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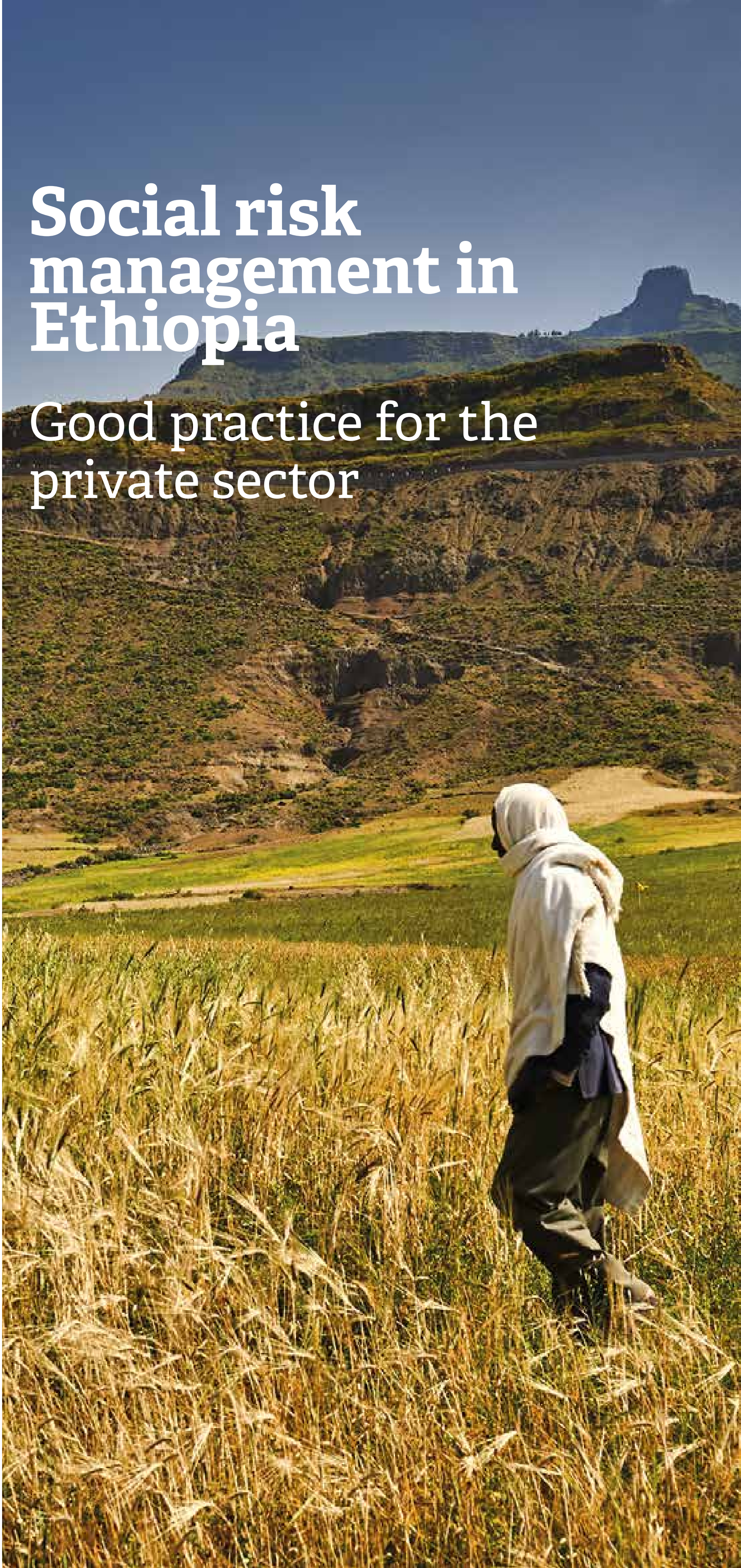

Social risk management in Ethiopia

Good practice for the private sector

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CDC Group

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About this Country Profile

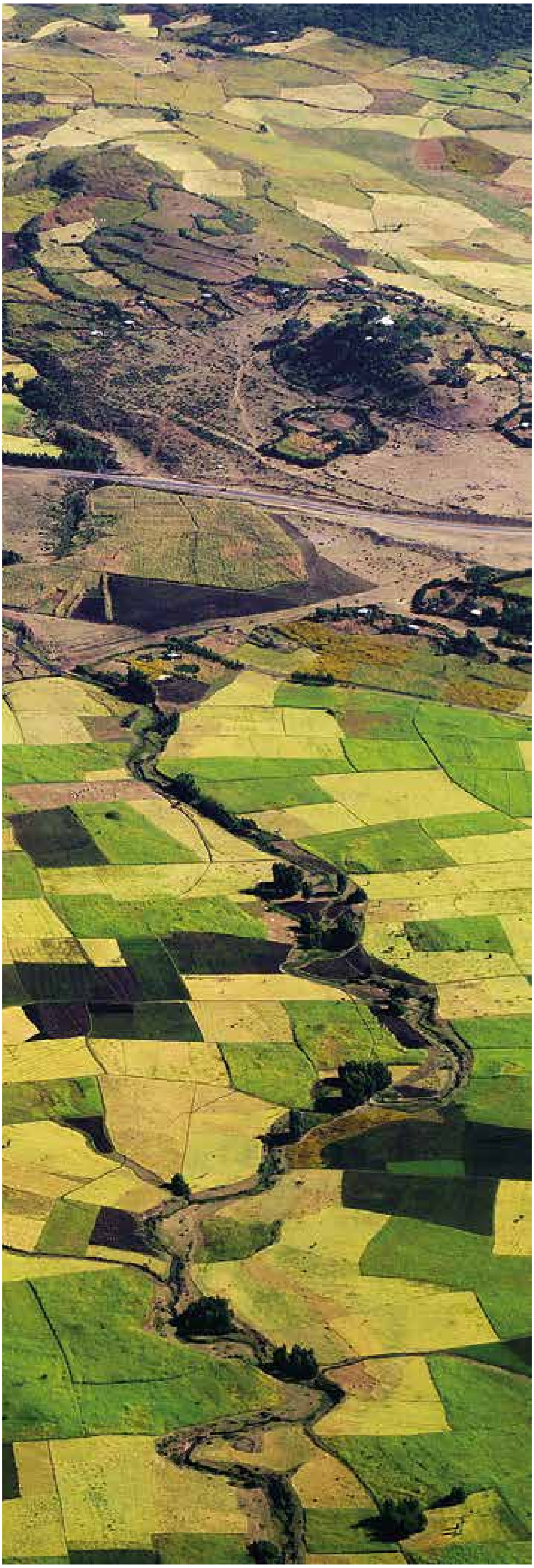
This Country Profile builds on a workshop hosted by CDC, facilitated by Shift, and supported by the UK's Department for International Development (DfID) in Addis Ababa in late 2017. It draws on a series of interviews conducted across 2018 by Shift with multinational companies, audit firms, consultancies, trade unions and civil society organizations with experience in Ethiopia.

