Buyers

H.1.1 My firm cooperates with buyers in the area of ....

Form/area of cooperation	YES	NO
1. Information exchange		
2. Product development		
3. Accelerate delivery		
4. Product specification		
5. Quality control		
6. Quality improvement		
7. Technological upgrading		
8. Human resource training		
9. Marketing		
10. Other (specify):		

H.2. Cooperation with Suppliers

H.2.1 My firm cooperates with input suppliers in the area of ....

Form/area of cooperation	YES	NO
1. Information exchange		
2. Product development		
3. Accelerate delivery		
4. Product specification		
5. Quality control		
6. Quality improvement		
7. Technological upgrading		
8. Human resource training		
9. Marketing		
10. Other (specify):		

I. Competitiveness/performance of the firm

This is the final set of questions that I have for you, and I want to thank you for your patience up until now. We are almost finished. These last questions refer to your perception concerning your performance. I want you to consider all the critical success factors that would enable you to assess how your firm is performing to meet the requirement of its customers. In other words, the issues that I am going raise are key for your firm competitiveness and performance. Therefore,

please take your time and try to give the best and most honest answer. Rate the statements that I am going to read for you in terms of how successful do you believe you are in meeting your customers' requirement.

5. Very successful 4. Successful 3. Undecided 2. Unsuccessful 1. Very unsuccessful

Competitiveness criteria	Response				
1. Improvements in product quality	5	4	3	2	1
2. Reduction in prices	5	4	3	2	1
3. Fast deliveries	5	4	3	2	1
4. Reliable deliveries	5	4	3	2	1
5. Innovative design	5	4	3	2	1
6. Financial stability	5	4	3	2	1
7. Responsiveness	5	4	3	2	1

B. Scheduled Interview questionnaire for buyers

Dear respondents,

First and foremost I would like to extend my sincere thankfulness for your cooperation, accurate, and timely responses to the questionnaire. My name is Amanuel Kussia, a Master Degree student at Addis Ababa University. Currently, I am conducting research study on factors that affect the upgrading practices of micro and small scale cloth producing enterprises in Addis Ababa. The purpose of this study is to examine the value chain in which these enterprises have been participating and identify core factors that encourage or discourage their upgrading behavior. Therefore, these survey questions not only offer an opportunity to look into the factors that determine upgrading practice of these enterprises but also provide comprehensive baseline information on how to improve the competitiveness of micro and small scale clothing enterprises in Addis Ababa. I may wish to use some of the information generated by this process for journal articles or in presentation for some interest group. Thus, your identity and inputs will be kept confidential by assigning numbers and referring to participants by numbers.

Thank you so much again for your time and cooperation!

Section A: Background Information

The following items are concerning your personal as well as enterprise information. Please, respond to the questions honestly either by circling the best alternative or by writing in the space provided.

A1. What is your position in this firm?

1. Owner
2. General Manager
3. Owner and General Manager
4. Other (specify):_____

A2. How many employees including, yourself work at your firm?

Number of employees_____

Male_____ Female_____

Full time - male_____ Female_____

Part time - male_____ Female_____

A3. How many years has your firm been operating? Number of years_____

A4. Do you have a cell phone that you can use for your enterprise? 1 .Yes 2. No

A5. Do you have a land telephone that you can use for your enterprise? 1 .Yes 2. No

A6. Do you have access to an internet/email connection that you can use for your enterprise?

1 .Yes 2. No

Section B: Information about buyers

B1. In which of the following categories does your firm best fit? (Circle the best alternative).

1. Retailer: firm that sells to final consumers
2. Distributor: firm that sells to retail firms in Addis Ababa and/or other regions of the country
3. Exporter: firm that sells to firms outside Ethiopia
4. Wholesaler/Intermediary: firm that sells to other, non-retail firms inside Ethiopia
5. Broker/intermediary: firm or an individual that receives cloth product from producers on lot and resell the product at wholesale level
6. Other (specify):_____

B2. Which of one the following category of buyer is your top buyer (the buyer with whom you had the highest value of sales)? (Circle the best alternative).

