

Employment Challenges in Ethiopia

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September 2012

Abstract

Unemployment (mainly as an urban phenomenon) and underemployment continue to be serious social problems in Ethiopia despite some improvements in recent years. This paper attempts to assess the labor market institutions, evaluate the existing labor market policies and discuss their role in explaining and solving the unemployment problem based on review of policy documents and relevant empirical literature. The study finds out that there are different policies and strategies introduced and implemented by the government for employment generations. Those policies and strategies on the demand side of the labor market include the special incentives and supports provided to private sectors and the public employment generation schemes. On the supply side of the labor market, there are significant efforts to improve labor productivity in both farm and off-farm activities. The potential of these interventions to have significant impact on employment has been constrained by the extensive informal sector in Ethiopia, the low demand for labor and lack of government budget. The Labor market institutions that govern employment relations in Ethiopia are generally found to be weak. This weakness is characterized by limitation of legal framework and lack of social dialogue among institutions.

1. Introduction

Ethiopia is a poor agrarian country with per capita income of USD 350 (World Bank, 2011). Recently, however, the country has been achieving a promising economic growth. According to The Economist (January 6, 2011), the country had the 5th fastest growing economy in the world during the periods 2001-2010 at an average annual GDP growth rate of 8.4% and the 3rd with a forecast of 8.1% during the periods 2011-2015. Despite such improvements, unemployment is high and is one of the socio economic problems in the country. This shows that the economy cannot provide adequate jobs to the growing population in both rural and urban areas.

The Government of Ethiopia (GoE) gives due emphasis to employment creation (as asserted in PASDEP and GTP) and different policies and strategies have been introduced and implemented by the government for employment generations. Those policies and strategies on the demand side of the labor markets include the special incentives and supports provided to private sectors and the public employment generation schemes. On the supply side of the labor markets, there are significant efforts to improve labor productivity in both farm and off-farm activities.

There are few studies that address the employment challenges in Ethiopia. Most of the studies give a narrow view of the labor market – few studies tend to concentrate on the incidence of unemployment in specific categories, such as urban youth unemployment (Serneels, 2004; WB, 2007). The policy aspect of labor market is found to be less explored in the literature at least in the context of Ethiopia. The radical policy and administrative reforms that were undertaken in Ethiopia since the 1990s are expected to significantly affect the conduct and performance of the labor market. The impact of these policies needs to be analyzed in order to either deepen the reforms or replace them with other, more effective policies that improve employment and thereby also promote economic growth and create a stable social and political environment in the country.

The objective of this study is to provide a policy analysis of the employment situation and challenges in Ethiopia. The study tries to give a succinct insight into the unemployment situation in Ethiopia and the response to it from both demand and supply side of the labor market, as well as labor market institutions. Specifically, the study attempts to assess the existing employment policies and major intervention tools used in employment policy implementation, as well as other

interventions aimed at creating job. And then it discusses the role of labor market policies in explaining and solving the unemployment problem. The study also looks at the status of labor market institutions and suggests different strategies for strengthening the institutions

The study is mainly empirical in nature, relying on critical analysis of data and literature. The study heavily relies on the statistical data of the country's Central Statistical Authority (CSA) for the period 1990-2012. Other sources of data will include the Ministry of Labor and Social Affairs (MOLSA), the Ministry of Youth, Sports, and Culture (MOYSC), the Ministry of Education (MOE), the Ministry of Trade and Industry (MOTI), Federal and Regional Civil Service Commissions, Regional Labor Offices, Regional Youth Bureau, Federal and Regional Micro and Small Scale Enterprise Agencies.

For a systematic presentation, the rest of the paper is organized as follows. The second section analyzes the relevant trends in employment/unemployment in Ethiopia in terms of distinct categories. The third section is concerned with policies and strategies for increasing employment opportunities. This section stresses the role of good policies and government intervention aimed at accelerating growth and employment generation. The outcome of policies used to deal with the unemployment problem in different sectors/groups in Ethiopia will then be discussed with the hope that it will provide useful insight into policies. The status of labor market institutions with suggested strategies for strengthening the institution will also be discussed in some detail. The last section briefly presents the conclusion consisting of major findings and policy implications on employment in Ethiopia.

2. Overview of Labor Market in Ethiopia

According to the May 2007 Population and Housing Census of Ethiopia, the population of the country is estimated to be about 73.9 million (50.46% male and 49.54% female). The total population of the country was projected to reach 79.8 million by the year 2010 and 129.1 million by the year 2030 (WB, 2007). Although the rate of population growth has been on a declining trend over the last three decades (3% per annum in the 1980s, 2.73% up until the early 1990s and 2.6% from the mid-1990s up to 2007), Ethiopia's population growth is still considered to be high

given its size and demographic profile. The overwhelming fact of the labor market in Ethiopia is the rapid growth of labor supply. The labor force is growing much more rapidly than the population as a whole because of the young dominated demographic profile. Ethiopia's population depicts a classic pyramid with a higher proportion of young people at the bottom and narrow band of the elderly at the top. Ethiopia's population is predominantly young with about 45% of the population being below 15 years of age. The proportion of working age population (15-64 years) was estimated at about 52% (CSA, 2007).

Over the last two decades, the total labor force of the country has more than doubled. It increased from 14.7 million in 1984 to 26.5 million in 1994 and further to 33 million in 2005 (It is projected to increase to 81.9 million in 2030). And this has placed a huge strain on the labor market even under the most optimistic growth scenario. Employment creation for such a rapidly increasing labor force (4.4% per annum), has become increasingly challenging.

According to the 2005 National Labor Force Survey (NLFS), the national figure of the unemployment rate was estimated at 5% of the total labor force. Out of the 33,088,792 economically active populations 1,653,686 were unemployed¹. The data revealed that widespread unemployment was observed during the early 1990s, and unemployment rate has been declining then after (see Table 1).

Table 1: Trends in unemployment in Ethiopia

	1984			1994			1999			2005		
	Male	Female	Total	Male	Female	Total	Male	Female	Total	Male	Female	Total
National	1.0	1.4	1.2	2.77	3.09	2.9	4.32	12.46	8.02	2.5	7.8	5.4
Urban	6.8	9.5	7.9	20.4	24.2	22.0	18.34	34.03	26.4	13.7	27.2	20.6
Rural	0.3	0.6	0.4	0.63	0.78	0.69	2.39	8.56	5.14	0.9	4.6	2.6

Source: compiled from CSA, 1984-2005

¹ The *unemployed* consist of all persons who during the reference period, are not working but who are seeking work for pay or profit.

