

# Unemployment and Development in Ethiopia



## BACKGROUND

Ethiopia is characterized by a very large proportion of young people. The big opportunity awaiting Ethiopia is transforming this demographic structure into real economic benefits by creating adequate and decent employment opportunities. Despite the socio-economic progress made in the past years, unemployment continues to be a daunting challenge in Ethiopia. This pressing problem has multifaceted adverse impacts both at the national and local levels. The large number of unemployed and underemployed people in the labour force leaves the development potential associated with the increasing workforce untapped. Unemployment is also related to national security threats as evidence shows that political instability and civil unrest occur in countries where youth unemployment is high (Tatek, 2020). Political instability further jeopardizes economic growth, fuelling the problem of unemployment and its multidimensional consequences. At the household level, unemployment results in the reduction of income, savings, consumption expenditure, and food security (Abebe, 2012). Measures taken to address the vexing problem of unemployment are therefore crucial to realize the full potential of young people for growth and development.

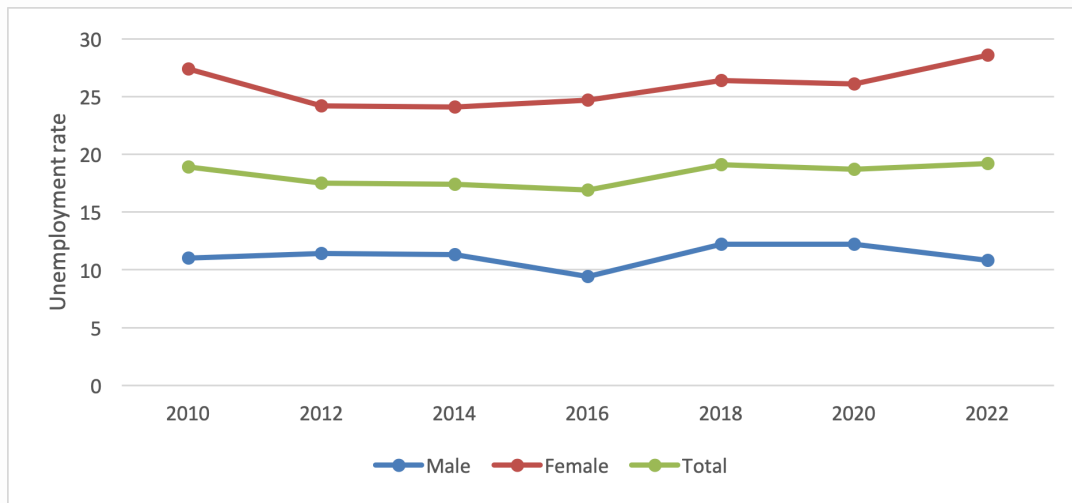
## KEY HIGHLIGHTS

- In the absence of decent employment opportunities, coupled with improved access to education and declining per capita landholding in rural areas, the volume of rural-urban migration is expected to upsurge, putting additional pressure on urban socioeconomic services including job creation and paving the way for the expansion of urban slums and informal employment.
- The total youth unemployment rate is greater than 20% whereas the female unemployment rate is greater than 25% for more than a decade (2010-2022). In 2022, 63.5% of unemployed persons remained unemployed for more than a year while 36.4% remained unemployed for less than a year (ESS, 2023).
- The lack of jobs and the longer duration of unemployment (of graduates and others) denote a loss of human capital and skills. Reducing poverty, improving individual and household well-being, reaping the benefits of demographic dividend, building a stable political system, and ensuring sustainable development require urgent action to create adequate and decent employment opportunities for the growing labour force.

## UNEMPLOYMENT IN ETHIOPIA: LEVELS, TRENDS, AND DIFFERENTIALS

Although the unemployment rate declined by 3.6 percentage points from 8.1 in 1999 to 4.5 in 2013, it increased to 8% in 2021 (Central Statistical Agency (CSA), 2014; Ethiopian Statistics Service (ESS), 2021). The unemployment rate in urban areas declined from 26.4% in 1999 to 16.5% in 2013 but increased to 17.9% in 2021, which is noticeably higher than the rate in rural areas (5.2%) (ESS, 2021). The male unemployment rate was about 5% in 2021, whereas the figure is more than double (11.7%) for females (ESS, 2021). Nearly 38% of the employed persons aged 10 years and above are underemployed (ESS, 2021). However, since the majority of the population lives in rural areas where open unemployment is very low due to engagement in seasonal activities, the national average unemployment rate may be understated.