1. Buyers in Addis Ababa
2. Buyers in Ethiopia but outside Addis Ababa

3. Buyers located outside Ethiopia
4. Others (specify)_____

Section C: Relationship with suppliers (clothe producers)

C1. From which one of the following category of suppliers did you purchase the items of clothing that you sale? (Check all that apply)

1. From intermediaries
2. Directly from micro and small scale clothe producers
3. Directly from medium clothe producing enterprises
4. Directly from large garment producers
5. Others (specify)_____

C2. What is the nature of relationship between you and your suppliers? (Circle the best alternative).

1. I did not develop close relationship with my suppliers/our relationship is simply based on market
2. My suppliers chase my order/my suppliers depend on me
3. I and my supplier have equal rights relationship/mutual dependence
4. My firm has vertical relationship with supplier

C3. In the past 24 months, about how many times have you met with or communicated with clothe producers in each of the following ways?

2. Daily 2. Once a week 3. At least once a month
4. At least once every three month 5. About once a year
6. Not at all

Means of communication	Response
1. Face-to-face meeting	
2. Cellular telephone call	
3. Land line telephone call	
4. Email or internet	
5. Fax	
6. Mail/post/package	

C4. How would you compare the amount of time it takes to deal with intermediaries compared to the time it takes to deal directly with producers? (Circle the best alternative).

1. Less time with intermediaries
2. Less time with producers
3. There is no difference

C5. How would you compare the cost of dealing with intermediaries compared to the cost of dealing directly with producers? (Circle the best alternative).

1. Less cost with intermediaries

2. Less cost with producers

3. There is no difference

C6. How much information do you have about the level of profits that intermediaries earn? (Circle the best alternative).

1. I have no information
2. I have moderate information
3. I have complete information

C7. How much information do you have about the level of profits that cloth producers earn? (Circle the best alternative).

1. I have no information
2. I have moderate information
3. I have complete information

C8. In the past two years, have you ever made agreement with clothe produces (your suppliers) in advance?

1. Yes 2. No

C9. If your answer is "yes" for question C8, did you make this agreement in writing?

1. Yes 2. No

C10. How much do you trust producers to meet agreed upon conditions (such as the quantity that they will produce, the quality of the product, or the time of delivery, etc? (Circle the best alternative).

1. They are highly reliable 2. They are reliable 3. I do not know
4. They unreliable 5. They are highly unreliable

C11. How much time does it take to arrange a written agreement compared to the amount of time it takes to arrange an unwritten agreement? (Circle the best alternative).

1. Written agreement takes less time

2. Written agreement takes more time

3. No difference

C12. How much money does it cost to arrange a written agreement compared to the amount of money it takes to arrange an unwritten agreement? (Circle the best alternative).

1. Written agreement costs less money
2. Written agreement costs more money
3. No difference

Section D: Assistance given to producers

D1. Does your business ever provide any of the following types of business support or assistance to clothe producers? This assistance may be provided directly by your firm, or your firm may provide the assistance indirectly through intermediaries, producer groups, or by paying someone else to provide the assistance to producers. (Tick the right option)

	Yes	No
1. Advance of raw materials and supplies		
2. Cash advance or cash credit		
3. Assistance or advice with designs		
4. Marketing assistance and sales		
5. Technical assistance or advice		
6. Management or business training		
7. Commitment or agreement to purchase the product before it is produced		
8. Other type of assistance (specify):_____ _____ _____		

Section E: Performance of the producers

E1. Please rate the following statements in terms of how successful clothe producers are in meeting your requirement.

5. Very successful 4. Successful 3. Undecided 2. Unsuccessful 1. very unsuccessful

Success factors	Response				
1. Improvements in product quality	**5**	**4**	**3**	**2**	**1**
2. Reduction in prices	**5**	**4**	**3**	**2**	**1**
3. Fast deliveries	**5**	**4**	**3**	**2**	**1**
4. Reliable deliveries	**5**	**4**	**3**	**2**	**1**
5. Innovative design	**5**	**4**	**3**	**2**	**1**
6. Financial stability	**5**	**4**	**3**	**2**	**1**
7. Responsiveness	**5**	**4**	**3**	**2**	**1**

Section F. Cooperation with producers

This question is about the relationships that you have with clothe producers. Please take your time and try to give the best and most honest answer (Tick the right option).

