



Coping with Shocks: Resilience in Ethiopia's Ready-Made Garment Industry

Ethiopia's industrial exports depend on the ready-made garment industry mostly located in industrial parks. The Ethiopian economy has been facing numerous shocks, from the global pandemic to the civil conflict in the northern parts of the country (including removal of Ethiopia from the free trade privileges provided by AGOA) and most recently the Ukraine situation. These shocks have affected firms and workers in the global value chain, and, hence, it is important to understand the impact of these shocks and devise strategies to cope with them.

The findings of two recent research projects are timely in this regard. One is from the perspective of the global value chains, with a focus on understanding buyers' strategies to enhance price and resilience of exports. The other is from the perspective of impact on employees, using panel survey evidence from Ethiopia industrial parks. Both address pertinent challenges facing the Ethiopia industrial and export sectors in general and can provide useful insights for policymakers and stakeholders. This brief note highlights the key policy implications. (The detailed PowerPoint presentations are attached, and the video recording is available).

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Buyers Sourcing Strategies and resilience to COVID in the Apparel Global Supply Chain

The underpinned by research by Rocco Macchiavello (LSE) and Julia Cajal-Grossi (Graduate Institute Geneva), explores supply-chain resilience to the Covid shock in a comparative perspective across origin/sourcing *countries* (Bangladesh, Ethiopia, India, Indonesia, Pakistan, Vietnam.) and across international *buyers' sourcing strategies* (Relational vs Spot market, slide 6). Ethiopia's experience has been similar to other countries.

One key finding based on Bangladesh apparel data is that there have been price premiums when selling to Lead buyers with relational strategy (slides 8-11). In addition, a preliminary finding is that drops in demand during the pandemic were also less (slide 12). Relational buyers represented about 40 percent of Ethiopia trade (slide 14, like Bangladesh, more than India and Pakistan but less than Vietnam and Indonesia). While not explored in this study the emphasis put by Ethiopia on relationship management in the development of Industrial Parks likely facilitated such buyer-seller relationships.

Three other policy implications were discussed:

- Lead/relational buyers also can have a role to play in Local Participation and Upgrading. However, it will be critical to work with these buyers in identifying what has potential to be procured locally.
- While this webinar focused on the ready-made garment sector, select other export sub-sectors may also benefit from exploring relational buyers. Dr. Macchiavello cited his coffee research in this regard, and IGC will be conducting research on Ethiopia's coffee sector.
- In addition to likely holding of greater inventories, buyers' geographic considerations may change in light of COVID and Ukraine shocks. It would be useful to identify products where Ethiopia has potential to be an additional supplier.

The Impact of Firm Downsizing on Workers: Evidence from Ethiopia's Ready-Made Garment Industry

The paper by Eyual Demeke (International Finance Corporation), Morgan Hardy (NYU Abu Dhabi), Gisella Kagy (Vassar College), Christian Johannes Meyer (University of Oxford), and Marc Witte (IZA Institute of Labor Economics) analyzes matched employee-employer data from Hawassa Industrial Park (HIP)

during a period of downsizing pressure from the COVID-19 world import demand shock.

The authors find that during the initial peak of the crisis in early 2020, overall employment in HIP was 17 percentage points lower than employer-reported pre-crisis turnover expectations. This downsizing is largely driven by more recently hired workers, who are almost exclusively rural-to-urban female migrants (slide 11). After 12 months, overall employment rates for workers who have worked in HIP for more than one year almost fully recover and are in line with average turnover before COVID-19. Workers hired less than a year ago appear to have persistently fallen off the employment “ladder”; these workers not only drop out of industrial employment in HIP, but largely fail to search for and find employment opportunities outside of HIP. For all workers in HIP, the research finds higher rates of depression symptoms and urban-centered food insecurity during the peak of the crisis. Importantly, these adverse welfare outcomes do not appear to differ by employment status (slide 14).

The authors also find evidence that food insecurity tends to be more severe for workers who remain in the urban center of Hawassa as opposed to those returning home to rural areas. While male workers appear to have significantly better outside options in the labor market of Addis Ababa – they find non-HIP employment significantly faster than female workers when displaced from HIP jobs – neither male nor female workers fully recover. Additionally, better-managed firms tend to respond more quickly to the drop in global demand by placing workers on temporary paid leave. However, differences in firm management and response do not appear to be associated with differences in longer run employment rates or worker welfare outcomes.

The research identifies two key policy implications, which were discussed at the webinar:

- Contraction of employment was largely driven by more recently hired workers, who are almost exclusively rural-to-urban female migrants. Effects on them appear both large and persistent. For these workers, targeted insurance schemes such as temporary wage subsidies could play an important (and understudied) role in mitigating adverse impacts. The data illustrates that ensuring that such schemes are gender-sensitive and cover people that move between rural and urban areas is a particular concern – and a particular challenge in Ethiopia where the Rural and Urban Productive Safety Net Programs (PSNP) remain largely disconnected. An appropriate social protection response in the context of this study would not only have ensured coverage of rural-urban migrant workers, but also enabled these workers to use temporary migration back to rural areas as a coping strategy.

- Looking at welfare outcomes of workers, the researchers find widespread reports of food insecurity and a high incidence of depression symptoms during the peak of the crisis. Notably, the incidence of depression symptoms does not appear to vary by employment. Similarly, employment does not appear to be the key driver behind the food insecurity of all respondents: While food insecurity is negatively associated with employment, this correlation is entirely explained by the differences in out-migration to less food-insecure rural areas by respondents not working in HIP. This highlights the importance of social protection and psychosocial support programs that do not depend on the employment situation of individuals.

IGC looks forward to additional reactions and insights to make this research even more relevant to challenges facing Ethiopian policy makers.