

National Employment Policy and Strategy of Ethiopia

November 2009

Addis Ababa

Acronyms

AIDS	Acquired Immunity Deficiency Syndrome
ART	Anti-retroviral Therapy
CETU	Confederation of Ethiopian Trade Unions
CSA	Central Statistical Agency
EEF	Ethiopian Employers' Federation
EPRDF	Ethiopian People's Revolutionary Democratic Front
ERP	Economic Reform Program
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
HERQA	Higher Education Relevance and Quality Agency
HICES	Household Income and Consumption Expenditure Survey
HIV	Human Immunodeficiency Virus
ICT	Information and Communication Technology
IHDP	Integrated Housing Development Program
IMF	International Monetary Fund
M&E	Monitoring and Evaluation
MDG	Millennium Development Goals
MFI	Micro-finance Institutions
MOFED	Ministry of Finance and Economic Development
MSE	Micro and Small Enterprises
NEC	National Employment Council
NEPS	National Employment Policy and Strategy
NES	National Employment Secretariat
NGO	Non-governmental Organization
PASDEP	Plan for Accelerated and Sustainable Development to End Poverty
PSNP	Productive Safety Net Program
TVET	Technical and Vocational Education and Training
UEAP	Universal Electricity Access Program

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Foreword

Employment provides an important linkage between economic growth and poverty reduction by allowing the poor to generate income. As asserted in the Plan for Accelerated and Sustainable Development to End Poverty (PASDEP), the Government of Ethiopia gives due emphasis to employment creation, both in the context of poverty reduction through creating employment opportunities and using labor resource for growth as one of the most important resources the country is endowed with. While employment issues currently are governed by the provisions of the Labor Law of the country and by different international conventions ratified by the country, it has become mandatory for the country to have a national employment policy and strategy that guides the issue of employment creation and labor administration in a coordinated manner, both in the urban and rural and formal and informal sectors. In pursuit, the Government of Ethiopia, through the Ministry of Labor and Social Affairs, initiated the preparation of this document - National Employment Policy and Strategy of Ethiopia. The preparation of the policy and strategy document undergoes a process of stakeholder participation including the International Labor Organization (ILO), MoLSA, the private sector, and relevant regional bureaus. Moreover, the preparation of the document was preceded by the preparation and discussion of a background document.

PART ONE

Introduction

1.1 General Introduction

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. There are many more under 15 years old entering the work force each year than there are old people living the labor force.

Unemployment (mainly as an urban phenomenon) and underemployment continue to be serious social problems in Ethiopia despite some improvements in recent years. This is mainly a result of rapid population and labor force growth (on the supply side) and limited employment generation capacity of the modern industrial sector of the economy (on the demand side).

It is recognized that poverty is less an outcome of open unemployment than of low labor productivity and inadequate levels of income. The agricultural sector and the informal urban sector employ a large size of labor force in Ethiopia. However, employment in these sectors is characterized by low earnings and contributes significantly to the problem of "working poor".

Labor market institutions provide such services as protecting the interests of workers based on standards and regulations related to employment, wages, benefits, promotion and other issues. In Ethiopia, the scope of such 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. Public and private employment services are too weak to provide even basic services such as information to jobseekers and employers. 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.

Employment provides a link between growth and poverty reduction only when it is systematically guided through policies and strategies that influence the determinants of labor market characteristics. It is, therefore, necessary for Ethiopia to address the problem of unemployment and underemployment, working poor, and lack of protection in the informal sector through a coordinated employment policy framework addressing the issues of labor demand, labor supply, and labor market institutions in an integrated manner. The National Employment Policy and Strategy (NEPS) of Ethiopia is prepared in response to the need for such a framework to guide interventions aimed at improving employment and its poverty outcomes in the country.

This National Employment Policy and Strategy document is organized as follows: In Part One, an overview of the labor market characteristics of the country is discussed. This is followed by the presentation of the key policy and strategic issues in Part Two. The key policy and strategic issues include the need for employment creation, growth of labor productivity, improving labor market institutions, and addressing cross-cutting issues. Part Three provides institutional framework for policy implementation and monitoring and evaluation.

1.2 Population, its Profile and Dynamics

With a land area of 1.1 million square kilometer and a population of about 73.9 million (50.46 male and 49.54% female) in 2008/09¹, Ethiopia is the second populous country in Africa next to Nigeria. Ethiopia stood 9th in terms of geographic area in the whole of Africa. According to the May 2007 Population and Housing Census of Ethiopia, about 84 percent of the population still resides in rural areas agriculture being the major source of livelihood. Although the rate of population growth has been on a declining trend over the last three decades (3 percent per annum in the 1980s, 2.73 percent up until the early 1990s and 2.6 percent from the mid 1990s up to 2007) Ethiopia's population growth is still considered to be high given its size and demographic profile.

According to the May 2007 Population and Housing Census results (CSA, 2008), Ethiopia's population is predominantly young with about 45% of the population being below 15 years of age. According to the May 2007 Population and Housing Census results, the proportion of working age population (15-64 years) was estimated at about 52 percent. The dependency ratio (number of dependents per 100 working age population) was estimated at 93 by the end of 2007, youth and senior citizens dependency being 87 and 6, respectively (CSA, 2008). High dependency means higher pressure on public

¹ Population size was estimated at 73.9 Million according to the May 2007 Population and Housing Census Report

services, high level of unemployment, low per capita income, and low level of domestic saving and asset accumulation with serious implication on poverty incidence. This has also serious implication on natural resources degradation with far reaching consequence on sustainable development.

The root cause of high rate of population growth is the combination of high fertility and declining mortality. According to the Demographic Health Survey Conducted by the Central Statistical Agency (CSA) in 2005, though fertility has declined over time, it is still very high, at an estimated 5.4 (6.0 in rural areas, 2.4 in urban areas) births per woman, which is high by African standard which averaged 5.1 births and world standard which averaged 2.7 births per woman in the same year. Furthermore, remarkable declines in fertility have already taken place in urban areas -especially in Addis, where fertility has fallen fairly rapidly, which is estimated to be below 2.0 births per woman, compared with the national average of 5.4.

The Government has long recognized that rapid population growth is the major challenge in its poverty reduction effort. Accordingly, one of the pillar strategies of Ethiopia's Five Year Development Plan entitled Plan for Accelerated and Sustained Development to End Poverty (PASDEP), currently in its last year (2009/10) of implementation, is addressing the population challenge through balancing population growth with economic growth. One of the key interventions towards realizing this objective has been concerted implementation of family planning via increasing contraceptive prevalence rate from 15% to 80% by the end of the plan period (2009/10). Contraceptive prevalence rate has reached 33% by the end of 2007/08. The target has been to reduce fertility rate from 5.4 in 2004/05 to 4 by the end of 2009/10. Studies indicate that fertility rate has not yet gone down as desired and there is still huge pent up demand for family planning services.

