



Labor Demand and Supply Dynamics in Ethiopian Industrial Parks 2016-2022

The journey of building a standardized labour sourcing and matching system for industrial parks in Ethiopia, and the factors affecting the labour market, including current affairs.

July 2022



1. Background

Before the Growth and Transformation Plans came to the picture in 2010, agriculture was the main driver of the Ethiopian economy. The government started transitioning the economy into an industry-led one through attracting foreign direct investment (FDI), and positioning Ethiopia to be the light manufacturing hub of Africa by the year 2025. This was done by replicating experiences and reproducing the success of East Asian industrial zones' fast-paced industrialization in countries such as China and Malaysia, that have highly utilized industrial parks to attract foreign investment and push forward their industrialization agenda.¹ The Government of Ethiopia, adjusting to the country's context, envisioned industrial parks as one of the means to achieve rapid development. In 2014, the Ethiopian Industrial Parks Development Corporation (IPDC) was established and has been developing several industrial parks across the country. In the same year, the first large-scale public industrial park (Bole Lemi IP) emerged in Ethiopia ushering many more industrial parks with large labor requirements which gave a first glimpse of what a light manufacturing hub would require to produce outputs - abundant workforce.

The government of Ethiopia had to take the assignment of preparing and supplying the required labor which was thought to be easily accessible and trainable low-wage workforce. In this effort to promote exports and job creation, the GoE significantly invested in enabling infrastructure and setting up the aforementioned industrial parks which have now had some success in creating jobs: Before the COVID- 19 pandemic, 14 IPs across the country employed about 88,000 workers.² More than 2 million youth are estimated to be entering the labor market every year. Assuming constant laborforce participation, the labor force is expected to grow to 75.4 million by 2025. These estimates suggest the need to create 14 million jobs between 2020 and 2025 to absorb the new entrants to the labor market and the current backlog of the unemployed (at least 2.5 million in 2018).³

Light manufacturing is among the main sectors in the formal Ethiopian economy that offer the most opportunity for wage employment.



Jobseekers outside Kombolcha Industrial Park

¹ <https://www.unido.org/api/opentext/documents/download/10694802/unido-file-10694802>

² <https://openknowledge.worldbank.org/bitstream/handle/10986/35391/Wages-and-Compensation-in-Ethiopia-s-Industrial-Parks-Evidence-from-a-Firm-Survey.pdf?sequence=1&isAllowed=y>

³ <https://jobscommission.gov.et/wp-content/uploads/2019/11/National-Plan-for-Job-Creation-Brief.pdf>

2. Labor Demand and Supply

The labor market function generally can be based on the price of labor or the employment and production capacity/ plans of employers, among many other factors. Labor market dynamics are known to be influenced by factors such as fertility, working-age population growth, gender, and age structure, education systems, state of the business environment, the phases of the business cycle, and advances in technology. The demand for labor refers to the number of workers an economy or firm is willing to employ at a given point in time, at any given wage rate. The demand for labor is an economic principle derived from the demand for a firm's output. That is, if demand for a firm's output increases, the firm will demand more labor, thus hiring more staff. Labor market factors drive the supply and demand for labor and shifts in the demand for labor occur for many reasons. A change in the wage results in a change in the quantity demanded for labor and a change in the demand for the good or service that is being produced. Demand can also shift in response to several factors such as; a shift in demand for output, education and training, technology, government regulations, political instability, price and availability of other inputs, profitability of firms, and trade restrictions.⁴

The supply of labor is a function of a range of economic and qualitative factors including the availability of housing, transportation, quality of life, and the number and quality of local/ regional educational and training institutions. Wages, competition for labor, demographic and immigration trends, policies and individual preferences and perceptions of utility as well as the structure of jobs will also impact the availability of labor and labor force participation.⁵ The supply of labor adheres to the law of supply: The higher the price, the greater the quantity supplied, and the lower the price, the less quantity supplied.

