

# Baseline Survey Report

Environmental, Social and Governance Performance  
of Textile and Apparel Enterprises in Ethiopia



United Nations Industrial Development Organization (UNIDO)  
China National Textile and Apparel Council (CNTAC)  
Ethiopian Textile Industry Development Institute (ETIDI)



**Baseline Survey Report**  
Environmental, Social and Governance  
Performance of Textile and Apparel  
Enterprises in Ethiopia



## I. About the project

In recent years, the textile and apparel industry in Ethiopia has undergone rapid growth and played a vital role in the country's industrialization and economic transformation. As the development of the textile and apparel sector accelerates in Ethiopia, the investment of Chinese enterprises has been taking on remarkable momentum. China's national policies that promote overseas investment and the upgrading of the textile sector have recently been creating a big opportunity for the development of the sector in Ethiopia and other African and Asian countries. According to the United Nations Conference on Trade and Development (UNCTAD) report 2020<sup>1</sup>, China was Ethiopia's top Foreign Direct Investment (FDI) source in 2019, accounting for up to 60% of Ethiopia's government-approved FDI projects.

In July 2020, an MoU for triangular cooperation was signed among the Chinese Ministry of Commerce (MofCom), the Ethiopian Ministry of Trade and Industry (MoTI), and the German Ministry of Economic Cooperation and Development (BMZ). In this cooperation, the three governments have reached a consensus on advancing the sustainable development of Ethiopia's textile and apparel industry. The Triangular Cooperation Project "Sustainable Textile Investment and Operation in Ethiopia" is jointly funded by MofCom and BMZ, and supported by MoTI. The project comprises three stages: baseline survey, capacity building, and up-scaling. The baseline survey, which consists of questionnaire surveys, interviews, desk research, and policy review, aims to understand the status quo of the Environmental, Social and Governance (ESG) performance of Ethiopia's textile enterprises invested by Chinese and Ethiopian investors, the impacts of COVID-19 on their operation, as well as their responses (strategic contingency plans). Based on the above, the survey will lay a foundation for formulating policy recommendations, planning enterprises' capacity building, sharing knowledge, and laying the ground for potential scaling up.

<sup>1</sup> [https://unctad.org/system/files/official-document/tdr2020\\_en.pdf](https://unctad.org/system/files/official-document/tdr2020_en.pdf)



## II. About the report

The baseline study report, funded by MofCom and supported by MoTI, is produced in the framework of the Triangular Cooperation Project "Sustainable Textile Investment and Operation in Ethiopia".

The baseline survey was commissioned by UNIDO and conducted by an expert team from CNTAC and ETIDI in October–December 2020. This report summarizes the findings of the baseline survey focusing on the environmental, social and governance performance of the target textile and garment industry. The baseline survey was conducted to investigate the potential constraints that the Chinese–invested and Ethiopian–owned textile and apparel enterprises in Ethiopia are currently facing, thereby, providing recommendations/interventions to strengthen sustainability in the textile sector.

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### III. Acknowledgment

This research project has greatly benefited from valuable inputs from many people in China and abroad. First and foremost, we would like to thank industry managers of the 15 Chinese-invested enterprises who participated in the survey. Without their participation, this survey would not have been possible. We would like to extend our special thanks to the persons who have supported us during the baseline survey including:

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Special thanks go to Mr. Changjun WEI for his valuable contributions to the survey.

At the same time, the project has received support from 10 local Ethiopian enterprises and 5 non-Chinese FDIs, so this study can gain an overall picture of the ESG performance of the textile and garment industry in Ethiopia. We would like to express our sincere gratitude to the 15 non-Chinese invested enterprises.

The baseline survey has been greatly supported by CNTAC leadership including President Ruizhe SUN, Vice President Dapeng CHEN, Ms. Yanjin QIAO and Ms. Yan YAN. Generous support at all stages of the project was provided by UNIDO experts including the chief of Agro-industry and Skill Development Division, Dr. Riccardo SAVIGLIANO, and UNIDIO project team (Dr. Jinjiang YAN, Dr. Yoseph T. DELELEGN, Mr. Tsegabu TEKA, Ms. Dominika FILINOVA, and Ms. Ursula POSCH). We would like to extend our sincere gratitude to ETIDI team including Mr. Sileshi LEMMA, Director General; Mr. Yared MESFIN, and other experts who have greatly contributed during the data collection in Ethiopia.

We also extend our gratitude to MoTI, the Embassy of the Federal Democratic Republic of Ethiopia to China, the Consulate General in Shanghai, the Ethiopian Investment Commission (EIC) and the Industrial Parks Development Corporation of Ethiopia



(IPDC) for their strong support. We would like to extend our gratitude to the Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH team including Mr. Yared FEKADE, Mr. Saberi BORGA, Ms. Haosi YOU, Mr. Jochen WEIKERT, and Mr. Hagen ETTNER, for the critical review of the survey report and valuable inputs.

The ideas, opinions and comments within this publication are entirely the responsibility of its author(s) and do not necessarily represent or reflect the policy of UNIDO, MofCom, BMZ and MoTI.



## IV. Foreword

Ethiopia is Africa's oldest independent country, and it is the second most populous nation in the Continent. According to the World Bank, the Ethiopian government identified industrialization as the means to transform the economy, reduce poverty, provide jobs, and achieve the ambitious aim of transitioning the economy to lower–middle–income status by 2025. Moreover, the World Bank reported that Ethiopian economy showed an annual average growth rate of 9.8% in 2008–2019. According to African Economic Outlook 2021 by African Development Bank Group, Ethiopia's economy grew by 6.1% in 2020. The rapid growth is largely attributed to the country's growing manufacturing industry.

The Ethiopian government aims to make the country a manufacturing power, and has formulated 2 five–year development plans in a row, and a ten–year development plan. In the "Growth and Transformation Plan II (GTP II) (2015/16–2019/20)", the textile and garment industry is given special focus. In the "Ten Years Development Plan: A Pathway to Prosperity 2021–2030", the textile and apparel sector, including the cotton development, is considered as a focus area of manufacturing industry development. Meanwhile, an increasing number of international brands have already engaged in sourcing textile and garment products from Ethiopia. The growth in foreign investments, processing and manufacturing, and international sourcing in Ethiopia's textile and apparel industry enables the country to play an increasingly significant role in the international textile and apparel supply chain.

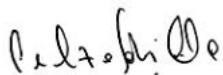
China has been Ethiopia's largest trading partner and remains the main FDI source for many years. Chinese–invested enterprises play a leading role in various industries in Ethiopia. The textile and apparel industry is one of the industries, to which China has contributed the most investments in all FDIs. The Chinese investments have been demonstrated to be the highest proportion against the total FDIs in Ethiopia. Among all the foreign–invested textile and apparel projects in Ethiopia, nearly half of the investments come from China. Therefore, responsible operation of the Chinese–invested textile and apparel enterprises is critical for the sustainable development of Ethiopia's economy, society and environment. As the UN Secretary–General António Guterres has pointed out, in face of the challenges and goals related to sustainable development, all parties

need to "mobilize partnerships like never before".

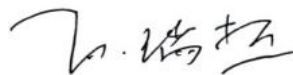
Since 2020, COVID–19 has been shocking national economies worldwide. The global textile and apparel supply chain has also been facing unprecedented economic, social and environmental risks. As a result, partnerships have become more significant than ever before. With this backdrop, United Nations Industrial Development Organization (UNIDO), China National Textile and Apparel Council (CNTAC), and Ethiopian Textile Industry Development Institute (ETIDI) jointly carried out this survey. The survey report gives an insight to understand the current environmental, social and governance (ESG) performance of FDIs, and Ethiopian invested textile and apparel enterprises in Ethiopia from the multi–stakeholder partnership perspective. The impacts of COVID–19 on the Ethiopia's textile and apparel industries are also highlighted by the report.

The survey indicates that Chinese–invested enterprises have made positive contributions to the local sustainable development, and have taken effective measures in response to COVID–19. But there exists space for further improvement in understanding local ESG–related laws and regulations, and stakeholder engagement in ESG issues. These findings lay a solid foundation for next–step interventions through capacity–building and policy recommendations.

This baseline study has gained support from the Ministry of Commerce of the People's Republic of China (MofCom) and the Ministry of Trade and Industry of the Federal Democratic Republic of Ethiopia (MoTI), for which we feel grateful. We also wish to thank our partners' work teams for their concerted efforts. We hope that all the parties will continue to leverage their respective resources and expertise to guide stakeholders in forward–looking decision making, and work together to contribute more to the sustainable development of Ethiopia's textile and apparel industry and the global textile and apparel supply chain.



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## V. Abbreviations and acronyms

BMZ	Ministry for Economic Cooperation and Development of the Federal Republic of Germany
CNTAC	China National Textile and Apparel Council
EIC	Ethiopia's Investment Commission
ESG	Environmental, Social and Governance
CSC9000T	Corporate Sustainability Compact for Textile and Apparel Industry
ETIDI	Ethiopian Textile Industry Development Institute
FDI	Foreign Direct Investment
GIZ	Deutsche Gesellschaft für Internationale Zusammenarbeit GmbH
IPDC	Industrial Parks Development Corporation of Ethiopia
MofCom	Ministry of Commerce of the People's Republic of China
MoTI	Ministry of Trade and Industry of the Federal Democratic Republic of Ethiopia
SIWI	Stockholm International Water Institute
UNIDO	United Nations Industrial Development Organization
UNCTAD	United Nations Conference on Trade and Development

## VI. Executive summary

In the past 30 years, the textile and apparel industry in Ethiopia has undergone rapid growth, attracting a large amount of FDIs to invest in the sector. The huge investment opportunities in Ethiopia, including low production costs, preferential tariff policy, and the country's geo-economic location, have significantly increased Chinese investments in the textile and apparel manufacturing sectors.

With the development of the industry in Ethiopia, calls for addressing ESG issues rise as well. Since 2020 September, CNTAC, UNIDO and ETIDI have jointly carried out this baseline assessment which aims to:

(i) comprehensively understand the current ESG situation at the Chinese-invested textile and apparel enterprises in Ethiopia; (ii) serve as input to develop targeted policy recommendations and capacity building measures; and (iii) encourage the enterprises to contribute more to the sustainable development of Ethiopia's textile and apparel industry and disseminating best Social, Environmental and Governance (ESG) practices. 15 Chinese-invested enterprises, 10 Ethiopian owned enterprises and 5 other non-Chinese FDIs in Ethiopia have been engaged in the survey.

The survey focused on issues including human resource management, labor rights, community relations, supply chain management, environmental protection, and the COVID-19 impacts and response measures taken by the enterprises. The survey finds that:

(i) Regarding human resource management, Ethiopian employees contribute most to Chinese-invested enterprises' production, and Ethiopian managers play an important role in enterprises' daily management. Meanwhile, female employees account for the majority, but the proportion of female managers remains low. The enterprises attach great importance to labor relations management and labor rights protection, and the form of communication and negotiation with employees is flexible.

(ii) Regarding environmental protection and management, most enterprises believe that the environmental protection work will bring not only economic benefits, but also positive



environmental and social benefits. Moreover, most Chinese-invested enterprises have developed environmental management objectives, environmental management systems, internal and external communication mechanisms, training plans, and defined management teams' responsibilities.

(iii) Influenced by COVID-19, over half of the enterprises can only operate some production lines. Besides, the impacts of COVID-19 are multi-faceted, such as increasing uncertainty in orders, clients' cancellation or suspension of orders, and the lack of human resources required for production.

Apart from the above, the baseline survey finds that the enterprises are faced with many challenges, especially the lack of local policies and standards which can be used as technical reference. At present, they can only benchmark against the standards of other countries. Local policies are in lack of consistency and the enterprises are in short of local industry organizations' support. Besides, there is also a shortage of talents and capital for management systems, as well as relevant training.

Accordingly, we recommend conducting a series of training on ESG management, and developing useful tools such as manuals and fact sheets. Besides, we suggest establishing ESG knowledge hubs or digital platforms to facilitate the FDIs in textile and apparel industry to have quick access to ESG standards, industrial best practices and capacity building measures.

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# 1. Introduction

In the past 30 years, the textile and apparel industry in Ethiopia has undergone rapid growth. To date, the Ethiopian government has formulated 2 five-year development plans in a row. In the "Growth and Transformation Plan II (GTP II) (2015/16–2019/20)"<sup>2</sup>, the textile and apparel industry is included in as a priority industry and highly valued. FDI is considered as the main means to realize leapfrog development. According to the World Investment Report 2018 published by UNCTAD<sup>3</sup>, the FDI that flowed into Ethiopia totalled USD 3 billion in 2017; by the end of 2017, the FDI stock in Ethiopia amounted to USD 18 billion. According to the statistics of the National Bank of Ethiopia, in the fiscal year 2016/2017, the net FDI flowed to Ethiopia totalled USD 4 billion, up by 27% year on year. According to statistics, nearly half of the foreign textile and apparel

projects in Ethiopia are invested by Chinese enterprises.

Call rises for addressing ESG issues, because the issues concern interests of broad stakeholders. To comprehensively understand the current ESG performance of the Chinese-invested textile and apparel enterprises in Ethiopia as well as Ethiopian owned enterprises, CNTAC, UNIDO and ETIDI jointly carried out this survey starting in September 2020. The survey will be used as an input to develop targeted policy support recommendations and capacity building measures, establish knowledge management systems and best practices dissemination mechanisms, and encourage Chinese-invested and Ethiopian-owned enterprises to contribute towards sustainable textile development in Ethiopia.

## 2. Methodology

### 2.1 Survey objects

The baseline survey aims to understand

the ESG performance of Chinese-invested textile and apparel enterprises in Ethiopia as well as Ethiopian-owned enterprises. Based

<sup>2</sup> <https://extractiveshub.org/servefile/getFile/id/5757>

<sup>3</sup> [https://unctad.org/system/files/official-document/wir2018\\_en.pdf](https://unctad.org/system/files/official-document/wir2018_en.pdf)

on Public List of Overseas Investment Enterprises<sup>4</sup> disclosed by MofCom, the list of Chinese–invested enterprises provided by ETIDI, and the list recommended and confirmed by Chinese–invested enterprises, the project team has identified 25 Chinese–invested enterprises for the survey. Due to the impact of COVID–19, some enterprises have suspended production or normal operation. Eventually 15 Chinese–invested enterprises have participated in the survey.

Fifteen non–Chinese invested enterprises took part in the project as well, including 10 local Ethiopian enterprises and 5 non–Chinese FDIs. Their devotion was highly valued and the information they provided was analyzed and displayed in this report as well, in the form of "extended statistics" boxes and tables alike.

## 2.2 Analytical framework

The ESG framework of the survey was designed based on the internationally recognized ESG frameworks and indicators, ESG–related standards or guidelines of the textile and apparel industry, and the relevant requirements of Ethiopia's legislation (see Appendix 1).

## 2.3 Data collection

Three methods were used during the survey, i.e., desk research, questionnaire

survey, and field interviews. Ethiopian policy and regulations have been identified and collected through desk research. The legal provisions which are critical to the targeted issues are highlighted in the form of "knowledge box".

Questionnaires for management and employees are separately designed, and the questionnaire for management consists of 49 questions covering enterprise's profile, human rights and labor rights, environmental protection, industry and supply chain management and impacts caused by COVID–19 and responses, as well as expectations towards ESG capacity buildings from enterprises.

The questionnaire for employee consists of 27 questions which aim to collect baseline data regarding labor relations, protection for young persons, working hours, remuneration, health and safety, gender equality and women's rights, skill training as well as response measures during COVID–19. In addition, employee's recognition and evaluation towards the above management measures have been integrated in the questionnaire.

As a result, the management questionnaires from 15 Chinese–invested enterprises and 155 employee questionnaires from 10 Chinese–invested enterprises were collected. In addition, ETIDI distributed the

<sup>4</sup> [http://femhzs.mofcom.gov.cn/fecpmvc/pages/fem/CorpJWList\\_nav.pageNoLink.html?session=T&sp=2&sp=S+\\_t1.CORP\\_CDE%2C+\\_t1.id&sp=T&sp=S](http://femhzs.mofcom.gov.cn/fecpmvc/pages/fem/CorpJWList_nav.pageNoLink.html?session=T&sp=2&sp=S+_t1.CORP_CDE%2C+_t1.id&sp=T&sp=S)

questionnaires to Ethiopian-owned and other non-Chinese invested textile and apparel enterprises in Ethiopia. ETIDI collected 76 employee questionnaires from 10 local Ethiopian enterprises, 40 questionnaires from

5 non-Chinese FDIs, and 13 management questionnaires from 8 local enterprises and 5 non-Chinese FDIs. Among the management questionnaires, 7 from the local enterprises and 4 from the non-Chinese FDIs are valid.

Table 1: Collection of Questionnaires

	Chinese-invested Enterprise	Ethiopian-owned Enterprise	Other FDIs
Management Questionnaire	15	8	5
Employee Questionnaire	155	76	40

Face-to-face interviews were conducted at the headquarters of 10-plus textile enterprises investing in Ethiopia in a few cities in China. Meanwhile, to ensure that the survey understands the ESG performance of Chinese-invested enterprises from

multiple angles and in an all-round manner, the project team has also distributed the interview outline to the IPDC, the EIC, international NGOs such as Stockholm International Water Institute (SIWI) and Solidaridad, and international brands.

## 3. Findings

### 3.1 Sample enterprise profile

The sample enterprises, or the 15 Chinese-invested textile and apparel enterprises in Ethiopia which have been engaged in the baseline survey, belong to 15 Chinese parent enterprises headquartered in China. Among the 15 parent enterprises, 13 are private enterprises and the other two are state-owned enterprises.

The business activities of the sample

enterprises in Ethiopia involve different stages of the industry chain, including textile processing, printing and dyeing, and apparel manufacturing (see Figure 1). 60% of the sample enterprises have been operating for 2–5 years in Ethiopia (see Figure 2). 7 out of 15 enterprises are export-oriented for over 76% of their output is exported. (see Figure 3). In 2019, the enterprises' annual turnover had significant gaps (see Figure 4), and the net profit margin of nearly half of the enterprises was lower than 5% (see Figure 5).

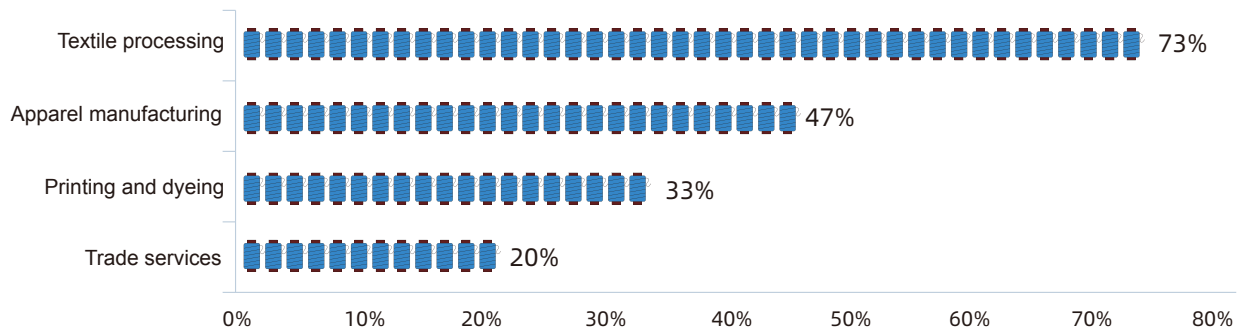


Figure 1: Main business of the enterprises<sup>5</sup>

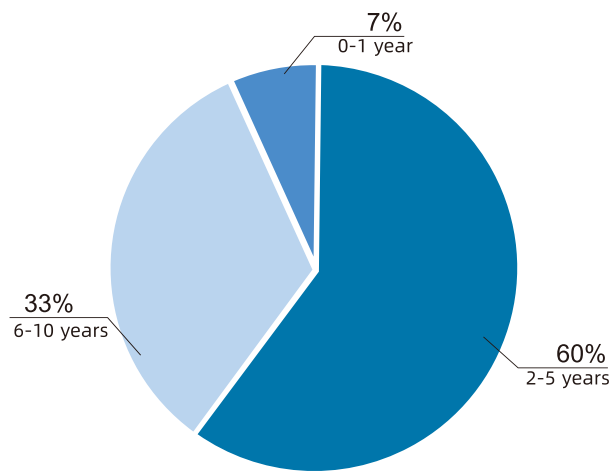


Figure 2: Operation years in Ethiopia

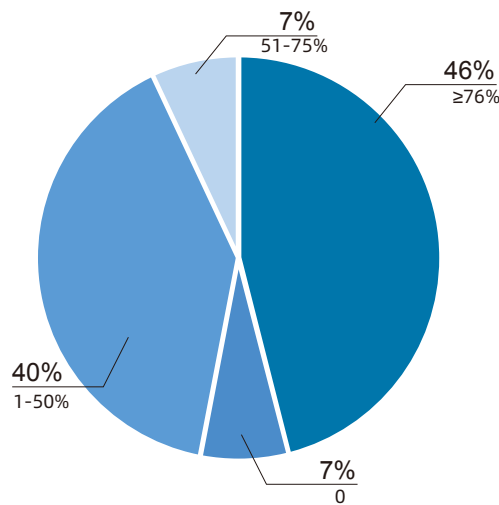


Figure 3: Distribution of percentages of exports divided by total output

<sup>5</sup> “Enterprises” in the figure labels below refer to the Chinese-invested textile and apparel enterprises in Ethiopia, unless otherwise specified.

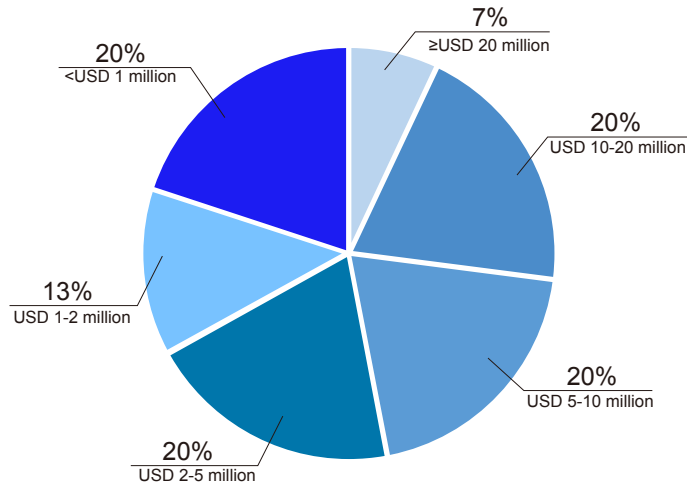


Figure 4: Distribution of annual turnover in 2019

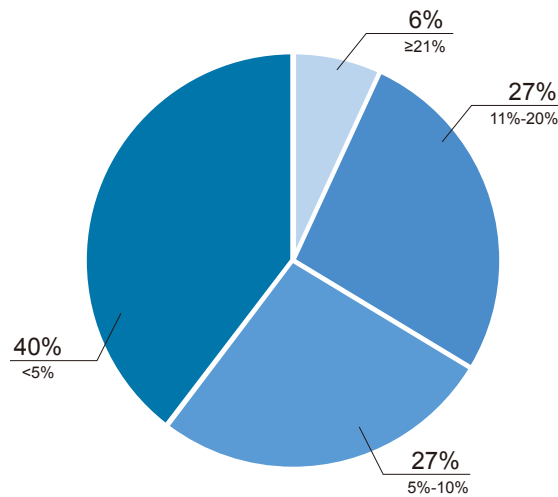


Figure 5: Distribution of net profit margin in 2019

### 3.2 Investment preferences

This survey covers two stages of Chinese-invested enterprises: investment and operation. This section mainly elaborates on

Chinese investors' investment preferences, including investment motivations, means, decision-making process, and their understanding of investment vision.

