

Firms In Ethiopia's Industrial Parks: COVID-19 Impacts, Challenges and Government Response

Andualem Mengistu¹, Pramila Krishnan², Koen Maaskant³,
Christian Johannes Meyer², and Eduard Krkoska²



¹Policy Studies Institute

²University of Oxford

³The World Bank

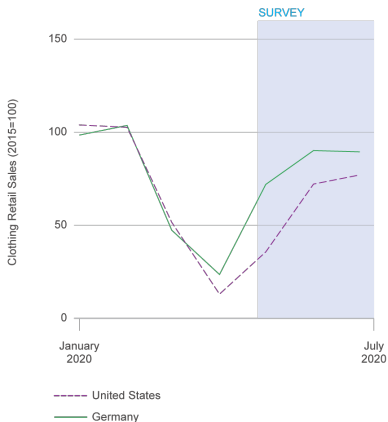
- The Government of Ethiopia has invested in infrastructure and set up a series of industrial parks (IPs) to encourage FDI.
- IPs focused on export-oriented light manufacturing.
- Before the pandemic, 14 IPs employed around 88,000 workers in total.
- Firms in privately owned Eastern IP focused on manufacturing for the domestic market.

An unprecedented challenge for Ethiopia's ambitious industrialization agenda

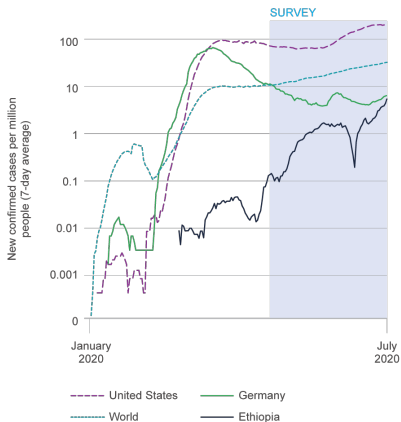
- Significant negative shock to global demand for key IP exports such as garments and textiles.
 - IP factories hit with order cancellations.
- COVID-19 cases slowly rising in Ethiopia.
 - Some firms were able to repurpose their production towards PPE production.
 - Many had to put their labour force on leave.

Global clothing sales and COVID-19 cases

A. Global Clothing Retail Sales



B. Confirmed COVID-19 cases

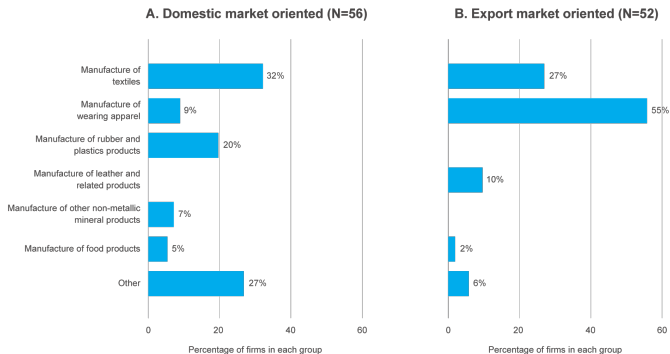


Survey design and sample

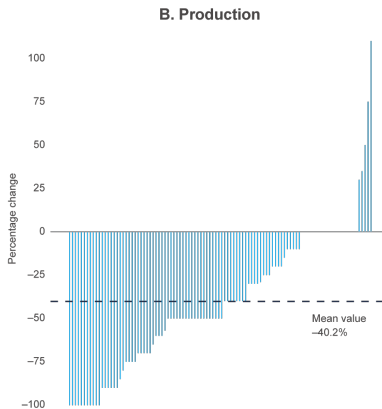
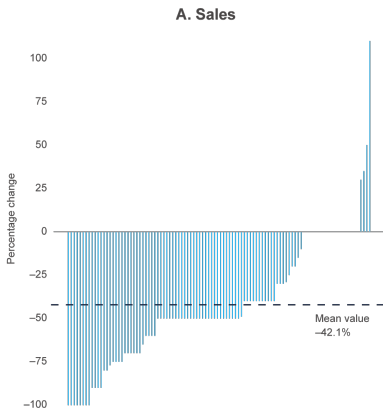
- The survey was designed as a census of all operational industrial park firms.
- The survey reached 70 percent of eligible firms.
 - Almost all of which were still operational at the time of the interview.
- About 10 percent of interviewed firms temporarily closed due to COVID-19.
- In Hawassa Industrial Park and Bole Lemi Industrial Park, both cornerstones of the government's industrialization agenda, 91 and 90 percent of firms were surveyed, respectively.

Sample representativeness

- The sampled firms are representative of the population of Ethiopian IP park firms.
- The majority of the sampled firms produced textiles or apparel.
- The average firm employs just under 600 workers.

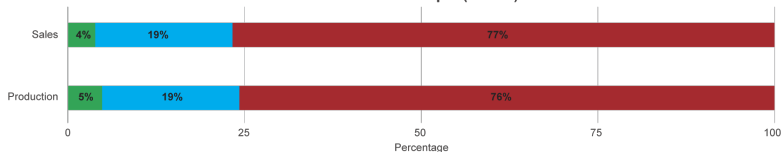


Overall, firms in Ethiopia's industrial parks were heavily impacted by the COVID-19 pandemic

