International Labour Organization

BetterWork Ethiopia

SCORE
Sustaining Competitive and Responsible Enterprises

VISION ZERO FUND

# BASELINE REPORT FOR THE ILO PROGRAMME "SIRAYE: ADVANCING DECENT WORK AND INCLUSIVE INDUSTRIALIZATION IN ETHIOPIA"

November 2019

**This brief represents a summary of a baseline report prepared and written by Girum Abebe, Gebeyehu Manie and Tigabu D. Getahun of the Policy Studies Institute**



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# KEY HIGHLIGHTS

**The current baseline study confirms that broad potential exists for the garment and textile sector to provide formal jobs to first-time and young job seekers.** Three-fourths of respondents are females with an average age of 24 years. Almost two-thirds are coming to their current job either directly from school or from a state of unemployment.

**Despite access to such jobs, workers' responses demonstrate challenges to maintaining a sustainable workforce.** Only 22 per cent of worker respondents anticipate they will be working in the garment or textile industry within three years. Satisfaction with working conditions in general varies widely among the workers surveyed.

**The average firm operates with a positive profit margin, yet managers' responses suggest they face operating challenges from both domestic and international factors.** Managers cite challenges such as uncertain orders from buyers in their supply chain and unreliable infrastructure as barriers to greater business success.

This baseline summary report intends to provide insight into the working conditions and business environment in a subset of the garment and textile industry in Ethiopia, as perceived by workers and managers, in 135 factories in a four-month time period in 2019. Other key findings include:

- **Two-thirds of workers have received some in-house training, but low skill levels remains a top human resources concern for management.** Skills development remains key for both firm competitiveness and improving individual career prospects.
- **Although workers report weekly hours near limits set by national law, many also report working overtime against their preference.** The average worker reports logging just over 48 hours per week. At the same time, two-thirds of workers say that they are at times required to work overtime.
- **Workers report occupational safety and health challenges in factories.** Forty-four per cent of workers say they have concerns about safety, including accidents or injuries at work. In some settings, such as factories located in industrial parks, workers' concerns with their personal safety during their daily commute actually exceeds their concerns with safety while at the workplace.
- **Workers report using formal grievance handling mechanisms.** About one-half of workers surveyed report access to a formal grievance mechanism at their workplace. Fifty-six per cent of these workers say they have submitted a formal complaint. When asked if they were satisfied with the resolution of their complaint, about two-thirds were satisfied, with one-third neutral or dissatisfied.
- **Communication and interpersonal relations at the workplace have clear room for improvement.** Half of workers say shouting or verbal abuse is a concern at work. Just one-quarter of workers say they are comfortable taking problems to their supervisors at work.
- **Managers report challenges from global supply chain dynamics.** Uncertain orders from buyers and buyer penalties for late deliveries are the top two business challenges managers identify coming from their supply chain relations.
- **Infrastructure and financing issues contribute to business challenges.** Managers report frequent challenges with electrical power sources, as well as financing constraints to their business.

# I. INTRODUCTION AND CONTEXT

The International Labour Organization has developed a comprehensive programme, "Advancing Decent Work and Inclusive Industrialization in Ethiopia." A key element of its agenda is engaging the fast-growing garment sector in Ethiopia. Begun in 2019, the programme aims to address the needs identified by Ethiopian stakeholders to ensure the textile and garment sector is a successful component of the country's rapid industrialization and a sector that provides decent jobs for new workforce entrants. Principal challenges identified in the sector include weak institutions, low productivity, high turnover, low wages and poor working conditions. The programme addresses these challenges at multiple levels of intervention. At the enterprise level, the programme endeavours to create a virtuous cycle of better wages and working conditions, higher productivity, and greater respect for workers' rights. The Programme aims to establish a robust, sustainable and inclusive compliance system. It provides demand-driven capacity building support to improve factory productivity, working conditions and industrial relations. This includes improving management systems, supervisory and human resources skills, and incorporates gender equality and diversity principles to encourage women workers to assume leadership positions.

At the national level, under the leadership of the tripartite partners, the programme facilitates dialogue among multiple stakeholders to develop a common vision and strategies to make Ethiopia an African hub of socially responsible production of garment for both global and domestic markets. The Programme also supports the tripartite constituents in fixing a minimum wage as well as enhancing the capacity of government institutions to prevent and resolve labour disputes.

At the regional and sectoral level, the Programme will focus on strengthening the capacity of employers' and workers' for social dialogue and collective bargaining. It also assists the labour inspectorate in building the capacity of its inspectors. To ensure occupational health and safety, the programme aims to establish a sustainable workplace injury prevention, protection, and compensation system.

This Programme is the subject of an independent impact evaluation. Data collected from sector-wide worker and manager surveys in 2019 form the basis for the current research brief. The full data set gathered in this effort serves as a starting point for understanding the current state of the sector in Ethiopia as the "Advancing Decent Work" programme progresses into 2020. The survey presents a perspective of these stakeholders at a snapshot in time, and is one source of information the ILO will use to better understand and address challenges in the sector. Follow-up surveys will take place in the form of interim surveys and an endline survey three years hence to track changes over time.


**A NOTE ON DATA SOURCES AND DATA COLLECTION METHODS**

Workers surveyed for this baseline report had the opportunity to answer questions in a self-guided, confidential survey via tablet computer. Surveys were translated into three languages and audio-recorded using familiar forms of language. This strategy enables even low-literacy users to complete surveys independent from direct interaction with an interviewer, increasing the sense of privacy and likelihood of forthright answers. The ILO collaborated with its research partner, the Policy Studies Institute, to train enumerator teams to facilitate such self-guided surveys.

Managers were interviewed directly by Policy Studies Institute enumerators.

The data collected for this baseline survey will be one source of information for the ILO to conduct impact evaluation activities. Follow up research activities for impact evaluation purposes will take place and build from this baseline surveys. Additionally, starting in 2020, data from the ILO's activities at factory-level, including compliance assessments, will become available.

# II. DATA SAMPLE AND TIMEFRAME

The current brief covers manager responses from 135 textile and garment enterprises in Ethiopia. In 39 of these firms, ILO's research partner, the Policy Studies Institute, deployed a self-guided worker survey covering the topics of worker demographics, working conditions and life aspirations. Along with management representatives from the 135 firms, 915 workers in a subset of firms completed the survey in the first four months of 2019. This brief combines insights from both worker and manager responses on a range of topics. Results are not disaggregated by individual factories, but some comparisons are made based on firm location or ownership, as well as the gender of the respondent.

**The current sample includes 135 firms across the country across the textile and garment industries. Following are some of the key attributes of these firms:**

- The average firm size is 555 workers per firm. Integrated textile and garment factories are on average significantly larger than firms identifying as solely a textile or garment factory, with an average 1,291 workers.
- Type of firm in sample: textile (26 per cent), garment (58 per cent), integrated (11 per cent), other (5 per cent)
- 28 per cent of firms in sample are located in an industrial park
- 57 per cent are domestically owned, 40 per cent foreign owned, and 3 per cent are joint ventures
- 41 per cent of firms produce for export

**The typical worker in this sample had the following attributes:**

- 24 years old (23 years old for women; 26 years old for men)
- 72 per cent are women
- Average amount of schooling: 10 years
- Average tenure in factory: 2 years
- 40 per cent of women in the sample are sewers
  - 12 per cent of men are sewers
  - Men are more likely to be supervisors 14 versus 5 per cent of women
- Before entering the garment or textile sector:
  - 15 per cent were unemployed
  - 49 per cent were in school
- One-quarter of workers report to married
  - 29 per cent have children
  - 27 per cent say they are the head of household
- 44-63 per cent are internal migrants
- Half of workers send money to family or other relatives; one-third receive money from family