The data also showed that unemployment rate for females and urban areas are higher than that of males and rural areas, respectively. Unemployment rate for the urban areas was estimated at 20.6%, which was about 10 times higher than in the rural areas (2.6%)². The incidence of unemployment also varied by sex; where in urban areas unemployment among females was about 27.2% compared to 13.7% among males. The same pattern holds true for the rural areas, where 4.6% of females and 0.9% of males were reported to be unemployed.

In terms of age composition, unemployment is essentially a youth phenomenon. Youths in urban areas are vulnerable to the problem of unemployment. In the reference year (2005), youth unemployment stood at 28.77% in urban areas, which is considerably higher than rural youth unemployment (4.08%). However, this masks the fact that in rural areas there is high level of *underemployment*³, a phenomenon of not being fully employed or ineffectively employed. However, this does not mean that underemployment is not a problem in urban areas. Underemployment is highest among male youth and prime-age adults, and higher among men than women in both urban and rural areas. In particular, the underemployment rate of urban male adults aged 25 to 39 stood at 20 to 25 percent in 2005. The underemployment rate declined beyond the age of 40 at national level as well as for urban and rural residents.

Though the rural population of Ethiopia makes about 84% of the total population, recent labor market data is available on only urban labor markets. And most studies in Ethiopia are found to mostly concentrate on urban unemployment with a belief that urban unemployment might be more serious than rural unemployment for example in creating political instability⁴. According to the 2011 Urban Employment Unemployment Survey (UEUS), the national rate of *unemployment* for urban population aged ten years and above stood at 18% (11.4% for male and 25.3% for female). The unemployment rate has consistently declined (from 26.2% in 2003 to 22.9% in 2004 to 16.7% in 2006 and but increased to 18% in 2011). The decline in

² *Open unemployment* is not a common problem in rural areas. Rural areas absorb the labor supply through progressive subdivision of family holdings, also known as the “sponge effect”. Open unemployment is largely confined to the middle-class; persons awaiting positions in the public sector account for much of the openly unemployed (Woldehanna, Guta, and Ferede 2005).

³ Underemployment is not covered in the CSA employment status survey.

⁴ For instance, the recent uprising in the Middle East especially in Egypt and Tunisia which toppled the respective regimes is motivated by major socioeconomic problems such as rising unemployment

unemployment is found to be relatively more pronounced in case of female than male. For youth, who comprise almost one-fourth of the urban population, unemployment rate is still high though it has declined from 31.5% in 2004 to 23.7% in 2011⁵. Of course, the unemployment rate alone does not fully capture the challenges youth face in securing productive employment, in particular the quality of jobs held.

According to CSA's latest Urban Employment/Unemployment Survey, 49.4% of the urban population is employed (60.2% of male and 40% of females are employed). Looking at the employed population by major occupations, nearly three-fourths of urban employed population of the country is engaged in three almost equally important major occupations: services, shop and market sales workers (24.8 percent), elementary occupation (22 percent), and craft and related activities (18.7 percent). Professionals together with technical and associate professionals make up about 13 percent of the employed population while those persons working in legislator and senior officials took the smallest share constituting a mere 3 percent of the total employed urban population of the country.

Looking at the employed population by major industrial divisions, most urban employed population are now engaged in the service sectors which include hotel and restaurant, public administration, private households; education, health and social work; extra-territorial organizations; financial intermediation, electricity, gas and water supply and real estate (48.2%). Wholesale and retail trade absorbed 21.4%, while manufacturing, mining, and quarrying and construction industrial divisions account 20.9 % of the total employed population of urban areas. Agriculture, forestry and fishing contributed little share in terms of creating employment.

According to the same survey (UEUS 2011), looking at the distribution of urban employed population by employment status of a person, the bulk of employed population is constituted by self-employed (38.9%) followed by those employed by private organization (19.4%). Government employees together with government parstatals account 21.4%. Paid employees altogether constituted about 49% of the total working population (but the national average for

⁵ Ethiopia is not alone in Africa in confronting a high level of youth unemployment. Young entrants to the labor market, who are generally better educated than their parents and have higher expectations for employment, face difficulty securing jobs in many parts of the world.

paid employees was only 7.9% in 2005). Paid employees consist of employees of government, public enterprises, private organization and non-governmental organizations (NGOs) and domestic employees. Unpaid family workers have a substantial share - in 2010 the unpaid family workers accounted for 50.3% at national level; and only 15% in urban areas and about 55% in rural areas. The share in urban areas declined to 10% in 2011. The survey results indicate that paid employment is dominated by males. On the other hand, higher proportion of females than males are found among domestic employees and unpaid family workers (68.5% of unpaid family workers at national level are female. The proportion of females in self-employment also exceeds that of males in urban areas but 54.8% of the self-employed in both urban and rural areas were male (NLFS, 2005).

Like many developing economies, the informal sector has been the most important source of employment for the growing population in Ethiopia. In 2009, around 50.6% of urban employment came from the informal sector. The bulk of employment is increasingly created in the informal sector where jobs are precarious in nature and productivity levels are comparatively low. These include domestic work, wholesale and retail trade, hotels and restaurants, and primary production. Some activities appear to be strongly gendered: typically female sectors include food manufactures, services (hotel and restaurants) and trade. Men are far more likely than women to work in real estate, transport, and construction. Overall, the proportion of women working in the informal sector has been significantly higher than males.

While the informal sector is indispensable in ensuring livelihood and providing the means of survival for the great majority, its contribution to spreading decent work opportunities is highly questionable. Most of them have very low level of productivity and income. They tend to have little or no access to organized markets, to credit institutions, to modern technology, to formal training and to many public services and amenities. A large number of them are carried out without fixed location.