1.3 The Relationship between Economic Growth, Employment and Poverty Reduction

The Ethiopian economy has witnessed a shift to a higher growth path since 2003/04. The shift to a higher growth path has been maintained since then. As a result, the last six years ending in 2008/09 witnessed annual average real GDP growth rate of 11.1 percent. This period has also witnessed the beginnings of two peculiar changes in the economic landscape of this country: a shift to a higher growth path and more diversified sources of growth. In the past (up until 2002/03), growth had been volatile owing to weather induced fluctuations in the agriculture sector as well as associated terms of trade effects.

However, following the recovery commencing in 2003/04, growth has been very much sustained and complemented by strong performance in the construction, manufacturing, trade and tourism, banking and insurance, and real estate sectors/sub-sectors. The construction sector has been spurred by the much needed public sector investment in infrastructure (roads, rural infrastructure development including food security, telecom, power, irrigation, etc) and private sector expansion as well. Even when the drought year of 2002/03 is included in to the computation of the growth performance in the recent past, real GDP growth averaged 9.5 percent (about 2 percentage point lower than the average growth excluding the drought year) during the six-year period ending in 2008/09 while real per capita GDP growth averaged 6.5 percent (Table 1.1).

Even with this adjustment for recovery from drought, the growth performance realized so far has been considered commendable. For instance, according to the May 2008 International Monetary Fund's (IMF) Article IV Consultation Staff Report, Ethiopia has had the fastest growing non-oil and non-mineral economies in Sub-Saharan Africa. This is well above the level of 7 percent per annum originally estimated to have been needed to reach the goal of halving the proportion of the population living below the poverty line. Real per capita GDP has been increasing at an annual average rate of about 8 percent during the six year period ending in 2008/09. Real per capita GDP has reached USD\$223 by the end of 2008/09 from around USD\$120 in the mid-1990s².

Table 1.1: Annual percentage change (%) in Gross Domestic Product (GDP)

Item	Annual Percentage Change							Six Years Average (Percent) Excluding Drought Years	Average including Drought Year
	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09		
Agriculture and allied activities	-10.5	16.9	13.5	10.9	9.4	7.5	6.0	11.6	8.0
Industry	6.5	11.6	9.4	10.2	10.2	10.4	9.2	10.4	9.7
<i>Manufacturing</i>	0.8	6.6	12.8	10.6	8.3	7.1		9.1	7.7
<i>Construction</i>	13.6	19.5	7.5	10.5	10.9	11.3		11.9	12.2
Services	6.0	6.3	12.8	13.3	14.3	17	15.0	12.7	11.6
<i>Distributive Services</i>	5.5	6.4	14.7	14.2	16	15.2	15.0	13.3	12.0
<i>Other Services</i>	6.5	6.1	10.9	12.5	13.1	14.2	15.0	11.4	10.6
GDP at 1999/00 constant prices	-2.1	11.7	12.6	11.6	11.4	11.6	10.2	11.8	9.5
Real GDP/cap	-4.9	10.5	8.8	7.8	8.2	8.3	7.6	8.7	6.5
General inflation	10.9	7.3	6.1	10.6	15.8	25.3	36.4	12.7	13.0

Note: 2002/03 was a drought year

Source: Ministry of Finance and Economic Development

² Ministry of Finance and Economic Development (MoFED), 2002: Sustainable Development and Poverty Reduction Programme. Addis Ababa, Ethiopia.

One of the goals attached to the growth performance of the economy is achieving Goal 1 of the Millennium Development Goals (MDGs). One of the key channels through which this goal would be realized is through job creation that is remunerative. Pursuing broad-based growth through focusing on agriculture and rural development has been at the centre of Ethiopia's poverty eradication agenda. Based on the analysis of the 2004/05 Household Income Consumption Expenditure Survey (HICES), growth has been translated into significant poverty reduction, particularly in rural areas. Real per capita consumption expenditure of average Ethiopians has increased by 50 percent on average over its level in 1995/96. This has resulted in a notable decline in poverty incidence from 47.5 percent in 1995/96 to 39.3 percent in 2004/05 in rural areas. Poverty gap index also declined from 13.4 percent to 8.5 percent in rural areas during the same period – signifying a decline in the depth of poverty. On the other hand, urban poverty incidence has increased from about 33 percent in 1995/96 to about 35.1 percent in 2004/05 although the depth of poverty has declined from 9.9 percent in 1995/96 to 7.7 percent in 2004/05.

Sustaining the hitherto achieved growth, among others, is central to achieving Ethiopia's development objectives. The on-going investment expansion in growth enhancing sectors such as roads, telecommunication (including information communication technology - ICT), power sector development (including Universal Electricity Access Program - UEAP) and irrigation development is meant to sustain the recent growth momentum in the coming years.

In terms of the impact of growth on employment creation, the growth process is more important than the growth itself. For any growth to impact on job creation and help reducing poverty, it needs to be broad-based and pro-poor. Ethiopia's growth has been broad-based and pro-poor. As noted above, about 84 percent of the population resides in rural areas and derives their livelihood from agriculture. The fact that poverty has significantly declined in rural areas from 1999/00 to 2004/05 itself is an indication that growth has been broad-based and pro-poor. As indicated in Ethiopia's Five Year Development Plan (PASDEP), job creation through private sector development, implementing focused programs on small and medium enterprise development supported by the TVET and the Integrated Housing Development Program (IHDP) has been articulated as one of the pillar strategies of the PASDEP. The last three years commencing in 2005/06 has also witnessed the initiation of programs/projects with particular focus on urban areas. The narrow base of the modern industrial sector in terms of job creation in the face of rural-urban migration is believed to have contributed to increased poverty level in urban areas. It is also believed that even those jobs created in the unorganized sector (informal sector) are not considered 'decent jobs'.

The overwhelming fact of the labor market in Ethiopia is the rapid growth of the supply of labor. The labor force is growing much more rapidly than the population as a whole because of Ethiopia's demographic profile and there are many more under 15 years old entering the work force each year than there are old people living the labor force.

1.4 Nature and Incidence of Employment/Unemployment

Understanding the link between economic growth and employment has been hindered by lack of comprehensive, adequately disaggregated and consistent time serried data on employment/unemployment that let us track the links. The Central Statistical Agency (CSA) has been providing labor force and related data from surveys of varying scope conducted since the mid-1970s complemented by the 1984, 1994 and 2007 Population and Housing censuses.

However, the results of these survey programs have not been comparable to enable researchers consistently track developments in the labor market. Comprehensive national labor force information representing both the rural and urban areas was recently provided through the 1999 and 2005 Labor Force Surveys. The CSA has also launched a biannual Employment/Unemployment Survey in October 2003 and April 2004 and for the third time in April 2006. This survey program was intended to cover only urban areas given that unemployment is believed to be an urban rather than a rural phenomenon. Urban unemployment, particularly youth unemployment has been and is growing areas of concern for the Government.

