

**Assessment of Challenges, Opportunities and Prospects of Textile Industry in Ethiopia:  
The Case of Yirgalem Addis Textile Factory PLC  
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**Abstract**

*Over recent years, there has been an increased interest in Africa as a continent with immense resources and potentials. AGOA has been playing the major role of promoting Sub-Saharan Africa's integration into the multilateral trading system and empowering them to have more active roles in global trade negotiations. The overall objective of the study is to assess the challenges, opportunities and prospect of Yirgalem Addis Textile Factory. This study used exploratory research design to assess the challenges, opportunities and prospects of the company and major contributing factors to them. The primarily data were collected through questionnaire and interview; and secondary data used to write background information.*

*The findings revealed that the opportunities for the factory are assistance in capacity building, export, tax and investment. Priority is given to the textile and garment sector by the government. By using AGOA opportunities, the factory was able to improve its sales performance in the coming years. However, there are still challenges the factory faces which include inefficient production and an influx of smuggled goods to the market. The factory has a bright prospect if action is taken by the government.*

*To benefit from the opportunities, and overcome its challenge, Yirgalem Addis Textile Factory should undertake the following measures: influence the government to revise its policy on excise tax, and control smuggling goods; making additional expansion program to increase its production capacity; Additional investment is required to modernize and further increase its production capacity; and enhance human resource capacity through training and working capital.*

**Key Words:** *Textile, Industry in Ethiopia, Challenges, Opportunities, Prospects and Yirgalem Addis Textile Factory*

## **1. Introduction**

### **1.1. Background of the Study**

#### **1.1.1. Textile Industry – Global Trend**

Textile Industry is one of the earliest large-scale economic activities that led the industrialization process centuries ago. It is also the first manufacturing industry to have a global dimension. This sector is the most geographically dispersed of all industries across the developed and developing countries. Textile could be manufactured using relatively simple technology and low-skill labor. The traditional skills of hand spinning, weaving and sewing served as basis for larger industries. English inventors in the 18<sup>th</sup> century began to automate textile cottage industry processes including carding, spinning and weaving (UNCTAD, 2008).

Textiles and clothing industries had played an important role in the early stage of industrialization in the United Kingdom, parts of North America and Japan. In the export-oriented growth of the East Asian economies such as Hong Kong, the Republic of Korea and Taiwan relied heavily on Textiles and clothing products for their exports from the 1950s to the mid-1980s. As these economies scaled-up their industrial development toward more capital-intensive and high-tech manufacturing products, textiles and clothing industries

migrated to Southeast Asian developing countries such as China main land, India, Indonesia, Malaysia, Sri Lanka, Thailand and Vietnam seeking low cost production. As a result, the textiles and clothing exporters' group has diversified overtime, and Asia has become a hub of textile products (TAIDI, 2010).

The share of African countries in the world trade of textiles and garment is not comparable to Asian countries, European Union and USA. However, currently, as the labor cost in South East Asia is showing a tendency of increasing, the market is starting to shift to Africa. The geographical trends in the production of textile industry shows a clear pattern of continues decline in the developed countries, and a geographical shift of production to developing countries (Textile industry development institution, 2012).

The African Growth and Opportunity Act (AGOA) encouraged substantially new investments, trade, and job creation in Africa. It has helped to promote Sub-Saharan Africans integration into the multilateral trading system, and a more active role in global trade negotiations. It has also contributed to economic and commercial reforms which make African countries more attractive partners for U.S companies (AGOA, 2016).

The African, Caribbean and Pacific - European Union (ACP-EU) and other agreements have also an opportunity for the textile and garment Industry. Currently, Tunisia, Morocco, Madagascar, South Africa and Mauritius are among the major exporting African countries.

Africa's textile and garment industry is optimistic that, its shipments to the United States, the world's biggest market for such products, will surge following the 10-year renewal of the African Growth and Opportunity Act (AGOA) - under the United States' General System of Preferences that allows duty-free imports of a wide range of African products, which was signed by President Barrack Obama on June 11, 2015 (AGOA, 2016). This is also driving many Turkish, Indian and Chinese textile companies to African countries, particularly Ethiopia and Kenya, to not only fill the rising production and labor costs at home, but also to avail of the duty-free exports under the AGOA to the United States.

The African growth and Opportunities Act (AGOA) was signed into law on the 18<sup>th</sup> of May 2000. AGOA is intended to enhance economic development in sub-Saharan African countries by expanding access to U.S. trade and investment markets, thereby leading to long-run prosperity based on free markets. However, there are conditions which must be met by Sub-Saharan Africa countries in order to qualify for this benefit.

**Table 1: Progress and Condition**

<b>Provision for making continual progress</b>	<b>Conditions</b>
Progressive Realization	a) A market-based economy that protects private property rights, b) Prevalence of the rule of law, recognition of political pluralism, and protection of the right to due process, a fair trial, and equal protection under the law, c) Elimination of barriers to the US trade and investment which include provision of national treatment, d) Taking measures to create an environment conducive to domestic and foreign investment, e) The protection of intellectual property and the resolution of bilateral trade and investment disputes, f) Establishing Economic policies to reduce poverty, g) Establishing a system to combat corruption and bribery, and h) Protection of internationally recognized workers' rights.
Mandatory Conditions	None engagement in activities that undermine United States National Authority. None engagement in gross violations of internationally recognized human rights or providing support for acts of international terrorism, and Cooperation in international efforts to eliminate human rights violations and terrorist activities

Source: AGOA. Online available: <http://www.worldometers.info/world-population/ethiopia-population/> (accessed on 7 March 2016)

### 1.1.2. The Development of the Textile Industry in Ethiopia

Ethiopia has an ancient heritage in weaving, which went back to at least 3,500 years (Wubne and Mulatu, 1999). Industrialized textile and apparel, on the other hand was started in 1939 (Dire Dawa Textile Factory) during the brief Italian occupation from 1935 to 1940. Expansion on these earlier efforts came about in the 1960's when the Imperial government of Ethiopia signed an agreement with the Indian government. Following the formal agreements between the two governments, Akaki Textile Factory was established.

