MVO NEDERLAND

SOURCING TEXTILE AND GARMENTS IN ETHIOPIA

A new sourcing destination

Report

TAKE YOUR SHARE IN THE NEW ECONOMY

ABOUT THIS REPORT

This report was written by Giovanni Beatrice (Forward in Fashion), Jean-Baptiste Damestoy (SOAS), Frans Tilstra (MVO Nederland) and Marjolein van Gendt (MVO Nederland). Any errors that remain are those of the authors. For any comments or questions contact Marjolein van Gendt at m.vangendt@mvonederland.nl.

Photograph by Annemarieke van den Broek ®.

The overall objective of the report is to describe the comparative benefits and risks (SCP and commercial) of sourcing textile garments from Ethiopia. The aim is to inform potential buyers of the current status of the industry; it does not aim for scientific precision.

METHODOLOGY

In addition to desk research and industry expert input, ETIDI and 8 companies have been interviewed in Ethiopia for this report. The interviews were conducted in June 2019.

ACKNOWLEDGEMENTS

The authors would like to thank interviewees for their participation and insight. We would also like to thank all Bottom Up! project partners for their valuable feedback in the creation of this report. Specifically we would like to thank Kalayu Gebru (Solidaridad), Stijn van Geel (Solidaridad), Alexandra Perschau (ABT-FOUNDATION) and Janine Dortmundt (Danish Ethical Trading Initiative).

DISCLAIMER

MVO Nederland publishes papers as contributions to the understanding of the role of business in society and the trends related to corporate social responsibility and responsible business practices. This publication was produced with the financial support of the European Union. Its contents are the sole responsibility of its authors and do not necessarily reflect the views of the European Union.

LOVE RULES

CRYSTAL LEIGH ENDSLEY'S 'THE LESSON.'

We meet in Hawassa in the pouring rain
We're not together now, but words remain
You wanted to know
What can wash away the bloodstain of a broken dream
Nothing, nothing can make the past pristine
No silver lining necessary since we measure growth by
how you move in between
Vision is what rooted us from the beginning
Even when it looks like we are defeated, when faith is worn
Love is always winning.
Imagination may run low and followers and friends may be thinning
But Love is
Always
Winning.
I hear the impatient finger taps
Of destiny
They're wrong when they tell us we're brave
I can be scared to fail and still wear a game face
Terrified of the outcome, but still jump from that plane
It's not that fear is absent, we just do it anyway
Anything brand new
Requires intense attention
Painful effort
Careful precision
An initial decision
And then a time of belief in something you cannot actually see
Prepare for the dream
Up until the point of delivery

HILNA

Long live the girls who are hardworking like bees.
Long live the girls who are united like ants.
Long live the girls who are symbols of peace like the Ergib bird.
Long live the girls who cure like a lemon.

Source: buzzfeednews.com/article/jinamoore/7-poems-that-show-what-its-like-to-be-a-girl-in-ethiopia

CONTENTS

1 EXECUTIVE SUMMARY

Ethiopia is a promising country for the future of apparel manufacture, looking at its youthful population of 110 million, its rapid development with an anticipated continued annual GDP growth rate of 8% [1], low labour costs and preferential conditions in trade with the U.S. and the EU. Foreign Direct Investment (FDI) in the textile and garment sector is growing and so is its export. Companies like PVH see in Ethiopia a potential new low-cost sourcing destination where production can be set-up meeting international standards.

However, the country also offers challenges, both commercial and in terms of environmental sustainability and ethical business behaviour. Cotton, fabrics and accessories need to be imported. Import/export regulations are complicated and time consuming. Workers are relatively untrained and unskilled and efficiency is very low. As of 2019 this still translates in a product with a low quality and a long lead-time. In addition, there is worry among stakeholders and (potential) buyers about issues such as living wage and the freedom of association in Ethiopia.

For SME retailers and brands in the EU it is early to source directly in Ethiopia. Those companies that are interested could benefit from sourcing via one of the integrated factories with extensive exporting experience. The fact that these parties control the supply chain from spinning, fabric making to RMG manufacturing avoids most of the issues above. Larger retailers and brands that look towards Ethiopia from a strategical perspective and are willing to invest time and money will benefit in the long term.

2 OVERVIEW OF TEXTILE AND GARMENT INDUSTRY ETHIOPIA

2.1 A SHORT HISTORY

Although the textile and garment industry (T&G) in Ethiopia has existed since the Italian period around 1939, it has not been developed nor modernised until recently. From nationalisation in the 1970s and 1980s to large privatisation waves in the 1990s and 2000s, the T&G industries in Ethiopia were characterised by a very low productivity and competitiveness.

Most of the development plans relied on cotton comparative advantage and domestic manufacturing catching-up. If an Ethiopian T&G industry did develop in urban areas (mostly located in Addis Ababa and regional capitals) its share in the Ethiopian manufacturing sector did not emerge according to policy ambitions during the 1990s and 2000s. The value added share of the textile sector in the Ethiopian manufacturing activity even shrank dramatically from 18% in 1992 to 1% in 2007. (Central Statistical Agency Of Ethiopia, n.d.)

Indicators such as the Gross Value of Production (GVP), number of employees and exports help to comprehend the global evolution of the T&G sector. The GVP gradually increased from $2m in 1995/96 to $35.5m in 2006/07 and abruptly decreased to $2.3m in the following year. Therefore, the year 2007 appears to be a 'fracture year' in terms of growth of the textile sector. There was a drastic increase reaching $78.1m in 2009/10.

It is also interesting to examine the number of employees in the T&G sectors as the industry is labour intensive. The number of employees in the sector declined from 30,000 employees in 1991 to 22,000 in 2006 and then 10,000 in 2007. It increased after 2007 to reach c. 20,000 workers in 2010. In 2013, the total number of employees doubled and amounted to c. 42,000 workers. (Central Statistical Agency Of Ethiopia, n.d.) The current number of workers in the T&G sector is difficult to assess and may reach between 50,000 and 70,000 employees in 2017. (Clasmann, 2017) Based on workforce, it may be argued that the T&G sector growth is steady since 2008 which demonstrates a dynamic development and confirms the 2007 turning point.

Exports represent another valid element to understand the evolution of the T&G sector. The sector represented only 0.5% of the Ethiopian exports in 2005 and reached c. $14m in average for the 2005-2009 period. The 2010s present a different picture with a growth of 208% between 2010 and 2012 ($46.3m) [2]. The rise continued and reached $89m and $110m in 2016 and 2017 respectively. However, export figures remained below the Growth Transformation Plan (GTP) expectations: $240m for 2016 and $270m for 2017. Top exports destinations in value included Germany, USA, UK and Italy in 2016. The Ethiopian T&G industry produces a wide variety of goods from carpets and towels to clothes and uniforms. Ethiopia exports products like t-shirts, sportswear, trousers, work wear / safety clothes, underwear, jackets, home textiles and bags and scarfs with traditional elements.
(Marjolein van Gendt, 2019)

'While still small in absolute terms, Ethiopia's garment export industry is experiencing substantial growth, as Asia-based manufacturers have set up operations and Western brands like H&M, PVH, The Children's Place, JCPenney, and KiK, have all begun sourcing from the country.' [3]

2 OVERVIEW OF TEXTILE AND GARMENT INDUSTRY ETHIOPIA

TABLE 1

Top export destinations for Ethiopian apparel and accessories, knitted or crocheted (HS 61) in 2016, data from UN Comtrade, table based on representation as by SOMO and FNV Mondiaal, 2018

RANKING	COUNTRY	TRADE VALUE (US$)
	World total	$38,235,311
1	Germany	$17,334,029
2	USA	$10,991,626
3	United Kingdom	$2,067,287
4	Italy	$1,776,669
5	Sudan	$1,530,710
6	Austria	$1,510,037
7	France	$1,308,376
8	Spain	$570,666
9	Djibouti	$313,810
10	Canada	$204,713
...	...	...
23	Denmark	$10,843
...	...	...
34	Netherlands	$2,050

TABLE 2

Top export destinations for Ethiopian apparel and accessories, not knitted or crocheted (HS 62) in 2016, data from UN Comtrade, table based on representation as by SOMO and FNV Mondiaal, 2018

RANKING	COUNTRY	TRADE VALUE (US$)
	World total	$24,781,693
1	Germany	$14,012,884
2	USA	$5,535,201
3	Italy	$1,007,078
4	France	$850,255
5	United Kingdom	$826,360
6	Japan	$591,688
7	Djibouti	$355,238
8	China	$322,101
9	United Arab Emirates	$211,608
10	Spain	$168,206
...	...	...
46	Netherlands	$2,870
...	...	...
52	Denmark	$1,546

2 OVERVIEW OF TEXTILE AND GARMENT INDUSTRY ETHIOPIA

2.2 THE SECTOR'S STRUCTURE

Ethiopia has a youthful, fast growing population of 110 million and is rapidly developing with an anticipated annual GDP growth rate of 8% [4]. The regional average annual GDP growth rate is 5,4% [5].
However, employment and exports are not growing as fast as the government envisioned. This may be explained by the structure of the T&G sector that only recently saw increases in privatisation and its ability to attract FDI.