1.4.1 Trends in Labor Force Supply and Participation Rate

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. Employment creation for such a rapidly increasing labor force (4.4 % per annum), has become increasingly challenging. The labor force participation rate at national level has risen modestly overtime, from 77 percent in 1999 to nearly 82 percent by 2005 (Table 1.2). The rural participation rate increased from 79 percent in 1999 to 85 percent in 2005 compared to urban participation rate of 63 percent in 1999 and 65 percent in 2005. The level of the urban participation rate in Ethiopia is low compared to other African countries³.

In general, the participation rate is higher among men than women and among adults than youth. Overtime the women's participation rate has risen steadily from about 66 percent

³ For instance, 85 percent in Kenya and 79 percent in Uganda (Leibbrandt and Mlatsheni, 2004; cited in World Bank, 2007).

in 1999 to 75 percent in 2005 while men's participation rate has remained relatively constant at about 88 percent during the same period. The women's participation rate increased from 54 percent to 58 percent in urban areas and from 69 percent to 78 percent in rural areas.

At national level, the activity rate of youth aged between 15 and 24 has increased from 72 percent in 1999 to 75 percent in 2005. The participation rate of rural youth (77.5 per cent in 1999 and 82.10 percent in 2005) was much higher than that of the urban youth (45.4 percent in 1999 and 50.5 in 2005). A major factor that explains such variation is educational participation, reflecting relatively lower educational participation in rural areas than urban areas. The higher level of poverty in rural areas may have resulted in greater participation of the rural youth.

Table 1.2: Trends in Participation rate by age category and gender (percent)

	1999			2005			Change (%)		
	Total	Urban	Rural	Total	Urban	Rural	Total	Urban	Rural
Age 15+									
Total sample	76.74	62.53	79.01	81.52	64.69	85.11	6.24	3.47	7.71
Male	87.77	73.66	90.68	88.96	72.44	91.91	1.35	-1.66	1.36
Female	65.93	53.54	68.71	74.72	57.99	78.08	13.33	8.31	13.64
Age 15-24									
Total sample	71.80	45.38	77.51	75.32	50.47	82.10	4.91	11.21	5.92
Male	79.46	50.51	85.11	80.76	51.63	88.13	1.64	2.22	3.55
Female	70.12	41.52	70.12	71.10	49.67	76.72	1.40	19.62	9.41
Age 25+									
Total sample	79.26	74.18	79.50	84.68	74.79	86.63	6.85	0.82	8.97
Male	92.16	88.10	92.82	93.19	87.53	94.24	1.12	-0.64	1.53
Female	66.94	62.15	67.75	77.02	64.04	79.21	15.06	3.05	16.91

Source: Calculated based on the information from the 1999 and 2005 Labor Force Surveys

1.4.2 The State and Nature of Employment/Unemployment

Unemployment⁴ and underemployment continue to be serious social problems in Ethiopia despite some improvements in recent years. This is mainly a result of rapid population and labor force growth and limited employment generation capacity of the modern industrial sector of the economy. The national rate of **unemployment**, which stood at 3.6% in 1999, declined to 2.6% in 2005. Open unemployment is not a common problem in rural areas. **Underemployment** defined as the proportion of workers who are "available and ready to work more hours" is a phenomenon of rural areas. However, this does not mean that underemployment is not a problem in urban areas. According to the Labor Force Survey by Central Statistical Agency, underemployment is highest among male youth and prime-age adults, and higher among men than women in both urban and

⁴ Unemployment is measured by taking the following three criteria into consideration, simultaneously: *without work, currently available for work, and seeking work*

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 (CSA, 2006).

High urban unemployment rates remain a major policy challenge. According to the 2006 Urban Employment Unemployment Survey, urban unemployment has consistently declined from 26.2 percent in 2003 to 22.9 percent in 2004 and further to 16.7 percent in 2006. Unemployment rate has been consistently higher among females than males across the years, 35.2% in 2003, 30.6% in 2004 and 22.1% in 2006. The corresponding rates for males stood at 17.6%, 15.8% and 11.5%, respectively. Urban unemployment, particularly youth unemployment being growing areas of concern for the Government, recent survey programs have been intended to cover only urban areas given that unemployment is an urban rather than a rural phenomenon.

Rural-urban migration is considered to be the main contributing factor to urban population growth in Ethiopia. There is a widely shared view that rural-urban migration in Ethiopia is increasing and is driven by the dwindling amount of farmland available to the rural population and also by the low level of agricultural productivity. The rural-urban migration has seasonal behavior and is considerable in different parts of the country.

The majority of the employed labor force is found in the agricultural sector where earnings are low for the labor force to come out of poverty. A large size of the labor force is also engaged in the informal sector where underemployment, poor earning, and lack of institutional protection are the characteristic features. These realities nurture the problem of working poor in Ethiopia, making poverty more a result of poor earnings than open unemployment.

According to CSA's 2006 Urban Employment/Unemployment Survey, 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 (25.5 percent), elementary occupation (23.6 percent), and craft and related activities (22.1 percent). Professionals together with technical and associate professionals make up about 10 percent of the employed population while those persons working in legislator and senior officials took the smallest share constituting a mere 2.5 percent of the total employed urban population of the country.

Looking at the employed population by major industrial divisions, as expected, most urban employed population are in the wholesale and retail trade, and manufacturing

activities, making up 22.7 percent and 15.3 percent, respectively. Those who are engaged in hotel and restaurant, public administration, private households; agriculture; education, health and social work; other social, cultural and personal and household activities constitute 7 to 10 percent. Extra-territorial organizations; mining and quarrying; financial intermediation, electricity, gas and water supply and real estate contributed little share in terms of creating employment.

According to the same survey, looking at the distribution of urban employed population by employment status of a person (at all-urban level), the bulk of employed population was constituted by self-employed (42 percent) followed by those employed by government and public enterprises (19 percent) and private organization (18 percent). As can be seen from Table 1.3, paid employees altogether constituted about 45 percent of the total working population. 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 (10 percent). The survey results also indicate that paid employment is dominated by males. The proportion of employees of private organization among the males is about twice that of females. Similarly, the proportion of males in government employees is more than one and half times larger than their female counterparts. On the other hand, higher proportion of females than males are found among domestic employees and unpaid family workers. The proportion of females in self-employment also exceeds that of males.

According to the 2006 urban employment/unemployment survey, the total number of employed population ten years and over in 2006 stood at 3,839,274 of which 55% are males and 45% are females. As shown in Table 1.3, the number of Government employees increased by about 26 percent from October 2003 to April 2006 while that of public enterprises showed 8 percent increase over the same period. The number of employees of Private Organizations increased by 57 percent over the same period while that of NGOs increased by 35 percent. Domestic employees dropped by 13 percent during the same period. The self-employed, unpaid family workers, employers and 'others' witnessed an increase of 34%, 57%, 71% and 170%, respectively during the same period. This shows that the biggest increases have been witnessed by members of cooperatives and apprentices (170%) followed by employers (71%) private organization employees (57%), self employed (57%) and government (26%).

