



Ethiopia Policy Brief

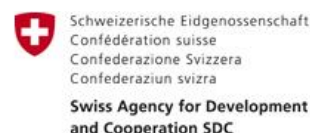
In the early 1990s, the Government of Ethiopia introduced an agriculture-based development strategy known as Agricultural Development Led Industrialization (ADLI). The basis for adoption of this strategy is the conviction in strategic importance and centrality of the agricultural sector for the overall economy, and the advantage in using the abundant resources of land and labour, while progressively increasing capital share in the resource endowment.

Recognizing the centrality of structural transformation, the Government of Ethiopia has pursued the Growth and Transformation Plan (GTP), which was adopted in 2010/11. GTP targets economic sectors such as agricultural and rural development, industry, trade, mining, and infrastructure development. The social sector plan is composed of education, training, and health development. The development of small and micro enterprises has been the strategic focus of the industrial development initiative during the GTP period as reflected in the revised SME development strategy.

While maintaining the emphasis accorded to the agro-processing and construction industries, the GTP also gives priorities to the chemical and metallurgical industries with the motive to assume the leading role of the economy to the industrial sector. The Government of Ethiopia gives due emphasis to employment creation, both in the context of poverty reduction through creating employment opportunities and using labour resource for growth. The main problem in the formal private sector is how to create more jobs to absorb the growing number of the labour force, while the challenge in the informal sector is to increase income.

Labour market aspects of development policies

Labour market interventions of development plans focus on two dimensions: demand and supply side of job creation. The demand side of job creation refers to the ability of the economy to create jobs for various skill categories in the economy, while the second dimension refers to whether or not the skill levels of available pool of persons match with the type of skill that the economy requires. There is also a third element, labour market institutions, which relates to the governance of labour market relations and labor market services.





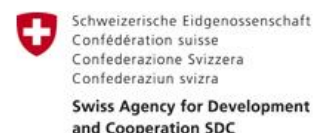
Interventions in the demand side of the labour market intend to stimulate the job creating potential of the economy with a focus on promoting the private sector for employment generation and ensuring effective and efficient public sector employment. Specifically, development of small and microenterprises, promoting labour-intensive manufacturing industries, and labour-intensive infrastructural development have been the key areas of government intervention. Two key programs are worth mentioning: Integrated Housing Development Program and Infrastructural Development. While the latter focuses on constructing low cost and affordable housing for low income urban population, the former on urban renewal programs and infrastructural development. In addition, labour-intensive public employment programs have also been instrumental in generating employment. Specifically, public works are implemented in the form of food-for-work (FFW), cash for-work (CFW) programs or employment generation schemes and employment-based safety nets such as the Productive Safety Net Program (PSNP). These programmes generate employment opportunities for both skilled and unskilled labour force. Between 2010/11 and 2012/13, about 481,000 jobs have been created through housing and related projects (MoFED, 2014).

The supply side of employment stimulation focuses on whether or not the skill levels of available pool of persons match with the type of skill that the economy requires. This refers to improving and raising the skill-intensity of the labour force to improve labour productivity, through education and training. The Government of Ethiopia has been pouring a substantial amount of resources to the education sector to expand access to education and improve the skill intensity of the growing work force. For instance, the education sector accounted for 17.5% of the total budget in 2012/13, with TVET and higher education accounted for 10.8% and 21.4% of the total education budget, respectively. The number of technical and vocational schools has increased from 264 in 2005/06 to 437 in 2012/13, and enrollment 123,557 in 2005/06 to 237,877 in 2012/13 (MoE, 2013). Similarly, the number of public and private universities and consequently, university enrollment has substantially increased.

Key findings

The various reforms undertaken in Ethiopia since the 1990s seem to have positively impacted both overall economic performance and of labour market. Although the sectoral composition of the Ethiopian economy has changed from agriculture to services, changes in the composition of employment have lagged behind.

The Ethiopian population is largely young population in both rural and urban areas, with close to 71% below 30 years of age in 2013. While the rural population is characterized by broad based population pyramids, large youth population features the urban areas. In addition, the proportion of the population in the 10-64 age group has increased in recent years, leading to a fall in dependency ratio. The large youth population (between the age of 10 and 29) in urban areas and broad-based rural population





pyramid indicate a challenge for the country in terms of employment and job creation (see Broussard et al., 2013).

Labour force participation rate remained high though declined in recent years. Male labour force participation rate has shrunk. A massive push in education has contributed to increases in school enrolment, and hence increasing the proportion of those that are economically inactive. The employment structure features that the vast majority of jobs are essentially connected to the extraction of natural resources such as agriculture, dominated by smallholders. While other services accounted for a quarter of aggregate employment growth that of manufacturing played a very small role in employment growth. Wholesale and retail trade contributed more to employment growth than manufacturing over the same period.

Both employment expansion and productivity growth have been the sources of output growth in recent years. Although economy-wide labour productivity growth was accompanied by employment growth, the growth of the latter was not strong. Labour productivity levels have remained low in agriculture and manufacturing. Labour mobility occurred from a low paying sector to another low paying sector which is not useful from the point of view of productive employment and of achieving inclusive growth. Structural change has also played an important role for enhancing labour productivity growth in the country. However, labour productivity levels have remained low in agriculture and manufacturing sectors. Similarly, wholesale and retail and construction sectors have been characterized by low productivity and earnings, with a high degree of informality.

Overall, Ethiopia's employment problem is about the quantity as well as quality of jobs. The types of jobs that have been generated lack decent quality. The challenge confronting the country is to translate the rapid economic growth into sustained and inclusive development, based on economic diversification that creates decent jobs, and reduction of inequality and poverty rates. The shift away from agricultural employment is a basic result of increased productivity in other sectors, especially in manufacturing. Hence, the primary focus should be to trigger investment in the manufacturing sector that can generate employment opportunities for the rapidly growing skilled labour force in the country.





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