Some of the factors that cause a shift in the supply of labor are available number of workers, required education, experience, government policies, and price of labor.⁶ A seasonal decrease in the supply of labor could be expected in economies such as Ethiopia that are wholly or partially dependent on agricultural production.

3. Ethiopian Industrial Parks and Labor

The government of Ethiopia began inaugurating industrial zones with the first large-scale private-owned Eastern Industrial Zone in Dukem, followed by the government-led development of more than ten additional IPs across the country. The ensuing realization that labor is an integral aspect of an industrialization strategy gave way for emphasis on matching the demand and supply of labor. Institutions at the national level have been mandated with attracting foreign investment, creating a suitable environment for business, raising and maintaining employment rates, and enhancing productivity. Recently, the main emphasis of labor market policy in Ethiopia has been on challenges of labor supply; raising employment rates, and ensuring that the workforce has the necessary skills and attributes to ensure employability in the national economy.

3.1. Standardized and proven labor demand and supply linkage system for industrial parks

The Ethiopian government has been actively promoting the growth of the textile and garment industry. This was done by implementing sector development plans and incentive schemes to foreign investors, which made Ethiopia an attractive investment destination for apparel companies who face constant pressure to keep up with competitive pricing. As a result of these development efforts, Hawassa Industrial Park (HIP), the biggest eco-industrial Park in

⁴ https://www.investopedia.com/terms/d/demand_for_labor.asp

⁵ <https://courses.lumenlearning.com/wmopen-humanresourcesmgmt/chapter/labor-supply-and-demand/>

⁶ <https://opentextbc.ca/principlesofeconomics/chapter/4-1-demand-and-supply-at-work-in-labor-markets/>

the country, has attracted significant foreign investment since it started operations in 2016. However, the positive development of the textile and garment manufacturing industry in Ethiopia has not been without challenges. Despite the implementation of best practices and lessons learned from other industrial parks in the country, foreign investors operating in HIP reported several challenges, where the supply of labor for their high demand was not met. At the time, HIP investors were ready to plug and start production as there was an apparent assumption that, with an official urban unemployment rate of 19.1% in 2018, there would be enough job seekers to meet demand. No one planned for or invested in labor mobilization efforts such as sourcing and training. The labor market did not respond and companies struggled to attract and retain suitable workers.⁷ The intake of labor for each factory at the time was so high that there was a need for a system that would structurally identify the labor resource and administer the supply to HIP.

In April 2016, Enterprise Partners, a UKAID-supported program, developed its Hawassa Industrial Park Sourcing and Training Employees in the Region (HIPSTER) project in response to the expressed needs of investors faced with the challenge of navigating a labor market that was completely new to them. The program's general objective was to develop market-based and inclusive labor information, registration, and preliminary training system to facilitate the employment of youth, mostly women operators, in HIP.⁸

In three years, the HIPSTER project had several functions that aimed at providing a workforce that matches investors' requirements for trainable workers in large numbers namely: sourcing, screening, grading, soft skills training, and allocation to factories. Wide dissemination of information on the type of jobs the IP offered and sensitizing the unemployed youth in an accurate, timely, and transparent manner was key in acquiring the large demand coming from factories. Screeners were trained to give correct information in order for job seekers to decide of their own free will to join the IP workforce. The training included a non-discriminatory approach which ensures that the actors in the process have the awareness, training, and operating procedures necessary to avoid discriminating in the course of their work. The standard sourcing and screening form used in the screening process guarantees this by ensuring all information given to job seekers contained information that all stakeholders have approved. Extensive consultations during the design phase of the project, facilitated by Enterprise Partners, was held with the SNNPR Bureau of Trade and Industry (SNNPR BOTI), the Federal Ministry of Industry (through the Ethiopian Textile Industry Development Institute – ETIDI), the industrial park Investors' Association (IA), the Ethiopian Investment Commission (EIC), and others to develop a roadmap towards meeting the employment needs, in addition to supporting new workers adjust to their new working environment. It was also assessed that the HIPSTER system was easily adaptable and scalable to all IPs in Ethiopia, and it was then replicated in Mekelle and Kombolcha Industrial Parks.

