

Success Factors in Micro and Small Enterprises Cluster Development:
Case of Gullele Handloom Clusters in Ethiopia

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Abstract:

Taking the Gullele handlooms cluster development intervention program in Ethiopia as a case study, this paper tries to identify the critical success factors attributable to micro and small enterprises cluster development initiatives. To this end, document analysis, semi-structured interview, and focus group discussion methods are widely employed. It is found in the study that the development of strong trust within the cluster community, stability of key actors of cluster development, the existence of functional networks, adequate physical infrastructures, availability of raw materials, access to finance, the level of production technology and market promotion are essential factors in bringing success to cluster development. The study has also found out that in order to realize the contributions of these success factors within a specific cluster development program, macro level policy improvements, fostering valuable networks and relationships, and upgrading level of cluster concepts among various actors are of critical importance. Finally, to sustain the benefits of cluster development efforts, cluster development agents should facilitate the macro and micro environment of the cluster keeping their interventions intact.

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Declaration

I, Hanna Ketselamaryam Hailu, declare that this thesis report is my own work, except as indicated in the acknowledgement, the text and references. And all the sources and references have been dully acknowledged. It is being submitted in partial fulfillment of the requirements for the degree of Master of Business Leadership at the Graduate School of Business, University of South Africa. It has not been submitted before, in whole or part, for any degree or examination at any University.

Hanna Ketselamaryam Hailu: _____

Signed on ----- day of ----- 2010

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ACCRONYMS

BDS:	Business Development Service
CDA:	Cluster Development Agent
CSA:	Central Statistical Agency
FeMSEDA:	Federal Micro and Small Enterprises Development Agency
GDP:	Gross Domestic Product
MoFED:	Ministry of Finance and Economic Development
MSEs:	Micro and Small Enterprises
MSED:	Micro and Small Enterprises Development
PASDEP:	Plan for Accelerated and Sustained Development to End Poverty
ReMSEDA:	Regional Micro and Small Enterprises Development Agency
UNIDO:	United Nations Industrial Development Organization

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CHAPTER ONE

ORIENTATION

1.1 Introduction

The term cluster was first popularized and conceptualized by Michael Porter (1990) of the Harvard Business School in his landmark work. Conceptually, a cluster is a group of firms from similar industries that are located in close proximity connected to each other to produce goods or services. Cortright (2006) stated that industrial clusters have long attracted the attention of researchers and policymakers for the growth prospects they offer to Micro and Small Enterprises (MSEs). He further emphasized that clusters help small firms overcome constraints associated with size, promote technological development, and enhancing their ability to compete in local and global markets (Cortright, 2006). In addition, a cluster approach provides both soft (such as building trust) and hard elements (physical infrastructure, common facility centres) to MSEs.

Developing clusters has come up with certain steps and processes that involve a wide range of stakeholders. In Ethiopia, problems associated with implementation of cluster development specifically in the MSE sector are exacerbated mainly for two reasons. First, the practice of cluster development is rather a recent phenomenon, that is, less than a decade old. Second, in most developing economies, the MSE sector is facing constraints such as: unfavorable legal and regulatory environment, lack of access to markets, finance and business information, lack of business premises (at affordable rent), low ability to acquire skills and managerial expertise, low access to technology and infrastructure (Stevenson & Annette, 2006).

According to CSA Report (2003), in Ethiopia the major obstacles experienced by small scale manufacturing industries are irregular and erratic supply of raw materials and a shortage of suitable working premises. The lack of working premises was also found to present difficulties for the informal sector operators who, faced with insufficient capital, were often impeded from the start. The problems of raw material shortages, lack of working capital and effective marketing practices faced by small manufacturing industries have become obstacles for the expansion of the sector.

Problems informal sector operators have been experiencing have the effect of preventing their expansion almost from the beginning of their operations. According to CSA Survey Report, about 50 per cent of informal sector operators have faced a daunting challenge in relation to lack of sufficient initial capital. As learnt from operators' responses, this problem becomes more critical when they intend to expand their businesses.

Having this in mind, the researcher tried to assess cluster development efforts in the MSE sector taking the Gullele Handloom cluster as a case study and has sought ways of how these efforts help the cluster bring about success amid some challenges.

1.2 Country Context

Ethiopia is situated in the Horn of Africa, bordering Eritrea in the North and North-east, the Sudan in the West and North-west, Kenya in the South, Somalia in the South-east and Djibouti in the East. The landmass of the country covers an area of one Million km². It is well recognized that Ethiopia is a diverse-ethnic and diverse-religious country. There are more than 85 linguistic groups constitutionally empowered with cultural and administrative autonomy. As learnt from Central Statistical Agency (CSA) 2008), the population of the country was estimated to be 73.9 million in 2008, of which about 16 and 84 percent are urban and rural dwellers respectively. The majority of the population has thus earns its economic livelihood from agriculture and agriculture-related activities.

Ethiopia is in a state of change from the backward, subsistent economy to the commercialized agriculture and ultimately to the agro industry and industrialization. Following the overthrow of the ever dictatorial communist government and establishment of new constitution, various market transforming policies have been put in place; private investments including those in the financial sector have been flourishing. In particular, structural adjustment such as liberalization of foreign trade, privatization of public enterprises and investment advocating schemes have been undertaken to promote economic growth.

Over the last six years (2004-2009), the Ethiopian economy has markedly grown. This promising stride has provided Ethiopia with ample opportunity to be categorized under the top performing economies in Sub-Saharan Africa. Overall economic performance measured by growth in real Gross Domestic Product (GDP) has registered 11.5 percent on average. During the same period, the average growths attained in agriculture, industry and service sectors were 10.8%, 10.1% and 13.0%, respectively. The country's real GDP has grown tremendously from Birr 66 billion in the year 2000 to Birr 135 billion in the year 2009 not only at aggregate level but also at all levels of economic sectors (Agriculture, industry, construction, services, and the public (MoFED, 2009).

Although agriculture is found to be the most important economic activity in the country, in the long-run, the government of Ethiopia envisions growth in the industrial sector with a view to making a significant transformation of the economy from agriculture to non-agricultural sectors. To this effect, the Ethiopian government embarked on a comprehensive five-year development strategy called Plan for Accelerated and Sustained Development to End Poverty (PASDEP, 2005/06-2009/10).

In 2003, the country also introduced the Industrial Development Strategy where textile and garment industry and MSEs were identified as priority areas. As a result, the MSE development strategy developed in 1997 was revised. The revised strategy strives to create an enabling environment for MSE through putting in place a national strategy framework and coordinated programmes at Federal, Regional, and Local levels. Currently, MSEs are subject to direct support from the Ethiopian government. The government is also committed to facilitate cooperative ventures and development of MSE clusters, as well as to promote subcontracting and business linkages between smaller and larger companies.

1.3 Background and Problem Statement

1.3.1 Background Information

As part of the industrial sector, MSEs are increasingly becoming popular and important in the Ethiopian economy as they would play a decisive role in contributing to employment generation, poverty reduction and the opening of wider distribution of wealth and opportunities. However, MSEs have faced a number of constraints, among others, lack of access to markets, finance, business information; lack of business premises; low ability to acquire skills and managerial expertise; low access to appropriate technology and poor access to quality business infrastructure (Stevenson & Annette, 2006). Following this, however, are often unable to address the problems they face on their own.

Recognizing this fact, the government of Ethiopia has exerted rigorous efforts to address the challenges MSEs are facing. Cluster development initiative is a case in point in this regard. Ethiopia, through United Nations Industrial Development Organization (UNIDO) assistance, adopted a cluster development programme on some selected MSEs. And UNIDO, with the financial support from the Government of Austria, first introduced and implemented cluster development programme (in Ethiopia) during 2005-2009. Under this project, four MSE clusters have been selected as beneficiaries of technical assistance: footwear, handlooms, ready-made garments in Addis Ababa, and wood works in Mekelle, Tigray.

UNIDO has thus employed various means to empower these clusters including training of cluster brokers, recruitment of Cluster Development Agent (CDA), training and recruitment of National Project Coordinator (NPC), and training and coaching staff of local agencies, that of the Federal Micro and Small Enterprises Development Agency (FeMSEDA), Regional Micro and Small Enterprises Development Agency (ReMSEDA), and sub-cities.

Clustering provides MSEs with several benefits. The advantages accrued to micro-enterprises through agglomeration or clustering is termed as “collective efficiency” that would enable even the poorest and most vulnerable cottage industry producers to become competitive in a wider market through proximity, low ‘search and reach’ costs, specialization, social cohesion and collaboration (Schmitz & Nadiv, 1999).

According to Abdella (2008:3), “Clustering is also considered as a common survival strategy of cottage industries in the low income countries through its mechanisms to reduce transaction costs and purchasing inputs and marketing outputs by pooling traders and through smooth flow of information as well as facilitate order-sharing, labour sharing and subcontracting”. Forward and backward linkages between enterprises inside the cluster; intensive information exchange between enterprises, institutions and individuals in the cluster would play an indispensable role in fostering joint actions and creating locational advantages, and are also considered as some of the positive external effects emanating from the agglomeration of cottage industries (Abdella, 2008).

It is also argued that small enterprises reap cluster benefits through the existence of diversified institutional infrastructure supporting the specific activities of the cluster and a socio-cultural identity made up of common values and the embeddedness of local actors in a local milieu which facilitated trust (Ibid.).

Whilst these benefits are laudable, there is a concern, however, that there is no robust cluster development implementation framework. As a result, cluster development implementation lacks a guiding analytical framework. Furthermore, in most developing countries and in Ethiopia too, there are always limited resources to support cluster development. It is, therefore, of paramount importance to learn how the current cluster development practice (strategy) permits efficient allocation and use of these limited financial and human resources.

In addition, in order to help MSEs reap benefits of cluster development, it is necessary to put in place effective and efficient cluster development programme. In any cluster formation, building social capital such as networks, partnerships and trust is considered very important means as it play a great role in promoting cooperation among and within firms in any cluster. In other words, a shared vision for the cluster is a prerequisite to build trust and networking (Abdella, 2008). This study seeks to learn how the current cluster development framework is successful in building trust and developing important networks which facilitates the competitiveness and productivity of the firms within the cluster.

Cluster actors (stakeholders) are very important in the process of cluster development. Sölvell, *et.al.* (2003) identified five sets of actors composing a cluster; co-located and linked industries, government, academia, institutes for collaboration, and financial institutions. The functioning of these set of players calls for governance and institutional frameworks to bring cluster success. Also, these various actors call for effective leadership. According to Svetina, *et.al.* (2007), the need for strong leadership was expressed by cluster actors where they placed cluster leadership among the three most important factors determining the success of cluster initiative. Several leadership roles are played by the clusters actors which could be held by a single person, or a group of actors that share the leadership responsibility (distributed leadership) (Svetina, *et. al*, 2007). There are four main attributes of effective cluster leader: envisioning, organizing, social integrating and external spanning (Svetina, *et. al*, 2007). The study also looks into the leadership role played by the various cluster actors.

The motivation to clustering MSEs, therefore, focused on neutralizing the proliferated constraints associated with the sector through addressing managerial and strategic issues concerning cluster development. In Ethiopia, there are few studies done on cluster development initiatives. As far as the knowledge of this researcher is concerned, some studies related to this one have been conducted among others on the handloom sub-sector infrastructure by Ayele, *et.al.* (2009), on competitiveness and viability by Abdella (2008), a market study by the FeMSEDa and MOTI (2004). A diagnostic study by UNIDO (2005) was also done. These studies mainly focused on the economic aspects of a cluster. There is, therefore, a marked strategic and managerial knowledge gap as to how cluster development initiatives can be made beneficial to the MSEs sector. This study aimed to fill this gap (to some extent) by including a strategic and managerial dimension in the equation.

1.3.2 Problem Statement

In the context of the preceding background discussion, the problem statement will be stated in the form of research questions as follows:

- What are the challenges of the Micro and Small Enterprise cluster development from a global and Ethiopian perspective? What benefits accrue from the cluster development to MSEs sector? What are the soft and hard elements of cluster development?
- What unique features characterize the Handloom subsector?
- Are success factors such as networking, partnership, and trust present in the Gullele Handloom Cluster?
- What are the strategic and managerial challenges of cluster development and how can these be addressed?
- Who are the different cluster actors in the cluster development and what are their respective roles? What is needed to vitalize and develop the MSE clusters and what would be the role of the different actors or stakeholders?
- What should the cluster development framework look like?

1.4 Aim and Objectives

1.4.1 Aim

In light of the above research questions, the general aim of this study was to analyze the strategic and management implications of cluster development for MSE in order to suggest measures that can be taken to build competitive, profitable, successful, and sustainable businesses for Micro and Small Enterprises citing the case of Gullele Handloom Cluster in the Northern part of the capital, Addis Ababa.

1.4.2 Objectives

The specific objectives that drove the research process are:

- To take stock of the MSE cluster development in Ethiopia

- To identify success factors of cluster development and seek ways of how the cluster development initiative in the MSE sector could bring about these success factors
- To identify the strategic and management challenges of cluster development and to know how these can be addressed
- To identify key players in the cluster development process and analyze their contribution towards creating conducive environment for the cluster;
- To determine the role of leadership in the Ethiopian MSEs cluster development initiative and
- To recommend a suitable cluster development framework for MSEs in Ethiopia, of course, based on the findings.

1.5 Scope and Delimitation of the Study

This study was confined to determining managerial and strategic implications of the cluster development process that have to be taken into consideration in order to cope with the challenges faced by MSE clusters. The focus is on the Handloom Sector in the Gullele sub-city in Addis Ababa. However, where there are salient issues emanating from the analysis of Gullele Handloom that are of relevant to other MSE cluster development initiatives, these are appropriately highlighted with the necessary caveats.

1.6 Rationale of the Research

There are two main motivators for doing this thesis. First, the study envisaged to contribute to appropriate conceptualization of clusters in the context of MSEs sector. This is potentially important for cluster actors (firms, government agencies, support institutions, academia, financial institutions and similar institutions) in the cluster development process to direct their efforts of cluster development appropriately and do the right thing.

Second, the study aimed to identify gaps and define what the cluster development governance and framework should look like. This framework may help define appropriate roles of each participant in the cluster development process.

1.7 Significance of the Study

The researcher hopes that the policy making institution may find this document a valuable addition to their cluster agendas in order to re-design policies intended to help MSE clusters.

In addition to this, implementation agencies at federal regional and local levels may benefit from the research as it helps them recognize managerial and strategic gaps present in the current cluster development practice.

In case of a need arises to up-scale the pilot cluster development intervention to reach the larger weavers population in the area, this case study will inform the relevant agencies in selecting appropriate project design and implementation methods.

Finally, there is a dearth of literature in MSE cluster development in the Ethiopian context. This study, therefore, attempts to address this knowledge gap by addressing specific cluster development issues taking the case of Gullele handloom cluster into account. This may add to the body of knowledge related to cluster development.

1.8 Limitations of the Study

This study pursued a qualitative research approach. Data were gathered through various document analysis, semi-structured interview, and focus group discussion. Of these, semi-structure interviews are prone to some limitations. First, since the researcher chose the participants for the purpose of the interview. This may have biased the data in such a way that only the views of few individuals in the population is represented and ignores the views of other members. Sometimes respondents may say what the interviewer likes to listen in due course of collecting data. However, the researcher aims to overcome these limitations to a great extent by supplementing interviews with focus group discussion and observation. A focus group discussion representing weavers and key actors in the Gullele Handloom Cluster was held.

1.9 Definition of Key Terms

Cluster – clusters are geographic concentration of interconnected companies and institutions in a particular field (Porter, 1998).

Cluster Development (CD) –cluster development refers to the process of making and implementing strategic decisions of actors in both the public and private domain with the overall aim to sustain and/or to increase economic development of a cluster (Clar, Sautter & Zimmerman. 2008:11).

Cluster Development Agent (CDA) – CDA is a person who conceptualizes the overall development strategy for a cluster and initiates its implementation. S/he also acts as a liaison officer between various cluster players/actors and target clusters. The CDA plays the most vital role in cluster development programme (UNIDO, 2005).

Cluster Working Group (CWG) – CWG is composed of members from major stakeholders of the cluster, support agencies, Business Development Service (BDS) providers, financial institutions and other relevant institutions that facilitates the cluster development activities (UNIDO, 2005).

