

IDCEA policy brief - Ethiopia



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This policy brief summarises the main policy recommendations of *the Industrial development, construction and employment in Africa* (IDCEA) research project for Ethiopia. As part of this project we undertook research on employment dynamics and effects in the infrastructure construction and light manufacturing sectors in Ethiopia.¹ While Ethiopia has rapidly expanded employment in manufacturing and construction, creating an efficient industrial labour force is a difficult and frequently conflictual process. We identify five policy recommendations to help advance the sustainability of the Ethiopian industrialisation process. Our main focus is on measures to

improve the social sustainability of industrial development, as progress in this area not only benefits workers directly, but also lays the foundation for growth in labour productivity. Our recommendations are based on 150 in-depth qualitative interviews with policy makers, company managers, trade union representatives, and low- and semi-skilled workers, as well as a quantitative survey of 837 workers across 40 companies in three key sub-sectors for Ethiopian aspirations of structural transformation: light manufacturing industries (textile and garment, leather products) and infrastructure building (road construction).

¹ The findings of our research are detailed in the report Schaefer & Oya (2019) *Employment patterns and conditions in construction and manufacturing in Ethiopia*. SOAS, University of London.

1 Continue to focus on promoting labour-intensive sectors to create jobs

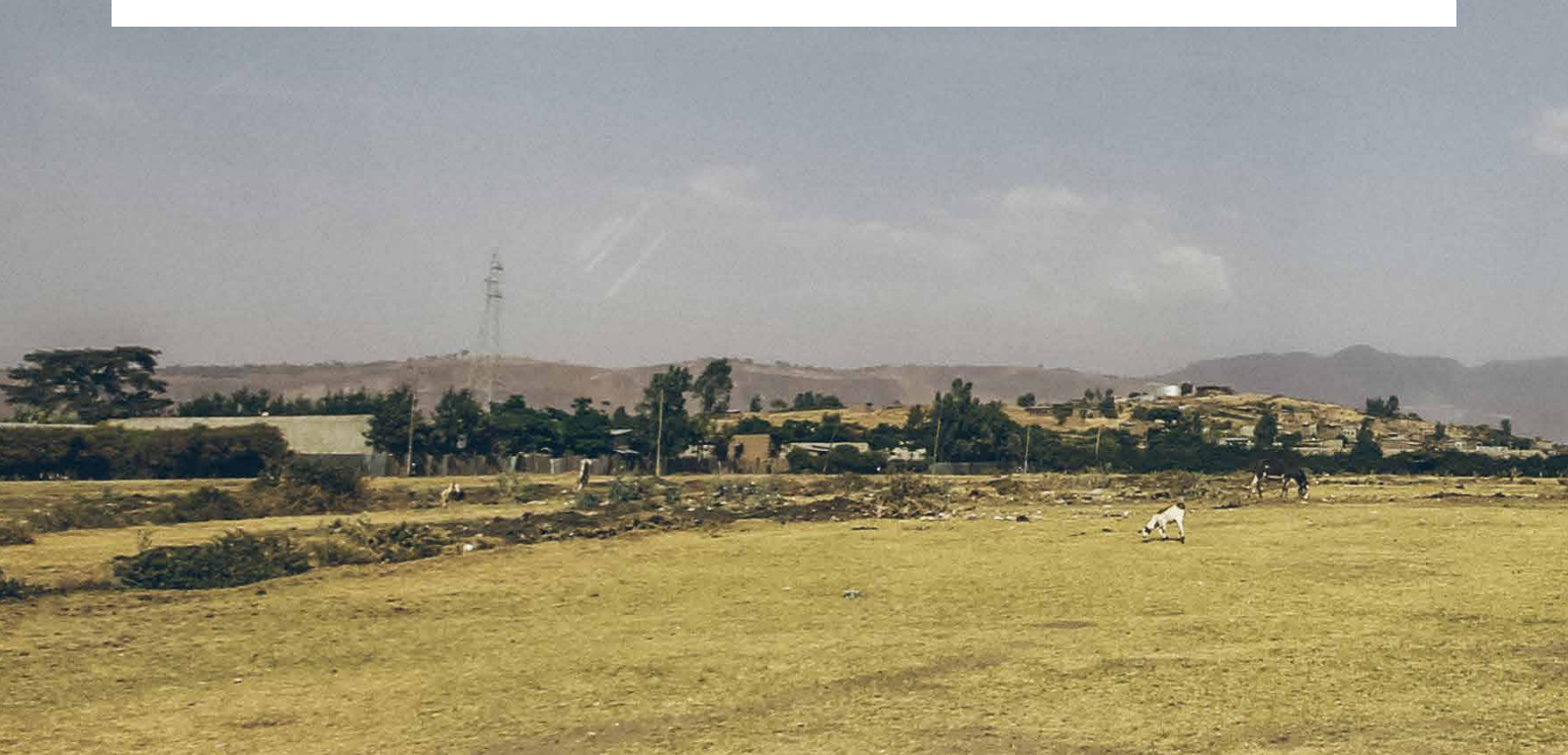
The main focus of Ethiopia's state-led industrial strategy has been to build manufacturing capabilities by attracting foreign direct investment (FDI) and investing heavily in the construction of transport infrastructure and industrial parks. Our research has shown that job creation in the manufacturing and construction sectors has increased greatly and potential exists for further growth. While higher-value added sectors should also be targeted, the priority for industrial policy in the immediate future should continue to be the expansion of labour-intensive sectors.

