

How to create jobs quickly for all young people of Ethiopia

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The recent uncivilized and brutal crackdown of Ethiopian migrant workers in Saudi Arabia has touched the heart of Ethiopians all over the world. In my research interest I have been occupied to understand the root causes of massive outmigration and ways of solving mass unemployment in Ethiopia. It is easier to state outmigration flow and population loss in figures. The event in Saudi Arabia shows that outmigration is not only about numbers (amounting to a stock of half million population in a year), it is mainly about people life. Since the youth population in Ethiopia is growing rapidly, there will be massive outmigration and we will continue to hear heart breaking news. The Saudi Arabian and other events happening to Ethiopian migrants in sub Saharan Africa show that creating jobs quickly should be the singular focus and issues of political discussion in the country. Youth unemployment rates in Ethiopia are the highest among sub Saharan African countries and the wait for a first job is measured in years rather than months. A large majority live with their parents well into their thirties. Underemployment, dissatisfaction with low-paid work and getting oneself stuck in life transition encourages outmigration from the country.

Unemployment Causes and Employment Creation Policies

There are two major causes of unemployment problems which forcefully push the Ethiopian youth into outmigration to Arab and sub Saharan African countries. The first one is related to the size of the labor force of the country, which comprises all individuals actively participating in the labor market, i.e. employed (including self-employment) and unemployed. The growth in the size of the labor force is beyond the capacity of the government. The size of the labor force depends on the size of the total population (demographic factors) and labor force participation rate.

From my studies I have come to find out that there is an overall imbalance between growth rates of the supply and demand for labor in the country. Labor supply exceeds demand and this gap is growing over the years as the labor force continues to grow and as the rural subsistence sector and urban informal economy could not absorb the growing surplus labor.

For details on measuring the size and distribution of the rural labor force and employment dynamics in rural areas see the following discussion papers:

http://www.aigaforum.com/articles/Labour_Force_Growth.pdf

http://aigaforum.com/articles/GreenRevo_Industrial_policy_Ethiopia.pdf

http://aigaforum.com/articles/Green_Revolution_PartTwo.pdf

The second cause of unemployment problem and outmigration is related to the limits of government job creation policy and strategy. The government has a National Employment Policy and Strategy to coordinate the issues of employment creation and labor administration both in the urban and rural areas and formal and informal sectors (see Ministry of Labor and Social Affairs, 2009, National Employment Policy and Strategy

<http://www.ilo.org/dyn/natlex/docs/ELECTRONIC/89584/102962/F1789074138/ETH89584.pdf>). On the demand side, the government planned to accelerate private sector development for employment generation and ensure effective and efficient public sector employment. On the supply side, the government planned to improve and raising labor productivity.

If we look at the supply side, the government policy of upgrading the education and skill levels of the labor force could not match the type of skill that the economy requires. There is a structural imbalance between the skills, education, experience and aspirations possessed by the labor force and the work opportunities provided by the country economy. This problem has become apparent particularly after the expansion of mass rural education and establishment of many higher education institutions to improve the supply side of the problem. Parents and students alike perceive “good” jobs as requiring a university degree but the signal and incentive from the labor market is different. The current educational structure of the labor force has created a pattern of job aspirations far in excess of work opportunities available. Offering jobs to graduate students in urban road construction and the consequent discussion on cobblestone project is a good example. The provision of higher education increased the pressure to provide access to senior jobs within the civil service and large-scale manufacturing and stimulates general claims for increases in salaries and wages. But source of employment growth caused by factors related to shift in final demand is weak due to the low level of consumption, investment, government spending and import and export.

On the demand side, the government planned to accelerate private sector development for employment generation and ensure effective and efficient public sector employment.

Government support to private sector includes credit services, entrepreneurship and business

management training, appropriate technology research, market support, information and counseling, business development services, and infrastructure provision, including roads, electricity, and water and access to land and workplaces. Have these demand side measures gave birth to new businesses and expand existing ones? Where are most jobs created: in agriculture, the service and/or manufacturing sector? How fast is employment created in the given sectors?

I could not find empirical evidence showing the effects of demand side policy on the process of creation of new businesses and expansions of existing ones and on the growth/decline of employment. A study which assessed the demand side of the policy concluded that the national employment policy and strategy is correct and matters to jobs creation. According to this study the problem is not the policy, but constraints related to implementation (see Martha Kibru 2012), *Employment Challenges in Ethiopia*. Addis Ababa University, retrieve from <http://www.fes-tanzania.org/files/fes/pdf/YLTP%20RegConf%20Presentations/Country%20paper%20ethiopia.pdf>).

