

EMPLOYMENT GENERATION IN AFRICA

— Learning From Good Practices



ETHIOPIA CASE STUDY

BERIHU ASSEFA GEBREHIWOT
TSEGAY GEBREKIDAN TEKLESELASSIE

**FRIEDRICH
EBERT** 
STIFTUNG

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**BERIHU ASSEFA GEBREHIWOT (PHD)
TSEGAY GEBREKIDAN TEKLESELASSIE (PHD)**

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EXECUTIVE SUMMARY

Despite well-meaning policies and remarkable economic growth over the past decade and a half, Ethiopia has underperformed in terms of decent job creation. As the unemployment rate has been high and rising in recent years, the focus has been on quantitative targets rather than job quality issues. In 2018, the unemployment rate for the general urban labor force was 19%, rising to 25% for youth. Women face even higher unemployment rates than men, at around 27%, while men's unemployment rate in urban areas was 13%. Poor job quality aspects are even more prevalent in rural Ethiopia. Rural Ethiopia can be characterized by low earnings, underemployment and vulnerable employment, which in turn is an indicator that people live in a state of working poverty.

The manufacturing sector, considered labor-intensive and projected to employ a large portion of the labor force, employed just 2.9% in 2021. One reason is that firms operate at a much lower capacity (sometimes as low as 47%) due to difficulties in accessing essential inputs for their production. The lack of inputs can largely be explained by the underdevelopment of the local upstream sector and the lack of foreign exchange for sourcing from abroad. The underdevelopment of the upstream sector is, among other things, the result of a policy bias towards the downstream sector. On the other hand, with regard to agricultural policy restrictions, access to land, ownership, and inflexible land markets remain to be binding constraints. Since redistribution of land is prohibited by law, the only viable way for rural youth to engage in farming is to rent land. However, in most parts of Ethiopia, agricultural land markets are limited in time by law (usually two years). Second, due to its public ownership structure, land can hardly be used as collateral. Therefore, the existing land rental market and ownership policies tend to limit further commercialization and mechanization of agriculture, which have the potential to create better and more jobs for the rural youth.

Regarding policy constraints in micro and small enterprises (MSE), we find that these are mainly related to problems of targeting. First, MSE policies have been overly focused on state-induced enterprises and excluded those that are self-initiated, whilst evidence shows that state-induced (or cooperative) enterprises are more likely to fail than self-initiated ones. Second, the MSE program tends to be generic in its support elements, with limited differentiation between growth-oriented enterprises and survivalist enterprises. The former has great potential for business transformation and decent employment creation and needs to be specifically targeted by the MSE program.

On the demand side, the main challenges to decent job creation are a poor private sector support system (e.g., cumbersome bureaucratic processes, weak coordination between stakeholders, and costly logistics), lack of access to credit and foreign exchange (e.g., the private sector receives a small percentage of domestic credit and foreign exchange, possibly indicating crowding out by SOEs). On the other hand, the main supply-side challenges to job creation include poor labor market information and skills anticipation systems, poor quality of training, and poor working conditions in the manufacturing sector.

In summary, many well-intentioned policy measures have been taken, but neither has made a significant and sustained contribution to decent job creation. While there have been paradigm shift gestures in policies that emphasize decent jobs, those jobs have not materialized. As evidence for this, the Homegrown Economic Reform (HGER) document notes that quality of employment has not been sufficiently emphasized in previous government policies and translated into practice. Creating more jobs (quantitative aspect) took precedence over creating better jobs (qualitative aspect). Consequently, the jobs created in many sectors are still characterized by low pay, poor job security, low occupational safety, and excessive working hours.

While the full discussion of the recommendations is presented in the document, a preview of some of the key recommendations for addressing the identified policy, demand-side, and supply-side constraints on decent job creation include:

First, addressing key private sector binding constraints is likely to increase growth, productivity, and competitiveness and create more decent jobs. In this regard, the government's commitment to attract foreign direct investment, particularly in industrial parks, has been somewhat successful in creating a better business environment. In addition to providing a better business environment (i.e., functional infrastructure connectivity and one stop services), firm-to-firm linkages between large firms (domestic or foreign) and local input suppliers need to be strengthened to increase job creation opportunities for the youth. Small business support programs must be consistent with local supplier development programs. But even with strengthened local supply systems, enterprises will continue to be part of the global value chain. A major constraint in this regard is the inefficiency of transportation logistics. The logistics sector has been sealed off from foreign competitors. Opening the sector to foreign competition will greatly improve efficiency and increase the competitiveness of local enterprises and become a source of decent job creation. Another proposed measure to stimulate private sector growth is to improve private sector access to finance by addressing the crowding-out effect of SOEs.

Second, among the proposed measures to enhance decent job creation in rural and semi-rural Ethiopia one is to unlock the potential of the agro-industrial parks by accelerating their completion with better connectivity and linkages with the agricultural sector through backward linkages and the industrial sectors through forward linkages. In order for the youth to engage in productive agricultural works, priority must be given to improving the land rental market. With better and more flexible land rental markets, investment, out-grower, and better mechanization schemes could be enhanced. This will also be crucial to creating an economy resilient to shocks like the COVID-19 pandemic.

Third, training in core employability (soft) skills is needed to improve the smooth transition from school (i.e. training and education) to work. Some of the key interventions in this regard include developing standard core skills training curricula for TVET and higher education and occupational standards for core skills. TVET colleges should provide short-term pre-employment core skills training for anyone seeking employment. After completing TVET training, there is a need to train graduates on how to search for jobs and connect with industries.

Moreover, improving work-based learning (WBL) is important, particularly internships and apprenticeships, to bridge skill gaps and facilitate transitions into employment. Currently, there is no proper system of internship and apprenticeship in Ethiopia. The cooperative training in the TVET system, which is a form of workplace attachment rather than WBL, remains ineffective. Some of the key interventions in this regard include introducing a legal framework for governing and monitoring an apprentice and internship system in the country and improving social dialogue between the government (TVET and higher education agencies), employers' representatives, and trade unions.

Finally, addressing barriers to women's labor market participation is crucial for women's economic empowerment. A key obstacle to women's labor market participation is limited access to training. Due to this limitation, female workers are less likely to find better paying and more secure jobs. Therefore, training programs that help women take up formal jobs will not only reduce their vulnerability to layoffs, but also increase their likelihood of receiving a decent wage. The second barrier is the lack of networks. Because women workers, especially young people, have less access to networks, it is often difficult for them to get job opportunities. Upskilling and reskilling opportunities should be more readily available to female workers. Prioritizing female workers' training in digital skills that can enable them to work from home thereby reducing gender gaps in employment and wages. In this context, the provision of incentive systems for enterprises that offer high-quality and well-structured upskilling training opportunities for female workers could be useful. Such incentives could include subsidies for training costs as well as priority in the provision of loans. Moreover, despite the existence of numerous policies and regulations to support women's labor market participation, their practical implementation on the ground is quite limited. There are limitations to effective enforcement due to limited gender support structures and institutionalization. One key intervention is mandating the provision of child daycare services in mega projects, SOEs, and industrial parks to enhance women's labor market participation.

1.0 BACKGROUND AND OBJECTIVES OF THE STUDY

In the last decade and a half, Ethiopia has registered remarkable economic growth. The average growth since 2004 has hovered around 10% for the most part with per capita real GDP growing by around 8% per year. This growth was largely driven by public investment in infrastructure, and the strong performance of the service sector that benefitted from a modest shift of labor from the agricultural sector. With a Gini of around 0.3, the country maintained one of the lowest levels of income inequality in the world. Significant improvements in per capita income (albeit from a low base) have resulted in substantial poverty reduction. Poverty fell from 55.5 percent in 2000 to an estimated 22 percent in 2018/2019.

However, the remarkable growth rates of the Ethiopian economy have not been matched by growth in decent employment. Also, the unemployment rate has increased in recent years:: In 2018, for the general urban labor force, it was 19% and 25% for youth (CSA, various years). With about 27%, women face even higher unemployment rates than men (13%) in urban areas. Low earnings, underemployment and vulnerable employment are characteristic of rural Ethiopia, which in turn is an indicator that people live and remain in a state of working poverty.

In developing countries like Ethiopia, the young population has the potential to harness the demographic dividend and drive socio-economic transformation if they have sufficient and decent job opportunities. However, creating decent jobs remains a challenge in many low-income countries. The employment generation challenge has two dimensions. The first challenge is to be able to provide access to jobs. In this regard, economies need to create sufficient jobs, especially for their growing young population. The second challenge is to ensure that jobs are decent and productive – i.e., jobs that meet quality aspects and decent work standards. While Ethiopia has recently experienced robust economic growth, job creation, especially in urban areas remains a challenge with high unemployment levels prevailing and the majority of people still being employed in the informal sector. The root cause of high unemployment has been the lack of structural transformation from low value-added and non-tradable activities to other sectors and industries with higher potential for growth and job creation. In many African countries, economic growth and rapid urbanization are taking place with little industrialization or structural transformation, hence leading to high urban unemployment.

The creation of decent and productive jobs anchored on a diverse and competitive economic structure will also be critical for coping with the effects of shocks such as drought and the COVID-19 pandemic. Hence, addressing key bottlenecks for private sector development will be one of the key areas for intervention.

From the demand side, urbanization processes that are not accompanied by structural transformation tend to have limited capacity to expand and create productive jobs for the urban youth. From supply-side constraints, some of the major structural constraints include school-to-work transition failures (e.g., lack of mastering, contextualizing, and / or reinforcing the existing stock of skills; job search assistance, counseling, and mentoring); supply-driven educational and training programs leading to skills mismatch; lack of enabling and balanced

macro-policies that promote employment; limited promotion for wage employment; limited systematic support for self-employment; limited domestic investments and support in potential employment sectors, particularly agriculture and other tradable sectors.