### 3.2.1 Main considerations

“I have made study tours to Cambodia, Uganda, Kenya, and many other countries, and eventually found that Ethiopia was more competitive and was an ideal investment destination!”

— A Chinese investor

Most enterprises have made study tours to many countries before investment and concluded that Ethiopia has a comparative advantage. To encourage FDI and domestic investment, Ethiopia's electricity price has remained at USD 0.03/kWh for a long time. It is not until December 1, 2018 that the government began to adjust the electricity price in three steps. It is expected that in December 2021 when the price adjustment is completed, the price of low-voltage electricity for industrial use will be about USD 0.053/kWh<sup>6</sup>, which remains competitive.

The statistics of the questionnaires indicate that the main reason why Ethiopia is favored is that the overall production costs in Ethiopia have apparent advantages (see Figure 6). About 87% of the enterprises believe

that labor costs, land leasing price, and water and electricity costs in Ethiopia have competitive advantages. The easy access to export destination markets has also been an important reason why many Chinese investors choose Ethiopia as the investment destination. About 60% of the enterprises believe that Ethiopia's geographic location and preferential tariff policy are also very appealing. As illustrated above (see Figure 3), about 93% of the Chinese-invested enterprises are export-oriented. At 7 enterprises, export business accounts for over 76% of their total business, making these enterprises export-oriented according to Ethiopia's standard. This also indicates that export convenience and costs are their leading considerations.

<sup>6</sup> <http://ethioenergybuz.com/en/blog/264-electricity-energy-tariff-in-ethiopia-current>



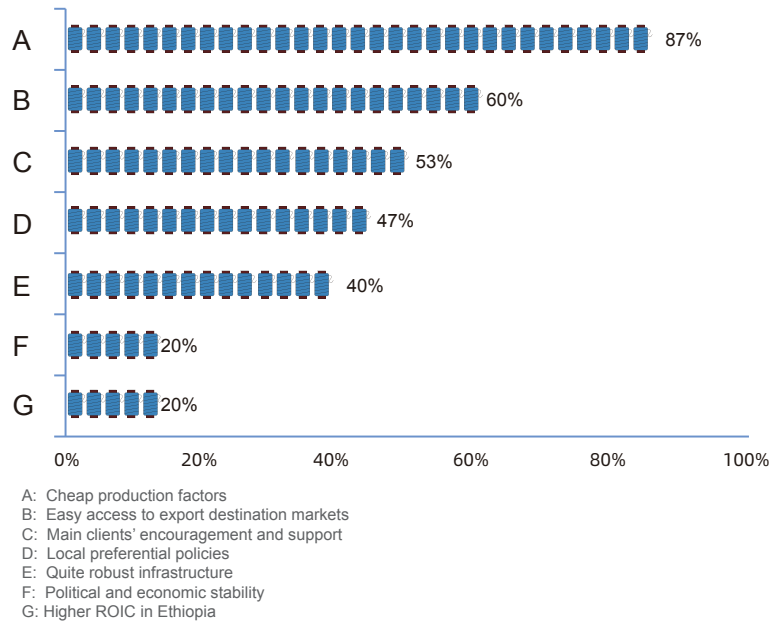


Figure 6: Reasons for enterprises' investment in Ethiopia



Figure 7: Ethiopia's favorable geographical location<sup>7</sup>

In addition, about 53% of the enterprises stated that trade convenience with the current customers was an important driving force behind investing in Ethiopia. China

remains Ethiopia's largest trading partner. The goods movement between the two countries has driven the capital flow. It is discovered through the survey that some

<sup>7</sup> Source: EIC.

Chinese investors, before investing in Ethiopia, had maintained many years' trade cooperation with clients in Ethiopia and other African countries. They hope to establish production bases in Ethiopia and take Ethiopia as a hub to respond to clients' needs more quickly.

The Ethiopian government's proactive “investment attraction” policy and intensive on-site publicity provide Chinese investors with chances to thoroughly understand Ethiopia's opportunities. This prompts Chinese enterprises to translate their “intentions” into “actions” .

Another deep-level reason is Chinese investors' empathy with Ethiopia. During the interviews, many investors mentioned that today's Ethiopia is very similar to China in their childhood. Therefore, they are convinced that Ethiopia will also develop rapidly and possess many business opportunities, just like China. Former Chief Economist of the World Bank Justin Yifu Lin, and Sun Yuan, the author of *The Next Factory of the World*, during their study tours to Ethiopia and some other African countries, both mentioned what they saw there reminded them of China in their childhood.

### 3.2.2 Means of investment

Judging from the interview results, Chinese investors adopt multiple means of investment. First, merging and shareholding. For instance, Zhejiang Mina and its Ethiopian

partners jointly acquired an Ethiopian state-run spinning mill, which was mainly engaged in cotton yarn products; later, they invested in a joint venture to build a printing and dyeing factory in Oromia to carry out the printing, dyeing and finishing business of chemical fiber fabrics. Second, partnership. For instance, three enterprises, all of which are headquartered in Suzhou city, Jiangsu province, cooperated in establishing a shareholding printing and dyeing factory in Ethiopia. Third, supply chain cooperation. For instance, a U.S. garment brand group PVH provided financial support to its supplier Wuxi Jinmao Foreign Trade Co., Ltd. and worked with the latter to establish JPTE in Hawassa Industrial Park.

### 3.2.3 Common choices

Field study is the main support for investment decisions. Most enterprises stated that they were driven by the rising production factor costs in China to plan overseas investments. They eventually selected Ethiopia because they concluded from the field study tours that the country has comparative advantages over Southeast Asian countries, and other African countries.

As Figure 8 indicates, 93% of the enterprises stated that they investigated the local infrastructure, preferential policies, and price of production factors. 80% of the enterprises stated that they collected information through communication with

peer enterprises, local governments, and investment promotion departments in Ethiopia. 73% of the enterprises stated that they carried out the environmental impact assessment, and 53% of the enterprises stated that they carried out social impact assessment. Nevertheless, only one-third of the enterprises communicated with

residents in the local communities. This may be because most enterprises (93%) are located in industrial parks, without any direct contact with the neighboring communities. Considering the above, Chinese investors eventually determine their investment destinations based on many years' experience in enterprise operation.

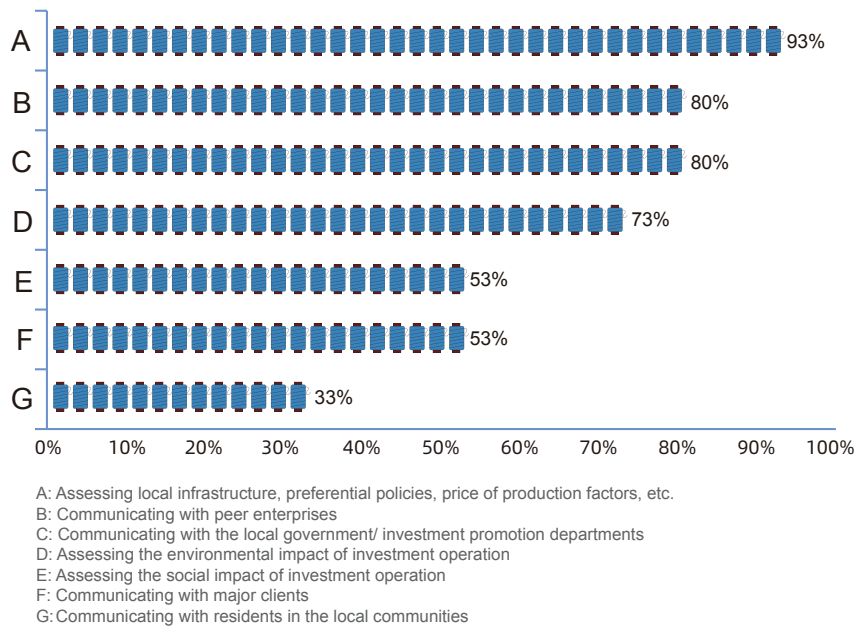


Figure 8: Scope of due diligence carried out by enterprises prior to investment

“We are a small enterprise. We do not carry out due diligence as many large companies do. After making field study tours, we follow our instinct to make the investment decision.”

—An entrepreneur from Jiangsu province, China

Chinese investors perceive industrial parks as the ideal location for their investment. Industrial parks are essential platforms and carriers for the Ethiopian

government's industrial transformation. It is also an important means by which the Ethiopian government meets the industrial development needs and attracts FDI in spite

of the overall limited level of infrastructure construction in the country.

In the "Growth and Transformation Plan 2010/2011–2014/2015", the Ethiopian government has identified the construction of industrial parks as a means of industrialization and proposed that manufacturing industries, including the textile and garment industry, are the leading industries in the industrial parks. In 2014, the IPDC was founded. Its task is to develop and operate industrial parks, which are equipped with public utilities and infrastructure. The industrial parks set the price of land lease at USD 1 per m<sup>2</sup> per

month, a tax holiday of up to 7 years, and offer investors with customs and other related services<sup>8</sup>.

To date, Ethiopia has a total of 8 active industrial parks for the textile and apparel industry. This is an important measure taken by the Ethiopian government to develop the textile and apparel industry during the course of industrialization, i.e., to make the industrial parks more appealing to textile and apparel enterprises by improving some infrastructure in the parks and provide the enterprises with preferential policies.

Table 2: Active industrial parks in Ethiopia for the textile and apparel industry<sup>9</sup>

Name of Industrial Zone	Location	Main Industry	Owner	Area(Ha)
Eastern Industry Zone	Oromia, Dukem	Mixed Sectors	Private	400
Bole Lemi Industrial Park	Addis Ababa	Textile & Leather	Govt.	187
Hawassa Industrial Park	SNNPR	Textile & Garment	Govt.	300
Mekelle Industrial Park	Tigray	Garment	Govt.	1,000
Kombolcha Industrial Park	Amhara	Garment	Govt.	1,000
Adama Industrial Park	Oromia	Textile & Garment	Govt.	2,000
Velocity/ Vogue	Mekelle	Textile & Garment	Private	177
DBL	Mekelle	Textile & Garment	Govt.	79

<sup>8</sup> Federal Democratic Republic of Ethiopia: Growth and Transformation Plan II (GTP II) (2015/16 -2019/20).<https://ethiopia.un.org/sites/default/files/2019-08/GTPII%20%20English%20Translation%20%20Final%20%20June%2021%202016.pdf>

<sup>9</sup> Source: EIC.

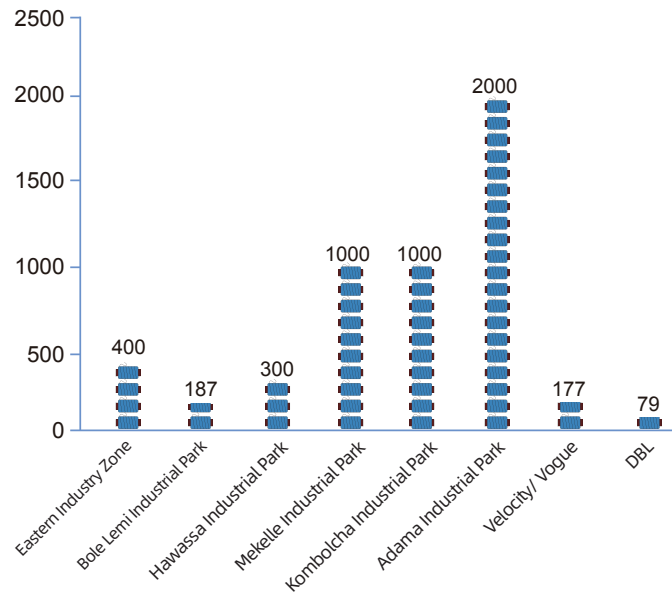


Figure 9: Area of industrial parks in Ethiopia for the textile and apparel industry (in Ha)<sup>10</sup>

The survey results indicate that, out of the 15 Chinese–invested enterprises, 14 are located in industrial parks, including 9

in Eastern Industry Zone, 2 in Hawassa Industrial Park, 2 in Adama Industrial Park, and 1 in Dire Dawa Industrial Park.

### 3.2.4 Long-term vision

“What we have invested is our hard-earned money. The equipment is large expensive and cannot be moved away. However hard and exhausting it is, we will stay. We have no other choice but to take root locally.”

—An entrepreneur from a Chinese–invested printing and dyeing factory

Generally, FDIs have limited access to finance in the host country because they do not have assets for collateral there, which applies to the Chinese investors in Ethiopia as well. During the interviews, most private entrepreneurs mentioned that the capital used for the investment in Ethiopia was self-owned. It's difficult for the Chinese

investors to get loans from banks in Ethiopia. However, many enterprises have the vision for long-term operation in Ethiopia. Their factories in Ethiopia have been installed with state-of-the-art production equipment. One entrepreneur stated that his enterprise was one of the earliest to enter Hawassa Industrial Park. To meet the production

<sup>10</sup> Source: EIC.

needs, the enterprise once requested the industrial park management to modify the building design according to the enterprise's production process flow. Initially, the industrial park management rejected the request. This Chinese entrepreneur explained to the management in details the model, use, price and size of the equipment he planned to ship to the factory in Ethiopia, and asked back, "The machinery we will ship here is the best and the most expensive, large and heavy as well. If we had no plan to operate in the long term, how would we

spend so much buying the machinery?" With this, he won the trust of the management, who eventually agreed to tailor the building design to the enterprise's requirements.

### 3.3 Human resource

The availability of a young workforce in Ethiopia is high. Indeed, the country is the second-most populous nation in Africa. According to World Bank data, at the end of 2019, Ethiopia counted more than 112 million people with a growth rate of 2.58% yoy.

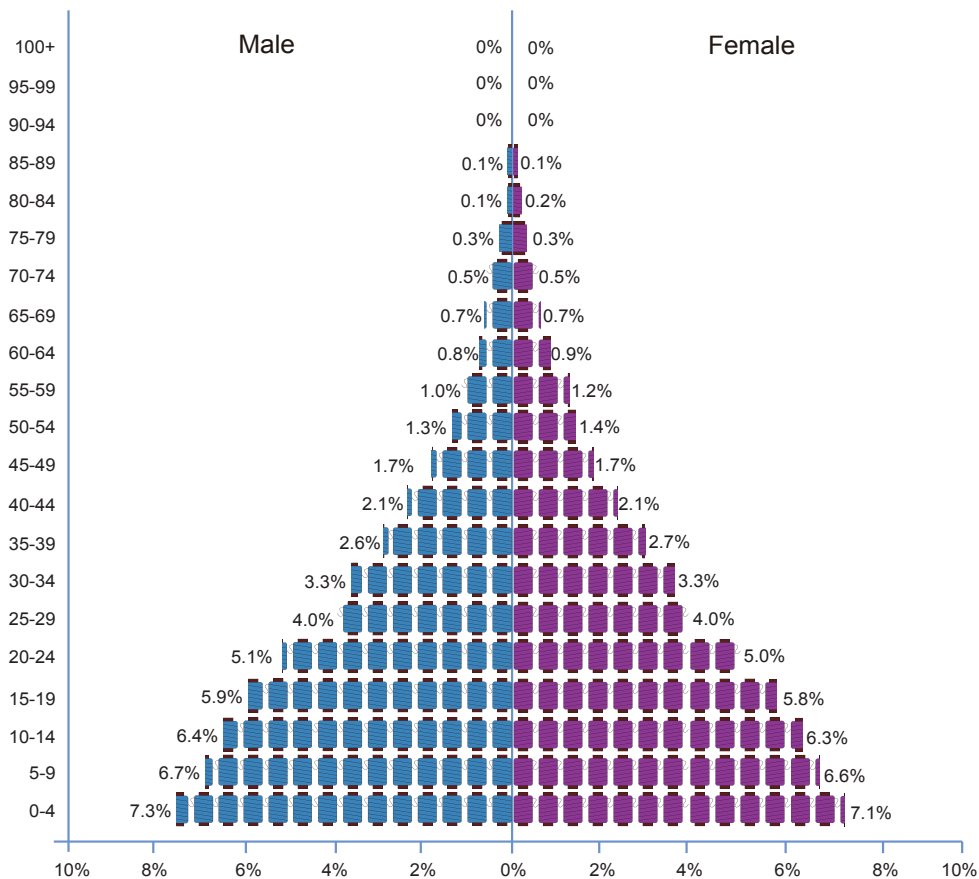


Figure 10: Age distribution of Ethiopia's population<sup>11</sup>

<sup>11</sup> Source: Website of EIC, <http://www.investethiopia.gov.et/index.php/why-ethiopia/why-invest-in-ethiopia.html>

Chinese-invested enterprises are beneficiaries of Ethiopia's demographic dividends, but they also face challenges in HR management. The survey results indicate that more than half of the Chinese investors, before investing in Ethiopia, have no experience of investing and operating enterprises outside China. Ethiopia is the first stop of their overseas investment. This means that a significant proportion of Chinese-invested textile and apparel enterprises in Ethiopia lack international operations and cross-cultural management experience. According to an executive of a Chinese-invested enterprise, the management of "people" is the most difficult one among the challenges in operation in the context of a different society, economy, culture, and legal system.

### 3.3.1 From farms to factories

Ethiopia is currently in the middle of industrial restructuring. The agricultural population accounts for the majority, and the size of industrial workforce needs to be expanded. In 2009–2019, the share of agriculture in Ethiopia's gross domestic product (GDP) dropped from 46% to less than 35%, and

the share of industry increased from less than 10% to appropriately 25%.<sup>12</sup> Although the agricultural sector now accounts for only about one-third of Ethiopia's GDP, according to the statistics of Food and Agriculture Organization (FAO) of the United Nations, the sector employed around 72% of the country's total population in 2018.<sup>13</sup>

The transitions from farmland to textile factories and from farmers to industrial workers are challenges for both employees and enterprises. For the employees who work at textile and apparel enterprises, the transitions mean that they need to get adapted to strict factory disciplines, quickly master the skills required for machine operation, and pass the stringent job performance appraisal. For enterprise management, this means that they need to maintain a team that can meet the production needs and keep increasing their productivity. The survey results indicated that nearly half (46%) of the employees, before joining textile and apparel factories, were students, unemployed people, or farmers working in agriculture or animal husbandry, and had no work experience in industrialized production.

<sup>12</sup> Ethiopia: Share of economic sectors in the gross domestic product (GDP) from 2009 to 2019: <https://www.statista.com/statistics/455149/share-of-economic-sectors-in-the-gdp-in-ethiopia/>

<sup>13</sup> Food and Agriculture Organization of the United Nations: <http://www.fao.org/3/i8911en/i8911EN.pdf>

**Extended statistics:** nearly half of the employees had no work experience before in industry. According to the statistics of the locally owned textile enterprises in Ethiopia, 49% of the employees, before joining textile and apparel factories, were students, unemployed people, or farmers working in agriculture or animal husbandry, and had no work experience in industrialized production.

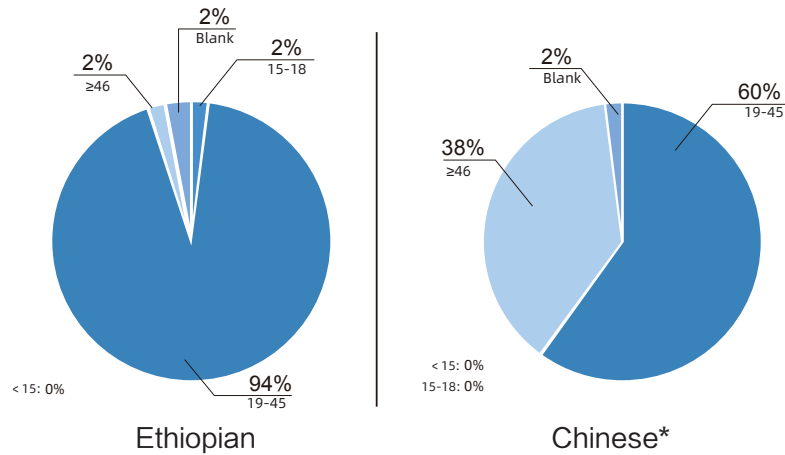
### 3.3.2 Cross-cultural context

HR management and labor rights are essential aspects of ESG performance. As multinational enterprises, the Chinese-invested enterprises in Ethiopia have explored unique approaches for HR management amid cultural frictions and clashes. Judging from the survey results, some approaches are the result of the search for localized management, while others are problems and challenges in cross-cultural management.

Ethiopian employees contribute most to Chinese-invested enterprises' production. The survey results indicate that, over half (53%) of the Chinese-invested enterprises each have employed more than 500 employees. These local employees are recruited via "factory's recruitment event" (58%), "recommendation by friends, relatives and fellow villagers" (31%), and "job fair at the industrial park" (12%), to work at Chinese-invested enterprises. At the

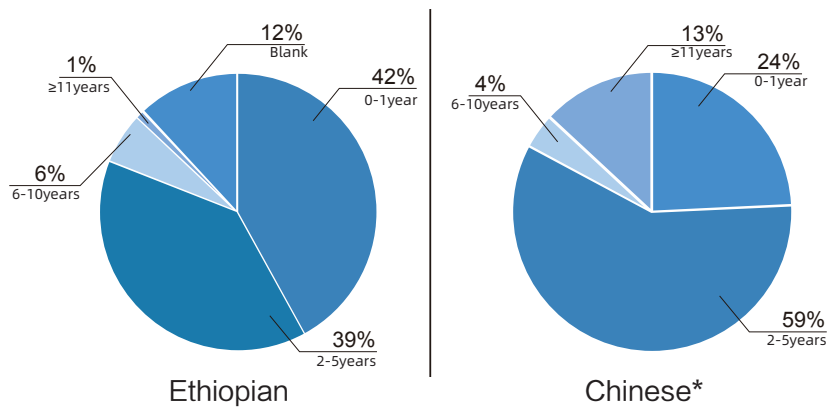
surveyed enterprises, Ethiopian employees account for 89%, and are the main force for their production and operations. In terms of age structure, Ethiopia employees are young, with 94% at the age of 19–45 (see Figure 11). The Chinese managers interviewed stated that they were very positive about Ethiopia's youth labor resources, and that there is a distinctive difference in employee age structure between the factories in Ethiopia and the headquarter companies in China, i.e. the employees at the latter are older. Among all the Ethiopian employees, nearly half (42%) have worked at Chinese-invested enterprises for less than one year, while over half (59%) of the Chinese employees have been with the Chinese-invested enterprises for 2–5 years (see Figure 12). To sum up, young and dynamic Ethiopian employees, as well as stable and experienced Chinese employees, jointly contribute to the production and operations of the Chinese-invested enterprises.





\*Including those from Hong Kong, Macao, and Taiwan.

Figure 11: Age groups of Ethiopian and Chinese employees



\* Including those from Hong Kong, Macao, and Taiwan.

Figure 12: Ethiopian and Chinese employees' work experience

Ethiopian management is entrusted with important tasks and plays a significant role. The survey data indicates that Ethiopians account for 39% of the enterprise management (including shift leader, workshop director, and senior executives). These Ethiopian managers play an important role in enterprises' daily management. Ethiopia is a country with multiple ethnic groups, religions and languages. This

characteristic is well reflected in enterprise management. 83 languages are used in Ethiopia, including Amharic, Somali, and Oromo. Although most universities offer English learning courses, most frontline workers have not received higher education or learned English. During the interviews, most enterprises pointed out that they hired translators to assist in the communication with Ethiopian employees when they

began to establish factories in Ethiopia. A medium-sized factory usually hired 3 local translators, but this could not really solve the internal communication problem. Gradually, communication and management obstacles have emerged. In the face of this, some Chinese-invested enterprises require that each workshop select Ethiopians to be team

or line leaders and Ethiopian managers be present at each shift. In case of emergency, the Ethiopian managers can play a coordinating and leadership role. Besides, some Chinese-invested enterprises also require Chinese technical experts to learn Amharic and require Ethiopian managers to learn Chinese.

