

# The Ethiopian Business Environment and the Challenges on International Business Practices: Focus on the Ethiopian Labor Regulations

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## Abstract

After handling the conceptual as well as empirical reviews of relevant literature, this article reviews the relevance of labour regulations (including their enforcement) of host countries to the flow and retention of Foreign Direct Investment (FDI) in to their economy. As such, certain components of labour regulations particularly those that govern employment, working conditions, pay & benefits, and collective bargaining & dispute handling are covered in this article.

**Keywords:** labour regulations, Foreign Direct Investment (FDI)

## 1. Labor Market Regulations

In this paper, “regulation” primarily refers to “the sustained and focused control exercised by a public agency over activities that are valued by a community” (Botero et al, 2004 citing Selznick, 1985). The study of regulation is concerned with the use of law (and other mechanisms of regulation available to the State) to achieve the goals of social policy. The term “law transmission system” has been used to describe the process by which a statement of policy is translated into “real world” changes and socio-economic behavior. This covers “legislative, administrative and judicial actions which interact with regulated institutions, beneficiary organizations and individuals to achieve a real world response to a legislative standard” (Pierre and Scarpetta, 2004). This approach emphasizes that the efficacy of regulation cannot be assessed by reference to its content alone but must take into account a wider range of implementation factors.

Labor market regulation refers to a range of laws and policies the primary purpose of which is to regulate the labor market. The term indicates a wider focus than conventional notions of labor or employment law, which have generally been used to refer to laws enacted to protect persons defined as employees. Labor market regulation goes beyond the goal of regulating existing employment relationships and seeks to regulate the broader operation of the labor market: what have been described as the “legal steering mechanisms” of the labor market (Kuddo et al, 2010). It may also be used to refer to the regulation of paid work performed by persons other than employees.

At the same time, it is necessary to draw some form of line around labor market regulation to prevent the concept interpenetrating seamlessly with a broader body of law, which creates rights, and duties of general application across society as a whole. The term labor market regulation generally excludes laws and policies which, while applying to actors in the labor market, do so irrespective of their status in the labor market.

### 1.1. Categories of Labor Regulation

Labor market regulation can be divided into a number of sub-categories. Bhorat (2008) classifies them as follows.

- **Minimum conditions of employment:** include restrictions on forced labor and child labor as well as laws regulating hours of work, periods of leave, the termination of employment and health and safety at work.
- **Collective bargaining and worker participation:** Labor law promotes the conditions for the formation and regulation of trade unions and employer’s organization, the conduct of collective bargaining, dispute resolution and the taking of industrial action.
- **Institutions of governance:** include Institutions responsible for stakeholder participation in developing labor policy/legislation; recommending minimum wages and other employment conditions; and promoting, monitoring and enforcing compliance with legislation.
- **Dispute resolution and adjudication:** Procedures for resolving disputes of interest generally include conciliation and the regulation of industrial action while disputes of right which cannot be settled are generally referred to as adjudication. In some countries specialist labor law courts or tribunals have been established, while in others they are dealt with by the ordinary courts.
- **Promoting equality in the workplace:** The primary provisions are anti-discrimination statutes, pay equity law and, in certain societies, obligations to implement employment equity or affirmative action.
- **Providing skills development & placement within the labor market:** Labor laws seek to promote the employability of individuals through national and sectorial schemes providing training and

*skills development for employees and work-seekers as well as mechanisms for the placing persons in work.*

- **Providing employment-linked social security:** *Labor market regulation may include the provision of a range of forms of social insurance such as health insurance and retirement funds. Legislation may establish state-run (generally contributory) schemes to provide certain of these benefits or legislation may merely play the role of setting standards for private providers to provide these benefits. These categories are overlapping and different aspects of labor law easily be fitted into more than one category.*

## 1.2. Dimensions and Standards of Labor Regulations

Labor dimensions should be multi-dimensional in order to be able to address the interests of the parties governed by them. A report on labor markets and regulations of the Republic of South Africa (Benjamin, 2005) suggests that for the purpose of delineating the scope of labor protection, it is useful to identify three dimensions of labor regulation. These are social justice (which includes human rights concerns such as anti-discrimination law and employment equity) and occupational health/safety; regulations dealing with economic exchange and governance (which includes employment standards, certain common law duties such as implied notice upon termination and collective bargaining); and regulation regarding social wage and social revenue (including employment insurance, public pensions, workers' compensation and income tax). Actually, these dimensions are regarded as pillars of a standard labour regulation system (Bhorat and Cheadle, 2002).