This report assesses the employment situation, the policies, and interventions that have been put in place to address unemployment and underemployment in Ethiopia, and their effects on decent employment generation, and then makes recommendations.

2.0 METHODOLOGY AND DATA SOURCES

A desk review, secondary data, and Key Informant Interviews (KIIs) are the key methods used in this report.

(a) Desk Review

The desk review aims to identify government policies and initiatives that have (directly or indirectly) the objective of employment generation, examine their impact on employment generation and identify implementation issues. The desk review includes policies and strategies related to employment, labor market, skills, training, and the education system as well as other previous research on relevant and related issues. Reviewed policies include economic policies on productive sectors such as the manufacturing and agriculture sectors including the Rural and Agricultural Development Policy, the Industrial Development Policy, the MSME Policy, Industrial Park Program, the Home-Grown Economic Reform (HGER), and the 10-Year Perspective Plan. We also reviewed other policies and regulations that directly focus on employment issues, including the National Employment Policy, Labor Proclamation, and Youth Employment Policies. Other labor supply-side policies such as the training and education policies are also part of our review.

(b) Key Informant Interviews (KII)

We have interviewed ten institutions about their role in employment generation, the challenges of generating decent employment, and what their role might be to improve the existing employment situation in Ethiopia. The institutions that participated in the KII include the Ministry of Labor and Social Affairs (MoLSA), the Job Creation Commission (JCC), Micro, Small and Medium Enterprises Agency (MSMSE), the Ethiopia Employers Federation, the Ethiopian Chamber of Commerce and Sectoral Association, the Confederation of Ethiopian Trade Unions (CETU), the Industrial Park Development Corporation (IPDC), the Ethiopia Investment Commission (EIC), the Ministry of Women and Children Affairs, and the Ministry of Agriculture (Horticulture Department). The institutions were asked to reflect on the employment situation of Ethiopia, to assess and reflect on the adequacy and impact of employment policies and implementation problems as well as on their role in employment generation in Ethiopia. In general, the KII seeks information on employment generation that is not usually covered in the CSA surveys.

(c) Secondary data sources

The secondary data mainly comes from surveys by the Central Statistical Agency (CSA). In particular, the following main secondary data sources have been used.

- The 2003 – 2020 Urban Employment Unemployment Survey (by CSA)
- The Ethiopia Socio-Economic Survey (by CSA and World Bank, WB)
- Ethiopia Labor Force Survey 1999 – 2021 (by CSA); the most recent Labor Force Survey for 2021 was not publicly available yet when writing the report. But CSA has released a survey report that contained basic statistics and data that could be used in the analysis.

Based on the findings from the three aforementioned methods employed in the study, conclusions and recommendations were drawn by the authors.

3.0 EMPLOYMENT SITUATION ANALYSIS

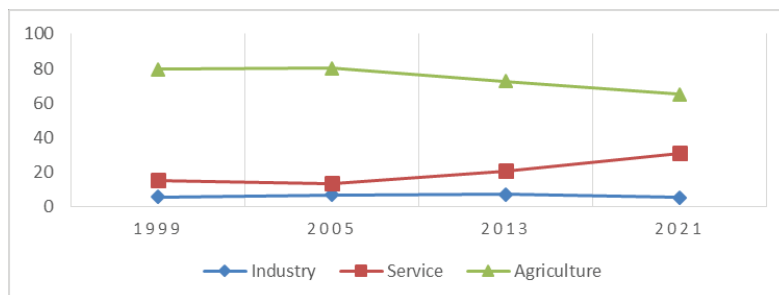
3.1. Employment situation, trends, and Changes

3.1.1 Profile of the employed in terms of sectoral occupational, and skills divisions

Despite high GDP growth over the past two decades in Ethiopia, achievements in terms of decent and productive employment, especially for youth and women, have been limited. Structural transformation in terms of movements of labor to more productive sectors has been below what was envisaged in the GTP and below the Sub-Saharan Africa average.

Trends in employment by the major industrial classification is provided in Figure 1. Despite the Ethiopian government's focus on the industrial sector – which consists of manufacturing, mining, and construction – achievements in terms of labor mobility to those sectors have been limited. According to the national labor force surveys conducted in 1999, 2005, 2013, and 2021, the agricultural sector remains the major employer with about 65% of the employment in 2021 (down from close to 80% in 1999). The share of the service sector in employment increased from 15% in 1999 to close to 31% in 2021, while the share of employment in the industrial sector stagnated at around 5% in the period from 1999 to 2021.

Figure 1: Employment by industrial classification



CSA Labor Force and Migration Survey, 2021

Trends in terms of occupational classifications are reported in Table 1. In the period 1999 to 2021, the share of professionals, technicians and associate professionals, services and sales workers showed a decent increase. The share of skilled agricultural workers has particularly increased from 38% in 1999 to 51% in 2021. Conversely, the share of elementary occupations has decreased from about 42% in 1999 to 28% in 2021. Similarly, the share of crafts and related workers decreased from 12% in 1999 to 2.5% in 2021. The trend in occupational structure shows an improvement in the skill level of workers in the last two decades owing to the increasing access and expansion in education and training in the country.

Table 1: Percentage distribution by occupational groups of employed workers

Percentage Distribution by Occupational Groups	1999	2005	2013	2021
Managers	0.3	0.3	0.5	0.5
Professionals	0.2	0.5	1.3	2.3
Technicians and associate professionals	1	1	1.9	2.3
Clerical support workers	0.6	0.6	0.5	0.5
Service and sales workers	5.6	6.7	8.7	11.1
Skilled agricultural forestry and fishery workers	37.7	40.5	47.9	51.1
Craft and related trades workers	12.1	7	4.4	2.5
Plant and machine operators and assemblers	0.5	0.6	1	1.5
Elementary occupations	41.9	42.8	33.7	28
Others	0.2	0	0	0.2

Source: CSA LFM Survey 2021

However, women remain more prone to work in lower-skilled occupations compared to men as shown in Table 2. In the period 1999 to 2021, the share of female workers in elementary occupations increased from 23% in 1999 to about 36% in 2021. Women, however, remain underrepresented in the sector of plant and machine operators and assembler jobs compared to men. The increase in the share of women in skilled agricultural jobs and service and sales jobs, however, is a positive trend in the last two decades.

Table 2: Percentage distribution by occupational groups of employed workers: Female

Percentage Distribution by Occupational Groups	1999	2005	2013	2021
Managers	0	0.1	0.1	0.3
Professionals	0	0.1	0.4	1.8
Technicians and associate professionals	0.2	0.3	0.6	2.1
Clerical support workers	0.3	0.3	0.3	0.7
Service and sales workers	3.5	4.5	5.6	15.3
Skilled agricultural forestry and fishery workers	5.9	10.7	15.7	41.3
Craft and related trades workers	10	4.8	2.3	2.8
Plant and machine operators and assemblers	0.1	0.1	0.1	0.2
Elementary occupations	23.1	25.4	20.7	35.5
Others	0.1	0	0	0

Source: CSA LFM Survey 2021

The profile of the workforce in terms of the types of employment by gender is shown in Table 3 below. Overall, the share of government employees has increased from about 3% in 2005 close to 6% in 2021. The share of female employment in government jobs has particularly increased from 1% to 5% between 2005 and 2021. Among equally qualified men and women, government ministries and agencies are required to hire female applicants, because gender based affirmative action is given to women, usually about equivalent to 3% of the qualification criteria. Similarly, the share of self-employment has increased from about 41% in 2005 almost to 50% in 2021. The share of self-employment amongst women has also increased from 36.5% in 2005 to 43% in 2021. The share of employment in private organizations remains about 4% in 2021 with slightly higher rates for men (5%) than women (3%).

The low share of employment in the private sector is concerning, as the Ethiopian government strives to make the private sector the driver of growth in GDP and employment. However, not all private employment is decent and productive due to low pay and lack of occupational safety and health standards. Moreover, the share of women in unpaid family work remains very high in 2021 (45%) and continues to be a concern for women when it comes to improving access to decent jobs. The share of other types of categories such as domestic workers, cooperatives, and SMEs remains very low.

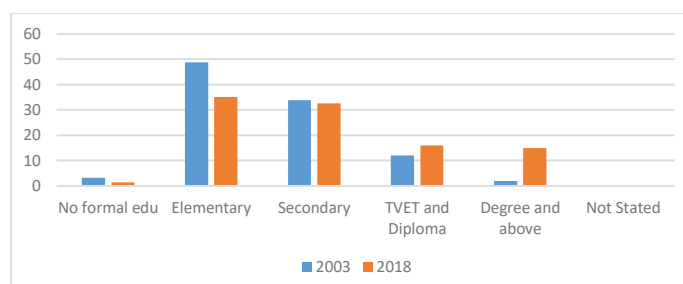
Table 3: Type of employment

	Total		Male		Female	
	2005	2021	2005	2021	2005	2021
Government Employees	3.2	5.8	2	6.4	1.1	5.1
Self-employed	40.9	49.6	4.4	54.4	36.5	43.2
Unpaid Family Workers	50.3	36.7	1.6	30.4	48.6	45.3
Private Organization	2.9	4.1	1.7	4.9	1.2	3
Domestic Employees	1.2	1.8	0.8	1.5	0.4	2.2
Employer	0.6	0.1	0.1	0.1	0.5	0.1
Members of Cooperative	0	0.1	0	0.1	0	0
Member of SMEs	0	0.1	0	0.2	0	0.1
Others	0.5	1.4	0.2	1.8	0.3	1

Source: CSA LFM Survey, 2021

Figure 2 provides the education profile of the workforce in urban areas between 2003 and 2018, computed using the 2003 and 2018 Urban Employment and Unemployment Surveys (CSA, various years). The skill production in terms of educational attainment is an indicator of the ability of the economy to supply the skillset demanded in the economy. Matching of skills supplied and demand enhances productivity and competitiveness.