“Ethiopia is a heroic nation. The same as China, it has not been colonized. Meanwhile, both the Ethiopians and the Chinese have a strong sense of national self-esteem and pride. However, the two peoples have significant differences in culture, value and means of communication.”

—An entrepreneur from Zhejiang province, China

Employee skill improvement is also the common core concern of both management and employees. The statistics of the enterprise management questionnaires indicate that 87% of the enterprises provide employees with on-the-job skill training, which covers job requirements, OHS, disciplines and systems. The statistics from the employee questionnaires indicate that most employees consider factories' training systems as meaningful. 99% of the employees believe that "the work is helpful in improving work skills and future development". Among them, 30% believe

that training is "very helpful". Meanwhile, skill level is also a leading factor contributing to "promotion and wage increase". Regarding the question "what factors do you believe contribute to promotion", 72% of the respondents have chosen "skills and work efficiency", and "place of origin" is believed to be least related to promotion (only 5% chose this answer). This is consistent with the result of the management questionnaires. Management also believes that "skills and work efficiency" is the most decisive factor for employees' remuneration, and the least relevant factor is "place of origin".

**Extended statistics:** most employees at local Ethiopian enterprises believe the work is helpful in improving work skills and future development.

The statistics of local Ethiopian enterprises indicate that 89% of the employees believe that "the work is helpful in improving work skills and future development". Among them, 38% believe training is "very helpful".

Female employees account for the majority, but there is still room to improve protection of their rights and interests. Female employees often account for the majority in the human resources of the textile and apparel industry. This requires the use of social gender perspective in enterprise management to identify female employees' special rights, interests, and needs. The survey results indicate that more than half (61%) of the employees at Chinese-invested enterprises are females, but the percentage of females in the management is only 35%. 80% of the Chinese-invested enterprises have developed measures to protect women's right and interests. These measures mainly involve recruitment and

promotion, remuneration, marriage and reproductive rights, and female employees' health and safety requirements (see Figure 13). However, the statistics from the employee questionnaires indicate that only 14% of the females are "very satisfied with their factories". In contrast, 28% of the male employees are "very satisfied", with the percentage almost doubled that of female employees. Up to 17% of the female employees are "not so satisfied" or "not satisfied", but this number is only 6% for male workers (see Figure 14). This means that enterprises have developed measures to protect female employees' rights and interests, but such measures still lag behind female employees' expectations.



Figure 13: Measures to protect female employees' rights and interests

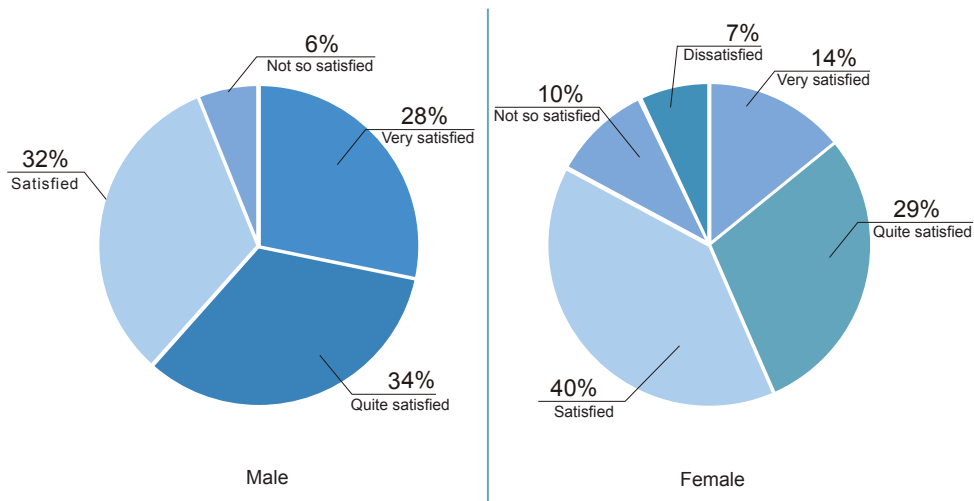


Figure 14: Employees satisfaction (by gender)

**Extended statistics:** at local Ethiopian enterprises, female employees are the mainstay, and their satisfaction level is higher than that of male employees.

The statistics of local Ethiopian enterprises indicate that 61% of the employees are females, who dominate the workforce. 37% of the female employees are "very satisfied with their factories", and the number of male employees is only 10%. Overall, 83% of the female employees are satisfied (including very satisfied, quite satisfied, and satisfied) with their factories, while the number is 69% for male employees. Female employees' overall satisfaction level is higher than that of male employees.

The statistics of the management questionnaires indicates that all the enterprises have developed measures to protect women's rights and interests, mainly the ones which aim to bridge the gaps between the two genders, such as eliminating discrimination in recruitment, promotion and remuneration.

The management's ability to protect young persons needs to be systematically enhanced. At the Chinese-invested enterprises, the average age of the surveyed employees is above 15, and the employees at the age of 15–18 account for only 1%. This meets Ethiopia's legal requirements

for minimum working age. But the statistics of the management questionnaires indicate that regarding the issue of young person's protection, nearly half of the enterprises stated that their "employees' true age can not be verified"; 20% of the enterprises "do not know what special protection is

required by underage workers"; 13% the enterprise is not clear about the relevant legal requirements"; and 7% "do not know what remedies are required for the employed

child labor"(see Figure 15). All the above indicates that enterprises need help in order to enhance their ability to protect minors systematically.

**Extended statistics:** local Ethiopian enterprises need to improve their management ability for minor protection.

The statistics of local Ethiopian enterprises indicate that 1% of the employees are below the age of 15. This fails to meet the requirement of Ethiopia's Labor Proclamation that "it is prohibited to employ persons less than 15 years of age". The employees at the age of 15–18 account for 7%.

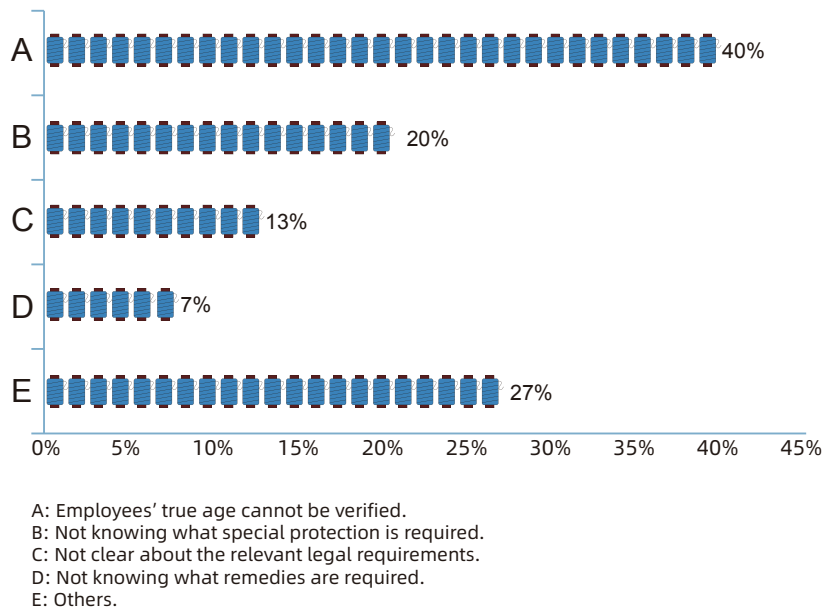


Figure 15: Challenges in addressing the child labor and underage worker issues

**Knowledge box 1**  
Provisions of Ethiopia's Labor Proclamation on working conditions of young workers  
(See Appendix 2)

The forms of communication and consultation are very flexible, but more institutional channels need to be created. The statistics of the enterprise management questionnaires indicate that 53% of the enterprises do not support employees in joining trade union, workers' council or participating in related activities. However, the statistics of the employee questionnaires indicate that up to 81% of the employees have the freedom to join trade union, workers' council or participate in related activities. The contrasting data from the management and the employees seems to reflect the reality. On the one hand, the Chinese-invested enterprises in Ethiopia worry that employees' participation in trade union activities may impact the normal

production and management; but on the other hand, in reality, whether the management is willing or not, the employees have the ability and freedom to participate in such activities. The interview results have also confirmed this phenomenon. All the interviewed enterprises stated that their employees once went on mass strikes for negotiations with them. The causes for the strikes ranged from dissatisfaction with factory food or remuneration to contradictions between ethnic groups. The strikes caused diverse consequences for factories, from several machines' operation suspension for hours to factories' complete suspension of production for days.

“When the factory first provided employees with meals, the employees were very happy. Later, some employees became unhappy with the meal tastes and types, and went on strike. Some did not want a strike, but also joined it because they did not want to be hit by those who went on strike. As a result, more than 100 employees from a workshop all went on strike.”

—A manager at a printing and dyeing enterprise

Although Chinese-invested enterprises have little interest in trade union as an institutional channel for consultation, they deem the communication with employees important, and have set up a variety of mechanisms for communication. For instance, most Chinese-invested enterprises have elected worker representatives. Some have elected worker representatives from different tribes, as Ethiopian employees are different in their

tribes, cultures and languages, to ensure that local workers can be thoroughly presented to express opinions. Besides, Chinese-invested enterprises are more inclined to embed communication in some actions or activities to "win employees' heart". For instance, by providing "cupping" and "acupuncture" services to ill employees (both cupping and acupuncture are medical treatments of the traditional Chinese medicine, which have

been practiced in China for thousands of years and remain popular in today's China), and organizing sports games, communication with employees is strengthened. Therefore, overall, the employees believe that they have channels and opportunities to communicate with the management. 53% of the respondents chose "managers are patient,

and directly communicate with me", and 50% "I proactively communicate with managers" (see Figure 16). Among all the Ethiopian employees, 46% stated that "managers are patient, and directly communicate with me", and 45% "I know the channels to communicate with managers".

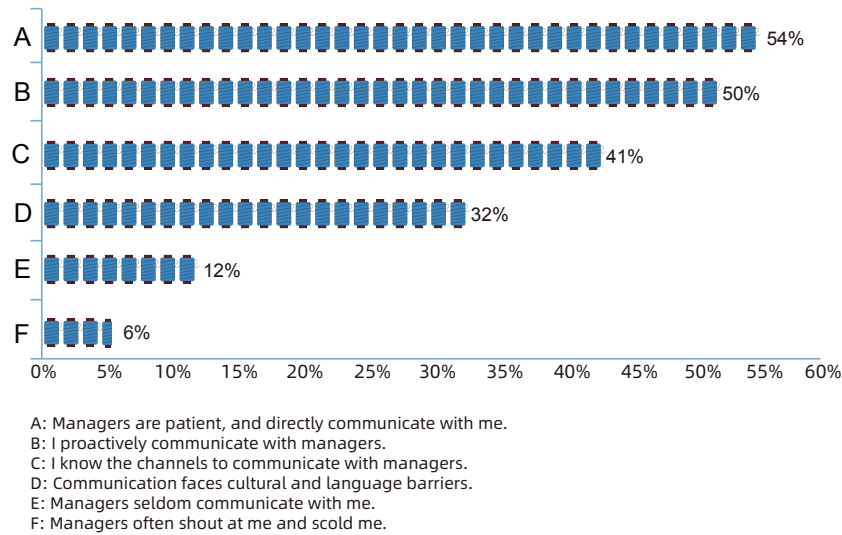


Figure 16: Employees' reflection on communication with the management

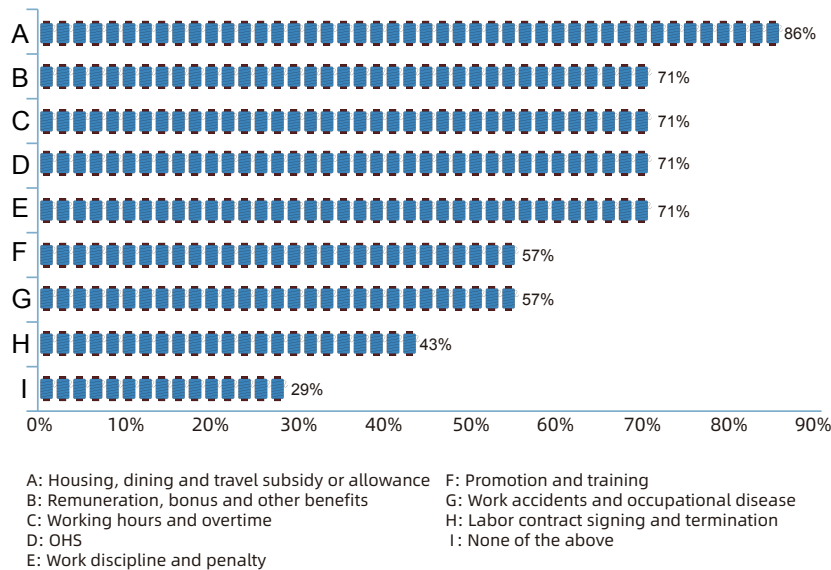


Figure 17: Issues that managers believe they can consult with employees

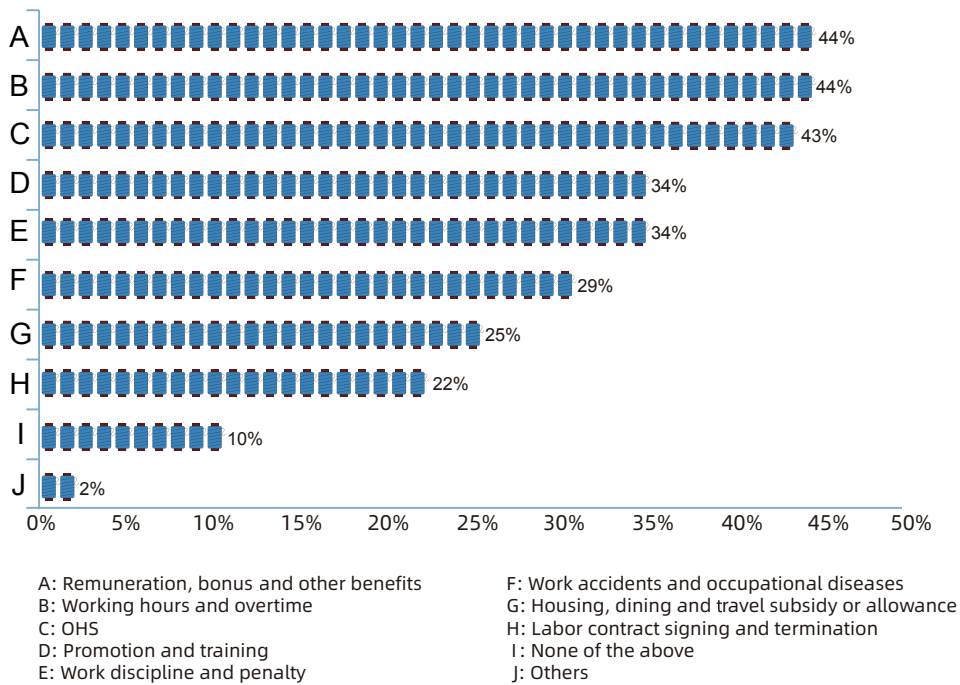


Figure 18: Issues that employees believe that they can consult with the management

**Extended statistics:** more institutional channels for consultation need to be created at local Ethiopian enterprises.

The statistics of local Ethiopian enterprises indicate, 67% of the employees stated that they had the freedom to join trade union, or workers' council, or participate in related activities.

Working hour management needs to be further strengthened. According to Ethiopia's Labor Proclamation, normal hours of work shall not exceed 48 hours a week; overtime work shall not exceed four hours in a day, and twelve hours in a week; overtime work shall be voluntary, and overtime payments shall be made based on various rates. The statistics of the management questionnaires indicate that the enterprises' weekly working

hours are all less than 48 hours; overtime work does not exceed 24 hours in a week; and at least one rest day is provided every week. The statistics of the employee questionnaires indicate that 30% of the employees work more than 60 hours a week (see Figure 19). This implies that workers' overtime at some enterprises exceeds the limit set by the local legislation.



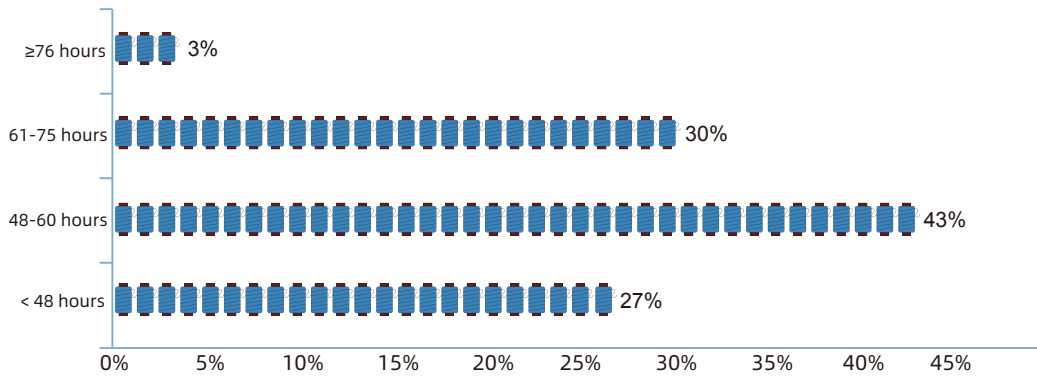


Figure 19: Employees' weekly working hours

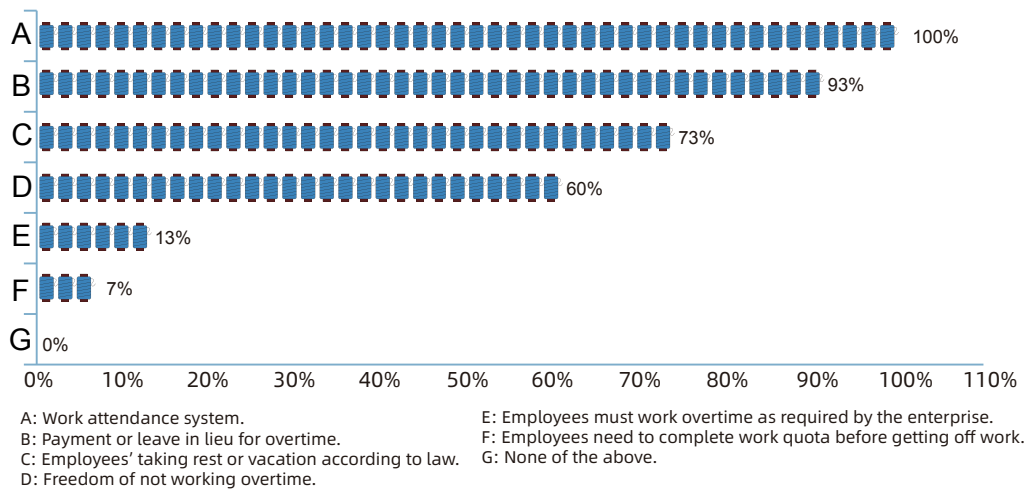


Figure 20: Enterprises' working hour management measures

**Extended statistics:** the working hour management at local Ethiopian enterprises is quite satisfactory.

The statistics of local Ethiopian enterprises indicate that 61% of the employees work less than 48 hours a week. Besides, no employee works more than 60 hours a week.

### Knowledge box 2

Provisions of Ethiopia's Labor Proclamation on hours of work and rest period (See Appendix 2)

Overall, employees are satisfied with the remuneration, but attention needs to be

paid to remuneration gaps. Ethiopia has no legal requirements for the minimum wage.

The survey results indicate that the average wage of the Ethiopian frontline workers at Chinese–invested enterprises is about ETB 2,000 per month (including base salary, performance wage, and full attendance bonus). 93% of the Chinese–invested enterprises pay the wages on time and in full amount. 27% of the Chinese–invested enterprises have a living wage plan.<sup>14</sup>

Overall, 71% of the employees are satisfied (including very satisfied, quite satisfied, and satisfied) with their remuneration (see Figure 21). However, it is noteworthy that the ratio of the Chinese employees who chose "very satisfied" is higher than that of Ethiopian employees, almost two times more than the

latter. By contrast, the percentage of the "totally dissatisfied" Ethiopian employees is much higher than that of Chinese employees. 15% of the Ethiopian employees are "totally dissatisfied", while no Chinese employee is "totally dissatisfied" (see Figure 22). The results of management interviews indicate that, although the number of Chinese employees is small, they are mostly the managers dispatched by the headquarters in China to work at the factories in Ethiopia or senior technicians who master production technologies or processes. Therefore, their wages are higher. Enterprises need to pay attention to remuneration gaps and Ethiopian employees' remuneration expectations.

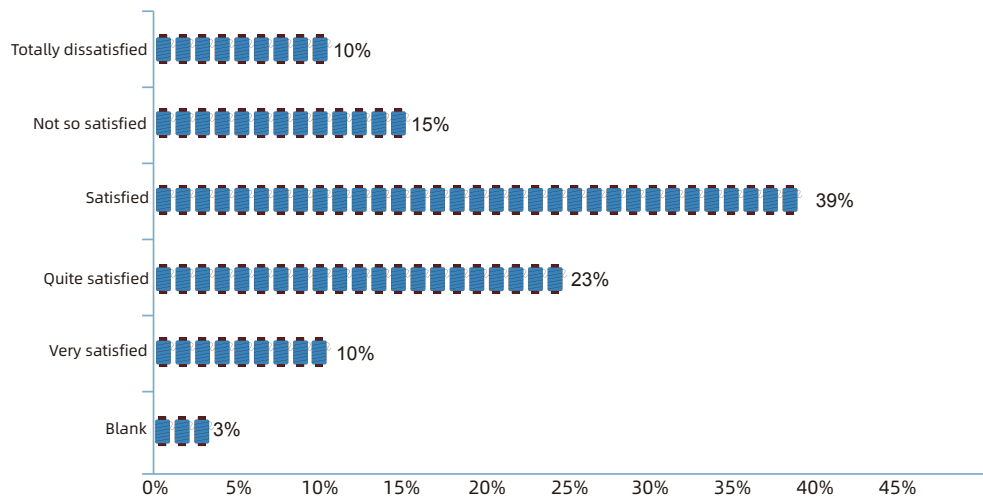
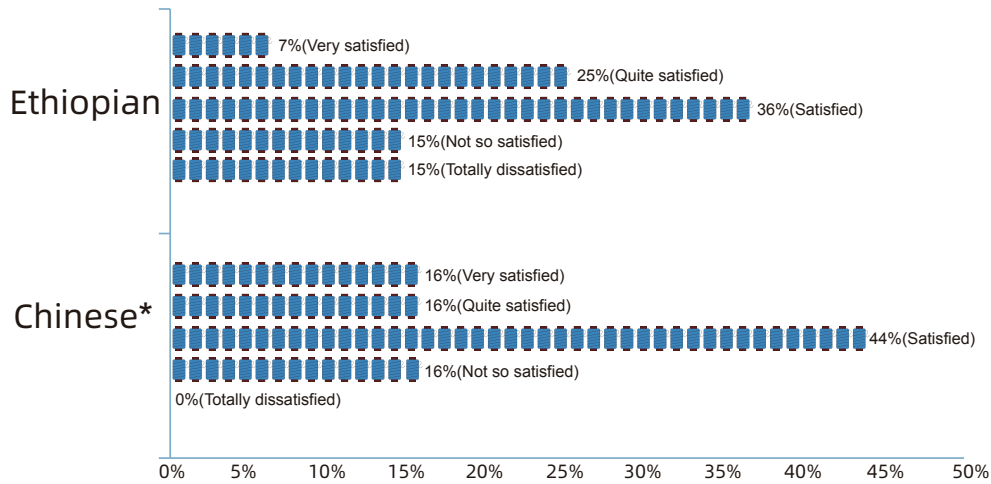


Figure 21: Employees' satisfaction with remuneration

<sup>14</sup> At present, there is no consensus on the definition of living wage. This survey defines living wage as follows: "Living wage refers to the remuneration a worker receives in a particular location for working a standard week that is able to afford a decent life for the worker, and his or her family. The standard elements of a decent life consist of food, water, shelter, education, healthcare, transport, clothing, and other core necessities of life, including the necessities for force majeure."