# III. WORKING CONDITIONS

## A. Contracts and working hours

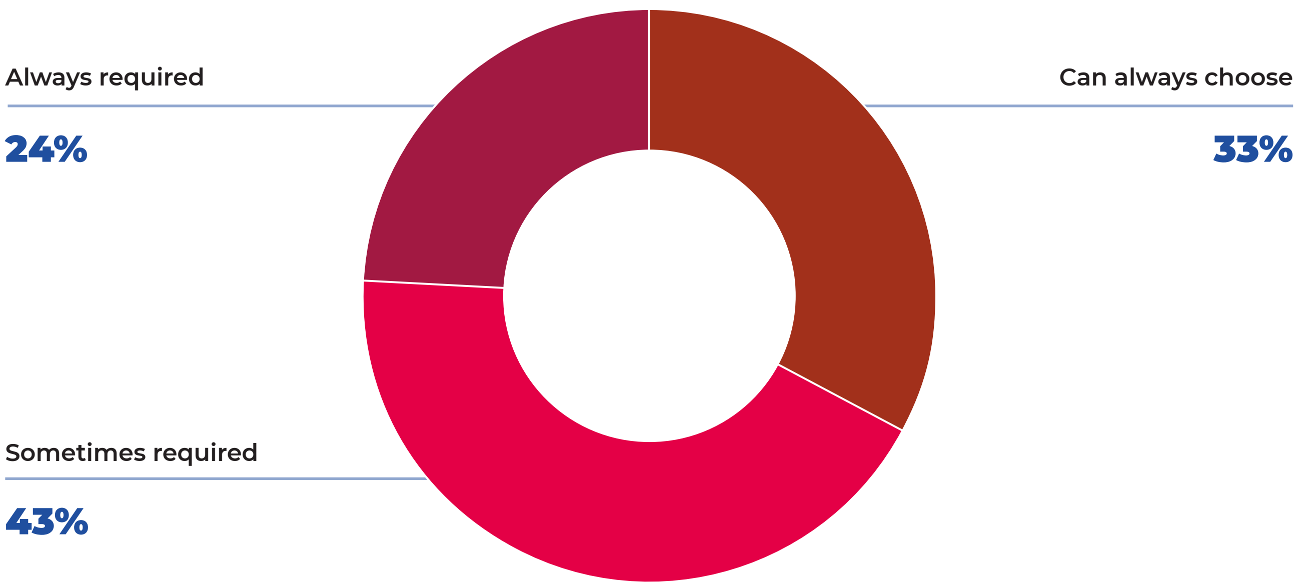
Of workers surveyed, 85 per cent reported that their terms of employment are permanent, as opposed to temporary, or of a casual work arrangement. However, a much smaller percentage of the workers confirm they have a written agreement with a specified duration of employment. In addition, the percentage of workers who have a written agreement with a specified employment duration is less than one quarter for all types of firms.

Average working hours according to workers is 8.16 hours per day over an average of 5.9 days per week. This translates to an average of 48.3 hours per week, slightly above the maximum working hours (48 per week) allowed by national standards.

While there is no statistically significant difference in average working hours per day between types of firms, there is a statistically significant difference in the number of days worked per week based on whether a firm is located in an industrial park. Workers in firms in industrial parks report 5.82 days of work per week versus 5.93 in firms outside industrial parks.

Workers are asked about overtime work hours. Two-thirds of workers say that they are sometimes or always required to work overtime (Figure 1). There is a difference between firms located in and outside industrial parks in terms of whether the worker chooses to work or not beyond the normal working hours. A larger percentage of workers from firms located in the industrial parks than from firms located outside parks can always choose whether to work beyond normal working hours (40 versus 30 per cent). Across all types of firms, around 40 per cent of workers affirm that they are paid a premium rate for overtime hours worked.

**Figure 1. Are you always able to freely choose to work overtime or does your employer sometimes require workers to work overtime under threat of penalty?**

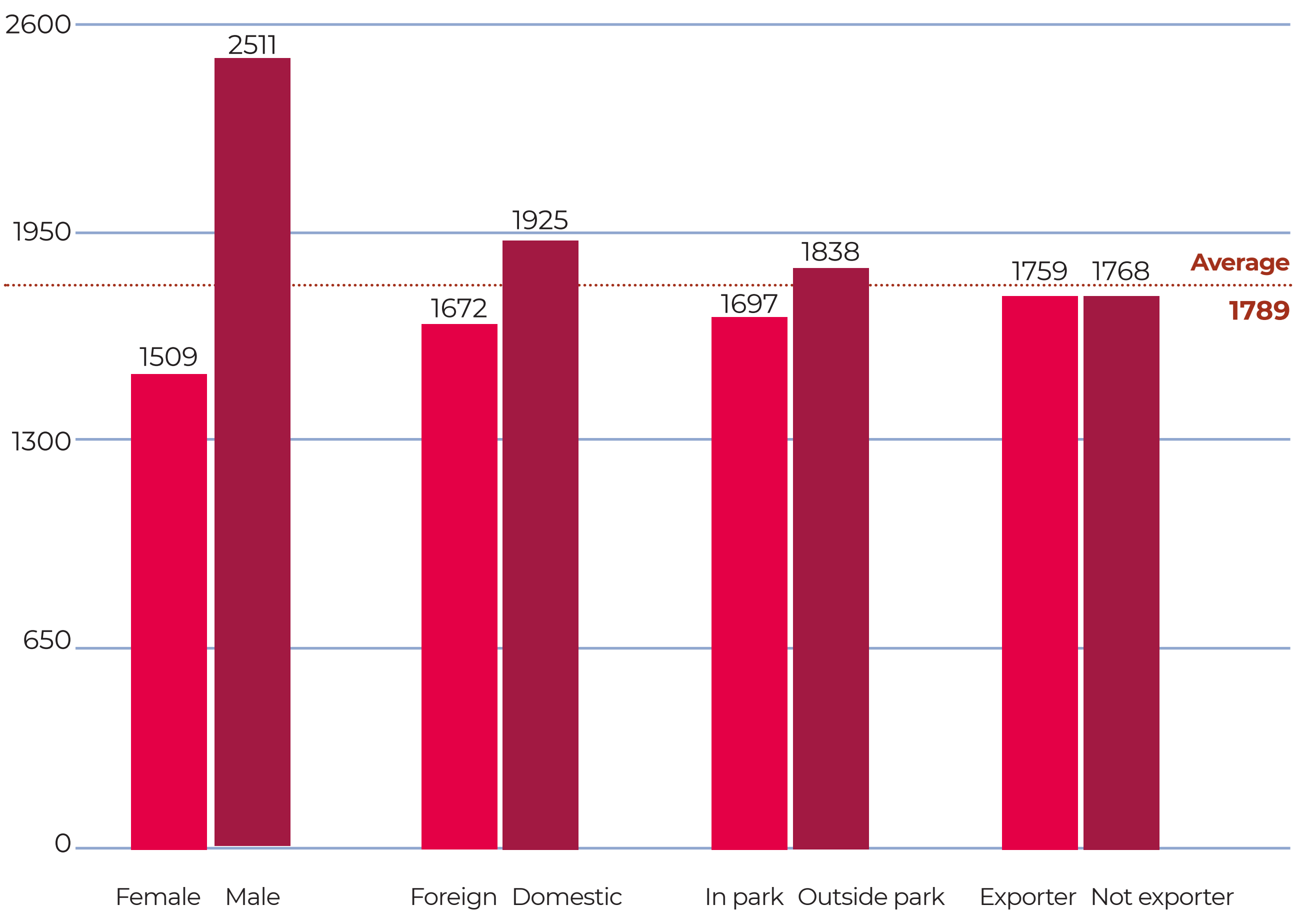


## B. Wages and earnings

Data from the 2019 survey present information on actual self-reported earnings from workers, as well as some results from subjective questions about workers' satisfaction with their compensation. The vast majority of workers, over 9 in 10, are paid on a monthly basis, and earning levels tend to vary depending on the skill level of workers. Wages and earning are reported in this brief for the average worker in the sample.