Figure 2: Education profile of the labor force 2003 to 2018



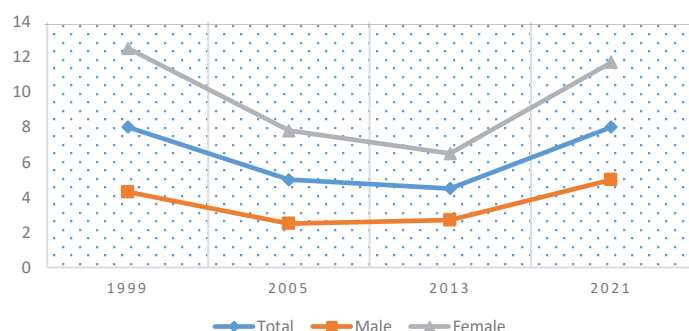
Source: computed from the UEUS (2003, 2018)

As shown in Figure 2, in 2003 the majority of the labor force (48%) had elementary school certification with about 3% holding no formal education. Secondary school certificate, TVET, and degree holders constituted 33%, 12%, and 2% respectively. In 2018, the urban labor force education profile exhibited significant improvement as labor force with no formal education, elementary and secondary certificates holders declined in favor of higher TVET/Diploma, and degree holders. The increase in the percentage of degree holders from less than 2% in 2003 to close to 15% in 2018 is a marked positive change. However, it should be noted that despite the improvement in educational attainment, studies have shown that Ethiopia's urban labor market suffers from skills mismatch (see, for example, Beyene and Tekleselassie, 2018).

3.1.2. Trends in unemployment and under-employment

Trends in unemployment at national level by gender is provided in Figure 3. Even though unemployment at national level and disaggregated by gender decreased in the period 1999 to 2013, it has shown an upward trend since then. Unemployment levels in 2021 are comparable to that of 1999. In 2021, the unemployment rate at national level reached 8%, with female unemployment at 11% and 5% for men. While the COVID-19 pandemic is partly the reason for the increase in unemployment in 2021, the major factors are discussed in forthcoming sections.

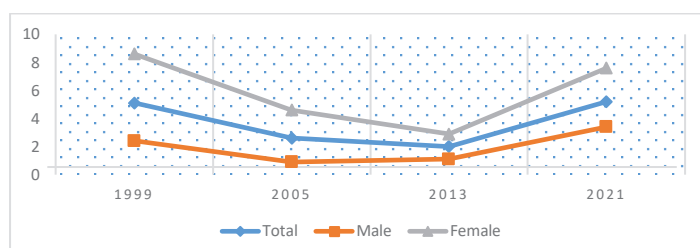
Figure 3: Trends in unemployment rate 1999, 2005, 2013, 2021 (national level)



Source: CSA (2021)

Note that Ethiopia being a largely rural country, the measure of the national unemployment rate is misleading as in the absence of a social protection system. The majority in rural areas engage in some form of seasonable employment with low pay. The 2021 Labor Force and Migration Survey also shows that wage rates for rural employees are about half of wages of urban workers (CSA, 2021). Moreover, successive Urban Employment and Unemployment Surveys as well as the Labor Force Surveys have shown that the majority of respondents are willing to work more, indicating either low pay or rampant under-employment. Most employment in rural areas is seasonable, often short hours, and low paying. Hence, unemployment measures particularly in rural areas grossly overestimate the extent of employment. Even with these measures, unemployment in rural areas has been rising since 2013 (Figure 4). In 2021, the rural unemployment rate has topped 5% with women facing as high as 8% unemployment.

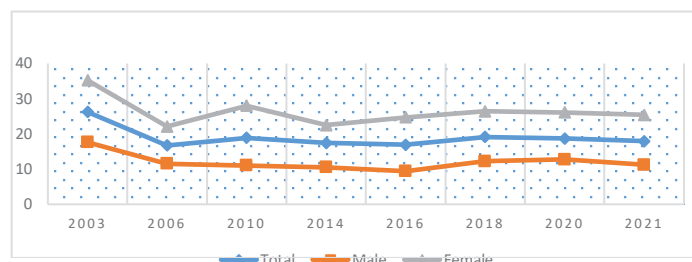
Figure 4: Trends in the rural unemployment rate (1999, 2005, 2013, 2021)



Source: CSA Urban Employment Unemployment Survey (various years)

Unemployment in urban areas has been particularly high. Figure 5 reports urban unemployment in the last decade including disaggregation by gender. Urban unemployment in the period 2003 to 2018 has consistently remained high with levels above 17%. Women particularly faced high levels of unemployment throughout this period. In 2018, urban unemployment rate was 18%, 25% for women and men at 11%. With more than 50% of the employees reporting willingness to work more, it points to either low wages or few hours of work (under-employment), or both.

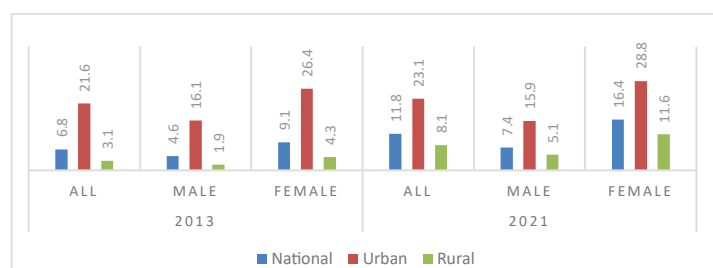
Figure 5: Trends in the urban unemployment rate 2010 to 2021



Source: CSA Urban Employment Unemployment Survey (various years)

The youth (aged 15 to 29) and especially young women are facing particularly low employment prospects. Figure 6 provides youth unemployment rates for national, urban, and rural areas disaggregated by gender. Despite all efforts and prioritization through governmental policies, unemployment for the youth even increased in 2021 compared to 2013 for all categories (total, rural and urban, male, female). In 2021, youth unemployment rate at national level stood at about 12% while urban youth unemployment reached 23%. Female youth in urban areas faced an unemployment rate of 29%. Hence, nearly one in three female youth in urban areas is unemployed.

Figure 6: Youth Unemployment

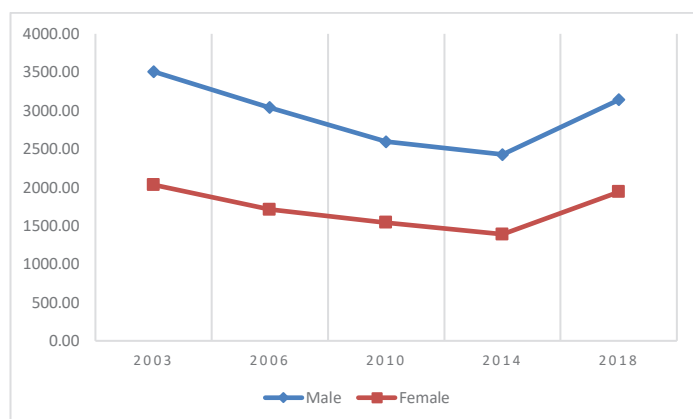


Source: CSA Urban Employment Unemployment Survey (various years)

3.1.3. Trends in wages

An important labor market indicator is the trend in real wages of workers. Figure 7 reports trends in real wages for male and female workers as well as the ratio of wages of male to female workers in urban areas. The figures show that male workers were paid more than female workers in all years between 2003 and 2021 with the highest gap in 2010 when the ratio of the real wages of men to women was 1.78. In 2021, the gap slightly narrowed, but still, men are paid 53% higher than women. Due to inflation, real wages of workers have barely increased in 2021 compared to 2003. Hence, the double-digit GDP growth Ethiopia witnessed in the last two decades may not have benefited employed workers as expected.

Figure 7: Trends in real wages of male and female in urban areas



Source: CSA Urban Employment Unemployment Survey (various years)

Table 4 reports average wages by sector and occupational categories for urban areas. The service sector is the highest-paying sector followed by the industrial sector (manufacturing, mining, and construction). The agriculture sector pays the lowest salary. High-skill occupations consisting of managers, professionals and technicians, and associate professionals are the highest paid. Workers in the services and sales occupation and those in elementary jobs command the least average wages. The over-representation of women in sales and service jobs and elementary occupations explains part of the lower earning of women.

Table 4: Average wages by occupation in urban areas

Average wage in 2018 (Ethiopian Birr, ETB) ¹	
Sector-Based Classification	
Agriculture and related	2505.45
Manufacturing, mining, and construction	2762.62
Services	3325.50
Skill-Based (ISIC) classification	
Managers	5822.01
Professionals	5160.59
Technicians and associate professionals	4268.44
Clerical support workers	3476.09
Service and sales workers	1478.35
Skilled agricultural, forestry and fish	2673.55
Craft and related trades workers	2487.46
Machine operators and assemblers	3288.70
Elementary occupations	1527.89

Source: CSA Urban Employment Unemployment Survey (2018)

3.1.4. Decent jobs and social protection

As shown above, wages of workers have barely kept up with inflation, and hence real wages have hardly increased in the last two decades despite double-digit GDP growth. Women particularly are paid lower wages due to limited access to engage in skilled occupations compared to men. Moreover, women are more likely to engage in unpaid family work than men.

