

FOOTWEAR CLUSTERS IN ADDIS ABABA: IMPLICATIONS FOR CLUSTER-ORIENTED SME DEVELOPMENT POLICY

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Abstract

This paper examines the footwear cluster in AA and hopes to derive policy implication for cluster-oriented SME development policy. The basic premise of the paper is that clusters, rather than individual firms, have potential for growth. Qualitative case study design and quantitative approaches based on a survey were used to generate data. Six cases, three from micro-enterprises and three from small and medium enterprises were selected. In addition, a total of 96 enterprises (66 micro-enterprises and 30 small- and medium-enterprises) were randomly selected from a census of enterprises conducted in three kebeles of AA. Un-structured and structured questionnaires were used to elicit information from the enterprises.

The study found out that the cluster is characterized by low availability of skilled labor, high labor turnover, poor training and upgrading capability. The cluster, however, provides intermediate inputs for producers in the form of special services. Inter-firm cooperation among firms is mainly limited to information exchange, sub-contracting of production cycle and output is limited as most firms have internalized the production cycle vertically in an integrated manner. The institutional support and the business environment the footwear cluster face are not conducive.

The study proposes that in order to bring a cluster-oriented development, there is a need to facilitate the development of external economies, promoting linkages between firms, strengthening external network and shoe producers associations, promoting existing and potential market linkages and improving the institutional and business support systems.

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1. Introduction

The Ethiopian footwear industry is composed of mechanized (large) and micro, small and medium firms (UNIDO and Ministry of Trade and Industry, 2005). The mechanized or large enterprises number about a dozen. The number of medium, small and micro enterprises however is not exactly known though various estimates exist. For instance the leather master plan estimates that, there are a total of 75-140 units of small and medium enterprises and a total of 400-500 informal units (UNIDO and Ministry of Trade and Industry, 2005). Knorringa and Pegler (2004) estimate the number of informal sectors to number about 400. Most of these firms are found mainly in the capital city, Addis Abeba. These industries cater for highest level of employment, satisfy local demand and operate in a naturally (spontaneously) established cluster. In addition, the industries are heavily subjected to Chinese imports. The fact that the industries operate in a cluster provides opportunities to become competitive in the domestic market and create a potential to enter the global market. The nature of the cluster and the support it gets, however, determine the potential to work as a dynamic cluster and spearhead development.

This paper examines the nature of the footwear cluster in Addis Abeba and the institutional and business support available to the cluster with the view of assessing its potential to become a dynamic cluster. More specifically it attempts to derive policy implication for cluster oriented SME development policy.

The study uses a combination of qualitative case study design as well as quantitative approach based on a survey. In conducting the case studies, information-rich case studies are purposefully chosen from entrepreneurs who are willing to volunteer information for more in-depth study. Key informants in the main study area were used to obtain potential case studies. Accordingly six cases, three from micro enterprises and three from small and medium enterprises were selected. An in depth-interview using unstructured checklist was carried to study firm level processes, activities and actors.

The survey is aimed at deriving a cross-section view of the micro, small and medium enterprises concerning entrepreneur and enterprise characteristics, firm relation and perception among other. In total 96 enterprises were surveyed. Of these, 66 are micro enterprises and 30 are small and medium enterprises. Enterprises up to 15

workers are designated as micro enterprises. This follows Knorringa and Pegler (2004) who also identified enterprises up to 15 employees as informal producers. Those above 15 were classified as small and medium. The selection procedure follows a two stage sampling for micro enterprises. In the first stage three kebeles², where the highest concentration of micro enterprises are found in the city, are selected purposively. These are:

kebeles 12 (*shera tera*), 5 and 17. A census of all micro enterprises in these kebeles was undertaken using local guides. A total of 330 micro enterprises were listed. Twenty percent of the enterprises were selected from each kebele randomly. This gives a total of 66 enterprises which were surveyed using a structured questionnaire with the help of an enumerator.

Small and medium enterprises are found in a more scattered manner in different kebeles but are known by their brand names. A list was prepared with the help of key informants. A total of 75 enterprises were listed. Forty percent or 30 enterprises were selected randomly from the list. Small and medium enterprises are over sampled due to smaller size of their population. A total of 94 questionnaires were utilized out of the 96 questionnaires. Two questionnaires were discarded because of their insufficient information.

Key footwear related institutions such as footwear associations, Ministry of Trade and Industry, UNIDO were visited. Data are analyzed using descriptive statistics. In addition qualitative analysis was employed to unravel the processes and patterns.

2. Theoretical perspective – Collective efficiency and business system

Two strands of literature: the collective efficiency framework and the business system are used in this study. The collective efficiency framework is discussed under industrial clusters. In many studies clusters are defined as geographical and sectoral agglomeration of enterprises (Schmitz, 1992). Porter (1998) defined cluster as a

² A kebele is the smallest administrative unit in the city. The city is divided into sub-cities which in turn divided into kebeles. There are 10 sub-cities and 128 kebeles (is it according to the new structure?) in the Addis Abeba city

geographically proximate group of interconnected companies and associated institutions in a particular field, linked by commonalities and complementarities³.

In Italy, the term industrial district is used to represent clusters. The main attributes of industrial districts are: geographical proximity, sectoral specialization, predominance of small and medium sized firms, close inter-firm collaboration, inter-firm competition based on innovation, a socio-cultural identity which facilitates trust, active self help organization and supportive regional and municipal government.

The cluster literature indicates that cluster firms achieve a growth potential arising from external economies. Krugman cited in McCormick (1999a) identified three main types of external economies in enterprise clusters: labor market pooling, intermediate input effects, and technological spill-over. Labor market pooling refers to the concentration of specialized skill that often develops within the manufacturing clusters. Intermediate input effects are externalities associated with the emergence of specialized suppliers of inputs and services while technological spill over involve the diffusion of know-how and ideas. Market access is also added to the three forms of external economies (McCormick, 1999a)

External economies focus on the incidental effects. Though incidental effects are important there is, however, a realization that consciously pursued joint action is equally important for cluster development. Humprey and Schmitz (1995), describe that there are two types of joint actions namely individual firms cooperating (eg. sharing equipment or developing a new product) or groups of firms joining forces in business associations, producer consortia and the like. Accordingly, one can distinguish between horizontal cooperation (between competitors) and vertical cooperation (between producers and users of inputs or between producers and sellers of outputs (Schmitz, 1999). Schmitz and Nadvi (1999) termed incidental effects as passive and the deliberate effects as active thereby defining competitive advantage as derived from local external economies and joint action.

While the above indicates the forms of joint action, the content of joint action could also be varied. Analysis of joint action for example suggests that joint action can be dealing with supply side constraints, production oriented actors and addressing market and marketing problems (McCormick, 1999b).