The core audience of the Country Profile are private sector actors operating in or seeking to invest in Ethiopia. The Country Profile is also likely to be of interest to a number of other institutions with a focus on Ethiopia. While this document reflects a number of existing practices of businesses and investors seeking to manage social risks in Ethiopia, these examples are not intended to be exhaustive, nor does the document evaluate the efficacy of the approaches undertaken. Rather, it is intended to help catalyze further dialogue about how investors and businesses can more effectively manage social risks in higher-risk contexts such as Ethiopia.

This document also aims to illustrate how the tools provided in CDC's ESG Toolkit for Fund Managers (including the Briefing Note on Human Rights) can be applied in practice in higher-risk contexts.

The sections that follow explore the following questions, applied to the Ethiopian context:

- The Business Case: Why should businesses and investors focus on social risk management in Ethiopia.
- Preparedness: How can investors and businesses better prepare themselves for engaging in a higher-risk context such as Ethiopia.
- Managing Social Risks in Practice: How are investors and Ethiopian and multinational companies navigating contextual challenges to manage social risks in practice.
- Practical Tips and Advice: What are some of the headline tips and advice for investors and businesses already operating in or considering operations in Ethiopia.



02

Overview

The Opportunity:

Ethiopia currently represents one of the most attractive new markets for private sector investment. The country has witnessed some of the fastest economic growth in the world with average GDP growth of approximately 10.3% between 2007 and 2017[1]. At the same time Ethiopia offers international business and private equity investors the opportunity to play a pivotal role in supporting the Country's ambition to reduce widespread poverty and become a middle-income country by 2025. Foreign Direct Investment (FDI) into Ethiopia, while largely focused on certain sectors - infrastructure, construction, agriculture, and textile - has played a significant role over the past ten plus years, growing from $265,000 in 2005 to nearly $4 billion in 2018.[2]

Much of this growth has been fueled by active efforts to encourage international businesses and private equity investors. The government's plans for industrialization, captured within Ethiopia's Growth and Transformation Plans (GTP) has ensured directed focus on the development of industrial parks, strengthened transportation links and power supplies and tax incentives and duty-free access to US and European markets. In addition, Ethiopia is geographically well positioned to serve export markets and its membership in the Common Market for Eastern and Southern Africa (COMESA) enhances its access to 19-member countries.

Ethiopia's population stands at 104 million people[3] with 56 percent of the population of working age. Currently with no legally defined minimum wage for the private sector it creates some of the lowest labor costs in the world which has attracted significant international investment, but equally continues to present challenges in ensuring sustainable labour practices across the private sector.

The Risks:

Several contextual factors create heightened risks for businesses and investors in Ethiopia with the potential of being connected to significant negative social or human rights impacts:

- Ethiopia continues to emerge from a recent history of significant social and ethnic conflict, and the outcomes of the ongoing political transition present some uncertainty. Ethiopia also continues to focus on broadening key civil and political liberties, which historically have operated within more restricted frameworks.
- The implementation of regulatory protections for labour and working conditions and worker rights have historically been weak.
- Ethiopia's rapid population growth, with more than 40 percent of the population below the age of 15 is exerting increasing pressure on land resources, expanding environmental degradation, and raising vulnerability to food shortages. Unemployment and under-employment continue to present risks of social discontent and friction.
- Disputes over natural resources are prevalent, with most recent tensions commonly associated with allocation of land for private sector use. A growing private sector also continues to place greater demand on much needed resources, principally land and water resources. This is further exacerbated by climate change (Ethiopia is ranked as one of the top 10 countries most vulnerable to climate change),[4] particularly across certain regions of the country.

– Cultural, linguistic and social factors complicate the shift towards driving good international industry practice (GIPP), including environmental and social requirements in the workplace. Ethiopia is a predominantly agrarian society where a significant proportion of the population still reside in rural areas, resulting in a workforce that is often new to operating in an industrialized and formalized economy.

Considering these factors, Ethiopia presents sector wide cumulative risks for businesses and investors. This is particularly acute due to the intense and accelerated economic development pursued to date, in combination with the backdrop of a country that has historically been isolated from international markets and with nascent experience of working within international good practice frameworks.

The Challenge for Businesses and Investors:

Assessing and managing environmental and social (E&S) risks is a core part of the due diligence that private sector investors regularly undertake. However, higher-risk circumstances present unique challenges to the due diligence and engagement process:

- Contextual factors outside the control of the business can exacerbate the severity or likelihood of E&S impacts that affect business, workers and broader communities.
- Social impacts tend be more dynamic, therefore assessing and managing these impacts tend to be more challenging, requiring active and ongoing vigilance during the investment period.
- Cumulative and contagion risks arising from multiple and large scale private sector activities that are proximate, and in which there are variable levels of commitment to GIIP.
- The contextual landscape can evolve rapidly, requiring an ongoing approach to due diligence and throughout the investment holding period.

Understanding and navigating the contextual risks that can lead to severe social impacts is particularly important in higher-risk contexts such as Ethiopia

Cultural, linguistic and social factors complicate the shift towards driving good international industry practice

03

The Business Case for Focusing on Social Risk Management in Ethiopia

International businesses, both domestic and international, highlight a range of positive and negative business drivers for focusing on social risk management in the Ethiopian context. Whilst these drivers are not unique to higher-risk circumstances, they may be particularly compelling in the Ethiopian context based on the experiences of companies and investors operating there. This includes:

- **Social License to Operate:** This is critical for ensuring business continuity and is particularly compelling in a dynamic and evolving social and political context such as Ethiopia, and even for industries where this has typically been less relevant such as the manufacturing sector operating in urban settings.
- **Access to International Capital:** Sectors such as manufacturing and agriculture are targets for economic growth. Effective management of E&S practices forms a key consideration for access to capital and is essential for business growth, or potential acquisition in the Ethiopian context in which international private sector investment is key to driving economic growth.
- **Access to Global Value Chains:** Effective social risk management is often a precondition for entry to new markets that Ethiopian and international businesses are looking to access.
- **Worker Retention and Productivity:** This is closely linked to improving the efficiency, productivity and profitability of emerging private sector enterprises through better social risk management and has been highlighted as a systemic challenge by investors entering into the Ethiopian market.

Effective management of E&S practices forms a key consideration for access to capital and is essential for business growth

3.1 Building and Maintaining a Social License to Operate

Companies with physical assets (land, physical infrastructure, crops) have recognized the need for a strong social license to operate with communities, which therefore relies on support from surrounding community for the business activities taking place. This is particularly compelling in the Ethiopian context and for companies in the extractives and agribusiness sectors, as well as other industries where building a social license to operate has traditionally not been viewed as relevant.