Ethiopia's population of about ~**101,530,095** in the year 2016 (**World meters, 2016**), Africa's second largest, provides for a large domestic market. It is well positioned for global exports and is situated at the cross-roads of Africa and the Middle East – easy access to Asia through the port of Djibouti and close proximity to Europe also facilitates Ethiopian exports.

Ethiopia's economy is believed to be among the fastest growing economy globally. Ethiopia has a land area of 1.14 million square kilometers, 45% of which is arable – this is approximately twice the size of the United Kingdom (Ministry of Trade and Industry, 2004).

Ethiopia is qualified for African Growth and Opportunity Act (AGOA) to manufacture and export products duty and quota free access to the US market (AGOA, 2016). Nevertheless, the export performance as such is not high as compared to some African countries. Generalized System of Preference (GSP) allows Ethiopian textile products to be exported to Austria, Finland, Canada, Sweden, Japan and Norway. All in all, Everything But Arms (EBA) facilitates privileged access to the EU for the Ethiopian export goods.

To exploit these opportunities the government of Ethiopia has formulated and implemented a number of policies and strategies. The fundamental principles of the strategy include: private sector-led industrialization, development of export-oriented industries, strengthening the capacity of existing industries to be competitive at the national, regional and international levels, and investment promotion and facilitation with increased emphasis on foreign investment utilizing to the extent possible labor-intensive technologies with a view to creating employment, generating incomes and alleviating poverty.

The strategy identifies key manufacturing sub-sectors to which top priority will be given. These include: textiles and garments industries, leather and leather products, agro-processing industries, and construction industries. According to the strategy, textile industry has been ranked first of the core industries and given prior attention because of the following reasons:

1. The worldwide market for textile industry products is always available next to food commodities.
2. The industry uses more labor which is abundantly available at low cost in the country.
3. The industry utilizes cotton as its main input so that it can create conducive opportunity for agricultural development on which the country's economy is dependent.
4. The industry can easily create high forward and backward linkages, mainly with the agriculture sector which, in turn, creates more income for farmers/investors.
5. Textile industry, in the long run, is believed to initiate the establishment of chemical and other inputs (supplementary industry) which are now imported (Textile industry development institution, 2012).

In light of this, a substantial number of garment factories were established in the past few years to produce different products both for export and local market. With regard to export sales the forward and backward linkage to the producers of woven and knitted fabrics as well as basic accessories were not in place to make them competitive in the world market and as a result many of them have been working on a cut, make and trim (CMT) basis (Yared, 2010).

The first and second Growth and Transformation Plans (GTPs) also envisage the transformation of the country's economy from agrarian to industrial. The government has also given priority to the garment and textile sector. Hence, it provides different support and incentive to encourage their competitiveness in international market (Gillespie and Carol, 2002).

As various information sources have revealed, the government of Ethiopia remained far off-track to meet its plan of advancing textile industries for various reasons. These industries are not profitable as they were expected to be. Besides, it is not surprising to observe that customers are becoming relatively dissatisfied with the high market prices and relative poor quality of the products supplied by some Ethiopian garment and textile manufacturers.

### **1.1.3. Yirgalem Addis Textile**

Yirgalem Addis Textile Factory is a private organization which is located in the southern part of Addis Ababa, at Debrezeit Road, Nefas Silk Lafto Sub-City, kebele 08. The factory was established in 1961 with its former name Lazaridis Cotton Mills Ltd, S.C, and later the name was changed to Adey Abeba Yarn Factory, and currently named as Yirgalem Addis

Textile Factory PLC. The Factory was privatized from government ownership on sales basis in July 2010, with a paid-up capital of Birr 53 million. After its privatization, the factory carried out various rehabilitation and expansion projects including employee's capacity building program in the last five years to improve its capacity and competitiveness in export and domestic markets. The Factory has four product lines, namely: - Garment, Knitting, Dyeing and Blanket. It has many different kinds of product and they are: T-shirts, Woven blankets, Non-woven blankets, Pajama and underwear, and Knit bed sheet.

The intention of this study is to assess the challenges, opportunities and prospects of Yirgalem Addis Textile Factory in terms of increasing its sales revenue to achieve a total sales value, enhancing profit through producing high value-add products, development of new brands in the local market and expanding of its export market share.

## **1.2. Statement of the Problem**

Over recent years, there has been an increased interest in Africa as a continent with immense resources and potentials. The AGOA initiative is believed to stimulate the development of such interest in Africa among others. AGOA has been playing the major role of promoting Sub-Saharan Africa's integration into the multilateral trading system, and empowering the continent to have more active roles in global trade negotiations. It has also contributed to economic and commercial reforms with the view to make African countries more attractive partners for U.S companies.

The African, Caribbean and Pacific - European Union (ACP-EU) and other agreements have also an opportunity for the textile and garment Industry. Being eligible to AGOA and ACP-EU has created favorable condition for the economic development of Ethiopia in general and the textile industry in particular. Besides, Ethiopia has been singled-out as a land of growth and investment opportunities (Ethiopian Investment Agency's, 2008). It is reported that Ethiopia grows the world's finest cotton and has a rich textile spinning and weaving history.