³ In most of Porter's work cluster is also used in a much broader term referring to a group of industries with strong vertical ties and located within one country, but not always geographically close (Schmitz, 1999)

The collective efficiency framework describes the internal operation of the cluster. As such it provides only a partial explanation regarding the performance and nature of the cluster. For a fuller understanding of the cluster there is a need to look beyond the internal operation of the business or more specifically into the institutional context. This idea is contained in the notion of business system which recognizes that businesses do not happen in a vacuum but are formed and operated in a specific environment (Pederson and McCormick, 1999).

The business system is located within the broad framework of the new institutional economics which attempts to explain the role of institutions in development. Institutions themselves are variously defined but according to North (1995) institutions are the humanly devised constraint that structure human interaction. They include formal constraints and informal codes of behavior, norms that have been consciously created and those that have evolved over time. These institutions provide incentives and disincentives to businesses. Several types of institutions are believed to influence the business systems. As a result scholars differ on the question of which institutions to include in their analysis (Pederson and McCormick, 1999). These institutions range from economic institutions (contracts, firms, property rights) emphasized by new institutional economics to political, social and cultural institutions (McCormick, 1999b). In general empirical work on the role of institutions to explain cluster behavior is lacking (McCormick, 1999b). Given the lack of specific guide from the literature regarding the specific type of institutions to study, this paper examines government and non-government institutions and the business support system as institutional context of the cluster.

3. Profile of the studied enterprises: business and owners characteristics and economic performance

3.1. Business Background

Most of the surveyed enterprises (87.2%) are owned by single owner. There are only very limited firms which are run in partnership (12.8%). The pattern is the same for both micro enterprises and small and medium enterprises. The fact that most of the firms are operated by the owner means most important decisions about the sale and purchase of inputs, outputs, employment, choice of techniques etc are done by the owner. In fact 89 % of the producers mentioned that the owner is the one who makes

investment decisions in the business. In most of the firms, the owner takes part in the production process or is around to supervise his workers.

The years of establishment of micro enterprises show that most (73.4%) are established in the last five years (Table 3.1). A significant number of firms (37.5%) have just started the business in the last couple of years. This indicates that most of the enterprises are new to the business. This should, however, be looked at cautiously. The case studies have revealed that some firms which have been in the business were forced to discontinue the business due to the Chinese import. These firms have reentered the business recently within the last three years or so. This could be one of the explanations for a higher proportion of firms to report recent startups. The medium and small enterprises on the other hand have longer years of establishment. Those with over 10 years are 33.3 % while those over 6 years are 60 percent. This means small and medium enterprise have longer years of experience in the business.

Table 3.1: Proportion of enterprises by number of years since establishment

Number of Years since establishment	Micro-enterprises	Small and medium enterprises	Total
1-2	37.5	10.0	28.7
3-5	35.9	30.0	34.0
5-10	15.7	26.6	19.2
>10	11.0	33.3	18.2

Source: Own survey

The total number of people employed in the sampled enterprises is 1087 (Table 3.2). Over a quarter of the employees are females. This is an indication of the high level of participation of females in the sector. The involvement of females is higher among the small and medium compared to the micro enterprises. Children under the age of 14 are also part of the works force. In total about 5 % of the workforce is children though the proportion of children in micro enterprises are higher (9%). The average number of workers per establishment in the total sample is 12. The average in micro enterprise is 6 as opposed to 22 for small and medium enterprises.

A significant proportion of the workforce (28%) is casual labor. Of this women and children account for the highest proportion. About 29 % of women and nearly all of the children are casual workers. Since a casual labor can be dispensed any time women and children are therefore the most vulnerable in this regard.

Table 3.2: Total number of operators in the sampled enterprises

	Micro		Small and medium		Total	
	No	%	No	%	No	%
Male	281	68.5	446	65.8	727	66.8
Female	93	22.6	212	31.3	305	28.0
Children*	36	8.7	19	2.8	55	5.05
Total	410	100	677	100	1087	100
Average no of workers	6.4		22.5		11.5	
Minimum number of workers	2		16		2	
Maximum no of workers	13		30		30	

* Children are those with less than 14 years of age

Source: own survey

Most operators work in rented premises. About 97 % have reported that they operate in rented houses. These working places could be vacated anytime depending on the will of the owner. This is mentioned as a serious problem in the shoe making. Vacating from rented premise will bring significant cost to the producer since moving away from the cluster means losing access to the various advantages the cluster may provide. The working conditions of these premises particularly those occupied by micro enterprises are very deplorable. Over two-third of the micro enterprise owners characterize their premises as sub-standard. The working places in general are small, over crowded and unhygienic. Most of the places do not provide a working environment as they are either shared with people engaged in other activities or are found in the premise of other renters.

Shoe business is the only source of income for the majority of the producers. Eighty-two percent of the operators depend on shoe making for their livelihood (Table 3.3). The difference among firms by size is not very significant.

The fact that shoe making is the only source of income becomes more worrisome particularly for most micro enterprises since their production is seasonal and they produce mainly during the peak periods (70.3%). The peak periods are mostly the three months of December, January and February which also coincide with the harvesting seasons of farmers in the country. During off-peak periods production is highly slowed down and some may even temporarily migrate to rural areas (Knorringa and Pegler, 2004). Most of the small and medium enterprises (66.6%) seem to work throughout the year.

Table 3.3: Shoe making as the only source of income: Percentage

	Yes	No	N
Micro enterprises	82.8	17.2	64
Small and medium	80.0	20.0	30
Total	81.9	18.1	94

3.2. Demographic Features of Owners

The demographic features of the owners show that entrepreneurship in shoe making is a male dominated activity though some female participants are also observed (Table 3.4). The activity is dominated by young persons and migrants. The average age reported is 28 and 34 among micro enterprises and medium and small enterprises operators respectively. The majority (71%) are not born in town. With an average length of residence of 14 years, the migrants, however, are long time residents of the town. Most of the owners (65%) of micro enterprise are not married and this could be explained by their young age. Most of the owners of small and medium enterprises (76.7%), on the other hand are married. Shoe making in Ethiopia is highly polarized in terms of ethnic composition.

The data showed that 89.4% of the owners are from the Guraghe ethnic group though the Guraghes form a much lower proportion of labor force in the city of AA. The fact that shoe making has an important ethnic dimension implies that networking is an important issue though this is not supported by Knorrington and Pegler (2004). On the other hand it indicates that there is an entry barrier for other ethnic group as it will be difficult to easily understand the business. Some studies in Ethiopia have found out that the Guraghe have a far higher rate of business ownership than other major ethnic groups (Taye, 2001). Religion wise, the majority of footwear producers (74%) are orthodox religion followers. Protestants are 15% while Muslims account for 11%. This pattern is different from the national pattern where nearly half of the population is Muslim. Protestants seem to be over-represented among shoe producers compared to the national average. The possible explanation could be the fact that most migrants have come to Addis from southern part of the country which is dominated by Protestants.