The monthly basic average salary of the sampled workers surveys was found to be 1,789 Ethiopian Birr (ETB) per month, before tax (Figure 2). This specific question is intended to have workers report their base pay only, isolated from bonuses and in-kind incentives that are common in the industry. It is possible this figure for a base salary is inflated, as workers may inadvertently report their base pay plus some bonuses. The figure may also be biased upward for the typical average worker in Ethiopia, as workers in the current sample have an above-average tenure in the factory (two years), and the sample includes a mix of low and high skilled workers. There is a substantial difference in monthly total net income earned by female and male workers: male workers earn on average 1,002 ETB more (or 66 per cent higher) income than female workers earn. It is not clear, however, whether the gender earning difference is because of productivity and skill differences and/or because of gender discrimination. Male workers tend to have relatively higher tenure at the factory and have higher educational levels than female workers.

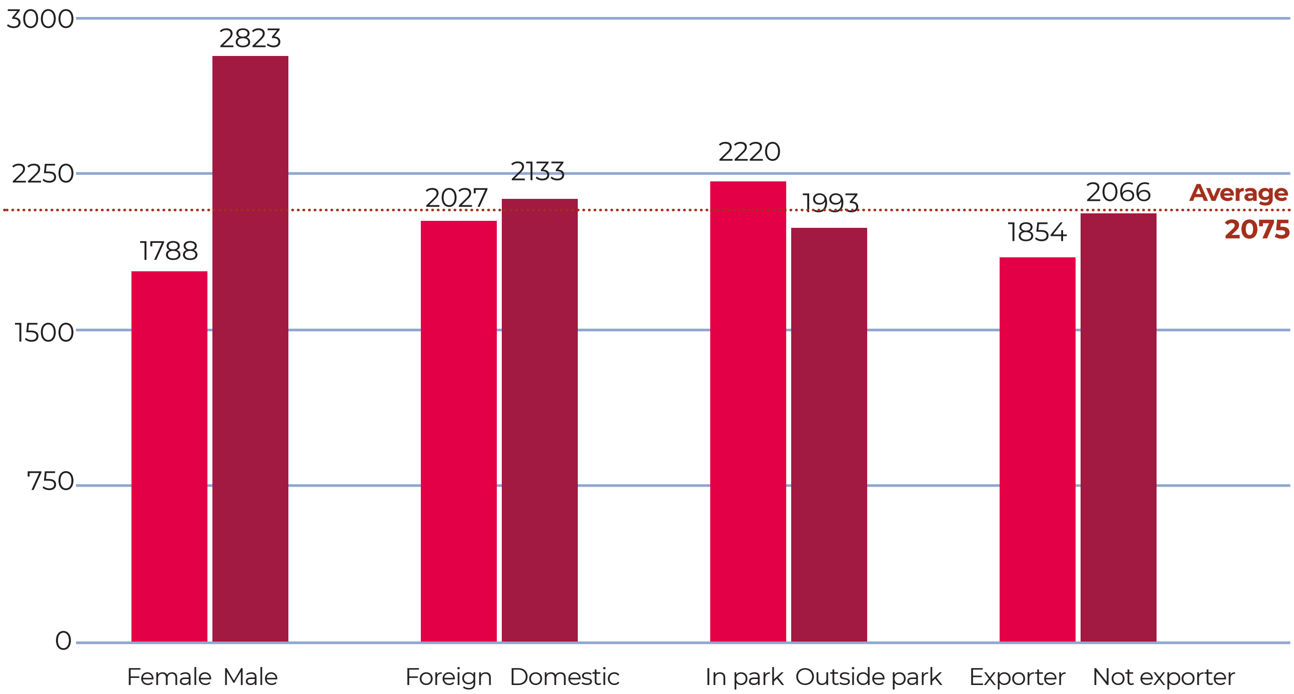
**Figure 2. Last month earning from basic salary, ETB**



Surveys subsequently asked workers about bonuses, allowances, and in-kind payments. In addition to their basic salary, the workers earned, on average, 231 ETB in bonus income in the 12 months preceding the survey. Forty per cent reported to have free or subsidized meals, 59 per cent have transportation provided, and 9 per cent have accommodation costs partially provided. The results show also that there are major and statistically significant differences across the types of firms in terms of basic salary and fringe benefits that the workers earn. For instance, workers at foreign-owned firms earned lower (by 253 ETB) basic monthly salaries and lower (by 147 ETB) yearly average bonus incomes than workers at domestic firms. However, larger percentages of workers at foreign-owned firms earn bonus income (38 versus 31 per cent), free or subsided meal (49 versus 28 per cent), transport allowance (29 versus 22 per cent), transportation service (70 versus 46 per cent), housing allowance (8 versus 3 per cent) and accommodation service (10 versus 7 percent).

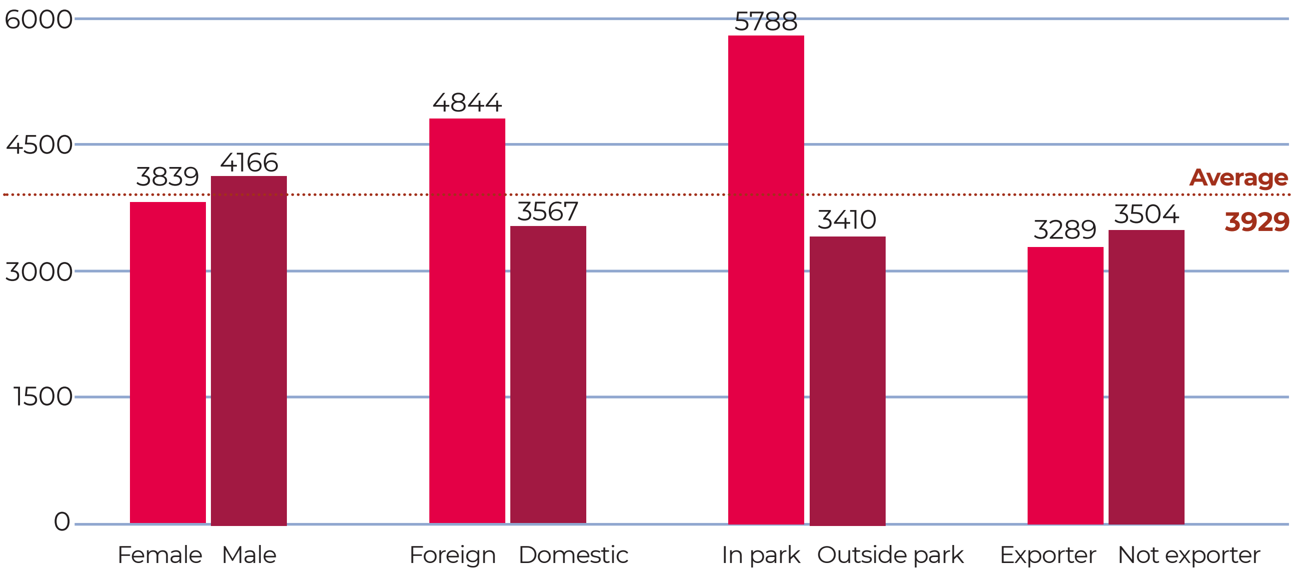
When including bonuses and allowances, the total net income of the sampled workers averaged 2,075 ETB (Figure 3). As with average basic salaries, there is a statistically and economically significant gender difference in the total net income that workers in the sample report. As before, with current data, it cannot be ascertained whether the difference is because of differences with tenure and educational level between men and women, and/or because of gender discrimination.