In addition to the impressive business opportunities in the sector, government incentives in the development of both local and global markets, make it pretty attractive in terms of huge investment and utilizing the "Hot Cake" opportunity of unexploited local market share even if the local market has been suffering from threats of smuggled second-hand clothes, monopoly of low-cost Asian (China, Thailand, Indian and Malaysian) garment/apparel products (Ethiopian Investment Agency's, 2008). Even though Ethiopia is qualified for AGOA to manufacture and export products duty and quota free access to the US market, the export performance as such is not high as compared to some African countries.

On the other side, sustaining and achieving growth in the sector is a real challenge for a number of developing countries. Protection through quotas and high tariffs is followed by several other challenging arbitrary measures such as the imposition of trade remedy and discriminatory measures in preferential trading agreements. Elimination of Quota consolidates production into large companies and small number of supplying countries because of the economies of scale.

Even if market access barriers are removed, most developing countries still face several supply-side common constraints such as lack of skilled and trained manpower, poor quality of infrastructure, limited trade facilitation, high cost of inputs, especially for none vertically integrated structure, and limited access to finance which impede their competitiveness in subsequent period of its operation.

Even though the above situations generally apply to all textile factories, there is still a need to understand the nature and assess challenges, opportunities and prospects of a specific Factory. In this study, Yirgalem Addis Textile Factory would be assessed in light of the following research questions:

- How is Yirgalem Addis taking advantage of AGOA in the textile sub- sector?
- What are the opportunities brought by AGOA in the textile sub-sector in general and Yirgalem Addis Textile in particular?
- What are the challenges /problems preventing Yirgalem Addis from making maximum use of AGOA benefits?
- What is being done to overcome the challenges on the part of Yirgalem Addis as an exporter?
- How can Yirgalem Addis enhance productivity to benefit from AGOA?
- What are the conformity requirements that need to be adhered to by Yirgalem Addis Textile Factory?
- How can Yirgalem Addis Exporters establish connectivity with the International Market to benefit from AGOA?
- What are the specific prospects of Yirgalem Addis Textile?
- How is Yirgalem Addis Textile taking its competitive advantage to maximize its market share?

### **1.3. Objectives of the Study**

#### **1.3.1. Overall Objective**

The overall objective of the study is to assess the challenges, opportunities and prospect of Yirgalem Addis Textile Factory.

#### **1.3.2. Specific Objectives**

- To identify the challenges, opportunities and prospects of the Yirgalem Addis Textile Factory;
- To identify the factors that affect challenges, opportunities and prospects of Yirgalem Addis Textile Factory;
- To find out the types of measure, being taken by Yirgalem Addis Textile Factory to address its challenges, opportunities and prospects;
- To describe how Yirgalem Addis Textile Factory is taking advantage of AGOA in the textile sub-sector;
- To recommend how Yirgalem Addis Textile Factory would overcome the challenges, and be able to benefit from the opportunities and prepare itself for the prospects;

### **1.4. Significance of the Study**

This study is intended to provide valuable information to Yirgalem Addis Textile Factory management for ease of decision making. Besides, it would be an initial idea for those who are interested to make further investigation in the field.

## **1.5. Scope of the Study**

The research mainly focuses on the assessment of Yirgalem Addis Textile Factory's challenges, opportunities and prospect covering the period during which the study is carried out.

## **1.6. Limitation of the Study**

The study has a number of limitations. One of the critical limitations is the absence of reliable data about the factory. The second limitation of the study is connected to absence of relevant study materials on the subject. The third limitation refers to the unwillingness of the officials of Yirgalem Addis to provide information. It is found out that Yirgalem Addis operators are largely reluctant to give their time to respond to the survey questionnaires for various unrevealed reasons. So, repeated visits and attempts to clarify the objective of the study visit were tiresome and time consuming. Furthermore, the writer of this paper, as a student, has certain degree of lack of expertise in conducting such a vast and complex study.

## **2. Research Design and Methodology**

### **2.1. Research Design**

This study used exploratory research design to assess the challenges, opportunities and prospects of the company and major contributing factors to them. The exploratory research design was used to understand about the challenges, opportunities and prospects by asking qualitative questions.

### **2.2. Source of Data**

The study relies on both primary data and secondary sources. The primary data were collected through questionnaire and interviews. Primary sources are preferred over secondary sources to get fresh and detailed first hand facts for the specific study; whereas, secondary data were used to write background information.

### **2.3. Sample Size and Sampling Technique**

The sample size involves two managers — the marketing manager and production manager of Yirgalem Addis Textile Factory as well as the respondents who participated in filling the questionnaires and interview. The respondents are selected using convenience sampling techniques of the non-probability sampling method. It was assumed that the respondents had knowledge about the challenge, opportunities and prospects of the Yirgalem Addis Textile Factory.

### **2.4. Data Collection Instrument**

Questionnaire and interview were used to collect data for this study. The questionnaire are used because it is economical compared to other instruments such as observation. It was used for the personnel at the management level. The questionnaire included question on challenges, opportunities and prospects of Yirgalem Addis Textile Factory. Some of the questions were close ended and some are open ended questions.

