

## Inception Report

### Productive Employment and Decent Work for Youth and Women in Textile and Garment Manufacturing Sector in Ethiopia



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and Garment Manufacturing Sector in Ethiopia**

*Inception Report*

*Prepared for the Establishment of Africa Policy Dialogue-Ethiopia  
(APD-Ethiopia)*

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# 1 Background

Recently, Ethiopia's industrial sector has been considered as an engine of growth and accorded high policy priority<sup>1,2</sup>. Within the industry sector, the textile and garment (T & G) sub sector is among the major light manufacturing subsectors that the Government of Ethiopia (GoE) has chosen for industrial transformation and structural change of the national economy. Several reasons account why the T & G, and light manufacturing more broadly, is regarded as important for Ethiopia's industrial development. First, it has a high potential to generate a large number of employment opportunities for less-skilled workers which the country is endowed with. Second, it is relatively less expensive to establish and operate. Third, most raw materials for T & G production can be sourced from within Ethiopia. Fourth, several foreign companies have been already interested to invest in the T & G in Ethiopia. Fifth, several international buyers had shown interest to buy and signed trade agreements to provide preferential access to trade for T & G products from Ethiopia. These interventions raised economic incentives for textile companies to invest in Ethiopia. Consequently, several industry parks have been established and became operational in the textile and garment subsectors over the last few years. According to available evidence, the textile and garment subsector has made an important contribution to Ethiopia's GDP and growth of wage employment, especially for youth and women. However, despite its important role, the available evidence suggests that working conditions remain far below the ideal decent work conditions and measures are needed to overcome them.<sup>3</sup>

At the policy-level, Ethiopia does not have a minimum wage policy so far and employees are not protected from unacceptably low wages which may be paid by employers. Furthermore, labor standards and employment conditions enacted by the GoE have not been fully applied and enforced in the T & G due to lack of capacity. In fact, emerging evidence suggests that low wages coupled with the rising cost of living and fueled by inflation in Ethiopia have exacerbated the decent work deficit in the T & G, especially for women and youth. In other words, due to the rising inflation low-wage earners, especially in T & G manufacturing, have been confronted with declining real wages in recent years. There is evidence that shows that labor turnover and absenteeism rates are high in the T & G manufacturing, especially within the Industrial Parks (IPs). In this respect, investigating and discussing whether the causes are due to lack of career growth and progression, inefficient management, inadequate compensation, poor workplace culture, etc., would be extremely useful from a policy perspective. Studies specifically focusing on youth and women in the T & G manufacturing remains few and fragmented. On the other hand, the policy responses so far to lack of decent work is still insufficient in Ethiopia.<sup>4</sup>For instance, Ethiopia does not have a national or sectoral minimum wage legislation so far. Studies show that wages, especially for low-skilled youth and women in T & G factories are set too low and unable to cover rising cost-of living (Oya and Schaefer, 2022). This issue has attracted high-level government attention in recent years. For example, Ethiopia's revised labor

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<sup>1</sup> UNDP. 2018. Ethiopia- National Human Development Report 2018: Industrialization with a Human Face. Addis Ababa, Ethiopia.

<sup>2</sup> PDC. 2020. Ten-Year National Development Plan (2021-2019/2030): A Pathway to Prosperity. Federal Democratic Republic of Ethiopia Planning and Development Commission, Addis Ababa, Ethiopia.

<sup>3</sup> MOI and UNDP. 2018. A Study on Women in Manufacturing in Ethiopia: Opportunities, Challenges and Strategic Interventions. Addis Ababa, Ethiopia.

<sup>4</sup> UNDP. 2018. Ethiopia-National Human Development Report 2018: Industrialization with a Human Face. Addis Ababa, Ethiopia.

law (FDRE, 2019) included provisions for the formation of a Wage Board to decide on setting minimum wage rate in the country. In addition, in August 2023, the Executives of the Confederation of Ethiopian Trade Union (CETU) met with the Ethiopian Prime Minister and discussed about rising costs of living that is confronting workers and the need for higher wages and better working conditions in the country.<sup>5</sup> Although desired measures are yet to be sought, these are important windows of opportunities to follow ahead to bring a more decent work outcomes in the country. Accordingly, the APD-Ethiopia project aims to stimulate evidence-informed dialogue among the T & G stakeholders to create productive employment conditions and decent work for youth and women.

