

## Policy Brief

# Unlocking Potential: Addressing Challenges and Harnessing the Role of Cottage Industries, Insight from Oromia Region of Ethiopia

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## Executive Summary

Cottage industries play an important role in enhancing economic growth and development in developing countries due to their low investment requirement and dependence on indigenous knowledge. They also have considerable role in laying the foundation for future industrial expansion as they offer excellent opportunities for entrepreneurial and managerial talent to mature. However, the contribution of cottage industries to the overall economic development goals of the country has not received appropriate attention by policy makers and, these industries have not been encompassed in the national and Oromia Regional State strategic development plan. Thus, the aim of this policy brief is to reveal the status of the cottage industry in Oromia Regional State, identify its technology and skill gaps, and formulate intervention strategies for the development of the industry. It attempted to explore spatial distribution of the dominant cottage industries in the region, the gender dimension involved, the contribution to the regional economy, and the level of productivity of cottage industry, and the potential competitiveness of the industry practitioners in Oromia Region. This policy brief document is derived from a policy working document study conducted at Oromia regional state level exhaustively, collecting data from cottage business firms (n=859) and customers of cottage industry products (n=100) from 81 selected districts and 19 urban centers in 16 zones (East Shewa, Arsi, West Arsi, Guji, Bale, East Bale, West Hararge, East Hararge, West Shewa, East Wollega, South West Shewa, Jimma, Buno Bedele, Ilu Aba Bora, North Shewa, and Sheger city) of Oromia Regional State using self-administered questionnaires and interview. The contribution of cottage industries to the regional economy was measured by the income generated from the sector and the number of employment creation. Both descriptive and inferential analyses were conducted to arrive at the results.

The dominant cottage industries practiced in the study area were weaving and knitting, pottery, carpet and basketry, carpentry and wood handcraft, food and beverage processing, metal handcraft, tannery and leather handcrafts, cultural artifacts, and others which include traditional medicine and treatment, hair dressing, local soap production, and gypsum handcrafts. The findings also reveal that there is a gender-based division of labor participation. The average monthly income earned by the owner of the cottage industry is estimated to be 9,071.93 birr, whereas the average wage of a laborer who works in the cottage industry sector was estimated to be 3,477.50 birr per month. This shows that working in the cottage industry sector contributes significantly to household income. With regard to the number of employment creation, a given cottage business creates a job for two people, on average. At last but not least, this study shows that existing cottage industry demands less initial/investment capital, traditional tools and equipment mostly bought from the local market, majority have no formal schooling, their productivity is much less than 50% of their capacity. Overall, the major challenges of cottage industries include lack of finance, access to raw materials, incentives and administrative support, and access to appropriate technology and markets, inconvenient working and selling places, and inflation.

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## 1. Introduction

The government of Ethiopia has been implementing different development interventions to speed up the industrialization process of the country and to improve the living standard of its citizens. Currently, the Home-Grown Economic Reform (HGER) agenda in Ethiopia focuses on stabilizing the economy and fostering sustainable, and inclusive growth through a combination of macroeconomic, structural, and sectoral reforms. The HGER aims at addressing key challenges, such as macroeconomic imbalances, structural bottlenecks, and the need for improved policy and institutional frameworks. Its vision in the sectoral reforms focuses on enhancing productivity and competitiveness in key economic sectors, mainly agriculture and manufacturing, addressing market failures, and attracting foreign direct investment (Yidneckachew & Cochrane, 2024; FDRE, 2020). Ethiopia's 10-year manufacturing sector strategic plan, part of the broader Ten Year Development Plan (2021-2030), aims to accelerate economic transformation through industrialization, specifically by increasing the manufacturing sector's contribution to GDP. The plan focuses on enhancing productive capacity, diversifying industries, and fostering both large and small and medium-sized enterprises (SMEs).

However, the role of the cottage industry in the overall economic vision of the country has not received policy attention and the sector has not been included in the 10-year national or regional manufacturing sector strategic plan (FDRE, 2020). On the other hand, a significant portion of the population of Oromia Region is engaged in the cottage sector (ASTU, 2021). Thus, the purpose of this policy brief is to explore the status of cottage industry sectors in the region in terms of their mode of production, competitiveness, marketability, and contribution to the household economy, and to suggest strategic intervention to improve the sector.