⁷<http://enterprisepartners.org/garment/hipster-project-assessment/>

⁸<http://enterprisepartners.org/garment/hipster-project-assessment/>

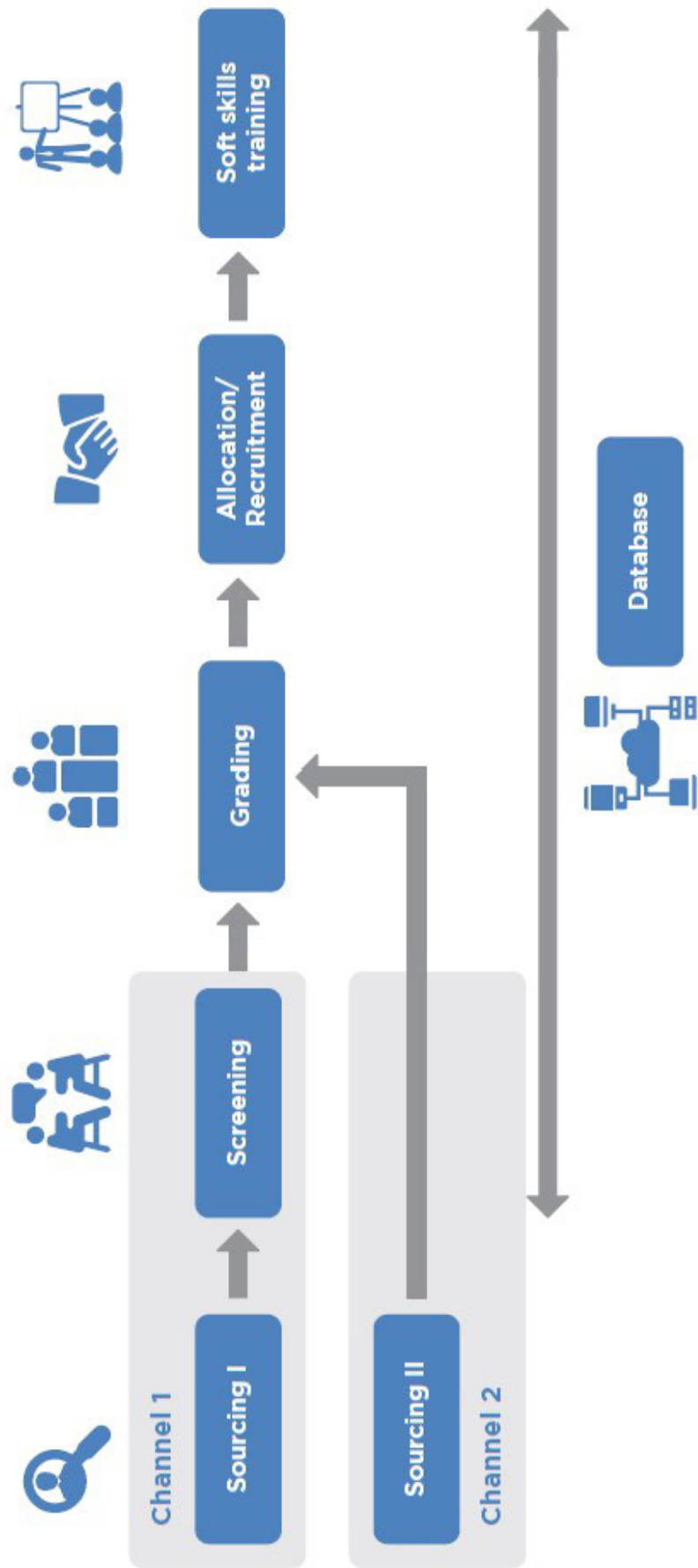


Figure 1 : HIPSTER sourcing and screening model

In a similar space on IP labour demand and supply, development organizations are also implementing interventions to bridge the employment supply and demand gap. Under its Competitiveness and Job Creation Project (CJC), the World Bank is working on closing the employment gender gap, and improving productivity and retentions by introducing soft skills and technical skills trainings to new and existing workers in Bole Lemi IP.