3. Employment Generation in Ethiopia

According to Ethiopia's National Employment Policy and Strategy (NEPS) (2009), employment generation has two important dimensions - the demand and supply side of job creation. The first dimension (*the demand side of job creation*) refers to the ability of the economy to create jobs for various skill categories as per the requirement of the economy. The second dimension (*the supply side of job creation*) deals with whether or not the skill levels of available pool of persons match with the type of skill that the economy requires. Besides, there is a third dimension (i.e. labor market institutions) that relates to the governance of labor market relations and labor market services.

3.1 Demand side of job creation

A comprehensive strategy of employment creation seeks to promote job creation in the private sector, in the public sector, and also in terms of promoting self-employment and entrepreneurship in urban and peri-urban areas. Accordingly, the NEP of Ethiopia identified policy action areas pertaining to the demand side of employment generation as: Accelerating private sector development for employment generation; and Ensuring effective and efficient public sector employment.

3.1.1 Employment Generation in the Private Sector

The future of employment expansion in Ethiopia is with the private sector. The public sector can no more be the biggest employer. Thus, enhancing private sector productivity (both formal and informal) and creating mechanisms for strengthening their linkages and complementarities is critical to create decent and remunerative jobs to reduce poverty.

Since the early 1990s, there have been encouraging improvements in a number of policy areas for private sector development in Ethiopia. The Ethiopian policy regime since 1992 has been more hospitable to entrepreneurship, including for small and informal businesses. Whereas Derg policies (-1992) were "openly aimed at curtailing (if not eliminating) the private sector," there has been liberalization alongside some proactive measures.

There has been an attempt to create a conducive business environment for the private sector. Special incentives schemes (such as subsidized credit services, preferential land lease, lower tax rates, and effective training services); special support for business development services (especially to MSEs and to informal sector operators); and development strategies (such as the Industrial Development Strategy and MSEs Development Strategy) have been introduced and applied in order to render the private sector the engine of economic growth, employment and income generation in the country. As a result, there has been a promising development in private sector investment activities with their associated employment opportunities. A good example is the flourishing horticultural industry in the country.

The incumbent government attached due attention to avoid and reliably solve the unemployment problem. To this end, it started identifying programs that can bring about rapid job opportunities along with providing the unemployed (especially, youth) with access to finance, production and market places. MSEs were among the programs the GoE has recognized and paid due attention to address the challenges of unemployment and expedite economic growth across the country. MSEs in Ethiopia have been making a significant contribution in the overall development and in the efforts geared towards reducing unemployment rate. In recognition of the economic and social role of MSEs in creating employment opportunities and generating income, the GOE, specifically MOTI formulated a strategy known as *Micro and Small Enterprises Development Strategy in 2004*. The objectives of the strategy are to strengthen MSEs in order to facilitate economic growth and bring about equitable development⁶, create long-term jobs and etc. This is done via creating an enabling legal, institutional and other supportive environment for the growth and development of MSEs. The strategy sets out the goal of providing the following kinds of support: 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. Furthermore, to encourage, coordinate and assist institutions which provide support to the development and expansion of MSEs, an agency dubbed the Federal Micro and Small Enterprises Development Agency (FeMSEDA) was established.

⁶ The strategy pays particular attention to females, giving priority to female operated enterprises, school dropouts, people with disabilities, and unemployed youth.

Today millions of unemployed youth in various towns and cities of Ethiopia have become beneficiaries of MSE sector. MSEs have been playing a key role in addressing unemployment in urban areas of Ethiopia. As per available statistics from the FeMSEDA, this sector created jobs for 1.15 million people in the year 2011/12 alone. According to the Growth and Transformation Plan (GTP) of the country, there is a plan to create 3.05 million job opportunities in five years 2010/11-2014/15. Jobs have been created in both the private and public sectors. Specifically in jobs have been created in construction, service, trade, manufacturing and urban agriculture sectors. There are also big projects in the public sector such as housing, road and rail construction, electricity, water irrigation and sugar production. The highest number of jobs created account for the housing projects in Addis Ababa. The Agency has carried out encouraging activities in enhancing MSEs' competitiveness, providing manufacturing plots, organizing new enterprises and creating market access. There are several enterprises that have been transformed into medium industry level following the various supports of the GoE. This proves that MSEs have the potential to alleviate poverty and generate employment opportunities for unemployed compatriots. Moreover, the sector has been contributing for the national economy and will have a major role to play in the future.

Like any developing country, the Ethiopian private sector in general and the MSEs in particular face a number of constraining variables that hamper their growth. The constraints related to infrastructure, credit, working premises, extension service, consultancy, information provision, prototype development, preferential treatment, and many others, have yet to be addressed.

Generally, encouraging improvements have been observed in a number of policy areas with respect accelerating private sector development for employment generation. However, policy innovations are still required to improve the business climate and address bureaucratic hurdles.

3.1.2 Employment Generation in the Public Sector

Employment can be generated and enhanced in the public sector through investments in employment-intensive infrastructure development and through other Public Employment Programmes (PEPs).

It is clear that a labor-intensive approach, in a country where there is massive underemployment and unemployment, would create job opportunities for many thousands of people from a given amount of investment without the need to compromise on quality and efficiency. Although there is room for employment creation through the adoption of labor-based approaches in infrastructure, the actual employment gains via such approaches have been limited in Ethiopia. However, the envisaged employment generation of the construction sector, as indicated in the Growth and Transformation Plan (GTP) of the country can serve as a witness of the GoE's commitment towards employment generation through labor-based approaches in infrastructure (see Table 2). Between 2010/11-2014/15, major infrastructure constructions are expected to generate employment for as much as 1,264,598 persons of different skills and qualifications.