Micro and Small Enterprises (MSEs) – micro enterprises are those small business enterprises with a paid-up capital of not exceeding Ethiopian Birr (ETB) 20,000, and excluding high tech consultancy firms and other high tech establishments. While small enterprises are those business enterprises with a paid-up capital of and not exceeding ETB 500,000, and excluding high tech consultancy firms and other high tech establishments (MoTI, 1997).

1.10 Structure of the Thesis

The thesis work is organized and structured as follows.

- In this chapter (**Chapter One**), background of the study was presented. This was followed by country context and articulation of the problem statement. Next, the research objectives and questions were stated followed by the scope and delimitation and the rationale of the study. Finally, the significance of the study, the limitations and the definitions of the key terms were provided.
- **Chapter Two** presents the Theoretical Framework and the Literature Review.

- **Chapter Three** discusses the methodology of the research. This is a detailed explanation of the research approach and design used to address the research objectives of this study.
- **Chapter Four** provides Policy and Strategic Document Analysis.
- **Chapter Five** presents the results of the qualitative research. A profile of the case is first given before going into the details of the findings.
- **Chapter Six** is a follow-up to the research results in chapter 5. Here discussions, conclusions as well as the recommendations are made based on the findings.

CHAPTER TWO THEORETICAL FRAMEWORK AND LITERATURE REVIEW

This chapter is dedicated to Literature Review. The first section deals with the theoretical framework. Explanations of the theory underpinning the study (cluster and cluster development) are clearly articulated. First, the chapter presents the definition and characteristics of clusters. Then it highlights the benefits of cluster; discusses cluster actors and their respective roles. Finally, it addresses attributes of successful clusters, coupled with the empirical evidence. It concludes by summarizing the gaps in the existing knowledge.

2.1 Theoretical Framework

2.1.1 Explanation and Definitions of Clusters

In the last two decades, clusters have emerged as a central focus for developing and enhancing the competitive advantage of regions or industries. Clusters are considered powerful engines in the economic structure of national and regional economies (Clar, Sautter and Zimmermann, 2008). Apart from their contribution to industry, clusters also help small and medium enterprises compete in a globalized economy by building on local competitive advantage.

Cluster is a recent development concept. It is becoming important in local, regional and economic development. The underlying concept of cluster which most economists have referred to as agglomeration dates back to 1890 in the work of Alfred Marshal.

(Michael Porter,1998:78) defined a cluster as “Geographic concentration of interconnected companies and institutions, specialized suppliers, service providers, firms in related industries and associated institutions (for example, universities, standards agencies and trade associations) in particular fields that compete but also cooperate.”

These arrays, of linked industries and other entities are important to competition. They include, for example, suppliers of specialized inputs such as components, machinery and services and providers of specialized infrastructure. Clusters also often extend downstream to channels and customers and laterally to manufacturers of complementary products and to companies in industries related by skills, technologies, or common inputs. Finally, many clusters include governmental and other institutions – such as universities, standards-setting agencies, think tanks, vocational training providers, and trade associations – that provide specialized training, education, information, research and technical support (Porter, 1998).

2.1.2. Characteristics of Clusters

Factors that lead to developing a cluster are different. Some clusters are resource based while others can be market based and still some are based on infrastructure. Van Dijk and Sverrisson (2006) summarized the defining characteristics of clusters that can be found in the literature in terms of three broad classification. They further argued that it is unlikely to find all of these characteristics in one cluster and definitely not all of them at once. Accordingly, the three broad classifications of the defining characteristics of clusters that are proposed in the literature are described as follows:

- 1. Directly observable characteristics:** this includes relatively spatial proximity (or nearness) of the enterprises; high density of economic activities; and the presence of numerous firms involved in same, similar and subsidiary activities.
- 2. Foundational and universal characteristics:** defining characteristics that fall in this category includes inter-firm linkages between enterprises as a result of (vertical) subcontracting; inter-firm linkages between enterprises in specific forms of (horizontal) co-operation; and some degree of specialization.
- 3. Theoretically constructed characteristics:** this includes several defining characteristic features of clusters such as joint social history; mutual and collective learning processes; Social networks that are not embedded in transactions among producers or traders; external economies resulting from linkages and networks; a role for local and traditional institutions; shared cultural background; generalized atmosphere of trust and absence of or limits to opportunism; similar levels of technical sophistication; widespread local product imitation; Shared technical competence pool etc.

2.1.3. The Benefits of Clusters

As argued in DTI (2006:5) clustering has a wide range of advantages to the economy in general and to businesses community in particular. Such benefits include:

1. Increased levels of expertise. This provides sourcing companies with a greater depth to their supply chain and allows for the potential of inter-firm learning and co-operation.
2. The ability of firms to draw together complementary skills in order to bid for large pieces of work that as individual units they would be unable to compete for.
3. The potential for economies of scale to be realized by further specializing production within each firm, by joint purchasing of common raw materials to attract bulk discounts or by joint marketing.
4. Strengthening social and other informal links, leading to the creation of new ideas and new businesses.
5. Improved information flows within a cluster, for example, enabling finance providers to judge who the good entrepreneurs are and business people to find who provides good support services.
6. Enabling the development of an infrastructure of professional, legal, financial and other specialist services.

Similarly, Ketels (2006) identifies cluster benefits in three dimensions. First, companies can operate with a higher level of efficiency, drawing on more specialized assets and suppliers with shorter reaction times than they could in isolation. Second, companies and research institutions can achieve higher levels of innovation. This is because knowledge spillovers and close interaction with customers and other companies create more new ideas and provide intense pressure to innovate while cluster environment lowers cost of experimenting. Finally, the level of business formations tends to be higher in clusters. In this regard start-ups are more reliant on external suppliers and partners, all of which they find in a cluster.

According to Ketels (2006), these benefits are important for companies in that they create additional value that outweighs the often-higher cost of more intense competition for specialized real estate, skills, and customers at the location, and are thus the reason that clusters emerge naturally from profit-maximizing decisions. Moreover, for public policy, higher productivity and innovation in clusters are critical because they are the factors that in the long-term define sustainable level of prosperity in a region.

Nadvi and Barrientos (2004:43) argued that the benefits of clustering are related to poverty reduction, though very little is known about the linkage and relationship between cluster development and poverty. Apparently in strong cases that cluster lend themselves to a poverty reduction agenda. In line with this, they further argued that:

“Clustering may not only raise employment and income for the poor, it can also have implications for wider notions of poverty – addressing issues of risk, vulnerability, empowerment and participation for poor and marginalized groups. For this relationship to be established, poverty focused strategies would require stronger attention to people within clusters, namely, the entrepreneurs and workers, their households and civil society. Tweaking of cluster initiatives may also be required to promote wider poverty reduction and social development goals within clusters”.

Cluster benefits and advantages can only be realized with effective cluster development strategy. The UK Department of Trade and Industry's identifies five key steps of cluster strategies which do not have to be sequential but are often highly iterative in nature (DTI, 2006). These are listed and explained below (DTI, 2006:19):

1. Mobilization – building interest and participation
2. Diagnosis – indentifying and defining the cluster followed by assessment of the strengths and weakness of the cluster

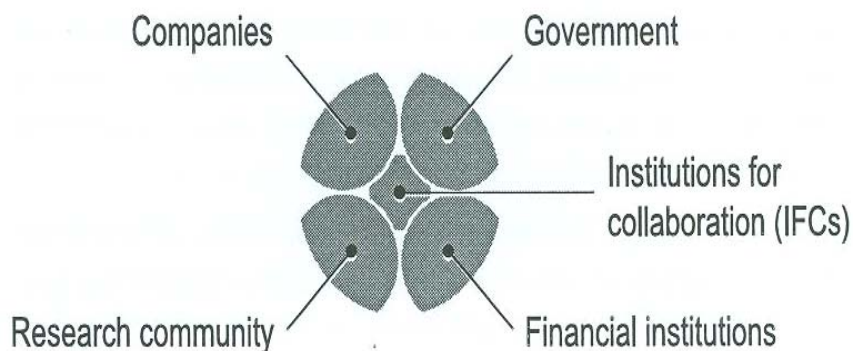
3. Collaborative strategy – identifying the actions required to promote the development of cluster, in association with the main stakeholders in the cluster
4. Implementation – implementing those actions and strategies
5. Assessment – once a cluster strategy has begun to be implemented, monitoring and evaluating the results and reviewing the content of the strategy proactively should come into play.

Although these different steps are important, they do not always guarantee success in cluster. The crucial element is to develop an integrated approach in collaboration with the firms and institutions involved in the cluster through discussions and joint action (DTI, 2006).

2.1.4. Cluster Actors and Their Roles

As indicated in Sölvell, *et.al.* (2006), clusters consist of co-located and linked industries, government, academia, finance and support institutions or ‘institutions for collaboration’. It is also showed that many cluster practitioners agree cluster development effort needs to be combined with close engagement with the stakeholders in the cluster, in particular with the companies at the core of the cluster, in order to ensure cluster benefits are gained.

Figure 2.1 Sets of Actors Composing a Cluster



Source: Sölvell, *et. al*, 2006

The role of cluster governance and financing in many developing and transition economies is mainly played by international organizations (Sölvell, *et. al*, 2003). Cluster researchers like Van Dijk and Sverrisson (2006) suggested that in small firms local institution role is critical in building relationships of competition and co-operation between these small firms or enterprises.

Cooperation among various ministries and implementing agencies to co-ordinate MSEs support, cluster support structures, leadership, neutrality, experience and professional competence of cluster brokers are needed (UNIDO, 2004; Tambunan, 2005). High integration of cluster actors is, therefore, at the forefront to make cluster development a success story.

Similarly Sharma and Wadhawan (2009) argued that in planning public interventions and other actions in MSEs cluster development, the difference between the types of MSEs should be taken into account. In other words, intervention actions should be modified in order to formulate appropriate cluster development according to the needs of the target firms.

Government organs, development agencies and similar institutions that fall within the ambit of a cluster, should therefore work together actively. This is important to ensure competitive advantages within clusters in the form of cluster development which mainly emphasizes the process of decision-making and setting the right frameworks for business success and finally successful economic development.

2.1.5. Cluster Stages

Clusters pass through four stages of metamorphosis or life cycles. UK Department of Trade and Industry's "A Practical Guide to Cluster Development" suggests that clusters are dynamic and have a recognizable life cycle (DTI, 2003). The four stages in the cyclical process are:

1. Embryonic clusters – those at the early stages of growth.
2. Established clusters – those perceived as having room for further growth.

3. Mature clusters – those that are stable or will find further growth difficult.
4. Declining clusters – those have reached their peak and are failing or declining –clusters at this stage are sometime able to reinvent themselves and enter the cycle again

Interventions that are appropriate at an early stage in the lifecycle of a cluster are, therefore, likely to differ from those appropriate at the later stages (DTI, 2006). Apart from cluster life cycle, Cortright (2006) argued that clusters vary based on the industry they are in, the place (location) and their specific needs. He, therefore, suggested that different policies are needed for each cluster, further strengthening the idea that no one set of policies will make all clusters successful.

2.1.6. Types of Clusters

There are several cluster categorizations. However, Tambunan (2005) identified four cluster types. Each of the cluster types with their respective characteristics is shown as follows:

1. **Artisinal Clusters:** are mainly micro enterprises and characterized by low productivity and wage; stagnated market; poor investment capability and production; local market (low-income consumers) oriented; used primitive or obsolete tools and equipment; many producers are illiterate and passive in marketing (producers have no idea about their market); the role of middlemen/traders is dominant (producers are fully dependent on middlemen or trader for marketing); low degree of inter-firm co-operation and specialization (no vertical cooperation among enterprises); and no external networks with supporting organizations.
2. **Active Clusters:** are those clusters that are characterized by higher skilled workers and better technology; capable to supply their products to national and export markets; active in marketing; and their degree of internal as well as external networks is high.
3. **Dynamic Clusters:** in such types of clusters trade networks overseas are extensive; internal heterogeneity within clusters in terms of size, technology, and served market is more pronounced; and leading/pioneering firms played a decisive role.

- 4. Advanced Clusters:** are characterized by higher degree of inter-firm specialization and cooperation; well developed business networks between enterprises and suppliers of raw materials, components, equipment, providers of business services, traders, distributors, and banks are; good cooperation with local, regional, or even national government, as well as with specialized training and research institutions such as universities; and they are export oriented (mainly through trading houses or exporting companies).

He finally argued that companies within clusters principally benefit from competitive advantages. Examples of such advantages include: the pool of specialized workers; the pool of specialized suppliers and customers; the specific infrastructure with tailored training institutions, research and development organizations, seed and venture capital providing organizations etc; and the spillover of knowledge.

2.1.7 Critical Steps in the Cluster Building Process

In any process, knowing the right steps is a key for the process to progress in the right direction. Reid, Carroll and Smith (2006) identified a step-by-step methodology of building successful cluster that a new cluster initiative utilizes. These steps include defining the core industry, defining the potential cluster region, inventory of potential cluster members, conduct supply chain analysis, conduct social network analysis, conduct SWOT analysis, select Cluster Strategy Team, Programme Manager and Cluster Champion.

2.1.8. Characteristics of Successful Clusters

According to the UK Department of Trade and Industry, there are a number of common features that stand out as underpinning the development of successful clusters (DTI, 2006:5). These attributes are categorized in three; critical, contributing and complementary. The critical factors are three namely; the presence of functioning networks and partnerships; the existence of a strong skills base; and the availability of innovation and R&D capacity. Contributing factors are other factors that are seen to contribute to successful cluster development. These are adequate physical infrastructure; the presence of large firms; a strong entrepreneurial culture; and access to sources of finance. A range of other factors (such as advice) have complemented the development of successful clusters in different circumstances.

1) The Presence of Networks and Partnership

Networks and partnership are part of the industrial landscape in some clusters, such as those in Silicon Valley, developing naturally through social and cultural relationships (Porter, 1998). In other places they have been developed by firms within a cluster or by a public sector intervention, often in response to identified weaknesses (DTI, 2006). In most developing countries, grants are made available to firms within the cluster to organize networks and active facilitation/assistance is necessary.

According to Berkley and Henry (2007:315), networking is cooperation among firms to take advantage of complementariness, exploit new markets, integrate activities, or pool resources or knowledge to achieve economies of scale or address common problems. They also described that networks can be horizontal and vertical in a cluster. Horizontal networks link firms needing similar specialized services or technologies or vertical if they link firms performing different functions in the value-added chain.

They further argued that horizontal networks include inter-firm arrangements to conduct research and product development, share the cost of specialized service or equipment, collect marketing information, and supply markets. Vertical networks include shared information and expertise among buyers and suppliers and collaboration on product design, engineering, and marketing. Vertical and horizontal networks give smaller firms scale economies and access to information and markets normally available only to larger firms.

Networks that generate formal and informal flows of knowledge and information throughout a cluster provide the gel that binds success over time (DTI, 2006). The key to growth for many small firms within a cluster is its ability to gain strength through co-operation and collaboration utilizing formal and informal networks (OECD, 2006). According to cluster practitioner, "it is important to try to get businesses to work together where there is a clear logic for them doing so. Developing a willingness to cooperate among businesses and a profile for the cluster takes years" (Practitioner Observation, 2002). The value of networks is that it enables a transfer of

knowledge around the cluster, can support new product development, provide means of building trust and understanding through providing a forum for participants to utilize the potential for joint action and collaboration in a given area (DTI, 2006). Successful clusters tend to have strongly embedded networks and relationship systems where trust and inter-personal relationships are highly developed, providing the cluster with a strong degree of social capital (OECD, 2006). Social capital and trust are further explained in the following paragraphs.

a) Social Capital

As argued in Wolfe (2002), social capital, in the context of cluster, refers to various features of the social organization of a region, such as the presence of shared norms and values that facilitate coordination and cooperation among individual firms, and sectors for their mutual advantage). He also argued that the term capital indicates that it involves an asset, while the term social connotes that the particular asset is attained through the involvement of the cluster community (actors) (Wolfe, 2002). Social capital is viewed as essential part of the glue that holds the cluster together (Porter, 1998). The analysis of social capital in relation to clusters thus provides a valuable mechanism for helping analyze how the structure of networks with a given clusters generates concrete benefits for individual firms (Porter, 1998).

b) Trust

Another important element in networks and partnership is trust. A growing number of studies identify the existence of trust relations among a network of firms as a critical factor for cluster competitiveness and success (Wolfe, 2002). A key element that underpins the social capital of a cluster is the degree of trust that exists among the various members of groups that comprise it. However, trust is one of those rare commodities that can neither be bought, nor imported; it can only be built up painstakingly through a prolonged process of interaction (Wolfe, 2002). Trust, as component of social capital, helps overcome failures or reduce costs for firms in cluster by supporting stable and reciprocal exchange relationship among them (Wolfe, 2002).