Table 3.4: Demographic features of owners

	Micro enterprise	Small and Medium enterprises	Total
Gender			
Male %	71.9	93.3	78.7
Female %	28.1	6.7	21.3
Mean age	28	34	30
Born in Town			
Yes %	28.1	30	28.7
No %	71.9	70	71.3
Average no of residence of those not born in town	13	15	14
Marital status			
Married (%)	34.4	76.7	47.9
Unmarried (%)	65.6	23.3	52.1
Ethnic background			
Guraghe (%)	92.2	83.3	89.4
Oromo %	3.1	13.3	6.4
Amhara %	3.1	0	2.1
Amhara & Oromo %	1.6	0	1.1
Dorze %	-	3.3	1.1
Religion			
Orthodox	75	73.3	74.5
Muslim	12.5	6.7	10.6
Protestant	12.5	20.0	14.9

Source: Own survey

The level of education attained by the owners shows that 100 % of the micro enterprise owners and 87 % of the small and medium enterprises owners are literate (Table 3.5). This figure is higher than what is reported in CSA publication for the country where it is shown that 74.49% of those engaged in small scale manufacturing are literate (CSA, 2003). One of the reasons for this could be the fact that shoe making requires some level of literacy as it involves measurement, design and calculations. This may prompt all those in the business to be literate. The modal class (42.6%) has secondary education while a significant proportion (34%) has a primary level education. Those who attained college level education are few.

Since most producers work as owner operator, their educational qualification could be a measure of their entrepreneurial talent (Yu, 2001). Those with better education are expected to have a better vision and strategy for their enterprises compared with the illiterate ones.

Table 3.5: Level of education of owners

Level of education	Micro enterprises	Small and medium enterprises	Total
	Percentage	Percentage	Percentage
None	-	13.3	4.3
Primary (1-6)	39.1	23.3	34
Junior primary	14.1	20.0	16
Secondary	42.2	43.3	42.6
Diploma	4.7	0	3.2
Total	100	100	100
N	64	30	94

Source: own survey

While the formal educational attainment of owners is relatively higher, their technical education however is very poor. Table 3.6 shows that 96 % of the respondents have not received any technical education in formal institutions. There is no variation by firm size in this regard. The case studies have revealed that most operators have entered in the business as part of the family affair. This is confirmed by the survey data where 54 % mentioned the same. Thus they must have learned their skills from their families. The second most important means of learning the skill is through previous employment (43.6%). This is in accordance to suggestions made by Yu,(2001) who mentioned that small firms gain their industry experience from their previous employment. The shoe making skills are therefore obtained through on the job training (apprenticeship) and traditional means. While apprenticeship training may be good and is a cheap way of learning the ways of the trade, it cannot ensure a higher level of training if it stands on its own. Small firms produce only what owners learn from their previous employment. Their visions and capabilities will be limited (Yu, 2001). It has to be supported and combined with vocational schooling. The absence of formal technical training may indicate that there is a lack of information about modern techniques. This may suggest that the producing units are suffering from a low skills trap.

Table 3.6: Technical education and methods of learning the skills

	Micro enterprises	Small and medium enterprises	Total
Technical education	Percentage	Percentage	Percentage
None	95.3	96.7	95.7
Apprentice	1.6	3.3	2.1
Technical education	3.1	0	2.1
Total	100	100	100
N	64	30	94
Methods of learning skills			
Family	53.1	56.7	54.3
Previous employment	43.8	43.3	43.6
Formal training	3.1	0	2.1
Total	100	100	100
N	64	30	94

The business skills of the owners are also very deplorable. The overwhelming majority (95%) have no business training. The importance of business skills for efficient running of businesses is unquestionable. The lack of business training and business skills also indicate that the units are not run as proper businesses which may be reflected in the overall management and profitability.

3.3. Economic performance of businesses

3.3.1. Physical output

The trends in physical output show that there is an increase in physical output by both the micro and small and medium enterprises. Men's shoe being the dominant output has shown an increase of 21% among the small and medium enterprises in the last three years while the increases among micro enterprises is about 49% (Table 3.7). In the same way the increase in number of children's shoes is about 8.3 % for small and medium while it is about 15 % for micro enterprises. It appears that micro enterprises have a higher percentage increase in physical output. This however has to be seen in light of the number of shoes produced during 2002/03 used as a base year. The seasonality of the demand is clearly reflected in the physical output of shoes during the peak and slack seasons. The slack seasons witness a drastic decline in the outputs of micro enterprises compared to the small and medium enterprises. This implies that the operation of micro enterprises is highly seasonal.

Table 3.7: Trends in average monthly physical output, Number of pairs of shoes (dozens)

	Year	Peak season average monthly output			Slack season average monthly output		
		Men's	women	Children	Men	Women	Children
Micro enterprises	2004/05	70	6	22	13.9	1	7
		(62)	(8)	(18)	(62)	(8)	(15)
	2003/04	51	7	16	15.9	2	5
(37)		(7)	(14)	(37)	(7)	(11)	
2002/03	47	10	19	12.7	2	2	
	(28)	(5)	(10)	(28)	(5)	(7)	
Small and medium	2004/05	86	-	52	27.4	-	11
		(30)	-	(6)	(30)	-	(5)
	2003/04	77	-	51	25.4	-	11
		(28)	-	(6)	(28)	-	(5)
	2003/04	71	-	48	22.4	-	11
(25)		-	(6)	(25)	-	(5)	

Figures in parenthesis are reporting cases

A major discrepancy between the daily installed capacity and capacity utilization is noted in table 3.8. Micro enterprises maintain a slightly over 50% of capacity utilization while small and medium enterprises have about 60 % of capacity utilization. In both cases there is under capacity utilization in the last three years. The two most important reasons for under capacity utilization were market shortage (52.5%) and shortage of working capital (36.3%). In addition about 7.5% of the enterprises indicated old technology for under capacity performance. The first problem is a demand side problem pointing to the need to diversify market in order to create demand for the products. The fact that small and medium enterprises are not venturing in to export market is a major stumbling block to expand market. The problems of capital and technology are capacity constraints which need to be improved to achieve a full utilization of their capacity.

Table 3.8: Installed capacity and utilization (dozen output per day)

	Micro enterprises			Small and medium		
	Installed capacity (output per day)	Capacity utilization (output per day)	% utilization	Installed capacity (output per day)	Capacity utilization (output per day)	% utilization
2003/04	4.78 (40)	2.68 (40)	56.1	6.93 (28)	4.18 (28)	60.3
2004/05	4.90 (59)	2.65 (59)	54.1	7.31 (29)	4.48 (29)	61.3
2005/06	5.38 (64)	2.80 (64)	52.0	8.03 (30)	4.8 (30)	60.0

Figures in parentheses are reporting cases

Source: Own survey

3.3.2. Sales (Revenues)

About 61% of the enterprises reported average monthly sales of less than 20,000 birr (table 3.9). This however is dominated by micro enterprises since those in this category form 78 %. Micro enterprises with average monthly sales of less than 10,000 form 54.7%. Thirty-nine percent of the total enterprises have monthly sales above 20,000. Most of these are small and medium enterprises. About 77% of the small and medium enterprises have average monthly sales of more than 20,000 but only 23 % have income above 25,000. The distribution of firms by revenue category reveals the low level of income obtained by these firms and especially by micro enterprises. In addition those firms which reported a decrease of revenue in the last five years mentioned that too many competitors (34%), weak purchasing power of customers (29.8%) and import in the market (25.5%) as the main reasons.