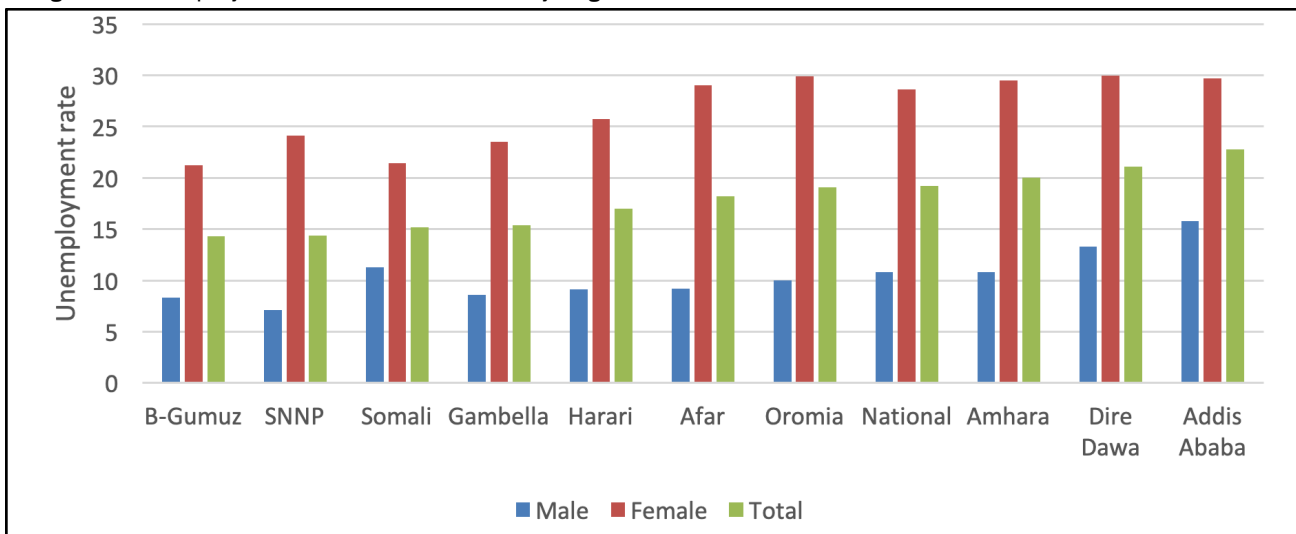
Figure 1. Trends of Urban Unemployment Rate in Ethiopia (2010-2022)



Denoting the imbalances in socio-economic development and disparities in economic opportunities, urban areas have higher incidences of unemployment than rural areas. The yearly trends depicted in Figure 1 indicate that the total urban unemployment rate remained more or less similar (nearly 19% in both 2010 and 2022), albeit with a very slight yearly variation. Females constitute the largest proportion of unemployed urban residents across the years. The female unemployment rate in urban areas was increasing in the past years whereas male unemployment slightly declined recently.

The urban unemployment rate is greater than 15% in all regions except in Benishangul Gumuz and SNNPR (Figure 2). Amhara region and the two city administrations (Dire Dawa and Addis Ababa) have higher unemployment rates that exceed the national average. In all regions, the rate of unemployment is higher among females (the lowest being 21.2% in Benishangul Gumuz and the largest being 30% in Dire Dawa).

Figure 2. Unemployment Rate in Urban Areas by Region and Sex (2022)



Urban unemployment rate is more pervasive among young individuals in the age groups 15-29 (26.8%) (ESS, 2023). Frictional unemployment is common among young people entering the labour force after schooling/university education due to a lack of work experience. Females constitute the largest share of unemployed youth population (34.3%) compared to male youth (17.3%). The total youth unemployment rate is greater than 20% whereas the female unemployment rate is greater than 25% for more than a decade (2010-2022). In 2022, 63.5% of unemployed persons remained unemployed for more than a year while 36.4% remained unemployed for less than a year (ESS, 2023). Despite promoting the ideals of self-employment to curb unemployment, the percentage of unemployed individuals interested in self-employment declined from 48.4% in 2014 to 27.7 in 2022 (ESS, 2023). Evidence of an increasing number of graduate unemployment, particularly among first-time job seekers, is also disturbing.