Labour regulations also try to consider standards of employment and working conditions (Suri & Dubei, 2008). These standards are usually initiated from international conventions and agreements signed by countries on bi-lateral and multi-lateral basis (Kuruvilla, 2006). Three types of labor standards are mainly forwarded by various sources; namely, Protective standards which constitute a legitimate "corridor" of employer conduct; Standards of participation which provide the rights, institutions and means for participation by labor, capital and business in setting and implementing labor standards; and Standards of promotion which further labor productivity, promote job creation and combat unemployment (Ladbury and Gibbons, 2009).

## 2. Impacts of Labor Market Regulations on FDI Flow

Most literature on FDI determinants have been motivated by theories of international business, which are firm-based; and by international trade, which is based on general equilibrium models (Parcon, 2008). The former argues that three conditions must be satisfied for FDI to occur: the firm must have both an ownership (O) and an internalization (I) advantage, and the host country must offer a locational (L) advantage. Both ownership and internalization advantages depend on the firm, while locational advantage depends on the host country. When potential countries are being considered by a MNC to host its FDI, the latter will choose based on the locational advantages offered by the former.

The two approaches in studying FDI determinants have produced a plethora of empirical work on FDI determinants at the firm and country level. These studies have considered various host country characteristics that may influence FDI inflows. These factors may be divided into non-policy and policy factors (Hussain and Rimuli, 2012). According to most other sources (Anyanwu, 2011) non-policy factors would include market size, distance, relative factor endowments, economic growth, and risk/uncertainty. Policy factors meanwhile would include tax structure, investment incentives, product FDI restrictions, participation in trading agreements, and tariff regime.

Basic components of a conducive business environment for growth of FDI presence in a country include sound macroeconomic policies (including monetary, fiscal and trade policies), aggregate demand, the structure of and access to markets, access to inputs and credit, availability of infrastructure such as transport and communications, responsive enterprise promotion policies as well as a supportive regulatory environment. The rapidly growing economies of Asia and Latin America are testimonies of how such an enabling environment has proved to be key factor for expanding business opportunities and scope for generating productive jobs.

According to (Botero et al, 2004) an often overlooked policy factor is the labor market regulation of the host country. This factor can be considered vital in the choice of FDI host country because an entire production process is left to the hands of the host country labor force. Flexibility in the labor market regulation of the host country is, therefore considered to be a critical variable in determining the flow and retention of FDI in its economy.

According to Whyman and Baimbridge (2006, cited in Parcon, 2008) labor market flexibility refers to the degree to which labor market outcomes are determined by the operation of market forces more than by rigidities and/or restrictions imposed by powerful actors such as the government, trade unions, and monopsony employers. Thus, a flexible labor market would balance between regulations regarding labor market standards, regulations, and non-wage labor costs and realities in the labor market forces.

Studies on labor market regulations as an indicator of labor market flexibility and there by that of FDI

have focused on firing and hiring regulations (Busse and Groizard, 2008). There are likewise a considerable number of studies that have focused on regulations during the period of employment (ILO, 2006). According to the studies, restrictive regulatory conditions during the duration of employment and firing regulations constrain the ability of firms to easily respond to changes in market forces.

Non-wage labor costs and regulations are driven by policy objectives that are unrelated to FDI. Most of these objectives arise with the aim of protecting the employee. It is for this reason that labor market regulations are usually associated with EPL. In addition, labor market regulations arise as outcomes of negotiations of contracts and incentives. As reflections of the restrictive nature of the labor regulations, Polaski (2006) included hiring costs (employers' contributions to social security and to contractual and private benefit plans) in their measure of total labor costs. Using a sample of selected Countries, a negative and significant effect of total labor costs on FDI inflows was found. Other studies (Berik and Rodgers, 2007) theoretically demonstrated that firing costs, in particular severance payments, deters potential investment especially in risky industries.

Lee (2003, cited in Hirut and Getnet, 2010) used an EPL (employment protection legislation) index to show that protectionist labor market regulations have a strong negative impact on FDI inflows. However, the EPL index is limited since it simply averages the level of employment protection under a regular and a temporary contract. Kuruvilla and Verma (2006) focused on the impact of labor market flexibility on US FDI in 33 host countries. He similarly found that countries with more liberal labor markets receive more FDI from the US. Regardless of the exact reason why non-wage costs and labor market regulations exist, they have important implications on the cross-country distribution of FDI. The mainstream literature suggests that non-wage costs and inflexible labor market regulations negatively affect FDI inflows in a potential host country due to: (1) the decrease in MNC's returns due to higher labor costs; and (2) the decrease in the capacity of the MNC to readily respond to supply and demand shocks.