## 2 Research questions and objectives of the APD-Ethiopia project

In view of the above-mentioned context, the main goal of the African Policy Dialogues in Ethiopia (APD-Ethiopia) project is to bring together relevant stakeholders in the T&G sector in policy dialogue forums in order to bridge the gap between knowledge generation and policy making or practice. The specific objectives include: (1) identify and analyze levels and trends of employment opportunities for youth and women and other vulnerable groups (e.g. rural-urban migrants) created in the textile and garment, (2) analyze gaps and challenges facing the subsector to creating productive and decent employment opportunities, especially for youths and women, and (3) establish a platform for policy makers, employees, employers and other relevant stakeholders to exchange ideas and engage in evidence-informed policy dialogues on decent employment for youths and women in the T & G manufacturing in Ethiopia.

Some of the main research questions related to the above objectives are the following:

- To what extent have the textile and garment subsectors contributed to employment opportunities for youth and women in Ethiopia?
- How are the employment opportunities created in these subsectors distributed among people of different gender, age groups, geographies, educational and skills levels, and migration status?
- What are the main structural, technical, administrative and operational obstacles hindering productive employment and decent work opportunities in the textile and garment subsectors in the country?

## 3 Review of the literature

### 3.1 Overview of the textile and garment manufacturing in Ethiopia

Textile manufacturing constituted one of the early efforts of industrial development in Ethiopia. A textile factory was first established in Ethiopia in 1939 to serve mainly the domestic market (ILO, 2021). However, despite the early recognition of the importance of textile production the textile and garment manufacturing subsector experienced a slow growth for a long time. The T & G sector began to receive increasing government policy attention only since the launch of the country's first industrial development strategy in 2002 (Abebe and Schaefer, 2015). This strategy was conceived and primarily focused on promoting agricultural-led industrialization (ADLI), export-led development, and export-led labor-intensive industries. In the strategy, the T & G manufacturing is among the major strategic sectors prioritized by the GOE for attaining the country's goal of export-led industrialization.

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<sup>5</sup> [https://www.ena.et/web/eng/w/eng\\_3271032](https://www.ena.et/web/eng/w/eng_3271032)

According to Staritz and Whitfield (2019), there are several compelling reasons for the T & G manufacturing to be an important first step for industrialization of low-income countries like Ethiopia: First, T & G is labor-intensive and has high potential for employing large numbers of less-skilled workers (i.e., youth and women) and for attracting (foreign direct) investment. Second, compared to other industrial subsector, the T & G manufacturing requires low fixed-investment costs and relatively simple technology. Third, the T & G has high potential to stimulate linkages with other sectors in the economy. Lavopa and Szirmai (2012: 5) estimate that “one job created in manufacturing will create a larger number of jobs in other sectors than one job in any other part of the economy.” However, as the authors note, the direct and indirect impacts on manufacturing jobs on the wellbeing of workers depend on the average wages and labor conditions in the economy. There is a growing concern, supported by empirical evidence, about low-wages and inadequate working conditions in the T & G manufacturing in Ethiopia (Oya, 2019).

To attract investment to T & G manufacturing, the GoE provides a package of incentives including access to low-cost credit, land at favorable lease rates, tax holidays, and access to factory sheds with low electricity prices at industry villages at low rents (Fink and Rossner, 2023; Staritz and Whitfield, 2019). In addition, the GoE has invested about \$1 billion and built several industry parks (IPs) across different regions and urban centers in the country (UNDP, 2023). The aim is to facilitate and integrate the supply of needed services (a one-stop-shop service) for establishing and operating IPs in one selected area. Ethiopia’s industrial development through the IP strategy has registered several encouraging results so far. In terms of foreign direct investment (FDI), the T & G manufacturing sector has been able to attract a large number of investors from China, India, Bangladesh, Pakistan, the USA, and Turkey (Fink and Gronemeyer, 2023).