Table 1.3: Trends in the Share of Total Employed Population (Ten Years and over) by Employment Status and Year (%)

Employment Status	October 2003			April 2004			April 2006		
	Male	Female	Total	Male	Female	Total	Male	Female	Total
Paid employment	51	44	48	52	46	49	48	42	45
<i>Government</i>	22	14	18	23	15	19	20	13	17
<i>Government enterprises</i>	2	2	2	3	2	2	2	1	2
<i>Private business</i>	20	10	16	21	11	17	22	14	18
<i>NGOs</i>	2	1	2	3	1	2	2	1	2
<i>Domestic</i>	5	17	10	4	17	9	2	12	6
Self employed	40	45	42	40	43	41	40	43	42
Unpaid family workers	7	11	9	5	10	7	8	13	10
Employers	1	0	1	1	0	1	1	0	1
Others (Cooperatives, apprentice, etc)	1	1	1	2	1	1	3	1	2
Total	100	100	100	100	100	100	100	100	100

Source: CSA, 2006.⁵

According to existing studies, more than 50 percent of urban employment is accounted for by the informal sector. According to the Informal Sector Survey (CSA, 2002), the total number of persons engaged stood at 997,380 of which 799,353(80%) were operators and the remaining 198,027(20%) employees. Women dominate in both categories (operators and employees). The share of women in the total number of persons engaged, operators and employees stood at 60%, 59% and 65% respectively.

As it stands now, the informal sector is not well integrated with the formal (organized) sector. A vertical and horizontal linkage does not seem to exist within the respective activities of informal sector operators.

Table 1.4: Distribution of Number of Persons Engaged in the Informal Sector by Sex: 2002

Sex	Operators		Employees		Total Number of Persons Engaged	
	Number	(%)	Number	(%)	Number	(%)
Male	328,808	41.13	70,276	35.49	399,084	40.01
Female	470,545	58.87	127,751	64.51	598,296	59.99
Total	799,353	100.00	198,027	100.00	997,380	100.00

Source: CSA, 2002.

⁵ The discrepancy observed between the figures in this table and the survey results is due to rounding in calculating the levels using the ratios provided in the Survey Report.

1.4.3 The Status of Labor Market Institutions in Ethiopia

Labor market institutions play important roles with regard to employment relations, labor protection and provision of labor market services. 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 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. 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.

Ethiopia has issued proclamations in the effort to improve employment outcomes through improving employment relations. The Labor Proclamation (Proclamation No. 377/2003) (FNG, 2004), the provisions of the Employment Exchange Service Proclamation (Proclamation No. 632/2009) and the Right to Employment of Persons with Disability (Proclamation No. 568/2008) govern the relations between employers and employees. There are also employment related ILO Conventions (about 20) that Ethiopia has ratified as part of its domestic law.

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).

PART TWO

Employment Policy and Strategy

2.1 Rationale for Employment Policy

In pursuit of realizing Ethiopia's vision of becoming a middle income country in about 20 years time from now and achieving the Millennium Development Goals (MDGs), job creation has been articulated as one of the eight pillar strategies of its MDGs-based Five Year Development Plan entitled Plan for Accelerated and Sustained Development to End Poverty (PASDEP). It is widely recognized that employment, earnings and the labor markets play a crucial role in poverty reduction through promoting both economic growth and enhancing its effectiveness in reducing poverty. It is also well recognized in Ethiopia that the availability of employment opportunities and their characteristics constitute an essential transmission channel from growth to poverty reduction. The link that bridges economic growth with poverty reduction and its ultimate eradication is job creation. Employment opportunities and their characteristics provide a mechanism for shared and pro-poor growth.

In developing countries such as Ethiopia, which has a large endowment of labor relative to other productive factors such as capital, effective utilization of labor can make growth faster and more pro-poor. Employment and income derived from employment (self-employment or wage employment) is the main link between economic growth and poverty reduction. Poverty reduction on a sustained manner would require enhancing the employment content of growth and the distributional effect of growth through integrating the disadvantaged groups, especially the youth, at the entry of the labor market and unskilled women and men in the process of growth. Furthermore, the disparity between women and men in their ability to access jobs would be a concern in order to ensure a real distributional effect in the society. This would require an integrated framework of demand and supply-side policy formulation as well as of institutional reforms.

Employment provides a linking mechanism between growth and poverty reduction only when it is systematically guided through policies and strategies that influence the determinants of labor market characteristics in a desirable way. Ethiopia, as a country with high rate of poverty and rapid population and labor force growth, needs a strategic intervention to maneuver the linkage between economic growth, employment, and poverty to ensure that growth is shared and pro-poor.

Income poverty reduction in Ethiopia, where the problem of unemployment, underemployment, and working poor are common, will be difficult unless such problems are systematically addressed. It is, therefore, necessary for the country to approach the problem of unemployment/underemployment and working poor through a coordinated employment policy framework addressing the issues of labor demand, labor supply, and labor market institutions governing the labor market. The National Employment Policy and Strategy (NEPS) of Ethiopia is prepared in response to the need for such a framework to guide interventions aimed at improving employment and its poverty outcomes in the country.

2.2 Objectives of the Employment Policy

The objectives of the National Employment Policy and Strategy of Ethiopia have three important dimensions: enhancing social welfare, accelerating economic growth, and achieving political stability.

Social welfare: The ultimate impact of growth on poverty is determined by the quantity and quality of employment opportunities created. Making growth pro-poor and shared could be assisted through employment policies that address the demand, supply, and institutional dimensions of the labor market. Accordingly, the primary objective of the National Employment Policy and Strategy of Ethiopia is to provide guidelines for streamlining productive employment and decent working conditions in the country and there by promote social welfare and equity through poverty reduction.

Economic growth: In addition to the social objective of welfare promotion through poverty reduction, the policy has an economic objective of accelerating and sustaining growth and development through proper utilization of the country's labor force in a productive manner as the most important resource of the country.

Political stability: A mass of unemployed population, especially when such incidence is high among the educated and the youth, becomes a potential source of political and civil unrest. Employment policies and strategies contribute towards reducing and avoiding such threats by addressing both the supply and demand side of the labor market towards the creation of productive employment.

2.3 Policies and Strategies

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.

2.3.1 Contents of the National Employment Policy & Strategy

Addressing the employment agenda is fundamental for sustained growth through enhancing labor productivity. The future of employment expansion in Ethiopia is with the private sector. The public sector can no more be the biggest employer. The Civil Service has to be lean and needs to have highly skilled and well paid civil servants to ensure its leading and facilitating role for a thriving private sector. 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.

Most poor people in Ethiopia live in rural areas and are primarily engaged in low productivity and low paying farming activities. Their pathways out of poverty are thus likely to be strongly connected to productivity improvement in the rural economy - whether they are realized in farming, rural non-farm enterprises or via rural-urban migration.