In the Building Prospects in the Clothing Industry Program, GIZ, in partnership with PVH, has designed a project to improve the skills of potential and current workers in lower and middle management working in the textile and clothing industry in Hawassa Industrial Park. Starting from 2019, collaborating with the HIP investors' association, the project coordinates internships and management training courses for trainees and students along with further training courses for staff in HIP.

The development of a database system that improves HIPSTER's recruitment pipeline system in terms of efficiency and effectiveness was needed. When the labor database was launched in 2018, the database enabled the digitization of screening, grading, and placement of job seekers.

Prior to this, even though almost all job seekers sourced and screened showed up to the IP, identifying and keeping track of their movement through the process was a difficult task as most of the documentation was on paper. The labor database system thus addressed a very critical constraint in the labor demand and supply matching activity. The database enabled efficient employment matching and tracking trends in IP- specific key labor metrics; labor demand and supply; turnover; and demographic information. The upgraded HIPSTER system also introduced the channel 2 alternative sourcing mechanism which until today continues to test different labor sourcing methods using targeted promotion activities like job fairs to attract labor and boost supply. The system also enabled job security for unemployed youth especially women, and empowered workers by availing soft skill training which not gave workers industrial orientation but also enabled them to be better communicators and engage better with employers. Standardizing the labor supply and demand recruitment pipeline has helped manufacturers fulfill their demand for workers and enhance capacity utilization, allowing them to focus on production and export rather than dealing with the shortage of labor. 100% of employment at HIP during this period was processed through the database.



Alternative labor sourcing mechanism. Roadshow and job fair in Sidama

3.2. Scaling up the demand and supply matching program

Since the year 2020, the BRIDGES programme (implemented by First Consult), partnering with the Mastercard Foundation's Young Africa Works initiative, took up the HIPSTER model and scaled up the worker recruitment and retention intervention to ten Industrial Parks across Ethiopia. This intervention aimed to ensure a smoother transition for new workers joining the factories by solving the labor supply and information mismatch problem.

The labor recruitment system has been implemented in ten Industrial Parks so far (Adama, Jimma, Hawassa, Kombolcha, Mekelle, Bahirdar, Debrebrehan, Dire dawa, Bole Lemi 1, and Eastern Industrial Zone). The BRIDGES programme took a new approach by introducing a system that works closely with government stakeholders in each region through private service providers hired to implement and monitor all activities from sourcing and screening, to IP labor database system management and soft skill training.



Screeners' training of trainers

The graph below shows the total labor demanded by companies in IPs and the supply of workers through the system founded by Enterprise Partners in 2018 and continued by the BRIDGES Programme since 2020. (Source: Industrial Parks Labor Database system)