I have a different approach to the assessment of the government policy of national employment. Implementation and capacity problems are not specific to the employment policy alone; implementation problems affect all policy types in the country. My view is that on the demand side, the government does not have the right strategy and policy in expanding employment opportunity in the country.

In Ethiopia the labor market data collected by CSA is divided into rural and urban. Since there is no recent labor market data on rural areas, I will use my earlier study to illustrate the employment dynamic and government efforts in rural areas. In rural areas the labor force is growing and the work opportunities particularly for the young age group have to increase. In the period between 1999 and 2005, the labor force growth was 1,26 while the employment growth was 1,22. As a result of the gap unemployment had increased from 0,31 percent in 1999 to 3,41 percent in 2005.

At the most general level, the sources of employment growth in rural areas depend on the growth of inputs and labor productivity. Land is one of the major sources of employment creation in rural areas. It is the fundamental source of agricultural wage employment in the rural areas. But there is a problem of providing land for a growing labor force.

Until now employment creation through land input growth came at the expense of the environment (cultivation of degraded land) and at the expense of land fragmentation. Since

the rural labor force is growing (counting new entrants, back-log of unemployment accumulated over the years and work-sharing characteristics of the labor force), the need for land is huge. My own estimation is that currently the labor force needs 21 million hectares of additional land for employment creation and food self-sufficiency. Since this is practically impossible, the Ethiopian government has adopted a policy of promoting improved technological inputs and commercialization of the small scale farm production system. But the rural households do not have the capacity to adopt the technology.

Since area could not expand, land is used intensively through the application of more wage labor. Labor intensity in production means a given level of output can provide more jobs. But labor productivity (output per person employed) has remained on the same level for decades despite government agricultural extension programs.

To conclude, input growth and productivity are not any longer sources of employment growth in rural areas. In rural Ethiopia employment, if any, is distress driven not based on government policy changing final demand. Public and private investment for employment is less compared to the growth in the labor force.

The urban economy has low ability to create jobs. According to 2011 Urban Employment/Unemployment Survey of CSA the employment to population ratio of urban population was 49.4 percent. This means 49.4 percent of the total urban population of the country aged ten years and above are employed. About 50.6 percent of the working age population are not involved in productive activities due to unemployment or out of the labor force (inactivity). Economies with high ratios have only 30 percent inactive working population.

Of the urban employed working age population the service sector absorbed about 70 percent of the total employed population. The service sector include Public Administration, Defense, Compulsory Social Security, Education, Health and other Social activities, Hotel and Restaurant (48.2 percent) and Wholesale and Retail Trades (21.4 percent). Those employed persons who work in the Manufacturing, Mining, Quarrying and Construction industrial sectors accounts 20.9 percent.

A look at the occupational structure of the employment shows that the majority of employed persons (43.5 percent) are Service, Shop Market sales; Craft and related Trade workers. This was followed by employed persons who are in Elementary Occupations (22.0 percent). Professionals, Technical and Associate Professionals together constitute 13.0 percent. Skilled Agricultural and Fishery workers account 7.7 percent, Clerks 5.6 percent and

Plant Machine Operators and Assemblers 5.2 percent. Legislators, Senior Officials and Managers share only 3.0 percent of the total employed population.

The employment to population ratio, the distribution of employment by sector and occupation shows that growing labor demand in the service sector has been the key driver of urban employment growth over the past few years. In the urban areas the government national employment policy has favored, if any, the service sector. The strong aggregate (domestic) demand has been the main factor behind the expansion in service sector employment. The service sector is mainly characterized by low-knowledge, low-technology, low-skill, low-wage, and labor-intensive jobs.

The focus of job creation through low knowledge-intensive service activities is not good for long term employment and economic growth. According to my view the national employment policy should focus on the manufacturing sector since this sector plays a leading role in innovation and strongly influences other sectors of the economy. Manufacturing is not only a source of innovation, the country needs as well industrial goods. The growth of employment in the service sector shows that manufacturing goods are increasingly made in other countries. The urban economy has now made up of roughly 7 times more service providing than goods producing workers. The service sector, even if it has currently a lot of jobs, it does not generate more income per worker like manufacturing industries. Sectors like manufacturing that generate more income per worker have much bigger ripple effects, creating much more impact in the country while helping to raise wages in lower-productivity service sectors.