A personal interview was conducted using an interview schedule. This is the most effective way to enlist the cooperation of respondents in a survey. It helps to classify questions, provide an opportunity to follow up unclear and incomplete questions, and if necessary, permits spending more time with respondents. Data gathered using interviews had been



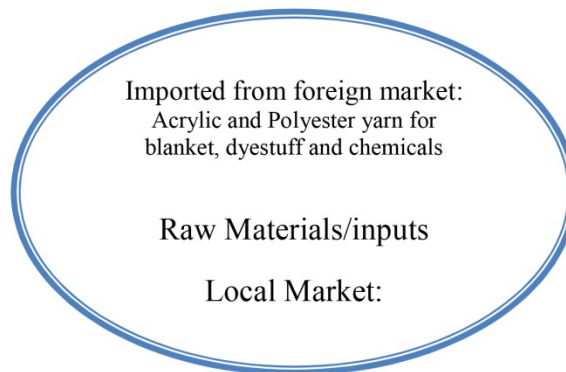
found to be fairly reliable. However, interview has weaknesses such as interviewer biases, high cost, covering a small sample size and offers less anonymity than the other method.

### 3. Data Presentation, Analysis and Interpretation

The collected data through different means are analyzed and interpreted. The current situation of the Yirgalem Addis Textile Factory towards the challenges, opportunities and prospects is reflected in the data collected and analyzed.

#### 3.1. Customers Type the Company Serve

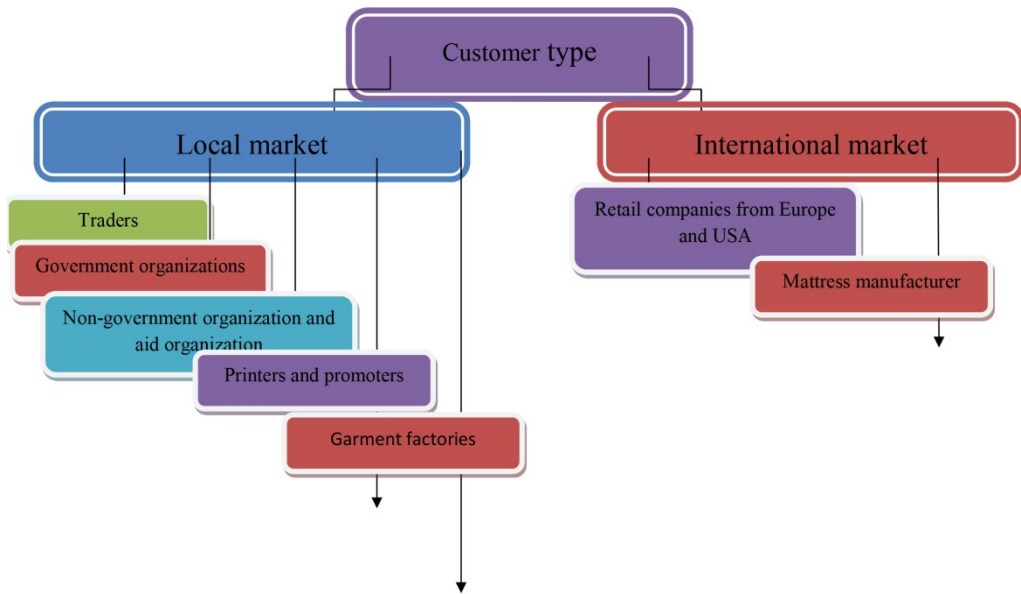
According to respondents the inputs/raw material which the factory uses are purchased from local markets and import. The inputs which are purchased from local markets are yarn spinning mills, accessories and packing materials. On the other side, the imported raw materials are acrylic and polyester yarn for blanket, dyestuff, and chemicals. They might get dyestuff and chemicals from local market, but the quality of imported inputs is much better than the local market for a better output.



**Figure 3.1 Input/raw Materials for Yirgalem Addis Textile Factory**

The inputs mentioned in Figure 3.1 obtained to have the quality of garment, knitting and blanket to fulfill the consumers need. So, the loyal customers who purchase from Yirgalem Addis Textile Factory product are mentioned in the Figure 3.2 below





**Figure 3.2 Customer and Market Type Company Services**

Source: Research survey, 2016

### 3.2. The Sales Performance of Yirgalem Addis Textile Factory

Based on the secondary data collected and the interviews conducted with the respondents, it was learnt that sales performance of the Factory was increasing through a period of time.

In total, the company exported value in the six month of the year 2015/16 was 14,191,666.7 USD. This can be compared to 2010/11 exports which amounts to 920,588.2 USD: the export of the company showed an increase of 90%. The last five years' sales performance of the factory had indicated an increasing trend as shown in Table 3.1.

**Table 3.1 Sales Performance of Yirgalem Addis Factory, 2010 – 2016**

Budget year	Sales performance (USD)	Sales performance (Birr)
2010/11	920,588.2	18.78 million
2011/12	2,293,627.5	46.79 million
2012/13	2,900,000	59.16 million
2013/14	3,006,862.7	61.34 million
2014/15	3,580,882.4	73.05 million
2015/16 ( 6 month)	1,489,705.9	30.39 million
Total	14.19 million	289.51 million

Source: Research survey, (2016)

As mentioned in table 3.2, in the 2014/15 budget year the company performed Birr 73.02 million sales, out of which 97.94 % or Birr 71.51 million was sold in local market and the rest 2.06 % or Birr 1.50 million (73,706.56USD) was sold for export market.

In the budget year 2015/16, for a 6-month period, the factory sold Birr 30.39 million, out of which 87.60 % or Birr 26.62 million was sold in the local market and the rest 12.40 % or Birr 3.77 million (USD 179,243 or 97,593 pieces of garment) was sold for export market.