Table 2: Employment generation of the Construction Industry from 2010/11 - 2014/15

Type of Employment	Type of the Infrastructure Development								Total
	Road	Railway	Power Generation	Housing	City Infra.	Sugar	Fertilizer factory	Irrigation and Dam	
Engineers	8,360	5,000	1,074	2,958	1,938	780	420	6,543	20,530
Associate Engineers	13,268	25,000	2,686	11,832	7,750	8,988	3,400	7,305	72,924
Operators & Technicians	13,290		3,761	1,479	969	500	200	100	20,299
Construction Forman	3,605		3,223	20,706	13,563	3,000	1,800	437	45,897
Occupational (Mason, Carpenter...)	8,567		32,129	35,496	23,251	7,000	4,980	6,100	111,423
Other occupational	7,798		-	1,479	969	210	200	216	10,658
Daily laborers	309,461	329,250	75,368	87,904	21,056	42,000	19,000	26,905	884,039
Total	364,349	359,250	118,241	161,854	69,496	62,478	30,000	47,804	1,264,598

Source: FDRE Construction Industry Development; Implementation Capacity Building and Employment Generation Strategy, May 2011

To tackle the challenge of unemployment in Ethiopia, PASDEP's strategic emphasis was on the growth of labor-intensive sectors, and on facilitating the growth of MSEs. In particular the effort of employment creation through the growth of the MSE sector is seen to require integration of efforts to increase educational attainment, both via general education and TVET skills training, with the provision of capital for the unemployed (within a well-functioning financial system), and with specialized programs to promote opportunities for self-employment. An example that contains the key elements of the government's strategy to fight unemployment is the recent experience of the Addis Ababa City Administration in small and medium scale enterprise development linked with TVET and a low cost housing program.

The next section will, therefore, examine the potential for employment creation through the adoption of labor-based approaches in infrastructure and action that is needed (in terms of policies at the national level as well interventions and programs at the project level) to transform the potential into reality. The analysis is based on review of impact study of the Integrated Housing Development Program (IHDP).

Example: Integrated Housing Development Program (IHDP)

Ethiopia's second Poverty Reduction Strategy, PASDEP emphasised on tackling urban development issues. Two of the key urban challenges facing Ethiopia were inadequate infrastructure, including housing, and insufficient creation of quality employment opportunities (as evidenced by a large cohort of working poor and significant levels of open unemployment). To address these challenges, in 2004, the city of Addis Ababa introduced IHDP, an innovative program designed to provide low-cost and affordable housing while also generating employment and building human capital and entrepreneurship in the construction sector. The ultimate objective of the program was to create better quality employment opportunities and a competitive market structure in the construction sector. The program aims to create jobs for the equivalent of nearly one-fourth of the active population in its main beneficiary age group (80,000 jobs over 4 years, relative to an active population of 350,000 25-34 year olds). Furthermore, the program was expected to play a dynamic role in fostering entrepreneurship and the distributional aspects that such entrepreneurship might have.

A study by the World Bank (2009), based on survey from 2006 assesses the impact of IHDP, exclusively on the employment creation side of the program, is worth reviewing. The central question of the study is whether the IHDP has generated more jobs than would have been created if it had only been a housing program (and relied on hiring existing construction firms) rather than a housing plus employment creation program. The employment creation side of the program includes several major elements. The program intends to accelerate employment creation in the construction sector by supporting the formation and development of MSEs, as described. First, the program actively stimulates the creation of MSEs in the construction sector by screening qualified workers (via a skills test), teaching them how to form legal business enterprises, and allowing them to group themselves into new firms. Second, the program contracts these new MSEs to work on the housing projects, which incorporate innovative low-cost and labor-intensive technologies (most notably, pre-cast beams and prefabricated hollow blocks) in order to build affordable housing. Third, the program provides wide-ranging support to the MSEs, including access to land, access to credit, input provision (e.g. re-bars, cement, and iron) on credit, machinery leases at favorable conditions, and skills training (though not all firms receive all types of support). This type of MSEs support is extended by the Municipality to other priority sectors as well, though the construction sector is the only one to benefit also from a source of guaranteed demand through the Housing program.

The study finds that the program has been successful in several respects; it has generated jobs and the support provided to MSEs seems to have enabled firms to grow more quickly than non-program firms of the same size. Yet, the study finds that program MSEs do not appear to be more labour intensive than non-program MSEs. This suggests that alternative modalities of delivering housing could be considered without affecting the employment creation potential of the program.

Employment can also be generated in the public sector through Public Employment Programmes (PEPs). PEPs can take the form of *public works* or *employment guarantee schemes*, or some other variations engaging public and private partnerships. In Ethiopia, public works are implemented in the form of *food-for-work (FFW)*, *cash for-work (CFW) programs* or *employment generation schemes* and *employment-based safety nets (EGS/EBSN)*. Ethiopia has

extensive experience with food-for-work, and more recently broad based cash-for-work schemes (via the Productive Safety Nets program), but only in rural areas. As part of a major food security program popularly known as the Productive Safety Net Program (PSNP), public work programs already play an important role in employing the rural poor in building roads and other infrastructure during times of food shortages. 5 million impoverished farmers were targeted under government-led PSNP. Afforestation, road construction, soil and water conservation activities are among the most important public work projects in Ethiopia. According to the Disaster Prevention and Preparedness Commission (DPPC), about 691 kms of roads were constructed and 1,126 kms maintained via FFW programs until June 2000 (cumulative). Similarly, about 61,876.01 kms of soil and water conservation activities have been undertaken over the same period. In 1999/00, DPPC estimates that FFW program benefited some 246,283 and 218,673 male and female participants, respectively.

An analysis of Ethiopia's existing food security programs by Quisumbing and Yohannes (2004) showed that the programs tend to mirror patterns in the labor market more generally, i.e. with lower female participation and earnings. In order to improve outcomes for women, they recommended careful selection of the type of project (men are more likely to work on infrastructure projects, for example) and allowing flexible schedules/providing day care to enable more female participation. They also emphasize the importance of female involvement in the program planning stages as critical to achieving benefits for women.

Ethiopia has extensive experience with food-for-work, and more recently broad based cash-for-work schemes (via the Productive Safety Nets program), but only in rural areas. Adapting and expanding the concept for urban areas should be on the policy agenda, and may be the best mechanism to directly expand opportunities for the unskilled unemployed. It is important to underscore that although unemployment rates are higher among the relatively well-educated; in absolute numbers the unskilled unemployed constitute a very large group (and experience an unemployment rate that is still high relative to other countries). If linked with training programs, public works interventions may have a better chance of improving participants' employability in the future, rather than simply offering a temporary source of income. Moreover, along with generating employment, public works programs can help expand and maintain critical

infrastructure and public assets in large cities as well as towns. This dovetails nicely with the Government's increasing focus on urban development as a central part of its growth and poverty eradication strategy.