Similarly, increasing the productivity and earning capacity of the informal and employment-intensive formal sector is indispensable for the alleviation of urban poverty. Hence, what is required is the creation of greater employment opportunities and incomes in the sectors where the poor are concentrated.

Employment generation has two important dimensions that are considered to be the two sides of a coin. The first dimension refers to the ability of the economy to create jobs for various skill categories as per the requirement of the economy. This dimension refers to the demand side of job creation. The second dimension deals with whether or not the skill levels of available pool of persons match with the type of skill that the economy requires. This dimension refers to the supply side of job creation. The National Employment Policy and Strategy of Ethiopia has to squarely address these two important dimensions of job creation. Besides, there is a third dimension that relates to the governance of labor market relations and labor market services. This refers to labor market institutions. The fourth dimension cuts-across sectors/themes having an important bearing on employment and is referred to as cross-cutting issues.

Accordingly, framing the National Employment Policy and Strategy (NEPS) of Ethiopia is approached from these dimensions in pursuit of the goal of employment generation. The policy actions are divided into four major areas: employment generation, improving labor productivity, improving labor market institutions and cross-cutting areas in the labor market with their respective sub-dimensions as described below. Each of the policy action areas will be further elaborated in turn below.

The following policy action areas are identified pertaining to the **demand side** of employment generation:

- a) Accelerating private sector development for employment generation
- b) Ensuring effective and efficient public sector employment

The following policy action areas are identified pertaining to the **supply side** of employment generation:

- a) Improving and raising labor productivity

The following policy action area is identified pertaining to the labor **market institutions**:

- a) Improving labor administration and strengthening labor market institutions

The following **cross-cutting** policy action areas of the labor market are also identified to complement the demand and supply side dimensions of employment generation:

- a) Achieving a Demographic Transition
- b) Addressing the Employment Challenges of Globalization
- c) Protecting the rights of migrant workers
- d) Arresting Rural-Urban Migration
- e) HIV/AIDS and the work place
- f) Mainstreaming Gender and Youth in Employment Generation
- g) Protection of children against child labor
- h) Environmental protection and resource conservation

2.3.2 Employment Creation (Demand Side of the Labor Market)

An effective way to reduce poverty is to create productive and remunerative jobs. 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.

2.3.2.1 Accelerating Private Sector Development for Employment Generation

In recent years there has been a promising start in private sector investment activities with their associated employment opportunities. A good example is the flourishing horticultural industry in the country. This serves as a testimony that accelerating private sector development is an important entry point to enhance opportunities for job creation in the country. It is well articulated as such in Ethiopia's Five Year Development Plan (PASDEP).

Accelerating private sector development for job creation calls for the following policy action areas:

i) Creating a Conducive Business Environment

As articulated in the PASDEP, there is a need to create an enabling environment for the private sector in order to render it the engine of economic growth, employment and income generation in the country. One area that requires increased attention is the legislative and administrative frameworks which include among others access to land and finance, the tax regime, regulation, contract enforcement and dispute resolution. Promoting small- and micro- enterprises is high on the agenda of the Ethiopian government in terms of its policy framework for private sector development. Despite encouraging improvements in a number of areas, policy innovations are still required to improve the business climate and address bureaucratic hurdles. A particular focus should be given to improving access to business land, simplifying and using the tax system to ensure competitiveness, enhancing access to credit, and improving infrastructure services. Improving the legal and administrative framework would accelerate private investment and thereby help generate more productive employment.

ii) Maintaining Macroeconomic Stability

Macroeconomic policies have had both direct and indirect bearings on employment generation. Fiscal, monetary and exchange rate policies need to be tuned towards creating jobs with in the organized private and the unorganized private sector alike. Therefore, the government should pursue balanced fiscal and monetary policies that safeguard macroeconomic stability and create a more favorable environment for private sector investment and job creation.

Fiscal policy influences private investment incentives of domestic and foreign investors mainly through its impact on after tax profits and there by reducing incentives for further investment. Thus, there is still a need to strike an appropriate balance in the government's endeavor to mobilize tax revenue and private sector incentives for additional investment.

This is crucial given the critical role tax revenues play in the provision of public services (including infrastructure and utilities) to both the growing private sector and the public at large in its endeavor to promote investment, job creation, and economic growth.

Monetary and exchange rate policies also have important bearings on price levels and inflation and on economic stability and predictability, with considerable effect on risk and investment. Expansionary monetary policy promotes investment activities and employment opportunities. Similarly, exchange rate regime could favor exports and imports provided that it is relatively stable and predictable.

Similarly, trade and investment policies complemented with enabling institutional and regulatory environment promotes investment and private sector activities with favorable employment outcomes.

iii) Devising and Implementing Special Incentive Mechanisms in a More Structured, Coordinated Strategic Manner

The boom in the flower industry is largely due to the special incentive scheme that the sector has been enjoying. The incentive system needs to be extended to investment activities with strong backward and forward linkages such as agro-processing and tourism as their impact of indirect employment creation is considerable up and downstream in the value chain. A proven way to create more employment opportunities is to provide special incentives for investment in agricultural production and labor-intensive agro-processing and export-oriented industries. Special incentives may include subsidized credit services, preferential land lease, lower tax rates, and effective training services for priority sectors. In addition, identifying and establishing selected areas as priorities for investment would attract a large number of domestic and foreign investors. This shall have a considerable impact on employment.

iv) Special Support for Business Development Services

It should be possible for the government to promote private sector development and employment creation through providing business development services, especially to small- and micro-enterprises and to informal sector operators. The government needs to support public institutions, the private sector and NGOs to provide a more integrated and effective system of business development services. It also needs to support the expansion of such services to rural areas, with special emphasis on emerging regions and remote areas. Indeed, the government of Ethiopia has already established the Micro- and Small-Enterprises Development Agencies both at federal and regional levels to support the sector with training, finance and accessing working premises. But these government programs reach only a small proportion of those who need them most. Business

development services operated by the private sector or NGOs are limited. This needs to be aggressively supported to reach out all those in need of such services.

v) Further Enhancing Infrastructure Development

The basic infrastructures needed for private sector development include road networks of good quality and density, information and communication technology (ICT), and power infrastructures. Maintaining the current pace of road construction as well as electricity and telecommunication development is necessary as returns in terms of private sector and overall growth will be very high. Reducing the cost of transport and power, together with improving ICT services, is a major strategic tool in enhancing the competitiveness of the country's firms and farms. This helps enhance employment generation.

vi) Arresting Corrupt Business Activities

Corruption leads to the unhealthy prosperity of some businesses and to the demise of many other potentially successful businesses. Corruption in Ethiopia may not be as bad as in some African countries. However, studies indicate that there are still worrisome signals suggesting that this is not time for complacency. It has of course become a serious problem when it comes to the sale (leasing) of public land, tax assessment, government tenders and custom duties.