### 3.3. The Level of Integration and Main Local Competitors of Yirgalem Addis Textile Factory

The following Table 3.2 shows the textile and garment enterprises, established in Ethiopia. It indicates domestic competitors, potential local markets and raw material supply sources of Yirgalem Addis Textile Factory. Moreover, it also shows the level of integration of the factories.

**Table 3.2 Level of Integration and Main Local Competitor of Yirgalem Addis Textile Factory**

No	Factory	Garm ent	Fabric		Yarn	Blanket
			Knitted	Woven		
1	Novastar Garment Factory PLC	√	-	-	-	-
2	Wossi Garment Design Factory	√	-	-	-	-
3	Nazareth Garment S.C	√	-	-	-	-
4	HG Garment PLC	√	-	-	-	-
5	Feleke Garment PLC	√	-	-	-	-
6	Gulele Garment S.C	√	-	-	-	-
7	Akaki Garment S.C	√	-	-	-	-
8	Ayka Addis Textile and Investment Group	√	√	-	√	-
9	Concept International Ethiopia PLC	√	-	-	-	-
10	Village Industry PLC	√	-	-	-	-
11	Wow Garment	√	-	-	-	-
12	ASBM Industrial PLC	√	√	-	-	-
13	Lucy Garment Industry PLC	√	-	-	-	-
14	Mulat Garment PLC	√	-	-	-	-
15	Knit to Finish PLC	√	-	-	-	-
16	GG Super Garment PLC	√	-	-	-	-
17	Addis Garment S.C (Augusta)	√	-	-	-	-
18	GMM Garment PLC	√	-	-	-	-
19	Crown weaving textile PLC	-	-	√	-	-
20	Progress Garment Factory	√	-	-	-	-
21	Ambassador Garment and Trade PLC	√	-	-	-	-
22	Al Mehdi Industries PLC	√	√	-	-	-
23	BM Ethiopia Garment and Textile S.C	√	-	-	√	-
24	<b>Yirgalem Addis Textile Factory PLC</b>	√	√	-	-	√
25	Soney Garment T.andGeneral Trading PLC	√	-	-	-	-
26	Vitcon PLC	√	-	-	-	-
27	Almeda Textile S.C	√	√	√	√	-
28	Adama Spinning Factory	-	-	-	√	-
29	MAA Garment and Textile Factory	√	√	-	√	-
30	Nas Foods Dire Dawa Textile Factory	-	-	√	√	-
31	Bahirdar Textile S.C	-	-	√	√	-
32	Arba Minch Textile S.C	-	-	√	√	-
33	Saygin Dima Textile S.C	-	-	√	√	-
34	Selendawa Textile S.C	-	√	√	√	-
35	Kombolcha Textile S.C	-	-	√	√	-
36	Al-Asr Industries PLC	-	-	√	-	-
37	Awassa Textile S.C	-	√	√	√	-
38	Else Addis Industrial Development PLC	-	√	√	√	-
39	Bekimar Industries PLC	√	√	-	-	-
40	Elias Textile and garment PLC	√	√	-	-	-
41	Africa Cotton	√	-	-	-	-
42	E-tur Textile Factory	-	√	-	√	-
43	Shayler PLC	-	-	-	√	-

Source: Research survey, (2016)

As it can be understood from table 3.2, Yirgalem Addis Textile Factory has several domestic competitors. As the vertically integrated textile factory having knitting, dyeing, garment and blanket plant, it is placed in a better position compared with most of the textile factories.

**3.4. The challenges of Yirgalem Addis Textile Factory** The respondents said that the factory faces many problems in meeting its objectives. The list of the challenge that Yirgalem Addis Textile Factory faces is shown in the following Figure 3.3.

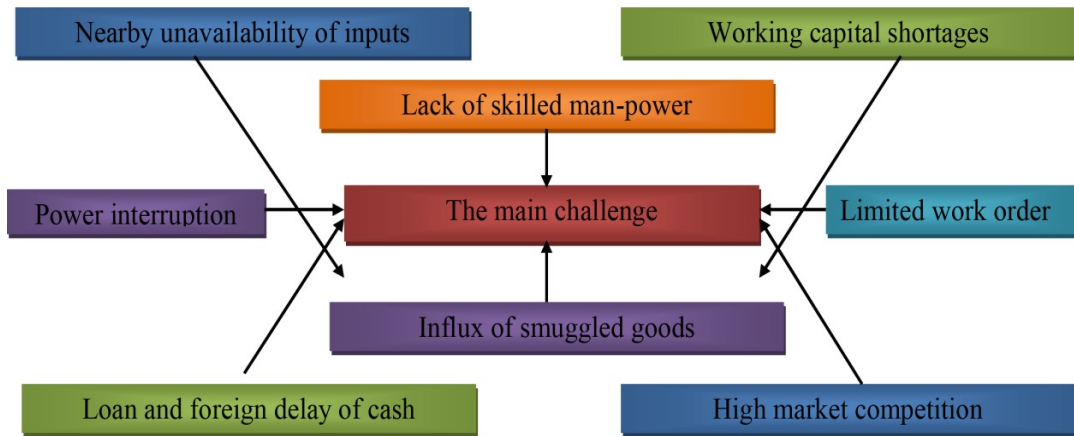


Figure 3.3 the main challenges of Yirgalem Addis Textile Factory

Source: Research survey, 2016

The main challenges faced by Yirgalem Addis Textile Factory mentioned above are the problems that make it not to meet its objective. Those challenges are classified based on the government policy, domestic market, international market and factory itself by a distributed questionnaire and in-depth interview.