3.2 Supply Side of the Labor Market (Improving Labor Productivity)

The supply side of job creation deals with whether or not the skill levels of available pool of persons match with the type of skill that the economy requires. Basically, it is concerned with improving and raising labor productivity, which can be achieved mainly through education and training. In rural areas, labor productivity is enhanced by agricultural intensification and/or raising labor productivity in off-farm and informal sectors.

Education plays a significant role in explaining the incidence of unemployment. Periodical analysis of unemployment shows that illiterate people used to account for a larger share of the unemployed population - among the illiterate population, who can perhaps least afford not to work; unemployment was about 7-8% during the 1980s and 1990s. However, according to the 2005 NLFS, unemployment was higher among the literate - 7.8% for the literate as compared to 3.5 for the illiterate. Among the literate group, the highest rate of unemployment is registered for those who did not complete secondary, secondary completed and preparatory educational level.

The striking result is that the relative share of unemployed who have attained/completed higher grades (especially grade 12) increased, from 20% in 1984 to 28.3% in 1994 and to 28.8% in 2005 , while the share of illiterate declined during these periods, indicating that unemployment has started to creep up the education ladder. Another striking result is related with the fact that unemployment peaks among those in the middle of the spectrum of educational attainment. For youth, unemployment peaks among those with General Education (Grades 9-10). However, the picture changes somewhat for adults, in that those with higher education become the least likely to be unemployed, suggesting that in the long run education pays. The fact that those in the middle of the spectrum-beyond primary but with no more than General Education-have the highest rates even for adults is cause for concern. It may signal a mismatch between the educational curriculum and the skills demanded in the labor market.

The Ethiopian education system in the 1980s was theory-oriented without due emphasis to vocational and technical trainings and thus it did not help students improve their cognitive skills and motivate them for success (MOE, 2002). Primary school included grades 1–6, junior secondary grades 7–8, and secondary school grades 9–12. In grade 12 students took a school-leaving exam in order to pursue higher education. However, only a small percentage of students could enroll in higher education, while the majority of school-leavers were left without any readily marketable professional or technical skills.

In 1994 a new education policy that dramatically changed the education system was introduced and adopted taking into consideration the limitations of the previous educational system. The new education policy focuses on producing a skilled labor force rather than a large cohort of relatively unskilled secondary school graduates. Grades 1–8 are now considered primary school and grades 9–10 the first cycle of secondary school. Both levels provide general academic education. A national exam is given upon the completion of grade 10, and those who score well are promoted to the second cycle of secondary school, or grades 11-12, which is considered college or university preparatory. Those who do not score well enough to continue in secondary school have the opportunity to pursue formal Technical and Vocational Education and Training (TVET), which takes from one to three years.

TVET has been given special emphasis and an extensive program aimed at restructuring the technical and vocational education and training was launched in 2000. This is due to the belief that encouraging and equipping youth (through a strong skills-based training program) to become self-employed is an important way to reduce youth unemployment. The possible effect of vocational training on employment in Ethiopia is not well studied since the available data do not allow carrying out any full-fledged impact assessment. However, given the relevance of the questions few researchers carried out preliminary estimates to obtain some indication of the possible efficacy of these programs. A country study by Guarcello and Rosati (2007) shows that only about 2% of the youth considered in the analysis has been involved in some form of vocational training. According to the study, the impact of having participated in a training program appears to be very large: it increases the probability of being employed by one-quarter in urban areas and by about 13 percentage points in rural areas.

Though the number of technical and vocational schools has increased considerably in Ethiopia in recent years, leading to several fold increase in the number of university and technical school graduates, employment opportunities, especially in the formal private sector, have not kept pace with increasing number of graduates. The problem is compounded by a lower quality of education and skill mismatches. Recent studies on the area propose specific interventions such as undertaking regular labor market surveys with the objective of assisting universities and technical schools to align their education and training programs to the skill needs of the labor market; and taking measures to further empower the Higher Education Relevance and Quality Agency (HERQA) to enforce higher education quality standards in order to address the problem.

Better understanding the demand for the skills taught in TVET programs is believed to be a major challenge. Tracer studies of TVET have been undertaken to gather information on graduates, including their employment status, to see if the new system is effective. The tracer studies are in recognition of the need to ensure that the programs are not entirely supply-driven, but that they respond to the changing needs of the market. The MOE in cooperation with the GTZ, has studied the projected demand for mid-level human resources to better understand current skill gaps in the labor force and thus to inform education policy. Also, the MOE has formed a stakeholder network, which includes employers, to help prepare the TVET curriculum. The MOE has offered training every summer for TVET teachers in order to improve the quality and practical relevance of its programs.

Among other things, the government is expected to provide relevant and demand-driven education and training through labor market monitoring, and re-orienting and re-focusing the existing TVET system; provide education and training for basic and junior-level trainees; ensure the quality of TVET provision by establishing a testing system throughout the country in all trades; regard income-generating activities as a source of income and component of training to reduce government allocations to the TVET sector; develop demand-oriented curricula based on occupational standards by involving experts from the work world; completely revise technical teacher-training institutions' curricula in different universities and institutes to bring about better quality instruction and; apply aptitude tests to avoid rigid trainee selection placement procedures.

4. Labor Market Institutions

4.1 The Status of Labor Market Institutions in Ethiopia

As indicated in the previous section, labor market institutions refer to issues that relate to the governance of labor market relations and labor market services. These refer to the existing provisions – UN conventions, national legal provisions, policies and programmes, and employment and social protection interventions. Labor market institutions in Ethiopia include government bodies such as the Ministry of Labor and Social Affairs (MoLSA) at federal level and its regional counterparts - Bureaus of Labor and Social Affairs (BOLSAs) at regional levels, labor courts, trade unions and employers' associations. Such organizations are responsible for protecting the interests of workers based on standards and regulations related to employment, wage payments, benefits, promotion and other issues.

4.1.1 Employment Policies and Strategies

In Ethiopia, there are different policies and strategies that affect employment. Ethiopia has issued proclamations⁷ in the effort to improve employment outcomes through improving employment relations. Ethiopia has one consolidated Labor Law (Labor Proclamation 377/2003), supported by regulations, codes of practice and collective bargaining agreements. Labor rights are enshrined in the constitution. The rights include the security of the person, the prohibition against inhumane treatment and the abolishment of slavery and servitude, and forced and compulsory labor. Ethiopia's Labor Law was proclaimed in 2003 to ensure that worker-employer relations are governed by certain basic principles, to guarantee the rights of workers and employers to form associations, and to strengthen and define labor administration.