Companies with physical assets (land, physical infrastructure, crops) have recognized the need for a strong social license to operate with communities

Increased competition for natural resources including land and water resources have in some circumstances created tensions between private actors and local communities. An example of this are the tensions that emerged across 2015 and 2016 following proposals to expand Addis Ababa's administrative boundary into neighboring farmland, subsequently prompting a series of nationwide protests, two states of emergency and political and regulatory revisions. These tensions have also often resulted in social unrest with evidence of both local and international company facilities being attacked, resulting in significant financial losses and operational shutdowns.

Importantly risks associated with a loss of social license to operate in Ethiopia have affected a range of sectors (including those in Special Economic Zones) which traditionally were not generally assumed to be subject to this risk. Examples include manufacturing industries in newly developed industrial parks that have required resettlement of local residents, and unknowingly have been connected to these types of risks. This is particularly relevant given that the manufacturing forms a core focus within Ethiopia's economic development strategy (the manufacturing strategy of GTP II 2020 outlines that the industrial sector is set to expand by 20% on average), and where legislative procedures to manage land acquisition and resettlement do not align to international requirements in key areas.

Businesses build this social license to operate through a combination of:

- ensuring positive economic benefits for local communities (for example through supply chains, local sourcing and local employment);
- preventing and managing potential negative social and environmental impacts that can result from business activities; and
- constructively engaging with the community and ensuring effective grievance mechanisms.

When businesses achieve social license to operate they often operate with continuity, even through periods of social unrest

When businesses get this right they often operate with continuity, even through periods of social unrest, while getting it wrong can result in strikes, protests, and operational disruptions.

Building a strong social license to operate by engaging with the community to understand needs and concerns, and leveraging mutually beneficial opportunities (i.e. labour, procurement and supply chains) is a significant risk mitigant.

Company Practice: Agribusiness in Oromia

Even as the facilities of nearby companies were attacked during social unrest in 2018, some companies, including a local agricultural company in Oromia saw local communities actively protecting their assets. The company attributes this to building a strong relationship with workers and surrounding communities over time.

3.2 Access to Capital

Much of the foreign capital flowing into Ethiopia comes from international investors who are also concerned about the ability of a company to manage social and environmental impacts effectively. Ethiopia has consistently ranked between the second and fifth largest recipient of FDI in Africa over the past three years, and the largest in East Africa. In 2017, almost half of the flows from the East African region were absorbed by Ethiopia.[5]

This is important in the context that a range of international investors (including DFIs, Equator Principle Financial Institutions and many Private Equity funds) now apply international E&S requirements to their lending and investment operations.

A range of international investors now apply international E&S requirements to their lending and investment operations

Companies looking to secure finance and investment from this community need to be able to demonstrate awareness of and a commitment to achieve these standards (often the IFC Performance Standards). There is also a growing recognition that the profitability of a company, and its attractiveness to potential business partners or future investors is closely connected to the company's social performance. Companies that can demonstrate the commitment and capacity to preventing and addressing negative social impacts are likely to have access to additional sources of financing from a range of international investors.

Industry Practice

Private equity players in Ethiopia, as well as development finance institutions, have highlighted the type of social due diligence they undertake on companies they are seeking to invest in and why. Their investment decisions are directly influenced by the ability of companies to demonstrate commitment, capacity and practices in place to manage social impacts.

3.3 Access to Global Markets and Value Chains

Multinational companies are increasingly being held to a higher level of accountability for impacts in their value chains. This is driven by new regulatory and societal trends (including the United Nations Guiding Principles – UNGPs and Sustainable Development Goals - SDGs), stakeholder advocacy, questions from investors, and concerns about reputational risk and brand value. As a result, international companies' decisions about value chain partners are increasingly influenced by social performance factors.

Multinational companies are increasingly being held to a higher level of accountability for impacts in their value chains

Company Practice: Ethiopian Horticulture Producer Exporters Association

A number of flower farms that are part of the **Ethiopian Horticulture Producer Exporters Association (EHPEA)** are certified under international labels, such as MPS, Global GAP and Fair Trade. These labels require flower farms to meet international standards when conducting their business, including standards related to basic working conditions and workplace safety. Meeting these standards, which are often more stringent than local legislative requirements, in turn enables the farms to sell their flowers to global buyers and access international markets.

**Certification promotes the adoption of international requirements; however, it is still recommended that companies develop and implement their own E&S management systems to ensure effective monitoring and oversight of their supply chain.*

A leading global apparel company referenced their international client base, whose interest in understanding the conditions under which their clothes are being produced as a key driver in informing the level of E&S due diligence that the company undertook when entering into the Ethiopian market, including a key focus on labour and working conditions. The ability of companies to demonstrate strong social risk management, for instance by having certain policies and processes in place, responding positively to auditor questions or meeting certain international certifications, can enable greater access to global value chains. Equally the ease with which poor social practices can be documented and distributed through social media and the internet increases risk of exposure to companies.

The ability of companies to demonstrate strong social risk management can enable greater access to global value chains

3.4 Workforce Productivity and Retention

Two of the most prevalent business challenges in Ethiopia are workforce turnover and productivity. Industries have seen a strong correlation between improving the basic labor and working conditions of employees with improved workforce retention, reduced recruitment and training costs and increased productivity in the workplace. Companies that have focused on addressing the needs of female workers (including with regard to gender based violence) and promoting workplace health and safety have seen direct benefits to the business. As a means of addressing this challenge in the private sector, various institutions have developed programmes aimed at building worker capacity, including the 'Improving Industrial Relations for Decent Work and Sustainable Development' which is a three-year programme funded by SIDA and H&M, and was launched and implemented by ILO in 2016. GIZ have also developed a six-week modular training program working with technical and vocational institutions in Ethiopia to enhance their capacity in providing appropriate training to students prior to entering into the workplace.

Companies that have focused on addressing the needs of female workers and promoting workplace health and safety have seen direct benefits to their business

Evidence for Production and Retention:

Research conducted by the University of Chicago and the University of Oxford in conjunction with the Innovations for Poverty Action and the Ethiopian Development Research Institute, found a strong correlation between workplace safety and workforce turnover. They found that factory workers suffered nearly double the number of serious injuries and disabilities as those who did not take factory jobs. Impacts included exposure to hazardous chemicals and repetitive stress injuries. Within one year, two-thirds of factory workers had left their industrial jobs citing that risks to their health and safety was one of the key contributing factors. As a result, factories have needed to recruit and re-train a large proportion of their workforce on an ongoing basis, with considerable cost and productivity implications.

04

Preparedness: How can business and investors better prepare themselves?

Company experiences point to four key areas of advice for investors and businesses already operating in, or considering operations in Ethiopia.