G1. Your firm cooperates with clothe producers in the area indicated below:

Form/area of cooperation	YES	NO
1. Information exchange		
2. Product development		
3. Accelerate delivery		
4. Product specification		
5. Quality control		
6. Quality improvement		
7. Technological upgrading		
8. Human resource training		
9. Marketing		
10. Other (specify): _____		

C. Scheduled Interview Questionnaire for Input Suppliers

Dear respondents,

First and foremost I would like to extend my sincere thankfulness for your cooperation, accurate, and timely responses in filling out the questionnaire. My name is Amanuel Kussia. I am Master Degree student at Addis Ababa University. Currently, I am conducting research study on factors that affect the upgrading practices of micro and small scale cloth producing enterprises in Addis Ababa. The purpose of this study is to examine the value chain in which these enterprises have been participating and identify core factors that encourage or discourage their upgrading behavior. Therefore, these survey questions not only offer an opportunity to look into the factors that determine upgrading practice of these enterprises but also provide comprehensive base line information on how to improve the competitiveness of micro and small scale clothing enterprises in Addis Ababa. I may wish to use some of the information generated by this process for journal articles or in presentation for some interest group. Thus, your identity and inputs will be kept confidential by assigning numbers and referring to participants by numbers.

Thank you so much again for your time and cooperation!

Section A: Background Information

The following items are concerning your personnel as well as enterprise information. Please, respond to the questions honestly either by circling the best alternative or by writing in the space provided.

A1. What is your position in this firm?

1. Owner
2. General Manager
3. Owner and General Manager
4. Other (specify):_____

A2. How many employees including, yourself, work at your firm?

Number of employees_____

Male_____ Female_____

Full time - male_____ Female_____

Part time - male_____ Female_____

A3. How many years has your firm been operating? Number of years_____

A4. Do you have a cell phone that you can use for your enterprise? 1 .Yes 2. No

A5. Do you have a land telephone that you can use for your enterprise? 1 .Yes 2. No

A6. Do you have access to an internet/email connection that you can use for your enterprise?

1 .Yes 2. No

Section B. Relationship with and Information about buyers

B1. Which of one the following category of buyer is your top buyer (the buyer with whom you had the highest value of sales)? (Circle the best alternative).

5. Buyers in Addis Ababa
6. Buyers in Ethiopia but outside Addis Ababa
7. Buyers located outside Ethiopia
8. Others (specify)_____

B2. What is the nature of relationship between you and your buyer(s)?

5. I do not have close relationship with my buyers
6. My buyer dictates the terms/I depend on my buyer
7. I and my buyer have equal rights relationship/mutual dependence
8. My firm has vertical relationship with buyer

B4. In the past 24 months, about how many times have you met with or communicated with buyers of input in each of the following ways?

3. Daily 2. Once a week 3. At least once a month
4. At least once every three month 5. About once a year
6. Not at all

Means of communication	Response
1. Face-to-face meeting	
2. Cellular telephone call	
3. Land line telephone call	
4. Email or internet	

5. Fax	
6. Mail/post/package	

B5. In the past two years, have you ever made agreement with your buyers in advance?

2. Yes 2. No

B6. If your answer is "yes" for question B6, did you make this agreement in writing?

1. Yes 2. No

B7. Do you trust buyers to meet these agreements?

1. Yes 2. No

B8. How much time does it take to arrange a written agreement compared to the amount of time it takes to arrange an unwritten agreement?

D. Written agreement takes less time
E. Written agreement takes more time
F. No difference

B9. How much money does it cost to arrange a written agreement compared to the amount to the amount of money it takes to arrange an unwritten agreement?

4. Written agreement costs less money
5. Written agreement costs more money
6. No difference

Section C. Cooperation with buyers

This question is about the relationships that you have with your product buyers. Please take your time and try to give the best and most honest answer.

E1. Your firm cooperates with buyers in the area of ....

Form/area of cooperation	YES	NO
1. Information exchange		
2. Product development		
3. Accelerate delivery		
4. Product specification		
5. Quality control		
6. Quality improvement		
7. Technological upgrading		
8. Human resource training		
9. Marketing		
10. Other (specify):		

Appendix D: Interview Guides

Interview Guide for Key Informants (BSD Providers)

Dear interviewee,

First and foremost I would like to extend my sincere thankfulness for your cooperation, time, and willingness to give interview on this study. My name is Amanuel Kussia, a Master Degree student at Addis Ababa University. Currently, I am conducting research study on factors that affect the upgrading practices of micro and small scale clothing enterprises in Addis Ababa. The purpose of this study is to examine the value chain in which these enterprises have been participating and identify core factors that encourage or discourage their upgrading behavior. Therefore, this interview not only offers an opportunity to look into the factors that determine upgrading practice of these enterprises but also provides comprehensive base line information on how to improve the competitiveness of micro and small scale clothing enterprises in Addis Ababa. I may wish to use some of the information generated by this process for journal articles or in presentation for some interest group. Thus, your identity and inputs will be kept confidential by assigning numbers and referring to participants by numbers.