Beyond arresting corrupt business developments, the government in partnership with the private sector, needs to take action to establish good business ethics and culture. These should ensure acceptable business conduct standards, and effectively govern business activities. There are risks of an unholy alliance for the abuse of power between government actors and some private sector agents in the pursuit of rents. This practice should be arrested.

vii) Enhancing Productivity and Competitiveness

Globalization and market liberalization are the twin global forces on the rise. Efforts have to be made to orient the Ethiopian private sector to regional and global markets. Competitiveness could be enhanced through improving and transforming technology, human power, marketing, information systems, and organizational and managerial capacities and practices. The private sector in Ethiopia is generally constrained by the internal problems of low productivity, lack of innovative ideas and dynamism. In particular, poor competitiveness in international markets limits the outward-orientation scope of domestic industries. Thus, there is an urgent need to enhancing productivity and competitiveness of the private sector.

2.3.2.2 Strategies to Accelerate Private Sector Development for Employment Generation

2.3.2.2.1 Accelerating productive employment in the formal private sector

No country has been able to address its problem of poverty without creating a dynamic agricultural sector strongly linked to the modern productive sector (industry) and service sector. As such, in the long-term, it would be desirable to achieve structural transformation by enhancing the share of the industrial and service sectors. The main problem in the formal private sector is how to create more jobs to absorb the growing number of the labor force, while the challenge in the informal sector is to increase income⁶. Pursuing the following strategy is central in generating productive employment in both the informal and formal private sector:

i) Support private investment in the employment-intensive manufacturing sector and enhance its competitiveness

A dynamic manufacturing sector ensures that structural transformation generates employment and enhances the development of backward and forward linkages within the wider economy. The manufacturing sector in Ethiopia is narrow and weak and this has to change to make the transition to a more diversified economy and to generate formal employment.

The best way to expand employment is to improve the competitive capabilities of highly labor-intensive sub-sectors such as food and beverages, textiles, leather, chemical and chemical products and other non-metallic mineral products in the manufacturing sector. If their productivity and competitiveness is enhanced, they can withstand the challenges of globalization and competition from more capital intensive industries.

The same industries have been identified by PASDEP for direct support. But further actions are required to maximize decent employment opportunities:

- Identify industrial zones in each region and put in place a more transparent and less costly method of leasing land to investors in labor-intensive manufacturing sub-sectors.
- Reducing the cost of land can contribute to competitiveness of Ethiopian firms and create more employment. Getting land for construction is ranked as the number one constraint in a recent business climate study (World Bank, 2007b).

⁶ Economic Commission for Africa, Economic Report on Africa 2005: Meeting the Challenges of Unemployment and Poverty in Africa, Addis Ababa, 2005.

- Support Research and Development (R&D) and technological diffusion to improve competitiveness of the private sector. Labor-intensive manufacturing enterprises need new technologies and designs to be competitive in both domestic and foreign markets. Hence, there is a need for improving the accessibility of innovations and R&D support programs and enhancing collaborations between industry and research institutions/universities as well as technology developers and suppliers within and outside the country
- Render the tax regime less constraining to investors and reduce the top marginal corporate taxes. The overall tax regime has been identified as the second most important problem to doing business. The marginal corporate tax rate is also higher than the rate in countries such as Kenya and Uganda (World Bank, 2007b).
- Further strengthen the existing Public-Private Partnership Forum to enable the private business community and investors in policy dialogue.

ii) Promote the labor-intensive private construction sector

The following strategies are required to maximize the volume of jobs created in the construction sector:

- Employment guidelines need to be developed for foreign construction companies to utilize as much local labor as possible to transfer knowledge and build local capacity. Foreign construction companies mainly rely on experts brought from their own countries (e.g. Chinese companies) instead of using local experts and building their capacity.
- Design a support program to establish and strengthen small and community-based construction companies. There is a need to form small construction firms established as share companies of unemployed youth and members of the local community. They are well placed for building small roads (feeder/ access roads), and rehabilitating roads, building irrigation structure, developing clean water supplies, constructing residential and non-residential premises, and supplying construction materials.
- Encourage and organize individual small scale contractors of differing grades (including those operating in the informal sector) to form associations and enhance their capacities through tailor-made capacity building training programs to develop local capacity in the construction sector.
- Undertake a comprehensive study and regularly update on the constraints of labor-intensive construction activities.

iii) Develop tourism-based small and medium sized enterprises

The PASDEP has recognized and emphasized tourism as one of the under-exploited niche markets to spur growth and employment generation. The long-term vision is also to render Ethiopia one of the top ten tourist destinations in Africa by the year 2020. Tourism based on historical sites, wildlife and natural sceneries can create new employment opportunities and increase the income of workers in the sector by a significant margin. The following specific strategies are needed to tap the employment generation potential of tourism in Ethiopia:

- Ensure that regional governments and municipalities develop technical and financial assistance program to build the capacity of hotels and tour operators in major tourist destination areas. Hotel standards in such areas are extremely low and unattractive to tourists. The support includes development of private catering and hotel management schools. These can have a critical role in training hotel employees and management.
- Promote tourism in Ethiopia **through international media**: This can be done in close collaboration with all stakeholders involved in promoting tourism.
- Develop an incentive package to foster partnership between local travel and tour operators and international operators.
- Develop policies and guidelines to promote partnership between local communities and investors interested in eco-tourism.

iv) Expand the export of labor-intensive manufactured and processed products

Because of widespread poverty and the dominance of the subsistence sector, the domestic market in Ethiopia is very small and it cannot supply the significant supply-side expansion that is necessary to provide employment for the rapidly growing labour force. The Government has made the necessary efforts in support of a shift to higher-valued crops to facilitate commercialization.

Owing to cheap labor and comparative advantage in the production of various agricultural raw materials and mining products, Ethiopia's potential to export processed and manufactured products is very high. But there are also some factors working against Ethiopia's export competitiveness. The country is landlocked and the infrastructure is inadequate, though it has been improving in recent years. Nevertheless, it is possible to make headway by enhancing policy and the level of institutional and infrastructure support.

PASDEP has identified textiles and garments as well as leather and leather products as areas with high potential for export - but opportunities are much wider and government support should not be limited to a few specific areas as is being currently practiced. Exporters should be able to access all the services they need, including power, water, road and ICT infrastructure at affordable rates. This would allow them to become competitive in the world market. This would allow business owners to innovate and discover new lines of export items. The following specific strategies need to be pursued:

- Review and improve the various incentive schemes currently provided to promote export. The Ministry of Trade and Industry has introduced various incentives to promote export - but export of textiles, garments and leather products has not yet taken off.
- Empower exporters by further encouraging and systematizing active participation of their associations in the formulation, implementation and monitoring of the outcome of various export and investment incentive packages.
- Develop regulatory and institutional frameworks to promote the export of goods and services using e-commerce. Selling goods on line will enhance exports and generate more employment.

v) Mobilizing and supporting the Diaspora

The Ethiopian Diaspora may prove to be an important source of employment creation through investing at home. There are encouraging trends observed in recent years in that regard. Yet, the Diaspora could be attracted more through devising strategies that ensure reliable and stable investment environment. The specific strategies to be pursued may include:

- Provide special investment incentives such as land and infrastructure, investment license, and tax holidays and strengthen existing ones.
- Identify a special production and processing zone for Diaspora investment activities.
- Encourage the Diaspora to search for markets in their adopted countries for Ethiopian products and to promote linkages between the domestic economy and the economies of the respective adopted countries.