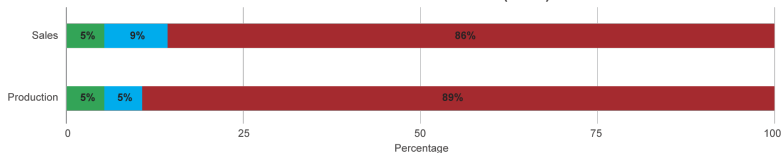


Changes to sales and production volumes

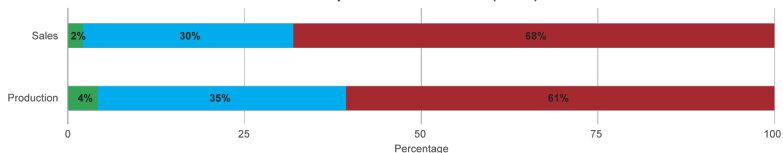
A. Overall sample (N=102)



B. Domestic market oriented (N=56)



C. Export market oriented (N=46)



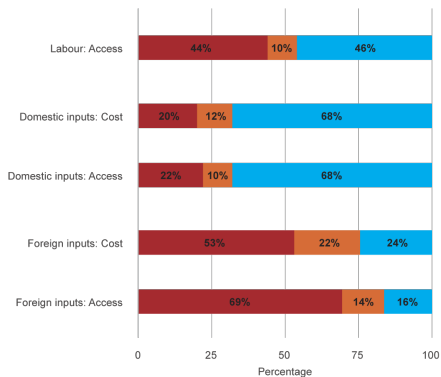
■ Increase ■ Remain the same ■ Decrease

Supply shock or demand shock?

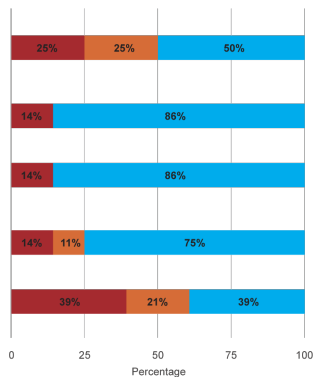
- Separating these effects with cross-sectional data is challenging.
- Among export-oriented firms, 45 percent believe that they could have had higher sales if they had been able to keep up production.
- Among domestic market-oriented firms this figure is only 30 percent.
- However, some firms experienced a decline in sales and reported that they would not be able to have higher sales even if production was able to keep up
 - For export-oriented firms, this figure was 41 percent.
 - The corresponding figure for domestic market-oriented firms was 64 percent.

Constraints to keeping production volumes at planned level

A. Domestic market-oriented (N=49)



B. Export market-oriented (N=28)



■ Yes, substantially ■ Yes, somewhat ■ No, not at all

Government support to IP firms

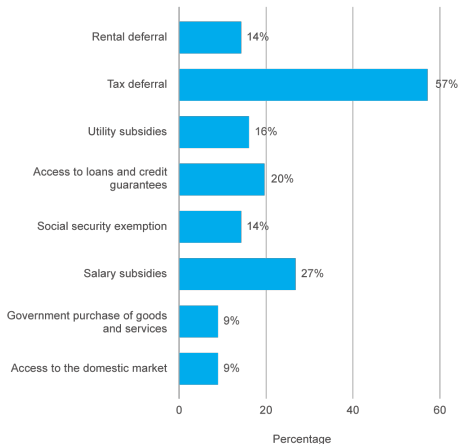
- The Government of Ethiopia responded early in the pandemic to support the private sector.
 - Expediting VAT returns.
 - Providing rental tax waivers.
 - Deferral of pension contributions and a waive of income taxes.
- Support was also provided for the repurposing of IP firms.
 - Especially repurposing towards the production of PPE.
 - Tax exemptions for related production inputs.
- For firms that have suffered from losses in global demand, domestic market access was temporarily allowed.
- Exporting manufacturers were supported through reduced (or zero) cost access to train and freight transport.

IP firm take up of government support

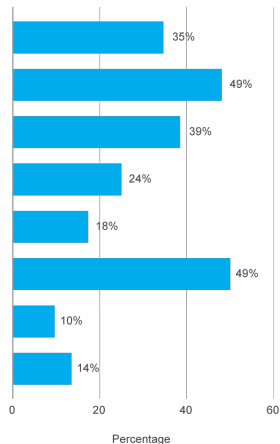
- At the time of the survey, only 31 percent of industrial park firms report receiving some type of support from the Government.
 - More than half of export-oriented firms received support.
 - Comparatively, this figure is only 11 percent for domestic-oriented firms.
 - It is unclear why this is the case, since these firms have been heavily impacted and are entitled to receive support.
- The most frequently mentioned support policy by the firms was deferred rental payments.

There is significant demand for relief.

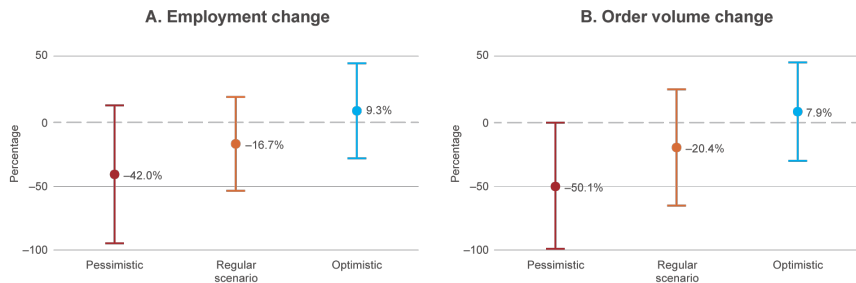
A. Domestic market-oriented



B. Export market-oriented



The path forward - six month expectations



- Broken down by firm-type, export-oriented firms are more optimistic about the future.

- The pandemic threatens a significant setback in Ethiopia's industrialization agenda.
- It requires targeted and sustained support to firms and workers over the coming months
 - Especially after the temporary ban on laying off workers comes to an end.

With their high degree of formalization, Ethiopia's industrial parks represent a context in which supporting firms and workers is relatively feasible.

- Possibly through wage subsidy schemes and working capital loan programs.