In the 2000s, a large privatisation wave sold most of the state-owned T&G factories such as Kombolcha Textile Share [6], Bahir Dar Textile [7]or Yirgalem Textile [8] to domestic investors. In 2010, Ethiopia amounted to more than 90 factories, of which 91% were privately owned. In 2018, this number increased sharply and reached 200. More than 65 textile investment projects have been licensed for foreign investors in the last five to six years. (Robel, 2018)

Most of the privatised companies belong to local entrepreneurs and endowment funds like TIRET and EFFORT which are linked to the coalition parties Amhara National Democratic Movement (ANDM) and the Tigray People's Liberation Front (TPLF). They did not contribute to the export growth as 'the outdated technology in the textile firms caused low efficiency and required significant investments'. (Staritz and Whitfield, 2019)

The structure of the T&G sector presents various combinations of production units: some textile and garment companies appear to be fully integrated by also undertaking cotton production, such as MAA Garment and Textiles. [9] Others only focus on one particular production stage such as spinning, as it is the case for Adama Spinning Factory. [10] Half of the production was located near Addis Ababa until the mid-2010s. Production locations may have shifted since the rise of regional production hubs such as Industrial Zones and Parks (see next sub-sections).

It is with the increasing share of FDI that the Ethiopian textile sector changed dramatically. Numerous foreign companies chose Ethiopia as a next T&G production hub. The first FDI wave mainly included prominent Turkish investments as a result of a close diplomatic relation. (Staritz et al., 2016; Staritz and Whitfield, 2019) The production and export surge can be explained by the implementation of Ayka Addis in the suburbs of Addis Ababa. The Turkish integrated textile giant invested c. $140 million to build a factory in 2010 and created more than 7,000 jobs.

The arrival of Ayka Addis put Ethiopia on the global value chain map and attracted additional investors from countries like Israel, China and India. Moreover, it coincides with the sudden rise of exports (see the previous sub-section). It is noteworthy to highlight that four Turkish firms have defaulted on their loans in 2017, and in 2018, Ayka Addis failed to pay a total of c.$105m debt to the Development Bank of Ethiopia (DBE) and Commercial Bank of Ethiopia (CBE). (Endeshaw, 2018) Ayka Addis' pioneer role in Ethiopia has been however a very important breakthrough of FDI as an agent of structural change.

Incorporation of Ethiopia in global T&G value chains has emerged more coherently since the 2010s. For instance, in 2013 the Swedish H&M decided to source clothing items from a Bangladeshi T&G production unit settled in Mekele (Tigray). This firm, Dulal Brothers Ltd (DBL) invested c.$100m in a factory which employed c. 4,000 workers in 2016. DBL group is one of the largest exporters of ready-made garments in Bangladesh, with annual exports of $350m and 25,000 workers.

2 OVERVIEW OF TEXTILE AND GARMENT INDUSTRY ETHIOPIA

DBL's customers also include KiK, Lidl, Esprit, Puma, George and Walmart. (Russell, 2016) The reasons given by H&M for such a shift in terms of sourcing country was the comparative advantage regarding the labour costs of which wages reached c. $55 a month – much lower than Bangladeshi ($90) or Chinese ($400) wages; the African Growth and Opportunity Act (AGOA) opportunity (free trade agreement with the US); and the governmental engagement to support T&G.

The FDI surge is further combined with the creation of industrial zones (or parks). There were two sequences of industrial zone development in the 2010s. The first sequence was part of the growth strategy. The Ministry of Industry established the first zone in Bole-Lemi, near Addis-Ababa, in 2012-2013 with an implementation project of $35m including eight South Korean T&G companies over a 156ha surface area. The zone was developed by a Chinese company. (Mesfin, 2012a; Staritz and Whitfield, 2019).

The first wave of Special Economic Zones did not meet government expectations. This was mainly due to governance failures in the field of labour turnover and training, inputs (accessories and imports process), and administrative red-tape (lack of coordination among administrative organisations). A second sequence took place in 2016, named officially 'Industrial Parks', under the patronage of the Ethiopian Investment Commission. (Mihretu and Llobet, 2017) A dozen Industrial Parks host foreign T&G companies.

Overall, FDI in the textile industry has risen: allegedly from $166.5m in 2013/14 to $1.2b in 2016/17 (Ethiopian Investment Commission (EIC) [11] and the share of exporting T&G FDI firms accounted for 80% in 2017. (Staritz and Whitfield, 2019) Significant change emerged in the sector in the past three years.

2.3 POLITICAL CONTEXT

During the Ethiopian civil war guerrilla groups inspired by Marxist-Leninist theories fought the Derg. After the war these rebel groups united into one coalition party, thus creating the Ethiopian People's Revolutionary Democratic Front (EPRDF). In 1991 the EPRDF overthrew the communist dictatorship that had followed the Derg. In August 1995, the Federal Democratic Republic of Ethiopia was officially proclaimed.

This was a remarkable change from Ethiopia's political tradition of centralisation. (Markakis, 2011) The federal constitution recognised the nine regions corresponding to the main ethnic areas and gave new institutional possibilities for these, e.g. bicameral federal legislature, equality of all languages and the right to promote the local culture. But most of the political power remained in the hands of the central government. The Tigray People's Liberation Front (TPLF) played a central role in the formation of the EPRDF and stayed central in its power. This meant the Tigrayan ethnic group was overrepresented in the central government, considering it is a minority group.

Despite developmental promises and achievements, unequal wealth distribution has driven ethnic contestation in 2016. (Davison, 2016) These protests illustrated the urgency of proceeding with reforms and openness but also of tackling the issue of employment and economic sustainability. Ethnic federalism, which placed one ethnic group at the head of the state for the past 25 years, was turning against its own creators. (Berhane and Tefera, 2018)

Inside the Tigrayan leading group, opposing factions have raised their support over the potential inclusion of other ethnic parties such as the Oromo People's Democratic Organization (OPDO) and the Amhara National Democratic Movement (ANDM) ("Regain de tensions au sein

2 OVERVIEW OF TEXTILE AND GARMENT INDUSTRY ETHIOPIA

du TPLF," 2016, "Un Amhara pour diriger l'EBC !," 2016). These progressive TPLF members understood the paramount importance of enlarging power and rent to other minorities as a prerequisite to ensure their own survival.

Since 2017, the old conservative guard seems to have been neutralised ("Le TPLF se déchire sur fond de corruption," 2017, "L'EPRDF nomme des Amharas pour limiter l'influence du TPLF," 2016). In the meantime, the most visible position of the Ethiopian authority experienced an ethnical reshuffle in terms of power: the election in 2018 as EPRDF leader and Prime Minister of the first Oromo (one of the largest ethnic groups in Ethiopia) in the history of Ethiopia, Abiy Ahmed [12].

Abiy Ahmed has been installing changes, which are not always received positively by all and thus have resulted in protests. Some regions experience more political tension than others. His appointment does however tackle the prior tensions between the ruling Tigray and the Oromo and Amhara groups which led to the government declaring a state of emergency in October 2016, which then 'impacted buyers' willingness to invest in the country'. [13]

Regarding policy making, the Ethiopian government framed a series of 5 year development plans. The latest Growth and Transformation Plans I and II (GTP) that have been implemented since 2010 (and until 2020), aim for growth of the manufacturing sector by 10%. The overall outcomes, which could be observed through export performances, may indicate positive action related to GTP implementation. The T&G industry is favoured due to its labour-intensive advantage as the country is suffering from a growing unemployment rate in urban areas.

Manager at garment producer: "I think Ethiopia's privatisation is positive: it opens up the market. I am also happy about the Industrial Parks and that Tax and other government offices support the industry. Some laws are ancient though, such as the export law." (Marjolein van Gendt, 2019)

2.4 INSTITUTIONAL FRAMEWORK

The Ethiopian textile industry is under direct control of the Prime Minister. However, the picture is more complex than a top-down structure. The sector is also allegedly under the Ministry of Industry's (MoI) responsibility and more particularly under the Ethiopian Textile Industrial Development Institute (ETIDI). The creation of this institute was inspired by models such as the Taiwan Textile Testing Center. Created in 2010 on the eve of the second Growth and Transformation Plan (GTP II), the ETIDI includes a large scope of activities supporting the emergence of Ethiopia's cotton- and T&G sectors.

The MoI and ETIDI are challenged by the emerging power of the Ethiopian Investment Commission. The EIC's goal is to promote investment opportunities to foreign and domestic stakeholders. In 2014, the commission (formerly the Ethiopian Investment Agency, EIA, founded in 1992) became the developmental vehicle of the PM's office, directly accountable to him and not to the MoI. Being a commission allowed the EIC to gain new attributions including work permits for foreigners, duty-free privileges, centralised trading services and additional notarisation services that lessen the strenuous process of investing. It reduced the time for bureaucratic procedures from months to weeks (Tsadenna, 2014).

The EIC accommodates investors with centralised prominent institution services including the DBE, the CBE, the EIA, and the Ethiopian Customs & Revenues Authority. Moreover,

2 OVERVIEW OF TEXTILE AND GARMENT INDUSTRY ETHIOPIA

the EIC commands any investment cases related to special zones or parks via the Ethiopian Industrial Parks Development Corporation (IPDC) which underscores an effective institutional articulation and coordination to channel FDI to Industrial Parks. This growing importance is a direct consequence of the government's objectives: supporting investment in light manufacturing, which could create opportunities for local SMEs to link to global supply chains (World Investment Report 2016, 2016).