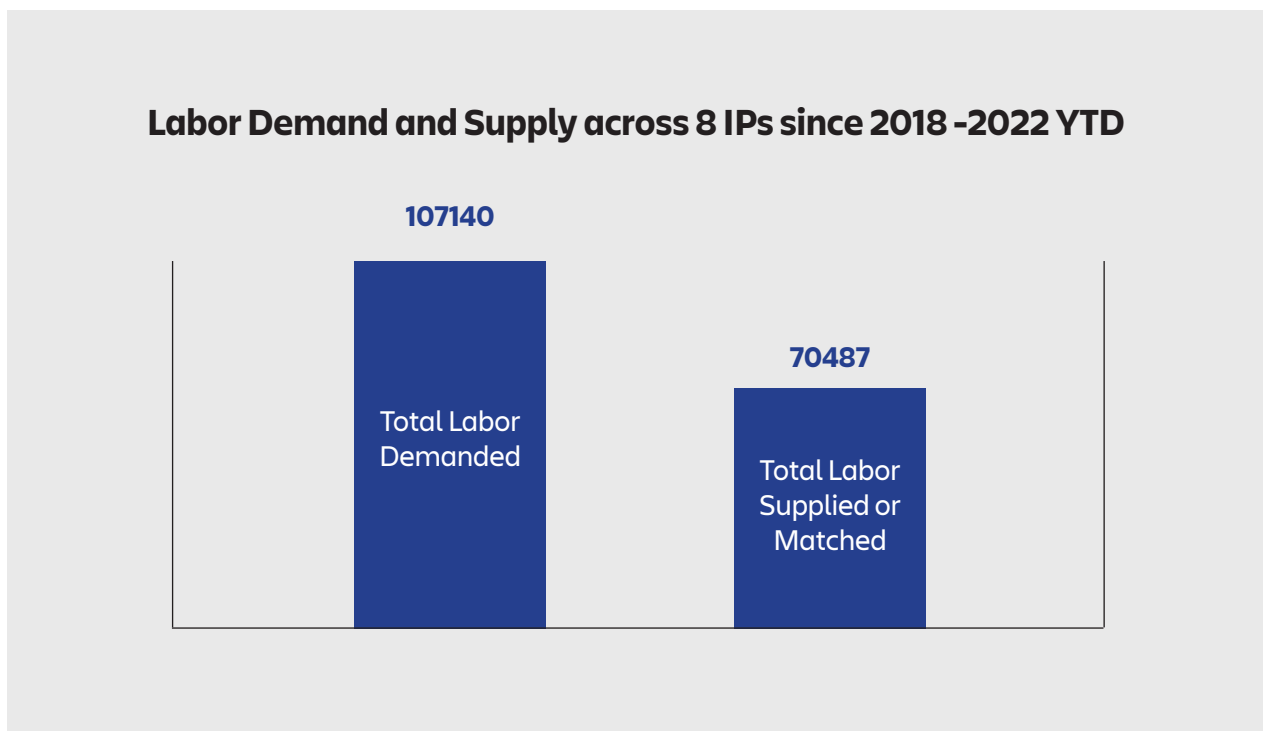


Figure 2: Labor Demand and Supply across 8 IPs, 2018 -2022

The Ethiopian Investment Commission with the BRIDGES programme ensures that demand and supply of labor at these parks is met, captured in the database and that allocation is done by the system accordingly apart from the sourcing and soft skill activities. A central Governance Structure committee was introduced to bring together representatives of regional governments and the private sector, chaired by the EIC. At each industrial park, a technical committee that reports to this central committee is established to support the labor matching process and ensure its proper management.

Before introducing the matching program to newly established IPs, an assessment was carried out to find out the dynamics of the labor supply and demand and understand the context of each Industrial Park that the intervention considered.

The need to understand the labor demand and supply dynamism was important as the different IPs reside in different regions, where the concept of industrial parks and the jobs they offer were unfamiliar to communities around IPs.

Workers were also unfamiliar with industrial work culture, resulting in mismatched expectations around issues such as timeliness, work hours, and productivity targets, impacting employee attraction and retention. Thus, sensitizing the community and job seekers in regions where there were IPs was identified as a central task that the BRIDGES Programme should take up.

Besides the sensitization of the job seekers, the programme helped factories understand how to use the labor database system which improved labor planning and the quality of labor being supplied to the factory's benefit.



A woman from rural Ethiopia looking at a recruitment brochure

BRIDGES focused on sustaining the matching system through building the capacity of catchment area screening officers. To date, 2,694 screening officers have been trained on how to disseminate information to job seekers and recruit job seekers who are suitable for work at IPs. BRIDGES also provided refresher training to catchment areas where there was high turnover of local screening officials.