Policy Framework for Employment Creation

I see both policy design limitations and wrong choices of strategies. In the following three sections I will describe framework and principles which guide the formulation of industrialization and national employment policy: what not to do, what to do, and how to do it.

What not to do: Ideology and Party based Policy Choices

How to create more jobs for the urban and rural surplus labor at a speed of the labor mobility should be based on evidences and evaluation of how well the policy has so far worked.

"Evidence-based policy is a rigorous approach that draws on careful data collection, experimentation, and both quantitative and qualitative analysis to answer three questions:

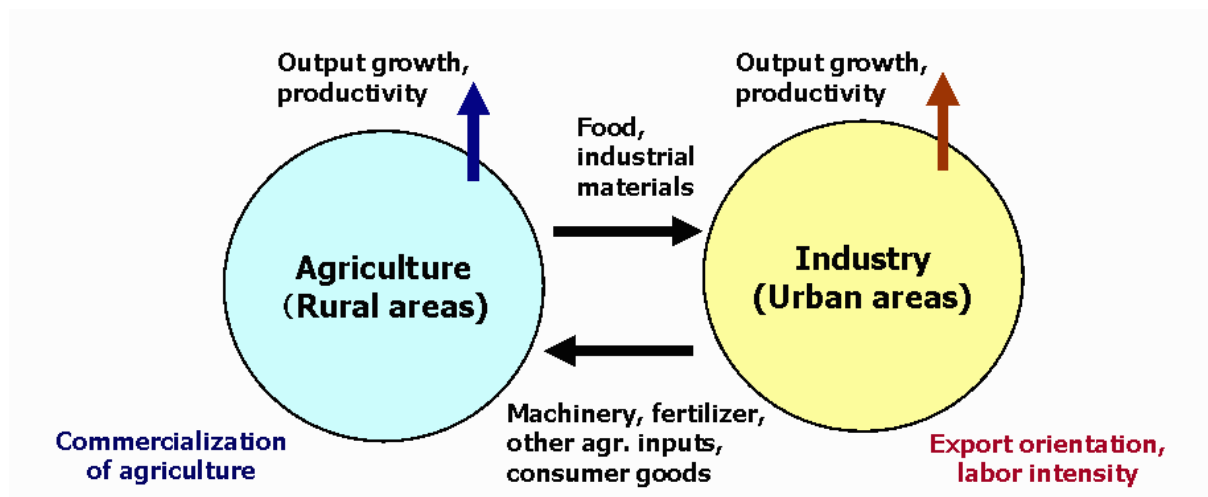
What exactly is the problem? What are the possible ways to address the problem? And what are the probable impacts and costs of each?"

Development and job creation policies in Ethiopia have been conceived, debated, and evaluated through the lenses of party ideology, politics and belief. In the current politics there is a fundamental belief that small farms can contribute to the creation of employment and improving of food security. According to my view the hope to create more jobs in rural areas through the provision of support to smallholder farmers is a wishful thinking. (for details see http://aigaforum.com/articles/miss_conceptualizing_smallfarms.pdf;))

In rural Ethiopia land based agricultural activities have not contributed to the creation of productive employment, if they do it is through land fragmentation or hunger plots. In rural areas the domestic input material (land and labor) is used for rural household multiplication, not for new activities, outputs and production increase. In the rural Ethiopia, labor force is not only large but also rapidly increasing. In a situation where there is a limited final demand and where there is less output augmenting factors (capital, fertilizers, water), increase in labor supply leads to low productivity of the employment sector, and because of the low input nature of the sector. Employment is created by low inputs and this lead to unproductive employment. The government interventions so far do not increase agricultural productivity and generate rapid employment.

On both urban and rural areas the government focused on the wrong sectors of the economy (agriculture and service sectors) as sources of economic and employment growth. Presumably, the government focused on these sectors for ideological reasons, moral or political interests. My view is that for more job creation, it is fundamental that the government has to chose industry over agriculture in unequivocal manner. The Agricultural Development Led Industrialization is not working for various reasons. To begin with there is no historical case showing agriculture leading to industrialization even if there seem to be a logic to ideally link agriculture to industry (see Figure 1 used often by government professionals).