Table 3.9: Average monthly sales

	Micro enterprise		Small and medium		Total	
	Number	Percentage	Number	Percentage	Number	Percentage
<3000	18	28.1	1	3.3	19	20.2
3001-10080	17	26.6	2	6.7	19	20.2
10081-19800	15	23.4	4	13.3	19	20.2
19801-25000	5	7.8	16	53.3	21	22.3
>25000	9	14.1	7	23.3	16	17.0

Source: own survey

3.3.3. Initial investment, current capita and working capital

Most enterprises have low initial capital. About 84 % of the total enterprises and 100 % of the micro enterprises have an initial investment of less than 8000 birr (less than 1000 USD) (table 3.10). Those with less than 4000 birr form about two-third or 65.4 %. The fact that the initial capital is low indicates the low entry barrier to the business. The working capital is similar to the patterns of initial investment. About 91% of the micro enterprises have working capital of less than 8000 birr while small and medium enterprises in the same category form 57%. The current capital shows a clear differentiation by size. The majority of the small and medium enterprises (93%) indicated a working capital of over 16,000 birr while 92% of the micro enterprises have a current capital of less than 16,000 birr

Table 3.10: Enterprise distribution by categories of initial investment, current capital and working capital

	Initial investment			Current capital			Working capital		
	Micro enterprise	Small & Medium	Total	Micro enterprise	Small & Medium	Total	Micro enterprise	Small & medium	Total
0-1000	20.3	6.7	16.0	1.6	-	1.1	14.1	-	9.6
1001-2000	25.0	3.3	18.1	14.1	-	9.6	51.6	3.3	36.2
2001-4000	26.6	10.0	21.3	18.8	-	12.8	10.9	3.3	8.5
4001-8000	28.1	30.0	28.7	32.8	3.3	23.4	14.1	23.3	17.0
8001-16000	-	23.3	7.4	26.6	3.3	19.1	9.4	26.7	14.9
16001-32000	-	23.3	7.4	4.7	30.0	12.8	-	16.7	5.3
32001-64000	-	-	-	-	33.3	10.6	-	26.7	8.5
>64000	-	3.3	1.1	1.6	30.0	10.6	-	-	-
N	64	30	94	64	30	94	64	30	94

Source: Own survey

4. Characteristics of the Cluster

It was found out that there is low availability of skilled labor in the cluster. This is ascertained by 81% of the enterprises which reported availability of skilled labor to be low, 15 % which indicated average availability and 4 % which indicated high availability (Table 4.1). Skilled labor is therefore a scarce resource in the cluster. The fact that there is shortage of skilled labor in the area indicates low skill trap showing the lesser possibility for innovation and dynamism. This may also limit firms' intention for expansion and change.

Table 4.1: Availability of labor

	Availability of skilled labor			Availability of unskilled labor		
	Highly available	Average available	Low available	Highly available	Average available	Low available
Micro enterprise	6.3 (4)	20.3 (13)	73.4 (47)	20.3 (13)	67.2 (43)	12.5 (8)
Small and medium	0 (0)	3.3 (1)	96.7 (29)	23.3 (7)	76.7 (23)	0 (0)
Total	4.25 (4)	14.8 (14)	80.9 (76)	21.2 (20)	70.2 (66)	8.5 (8)

Figures in parenthesis are reporting firms

Multiple answers are given

Source: own survey

Labor turnover is also mentioned as problems by over half of the enterprises in the cluster. While 62% complained about high labor turnover in the overall sample, the figure rises to 77% among small and medium enterprises. Those micro enterprises with the same complaints form about 55%. The high labor turnover in the shoe cluster is due to the low salaries firms offer and the unstable working condition which is mainly a result of irregular orders. A similar condition is found in other cluster studies elsewhere (Rabelloti, 1997).

Labor training by individual firms is not a usual practice. The overwhelming majority (94%) do not provide any training for their workforce. Workers therefore continue to use the skills obtained from previous employment with little prospect for upgrading it. Given the level of wage and living condition, workers may not also have the incentive to invest in their own talent and become specialized. The lack of skill upgrading implies poor quality of product and lesser innovations. The case studies revealed that one of the reasons for not giving any training for their workforce is the fear that those trained will leave the enterprises after their training. This may require some form of intervention that helps to overcome the fears created by the producers if workers are to receive training.

In terms of intermediate inputs, different specialized services are obtained in the cluster. Special service providers providing skiving, roughing, stitching and other services have emerged in the cluster. These service providers usually possess small shops with machineries. Most enterprises (69%) reported that they use these services. The problem with this arrangement is that there could be a long queue to get the service and this may have its own impact on the delivery of orders. A sizable proportion of firms (16%) rent machineries from others which are available in the cluster. Micro-enterprises also use the services of last modifiers in the cluster. Such type of activity, though helpful to meet the immediate need of producers, cannot be sustainable because they reduce the quality of the products. Free lance designers are available in the area and they provide designing services for many enterprises.

Localization generates knowledge spillover between nearby firms. This is because firms in a localized industry are proximate and information flows easily among them (Yamawaki, 2001). The inter-firm cooperation data in Table 4.5 shows that among firms which reported horizontal cooperation, exchange of information and knowledge among similar producers is the major form of interaction. In addition Table 4.4 also

indicates that there is information exchange with both buyers and leather suppliers. Such information exchange and experience sharing could facilitate the transfer of knowledge particularly tacit knowledge that can be transferred by long period of interaction in a group (Yu, 2001). The fact that the presence of information exchange is acknowledged by producers can be an indication of spill over. There is, however, a need to identify the type of information before one considers it as a sign of technical spill over. It is found out that most of the information is about market and orders which has little to do with technical knowledge. Further more, the absence of institutional base to facilitate and promote technical spill over in the cluster is a series gap.

The shoe cluster in AA is found in an area that provides easy market access. Wholesalers and retailers which are the major buyers are found in close proximity of the production sites. In fact they are found locationally interspersed with producers. The cluster is known throughout the country. Byers come from different places throughout the country and place orders with wholesalers who in turn contact producers to deliver the order in short period of time. Market access was mentioned by the majority of the enterprises (93%) as the prime advantage the cluster is offering to them.