**Figure 3. Last month total net income of the worker, ETB**



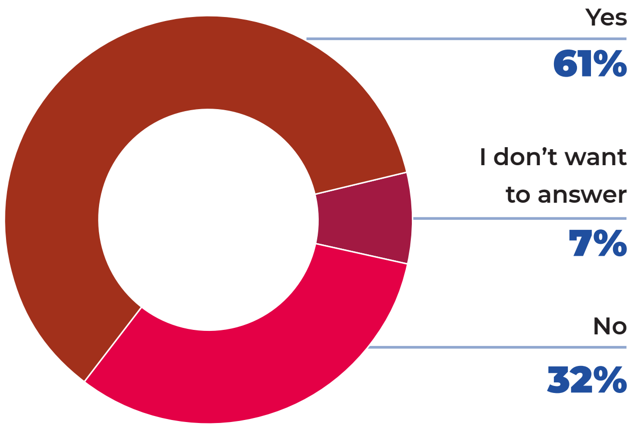

Workers were also asked about the earnings and income of their household. The average monthly household income of the workers surveyed was 3,929 (ETB) at the time of the data collection (Figure 4). Given the average family size of 3.66, average monthly per capita income of sampled households is around 1,073 ETB, or approximately 37 US Dollars (USD).

**Figure 4. Last month total net income of the worker, ETB**




Given the various structure of pay packages, workers may be confused about how their pay is calculated. Lack of clarity on pay can lead to poor communication and work effort at the factory. When asked about explanations for pay, close to two-thirds of workers affirmed that lack of clarity in how their pay is calculated in a problem for them (Figure 5).

**Figure 5. Is lack of clear explanation of pay calculation a concern for you or coworkers?**




## C. Occupational safety and health

Ensuring occupational safety and health (OSH) is a major challenge throughout the world of work, including in the garment sector. Survey responses from garment and textile workers regarding their working environment reveal confirm this in the Ethiopian context.

Overall, occupational safety is a concern for 44 per cent of the workforce surveyed. Relatively larger percentages workers from foreign-owned firms, firms located in industrial parks, and exporting firms confirm better enabling environments for OSH conditions, relative to their counterpart firms that are domestic-owned, non-exporting, and located outside industrial parks. They are more likely to report receiving training on occupational safety and health issues, have adequate washing and cleaning facilities, received personal protective equipment (PPE), have decent toilets, have free drinking water and to report that there are onsite medical staff and facilities. Yet even in industrial park firms where reported PPE use is highest, at most only 52 per cent of workers say they have received such equipment.

Despite reporting better outcomes for individual OSH issues, however, overall concern with OSH issues is higher for workers employed in foreign-owned firms, industrial parks, and exporting firms. It may be that workers in these types of firms are more likely to be made aware of OSH issues or be empowered to report deficits in OSH conditions.

Workers express concern about general ambient working conditions: just 44 per cent of workers say noise levels are acceptable, and 57 per cent say the temperature and ventilation are acceptable to them. Conditions are more favourable to workers in industrial parks in these areas, as well as when asked about accessibility to free drinking water.

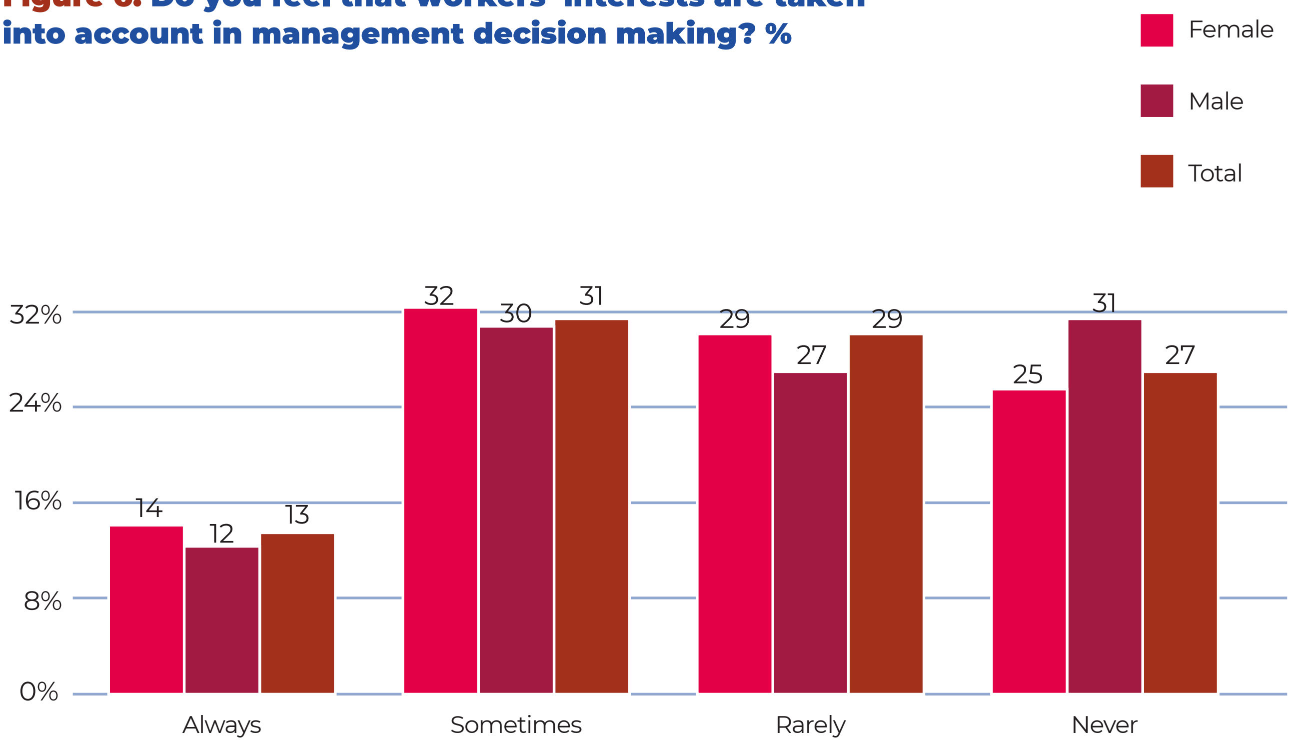
On average, 26 per cent of workers report witnessing or experiencing a workplace accident in the past year. Regarding the treatment of workplace injuries and general health, workers employed in factories in industrial parks are more likely to confirm the availability of an on-site medical facility and staff (82 per cent of respondents, versus 49 per cent of workers in factories outside an industrial park).

The concept of health and safety in the world of work is not confined to actual workplaces but can also include workers' commute to and from work. When asked about their commutes, close to half of workers (45 per cent) on average say they are concerned about their safety when travelling to or from work. This level of concern rises to 54 per cent of workers in factories located in industrial parks, versus just 39 per cent of workers whose factories are outside an industrial park. In addition, these concerns are not limited to women workers.