**3.4.1. Government Policy**

As the in-depth interview with respondents indicates, exporters have scarcity of raw material so they are forced to import from abroad for processing and then exporting again. The respondents replied that the existing government policies are helpful, but have some sorts of limitation on the company. The main limitations are problem of getting sufficient working capital. Some other challenges are shown on Figure 3.4.

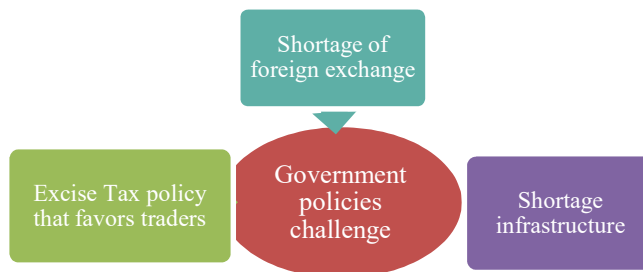


Figure 3.4 Government Policy Challenge

Source: Research survey, 2016

The shortage of foreign exchange for import of capital goods and inputs might delay the procedure of the Factory and the shortage of infrastructure such as frequent power interruption; water and road, slow the system of manufacturing garment.

### 3.4.2. Domestic Market Challenge

The interview response indicates that the domestic market is a challenge to Yirgalem Addis Textile Factory. They are listed in the Figure 3.5.



**Figure 3.5 Domestic Market Challenges**

Source: Research survey, 2016

The unavailability of sufficient and reliable spare parts, and dye staff suppliers in the local market makes the factory not to meet its objective, because the spare part is either very expensive or not easily found. The price change brought a high effect in the factory and the consumer might prefer the used clothes for it is so cheap for the lower level community due to low disposable income of consumers. Therefore, the Factory might face a problem by the smuggled clothes and the consumer might not purchase.

### 3.4.3. International markets challenges

The respondents mentioned the international challenges that are shown in Figure 3.6.



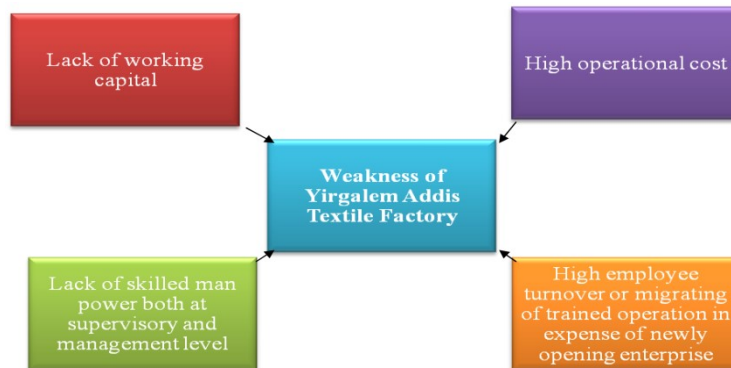
**Figure 3.6 International market challenges**

Source: research survey, 2016

The productivity, quality and technology compared to international standard are very low, because the shortage of raw materials/input and lack of knowledge. The Factory faces lack of export market experience and that guide the factory was not able to use the opportunities like AGOA, EU, and COMESA. It faces fierce competition from China, India, Middle East and western countries in terms of its low productivity and very high production cost.

### 3.4.4. Weakness of Yirgalem Addis Textile Factory

The respondents listed the weakness of the factory. There are shown in Figure 3.7.



**Figure 3.7 Weaknesses of Yirgalem Addis Textile Factory**  
Source: Research survey, 2016

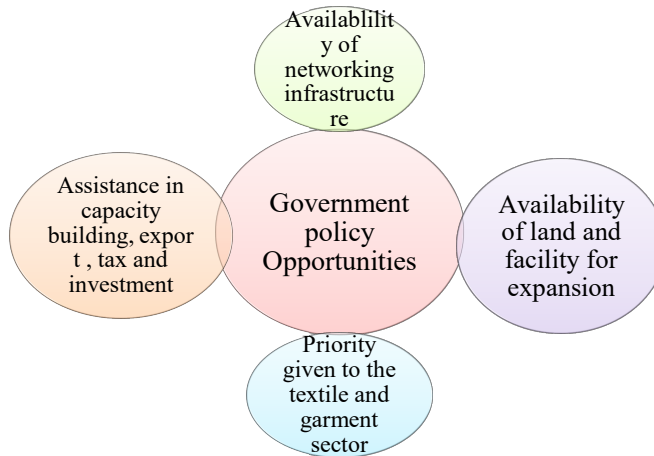
There are other challenges like organizational structure and management inefficiencies resulted in unavailability of well prepared organizational policy and procedure manuals and even a shortage of well-organized external training centre for operators and availability of ideal and inoperative machineries and equipment.

### 3.5. The Opportunities of Yirgalem Addis Textile Factory

The increment trend on sales performance of Yirgalem Addis Textile Factory placed it in a better position compared to most of the textile factories. The Factory can achieve more, because of opportunities which textile factories benefit. The respondents told the opportunities that exist due to the government policy, local market and the Factory itself.

#### 3.5.1. Government Policy Opportunities

According to the respondents, an increase in sales volume was achieved as a result of a support provided by the Government to Yirgalem Addis Textile Factory. This is due to the priority given to the textile and garment sector by the Government. As the respondents stated the highest opportunities include preferential market access to US (AGOA), EU, COMESA and the other bilateral trade agreements signed by Government. The respondents said that Yirgalem Addis Textile Factory was directly exporting to US using the AGOA opportunity since 2012. Figure 3.8 shows government policy opportunities.