Firms in clusters are expected to involve in vertical and horizontal linkages. The vertical relationship involves both backward and forward linkages. The supplier-producer relations and the subcontracting of phases of production cycles form backward linkages. Subcontracting production cycle and output is limited in the cluster. For instance, Table 4.2 shows that there is limited division of labor in the cluster except the sciving activity. Many firms have internalized many phases of the production cycle in a vertically integrated manner. This is quite different from what is obtained in the literature which shows that firms in clusters are more specialized and interdependent (Scmitz, 1999).

Subcontracting of products is not a regular phenomenon in the cluster though some small enterprises mentioned that they share some orders coming from big enterprises. The extent of subcontracting reported by the micro enterprises is very little compared to the small and medium enterprises (Table 4.3). In general however subcontracting is not well developed and the cluster has not drawn subcontractors as seen in other developing countries (Scmitz, 1999).

Table 4.2: Extent of externalizing among firms

	Micro enterprises		Small and medium enterprises		Total	
	Number	Percentage	Number	Percentage	Number	Percentage
Sciving	59	95.2	12	42.9	71	78.9
Cutting	2	3.2	5	17.9	7	7.8
Grinding	0	0	4	14.3	4	4.4
Finishing	1	1.6	4	14.3	4	4.4
Designing	1	1.6	2	7.1	3	3.3
Total	64	100	27	100	91	100

Source: own survey

Table 4.3: Extent of subcontracting among firms

	Subcontracted by others			Subcontracting to others		
	Yes	No	N	Yes	No	N
Micro enterprises	32.8	67.2	64	9.4	90.6	64
Small and medium	30	70	30	36.7	63.3	30
Total	31.9	68.1	94	18.1	81.9	94

Source: own survey

The data on cooperation between producers, buyers and suppliers show that exchange of information is the major form of cooperation (Table 4.4). The case studies revealed that buyers sometimes suggest certain kinds of shoe designs to be produced though this is not always complied. Information exchange also pertains to markets and orders between buyers and producers. The same type of information exchange also exists between leather suppliers and producers. This type of information exchange is highly pertinent to transactions and orders. The other form of interaction mentioned by some producers pertains to speeding up of deliveries. Byers usually push producers to deliver in time since the client who orders shoes would like to get the items quickly. The cooperation in this regard, however, does not involve joint action to develop mechanisms to speed up deliveries. Other areas of interaction and cooperation such as quality improvement, marketing, training, product development, technology, however, do not exist (Table 4.4). These interactions, however, are key to learning, upgrading and fulfilling the domestic market requirements.

Table 4.4: Extent of cooperation between producers, leather suppliers and buyers

		Micro enterprises		Small and medium	
		No	%	No	%
Cooperation with leather suppliers					
1.	Exchange of information	24	37.5	20	66.7
2.	Quality improvement	1	1.6	1	3.3
3.	Speed up delivery	7	10.9	11	36.7
4.	Technological upgrading	1	1.6	1	3.3
5.	Labor training	0	0	0	0
6.	Marketing	0	0	0	0
7.	Product specification	3	4.8	3	10
8.	Product development	1	1.6	0	3.3
9.	Quality control	2	3.2	0	0
Cooperation with Byers					
1.	.Exchange of information	35	54.7	27	90
2.	Quality improvement	2	3.2	3	10
3.	Speed up delivery	3	26.6	14	46.7
4.	Technological upgrading	0	0	0	0
5.	Labor training	0	0	0	0
6.	Marketing	1	1.6	0	13.3
7.	Product specification	1	1.6	1	10.0
8.	Product development	0	0	0	3.3
9.	Quality control	0	0	0	0

In terms of horizontal relations, 24 micro enterprise firms or 37.5% of the total mentioned that they have some kind of cooperation with other producers while 25 small and medium firms or 83% indicated horizontal cooperation. This shows that small and medium firms work more closely with each other than the micro enterprises.

The major form of cooperation for both micro enterprises and small and medium enterprises however is found out to be exchange of information and experience. Firms interact with each other and discuss about market and prices. This is reported by 23 out of 24 cooperating firms in micro enterprises and by all those who reported cooperation among the small and medium enterprises (Table 4.5). General information and experience exchange is therefore the major area of cooperation.

Design sharing and sharing or borrowing of equipments is reported by half of the enterprises reporting cooperation with no major difference by the size of the firm. It

was however mentioned that it is old designs and old lasts that are shared or borrowed among each other. Design is an important source of competition and therefore will not be an area of significant cooperation. In other areas of cooperation: labor sharing, undertaking jobs together, joint purchase of sole, sharing cost of utility, joint marketing –the evidence of cooperation is less strong (Table 4.5). Bilateral cooperation is therefore not a well developed phenomenon in the cluster.

Firms which are not involved in cooperation mentioned that absence of mechanism for cooperation (38%) and lack of trust (26%) are the major factors impeding cooperation. A significant proportion of the firms (36%) however indicated that there is no need for cooperation. This is a clear indication of the independence and self sufficiency mentality of small producers. It corresponds with the small farmers mentality who would like to be self sufficient by diversifying production and meeting their family needs. Such thinking, however, will have its own cost since the network literature tells us that cooperation has a virtue for upgrading through learning by interaction (Schmitz, 1999).

Table 4.5: Forms of horizontal cooperation between firms-Number of responding firms

	Micro enterprises				Small and medium			
	All the time/often /regularly	Sometimes	Never	Total	All the time/often /regularly	Sometime	Never	Total
Exchange of information and experience	11	12	1	24	16	9	0	25
Sharing, borrowing equipment	7	4	13	24	13	0	12	25
Joint marketing of products	3	2	19	24	4	1	20	25
Joint purchase of leather	6	3	15	24	11	0	14	25
Joint purchase of sole	7	3	14	24	10	0	5	15
Sharing design	10	2	12	24	13	0	12	25
Labor sharing	6	3	15	24	2	0	23	25
Undertake/jobs together	4	3	17	24	3	0	22	25
Sharing cost of electricity	5	0	19	24	4	0	21	25

Source: Own survey

5. Institutional and Business Support Available to Cluster

5.1. Institutional linkage

5.1.1. Government institution

The major government institutions relevant to the cluster are the Ministry of Trade and Industry, FeMSEDA and ReMSEDA. As per the policy of the government which gives priority to the leather and footwear sector, the Ministry has a department focusing on textile and footwear. The department is working with those industries which are exporting or have a potential to export by providing incentives and assistance to them.

A very important institution for the leather sector in which the Ministry plays a key role is the public-private partnership forum. The forum is attended by industry owners in the tannery and footwear sectors, financial institutions such as banks, leather institutes, Quality and Standards, Ministry of Trade and Industry. The latter is the secretary of the forum. The forum meets once every quarter for half a day. The items discussed on this forum include reviewing the export plan of the industries, evaluating the past quarter performance, identifying constraints and problems in the activities of the industry. The forum gives immediate solution for those problems which can easily be fixed. The Ministry is mandated to prepare action plans for those problems which cannot be solved immediately. The action plans will be reviewed in subsequent meetings.