\*Including those from Hong Kong, Macao, and Taiwan.

Figure 22: Employees' satisfaction with remuneration (by nationality)

More than half of the employees stated that their remuneration was sufficient to cover food and drinks, housing rent, clothing, and transportation, but less than half of the employees are able to pay for more expensive medical care, elderly support, and children's education. Besides, an interesting finding from the analysis of employees by

their nationality is that 56% of the Chinese employees have bank savings after paying daily expenses, but only 16% of the Ethiopian employees can do the same. This is possibly attributed to their income gaps, and also to different bank savings habits of people in the two countries.

**Extended statistics:** employees' satisfaction with remuneration at local Ethiopian enterprises.

The statistics of local Ethiopian enterprises indicate that 55% of the employees are satisfied (including very satisfied, quite satisfied, and satisfied) with their remuneration. 30% of the employees at local Ethiopian enterprises are totally dissatisfied.

Overall, the OHS performance is good, but there exists space for improvement. Enterprises' OHS management measures include providing employees with free

PPEs, designating responsible persons to urge and supervise work safety, and offering employees free health and safety trainings. The statistics of the employee

questionnaires indicate that nearly half (44%) of the employees believe their workplaces are healthy and safe. Nearly 20% believe that their workplaces are "very healthy and safe", one-tenth of the employees chose "not so healthy or safe" (see Figure 24). This indicates that enterprises need to

further improve OHS management, and take multiple measures, such as identifying and eliminating danger sources, strengthening their communication with employees, and providing employees with more related training.

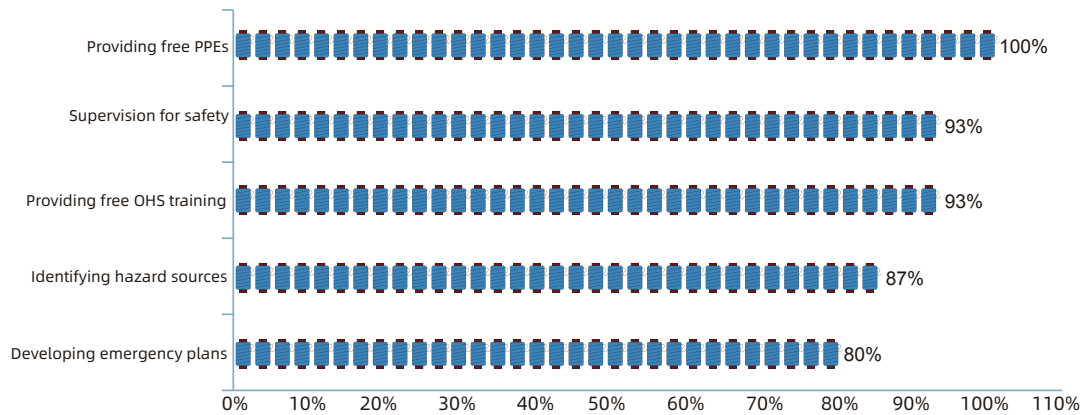


Figure 23: Enterprises' OHS measures

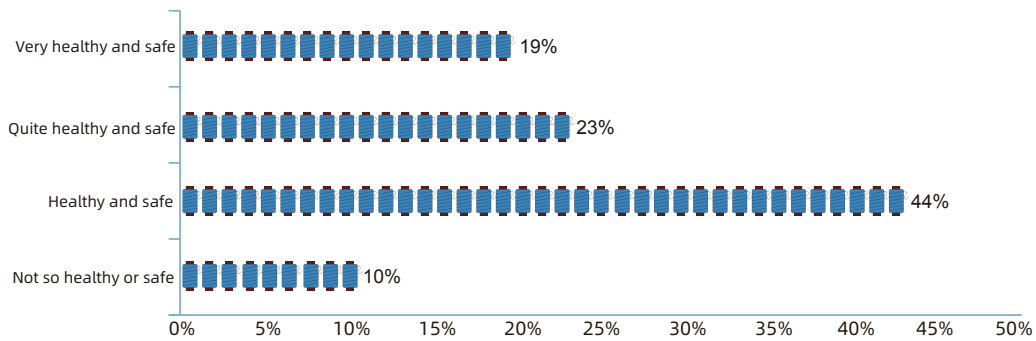


Figure 24: Employees' evaluation of the health and safety at workplace

**Extended statistics:** most employees in local Ethiopian enterprises believe their workplaces are healthy and safe.

The statistics of local Ethiopian enterprises indicate that 68% of the employees believe their workplaces are healthy and safe (including very healthy and safe, quite healthy and safe, and healthy and safe). In other words, 32% of the employees believe that their workplaces are not very healthy or safe, or not healthy or safe at all.

### Knowledge box 3

Provisions of Ethiopia's Labor Proclamation on enterprises' OHS obligations (See Appendix 2)

It is a common practice among enterprises to develop discipline management measures, especially on employees' work attendance. All the enterprises stated that they had developed discipline management measures, mainly involving employees' work attendance, areas of movement within working time, and work performance requirements. Employees' work attendance is a focal area of discipline management. During the interviews, most enterprises stated that they had developed stringent

work attendance measures because absence from work was common among Ethiopian employees. Therefore, the corresponding discipline management measures include sending a warning letter to any employee absent from work without reason and dismissing any employee absent from work without reason for 5 times in a row. Meanwhile, enterprises have also developed some work attendance incentives, such as a full attendance bonus.

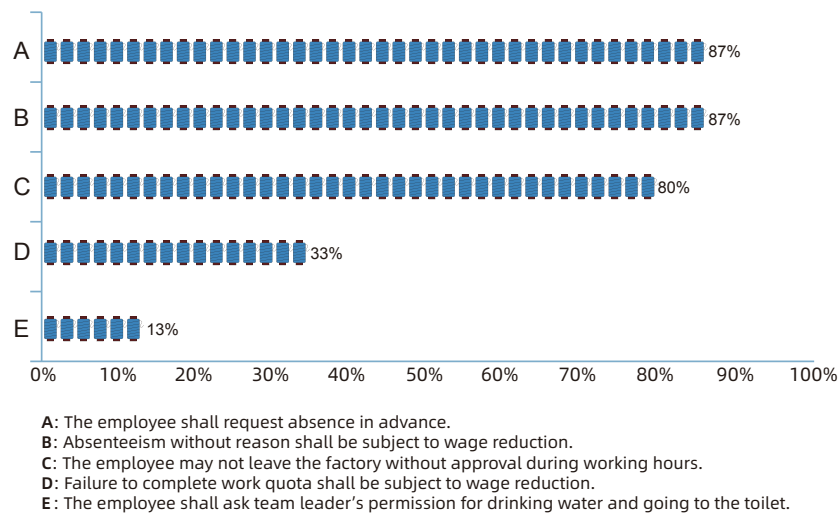


Figure 25: Enterprises' discipline management measures

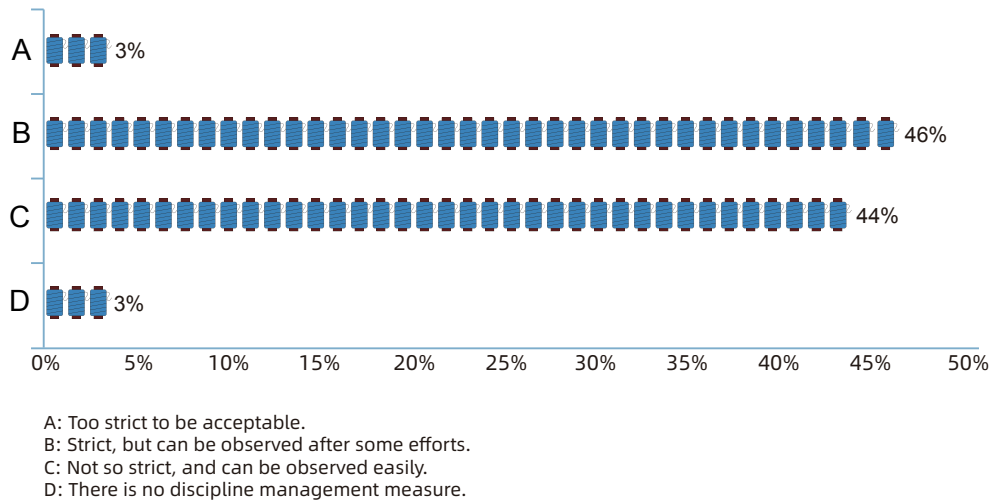


Figure 26: Employees' evaluation of enterprises' discipline management

**Extended statistics:** most employees at local Ethiopian enterprises believe that the discipline management at their factories is loose.

The statistics of local Ethiopian enterprises indicate that more than half (55%) of the employees believe the disciplines are "not so strict, but can be met easily", and 29% believe they are "strict, but can be observed after some efforts". But 9% of the employees at local Ethiopian enterprises believe that their enterprises' disciplines are "too strict and unacceptable".

Labor contract management needs to be further standardized. During the survey, many managers of Chinese-invested enterprises stated that Ethiopian employees had a strong awareness for rights protection and emphasized that signing labor contracts and clear communication with employees on working conditions and requirements were necessary measures to avoid labor disputes. The statistics of the management questionnaires have confirmed this point and indicate that all the enterprises have

established systems in writing, which regulate labor relations and signing and termination of labor contracts. The statistics of the employee questionnaires indicate that enterprises have space for improvement. 92% of the employees have signed labor contracts with enterprises, and 7% have not (see Figure 27). Among those who have signed labor contracts, 44% believe that they know the contract contents and 43% hold a copy of the contracts by themselves.

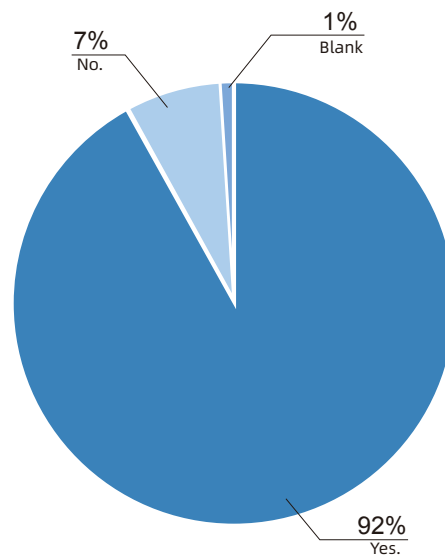


Figure 27: Signing Labor contracts

#### Knowledge box 4

Provisions of Ethiopia's Labor Proclamation on the labor contract (See Appendix 2)

“We dare not sign no labor contract with employees. Our enterprise has experienced a strike caused by disputes related to the labor contract. Now we sign the labor contract with all the employees and create archives for them. The system needs to be simple and clear which can explain all the labor clauses clearly. Meanwhile, we also employ local external legal advisor to guide our labor relations management.”

—A manager of a Chinese-invested printing and dyeing factory

**Extended statistics:** most employees in local Ethiopian enterprises have signed labor contracts.

The statistics of local Ethiopian enterprises indicate that 95% of the employees have signed the labor contract with enterprises. Among all the employees who have signed the labor contract, 54% keep a copy of the contract.

### 3.3.3 Community relations

Among the 15 enterprises, 13 are located in industrial parks which provide enterprises with buildings, canteens, wastewater treatment facilities, and other infrastructure and services. Meanwhile, this also reduces the negative impact of enterprises on the neighboring communities, such as noise,

traffic burdens, environmental pollution, and conflicts. During the survey, no enterprise mentioned discontent from communities and their disputes (such as the discontent with land dispute, immigrant resettlement dispute, wastewater discharge, immigrant influx, and noise).

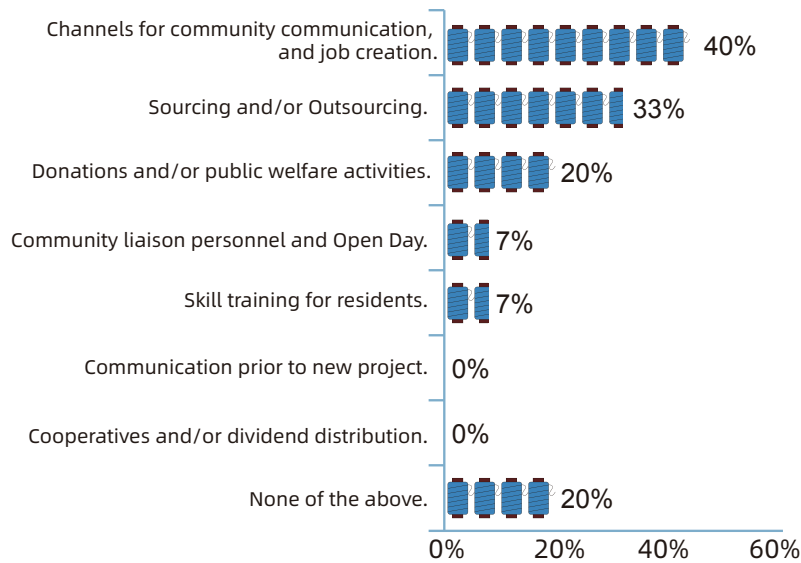


Figure 28: Areas of enterprise–community cooperation

In addition, as shown in Figure 28, 40% of the enterprises stated that they "provide channels for community communication and job opportunities for residents in the neighboring community"; 20% "make donations or carry out public welfare activities for the local communities (e.g., providing medical services, donating educational equipment for schools, constructing roads and installing road

lamps)"; and 20% "have not carried out cooperation or communication in any form with the neighboring communities". During the interviews, Chinese managers stated that this was because people outside industrial parks generally had no access to the parks according to the park management requirements. Therefore, enterprises have very few contacts with residents in neighboring communities.



Ethiopia is rich in water resources but tap water infrastructure is not common. Many people have no access to clean drinking water. To this end, the Ethiopian government requires enterprises to undertake the responsibility to provide tap water for the residents in neighboring communities. A factory in Ethiopia invested by Zhejiang Mina Textile Co., Ltd. actively responded to the local government's call and invested in drilling a well. Meanwhile, the factory also installed several water taps at its gate so the neighboring residents can fetch water. In addition to free drinking water, the enterprise dyes residents' hand-woven cloth to meet their needs for colors and beauty on Ethiopian festivals.

In a report named "Ethiopia is a North Star: Grim Conditions and Miserable Wages Guide Apparel Brands in Their Race to the Bottom" published by Worker Rights Consortium (WRC) in 2018<sup>15</sup>, JP Textile Ethiopia Plc. (JPTE), which is invested by Wuxi Jinmao Foreign Trade Co., Ltd from China and one large supplier of PVH, was criticized, together with other 3 enterprises, for claimed labor abuses including 5 subjects. In response, Mr. YANG Nan, the chairman of the company, replied to WRC as below.

1) Criticism from WRC: Punitive Wage Deductions

Response from JPTE: JPTE does not have punitive wage deduction behavior. We are strictly in accordance with the Ethiopian labor laws and regulations as well as relevant factory provisions for management and implementation. We have attached the salary information of employees in JPTE from January to March 2019 as below [a table of salary provided-added by the author]. From the above table, it is shown that JPTE has been paying reasonable salaries to employees according to their different positions, and their salaries are higher than the data of your survey.

2) Criticism from WRC: Off-the-clock Work

Response from JPTE: Your investigation interview was during March to August 2017. The sheds of JPTE were handed over in January 2017 by Ethiopia government. January to September 2017 was the equipment installation period at JPTE. In order to ensure the

<sup>15</sup> [https://www.workersrights.org/wp-content/uploads/2019/03/Ethiopia\\_isa\\_North\\_Star\\_FINAL.pdf](https://www.workersrights.org/wp-content/uploads/2019/03/Ethiopia_isa_North_Star_FINAL.pdf)

formal production to start on time in October 2017, overtime did occur during equipment installation period, but JPTE strictly abided by Ethiopian Labor Law to pay workers overtime payment. Overtime has seldom occurred since the formal production started in October 2017.

### 3) Criticism from WRC: No employment Contract

Response from JPTE: According to Ethiopian labor law, Companies (Employers) must sign employment contracts with employees after a 45-day probation period<sup>16</sup>. JPTE does sign employment contract with each employee, and the employment contract is signed by each employee in person.

### 4) Criticism from WRC: Verbal Abuse

Response from JPTE: JPTE had more than 100 Chinese employees during equipment installation, but now about 60 Chinese employees work at JPTE. JPTE always holds the management doctrine of "mutual respect, mutual tolerance, mutual development". JPTE always requests Chinese employees to respect local culture and respect local employees. But in daily work, due to working problems and language differences, misunderstanding may be inevitable. JPTE will keep strengthening the training and education of the Chinese employees.

### 5) Criticism from WRC: Pregnancy Discrimination/ Harassment

Response from JPTE: There is no pregnancy discrimination in the employee's recruitment at JPTE. What JPTE mainly considers during recruitment are skills and morality of employees, as well as whether candidates are qualified for the position they applied for. Take one female employee for instance. JPTE recruited Ms. Amarech Tessema HANKAMO on 24th March 2017. Kindly please see the attached Employee Curriculum Vitae of Ms. Amarech Tessema HANKAMO. She started her maternity leave from 1st September 2017. Obviously, she was pregnant when she was employed by JPTE. Maternity leave list can be submitted by JPTE if needed.

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<sup>16</sup> The probation period was extended to 60 days from October 5, 2019.

## 3.4 Environmental management

### 3.4.1 Balance of benefits

The environmental problems and social risks resulting from rapid economic growth have posed challenges to enterprises' long-term development. The Chinese enterprises going global should not give priority to pursuing economic benefits and considering environmental protection as a sideline business, not to mention avoiding compliance with local environmental protection legislation to reduce costs. China's textile, printing and dyeing industry has been working on energy conservation, emission reduction, and environmental protection in the past years. The work experience and achievements prove that enterprises can realize economic benefits while protecting the environment.

Enterprises' environmental protection strategy and practices are crucial for the sustainable development of Ethiopia's textile and apparel industry, especially in the context of relatively low level of environmental governance amongst local authorities in Ethiopia. Chinese-invested enterprises should actively fulfill their environmental responsibility and bring their good environmental protection and social responsibility practices, technologies and

experience to Ethiopia. This technology and know-how transfer would strengthen the effort to manage effectively and control the environmental risks and associated negative impacts resulting from production activities and achieve the sustainable development of overseas investment.

### 3.4.2 Motivation

Environmental management systems and measures help enterprises continuously address the environmental impact. The survey results indicate that 87% of the Chinese-invested enterprises have developed policies, procedures or processes related to environmental management. Among them, 92% have developed the environmental management policy, vision and goals; over 60% have established environmental management systems and environmental management teams, and clearly defined their roles; besides, more than half (54%) of the enterprises have developed and implemented environmental management training (see Figure 29). These systems and measures have helped enterprises realize their environmental performance goals and indicators, and achieve continuous improvement in their environmental behaviors through capacity development and collaboration within teams.

**Extended statistics:** most enterprises have developed environmental management measures.

Among the non-Chinese-invested enterprises, 10 have developed policies, procedures or processes related to environmental management, and 9 have established the environmental management system.

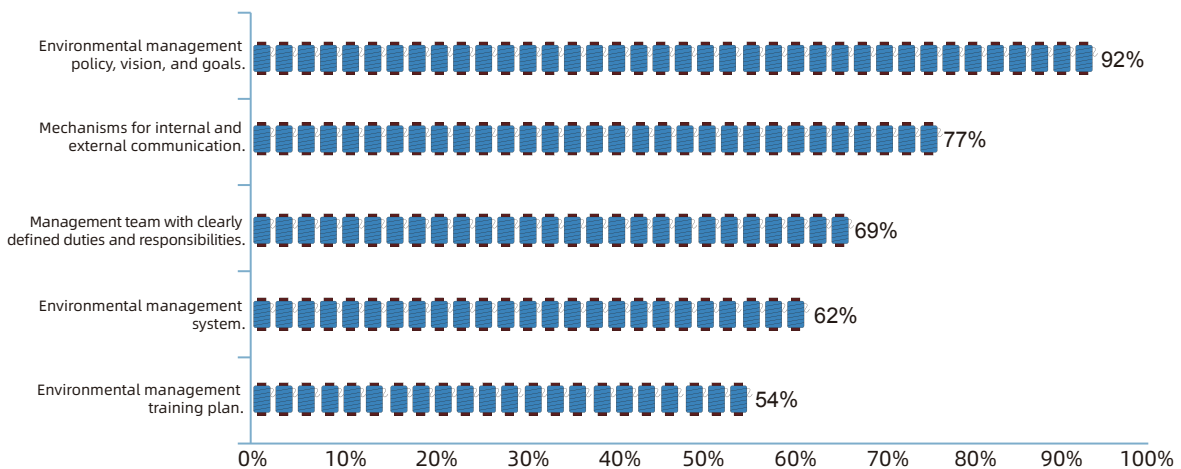


Figure 29: Enterprises' environmental measures

Legal compliance, reputation improvement, and order increase are the three drivers for enhancing environmental performance. The survey results indicate that complying with Ethiopia's legislative requirements, improving enterprises' reputation and

international images, and increasing orders are the three drivers for enterprises' environmental protection work. Almost all the enterprises stated that they carried out the environmental protection work to meet the legislation requirements in Ethiopia.

**Knowledge box 5**

The applicable environmental protection proclamations and standards in Ethiopian (See Appendix 2)

In addition, 67% of the enterprises stated that the environmental protection work was also related to the requirements of overseas investment guidelines<sup>17</sup> released by the relevant authorities in China. These guidelines play a positive role in promoting Chinese-invested enterprises to carry out environmental protection work in Ethiopia. To the enterprises, the environmental protection work brings not only some economic benefits to enterprises but also positive environmental and social benefits. For instance, 73% of the surveyed enterprises believe that improving environmental performance can enhance enterprises' reputation and international image, and 47% believe that it can increase order quantities with the existing clients or attracting new

clients. In Ethiopia, international standards, such as BSCI, Higg Index, Bluesign, ZDHC etc., were introduced by international clients to evaluate the environmental performance of their suppliers. In contrast, only 33% of the Chinese-invested enterprises consider economic benefits and cost reduction. This indicates that economic benefits or cost reduction is not an apparent driver for enterprises to improve environmental performance (see Figure 30). Another reason is that Ethiopia has no mandatory requirement for the textile and apparel industry to conserve energy or reduce emissions. Therefore, many enterprises have made limited investments in environmental protection.

**Extended statistics:** meeting government's and clients' requirements is the main driver.

Among the non-Chinese-invested enterprises, 8 stated that they carried out environmental management work to meet local governments' requirements and clients' needs, and 6 to meet the requirements of the residents in neighboring communities. In addition, 3 other enterprises stated that their environmental management served the purpose of enhancing management benefits.

<sup>17</sup> Including but not limited to: Measures for the Administration of Overseas Investment of Enterprises (State Council, State Development & Reform Commission of PRC, 2017), Guidelines for Environmental Protection in Foreign Investment and Cooperation. (Ministry of Commerce and Ministry of Environmental Protection of PRC, 2013).