## EMPLOYMENT PROPELLING DEVELOPMENT

Labour is one of the most important resources Ethiopia can rely on to boost its development. According to the ILO's statistical database, the labour force participation rate for the working-age population (15-64) and the youth (15-24) was consistently high (about 80% and 75%, respectively) between 2003 and 2021. The labour force is projected to increase by two million every year over the coming decade.

This large labour force can accelerate economic growth if it is engaged in productive employment, which is, in turn, at the core of harnessing the demographic dividend. Although Ethiopia has the potential to harness this benefit, the magnitude depends on the number and quality of employment opportunities created for the labour force. Nevertheless, meeting the employment demands of the large number of economically active population remains a formidable challenge due to the imbalance between labour supply and job creation. Employment is also vital to generate income and reduce poverty at the micro level. For instance, more than half (55.8%) of the unemployed persons who sought paid employment reported a reduction of household/personal income as a consequence of being jobless. The impact is more severe among females and youth who are at a higher risk of being not in employment, education, and training. For instance, about 45% of females are unpaid family workers compared to 30.4% of males (ESS, 2021). In the absence of decent employment opportunities, coupled with improved access to education and declining per capita landholding in rural areas, the volume of rural-urban migration is expected to upsurge, putting additional pressure on urban socioeconomic services including job creation and paving the way for the expansion of urban slums and informal employment. Low-return and unsustainable job opportunities in the informal sector are implausible to improve livelihoods and contribute to economic growth, instead, they increase the size of the working poor.

On the other hand, economic growth is a prerequisite for the creation of employment opportunities. The nature of jobs created by the economy depends on the sectoral composition of economic growth and the labour intensity of the sectors. In this vein, although Ethiopia has recorded sustained economic growth for more than a decade, it did not create adequate employment opportunities that can fully accommodate the growing number of job seekers. This is because the sector with a significant potential for job creation was not a source of growth (Alemayehu, 2022). Although its role as a source of growth has declined since 2010, agriculture, particularly smallholder farming on fragmented plots, continues to create the largest employment. Nearly, 51% of employed persons are engaged in agricultural activities (ESS, 2021). On the other hand, the industrial and services sectors have become the major sources of growth. In the industrial sector, the contribution of the manufacturing sector to growth remained stagnant, which limited its role as a source of growth and job creation contrary to the construction sector which has a significant impact on growth although the number of jobs created by the sector is lower than the manufacturing sector. Within the service sector, trade was the major source of growth even if it is not labour-intensive. Hence, the nature of economic growth is decisive for employment growth. The COVID-19 pandemic, conflict, and climate-change-induced disruption of economic activities also stifled the opportunities to create jobs in the past five years. The government's vision of making Ethiopia an "African Beacon of Prosperity", thus, hinges on its success in creating decent and adequate employment.

## POLICY RESPONSES AND CHALLENGES

The National Employment Policy and Strategy (NEPS) promotes the creation of employment opportunities that could fully accommodate the country's labour force and maintain stable and favourable macroeconomic policies that facilitate the creation of employment opportunities. However, the efforts made in the past years have been less effective in curbing the unemployment rate due mainly to macroeconomic factors such as slow structural transformation, limited domestic savings and investment, low and fluctuating foreign direct investment, soaring inflation, and inadequate role of the private sector in creating jobs (Jerusalem, 2018; Endashaw et al., 2020; Minyahil, 2020).

The NEPS sets out to improve the capacity of labour market institutions to provide reliable labour market information. Nevertheless, labour market institutions are weak in terms of connecting unemployed people to the labour market. Ethiopia also promulgated the Overseas Employment Proclamation in 2016 to promote overseas employment. Nonetheless, it places less emphasis on proactively identifying labour market demand in other countries and producing competent candidates who can make use of the employment opportunities.

The Micro and Small Enterprises (MSEs) Development Policy and Strategy considers the MSEs as an important instrument in curbing unemployment through the creation of extensive employment opportunities and serving as incubators for future industrialists. But, lack of access to credit hinders the effectiveness of the strategy. For most unemployed people who want to establish their businesses (61.4%), a shortage of finance is a critical challenge (ESS, 2022). Most MSEs are also survival-oriented instead of growth-oriented which left them with limited potential for job creation and innovation. Providing Industrial Extension Services (IES) was another strategy launched in 2011 targeting the manufacturing sector to build the capacity of the MSEs to enable them to create jobs and become more productive and competitive. The role of IES is limited due to the extra burden put on the Technical and Vocational Education and Training (TVET) trainers to provide the services, differences in the competencies of the trainers on the IES packages, supply-driven rather than demand-driven extension services, and imbalance between the demand for training and the capacity of training institutions to provide IES (Pinto, 2016).