### **3. Assessment of Regulatory Frameworks of Labour in Sub Saharan Africa**

Even if a huge part of African economies stands beside the legal framework through informality and poor compliance, the regulatory framework of the labor market is surely one of the most rigid throughout the world (Pierre, 2008).

In a survey handled by the World Bank (2009), firms were asked to identify issues that could be problematic for the operation and growth of their business. The percentage of firm perceiving labor regulation as a major or severe obstacle to their economic development lies between 4.6 % for Eritrea and 22.5 % for Kenya. These percentages do not follow the same pattern as the rigidity of employment index across countries. About 12.1% of firms in the most rigid labor market (Tanzania) find labor regulation problematic, compared with almost 11% in the most flexible labor market (Uganda).

Nonetheless, firms' perception of the labor regulation as an obstacle to business running may also be biased (Alby et al, 2005). In countries where economic infrastructures are very poor and insufficient, firms may have a tendency to underestimate labor regulation's impact on their business. In some countries, the fact that a significant number of firms quote labor regulation as a significant obstacle may simply more highlights that the labor law is actually enforced rather than it is too rigid. Finally, this inadequacy might reflect that labor regulations are seen more dysfunctional than simply rigid or flexible. According to Boni (2010) both trade unions and employers are seen as strongly influencing labor laws by a relatively large percentage of firms. Both parties might end up being locked in with inefficient compromises.

#### **3.1. Assessment of Employment Laws in sub Saharan Africa**

Employment laws regulate the individual employment relation, including the alternatives to the standard employment contract, the flexibility of working conditions, and the termination of employment. To capture all these effects four indexes are reported (*Doing Business 2009*): a difficulty of hiring index, the rigidity of hour's index, a difficulty of firing index and an overall rigidity of employment index, which is the average of the first three indexes. Each index may take values between 0 and 100, with higher values indicating more rigid regulation. The firing costs are also included. The data on hiring and firing workers are based on a detailed study of employment laws and regulations, as well as relevant constitutional provisions. Hence, informal employment is not taken into account when computing these indexes.

The following table displays these employment laws indexes for 33 different African countries. Africa exhibits the highest scores in terms of difficulty of hiring as well as in terms of the rigidity of working hours. This makes African labor market far more rigid in terms of employment than East Asia. Concerning the legal difficulties faced by firm to fire workers, African countries stand just behind South Asia, which seems to be the most rigid region in terms of firing legislation. Therefore, labor market rigidity concerning layoff procedures ensures relatively high protection to African workers.

These three indexes put African countries' labor markets as the most rigid in the world on average. These aspects may not enable firms to adapt to positive or negative market demand shocks in terms of employment. However, firing costs do not seem to be too high and are comparable with what can be found in East Asia.

The legal framework concerning hiring procedures, working hours and dismissals is certainly not widely observed in the informal sector. Therefore, important employment flexibility may be a possible reason for firms to operate in more informal sectors.

**Table 1: Indexes of employment laws, by region and count**

<i>Country</i>	<i>Difficulty of Hiring Index</i>	<i>Rigidity of Hours Index</i>	<i>Difficulty of Firing Index</i>	<i>Rigidity of Employment Index</i>	<i>Firing Costs (weeks)</i>
East Asia and Pacific	20	30	22	24	52
Europe and Central Asia	31	51	42	41	38
Latin America and Caribbean	44	53	34	44	70
Middle East and North Africa	22	52	40	38	74
OECD: High-income	26	50	26	34	40
South Asia	37	36	53	42	84
Sub-Saharan Africa	53	64	50	56	59
Angola	44	80	100	75	116
Benin	72	60	50	61	54
Botswana	0	20	40	20	19
Burkina Faso	100	100	70	90	80
Burundi	50	40	60	50	41
Cameroon	61	80	80	74	46
Central African Republic	89	80	60	76	37
Chad	100	80	60	80	47
Congo	89	80	90	86	42
Congo, Democratic Republic of	72	100	60	77	62
Côte-d'Ivoire	78	100	30	69	92
Ethiopia	50	60	20	43	48
Ghana	11	40	50	34	25
Guinea	67	80	30	59	133
Kenya	22	20	30	24	47
Lesotho	0	60	20	27	47
Madagascar	28	60	60	49	41
Malawi	22	20	20	21	90
Mali	78	60	60	66	81
Mauritania	89	60	60	70	31
Mozambique	72	80	40	64	141
Namibia	0	60	40	33	26
Niger	100	100	70	90	76
Nigeria	22	80	30	44	13
Rwanda	89	80	60	76	54
Senegal	61	60	70	64	38
Sierra Leone	78	80	70	76	188
South Africa	56	40	60	52	38
Tanzania	56	80	60	65	38
Togo	89	80	60	76	84
Uganda	0	20	0	7	12
Zambia	0	40	40	27	47
Zimbabwe	11	40	20	24	29