## 2. Rationale

Developing countries often rely heavily on urban areas for industrial and economic development (Diao et al., 2021). Urban areas are advantageous in the infrastructural development, availability of industry networks and services and labor supply. On the contrary, rural industrial development tends to be

neglected (Kruse et al., 2022). In low-income countries, cottage industries typically serve as a supplementary income, alongside farming (Waktole & Jira, 2016). However, as industries are developed and agricultural benefits are diminished, the number of rural industries opening has begun to rise. In rural Brazil, for example, 21.8 % of the working population engages in rural industries as a primary source of employment; counting those who work in rural industries as a secondary occupation, this number increases to at least 40 % (Ferreira & Lanjouw, 2001). Similarly, in the rural Polikastro-Peonia region of Greece, 52 % of the population is involved in some form of small-scale industries (Kalantaridis & Labrianidis, 1999). In India, a conservative estimate of 23 million Indians are considered “craftspeople”, which makes it the second largest source of employment in the country (Sood, 2002; Biswas et al., 2017). Coming to Oromia Region of Ethiopia, the CSA 2010 survey shows that about 1.3 million people were engaged in this sector, even though there is no latest evidence since then (CSA, 2010). However, it is estimated that the majority of rural population and urban dwellers are engaged in the cottage sector even though there is no inclusive policy as yet (Abate, 2018; Waktole & Jira, 2016).

In order to improve the welfare of this mass population and transform their economic status, there has to be a study that investigates the current status of cottage sectors and proposes intervention strategies. Thus, realizing these gaps and the importance of such study, this policy brief explores the status and role of cottage industries in Oromia National Regional State (ONRS) and proposes appropriate intervention strategies so as to scale up the benefits from cottage businesses.

## 3. Cottage and Small Scale Industry Performance in Oromia Region

### 3.1 Spatial distribution

The study finding shows that out of the seven types of cottage industries considered, metal handcraft industry (23.6%) is the most widely practiced cottage industry followed by pottery (19.7%) and food and beverage processing (15.4%). Cottage industries are spatially distributed in number and type, based on the local availability of raw material, such as clay soil,

wood, and metal. The current finding revealed that pottery cottage business is relatively dominant in the central (Lega Tafo-Laga Dadi, Kimbibit, Limu and Bilbilo, Digalu and Xijjo), eastern (Ciro, and doba) and western (Didesa) parts of the region, and it is less practiced in the southern part. Food processing businesses are concentrated in the central (Limu and Bilbilo, Hexosa, and Diksis) and eastern (Haramaya, Deder, Meta, and Goro Gutu) parts, while they are few in the northern and western parts of the region. Weaving and Knitting businesses are concentrated in the central (Burayu, Sululta, Debre Libanos, and Bishoftu), eastern (Deder) and western (Seka Chekorsa) parts, while they are less numerous in the central and southern parts of the region. Metal handcraft businesses are widespread in the eastern (Meta, and Goro Gutu) and western part (Jimma town, Seka Chekorsa, Woliso, and Bedele) of the region, while they are less commonly practiced in the south and northern parts.

### 3.2 Gender division

In terms of gender, both men and women are working in the sector even if some differences exist. Metal handcraft (95.4%), carpentry and wood handcraft (93.1%), tannery and leather handcrafts (93.1%) and weaving and knitting (76.9%), are generally dominated by men, whereas, pottery (90.7%), food and beverage (77.5%), carpet and basketry (76.6%), and cultural artifacts (67.6%) are dominated by women.

### 3.3 Competitiveness

In order to be competitive enough, the sector needs to have modern skill and has to use up to date technologies and tools. The study findings show that only about 14.3 % of the owners and laborers of the cottage industries have received formal training, either by the government or by NGOs. The majority (43 %) of the practitioners in the cottage industry have attended primary school and about 23% are not able to read and write. Thus, to be competitive, the sector demands capacity building through training.

The study also reveals that cottage industry practitioners predominantly rely on traditional tools and equipment, with 74.6% sourcing these from local markets. A significant majority (80%) perceive their current tools as being of poor or below-average quality.