Manager at garment factory: "My view of the EIC (Ethiopian Investment Committee) is not positive because it changes too much. The promise was no minimum wage for 8 years. The EIC does not send a consistent message, but does have the right intentions." (Marjolein van Gendt, 2019)

Regarding sectoral association, the textile and garment sectors are represented by the Ethiopian Textile and Garment Manufacturer's Association (ETGAMA). Created in 2003, the ETGAMA represents stakeholder interests for the textile and garment industry, including 86 textile and garment factories. The association conducts seminars and workshops, provides technical support to industries, and organises trade connections with importing countries and markets. ETGAMA takes a proactive role in addressing failures and supporting factories.

2.5 SUSTAINABLE CONSUMPTION AND PRODUCTION (SCP) ISSUES

Manager at garment manufacturer: "The social and environmental issue is a human rights issue: it's our duty." (Marjolein van Gendt, 2019)

2.5.1 WAGES

Wages in Ethiopia's T&G industry are low even compared to Bangladesh. The wage paid for an operator is currently approx. $50,00 per month and can range from a starting salary of $32,00 to $122,00 for the most experienced operator. The ILO considers 3500ETB ($110) / month the minimum living standard. A 2016 ILO report concludes that workers are not being paid fair wages. (Chala and Cradden, 2016). Often workers do receive additional benefits like free transportation, free food, child care, subsidised on-site housing and health care services. Night shifts yield additional pay. Some factories work with bonuses related to productivity or not taking holidays. However, most employees struggle to get by, let alone save any money or send cash home to their families in the countryside. [14]

Marketing officer at Ethiopian garment manufacturer: "The country should put a minimum wage." (Marjolein van Gendt, 2019)

The low labour costs increases the global competitiveness of Ethiopia, but it also leads to high worker turnover and on occasion workers have organised strikes. Many parties in the industry now demand a minimum wage in order to create a level playing field and an easier sell to Western markets. The Ministry of Labour is working on a minimum wage. ETIDI is a stakeholder in the discussion. It is expected that there will be a minimum wage by the end of 2020.

The topic of wages has been raised in other publications, such as BSR (2017) and The Intercept (2018). BSR writes: 'The theme of wages was overwhelmingly mentioned as a hindrance to job satisfaction. [...] Female workers described wages as below what they had expected when they began working at the factory. The perception that workers have not received the wage opportunities promised to them makes low wages a persistent challenge and demotivating factor. Furthermore, many expected to receive a raise after finishing the trial period but were never bumped up.' [15] In The Intercept a 20 year old garment worker is quoted as saying:' "My father told me, think of the factory as a way to get a bit of experience, then come home," [...] Her family doesn't see the factory as a long-term career opportunity because she can't support herself on the wages she earns.' The report concludes: 'The clean and safe working environment and the focus on the sustainability of the park — for which Ethiopia has been rightly praised — can obscure the fact that workers are still paid poverty wages.' [16]

2.5.2 CHILD AND FORCED LABOUR

The Ethiopian law forbids child labour, so it is commonly stated that there are no people working in the industry below the age of 17. However, the US dept. of Labor has found reason to believe child labour occurs in the production of hand-woven textiles in Ethiopia. It is reported that children, mostly boys as young as seven years old, produce woven textiles under conditions of forced labour in Ethiopia. These children typically work in Addis Ababa, however many come from the south, including Gamo Gofa and Wolaita zones, some of them as victims of trafficking. The trafficked children are often sold to recruiters, and the parents and children are deceived with false promises about the wages and opportunities for education while working. Some of the children sleep at the worksites, held in captivity and isolation, and are not provided with sufficient food. They are punished with physical abuse. Some children are forced to work long hours, and receive little, if any, pay. [17]

2.5.3 WORKER REPRESENTATION

Ethiopia scores a 4 on the ITUC Global Rights Index (scale 1-5) for freedom of association and workers' rights, which stands for systematic violations of labour rights. The government and/or companies are engaged in serious efforts to crush the collective voice of workers putting fundamental rights under continuous threat. [18] 60% of factories have some form of workers' representation. The government is pushing for this. For some factories this takes the shape of a union, some have worker representatives meetings, some have suggestion boxes. (Marjolein van Gendt, 2019)
The position and function of worker representation is still being figured out. When functioning properly there should be mutual respect and a constructive dialogue between workers and management. At some factories workers are stimulated, but they still don't establish a union or similar representation. At one factory when management changed the worker representation turned completely to the workers' side, then elections failed and the union bled to death. (Marjolein van Gendt, 2019)

Research by WageIndicator.org amongst 1062 garment sector workers from 52 factories showed that there is discrimination based on trade union membership and activities and that workers do not have the right to strike. [19] When operational the main issues discussed are complaints about food, what happens if workers don't reach their targets or promotion procedures that are considered unfair.

2.5.4 DISCRIMINATION

Women are discriminated against in Ethiopia; they often do not receive equal pay for equal work. [20] An ILO workers' survey (Chala and Cradden, 2016) reveals a significant difference

2 OVERVIEW OF TEXTILE AND GARMENT INDUSTRY ETHIOPIA

between male and female wages. Males are generally paid more and receive higher bonuses. T&G industry workers are mainly women. Some of the factories even set targets for the percentage of female workers. For one factory the aim is for 95% of employees to be women. Currently this is 90 - 94%. At another factory 70% of workers is female.
Operators are low-skilled, easily replaceable employees. [21] For the factories in and around Addis Ababa the city hosts a large reserve of low- and average-skilled workers and unemployment particularly affects women. At the garment stage, operator activity mainly includes cutting, stitching, and finishing the supplied fabrics. These operations are repetitive and standardised and the gender status and low education may deter individuals from accepting standardised positions. According to one respondent, "women are not accepting immediately being an operator, and actually 50% of women of our staff are reluctant!". (Jean-Baptiste Damestoy, 2017)

2.5.5 LAND GRABS

In Ethiopia all land belongs to the state. 'Farmers and pastoralists have a 'holding right' allowing them to lease and use the land; families can inherit this holding right, but they cannot buy or sell land. The government is responsible for land allocation.' [22] Cases have been published showing that people were forced to move and not fairly compensated, although little cases are known in relation to cotton growing or garment manufacturing. H&M has been accused of complicity in land grabs because it used cotton that likely had been produced on such appropriated land. [23]

In an example of a company trying to mitigate land grabbing, one of the factories interviewed for this report has purchased more land than required for manufacturing in order to protect this as farmland and purchase the produce for the canteen. (Marjolein van Gendt, 2019)

2.5.6 WATER

Large amounts of water and energy are used during the production processes of textile. When environmental regulations are not enforced this can have enormous impacts on freshwater biodiversity and freshwater resources. [24] Water availability is not an issue for the Ethiopian textile industry, but water pollution is. 'Many textile and garment factories in Ethiopia are not equipped with any effluent treatment plants and discharge their effluent directly to surrounding soil and river bodies. Existing studies find that textile effluents from factories and ambient water quality of rivers around the factories exceed the standards from the Federal Environmental Protection Authority.' [25]

Some of the textile factories in Ethiopia set themselves apart by focusing on zero liquid discharge. Up to 80% of the water is recycled and the remaining water evaporated. Also technologies are used that bring down the required water use. For instance with ozone washing 10 l water is used instead of 100 l. (Marjolein van Gendt, 2019)

2.5.7 SOLID WASTE

Ethiopia has an underdeveloped waste-handling infrastructure and lacks awareness of the environmental impact the improper disposal of waste released by factories. [26] However, a lot of the waste is reused locally. Cutting waste is grinded and used in items like mattresses for the workers or sold as-is per kg at local markets. Leftover yarn is rewound for the local market. Plastic is segregated, recycled by other companies or the municipality.

2.5.8 ENERGY

There is some awareness of the potential of sustainable energy. Most factories make use of the cheap sustainable hydropower energy from Ethiopia's unreliable grid using generators as back-up. Solar solutions are not familiar in Ethiopia at factory level. Some sustainable energy initiatives encountered during factory visits were LED lighting inside and solar lights outside, hybrid cars (but not charged yet) and electric boilers. Some factories voiced future plans to install electric boilers, LED lighting, reduction of fuel consumption and to install rainfall catchment and solar solutions on factory roofs. (Marjolein van Gendt, 2019)

2.5.9 LABOUR CONDITIONS

On Ethiopian cotton fields, working conditions are often poor. This is especially the case on commercial farms. Many employees have no contract, free days or maternity leave. [27] According to a report by the Worker Rights Consortium [28] Ethiopia's garment workers face violations of their rights, for instance in the shape of excessive wage deductions for 'such offenses as drinking water at their work stations'; verbal abuse from supervisors; pregnancy discrimination, with hiring managers at one factory manually probing the bellies of job applicants; and forced and unpaid overtime. Research by WageIndicator.org amongst 1062 garment sector workers from 52 factories showed a lack of job security during up to 6 months of illness. [29] These violations contravene codes of conduct of brands sourcing in Ethiopia.