2) The Presence of a Strong Skill Base

There is a consensus across the literature that successful clusters are those that have been able to access and nurture a strong skill base, both in terms of higher level and management skills (DTI, 2006). Successful clusters require a range of appropriate skills and abilities such as strategic management skills, entrepreneurial skills, management and production techniques, leadership skills, mentoring/coaching and personal development skills (DTI, 2006).

3) Innovation and (R&D) Capacity

Innovation maintains the cluster at the forefront of the market while R&D base provide ideas and products for future development (DTI, 2006). In this respect, university research laboratories can provide a fertile source of technology and expertise for clusters (DTI, 2006). To promote research and innovation there must exist strong linkages between researcher institutes and/or universities and local firms (DTI, 2006).

4) Presence of Large Firms

Large firms play a key role in diffusing knowledge and technology to MSEs, nurturing future entrepreneurs and inspiring spin-outs. They are important in terms of stimulating innovation sales and exports and provide a critical 'route to market' for MSEs, both directly and as a base for access to world markets.

5) A supportive policy environment

A supportive, co-operative policy environment is an important feature in the development of successful clusters. Many of the most significant influences on cluster development stem from national regulatory frameworks (Porter, 1998). At a national level a stable macro-economic environment is a strongly positive factor. The common feature of supportive policies is strong commitment from local and regional government bodies to deliver growth and sustainability (DTI, 2006).

Local policy makers can help share development vision and give strength to collective actions to enhance competitiveness of the MSEs (DTI, 2006). Regional and/or local government support cluster development actively. In developing a supportive policy, it is important to bear in mind that there is no 'magic pill' that will deliver success, rather a range of different action are needed, tailored to local circumstances (DTI, 2006). Measures that actively foster collaboration or joint working are more likely to strengthen the development of a cluster over time.

6) Leadership

Successful clusters are often associated with strong leadership, either from individual or institutions (DTI, 2006). "Leaders within clusters can be crucial for removing obstacles, assisting in enhancing collaboration, developing a vision and acting as 'champions' for the future of the cluster. Strong civic leadership can help to foster a collaborative advantage by raising mutual awareness of local strengths and a shared vision for business growth. Leaders are typically people committed to a local area, perceived as having a high degree of influence and able to cultivate interaction between cluster stakeholders" (Svetina, et.al, 2007:15).

Svetina, et.al, (2007) wrote about management, administration and leadership in different kinds of networked organizations. Their contribution can also be to some extent related to clusters. The similarity between clusters and other types of networks is that in any kind of network, actors should be held together by a vision and shared purpose. A cluster is markedly different and much more complex than a traditional organization. It brings profit and non-profit organizations together, companies that are competitors as well as companies that are engaged in buyer-supplier relationships. Organizations in the cluster have their own corporate cultures and follow their own strategies. Clusters do not usually have a formal organizational structure and often informal relationships predominate.

All of this means that there may be some differences in the characteristics of leadership in a cluster as opposed to a traditional organization. Cluster leadership is exhibited in cluster development and its further evolutionary process by cluster managers, representatives of participating firms, representatives of academia or other participating institutions.

7) Other Successful Cluster Attributes

Communication links, physical infrastructure and sites and premises have been identified as key factors in the development of successful clusters (DTI, 2006). The proximity of suppliers and other supporting firms can assist firms and reduce transaction costs (DTI, 2006). Facilitating links with key manufacturers, suppliers or assisting companies find new market opportunities is a key role for the cluster practitioners (DTI, 2006). The ability to access finance contributes to the successful development of clusters through supporting the growth and expansion of cluster firms (DTI, 2006). Quality and availability of training is also a factor contributing to the development of successful clusters (DTI, 2006). The capacity of the available training infrastructure to respond to the cluster needs and provide relevant training is a key factor (DTI, 2006).

This theoretical review section has provided an in-depth explanation of clusters and clusters development. The components that make up successful clusters were also presented. The study will investigate these variables in the case study (Gullele Handloom Clusters) and find the gaps that need to be addressed. The next section builds on the literature review.

2.2 Empirical Review

Ayele, *et.al.* (2010) study on Infrastructure and Cluster Development, a case study of Handloom Weavers in Ethiopia presented a survey of both urban and rural handloom weaver clusters. They found that clustering is an important form of industrial organization in the rural non-farm sector. Their paper also examined the mechanism and performance of clustering in that cluster-based handloom production survives even in remote rural areas and this illustrated its vitality in restricted environments. The study also showed that in the absence of financial institutions, clustered producers set up interconnected trade credit linkages to ease working capital constraints. Moreover, geographical clustering enables entrepreneurs with limited capital to enter the business through shared workspaces and fine division of labor.

Moreover, according to their report, despite the viability of the clustering model of production operating in harsh environments, an improvement in infrastructure can further enhance firm performance in a cluster. The survey also indicated that producers in electrified towns work longer hours than those in towns without electricity. In addition, the rental cost of shared lit workspaces is minimal, attracting more poor entrepreneurs to participate in handloom production than would otherwise be possible.

FeMSEDA and MOTI (2004) conducted a study on Ethiopian Handloom Product Export Market. The study primarily focused on five areas of investigation such as handloom exports and price analysis; handloom products profiles; proposed target market entry strategy; profiles of potential buyers; and trade fair events in target countries.

Based on the analysis of these five variables, the study had found that the potentials to go for export market of handlooms are high. The niche market has been found for table linen, curtains and other textile materials, to have high demand and fetched higher and relatively stable prices; this suggested that the export and production emphasis should go to these products. It is also revealed that there are high potentials for these products to be exported to the European Union particularly to Germany, UK and France. Besides the study depicted that direct exporting through a foreign-based agent/distributor is the best option for Ethiopian exporters.

Finally, the study identified important trade fairs related events in the target market countries. To this end, the study concluded that efforts should be made to attend some of these events as this will enable potential exports to display their products, understand better the market environment and make valuable contacts with both the existing and potential/prospective customers, agents and distributors.

Abdella and Peerlings (2006) studied the Value added of Cluster Membership for Micro Enterprises Applying Propensity Score Matching to the Handloom Sector in Ethiopia. The major purpose of their study has been to investigate clustering advantages by contrasting the performance of clustered micro enterprises, in terms

of profit, with that of dispersed ones in the handloom sector in Ethiopia. By matching clustered and dispersed micro enterprises that share the same observable characteristics, they found that enterprise specific factors like gender and schooling affect the likelihood of being clustered both in urban and rural areas.

The study further depicted that concentration of big textile factories is also important both in urban and rural areas as it is showing the importance of backward and forward linkages in terms of inputs sharing and information spillover between big producers and micro enterprises operating in the same industry. Moreover, they observed that concentration of big producers from other industries, on the other hand, is not important.

Based on the findings, the study concluded that clustering is found to be important around markets and where there is access to transport infrastructure in urban areas. However, micro enterprises are more likely to cluster in remote rural areas implying the importance of traders who link micro enterprises with distant markets. In addition, the matching revealed that clustered micro enterprises have higher level of profit both in urban and rural areas than dispersed ones showing that location economies exists within clusters.

The study on the competitiveness and viability of cottage industries the case of handlooms sector in Ethiopia by (Abdella, 2008) based on secondary data, intensive interviews and focus group discussion with selected stakeholders in the cluster analyzed the prospects and challenges faced by the handloom sector taking the Gullele handlooms Cluster in Addis Ababa as a case study. The study also showed that, although the cluster has been old, it stuck at the initial stage and unable to graduate into the next level of quality expansion where rich competitive advantages are found. Although some positive externalities of the cluster due to close agglomeration of enterprises are automatically operating to enable weavers perform at subsistence level, the study showed that there is a need for an external force that would facilitate the benefits accruing from deliberate joint action.

2.3 Summary

In this section, the evaluations of all the above reviewed empirical evidence are briefly summarized:

1. The study on Infrastructure and Cluster Development, a case study of Handloom Weavers in Ethiopia by Ayele, Mooram, Wamisho and Zhang (2010) mainly focused on the role of infrastructure in cluster development and it is a sort of comparison between urban and rural clusters. Moreover, their study did not consider other success factors in cluster development. Thus, this study would fill these gaps by investigating the possible success factors in the Ethiopian cluster development.
2. Ethiopian Handloom Product Export Market study (FeMSEDA and MOTI, 2004) mainly concentrated on the export performance of the handloom products only, in which case success factors and the role of leadership were not touched up on. This study, therefore, adds value to the existing empirical evidence by addressing the far-reaching concept of success factors in cluster development efforts.
3. The study on the Value added of Cluster Membership for Micro Enterprises to the Handloom Sector in Ethiopia (Abdella and Peerlings, 2006) primarily focused on two things. First, they tried to identify the factors that led micro enterprises to form a cluster. Secondly, the study gave much attention on the comparison between clustered and dispersed micro enterprises in terms of their profit earnings. Similar to the above empirical investigations, this study did not assess the major constraints and the success factors in handlooms clusters.
4. The study on competitiveness and viability of cottage industries the case of handlooms sector in Ethiopia (Abdella, 2008) was conducted during the time when the Ethiopian government and UNIDO had started the first phase of the cluster development initiative in Gullele handlooms natural cluster. Thus, the study targeted only at identifying the existing potentials of the natural cluster

before the cluster development intervention has been introduced. Since, the study was undertaken at the infant stage of cluster development intervention in the country, it could not go far beyond appreciation of the first phase of the intervention. But in this study the researcher tried to assess and evaluate the Gullele handlooms cluster development and investigate the major success factors in such cluster development initiatives.

From the reviewed literature empirical studies, many studies described success factors for industry cluster initiation and development. Also many critical success factors of cluster development and the benefits of clustering have been written and reported, but there is little work that discussing the obstacles to cluster development. Moreover, most of the obstacles are discussed at length in terms of policy than in terms of strategic framework due to the engaging characteristics, objective of collaboration, definition of cluster and so on. This study proposes a framework and methodology for implementing strategic management and techniques for cluster development.

CHAPTER THREE

RESEARCH DESIGN AND METHODOLOGY

3.1 Introduction

This chapter presents the research approach adopted in the study. It explains in detail the pros and cons of the research methodology utilized and its justification for the purposes of this study. It also outlines the strategies employed to collect data as well as the challenges, limitations and/or constraints which were experienced. It further addresses issues of reliability and validity and concludes with the ethical dilemma characterizing a study of this nature.

3.2 Research Design

The research design is the general plan of how the researcher goes towards answering the research questions. It basically addresses issues such as:

- What are the research questions that the study needs to respond to?
- What is the unit of analysis and the justification thereof?
- Why a particular research approach and strategy should be adopted?
- Which tools are used for data collection and analysis?
- What is the time horizon?

Based on the purpose and objectives of the study, the necessity to crystallize the research questions became apparent.

3.2.1 Unit of Analysis

The nature of this study was exploratory as it about conducting an investigation in relation to the potential of developing a cluster strategy of a handloom cluster in Addis Ababa. Thus, the unit of analysis was the Gullele Handloom Cluster found in the Northern part of the city.

3.2.2 Research Approach and Strategy

The choice of a research approach is determined by many variables such as the nature of the study, the objectives that the study seeks to achieve, resource availability and time constraints. For the purpose of this study, qualitative research approach was employed. The motivation for using the qualitative research approach was followed by two main reasons. First, as Leedy and Ormrod (2005:133) stated, “qualitative research focuses on phenomena that occur in natural settings and involve studying those phenomena in all their complexity”. It was felt that qualitative research would be useful in enabling the researcher to answer how and why certain phenomena occur as sought by the purpose, objectives and research questions of the study. Secondly, as Cooper and Schindler (2007:196) accentuated, qualitative research “includes an array of interpretative techniques which seek to describe, decode, translate, and otherwise come to terms with the meaning, not frequency of certain more or less naturally occurring phenomena in the social world.” It was therefore felt that the quantitative research approach, which attempts precise measurement of something and answers questions related to how much, how many, when and who, was inappropriate and would not yield deeper meaning and an in-depth understanding of the handloom cluster development as the purpose, objectives and research questions are predominantly revolving around it.

3.2.3 Research Strategy

Given the qualitative research approach chosen for this study, a case study research strategy was adopted focusing on the handloom industry in Gullele sub-city. Yin (2003:13) defines case study in research as “an empirical inquiry that investigates a contemporary phenomenon within its real-life context, especially when boundaries between phenomenon and context are not clearly evident”. Consistent with this view as a quite eclectic approach, Robinson (1993:52) pinpoints that a case study is:

- a strategy, i.e. a stance or approach, rather than a method, such as observation or interview;
- concerned with research, taken in a broad sense and including, for example, evaluation;
- empirical in the sense of relying on the collection of evidence about what is going on;

- about the particular, a study of that specific case (the issue of what kind of generalization is possible from the case, and how this might be done, will concern us greatly);
- focused on a phenomenon in context, typically in situations where the boundary between the phenomenon and its context is not clear; and
- using multiple methods of evidence or data collection.

This study has fundamentally focused on the Handloom subsector for a number of reasons. First, handloom is the most important non-agricultural source of income in the country (Central Statistics Agency (CSA) 2003a). Second, a wide range of and diversified problems are associated with this sector which need to be addressed in order to make the industry competitive. Furthermore, the handloom industry is the oldest and traditional cottage industry in the country and critical to job creation and poverty reduction. Lastly, handloom potentially exhibits most of the prerequisite conditions essential to cluster development, especially the potential availability of horizontal and vertical linkages, interdependencies and networks among different enterprises and stakeholders. Developing a cluster model in handloom subsector was thus in a realm of the possible.

The reasons for selecting the specific Gullele sub-city as a case study stemmed from the fact that the sub city accommodates the largest number of handloom weavers in Addis Ababa (CSA, 2003a). Also, Gullele Handloom Cluster provided ample scope for learning more about clusters and economic development since it is one of the few sectors where cluster development has taken place. The researcher, therefore, hopes that the study will serve to assess the impacts of the cluster development efforts so far in Ethiopia and to identify any gaps thereof.

3.2.4 *Methods of Data Collection*

This study has employed a number of data collection methods. To mention but a few; semi-structured interviews, focus group discussion and document analysis. It has also used a combination of data collection methods (triangulation) accordingly. As stated by, Leedy and Ormrod (2005), for example, observations, semi-structured interviews and appropriate written documents and/or audiovisual materials are most relevant as they provide an opportunity to probe answers where the interviewer wants respondents to explain, or build on, their responses.

a) Semi-structured interviews

In this study, semi-structured interviews were used. Leedy and Ormrod (2005) argue that interviews can yield a great deal of useful and in-depth information rather than completing questionnaires, because people are reluctant to provide sensitive and confidential information to someone they have never met. Some of the motivations for semi-structured interviews are: “In semi-structured interviews the researcher will have a list of themes and questions to be covered, although these may vary from interview to interview. This means that you may omit some questions in particular interviews, given specific organizational context that is encountered in relation to the research topic. The order of questions may also be varied depending on the flow of conversation. On the other hand, additional questions may be required to explore research questions and objectives given the nature of events within particular conversations.” (Saunders, *et al.* 2007:312).

Accordingly, the semi-structured interview was administered to three main groups in this research namely, weavers, support institution and business enterprises. The interview touched upon important issues in order to adequately capture various elements relevant to the research. Maximum attempt has been exerted to make the interview question orderly and logical to facilitate participants' response. The semi-structure interview is attached as Appendix A, B, and C at the end of the research report.

The researcher also used digital voice recording device and intensive note taking during the interview. Digital voice recordings were, however, used upon having participants consent. The digital voice recording made transcription easy and efficient. During the analysis, these two procedures (digital voice recording and intensive note taking) helped to avoid possible emission and misrepresentation of facts discussed by the interviewee because it was possible to refer back to the actual interview as required.

b) Document Analysis

The other technique that was used to collect data is document analysis, in particular to collect secondary data. The types of secondary data gathered include policy and strategy documents, project documents, strategic action plans and other similar corporate documents.