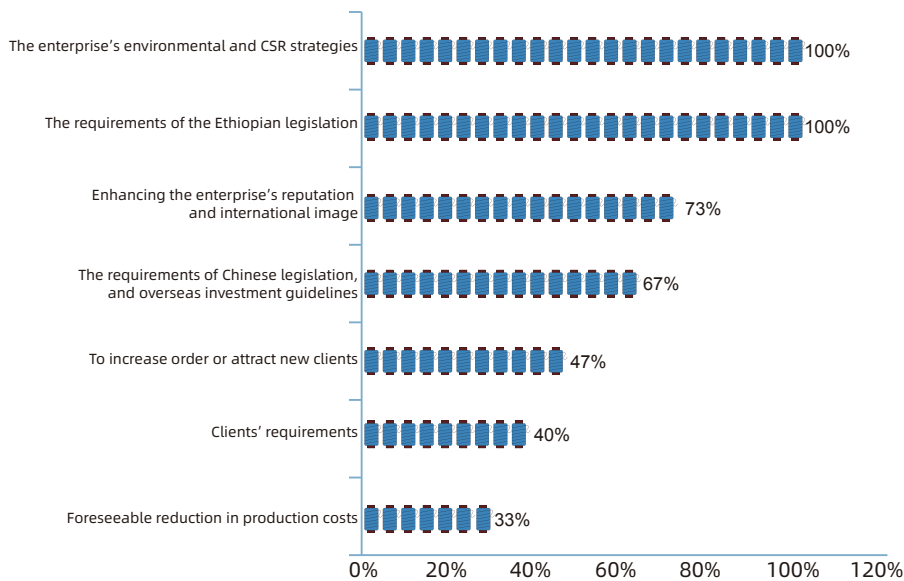


Figure 30: Enterprises' motivations for environmental protection

### Knowledge box 6

Ethiopia's legal requirements for cleaner production (See Appendix 2)

Government, clients, industrial parks, and other major stakeholders have strong leverage. The survey results indicate that the social responsibility and environmental protection work of sample enterprises have been actively pushed by enterprises' main stakeholders, including local or Chinese government, industry associations, clients (brands), head offices in China, and industrial parks. It is worth mentioning that the survey results indicate that NGOs and media play important roles in promoting social responsibility and environmental protection in leading apparel producing countries in Asia, while these organizations have very

little leverage in Ethiopia (see Figure 31). This has also been confirmed by the survey results of the non-Chinese enterprises. It is learned that the international organizations currently active in Ethiopia's apparel industry mainly include Solidaridad and SIWI. Different from the radical environmental protection organizations that put significant pressure on enterprises, these NGOs adopt the approaches of dialogue, communication, and cooperation. By strengthening enterprises' capacity development and providing technical support, they help enterprises improve social responsibility and environmental performance.

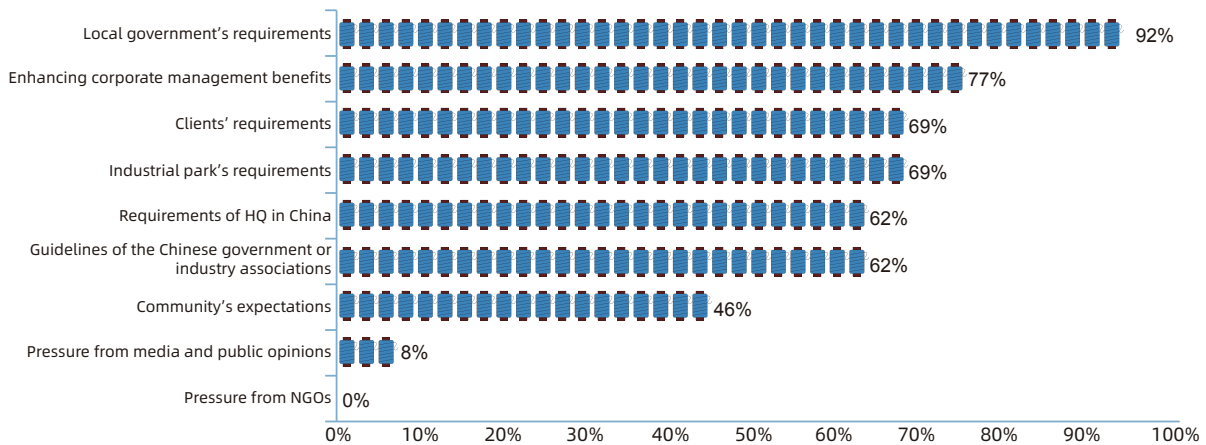


Figure 31: Drivers to address ESG



In 2014, Zhejiang Mina invested in establishing Sebeta Printing and Dyeing Factory, which covered a land area of 10 hectares, and a floor space of 11,000 m<sup>2</sup>. At the first phase, 3 printing machines, 18 cylinders and 5 setting machines were installed, which all had been procured from famous international and Chinese brands. The wastewater treatment facility meets the EU standard, with a daily treatment capacity of 2,500 tons.

### 3.5 Supply chain management

This survey includes a questionnaire designed for local suppliers (the enterprises that were established by Ethiopians and supplied raw materials or equipment to Chinese-invested enterprises) to understand the local textile and apparel industry in Ethiopia. It is discovered in the survey that the Chinese-invested enterprises in Ethiopia almost have no "local supplier". About

87% of the textile and garment enterprises report that except food supplies including vegetables, fruits, and grains, all other industrial raw materials and machinery are entirely imported from China and other countries (see Figure 32). In some rare cases of emergency, equipment breaks down and cannot be imported in time. Enterprises may source components and parts from local traders at high prices.

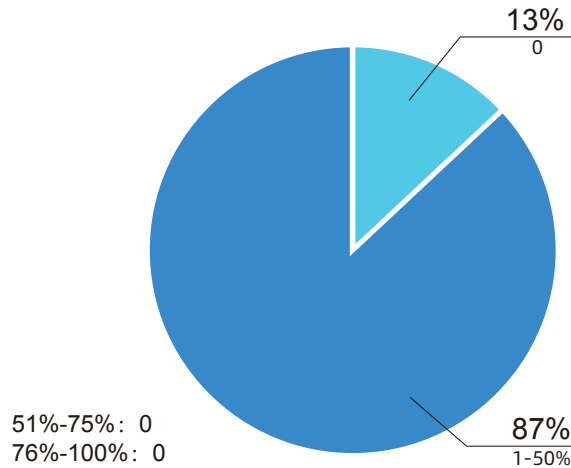


Figure 32: Ratio of local sourcing by Chinese-invested enterprises

Note: Ratio of local sourcing refers to the total local sourcing amount (including raw materials, auxiliary materials, equipment, and services) in Ethiopia in 2019/the total sourcing amount.

Product quality control is a focal point of production management. 80% of the enterprises define the product qualification ratio and establish dedicated departments or designate dedicated personnel to be in charge of product quality; 73% implement

whole-process product quality inspection; 67% provide training to improve the skills of quality control personnel; and 53% develop the procedures for disposing unqualified products (see Figure 33).

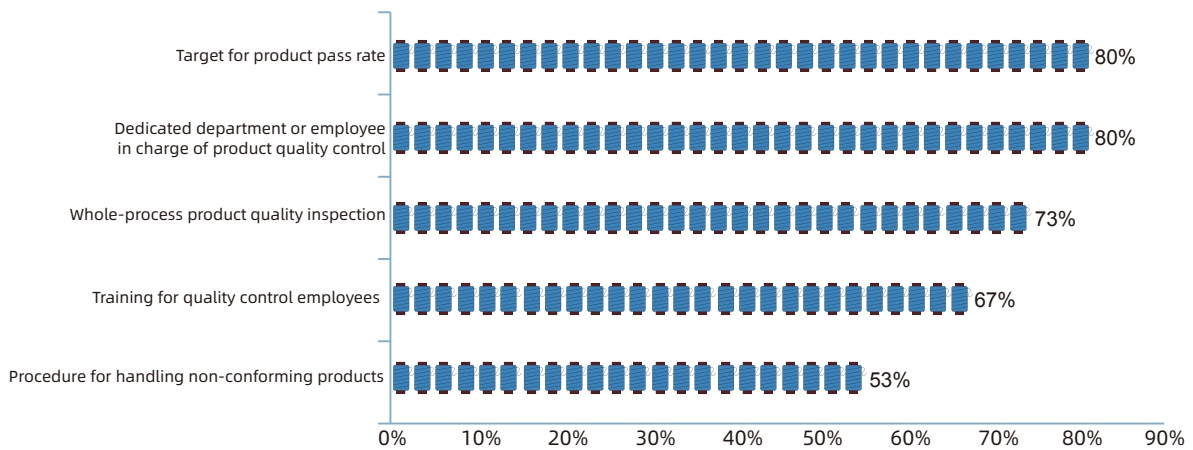


Figure 33: Enterprises' product quality control measures



Regarding intellectual property rights (IPR), 87% of the enterprises give priority to protecting clients' IPR, information, and data. In addition, 47% put forward the requirement of protecting their IPR to partners (such as suppliers); nearly half (40%) of the enterprises apply for patents

(including invention, appearance design, and copyright) and trademarks; only one-fifth of the enterprises have budgeted and invested in research and development. Judging from the statistics, enterprises need to further intensify efforts to protect their own IPR (see Figure 34).

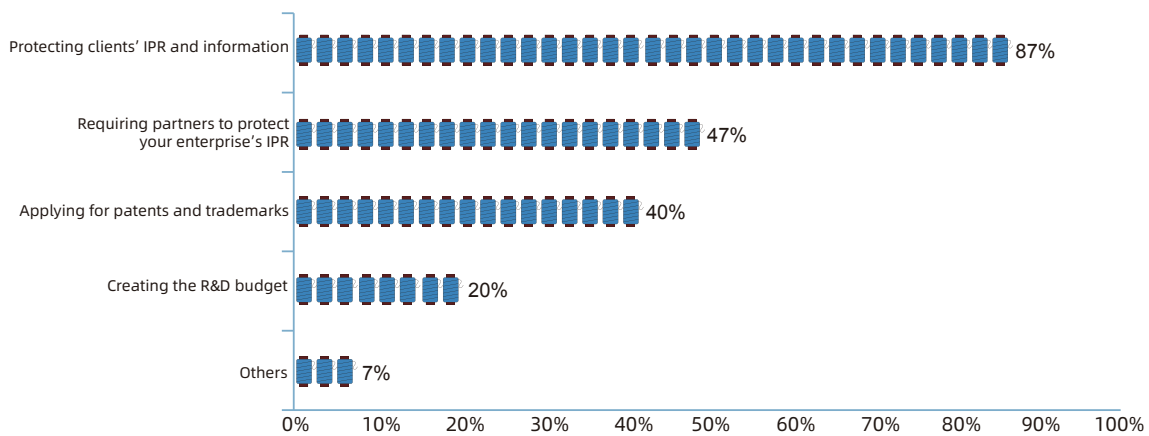
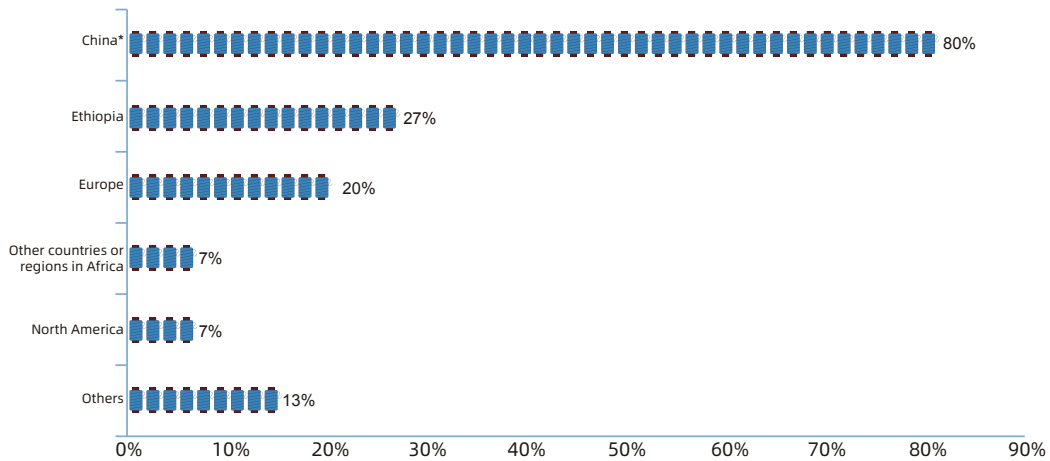


Figure 34: Enterprises' IPR protection measures

### 3.5.1 Local supply chain

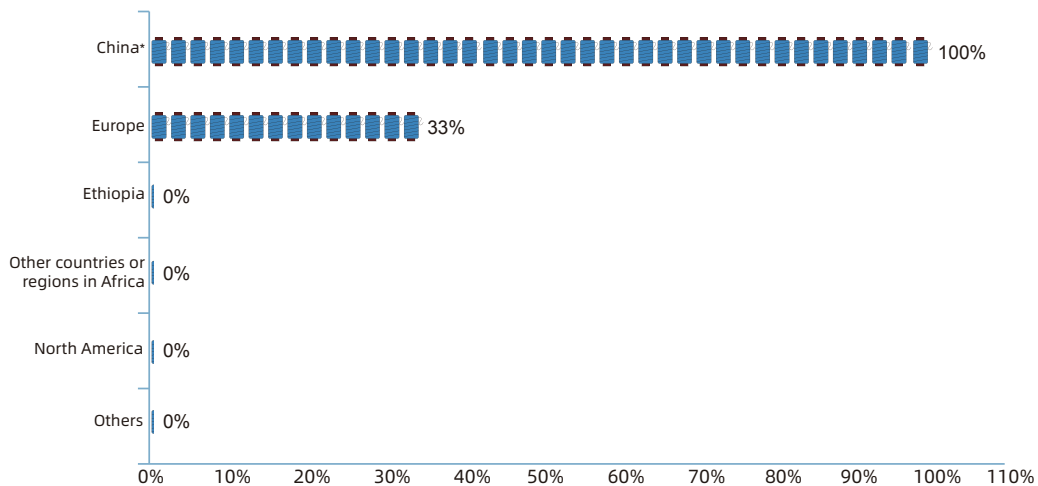
Ethiopia's mechanized textile and apparel industry entered a stage of rapid growth in the 1990s. Although the industry has achieved remarkable results, the development at various stages of the industry chain is imbalanced. End-product enterprises, such as apparel and home textile enterprises, account for nearly threequarters. This means the basis for the upstream development remains weak, and to some extent, restrains the upstream-downstream cooperation.

China (including Hong Kong, Macao, and Taiwan) is the source of 80% of Chinese-invested enterprises' raw materials, ranking first. Although 27% stated that they sourced from Ethiopia, it was discovered from the interviews that they sourced raw materials from the Chinese-invested enterprises in Ethiopia, which is not local sourcing in the real sense. Production equipment is imported mainly from China and Europe (see Figure 35 and 36).



\*Including Hong Kong, Macao, and Taiwan.

Figure 35: Sources of enterprises' raw materials (by country/ region)



\*Including Hong Kong, Macao, and Taiwan.

Figure 36: Sources of enterprises' equipment (by country/region)

International investments or foreign capital brings to a country not only the capital required for its development, but “technology, management, access to markets, and social networking, which are often lacking in developing countries and yet

crucial for industrial upgrading.”<sup>18</sup> During the interviews, all the Chinese–invested enterprises expressed the hope to contribute to the transformation and upgrading of Ethiopia's textile and apparel industry, which they believed could lead to a win–win result.

<sup>18</sup> Justin Yifu Lin, *The Quest for Prosperity: How Developing Economies Can Take Off*, 2016.

“Ethiopia needs China, because it needs investment and infrastructure to open its closed territory.”  
—Sisay GEMECHU, Former CEO of IPDC

### 3.5.2 Supply chain management

Most Chinese-invested enterprises have export-oriented business and are getting integrated into the global supply chain and deeply influenced by international supply

chain rules. 47% of the enterprises stated that their clients imposed more social and environmental responsibility requirements on raw materials, production processes, methods and products.

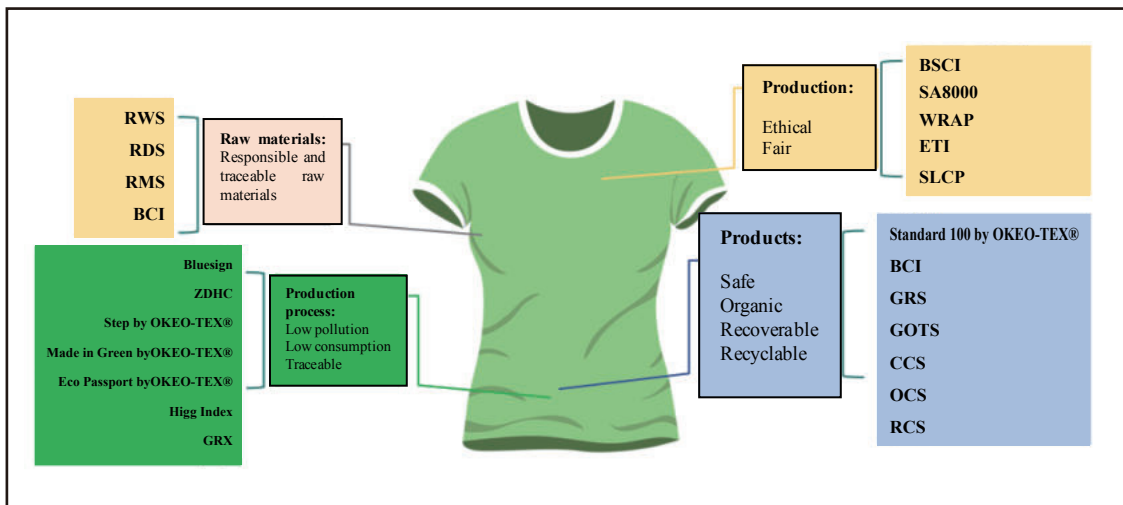


Figure 37: ESG requirements in the textile and apparel supply chain<sup>19</sup>

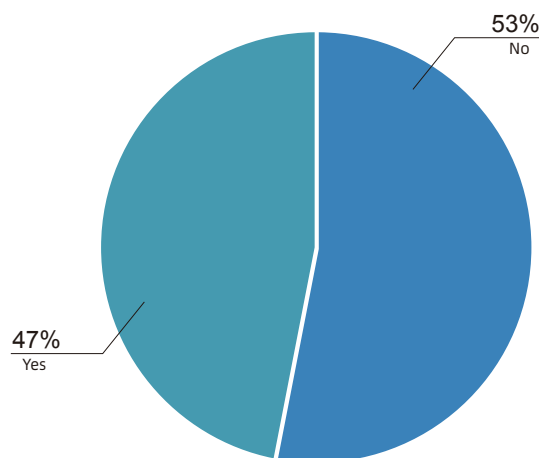


Figure 38: Requirements of ESG performance from clients

<sup>19</sup> Source: Office for Social Responsibility, CNTAC.

The survey results indicate that 60% of the Chinese-invested enterprises imposed social and environmental responsibility requirements on their suppliers (see Figure 39). This ratio is very high in comparison with that of the textile and apparel enterprises in China. It may be because the Chinese-invested enterprises in Ethiopia are mostly

export-oriented enterprises embedded into the global supply chain. and they receive supply chain requirements from clients, and pass on social and environmental responsibility requirements to their upstream suppliers. Chinese-invested enterprises' requirements for suppliers include those on child labor and underage workers,

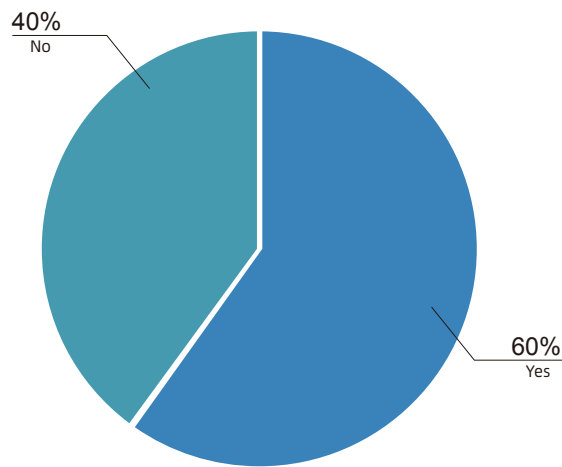


Figure 39: Requirements of ESG performance on suppliers

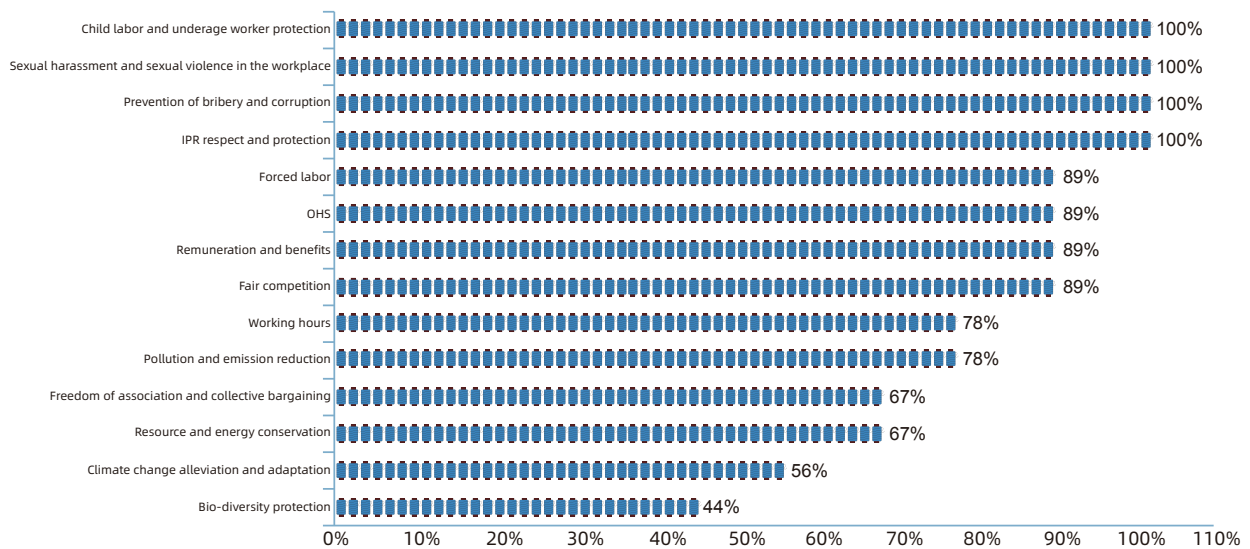


Figure 40: Enterprises' ESG performance requirements for suppliers

prevention of sexual harassment and sexual violence, prevention of bribery and corruption, and respect for IPR. To ensure that suppliers meet these requirements, Chinese-invested enterprises have taken

a series of measures, including developing the supplier code of conduct, incorporating the requirements into the contract, and communicating with suppliers.

