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## Collective Action Opportunities for Upgrading the Value Chain of Small-scale Furniture Enterprises in Hawassa, Ethiopia

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### Abstract

Ethiopia is challenged with deforestation and coinciding wood supply gaps. The wood demand of the expanding furniture sector is projected to continue widening this gap. This sector mainly consists of small-scale enterprises, which face various challenges and are thus often situated in subsistent survival states. A development opportunity emerges when considering that upgrading such enterprises past subsistence has the potential to further generate employment and disseminate market signals towards wood suppliers. A valuable market for wood propels small-scale farmers to further adopt agroforestry practices.

Collective action is a frequently discussed option for countering enterprise development barriers in emerging economies and was thus explored as a potential upgrading mechanism. This study hereby aimed to develop an institutional model of collective action for small-scale furniture enterprises in Ethiopia.

The study applied a value chain analysis and framed the collective action model as a potential upgrading strategy. An explorative and descriptive research approach was applied, encompassing in-depth interviews with 54 wooden furniture enterprises and 12 key informants. The study was conducted in Hawassa, a central location for furniture production.

The interview results gave insight into the enterprises' value chain structure, costs, challenges, and upgrading desires. The most substantial issues were found to be market failures that limited access to factors of production, such as workspaces, machinery and financial capital. In addition, the government's role in supporting these enterprises was found to be weak, as access to support services was observed to be obstructed by selective bias and low capacities.

To counter these issues, a business association of small-scale furniture enterprises is recommended as a collective action upgrading strategy. By considering the local conditions and success factors identified in literature, the study developed an association model, describing its purpose, institutional arrangements and the characteristics of participating

actors. The aims of the association were recommended to facilitate network ties, lower transaction costs with authorities, support the access to business development services, and advocate for improved market conditions. In the long run, the association will help small-scale enterprises collectively develop into innovative and resource efficient businesses, thereby improving local forest-based markets and incentivizing tree growing initiatives.

**Keywords:** Business association, forest-based market, small-scale enterprises, value chain analysis, value chain upgrading, wood value chain