To access the secondary data, requests were made to different organizations to supply the researcher with un/published data on the Handloom sector. Secondly, the UNISA Online library was extensively utilized. Thirdly, for data located on the Internet, search tools such as Google were used. In some cases, specific sites hosted by different companies, associations and government agencies relevant to the sector were also surveyed – but care was taken to use only credible information.

c) Focus Group Discussion

In some situations, a focus group discussion was utilized where the researcher aimed to interview several participants simultaneously. Focus groups are especially useful when: time is limited; people feel more comfortable talking in a group than alone; interaction among participants may be more informative than individually conducted interviews; and the researcher is having difficulty interpreting what s/he has observed (Leedy and Ormrod 2007:146).

A half-day focus group discussion was held as one avenue of data gathering technique. A session took three hours starting at 8:30 a.m in the morning until 12:00 p.m. The session broke for a half-hour in the middle.

The UNIDO Cluster Development Agent (CDA) facilitated the discussion provided that the person's rich knowledge of and direct involvement in the Gullele Handloom Cluster Development. A total of 14 people took part in the focus group discussion. The researcher selected these participants in consultation with the facilitator taking into account their close involvement of and experience in the Gullele Handloom Cluster Development initiative. The group had three main categories of participants, weavers (core firms), support institute officials and participants from business enterprises, as stated in the following table.

Table 3.1 List of Focus Group Discussion Participants

No.	Name of Weavers Cooperatives	Occupation	Level of Education
1	Selam Teramaji	Weaver	Primary
2	Selam Teramaji	Chairperson and weaver	10 th Grade
3	Habesha	Chairperson and weaver	-
4	Ye Fikir Andinet	Weaver	-
5	Tebabiren Enisra	Weaver	Primary
6	Tibeb Ledget	Weaver	-
No.	Organization	Occupation	Level of Education
7	FeMESEDA	Head, MSE Marketing and Promotion	MA
8	A.A MSED	Director	MA
9	Kebele	Extension Workers	Diploma
10	UNIDO	CDA	BA
11	Addis Micro Finance Institution	Credit staff	BA
12	Gullele Sub-city MSED Bureau	Head of the Bureau	BA
13	Adey Ababa Spinning Factory	Marketing Department Head	BA
14	Menbi's Design	Owner	-

The purpose of the focus group discussion was to increase the researcher's understanding of the case (Gullele Handloom Cluster). It also served as part of data triangulation to ensure reliability and validity. The themes of the focus group discussion are attached as Appendix D at the end of this research report.

The focus group discussion followed a question and answer and discussion format. The participants responded to few important questions related to their experiences. They brought a rich variety of background to the discussion and represented a broad range of facts. The discussion has also come up with some similar data gathered during the semi-structured interview.

d) Other Methods

In addition, various texts and others such as observation were employed. Individual discussion with key stakeholders was also held to well inform the researcher.

3.2.5 Sample

To determine which organizations shall be approached for interview, guidance was sought from Cooper and Schindler (2006) who assert that in qualitative studies sampling sizes are generally small. They also point out that qualitative research involves non-probability sampling where little attempt is made to generate a representative sample. Taking this into account, the study incorporates population of interest all organizations in the public, private and nongovernmental sector involved in the handloom development directly or indirectly. A form of purposive sampling technique known as judgmental technique was thus employed to identify respondent organizations. This technique is chosen because it would allow the researcher to select respondents thereby to achieve the research objectives with necessary information. Coupled with this, reasoning matters as judgmental sampling never allows randomization, respondents could be stratified (Page and Meyer, 2005) to derive a diverse set of opinions and ideas about the data the study sought to collect.

Accordingly, in the absence of a sampling frame, the researcher deliberately chose participants from the groups as profiled below:

- Weavers Cooperatives (leaders and members)
- Traders (exporters of handloom products)
- Federal Micro and Small Enterprise Development Agency
- Addis Ababa Micro and Small Enterprise Development Agency
- Gullele Sub-city Micro and Small Enterprise Development Bureau
- 'Kebele' Extension workers
- Ministry of Trade and Industry
- UNIDO Ethiopia Office
- Micro Finance Institutions (Addis Micro Finance Institute)
- Sub-city level, trade and industry bureaus, cooperative desks
- Exporters

- Suppliers of raw material
- Spinning factories
- Other development organizations (NGOs)
- Ethiopian Handicraft Producers and Exporters Association
- The Ethiopian Tourist Trading Enterprise
- Enterprise Ethiopia

3.3 Data Analysis

Data analysis for qualitative research is a process that is less discrete than found in quantitative research, and allows the researcher to bring meaning to large amounts of data that has been collected (Struwig and Stead, 2001). Five steps were followed to analyze data from this case study as suggested in (Leedy and Ormrod, 2005:136): First, the organization of details about the case was done in such a way that facts about the case would be arranged in a particular logical or chronological order. Secondly, categories were identified to help to cluster the data into meaningful groups. Thirdly, specific documents, occurrences, themes, patterns and trends were identified and examined for specific meanings they might have in relation to the cluster development. Fourth, the data and their interpretations were scrutinized for underlying themes and other patterns that would characterize the case more broadly than a single piece of information would reveal. Lastly, an overall portrait of the case was construed and conclusions were drawn that would have implications beyond the specific case which is the subject of the study.

3.4 Data Validity and Reliability

Saunders et al. (2007:317-319) identify three data quality issues that plague semi-structured interviews: reliability; forms of bias; and validity and generalizability of results. Steps were also taken to ensure that the level of preparation for the interviews and the approach to questioning was done in such a way that avoiding pitfall that would be likely to compromise the results. Although, by their nature semi-structured interviews do not necessarily lend themselves to replication and generalization, care was taken to ensure that the study was related to existing theory and to demonstrate that the findings of the study would have a broader theoretical significance.

Triangulation – comparing multiple data sources in search of common themes is – frequently used in qualitative research to support the validity of the research findings (Leedy and Ormrod, 2005). In this research process, triangulation was achieved mainly through multiple data sources, procedures and strategies. These various sources and strategies were explained in section 3.2.4 and 3.2.5.

The researcher, in order to ensure reliability, carefully examined the trustworthiness of different data sources including respondents and various forms of documents.

With a view to increasing the validity of the research findings and interpretations, the researcher has approached to selected key actors within the handloom cluster. Furthermore, the researcher took the research conclusion back to key participants in the study and asked if they agree with the conclusions. This helped the researcher determined whether appropriate interpretations made and valid conclusions drawn.

During the interview sessions, participants were encouraged to rise a number of ideas and the researcher remained active listener. Accurate and detailed recording of notes were also utilized.

3.5 Ethical Consideration

The researcher first informed participants about the nature of the study and requested their consent to participate. One common practice suggested by Leedy and Ormrod, (2005) is to present a written informed consent form describing the nature of the research project and the purpose of one's participation in it. However, for some practical reasons (budget and time issues) the researcher followed the suggested procedure by informing participants orally in most cases. Further, participants were told that, if they agreed to participate, they had the right to withdraw from the study at any time. Only those organizations and personnel who were voluntary to participate in the research were approached for an interview and for comment too.

The researcher also assured that the names of respondents would not be revealed in the study. For reasons of ensuring that respondents become anonymous, direct quotations from respondents were merely ascribed to unnamed respondents –

otherwise, fake names were used. How a particular participant had responded or behaved (unless, of course, the participant has specifically granted permission) was not reported in the research. Steps were also taken to keep ethical considerations intact.

The researcher also committed to report the research findings in a complete and honest fashion, without misleading others about the nature of the findings. Under no circumstance, the researcher fabricated data to support a particular conclusion. Giving appropriate credit to the use of another person's ideas is mandatory (Leedy and Ormrod, 2005). In this regard, all materials belonging to another person or organization have been duly acknowledged.

Finally, the researcher took appropriate measures to ensure the research would cause no physical or psychological harm to research participants. As a general rule, therefore, the study did not raise any ethical concerns.

CHAPTER FOUR

POLICY AND STRATEGY DOCUMENTS ANALYSIS

4.1 Introduction

In the research methodology section, document analysis was used as a data gathering technique. Accordingly, available and relevant documents are reviewed and analyzed in this section which focuses on MSEs in general and on the Gullele Handloom in particular.

4.2 The Ethiopian Micro & Small Enterprises Development Strategy

In Ethiopia, the idea of Micro and Small Enterprises (MSEs) development emerged as a promising agenda in the 1980s. A variety of reasons have been cited for the surge of interest in MSEs development, like:

1. MSEs are a better means for poverty reduction.
2. MSEs are a platform for sustainable development and productivity.
3. MSEs are important actors within the trade sector and a platform for economically empowering women and men.
4. The MSE sector plays an important role in providing people with livelihood and income generating opportunities, providing income and services to people who cannot get employment in the formal sector.

In November 1997, the Ethiopian Ministry of Trade and Industry published the "Micro and Small Enterprises Development Strategy", which enlightens a systematic approach to alleviate the problems and promote the growth of MSEs (MOTI, 1997). Elements of the programme include measures with regard to creating an enabling legal framework and streamlining regulatory conditions that hinder the establishment of new and

expansion of existing MSEs. In addition, specific support programmes also include measures related to providing working premises, facilitating access to finance, provision of incentives, promotion of partnerships, business skill development training, access to appropriate technology, access to market, access to information and advice, infrastructure and institutional strengthening of the private sector associations and chambers of commerce.

4.2.1 Challenges of MSEs Development in Ethiopia

In Ethiopia, MSEs are confronted with various problems, which are of structural, institutional and economic in nature (MOTI, 1997). Lack of capital, working premises, marketing problems, shortage of supply of raw materials and lack of qualified human resources are the most pressing problems facing MSEs. Although the economic policy of Ethiopia has attached due emphasis to entrepreneurship values and appreciation of the sector's contribution to the economy, there are still constraints related to infrastructure, credit, working premises, extension service, consultancy, information provision, prototype development, imbalance preferential treatment and many others, which therefore need proper attention and improvement. It is in this context that the Ethiopian Micro and Small Enterprises Development Strategy was conceived and developed.

4.2.2 MSE Development Strategy Objectives

The primary objective of the Ethiopian MSEs development strategy framework is to create an enabling environment for MSEs. In addition, it has the following specific objectives:

1. Facilitate economic growth and bring about equitable development
2. Create long-term jobs
3. Strengthen cooperation between MSEs
4. Provide the basis for the Medium and Large Scale Enterprises
5. Balance preferential treatment between MSEs and bigger enterprises
6. Promote export

4.2.3 The Fundamental Principles of the Strategy

The basic principles of the Ethiopian MSEs development strategy are summarized as follows:

- a. The vision of this MSEs development strategy is based on the country's overall development strategy that is Plan for Accelerated and Sustainable Development (PASDEP) and the adoption of the market economic system.
- b. The government develops the sector through various demand driven support services.
- c. To ensure the sustainability of the support service it should be on fee basis and cost sharing.
- d. The strategy includes steps that improve access of MSEs to large business purchase and export market.
- e. Women empowerment
- f. Training and upgrading the skills of various actors of MSEs development.

4.2.4 Criteria to Prioritizing MSEs for Support

The MSEs development strategy prioritizes among the various enterprises by assessing whether the enterprises have features like local resource base, having intra and inter sectoral linkages, engaged in import substitution and export promotion, and the MSEs involvement in activities that facilitate tourism.

4.2.5 Beneficiaries of MSEs Development Strategy

A number of target groups in the sector that qualify at least one of the aforementioned prioritization criteria are expected to be beneficiaries from this development strategy. Accordingly, some of the target beneficiaries are listed below.

- a) Small manufacturers with focus on food, textile and leather clothing etc.
- b) Self employment particularly with focus on school leavers, disabled and unemployed youth.
- c) Start-ups and expanding firms with particular emphasis to those owned by women.

- d) Small enterprises in nomadic and disaster areas.
- e) Small exporters revealing comparative advantages and small scale tourism industry operators.

4.2.6 Institutional Structure of MSEs Development Agents

The responsibility of MSE (cluster) development falls upon a wide range of organizations, associations, and agencies. These include all levels of government, community based organizations, NGOs, development and business associations, private institutions and international agencies. The commitment of these institutions and the degree of cooperation among them largely determine the effectiveness of the support system and successful implementation of various MSEs development strategies. Accordingly, the major actors involved in MSEs development are listed below.

i) Ministry of Trade and Industry

The Ministry of Trade and Industry is the organ of the Federal Government for the formulation of the country's industrial and trade policies and strategies. The Ministry, inter-alia, has the following duties and responsibilities towards MSEs development (MOTI, 1997):

- a. Defining the size of micro and small scale enterprises in order to identify the right target groups for the right type of promotional support.
- b. Supporting and creating conducive environments for the development of MSEs.
- c. Establishing and maintaining coordinated work relationship with other Ministries, Regional Bureaus and other stakeholders for the promotion of MSEs.

ii) Federal Micro and Small Enterprises Development Agency (FEMSEDA)

The Federal Micro and Small Enterprises Development Agency (FeMSEDA) was established in 1998 - by the council of ministers of Ethiopia, regulation No. 33/1998 issued on April 3/1998 - replacing the former Development Agency for Small Industries and Handicrafts (DASIH). It is the nodal Agency for formulation of policies and their implementation and related coordination, to supplement the efforts of the State for promotion and development of MSE and cluster development initiatives. It is led by a board of management constituted from government organizations, educational institutions & the private sector. It is directly accountable to the Ministry of Trade and Industry of Ethiopia.

The major objective of FeMSEDA is to encourage, coordinate and assist institutions engaged in service provision to the development and expansion of MSEs in the country at large. In order to promote MSEs, the agency is responsible for establishing a coordinated working relationship with regional government organs, regional agencies responsible for MSE development, NGOs and the private sector. The Agency is established to focus on training of trainers, dissemination of developed prototypes, information and consultancy, facilitation, marketing, technology database to be used by regional agencies or designated organs and other concerned institutions.

iii) Regional Micro and Small Enterprises Development Agency (REMSEDA) or Designated Organs

The regional agencies are established to provide extensions services to MSEs at regional, sub-city and kebele level. The extension service packages to be provided by these agencies include, but not limited to, human resource development, information and consultancy, facilitation, technical and marketing services. Additional mandate of these regional agencies or designated organs is to work in close cooperation with the regional bureaus delegated to promote MSEs within the regions. They will be financed by the regional governments in addition to the modest incomes they generate from the services rendered will be made to clients. Each regional agency is managed by a board of management consisting of bureaus, private organizations, other organized institutions and prominent personalities involved in MSE activities.

iv) MSE Support Service Centre at Local Level (sub-city and kebele level)

These are small business support service centres established under the respective regional agencies or the designated organs at sub-city and kebele level in order to provide promotional support services for MSEs at grassroots levels. They are responsible for providing information and advisory services to MSEs at their vicinity.

v) Other Funding Organizations or NGOs

Due to constraints faced by the government in most LDCs, NGO's and other funding organizations have emerged as major player in MSEs development.

4.3 Review of UNIDO'S Cluster Development Programme in Ethiopia

In 2005 a project called "Unleashing the Potential of MSEs in Ethiopia" was established by UNIDO in collaboration with FeMSEDA (Federal MSEs Development Agency) under the direction of the Ministry of Trade and Industry (UNIDO & FeMSEDA, 2005a). The project has been implemented for four consecutive years from 2005 to 2009. As part of the UNIDO Integrated Programme, the first phase of this project was implemented with particular emphasis on creating institutional capacities at a core group of partner support institutions to provide business development services to small businesses, particularly, training in entrepreneurship, women entrepreneurship, business counseling, and extension services.

During the first two years of the project, the activities focused on selected sub-sectors, such as leather and handicrafts, edible oils and metal works at the enterprise level. In the second phase, the project has been planned to institutionalize the achievements of the first phase in addition to introducing the cluster development approach.

UNIDO has been implemented cluster based development programmes in several developing countries in Latin America, Asia and Africa over the past ten years with a view to customizing the methodology to suit to local conditions. Some of the salient features of these initiatives include:

- a) Fostering mutual trust and a degree of collaboration among the cluster stakeholders.
- b) Identification and implementation of joint activities.
- c) Introduction of Cluster Development Agent (CDA) for helping the cluster stakeholders, revisit their challenges and opportunities with a stronger emphasis on business-oriented relationships.
- d) Linking the cluster in the larger regional, national or global value chains thereby breaking away from the traditional practices that lock the cluster in a state of underperformance.
- e) Finally the establishment of an effective and participatory local governance framework that will own and sustain the initiative long after UNIDO's intervention.