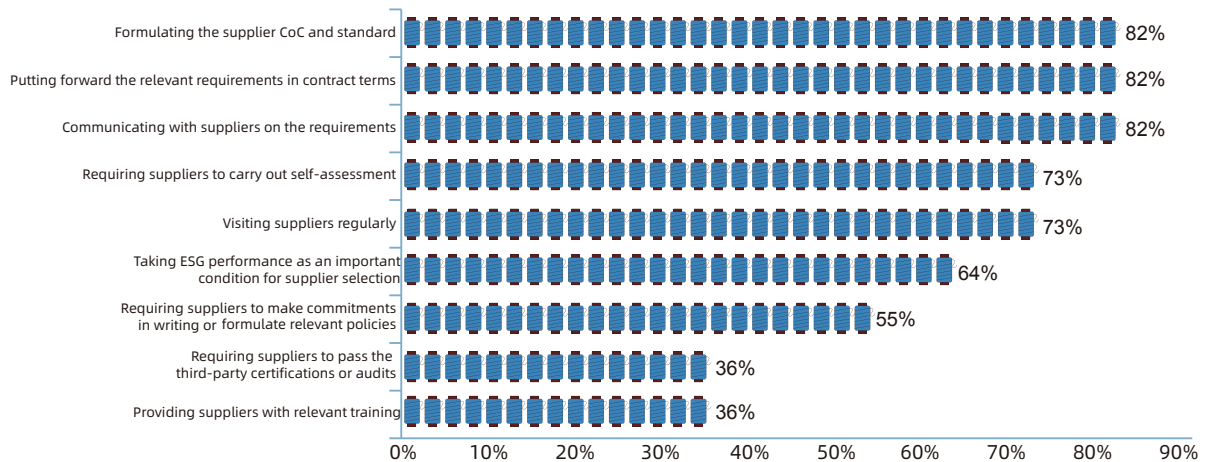


Figure 41: Enterprises' measures for supplier management

During an interview, an enterprise owner happily showed the survey team a cotton face mask packaged in a bag printed with the words "Made in Ethiopia". This was a product from his face mask production line that recently went into operation. The face mask "Made in Ethiopia" would be exported

to the U.S. A small face mask reflects a streamlined and efficient global supply chain: the Chinese enterprise provides investment, organizes production lines, and sources raw materials from China and Turkey; Ethiopian workers process the raw materials; and the products are exported to the U.S.

“Sino-US relations are facing severe challenges. In the long term, we hope to invest in Ethiopia, and 'localize' our operations there, so as to stabilize our cooperation with international clients” .

—A face mask produced by a Chinese-invested enterprise in Ethiopia and exported to the U.S.

### 3.6 Shock of COVID-19

COVID-19 has posed tremendous challenges to the global economic development and social life. According to the World Health Organization (WHO) data, by the end of April 2021, Ethiopia had over 255,000 confirmed cases.<sup>20</sup> The difficult pandemic situation delivers severe impacts on Ethiopia's economic development, including the normal production of Chinese-

invested textile and apparel enterprises.

#### 3.6.1 Impacts of COVID-19

Most enterprises stated that COVID-19 had impacted their operation. 60% of them "have been impacted, and operate only some production lines"; 27% of them "have been severely impacted, and completely suspended production"; and only 13% of them are practically not impacted (see Figure 42).

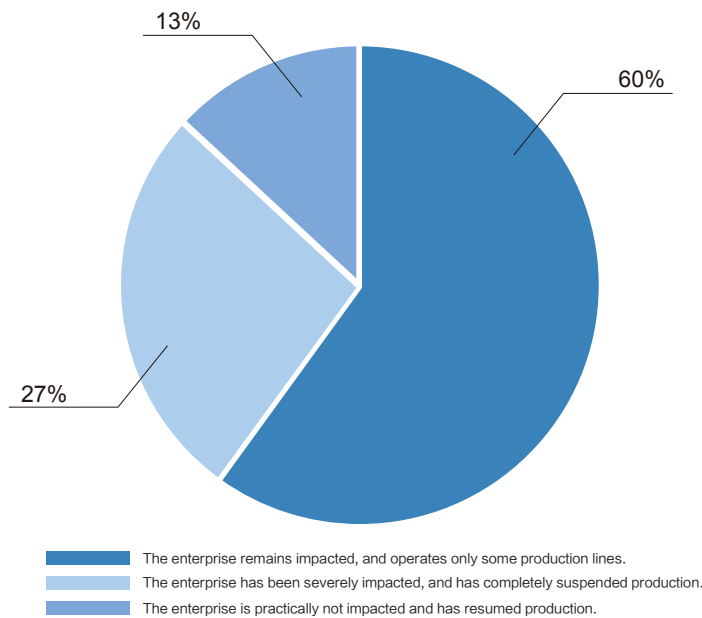


Figure 42: Situation of enterprises impacted by COVID-19

“We were covered by the insurance before the pandemic. But after the outbreak of the pandemic, the (Chinese) insurance company does not allow the renewal of the insurance.”

—A Chinese-invested enterprise in Eastern Industry Zone

<sup>20</sup> <https://covid19.who.int/region/afro/country/et>

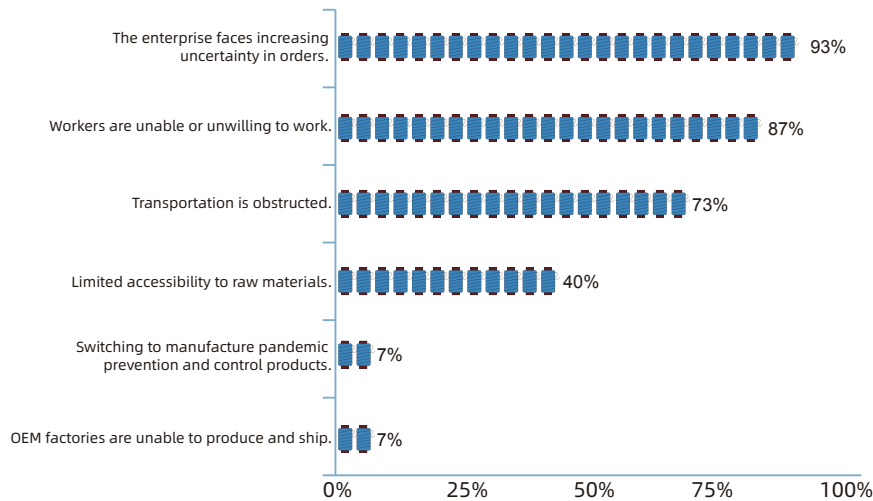


Figure 43: COVID-19 impacts on Chinese-invested enterprises

**Extended statistics:** the impact of COVID-19 on non-Chinese-invested textile and apparel enterprises.

Among the non-Chinese-invested enterprises, 8 "have been impacted, and can operate only some production lines"; 2 "are practically not impacted"; and 1 "has been severely impacted, and completely suspended production". The impacts mainly include increasing uncertainty in orders and difficulties in raw materials sourcing.

The survey indicates that the impacts of COVID-19 are multi-faceted, such as "increasing uncertainty in orders". For instance, clients cancel or suspend signed contracts or the orders that are being fulfilled, request discounts, or delay

payments. The impacts also include the lack of human resources, production suspension, inability to source adequate raw materials for the short of supply, and no access to domestic or international transportation due to national and regional lockdown.

#### Profits "eaten" by COVID-19

"Profits are mostly swallowed by rising freight costs and inflation. In addition, raw materials price has increased by about 20%, and many orders have been cancelled. We are biting the bullet and keep operating the enterprise."

—A Chinese-invested apparel enterprise

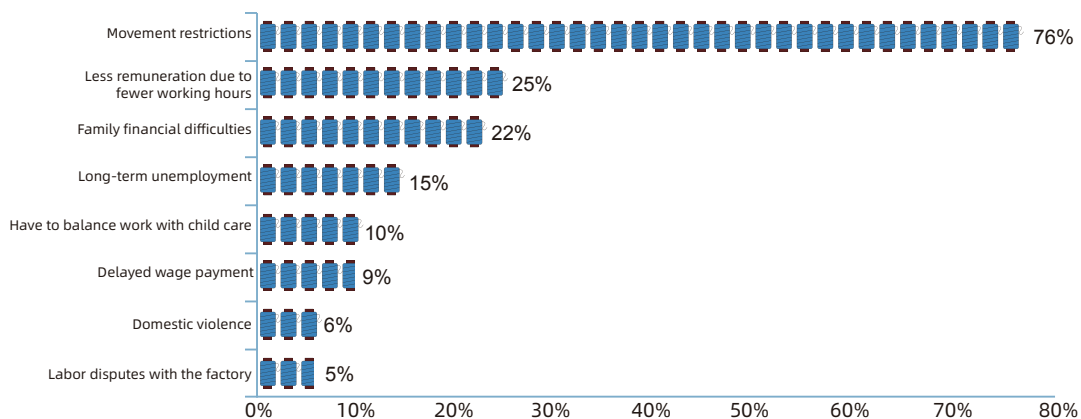


Figure 44: COVID-19 impacts on employees

### 3.6.2 Enterprises' responses

During the pandemic, the Ethiopian government introduced a series of policies to support foreign-invested enterprises in responding to COVID-19. One is to increase financial support. The National Bank of Ethiopia has appropriated ETB 15 billion (about USD 440 million) to

support the enterprises in Ethiopia with liquidity. The other is to provide operation support, e.g. by reducing logistic costs. The manufacturing industry products are eligible for free transportation on the Addis Ababa–Djibouti Railway from Mojo to Djibouti and are temporarily exempted from demurrage charges in Ethiopia.

“The local labor authorities require enterprises to maintain operation to the extent possible and suggest dismissing no employee. We are very cooperative. Therefore, we maintain client relations while reducing the production scale. We put employees' health and safety first.”

—A Chinese-invested enterprise

COVID-19 has brought huge challenges to enterprises' daily management. The main challenges that the enterprises are currently encountering include difficulties in safeguarding employees' health and safety

at the workplace, changes in working modes (e.g. closed-off management, work from home), and the mandatory frequent reporting to the government.



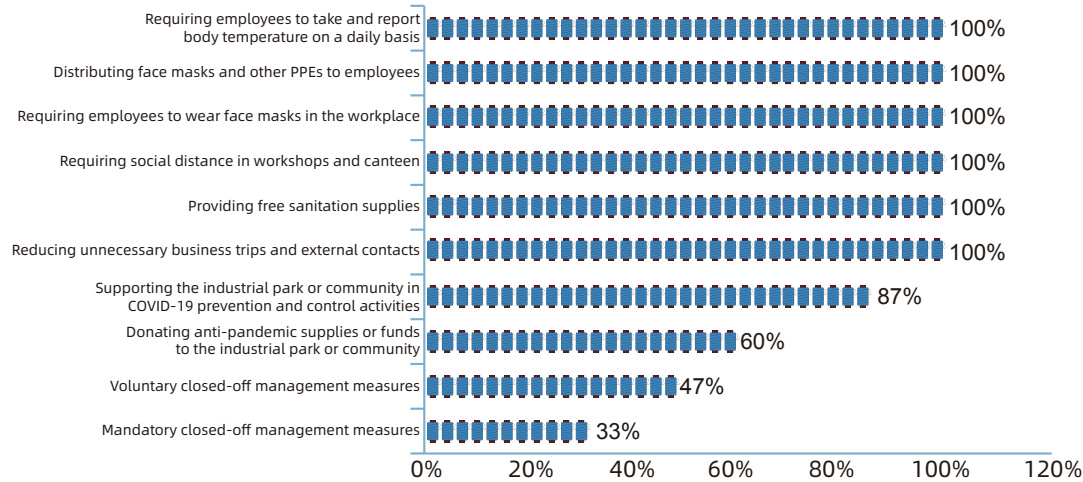


Figure 45: Response to COVID-19: management's perspective

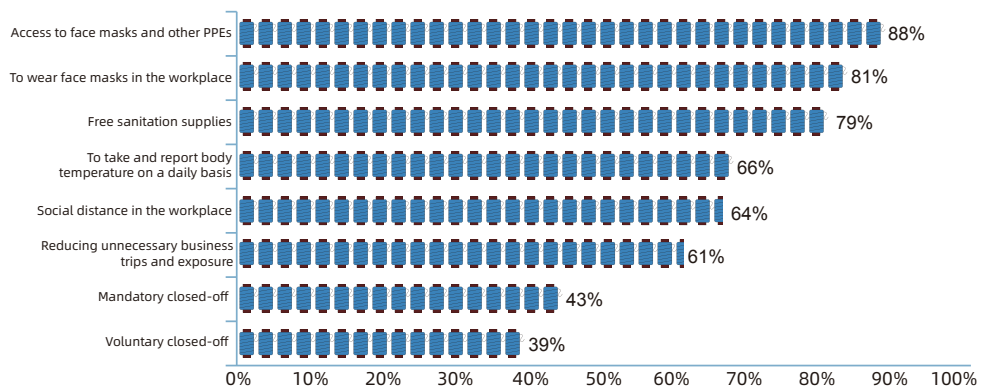


Figure 46: Response to COVID-19: employees' perspective

In response to COVID-19, all the enterprises require employees to take and report body temperature on a daily basis, distribute face masks and other PPEs to employees, require employees to wear face masks in the workplace and to maintain social distance in workshops and canteens, provide free sanitation supplies (e.g. soap, hand wash and sanitation facilities), and reduce unnecessary business trips and external contacts. Supporting the industrial parks or communities in COVID-19 prevention and

control activities is also a measure taken by most enterprises. Besides, closed-off management is another measure taken by many enterprises. It is also learned from interviews that the enterprises in Eastern Industry Zone tend to provide dormitories to their employees, and local employees may voluntarily decide whether to accept the offer. Besides, it is also very common among enterprises to provide shuttle buses. For instance, Hawassa Industrial Park was required by local policies not to provide

dormitories to local employees. Therefore, enterprises often provide shuttle buses to reduce the employees' contacts with the external environment.

**Extended statistics:** the measures taken by the non-Chinese-invested textile and apparel enterprises in response to COVID-19

All the non-Chinese-invested enterprises require employees to wear face masks in the workplace; 10 provide free sanitation supplies; 8 require employees to take and report body temperature on a daily basis, distribute face masks, and require employees to maintain social distance in workshops and canteens.

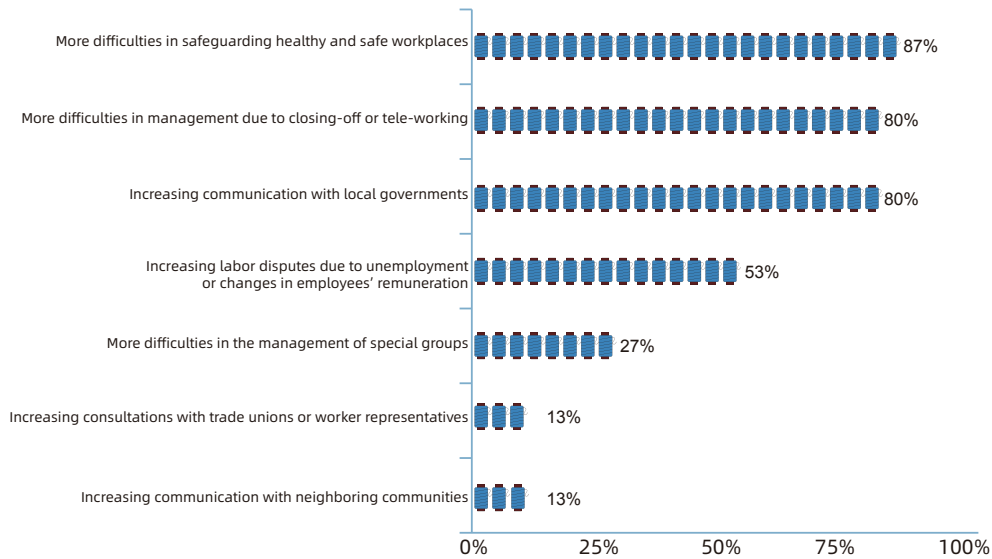


Figure 47: Challenges brought by COVID-19 to enterprises' daily management

“Chinese employees have dormitories in the industrial park. During the pandemic, we also provide local employees with dormitories. They may choose whether to stay in the dormitories or not. However, local residents are not used to living in groups, and prefer to return home. Therefore, we increase the number of shuttle buses from 6 to 12. We also buy many face masks from China and distribute them to employees free of charge. Besides, we provide disinfectant, and other sanitation supplies. We reorganize machines in workshops, tables and chairs at the canteen. We take employees' body temperature every day, and now we also invite a medical testing organization to regularly provide employees with the nucleic acid testing service.”

——A Chinese-invested enterprise in Eastern Industry Zone

### 3.7 Overall ESG performance

#### 3.7.1 Labor relations & community

Chinese-invested Enterprises	Non-Chinese FDIs	Ethiopian owned Enterprises
<p><b>Employment:</b> 8 out of 15 enterprises employ more than 500 employees; Ethiopian employees account for 89%; Ethiopians account for 39% of the enterprise management.</p> <p><b>Protection of Young Person:</b> Ethiopian employees are young, with 94% at the age of 19–45; the age of 1% of the surveyed employees is above 15.</p> <p><b>Work Skill:</b> 87% of the enterprises provide employees with skill training; 99% of the employees believe that the work is helpful for improving work skills and future development.</p>	<p><b>Employment:</b> 3 out of 4 enterprises employ more than 1000 employees. Ethiopians account for 66% of the enterprise management.</p> <p><b>Protection of Young Person:</b> 97.5% of the respondent falls between the age of 19–45 years while 2.5% falls on the age of 16–18 years. There is no respondent whose age is below 14 years or above 46 years.</p> <p><b>Work Skill:</b> 90% of the employees believe that the work is helpful for improving work skills and future development.</p> <p><b>Job Promotion:</b> 35% replied that the factory doesn't provide promotion opportunity; 60% replied that the factory provides promotion opportunities while requiring performance appraisal; 84% of the respondent's promotion factors are based on skill and work efficiency; According to respondents' responses, place of origin, age, gender and tribes are not the factors for promotion.</p>	<p><b>Employment:</b> 3 out of 7 enterprises each employs 101–500 employees and 2 enterprises each employs more than 1000 employees.</p> <p><b>Protection of Young Person:</b> The employees at the age of 15–18 account for 6%.</p> <p><b>Work Skill:</b> 89% of the employees believe that the work is helpful for improving work skills and future development.</p> <p><b>Job Promotion:</b> 26% replied that the factory does not provide promotion opportunity; among the respondents who chose "promotion opportunity provided by enterprises", 74% of the respondents chose the option that "skills and work efficiency" contribute to job promotion, and "place of origin, age, gender and tribes" were not the factors for promotion.</p>
<p><b>Job Promotion:</b> 72% of the respondents chose "skills and work efficiency" contribute to job promotion, and "place of origin" was believed to be least related to promotion (only 5% chose this answer).</p>	<p><b>Job Promotion:</b> 35% replied that the factory doesn't provide promotion opportunity; 60% replied that the factory provides promotion opportunities while requiring performance appraisal; 84% of the respondent's promotion factors are based on skill and work efficiency; According to respondents' responses, place of origin, age, gender and tribes are not the factors for promotion.</p>	<p><b>Job Promotion:</b> 26% replied that the factory does not provide promotion opportunity; among the respondents who chose "promotion opportunity provided by enterprises", 74% of the respondents chose the option that "skills and work efficiency" contribute to job promotion, and "place of origin, age, gender and tribes" were not the factors for promotion.</p>

Chinese-invested Enterprises	Non-Chinese FDIs	Ethiopian owned Enterprises
<p>Gender Equality and Women's Rights: 61% of the employees are females, but the percentage of females in the management is only 35%; 80% of the enterprises have developed measures to protect women's right and interests; only 14% of the females are "very satisfied with their factories". In contrast, 28% of the male employees are "very satisfied" .</p>	<p>Gender Equality and Women's Rights: 78% of the employees are females, but 33% of the managers are females. 80% of the respondents agree that the enterprise take measures to protect women employees' rights and interests.</p>	<p>Gender Equality and Women's Rights: 60% of the employees are females; Female employees' overall satisfaction level is higher than that of male employees. 36% of the female employees are "very satisfied with their factories", and the number of male employees is only 10%.</p>
<p>Collective Bargaining and Freedom of Association: 53% of the enterprises' management do not encourage employees to join trade union or workers' council, or participate in related activities; up to 81% of the employees stated that they had freedom to join trade union or workers' council, or participate in related activities.</p>	<p>Collective Bargaining and Freedom of Association: All enterprise s' management support employees in joining trade union or workers' council, or participating in related activities; 58% of selected factories employees stated that they had freedom to join trade union or workers council to consult with the enterprise on different issues but the remaining respondents are not allowed to join.</p>	<p>Collective Bargaining and Freedom of Association: All enterprises' management support employees in joining trade union or workers' council, or participating in related activities; 67% of the employees stated that they had freedom to join trade union or workers' council, or participate in related activities.</p>
<p>Communication: 54% of the respondents chose "managers are patient, and directly communicate with me". 6% of the respondents chose "Managers often shout at me and scold me loudly".</p>	<p>Communication: 28% replied that managers were patient, and directly communicated with employees; 38% replied "Managers often shout at me and scold me loudly".</p>	<p>Communication: 43 % of the respondents chose "managers are patient, and directly communicate with me". 13 % of the respondents chose "Managers often shout at me and scold me loudly".</p>

Chinese-invested Enterprises	Non-Chinese FDIs	Ethiopian owned Enterprises
<p>Working hours and Overtime: The enterprises' weekly working hours are all less than 48 hours; overtime work does not exceed 24 hours in a week; and at least one rest day is provided every week; 30% of the employees work more than 60 hours a week.</p>	<p>Working hours and Overtime: 53% of employees are working for 48–60 hours, 33% working less than 48 hours, 10% work for 61–75 hours and 5% are working more than 76 hours.</p>	<p>Working hours and Overtime: 60% of the employees work less than 48 hours a week; no employee works more than 60 hours a week.</p>
<p>Remuneration: 71% of the employees are satisfied (including very satisfied, quite satisfied, and satisfied) with their remuneration; 15% of the Ethiopian employees are “totally dissatisfied” .</p>	<p>Remuneration: About 40% of the employees are satisfied (including very satisfied, quite satisfied, and satisfied) with their remuneration; 60% of employees are not satisfied with the remuneration (50% are totally dissatisfied, and 10% are not satisfied).</p>	<p>Remuneration: 55% of the employees are satisfied (including very satisfied, quite satisfied, and satisfied) with their remuneration; 30% of the Ethiopian employees are “totally dissatisfied” .</p>
<p>Occupational Health and Safety: 86% of the employees believe their workplaces are healthy and safe (including very healthy and safe, quite healthy and safe, and healthy and safe);</p>	<p>Occupational Health and Safety: 75% of the employees believe their workplaces are healthy and safe (including very healthy and safe, quite healthy and safe, and healthy and safe);</p>	<p>Occupational Health and Safety: 68% of the employees believe their workplaces are healthy and safe (including very healthy and safe, quite healthy and safe, and healthy and safe) and 31% of the employees believe that their workplaces are not so healthy or safe, or not healthy or safe at all.</p>
<p>Discipline: 3% of the employees believe that their enterprises' disciplines are “too strict and unacceptable” .</p>	<p>Discipline: 15% of the employees respond that their enterprises' disciplines are “too strict and unacceptable” .</p>	<p>Discipline: 9% of the employees believe that their enterprises' disciplines are “too strict and unacceptable” .</p>

Chinese-invested Enterprises	Non-Chinese FDIs	Ethiopian owned Enterprises
<p><b>Labor Contract:</b> 92% of the employees have signed labor contracts with enterprises, and 7% have not; 43% of those who have signed labor contracts hold a copy of the contracts.</p> <p><b>Community Relations:</b> 13 out of 15 enterprises are located in industrial parks and could co-exist with the neighboring community without disputes.</p>	<p><b>Labor Contract:</b> 66% have signed labor contracts but the remaining 33% have not signed labor contracts. 19% of those who have signed labor contracts hold a copy of the contracts.</p> <p><b>Community Relations:</b> 5 enterprises are all located out of industrial parks. 3 respondents harmoniously co-exist with the neighboring community. 1 individual respondent has some discontent or disputes with the enterprise (e.g. land dispute, and discontent about resettlement, wastewater discharge, influx of migrants, and noise).</p>	<p><b>Labor Contract:</b> 94% of the employees have signed the labor contract with enterprises; 53% of those who have signed labor contracts hold a copy of the contracts.</p> <p><b>Community Relations:</b> All enterprises are located out of industrial parks. All respondents harmoniously co-exist with the neighboring communities.</p>