Ethiopian Labor Law does not prescribe minimum wages through statute. Usually wages are fixed by the employer or by collective agreements or by the employee's contract of employment. The law needs to consider minimum wage. As the private sector expands taking advantage of the market economy, laborers could be subjected to exploitation. Minimum wage is a point of

⁷ There are also ILO conventions (about 20) that Ethiopia has ratified as part of its domestic law.

reference that allows laborers/employees to negotiate with their employees. Without a minimum wage, they may be forced to accept whatever is suggested by the employer.

The Ethiopian Labor Law applies to the entire labor force, though some specific provisions may be more relevant for the vulnerable parts of the society such as the youth, women and children than others.

Women account for half of the Ethiopian population and are more vulnerable than men due to many economic and social factors that work against them. In recognition of these factors, Ethiopia has applied different laws in relation to the rights and working conditions of women. The *National Women's Policy* came into being in 1993. The Ministry of Women Affairs has developed a package of programs that aim to address the needs of vulnerable women and ensure equitable development for all Ethiopian Women. Women's Policy defines the responsibility of sector offices with respect to the rights and welfare of women. For example, The Ministry of Agriculture and Rural Development has the responsibility to introduce extension services in activities which are closely related to women such as vegetable farming, milk production and poultry; encourage women-headed families to participate in every programme; and assist women in getting credit, inputs, and extension services.

However, women in Ethiopia still remain at the lower end of a segregated labor market and continue to be concentrated in few often informal occupations, hold positions of little and no authority and receive less payment than men. Women are underrepresented among white collar workers – while they represent almost half of total employment their combined share in "technicians and associate professionals," "professionals" and "legislator senior officials and managers" does not exceed 30 percent. Women earn less than men: given the same observable characteristics, women are likely to be paid 22 percent less. At the same time, decompositions of inequality of earnings across gender and educational levels show greater heterogeneity among women, which means that some women do better, others do much worse.

In the rural areas, agriculture creates employment opportunity for less educated and economically marginalized women, who would not get into formal employment. In the urban areas, most women workers are concentrated in the informal economy and are not recognized,

registered, regulated or protected under labor legislation and social protection and are therefore not able to enjoy, exercise or defend their fundamental rights.

The ILO believes that it is not enough that women are provided with jobs, those jobs should be adequately remunerated with entitlement to full labor rights, therefore constituting a real opportunity for women to achieve economic empowerment and improve their livelihoods and status.

According to the Convention on the Rights of Children, all boys and girls under the age of 18 are considered children, too early to take up formal employment. Ethiopian children account for 48% of the population. The ILO observes that child labor is still a pervasive problem in Ethiopia. A national Child Labor Survey conducted in 2001 indicated that 52% of children aged 5-17 years were economically active, 49% of those aged 5-14 (7.4 million). A further 33% were engaged in non-economic housekeeping activities, with half of them not attending school. Overall, 85% of children aged 5-17 years were involved in economic or housekeeping activities that prevented or impeded school attendance or performance. Most of the children work long hours and in harsh and exploitative conditions. Majority of them work in agriculture and in various sectors of the urban informal economy, including domestic work. Although precise and reliable data are lacking, large numbers of children are thought to be engaged in the worst forms of child labor, including child prostitution and exploitative domestic work, many of them being victims of internal trafficking.

A portion of the Labor Law is devoted to 14-18 year-olds, “Working Conditions of Young Workers”). Under Article 89 of the Labor Proclamation the statutory minimum age for young workers is 14 years. The proclamation prohibits employment of those under age 14 and prohibits employment of young workers for activities that would endanger their life and health. These prohibited activities include: e.g. work in transport, work in arduous, hazardous or unhealthy activities, such as mining. Work performed under the regime of vocational training course is exempted from this protection.

The Ethiopian Labor Law generally stipulates a maximum workday of 8 hours or 48 hours per week (article 61, sub article 1). However, article 90 states that the normal workday for young

workers should not exceed seven hours. In addition, employers are prohibited from employing young workers for night work (between 10 p.m. and 6 a.m.), overtime work, weekly rest days, and public holidays.

*Ethiopia's legal provision with respect to protecting children falls short of international standards. Ethiopia has ratified and domesticated the Child Rights Convention but does not have its own child policy which could guide the many child focused government and non-government organizations.

The proportion of young people in the overall population of Ethiopia has gone up over the last two decades. The 15-24 years cohort represented about 14% of the population in 1984 and about 20% of the population in 2005. The youth population is projected to grow in absolute terms from about 15 million in 2005 to 26 million in 2030, but will remain at about one-fifth of the overall population during this period (CSA, 2005).

The increasingly clogging entry into the labor market affects mainly the youth. It is particularly the age group under 35 years that is afflicted by relative scarcity of job offers, especially in urban areas. For youth, who comprise almost one-fourth of the urban population, unemployment rate is still high though it has declined from 31.5% in 2004 to 23.7% in 2011. Of course, the unemployment rate alone does not fully capture the challenges youth face in securing productive employment, in particular the quality of jobs held. Many youth seem to enter the labor market via low quality jobs or unemployment. About 80 percent of employed youth work in the informal sector, and many of them are unpaid family workers. The better skilled have better access to paid employment: in 2005, only 27% of illiterate youth were in paid employment against 61% of the high skilled. Skills mismatch is another problem facing youth. Although this generation is the most highly educated in Ethiopia's history, if youth cannot put their skills to use, the private and social returns expected to follow the government's massive investment in education will fail to materialize. It will also come with a risk of frustration among the increasing numbers of educated urban youth. In this context, the change between 1999 and 2005 is very encouraging. In the first Labor Force Survey (LFS), about two-thirds of highly skilled young workers were in non-professional jobs; by 2005, the share had fallen to just over one third. Highly skilled adults were

also much more likely to be in professional jobs in 2005 than they were in 1999. In 2005, 36 percent of highly skilled 15-24 year olds were in non-professional jobs (compared to 26 percent of their adult counterparts).