According to UNIDO's project strategy document, the cluster development approach has a number of attractive features such as high impact and cost effectiveness due to the multiplier effects of reaching out to large numbers of interrelated enterprises working in close proximity; stimulation of broader local economic development in a given area, including a stronger basis for local private-public partnerships; interaction with related support institutions; and enhanced scope for long-term sustainability as a local governance framework emerges that does not require much external support to operate (UNIDO & FeMSEDA, 2005b).

While establishing the cluster development programme, UNIDO considered the smallness and isolation of the individual MSEs in Ethiopia, lack of inter-firm collaboration and absence of strong industry-institutional linkages, and the extreme difficulty for individual MSEs to survive and expand their market share. Considering the relatively large number of MSEs in the country and the inadequate capacity of traditional delivery mechanisms, individual MSEs oriented development interventions have not only been cost-inefficient but also the impact has neither been significant nor sustainable.

4.3.1 The Rationale of the Project

The first phase of the project focused on two levels of interventions: institutional capacity building and enterprise level skills enhancement. Efforts to create a group of first generation enterprises to open up employment opportunities and reducing poverty in rural areas are also concerns of the project. Project interventions were limited to a number of regions as requested by the government.

This phase has been expected to build upon the results achieved, lessons learnt and the actual capacities that have so far been created. By institutionalising the results of the first phase, it is expected that the impact will be greater and more sustainable. The interventions were planned to expand to other regions mainly through the introduction of cluster development activities.

More specifically, the second phase was designed to concentrate on institutionalising the results and achievements of Phase 1. The introduction of cluster methodology in selected areas has been contributing a lot to the development of MSEs sector. This has been supposed to be achieved through managerial and marketing skills training, improved design and quality of products and specific activities geared towards export promotion.

As far as cluster development is concerned, UNIDO proposed to invest much effort and to focus on awareness creation, intensive training as well as horizontal (among MSMEs) and vertical (between MSMEs and institutions) networking. The programme has also been planned to give special emphasis on public private partnership for the effective implementation of all these activities.

4.3.2 Target Beneficiaries

These include the following.

1. Institutional level: capacities of the counterpart ReMSEDAs and FeMSEDA as well as of the collaborating institutions will be strengthened in terms of human

resources, introduction of new methodologies and tools in entrepreneurship development, clusters and BDS.

2. Enterprise level: Entrepreneurs and identified clusters will benefit from training, networking, counselling and from improved services of the institutions. There will be a special focus on women entrepreneurship development to contribute to gender equality in Ethiopia.
3. Macro level: The project will contribute to the achievement of the Government's objectives as laid out in the Industrial Development Strategy, the MSED Strategy and the Plan for Accelerated and Sustained Development to End Poverty (PASDEP).

4.3.3 The Major Elements of the Implementation Strategy

These are grouped into ten elements.

- 1) A detailed participatory diagnostic study will be conducted in each of the four identified clusters with the objectives of identifying the SWOTs, analyzing the value chain, understanding the local institutional capacities, creating baseline data and identification of a new development agenda and vision for the cluster that enables the cluster actors to appreciate their mutual interdependence and the challenges they jointly face. Such participatory needs assessment exercise may also help in triggering trust among the cluster actors.
- 2) In order to minimize the major limiting factors like lack of trust among the cluster stakeholders, the strategy proposed concentrating on short-term initiatives for smaller groups of enterprises supported by local institutions. Such initiatives were expected to trigger the process of trust building and provide the opportunity for a progressive exercise of planning the capability-building actions and assuming larger responsibilities.
- 3) Focus on facilitating the emergence of networks of firms both horizontal and vertical for mutually beneficial commercial activities such as common sourcing of raw materials, marketing, engagement of consultants, common facilities etc.

Such networks, as a result of economies of scale, were expected not only help in reducing the costs of the concerned business operations, but also enhance better supply chain management.

- 4) Strengthening the industry-institutions linkages particularly, the project had a strategy to establish linkages with international development partners, in addition to the national level institutions to enable support to flow to the clusters. Such linkages will also facilitate synergy, convergence and preferential channeling of dispersed resources available at various institutions, at cluster level, which will lead to significant and sustainable impact, while optimizing the use of scarce resources.
- 5) Identification of suitable BDS providers and linking them with the enterprises in the cluster were supposed to be the key elements of cluster development.
- 6) In order to own and sustain the cluster development initiatives, after the exit of UNIDO, the project would focus on building the capacity of the MSE associations in the clusters.
- 7) The responsibility for implementation of this strategy had been laid on a specialist, Cluster Development Agent (CDA), who was recruited by UNIDO for each of the four clusters through competitive selection process. The CDA operate on full-time basis within the cluster and enjoy adequate autonomy and functional freedom in providing the technical, financial and human resources required for development of the cluster.
- 8) Exposure visits to successful clusters in other developing countries will be facilitated for the identified entrepreneurs, their networks, associations, partner institutions and the CDAs to expose them not only to the best cluster development practices but also to better technology, work practices and products.

- 9) In addition to implementing the programme directly in the identified four clusters, the project has also been designed to provide technical assistance to FeMSEDA (the national counterpart), Tigray MSETIDO as well as any other agency which may take up the cluster development programme, with the objective of strengthening the conceptual and implementation capacities of these institutions in designing and executing the programme.

- 10) Establishing Cluster Working Groups (CWGs) is mainly responsible for facilitating linkages and formation and strengthening of horizontal and vertical linkages among the members of networks and between stakeholders to ensure joint actions.

4.3.4 Challenges to be Addressed by the Project

As the project has been placed to address the problems of MSMEs at the enterprise level, it was expected to have a direct impact on productivity, employment generation and poverty reduction. Specifically the project has been designed to address the following problems:

1. Institutional capacities are too weak to scale up services, particularly in the areas of training, technology, marketing and information.
2. Lack of entrepreneurial, networking and marketing skills at the enterprise level
3. Weak technical skills in the production of goods in the sectors addressed by the project, namely, handicrafts (such as, leather, textiles, and baskets), affecting quality, design and marketability.
4. Lack of horizontal and vertical networking and lack of public private sector dialogue that would enhance the development of the private sector (networking among public and private support institutions).

5. Limited access of Ethiopian products to domestic and international markets. It is widely recognised that, in addition to the aspects of product quality and marketing capability, rules and regulations for export are currently affecting the ability of small-scale producers to access export markets and of importers to operate smoothly.

4.3.5 Expected outcomes of UNIDO's Intervention

1. The institutional capacities of at least 5 ReMSEDA(s) will be strengthened through training.
2. The institutional capacities of ReMSEDA (s) and FeMSEDA will be strengthened in provision of marketing and technology information to entrepreneurs as well as providing the cluster based development services to enterprises in Ethiopia.
3. Networks among entrepreneurs and between entrepreneurs and institutions as well as networks among various skill upgrading institutions, trainers/resource persons such as Women Entrepreneurship Development trainers are strengthened and are efficiently functioning.
4. The entrepreneurial and marketing skills of 800-1000 entrepreneurs improved. Their operations are more efficient in terms of consistent quality and quantity as well as management. Tailor-made technical skill upgrading will also be provided for these entrepreneurs, where necessary.
5. A database for monitoring and impact assessment is in place with the main counterparts and is efficiently functioning.
6. Some of the beneficiaries have access to export markets (Critical assumption: export formalities have been made more favourable by the Government both to exporters and importers).
7. The Gullele Handlooms Clusters will be developed using UNIDO approach.

8. Industry-institution linkages are strengthened to support the flow of services to the clusters.
9. Capacities of MSME associations are built / strengthened.
10. An institutional mechanism exists for the training of cluster development agents in order to disseminate the cluster development and scale up the activities of the project for replication.
11. Agreement reached on the definition of Medium-Sized Enterprises.

Although the cluster-based approach is a relatively new approach to be followed in the development and growth of the MSME sector in Ethiopia, UNIDO planned to pursue this approach to address the listed constraints. The project also predicted large number of outcomes. To this end, UNIDO intervened in the sector by selecting four distinct clusters. These are the Gullele handlooms cluster, Merkato foot wear cluster, Addis Ababa ready-made Garment cluster, and Mekelle metal and wood work cluster. However, this study only concentrated on the analysis of UNIDO's effort or intervention in the Gullele Handlooms Cluster development intervention.

4.3.6 The Gullele Handloom Cluster Intervention Strategies

The intervention strategy envisages:

- “To evolve as preferred supplier of hand woven fabrics nationally and enter in the global market especially in home furnishing textiles market through, collaboration, continuous capacity building, and enhance collective efficiency”

The Cluster's intervention strategies as formulated by UNIDO in collaboration with FeMSEDA include the following important points:

- a) Creation of new and strengthening existing networks and enable them take joint initiative towards:
 - Creation and capacity building for specialized networks
 - Creation and capacity building for BDS facilitators and providers
 - Creation of raw material sourcing and common marketing consortia
 - Strengthening of existing networks

- b) Establish Linkages between weavers' cooperatives with input suppliers, loom and accessories suppliers, designers, training institutes, exporters and trading houses.

- c) Improving quality and productivity through
 - The use of improved looms and accessories,
 - Standardizing pre-weaving and weaving activities
 - Sourcing good quality raw materials collectively and
 - Skill up grading trainings on weaving, neatness, design, quality

- d) Women empowerment through skill and basic trainings.

- e) Product diversification and new product development that suit high end domestic and niche retailers in targeted export markets.

- f) Marketing support through:
 - Publicity and advertisement on Catalogues, brochures, leaflets, newspapers and magazines.
 - Buyer-seller meeting arrangements and participation in international and national trade fairs
 - Tailor made trainings to enable weavers improve their marketing and management know how
 - Link them with trading houses and specialist retailers in big cities
 - Establish information centre and common show rooms at good locations in the city
 - Brand development and image building tasks reflecting rich traditional skills and designs like "TIBEB"

- g) Building capacity of handloom related BDS and training providing institutes and orient the BDS providers to deliver tailor made/problem solving services to the handloom operators and other players in the handloom cluster.
- h) Finance related support through established sound business partnership with MFI and other financial institutes so that the weavers and other players in the cluster access to credit and finance smoothed and tailor made training on simple financial management and record keeping.

4.4 Critical Comment on the Project Document and the Achievements

In this section, the features of the Gullele Handloom Cluster before the cluster development intervention are explained followed by the critical evaluation of the documents reviewed.

4.4.1 Features of Gullele Handlooms Cluster before UNIDO's Cluster Development Intervention

The cluster has been faced with several constraints. As result, continued to stagnate in under-development and poverty. The major constraints inhibiting the cluster from realizing its potential include primitive loom technology which had very low productivity and limited diversity in production. Lack of product diversification to meet the changing consumer needs, lack of finance, poor quality of yarn supplied by the textile mills, non-availability of working capital, poor working environment, inadequate skills to work on modern products, and absence of BDS services with respect to technical and design matters are also considered as the major constraints to hinder growth and change.

Another challenge that has been identified to be addressed under this project is, the inadequate capacity of the MSEs support institutions to design and implement programmes of this nature on their own. According to UNIDO's baseline assessment, although some national and regional MSEs support agencies take cluster development programme up on their own, they need technical assistance in terms of training of the CDAs, exposure to international best practices and need-based support during

implementation of the programme. Such technical assistance would have been expected to enhance the implementation capacity of these agencies and thereby contributing to success and sustainability of the initiatives.

Overall, the problems to be addressed under the project had been very wide and complex. UNIDO believed that the cluster development programme, in combination with the activities to improve the institutional capacities in general and with the continuation of established training programme, provides appropriate conceptual framework and tools to address these issues on a cost-effective and sustainable basis.

4.4.2 Critical Evaluation of the Cluster Development Programme

Here the elements of the project document particularly those related to the Gullele handlooms cluster development are critically evaluated (UNIDO & FeMSEDA, 2005). The achievements of the project are also broadly evaluated only in the context of the handlooms cluster development under study focus. Accordingly some of the comments are presented as follows.

First, the information available regarding the pre-and post-cluster formation situations is insufficient. In the face of insufficient consolidated information it is not possible to assess the detailed impact of cluster-based approach to MSME development. However, the project is in line with the country's development strategy in general and with the poverty reduction strategy in particular.

Second, it is observed that the project document described well the planned interventions and was well aligned with the UNIDO cluster development approach at the time. The direct assistance provided at the cluster level was logically linked to the institutional outcomes of the project. But this has not been made sufficiently explicit in the project document. As a result only a limited set of activities and outputs (e.g. cluster mapping) have been built into the project to ensure learning and up-scaling beyond the clusters covered by the project.

Third, the cluster selection underestimated the relevance of adequate access to raw materials and intermediate inputs for the cluster economic performance. One consideration that could instead limit the sustainability of cluster development in the country is the little weight given to the scarcity of locally available inputs, and the ensuing heavy reliance on materials purchased from outside of the region. The selection of clusters deserving promotion and support should also reflect the cluster's sources of competitiveness, including access to good and reliable inputs.

Fourth, the cluster development implementation strategy is well spelled out in the project document. However, in the implementation process the following were identified as gaps.

- Undertaking a diagnostic study was the first step in the cluster development process. However, the study instead of taking a static view (being a onetime exercise), there was a need to revisit the existing situation continuously. This is because challenges in a cluster or in any business environment for that matter change over time. New challenges emerge as a result of internal and external environmental dynamics. This was the case for the Gullele Handloom Cluster. During the early stage of the cluster development, the challenges that were identified through the diagnostic study have changed. One example is the constraint of raw material becoming a critical problem for the cluster.
- As part of the implementation strategy, it was stated that a cluster working group (CWG) – a forum that brings all the actors in the cluster, core firms, support institutions, suppliers, buyers and other relevant institutions. This is a well supported approach in the literature. CWG may take different names such as 'Cluster Strategy Team'. This forum has the objective of enhancing efficient communication between cluster members. Such communication is envisaged to help the cluster mainly by addressing problems that may arise from time to time. However, such CWG or a team was missing in the case of the Gullele cluster

development initiative. The researcher learned the CWG was there for a very limited period at the early stage of the cluster development. Therefore, even the simplest problems in the cluster were not easily and promptly solved.

In general, the cluster development strategy took a static stance instead of being a continuous process. This is against the theoretical approach.

Fifth, access to local natural resources should be a critical dimension for cluster selection. In the absence of locally available inputs, a central element of the cluster development programme should target the improvement of access to materials and inputs, eventually by supporting joint actions and strengthening linkages with large firms even if they are not located within the cluster.

Sixth, regarding its achievements some of the expected outcomes that are related to the Gullele handlooms cluster were not realized. For example, the important element of cluster development, trust is not developed as expected in the plan. Also the creation of BDS providers was not also attained. The researcher observed there were no BDS providers who specialized in providing business management, and skill upgradation training facilities.

Finally, the technology used in handlooms cluster is not developed as indicted in the project document. The technology has remained traditional and backward.

CHAPTER FIVE

RESEARCH RESULTS

5.1 Introduction

In the previous chapter, the methodological approach adopted in this study has been outlined. This chapter in turn fundamentally focuses on the analysis of data gathered through this study and presentation of the research findings.

5.2 Ethiopia's Handloom Sector

The Ethiopian manufacturing industry is divided into three major groups (CSA, 2010). These are: large and medium scale manufacturing establishments engaging 10 or more persons and using power-driven machinery; small scale manufacturing establishments engaging less than 10 persons and use power-driven machinery; and Cottage/Handicraft manufacturing establishments performing their activities by hand (i.e., using non-power driven machinery). Handcraft is one of the most important segment of cottage based industries in Ethiopia through its wide spread employment creation, next to agriculture. Ethiopia, with its diverse ethnic background and natural resources endowment, is the home of rich heritages of crafts skills in general and hand-weaving in particular, playing an indispensable role in creating employment opportunities.

As part of the handicrafts heritage, the handloom sector constitutes the bulk of the informal sector and is an important source of livelihood for large number of people. As such, it is a very important industry for income generation both in the rural and urban areas. Clusters of small weavers, found in various parts of urban and rural areas of the country, are characterized by a tacit and non-codified knowledge system, which has evolved from generations in diverse and rich heritage of craft skills.

In addition to its huge employment creation, the handloom sector has strategic importance in the economic development of the country through its strong linkage with the agricultural sector and the potentials for having a progressive transformation into modern establishments. Despite this enthusiasm, however, the conditions at each isolated cottage industry are harsh: productivity and income are low, information and technical knowhow are poor often producing at best only simple products. The main challenge for the handloom sector is therefore, how to break out of the low level equilibrium trap and realize its potential of becoming competitive and play a major role in the development process of the country (Abdella, 2008).