Work hours and the number of shifts differ greatly per factory. Mostly all are closed on Sunday. Overtime is strictly maximised by the government. Some of the factories complain that the Ethiopian government is stricter than the ILO. As one factory manager described it: "Ethiopian people do not want to work overtime." In quite some factories an extra shift is introduced when orders exceed factory capacity. According to the factory managers overtime is voluntary and bound by a labour union agreement. Within the work hours there is one or two breaks, usually 30 min. long. (Marjolein van Gendt, 2019)

2.5.10 OCCUPATIONAL SAFETY AND HEALTH

Ethiopia's occupational safety and health standards are not effectively enforced. The government employs 516 labour inspectors, which is less than half of the ILO's recommended number of 1,321. [30] Some factories have a nurse or clinic on site or plan to build a clinic. Major issue in the sector is the use of Personal Protective Equipment (PPE). Parts of the factories are very loud and workers often do not wear ear protection. We heard workers do want the PPE but do not get it, but also the PPE was offered and workers do not want to use it. Research by WageIndicator.org amongst 1062 garment sector workers from 52 factories showed a lack of OSH training and a lack of free PPE. [31]

3 BUSINESS POTENTIAL

The World Economic Forum (WEF) lists five reasons why Ethiopia is Africa's new growth engine [32]:

1. Greater social stability – from being largely authoritarian Ethiopia is increasingly turning toward openness and democratic processes. The relations with neighbouring countries Eritrea, Somalia and Djibouti are improving, political prisoners have been released and tough laws on anti-terrorism, media and civil society are being reformed. Recently, however, there has been some unrest and confrontations between political leaders because of the upcoming election in 2020.
2. Youthful potential – Over 70% of citizens in Ethiopia are under 30, and nearly 50% are under 15. The Ethiopian government focuses on educating its youth mainly in technology and science. Quite some Ethiopians speak English.
3. Possible privatisation of state-owned enterprises – The WEF sees Ethiopia as one of the world's largest untapped markets and privatisation might attract more investors.
4. Promising start-up ecosystem – SoleRebels founder Bethlehem Tilahun Alemu can function as an entrepreneurial role model.
5. Strategic location between Europe and Asia – Ethiopia is conveniently close to Asia and Europe and being in a time zone similar to European countries is a great benefit.

'Cheap labor, active government involvement and export incentives have been Ethiopia's selling points, as it tries to fix its export deficit and increase its foreign currency reserves.' [33]

Reasons for foreign companies to invest in Ethiopia's T&G industry are the following:

- Free trade agreements with the US and EU – AGOA (US) and the Everything But Arms (EBA) scheme that allows EU countries to import all products duty-free and quota-free with the exception of arms and armaments.
- Government support – Ethiopia is an attractive country for foreign investors as the government would like to transform the country from an agricultural economy into a manufacturing economy through the Growth and Transformation Plan. The government attracts FDI through:
  - income tax breaks
  - easy hiring of expats
  - on site custom inspections
  - low costs for water, electricity and rent
  - potentially tax exemption on machine import
  - readily available land and buildings at industrial parks
  - training subsidies
- Low cost labour
- Low cost energy
- Young manpower
- For many types of production no competition present in the country yet
- The industry is in an infancy stage, but it is growing
- Environmental sustainability at industry parks
- Great potential for cotton production: 3 million hectares available
- Convenient location with shorter shipment time to the US and European markets

3 BUSINESS POTENTIAL

3.1.1 CHALLENGES TO GROWTH

In contrast to these (potential) advantages, challenges and barriers to growth can be identified too. Ethiopian producers state the following issues as the most pressing (Marjolein van Gendt, 2019):

- Employee attrition – Worker turnover is high. People leave when. People leave when they are not happy. Some factories show absenteeism figures at 23% and efficiency at 50%. Factories try to counter this by measures like providing promotion opportunities, setting targets and incentive bonuses.
- Unskilled workers – Finding skilled workers that will stay is the factories' biggest issue. Most workers have an agricultural background; there is no industrial culture. An industrial work ethic will take 2 generations to come, also for management. Training takes at least 6 months. Even things like bathroom use need to be trained: the toilets are often blocked because workers flush fabrics and other unsuitable items.
- Buyer commitment – Factories look for buyers who have long term plans and preferably volume orders, but the KPI's of big buyers are often perceived as too strict. Manager at garment manufacturer: "Buyer X: they are dictators." (Marjolein van Gendt, 2019)
- Electricity outages – At one of the Industrial Parks in May 2019 the electricity was out 5 - 6 hours twice. Residents are cut 12 hours per day. Often power cuts are said to be caused by shortages in rainfall, which leads to lower output of the hydro dam power station.
- Import/export – Getting input like fabric and accessories into Ethiopia proves difficult. Sourcing cotton locally is a major issue; due to high prices, low quality (due to contaminations) and insufficient supply and thus also needs to be imported. Accessories might not be available locally at all. Buyers ask for fabric and accessories from outside the country, but customs clearance takes a long time. Import of yarn, spare parts and chemicals is similarly affected. Transportation is also often affected by traffic jams and slow transportation to the port of Djibouti (since Ethiopia is landlocked).
- Foreign currency issue - Another major issue is the limited access to foreign currency needed for the import of the items mentioned above. Pre-shipment loans are difficult to obtain.
- Lack of local certifying bodies – It is difficult for local factories to get certified due to a lack of local certifying bodies. Factories indicate they need such certification e.g. for boilers, the ETP and for water testing.
- Unreliable internet access – On many, irregular, occasions internet access in Ethiopia is severely limited. The cause or reason for these outages are rarely officially communicated. In June 2019 for instance, there was a countrywide internet shut-off, making communication via internet virtually impossible.
- Political tensions – Some factories are located in regions that experience political tensions between ethnic groups and protests as a result.

3.2 COMPETITIVENESS IN RELATION TO OTHER SOURCING DESTINATIONS

Ethiopia is starting to compare quite favourably internationally as a T&G sourcing destination. The country offers increasing benefits when compared to the likes of China, India and other African countries.

Looking globally, China still dominates the export of apparel and textiles to the EU, next to Bangladesh. However, increasing wages and new environmental regulations in China have resulted in the closure of tens of thousands of factories. Combined with the changing trade agreement between China and the US, this results in a propensity with foreign buyers

3 BUSINESS POTENTIAL

to consider new sourcing destinations with a focus on favourable trade agreements and low production costs. (Marjolein van Gendt, 2019)

Indian garment and textile producers like Raymond, Arvind, Best Corporation and Jay Jay have been moving FDI into Ethiopia . Prominent advantages for them are labour costs and Ethiopia's free trade agreements. Bangladesh has free trade agreements (FTA's) with major countries, which India does not have. Ethiopia offers Indian companies the opportunity to also benefit from FTA's.

In 2014 PVH made an assessment of the potential of six new locations for apparel production. These six, which happen to be all African, were the result of a shortlisting process. 'Ethiopia beat Kenya, Tanzania, Ghana, Zambia and Uganda, largely because of the responsiveness of certain individuals in the government, as well as Ethiopia's access to cheap renewable energy and, perhaps most importantly, its cheap labour. While their study showed that productivity was higher in Kenya, as the workforce was more industrialized, PVH chose Ethiopia, where labour costs were lower and government commitment more evident.' Manager at garment factory: "Kenya has unmanageable corruption and high wages, but is more predictable in terms of political condition than Ethiopia." (Marjolein van Gendt, 2019)

Indian garment and textile producers like Raymond, Arvind, Best Corporation and Jay Jay have been moving FDI into Ethiopia [34]. Prominent advantages for them are labour costs and Ethiopia's free trade agreements. Bangladesh has free trade agreements (FTA's) with major countries, which India does not have. Ethiopia offers Indian companies the opportunity to also benefit from FTA's.

In 2014 PVH made an assessment of the potential of six new locations for apparel production. These six, which happen to be all African, were the result of a shortlisting process. 'Ethiopia beat Kenya, Tanzania, Ghana, Zambia and Uganda, largely because of the responsiveness of certain individuals in the government, as well as Ethiopia's access to cheap renewable energy and, perhaps most importantly, its cheap labour. While their study showed that productivity was higher in Kenya, as the workforce was more industrialized, PVH chose Ethiopia, where labour costs were lower and government commitment more evident.' [35] Manager at garment factory: "Kenya has unmanageable corruption and high wages, but is more predictable in terms of political condition than Ethiopia." (Marjolein van Gendt, 2019)

3 BUSINESS POTENTIAL

TABLE 3

Ranking of countries based on image representing PVH assessment of potential of six new locations for apparel production as in World Bank Group, 2017. Score scale 1 = lowest, 6 = highest.

RANK	1 Ethiopia	2 Kenya	3 Ghana	4 Uganda	5 Zambia	6 Tanzania
Total Score	4.90	4.80	4.65	4.50	4.35	3.30
Local cotton availability	★★★★	★★	★★	★★★★	★★★★★★	★★★★★★
Power cost and quality	★★★★★★	★★★★★★	★★★★★★	★★★★★★	★★★	★★
Wage cost	★★★★★★	★★★★	★★★★	★★★★	★★★★	★★
Port connectivity	★★★	★★★★★★	★★★★★★	★★★	★★★	★★★★★★
General infrastructure	★★	★★★★	★★	★	★★	★
Government pro-activity	★★★★★★	★★★★★★	★★★★	★★★★★★	★★★★★★	★★
Political stability	★★★	★★★	★★★★★★	★★★	★★★★★★	★★★★★★
Law and order	★★★★	★★★	★★★★★★	★★★	★★★	★★★

3.3 AVAILABILITY OF RAW MATERIALS (COTTON, YARNS, FABRICS AND ACCESSORIES)

As Ethiopia has limited availability of locally produced fabrics, trims or usable cotton these need to be imported from countries like China, India, Turkey and Pakistan. This increases the lead-time of the ready-made products.