Ethiopia has made efforts to address the problems faced by the youth: formulated policies and programs. However, proper project evaluations of the various interventions and projects in support of youth employment are rarely done. The policies with arguably the most significant impact on youth labor force employment opportunities are the education policy and the set of policies governing micro and small enterprise activities.

Some provisions may affect them adversely. For instance, Article 29 states that in the event of a reduction of the size of an organization's workforce, the employer in consultation with trade unions shall give priority according to workers' skills and productivity. In the case of equal skills and productivity, the workers to be affected first by reduction would be those having the shortest length of service in the undertaking and those with fewer dependents. Since youth are more likely to fall into these categories, this provision may be more likely to affect them.

The MOYSC formulated Ethiopia's first *National Youth Policy* in March 2004 with the broad objective of encouraging the active participation of youth (defined as those aged 15–29) in the economic, social, and cultural life of the country and to support democratization and good governance. The policy sets out to facilitate the participation of youth in the formulation, implementation, and evaluation of existing national development policies, strategies, and programs. It also promises to facilitate growth of self-employment and formal and informal employment opportunities and to create conditions conducive for rural youth to acquire farming plots and grazing lands on the basis of existing laws.

The policy has the vision of creating “an empowered young generation with democratic outlook and ideals, equipped with knowledge and professional skills”. The basic principles of the policy are to ensure that youth will be active participants in and beneficiaries of democratization and economic development activities, to bring about unity, to allow youth to organize themselves to protect their rights and interests, and to build capacity (for example, via skills training). The policy outlines a vision for creating an enabling environment for youth to benefit from education

and training and for out-of-school youth to develop their reading and writing skills through adult education services. It acknowledges rural/urban, gender, and interregional disparities in education participation and aims to work toward reducing these disparities. The policy addresses a wide range of issues, ranging from HIV/AIDS to environmental protection and social services.

Labor regulations and labor relations are not seen by firms as significant impediments to doing business-it seems this is largely because these provisions are not generally enforced outside of the public sector (ICA, 2002). Few studies do nonetheless find that labor laws and regulations are important in some sectors, and matter most: to employment decisions in food, beverages, textiles, and garments, where 40-75 percent of firms cite laws and regulations regarding firing as reason for labor hoarding; and in terms of union pressure, which appears as an important determinant of employment level in some industries, particularly in food and beverages. Fear of social sanctions is an important employment determinant for about half of the firms in most industries.

4.1.2 Employment services

One barrier to matching the supply and demand of labor is the lack of Labor Market Information (LMI) and job search skills. Employment services play this intermediation function as they are the main agent for the delivery of labor market services and policies. These services usually include the registration of jobseekers, provision of counseling and guidance, placement assistance, job matching, labor exchanges, management of unemployment benefits, referral to active labor market programs and other related services.

The Ministry of Labor and Social Affairs (MoLSA) of the Federal democratic Republic of Ethiopia is responsible to collect, process, analyze and disseminate the labor market information (LMI) at national level. Accordingly, the Ministry has been producing an annual labor market information bulletin for a couple of decades. The information contained in the bulletin is an outcome of the data collected and analyzed from various sources like Census, Labor force survey, job matching information obtained from the regional employment exchange offices, and the education statistics of the Ministry of Education.

In Ethiopia, LMI is expected to be of great use in several ways including the establishment of the crucial role of employment creation in poverty reduction, the provision of detailed information on labor demand and supply as well as on the matching between both sides of the labor market, and finally supporting the formulation and implementation of efficient labor market interventions. It is also envisaged that the LMI would generate information on the deficits in the manpower training programs of the country and thus help in the subsequent formulation of appropriate policies and programs to address labor problems effectively. However, both public and private employment services in Ethiopia are too weak to provide even basic services such as information to jobseekers and employers⁸. Informal mechanisms such as personal networks are common ways of recruitment in Ethiopia. As a result, employers are not always able to attract the most qualified and most suitable staff. At the same time, qualified people do not find an adequate job if they lack the necessary network contacts. The situation is believed to result in lack of protection and job security, lack of social dialogue, and poor labor market services against the background of labor market imperfections.

In many countries, particularly in the developing world, major challenges for the Public Employment Services (PES) to deliver on effectively targeted interventions include their lack or low levels of technical and financial capacity, and insufficient infrastructure and utilities needed to operate the employment offices. Ethiopia is not an exception in this regard. PESs in Ethiopia are weak. They have not been able to keep up with the changing requirements of the labor market, or to offer targeted packages of services that meet young people's needs. The unemployed see little advantage to register with the PES and employers do not use these services. Another challenge is that many jobs in Ethiopia are in the informal economy and, by definition; the vacancies are not recorded or registered with the PES. In addition, employment offices are not equipped to provide jobseekers with reliable and up-to-date information on job opportunities.

⁸ Alongside the state employment service, there are also private sector brokers. Some of these brokers/job dealers offer shelter to job searchers who don't have it. The job dealers who are in charge of recruiting obtain fees from both the employee and the employer, partly depending on wages. These operators seem to perform a useful function for those who lack information about the jobs market and/or do not have networks, but might warrant some monitoring and possibly regulation.

There may be a role for enhanced employment exchange services to improve the flow of information in Ethiopia, but because most hiring tends to be via informal networks the impact is unlikely to be large. International evidence has suggested that employment services are most beneficial when integrated with career counseling and other support, which is in line with MOLSA's plans to expand its services. Still, the impact is generally limited, with only a minority of firms listing their job openings and the absolute numbers of job-seekers assisted being very small relative to the stocks of and flows into unemployment.

Better educated job seekers tend to be more likely to register with employment services-this is certainly true in Ethiopia, where according to MOLSA 82 percent of those registered had at least junior secondary education in 2001/02. This suggests employment services are probably not a good tool for reaching the unskilled unemployed (WB, 2007). Moreover, MOLSA data suggests a mismatch between the registered jobseekers and the posted jobs, since many vacancies remained unfilled for extended periods of time-this could be related to skills, or perhaps to expectations (e.g. if skilled workers are uninterested in jobs located outside major towns, which is supported by some anecdotal evidence).