5.3 Profile of Gullele Handloom Cluster

According to a survey conducted in 2003 by the Central Statistical Agency, there were 221,848 hand-weaving establishments of which 55% were located in rural areas (CSA, 2003). In Addis Ababa alone, there are some 70,000 households active in weaving of which more than 20,000 (29%) are found in the Gullele sub-city. Women in the cluster are estimated to be 39% while men constitute the remaining 61%.

As part of the MSE development strategy, the government has organized a number of weavers in cooperatives. In the Gullele sub-city, there are 85 weavers' cooperatives. Of these, some 17 cooperatives were selected for the cluster development programme as a pilot project. In total, these cooperatives have 318 members. The number of weavers in a cooperative varies from cooperative to cooperative. The minimum number of members in a cooperative is 20 while the maximum is 35.

The main products of the Gullele Handloom cluster can be divided into semi-finished fabrics and finished products. The semi-finished handlooms are usually channeled to the domestic garment factories for further processing. On the other hand, the finished products are divided into traditional clothes like '*netela*', '*gabi*', dresses (*kemis*), *Kuta*, sold mainly in the domestic market and for Ethiopians living abroad, and household and

furnishing products like bed linen, table linen, kitchen linen, window covering, bedspread, destined to the international market (MOTI, 2004). The following pictures show few of the household and furnishing products of Handloom sector.

Figure 5.1 Household Furnishing Handloom Products



Pillow Cover



Table Cover

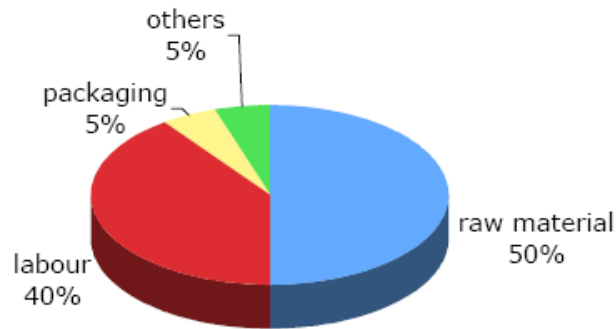


Window Spread

The Gullele Handloom Cluster is located in the northern part of the capital. The cluster is a skill based activity where the weavers' skill is the basic input. It is assumed to have evolved from long ago in line with the settlement of weavers from different parts of Ethiopia especially from the Southern part of the country. The weavers of the Gullele handloom cluster belong mainly to *'Dorze' and 'Gamo' tribes of South Nation Nationality and Peoples (SNNP) state and 'Merhabete' tribes of 'Amhara' state* in the northern part of Ethiopia.

The cluster contains most part of the value chain of the handloom sector starting from raw material sourcing until the final consumers at the end of the marketing channel are reached. Raw materials and labor take the lion's share of the product input as depicted below.

Figure 5.2 Cost Structure of Weaving Activity



Source: MOTI 2004

The main raw materials used in handloom weaving are cotton yarns for weft and different types and colors of threads for warp. The weavers name them as '*salaysh*', '*komitare*', '*china*' etc. The basic raw materials such as cotton yarns are manufactured locally, while threads are imported. The weavers are buying these raw materials from retailers, and even re-retailers.

In the cluster, weavers perform both individually, having their own looms and usually working in their homes, and being organized in cooperatives working under common shades. The production is most of the time processed using low technology. The following pictures show traditional loom machine.

Figure 5.3 Traditional Loom Machine



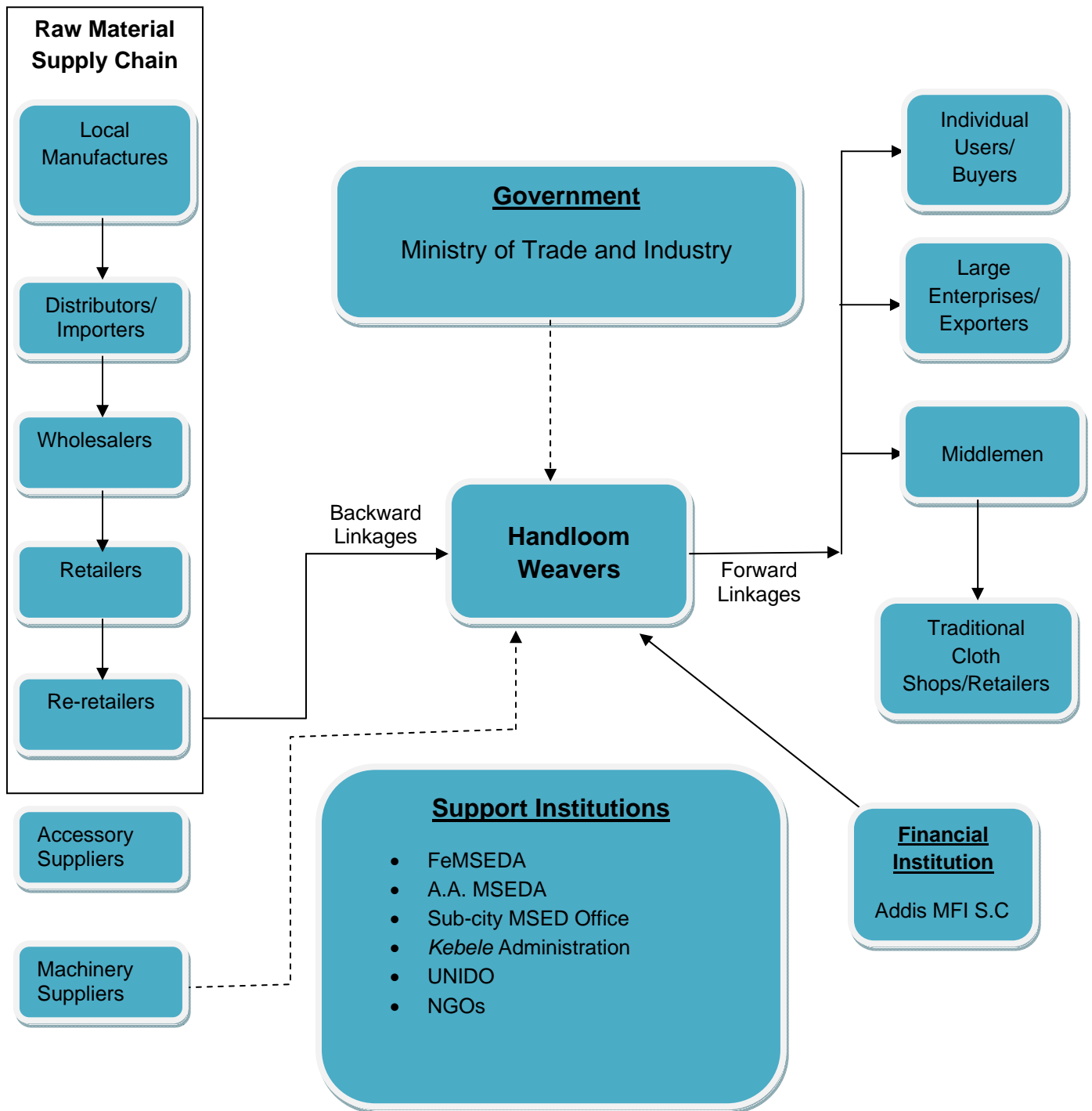
The Addis Ababa MSED A allocated G+4 building for some weavers' cooperatives to help them alleviate problems related to working premises. The 17 weavers' cooperatives that are embodied in the cluster development programme are beneficiaries of this privilege.

Figure 5.4 Working Premise



The Gullele handloom cluster involves core firms (weavers), various governmental and non-governmental institutions, financial institutions, suppliers of raw materials, individual customers and larger handicraft enterprises who buy handloom products, and NGO's operate within the cluster. At the macro level, there are Ministry of Trade and Industry. FeMSEDA also works in the cluster by facilitating the potential benefits of the latter and advocating a better policy environment to promote MSEs. Figure 5.5 on the next page clearly shows the marketing and institutional relationships between various stakeholders within the cluster.

Figure 5.5 Cluster Map of the Gullele Handloom Cluster



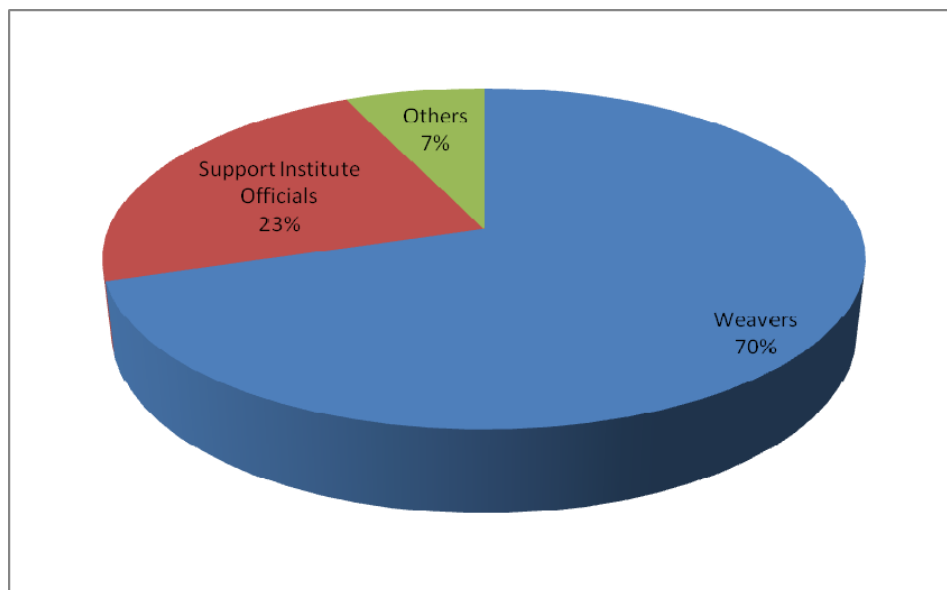
5.4 Biographic Information of Respondents

The total number of respondents for this study through interview was 57. There were cases where certain weavers and support institutions officials turned down the request for an interview. The major reasons they cited were either they were too busy or they did not recognize any tangible benefits for allocating their time for the interview. From the weavers side, this reason was valid because of the Ethiopian New Year and Msekel festives which is observed in the month of September. Support institution officials, in some cases, kept postponing the interview. In such cases, the researcher was forced to find alternatives.

Before embarking on the interview, the researcher clearly explained the objective of the study to each respondent. (See Appendix A, B and C)

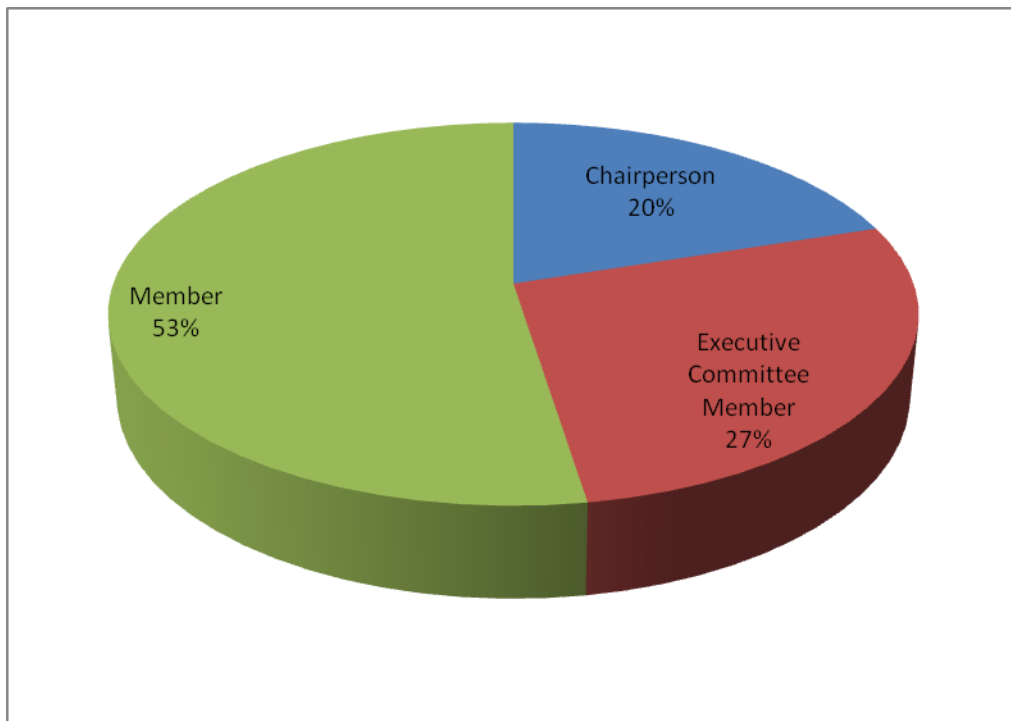
The respondents fall mainly under two categories: weavers and support institution officials. Few were from enterprises doing business with weavers. Of the total 57 respondents, 40 (70%) were weavers. While 13 (23%) were support institutions officials and 4 (7%) – two enterprise owners and two from spinning factories.

Figure 5.6 Respondents Category



In the case of weavers, 15 cooperatives were covered in this study, and 17 weavers' cooperatives were part of the Cluster Development Programme (CDP). There are three occupational classes in the case of the weavers' respondent: Cooperative Chairperson, Executive Committee Member and Member. Out of the 40 weavers interviewed, 8 (20%) of them were Chairpersons for their respective cooperative, 11 (27%) were members of the Executive Committee, and 21 (53%) were just members of cooperatives.

Figure 5.7 Occupational Category of Weavers in their respective Cooperative



Age wise, the weavers were between 35 - 57 years old. Ethnically, most of them (76%) were from 'Dorze/Gamo' tribe, from South Nation Nationality Peoples (SNNP) and the rest were from 'Amhara'.

5.5 Major Findings of the Study

In this section, the findings obtained from the semi-structured interview and focus group discussion held with core firms or weaver's cooperatives in the Gullele handlooms cluster and with key cluster development actors/support institutions are presented.

5.5.1 Recent Developments in the Gullele Handlooms Cluster

Through interview and discussion held with the weavers, most of them confirmed that the following recent developments were achieved as a result of cluster development intervention by a collaboration of Ethiopian government counterpart FeMSEDA and UNIDO.

1. Attitudinal (Behavioral) Change

Some weavers expressed that the cluster development made it possible for them to learn and enjoy the benefits of working together. Prior to the cluster development, although weavers were organized as cooperatives, there were not much cooperation and collaboration among them. Every weaver operated almost individually except being called a member of X Weavers' Cooperative. Through the cluster development initiative, employing trainings and awareness creation programmes, weavers have been made aware of the benefits of working together. As a result, they are reaping the benefits of joint action or working in groups.

However, the behavioral change is not always true for all the cooperatives that were embodied in the cluster development. There are still weavers who are members of the same weavers' cooperatives but have not yet developed spirit of coordination among themselves. For these weavers, the cluster development has little impact on their day to day weaving operation as it was expressed by them.

2. Networks

Some cooperatives established a business link with larger firms who are engaged in exporting traditional cloths and household furnishing items. These firms usually have bigger order size and they look for cooperatives with high production capacity and quality products. Vertical networking with one Tailors' Cooperative was also made possible. The Tailors' cooperative is expected to further process the weavers' semi-finished product into finished products. In doing so, smooth market networks are being created.

3. Marketing and Promotion

Weavers participate in Bazaars had ample opportunity to sell their product. The Bazaars also helped them create future market.

4. Trainings

Few trainings revolving around product development and marketing were given during the cluster development intervention. However, the weavers explained that the trainings were very short to help them acquire the knowledge they desire. They also said that the training lacks depth in giving the desired level of knowledge and skill. As a result, the benefits from the training were very minimal.

5. Other Developments

Other developments highlighted during the interview were:

- Significant efforts on product promotion both in the domestic markets and export market.
- Weavers have been able to improve their product quality.
- The cooperatives have got goodwill in the product markets.
- Development of trust between weaver's cooperatives, buyers and other parties involved in the cluster.

- The weaver's cooperatives realized the advantages of cluster development. That is, they were able to conceptualize the benefits of group action in terms of raw materials purchase, product supply, convincing stakeholders at various levels etc.