Being Prepared: Advice for Investors and Businesses

- Recognize the factors that heighten the risk of severe social impacts.
- Identify and assess the salient issues – i.e. the most prevalent and severe social risks.
- Understand the expectations for due diligence, implementation and ongoing monitoring.
- Invest appropriate due diligence resources – this may require additional budget and resources given the complexities presented in the Ethiopian context. This should include allocating appropriate and sufficient expertise to review government led processes.

4.1 Recognize the factors that can heighten social risk

As part of standard E&S due diligence, investors and fund managers evaluate the social risk profile of potential investments. Effectively identifying higher-risk circumstances for severe social impacts can help to:

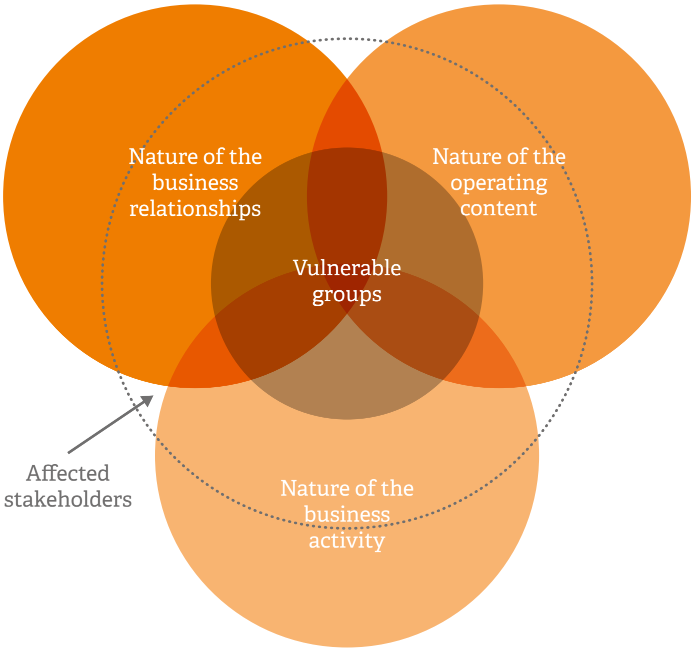
- focus limited due diligence resources on the highest-risk circumstances, proportionate to the level of social risk;
- recognize the contextual factors outside the control of individual businesses that can exacerbate the severity or likelihood of potential social impacts; and
- ensure that due diligence is ongoing, given potential fluidity of circumstances that can affect the business.

Effectively identifying higher-risk circumstances – where there is a greater likelihood of severe social impacts – can help businesses and investors better prepare for the challenge of effectively managing those impacts

The briefing note on human rights in CDC's ESG Toolkit for Fund Managers describes several factors that can help identify higher-risk circumstances. These include:

- the nature of the operating context;
- the nature of business relationships;
- the nature of business activities; and
- the likelihood of impacts on particularly vulnerable groups.

Figure 1: Sources of Heightened Human Rights & ESG Risk



Source: *Shift 2016, Human Rights Due Diligence in High-Risk Circumstances, March 2015, p. 6.*

Company Practice: Walt Disney

The Walt Disney Company seeks to use an objective approach to identifying higher-risk country contexts. The company uses the World Bank's Worldwide Governance Indicators to determine which countries its licensees and vendors will be permitted to source from. These indicators report on six dimensions of governance: voice and accountability, political stability and absence of violence, government effectiveness, regulatory quality, rule of law, and control of corruption. Using these independent criteria – which reflect many of the factors highlighted under the category of country context above, the Walt Disney Company does not currently permit sourcing from Ethiopia (one of 40 such countries, out of a total of 215 countries). This list is updated every two years and countries may be added or removed based upon their governance performance.

Two important **insights** emerge from this company practice:

- using at least one set of objective indicators, there are many reasons for businesses and investors to recognize Ethiopia as a higher-risk circumstance; and
- choosing to engage or not to engage in a higher-risk context is one question however, those who choose to engage should do so with full awareness of the risk factors.

Where a combination of these factors creates risk for vulnerable groups (often workers and/or communities), the risks for severe social impacts is heightened. In applying these sources of heightened human rights and E&S risk several relevant risk factors emerge in the Ethiopian context that are outlined below.

4.1.1 Country Context

Ethiopia is emerging from a prolonged period of significant social and political unrest that is atypical of its political history with a political transition that is uncertain. The most recent periods of unrest have highlighted underlying tensions between different ethnic and regional groups, which is also fueled by allocation and access to land and natural resources, as well as who is perceived to benefit from Ethiopia's private sector growth.

Spaces for independent voices have historically been limited within civil society activity, the media and telecommunications and the internet, however with ongoing transition there is evidence of this changing.

The difference between regulatory frameworks on key labor protections with international standards and GIIP, including no current legal definition for a minimum wage in the private sector, continues to form a key focus of international businesses.

Ethiopia faces significant environmental vulnerability (exacerbated by climate change), including susceptibility to droughts and floods, with impacts on local food security. Past efforts to attract private sector investment have in some instances exacerbated tensions over natural resources, such as land and water.

Ethiopia faces environmental vulnerability exacerbated by climate change, including susceptibility to droughts and floods, with impacts on local food security

4.1.2 Business Relationships

While a number of Ethiopian businesses are developing good social performance practices, the industry as a whole remains nascent including knowledge and capacity when it comes to meeting international standards. This is compounded by a nascent domestic E&S consultancy base.

Historically Ethiopia's economy has been isolated from international markets and where the majority of businesses historically have been run by the state. As such exposure to international practices and influence is likely to have been limited, and company culture has often been informed by bureaucratic and hierarchal practices.

Linguistic and cultural barriers, particularly in terms of social and labour practices around formal employment can create additional challenges in efforts to strengthen social performance.

4.1.3 Business Activities

Business activities that rely on land – including in the context of industrial parks – will be more likely to be connected to impacts related to resettlement or compensation, and/or to underlying land tenure disputes with individuals and communities.

Business activities that rely upon water – depending on the region – may be more likely to be connected to conflicts or impacts on the rights to water of neighboring communities, due to environmental factors and how public water resources are allocated;

Business activities that rely upon unskilled labor are likely to face greater challenges in ensuring conditions of decent work and meeting basic labor standards. This risk is magnified in situations where accommodation is provided to employees (i.e. in special economic zones and industrial parks).

Business activities that rely upon unskilled labor are likely to face greater challenges in ensuring conditions of decent work and meeting basic labor standards

4.1.4 Vulnerable Populations

Women may face particular risks, with a high prevalence of sexual harassment and discrimination. Previous government reports have indicated between 50-60% of women in Ethiopia have experienced domestic violence. This may be particularly relevant in the workplace and when company accommodation is included, but equally in company engagement around community-facing impacts.