In terms of non-monetary elements of decent work, the government ratified a number of employment promotion and protection related laws and regulations such as the Labor Proclamation No. 377/2003 amended with Labor Proclamation No. 1156/2019, the Federal Civil Servants Proclamation No. 515/2007 amended by Proclamation No. 1064/2017, and regional civil service administration instruments, as well as other legal provisions including Proclamation No. 568/2008 on the right to employment of persons with disabilities. Although these laws and regulations are aimed at ensuring workers' rights enshrined in the Ethiopian Constitution, the reality shows that there is still a long way to go to achieve the creation of sufficient and decent jobs.

In pursuit of decent and productive job creation, the country's successive national development plans including the Plan for Accelerated and Sustained Development to End Poverty (2005-2010) and the Growth and Transformation Plan I (2010-2015) as well as the Growth and Transformation Plan II (2015-2020) emphasized job creation by supporting the private sector. A number of priority sectors based on their potential for job creation and export such as textile and garment, leather, cement, pharmaceuticals, agro-processing were selected and given government support.

A number of policies and strategies such as the 2004 Youth Policy, the 2008 TVET Strategy, the National Employment Policy and Strategy of Ethiopia of 2009 revised in 2016, the 2011 MSE Development Strategy (revised in 2020) aimed at creating decent and productive jobs mainly by the private sector. The development of mega industrial parks as of 2015 focusing on labor-intensive sectors as textile and garment in the country also aimed at creating decent and productive jobs for the youth. Despite these decent job supportive policies, decent job creation remains a big challenge (FDRE, 2019). The HGER indicates that much emphasis has been given for increasing the quantity of employment rather than quality of employment. One of the reform areas indicated in the HGER document is the promotion of decent work and strengthening of occupational safety and health systems (OSH). Further, the recently revised labor law has been reformulated in accordance with international conventions and other legal commitments to which Ethiopia is a party.

3.1.5. Mega-drivers and the future of jobs in Ethiopia

Advances in technology, climate change, globalization, and demographic transitions are among the mega-drivers that are shaping the future of work in agriculture, industry, and the service sectors. By this, new challenges, but also opportunities are emerging for advancing decent work along with much-needed environmental sustainability.

¹ Since the full data for the 2021 survey is not available, we focus on the 2018 for sectoral and occupational wages

These drivers of change, among other things, have direct implications on skills needed in the future as well as on areas where jobs may be created. Hence, a workforce that is flexible to operate new technologies, possesses skills for green technology, and is competitive globally will be required in the future.

Full automation through the use of artificial intelligence and robotics in production industries in Ethiopia is unlikely. However, efficient technologies that enhance the productivity of labor are important in order to maintain sustainable and competitive industries. Moreover, digital skills will be crucial as industrial value chains advance and e-commerce expands.

Against these trends, social and environmental standards are increasingly becoming important especially for accessing export, international markets and doing trade with other parts of the world. Skills as well as rules and regulations ensuring and monitoring social and environmental compliance will be required for successfully competing in the international market allowing for the creation of decent work in these areas.

Digital skills have also become increasingly important. One example is the Covid-19 pandemic, requiring parts of the work force to work remotely in sectors beyond industrial production and agriculture where this is possible. Moreover, with increasing e-commerce and globalization, the demand for digital skills has increased. Thus, an education and training system that responds to the dynamics of skills demand will be crucial in Ethiopia.

3.2. Challenges to employment generation in Ethiopia

Employment challenges in Ethiopia have both demand and supply side factors. Demand side factors relate to the inability of the economy to generate decent and productive employment. Supply side factors relate to poor labor market information systems as well as to poor quality of training and education of the labor force.

Despite double digit growth in the last two decades, unemployment and under-employment remain rampant, pointing to jobless growth over this period. Moreover, despite rapid growth, structural transformation towards more productive sectors such as the manufacturing sector and productive types of the service sectors has been low relative to what was envisaged in the Plan documents which the private sector was supposed to be the driver and the sub-Saharan Africa average. In practice, most growth in the last decades came from public investment – which has recently brought about debt concerns.

From a supply side perspective, the key informant interviews have identified several binding constraints that have hindered the smooth transition from education/training to the working world, including a poor labor market information system, the absence of a skills anticipation system, poor quality of training, which is mainly theory-oriented with poor work-based learning, and poor working conditions in manufacturing sector such as low wages. Each is briefly discussed below.

3.2.1. Ethiopia's poor performance in creating a competitive private sector

A number of challenges have hampered the private sector, especially the manufacturing sub-sector, from taking-off as intended. These challenges include the following (see, for example; Gebreeyesus, 2019; Manyazewal and Shiferaw, 2019).

- Poor support systems: Poor implementation of the various support systems due to weak civil service and lengthy bureaucracy as well as insufficient coordination among the various stakeholders are making it difficult to ensure the private sector has proper access even to a limited level of the existing incentives. Reasons for this can be sought in low capability and motivation as well as increasing rent-seeking practices of civil servants.

- Lack of access to credit: The share of domestic credit that goes to the private sector declined to 9% in 2014 from 37% in 2008. Conversely, the share of state-owned enterprises in domestic credit rose from 21% in 2008 to 64% in 2014 (World Bank, 2015), pointing to a crowding-out of credit by state-owned enterprises. Crowding-out is also a challenge in relation to foreign exchange allocation due to rationing that prioritizes public enterprises and public investment in the face of shortage of foreign exchange. Moreover, the low real interest rate resulting from high inflation has contributed to a low level of domestic savings. These factors have led to credit rationing which is skewed towards public investment and state-owned enterprises rather than to private sector investments.

- Poor linkage among the private sector (especially between large FDI firms and smaller domestic firms): This factor has contributed to high import dependency for inputs and limited technology transfer among the private sector in Ethiopia. Currently, there is no policy or strategy for backward linkage between the large and more efficient FDI's and smaller domestic firms. The ratio of imported inputs to total inputs for the manufacturing sector for example hovers around 0.50. Imported-input dependency ratio is even higher for priority sectors such as leather and leather products, food, and beverages. In textile and apparel production, despite a high resource potential in the country, the dependency ratio signifies weak backward linkages with agriculture and the weaknesses of industrial policy in developing vertical linkage. This has also resulted in low value-addition by exports.

-Inefficient, lengthy, and expensive logistics and transportation, notably for manufacturing. Ethiopia fares poorly in the World Bank's Logistics Performance Index. High logistics costs reduce the competitiveness of enterprises in regional and global markets for Ethiopian exports. They also increase the price of imported goods and services to domestic consumers in the form of imported inflation. For example, tracking and tracing, international shipments, infrastructure, customs, and logistic competence services remain weak and have not improved overtime.

- Poor performance in ease of doing business and competitiveness: According to World Bank's Ease of Doing Business Index (World Bank, 2020), Ethiopia ranked 159 out of 190 countries in 2020, down from 107 out of 183 in 2010. Hence, compared to other countries, ease of doing business in Ethiopia in the last decade deteriorated. Ethiopia fares poorly in the components of starting a business, getting credit, and protecting minority investors while comparatively ranking better in enforcing contracts. According to the Global Competitiveness Index (GCI) of the World Economic Forum, which measures national competitiveness in terms of the set of institutions, policies and factors that determine the level of productivity, Ethiopia ranked 126 out of 141 countries in 2019 (Schwab, 2019). Among the components of the GCI, Ethiopia particularly lags behind in skills, ICT adoption, and business dynamism. Moreover, Ethiopia ranks among the least free in terms of the Fraser Institute's Economic Freedom of the World (ranked 146 out of 162 in 2018) with overall and freedom of international trade highly constrained with little change in the last two decades (Gwartne et al., 2020).

3.2.2. Poor Labor Market Information System and absence of a skills anticipation system

The labor market in Ethiopia is characterized by a poor labor market information system as reflected in informal labor recruitment systems such as networks and job referrals (see, for example, Beyene and Tekeselassie, 2018). This creates impediments for young women who, due to cultural norms and practices, are more likely to stay home. This negatively affects access to signal their ability to work (see, for example, Beaman et al., 2018). This is confirmed by Beyene and Tekeselassie (2018) and Hensel et al. (2021) who found evidence for the difficulty women face in finding jobs, unless they are matched or over-qualified compared to men due to several factors such as gender biases and increasing roles in household chores.

While there is a labor market information system that provides information on key labor market indicators such as unemployment rates, employment profiles, and wages, it is not being used effectively to inform policy. Both the TVET and higher education systems continue to be supply-driven based on rigid policies as opposed to responding to dynamics in the economy and the changing demand for labor². Moreover, tracer studies conducted at the college / university level are not only weak but also do not lead to curriculum or program changes. This has contributed to the skills mismatch in the economy where high unemployment and skill-shortage exist simultaneously in an expanding TVET and higher education system.

3.2.3. Insufficient quality of training due to poor education-industry linkage

The TVET / higher education to industry linkage remains insufficient contributing to a weak response by the education system to skill demands in the economy. The lack of ownership of the education system by the industry has also contributed to the weakness of apprenticeship and internship systems in the country. This affects the quality of TVET and university graduates negatively. Most firms prefer to hire experienced workers to "fresh" graduates. The cooperative training system implemented by the TVET system is not effective.

Currently, TVET students spend too little time at enterprises. Moreover, enterprises do not allocate trainers or coaching staff to the students.

3.2.4. Poor working conditions in the manufacturing sector

The manufacturing sector requires a strict work ethic and discipline compared to other sectors. Since most of the workforce in Ethiopia comes from rural areas with little previous exposure to industrial culture, many leave the job within a month. For example, Abebe et al., (2019) find that about 40% employees in industrial parks leave their job within 12 weeks. Moreover, manufacturing jobs tend to be more hazardous for health compared to self-employed work and the service sector. On top of this, wages in the manufacturing sector tend to be lower than in self-employment and the service sector, which has resulted in high labor turnover (see, for example, Blattman and Dercon, 2018).