## D. Worker voice, grievance handling, and strikes

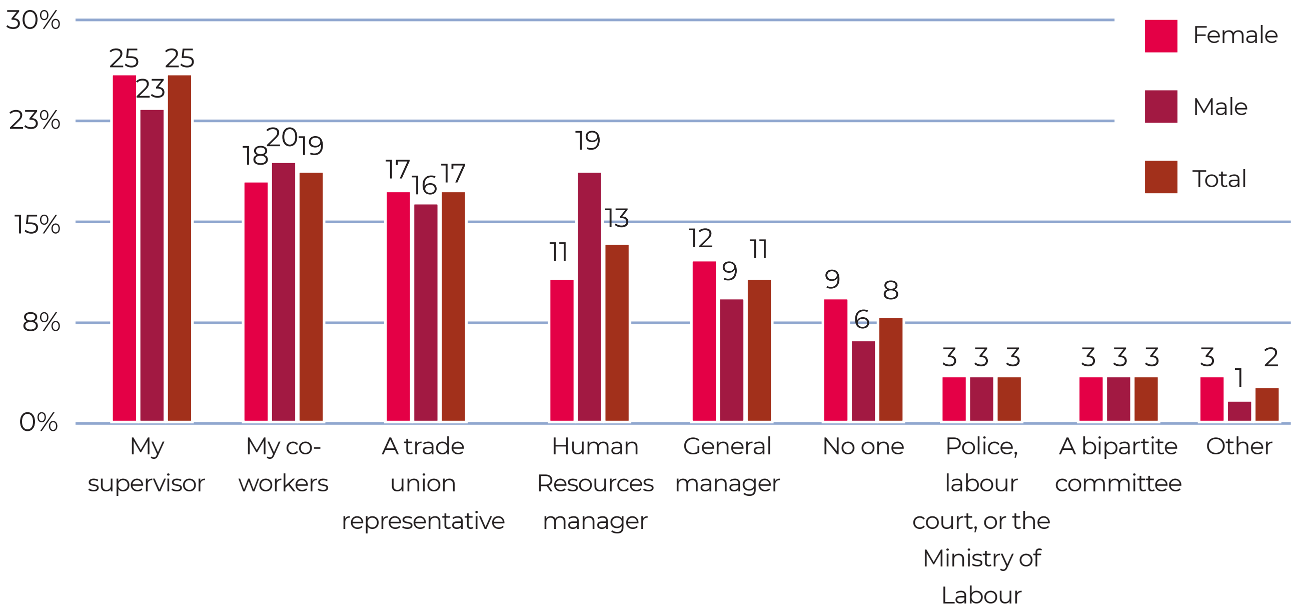
One way to assess the state of industrial relations in a workplace is to understand whether workers sense their interests are taken in to account in management's decision-making. Worker opinion in the current sample diverges on this question. Around 13 per cent of workers reported that the interests of workers are always taken in to account in their factories, while double this amount, or 27 per cent of the sampled workers, report that the workers' interests are never taken in to account in the management's decisions (Figure 6). There is no statistically significant discrepancy between women and men on this topic.

**Figure 6. Do you feel that workers' interests are taken into account in management decision making? %**



The level of comfort workers have in raising and discussing problems at work with various parties can also indicate the state of workplace communication. When asked about who they are comfortable going to with problems at the workplace, workers are most likely to report that they feel comfortable going to their direct supervisor (Figure 7). A quarter of the respondents prefer to consult their immediate supervisors, while one-fifth of the workers prefer to seek help from their co-workers. Around 17 per cent of the workers indicated they approach a trade union representative when having a problem at work. Other less frequent responses given by workers indicate they consult human resource managers, the general manager, police or labour courts. Around 8 per cent of the respondents revealed that they do not consult anyone about the problems they experience at the workplace. There is no major gender difference regarding whom the workers comfortable seek help for problems related to work, except the percentage of workers who consult human resource managers – male workers are more likely to consult this resource than female workers. Given that workers could choose as many options as possible for who they connect with for addressing their problems, each of these resources has room for improvement in terms of becoming more accessible to workers.

**Figure 7. If you were having a problem at work, for example with your pay, working time, or treatment at work, who would you feel comfortable to go to for help?**




Workers also responded to questions about formal grievance mechanisms in the factory. About half of the sampled workers noted the existence of grievances and dispute resolving procedure in their factories. Workers in factories located in industrial parks, in exporting firms, and in foreign-owned firms were more likely to report the existing of a formal grievance mechanism at their workplace. Among the half of workers saying they had access to formal grievance mechanisms, 56 per cent used the procedure to present a case or complaint. When asked to report on their satisfaction of the outcome of the complaint, worker opinion varied widely: 64 per cent of workers were to some extent satisfied, 23 per cent were dissatisfied, and 13 per cent were neutral.

Failure to resolve grievances and disputes in discussion could conceivably lead to strikes. Surveys asked respondents if they witnessed strikes in the last five years in the enterprises at which they work, and 44 per cent of the respondents replied affirmatively. However, only around 61 per cents of the respondents were willing to answer the question about whether there was labour strike in their factory. The availability of formal grievance handling procedures alone does not seem to be correlated with lower strike rates, according to the current data. A larger percentage of workers from foreign-owned firms (53 per cent) than from domestic firms (35 per cent) reported that they witnessed at least one labour strike in their firm in the last five years, despite the greater likelihood of foreign-owned firms having a formal grievance procedure in place. Across all firms, the top three reasons identified by workers that caused the strikes were low pay, salary payment delay, and extended hours of work.

## E. Freedom of association and collective bargaining

Responses from the 2019 survey reveal mixed feedback from workers regarding the union environment in garment workplaces. A relatively high percentage of workers report belonging to a union, but many report a difficult environment for prospective and current members of unions at the workplace.

Among worker respondents, 41 per cent report being a member of a trade union. This is a much higher percentage than the national 10 per cent union membership estimate from the Confederation of Ethiopian Trade Unions. It is likely that this discrepancy can be accounted for in part by worker respondents not differentiating between trade union membership with membership of a worker council. Further analysis will be required to better understand worker responses on this topic.

The survey asked respondents about their perception of management's general attitude towards trade union membership. Interestingly, 50 per cent of the respondents believe that the management in their factories are in favour of trade union membership, while 20 per cent of them believe that the management is not in favour of trade union membership. Worker perception of management's attitude toward trade unions is related to the likelihood of membership. Researchers found that while 54 per cent of the respondents who perceive that their management has a favourable view of union membership are members of trade unions, only 38 per cent of worker respondents who perceive that their management disfavours membership are themselves members of trade unions. Again, the percentages of reports of trade union membership as reported by workers are likely inflated if workers do not differentiate between trade unions and worker councils when providing their answers to the survey.

Over 40 per cent of workers say that they have seen or experienced employer reprisal for joining a trade union. Similarly, over half say that union membership or activity is at least sometimes a factor in hiring decisions. Moreover, 26 per cent of the sampled workers revealed that employers offer rewards or preferential treatment to workers in return for their not joining a trade union. Around one quarter of the respondents replied that they know workers who lost their jobs because of joining trade unions.

The management survey also provides insight into this topic. About half of the interviewed firm representatives said that they are neutral about union formation within the factory, while 38 per cent said they have a positive attitude towards union membership. The rest (about 11 per cent) declared their negative feeling towards unions.  In the same vein, 12 per cent of the firms admitted offering preferential treatment, such as financial reward to workers, in return for not becoming trade union members (Figure 8).

**Figure 8: Worker and management perception of trade unions**

| | | Workers' perspective | Firms' perspective |
|---|---|---|---|
| Management's general attitude towards trade union membership | In favour of trade union (%) | 50 | 38 |
| | Not in favour of unions (%) | 20 | 11 |
| | Neutral about it (%) | 29 | 51 |
| Instances where whether a worker is a union member or activist is a factor in hiring decisions (% responding Yes) | | 51 | 19 |
| Offered any kind of reward or preferential treatment to workers in return for their not joining a trade union (% responding Yes) | | 26 | 12 |

## F. Discriminatory and abusive behaviour

The current survey includes questions about workers' perceptions and experience of discriminatory and abusive behaviour at the workplace, including instances of verbal abuse and sexual harassment. Figure 9 presents worker feedback about these types of discriminatory or abusive behaviour at the workplace.