Ethiopia has over 80 different ethnic groups, and perceptions of marginalization and discrimination across ethnic groups have fueled recent social and political unrest.

4.2 Identify and Assess the Salient Issues - The Most Prevalent and Severe Social Risks

Salient issues are the most prevalent and severe social risks that a business or investor might be connected to. The salient social risks for any individual company will vary depending on a number of factors, including for instance:

- the nature of the business activities;
- the location of operations;
- the demographics of the workforce;
- the social risk management systems and mitigation measures of the company itself; and
- the social risk management systems and mitigation approaches of related actors in the company's value chain.

Awareness of specific severe impacts that are more likely to arise in a particular context can help to shape due diligence processes to ensure a proactive approach.

During interviews companies and investors highlighted a number of significant and prevalent social impacts, based on their experiences of operating in Ethiopia that are outlined in the subsequent sections.

Summary of Key Social Impacts in Ethiopia

- Wages
- Worker voice and collective bargaining
- Workplace health and safety
- Working hours
- Discrimination, harassment, violence: largely along gender and ethnicity lines
- Child labor and child protection
- Land acquisition and displacement
- Water access and quality
- Security-related impacts
- Privacy and freedom of expression

Awareness of the most prevalent and severe social risks can help businesses and investors to shape proactive due diligence processes by knowing what to look for

4.2.1 Impacts in the workplace:

Prevailing wages in Ethiopia are frequently identified to be low, with no legal minimum wage in the private sector. In many cases, wages are insufficient for workers to maintain an adequate standard of living and the ongoing debate over what constitutes a 'living wage' means that there are not clear benchmarks for how to determine what would be an adequate wage. At a national level, low wage structures are perceived by public policymakers as part of the competitive advantage that Ethiopia offers to attract investors, whereas for an individual company it is likely to be challenging to address this impact by unilaterally raising wages, due to fears of becoming non-competitive.

Worker voice and collective bargaining are challenging in practice. Trade unions are not always consistently or effectively present in the private sector, including a number operating in industrial parks. Where trade unions are present, they are generally seen as lacking the resources or agency required to advocate effectively for workers. Worker councils that are established can fall short of industry practice and international standards for freedom of association, and often do not have the mandate for collective bargaining on behalf of workers.

Workplace health and safety – Ethiopia is a predominantly agricultural economy where more than 80% of the population lives in rural areas, and workers are increasingly being sourced from rural agrarian economies where they are not accustomed to the requirements of formalized workplaces, including health and safety requirements. Investors and companies often report that standards and practices fall short of GIIP with numerous reports of severe workplace accidents and injuries to workers.

Lower skilled labor, as well as workers migrating from other regions may seek to **work extended hours** (a correlation to low wage levels), in order to save as much money as possible. For higher skilled labor, the shortage of skilled labor often increases demands and results in extended working hours and overtime.

80%

more than 80% of Ethiopia's population lives in rural areas, and workers are increasingly being sourced from rural agrarian economies

Company Practice: H&M

H&M partnered globally with the Swedish International Development Agency (SIDA) to promote industrial relations in the textiles sector, with a focus on Ethiopia since 2015. Training for management and workers at supplier factories seek to strengthen industrial relations and social dialogue, with the objective of improving wages and other working conditions. The ILO acts as the project implementer, and project partners include the Swedish trade union IF Metall, the global trade union confederation IndustriALL, and country level employees, employers and government.

4.2.2 Impacts on vulnerable groups:

Female workers can be subject to **violence, sexual harassment and discrimination.** Women being attacked in transit to or from work is frequently reported, particularly when female workers live far from the workplace, work long hours, and company transportation or accommodation are not provided. Adequate sanitation, the rights of pregnant women, and the lack of childcare or nursing facilities raise further challenges with regard to discrimination. This issue becomes even more pertinent in sectors where a large proportion of the workforce is female (garments and floriculture). The culture and ability to raise concerns when they do occur is also still relatively new in Ethiopia and is a consideration for how grievance and remedy mechanisms are designed and implemented.

Ethnicity may play a factor in **discrimination** in the workplace, in particular where workers come from a minority ethnic group or lack representation in a particular region or state. Ethnicity can also play a factor in disproportionate community impacts, where public policies around **natural resources** seek to enable private sector development, potentially at the expense of community needs.

Lower skilled labor, as well as workers migrating from other regions may seek to work extended hours, a correlation to low wage levels, in order to save as much money as possible

Company Practice: Tchibo

Tchibo worked closely with its producer Ayka Addis and global trade union confederation IndustriALL to address sexual harassment and gender discrimination cases in the workplace. This effort has resulted in a significant decrease in the number of sexual harassment cases, an increase in the number of women in upper management positions and an increase in retention rates among female workers.

- The comprehensive approach included: (1) leadership training programmes to increase the percentage of women managers; (2) joint dialogue between workers, middle and top management, and expatriates on gender discrimination and harassment practices and behaviors, leading to an Anti-Sexual Harassment Policy; and (3) in collaboration with local trade unions, strengthening the grievance structures for female workers to raise concerns, through new female committees, a gender counselling office, and a formal grievance process.

- **Child labour** is a systemic issue and children face risks most commonly in agricultural supply chains and the construction sector, but also more broadly in other sectors. Risks related to **child protection** when moving with parents to unfamiliar places for work is also a consideration and becomes even more relevant due to Ethiopia's ongoing challenges with largescale displacement (between 2 to 3 million people are reported as displaced in 2019).
- **Non-permanent employees:** often the non-permanent segment of the workforce is not captured in a company's management systems, and there is variation in Ethiopian regulations with regards to worker protections for non-permanent employees. Key considerations include access to grievance mechanisms, restrictions on working hours, remedy in the event of accidents and health insurance/medical access - and are likely to present heightened vulnerabilities as they are often in low skilled positions with restricted access to worker protections.

Child labour is a systemic issue and children most commonly face risks in agricultural supply chains and the construction sector, but also more broadly in other sectors

4.2.3 Impacts on communities:

- The allocation of land for private sector investment often requires the resettlement of communities, and several investors have noted the divergence in local legislation and practices with international standards. This is particularly with regards to requirements around compensation frameworks, restoration of livelihoods and monitoring responsibilities. Differences in requirements can result in a range of unintended impacts including reduced food security and reduced access and availability of public infrastructure and services, such as educational facilities and water.

- There can be a range of community impacts resulting from private sector **water** use including reduced access and quality of water resources, as well public health impacts related to pollution. These impacts are also likely to be exacerbated by climate change (see sections above with regards to climate change risks in Ethiopia).

Company Practice: PVH

PVH identified potential water impacts when it considered entering the Hawassa Industrial Park, resulting from business activities within the park and increased demands on local water resources from an influx of new workers.