On the other hand, the two weaver's cooperatives in the Gullele handlooms cluster provided controversial response regarding the recent development in the cluster. These cooperatives argued that except few changes in terms of market promotion, there is no significant change in their cluster. This controversial view might be due to the existence of inequitable market share among different cooperatives in the cluster. It might also be an indication of insufficient level of benefits and networks that can satisfy all the cooperatives in the cluster.

5.5.2 Major Problems in the Cluster

Despite the cluster development efforts undertaken, a number of constraints were identified in the Gullele handlooms cluster. Some of the major problems of this cluster as per the views of weaver's cooperatives and support institutions are summarized as follows:

- 1. Persistent scarcity of raw materials:** There is critical input constraint in the Handloom sub-sector. The Gullele Handloom Cluster is not an exception. Though weavers get access to the purchase raw materials, the suppliers force them to purchase some unnecessary products adding up their production cost. To add new wounds to scar, there are few input suppliers engaged in the input market monopolizing the distribution of locally produced semi-finished cotton fabrics. These suppliers manipulate the price. Moreover, the existence of a large number of arbitragers in the input markets led to undesirable input price inflation. This problem in turn hampered the competitiveness of the weaver's cooperatives.

Apart from input shortage, there are also quality problems. Weavers are forced to use sub-standard inputs though not always.

The price increase of major inputs in recent years is shown in Table 5.1 below.

Table 5.1 Price Increase in Major Inputs in Recent Years

Item	Price before two years (Ethiopian Birr)	Price in Aug. 2010 (Ethiopian Birr)	Percentage Increase (%)
'Komitare' (cotton yarn)	5-6	75:00	1500
Wool	2.50	26:60	1064
'Salayish'	4.50	13:50	133

Source: Discussion with Weavers

As per the above table, a cotton yarn which previously costs between Br. 5-6, now costs 15 times more. This item is the main input in handloom products. Although the cost of production gets much higher as input price increases, the weavers cannot easily increase their selling price because they have very limited market access (low demand).

2. **Low working capital:** There is only one Micro Finance Institute to provide credit to Gullele handlooms cluster. As a result, the weaver's cooperatives still suffer from limitations of working capital. This problem of finance has also a direct implication on the production capacity of the weaver's cooperatives. For example, weaver's cooperatives are unable to make large purchase order of raw materials due to this working capital constraint.

3. **High instability of cluster actors:** the weaver's cooperatives in the Gullele handloom cluster considered the instability of cluster development actors as a third limiting factor within their cluster. Regarding this problem, a representative of one weavers' cooperative within the cluster further explained the issue by saying:

“Very often the sub-cities assigned a cluster development actor not more than for two consecutive months. They frequently shift these agents either by promotion or demotion to other places or duties”.

Therefore, this problem led to delays of actions, loss of trust between cluster actors and cooperatives, and poor commitment of cluster actors.

- 4. The absence of improved weaving machines:** although weavers in Gullele handlooms cluster are willing to enhance their productivity through purchase of small but relatively improved weaving machines, there is no supply of such improved machines in the domestic market. Concerning this problem, one respondent from the weavers' cooperatives particularly stated:

“The only difference between the weaving tools that have been used before the cluster development intervention and after the intervention is that the wooden made weaving tools were only changed with metallic frames without any improvements”.

This particular improvement has made the weaving tool easily portable. However, there was no change in productivity as a result of this minor improvement. Hence, weavers are forced to depend on poor technology weaving tools.

- 5. Failure of loan repayment by some members of the cluster:** In any cluster development programme, a reasonable interest bearing loans are considered as essential element for the success of the cluster development efforts. However, in Gullele handlooms cluster, the failure of loan repayment discouraged financial institutions to supply this element to the cluster development. As learnt from the interviews with weavers, only two cooperatives started loan repayment so far although the credit was given long ago.

6. Problems with regard to support institutions: Although key actors/support institutions have tried to invest lots of efforts to the development of the Gullele handlooms cluster, weaver's cooperatives reflected the following problems of these institutions:

- a) Sub-city administration favoritism among cooperatives within the cluster.
- b) The key actors of the Gullele handlooms cluster development are not action oriented that is failure to implement their plan on the right time.
- c) High instability of resource persons in support institutions. This delays the successful implementation of the cluster development plan.
- d) Duplication of efforts. For example, the sub-city administration organizes too many trade exhibitions or bazaar. In the absence of ample production such efforts are considered to be extremely undesirable and wastage of resource and time.
- e) The key actors of the cluster development programme ignore priority issues. For example, they ignore the issue of raw materials constraint in their strategic plans.

7. Other problems: The respondents from support institutions were also asked about the major problems that exist in the Gullele handlooms cluster development initiative. As observed from their response, absence of strong horizontal and vertical networks, lack of trust at various level, serious raw materials scarcity, and the use of traditional production technique and technology are found to be some of the major problems of the Gullele handlooms cluster development. Moreover, they argued that even though the Gullele handlooms cluster has a vision, it is not communicated and shared very well amongst relevant actors.

An official at sub-city level expressed problem of awareness and behavior in the weavers. He said:

“The weavers have poor working culture; if one weaver has little money in his pocket, he would stop working for the days to come until he

finishes that money and became empty handed. Weavers' level of awareness towards work is very low. Much effort is needed to bring attitudinal and behavioral change. They have no tendency of working as a group because of lack of trust.”

During the focus group discussion, a participant from one of the Micro-Finance Institutions (MFIs) confirmed that the weavers' cooperatives have taken a loan, amounting 2.2 Million Ethiopian Birr so far. Part of this loan was released as a working capital while the remaining balance was sought to be used for the purchase of improved weaving machines. However, the supplier defaulted to provide the improved weaving machines to the weaver's cooperatives due to price changes and other problems associated with machine specification after effecting advance payment. Following this, a deadlock has prevailed between the MFI and the weavers' cooperatives regarding loan repayment of the money disbursed for the purchase of the improved weaving technology. The weavers have not as yet received improved weaving machine. In other words, part of the loan the weavers' cooperatives are now being asked to repay is with the supplier. Consequently, the MFI is reluctant towards giving further credit to the weavers.

8. Strategic and managerial challenges: The focus group discussion with the support institutions also enabled the researcher to identify the following strategic and managerial challenges faced by Gullele handlooms cluster.

- Lack of shared vision
- Shortage of basic management, accounting, administration and marketing skills
- High turnover of support institution personnel
- Presence of vision killers (negatively affected actors in the cluster). These are particularly middle men in the input market (arbitragers) whose roles are nullified if weavers were able to establish strong networking and be able to order bulk purchase directly from manufacturers.

- Inadequate knowledge about cluster and cluster development amongst higher level officials especially in the support institute.
- Poor saving culture
- Failure to repay loan
- High member turnover in Weavers Cooperatives. This consequently affects loan repayment because loan taken by previous member is left pending. As a result, this will prevent the MFI from providing further loan.

9. Observed problems: In the course of conducting the study, the researcher also observed the following business problems in the weaving operation. First, the weavers have information constraints especially regarding input sources and market (spinning factories, new fashion, changing customer preferences and the like). This information gap is created by the very nature of the weaving task. Weaving is excessively time intensive activity which takes significant portion of the weavers' time. The weavers, therefore, have almost no time left to gather information about both input sources and the market which are crucial to the sub-sectors competitiveness. This problem also eroded the weavers' capability of innovation since they spend much time on their daily routine.

Second, such information gap and innovativeness can be attributed to the absence of specialization (division of labor) in the weaving operation. For example, the weavers have no marketing or procurement personnel. The whole weaving operation is done by individual weavers mainly due to lack of capacity.

The other less serious problems in the Gullele handlooms cluster includes, unfair profit distribution in some cooperatives, seasonal disintegration between different weaver's cooperatives, and absence of water and electricity supply in the working building.

5.5.3 Suggested Solution in views of Weaver's Cooperatives

A) For the Problems in the Cluster

With the help of the interview and focus group discussion, the study also attempted to suggest tentative solutions for the aforementioned problems of the Gullele handloom cluster. Accordingly, the possible solutions forwarded by the weaver's cooperatives are summarized below.

1. Greater emphasis should be given to create strong linkage between weaver's cooperative and raw material producing companies.
2. There have to be sufficient amount of credit and/or revolving fund. This might enable the cooperatives to make purchase of large size of raw materials. In other words, this financial support empower the cooperatives to met the minimum purchase order quantity set by the raw material supplying factories.
3. Again related to the input problems, the cooperatives also suggested direct government intervention in the input markets through quota or rationing system.
4. In order to improve the existing weaving tools, there must be much effort to adopt and distribute improved weaving machines.
5. Regarding failure of loan repayment, the weaver's cooperatives recommended the development of working groups between the financial institutions and the cooperatives. This might help to control failure of loan repayment.

B) For the Problems in the Cluster Actors

Of the 40 weavers interviewed, only 15 weavers tried to suggest the remedies to the aforementioned problems of key actors of cluster development (in No. 6 above). Accordingly, the suggested remedies are summarized as follows:

1. The sub-cities should organize a reasonable number of trade exhibitions or bazaar. For example, twice a year.
2. Cluster actors should avoid over ambitions plans and promises. This is because such problems are major factors that erode trust between weaver's cooperatives and cluster development actors.

3. Moreover, cluster actors should be action oriented. This is another important element which helps to develop trust between weaver's cooperatives and cluster development actors.
4. Equal and fair treatment to weavers' cooperatives should prevail especially at sub-city level.

5.5.4 Information Sources and Types in Gullele Handlooms Cluster

The study also attempted to find out the sources and types of information accessible to the cluster under study. Accordingly, in this information era although information is crucial for any business community, it was observed that the Gullele handlooms cluster is left behind.

Of the eight cooperatives interviewed, it is only one weaver's cooperative (i.e. Selam Teramaj) that had three selected representatives to search information about new product designs, the demand situation, and availability of raw materials in the domestic markets. On the other hand, the rest of the cooperatives in the cluster do not have any information acquiring mechanism. It is also argued that sometimes little information about market, training etc is obtained from sub city administration. However, the sub-city provides this information through favoritism.

5.5.5 Entry/membership Requirements set by Weaver's Cooperatives

Concerning the requirements to be a member of weaver's cooperatives within the Gullele handlooms cluster, certain rules are set. These includes the new comer to the cooperative must have good skill of weaving and willing to pay an entrance fee ranging from birr 80 to birr 600. And he/she is forced to participate in saving of 10 % of members income as a sort of retained earnings. However, these rules vary from cooperative to cooperative within the same cluster.

5.5.6 Weaver's Cooperatives Linkages

Ideally, the objectives of any cluster development initiative are enhancing vertical and horizontal linkages of cooperatives, and achieving sound relationship with the business communities. In this regard, the existing reality in the Gullele handlooms cluster is found to be far from the predicted.

According to the information obtained from the case study, the cooperatives in the Gullele handlooms cluster have developed a certain level of horizontal linkages with other weaver's cooperatives within the cluster. However, their relation or linkage with other suppliers, traders, large firms, and Business development services providers is not remarkable. More surprisingly the weaver's cooperatives do not have any linkage with input producing companies.

5.5.7 Responses of Support Institution and Enterprises Doing Business with Weavers

1) Conceptualization of Cluster and Cluster Development

Through a focus group discussion and interview, the study attempts to learn cluster actors especially support institutions conceptualization of cluster and cluster development. According to their response, support institution staffs that have direct responsibility for the Gullele Handloom Cluster are very well aware of the terms cluster and cluster development. In their response they have highlighted major components of cluster such as geographical agglomeration and concentrations of enterprises producing similar or complimentary products faced with common threats and opportunities. The presence of input suppliers and support institutions were also connoted.

One respondent said:

“I understand cluster as sectoral and geographical agglomeration of similar firms. I would also extend the notion of cluster include business development service providers, suppliers which are not necessarily located in the same place. And of course there must be interaction amongst this group of firms.”

The respondents also explained accurate understanding of the cluster phenomena amongst high level officials in the MSEs development domain is very limited. These are executives who make decision, allocate resources, assign personnel regarding the specific cluster and have direct impact on the cluster development.

2) Critical Conditions for a Cluster

A further discussion was also made on the critical conditions to be present for cluster to exist. In this regard, the representatives of support institutions considered the presence of critical mass of enterprises producing similar products and their proximity to each other as critical conditions. They also confirmed that these conditions are found in the Gullele handlooms cluster. For instance, according to their response over 40,000 weavers producing almost similar products existed in Gullele handlooms cluster.

During the discussion, the representatives of support institutions were also asked to mention at least three important elements that are needed for handlooms cluster development. Accordingly, all the participants of the discussion argued that cooperation among individual weavers as well as among weaver's cooperatives, strong trust and shared vision, the existence of valuable linkages with other enterprises, innovation towards product development and institutional changes are some of the success factors that are considered as cornerstone for handlooms cluster development.

In conclusion, this chapter analyzed data that was generated through semi-structured interviews, focus group discussion, observation and other data collection methods that were utilized in this study. In the next chapter, discussions, conclusions drawn from the study are highlighted and recommendations are proposed.

CHAPTER SIX

DISCUSSION, CONCLUSIONS AND RECOMMENDATION

6.1 Introduction

In the previous chapter, a cogent analysis of data gained from interviews and discussions with different respondents was presented. This chapter provides a broad discussion and summation of concluding remarks about the study as whole. It also presents specific recommendation to plot the way of cluster development in general and the Gullele Handloom Cluster in particular.

6.2 Discussion

In order to identify the essential success factors to cluster development particularly for Gullele handloom cluster development, triangulation methodology was applied. This implies that the researcher has employed various methods to discuss and interpret data from different sources. During data collection, the researcher included core firms, support institutions at various levels, CDA, and other related companies. Therefore, based on the results obtained from the semi-structured interview, focus group discussion, observation and other data collection methods from the aforementioned cluster development actors and core firms (weavers), the ensuing section presents the discussion on the role of weavers' cooperatives, the form and role of leadership in the cooperative, the benefits of cluster development and success factors for Gullele Handloom Cluster.

6.2.1 The Role of Weavers' Cooperatives

Basically, the cooperative within the Gullele handlooms cluster were formed to achieve some favorable objectives such as to ensure product uniformity, to avoid undesirable competition, to realize joint action advantage such as economies of scale, to improve productivity, to become winner in the global market, and strengthen their social and economic integration.

However, the reality in Gullele handlooms cluster is quite a reverse. That is the contribution of the weaver's cooperatives to the development of the cluster was found to be minimal. The members within the cooperatives do not have trust amongst themselves. As a result, the cooperatives could not achieve their desired objectives.

6.2.2 The Form and Role of Leadership

Ideally, successful clusters are often associated with strong leadership, either from individuals or institutions. Industry leaders can be crucial for dealing with constraints, assisting in enhancing collaboration, developing a shared vision and acting as 'champions' for the future strategy of the cluster. Strong civic leadership can help to foster a 'collaborative advantage' too by raising mutual awareness of local strengths and a shared vision for business growth. Leaders are typically people committed to a local area, perceived as having a high degree of influence and able to cultivate interactions between cluster stakeholders.

In line with this, based on the information obtained through the interviews and focus group discussion with weaver's cooperatives, the existing form of leadership practice in Gullele handlooms cluster is dominantly a form of participative leadership. Besides, in order to support the top leaders in the cooperatives, the members of the cooperatives nominate additional work facilitating committees. Moreover, the active working period of these leaders and work facilitating committee lasts for two to three years only.

6.2.3 The Benefits of Cluster Development

Based on this short case study, it was observed that the majority of the cooperatives within the Gullele handlooms cluster did not realize the benefits of cluster development. However, for the rest of the cooperatives, though the majority of expected benefits of cluster development were not realized, some benefits of the cluster development were identified. Accordingly, some of these benefits of cluster are summarized below:

1. The development of linkages among cooperatives within the cluster.
2. Making communication between cooperatives easy.
3. Leading to better working environment.

4. Enabling cooperatives to take group action.
5. Creating a medium to share skill and experience among cooperatives.
6. Creating an easy ground to provide training and disseminate information.
7. Promoting the goodwill and bargaining power of cooperatives.

6.2.4 Success Factors

The following essential success factors of cluster development were identified.

1. Trust

Trust is found to be the first basic, critical success factor to Gullele handlooms cluster development. In this particular case study of the Gullele handlooms cluster development, it is observed that trust should exist at least in three forms.

- I. Considerable level of trust must exist among cluster actors.
- II. Trust is also required to exist between CDA and the core firms (weaver's cooperatives).
- III. Finally, trust should exist among the members of core firms (among weavers).