4.0. ASSESSMENT OF GOVERNMENT POLICIES AND THEIR IMPACT

4.1. Political, theoretical, and ideological assumptions underpinning government initiatives

The political economy of Ethiopia has changed with governments. The military regime (also referred to as DERG) that ruled Ethiopia between 1974 and 1990 adopted a socialist development model. It was characterized by various market restrictions and nationalization strategies. In terms of governance, this period was characterized by a military dictatorship. The prohibition of democratic rights and economic freedom led to a protracted civil war, severe macroeconomic instability, a non-existent private sector, and a social crisis. Unemployment was extremely high, and the government resorted to mandatory military conscription and other campaigns to ease the pressure from unemployed youth. However, the social crisis worsened and culminated in the downfall of the socialist regime. The fall of the socialist government also coincided with the fall of the socialist camp globally in 1991.

Following the downfall of DERG, a new government led by the Ethiopian People's Revolutionary Democratic Front (EPRDF) came to power in 1991. The political economy of the EPRDF rule can be divided into three periods that have their own distinctive features.

(i) 1991 – 2002: The Formative Period

The first decade (1991 – 2002) of the EPRDF government can be characterized as the most formative years for modern Ethiopia. The EPRDF government undertook nation-building activities and massive economic liberalization reforms. Several key activities took place under these formative years. First, the suppressed private sector was revitalized when restrictions were lifted and new investment code and labour law were introduced. Second, major economic liberalization and deregulation reforms including moving towards export-oriented industrialization, reduction of quantitative restrictions and simplification of licensing procedures on imports were implemented. Third, partial liberalization of the exchange rate regime was undertaken. Fourth, liberalization of input and output prices except for petroleum took place (Gebrehiwot, 2019).

²The Ethiopian higher education systems remain inflexible as 70% of students are expected to be enrolled in the sciences and engineering while the remaining 30% in the social sciences and arts without regard actual state of demand for skills in the market. Hence, the education and training system in Ethiopia is not demand-driven.

However, the Ethiopian economy remained still heavily regulated, with government involvement in finance, telecommunications, energy, and transport and logistics. But the market liberalization reforms mentioned above have in some ways transformed Ethiopia from one of the most regulated and closed economies in the world to a partially regulated economy, with some major restrictions already lifted and intentions for further liberalization indicated. The market reforms were aimed at achieving macroeconomic stability and poverty reduction (through broad-based and fairer equitable economic growth). The theoretical / ideological underpinning of the market reforms was guided by the Structural Adjustment Program (SAP) or neoliberal economic reforms of the IMF and the World Bank. Ethiopia received support from these institutions under the condition that it deepens its market reforms. Under the policy of the Structural Adjustment Program (or: neoliberalism), Ethiopia registered a 3.7% percent economic growth over the period from 1992 to 2002. Per capita GDP grew by a mere 0.5 percent a year during the same period. Most of this growth came from a rapid increase in agricultural output and rural development programs to upgrade infrastructure and social services.

(ii) 2003 – 2018: Developmental and High Growth Period

Starting from early-to-mid-2000s, Ethiopia undertook a major policy shift away from the neoliberal paradigm of development towards the Developmental State Model. In this model, the Ethiopian state assumed an active and direct role in development activities by directly investing in strategic sectors (e.g., sugar, fertilizer, power) and supporting the private sector (e.g., through investments in infrastructure and industrial parks). Ethiopia's developmental state focused on structural and social transformation through massive investments and scaling-up of programs in education, health, infrastructure, and selected investments in state-owned enterprises. The two Growth and Transformation Plans (GTPs I and II) clearly show that the major preoccupation of Ethiopia's developmental state was rapid economic growth with a strong pro-poor policy. This fast and inclusive economic growth was embedded in Ethiopia's industrial policy, which tried to achieve a proper balance between the state and the market, between ideology and pragmatism, and between carrots and sticks. Ethiopia registered a remarkable real GDP growth of about 10.3% and an average per capita growth rate of 7.6 percent during this period. This double-digit growth was driven primarily by investment (both public and private). The share of investment to GDP increased from about 25 percent in the early 2000s to a peak of about 40 percent in 2017.

(iii) 2018 – now: Home Grown Economic Reform (HGER)

The rapid economic growth registered in Ethiopia over the last decade and a half was largely fueled by public investment in critical infrastructures and state-owned enterprises. Even if the rapid economic growth has led to measurable poverty reduction, sustaining these economic achievements appeared to be challenging. The country's public investment driven growth model ("developmental state", see above) has encountered challenges due to vulnerabilities arising from accumulated debt, slow export growth, as well as budget and time overrun in the country's mega projects.

To overcome these emerging challenges, create new opportunities, and sustain Ethiopia's growth momentum, Ethiopia has launched a three-year Home-Grown Economic Reform (HGER) agenda. The HGER, which was launched in September 2019, covers three broad reform areas of Macro-Financial Reform, Structural Reform and Sectoral Reforms (FDRE, 2019). The macroeconomic policy reforms aim to address external imbalances, debt vulnerabilities, foreign currency shortages, and inflation. The structural reforms aim to ease structural bottlenecks to productivity and job growth. The sectoral reforms aim to address institutional and market failures in key strategic sectors. Furthermore, the HGER is implemented in the context of broader privatization measures –privatizing State-owned Enterprises (SOEs) (e.g., sugar factories, industrial parks, power sector) – and liberalization reforms (opening-up of previously closed sectors to competition and deregulating of previously heavily regulated sectors such as logistics and telecommunication). On the other hand, the sectoral reform, in addition to solving market failures in the prioritized sectors, has added new sectors such as tourism and ICT to unlock new opportunities.

Overall, these reforms aim to transition Ethiopia from a public to a private sector-led growth model. This is expected to bring new and diversified sources of growth by unlocking the full potential of the Ethiopian economy and put Ethiopia back on a high growth trajectory. However, these signs of liberalization do not indicate that the current government has abolished the developmental state model. The government still controls key sectors, and public investment continues to drive the Ethiopian economy. What we can say at this point is that there are strong intentions and some beginnings for liberalization efforts to allow private sector participation.

4.2. Role of the Ethiopian state in overall employment generation

In most cases, the state contributes to employment in at least four ways: (i) as an employer, (ii) as an arbiter, shaping employment relations between employers and workers; (iii) as a guarantor of employment rights, and (iv) as an indirect generator of employment, by incentivizing the private sector (Koch, 2016). The federal and regional governments are one of the largest single employers, offering employment opportunities and job security to about 2.4 million (CSA, 2021), out of which about 1.4 million are permanent government employees³. Furthermore, Ethiopia, through its developmental state model, assumed an active role in economic coordination with a view to unlocking key constraints and initiating large-scale investments. To this end, the government invested heavily in infrastructure development (including roads, expressways, railways, dams, bridges, airports, dry ports, and other public works) that have aimed at contributing to employment generation for many Ethiopians. The industrial policy of Ethiopia has also envisaged unlocking sectors through intensive and tailored support. One example is the flower industry, which to date has created job opportunities for more than 100,000 people (Melese, 2019). However, the drive for more employment has focused more on quantity and less on decent work aspects. Most employment is still characterized by low wages and occupational safety issues.

³Source: the civil service commission and Capital News Paper: <https://www.capitalethiopia.com/capital/300000-government-employees-working-from-home/>

In addition to creating jobs directly and indirectly, the government also acts as a formal guarantor of employment rights on the assumption that individual employees do not have negotiating power with an employer on equal terms. To this end, the government sets legally binding minimum standards, rights, and obligations for the employment parties that need to be respected in all employment contracts. Of course, this affects only those employed in the formal sector who have written contracts – which is still a small part of the labor force. Most informally employed are not likely to be covered by such legislation and systems. Finally, the Ethiopian government (through the Ministry of Labor and Social Affairs – MoLSA) acts as an arbiter in smoothing relations between workers and employers. In this role, the government facilitates discussions, exchanges, and deliberations between employers and workers and plays the role of arbitration based on existing laws and good practices.

4.3. Government policies and initiatives, and their contribution to employment generation

4.3.1. Assumptions and strategies

The overarching objectives of almost all Ethiopia's economic policies are two: (i) employment generation, and (ii) export generation (PDC, 2020; PDC, 2019; NPC, 2015; MoFED, 2003; MoFED, 2003). These central objectives arise from Ethiopia's current realities – i.e., a large youth population (about 70% under the age of 30 years) with hundreds of thousands of young graduates annually and a high urban unemployment rate. Although employment creation (focusing on quantity) takes primacy, which is reflective of the country's large young population and high unemployment rate, decent job aspects are not completely ignored – at least not in the theoretical foundations. Especially, the most recent policy documents, HGER and the 10-Year Development Plan, have more mentioning of decent jobs aspects than their preceding policy documents. Likewise, the need for export generation is related to Ethiopia's need to address its balance of payments problems. Hence, the success of a certain economic policy is measured from the perspective of whether it contributes towards achieving these two overarching objectives. To create more employment opportunities, the government identifies sectors, implements policies and provides special incentives (e.g., subsidized credit services, preferential land lease, lower tax rates, etc.). The most relevant employment-oriented policies are discussed below.