- Before entering the park, PVH commissioned an independent geological survey that identified risks that water use in the park from processes such as the fabric mill and laundry could put a strain on community water resources. The company discussed the use of a zero-liquid discharge facility for the park – whereby all water used in the park would be purified and recycled back into operations, reducing water usage and managing water quality impacts for neighboring communities, as well as reviewing individual water resource requirements.
- To address the increased demands on community water resources from a larger worker population, PVH worked with development partners and the regional government to update the city masterplan and work together on issues such as solid waste management, housing and transport systems. PVH also funded a multi-stakeholder water stewardship project with German development agency GiZ and the local government. Initial projects under this collaboration will cover solid waste management, reducing sedimentation and increasing public awareness and education.

- There is a high risk of **security-related impacts** on communities (and potentially workers), where those seeking to raise concerns about impacts on the environment or in the workplace may be put at risk of disproportionate use of force by private or public security forces. Although the number of private security providers continues to grow in Ethiopia, experience of working to international standards is still relatively nascent and involvement of public security within the private sector is common. The ability for security personnel to respond appropriately, as well as effectively engage with public security forces becomes even more important when operating in environments where risk of conflict is high, including regions such as Oromia and Gambella where conflict over natural resources is common and protests have historically targeted private companies.
- The control of the telecommunication sector in particular can impact users' **freedom of expression** and **right to privacy**. The risk that this issue is not effectively flagged during ESDD is significant, particularly as it is not typically a topic that is identified and assessed by E&S consultants.

Company Practice: Ericsson

For telecommunications company **Ericsson**, a key source of social risk is the potential misuse by third parties of its technology or services in ways that could impact negatively on the right to freedom of expression and the right to privacy. The company has a sensitive sales process to assess potential risks present in sales opportunities depending on the portfolio being sold, the purpose of the portfolio being provided, the customer and the country. Based on these criteria, Ericsson decided to engage in a human rights impact assessment process in Ethiopia in 2015 to minimize the risks of human rights harm resulting from the company's presence.

4.3 Expectations for Due Diligence, Implementation and Monitoring

In higher-risk contexts such as Ethiopia, there is a greater likelihood that severe social and environmental impacts can rise to the level of a human rights impact – meaning that the impact infringes upon the basic rights of individuals or groups, including workers and communities. The briefing note on human rights in CDC's ESG Toolkit for Fund Managers details what is expected in practice in managing social risks with a human rights lens.

Relevant Parameters for Due Diligence

- Seek to meet international standards
- No offsets: philanthropy vs. responsibility
- Recognize the scope of responsibility
- Use and build leverage
- Prioritize the most severe issues
- Engage with affected stakeholders
- Enable remedy when impacts occur

Some of these expectations may be particularly challenging to meet in Ethiopia for reasons outlined below:

Businesses should seek to meet **internationally recognized human rights and social performance standards.** Where local laws fall short of these international standards, local laws should be respected, but businesses should seek to go beyond the minimum standards to meet GIIP.

Positive impacts on people, in terms of social or economic development, **cannot be used to offset business responsibility to address negative impacts.** In Ethiopia, corporate social responsibility or philanthropic programs may be expected as part of building a social license to operate, but they are additional to the more fundamental business responsibility to manage negative impacts connected to business activities. Local practices and perception on human rights needs to be taken into account as this will inform the terminology and process by which businesses address human rights risks.

The **scope of responsibility** extends beyond the business itself, to include impacts that could arise from related activities of other actors in its value chain including suppliers, contractors, joint venture partners and government entities. Businesses and investors have a responsibility to take action not only on the impacts that a company can control, but any impacts that could be connected to the business's operations, products or services. The ability to map and assess impacts in the value chain may be challenging in Ethiopia given the nascent nature of many industries (noting that the advent of the garment industry is beginning to shift practices), and where businesses operating in Ethiopia are not used to reviewing the value chain and may not have the capacity and expertise to do so.

For impacts beyond the control of the company alone but which they are connected to, the business should **use or build its leverage**, i.e. identify steps that the business could take alone or in collaboration with others to influence other actors who may have primary responsibility for preventing or addressing an impact (see Section 5).

In the process of assessing potential social impacts, businesses or investors may identify a range of potential impacts on people – too many to address all at once. In such cases, businesses should **prioritize the most severe impacts on people** for the most urgent and immediate action.

Due diligence processes should **engage with potentially affected stakeholders** on an ongoing basis. This can be particularly challenging in Ethiopia where there are cultural, linguistic and contextual barriers to direct engagement with affected stakeholders.

Positive impacts on people, in terms of social or economic development, shouldn't be used to offset business responsibility to address negative impacts

Local practices and perception on human rights needs to be taken into account as this will inform the terminology and process by which businesses address human rights risks

When a business causes actual impacts on people, it has a responsibility to provide **remedy** for the harm that was caused, through its own mechanisms or through credible institutions. In Ethiopia public institutions for remedy have historically been less accessible and often restricted, although with recent legislative and policy revisions many operating in Ethiopia have noted that this is changing.

4.3.1 Invest Appropriate Due Diligence Resources

Heightened risks, and challenges in assessing those risks, means that investors and businesses should invest appropriate resources in the due diligence process, commensurate with the level of risk

Compliance is not enough: compliance with local laws, often a proxy indicator for managing social risks, is not likely to be sufficient given that many relevant Ethiopian laws and regulations diverge from international standards (for example labour and working conditions, resettlement). In addition, access to international finance and markets is increasingly predicated on evidence of application of enhanced practices beyond local laws and norms, particularly with regards to labour and working conditions.

Lack of independent voices: it can be more challenging to gather information, build an understanding of the context and stay apprised of evolving circumstances given the historic limitation on independent voices from civil society or the media.

Barriers to engagement: engagement with workers and communities is complicated by language barriers, cultural barriers of speaking up and a context of political volatility that may create fear of reprisal.

Circumstances can evolve rapidly: contextual factors that can create or reduce social risks can change rapidly. Businesses and investors therefore need to ensure that this is factored into due diligence and that review is ongoing, as new risks may emerge – or become more severe or more likely – even after initial due diligence is conducted.

Capacity and expertise: investors in particular have noted that access to consultants who can operate in the Ethiopian context (including understanding of cultural and language considerations), as well as who have experience of international standards is currently limited. This can have implications on a company's ability to effectively identify issues during E&S due diligence, as well as commission the resources (internal and external to a company) to effectively address and manage impacts.

Company Practice: Global Supply Chain Company

One **global supply chain company** considering entering into Ethiopia took a range of additional due diligence steps, proportionate to the level of perceived social risk, designed to increase its knowledge of existing social challenges and opportunities. This included:

- holding in-country meetings with local and global trade unions, expert international organizations and other multinationals;
- meeting with potential business partners to describe expectations on social performance and to conduct initial evaluations and develop corresponding corrective action plans; and,
- arranging initial dialogue with governmental counterparts and the Ethiopian Investment Commission on wages and working conditions.