Thank you so much again for your time and cooperation!

1. Are you government or non-government organization?
2. Which level in the [redacted]chain is your organization targeting (e.g. t[redacted]exporters, targets producers, targets input suppliers, etc.)
3. What kind of service does your organization provide to the target sector?
   1. Training
   2. Loans
   3. Provision of equipment
   4. Marketing support
   5. Research and Development
   6. Information services
   7. Creating linkages/ business partnerships
   8. Financial support/ sponsorship/ subsidies
   9. Other: _____
4. Can micro and small scale clothing enterprises access your services? Yes--- No------
5. If your answer for question number A4 is 'No', why not?

6. What are the conditions for receiving your services?

7. How much do your services cost? (Or if your services are free of charge: from where do you get funding?)

8. How do you make enterprises aware of your services?

Through advertisement	They know, we don't have to promote our services (word-by-mouth)	We actively search and contact potential clients	Through recommendation	Others (specify)

9. Do you get feedback from enterprises? Yes_____ No_____

10. If your answer for question number 9 is 'No', Why not?

11. If your answer for question number 9 is 'yes', what do you do with this feedback? Do you use it to improve your services?

12. Do you do regular needs assessments to identify the needs of micro and small scale clothing enterprise? Yes_____ No_____

13. If your answer for question number 12 is 'yes', please tell me about your most recent one.

14. If your answer for question number 12 is 'No', Why not?

15. What are the most urgent needs of micro and small scale clothing enterprise in Addis Ababa?

16. What kind of difficulties do you find in getting access to the micro and small scale clothing enterprise in Addis Ababa as a services provider?

17. Any suggestions on how to improve these difficulties?

18. Do you provide technical assistance – e.g. in form of training – to enterprises (for example showing them how to improve quality and quantity, how to find business partners, training on market requirements such as international standards etc)?

19. Do you have knowledge about market requirements and demand conditions of the micro and small scale clothing enterprise? If yes, what are these requirements?

20. Are micro and small scale clothing enterprise in Addis Ababa organized?
Yes_____ No_____ To a certain extent _____

21. How can you describe the linkages (both vertical and horizontal) between these enterprises?

22. Have you observed any type of upgrading practices in these enterprises? (Process, product, functional, chain). If yes, how do you explain the level and strength of these practices?

23. What kind of constraints do micro and small scale clothing enterprise face with regard to laws and regulations, inputs and services, price and competition, communication and information, business environment, etc to upgrade?

24. What incentives are available for the owner's of micro and small scale clothing enterprises to make upgrading decisions?

25. How do you evaluate the performance and competitiveness of the micro and small scale clothing enterprises in Addis Ababa?

26. What kind of support does the government give to these enterprises?

27. Do you think these enterprises are benefited from this support? How?

28. Do you have additional observations or comments that we have not discussed?

Group Interview Guide for Clothe Producers

Dear Discussant,

First and foremost I would like to extend my sincere thankfulness for your cooperation, time, and willingness to give interview on this study. My name is Amanuel Kussia. I am Master Degree student at Addis Ababa University. Currently, I am conducting research study on factors that affect the upgrading practices of micro and small scale clothing enterprises in Addis Ababa. The purpose of this study is to examine the value chain in which these enterprises have been participating and identify core factors that encourage or discourage their upgrading behavior. Therefore, this discussion not only offers an opportunity to look into the factors that determine upgrading practice of these enterprises but also provides comprehensive base

line information on how to improve the competitiveness of micro and small scale clothing enterprises in Addis Ababa. And so, the information the researcher gathers will be used to help improve your productivity and could increase benefits to buyers/producers such as you. I may wish to use some of the information generated by this process for journal articles or in presentation for some interest group. Thus, your identity and inputs will be kept confidential by assigning numbers and referring to participants by numbers.

Thank you so much again for your time and cooperation!