As indicated above the Ministry has given a priority focus for the leather and footwear sectors. The effort of the Ministry, however, is centered only on those enterprises which are already exporting or which have plans to export. This neglects the vast majority of micro, small and medium footwear producers.

The Federal Micro and Small Enterprises Development Agency (FeMSEDA) and the regional Micro and Small Enterprises Development Agencies (ReMSEDA) are established to support the small enterprises. The FeMSEDA and ReMSEDA do not have a separate departments to deal with the leather and textile sectors unlike the Ministry of Trade and Industry. These government institutions are totally controlled and managed by civil servants with little input, if any, from the operators of MSE.

Hence, policies and programs designed and implemented in the sector often fail as they lack ownership and consensus (Mulat et al, 2005)

5.1.2. Training and Research and Development Institution

The Leather, Leather Products Technology Institute is a recently established support institution which is believed to be the foundation for capacity building in the sector. The institute is supposed to act as engine of development in the sector and provides training in technical, managerial and marketing. The case studies mentioned that some of them have already received short term training in different fields such as design, women shoe making etc. These trainings are sponsored by UNIDO and are offered to selected micro, small and medium enterprise operators. This is a positive input in dynamising the sector and introducing them to new ideas in the business. The LLPTI has a huge capacity in terms of model factories. These factories are designed to provide services for those in the industry with low payment. It was however indicated that industries particularly micro, small and medium enterprises are not beneficiary of these model factories. The institute's current activity is mostly conventional training of students from high schools. The practitioners training is not a well developed phenomenon in the institute. In addition the institute has yet to prove itself in research and development.

5.1.3. Non-State Institution

Among the non-state institutions, UNIDO and footwear related associations are important institutions providing support to the sector. UNIDO has a number of engagement areas. One of the engagements is cluster development project⁴. The project is carried in cooperation with the leather and international associations. The project however has not started implementation of any plan though some strategies have been drawn on the basis of a diagnostic study. There are two main footwear related associations. These are the Ethiopian Tanners, Footwear and Leather Goods Manufacturers Associations and the Ethio-Leather International Associations. The former is established as the result of the mergers of the Ethiopian Tanners

⁴ The other engagement area includes the preparation of a five year master plan for the sector as well on the basis of which some action plans were also drawn, the restructuring of the LLPTI and skills upgrading of big, medium, small and micro industries in the sector. The fourth area of engagement is the 'Made in

Association and the Ethiopian Footwear Association. The Leather International Association is initially established as a saving and credit association. The association is now changing itself into producers cooperative and has negotiated with the city government for a working premise. The association has about 1000 members which include not only producers in the cluster but also input suppliers and shoe distributors as well. The association cooperates with UNIDO in skills upgrading and the cluster project. In the former, the association has been instrumental in recruiting candidates for short term training organized by LLPTI in different time. Table 5.1 shows the number of trainees from micro, small and medium shoe firms sponsored both by UNIDO and the association. As it can be seen the training are all short term training and focus on particular skill. An interview with the shoe department of LLPTI ascertained that most micro and small enterprises coming from the cluster have skills in cutting and stitching but lack design and patterning skills. The institution is therefore attempting to fill this gap by providing more designing and patterning training. It was, however, revealed that most of the training conducted so far is not based on needs assessment. They are rather designed by UNIDO and LLPTI together with little consultation with the beneficiaries. In future it will be appropriate to base the training on the needs of the producers.

Table 5.1: Types and duration of training received by micro, small and medium producers

Type of training	Number of trainees from micro, small and medium shoe producers	Period of training
Design and patterning	11	August 15-September 12, 2005
Shoe lasting	11	October 27-November 15, 2005
Design and patterning	8	November 19-November 30
Design	11	February 12-March 1, 2006
Cutting and stitching	6	March 10-March 16

Source: LLPTI, Unpublished document

In addition to the training, the association has also produced a business plan which elaborates the creation of a cluster in the newly provided premise in new locations.

Ethiopia' project which is trying to promote Ethiopia made products in international market including leather and shoe products.

The new location, however, does not accommodate all the members of the association. The old cluster will therefore continue in the future as well. At this moment it is not clear whether the newly to be established cluster will function in the same way as the older cluster which has grown spontaneously and includes not only producers, retailers and wholesalers, but also brokers, service providers, free lance designers etc.

The above indicated that though there are some institutions such as UNIDO, LLPTI, Leather association which directly work with the medium, small and micro enterprises, their engagement is at best limited to providing training and this is only in its initial stage. Other concerns of the small scale producers namely market, raw material, technology, management are not dealt by the existing institutions.

5.1. Business environment

The importance of business environment is brought out to prominence by World Bank report (World Bank, 2005). Business environment includes a wide range of economic setting of firms that provide incentive and disincentive for businesses. The predictability of laws and regulations is important since it allows businesses to have confidence in the laws and regulations. The majority of the respondents specified that government laws and regulations pertaining to their business is unpredictable (95%) (Table 5.2). While those operators who mentioned government laws are completely unpredictable form 29%, those who mentioned it is highly and fairly unpredictable are 66%. If the majority of firms are not comfortable with government laws, it will result in a negative impact on the health of the businesses.

Table 5.2: Predictability of government laws and regulations

	Micro enterprise	Small and medium enterprise	Total
	Percentage	Percentage	Percentage
Highly predictable	1.6	0	1.07
Fairly predictable	3.2	6.9	4.30
Fairly unpredictable	37.5	55.2	43.01
Highly unpredictable	21.9	24.1	22.58
Completely unpredictable	35.9	13.8	29.03
N	64	30	94

Source: own survey

Businesses were presented with a list of the different government rules, regulations and policy to identify which of them have impacts on their businesses. Most of the regulations such as business licensing and registration, tax administration, customs regulation, labor regulations, environmental regulations, weakness of legal enforcement were identified as forming no obstacle to their operation. The main obstacles indicated by micro enterprises were crime, theft and disorder (76%), lack of business support services (57.9%), and economic policy (47%) (Table 5.3). Among small and medium enterprises, crime and theft (67%) and economic policy (47%) were the two most important obstacles while regulation for start-ups, anti competitive practice and corruption were each mentioned by one-third of the respondents. It appears that crime and theft is a serious threat to the businesses. This will result in instability and uncertainty among the business community and will hamper the progress of the business. In a way it demonstrates government failure to maintain the required stability for the businesses. Economic policy has also been reported as forming an obstacle. This in particular refers to the liberalization policy which has led the domestic market to be flooded with Asian imports and resulted in a serious consequence for the shoe producers. The micro enterprises reported lack of business support services as an important problem while this is reported by less number of respondents in the case of small and medium enterprises. The difference does not indicate that these services are available for small and medium enterprises. In fact both micro-, small- and medium-enterprises were unanimous in their response to the lack of business services particularly related to legal advice, management consulting, accounting service, marketing, quality certification, tax advice and technology improvement in the cluster (see below). The difference may be due to the fact that the small and medium enterprises can avail these services for themselves if needed while micro enterprises cannot afford and it becomes a serious obstacle. The majority of respondents did not report tax and tax administration as an obstacle. It is only 20 % and 30% of the micro-enterprises and small and medium enterprises respectively who reported high tax rate as an obstacle. These responses do not imply that tax rate in the business in particular and in the country in general is low. To the contrary tax rate has been an issue of the recent 2005 election particularly among the business community. The regional governments including the AA city administration have revised the tax rate to make it less burdensome on the tax paying people.