### 3.7.2 Environment management

Chinese-invested Enterprises	Non-Chinese FDIs	Ethiopian owned Enterprises
<p><b>Environment Management:</b> 87% of the Chinese-invested enterprises have developed policies, procedures or processes related to environmental management.</p> <p><b>Motivation:</b> Legal compliance, reputation improvement and order increase are the three drivers for enhancing environmental performance.</p>	<p><b>Environment Management:</b> 80% of the respondents have developed policies, procedures or processes related to environmental management.</p> <p><b>Motivation:</b> 80% of the surveyed factories carry out work in accordance with the requirements of the Ethiopian laws and regulations.</p>	<p><b>Environment Management:</b> All enterprises have developed policies, procedures or processes related to environmental management.</p> <p><b>Motivation:</b> All enterprises stated that they carried out environmental management work to meet local governments' requirements. The second motive is to meet the clients' needs.</p>



### 3.7.3 Supply chain management

Chinese-invested Enterprises	Non-Chinese FDIs	Ethiopian owned Enterprises
<p>Raw materials and machinery sourcing: The Chinese-invested enterprises in Ethiopia almost have no “local supplier” . All the machineries are imported from China and Europe. Except for food supplies including vegetables, fruits, and grains, all industrial raw materials are imported from China and other countries.</p>	<p>Raw materials and machinery sourcing: 3 out of 5 enterprises source raw materials from local Ethiopian market and 4 enterprises source raw materials from China (including HK, Macau, and Taiwan). Enterprises purchase machineries from Ethiopia, Europe and China.</p>	<p>Raw materials and machinery sourcing: Local Ethiopian market and China are two main destinations of raw materials. Enterprises purchase machineries from Europe and China.</p>
<p>Customer's ESG requirement: Most of the Chinese-invested enterprises are getting integrated into the global supply chain and deeply influenced by international supply chain rules. 47% of the enterprises stated that their clients requested them to exercise social and environmental responsibility for raw materials, production processes and methods, and products.</p>	<p>Customer's ESG requirement: 4 out of 5 enterprises stated that their clients requested them to exercise social and environmental responsibility.</p>	<p>Customer's ESG requirement: 71% of the enterprises stated that their clients requested them to exercise social and environmental responsibility.</p>
<p>ESG requirement on suppliers: 60% of the Chinese-invested enterprises request their suppliers to exercise social and environmental responsibility.</p>	<p>ESG requirement on suppliers: 60% of the enterprises request their suppliers to exercise social and environmental responsibility.</p>	<p>ESG requirement on suppliers: 87% of the enterprises request their suppliers to exercise their social and environmental responsibility.</p>

### 3.7.4 COVID-19 impacts & measures

Chinese-invested Enterprises	Non-Chinese FDIs	Ethiopian owned Enterprises
<p><b>Impact:</b> Most enterprises stated that COVID-19 had impacted their operation. 60% “have been impacted, and operate only some production lines”; 27% “have been severely impacted, and completely suspended production”; and only 13% were practically not impacted.</p>	<p><b>Impact:</b> 60% of the respondents replied that the enterprise remained impacted and operated only some production lines. 20% of the respondents replied that the enterprise had been severely impacted, and had completely suspended production.</p>	<p><b>Impact:</b> 71% “have been impacted, and can operate only some production lines”; 14% “are practically not impacted”; and 14% “has been severely impacted, and completely suspended production” .</p>
<p><b>Measures:</b> In response to COVID-19, all the enterprises require employees to take and report body temperature on a daily basis, distribute face masks and other PPEs to employees, require employees to wear face masks in the workplace and to maintain social distance in workshops and canteens, provide free sanitation supplies (e.g. soap, hand wash and sanitation facilities), and reduce unnecessary business trips and external contacts.</p>	<p><b>Measures:</b> Requiring employees to wear face masks in the workplace; Requiring social distance in workshops and canteen; Providing free sanitation supplies, e.g. soap, hand sanitizer and sanitation facilities.</p>	<p><b>Measures:</b> All the enterprises require employees to wear face masks in the workplace; 10 provide free sanitation supplies; 6 out of 7 enterprises require employees to take and report body temperature on a daily basis, distribute face masks, and provide free sanitation supplies, e.g. soap, hand sanitizer and sanitation facilities.</p>



## 4. Gaps, challenges and expectations

### 4.1 Challenges and gaps

#### 4.1.1 Challenges

Major challenges in improving enterprises' ESG performance have been identified in the baseline survey. Currently while enterprises are improving their social responsibility and environmental management, one of the most common challenges is the local policy's lack of consistency (53% of the enterprises), which reduces their willingness to upgrade their production machines and techniques. Meanwhile, 53% of the enterprises point out that local policy or standard cannot be used as a technical reference. For instance, Ethiopia has not defined unit yield, unit

value-added, and energy consumption per unit output value, threshold values, and methods. Therefore, the enterprises cannot benchmark the energy consumption management and energy efficiency in the industry for the cotton textile enterprises in Ethiopia. At present, they can only benchmark against the standards of other countries. In addition, they are short of local industry organizations' support (40%). Besides, the survey results also indicate that the lack of talents and financial supports for building management systems and the lack of relevant training (40%) are the common challenges faced by the Chinese-invested enterprises in Ethiopia (see Figure 48).



Figure 48: Challenges in improving ESG performance in Ethiopia

As to the COVID-19, the enterprises all stated that COVID-19 brought huge challenges to their daily management. The main challenge was the increasing difficulty in safeguarding the health and safety in the workplace, and some enterprises even had confirmed cases with employees. Besides, employees also pointed out that COVID-19 seriously impacted their normal work and life.

**Extended statistics:** Challenges brought by COVID-19 to the non-Chinese-invested textile and apparel enterprises.

Among the non-Chinese-invested enterprises, 9 mentioned the increasing difficulty in safeguarding the workplace health and safety; and 8 mentioned the workload increased because local governments required more frequent reporting. Meanwhile, nearly half of the enterprises mentioned more frequent consultations with trade unions/ worker representatives since the outbreak of COVID-19.

#### 4.1.2 Gaps

In line with local laws, international recognized standards and industrial best practices, major gaps concerning ESG have also been identified through baseline survey.

Topics	Specific Issues	Highlights of Major Gaps
	Working hours management	<p>Enterprises face some gaps in the management of overtime hours and willingness.</p> <p><b>a.</b>Enterprises have insufficient knowledge about the local provisions on overtime hours. According to the local legal provisions, overtime work shall not exceed four hours in a day, and twelve hours in a week. However, overtime work at some enterprises exceeds twenty-four hours.</p> <p><b>b.</b>Some enterprises arrange leaves in lieu of rest days, legal festivals and holidays, with risks of labor disputes.</p>
	Remuneration and benefits	<p><b>a.</b>Ethiopia does not have any legal provision on minimum wage, or requirement for the remuneration level at enterprises.</p> <p><b>b.</b>Ethiopian employees have strong requests for increasing remuneration. There exist potential risks of labor disputes.</p>
	Gender equality and protection for female employees' rights and interests	<p><b>a.</b>The proportion of female members in the enterprise management is low, and enterprises' decisions cannot comprehensively reflect female employees' requests.</p> <p><b>b.</b>Female employees' satisfaction with factories remains low, and enterprises often do not establish women workers' committee or take other related management measures.</p>
	Minor protection	<p><b>a.</b>Enterprises are in lack of measures for identifying employees' age in the recruitment process.</p> <p><b>b.</b>Enterprises are not clear about provisions on protecting minors' rights and interests.</p>
	Freedom of association and collective bargaining	<p><b>a.</b>Enterprises need to give more attention to freedom of association and collective bargaining systems.</p> <p><b>b.</b>Enterprises need to develop and create more channels for collective bargaining.</p>
	Cross-cultural communication	<p><b>a.</b>Chinese employees and Ethiopian employees face potential of conflicts in communication.</p> <p><b>b.</b>Language and cultural barriers are very apparent.</p> <p><b>c.</b>There is a lack of training on cross-cultural communication.</p>

Highlights of Major Gaps		
Topics	Specific Issues	
Community rights and interests	Community relations	<p>No significant gap in community relations has been discovered in the survey, but the enterprises outside the industrial parks face the following potential risks.</p> <p><b>a.</b> Potential risk of misunderstandings or even conflicts in meeting local governments' requirements to provide residents in neighboring communities with clean water.</p> <p><b>b.</b> Potential risk of discontent or even opposition among local residents regarding wastewater and waste gas discharge, pollution, traffic and transportation, etc.</p>
	Water management	<p><b>a.</b> Groundwater is the primary source of water for most textile factories in Ethiopia. Apart from the cost of borewell drilling and the electricity for pumping and transmission, groundwater usage is seen as free of cost. Therefore, there is no incentive or pressure for factories to implement good practices for water saving. It is rather common that no water meters or sub-meters are installed in many factories except those in the industrial parks. Water consumption is hence not measured.</p>
Environment protection	Energy management	<p><b>a.</b> Electricity cost in Ethiopia, after recent revision, is still amongst the cheapest in the world. Energy-efficient production technology has been used in many factories, e.g., energy-efficient boilers, air compressor, production machines etc. However, most of the equipment is manually operated by poorly skilled operators, resulting in sub-optimal practices and system performance.</p>
	Chemical management	<p><b>a.</b> Chemicals and dyestuff used in Ethiopia are mainly imported and the lag time can stretch up to 6 months. Many dyestuff and chemicals have a one-year shelf life, but are partially exhausted during transportation. Relevant standards have been introduced in the textile industry, however, the basic elements of good chemical management still remain a problem, for example, chemical leakage and spillage, poor chemical storage (for example compatibility, secondary containment etc.), poor chemical handling and safety measures, and waste chemical management.</p>
	Wastewater management	<p><b>a.</b> Those located in the industrial parks discharge wastewater directly to common effluent treatment plant (CETP) without pre-treatment. Many factories have sub-optimal ETP with poor design, treatment scheme, chemical dosage or operations.</p> <p><b>b.</b> Many ETPs are operated by poorly skilled operators for the following reasons: poor monitoring and legal enforcement from the authority; the management takes this lightly; no ETP operators are adequately trained by the industry or authority.</p>

Topics	Specific Issues	Highlights of Major Gaps
Environment protection	Solid/hazardous waste management	<p><b>a.</b> Solid waste management in factories is poor with no established system in place.</p> <p><b>b.</b> Though waste is collected by an authorized waste collector, it is unclear how solid/hazardous waste is appropriately disposed, since no centralized waste treatment and disposal facility is available in many regions in Ethiopia.</p> <p><b>c.</b> Sludge from waste-water treatment process is stored in-house after solar drying.</p>
Supply chain	Supplier management	<p><b>a.</b> Export-oriented enterprises (in particular those exporting products to European and U.S. markets) have quite strong ESG awareness, but are in lack of tools and actions for monitoring and assessing suppliers' ESG performance;</p> <p><b>b.</b> Domestically oriented enterprises (which sell their products mainly in Ethiopia) need to improve their awareness for managing suppliers' ESG performance.</p>
COVID-19 response	Forced quarantine	<p><b>a.</b> During the COVID-19 pandemic, some enterprises take quarantine measures, such as providing dormitories, which some Ethiopian employees are dissatisfied with and even complain about;</p> <p><b>b.</b> Some enterprises provide temporary dormitories with poor-quality facilities, with which Ethiopian employees are discontented.</p>
	Production suspension	<p><b>a.</b> The wage decrease or even dismissal resulting from production suspension or reduction may possibly worsen the enterprise-employee relations.</p>

## 4.2 Expectations

### 4.2.1 From enterprises

During the survey, the enterprises expressed the hope of improving ESG performance and calling. On the one hand, the enterprises hope to participate in ESG training and benchmark against best practices in the industry to build or improve their basic ESG capacity. On the other, they also hope to work with the relevant parties to reduce or eliminate the related constraints.

Regarding the effective channels for building their ESG fundamental capacity, most enterprises hope to know solutions and best practices in the industry for the purpose of benchmarking (see Figure 49). Meanwhile, they also hope that local governments will provide some subsidies, such as green subsidy and preferential tax; more than half of the enterprises hope to be "provided with online learning platforms" so that they can access more knowledge and

information about ESG performance and sustainable development, and participate in "capacity building training" designed for both management and employees. In particular, regarding capacity-building training and technical support (see Figure 50), 87% of the enterprises stated that "effective management-employee communication" was essential. In addition, 73% stated that they needed more capacity building training on "labor rights and interests protection" to understand local legislation and international labor standards requirements. Regarding "social and environmental impact assessment" and "supply chain management and ethical sourcing", enterprises hoped to receive more training to strengthen responsible investment and responsible supply chain management. In addition, they also needed capacity building on social gender equality, IPR protection, social responsibility information disclosure, etc.

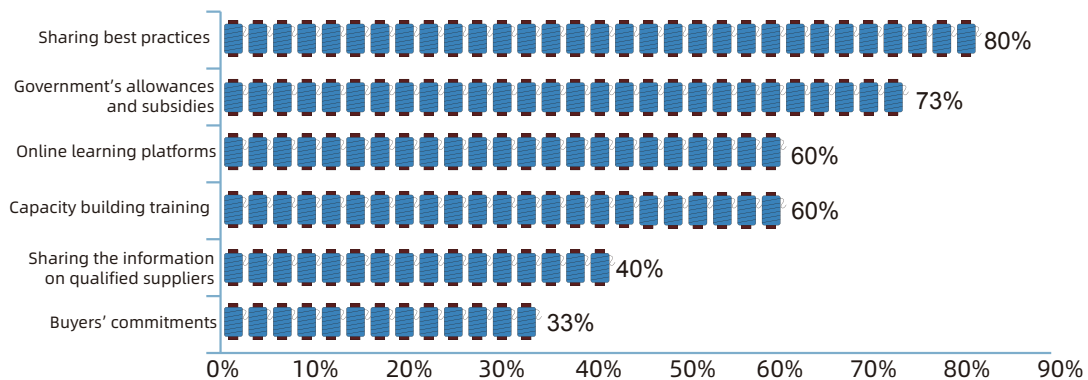


Figure 49: Enterprises' expectations for improving ESG

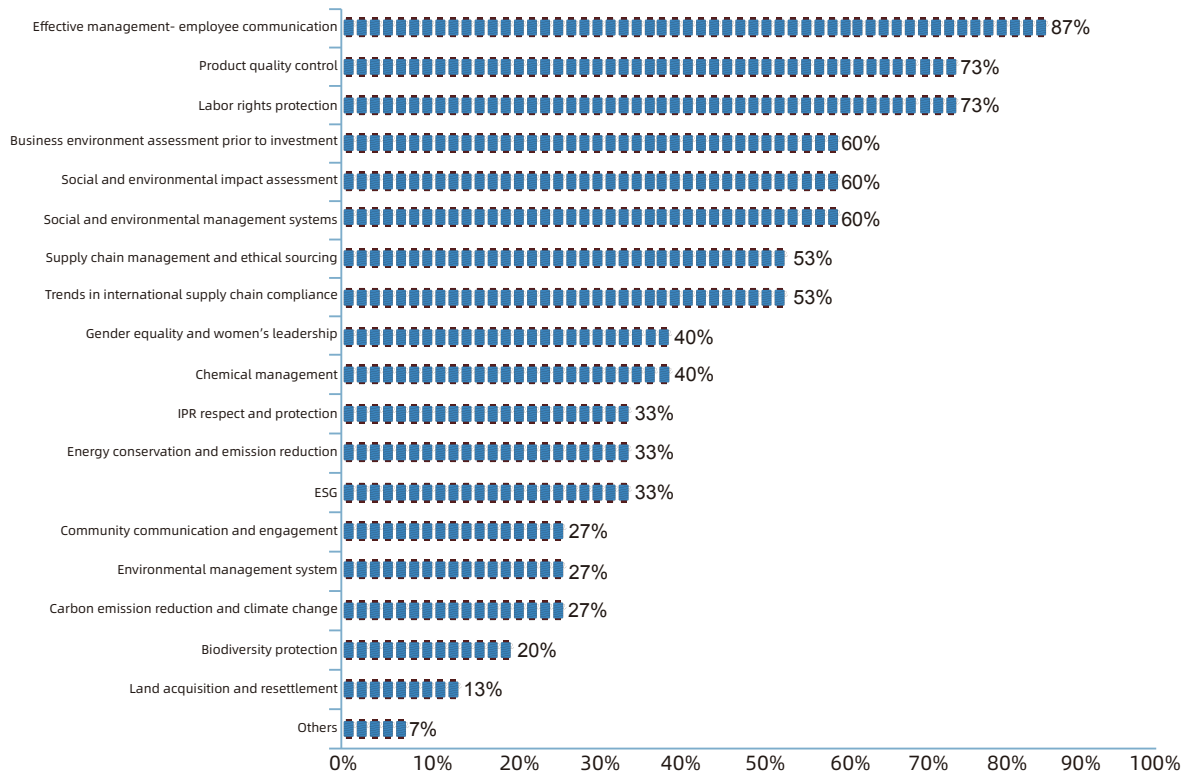


Figure 50: Enterprises' requests for capacity building

Meanwhile, in the on-site interviews the enterprises also expressed the hope to work with the relevant parties to focus on and eliminate the following constraints on fundamental ESG capacity. First, at present, the lack of skilled human resources and low productivity remained to be challenges, and to some extent, exacerbated the already tense labor relations and excessively stringent labor discipline management. Next, Ethiopia's textile and apparel industry chain needed to be improved, and industry chain collaboration and the local industrial cluster effects were not well leveraged. This constrained Chinese-invested enterprises from deepening cooperation with local

Ethiopian enterprises and contributing to the local industry upgrading. Moreover, almost all the enterprises mentioned foreign exchange shortage. This impacted their procurement and import of overseas raw materials and equipment and reduced their motivation to further expand investment in Ethiopia.

#### 4.2.2 From employees

The survey also attempts to understand employees' development expectations through the questionnaires (see Figure 51). Most employees put "improving wages and benefits" in the first place. This is their most practical need. In addition, being provided with training opportunities and promotion

channels are also their significant requests. Regarding the requests of the employees of different nationalities (see Figure 52), Ethiopian employees have a stronger request for "improving wages and benefits"

than Chinese employees, while Chinese employees have a stronger request for skill education and training opportunities than Ethiopian employees.

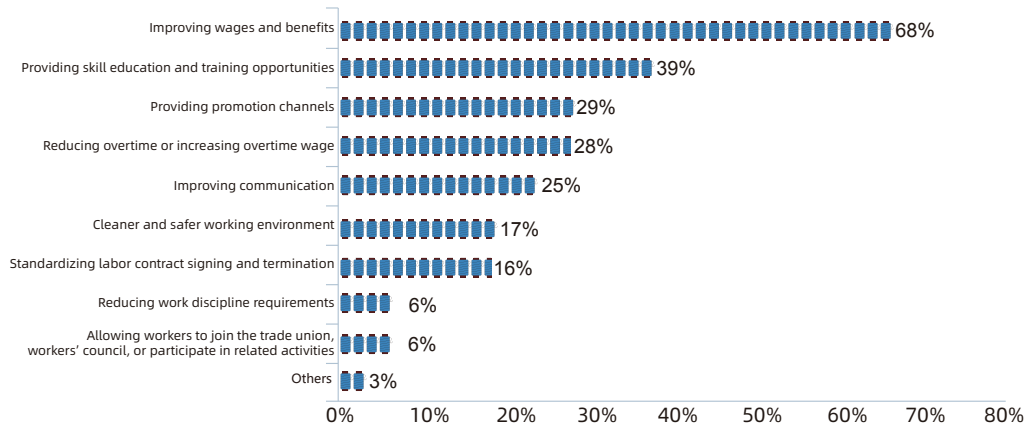
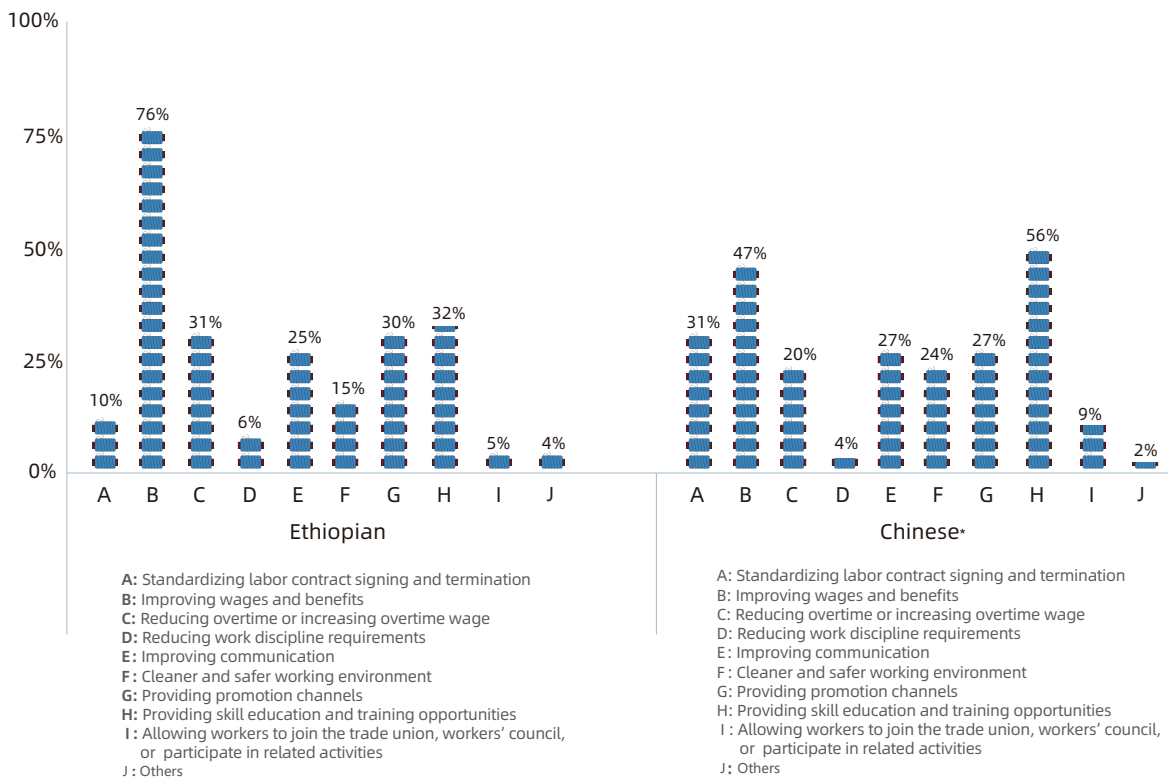


Figure 51: Employees' development requests



\*Including those from Hong Kong, Macao, and Taiwan.