4.3.2. Employment-oriented policies and their contribution to employment generation

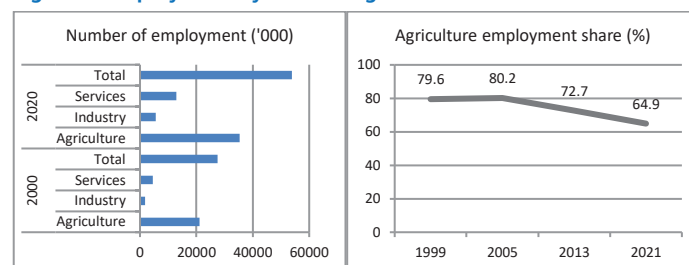
(i) Agriculture and Rural Development Policy

Progress in agriculture and rural development is identified as having great potential for employment generation. The Agriculture and Rural Development Policy (ARD) of Ethiopia has been in implementation since 1995. The ARD is anchored on Agricultural Development Led Industrialization (ADLI), which particularly defines the key role of agriculture in early industrialization (Dercon & Gollin, 2019). According to the ARD or ADLI, the role of agriculture in Ethiopia's during this time is to provide livelihood (through employment) to more than 75% of the Ethiopian people. Agriculture also plays the key role of providing capital (via agricultural exports) and food to the urban population to keep wages low, promote

promote investment in the industrial sector, and generate more employment.

In terms of contribution to employment generation, agriculture is the largest employer. According to the 2021 CSA Labor Force and Migration Survey, agriculture absorbs 77.3% of employed people in rural areas, and 65% of national employment.

Figure 8: Employment by sector - Agriculture



Source: ILO modeled estimates (2019) and CSA (2021)

Periodic analysis of employment by sector (according to the ILO-modelled estimates and CSA surveys) indicates that though the share of agriculture employment declined from 80% (in 2005) and 73% (in 2013) to 65% in 2021. It still continues to play a predominant role in absorbing the rural employed persons (77.3 percent in 2021) (see Figure 8).

With respect to decent work, despite being the largest sector by employment, the agriculture sector is characterized by low wages (i.e., unable to provide an adequate living income), various occupational safety issues (especially around commercial farms), seasonality (i.e., unable to provide employment security and stability), child labor, and excessive working hours.

(ii) Industrial Development Strategy (IDS)

In line with the ADLI framework, the government of Ethiopia formulated the first-ever comprehensive Industrial Development Strategy (IDS) in 2003. The IDS embarks on industrial development through the implementation of selected industrial instruments. It targets a few priority sectors that are labor-intensive and export-oriented (including the garment and textile sector, leather sector, agro-processing and flower industries). The industrial policy aimed at providing considerable support to the prioritized sectors using selected industrial instruments – including preferential loans, incentives, and strategic infrastructure provision. The goals and pillars of the IDS were further illustrated, concretized, and implemented by successive development plans: the Sustainable Development and Poverty Reduction Program (SDPRP) (2003-2005), the Plan for Accelerated and Sustainable Development to End Poverty (PASDEP) (2006-2010), the Growth and Transformation Plan (GTP-I) (2011-2015), the GTP-II (2016- 2020), and now the Ten-Year Perspective Plan.

In the last 15 years, Ethiopia has invested in the development of the manufacturing sector to accelerate its structural transformation. To achieve this, it has built industrial parks and promoted labor-intensive, export-oriented light manufacturing. This strategy has provided some first encouraging results in terms of attracting FDI: Ethiopia has drawn-in some large projects and brand manufacturers into its labor-intensive textile and garment, leather and leather goods sectors. Ethiopia received some 3.6 billion USD in FDI investments in 2017 and 3.9 billion USD in 2020 (UNCTAD, 2018; EIC, 2021).

However, Ethiopia's manufacturing sector is still far from being an engine of economic transformation. It only contributed about 6.8% of GDP, 24.3% of industrial outputs in 2018/2019 respectively. Its share in employment thus remains low (just 2.9%). The industrial sector (i.e., manufacturing, mining, quarrying and construction), where most of government's incentives and support was and still is directed to, accounted for 5.2% of total national employment in February 2021. Likewise, while massive public investment has fueled growth in construction – which, in 2018/2019, contributed over 20% of Ethiopia's GDP and 72.5% of industrial output – the construction boom has been more capital-intensive than labor-intensive. Its impact on employment creation appears to be less than what its overall economic impact might suggest (i.e., contributing only 1.8%).

Figure 9: Employment by sector - Industry



Source: ILO modeled estimates (2019) and CSA (2021)

Periodic analysis of employment by sector (according to the ILO-modelled estimates and CSA surveys) indicates that the employment share of the industrial sector has not changed much over the last 20 years (see Figure 9). This is because of the limited structural transformation away from agriculture to industrial development (discussed above in detail).

(iii) Industrial Park Program

The government of Ethiopia identified and established industrial parks along selected corridors around the country to attract investment and generate employment. According to the latest data obtained from the Industrial Park Development Corporation (IPDC), industrial parks around the country (both public and private) have at its high-time generated more than 80,000 job opportunities. The authors obtained employment data for twelve public industrial parks, which have created employment opportunities for more than 66,000 workers (see Table 5; data as of September 2021). In most industrial parks, textile and apparel is the dominant sector. As a result, female workers constitute the highest employment share (87% of the employment generated). Compared to informal and small-scale businesses, jobs created in industrial parks might be better in terms of decent work aspects. But wages are still low at industrial parks, as workers complain that their salaries are not even enough to cover their basic living expenses.

Table 5. Employment generation by Industrial Parks – disaggregation by gender (2019-2021)

	Park name	Number of workers	% Female
1	Hawassa	29,707	87
2	Bole Lemi	17,469	90
3	Mekelle	3,642	90
4	Kombolchah	1,016	88
5	Adama	6,083	93
6	Dire Dawa	1,039	48
7	Jimma	1,467	87
8	Debre Birhan	938	82
9	Bahir-Dar	1,288	75
10	ICT AA	1,272	46
11	Addis Industry	1,933	90
12	Kilinto	157	79
Total		66,011	87

Source: IPDC (2021)

(iv) The Micro and Small-Scale Enterprises (MSE) Policy

The government of Ethiopia prioritized the development of MSEs⁴ as a key sector to address issues of unemployment for the youth and women in urban areas. The MSE development policy was first formulated in 1997 and revised in 2011. It gives priority to labor-intensive manufacturing, construction, trade, and agricultural sub-sectors with a potential to create substantial job opportunities. It also identifies several key policy areas for intervention, including skill training, technology support, industrial extension policy (i.e., on-site support), access to credit, access to working premises, and access to market.

The micro-component of the MSE policy has a social protection element, called Urban Social Safety Net Program (U-SSNP). U-SSNP aims at protecting vulnerable youth and women from falling into extreme poverty, food insecurity, and malnutrition through expanding predictable social transfers, building of human capital out of poor individuals, promoting public works program, promoting employment opportunities and income-generating activities for the unemployed as well as for other vulnerable groups. The safety net programs are largely funded by development partners such as the World Bank and USAID.

Despite the multifaceted MSE support, there has been limited growth and structural transformation in the industrial sector, particularly the Micro and Small Enterprises (MSEs) sector. For example, the pace of structural transformation in terms of employment has been slower as the agriculture sector is still accounting for more than 73% of employment. With more than two million of new entrants into the labor market annually, high urban unemployment – currently above 18% in urban areas, with women and youth even facing higher unemployment and underemployment – and rural areas facing high underemployment and low earning (working poverty), job creation continues to be a daunting challenge.

There is only insufficient data on employment opportunities created by the MSE sector. But according to data obtained from the Ministry of Trade and Industry, above 1 million MSE enterprises exist in the country, constituting approximately 60% of total non-agriculture employment sources. While some of the MSEs are self-initiated, others are organized with support of local governments. One subprogram particularly targeting MSEs was the integrated housing development program (IHDP), implemented in all major cities, especially Addis Ababa. The IHDP created up to 200,000 new jobs between 2006 and 2016

⁴The Ethiopian government defines enterprise size category based on employment: Micro (1-5), Small (6-30) and Medium (31-100).

was the integrated housing development program (IHDP), implemented in all major cities, especially Addis Ababa. The IHDP created up to 200,000 new jobs between 2006 and 2016 (Kefa, 2014). While encouraging, these jobs were temporary and no different from informal sector jobs. Overall, job creation achievements in the MSE sector are characterized by lack of decent jobs. The main reasons for the low effectiveness of the MSE support system in creating decent jobs include:

- Its excessive focus on state-induced enterprises, excluding those that are self-initiated. Studies indicate that state-induced (or cooperative type enterprises) enterprises are more likely to fail than self-initiated enterprises (Abebe G. , 2015).
- Its excessive focus on urban enterprises, forgoing employment opportunities in rural areas by largely excluding rural MSEs.
- The MSE program extended generic support without making differentiation between growth-oriented enterprises and survivalist enterprises (Abebe, Assefa, Gebre-eyesus, & Degu, 2018). The former has a great potential for growth and employment creation and should be particularly targeted by the MSE program.

4.4. Implementation issues

The authors draw the following distinctive features and implementation issues of the policies and regulations that are reviewed in this report. Overall, the assessment of the policies, strategies and regulations on employment generations have the following distinctive features:

- The reviewed policies and strategies placed employment creation as their overarching objective. The Homegrown Economic Reform (HGER) identifies those prior policies have highly focused on quantity of employment. Improving the quality of jobs is mentioned as one reform element in the HGER.
- Ethiopia implemented large-scale and federal-level employment programs, including infrastructure and public works, industrial parks, and commercial farms (e.g. horticulture).
- Ethiopia implemented high employment-focused policies such as the MSE policy, the industrial park program, and the IHDP program.
- The policies and regulations we reviewed adequately address women participation and empowerment issues in their theoretical basis (e.g., Ethiopia's priority sectors such as the garment, leather and cut-flower sectors employ a high proportion of women).

Despite the above good features, we also find the following implementation challenges:

(1) The manufacturing sector, while being considered labor-intensive and expected to employ a great portion of the labor force, was only employing 2.9% as of February 2021. Apart from a still small number of firms in manufacturing sector, one of the reasons for this is that firms operate at much lower capacity throughout the year (sometimes as low as 47%). Enterprises face difficulties in accessing essential inputs for their production.