This widespread use of outdated, often inherited technologies, contributes to inefficiency and low productivity. Therefore, the sector urgently requires strategic technological upgrades.

The study found low efficiency and competitiveness within cottage industries, with an average efficiency rate of less than 50%. The cottage industries examined showed an average cost efficiency of only 36.33%. Interestingly, female practitioners demonstrated higher cost efficiency than males, likely due to their involvement in businesses with lower production costs. This overall inefficiency, coupled with existing skill and technology gaps, severely limits the competitive capacity of current cottage industry practitioners.

Overall, there are challenges that hinder the cottage industry performance in general and technology adoption in particular. Accordingly, the major challenges of cottage industries include lack of finance, access to raw materials, incentives and administrative support, and access to appropriate technology and product markets, inconvenient working and selling places, and inflation. The challenges that hinder technology innovation/adoption by descending order are lack of finance, inadequate workspace, inaccessibility of technology, lack of operation knowhow, shortage of raw materials, and lack of power and other infrastructure.

## 4. Conclusion

On average, every cottage business unit creates job opportunity for at least two person, namely, the owner and a labor. In most of the cottage industries, there is gender division of labor. Pottery and food processing is mainly dominated by women, whereas metal, wood handcraft, and tannery cottage industries are mainly carried out by men.

Considering the challenges, the cottage industry business owners need appropriate education and training. The percentage of people who have attended up to primary education is 74.5%, and only 14.3% have received some sort of training. There is no conducive business environment for cottage industry practitioners in general and to obtain loan from financial institutions in particular. Moreover, the industries are generally cost inefficient. The average efficiency of the cottage industries is estimated to be 0.36, ranging from a low of 0.29 to a high of 0.39. This is mainly attributed to lack

of access to basic utilities and improved equipment. The main challenges that hinder technology innovation/adoption are lack of finance, lack of enough work space, inaccessible technology, lack of knowhow on how to operate, shortage of raw materials, lack of power supply and other infrastructure.

Overall the result shows that there is insignificant government support for the cottage industries. As a way forward, the government needs to give due attention to these industries and support them so that they are able to upgrade and make themselves competitive.

## 5. Policy Recommendation

### *Doable and functioning strategic intervention*

- Giving special attention to manage and support the cottage industry sector by industry office stretching out to kebele level;
- Registering all cottage businesses in each kebele and providing them with special licensing that enables them to receive special support from the government;
- Creating a conducive, business enabling environment for the cottage practitioners by providing them with appropriate working place and one-window services;
- Enabling the cottage business to have access to financial credit services; Supporting the marketing strategy via creating different market linkages and online platforms so as to globally trade cottage products and improve their marketing efficiency (getting the true value of their product);
- Giving special attention to the cottage industry through providing subsidies, technology transfer and other supports to maximize the benefit of the sector;
- Facilitating conditions for the cottage industry to access better tools and equipment or technologies that help them to increase their productivity via improving production process, product quality and efficiency, new product development and time saving;
- Supporting the cottage industry to access adequate and sustainable raw materials so as to reduce inefficiency in cost of production (due to difficulty in accessing raw materials);

- Working closely with other government organizations such as the office of Job Creation and Vocational, financial institutions such as Sinqe Bank and city administrations;
- Developing a legal framework for cottage practitioners with regard to workplace safety protection tools since the practice is currently very limited;
- Overcoming the wide range of gender division of labor by education and technology provision

### *Capacity building*

- Developing special capacity building program which has to be linked with TVETs and other educational centers targeting cottage practitioners;
- Strengthening the cottage industry sector that generates relatively higher income to attract more youth and benefit the regional economy
- Establishing a cottage industry development center with a research unit for all cottage industry types and mandated to work on value addition of cottage industry products;
- Working closely with the media to promote cottage products, create domestic product loyalty in the region, and change the existing public attitudes toward the sector

### *One village one product: clustering approach*

- Clustering the cottage industries so as to provide them with common infrastructure and work and market places that help them to boost their productivity and business performance;
- Adopting lessons from successful countries like Vietnam- clustering approach, Kenya-one village one product approach to focus on specialization, Chinese and Bangladesh- “Plug and Play” industrial zones where government facilitated basic facilities.

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