



Challenges and Prospects of Entrepreneurship Development and Job Creation for Unemployed Youth: Evidence from Addis Ababa and DireDawa City Administrations, Ethiopia

By

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In 2012, with the support of the UK Department of International Development (DFID) and the International Development Research Centre (IDRC)-Canada, the Partnership for Economic Policy (PEP) launched a new program to support and build capacities in “Policy Analyses on Growth and Employment” (PAGE) in developing countries. This brief summarizes the main features and outcomes of one of the projects supported under the first round of the PAGE initiative. The full paper is available at the PEP website.

Almost 90 percent of the world’s youth are residents in countries where they can hardly access adequate education, capital, paid employment and health services. As the size of the younger population in Africa steadily swells to account to being the single largest category of age groups, the likelihood of majority of these youth being absorbed within the formal economy becomes nearly nonexistent. (DSW, 2011).

Encouraging the integration of young people at work and improving their situation in the labor market are two of the main priorities of the Ethiopian government (Talent Youth Association or TaYa, 2014).

This hard fact has strong reflection on the demographic and socioeconomic reality of

Ethiopia. More than half of the population in Ethiopia is made up of young people under the age of 25 (DSW, 2011). In addition, women constitute slightly more than half the population of Ethiopia. This greater number of youth and women who are mostly engaged in the informal sector to earn their living (Central Statistical Agency) makes them vulnerable to conditions that deprive them from securing material well-being.

In the context of Ethiopia, all persons aged ten years and above who were productively engaged or available to be engaged during the reference period were included as economically active persons. In other words, the economically active population comprises all persons aged ten

years and above who were employed or unemployed during the reference period. Those who were neither engaged nor provided their labor, on the other hand, constitute the economically inactive population. (Central Statistical Agency, 2005).

The age range which the study considers as youth is from 15-24 years old. This age range has been set by the Ethiopian Ministry of Youth and Sports.

The study was census-based where the entire elements of youth in the three project sites were taken into consideration and where a total of 3,591 youths were targeted. The youth in Wereda 10, Gedenser and Kebele 01 (Melka Jebdu) numbered 2,048, 59 and 1484, respectively.

Today, of all the effects of the economic crisis, unemployment for young people is one of the most worrisome issues. More than half of the young people aged below 25 years who want to work cannot find a job opportunity, and almost 35 percent of the unemployed young people have been in this situation for over one year. Youth employment is thus a key issue in Ethiopia since almost two-thirds of the population are younger than 25 years. Because of rapid population growth, the labor force is also expected to double in the next 25 years (ibid).

Currently, there are 31 public universities under the administration of the Ministry of Education of Ethiopia. This high number of

universities has produced many graduates ready for work. Yet, the most accessible job opportunities at present involve only farming, with 80 percent of Ethiopia's overall labor force engaged in subsistence farming. As such, more job opportunities are therefore critically needed for university graduates (TaYa, 2013).

Ethiopia has one of the highest urban unemployment rates worldwide at 50 percent of the youth labor force. According to a report by the Ministry of Labor and Social Affairs, 87 percent of all registered job seekers are between the ages of 15-29. Sixty eight percent (68%) of the employed youth (rural and urban) are unpaid family workers. Additional estimates of urban youth unemployment include the following: 6 percent among the -- 15-19 years old, 18 percent among the 20-24 years old and 11 percent among the 15-24 years old (TaYa,2013).

The lack of employment opportunities for Ethiopian young people is among the critical development challenges facing the country and a key barrier to national efforts toward the achievement of the Millennium Development Goals (TaYa,2013).

Thus, to accelerate the growth, security and sustainability of the Ethiopian economy, each sector needs to be supported by young entrepreneurs and employees. Additionally, the need to create more jobs which is consistent and compatible to the number of new graduates is very essential. Youth

unemployment breeds disappointment, hopelessness, and despair. These conditions are more likely to result in youth engaging in risky and destructive behavior. The consequences of youth's risky behavior affect their own health, their families, communities and the nation at large. In other words, they might become unproductive, feel a sense of hopelessness, and be at great risk for drug and alcohol addiction, delinquency and getting involved in crime. This may ultimately also lead to social unrest and civil disobedience (TaYa,2013).

Generally, supporting youth employment can help break the cycle of poverty. It is estimated that creating productive work for young people in sub-Saharan Africa could result in a potential GDP increase of 12 to 19 percent (TaYa ,2013).

Finally, one needs to inquire on why the prevalence of unemployment is high in the country and in the selected CBMS project areas. Is it because the number of youth and the job creation rate are mismatched or are there other factors that influence such situation? And how is government is working on the issue of entrepreneurship and how do the youth benefit from the policy direction? All these need to be investigated.