1. How can you explain the situation of the producers of clothes in Addis Ababa?
2. What are the main clothes you produce? What type of tool/equipment you used to make these kinds of cloth? (Ask each participant)
3. Do you have access to ICT (mobile phones, internet, etc)? For what purpose do you them? (Probe to whether the use of ICT is improving the business of respondents or not, the benefit of using them, etc).
4. How do you procure inputs for your firm? (probe to markets/places frequently visited, type of supplier-retailer, distributor, wholesaler, factory, etc, type of inputs used, ways of procurement-cash or credit, why a respondent procure them from particular a particular supplier, etc)
5. To whom do you sell your product? (***Note for Moderator*** - mention the following only if necessary: directly to consumers, for middlemen, for association of producers, exporters, importers outside Ethiopia, whole sellers in Addis Ababa, whole sellers outside Addis Ababa within Ethiopia, etc), probe also to whether the producer sold his/her product for cash or credit.
6. Which kind of sales do you think is best? Why?
7. Did you receive any assistance from your buyers so far? Please, could you mention some of them? (Probe: raw materials, training, credit, design, information, etc...). Did you receive any assistance from other source than your buyers (probe to similar form of assistance listed above).
8. Do you think the market for your product is encouraging you to improve the performance and competitiveness of your enterprise?

9. Do you know someone who helps out you to make changes in colors, designs, or ways to produce your product efficiently or you yourself tried to make changes?
10. If somebody assists you, what do you think would be the reason for his/her motivation to make these changes? If you yourself tried to make these changes, what inspired you?
11. Have you ever made agreement in advance with your buyers? Are they trustworthy for these agreements?
12. Have you ever been the member of cloth producers association? If yes, why, and if not why not? (probe to cooperation between producers and its effectiveness, the level of trust, etc)
13. How do you describe your cooperation with buyers and input suppliers (probe to forms of cooperation-information exchange, product development, quality control and improvement, training, etc and their strength)
14. How would you characterize your relationships with your principal clients? (*probes:* independent, close, collaborative, that a lot of information passes between you, that the client is in charge)
15. What type of upgrading is adopted by your enterprise (probe to improvement in production process and product quality, taking part in non production activities-retailing, broker, exporting, etc, and diversifying markets). How could you improve them? (Probe to different issues associated with these types of upgrading based on the response of participants).
16. What do you think are the core obstacles for upgrading of you firm?

In – depth Interview Guide for Key Informants (buyers and input suppliers)

A. Guide for exporters

Questions about Clients/Buyers

1. What are the main products you sell?
2. Who are your main clients (buyers)?
3. How did you first meet your clients?
4. How do you learn about your clients preferences? (*probes:* styles, designs, colors, materials, quality)
5. How would you characterize your relationships with your principal clients? (*probes:* independent, close, collaborative, that a lot of information passes between you, that the client is in charge)
6. Did you receive any assistance/help from your clients? (*probes:* advance payments, design assistance, other)
7. What are the steps you usually take to ensure that you meet your clients' specifications, including delivery date and quality?

Questions about Suppliers/Producers

8. What are all the ways you source the products you sell? Who are your main suppliers?
9. Do you buy from individual producers, groups of producers, or intermediaries? How many suppliers do you work with?
10. If you have different types of suppliers, how would you characterize the differences between each type of supplier?
11. How do you communicate information to your suppliers about market demands, styles, designs, quality, etc.?
12. Do you trust producers? If not, why?
13. How do you work with your suppliers to ensure that they satisfy your requirements for quality? What do you do to encourage them? What pressures do you apply?
14. What changes would you like to see producers/suppliers make?
15. Have you communicated this to them? How do they respond?
16. What can you (yourself) do to facilitate or demand these changes?
17. Do you think producers are competitive? If your answer is yes in what area (s)? (*Probe to price, quality, design, delivery time, distribution/marketing*, etc). If your answer is no why?
18. How do you explain the role of designers in the value chain you are participating in?

19. How would you characterize your relationships with your principal suppliers? (*probes:* independent, close, collaborative, that a lot of information passes between you, that the client is in charge)
20. How do you evaluate the upgrading behavior/practice of your suppliers? What factors do you think could encourage or discourage this behavior/practice?
21. What do you think would be the top five serious problems that could impede the upgrading practices of your enterprises?