Ethiopia's education and training policy is aimed at developing the problem-solving capacity of individuals and bringing up skilled human resources through equitable access to quality and relevant education. Ethiopia has made remarkable progress in increasing school enrolment at all levels. Nevertheless, the education sector faces several challenges that stand in the way of success in access to education.





Despite the series of measures taken in the past years, low quality and relevance remain an enormous challenge (Jerusalem, 2018). It is attributable, among other things, to poor design of the curriculum that is not responsive to the demands of the labour market, inadequate competency of teachers, insufficient education infrastructure, and weak cooperation between education institutions and stakeholders to equip students with practical knowledge and skills (Yamada et al., 2018). Consequently, the education system is less effective in producing skilled individuals who can acquire jobs and a creative labour force that can establish its businesses.

The TVET strategy is geared towards the creation of a competent, motivated, adaptable and innovative workforce. However, TVET institutions are not centres of technology capability accumulation and transfer as expected. This is partly related to the lack of a dynamic curriculum, a weak apprenticeship program, and less developed TVET infrastructure. Unemployment among TVET graduates is thus partly caused by skill mismatch (Yamada et al., 2018). The graduates have more theoretical than practical knowledge and skills. Employers perceive that fresh graduates do not meet their expectations and reiterate that they require job-related training before starting work (Jerusalem, 2018). Graduates also feel that what they studied is different from what they are supposed to do in the world of work. A skill mismatch not only increases structural unemployment and skill-related underemployment but also elongates the duration of unemployment.

## CONCLUSION

Ethiopia has witnessed sustained economic growth in the past years. However, the problem of unemployment remains very high, particularly in urban areas and among youth and females. The lack of jobs and the longer duration of unemployment (of graduates and others) denote a loss of human capital and skills. Reducing poverty, improving individual and household well-being, reaping the benefits of demographic dividend, building a stable political system, and ensuring sustainable development require urgent action to create adequate and decent employment opportunities for the growing labour force.

## POLICY OPTIONS

The following policy options are forwarded for consideration to curb the rising unemployment:

- Concerted efforts are required to diversify the economy meant to create employment opportunities for all people in all areas through attracting an inflow of international capital, expanding labour-intensive manufacturing industries and sectors with large employment creation potential, reducing inflation through appropriate fiscal and monetary policies, strengthening private sector growth, improving infrastructure, and ensuring a balanced distribution of development projects across geographical areas to create decent employment.
- The government can meaningfully reduce unemployment through self-employment by mapping entrepreneurial potentials to make enterprise development opportunity-oriented rather than necessity-driven, facilitating access to and utilization of credit services, and strengthening industrial extension services focusing on a wide range of MSEs thereby promoting enterprise development and job creation.
- The government should consider strategies involving the identification of overseas employment opportunities, proactive bilateral negotiations and arrangements with recipient countries, targeted training programs to meet the demands of those countries, and strategies to integrate returnees into the domestic labour market.
- The preparation of a national human resource development plan deserves the government's attention to be able to produce the required number of individuals with specified levels of qualification at a specified time.
- The government needs to take bold measures to improve the quality and relevance of education at all levels to develop human capital and increase the employability of individuals. In addition to making their curriculum dynamic and responsive and teachers competent, a move towards specialization of universities is needed for targeted investment that promotes quality and international competitiveness.



- Strengthening cooperative training and expanding entrepreneurial infrastructure are important to improve the competence of the TVET graduates and promote entrepreneurship. There is a need to integrate entrepreneurial education into the school curricula as early as primary education to build a favourable attitude towards self-employment and inspire entrepreneurial thinking.
- Establishing a well-functioning system of collecting, compiling, and disseminating labour market information (database) that is reachable and usable by all unemployed individuals is important to reduce job search costs. Ensuring a transparent process of recruitment favouring merit-based employment is important to increase labour productivity. Increasing job searches and chances of reemployment as well as reducing unemployment-driven poverty calls for the introduction of unemployment insurance as an alternative policy option.
- The government should devise mechanisms to reduce the cost of hiring inexperienced or unskilled individuals. These mechanisms may include, among others, youth training by enterprises under a contract agreement system of work and wage payment to help them get experience during their training, creating opportunities to get experience of paid work while they are students, and financial/tax incentives for the employers who avail internship placements and create jobs for young people.

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