By 2021, Ethiopia had 18 operational IPs (13 public-owned IPs<sup>6</sup> and 5 private IPs) (UNDP, 2023).<sup>7</sup> However, following the outbreak of the war in Tigray in October 2020, Mekele IP and two private IPs (DB and Velocity IPs) stopped their operations. Further, the Kombolcha IP suspended its operations for several months due to the war in Tigray, which was later expanded to the Amhara and Afra regions (World Bank, 2022). In terms of economic importance, the IPs have become an engine of growth for T & G manufacturing in the country. According to a recent study (UNDP, 2023), the Ethiopian public IPs have attracted about 66 investors, mostly in T & G, and an estimated \$740 million inward investments since 2015. About 80 to 90 percent of Ethiopia’s T & G production comes from the IPs (Fink and Rossner (2023).

### 3.2 Macro-level challenges to the textile and garment manufacturing

Over the past few years, especially since 2020, the T &G sector has been confronted with multiple exogenous negative shocks at the macro level (Fink and Gronemeyer, 2023; Oya, 2019). These include the following:

- Outbreak of Coronavirus (COVID-19) pandemic in 2019
- Internal conflict/civil war that erupted in Tigray in November 2020

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<sup>6</sup> By 2014, Ethiopia had only one government IP, Bole Lemi I (World Bank, 2022).

<sup>7</sup> “The public IPs include: Adama, Bahir Dar, Bole Lemi I, Bole Lemi II, Debre Berhan, Dire Dawa, Hawassa, Information and Communication Technology (ICT) Park, Jimma, Kilinto, Kombolcha, Mekele and Semera. Privately owned parks: DBL, Eastern, George Shoes, Huajian, and Velocity.” (World Bank, 2022: xii).

- Suspension of the US Africa Growth and Opportunity Act (AGOA) in January 2022: Before the suspension, over 70% of Ethiopia’s garment exports were to the US and this was estimated to have generated about 56,000 jobs.<sup>8</sup>
- Rising cost of living
- Foreign exchange shortage (to access essential inputs and to repatriate profits) (UNDP, 2023)
- Continued dependence of IPs on imported raw materials.

### 3.3 State of decent work conditions in the Ethiopian textile and garment manufacturing

As stated earlier, T & G manufacturing is labor-intensive in nature and hence an attractive investment for Ethiopia where employment creation is much needed for the country’s large and rapidly growing labor force. The presence of low-cost labor force is an important source of competitive advantage for investing in the T & G manufacturing (Oya, 2023; Fink and Gronemeyer, 2023). In fact, the presence of ‘unlimited’ availability of young workers at low-wages, that policymakers have argued for as an attracting point, seems to have succeeded in attracted significant FDI over a short time period. Available evidence (e.g. Fink and Gronemeyer, 2023) demonstrates that the Ethiopian T & G manufacturing is characterized by paying one of the lowest wages in the global textile industry.

For employers, finding cheap labor to hire is among the major source of competitiveness. However, it cannot solve other labor challenges for the sector. As Oya (2019) points out there is a mismatch between the expectations of T & G employers wanting to hire labor at low wages, and their employees, who are expecting to find decent jobs. In addition, although the Ethiopian T & G manufacturing is touted for actual and potential employment creation, concerns remain over issues of quality of employment (Fink, 2023, Abebe *et al.*, 2020; Oya, 2019). As Schaefer and Oya (2019: 7) stress, “The creation of new jobs does not necessarily mean ‘decent work’”. In this respect, several empirical studies on T & G employment document the existence of widespread decent work deficits in the sector. As defined by the ILO (1999), decent work has the following four core pillars:

- Employment creation and enterprise development
- Social protection
- Standards and rights at work, and
- Social dialogue

#### 3.2.1 Labor market conditions of workers in the textile and garment manufacturing

A growing body of field evidence shows that the employment gain from T & G is not leading to decent standard of living for a worker and his/her family. The problem is driven by several interrelated and dynamic set of factors including the following:

##### ***Low level of wages***

In theory, manufacturing employment is expected to offer higher wages than agricultural employment or informal sector employment (Foster and Rosenzweig, 2007). However, available evidence shows that this is not always the case in many developing country contexts such as Ethiopia (Blattman et al.,

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<sup>8</sup> <https://www.thereporterethiopia.com/28902/>

2022; Hardy and Hauge, 2019). For example, based on field data collected from five industrial firms in Ethiopia, Blattman et al. (2022: 11) conclude as follows:

“We saw no evidence of an industrial wage premium in our five firms. A simple non-experimental wage comparison suggested that industrial jobs seemed to pay almost a quarter lower wages than informal opportunities.”