Source: The World Bank, The original methodology and data come from The Regulation of Labor, by Juan Botero, et al. (2004).

Note: Index components are scored between 0 and 100, with 100 representing the highest level of regulation. The Rigidity of Employment Index is the average of the first three Indexes, and varies from 0 to 100.

### 3.2. Enforcement of Labour Regulations and Standards in Sub-Saharan Africa

The same survey by Alby et al (2005) states that a huge majority of African countries have ratified the International Labor Standard Conventions. The ratification rate goes from 80.5 percent for Convention No. 138

involving the effective abolition of child labor to 100 percent for Convention No. 29 that suppresses the use of forced or compulsory labor in all its forms. However, it can be seen in this section the huge gaps between the ratification of ILO's conventions and national laws on the one hand, and between national laws and their enforcement in practice on the other hand.

#### **The rights of freedom of association and collective bargaining**

- **The right to organize:** In a large number of countries (like Benin, Botswana, Niger, Rwanda, Senegal, Zambia, and so on), even if the Labor Code recognizes the right to organize, it should be kept in mind that the majority of workers are excluded from the Labor Code because they work in agriculture or the informal economy, where the Labor Code is usually not enforced.
- **Trade unions' registration:** Even if the right to organize is fully recognized by the national law, trade unions' official registration can be an obstacle that considerably shrinks the freedom of organization in practice. In several African countries trade unions have to register with official organs (Ministry of Civil Liberties in Burkina Faso, Ministry of Justice in Angola, Ministry of Labor in Nigeria, or the Ministry of Interior in Senegal), implying possible government pressures to deny some trade unions' existence.
- **The right to strike:** This right is very often violated in practice in Sub-Sahara African countries. The most widely used tool by authorities to restrict strikes is to define "essential services" where workers are denied the right to strike. The problem is that the definition of these essential services are often much broader than what is recommended by the ILO. In practice, a huge part of the civil servants are considered as "essential services" workers. For example labor inspectors and magistrates in Burkina Faso; transport, sanitation, electricity, petrol, pharmacy, post, telecom, banks and water supply in Ethiopia; energy, health, policing and telecom in Mali; teachers in Nigeria; power, sewerage, and certain mining operation in Zambia; and so on.
- **Collective bargaining:** While almost all African countries have ratified the ILO's convention on the right to bargain freely, there are large differences across countries in the enforcement of the right to collective bargaining. In Burkina Faso, Burundi, Côte d'Ivoire, Namibia, Niger, Senegal, and South Africa, collective bargaining agreements are in effect in many formal major business enterprises and sectors of the civil service. In several countries there are significant differences between the public and the private sectors.

#### **The elimination of employment discrimination**

According to Anyanwu (2011), we can roughly split Africa into two parts concerning equal remuneration for men and women workers for work of equal value. On the one hand we have countries where women face serious legal discrimination (Botswana, Cameroon, Gabon, Ghana, Madagascar, Mozambique, Rwanda or Tanzania). On the other hand, in many countries discrimination concerning employment and occupation is strictly prohibited by law (Côte d'Ivoire, Gambia, Guinea, Lesotho, Mauritius Namibia, Niger, Senegal, South Africa Swaziland, Togo or Zambia). However discrimination does occur as a result of traditional views on the role of women in society, concentration in a few economic sectors, and limited access to education. It should be noticed that discrimination against women takes place essentially in rural areas, where they make up the majority of rural farmers.

#### **The abolition of child labor**

According to Ladburry and Gibbons (2009) almost all African countries have ratified Convention No. 138 (1973). A member whose economy and administrative facilities are insufficiently developed may, after consultation with the organizations of employers and workers concerned, where such exist, initially limit the scope of application of this Convention. The large majority of child labor takes place in what can be called "informal child labor," that is, children working in small family subsistence farming, in traditional apprenticeship system, in family owned small businesses or in housework. In fact, very few working children appear to be wage employed. Hence, international labor standards do not apply to most working children (Kuruville, 2006).