Table 1. Self-employed youth, by site

Site	No.	Freq.
Wereda 10	59	2.88
Gedenser	0	0.00
Kebele 01	3	0.20
Total	62	1.73

Source: CBMS-Ethiopia Survey, 2015

As noted in Table 1, self employment is at high risk, with around were 98.27 percent of the combined youth in Wereda 10 and Kebele 01 not being self employed. This implies that they are either hired labor or unemployed. Self employment is recorded at 1.73 percent, with low levels in the project area. In the rural village of Gedenser, in particular, youth self employment is totally absent.

Table 2: Reason for starting own business in the overall project site

Reason for starting own business	No.	Freq.
No employment opp.	33	53.23
Independence	9	14.52
Need to increase income	14	22.58
Non family influence	2	3.23
Family influence	4	6.45
Total	62	100.00

Source: CBMS-Ethiopia Survey, 2015

The major reason which induces the youth in the overall project site to start their own business is the absence of employment opportunity. Since majority of the youth in the two project areas are unemployed, some of them engage in self-business in order to secure more income. On the whole, 90.32 percent of the decisions of the youth to involve in self-business basically emanate from the absence of employment opportunity, desire for

independence from employer and need to increase income.

Table 31: Logistic Regression result for covariates of self-employment

Variable description	Coefficient
Age of the youth	0.26***
Sex of the youth	-0.53*
Educational status of the youth	-0.18***
Television ownership of the youth	0.015
Radio ownership of the youth's	0.16
Telecommunication access of the youth	3.33***
Newspaper access for the youth	-0.51*
' <i>Equb</i> ' membership of the youth	1.18***
Cooperative membership of the youth	-1.38*
Total asset value of the youth's	0.0001
Family size of the youth's family	-0.06
Technical or vocational training	-0.404
Entrepreneurship training	-0.708
Constant	-10.9***

*significant at 10%
 *** significant at 1%

**significant at 5%

As seen in Table 3, it was hypothesized that the variable 'age of youth' is positive and highly significant, with p-value less than 1 percent level of contribution for the youth to engage in self-employment. Similarly, the variable 'sex of the youth' shows the expected sign and it is also significant at less than 10 percent. This indicates that there is significant partial correlation between being female and engagement in self-employment. The other variable in this category 'years of education' comes up with the expected negative sign and highly significant result, with p-value less than 1 percent, as it was hypothesized. The variable is included because of the fact that it is a most widely observed fact in Ethiopia that the higher the educational achievement is, the higher

probability of a person being an employee would be.

Some information access variables show consistent results with previously hypothesized sign while others show contrary results. Telecommunication access has a highly significant positive contribution, even less than 1 percent p-value for a youth to engage in entrepreneurship. However, television and radio access have no significant contribution for the youth to engage in entrepreneurial activity. On the other hand, those youth who have access to newspaper are shown to have a lower probability to engage in their own businesses.

The social capital variable, '*equib*' membership, has a coefficient that is significant and positive as it was hypothesized. This is because of the dual purpose that '*equib*' plays in Ethiopia's various villages in both rural and urban areas. On the one hand, it substitutes formal financial institutes via the provision of microcredit without collateral requirement to finance members' businesses or to start up a new one. On the other hand, it creates a good platform to share experiences of different business persons. Both reinforce the logic behind the positive and significant variable's coefficient. In contrast, membership in local cooperatives has no impact on the probability of being self-employed. It may be due to the very limited human and

financial capacities of majority of the cooperatives operating in Ethiopia.

All other variables such as, 'asset ownership of families of youths', 'family size', 'short term entrepreneurship', and 'technical and vocational training from technical and vocational colleges' were found to be insignificant.

The variable that indicates urban/rural dweller-ship is automatically dropped by stata due to its functional multi-collinear relationship with other explanatory variables.

Conclusion and Policy Recommendations

Based on the results of the study, the major factors that contribute to the youth being self-employed are the following: age of the youth, educational status of the youth, youth access to telecom services and social capital of an individual.

In view of the above conclusions, the following policy recommendations are made:

- i. Improve the governance and attractiveness of TVET:** Greater emphasis should be placed on effective governance mechanisms for TVET, in particular, better coordination among different institutions and stronger partnerships with employers.
- ii. Reform the educational system:** Improve the quality of teaching and learning at school; for instance, curriculum changes toward a more

practical orientation, teacher training, infrastructural improvements and greater public investment in primary and secondary education are called for.

iii. Support village level associations:

Village level associations enhance the chances for better development of entrepreneurial activity in the study area. Therefore, policies should be designed in a way that these institutions are supported to be able to reach the bulk of society that are not connected to banking services.

iv. Increase communication outlets:

The model's analysis implies that there is positive relationship between having access to communication media and self-employment. Hence, it is advised to work in this area to make youth access to media much easier in order to increase future youth self-employment. The reality on the ground implies that there is still a lot of effort needed to do so. In particular, it is critical to improve access to market information in order to develop more confidence in being self-employed.