In addition, evidence from ILO’s diagnostic survey across 46 T&G factories in Ethiopia suggests that workers, especially low-skilled workers, were paid excessively low wages (interview at ILO, Addis Ababa, March 2018 cited in Oya, 2019). Citing the results of his interviews with a key informant at the ILO Office in Addis Ababa, Oya (2019: 677) points out that “the proportion of T&G firms providing housing or housing allowances is still very low, although most provide workers with transport.” In relation to wages in Ethiopian light manufacturing, and T& G in particular, Oya notes the following:

Employers may have different reasons to resist wage increases in these situations, especially when initial productivity levels are very low (and therefore unit labour costs not low enough), and are wary of generating expectations that may lead to unsustainable wage increases, as various managers reported in our interviews. However, the survival of these firms will not be affected by reasonable increases in nominal wages from a low base, especially in a context of rising living costs. (Oya, 2019: 682).

Lack of a minimum wage policy in Ethiopia is one of the reasons why entry-wages remain too low.<sup>9</sup> What this means is that employers have the authority to set wages without any legal restriction or reference to union deals (Blattman et al., 2022). In fact, this is one of the main reasons why T & G production workers in Ethiopia are paid low-wages (Fink, 2023; Hardy and Hauge, 2029; Oya, 2019). As described later, low-wage in the T & G manufacturing has been one of the causes of high rate of labor turnover in the sector Fink, 2022; Blattman et al., 2022). Another commonly cited reason for low wages in Ethiopia, across the T & G manufacturing, is the lack of collective bargaining over wages and other work conditions (Fink, 2023).

Ethiopian policymakers have increasingly recognized the need to enact a minimum wage policy. The 2019 labor law of the country (FDRE, 2019) included provision for the formation of a Wage Board, comprising of representatives of the Government, Workers, and Employers, to decide upon minimum wages. In addition, the new labor law raised overtime pay and number of days of annual leave for workers. For female workers, maternity leave increased from 90 days to 120 days. For employers, gains included extended probation period, from 45 days to 60 days, and more flexibility in overtime use (Oya and Scafer, 2022).

### ***Low density of trade unions***

Studies (e.g. Fink, 2023; Hardy and Hauge, 2019) show that T & G workers are less unionized and that they are less likely to negotiate over and influence wages and working conditions. In 2018, rate of unionization in the T & G sector was estimated at 20% (Oya, 2019). This is in contrast to the provisions of Ethiopia’s Labor Law (FDRE, 2019: 11749), which states that “Workers and employers shall have the right to establish and organize ‘Trade Unions or employers’ associations, respectively, and actively participate therein”. The country’s constitution also entitles workers to form and join

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<sup>9</sup> Over 90% of the ILO member countries have a minimum wage policy of one form or another.

associations and the right to collective bargaining. The low unionization rate of T & G factory workers is associated with a combination of many factors including workers' insufficient knowledge about benefits of a trade union (Hardy and Hauge, 2019) and a lack of willingness among factory owners and managers to allow their workers to unionize (ILO, 2021).

### **Labor turnover and absenteeism**

High turnover and absenteeism are characteristic feature of the T & G sector in Ethiopia (Fink, 2023; Oya, 2019). In addition, Oya and Schaefer (2022) report that workers in the T & G factories have shown reluctance to do overtime, foot dragging, and labor conflict. According to the authors, low wages and wage-setting systems are the main reason for conflicts in many textile firms in Ethiopia. Other reasons included excessive working time, ill-treatment of workers by supervisors, and low-quality canteen food (*ibid*). However, the severity of these problems are not similar among different T & G factories (Fink, 2023; Oya and Schaefer, 2022). Rate of workers' turnover, for example, is lower for experienced IPs than for young firms (Fink, 2023). Among others, this implies that workers' turnover rate is larger among foreign-owned (because they are much younger than most of the domestic ones) T & G firms than for domestic ones. Based on interviews of T & G workers in Ethiopia, Meyer (2018) finds that workers have two important goals when deciding starting a job in the T & G factory: (1) saving money, and (2) having a temporary job while searching for a better-paid job. Labor problems such as turnover and absenteeism undermines ongoing efforts of building a stable industrial workforce in Ethiopia. Foreign managers interviewed by Oya and Schaefer (2022) reported that turnover, absenteeism, and withholding of work effort including reluctance to do over time were much more common than strikes in their factories. The managers also complained that these forms of workers' resistance were much more disruptive than strikes. These problems negatively affect productivity and competitiveness of both domestic and foreign firms, but the effects are much more serious concern for foreign firms (Oya and Schaefer, 2022). On the workers' side, high turnover rates result in unsustainable wage employment for a large number of women and youth who start working in the T & G manufacturing sector (*ibid*).