'In the absence of vertical integration, the high cost of raw materials is an important constraint to industry growth.' [36]

COTTON

In the 2000s, the cotton production started to export raw surplus for the first time during the EPRDF era, announ cing an economic boost. Overall, cotton production had a 152% growth spurt between 2005 and 2012 - from 31,400 to 79,471 tons. (Central Statistical Agency Of Ethiopia, n.d.) Since then, both production and surface area declined drastically from c. 80,000tons to 38,000tons and 99,000ha to 60,000ha respectively between 2012 and 2017. (Central Statistical Agency Of Ethiopia, n.d.; Ethiopian Textiles Industry Development Institute, n.d.)

This trend may be partly caused by the Ethiopian government decision to ban raw cotton exports between late 2010 to early 2017, following forecasts of low harvests in order to meet increasing industrial domestic demand. Furthermore, land tenure issue in Afar and climatic occurrences affected cotton production which acknowledged many low harvests. (Ethiopia's Cotton Production Down - Imports Likely Up, 2018) These factors led cotton producers to shift production to sesame sorghum and soybeans in order to ensure income. (Tsegaye, 2014)

3 BUSINESS POTENTIAL

Therefore, the trade situation presents the paradox of having a cotton producing country with a large untapped potential that imports continuously over the 2010s to reach c. 20,000tons in 2018. This trend constitutes a major setback compared with the original objective of the Ministry of Agriculture and Rural Development (MoA) which planned to increase the cultivated land of cotton to 125,000 ha and produce 107,000 tons of cotton by 2015. In 2017, the MoI decided to prepare a Cotton Development Strategy (2017 - 2030) to regenerate cotton production, aiming at supplying the textile industry.

The dramatic decrease of cotton production led the industry to rely on imports. The total cost of raw materials consumed by the textile manufacturers reached $53.8m in 2009/2010 of which 37% of the cost was imported raw materials. All enter the manufacturing process of the textile and garment industry. These imports generate additional costs by the lack of infrastructure which is 'causing delays in raw materials and accessory supply' (Sutton and Kellow, 2010, p. 115) and the geographical position of the country as Ethiopia is a landlocked country.

3 BUSINESS POTENTIAL

TABLE 4

Top Ethiopian import sources for cotton (HS 52) in 2016, data from UN Comtrade, table based on representation as by SOMO and FNV Mondiaal, 2018

RANKING	COUNTRY	TRADE VALUE (US$)
	World total	$18,920,465
1	India	$7,157,473
2	Pakistan	$4,957,994
3	China	$3,983,719
4	Sri Lanka	$1,056,001
5	Egypt	$618,637
6	Indonesia	$358,838
7	Turkey	$202,520
8	Sudan	$179,919
9	Rep. of Korea	$138,391
10	Italy	$79,925
	...	...
22	Denmark	$173

TABLE 5

Top export destinations for Ethiopian cotton (HS 52) in 2016, data from UN Comtrade, table based on representation as by SOMO and FNV Mondiaal, 2018

RANKING	COUNTRY	TRADE VALUE (US$)
	World total	$13,601,905
1	Turkey	$8,434,201
2	China	$3,583,213
3	Madagascar	$310,011
4	Kenya	$308,210
5	Italy	$296,468
6	Egypt	$193,982
7	Guatemala	$180,566
8	Peru	$164,875
9	Sudan	$47,461
10	USA	$43,148

3 BUSINESS POTENTIAL

Cotton quality may appear as another issue regarding textile production. The cotton is contaminated during harvesting, transportation, storage and even in packaging. Until recently Cotton made in Africa was the only international certifying body for cotton from sustainable production in Ethiopia. In 2018, 200 farmers near Arba Minch in North-Oromo received organic cotton certificates for their cotton. In other cases, Ethiopian cotton is not certified and international production standards do not apply to the domestic production.

Moreover, Ethiopian cotton farmers have primarily been using one major seed variety which is becoming increasingly vulnerable to pests and diseases. Besides, farming practices in Ethiopia use high amounts of pesticides and chemical inputs with adverse effects on environment and health. This did not impede pest intrusion. During the most recent crop season in 2018, farmers reported sizeable losses resulting from bacterial blight, Flea Beetle, Pink Bollworm and Mealy Bug.

Regarding cotton seed technical innovation, the Ministry of Environment, Forest and Climate Change approved the cultivation of Genetically Modified Cotton in Ethiopia in June 2018. Best known as BT-Cotton, the seed has been trialled for two years before the official approval. (GMO cotton approved for plantations, 2018) Such decision represents a clear sign indicating the pursuit of developmental objectives by the state since 2005. (Lena Partzsch and Laura Kemper, 2019) The cotton used is customer nominated: they have to approve the mill and its quality.

ETIDI has a cotton research & inspection department. They have developed a new packaging bag that does not contaminate the cotton. The Industries Input Development Institute will buy cotton from farmers if they want and decide on the quality (grading system) which determines the price. This price is revised based on the international price. (Marjolein van Gendt, 2019)

GINNING

There are currently 19 ginneries in the country of which 17 use saw gins technology – most of them are privately owned. [37] Total ginning output capacity may be around 80,000 tons per year. (Sivaganesh Babu and Amare Worku) Some belong to cotton companies such as Amibara Agricultural Development or Hiwot Agricultural Mechanization.

It may be argued that technological backwardness affects the ginning sector - most of the ginneries are operating with outdated machineries and characterized by poor infrastructure (Abudullahi and Ayele, 2008; Belete, 2018; Scoping Study Report: National Cotton Development Strategy (2015-2030), 2016).

Furthermore, the sector is under a growing pressure: spinning production capacities have increased dramatically recently and impacted on the demand for lint cotton accordingly. However, global efficiency of ginneries have reached 60% whereas normal rate should be around 85% (Scoping Study Report: National Cotton Development Strategy (2015-2030), 2016, p. 75).

Lastly, the regional location of ginning companies may not be adapted to the cotton production. An important number of ginning companies (14 production units) are based in Addis-Ababa, Amhara and Oromo whilst ginning production capacity is merely lacking in Afar, Tigray and the SNNPR.

3 BUSINESS POTENTIAL

YARNS

Yarn production capacity increased significantly in the past ten years and demand is increasing faster than supply capacity. For instance, in 2012, spinning capacity increased by 134% while the yarn production only rose by 51%. Such growth surge is explained by important foreign investments in a few modern spinning units. There are eight stand-alone spinning companies that produce open-end, ring and combed yarn at quantities of roughly 357.3 tons per day. In addition, 19 semi-integrated mills and eight integrated mills also engage in spinning. (Ethiopia: textile and clothing value chain roadmap 2016-2020, 2016)

Yarn quality depends on cotton quality and it has been reported that Ethiopian cotton holds significant amounts of waste and trash, which dramatically affects the ginning and spinning processes. It therefore leads to a low-quality classing process and additional working capital costs for ginners and spinners to treat cotton trash.

Yarns exports increased by 100% between 2010 and 2015 (from 30 to 60m $) and most of these exports are sold to China and Turkey. This growth remains modest as most of the production is dedicated to domestic demand.

FABRIC

Figures regarding fabric production must be cautiously analysed. In 2016, total annual production is estimated to reach 207 million metres of woven fabric and 50 million kg of knitted fabric. (Ethiopia: textile and clothing value chain roadmap 2016-2020, 2016) Despite this impressive data, capacity utilisation remains disappointing with only c.50% which means that profitability is limited.

Low revenues may have a direct impact on wages, and also on technology acquisition. Most of the textile sector uses old or obsolete machinery. Most of the fabric production is devoted to domestic garment production. Ethiopian stand-alone textile producers do not offer up-to-standard fabrics in terms of quality and delivery time. However, domestic fabric production may acknowledge a significant transformation with the emergence of the Industrial Parks and FDI in the production capacities.

ACCESSORIES

The domestic input industry provides low quality accessories and limited choice. Most of the garment accessories are imported and this can be perceived as a price disadvantage compared with most of its competitors in Asia more particularly, who benefit from a dense industrial landscape and technical knowledge. Such constraints affect the flexibility with which Ethiopian producers can respond to buyer demands. Importing inputs could take weeks or months. Despite the influx of FDI and the need for accessories within the growing garment sector, there was no major investment in input industries until recently.

3.4 INFRASTRUCTURE

As Ethiopia is landlocked moving goods for shipping still takes a lot of time. The road to Djibouti is very bad and in need of repair resulting in a delay of transport. At the Djibouti port staff don't work Fridays and Saturdays, whereas Ethiopia keeps a Saturday and Sunday weekend. Customs clearance and port authorities lead to delays. To clear a shipment takes 10 - 20 days. Scheduled vessels sometimes don't arrive on time, or at all. For all these reasons, transport time from Ethiopia to the EU may amount to up to 40/45 days.

3 BUSINESS POTENTIAL

Transporting a container over 1000 km currently costs approximately $3000. However, the Ethiopian government is heavily investing in infrastructure and with the opening of the Djibouti railway the goods can be transported within 10 days. ETIDI, customs, the Ministry of Finance and the PM office have created a working group on customs issues (clearance) and the import tax for raw materials.

Access to the Eritrean port of Asmara would help decrease lead-times, especially for the garment factories located in the North of Ethiopia, around Mekelle. An Ethiopian customs office has already been established at this port. Transport to Eritrea takes 1/2 days; to Djibouti 2 days.