Figure 52: Employees' development requests (by nationality)



### 4.3 Summary

	Chinese-invested Enterprises	Non-Chinese FDIs	Ethiopian owned Enterprises
Major challenges	<p>Top three challenges that this group of enterprises prioritize:</p> <ul style="list-style-type: none"> <li>Local policies are in lack of consistency and environmental management, which result in the decrease of their willingness to upgrade their production machines and techniques;</li> <li>Lack of relevant policies and standards as technical references, so the enterprises cannot benchmark;</li> <li>Lack of talents and funds for ESG management systems.</li> </ul>	<p>Top three challenges that this group of enterprises prioritize:</p> <ul style="list-style-type: none"> <li>Lack of training on social responsibility and environmental management, and as a result, unable to master the relevant management the technical skills;</li> <li>Lack of talents and funds for ESG management systems;</li> <li>Lack of experience and expertise in communication with the local community and trade union.</li> </ul>	<p>Top three challenges that this group of enterprises prioritize:</p> <ul style="list-style-type: none"> <li>Lack of training on social responsibility and environmental management, and as a result, unable to master the relevant management the technical skills;</li> <li>Lack of talents and funds for ESG management systems;</li> <li>Lack of relevant policies and standards as technical references, so the enterprises cannot benchmark.</li> </ul>
	<p>COVID-19 related challenges:</p> <ul style="list-style-type: none"> <li>Increasing difficulty in safeguarding health and safety in the workplace;</li> <li>For employees, their normal work and life have been seriously impacted by COVID-19.</li> </ul>	<p>COVID-19 related challenges:</p> <ul style="list-style-type: none"> <li>Increasing difficulty in safeguarding health and safety in the workplace;</li> <li>Increasing workload to report and communicate with local governments;</li> <li>Increasing labor disputes due to employee dismissal or changes in employees' remuneration.</li> </ul>	<p>COVID-19 related challenges:</p> <ul style="list-style-type: none"> <li>More difficulties in safeguarding workplace health and safety;</li> <li>The workload is increased because more frequent reporting is required by local governments;</li> <li>More frequent consultations with trade unions/ worker representatives are needed and workloads increase.</li> </ul>

	Chinese-invested Enterprises	Non-Chinese FDIs	Ethiopian owned Enterprises
Major gaps	<p>Five major gaps are to be prioritized according to the severity and possibility of the occurrence based on the statistical evaluation of CNTAC technical team:</p> <ul style="list-style-type: none"> <li>• Working hours management (including overtime management) does not fully meet the legal requirement in some cases;</li> <li>• Remuneration is still lower than employees' expectation;</li> <li>• Satisfaction of female employees is lower than male employees;</li> <li>• More institutional channels are required, and enterprise management's attitude towards freedom of association and collective bargaining needs to be improved;</li> <li>• Age identification is absent and measures need to be increased to protect young employees.</li> </ul>	<p>Five major gaps are to be prioritized according to the severity and possibility of the occurrence based on the statistical evaluation of ETIDI technical team:</p> <ul style="list-style-type: none"> <li>• Nearly a third of employees have not signed labor contract, which fails to meet the legal requirement;</li> <li>• Working hours management does not fully meet the legal requirement in some cases;</li> <li>• The percentage of females in the management is still low;</li> <li>• Communication between management and employee needs to be improved due to a high proportion of employees (37.5%) replying “managers often shout at me and scold me loudly” ;</li> <li>• Remuneration is still lower than employees' expectation.</li> </ul>	<p>Five major gaps are to be prioritized according to the severity and possibility of the occurrence based on the statistical evaluation of ETIDI technical team:</p> <ul style="list-style-type: none"> <li>• The percentage of females in the management is still low;</li> <li>• Age identification is absent and measures need to be increased to protect young employees;</li> <li>• Working hours management (including overtime management) does not fully meet the legal requirement in some cases;</li> <li>• Remuneration is still lower than employees' expectation;</li> </ul> <p>The training provided by the company did not meet the employees' satisfaction.</p>

	Chinese-invested Enterprises	Non-Chinese FDIs	Ethiopian owned Enterprises
Expectations from employers	<p>Needs for capacity building training and technical support:</p> <ul style="list-style-type: none"> <li>• Effective management-employee communication under cross-cultural context;</li> <li>• Capacity building training on “labor rights and interests protection” to understand the requirements of local legislation and international labor standards;</li> <li>• Receive more training to strengthen responsible investment and responsible supply chain management.</li> </ul>	<p>Needs for Capacity building training and technical support:</p> <ul style="list-style-type: none"> <li>• Product quality control;</li> <li>• Effective management-employee communication under cross-cultural context;</li> <li>• Comprehensive business environment assessment prior to investment.</li> </ul>	<p>Needs for Capacity building training and technical support:</p> <ul style="list-style-type: none"> <li>• Product quality control;</li> <li>• Assist in developing social and environmental management systems;</li> <li>• Energy conservation and emission reduction, transformation and upgrading.</li> </ul>
	<ul style="list-style-type: none"> <li>• Know more solutions and best practices in the industry for the purpose of benchmarking;</li> <li>• Local governments are expected to provide some subsidies to encourage good ESG performance;</li> <li>• Provided with online learning platforms so enterprises can access more ESG knowledge and information.</li> </ul>	<ul style="list-style-type: none"> <li>• ESG capacity building training designed for both management and employees;</li> <li>• Know more technical solutions and best practices in the industry;</li> <li>• Share information about ESG qualified suppliers.</li> </ul>	<ul style="list-style-type: none"> <li>• ESG Capacity building training designed for both management and employees;</li> <li>• Know more solutions and best practices in the industry for the purpose of benchmarking;</li> <li>• Local governments are expected to provide some subsidies to encourage good ESG performance.</li> </ul>

## 5. Recommendations

In order to continuously improve the ESG performance of Chinese invested enterprises and Ethiopia's enterprises in joint efforts to contribute to the sustainable development of textile and apparel industry in Ethiopia, recommendations are developed based on the baseline survey. The recommendations fall into two categories. The first category of recommendation aims to provide essential input to intervention strategy and project implementation action plan within the scope of the triangular project. The second category of recommendation that targets public institutions and international development partners aims to foster long-term solutions to address systematic and environmental hurdles and challenges.

### 5.1 For project follow-up activities

The above findings from the baseline can be used to design the ESG improvement strategy and capacity building framework of the Chinese-invested enterprises, Ethiopian owned enterprises and other FDIs in Ethiopia's textile and apparel industry.

(1) It is recommended that enterprises' ESG management should further be strengthened with technical assistance by the project.

- Key training with topics such as labor relations, cross-cultural communication, responsible investment and operation and etc. could be developed and provided for FDIs.

- Preparation of factsheets/brochure describing the local culture, norms and values could be required, thus the FDIs could be well aware of the cross-cultural communications, thus enabling them to optimize or adjust their labor management systems.

- Hiring local consultants with excellent sociology/anthropology knowledge and experience, who can assist in analyzing the local cultural issues combined with the national legislation and prepare trainings and brochures for Chinese investors and non-Chinese FDIs.

(2) It is recommended that enterprise's ESG management system be well developed as per Corporate Sustainability Compact for Textile and Apparel Industry (CSC9000T) and other internationally recognized standards to systematically improve the ESG performance.

- Trainings of ESG management system could be developed for enterprises. High priority topics include working hours and remuneration, protecting young employees,

preventing forced or compulsory labor, gender equality and women's leadership, management–employee communication and occupational health and safety' etc.

- Implementation manuals or handbooks could be developed such as handbook on global supply chain standards, social and environmental management guidance note and/or toolkits etc.

(3) It is recommended that ESG knowledge hub or digital platform be established in order to facilitate the FDIs in textile and apparel industry to have quick access to ESG standards, industrial best practices and capacity building measures.

(4) Though all the sample enterprises have already been already operating in Ethiopia, they still hope to find professional assistance according to the survey result, and ESG due diligence checklist integrating the expectations from local authority, civil society organizations, industrial organizations and etc. will be very helpful for enterprises to gain a comprehensive ESG landscape and allocate sufficient resources in place.

(5) It is recommended that Chinese–invested enterprises, within the local legal framework in Ethiopia, respond to the need to strengthen the self–discipline of the enterprises in Ethiopia, found the textile and apparel industry chamber of commerce for Chinese–invested enterprises to strengthen

internal exchanges in an organized and institutionalized manner, impel enterprises to fulfill social and environmental responsibilities through self–discipline by the industry and enterprises, promote local economic prosperity, enhance social welfare, advance green development, and eventually push forward the sustainable development of Ethiopia's textile and apparel industry.

(6) It is recommended to strengthen cooperation with Ethiopian local industrial organizations such as ETIDI. The Ethiopian experts will contribute to the improvement of ESG performances in the Ethiopian textile and apparel industry continuously.

## 5.2 For public institutions and stakeholders

### 5.2.1 For Ethiopian government and industry organizations

(1) It is recommended that the Ethiopian government further optimize the business environment and provide enterprises with more preferential policies, particularly those that support and encourage enterprises to fulfill social and environmental responsibilities.

(2) It is recommended that the Ethiopian government further eliminate constraint factors that hinder the development of enterprises' capacity to fulfill ESG standards. At present, inadequate foreign exchange

reserve, excessive volatility of foreign exchange rate, inflation and excessively high transportation costs and etc. are reducing the resources that enterprises can invest in improving labor rights, health and safety, and safeguarding green development, and eroding enterprises' ESG basic capacity.

(3) It is recommended that strong bilateral cooperation and exchange programs should be further strengthened between Ethiopia and China, especially on social responsibility management and sustainable development. It will create an opportunity to jointly explore a responsible development route, and the success of this cooperation would be a show-case for promoting and disseminating base practices of sustainability in the textiles sector in other African and Asian countries.

### 5.2.2 For Chinese government and industry organizations

(1) In the context of China–Africa cooperation, relevant departments of the Chinese government should deepen the economic and trade cooperation with Ethiopia and provide more support for the development of Ethiopia's textile and apparel industry.

(2) It is recommended that the relevant departments of the Chinese government encourage and support the Chinese–invested enterprises in Ethiopia and other

countries in conducting the social and environmental impact evaluation and management.

(3) In Forum on China–Africa Cooperation Beijing Action Plan (2019–2021) , China proposes to forge “Alliance of Chinese Business in Africa for Social Responsibilities (ACBASR)” to further urge the Chinese–invested enterprises in Africa to fulfill social and environmental responsibilities. With this backdrop, it is recommended that the relevant departments of the Chinese government strengthen dialogues and cooperation with the Ethiopian government, leverage the role of the ACBASR in Ethiopia's industrialization process and textile and apparel industry development, to jointly break the bottleneck of the industry' s sustainable development, and to provide a platform and services for Chinese–invested enterprises to fulfill social and environmental responsibilities better.

(4) It is recommended that the Chinese industry chambers of commerce and associations provide social responsibility and sustainable development capacity–building training and knowledge support for enterprises' localized operations and cross–cultural management. It is also recommended that the Chinese industry chambers of commerce and associations strengthen development experience

exchanges with Ethiopia's local industry chambers of commerce and associations to carry out in-depth communication on the industry's responsible development ability.

### 5.2.3 For other stakeholders

Regarding the international development organizations that show interest in the sustainable development of Ethiopia's textile and apparel industry, including the UN and national development assistance organizations:

(1) It is recommended that they should be more aware of the importance of the textile and apparel industry and its significance to social development and environmental protection. The textile and apparel industry is a livelihood industry that provides a large number of job opportunities, a basic industry that creates a beautiful life for people, and an internationalized economic industry that earns foreign exchange through export. The industry plays a significant role in Ethiopia's sustainable development and even the sustainable development of the global supply chain and the world market.

(2) It is recommended to pay more attention to developing and improving enterprises' ESG fundamental capacity. Moreover, more systematic plans should be developed for enterprises' continuous improvement of ESG performance and the transformation of Ethiopia's textile and apparel industry

towards sustainable development. Meanwhile, more solid technological support services, more comprehensive training programs, and more financial aid opportunities should be provided.

Regarding other stakeholders interested in the development of Ethiopia's textile and apparel industry, such as investors, credit institutions, insurers, as well as law firms, consulting companies, and other professional service organizations:

(1) It is recommended that they truthfully judge and assess the risks in the investment and operations in Ethiopia and provide all-round and down-to-earth services for the Chinese enterprises investing in Ethiopia, particularly the private manufacturing enterprises limited in size.

(2) It is also recommended that the enterprises investing in Ethiopia should be provided with the social and environmental impact assessment and due diligence service commensurate with their risks.

Regarding the NGOs, media and other relevant stakeholders:

It is recommended that these institutions should evaluate on an evidence basis and report objectively about the development of an industry and a country, and jointly explore the sustainable development model that is the most suitable for the local economic, social, and cultural context.



## Appendix 1: scope of the survey

People Oriented	Labor contract and labor relations
	Protection of young persons and remediation
	Freedom of association and collective bargaining
	Protection of women' s rights and interests
	OHS
	Discipline management
	Working hours and overtime
	Remuneration and benefits (including living wage)
	Skill training
	Promotion channels
	Workplace communication
Community relations (including local sourcing)	
Environmental Protection	Environmental management system
	Waste and emission reduction (wastewater, waste gas, chemicals, etc.)
	Resource and energy use
	Climate change and biodiversity
Responsible Governance	Enterprise policy, management system and process
	Supply chain management & ethical sourcing
	IPR management
	Product quality management
	Anti-corruption
COVID-19 Impacts and Response Measures	Extent and stage of impact
	Response measures
	Industries' contingency plan



**Note:**

The survey refers to the internationally recognized ESG frameworks, such as UN Principles for Responsible Investment, UNGC's Ten Principles, and ILO conventions. Meanwhile, the survey also refers to the standards and guidelines related to the textile and apparel industry, such as Corporate Sustainability Compact for Textile and Apparel Industry (CSC9000T), Code of Conduct (draft) of Alliance of Chinese Business in Africa for Social Responsibilities (ACBASR), and sustainability standards of the textile and apparel supply chain, as well as the local legislation in Ethiopia.

## Appendix 2: knowledge box of legal provisions

### Knowledge box 1:

Provisions of Ethiopia's Labor Proclamation on working conditions of young workers

Article 89. General

- (1) For the purpose of this Proclamation, “young worker” means a natural person who has attained the age of 15 but is below the age of 18 years.
- (2) It is prohibited to employ a person less than 15 years of age.
- (3) It is prohibited to assign young workers on work, which on account of its nature or due to the condition in which it is carried out endangers their lives or health.

Article 90. Limits of Hours of Work

Regular hours of work for young workers shall not exceed seven hours a day.

Article 91. Night and Overtime Work

It is prohibited to assign young workers on:

- (1) Night work between 10 p.m. and 6 a.m.;
- (2) Overtime work;
- (3) Work done on weekly rest days;
- Or (4) Work done on Public Holidays.

### Knowledge box 2:

Provisions of Ethiopia's Labor Proclamation on hours of work and rest period

Article 67. Circumstances in which overtime work is permissible:

- (1) A worker may not be compelled to work overtime; however, overtime may be worked whenever the employer cannot be expected to resort to other measures and only where there is:
  - a) accident, actual or threatened;
  - b) force-majeure;
  - c) urgent work;
  - d) substitution of absent workers assigned on work that runs continuously without interruption.

Notwithstanding the provisions of sub-article (1) of this Article, overtime work shall not exceed four hours in a day or twelve hours in a week.

Weekly Rest

Article 69. General

- (1) A worker shall be entitled to a weekly rest period covering not less than twenty-four non-interrupted hours in the course of each period of seven days.

(2) Unless otherwise determined by a collective agreement or working rule, the weekly rest day shall, whenever possible:

- a) fall on a Sunday;
- b) be granted simultaneously to all of the workers of the undertaking.

(3) The weekly rest period shall be calculated as to include the period from 6 a.m. to the next 6 a.m.

(4) Notwithstanding the provisions of sub-article (1) of this Article, where the nature of his task did not enable the worker to make use of his weekly rest day, the employer shall grant 4 working days of rest in a month.

### Knowledge box 3:

#### Provisions of Ethiopia's Labor Proclamation on enterprises' OHS obligations

##### Article 92. Obligations of an Employer

An employer shall take the necessary measure to safe guard adequately the health and safety of workers; it shall in particular:

- (1) Take appropriate steps to ensure that workers are properly instructed and notified concerning the hazards of their respective occupations; and assign safety officer; and establish an occupational health and committee;
- (2) Provide workers with protective equipment, clothing and other materials and instruct them of their use;
- (3) Register employment accidents and occupational diseases and report same to the labor inspection service;
- (4) Arrange, according to the nature of the work, at his own expense for the medical examination of newly employed workers and for those workers engaged in hazardous work, as may be necessary with the exception of HIV/AIDS unless and otherwise the country has obligation of international treaty to do so;
- (5) Ensure that the work place and premises of the undertaking do not pose threats to the health and safety of workers;
- (6) Take appropriate precautions to ensure that all the processes of work in the undertaking shall not be a source or cause of physical, chemical, biological, ergonomic and psychological hazards to the health and safety of the workers;
- (7) Implement the instructions given by the Competent Authority in accordance with this Proclamation.

### Knowledge box 4:

#### Provisions of Ethiopia's Labor Proclamation on the labor contract

##### Article 4. Element of a Contract of Employment

- (1) A contract of employment shall be deemed formed where a natural person agrees directly or indirectly to perform work for and under the authority of an employer for a definite or indefinite period or piece of work in consideration for wage.

(2) A contract of employment shall be stipulated clearly and in such manner that the parties are left with no uncertainty as to their respective right and obligation under the terms thereof.

(3) A contract of employment shall specify the type of employment and place of work, the rate of wages, method of calculation thereof, manner and interval of payment and duration of the contract.

#### Article 7. Contract of Employment Not Made in Writing

(1) Where a contract of employment is not made in writing, the employer shall, within 15 days from the conclusion of the contract, give the worker a written and signed letter containing the elements specified under Article 6 of this Proclamation.

(2) If the letter referred to in sub-article (1) of this Article is not wholly or partly objected by the worker within 15 days from the date of receipt, it shall be deemed a contract of employment concluded between the worker and the employer.

#### Article 9. Contract of Employment for an Indefinite Period

Any employment shall be deemed to have been concluded for an indefinite period except for those provided for under Article 10 hereunder.

### Knowledge box 5:

The applicable environmental protection proclamations and standards in Ethiopian

- Environmental Pollution Control Proclamation (No. 300/2002)
- Environmental Impact Assessment Proclamation (No. 299/2002)
- Energy Proclamation (No. 810/2013)
- Solid Waste Management Proclamation (No. 513/2007)
- Prevention of Industrial Pollution Council of Ministers Regulation (No 159/2008)
- Provisional Standards for Industrial Pollution Control in Ethiopia.

### Knowledge box 6:

Ethiopia's legal requirements for cleaner production

#### Article 5. Cleaner Production Principles

Any producer shall adopt the following clean production principles to minimize hazardous waste:

(1) minimize the release of hazardous waste by reducing or eliminating the hazardous substances in the raw materials during the production process;

(2) monitoring the production process by:

a) reducing the wastage in input and product;

b) creating conditions necessary for the collection and reusability or recyclability of the product after its expiry period.

(Source: A Proclamation to Provide for Hazardous Waste Management and Disposal Control, Proclamation No. 1090/2018)

## Appendix 3: comparison of production factor prices <sup>①</sup>

Factors	Ethiopia	China
Labor <sup>②</sup>	Ordinary worker: USD 59–67/month Technical worker: USD 74–110/month Management: USD 185–220/month	Eastern region: Ordinary worker: USD 450–600/month Technical worker: USD 750–1050/month Middle and western regions: Ordinary worker: USD 300–450/month Technical worker: USD 600–900/month
Land <sup>③</sup>	USD 3–4/m <sup>2</sup> /month	USD 2.25/m <sup>2</sup> /month
Electricity	2017–2018: USD 0.03/kWh	USD 0.09/kWh <sup>④</sup>
Water	Most enterprises need to drill wells to meet the production water need. A 500–meter–deep well costs about ETB 6 million (USD 0.22 million), but the well water can be used free of charge. A large and medium–sized textile printing and dyeing factory needs 2–3 wells.	USD 0.4 /m <sup>3</sup> <sup>⑤</sup>
Wastewater Treatment <sup>⑥</sup>	USD 2/m <sup>3</sup> (in industrial parks)	USD 0.2–0.3/m <sup>3</sup> (part of the expenses)

### Note:

① The data in the table are from Chinese investors and EIC's official website.

② Ethiopia has no minimum wage requirements. According to EIC's official website, a worker's average monthly wage is USD 40–135. The textile and apparel industry has no industry minimum wage requirements, either. The above data represent the average wage level of employees at Chinese–invested enterprises.

③ According to EIC's official website, the rents of industrial parks are different. For details, please visit: <http://www.investethiopia.gov.et/index.php/news-resources/general-faq.html>

The industrial parks in China vary significantly in factory building rent. The rent in the table is the monthly rent of factory buildings in the industrial park in Nantong city, Jiangsu province.

④ The price of industrial electricity in China depends on the province where the enterprise is located, the amount of electricity consumed, and the period of electricity consumption. USD 0.09/ kWh is the average electricity price at flat load period in Jiangsu province, which is one of the largest textile provinces in China.

⑤ USD 0.4/m<sup>3</sup> is the gross water price in Jiangsu province, China, including basic water price, city development surcharge, resource fee, wastewater treatment fee, water treatment special fee, etc.

⑥ The enterprises in Eastern Industry Zone do not need to treat wastewater themselves. The wastewater is directly discharged into the pipelines for centralized treatment by the Zone. But some clients require enterprises to treat the wastewater. The enterprises outside the Zone need to construct their own wastewater treatment systems. In China, the price of industrial wastewater treatment depends on where the enterprise is located, and also on COD, BOD, and other pollutant concentration. China's data in the table represent the average level of costs for urban wastewater treatment in cities at or above the county level in the south of Jiangsu province, China. Enterprises' wastewater treatment costs are the gross amount of urban wastewater fees (USD 0.2–0.3/m<sup>3</sup>), their own wastewater treatment costs or the fees charged by professional wastewater treatment plants.

## Appendix 4: overview of interviewed enterprises

No.	Category	Location	Sales Market	Number of Employees
1	Knitted garment	Eastern Industry Zone	U.S. and European markets	350–600
2	Textile mill (with printing and dyeing facilities), apparel factory	Hawassa Industrial Park	(Shirt) fabrics are exported to other countries in Africa, and Bangladesh	700
3	Cotton spinning	Dire Dawa Industrial Park	Europe, Africa, China	430
4	Cotton spinning, chemical fiber textile printing and dyeing	The capital and Arba Minch	Ethiopia, Turkey, Italy, other African countries	762
5	Garment manufacturing	Eastern Industry Zone	Arabian countries, Europe, and other African countries	600
6	Printing & dyeing, and garment production	Eastern Industry Zone	Mainly for domestic sale in Ethiopia, and some are exported	200–700
7	Textile	Eastern Industry Zone	Mainly for domestic sale in Ethiopia, and some are exported	70–130
8	Textile	Eastern Industry Zone	Local sale in Ethiopia	20–50

### Note:

1. This table is an overview of the Chinese–invested enterprises that have received interviews and agreed to disclose the information anonymously thus does not cover all the surveyed enterprises.
2. Some enterprises have two factories in Ethiopia; the number of employees is the total number.
3. The number of employees at some enterprises is subject to change due to the impact of COVID–19.

## Appendix 5: questionnaire for enterprise management

The Questionnaire for enterprise management is available in Chinese and English.

For the Chinese version, please visit the following website or scan the QR code.

**Option 1:** visit the following website for the questionnaire:

<https://www.wjx.cn/jq/94339376.aspx>

**Option 2:** scan the following QR code for the questionnaire:



For the English version of the questionnaire, please contact:

CSR@ctic.org.cn;

J.YAN@unido.org.



## Appendix 6: questionnaire for employees

Questionnaire for employees is available in Chinese, English, and Amharic.  
For the Chinese version, please visit the following website or scan the QR code.

**Option 1:** visit the following website for the questionnaire:

<https://www.wjx.cn/jq/101151557.aspx>

**Option 2:** scan the following QR code for the questionnaire:



For the English or Amharic version of the questionnaire, please contact:

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