As the aim is to create jobs for Ethiopian workers, the use of expatriates should continue to be minimised. An exception should, however, be made for refugees, who should be fully integrated into job creation and recruitment programmes. While the vast majority of semi-skilled positions in Ethiopia are already filled by domestic workers, more Ethiopians should be brought into management positions through job-shadowing programmes and targeted apprentice schemes.

2 Promote unionisation and sector-level collective bargaining.

Independent and democratically-organised trade unions are important to ensure that workers are able to effectively engage employers in bargaining about key aspects of the employment relationship, such as remuneration and occupational safety and health. Trade unions can also act as interlocutors for employers and help diffuse conflicts in the workplace. However, at present unionisation rates in Ethiopia are low. Some employers are reluctant to recognise unions and we have collected numerous reports of the victimisation of trade unionists for engaging in workplace organising. In consequence, workplace relations between employers and workers are often fractious and wildcat strikes are common.

Freedom of association and the right to organise are fundamental rights that every member state of the UN's International Labour Organisation is bound to uphold. The Ethiopian government should ensure that firms abide by the relevant labour legislation and engage unions in collective bargaining and open dialogue. Such dialogue can help improve labour relations, rationalise wage bargaining, and limit the scope for work culture clashes. As conditions across sectors vary greatly, we recommend adopting a system of sector-wide collective bargaining. Such measures are likely to strengthen the legitimacy of industrial relations and contribute to greater stability and social cohesion, which can positively impact on productivity, competitiveness, growth and employment.



3 Adopt sector minimum wages to allow for a decent standard of living

The wages many workers receive are too low to ensure a decent standard of living. Low wages lead to precarious livelihoods, and contribute to worker dissatisfaction and high turnover rates. Minimum wages, if set at appropriate levels, are powerful tools to ensure that remuneration is sufficient to cover living costs and allow workers to lead a dignified life, particularly to protect the lowest paid and most vulnerable workers as a way of reducing inequality. The positive impact of having an emerging industrial workforce earning living wages and contributing to domestic effective demand cannot be underestimated. Minimum wages should be set through a tripartite mechanism that involves the Ethiopian government, as well as employer and employee representatives. Given high inflation rates, the minimum wage levels should be reviewed and adjusted annually.

Our research shows that the sector companies are engaged in are important determinants of wage levels, in particular where firms are subject to pressure from powerful buyers in hierarchically-organised global production networks. In many of the sectors Ethiopia is seeking to expand low wages are the norm globally. At the same time, Ethiopia is a low-income country with huge disparities in labour productivity across different parts of the economy. We therefore recommend that minimum wages be set separately for each sector.

4 Implement a coherent skill development policy framework

Ethiopia's competitiveness as a manufacturing hub depends on increasing labour productivity across all skill levels. Increases in labour productivity can also help raise the willingness of firms to pay higher wages. Even so-called low-skilled workers require a broad set of technical and general (or 'soft') skills to effectively perform their jobs. Ethiopia has greatly expanded access to education, including higher education and technical and vocational training. However, our research has shown that both employers and employees too often feel that workers are not equipped with the skills needed to facilitate efficiency in production.

We recommend implementing a skill development policy framework that systematically connects infrastructure contracts, investment agreements, firm-level training needs, and national skill development systems by adopting reciprocal control mechanisms. Firms should be subjected to different incentives based on achievement of skill development goals linked to labour force upgrading. At the same time, regular tripartite consultation between government, employer and employee representatives should ensure that curricula remain up-to-date. Priority should be given to developing the skills of women and girls, who face discrimination both in access to education and in promotions.



5 Improve the planning and provision of local services to workers

With an increasing share of Ethiopia's manufacturing firms, and especially the more technologically advanced foreign firms, located in industrial hubs and parks, the provision of infrastructure to these areas has become a critical constraint. An industrial hub must provide the basic infrastructure necessary for production, including transport, and be able to support large populations of migrant workers. While Ethiopia's industrial parks are generally provided with water, power, and transport connections, the social infrastructure needed for large, and rapidly growing, number of workers is often inadequate in surrounding urban eco-systems, especially outside of Addis Ababa. A particular example is the provision of housing. In Hawassa a scheme to rely on local rental markets, supported by subsidies to landlords to expand supply of rental accommodation, was not able to provide enough low-cost accommodation for workers. Private rental costs increased, eroding the value of wages received by workers. As a result the retention and recruitment of workers became more difficult, with negative consequences for firm-level productivity.

Such problems can be mitigated, or even avoided, through a closer integration of planning across national, regional and local levels of government, which takes into account the political priorities of different actors. Especially local government agencies have to be brought in to the planning process early on to help identify available capabilities and needs. Where political aims diverge, these differences should be openly addressed and compromises negotiated. Funds and expertise should then be made available to help ensure that crucial services such as housing, education, health care, and leisure facilities can be provided to workers in appropriate quantity and quality as soon as parks commence operations. Moreover, in areas where the influx of women migrant workers to industrial parks is significant, urban eco-systems must create conditions for their safety both while commuting and in their residential areas. Such holistic schemes should include realistic and fully funded plans for scaling up service provision as more jobs are created.



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