Summary

ICF has financed Safal’s production expansion in Kenya and Tanzania and a greenfield project in South Africa, and supported the creation of nine roof-forming and distribution centers in Africa. Interviews and financial data found that since 2007 this increase in capacity created about 2,450 direct jobs, about half of them skilled. The main direct poverty reduction impact of Safal operations comes from creating jobs for unskilled and lower-skilled workers. In addition, almost two-thirds of Safal’s products target low- and middle-income groups. Employment effects in the supply chain were minimal, but an estimated 24,000 people are employed in the distribution network, mainly in the form of unskilled jobs.

Safal and IFC Engagement

Safal owns four manufacturing subsidiaries in four countries (Kenya, South Africa, Tanzania and Uganda) and nine distribution companies in eight countries in East and Southern Africa. It is the only producer of the aluminum zinc coated steel (“ZincAL”), a premium roofing product; it also is the only integrated downstream manufacturer and distributor of roofing sheets in twelve African countries. In addition, Safal builds a degree of industrial integration as some subsidiaries supply others in intermediate and finished products. Safal converts 100 percent of coated coils into value added roofing sheets through its distribution companies. Safal is the market leader in the coated African roofing sheets market with 52 percent market share in key East African markets like Kenya and Tanzania, 35 percent in Uganda, 15 percent in South Africa and 6-35 percent in a number of other African countries (including Angola, DRC, Djibouti, Ethiopia, Malawi, Mozambique, Rwanda, and Zambia).

IFC and Safal have a long-term partnership dating to 1999, when IFC provided $11.5 million to the expansion of Mabati Rolling Mills in Kenya, one of the four manufacturing subsidiaries of Safal. In 2007 IFC provided $35 million to support a $240 million investment plan. The investment included a greenfield 150,000 Tons Per Annum (TPA) and coating facility in South Africa and expansion of coating capacity in Kenya by 35,000 TPA and in Tanzania by 40,000 TPA.

The increase in manufacturing capacity expanded Safal’s distribution network in the regional market and its retail presence. In 2011 IFC committed $15 million for Safal to expand its roll forming and distribution centers in, among other African countries, Burundi and Madagascar. Safal considers IFC a strategic partner because of its long-term outlook, knowledge of local, domestic and regional markets, and ability to support clients through multiple phases of expansion. Safal has coated steel production capacity of 375,000 TPA, with an incremental capacity of 205,000 TPA. These values form the basis of estimating the additional job creation due to IFC engagement in 2007.

Direct Employment Effects

Safal has about 4,200 employees in its four manufacturing and nine roll-forming operations in East, Central, and Southern Africa, 2,450 of which can be associated to IFC’s engagement. This incremental job estimate is based on the capacity increase of Safal since IFC’s engagement, which is about 58 percent. The share of female employment is not significant given the nature of the job. For instance, female employment at Mabati Rolling Mills – Safal’s manufacturing facility in Kenya accounts for just 5 percent of employment. Most female workers are involved in management, administrative, and clerical positions. About 80 percent of workers are directly involved in production, while 20 percent are in administration. About half of production employees are skilled (Figure 1).

Figure 1: Production Employees at Mabati Rolling Mills, Kenya

- Unskilled: 24%
- Lower Skilled: 29%
- Skilled: 47%
Safal offers attractive benefits to workers compared to the market average for the sector in each respective country, including competitive wages, transport, health insurance, and meals. It also has strong employee training, which has improved efficiency and reduced work accidents and increased knowledge about technology. Training involves external experts, sending staff to courses at universities, and temporary assignments at other steel operations. Training expenses are estimated at 10 percent of total wages.

**Indirect Employment Effects**

The main raw material for manufacturing coated roofing is hot rolled coils, which account for 90 percent of the cost of production and are mainly imported from Japan. Safal buys local paint for coating and utilities such as natural gas, electricity, and water, but the employment in these domestic firms does not depend on Safal’s operations. Hence the company’s employment impact on the supply chain is minimal and was not included in the analysis of indirect job effects. Most indirect employment impact is generated by distribution networks and dealers in the countries where Safal operates.

**Job Creation in the Distribution Networks:** Safal has an extensive distribution network of third-party wholesalers and retailers—ensuring a strong market presence in East, Central, and Southern Africa. This network accounts for up to three-quarters of its sales. Safal exports more than a quarter of its products outside East and Southern Africa. It typically works with wholesalers and retailers in the countries where it operates.

In Kenya alone, where most of the field interviews were undertaken, Safal reaches about 1,140 distributors and retailers, comprising 20 exclusive wholesalers, 120 non-exclusive distributors and about 1000 retailers across the country. Table 1 shows the share of Safal’s products on total sales of these distribution channels and the average number of employees who work in each.