#### **The establishment of a minimum wage**

More than 78 % of African countries have ratified the ILO's minimum wage fixing machinery convention for manufacturing and commercial sectors (ILO, 2006). However, this percentage decreases to only 33 % for agriculture and 15 % for other economic sectors. The setting of the minimum wage provides in principle a floor to earnings for workers. However, the legislation of most countries excludes groups of workers from the scheme who thus legally earn subminimum wages. According to Pierre (2008) estimates of the share of workers covered by a minimum wage system are scarce. Besides legally non covered workers, some workers earn wages

below the minimum because the employer fails to comply with the legislation. In fact, most African governments appear not to enforce strict compliance with minimum wages (Alby et al, 2005).

#### **4. The Ethiopian Business Environment and FDI-Overview**

According to EIA (2012), since 1991, Ethiopia has opened many economic sectors for foreign investors. The inflow of FDI to Ethiopia has increased from an annual average of \$131 million in 1995-2000 to \$312 million in 2001-2006 although there are fluctuations. The total FDI inflow into Ethiopia has increased continuously from US\$ 135 Million in 2000 up to US\$ 545 Million in 2004. Since then, up to 2007 the yearly FDI inflows have varied between US\$ 545 Million and US\$ 265 Million (UNCTAD, 2010).

FDI inflows into the country have increased heavily since 2005 according to the Ethiopian investment agency. Lucie Weissleder (2009, cited in Remla, 2011) argues there can be three main reasons that can account for this significant change in the development of the FDI inflows. The first one is a significant change in the exchange rate of the main investors, leading to a depreciation of the Ethiopian Birr compared with the currencies of the investors. The second reason, especially against the background of the world food crises, is the grabbing of natural resources to secure the food demand in the investor's country. The improvement in the investment climate of Ethiopia can be seen as the third reason. According to a report on Chinese manufacturing investment distribution in Africa (Fu, 2012), Ethiopia is now the fifth largest recipient of FDI from China in the manufacturing sector. The report cites such factors as labor costs, host country economic size, presence of Chinese government built industrial zones and political stability as driving forces for the increasing Chinese manufacturing investment in Ethiopia. A study by Hirut and Getnet (2010) considers the country's general regulatory environment and treatment for foreign businesses as one of the factors determining FDI inflow and composition. Mustafa's survey (2011) shares similar view on the relationship between the Ethiopian business environment and the country's performance in attracting and retaining FDI.

However, what most of the sources (World Bank, 2013) agree is that Ethiopia still remains one of the least FDI recipients in the world. The average annual FDI flows to Ethiopia from 2003 to 2006 were only \$399 million, which is only 1.56% of the total FDI flows into Africa. Ethiopia accounted for only 1% of Africa's inward FDI stock, while representing close to 9% of the population of the continent. Ethiopia's per capita inflows were \$5 in 2006, compared with \$ 39 for African countries as a whole. FDI as a percentage of GDP of Ethiopia was 0.81% in 2006, compared with 1.6% for Africa (Mustafa, 2011).

The flow of FDI to Ethiopia has been not only low but also unevenly distributed among the various regions. Even though the incentive system encourages foreign investors to invest in the least developed regions (Gambella, Afar, Somali and Benishangul-Gumuz) of the country by providing especial benefits including provision of land free of any charge, their performance in attracting FDI is very poor (EIA, 2012). According to the report, most of the FDI is destined in Addis Ababa, the capital. Out of the total 1350 operational projects (from 1992-2011) 840 of the projects were situated in Addis Ababa. This is because of the regions' better infrastructure, stable political environment and better supply of trained man power. Oromia Region has attracted sizable amount of FDI with respect to the amount of capital invested. That is, of the total FDI operating in Ethiopia during 1992-2011, 36.9% of the capital was invested in Oromia. This may be due to the regions proximity to Addis Ababa, availability of natural resource (arable land and favorable climate) and large market size as it is the most populous region in the country. About 4% of the total FDI was invested in the Amhara region. Conversely, Harari, Gambella, Afar, Somali and Benishangul-Gumuz's performance in attracting FDI has been very poor. For example, there is only one project in Harari and Benishangul-Gumuz Regions each and no foreign investments in the Somali region, since the country opened its door to foreign investors.