However, in Ethiopia, employers' perceptions of labor turnover are variable. For many managers and employers of T & G workers, high turnover and a lack of long-term planning among workers is a source of frustration (Fourie et al., 2024) and for others these problems have not caused any concern (Hardy and Hauge, 2019). In fact, some employers may see a high labor turnover as a strategy to avoid workers' potential for collective action (Oya and Schaefer, 2022).

International experience shows that high labor turnover is not uncommon in early stages of industrialization (Oya and Schaefer, 2022). Some managers of apparel factories in Ethiopia who were interviewed by Oya and Schaefer (2022) reported that they faced comparable rates of labor turnover in their operations in Southeast Asia. However, labor turnover should be properly dealt with to avoid undesired consequences for workers and firms. According to Oya and Schaefer (2022), some IP employers in Ethiopia have attempted to reduce labor turn over, for example, by providing workers, especially working in the IPs, with subsidized meals, accommodation, and transportation services (Oya and Schaefer, 2022).



### 3.2.2 Causes of labor turnover and absenteeism in T & G factories

Turnover and absenteeism in T & G factories in Ethiopia are associated with multiple factors. Based on her field observation and empirical evidence from Ethiopia, Fink (2023) classifies the main causes of workers' turnover and absenteeism in the T & G factories as follows:

- (1) **Workplace causes:** Workplace factors relate to issues internal to a factory and may include dissatisfaction with wages and other compensations, working conditions, job insecurity, lack of career development, etc.
- (2) **External causes:** External causes of labor turnover include limited access to transport facilities, lack of affordable housing; availability of more attractive employment opportunities; need to pursue further education, etc.
- (3) **Personal causes:** Personal causes of labor turnover and absenteeism relate to relocation and family/social obligations (e.g. marriage, maternity/childcare, illness, nursing, etc.)

## 4 Methodological approach and sources of data

Youths and women are likely to face varying degrees of labor market challenges and opportunities. In this project, we envisage to unpack employment and decent work outcomes in the textile and garment subsectors along key background characteristics of women and youth, such as gender, geographic/administrative location, educational attainments and skill-bases, and migration status. Analysis and evidence along these lines is of relevance for national and regional policy makers and other stakeholders who opt to ensure a more equal distribution of productive employment opportunities and decent work benefits in the economy. In this respect, we intend to apply and integrate results from the following analytical approaches: (a) Social equity, (b) Spatial equity, (c) Inclusive governance, and (d) Political economy.

To meet the aforementioned objectives of APD-Ethiopia project, we will carry out a series of activities and draw on different sources of data and information, including the following:

- I. Stakeholder consultation
- II. Knowledge generation and evidence synthesis
  - Macro- and sectoral labor-related policies, programs and strategies
  - National policies and programs related to employments of youths and women and other marginalized people.
  - Secondary data from Ethiopia's National Labor Force Surveys, Urban Employment and Unemployment Surveys, and sector-specific datasets.
  - Published and unpublished literature on textile and garment manufacturing employment.

## 5 Timeline and key deliverables of the APD-Ethiopia project

APD-Ethiopia is a two-year project and will end by February 2026. In the interim period we will undertake a series of activities to achieve the objectives of the project (Table 1).

Table. Key activities and timeline of the APD-Ethiopia project

	Key activities	Execution timeline		
		2024	2025	2026
1	Stakeholder mapping report	May		
2	Inception report	June		
3	APD-Ethiopia launching workshop			
4	APD-Ethiopia roundtable I	November		
5	APD-Ethiopia roundtable II		April	
6	APD-Mid-term workshop		May/June	
7	APD-Ethiopia roundtable III		August	
8	Other knowledge products			
i	Report based on desk review and secondary data analysis		April	
ii	Policy brief		December	
iii	Newspaper article		December	
9	Final Workshop			January

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