The constrained access to inputs can be explained by underdevelopment of the upstream sector in Ethiopia (i.e., inputs are not locally available) and lack of foreign currency in the country (i.e., enterprises are unable to import).

The underdevelopment of the upstream sector, however, is rather a policy problem. The industrial policy of Ethiopia attaches excess focus on the development of downstream sectors. If the upstream sector is underdeveloped and the country faces Forex shortage, manufacturing enterprises are likely to operate under capacity due to shortage of inputs. Secondly, although the industrial policy provides different policy incentives, its implementation and administration are inefficient. The inefficient administration makes incentives provided less attractive. Third, Ethiopia hopes that much of its employment and export generation to come from industrial parks. For example, Hawassa Industrial Park alone is expected to generate 60,000 jobs and bring 1 billion USD in export revenue annually when operating at full capacity. However, it currently employs only about 20,000 workers, which is about 30% of its anticipated full capacity for employment.

The story for other industrial parks is the same or worse. Compared to informal and small scale businesses, jobs created in industrial parks might be better in terms of decent work aspects. But workers report that wages in industrial parks are quite low and cannot cover their living expenses. One explanation for this is that, due to poor transport connections, firm's productivity is adversely affected by transport and logistics costs. Ethiopia's industrial parks tend to lack sufficient connectivity and infrastructure to fully function and unleash their potential. Currently, the conflict in the country and international reactions to it are also impacting the enterprises – and some of them are in the process of shutting down again.

(2) In the agricultural sector, the authors see four implementation challenges. The first is lack of access to land by the youth. Ethiopia does not follow an approach of land redistribution to avoid further land fragmentation. As of now, the youth has limited access to land. One option for the youth to participate in agricultural activities is through land rental markets. However, there are time limitations (usually two years) for renting agricultural land. In addition, long-term rental is prohibited by law in most parts of Ethiopia. The second binding constraint is that land can hardly be used as collateral because it is still state-owned in Ethiopia. This makes further commercialization and mechanization efforts difficult. The third implementation challenge is lack of diversified income generation activities. The Agricultural Policy does not involve much off-farm activities in its promotion and incentive system. Fourth, commercial farms suffer from infrastructural bottlenecks and lack of incentives for the sector to realize their potential and generate more employment.

(3) Ethiopia has adopted national and international laws and policies that encourage and protect women in employment. Despite the presence of policies and regulations that help increase women's equitable participation and safeguard occupational safety, their practical implementation and enforcement on the ground is still rather limited. There are limitations in terms of effective enforcement due to limited gender support structures and institutionalization – e.g., lack of child daycare services as well as wide-spread and structural sexual harassment in mega-projects and industrial parks.

This is likely to have long-term negative impacts, including on women's entry into the productive sectors, as well as gender pay gaps.

(4) As indicated in the HGER, the quality of employment (i.e., decent work aspects) was less emphasized in the past. There has been excessive focus on creating more employment rather than better employment. Consequently, employment generation in many sectors is still characterized by low pay, low occupational safety, low employment security and stability, and excessive working hours. To date, a "decent work agenda" thus remains far from being successful and operationally being addressed.

4.5. Women and vulnerable groups

Regulations

Most government policies and legal frameworks encourage employment generation for women and vulnerable groups. The first legal document in this regard is the Ethiopian Constitution which encourages women's participation in employment by providing an equal environment, such as the right of the security of the person (Article 16 of the Constitution), the prohibition against inhuman treatment and the abolishment of servitude (Article 18 (2)), forced labor (Article 18 (3) and (4)), Freedom of Association (Article 31) and Rights of Labor (Article 42) are clearly stated in the Ethiopian Constitution. Other legal frameworks such as the Family Code (2000), regional and international conventions (including ILO conventions), Ethiopian Labor Proclamation No.377/2019, guarantee women's equal rights to employment, benefits, affirmative action provisions, and prohibitions against any form of discrimination.

The most recent Labor Proclamation was ratified in 2019, repealing the earlier Labor Proclamation of 2003. The 2019 Labor Proclamation provides a regulatory framework for ensuring worker – employer relations by laying down the basic principles of rights and obligations to enable workers and employers to secure durable industrial peace, and sustainable productivity through cooperative engagement in general and provides an equal working environment for women. The new 2019 Labor Proclamation introduced substantial revisions in terms of, for example, (a) establishing a minimum wage board consisting of the government, employees, and trade unions that will carry out studies for setting and periodically revising minimum wages; (b) increasing the minimum working age from 14 to 15; (c) extending the existing maternity leave from 90 consecutive days to 90 working days, and introducing paternity leave of three consecutive days for male employees; and (d) increasing the probation period from 45 consecutive days to 60 working days.

Economic policies

One of the central theoretical objectives of the policies we reviewed above (i.e., the ARD, IDS and successive five year plans including the SDPRP, PASDEP, and the GTP I + II) is the empowerment of women and youth by ensuring their participation and enabling them to equitably benefit. Furthermore, the sectors targeted in the GTPs, Ten-Year Perspective Plan and the Industrial Park Program include those sectors with a high proportion of women.

Most garment and leather firms in and outside the industrial parks employ more women than men. In addition, the MSME policy has a strong focus on women entrepreneurs. Beyond policy, Ethiopia has instituted organizations / institutions with special focus on women and vulnerable groups. One such institution is the Ministry of Women and Children Affairs (MoWCA). The MoWCA develops and implements women-oriented policies and strategies that are aligned with the national strategies to increase women's participation and benefits. One of the major achievements of the MoWCA is that it ensures that national policies and institutions directly address or consider women and vulnerable groups' issues. This is commonly referred to as mainstreaming gender issues (including employment) into all national and regional policies and projects. While gaps remain in terms of women economic empowerment, there have been significant achievements as well as women participation in employment in the private and public sectors has increased.

4.6. Role of the trade union in policy formulation and overall employment generation

The Confederation of Ethiopian Trade Unions (CETU) is an association of trade unions in Ethiopia that had 751,887 members in 2021 according to figures provided by CETU. Based on the discussion held with CETU, it has the mandate and objective to play at least four important roles in policy formulation and overall employment generation. First, CETU is a formal member of the social dialogue between representatives of the government (represented by MoLSA), employers (represented by employers' associations) and workers (represented by workers unions) on issues of common interest relating to economic and social policy. The main goal of the social dialogue is to encourage negotiation, consultation and exchange of information between the members of the social dialogue to promote consensus building and democratic involvement among the main stakeholders in the world of work. According to the ILO, the enabling Conditions for Social Dialogue include, (a) strong, independent workers' and employers' organizations with the technical capacity and the access to relevant information to participate in social dialogue; (b) political will and commitment to engage in social dialogue on the part of all the parties; (c) respect for the fundamental rights of freedom of association and collective bargaining; and (d) appropriate institutional support. Our assessment in terms of these enabling conditions shows that CETU lacks technical capacity and is primarily viewed as not being independent from government influence.

The second role of CETU relates to its participation in establishing a minimum wage. In the most recent Labor Proclamation (2019), the government has mandated the establishment of a minimum wage board, consisting of the government, employees, and trade unions. The minimum wage board has the mandate to carry out studies and provide recommendations for the government for setting and periodically revising minimum wages. To date, this board is yet to be established. The third role of the CETU relates to its participation in the implementation of ILO's decent job pacts (i.e., the creation of more and better jobs) in collaboration with the Ministry of Labor and Social Affairs and ILO. CETU's fourth role is its participation in policy deliberations related to labor and employment issues.

It is one of the major parties that is consulted by the government when it drafts new policies relevant to its remit of policy operation. Finally, CETU also supports workers in the informal economy. Informal economies typically do not have written employment contracts, and workers typically suffer during conflicts. However, CETU has not been effective in delivering on its mandates. The biggest obstacle to achieving its mission and objectives are its inability to maintain its independence and its lack of technical capacity.

5.0 CONCLUSIONS

Over a decade and a half, Ethiopia has enjoyed double-digit economic growth accompanied by a significant reduction in poverty. However, the economy's quantitative growth performance has not been matched with growth in decent employment. Not only is unemployment high, but low earnings, underemployment and vulnerability continue to characterize most jobs in Ethiopia, again suggesting that many workers may be living in a state of working poverty.

Our assessment of job creation policies, strategies and regulations has highlighted some distinctive features. First, the policies and strategies reviewed have made job creation their overarching objective; but the issue of the quality of jobs is not emphasized as much as the quantity of jobs. Secondly, job creation achievements both in terms of quality and quantity has not been remarkable, especially the former. This is also because most policies (prior to the HGER) have focused more on the quantity of employment and less on the quality of employment. Improving job quality is mentioned in the HGER as one of the reforms, but the HGER does not propose any major changes in this area. Third, our review also finds that Ethiopia has implemented large-scale and federal-level employment programs, including infrastructure and public works, industrial parks, and commercial farms (e.g., horticulture), employment-oriented programs such as the MSE program, and the industrial parks program. However, these programs have not made a sustainable contribution to the long-term supply of employment, and have a questionable performance in terms of the decency of the work created. We also note that, despite the existence of policies and regulations that help increase women's equal participation and ensure workplace safety, their practical implementation and enforcement on the ground is limited.

Demand-side challenges relate to stagnant private sector due to a set of binding constraints such as access to finance, infrastructure, and weak support systems. Supply-side challenges include inadequate quality of education and training resulting from weak work-based learning and supply-driven nature of the education system, leading to skills and qualifications mismatch. A poor labor market information system and the lack of a skills anticipation system have also contributed to skill mismatches.