2.3.2.2.2 Promoting Self-employment and Support the Informal Economy

Most people in urban areas work as self-employed individuals in the informal sector producing mainly services and other non-tradable commodities. The informal sector has been acting as the 'employer of last resort' and it is dominated by the unskilled youth and

women, the most vulnerable groups. Low return and underemployment are among the major problems of the informal sector. Hence, the most direct and most important channel to reduce urban poverty is to increase the productivity of the informal sector and/or micro and small-enterprises.

Supporting the informal sector is critical for creating decent jobs as it currently absorbs a large proportion of the labor force. This is particularly the case for many women of poor skills and resources. Support should not only be for maintaining businesses but also for transforming them into formal business ventures in the medium and long-term.

Among the major instruments identified in the Country's Five Year Development Plan (PASDEP), currently in its last year of implementation, to support the informal sector and/or micro and small enterprises (MSEs) are Technical and Vocational Education and Training (TVET), the Micro and Small Scale Enterprise Development Program and the promotion of Micro-Finance Institutions (MFIs).

2.3.2.2.3 Supporting Universal and Compulsory Education on Entrepreneurship

Entrepreneurial skills and knowledge motivate individuals to start their own business activities and improve the chance of business success and growth once a new business is started. Such skills and knowledge open up new employment opportunities for individuals.

In view of the critical advantages derived from entrepreneurial skills and knowledge, the government should introduce universal and compulsory education on entrepreneurship into the school curricula across the country. Entrepreneurial educational programs should be compulsory in the Ethiopian school system, and not limited to just a few selected academic programs, especially at tertiary level.

2.3.2.3 Ensuring Effective and Efficient Public Sector Employment

The public sector is a major formal sector employer in urban areas. It accounts for almost two-thirds of formal sector employment and 68% of employment among those with higher education. Employment creation in the public (civil service) sector used to receive policy recognition in pursuit of a social protection agenda by many developing countries. However, cut backs in public expenditure, privatization of public enterprises, and global forces have tended to reduce the employment creation role of the public sector.

However, the role of government institutions in supporting and providing critical services to the private sector in poor countries has been also well recognized. Thus, an efficient,

lean and capable civil service is critical for a capable state. Employment creation interventions by the public sector could be intentionally geared to underdeveloped regions where the government should perform economic activities that the private sector is not able or willing to undertake.

Creation of employment opportunities in the public sector could also be considered in terms of establishing missing-links or strengthening and expanding existing institutions of social and economic importance to the country. These include education and public health services, social service provision to elders and disabled people, and legal services to the population at large. These areas of public intervention could create ample opportunities for new employment in the public (government) sector.

2.3.2.3.1 Strategies towards Ensuring Effective and Efficient Public Sector Employment

A more effective, sustainable and pro-poor public sector employment system can be achieved through investment in infrastructure development, labor-based public work programs and the development of urban centers as capital and skill intensive production and service areas.

Labor intensive infrastructure development is essential to restore basic infrastructure in rural and urban areas. Public investment in economic infrastructure (roads, telecom, power and irrigation) and social sectors (education and health) would contribute to human resource development. Such programs create employment opportunities and promote private sector development by building up infrastructure and improving the supply of skilled labor.

The following specific policy actions are required for effective and efficient public sector employment:

i) Promote labor intensive infrastructure development

Each year a substantial amount of public investment funds are allocated to infrastructure development. The Ethiopian Road Authority, municipalities and city administrations, the Ministry of Water Resources, the Ethiopian Telecommunication Corporation, the Ethiopian Electric Power Corporation, among others, should be further encouraged to adopt labor-intensive approaches in their construction activities. This calls for developing incentive mechanisms and regulations that require each organization to create maximum number of jobs for a given levels of investment.

ii) Improve the effectiveness and relevance of on-going public work programs

As part of a major food security program popularly known as the Productive Safety Net Program, public work programs already play an important role in employing the rural poor in building roads and other infrastructure during times of food shortages. But these programs pay very low wage rates with negative implications on the quality of output.

The following are specific actions proposed to address this problem and ensure decent working conditions:

- Revise current procedures and regulations so as to be able to pay decent wages, and set standards for infrastructure built through Productive Safety Net Programs (PSNPs);
- Empower local communities and ensure their active participation in the implementation of public work programs such as the PSNPs;
- Enhance effective and decent employment in public institutions particularly education and health sectors.

iii) Fill existing critical human resource gaps, particularly in Health & Education

The recent rapid expansion of government schools, colleges, universities, clinics and hospitals has created a major employment opportunity. However, this expansion is faced with a shortage of staff, especially in positions requiring higher levels of education, and foreign nationals are being employed to teach in universities and colleges. On the other hand, the quality of education and health services has shown a declining tendency, particularly in newly established public higher education institutions.

The following policy actions need to be pursued to address this critical human resource gap:

- Establish a regular consultation forum consisting of different stakeholders that work with government regulatory agencies/ departments to ensuring quality of education and health services since low quality education can seriously undermine the human resource development and competitiveness of the economy;
- Improve working conditions and salary rates to attract and retain staff in higher education and health institutions;
- Strengthen and expand post-graduate training in selected universities in order to supply qualified professionals to the rest of the colleges and universities.

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

2.3.3.1 Raising Agricultural Labor Productivity

Rural poverty has remained high and persistent despite good performance of the agricultural sector and the low unemployment rate in recent years. The policy direction for reducing rural poverty in Ethiopia focuses more on raising rural income and labor productivity than on employment creation. Raising agricultural productivity generally hinges upon a blend of technical issues, economic issues, infrastructure and institutional development, and land tenure security. The following specific policy actions need to be pursued.

i) Inducing technological transformation, efficiency, and intensification

Though there is a growing trend in fertilizer use among Ethiopian farmers, the intensity of utilization of these inputs, especially improved seeds, is still considered to be very low. Fertilizer application without high yielding varieties may not bring the desired change in agricultural productivity.

The government needs to strengthen on-going measures to raise agricultural productivity which include technical change (adoption of a package of new technologies), more technical efficiency (better use of available technology) and technological intensification (more use of the available technology).

