



The Challenge of Unemployment and Youth Unemployment amidst Fast Economic Growth in Ethiopia

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Background and the research problem

Ethiopia has registered one of the highest growths in Africa in the past two decades. Despite this high and continuous economic growth, which is above the Sub-Saharan average, for a decade and half, unemployment in general and youth unemployment in particular remained a major challenge. This study examined this paradox using three approaches: (i) a growth decomposition and structural change analysis, (ii) an examination of the sectoral and sub-sectoral mode of production in terms of capital and labour ratio that is based on social accounting matrix (SAM) and enterprises survey data, a

SAM based economy-wide model, as well as (iii) by estimating an econometric model that attempts to identify major determinants of unemployment (youth unemployment).

Research findings with policy implications

The following are the findings of the study with implications for policy.

First, we identified the agricultural sector in general and animal farming in particular as sectors with significant potential for employment. However, the role of agriculture as source of growth has significantly declined since 2010. Thus, the sector with significant potential for job creation was not the source growth, especially after 2005. A policy attention that focused on agriculture since 2005 would have significant impact on job creation.

Second, since 2005, and especially after 2010, the industrial and the service sectors became the major sources of economic growth. The policy focus of the government in urban areas and the industrial sector might explain this. Within the industrial sector construction was the main driving force behind GDP growth and the manufacturing sector remained fairly stagnant in the last four decades with its share in GDP reaming below 5 %. Our capital-labour ratio-based analysis has also shows the construction sector has significant potential for job creation. Although it has created some job, it did not manage to create significant job comparable to the manufacturing sector that has contributed, relatively low to economic growth, however. Thus, a concerted effort in supporting the manufacturing sector would have the dual effect of high job creation and structural transformation at the same time.

Third, in the service sector, although the health, education and transport sectors were sectors with significant employment potential, the major source of economic growth was the trade sector which is not job-intensive as that of these service sectors.

In sum, from this part of the analysis, we found a miss-match between the sources of economic growth and sources of employment growth. Having identified the above findings, we have examined the potential job creation of the economy both form the technology of production (capital-labour ratio) and each sector's (and sub-sectors) potential for expansion due to demand stimulus using an economy-wide model. The latter is based on a social accounting matrix (SAM)-based multiplier analysis. Generally, the findings about the miss-match between the sources of growth and source of employment that we have discovered in the decomposition analysis and

reported above is also confirmed to be found using this method too. In addition, from the later analysis we also found:

Fourth, sectors with capacity to expand relatively a lot due to demand injections are not sectors with significant job creation potential. More concretely, (i), if supply is elastic, a demand stimulus will have the highest output effect on the construction and trade sectors. This is followed by hotels, restaurants, transport, forestry, public administration and animal husbandry (cattle's) and cash crops, excluding coffee, in the agriculture sectors that are found to have the highest multiplier effect, above the median value. However, the effect on the growth of the construction and trade sectors is found to be significantly higher than for the others – with four times larger than the median value. Although the construction sector is one of the sectors with significant potential for job creation, yet did not create significant job as that of manufacturing. The trade sector, which is a very important sub-sector for economic growth is not among the top sub-sectors with significant potential for job creation within the service sector either.

Fifth, although this demand stimulus could also stimulate some of the agricultural sub-sectors with significant potential for employment (animal farming, cash crops, and crops such as maize) that could grow at a rate above the average growth for all sectors, their growth from this demand stimulus is not as high as their potential for job creation, especially when compared to the construction and trade sub-sectors. There could be many factors for the latter, that includes supply factors that limit agriculture production and productivity that needs further examination (which is a major caveat for a SAM based analysis which depicts a demand led growth).

Six, this demand stimulus is found to have differential implication for different type of labours and factor incomes as well as different regions of the country – has distributional implications. In relation to this, we found first (i), demand stimulus-based growth is found to favour primarily unskilled labour (income), followed by owners of non-agricultural capital. Land related capital and skilled labour follow next. Again, the effect on the factor income to these first group (unskilled labour and non-agricultural capital) is found to be more than 4 times larger than the latter groups of factor income and 11 times higher than the return to capital in the livestock sector, which is getting the least income. In terms of institutional categories of income, the government sector is found to benefit more than the enterprises. Second (ii), in terms of the regional dimension of the distribution of income, generally those regions and specific geographic part of regions with the largest population are found to benefit more than the others.

Finally, since the end result of the mis-match between sources of growth and employment as well as the effect of demand stimulus on output and employment growth is to render high unemployment (low employment) we have examined furth

the other possible factors behind both adult and youth unemployment using micro-level data and econometric analysis. The result revealed the following additional findings: first (i), despite the government's attempt to tackle the youth unemployment problem through the expansion of "Technical and Vocational Training" (TVT) schools, the empirical finding shows that this endeavour doesn't have effect on reducing unemployment – may be the training is not tuned to local demand and potential. On the other hand (ii), having a first (a bachelor) and second (master) degrees is found to have a negative association with unemployment – the likelihood of being unemployed significantly being reduced when one holds a master degree better. Similarly (iii), those who have received some kinds of (non-formal) training are also found to be less likely to be unemployed. Finally (iv) all factors that affect total adult unemployment are found to affect youth unemployment in a similar direction and magnitudes. However, being young itself is found to increase the probability being unemployed significantly. We may conclude by stating that all these findings have implications for employment creation policy that needs the close attention of the government.



Mission

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