Figure 1: Agricultural Development Led Industrialization Logic



According to my view the sources of industrialization are capital accumulation (both physical and human), technological development and trade. In case of Europe and Japan, industrialization grew out of proto industrialization (goods mainly manufactured in urban workshops and homes), not from agriculture. In case of East Asian countries, industrialization grew out of non resource based activities related to human capital development (ICT in India and electronics in case of Korea, China and Taiwan). In case of England, rapid industrialization was partly related to trade and demand. The simple association that agriculture is linked to non-farm rural activities does not mean that it leads to industrialization. Non-farm rural activities, including the traditional manufacturing activities are different from factory organized activities in terms of scale, diversity, technology, specialization and complexity.

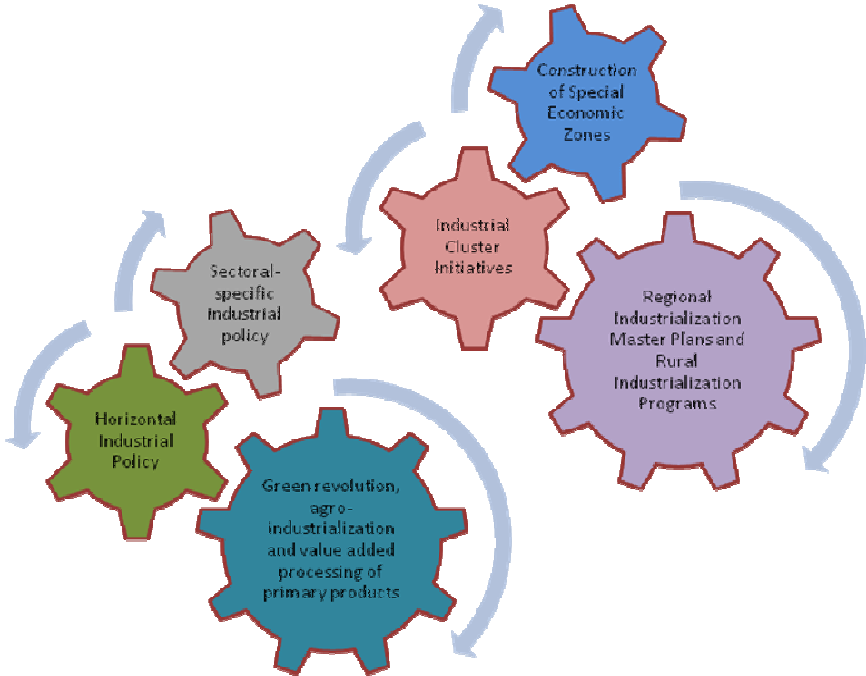
The idea to dramatically expand rural material inputs (labor and land resources) and use them as major industrial sources is a wishful thinking. To wait for small holder farmers (about 12 millions) to be prosperous and serve as basis for industrialization is having a wrong assumption about their nature. As I have discussed in previous postings, smallholder farmers are demographic units of reproduction. The fact that they are crop producers does not mean that they are entrepreneurs. They are basically consumption units (mainly child rich households) left with no surplus for the market. Firm theory does not apply to them and I see no reason why one expects industrialization out of their multiplication.

What I am trying to say is that agriculture and service sectors are not and will not lead to industrialization and job creation. It is better for the government to think of other instruments and mechanisms of industrialization. This does not mean agriculture should be left in abeyance. Agriculture needs structural change in the form of selective green revolution

interventions for the purpose of food security and rural industrialization. I will come back to the issue of rural industrialization at the end of discussing the alternative policy instruments.

My conclusion is that it is mainly by focusing on industrialization that more productive jobs will be created in the country. The focus on industrialization makes us to think differently and worry about finding non agricultural/service means and instruments of rapid industrialization. To lower the plight of the youth in Ethiopia, the government has to change its line of development thinking, choice of strategies and means of creation of jobs in the country (from mindset of Figure 1 to the approaches of Figure 2).

Figure 2: Integrated approach to rapid industrialization in Ethiopia for mass production, employment creation and growth



What to Do: Six Policy Instruments

At the level of mechanisms, job creation requires a government capacity to properly identify policy instruments. There are six policy instruments which can be used for rapid industrialization and employment creation in the country. In the following I will briefly discuss the six instruments, and if required I will come back with details in the near future.