Factory manager: "If we need to squeeze lead times we use air freight." (Marjolein van Gendt, 2019)

3.5 PROCESS QUALITY

For some years, the apparel industry in Ethiopia has been growing. Not all plants are ready for this increasing pressure on the textile sector. On some production sites there is a lack of proper facilities and equipment. Emergency exits are for example sometimes locked. In some factories, machines are outdated and make lots of noise.

3.5.1 PRODUCTIVITY OF THE WORKFORCE

Manufacturing at high speed is crucial within the global competitiveness of the apparel industry. Especially locally owned factories in Ethiopia have a lack of knowledge on how to maximize production efficiency. In addition, many workers are difficult to motivate. Efficiency levels around 70% could be considered above average in Ethiopia.

Measures factories in Ethiopia have taken to increase efficiency (Marjolein van Gendt, 2019):

- Training of factory management (planning and putting operators on jobs that match their talents e.g. using a skill matrix)
- Hiring experienced foreign consultants or management staff (for instance from Pakistan, India and Europe to professionalise the workforce (also at Ethiopian owned factories)
- Training of workers (technical skills as well as soft skills)
- Creating a continuous order flow
- Investing in automation
- Increasing focus on volume orders, easy products
- Measuring productivity per worker
- Employee feedback concerning productivity, after lack of improvement written notifications
- Performance related payments per line as well as per individual worker

'Workers noted that the large number of foreign managers is a source of linguistic and cultural tension and misunderstandings in the workplace. This was corroborated by owners who expressed concern that the sheer number of expatriate managers might impede production efficiency among their staff. Amharic-speaking workers said that the predominantly English-speaking, expatriate managers are disrespectful, insensitive, and sometimes abusive in their working relationships.' [38]

Worker turnover: Worker turnover rates across the T&G industry average at 8 percent per month, or 100% on an annual basis. [39], [40] 'It's a complicated scene with a negative feedback

3 BUSINESS POTENTIAL

loop, where workers quit because of the wages and working environment, and employers blame the high attrition rate and low efficiency for the wages they offer.' [41] Workers – when their knowledge is sufficient – turn to another profitable sector. (Jean-Baptiste Damestoy, 2017)

One of the factory managers interviewed for this report indicated worker turnover was 20% at the start and is 8 - 9 % now. At another factory workers staying in the accommodation on site had a turnover rate of 2%, where the ones taking transport to get to the factory had 6 - 8%. Another factory went from 3% to 9 - 10% when management became stricter and work hours changed from 1 to 2 shifts. Overall, the factories interviewed reported attrition rates between 1.5 and 10%. (Marjolein van Gendt, 2019)

Factory manager: "Due to salary and unfairness people might resign. Other factories pay better. There were strikes on salaries and improper and unfair work procedures, for instance a competent worker was not promoted. As a result of these strikes the company owner promised not to do unfair things and increased worker salaries." One of the factories plans to counter high attrition by offering day-care and a shop on site with low prices. (Marjolein van Gendt, 2019)

Training: Onboarding or initial technical training varied from 20 days to 6 months with some factories offering continuous training with a dedicated line for training. Often this training is organised in-house, but sometimes it is arranged by partners like ETIDI, GIZ or Solidaridad. Many of the factories train workers on soft skills or social hygiene during induction. (Marjolein van Gendt, 2019)

Factory manager: "The workers come straight from the field: bathroom use, why start at 08:00; all has to be taught." (Marjolein van Gendt, 2019)

In a 2006 report the World Bank flagged poor training as in issue contributing to productivity loss: the 'labour force in the textile and garment is poorly trained. It [...] experienced large loss in terms of productivity. There was no coordination and every company implemented their own training in the absence of training centre or governmental support.' (Gobind Nankani et al., 2006) This seems to be partly tackled by external partners offering training. Overall though, findings have indicated that operators are generally reluctant towards training and change. (Jean-Baptiste Damestoy, 2017)

Manager at a garment factory: "We have a comprehensive training programme to constantly upgrade skills and keep employees abreast with the latest equipment and technologies. We are committed to enabling local capacity building by recruiting engineers, training them and making them future global managers." (Marjolein van Gendt, 2019)

Other training provided (Marjolein van Gendt, 2019):

- First aid, fire fighting
- Financial literacy / management, incl. saving
- Quality training
- OSH training
- Training on industrial relations, unions, worker rights (e.g. by ILO, Ministry of Labour)
- Kaizen 5S training
- Motivational training for supervisors

3 BUSINESS POTENTIAL

3.6 SECTOR INITIATIVES

The interviewed factories mention that they have participated in programmes and projects by GIZ, Better Work, Solidaridad (BMI, Bottom Up), CmiA, EU, DEG, ILO, USAID and also some by private companies like H&M. (Marjolein van Gendt, 2019) The sustainability of the whole value chain depends on the regulation of the linkages between the cotton, textile and garment sectors. Initiatives were consequently designed to seek mutual benefits.

GIZ: The objective of GIZ's Sustainable Textiles Initiative is to increase the compliancy-level of Ethiopian garment and textile factories to international social and environmental standards. The initiative cooperates with the private sector by providing advisory and direct support services, helps to build human capacity and promotes the image of Ethiopian textiles and garments internationally and by creating market links to other countries. Second, together with ETIDI and the Industrial Park Development Cooperation (IPDC), institutional frameworks are built to provide quality advisors for social and environmental standards. Third, it supports enforcement units responsible for industrial standards, by increasing the capacity of inspectors from the Ministry of Labour and Social Affairs and the Ministry of Environment, Forestry and Climate Change.

CmiA: The Cotton made in Africa Initiative started in 2005 with the aim to sustainably improve the living conditions of cotton farmers in sub-Sahara Africa and to protect the environment. Through its independent certification system, it has set up social, economic and environmental criteria to follow the 3 P 'people – profit – planet' philosophy. In 2018, CmiA represented ca. 1 million smallholders with a production of 580,000 tons, a decrease of 80,000 compared with the previous year. (Cotton Made In Africa Annual Report 2016, 2017)

Competing with large-scale farms, smallholders are greatly affected by the informal market system in Ethiopia.

Smallholders are given training by the Ethiopian Cotton Producers, Ginners and Exporters Association (ECPGEA), the managing entity for CmiA in Ethiopia, which empowers their production to comply with the international organic production requirements (encouraging the reduction of pesticides use, but also prohibit artificial irrigation and deforestation), and addresses training failures and the knowledge gap.

The programme started in Ethiopia in 2014 with 5,000 tons of cotton production supplied by the Metema Union, a cooperative of 10,000 smallholders. [42] A contracting agreement was reached between the ECPGEA, Metema Union, Gende Wuha Ginnery representing smallholders, and Ayka Addis, [43] one of the largest integrated textile factories in Ethiopia at the time.

Despite this contracting agreement with prominent textile stakeholders and the support from Ethiopian public institutions, smallholders decided to sell part of their production through the more advantageous alternative market channels because of price fluctuations: 'Honouring contract obligations and side-selling may remain a challenge until trust between buyers and sellers reaches a desired level. Contracting parties have to meet frequently to better understand and coordinate efforts towards the fulfilment of contractual obligations as well as arrange access to pre-financing to the Farmers Cooperatives Union.' (CMIA in Ethiopia: One year later, 2015)

3 BUSINESS POTENTIAL

EP: Enterprise Partners (EP), a business consultancy agency commissioned by the MoI, understood that the CmiA action would be a unique opportunity to improve the market and came with its own governance capability solution. First, it is interesting to note that the government directly commissioned an international agency to address this sensitive local issue. It may suggest that public authorities proactively seek solutions with professional and private oriented organisations.

EP is a £50m programme funded by DfID and implemented by a DAI-Europe-led consortium which includes private groups such as First Consult, ITAD, Enclude and BCaD between 2013 and 2020. Enterprise Partners aims at facilitating market development in five sectors in order to spur innovation and growth by firms to create 45,000 jobs and increase the incomes of 60,000 workers. The mission of EP confirms the private sector mind-set of the organisation.

Secondly, EP understood the local constraints of the cotton producers and their inability to reach international standards. The agency aims at ensuring that farmers use better quality seed, and obtain access to cost-efficient seed multiplication technology, making seeds more affordable.

Thirdly, the agency facilitated a contract arrangement between all parties by creating a governance platform. EP gathered all parties in a structure called the 'Technical Working Group', which is leading the project. A general agreement between all parties was signed in May 2017 and sensitisation workshops on cotton contract farming are taking place. These workshops help in sharing ideas and gather stakeholders' inputs for customized contract farming models.

Solidaridad: In 2016, Solidaridad started the Better Mill Initiative in Ethiopia to promote sustainable textile production. This initiative is based on a project carried out by Solidaridad in China that sought to promote cleaner production and improved labour conditions in factories. In Ethiopia, Solidaridad is working with 12 local mills to reduce their environmental impact and to address the labour conditions of in total more than 17,000 workers.

Solidaridad has the ambition to reach 74 factories by 2020 with direct technical support and indirect support such as peer-to-peer sessions, industry workshops and knowledge exchange sessions between factories. The Better Mill Initiative has received approval from the Ethiopian government and the Ethiopian Textiles and Manufacturers Association.