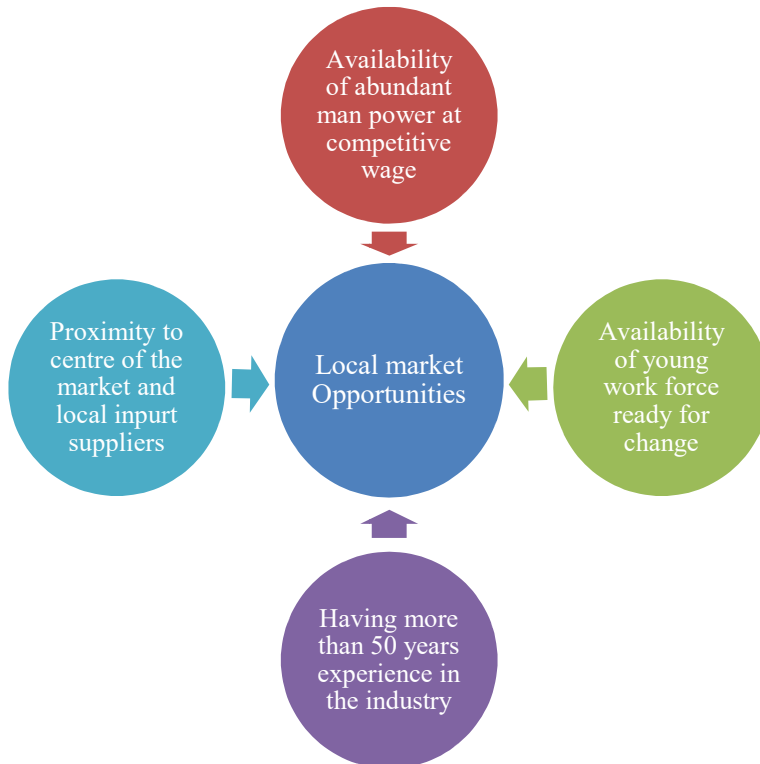


**Figure 3.8 Government policy opportunities**

Source: Research survey, 2016

**3.5.2. Local Market Opportunities**

The respondents revealed that there exists a large domestic market and a high population growth rate on average 2.48 % as World meters (2016) stated. Figure 3.6 shows the local market opportunities.



**Figure 3.9 Local market opportunities**

Source: Research survey, 2016

The proximity to market centers helps the company to enter the market. The textile factory is an opportunity for the young work force to get jobs. This is also an advantage for the company in terms of availability of abundant manpower at competitive wage.

### 3.5.3. Strength of Yirgalem Addis Textile Factory

Through interview the respondents stated that Yirgalem Addis Textile Factory had a potential to diversify to the market of on garment (fashion), knitting and blanket, because of availability of modern garment machineries. There are different other strength which are shown in Figure 3.10.