Over half (51 per cent) of workers reported that verbal abuse is a concern in the factory. Managers may resort to shouting at workers to incentivize effort if they face production pressure or lack sufficient people management skills. Prior research in the garment sector has shown such tactics to inhibit productivity, in addition to contributing to a degrading work environment.

Questions on the topic of sexual harassment are posed in multiple ways to workers. When a more indirect formulation is used – asking workers whether sexual harassment or sexual touching is a concern for them or their coworkers instead of a direct question about personal encounters with certain behaviours – about 1 in 5 workers report that sexual harassment is a concern in the factory. A larger percentage of firms' management representatives than workers (40 per cent versus 20 per cent) reported that sexual harassment might be a problem in the workplace. This could be explained by the fact that firms may receive complains about sexual harassment from the victims and cases that workers know less about in general. Although the persistence of any sexual harassment in a workplace is problematic, greater management and organizational awareness of the issue is shown in other garment sector contexts to contribute to a lessening of the prevalence of the issue.

Questions that ask about specific experiences provide another perspective on the topic of sexual harassment. Close to half of the respondents (48 per cent) reported that there has been joking or flirting in the factories that make them feel uncomfortable. Two-third of the respondents reported that supervisors or managers talked or touched them in ways that made them uncomfortable.

**Figure 9: Verbal abuse and sexual harassment (workers)**

| | | Female | Male | Total |
|---|---|---|---|---|
| | | % | % | % |
| Verbal abuse, such as shouting or vulgar language, is a concern for me or my coworkers in this factory | Yes | 49 | 55 | 51 |
| | No | 42 | 39 | 41 |
| | I don’t want to answer | 9 | 6 | 8 |
| Sexual harassment or sexual touching in this factory is a concern for me or my co-workers | Yes | 20 | 26 | 22 |
| | No | 68 | 71 | 68 |
| | I don’t know | 12 | 3 | 9 |
| | I don’t want to answer | 20 | 26 | 22 |

## G. Training and career development

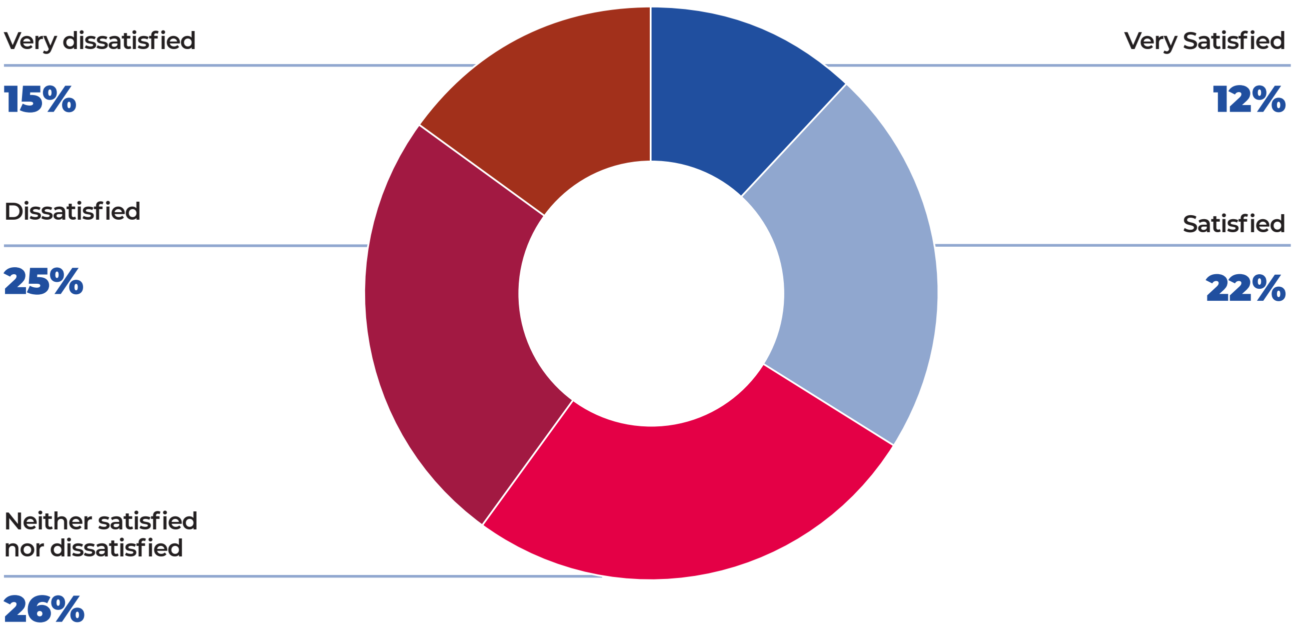
Workers can gain skills in job settings that enable higher productivity for firms and more encouraging career prospects for individuals. The current round of baseline surveys shows that training is common, though not universal. Sixty-four per cent of workers report to have received in-house training, and 31 per cent received training through formal programmes. There are statistically significant differences in terms of provision of formal and in-house training by the types of firms. Foreign-owned firms, firms in industrial parks, and exporting firms provided for in-house and formal training for larger percentages of workers than their counterpart firms.

Respondents were asked about the types of skills they learned. Slightly more than half (52 per cent) of the respondents reported that they learned production techniques such as weaving, knitting, braiding, and stitching from formal training arranged and sponsored by the employers. Around 22 per cent received training about quality control of products, six per cent learned about marketing management, five per cent acquired knowledge about financial management, and the remaining 15 per cent of the respondents learned other various types of skills. In terms of location of formal training, 83 per cent reported that training was given at the factory, 14 per cent reported that the locations were somewhere in the country outside the factory and the remaining three per cent were sent abroad for the training.