There is high labor turnover in most IPs and while low wages and poor living conditions are important factors, several other “soft” factors influence workers’ decision to leave.

To address these and to improve workers’ engagement and retention, an audio-visual soft skills training model was developed and provided for new entrants joining the IP, which resulted in more informed and resilient workforce for the factories. The training aligned basic human needs with industry requirements by helping workers understand the nature of work at the factories. To date, the BRIDGES programme has trained 25,027 factory workers and 352 in-house factory and TVET trainers for the sustainability of the training program.



Soft skills training

<https://www.youtube.com/watch?v=TuOtVWtLJgc&t=120s>

3.3. Industrial park labor and COVID-19

In 2019 and 2020, the COVID-19 global pandemic disrupted the global economy including Ethiopia's growing economy. The labor demand and supply was highly affected as companies were heavily impacted with orders from buyers being canceled from clients around the world. This significantly affected the financial performance of manufacturers in industrial parks and caused a loss of jobs for workers. As the Ethiopian textile and garment industry was battered by the pandemic, the decline in demand for labor, inadequate cash flow, and distortion in the supply chain were the main contributors to the industry's underperformance. Up to 90% of orders from different brands were canceled in the first 3 months of the pandemic. Cancellation of orders from brands thus led to the impact of payment delay which forced factors to lay off workers. This meant there was less demand for and a surplus of labor. At the same time, the supply of labor was also not immune to the impact of COVID as adequate information about the virus was not available and discoveries were still being made by the international health community which kept everyone in uncharted and unpredictable space and time. Job seekers in the IP periphery were discouraged by peers, relatives, and news of COVID spreading in IPs at a higher rate, contributing to the reduced supply of labor compared to previous times.

In response to the COVID-19 pandemic, the Ethiopian government put protecting jobs at the heart of its economic response and tried to coordinate efforts to support businesses in coping with the impacts of COVID-19, based partly on the recognition that temporary wage subsidies were an evidence-based intervention that allowed firms to prevent the laying off of workers.

The Job Creation Commission (now Ministry of Labor and Skills) at the time suggested that around 1.4 million jobs were in jeopardy due to forced scaling down of business, out of which around 68,460 were IP jobs. Most firms were operating at less than full capacity and under financial stress due to measures (social distancing and prohibition of laying off of workers) announced in the COVID-19 national state of emergency.

In 2020, FSD Africa partnered with FCDO Ethiopia, First Consult, and KfW (on behalf of BMZ) to implement an Emergency Jobs Protection Facility for manufacturers in Ethiopia's industrial parks. The Ethiopian Job Protection Facility (EJPF) was established to respond to threats posed by the COVID-19 pandemic to the textile and garments manufacturing sector in Ethiopia and in turn to the security of jobs. The Facility's objectives were sustaining the livelihoods and productivity of factory workers through the COVID-19 crisis, protect jobs for at least six months, and ensure that textile and garment manufacturing capacity in Ethiopia is preserved and positioned well to contribute to the recovery of the economy post-COVID-19. The EJPF intervention protected 31,000 jobs across 24 companies in four IPs.⁹ But the Facility did not increase the demand for labor. Jobs were sustained at this arduous time by the EJPF intervention but the supply and demand dynamics of labor was an imbalance as supply comparatively increased with demand remaining stagnant.

3.4. Industrial park labor and conflict

The conflict that erupted in northern Ethiopia in November 2020 has hugely affected the labor market dynamics and still continues to do so. It caused loss life, property, jobs/income and businesses, greatly affecting economic activity within and outside industrial parks.

