Three proposals to support African garments workers during the coronavirus crisis

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25 March 2020

Key messages

- US and European orders for garments have ceased, with effects rippling throughout value chains, affecting factories in Asia and Africa . Their workers face extreme hardship.
- We explore three options to protect such workers during this recession in an African context:
    - a worker subsidy scheme
    - a subsidised training package to retain workers and manufacturing capabilities
    - retooling of garment factories to produce garments to satisfy medical needs.
- Each option requires different commitments from buyers, factories, workers, the public sector and donors.

Introduction

Exports of African textiles and garments have grown rapidly over the past decade. Exports from African Growth and Opportunity Act (AGOA)-eligible countries to the US have nearly doubled, from $790 million in 2010 to $ 1.5 billion in 2019, with Kenya one of the largest suppliers and Ethiopia the fastest growing. Unfortunately, US orders are considerably down following store closures, and operations in African factories could cease to operate within weeks.

If nothing is done, factories in Kenya would find it too expensive to pay their workers during uncertain times. They could be forced to close and implement lay-offs. Workers in Ethiopia will leave factories, even if they received subsidised pay. But in other contexts, factories with the right networks and capabilities may be able to retool.

This note provides three proposals to support garment workers in African countries who may lose their jobs in two to three weeks time. The proposals may have applicability in other sectors but need to be tailored to the specific context.

This note focuses on garments in 3 African countries. A wider umbrella facility (e.g. administered by the World Bank) could coordinate support in different countries and sectors. This could be supplemented by targeted action by retailers. Retailers are in a stronger position than factories: as they may benefit from stimulus support in the US or the UK, they should extend this throughout their supply chains. Retailers also want to ensure there is sufficient inventory and factories are able to supply this during the recovery.

Three proposals to protect workers in a downturn

A subsidised wage scheme for workers

Garment workers are usually committed to their employers and depend on their pay for their livelihoods. If orders cease, garment factories may not be able to survive and will have to lay off workers. A worker protection scheme could support the payment of workers. Kenyan garment firms employ on average 2,500 workers (some much larger, some much smaller) at $150 a month. They thus need on average $0.4 million a month to pay workers.

We suggest this could be financed through a combination of commitments from buyers, factories, workers, the public sector and donors. Workers may be able to take a cut to, say, 75% of their wages. Factories may be able to contribute a share. The rest would need to be financed through grants or loans from the public sector and buyers. A coordinated approach by buyers in the UK and US could, for example, continue to provide payments now but recoup the costs by charging a very small mark-up on the consumer price when the recovery takes hold. This means consumers would eventually also contribute (though the risks are with the retailers now), but they might hardly notice this as wages are only around 10% of the final price.

A retraining programme

In Ethiopia, garment manufacturing is relatively new. The sector is playing a special role in the country's transformation as it shifts from an agriculture-led model to a more manufacturing-led model. Manufacturing still contributes a very low share of gross domestic product (in the order of 5%) and employment.

Ethiopia is supporting industrialisation by building special economic zones, supported by donors. For example, Hawassa Industrial Park was built in 2016 and employs around 30,000, mainly in garments. Compared with other African countries, workers in Ethiopia appear to be less committed to their employers, as seen in high absenteeism and employee turnover. Ethiopia is still building an industrial workforce, and negative shocks now will have significant externalities beyond individual workers.

One challenge is to keep workers committed so they can continue, or be re-employed immediately after the crisis. Without such arrangements, they will disappear (they often come from far away), the value of training they have received may be lost and assemblers may decide to disinvest, given the low level of sunk costs (compared with public sector infrastructure), putting Ethiopia's development model at serious risk.

A temporary retraining programme – consistent with strict social distancing policies of course – would raise productivity. Benefits will accrue to workers, factories, the country and eventually buyers and consumers.

Donors should be interested in maintaining momentum behind manufacturing in Ethiopia, such as in Hawassa Industrial Park. They have invested some $400 million, and the cost of keeping on 30,000 workers would be $1 million, or 1% of sunk costs over four months.

A retooling programme

Several factories whose orders have halted may be able to retool to produce protective clothing, of which there is a global shortage. For this to happen, there needs to be a fast supply of fabrics, which is challenging now. Factories need to find stock fabric that is suitable for the end use and be able to transport it to the sewing factory in an environment of rising fabric prices and reduced airfreight options, which is also driving prices up. Factories need the connections to get the requests, the capability to produce according to new specifications, and ports and borders such as those supported by Trademark East Africa need to remain open. The orders may come from home countries (which need protective clothing) or donors in Europe and the US, which could finance this as part of stimulus packages. One example is H&M co-ordinating with the EU to retool supply chains.

In Ghana, Ethical Apparel Africa (EAA) is already working with the UK Department for International Development on its Jobs and Economic Transformation programme. This had laid the base for several actions, including ensuring a base of factories have all sampled and signed off a medical scrub pattern that has been re-engineered by EAA to be simple and fast to produce as the need arises. Longer term, a global network of factories should have a designated emergency response for natural disasters or pandemics. All mills and factories should have the ability to switch to manufacturing of something needed in a crisis. Mills, for example, should have proven skills and ability to produce the correct fabric and trialled this, factories should have the ability to produce medical scrubs in the event of a pandemic, and have trained for this scenario. This not only supports the response but also keeps jobs going. A central database can help coordinate factories, mills and governments, to make sure valuable time is not wasted in future outbreaks by factories trying to locate mills and governments trying to locate suppliers that may not based on the same continent.

Assessment

We compare these three options and discuss benefits and financing options.

	Benefits	Financing	Appropriate context
Worker subsidy scheme	Support livelihoods of workers	Temporary subsidy by retailers recouped later through consumers	Kenya
Retraining in challenging environments	Raise productivity and keep workers focused on manufacturing	Donors	Ethiopia
Retooling	Solve industrial capabilities for the social good	Public sector and donors to place orders	Ghana

Supporting workers in a downturn will be a challenge and needs coordinated action and speed is essential. Donors play an important role in making schemes possible and retailers could help. Any rescue package should consider workers and factories throughout the supply chain: together, they can withstand a shock.

Next steps

The next steps on this include (i) work with retailers and buyers on a coordinated worker subsidy scheme throughout supply chains; (ii) donors to frontload training schemes; (iii) donors and developing country governments to place orders for protective clothing with garment factories; (iv) G20 countries to ensure that stimulus packages that support their own firms extend to integrated supply chains.

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