In a nut shell, the case study of the Gullele handlooms cluster development showed that this critical success factor (i.e. the existence of trust as the above three form) is a missing element.

2. Stability of Key Actors of Cluster Development

This implies frequent changing of representatives cluster actors possibly hampers the success of the cluster development. To this end, the case study showed that the Gullele handlooms cluster development programme has suffered a high turnover of cluster actors particularly the representatives of MSE development agencies.

3. Knowledge of the CDA and Key Actors about Cluster Development

This implies that the CDA and the key actors should have enough knowledge and understanding of the essential steps, elements, considerations, and approaches of cluster development. In this regard, the case study showed that some of the key actors involved in the Gullele handlooms cluster development were involved without the basic knowledge of cluster development.

4. Avoiding Vision Killers

Prior to cluster development intervention in the Gullele handlooms cluster, there had been dominant free riders in the natural cluster. These individuals abused the poor weavers by providing credits with very high interest rate, and by exercising monopoly power in raw materials supply channels. However, the Gullele handlooms cluster development intervention inhibits the power of these free riders. As a result of this, these people became a vision killer to the cluster development programme. In other words, these individuals run against the success of the cluster development programme. Therefore, avoiding such vision killers is a success factor in cluster development.

5. The Existence of Functional Networks

This case study of Gullele handlooms cluster has also singled-out the existence of functional networks as a critical success factor in a cluster development. To this end, although the handlooms cluster under consideration have developed certain horizontal networks (i.e. work linkage with other weavers cooperatives within the cluster) and vertical linkage (i.e. linkage with few large trading companies), it is found to be very limited and insufficient as far as a successful cluster development is concerned.

6. Adequate Physical Infrastructure

One of the contributing success factor identified from this case study is availability of adequate physical infrastructure. In this regard, the Gullele handlooms cluster development package has been supported by the existence of multistory working premise which is provided by the government of Ethiopia. That is the cluster has a multi-storied building which accommodated many weaver's cooperatives.

However, within this building (working premise) the essential internal infrastructures such as electricity and water supply are totally missing. Therefore, according to this case study of the Gullele handlooms cluster development; these missing elements of physical infrastructures were found to be significant constraints to this cluster development effort. For instance, the weavers were not able to work extra hours at night during peak season such as holidays and wedding season where the demand grows.

7. Availability of Raw Materials

Although the existing literatures on cluster development put this aspect as a contributing factor, for the Gullele handlooms cluster development it is found to be a critical factor. As shown in Figure 5.2 (cost structure of the weaving activity), raw material took the lion share of (50%) the cost of weaving operation. This being the case, any constraint in the input (shortage or continuous price increase, please see Table 5.1) is detrimental for the cluster.

From interviews and focus group discussion, it is observed that the availability and the sustainability of raw material supply is a crucial success factor that has to be considered before embarking to cluster development. In this regard, the study also found that the Gullele handlooms cluster persistently suffered from raw material shortage. This, in turn, significantly affects the development and sustainability of the existing networks.

8. Access to Finance

Theoretically access to finance (i.e. access to credit) is assumed to be a contributing success factor in any cluster development. However, as far as the Gullele handlooms cluster development is concerned access to finance is found to be a critical success factor.

Based on the case study, although the weavers cooperatives in the Gullele handlooms cluster have access to certain amount of credit, it could not enable them to make large purchase order of raw materials. This constraint of the finance obviously hampers the production capacity of the weavers in the cluster.

9. Production Techniques and/or Technology

In line with what has been presented in the theoretical framework, the study found that production techniques and/or technologies as a contributing success factors to cluster development.

In this regard, the existing equipment and tools in the Gullele handlooms cluster are totally manual, no use of electrical weaving machines. Therefore, in a globalized era where competition in every aspect is stiff, it is unattainable to achieve the expected goals of cluster development in the absence of technological change.

10. Market Promotion

In line with the theoretical argument, market promotion both at domestic and international level is found to be a contributing success factor in cluster development. To this end, Gullele handlooms cluster showed that the domestic market promotion seem to be over ambitions and does not consider the production capacity of the weavers in the cluster. In simple terms, the market promotion efforts particularly at the sub-city level are much larger than the production efforts. Thus, in order to achieve the required goals of cluster development, only a reasonable rate of market promotion is required.

11. Cluster Actors

The researcher observed in the Gullele Handloom cluster map (see Figure 5.5) there are missing cluster actors which is against the literature. In the cluster map, the research community is missing in case of Gullele handloom cluster. This is a critical gap since the research community is important cluster actor in infusing technology and other innovative ideas to the cluster to ensure competitiveness.

There were also no Business Development Service providers who are key actors in MSE clusters. These BDS providers mainly engage in providing technical assistance. Both technical and business skill development (training) facilities were not available for the cluster.

6.3 Conclusion

The new multistory working premise built by the government of Ethiopia laid a ground for cluster development initiative. Following this cluster development intervention, some achievements are observed in Gullele handlooms cluster. To name but a few, networks were developed between the weavers' cooperatives and large firms. Trainings on different topics were offered to the cooperatives within the cluster, and the weavers cooperatives conceptualized the benefits of join action. However, these efforts and the recorded developments alone could not lead this cluster development intervention for the realization of the expected goals.

The initial coordination and trust among key cluster actors (support institution involved in the cluster development) have diminished rapidly at the initial phase of the intervention due to instability of these cluster actors. Moreover, all the required cluster development actors were not involved in the Gullele handlooms cluster initiative. For instance, the Addis Ababa chamber of commerce, and academic and research communities were not part of this cluster development as needed.

The existing few networks are not all rounded. Particularly the weaver's cooperatives were not developed functional networks with raw material suppliers. In line with this, the persistent scarcity of raw materials as well as the existing long input market channels have hampered the success of the cluster development significantly. However, the measures taken to alleviate this input supply problem are found to be negligible.

Thus, the Gullele handlooms cluster development intervention has not been able to change the existing major constraints within the cluster.

6.4 Recommendations

To conclude this study, the following recommendations are proposed as a basis of developing the Gullele Handloom Cluster.

6.4.1 Structural and Framework Recommendations

Since the cluster development approach is a new practice in Ethiopia, it may take some time before it is materialized accurately. Having this in mind, the cluster development programme should be adequately institutionalized among the various cluster actors. Various awareness creation meetings and workshops need to be conducted to instill the approach amongst the cluster circle. Likewise, action may be taken to ensure that there is less staff turnover in the MSEs development agencies, especially in the public sector, who are in charge of implementing the cluster development. To meaningfully retain a number of highly demanded experts, incentives, benefits and other related retaining mechanisms need to be devised.

Still much effort is desired towards the development of trust among weavers' cooperatives, among key cluster actors, and between weavers' cooperatives and different cluster actors to bring cooperation and realize the benefits of joint action. This is important to the cluster sustainability and competitiveness.

In order to achieve the goals of cluster development, the government should develop a stable and trained Cluster Working Group (CWG) that comprises all the relevant cluster development actors. Such a forum will help bring the weavers, the support institution and the value chain participants altogether and create a platform to narrow the communication gap between actors. This CWG or arrangement should work in the cluster by facilitating the potential benefits of cluster development for MSEs. It should also do an advocacy towards the betterment of the policy environment to promote the cluster development initiative. The group should nurture both vertical and horizontal networks such as marketing and institutional relationships between various stakeholders in the cluster through regular and organized meetings. This will also serve as a place where the core firms can discuss their common problems and issues. This will ultimately makes it easier to implement joint appropriate project activities.

Intensive and practical training in basic management, accounting and marketing is also needed to bridge the weavers' knowledge gap. Awareness creation and behavioral change programmes are also necessary to improve productivity and the cluster competitiveness.

In the long-run, the establishment of weavers association or federated institution that encompass the individual weavers' cooperatives is necessary. The association can pronounce the weavers challenge in a louder voice to get the appropriate attention and solution. One simple instance of the benefit of such an association is the that weavers' can easily place large raw material order with spinning factory where it was not possible for a single weaver's cooperative. The existence of such an association/union will also play a role in chasing out the '*Vision Killers*' in the cluster.

In addition to other challenges, absence of internal infrastructure like electricity and water supply has worsened the already low level of productivity of the weavers. Therefore, utility problems should be addressed appropriately by the relevant MSEs development agencies in order to give a lasting solution to the problem.

As indicated in the discussion section, some prominent institutions such as the research and academia community are not on board in the cluster circle of the Gullele Handloom Cluster. This is believed to have an adverse effect in the level of technology transfer in the specific sector. Technology and innovation, however, are major success factors for the cluster. Therefore, the active involvement and engagement of these cluster actors cannot be overemphasized. They do have a role in improving the production technique by adopting and developing new and improved weaving machines and enhance the weavers' productivity. Moreover, tailor made innovation training could be developed by the academia to help the core firms become more competitive.

Improvement in the provision of credit facilities should also be considered. Currently, there is only one Micro Finance Institution (MFI), which provides credit to the weavers with limited capacity. Immediate corrective measures should be enforced to address

the daunting loan repayment problem. In the future, better credit management practice should be implemented by the MFIs to avoid similar loan repayment defaults. Continuous follow-up and training to raise awareness about loan and its subsequent repayment from the MFIs are necessary ingredients for success.

Also there are issues at policy and macro level that should be addressed.

6.4.2 Policy Implications and Recommendations

The Gullele handlooms cluster development intervention has been basically skill based intervention. It did not consider the resource base of the cluster particularly the availability of and sustainability of raw materials. Hence, it is advisable to undertake intensive assessment of the resource base of the specific sector before embarking to cluster development. In this regard, the government should also revisit its selection criteria for cluster development.

Basically, there are two main sources of raw materials for the handloom sub-sector. These are either local manufacturers or importers. However, as it was depicted in Figure 5.5, input market is characterized by longer chain where number of intermediaries creates various market adversaries. Regarding this input constraint, thus, remarkable efforts have to be made to develop functional network between weaver's cooperatives and spinning factories. Besides, additional work should be done to increase the country's cotton production. Appropriate incentives should be allocated to motivate private investors to develop both cotton farms and spinning factories who ultimately serve the local market.

Finally, the government and the donors involved in the Gullele handlooms cluster development initiative should continue their support at least until the removal of the major challenges of the cluster. Moreover, they should create favorable micro and macro environment prior to being out of the game.

6.4.3 Further Research

This study tried to identify success factors in the MSEs cluster development. The findings revealed that there is a minimum level of coordination and integration between the cluster actors. Further research is evidently desirable to identify policy interventions that would help cluster actors work more closely, coordinate their efforts and to enhance the cluster development processes. An assessment may also be made to diagnose the viability of the cluster development approach to MSEs on the basis of empirical evidence and to draw important lessons or experiences from other developing countries. Such further research may also aim to propose institutional mechanisms to coordinate the development approach among various MSEs development agencies.

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Appendix A

Dear Respondent,

I am an MBL student at UNISA-SBL. As partial fulfillment of the MBL courses, preparation of thesis report is required.

To this end, I am conducting a research on MSE's cluster development. The objective of my paper is to closely analyze strategic and managerial challenges which exist in the cluster development initiatives by taking the Gullele Handloom Cluster at Addis Ababa as a case study and seek ways how to overcome these challenges. It will also evaluate the gaps that are present in the current cluster development. Finally, based on the findings, the study will recommend a suitable solution on various aspects of cluster development framework in Ethiopia and also propose the necessary policy framework for cluster development.

As part of this research, I kindly request you to be the research participant considering your valuable knowledge about the Gullele Handloom Cluster. Your answers will be kept strictly confidential and will be used only for the stated purpose.

Thank you for your time and effort!

Hanna Ketselamaryam

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**Semi Structured Interview Sheet
Core Firms – Weavers/Cooperatives**

Part I: Background Information

1. Name of the Weaver and Cooperative: _____
2. Date of establishment: _____
3. Membership size: _____
4. Date of visit: _____
5. Contact details of respondent: _____
6. Level of education: No education Primary Secondary
7. Gender: Male Female
8. Age: _____

9. Types of their engagement: full-time part-time

10. Main product:
 Clothing: _____
 Household and furnishing textiles: _____

Part II: Questions

1. List the most important three recent development/improvements since the cluster development? _____

2. Who are the key players (agents) for these improvements?
 NGO: _____
 Government: _____
 Others: _____

3. List the five major problems in the cluster in their order of severity? _____

4. What are your recommendations to solve the above problems? Suggest solutions by type.

5. What are your sources of information regarding (raw material, production, designing, market, technology, finance, training, legislation.....) ? _____

6. What is the role of your Cooperative? _____

7. What is the requirement to become the member of the Cooperative? _____

8. What form of leadership do you follow?

Participative (decision is made collectively)

Autocratic

Others, please specify _____

9. Do leaders change from time to time? Yes No

If yes, How? _____

If no, why not? _____

10. List the major benefits of the cluster _____

11. Do you see any problem in the support institutions that make up the cluster?

Yes No

If yes, List the three major institutions? _____

12. List three main recommendations to strengthen these institutions?

13. What kind of business relationship you have? Please list the name of the institution and the type of business relationship.

Other weavers: _____

Suppliers: _____

Traders: _____

Larger firms: _____

Business Development Services (BDS): _____

Support institution: _____

Others _____

14. Are these relationships useful to address the problems you mentioned in

Question No. 3 earlier? Yes No

If yes, please explain how? _____

15. If no, what additional networking (relationships) are necessary? With whom to solve what?

16. Any other comment? _____

Appendix B

Semi Structured Interview Sheet Enterprises Doing Business with Core Firms

Part I: Background Information

1. Name of the person : _____
2. Name of organization: _____
3. Contact details of respondent: _____
4. Date of visit: _____
5. Level of education: _____
6. Gender: Male Female
7. Age: _____
8. Form of organization and ownership: _____
9. Experience (in years): _____
10. Main product: _____

Part II: Questions

1. What is the nature of your relationship with weavers? _____
Input supplier Output buyer Other
Please specify: _____

2. Volume of transaction/annum: _____
3. How was this relationship established? _____

4. How is it going? (getting weaker/stronger, positive/negative) Why? _____

5. What is the main motivation for these business relations?
 Low cost Convenience High quality Other Please specify: _____

6. Do you see opportunity for further relationship/cooperation?
Yes No
If yes, what are they? _____

7. What is needed to establish further relationship? _____

8. What main problems are experienced in relationships/networks? List the three major problems: _____

9. What are your recommendations to solve these problems? Please suggest solution by problem type:

10. Any other comment? _____

Appendix C

Semi Structured Interview Sheet Support Institutions

Part I: Background Information

1. Name of the person : _____
2. Name of organization: _____
3. Contact details of respondent: _____
4. Date of visit: _____
5. Level of education: _____
6. Gender: Male Female
7. Age: _____
8. Form of organization and ownership: _____
9. Area of support: _____
10. Date of your engagement in the cluster development: _____

Part II: Main Questions

1. What is your understanding of the concept of cluster and cluster development?

2. List critical conditions to be present for cluster to exist? _____

3. Do you think such conditions exist in the case of Gullele Handloom Cluster?

4. In your opinion, what are the three critical success factors for the handloom cluster? _____

5. What is the role of your organization towards the Gullele Handloom cluster development? _____

6. Do you think your organization is contributing accordingly?
Yes No

If yes, what are the contributions? _____

If no, what are the impediments/reasons _____

Reason 1: _____

Reason 2: _____

Reason 3: _____

7. Does the Gullele Handloom cluster have a shared vision?
Yes No

If yes, what is it? _____

8. What are the targets of the CD in the case of the Gullele Handloom? _____

9. What are the strategic and managerial challenges faced by Gullele Handloom cluster? _____

10. List recommendations to solve these problems? Please suggest solutions by problem type?

11. Is there any form of forum that brings your institution and other relevant institutions together to tackle the specific cluster challenges?

Yes No

If yes, How often such forum is held? _____

12. How are these outcomes implemented? _____

13. Any other comment? _____

Appendix D

Focus Group Discussion Themes

The purpose of the focus group discussion is to increase understanding of the Gullele Handloom Cluster Development. This is done by way of bringing together the various stakeholders in the cluster. The main themes of this focus group discussion are:

- 1) Introductory Questions (What is the current situation of the Gullele Handloom Cluster?)

- 2) Understanding of major challenges and barriers in the cluster

- a. What are the major barriers and challenges in the Gullele Handloom Cluster Development

- 3) How can these challenges and barriers be addressed?