This approach highlights several important tools in the due diligence process:

- collaborating with partner organizations to gain access to stakeholders,
- setting expectations for business partners and assessing their capacity and commitment to managing social risks, and;
- using leverage as a multinational for engagement with regulatory authorities on social risk management frameworks.

05

Managing Social Risks in Practice: Company Approaches

This section highlights some of the approaches that Ethiopian and multinational companies are taking to address some of the salient issues in Ethiopia as highlighted in previous sections.

5.1 Wages

As outlined previously, Ethiopia represents one of the lowest wage markets in the world, and the risk of a business being connected to a social impact of inadequate wages can be substantial as evidenced by several international research publications across 2017 to 2019 on the garment sector[6,7]. However this also represents a challenging impact to address alone.

Ethiopia currently represents one of the lowest wage markets in the world and the risk of being connected to a social impact of inadequate wages can be substantial

How are companies seeking to manage this risk?

Company Practice: International horticulture company

An international horticulture company outlined how it has engaged with the development aid organization Hivos who have conducted studies in Ethiopia to gain insight into current wage levels, wage setting processes and living wage gaps. The company highlighted that they are using these insights for the Dutch-facilitated sector-wide agreement related to corporate social responsibility in the horticulture sector where they are seeking to include fair wages as part of the discussion, in turn to improve wages as a whole in the sector. In the meantime, the company has outlined that is has adopted Fair Trade's standards for a minimum floor wage in Ethiopia which is based on the World Bank's floor minimum wage standard.

Company Practice: H&M

H&M initiated a process with a range of relevant actors to support stronger minimum wage legislation. This included funding a minimum wage study in Ethiopia conducted by the International Labor Organisation (2018), which formed the basis for a dialogue between a range of actors including Government officials, the Ethiopian Investment Corporation, global brands, the Ayka Addis textile company, IndustriALL, and the Industrial Federation of Textile, Leather and Garment Workers Trade Unions (IFTLGWU).

5.2 Worker Voice and Collective Bargaining

Effective worker voice, often achieved through credible trade union structures, can be an essential tool in understanding social risks and developing effective approaches to preventing and managing those risks. However, in Ethiopia enabling effective worker voice is particularly challenging as noted by several investors and companies operating in Ethiopia:

- there are social and cultural barriers to workers speaking up;
- trade unions are not always present in the workplace; and
- where trade unions exist they often lack the capacity to be effective vehicles for representation of worker concerns, resulting in a low level of buy-in and trust from employees.

Effective worker voice can be an essential tool in understanding social risks and developing effective approaches to preventing and managing those risks

How are companies seeking to manage this risk?

Company Practice: Tchibo

Tchibo leverages a global framework agreement with IndustriALL to enable the global federation to work with trade union leadership at Tchibo's supplier Ayka Addis. When issues arise, the company's management or trade union can call upon IndustriALL and Tchibo to jointly intervene, negotiate and resolve issues. The companies and IndustriALL have noticed a decrease in turnover, which they feel is related to the strong labour relations within the factory, including the ability for collective bargaining.

5.3 Impacts on Vulnerable Groups – Women in the Workplace

In Ethiopia, women in the workplace can face systemic discrimination and often violence and harassment. Violence and harassment against women is also common in the home and community and can have implications on ownership of domestic assets, access to finance and sexual and reproductive health rights for women. These risks have their roots in:

- discriminatory social customs and practices that create greater vulnerability for women;
- weaker regulatory protections for female workers; and
- power asymmetries in the workforce (women are more likely to work in less senior or influential positions, with male dominated management) and working away from home/ family.

How are companies seeking to manage this risk?

Company Practice: Diageo

Diageo partnered with the NGO CARE International to bridge their engagement with female farmers and undertake an in-depth gender analysis of Diageo's barley value chain in the Oromia region of Ethiopia. The resulting analysis provided recommendations focused on enhancing women's economic empowerment through improving female participation in farming (gender sensitive training, increasing female farmer access to inputs and establishment of contracts where the women in the household have the opportunity to be lead or co-signatory). The analysis also provided recommendations on enabling women to gain title to land, as well as recommended changes to union governance to enable women to have representation in farming unions. The company is now putting a number of measures in place in response to the findings, including engaging with the governmental agricultural association with regard to policy reform, and with the local brewery to explore opportunities to enhance women representation and mainstream gender.

Company Practice: The Ethiopian Horticulture Producer Exporters Association

The Ethiopian Horticulture Producer Exporters Association (EHPEA), a business association of farms engaged in the production and export of horticultural products, is partnering with BSR (Business for Social Responsibility, an international consultancy) to address prevalent sexual abuse and harassment on farms. 80% of the workforce in horticulture are women aged between 18-25 years old, with approximately 70% having only primary education – equating to a high risk for sexual exploitation. The "Empowering the Source / HERproject" addresses both behaviors and practices through trainings for workers on farms about the gender and health concerns of male and female workers; and governance systems, by establishing gender committees and drafting and adopting a gender policy premised on zero tolerance for sexual harassment.

80%

80% of the workforce in horticulture are women aged between 18-25 years old

5.4 Land-Related Impacts

In Ethiopia, companies across all sectors are at risk of being connected to impacts related to land use – including those located in industrial parks. All land in Ethiopia is state owned and therefore the government plays a key role in determining the allocation of land and the process through which land acquisition and compensation occurs.

The following key themes have been identified and consolidated through stakeholder interviews during the development of this Note:

- Public authorities are requiring increasing areas of land for private sector activity, including commercial farming and industrial parks.
- Land tenure regulations in Ethiopia do not always recognize traditional ownership and historical use.
- There is increasing pressure on land due to high population density and climate related impacts. Although conflict is identified as the key reason, a significant proportion of these clashes are driven by scarcity of resources, such as farmland and grazing land, and effects of drought and flooding[8]. As context, in 2018 alone Ethiopia had the highest number of new internal displacements surpassing countries like Syria, Yemen, and the Democratic Republic of the Congo and with between 2 to 3 million displaced people in 2019.[9]
- Acquisition and resettlement frameworks demonstrate gaps against international standards and expectations including compensation procedures, the requirement for restoration of livelihoods and monitoring responsibilities.

There is increasing pressure on land due to high population density and climate related impacts

How are companies seeking to manage this risk?

Company Practice: Corbetti Geothermal

Corbetti Geothermal developed a land acquisition plan for the land it would require as part of its operations. This plan reviewed the standards for land contained in various international standards (including the IFC Performance Standard 5 and the World Bank's Operational Policy 4.12) and compared these to the requirements contained in Ethiopian law. This analysis uncovered significant differences between national and international standards, which in turn led to an action plan that enabled the company to navigate potential conflicts with communities and meet the higher standard. This was done in regular dialogue with the government and enabled the company to build and maintain its social license to operate and facilitated the company's access to international financing.