4.1.3 Unionization

Social partners in Ethiopia are weak in terms both of membership and in experience (ILO, 2005). For example, the Confederation of Ethiopian Trade Unions (CETU) membership of 181,647 workers (and 445 basic unions) represents less than one percent of the total labor force. Unionization of the Ethiopian labor force has been constrained by the largely agricultural and informal nature of the economy. The bargaining power of small farmers and informal sector workers in the market place has been weak since they are not organized. Hence, internal terms of trade often stand against the farmers, self-employed and informal sector workers.

Although trade unions are generally weak, public enterprise trade unions are relatively stronger than their private counter parts. Private enterprise employers are reluctant to allow their workers to organize themselves under trade unions. Employees' attempts to organize and ensure their fundamental rights at work are often met with stiff resistance from employers. Such a negative attitude, which has developed over the years, has hampered the role of labor unions in improving

the productivity and profitability of their enterprises. Overall, the on-going labor movement has had a tendency to focus on its members in the formal economy rather than on the most vulnerable people (workers in the informal economy, home-workers and migrants).

Labor market institutions are generally considered to be weak in Ethiopia. This weakness is characterized by limitations of regulatory framework and lack of social dialogues among institutions themselves (trade unions and employers' organizations). The institutions established to govern labor markets in Ethiopia are underdeveloped. Not much has been done by way of promoting the fundamental rights of workers and ensuring workers' security, freedom of association, equity and human dignity. Most of the fundamental elements of decent work are not recognized among wage workers in the private sector. Most wage jobs are insecure and temporary and self-employment is not remunerative. Furthermore, minimum wage does not apply to the majority of the unskilled workers in the formal and informal sectors.

In Ethiopia, the scope of institutional provisions and protections has been confined in most part only to the public enterprises and to some private sector employees, with no protection for the largest segment of the labor force which is engaged in the informal sector and subsistence farming. The available regulatory instruments and institutions more often serve the formal and wage employment sector. No attempt has so far been made to embrace the informal and self-employment sector.

4.2 Strategies for Strengthening Labor Market Institutions in Ethiopia

4.2.1 Institutional provisions and protections

Government should support efforts aimed at strengthening and establishing labor market institutions. There is a need for government intervention in the labor market to protect workers from unfair treatment and safeguard the basic rights and interests of workers while ensuring labor market flexibility and employment security. To this end, government institutions need to work closely with trade unions, associations of business operators, women and youth groups, and employers' associations to address existing problems in labor legislations and administrations.

The rights of informal sector employees may be secured through extending the scope of existing legislation for public sector employees (with necessary modifications), promoting collective bargaining agreements, enforcing labor standards, promoting equitable policies for formal and informal enterprises and devising mechanisms and institutions to ensure wider coverage.

Minimum wages should be set for employees of the private sector as well. And in practice it should apply to all employees including majority of the unskilled workers in the formal sector.

4.2.2 Employment services

The capacity of MOLSA and its regional state counter parts, BOLSAs should be enhanced to provide active labor market services that target the youth, women and poor households involved in agriculture, rural non-farm activities and the informal sector alike. This should include provision of a combination of integrated employment services that involve, amongst other things, counseling, placement assistance, job matching, technical support to unions and associations, and the preparation and dissemination of the results of labor market surveys.

4.2.3 Support the formation and development of labor unions and associations

All workers in the formal sector, both public and private, should be supported to form more effective unions. Formal sector employers need to be further encouraged to join existing employers' organization and participate in social dialogue. Appropriate institutions should be established for the protection of informal sector employees. Organizations need to be established by informal sector workers to represent them in different social and economic policy making arenas. Appropriate mechanisms need to be devised for proper representation of the interests of informal sector employees in the existing labor unions.

In the absence of interest and advocacy groups that stand to protect and articulate the interest of farmers and informal sector operators, the objective of poverty alleviation cannot be met. Given that farmers and informal sector operators account for the bulk of the population, their voices need to be heard and support programs need to be devised pertaining to agriculture and the informal sector.

5. Conclusions and Policy Implications

Despite the recent encourage economic growth in Ethiopia, unemployment is high and remains to be one of the socio economic problems in the country. This paper attempts to evaluate the existing labor market/employment policies and other intervention strategies aimed at creating job, relying on review of policy documents and literature. The paper also looks at the status of the labour market institutions that govern employment relations in Ethiopia.

The study finds out that there are different policies and strategies introduced and implemented by the government for employment generations. Those policies and strategies on the demand side of the labor markets include the special incentives and supports provided to private sectors and the public employment generation schemes. On the supply side of the labor markets, there are significant efforts to improve labor productivity in both farm and off-farm activities. The potential of these interventions to have significant impact on employment has been constrained by the extensive informal sector in Ethiopia, the low demand for labor and government budget constraints vis-a-vis the sheer scale of Ethiopia's unemployment problem.

The Labor market institutions that govern employment relations in Ethiopia are generally found to be weak. The available regulatory instruments and institutions more often serve the formal and wage employment sector. Although trade unions are generally weak, public enterprise trade unions are relatively stronger than their private counter parts. Overall, the on-going labor movement has had a tendency to focus on its members in the formal economy rather than on the most vulnerable people (workers in the informal economy, home-workers and migrants). Employment services in Ethiopia are too weak to provide even basic services such as information to jobseekers and employers. They have not been able to keep up with the changing requirements of the labor market. Another challenge is that many jobs in Ethiopia are in the informal economy and, by definition; the vacancies are not recorded or registered with the PES. In addition, employment offices are not equipped to provide jobseekers with reliable and up-to-date information on job opportunities: they lack technical and financial capacity, and they have insufficient infrastructure and utilities needed to operate the employment offices. Due to the

aforementioned limitations and others, informal mechanisms such as personal networks have been common ways of recruitment in Ethiopia.

There is an increasing realization that the modern/formal sector alone can not be expected to absorb into productive employment an increasing proportion of growing labor force. The informal sector (with their labor intensive technology and their capacity for labor absorption relative to the formal sector) constitutes a major source of employment and will continue to play this role. If informal sector is to constitute a major shield against unemployment, it is essential that the constraints of the sector be known and their effects reduced. Introduction of appropriate policies in the informal sector will enhance its growth. There is also a need to improve labor productivity of the employees in the sector by aligning formal education programs to the practical skill needs of the country.

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