## H. Worker satisfaction and aspirations

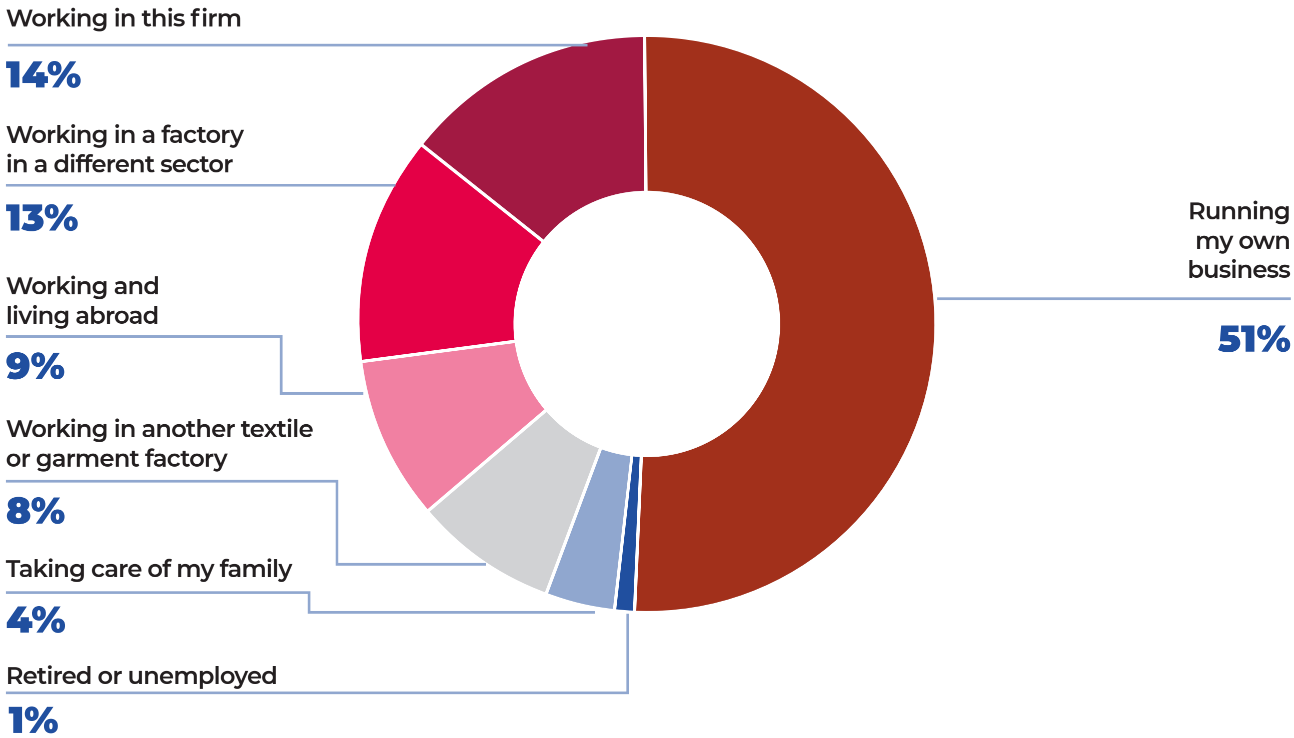
Figure 10 presents the results from a subjective assessment of job satisfaction, disaggregated by gender of the respondent. The results reveal that only a third of workers express satisfaction with the working conditions with their current employer. One quarter of workers responded that they are dissatisfied and 15 per cent of the respondents are very dissatisfied. The question is not able to distinguish whether this dissatisfaction is tied to conditions under the direct control of employers, or whether it is driven by the general nature garment industry work or external contextual factors. Male workers are more likely than female counterparts to express dissatisfaction with their current job. The large percentage of workers being unsatisfied is then likely related to the motivation of workers to leave for different jobs. Sixty-three per cent of respondents (62 per cent of women and 66 per cent of men) revealed that they would like to get a different job. There is no major difference across types firms in terms of satisfaction level of the workers with working conditions, in terms of the available opportunities to present complains and grievances, or in terms of the per cent of workers who would like to get a new job.

**Figure 10. Are you satisfied with the working conditions at your current empoyer?**




Workers were further asked where they expect to see themselves after three years' time, and only 14 per cent of them stated that they expect to be working at the same firm while just 8 per cent expect to be working in another textile or garment factory. Slightly more than half expect that they will be running their own business in three years, far outpacing any other options presented, including continued work in the garment or textile sector.

**Figure 11. Where do you expect to find yourself in three years' time?**



## I. Firm competitiveness

Managers in 135 firms across the textile and garment industry in Ethiopia provided information regarding their business operations and financial performance. Surveys asked managers about their perception of key challenges to business success, including challenges related to the internal management of their workforce as well as those related to their external operating environments.

Regarding sales and revenue generation, on average the annual sales of enterprises surveyed is more than 106 million birr (or approximately 3.5 million USD). As shown in Figure 12, total annual sales are highest for the firms operating as integrated enterprises.

**Figure 12. Annual Sales (thousands of birr)**

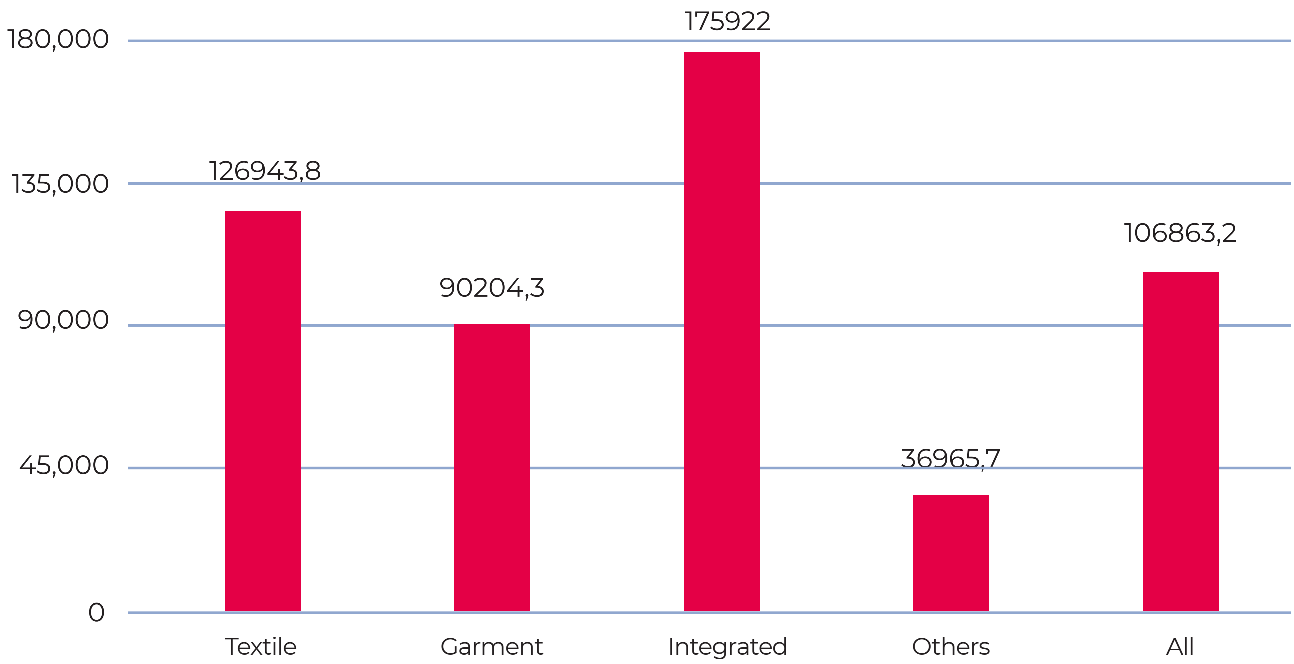



Figure 13 below details the breakdown of several types of costs reported by firms. Costs differ significantly across firm type. Raw material represents the highest cost for firms on average. Raw material costs are highest in the garment sector. Annual labour costs make up a significantly higher share of total costs in integrated firms compared to firms in either garment or textile operations alone. This is likely due to the large number of workers employed by integrated firms. As a percentage of total sales, labour costs represent 24 per cent of total sales on average in integrated textile and garment firms. Further, the study confirms that garment enterprises experience considerable fuel and utilities costs, as well as other costs such as insurance and service costs, compared to integrated and textile enterprises.

Figure 13 also presents before tax annual profit of the sampled enterprises. Though all had generated a positive profit during the study period, the result of the survey clearly shows that there is a significant variation among enterprises in the amount of gross profit that they report. Firms engaged in the textile sector had enjoyed a sizable amount of profit, followed by enterprises with integrated operations. Capacity utilization of all firms across all types of firms hovers near 60 per cent.

| **Figure 13: Costs, profitability, and capacity utilization** | **Textile** | **Garment** | **Integrated** | **Others** | **All** | **All, excluding others** |
|---|---|---|---|---|---|---|
| Annual labour cost | 22399.4 | 7752.8 | 41924.3 | 5556.8 | 15484.5 | 15968.7 |
| Annual cost of raw materials | 62226.9 | 129607.6 | 93254.1 | 22922.6 | 102256.1 | 106734.6 |
| Annual costs of fuel and utilities | 2316.9 | 11353.2 | 9634.0 | 1674.2 | 8248.6 | 8616.7 |
| Annual costs of rental of land and buildings | 11243.1 | 2566.6 | 3331.4 | 1260.2 | 4884.8 | 5087.7 |
| Annual interest payments | 983.2 | 17843.6 | 52154.3 | 3196.4 | 16505.4 | 17244.7 |
| Other costs (insurance, services, etc) | 4413.5 | 9836.2 | 5997.3 | 1249.1 | 7506.8 | 7857.1 |
| Annual reported profit (before tax) | 20235.4 | 6594.7 | 7839.7 | 305.4 | 9993.4 | 10549.2 |
| Capacity utilization (%) | 56.5 | 62.6 | 50.9 | 60 | 59.5 | 59.4 |