⁹ https://www.firstconsultet.com/main/single_knowledge/624d770d0d61ba48e0a38caa

The Government of Ethiopia enforced a nationwide state of emergency that directly and indirectly puts pressure on business operations through restrictions on travel and social gatherings and other prohibitions. As a result, working hours of micro and small enterprises and large enterprises including IPs were reduced. The conflict caused the shutdown of three IPs in the Tigray region which had engaged more than five thousand workers at the time.

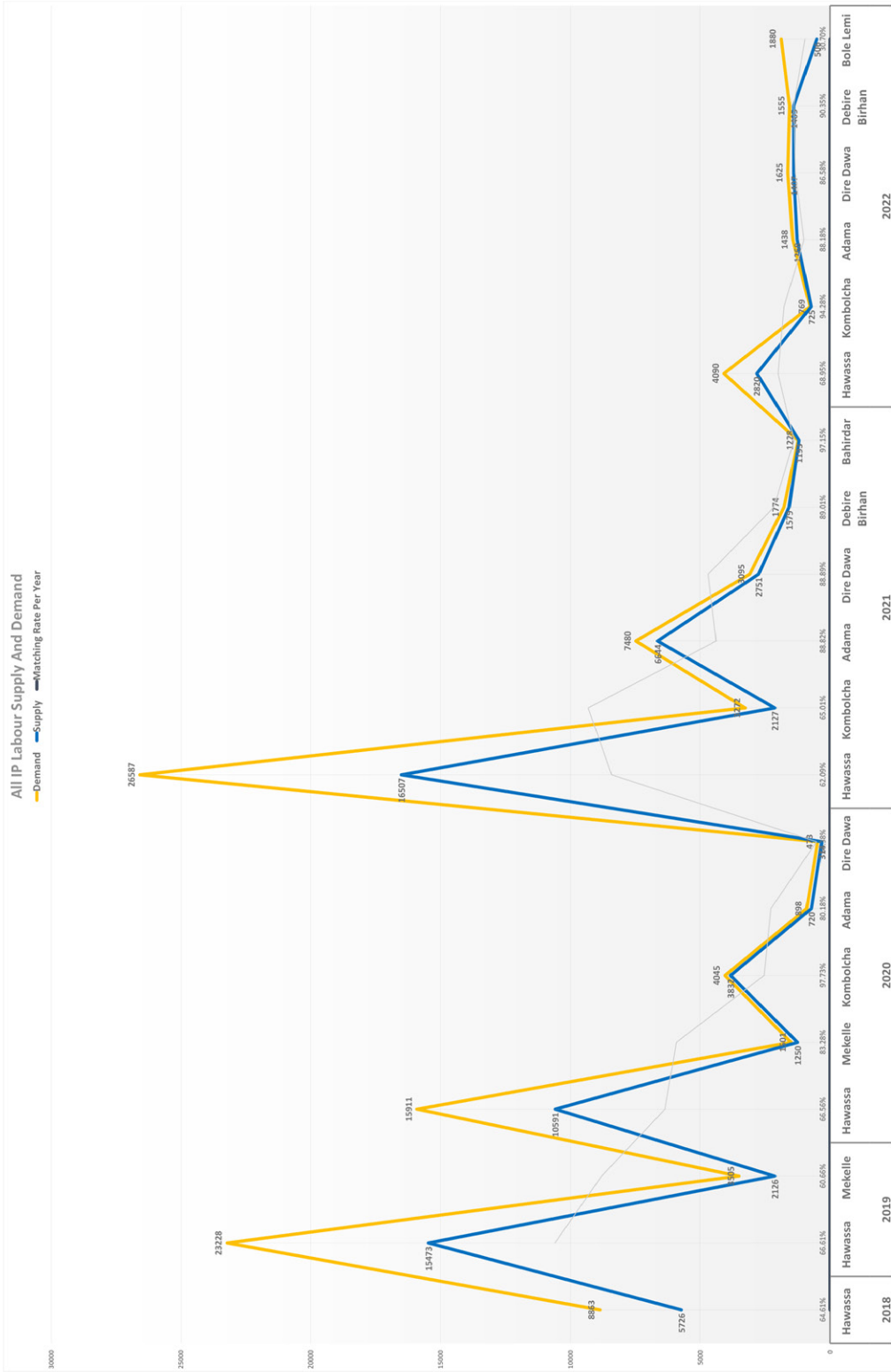
Already under the strain of conflict and the COVID-19 pandemic, the suspension of Ethiopia from the USAfrican Growth and Opportunity Act (AGOA) also negatively impacted the economy's job creation potential. AGOA privileges offered a valuable competitive advantage to Ethiopia's exporters and helped make Ethiopia one of the leading Sub-Saharan African exporters of apparel to the USA under the AGOA benefits. AGOA enabled direct employment for roughly 200,000 people, mostly women, and indirect jobs for over a million Ethiopians that make a living along the value chains of apparel, footwear, and coffee.¹⁰ Expulsion from AGOA meant reduced production, profit and projected future employment opportunities.