In 2019 Solidaridad started an additional textile and garment programme in Ethiopia: Bottom Up!. This is a joined effort with Cotton made in Africa, MVO Nederland and Danish Ethical Trading Initiative. The objective of the project is to contribute to a sustainable, inclusive and transparent value chain that generates business growth, improves working conditions, and promotes labour and environmental standards and responsible purchasing practices in the cotton and garments industry in Ethiopia and Europe by 2021.

The project is supporting Ethiopian textile factories & cotton farms through the provision of training & technical assistance. For example training on transformational leadership; on gender and leadership of women workers; on soft skills for factory supervisors; on awareness of social sustainability criteria and labour conditions; on cleaner technologies and environmental standards; on first aid and firefighting; on union rights and on OSH. Cotton farmers are trained on social and environmental practices according to CmiA.

H&M: H&M in collaboration with the ILO and the Swedish International Development Cooperation Agency (Sida) and via the SDG Fund has developed a programme that aims to 'promote social dialogue and improve productivity as well as improve wages and working conditions through nurturing sound labour relations practices and promoting collective bargaining.' [44]

IFTLGW: The Industrial Federation of Textile, Leather and Garment Workers Union (IFTLGW) is working with the CETU, the International Labour Organization, FNV Mondiaal, the Friedrich Ebert Stiftung, IndustriALL and other partners in various activities that include building union capacity for collective bargaining towards social dialogue. [45]

UNIDO: The Italian Agency for Development Cooperation and UNIDO currently collaborate in a three year project aimed at job creation for youth and women in the Ethiopian textile sector. The project focuses specifically on the migration prone areas of Tigray and Addis Ababa.

3.7 BUYER EXPERIENCES

Currently companies like PVH, H&M, Decathlon and Tchibo are sourcing in Ethiopia. IKEA and ALDI are planning to start sourcing. SOMO and FNV Mondiaal have included some of the experiences of these companies in their 2018 report, selected elements of which can be found below.

H&M (garments): H&M has started looking at Ethiopia as part of its strategy to look for new potential sourcing destinations. The company sees potential in Ethiopia because it is a developing nation. Bringing business to Ethiopia would help create jobs and alleviate unemployment. H&M aims to use Ethiopian cotton but its quality has not been sufficient. The challenges H&M identified with regard to textile and clothing production in Ethiopia: 'Logistics, back-linkage in the supply chain, skills development of workers and management and finance'. [46]

Tchibo (garments): Major reason for Tchibo to start sourcing in Ethiopia was that long term Turkish supplier Ayka Textile decided to invest in a factory in Ethiopia and convinced Tchibo to join them in this move. Tchibo hoped to set-up a transparent and sustainable supply chain this way. 40% of the cotton used was produced under the CmiA flag in Ethiopia's Metema region. Tchibo wanted to use organic cotton, so the other 60% had to be imported. 'We hope to find sources for organic cotton in Ethiopia which meet our criteria for sourcing (e.g. no landgrabbing) in order to increase the sourcing of Ethiopian cotton.' [47]

Tchibo identified the following challenges regarding the T&G industry in Ethiopia: logistics, insufficient local management capacities, workers lack technical skills and knowledge on their rights, high attrition and absenteeism, limited worker representation and collective bargaining, no public health care or public transportation, ineffective systems to prevent discrimination and sexual harassment at the work place. [48]

Tesco (garments): Tesco had one trial order made in Ethiopia. They indicate that some of their suppliers are deliberating to move business there and if that happens Tesco might consequently source some basic products from Ethiopia. This is not a company priority. Tesco did not follow-up after the trial order because Ethiopia does not give 'any advantage with regards to cost price or lead times versus other countries like Bangladesh, and their capability is limited to basic products.'

3 BUSINESS POTENTIAL

Tesco prefers to ‘continue working with existing trusted suppliers who can satisfy our commercial and quality requirements, in locations where we already have our own staff.’ [49]

Jomo Fashion (garments): Erik Nieste, formerly Jomo Fashion, visited Ethiopia to assess its potential as a sourcing destination: “My arrival was pleasant when compared to Bangladesh. The infrastructure and logistics are okay. In Bangladesh 2 km can take 2 hours. But Ethiopian factories are big and inflexible whereas the Dutch market needs flexibility, small quantities and value add to products. Bigger retailers could however find the factories interesting. Efficiency is quite low in Ethiopia. The products that at this stage are produced in Ethiopia are basic. Efficiency in Bangladesh is 80 - 85%. In Ethiopia it can be as low as 25%. At Indian owned factories it now is 55%. Whether a factory is well managed is most important. If the management doesn’t understand what they’re doing there is no hope; workers can be trained. Lower salaries can be a benefit and a risk. German clients really need a minimum salary. I think Ethiopia should have a minimum wage. BSCI is also a must, but many factories don’t have it.” (Marjolein van Gendt, 2019)

PVH: PVH started a strategic reconsideration of its global value chain in 2012 and the process was given extra priority due to the issue in Bangladesh regarding compliance with international standards and buyers’ requirements. Bangladesh represented the biggest garment production in the world and the country was facing growing concerns from buyers after the manifestation of various dramatic incidents such as the building collapse at Rana Plaza. [50]

PVH aimed to set up a fully integrated vertical supply chain in order to have better grip on production conditions. ‘In selecting the location for its new vertically integrated and socially responsible supply chain, PVH looked for suitable land on which its supply chain partners could grow cotton, and sustainable sources of energy with competitive electricity rates for the production of yarn and fabric. The company required the country’s government to be committed to ensuring that relevant laws (worker rights, fire safety, building safety, etc.) would be enforced and that their manufacturers would meet international quality and production standards.’ [51]

4 SOURCES

- A2 Global Risk, Case Study: Ethiopia's garment industry, between high potential and low yield, 2016
- Abudullahi, Merima, and Gezahegn Ayele. 'Agri-Chain Analysis of Cotton Sub-Sector in Ethiopia'. Addis Ababa, Ethiopia: Ethiopian Development Research Institute, June 2008
- Aid By Trade Foundation. Cotton Made In Africa Annual Report 2016, 2017
- Alexandre Raffoul and Vijay Raju, "Ethiopia is Africa's new growth engine – here's why" (World Economic Forum, 6 Sept 2019)
- Bajaj, V., 2012. Fatal Fire in Bangladesh Highlights the Dangers Facing Garment Workers. N. Y. Times
- Belete, Pawlos. 'Ethiopia's Cotton Production Quagmire: Reality vs. Potential'. The Reporter Ethiopia, 8 September 2018.
- Berhane, Zerihun, and Samuel Tefera. 'Does Federalism Reduce Ethnic Conflict? Evidence From the Ethiopian Experience'. Ethiopian Journal of the Social Sciences and Humanities 14, no. 1 (2018): 105–31
- Birhanu Fikade, 'GMO cotton approved for plantations'. The Reporter Ethiopia, 9 June 2018
- Business of Fashion, Made in Ethiopia: Fashion's Next Sourcing Hub?, 2016
- Business Standard, "Cheap labour cost makes Indian textile mills turn to Ethiopia", 22 Jan 2019
- Buzzfeed, "7 Poems That Show What It's Like To Be A Girl In Ethiopia", 23 June 2015
- Chala, K., Cradden, C., 2016. A decent work profile of the Ethiopian textile and garment industry. International Labour Organization
- Chanyalew, Demese, Adenew Berhanu, and Mellor John. 'Ethiopia's Agricultural Sector Policy and Investment Framework (PIF) 2010-2020 -'. Ministry of Agriculture and Rural Development of Ethiopia, September 2010
- Clasmann, Anne-Beatrice. 'Ethiopia: The next Big Destination for the Textile Industry'. DPA International (blog), 25 April 2017
- Compaci, CMIA in Ethiopia: One year later, 2015
- Daily Mail. "Tommy Hilfiger forced to make $2M safety concessions after fire that killed 29 workers at factory... but why haven't Kohl's and the Gap followed suit?," 2012
- Davison, William. 'Ethnic Tensions in Gondar Reflect the Toxic Nature of Ethiopian Politics'. The Guardian, 22 December 2016
- De Correspondent, "Grote kans dat jouw goedkope T-shirt in Ethiopië in plaats van Bangladesh is gemaakt", 2014
- Elijah Chiwota, "PROFILE: Organizing in the garment and textile sector in Ethiopia" (IndustriALL, 21 May 2019)
- Endeshaw, Dawit. 'DBE to Foreclose on Ayka Addis'. The Reporter Ethiopia, 29 December 2018
- Esther de Haan and Martje Theuws, "Quick scan of the linkages between the Ethiopian garment industry and the Dutch market" (SOMO and FNV Mondiaal, 2018)
- Gebreeyesus, Mulu. 'Industrial Policy and Development in Ethiopia: Evolution and Present Experimentation'. Working Paper Series. World Institute for Development Economic Research (UNU-WIDER), 2013
- Global Agricultural Information Network - USDA, Ethiopia's Cotton Production Down - Imports Likely Up (No. ET1801), 2018
- Gobind Nankani et al., 'Developing Competitive Value Chain' (World Bank Office - Ethiopia, 28 June 2006)