According to the management survey, 41 per cent of firms export their products. Integrated firms are most likely to export among the firm types studied. Two-thirds of these firms export, as opposed to just one-third of textile firms surveyed. The majority of enterprises had started exporting since the mid-2000s, with the number of exporters increasing dramatically between 2007 and 2010.

| **Figure 14: Export and business environment of enterprises** | **Textile** | **Garment** | **Integrated** | **Others** | **All** |
|---|---|---|---|---|---|
| % of enterprises that export | 34.3 | 40.8 | 66.7 | 14.3 | 40.6 |
| % of enterprises that started exporting since 2005 | 83.3 | 83.3 | 60 | 100 | 79.3 |

The United States is the dominant market for exports for firms in the sample, with more than half of managers citing it as a top export destination. Germany and China are the second and third most common export market cited by managers.

The impact evaluation surveys ask managers about their top perceived challenges to business success. When prompted to give their opinion about challenges related to human resources and workforce management, managers were most likely to say that the shortage of skilled workers, high turnover, and low skills of existing workers were obstacles to success (Figure 15). These findings confirm commonly cited challenges in the sector related to workforce development.

**Figure 15: Most commonly cited challenges related to HR Management (%)**

| | Textile | Garment | Integrated | Others | All |
|---|---|---|---|---|---|
| Shortage of skilled workers | 34.29 | 19.48 | 13.33 | 57.14 | 24.63 |
| High workforce turnover | 14.29 | 29.87 | 26.67 | 14.29 | 24.63 |
| Low skills of workers | 22.86 | 23.38 | 33.33 | 0 | 23.13 |
| Low efficiency rate | 11.43 | 11.69 | 20 | 14.29 | 12.69 |
| Technical skills of managers and supervisors | 2.86 | 5.19 | 0 | 14.29 | 4.48 |
| Other | 2.86 | 5.19 | 0 | 0 | 3.73 |
| Conflict between workers and supervisors | 0 | 1.3 | 6.67 | 0 | 1.49 |
| Worker complaints about working conditions | 2.86 | 1.3 | 0 | 0 | 1.49 |
| Worker resistance to overtime | 5.71 | 0 | 0 | 0 | 1.49 |
| Labor management skills of managers and supervisors | 0 | 1.3 | 0 | 0 | 0.75 |
| Union activity | 0 | 1.3 | 0 | 0 | 0.75 |
| Strike activity | 2.86 | 0 | 0 | 0 | 0.75 |

When turning to the external business environment, pressures from the dynamics of global supply chains present challenges to business owners operating the textile and garment industry. Manager responses from the current survey on this topic reaffirm this notion. Uncertain orders from buyers and penalties from buyers for late deliveries are the top concerns on average across the sample.

**Figure 16: Most commonly cited challenges related to supply chain dynamics**

| | Textile | Garment | Integrated | Others | All |
|---|---|---|---|---|---|
| Uncertain orders from buyers | 20 | 22.08 | 6.67 | 42.86 | 20.9 |
| Buyer penalties for late delivery | 11.43 | 19.48 | 46.67 | 14.29 | 20.15 |
| Too many rush orders | 17.14 | 20.78 | 13.33 | 14.29 | 18.66 |
| Other | 8.57 | 19.48 | 20 | 0 | 15.67 |
| Change in technical requirements by the buyer after production has begun | 11.43 | 11.69 | 0 | 0 | 9.7 |
| Buyer penalties for production defects | 8.57 | 3.9 | 13.33 | 28.57 | 7.46 |
| Replenishment orders | 11.43 | 1.3 | 0 | 0 | 3.73 |
| External stakeholders with additional compliance requirements | 11.43 | 1.3 | 0 | 0 | 3.73 |

The current survey investigates the main challenges for firms in the context of the operating environment in Ethiopia. When managers were asked to name the top three challenges faced, their answers indicated that challenges span several areas. For one, poor infrastructure, in particular, the lack of a reliable source of electricity, arose as a challenge for non-integrated firms. Finance issues, including a shortage of foreign currency and lack of access to finance were reported as challenges consistently across firms. Regulatory issues, including customs and trade, and labour regulation, were also commonly cited by managers. The wide-ranging nature of challenges cited by managers suggests attention is needed from a range of national stakeholders.

**A FOCUS ON ELECTRICAL POWER CHALLENGES**

Of the surveyed enterprises, about 95 per cent of them faced electric outages at least once a month, with limited variation across sectors. Firms that operate in the textile and garment industries faced electric outrages on an average of 7 days per month, with a 3 hours duration of each outage. This power interruption results in loss of production and hence sales of the enterprises. According to the survey results, the percentage of sales losses due to electrical outages varied from 4.8 to 7.3 percent. Further, due to power interruption more than of half firms are forced to use alternative energy sources, such as generators. Use of generators leads to an extra production cost for firms, an averaging more than 17,000 birr per day

**Figure 17: Challenges from business environment**

| | Textile | Garment | Integrated | Others | All |
|---|---|---|---|---|---|
| Electricity | 17.14 | 18.18 | 6.67 | 57.14 | 18.66 |
| Shortage of foreign currency | 17.14 | 11.69 | 20 | 14.29 | 14.18 |
| Access to finance | 17.14 | 11.69 | 13.33 | 0 | 12.69 |
| Lack of adequate raw materials | 14.29 | 11.69 | 6.67 | 28.57 | 12.69 |
| Customs and trade regulations | 5.71 | 12.99 | 13.33 | 0 | 10.45 |
| Others(specify) | 2.86 | 6.49 | 13.33 | 0 | 5.97 |
| Inadequately educated workforce | 5.71 | 5.19 | 6.67 | 0 | 5.22 |
| Labor regulations | 5.71 | 2.6 | 13.33 | 0 | 4.48 |
| Access to land | 0 | 6.49 | 0 | 0 | 3.73 |
| Poor quality of raw material | 0 | 6.49 | 0 | 0 | 3.73 |
| Transportation of goods, supplies and inputs | 8.57 | 0 | 0 | 0 | 2.24 |
| High interest rate | 0 | 2.6 | 0 | 0 | 1.49 |
| Corruption | 0 | 2.6 | 0 | 0 | 1.49 |
| Political instability | 2.86 | 0 | 6.67 | 0 | 1.49 |
| Business licensing and permits | 2.86 | 0 | 0 | 0 | 0.75 |
| Water supply | 0 | 1.3 | 0 | 0 | 0.75 |

# CONCLUSION AND NEXT STEPS

Results from the baseline survey for the impact evaluation of the ILO's "Advancing Decent Work and Inclusive Industrialization" programme launched in 2019 in Ethiopia shed important light on the current state of the textile and garment industries in the country. They confirm that these sectors have a broad potential to provide employment to young job seekers, but also confirm myriad challenges the sector faces to sustaining such employment in a manner consistent with decent work. Workers and managers alike voiced their opinions through these confidential surveys, which will serve as a foundation for conducting following up impact evaluation activities in the years to come. The ILO looks forward to working across stakeholder groups in these industries to ensure further development of these sectors that both ensures competitiveness and decent working conditions.

SIRAYE

# ADVANCING DECENT WORK AND INCLUSIVE INDUSTRIALIZATION IN ETHIOPIA