- In implementing the action plan, **Corbetti Geothermal** created a land compensation committee – comprised of local community elders, local officials, and local agencies – to consider the appropriate compensation to be paid to communities whose land would be included within the company's operations. This committee was comprised of local community elders, local official and local agencies. The committee include a grievance mechanism which enables community members to lodge grievances and receive feedback.

Company Practice: H&M and Tchibo

Apparel companies, including H&M and Tchibo, recognized the severe social risks related to sourcing local cotton from the Omo Valley region of Ethiopia. Local communities who represented a particular ethnic group have alleged discrimination and impacts on their livelihoods resulting from land displacement and inadequate compensation due to allocation of private land allocation for commercial cotton plantations. Looking ahead, these companies have sought to engage with both the government and relevant stakeholders to push for adequate consideration of communities in any cotton strategy that the government would consider moving forward, and have engaged with their suppliers to ensure that cotton is sourced in a sustainable manner (including looking for alternative sourcing locations in the short-term).

5.5 Water-Related Impacts

Ethiopia presents heightened risk for water-related impacts, including both accessibility to water resources and impacts on water quality:

- Ethiopia faces climatic vulnerability, with both droughts and flooding.
- Increasing private sector activity can create increased pressure on existing water resources management, particularly considering cumulative impacts in areas where large scale industrial parks maybe located or where contiguous areas of land may be allocated for agribusiness, as has been the case across several regional states in Ethiopia.
- Wastewater management can create impacts on community health, particularly with cumulative impacts resulting from the activities of several actors, in the context of a weaker regulatory regime. Most recent examples include the cumulative impacts being reported by stakeholders due to the concentration of the horticulture companies in the Rift Valley, as well as the development of industrial parks for the garment sector in Hawassa, Mekele and Addis Ababa, where impacts to both water availability and quality has been raised by various stakeholders including neighboring communities and civil society organisations.

Considering cumulative impacts in areas where large scale industrial parks maybe located, particularly for water resource management is a key consideration

How are companies seeking to manage this risk?

Company Practice: Diageo

Diageo has four principles for its Water Blueprint - sourcing, operations, community and advocacy. Diageo applied this strategy in Ethiopia since entering the market. The strategy includes identifying areas of water stress and using this to inform proposed commitments to provide access to clean water and sanitation in local communities.

Company Practice: H&M

H&M worked with the Swedish Textile Water Initiative (STWI) which brought together SIDA, the Stockholm International Water Institute (SIWI), Swedish brands and their suppliers and sub-suppliers. This network developed guidelines for sustainable water use in textile and leather manufacturing and focused in Ethiopia on achieving measurable results at the factory level, addressing resource efficiency and building the capacity for workers and managers to continue working towards sustainable production. One of H&M's supplier undertook this training to build the business case for sustainable water use.

06

Advice for Businesses and Investors: Summary of Good Practices in Social Risk Management in Ethiopia

Looking across the approaches that business and investors are taking to address social risks, and through engagement with a variety of stakeholders, the following key recommendations have emerged that are outlined in the box below.

Common Elements in Business Approaches to Managing Social Risks in Ethiopia

Make the Business Case:

- **Identify and tailor the business case:** investors and businesses should identify the particular components of the business case that may be most relevant to individual business circumstances. In higher-risk circumstances, there are likely to be compelling and relevant business drivers for managing social risks.

Preparedness

- **Understand the Risk Factors:** Understanding the factors that can create heightened risk in any context can help businesses and investors to focus due diligence resources on the highest priority areas, as well as being attuned to relevant changes in contextual dynamics that could affect both the business and its exposure to social risks.
- **Identify and Assess the Salient Risks:** Awareness of the most prevalent and severe social risks can help businesses and investors to shape proactive due diligence processes, by knowing what to look for.
- **Understand the Expectations:** Particularly in higher-risk circumstances, where there is likely to be greater scrutiny, businesses and investors should ensure that due diligence is framed by appropriate parameters.
- **Invest appropriate due diligence resources:** Higher-risk circumstances require appropriate due diligence resources. The risks are higher, the challenges in assessing and managing those risks is greater, and the social risk profile of the business is likely to change as circumstances evolve.

Investors and businesses should identify the particular components of the business case that may be most relevant to individual business circumstances

Constructive partnerships with external experts – including NGOs, professional consultancies, and international organizations helps to better assess a particular social impact and more effectively engage with particular groups of affected stakeholders

Taking Action

- **Utilizing Credible International Standards:** when faced with national standards that do not fully align with international standards, businesses were able in a number of situations to utilize international standards and frameworks – from international organizations such as the ILO, the World Bank, and the IFC, to multi-stakeholder initiatives such as Fair Trade – to create a credible benchmark, even while more comprehensive or context-specific efforts are underway in Ethiopia.
- **Engaging Experts:** businesses and investors do not need to have substantive expertise to manage every social impact. The examples below highlight constructive partnerships with external experts – including NGOs, professional consultancies, and international organizations – to better assess a particular social impact or more effectively engage with particular groups of affected stakeholders.
- **Building Capacity for the Long Term:** businesses and investors have recognized that there are few 'quick fixes' to managing social impacts in higher-risk circumstances such as Ethiopia. Many of the approaches highlighted below demonstrate longer-term strategies that seek to internalize the capacity among local actors to manage current and emerging social risks in more sustainable ways.
- **Playing the Long Game:** the ability to drive change in practices and company culture will take time and should also be considered in investors Action Plans or similar instruments. This is likely to include planning for additional resources to focus on labour and working conditions (investing into the HR function), and stakeholder engagement capacity.
- **Engaging Affected Stakeholders:** the examples below highlight efforts by businesses and investors to implement social risk management strategies that prioritize direct engagement with those who are affected – including utilizing trade unions, worker councils and worker voice mechanisms in the workplace, and robust community engagement approaches for community-facing impacts.
- **Collaboration with Industry Peers:** many of the examples highlight industry working together to address shared challenges, recognizing that collaboration at an industry level may be necessary to build sufficient leverage to achieve reforms.

There are few 'quick fixes' to managing social impacts in higher-risk circumstances. These include longer-term strategies that seek to internalize the capacity among local actors to manage current and emerging social risks in more sustainable ways

Collaboration at an industry level may be necessary to build sufficient leverage to achieve reforms

Appendix – Interviewees

We would like to thank the interviewees from the following organizations, who have contributed expertise and guidance to the development of this report:

- PVH
- H&M
- Tchibo
- Ericsson
- Diageo
- Corbetti Geothermal
- The Children's Place
- The Ethiopian Horticulture Producer Exporters Association

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