4 SOURCES

- Hager, S., Lin, J., Xu, J., 2019. Special Economic Zones and Structural Transformation in Ethiopia: A New Structural Economics Perspective, in: Cramer, C., Oqubay, A., Cheru, F. (Eds.), The Oxford Handbook of the Ethiopian Economy, Oxford Handbooks. Oxford University Press
- International Trade Centre (ITC), Ethiopia: textile and clothing value chain roadmap 2016-2020, 2016
- IUCN, Biodiversity Risks and Opportunities in the Apparel Sector, 2016
- Jean-Baptiste Damestoy, Interviews by the author, 2017
- La Lettre de l'Océan Indien, 'L'EPRDF Nomme Des Amharas Pour Limiter l'influence Du TPLF'. 9 December 2016
- La Lettre de l'Océan Indien, 'Regain de Tensions Au Sein Du TPLF'. 9 December 2016
- La Lettre de l'Océan Indien, 'Un Amhara Pour Diriger l'EBC !'. 23 December 2016
- Laura Dean, "Ethiopia Touts Good Conditions in Factories for Brands Like H&M and Calvin Klein, but Workers Scrape By on $1 a Day" (The Intercept, 2018)
- Laura Kemper and Lena Partzsch, "Cotton certification in Ethiopia: Can an increasing demand for certified textiles create a 'fashion revolution'?", Geoforum 99 (Feb 2019), 111-119
- Mamo Mihretu and Gabriela Llobet, "Looking Beyond the Horizon: A Case Study of PVH's Commitment in Ethiopia's Hawassa Industrial Park" (World Bank Group, 2017)
- Manyazewal, Mekonnen, and Admasu Shiferaw. 'Economic Policy and Structural Transformation in Ethiopia'. In The Oxford Handbook of the Ethiopian Economy, edited by Arkebe Oqubay, Christopher Cramer, and Fantu Cheru. Oxford Handbooks. Oxford University Press, 2019
- Margaux Yost and Lauren Shields, "Ethiopia's Emerging Apparel Industry: Options for Better Business and Women's Empowerment in a Frontier Market" (BSR, Paris, 2017)
- Marjolein van Gendt, Interviews by the author, 2019
- Markakis, John. Ethiopia: The Last Two Frontiers. James Currey, 2011
- Mesfin, Mahlet. 'The First Ethiopian Industrial Zone to Be Ready for South Korean Investors in January'. Addis Fortune. 18 November 2012
- Mihretu, Mamo, and Gabriela Llobet. 'Looking beyond the Horizon: A Case Study of PVH's Commitment to Ethiopia's Hawassa Industrial Park'. World Bank, June 2017
- Morris Kiruga, "Stitched up. Ethiopia's $26-a-month factory workers all quit in the first year" (The Africa Report, Nairobi, 10 May 2019)
- NYU Stern, "Made in Ethiopia: Challenges in the Garment Industry's New Frontier", 2019
- Robel, Yohannes. 'Ethiopia: Textile Sector On the Rise'. The Ethiopian Herald, 5 April 2018
- Russell, Mitchelle. 'H&M Commits to DBL Group's New Ethiopia Factory'. Just-Style, 31 May 2016
- Samuel Sima and Phillia Restiani, "Water governance mapping report: Textile industry water use in Ethiopia" (SIWI, 2017)
- SDG Fund, "H&M Case Study: Industrial Relations in Ethiopia", 2016
- Sofreco, 'Scoping Study Report: National Cotton Development Strategy (2015-2030)'. August 2016
- Solidaridad & Berenschot, "Africa en Vogue", 2014
- Sivaganesh Babu and Amare Worku, "SCOPE OF APPAREL INDUSTRY IN ETHIOPIA AND THE STRENGTHENING MEASURES REQUIRED" in Asian Journal of Science and Technology Vol.09, Issue, 07, pp. 8485-8489, July, 2018
- Staritz, Cornelia, Leonhard Plank, and Mike Morris. 'Global Value Chains, Industrial Policy, and Sustainable Development - Ethiopia's Apparel Export Sector'. International Centre for Trade and Sustainable Development, September 2016

4 SOURCES

- Staritz, Cornelia, and Lindsay Whitfield. 'Light Manufacturing in Ethiopia: The Apparel Export Industry'. In The Oxford Handbook of the Ethiopian Economy, edited by Arkebe Oqubay, Christopher Cramer, and Fantu Cheru. Oxford Handbooks. Oxford University Press, 2019
- Survival International, Catastrophic dam inaugurated today in Ethiopia, 2016
- Survival International, Reports surface of 'massacre' of Hamar tribespeople in Ethiopia, 2015
- Sutton, J., Kellow, N., 2010. An Enterprise Map of Ethiopia. London Publishing
- The Ethiopian Herald, How the Fashion Industry Is Embracing "Made in Ethiopia", 2017
- The Guardian, EU diplomats reveal devastating impact of Ethiopia dam project on remote tribes, 2015
- The Guardian, State projects leave tens of thousands of lives in the balance in Ethiopia – study, 2019
- Tsadenna, Gebru. 'EIC Taking Technological Leap with New Website'. Addis Fortune, 19 October 2014
- Tsegaye, A., 2014. Cotton collapse. Addis Fortune
- UNCTAD, 'World Investment Report 2016'. 2016
- US Department of Labor, List of Goods Produced by Child Labor or Forced Labor, 2018
- US Department of State, Ethiopia Country Report on Human Rights Practices for 2018, 2019
- WRC, "Ethiopia is a North Star", 2019

5. FOOTNOTES

1 World Bank Group, Ethiopia data https://data.worldbank.org/country/ethiopia
2 The classification from the Ethiopian Central Statistical Agency (CSA) is subject to change. However, the major increase of the textile and garment sector is strongly believable.
3 WRC, 2019
4 World Bank Group, Ethiopia data https://data.worldbank.org/country/ethiopia
5 World Bank Group, Ethiopia overview https://www.worldbank.org/en/country/ethiopia/overview
6 2,100 employees work for Kombolcha Textile Share Company which used to be a public company founded in 1986.
7 Founded in 1961, the company employs 1,300 workers in 2014.
8 The company was privatised in 2010 and employs 1,000 workers in 2017.
9 MAA Garment employs 1,600 workers.
10 The company employed 420 workers in 2014 and is based in Adama, Oromia region.
11 These figures have to be considered with caution.
12 On October 11, 2019, Abiy Ahmed has been awarded the 2019 Nobel Peace Prize for resolving the conflict with Eritrea.
13 BSR, 2017
14 NYU Stern, 2019; The Ethiopian Herald, 2017; Business of Fashion, 2016
15 BSR, 2017
16 The Intercept, 2018
17 US Department of Labor, 2018
18 ITUC-CSI, ITUC Global Rights Index, 2019
19 Slides of WageIndicator meeting Addis 30 Jan 2019 https://mywage.org/ethiopia/slides-of-the-wageindicator-meeting-addis-30012019.pdf
20 US Department of State, Country Reports on Human Rights Practices for 2017, 2018
21 Gender proportion is further confirmed by a large scale survey: *62 per cent of workers in the textile industry and 91 per cent of workers on the garment industry are female. This suggests that while most management positions are filled by men, women make up the majority of the workforce. Chala and Cradden, 'A Decent Work Profile of the Ethiopian Textile and Garment Industry', 67.*
22 A2 Global Risk, Case Study: Ethiopia's garment industry, between high potential and low yield
23 A2 Global Risk, Case Study: Ethiopia's garment industry, between high potential and low yield
24 IUCN, 2016
25 SIWI, 2017
26 Solidaridad & Berenschot, 2014; De Correspondent, 2014
27 Solidaridad & Berenschot, 2014; De Correspondent, 2014
28 WRC, Ethiopia is a North Star, 2019
29 Slides of WageIndicator meeting Addis 30 Jan 2019 https://mywage.org/ethiopia/slides-of-the-wageindicator-meeting-addis-30012019.pdf
30 US Department of State, 2019
31 Slides of WageIndicator meeting Addis 30 Jan 2019 https://mywage.org/ethiopia/slides-of-the-wageindicator-meeting-addis-30012019.pdf
32 World Economic Forum, 2019
33 The Africa Report, 2019
34 Business Standard, 22 Jan 2019

5. FOOTNOTES

35 The Intercept, 2018
36 BSR, 2017
37 One exception: Tiret Corporation Ginnery, a private endowment company which is partly benefitting from public investment.
38 BSR, 2017
39 WRC, 2019
40 BSR, 2017
41 The Africa Report, 2019
42 The following year, 2015, production levels reached 14,000 tons with 9,600 participating farmers.
43 Ayka Addis was the biggest exporter of the T&G sector until the default in 2018.
44 SDG Fund, Ethiopia case study
45 IndustriALL, 2019
46 SOMO and FNV Mondiaal, 2018
47 SOMO and FNV Mondiaal, 2018
48 SOMO and FNV Mondiaal, 2018
49 SOMO and FNV Mondiaal, 2018
50 Before the 2013 tragic accident at the Rana Plaza, many major incidents took place and highlighted the role of international buyers (Bajaj, 2012; “Tommy Hilfiger forced to make $2M safety concessions after fire that killed 29 workers at factory... but why haven’t Kohl’s and the Gap followed suit?,” 2012).
51 World Bank Group, 2017

BEZOEKADRES
MVO Nederland
Arthur van Schendelstraat 500
3511 MH Utrecht

POSTADRES
Postbus 19219
3501 DE Utrecht

030-2305600
contact@mvonederland.nl
mvonederland.nl

Twitter
LinkedIn

TAKE YOUR SHARE IN THE NEW ECONOMY

MVO NEDERLAND