6.0 RECOMMENDATIONS

After analyzing the employment situation and reviewing the policy, we draw the following recommendations to promote decent and productive employment. The recommendations focus on enabling the private sector to create decent and productive jobs, improve the quality of education and training, and improve the functioning of the labor market.

Recommendation 1: Enhancing the competitiveness and productivity of the private sector to create decent jobs

The private sector must serve as the engine of economic growth and the creation of decent jobs. To that end, the binding constraints on private sector growth and decent job creation need to be addressed. In this regard, Ethiopia's commitment to attracting foreign direct investment, particularly in industrial parks, has created a positive effect on creating a better business environment. The industrial parks provide better infrastructure, one stop services, and other incentives for firms to grow and create better and more jobs. In addition to a better environment, if large domestic and foreign firms could find better quality inputs and source their inputs locally, their competitiveness could increase, and more jobs could be created. In addition to providing functional infrastructure and connectivity, as well as one stop services, Ethiopia needs to encourage backward linkages with local suppliers, possibly through co-location and incentive schemes.

With credit being a binding constraint, improving access to finance for the private sector could significantly improve firms' performance. Credit is currently being rationed in favor of public investment, leaving the private sector behind, particularly in manufacturing, which is struggling to access credit. The participation of domestic firms in export is limited due to a lack of long-term industrial financing and interest in catering such as manufacturing by private banks (Oqubay, 2019). Similarly, firms tend to invest in areas of lower risk and faster return, especially service sectors such as trade, which are highly protected from international competition, while manufacturing and agriculture operate in a more competitive environment (Gebreyesus, 2019). Another important binding constraint that needs to be addressed is inefficiency in transportation and logistics. The logistics costs are among the highest for Ethiopian exporting firms. The logistics sector has been sealed off from foreign competitors, opening the sector up will not only significantly improve efficiency and increase business competitiveness, but can itself be a source of decent job creation.

Recommendation 2: Introduce core employability skills training

Pre-employment core employability skills training (soft skills) to enhance the smooth transition from training / education to work is needed. The training needs to address gaps in mastering, contextualizing and / or reinforcing the existing stock of skills and add soft skills. Some of the key interventions in this regard include

- Developing a standard core skills training curriculum for TVET and higher education. Currently, core employability skills such as communications skills, work-ethic, and entrepreneurial trainings are not adequately provided.
- Developing occupational standards for core skills. While there are occupational standards for technical skills, there are no occupational standards for soft skills.
- TVET colleges should provide short-term pre-employment core skills training for anyone seeking employment. After completing TVET training, there is a need to train graduates on how to search for jobs and connect with industries.

Recommendation 3: Enhance the labor market and information in the country and introduce a skills anticipation system

Under this, we suggest three interrelated actions. First, the quality, depth, and frequency of labor force surveys in the country need to be improved by strengthening coordination among the CSA, MoLSA, MoSHE, and JCC. Currently, the CSA alone conducts surveys without the involvement of other stakeholders such as MoLSA and JCC. The second action is to set up a labor market data repository and analysis unit at the Jobs Creation Commission or similar agency or alternatively a separate agency, responsible for skill demand anticipation. Third, universities and colleges need to conduct tracer studies and labor market assessment studies, and for this, their capacities need to be strengthened.

Recommendation 4: Improve work-based learning (WBL), particularly Internships and Apprenticeships

Ethiopia needs to expand graduate internship programs and apprenticeships to fill skill gaps and facilitate transitions into employment. Currently, there is no proper system of internship and apprenticeship in Ethiopia. The cooperative training in the TVET system, which is a form of workplace attachment rather than WBL, remains ineffective. Some of the key interventions in this regard include

- Introducing a legal framework for governing and monitoring an apprentice and internship system in the country. The private sector, through employer federations and business chambers in coordination with the Jobs Creation Commission, the Ministry of Labor and Social Affairs, and the Ministry of Science and Higher Education, and sectoral representatives, and trade unions are the key stakeholders to influence policies in this direction.
- Improving social dialogue between the government (TVET and higher education agencies), employers' representatives, and trade unions to define any matters concerning apprenticeship and internship systems.
- Introducing an incentive system for enterprises providing internships and apprenticeships. Enterprises offering internship and apprenticeship opportunities to female workers should be particularly encouraged, as this will contribute to reducing occupational segregation of women and gender wage gaps.

Recommendation 5: Enhance social dialogue between government and trade unions, education providers, industry,

Ethiopia's labor market information system is a multi-stakeholder system. These stakeholders (both producers and users) are poorly coordinated vertically (from higher to lower-level administration units) and horizontally (between federal and regional institutions). The coordination system between LMIS producers and LMIS users' needs to be improved and formalized. Information exchange, comparability, standardization, accuracy, and speeding up of processes can be achieved if the coordination system is improved. Strengthening and systematizing the link between industry, education system, government, and workers' organizations /unions. Better matching of skills can be achieved by strengthening

and formalized. Information exchange, comparability, standardization, accuracy, and speeding up of processes can be achieved if the coordination system is improved. Strengthening and systematizing the link between industry, education system, government, and workers' organizations /unions. Better matching of skills can be achieved by strengthening and formalizing industry-education linkages as well as exchanges with the government.

Recommendation 6: Strengthen the institutional and resources capacity of employment services

While Ethiopia has the basic regulatory framework to regulate employee-employer relations, the institutional and resource capacities of employment service providers need to be strengthened to support job seekers and employers. Public employment services (MoLSA, BoLSA, and Youth and Women's offices) need to be strengthened in their institutional capacity to collect, store, analyze, interpret, disseminate, and use labor market information. The use of information technology can help in this regard. Similarly, the capacity of the licensed local private employment agencies needs to be strengthened. With expanded capacity and resources, employment service providers can better match job-seekers and employers by reducing search costs on both sides.

Recommendation 7: Address barriers to women's labor market participation

The first obstacle to women's labor market participation is limited access to training. Due to the limited access to further training opportunities, female workers are less likely to find better paid and more secure jobs. Therefore, training programs that support women to take up formal jobs will not only reduce their vulnerability to layoffs, but also increase their likelihood of receiving a decent wage. The second barrier is the lack of networks. Because women workers, especially young people, have less access to networks, it is often difficult for them to get job opportunities. Upskilling and reskilling opportunities should be more readily available to female workers. By prioritizing female workers' training in digital skills that can enable them to work from home in certain sectors, the gender gap in employment and wages can be significantly reduced. In this context, the provision of incentive systems for enterprises that offer high-quality and well-structured upskilling training opportunities for female workers could be useful. Such incentives could include subsidies for training costs as well as priority in the provision of loans. Finally, the feasibility and enforceability of policies and regulations that help to increase the equal participation of women and ensure occupational safety must be improved.

Despite the existence of numerous policies and regulations to support women's labor market participation, their practical implementation on the ground is quite limited. There are limitations to effective enforcement due to limited gender support structures and institutionalization. This has negative implications, including on women entering the right sectors and a gender pay gap. Mandating the provision of child daycare services in mega projects, SOEs and industrial parks could be an important step towards increasing women's labor market participation.

Recommendation 8: Expand economic opportunities for more and better jobs. by addressing key structural and sectoral bottlenecks

There is great potential in industrial parks to create decent jobs. Compared to their anticipated full capacity, industrial parks have only created a limited amount of jobs. If the constraints preventing them from operating at full capacity can be alleviated, there still is more untapped potential for more employment being created if the economic and political framework conditions are conducive. To that end, addressing the infrastructure, connectivity, and raw materials problems around industrial parks and agro-industrial parks are important elements to unlock the potential for more and better employment generation for both urban and semi-urban youth. In addition, complementing the development of agro-industrial parks with the development of out-grower schemes, improvements in the land rental market, and better mechanization systems can support this process as well. In this way, industrial parks can drive many other non-agricultural activities in the forms of backward and forward linkages and create employment opportunities for the rural population, including the youth. This will also be crucial for creating an economy which is resilient to shocks such as the COVID-19 pandemic.

Supporting new and potential sectors such as ICT with policies and a better business environment could provide additional decent job opportunities. The ICT sector has the potential to become a new source of economic growth and job creation. Due to the steadily growing STEM (Science Technology Engineering and Mathematics) universities in Ethiopia, there is a growing number of ICT graduates. In addition, Ethiopia's untapped telecommunications sector and liberalization plans, as well as ICT parks, make the ICT sector a potential sector for decent job creation.

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Tsegay Gebrekidan Tekleselassie (PhD)

Tsegay Gebrekidan Tekleselassie is a lead researcher at the Policy Studies Institute in Ethiopia. He holds a PhD in Economics from the University of Sussex, United Kingdom. His research areas broadly lie on issues of labor markets in developing countries, the future of work and global drivers of change, structural transformation, productivity, and wellbeing.

Berihu Assefa Gebrehiwot (PhD)

Berihu Assefa Gebrehiwot (PhD) is a Lead Research Fellow at the Policy Studies Institute (PSI). He specializes in Development Economics and his research more broadly concerns the application of microeconomics and micro-econometrics to policy analysis of economic development problems in developing countries in general and Ethiopia in particular. Berihu received his PhD Degree in Development Economics from the National Graduate Institute for Policy Studies (GRIPS) in Tokyo in 2013.

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Despite well-meaning policies and remarkable economic growth over the past decade and a half, Ethiopia has underperformed in terms of decent job creation. As the unemployment rate has been high and rising in recent years, the focus has been on quantitative targets rather than job quality issues. Consequently, the jobs created in many sectors are still characterized by low pay, poor job security, low occupational safety, and excessive working hours. This report assesses the employment situation, the policies, and interventions that have been put in place to address unemployment and underemployment in Ethiopia, and their effects on decent employment generation, and then makes recommendations.