Utilities form one important aspect of business environment. The major forms of infrastructure that have direct impact on the shoe making business are power

(electricity) and telephone. It is shown that the majority of firms face problems with power including supply, interruption and high charges. The inadequate supply does not allow firms to use some big machineries which have a huge level of consumptions. One informant from the case study mentioned that he cannot use his machinery because he does not have a 3-phase system required for the machinery. Frequent interruption is the most mentioned problem mentioned by all firms. Power interruption is a serious concern since it can lead to loss of sales by forcing downtime or idle capacity on manager and they can also cause waste of materials since disruptions can cause damage to materials in the process (Lall and Taye, 2005). High charge of power adds to the cost of production and reduces the profit margins of producers. Unavailability of telephone and high telephone charge are considered as minor problems by the majority of the respondents. This is an indication that telephone is not a major utility constraint.

One important aspect of the physical environment is the working premise. It was earlier indicated that the working premises of shoe producers is inadequate and below standard. The working premise is a serious obstacle in the shoe production. Working premise is mentioned as a severe problem by 80 % of the respondents both by the micro, and the small and medium enterprises. The figure rises to 90% when those who mentioned the problems as moderate are included.

Table 5.3: Regulatory problems reported as moderate and severe obstacles

	Micro enterprises		Small and medium enterprises		Total	
	Number	Percentage	Number	Percentage	Number	Percentage
Regulation for business start up	7	10.9	10	33.3	17	7.32
High tax rate	13	20.3	9	30.0	22	9.48
Lack of business support service	37	57.9	7	23.4	44	18.96
Economic policy	30	46.9	14	46.7	44	18.96
Crime, theft and disorder	48	75.6	20	66.6	68	29.3
Anti competitive practice	17	26.6	10	33.3	27	11.6
Corruption	-	-	10	33.3		
Total	152		80		232	

Multiple answers

Source: own survey

Supporting markets grow around dynamic value chain permitting the existence of a wide variety of business services. The supporting markets discussed below include finance, business services and information and technologies. Financial service is needed by firms of all sizes. Finance is usually cited as a critical problem by many micro and small entrepreneurs. Own savings or retained earning is the major source for meeting the needs of working capital and investment by many firms (Table 5.4). The second source is borrowing from informal sources. Borrowing from formal sources, supplier credit or cash advance from clients play very little role in enterprise financing. Lack of collateral is the major reason for not taking loan. Ninety seven percent of the enterprises have rated lack of financial support as a very severe or severe constraint. The major financial needs of enterprises are for purchase of new machinery (45%) and expansion to new products (53%).

A wide variety of non financial services such as labor and management training, extension, consultancy, counseling, marketing and information services etc have crucial role in business development (Wolday and Gebre Hiwot, 2005). The finding revealed that none of the enterprises receive business services required for prosperity. These services are not at all available in the cluster and this could be one of the competitive disadvantage of the firms. The only service some firms received was design services which is obtained from free lance designers. The use of ICT by firms is one of the heavily underdeveloped areas. The overwhelming majority (93%) do not use ICT in their businesses. The reasons are either they are not aware of the technology (79.8%) or access is expensive and costly (19.1%).

Table 5.4: Enterprises reporting different sources of finance

	Micro enterprise		Small and medium	
	Number		Number	
	Working capital	Investment capital	working capital	Investment Capital
Own savings or retained earnings	62 (62)	62.2 (47)	58.8 (30)	76 (19)
Borrowing from formal sources	4 (4)	2.6 (2)	-	-
Borrowing from informal sources	20 (20)	21.3 (16)	27.4 (14)	36 (9)
Supplier credit	8 (8)	6.6 (5)	3.9 (2)	(8) 2
Cash advance from client	6 (6)	6.6 (5)	9.8 (5)	20 (5)
Total	100 (100)	100 (75)	100 (51)	100 (25)

Multiple answers
Source: own survey

6. Implication for Cluster-Oriented SME Development Policy

Government's efforts to develop SME will be fruitful if it is targeted at the cluster rather than individual firm. This is because clustering enables the government to extend a more effective and efficient service for MSEs. From the MSE perspective, operating in a cluster has the advantage of overcoming numerous problems and is a key to becoming competitive in the domestic and global market. Cluster oriented policy, however, has to be based on the existing strength and weaknesses of a particular cluster.

The shoe cluster in Ethiopia is characterized by limited or absence of inter-firm division of labor. Production is vertically integrated in small shops and gives no room for division of labor in shoe production. Inter-firm collaboration leading to collective competitiveness is limited as there are no strong evidences of joint action. Locational externalities (localization economies) are not also very strong except market access and access to some intermediate inputs and services. Lack of skilled labor has made the cluster to fall in a low skill trap. Firms are not able to internalize training for fear that trainees will leave them once acquiring the required skill. To this could be added high labor turnover and high absenteeism which are both driven by the uncertainty and seasonality of production in the cluster. Though some inter-firm relations in the form of information exchange is evident, the type of information exchange which is mostly on orders and prices may not form a basis for technological spillovers.

Institutional support in the cluster is very limited to facilitate the clusters ability to move to higher value added product market though the local association has a potential to advance the causes of the cluster. Similarly, producers are heavily constrained by lack of appropriate business environment. Not only did producers feel strongly about the unpredictability of rules, laws and regulation, they also suffer from lack of business services, power interruption, poor working premises and absence of loan. The result of all these is inability to break into international market, limited capability to expand and innovate.

In light of the above, cluster oriented policy for SME development needs to focus on the different dimensions that characterize the cluster. These include external

economies, linkage between firms, creating external network, promoting marketing linkage, strengthening association.

6.1. Facilitate the development of external economies

In the case of the footwear cluster there are several areas of intervention in order to facilitate external economies that could be considered as part of the local competitive factor.