B. Guide for Intermediaries (distributors, brokers)

Questions about Clients/Buyers

1. What are all the ways that you sell your products (market outlets)?
2. What are the differences between your clients? To whom do you prefer to sell? (*Probe*: frequency, price, bargaining/negotiating costs, volume, quality)
3. How do you learn about the new colors, designs, and products that buyers want? How do you learn about market taste?
4. Do you receive any form of assistance/help from your clients/buyers? (*Probe*: cash advances, threads, designs)
5. What steps do you take to meet your client/buyers specifications, including delivery date and quality?

Questions about Suppliers/Producers

6. What are all the ways you source the products you sell? Who are your suppliers?
7. What are the differences between the suppliers you work with? (*probe*: quality, price, punctuality, designs, volume, costs of collecting products, risks)
8. Which type of supplier do you prefer to source from? Why?
9. Do you work with individual producers or groups of producers? How many suppliers do you work with?
10. How do you find suppliers? (*probe:* people you know, contacts, family, neighbors, language)
11. What services/help do you offer/provide to your suppliers? (*probe:* thread, credit, designs)
12. How do you communicate new designs, colors, and products that you want to your suppliers?
13. What are the difficulties producers have in making these changes?
14. In what ways are producers reluctant to make these changes?

15. How would you characterize your relationships with your principal suppliers as well as buyers? (*probes:* independent, close, collaborative, that a lot of information passes between you, that the client is in charge)
16. Do you trust producers? If not, why?
17. Which market channels would you say are the most beneficial to producers? (*probe*: volume, price, consistency)
18. What do you think would be the top five serious problems that could impede the upgrading practices of micro and small scale clothing enterprises?

C: Guide for Designers/Exclusive Store Owners

Questions about Clients/Buyers

1. Please describe all the ways that you work in this business. (*probe*: making and selling designs, managing the store, exporting)
2. Who are your main clients (buyers)?
3. How did you first meet your clients?
4. How do you learn about your clients preferences? (*probes:* styles, designs, colors, materials, quality)
5. How would you characterize your relationships with your principal clients? (*probe:* independent, close, collaborative, that a lot of information passes between you, that the client is in charge)
6. Do you receive any assistance/help from your clients? (*probes:* advance payments, design assistance, other)
7. What are the steps you usually take to ensure that you meet your clients' specifications, including delivery date and quality?

Questions about Suppliers/Producers

8. What are all the ways you source the products you sell? Who are your main suppliers?
9. Do you buy from individual producers, groups of producers, or intermediaries? How many suppliers do you work with?
10. How do you find suppliers? (probe: contacts, family, neighbors, language)
11. If you have different types of suppliers, how would you characterize the differences between each type of supplier?
12. How do you communicate information to your suppliers about market demands, styles, designs, quality, etc.?

13. Do you trust clothe producers?
14. How do you work with your suppliers to ensure that they satisfy your requirements for quality? What do you do to encourage them? What pressures do you apply?
15. What changes would you like to see producers/suppliers make?
16. Have you communicated this to them? How did they respond?
17. What can you (yourself) do facilitate or demand these changes?
18. Do you sell the products in exactly the same form as you receive them from suppliers, or do you do any additional sewing, finishing, assembly, etc.?
19. What do you think of the competitiveness of the value chain you are participating in?
20. What do you think would be the top five serious problems that could impede the upgrading practices of your enterprises?

D. *Guide for Input Suppliers*

1. What are the main inputs you sell?
2. Who are your main clients (buyers)?
3. How did you first meet your clients?
4. How do you learn about your clients preferences? (*probes:* colors, materials, quality)
5. How would you characterize your relationships with your principal clients? (*probes:* independent, close, collaborative, dominated by client, that a lot of information passes between you, that the client is in charge)
6. Do you trust your buyers?
7. Did you receive any assistance/help from your clients? (*probes:* advance payments, training, quality improvement other)
8. What are the steps you usually take to ensure that you meet your clients' specifications, including delivery date and quality?
9. From where do you get the inputs? (Own produce, import from abroad, purchase from neighbor and sale them…)
10. Do you sale inputs for individual producers or groups of producers? How many buyers do you work with?
11. How do you find buyers? (probe: contacts, family, neighbors, language)
12. How do you communicate new designs, colors, and products that you want to your buyers?
13. How do you work with your buyers to ensure that you satisfy their requirements for quality?
14. What do you think would be the top five serious problems that could impede the growth of your enterprises?