Policy Instrument 1: Construction of Special Economic Zones

Special Economic Zones (SEZs) are defined as geographically delimited areas “with a single management or administration and a separate customs area (often duty free), where

streamlined business procedures are applied and where firms physically located within the zone are eligible for certain benefits”. Special economic zones serve as “demonstration areas” for policy reforms and to encourage foreign investment. There are over 3500 zones in the world and the development of these zones has helped to improve global trade relations and has created over 70 million jobs and hundreds of billions of dollars in trade revenue.

Industrial development zone (IDZ) is mentioned in the industrial section of the GTP. In a recent workshop on industrial development in Ethiopia, I learned that this part of the policy was drafted by a few key persons without systematic prior consultation with businesses and relevant ministries. On 30 August 2013, a Strategic Partnership and Consultancy Service Agreement on the development of Special Economic Zones and Industrial Parks in Ethiopia was signed between China and Ethiopia.

Policy Instrument 2: Industrial Cluster Initiatives

Cluster refers to a group of companies and other institutions in related industries that are co-located in a specific geographic region. Clustering can enhance the individual capacities of small firms to access markets, and acquire skills, knowledge, credit and information. For a company to operate out of cluster is disadvantageous. But these advantages are not given. Particularly in developing countries these advantages do not work because of weak institutions, labor oversupply, and small size of the market. There is a need for cluster initiation, planning, managing and funding to overcome institutional weaknesses. Any organized effort to enhance the competitiveness of a cluster is also called a cluster initiative. The stronger the cluster, the higher the survival rate of new businesses, the more dynamic is the process of new business formation, the more likely new industries within the cluster are to emerge, and the higher the job growth in new businesses. Because of these economic advantages European countries have started to construct industrial cluster organization since the early 1990s. More than 1400 cluster initiatives are identified globally.

In the case of Ethiopia, there are two major types of clusters. The first types are natural clusters that spontaneously grow out of the concentration of economic activities based on market forces over a long period of time. Examples of such clusters are the footwear cluster in Mercato area and the handloom cluster in Shiromeda area of Addis Ababa. The second types are government planned clusters that are created through a deliberate policy of constructing a working premises. Planned clusters have associations but they are very few in number and their establishment dates back to 2004. In Ethiopia the great majority of the clusters are

natural and spontaneous and they have no organizations to develop their industrial competitive capabilities.

Policy Instrument 3: Regional Industrialization Master Plans and Rural Industrialization Programs

In 2010, the Amhara region has conducted a comprehensive study to develop a 10 year master plan aimed at developing industrialization in the region. Even if I have no information as to the implementation of the plan, I find the study relevant and necessary to start industrialization. The plan has an overall objective of developing the existing potentials of the medium and large firms in the region and creation of more productive jobs for the surplus labor of the region. To develop rural industrialization program, the plan needs further study on quantify resource needs of the existing firms, value chain/resource costs analysis and a study on the performance of small-scale industries in the region. Value chain analysis of certain industrial products (i.e., study of factors that affect costs of a selected commodity) was not part of the study. Assessing the performance of small-scale industries had received less attention in the study. I believe that the plan scope will expand to accommodate these limitations as the plan implementation and learning proceeds. The 10 year master plan for the development of the industrial Sector in Amhara Region is worth emulating for the creation of manufacturing jobs in rural parts of Ethiopia.

Policy Instrument 4: Green revolution, agro-industrialization and value added processing of primary products

For details see:

http://aigaforum.com/articles/GreenRevo_Industrial_policy_Ethiopia.pdf

http://aigaforum.com/articles/Green_Revolution_PartTwo.pdf

http://aigaforum.com/articles/Green_Revolution_response1.htm

http://aigaforum.com/articles/Green_Revolution_smallholder.htm

http://aigaforum.com/articles/Final_response_on_green_revolution.htm

Policy Instrument 5: Horizontal Industrial Policy

This policy instrument promotes human resources through education, training, research and skill development. The aim of horizontal industrial policy is to secure framework conditions favorable to industrial competitiveness. Its instruments, which are those of enterprise policy, aim to provide the framework conditions in which entrepreneurs and business can take initiatives, exploit their ideas and build on their opportunities.

Policy Instrument 6: Sectoral-specific industrial policy

Policy instrument targeting a sector not necessarily aimed at the whole of manufacturing or even limited to the manufacturing sector in its scope. The government takes a concerted, focused and conscious effort to encourage and promote a specific sectors with an array of policy tools.