**Table 1: Type of Wholesalers and Retailers of Safal Products in Kenya**

<table>
<thead>
<tr>
<th>Wholesalers / Retailers</th>
<th>Share of Safal products from total sales</th>
<th>Number of total employees</th>
</tr>
</thead>
<tbody>
<tr>
<td>Exclusive Wholesalers</td>
<td>100%</td>
<td>20 - 55</td>
</tr>
<tr>
<td>Non-Exclusive Wholesalers</td>
<td>50 - 60%</td>
<td>10 - 15</td>
</tr>
<tr>
<td>Retailers</td>
<td>20 - 30%</td>
<td>5 - 7</td>
</tr>
</tbody>
</table>

![Figure 2: Safal Supply and Distribution Network](image)
Safal has similar distribution channels for other three manufacturing facilities in Tanzania, Uganda and South Africa. Therefore, the composition of distribution channels and size of employment (shown in table 1), prorated by Safal’s share of the total sales, was used to estimate the total indirect employment for the entire Safal Group. Using the total sales volume for the respective manufacturing facilities and the uniform distribution assumption, the total indirect employment through third-party distribution facilities is estimated at about 24,000 in the countries where Safal has manufacturing facilities (i.e., Kenya, South Africa, Tanzania, and Uganda). However, this estimate does not include the indirect jobs created in countries where Safal has only distribution centers, even if these centers use third-party retailers to reach customers in the local markets.

About two-thirds of indirect jobs supported are low-skilled and unskilled involved in loading and unloading products. The rest are mostly administrative and managerial staff. It is difficult to estimate the incremental indirect jobs due to IFC’s investments in Safal because not all distributors are selling only Safal’s products, and IFC’s long-time engagement with the client makes it difficult to estimate changes in jobs by distributors over time.

**Poverty Impact through Direct and Indirect Job Creation**

Sub-Saharan Africa’s extreme poverty in countries where Safal operates ranges from 17 percent in South Africa to 74 percent in Malawi. Creating formal employment for poor people is critical to reducing poverty. Monthly wages for unskilled and low-skilled employees at Safal in Kenya are much higher than minimum wages for the same groups in Mombasa and Nairobi², where Safal has its plants.

According to distributors, most indirect jobs supported by Safal operations involve unskilled and low-skilled employees (Figure 2). These employees are paid above the minimum wage. Although a detailed analysis was not undertaken, interviews with some unskilled and low-skill employees indicate difficulties in finding other jobs, given high unemployment in the countries where Safal operates.

Another effect of Safal’s impact on poverty reduction comes from its products. About 63 percent of its roofing products target low- and middle-income groups. Safal also offers high-quality products at affordable prices and reaches underserved markets and rural areas.

**Estimating Indirect Job Creation Using Domestic Purchases and Multipliers**

The initial goal of this study was to estimate the indirect jobs created by Safal. The underlying assumption is that domestic purchases are closely correlated with key cost drivers in the supply chain. But most indirect job creation has been in the distribution network, the costs of which are not captured here.

Based on the above analysis, the estimated 24,000 indirect jobs yields a multiplier of 5.1 indirect jobs created for every direct job. However, this does not include the indirect jobs created at the countries where Safal has only distributions centers, resulting in an underestimation of the multiplier. In addition, the nature of employment for similar industries varies by country depending on the labor costs and distribution channels. Hence the use of this multiplier for similar projects is not recommended.

Given that most indirect job effects were in the distribution network, it was not possible to estimate the number of indirect jobs created in the supply chain. The assumption was that domestic purchases are closely correlated with the cost drivers in the supply chain. But the numbers can be used to estimate both direct and indirect job creation because the capacity increase will generate demand for workers.

**Lessons**

**Direct skilled employment.** More than half of direct jobs created by Safal are skilled, showing the importance of manufacturing in creating skilled jobs.

**Indirect employment.** Significant indirect employment effects have occurred, but in distribution, not the supply network. The possible reasons for it are the capital-inten-
sive nature of manufacturing and that 90 percent of raw materials are imported from global supply chains.

**High indirect unskilled employment.** Most indirect jobs in distribution are unskilled and low-skill due to the nature of the jobs—mostly loading and unloading products.

**Significant poverty impact.** Safal’s operations have significantly reduced poverty by creating jobs and providing affordable, high-quality products.

**Use multipliers cautiously.** Using multipliers from this client to estimate indirect employment for similar projects would be difficult, because it varies significantly by region, industry, distribution channel model used, and cost of labor.

**Authors**

This study was conducted by Hayat Abdulahi Abdo, Economist, Global Manufacturing, Agribusiness and Services. Guidance and inputs were provided by Roland Michelitsch, Chief Evaluation Officer and Ruchira Kumar, Private Sector Development Specialist, Development Impact Unit.

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**Endnotes**

1 ZincAL is a steel coated with an alloy of aluminum and zinc (55 percent aluminum, 42.4 percent zinc, and 1.6 percent silicon). It has corrosion protection capabilities many times greater than the traditional galvanized steel. It has also a smooth uniform finish and preserves its aesthetic appeal. Its shiny surface provides maximum heat reflection and can withstand high temperatures.