6.1.1. Strengthen training to upgrade skills in shoe making

Low levels of skills were the main problems of the shoe cluster. Skills in all spheres of shoe making such as design, finishing, stitching are lacking. Training in the use of accessories, stitching and finishing is also required in order to improve the quality of the domestic shoes and make it competitive. Entrepreneurs are not willing to carry training costs of their workers. Two pronged strategy to upgrade the skill levels of workers is needed. On one hand, need based training programs should be developed and concerned institutions should be able to provide the training. On the other hand firms should be encouraged to internalize the training costs of their workers by introducing non-market intervention such as developing contractual agreements etc. Such efforts need to be supported by establishing cluster skill center which might be physical or virtual. In the case of the latter, it may organize R&D activities, determine training needs, develop curricula and disseminate results throughout the cluster.

6.1.2. Strengthen service providers in the cluster

The cluster has developed its own specialized service providers. There are shops which provide skiving, roughing, stitching services. Specialized personnel such as brokers, free lance designers, last modifiers are found in the cluster. In addition, specialized inputs such as packaging materials are also available in the cluster. These service providers and services are critical for the success of the SMEs. They need to be strengthened and their work facilitated in order to make them continue supporting the cluster.

6.1.3. Strengthen local supply of financial and non-financial services

It is important to facilitate the business environment by facilitating financial and non-financial services. With regard to the finance and credit, it may be necessary to develop a scheme geared to the needs of the SMEs in the cluster. The MFIs for instance cannot be a good source of credit owing to their small size of the loan. Non-financial services including conducive work premises, ensuring regular power supply, reducing the unpredictability of laws and regulation are equally needed to create a favorable environment. In addition local BDS center that are embedded in local business environment are needed.

6.1.4. Innovation and technology development

The evidence on local information exchange between firms is not sufficient. There is a need to promote innovation and one of the ways could be to establish technology centers and incubators. These will create favorable environment for startups and easy adaptations of technology.

6.2. Promote linkages between firms

The linkage or network aspects of cluster development should focus on the following aspects.

6.2.1. Fostering horizontal inter-firm cooperation

The study has shown that the level of inter-firm cooperation particularly among producers is one of the least developed areas. Firms operate in an independent and fragmented manner with little interaction. As a result there is limited division of labor limiting the benefits that may arise from the nature of different activities. Absence of interaction is a barrier to overcome disadvantages which result from poor capacity, technology, lack of specialization etc.

The use of joint projects is proven to be effective in stimulating trust among firms elsewhere (Tambunan 2005). Typically such projects provide incentives and technical assistance to compensate firms for cost of participating. The use of network brokers

or facilitators who are able to promote trust to increase firms' awareness about the importance of cooperation and help them create collective projects is proven to be useful. Similarly, developing common service facilities besides bringing technical upgrading has the advantage of stimulating cooperative spirit and learning.

6.2.2. Promoting subcontracting linkages.

Subcontracting linkages either from within the cluster or outside is less developed in the footwear cluster. Programs for developing sub contracting linkages between large and medium firms and SMEs or among SMEs need to be designed. This can be even in the form of fostering partnership with state owned and private large industries and SMEs.

6.2.3. Promote interaction within value chain

It was found out that level of interaction between input suppliers, producers and buyers who occupy different segment of the value chain is very minimal. Such interaction however is helpful to improve quality, satisfy customers demand and technical upgrading.

6.3. Strengthen external network

The collective efficiency framework or the cluster literature emphasizes local linkages. In particular it emphasizes local synergies and deliberate co-operation which helps enterprises to compete. Focus on local linkage however does not capture external linkages which are crucial for clusters development. External networks refer to business and other forms of relation between enterprises inside the cluster and actors outside the cluster such as large enterprises, providers of business services, input suppliers, universities etc (Ceglie and Dini cited in Tambunan, (2005).

6.4. Strengthening the associations of shoe producers and allied actors

Though the presence of association is a positive aspect, the association, however, needs to be strengthened in order to keep the interests of its members in different

spheres. The association should be able to influence policy, access to raw material, market, technology, training etc which are all required to improve the competitiveness of the producers.

6.5. Promote existing and potential market linkages

Often supply side interventions neglect demand side linkages and in the case of cluster, there is often a neglect of marketing linkages that leads to failures in many policies that are geared to technological upgrading and inter-firm cooperation (Tambolin, 2005). The cluster needs to be linked to the existing and potential market. In terms of existing market, the cluster should be able to respond to the domestic market requirements. Local footwear producers should be able to respond to the market requirement. Similarly the cluster should be able to enter new markets especially exporting market (both regional and international). SMEs in the cluster not only have technological deficiency to enter the export market, but also lack information about potential markets. Export training is needed to raise the awareness of producers and help them meet international standards. Participating in trade fairs will also help firms to learn about potential contacts and customers. Among the marketing strategy an important element is branding. Branding is little known in the clusters. Though shoes are sold with some name tags on them, the practice is far from the true sense of branding in terms of quality and customers loyalty. Individual and collective branding is very helpful and identifies the cluster with quality and enhances market.

6.6. Institutional support

The limited institutional support in the cluster is one of the prime causes for the inability of firms to go ahead. State and non-state institutional support should address effectively the needs of the micro and small producers and put mechanisms to coordinate the delivery of such support.

7. Conclusion

Micro, small and medium enterprises face and operate under specific circumstances. The manner in which the cluster operates, the business system in which they find

themselves and the nature of the competition they face all provide unique situations. These situations form opportunities and constraints for growth. The following were obtained from this study.

Opportunity and constraints in the cluster are varied. Access to market and inputs is the prime advantage the cluster provides readily to producers. The availability of service providers in the cluster is a prime advantage the cluster is providing particularly for the micro enterprises which cannot acquire all the machineries they need. Similarly, the cluster attracts not only free lance designers but also last modifiers. Regarding labor, the lack of skilled labor and the severe competition from many competitors are major disadvantages.

Technological spill over is very hard to discern in the cluster. Though some inter-firm relations in the form of information exchange is evident, the type of information exchange which is mostly on orders and prices may not form a basis for technological spillovers. Firms in the cluster are highly integrated with little interdependence and division of labor among them.

The presence of an institutional support is an important source of competitiveness. The LLPTI is an important institution which has a potential to upgrade the skill and technological capability of the producers. The LLPTI so far has concentrated on formal education though it recently is including industry as well in the training program. The institute has also a huge potential in terms of the model factories that would help local producers to make use of the available services. There is however a need to convince and teach producers to make use of the opportunities present in LLPTI. An important institutional opportunity firms can make use of is the local association which started as saving and credit association but changed into producers cooperative. This however needs to be strengthened and be transformed into a higher level to address the needs of the producers. Other government institutions however provide limited support particularly for micro, small and medium enterprises. Producers are heavily constrained by lack of appropriate business environment.

The above analysis provides an insight into how cluster oriented SME development can be promoted in Ethiopia. Cluster development requires addressing different dimensions particularly fostering inter-firm linkages, promoting service providers, enhancing labor training, promoting technological centers, improving institutional and business environment.

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