The Ethiopian government identified the following priority sectors for direct support: textile and garment; meat, leather and leather products; agro-processing industries, construction and micro and small enterprises (MSEs). For details on sectoral strategies see Admit Zerihun, "Industrialization Policy and Industrial Development Strategy of Ethiopia" in Taye Assefa, ed. (2008), Digest of Ethiopia' National Policies, Strategies and Programs. Part I: Social Sector. Addis Ababa, FSS.

How to Do It: Suggestion on policy making procedure and organization

At level of implementation, industrialization and job creation requires a tradition of policy procedure and organization from which good policies are produced and executed. In Ethiopia, the organizational structure of industrialization seems to be centralized under the Prime Minister office, a lead ministry and a technocrat team supporting the ministers. While such arrangements are speedy and good for short cuts, they are not suitable for dialog with the public and private stakeholders. To avoid "know-it-all attitude" the steps in Figure 3 are suggested for drafting the six policy instruments.

Policy Making Procedure and Organization

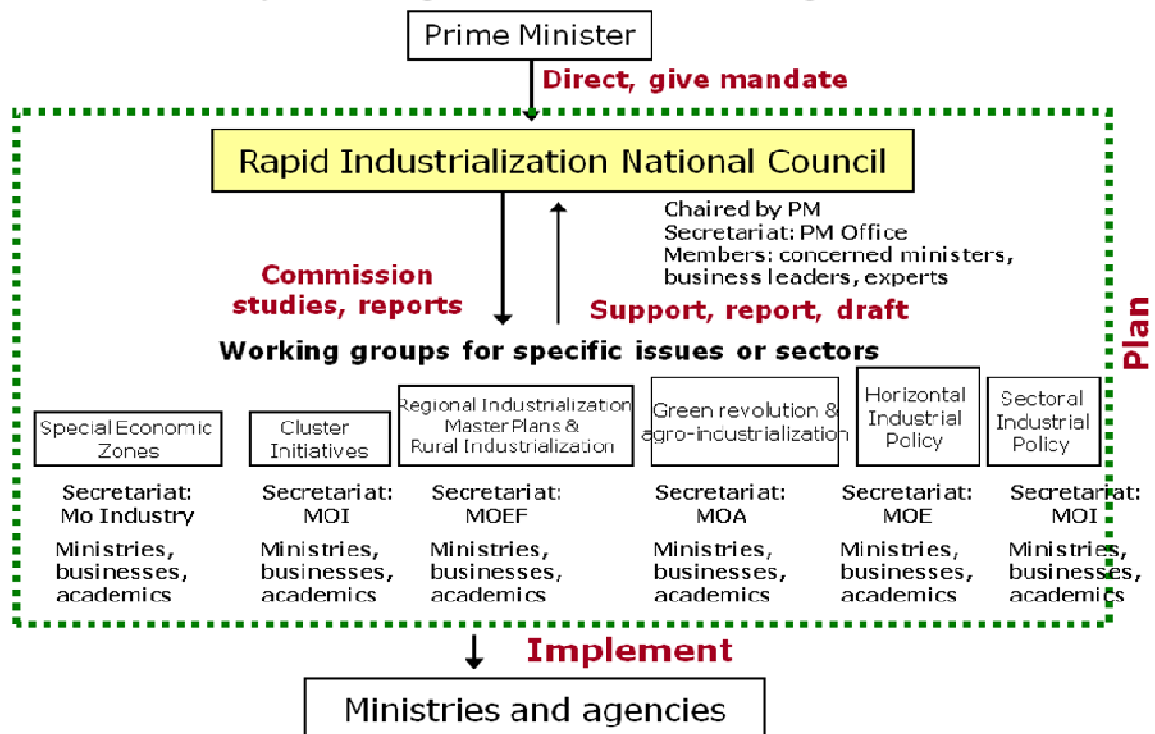


Figure 3: Policy Making Procedure and Organizations, modified and adopted from Kenichi Ohno (2011), Policy Procedure and Organization for Executing High Priority Industrial Strategies. GRIPS, Tokyo.

Industrialization and job creation is not only the promotion of selective driving factors and technology based economic activities, it is also a conscious effort of institutional transformation to increase diversity and production scale, the number of firms, their linkages and employment creations. Based on demographic based projection, I tried in previous postings to warn about population loss and economic crash and advised for alternative policy measures and mindset changes. But there is no one to listen.

I would like to dedicate this piece of article to fellow Ethiopian migrant workers in Arab and sub Saharan African countries.

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