The developments discussed above continue to occur, and currently, the supply of labor, as well as demand from factories in IPs, are highly affected. Some factories have scaled down while others are leaving the Ethiopian market for good in the hope of investing in other African or Asian countries, and international brands consider distancing themselves from the current political standings of the country as seen from the international point of view. This continues to immensely affect the Ethiopian labor market.

The below figure shows the demand and supply trends of all IPs that have utilized the digital database since 2018. This graph is indicative of the impact the likes of the COVID pandemic, intrastate conflict and AGOA benefits revocation for Ethiopia have had on the Ethiopian Labor Market. (Source: Industrial Parks Labor Database system).

¹⁰ Civil Society Organizations Council says AGOA restriction directly affects 200,000 Ethiopians – Welcome to Fana Broadcasting Corporate S.C (fanabc.com)

Labor Supply And Demand Summary Report



4. Way Forward

The below solutions are suggested for the core constraints which enforces the dynamism.

Major attention has been given to come up with a supply-side solution to the labor market problem. But this is inadequate to overcome larger economic problems of unattractive pay, low productivity, lowered or sometimes inexistent demands, high level of dependency for sales or export on a single buyer or destination. Thus, a similar level of emphasis on the demand side is needed, with measures such as improved wage policies, improved working conditions, market diversification, and transaction destination expansion. To do these, the demand side of the market should be given more attention. It should be extensively explored, studied and supported with a range of interventions.

A proper labor market system needs to be in place to be able to quickly respond to unforeseen discontinuities that disturb the labor market. Thus, intermediaries in different levels of the labor market ought to play a significant role in bridging the demand and supply sides through improved labor market information, skills training, and the promotion of effective and standardized recruitment with strong government ownership and improved coordination among government and private stakeholders.

Regarding sanctions such as the suspension of the AGOA privilege, the Government of Ethiopia, if possible in partnership with donors and other development partners, may subsidize the expenses incurred by investors during the first year of production without AGOA. Although it may not be an immediate solution, a serious effort should be initiated to make the Ethiopian labor force and supply chain more competitive against other economies to withstand such kinds of shocks.

In addition to the existing labour matching services it supports, the BRIDGES program, in collaboration with its implementing partners, will continue to provide evidence-based recommendations to government bodies and concerned stakeholders on how to respond to the aforementioned challenges. BRIDGES is currently undertaking a study on ways of responding to the decreased demand for workers.

Disclaimer: *The above presentation exclusively represents the views and judgment of the BRIDGES Employment Linkage Team and not necessarily that of mentioned or unmentioned associates of the BRIDGES programme. Multiple varying data for a single indicator were available, thus, critical objectivity was employed in utilizing the available data.*

BRIDGES is a Mastercard Foundation – Young Africa Works programme implemented by First Consult. We are working to support and create jobs and medium, small and micro enterprises by unlocking the job-creation potential of industrial parks and other big enterprises in Ethiopia.

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