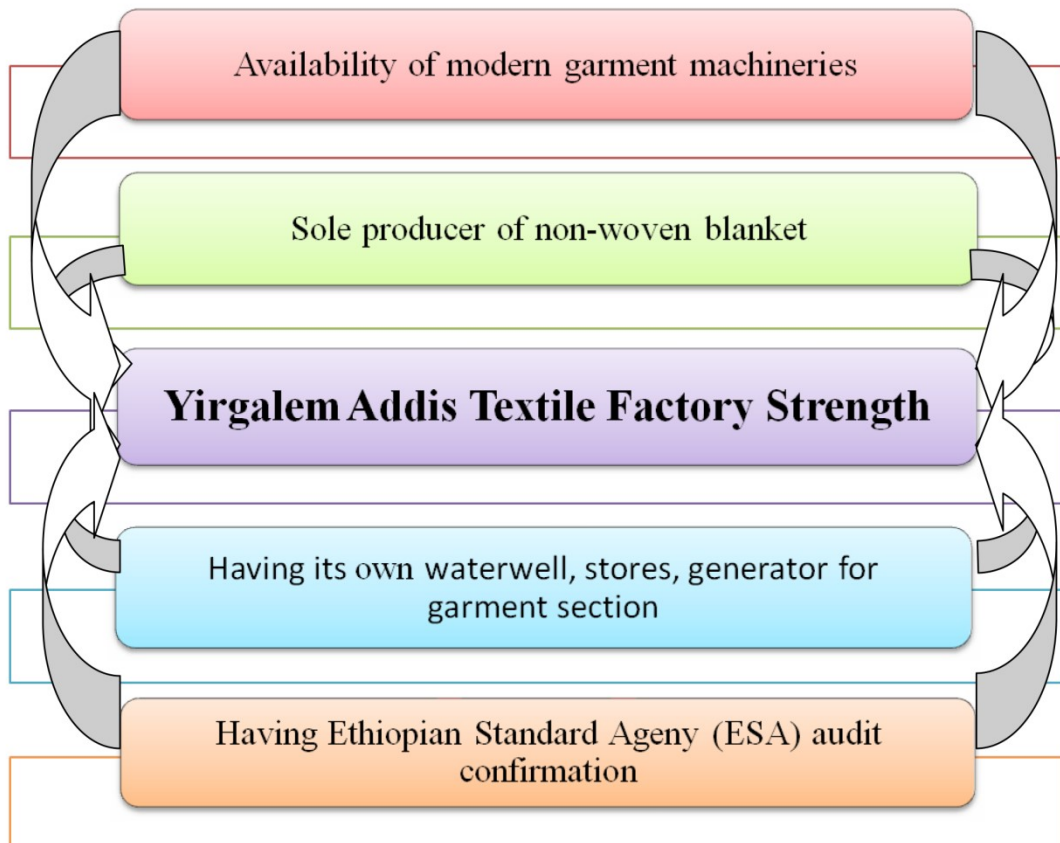


Figure 3.10 Strength of Yirgalem Addis Textile Factory

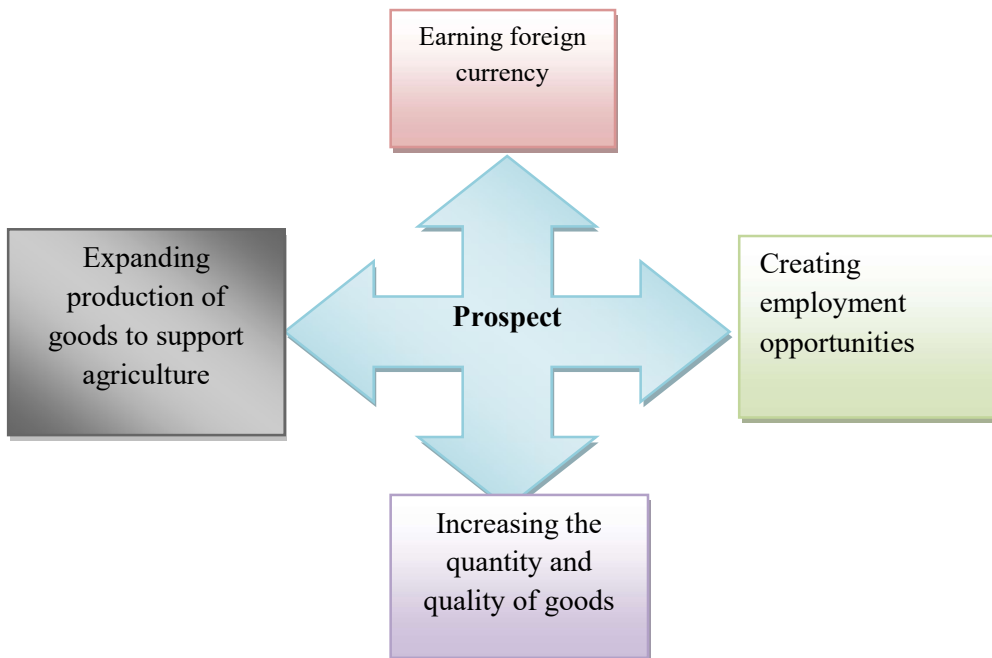
Source: Research survey, 2016

Most of the textile factories face a problem of getting modern garment machineries. So, they rent from the Government for a limited period, but Yirgalem Addis Textile Factory has its own modern garment machines and this reduces expenses. It produces non-woven blanket which is demanded by the consumer and it benefited by being the sole producer.



### 3.6. The Prospects of Yirgalem Addis Textile Factory

According to respondents, as long as the Yirgalem Addis Textile Factory increase the production capacity, efficiency and quality levels, it can overcome existing challenge to utilize the opportunities on hand. The prospect is shown in Figure 3.11.



**Figure 3.11 Prospects of Yirgalem Addis Textile Factory**

Source: Research survey, 2016

With the increase in quantity and quality of goods, the factory can earn foreign currency and save foreign exchange.

## 4. Summary of Findings, Conclusion and Recommendations

### 4.1. Summary

The findings of this paper are based on the assessment of the opportunities, challenges and prospects. The opportunities are:

- Government assistance in capacity building, export, tax and investment,
- Priority given to the textile and garment sector by the government,
- Availability of land and facility for expansion,
- Availability of abundant man power at competitive wage,
- Proximity to centre of the market and local input suppliers,
- Possibility of product diversification on garment, knitting and blanket.

The challenges are:

- Excise tax policy that favors traders,
- Shortage of foreign exchange for import of capital goods and inputs,
- Shortage infrastructure such as frequent power interruption, water and road,
- Commodity price inflation,
- Unavailability of sufficient and reliable spare part and dye staff suppliers in the local market,
- Preference of used clothes due to low disposable income of consumers,
- Fierce competition from China, India, middle east and western countries,
- Low productivity, quality and technology compared to international standard
- Low production efficiency and high cost.

The prospects are:

- Increasing the quantity and quality of basic consumer goods with a view to improve the living standard of the working people,
- Expanding the production of goods that would support the agricultural sector such as farm machines, implements,
- Encouraging the development of industries that would cater for the construction sector,
- Expanding and/or establishing handicrafts and small-scale industries,
- Expanding and/or establishing metal, chemical and non-metal industries with the view to lay the basis for heavy industry,
- Earning or saving foreign exchange,
- Creating employment opportunities.

#### **4.2. Conclusion**

This paper examined the challenges, opportunities and prospects related to Yirgalem Addis Textile Factory. The opportunities for the factory are assistance in capacity building, export, tax and investment. Priority is given to the textile and garment sector by the government. By using this and AGOA opportunity the factory can have a great sales performance in the coming years; still there are challenges faced by the factory which includes inefficient production, and influx of smuggled goods to the market. The factory has a bright future prospect if there would be some action done by the Government. The factory has opportunities to use, but head to overcome challenges to achieve its objective.

#### **4.3 Recommendations**

To benefit from the opportunities and overcome its challenges, Yirgalem Addis Textile Factory should undertake the following measures:

- Asking the Government to revise its policy on excise tax and control smuggling goods;
- Making an additional expansion program to increase its production capacity;
- Additional investment is required to modernize and further increase its production capacity;
- Continual man-power training is required to narrow the skill gap;
- Availing sufficient working capital; and
- Insuring continual power supply.

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