When sectorally viewed, the distribution of FDI flows to Ethiopia is fairly diversified into various sectors ranging from the primary including all types of agricultural activities and mining & quarrying to secondary sector or the industrial activities to the tertiary sector including electricity generation, construction, real estate, trade, hotel and tourism, transport service, education and health service (EIA, 2012). Manufacturing, according to the report accounted for 42.9% of the total FDI followed by agriculture which accounted for 26.5% from 1992-2012 and real estate, machinery and equipment rental and consultancy service constitutes 13.86% of the total FDI flows to Ethiopia. Construction contracting, including water well drilling constitutes 11.73%. However, the mining, health and tourism industries are areas that have not received much FDI in the country with each accounting for less than 1% of the total inflow.

#### **4.1. FDI and Employment in Ethiopia**

As discussed above Ethiopia is one of the least recipients of FDI in Africa. As a result, the amount of people employed in FDI related sectors is very small. Employment in FDI accounts for less than one percent of the total labor force in the country during the period of the study.

**Table 2: Employment by FDI in Ethiopia (2001-2010)**

<b>Year</b>	<b>Employment Size</b>	<b>Share of National Labour Force</b>
2001	6510	0.021
2002	6308	0.020
2003	20900	0.064
2004	52991	0.157
2005	47830	0.137
2006	107316	0.298
2007	307213	0.827
2008	563789	1.471
2009	297732	0.753
2010	281890	0.691

**Source:** Calculated by Remla (2011) based on data from EIA and World Bank

According to EIA (2012) report of FDI employment for the period between 1992 and 2012, Agriculture accounts for most of the employment created, employing more than 900,000 people temporarily and more than 310,000 people permanently. 64% of the total FDI employment goes to this sector. The manufacturing sector accounts for 18% of the total FDI employment in Ethiopia followed by real estate services, which includes machinery, equipment rentals and consultancy services and construction contracting including water well drilling account for 0.08% and 0.05% respectively.

#### **4.2. Ethiopian Labour Environment and Labour Market**

Organized literature is almost nonexistent regarding Ethiopia's labor market and regulations in terms of their impact on the potential and actual flow and retention of FDI. But, some sources have addressed the issues independently. The consensus in the surveyed sources seems that the Ethiopian labor environment is largely defined with cheap labor costs (Hirut and Getnet, 2011), chronic shortage of skilled and dynamic workforce (Mustafa, 2011), extremely limited mobility in the labor market (Remla, 2011), and high rigidity index of hiring, firing, and redundancy of labor (Botero, 2004). Even, Fu (2012) criticizes the difference in working culture as a constraint for Chinese manufacturing investors in Ethiopia. Almost all the Chinese manufacturing firms surveyed in this report mention such challenges as spontaneous turnover of large number of Ethiopian workers (especially after pay days), their continuous tardiness and absenteeism for various personal, family, and social reasons, lack of interest in efforts and opportunities (training) to build knowledge and career, and lack of value for time & information as detrimental for their efforts to build a productive and efficient manufacturing systems. According to the report, the interviews with officers from Ethiopian Ministry of Trade and Industry and the Investment Agency, the Ethiopian government also has found it very difficult to reconcile the conflicts between the two cultures.

Regarding the Ethiopian labor regulations, the few sources available for review state or imply the existence of the gaps in the labor regulations of many of the sub-Saharan countries. Ethiopia has adequate coverage of labor issues in its constitution (FDRE Constitution, 1994) and has various legislative documents on labor and employment issues (FDRE Labor Proclamation no. 377/2003, 2004). The country has also adopted about 19 ILO Convention (FDRE Ministry of Labor and Social Affairs, 2012). However, as stated in World Bank's index (2013) the Ethiopian labor regulation is characterized by relatively low flexibility (*Difficulty of Hiring Index, Rigidity of Hours index, Difficulty of Firing index, Rigidity of Employment index, and Firing Costs*), protective views in its articles, imposition of many obligations on the employer, and high level of inefficiencies and complications in the procedures and requirements of enforcement of the regulation. This observation seems to be shared by other parties no matter how passively. Even a report co-sponsored by Ministry Of Labor And Social Affairs of the FDRE and ILO (Dawit, 2006) admits that there some gaps (vagueness, lack of feasibility for enforcement, lack of well-defined scope) in the regulation and other supporting legislations and directives. The survey report on Chinese manufacturers in Ethiopia (Fu, 2012) argues that the Ethiopian government needs to loosen labor laws and identify effective compensation and training schemes and make the requirements and procedures of enforcement more clear, flexible, and simplistic.

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