Agricultural extension services need to be streamlined to scale up better use of improved agricultural technologies. As the Ethiopian agriculture is mainly rain-fed, technological adoption should be complemented with development of irrigation facilities. In pastoral areas, raising agricultural productivity should be based on improved pasture and water development and animal health care.

ii) Improving Economic Incentives

Most intervention programs aimed at raising agricultural productivity attempts to increase yields without paying sufficient attention to economic incentives. However, productivity increases, (e.g., in some exceptionally good years) tend to lower prices and, consequently, the economic incentive to produce for the market could be at times undermined.

The government needs to further develop the agricultural marketing system for both inputs and outputs so as to allow farmers to operate in a competitive market environment. The main focus should be accelerating the transformation of subsistence agriculture into

commercial enterprise. This can be done through promoting the linkage of agricultural production to domestic, regional, and international markets.

Farmers need to be linked to markets, processors and exporters through schemes of contract farming and value chain development.

ii) Infrastructure and Institutional Development

The government will invest in infrastructure and develop market institutions. These shall cover such things as quality and standards, legal, information, financial, and risk management institutions, and reduction in transaction costs. Agribusinesses and farmers' organizations such as cooperatives shall be given special attention to better link farmers to markets and to enhance value addition in the supply chain.

The importance of market development has been recognized in Ethiopia's Five Year Development Plan entitled Plan for Accelerated and Sustained Development to End Poverty (PASDEP). The commodity exchange systems currently underway need to be scaled up to cover all relevant agricultural commodities potentially traded by mainstream farmers in Ethiopia.

Ongoing initiatives should be strengthened and measures have to be taken to ensure that all actors take part in the whole process. This includes farmers, input providers, processors and exporters.

iii) Land Tenure Security

While owning cultivable land is essential for the rural poor to produce agricultural products, maintaining and improving soil fertility and land quality is more important to improve agricultural productivity. The government needs to review the impact of the land certification program with a view to enhancing tenure security and encouraging long-term investment in terracing, irrigation structures, tree planting, etc.

Property rights and tenure security influence farmers' decisions regarding land management as well as quality improvement and productivity enhancing investments. The recent introduction of a land certification scheme is expected to improve the incentive to invest on land.

iv) Promoting Non-Farm Activities

The ability of the rural poor to engage in non-farm activities depends on the availability of five types of capital: human capital (personal knowledge and skills), social capital (networking and relationships), physical capital (transport and communication), financial capital (savings and credits) and natural capital (natural resource endowments such as land, forests, minerals, fisheries, etc). To enable the rural poor to benefit from non-farm activities, there needs to be an expansion in rural micro-finance institutions, training programs on business skills and expansion in rural infrastructure.

Actions should be taken to provide the poor with access to non-farm income generation and employment opportunities through improving, at least, their physical, financial and human capital.

Small market towns need to be developed in rural hinterlands to promote rural-urban linkages. The towns will serve as satellite stations to link rural economy and labor with opportunities in non-farm activities and major cities.

2.3.3.1.1 Strategies for Raising Agricultural Labor Productivity

To enhance labor productivity in agriculture and allied activities existing strategies need to be revitalized and new strategies devised. Two pathways out of poverty can be identified for rural areas. The first pathway consists of the move from low to high productivity farming. Such a shift can be achieved through agricultural intensification, i.e. via higher crop intensity, crop diversification into higher value crops, and more intensive application of agricultural inputs. This pathway also includes those individuals who exit poverty by gaining better paid employment on higher productivity private commercial farms. In this phase, labor is moving to a sector of higher productivity (for example, from low productivity subsistence agriculture to high productivity commercial agriculture, from low productivity non-farm enterprise to high productivity formal non-farm enterprises), or from deploying previously unused productive resources. A sustainable and pro-poor growth of production and productivity will be achieved through intensification of smallholder agriculture and promotion of diversified and integrated farming of crops and livestock, crops and forestry, food and cash crops, irrigation and aquaculture, and traditional and non-traditional crops. This will be based on the comparative and competitive advantages of each region in the country.

In the second pathway, some persons may exit poverty because of increase in the productivity and profitability of their non-farm enterprises, or by finding better-paid employment in such enterprises (often more formal) owned by formal operators.

The following strategies need to be adopted if the intensification targets of PASDEP are to be achieved with the highest level of employment intensity and labor productivity:

i) Development and implementation of a special scheme to disseminate high yielding seed varieties on a sustainable basis

Given that the current focus on the public sector to multiply and distribute seed has not been effective, a more competitive seed sector with a strong regulatory system is necessary to improve labor productivity as well as to boost food and agricultural production.

ii) Implement support measures aimed at lowering the cost of input and irrigation

Limited use of fertilizer, improved seeds and other inputs is partly due to high cost following the removal of input subsidies in the 1990s. Rain-fed agriculture of the country allows only one production a year, compared to two or more harvests per year under irrigation. Government support, including input subsidy and investment in irrigation, will significantly increase input use and enhance the profitability of agricultural intensification.

iii) Adopt a pluralistic system in agricultural extension, business advisory services and training

The traditional system, which is based on the public sector alone, has not delivered the expected outcome so far. Advisory, extension and training services need to be provided on a competitive basis through government, private sector and civil society organizations in a more decentralized manner.

iv) Review the land certification scheme with the objective of strengthening the incentives to invest on land

A well-defined system of property rights needs to be put in place in order to encourage farmers' investment on land improvement, irrigation, tree crops and farmsteads.

v) Take urgent measures to strengthen inclusive institutions to give more protection, voice and support to smallholder farmers

The absence of strong interest groups and unions has limited farmers' participation in policies affecting agricultural and rural development. In order to ensure effective participation, and for a broader range of assets to thrive in rural areas, inclusive institutions such as national farmers' unions and associations of different commodity

groups need to be established. Dialogue with real stakeholders in formulating input support, investment and regulatory policies is a necessary condition for sustainable agricultural intensification.

vi) Promote the use of indigenous knowledge

Unleash the potentials for productivity growth using indigenous knowledge with proven age-old experiences and practices of farmers.

vii) Intensify efforts to promote productive employment by supporting cash crop production

For many farmers the transition from subsistence to commercial mode of production can be achieved by increasing the productivity and return to growing traditional and non-traditional cash crops. Horticultural crops for both domestic and export market offer a good opportunity to generate new employment and to increase income by many folds at the same time.

The following strategies deserve special considerations if the commercialization objectives of PASDEP are to be achieved with the highest level of employment intensity and creation of decent employment:

- **Develop legal and regulatory and incentive schemes to promote contract farming and out-grower schemes:** Smallholders have the opportunity of overcoming their constraints of technology, markets and finance by linking up with commercial farmers and processing farms. The legal and regulatory framework should be developed to enforce contract farming.
- **Develop special commercialization schemes for small farmers in selected areas:** Support and promote small farmers and their organizations to produce high standard cash and industrial crops for domestic and export markets. This can be done through improved and secured access to land and water, enhanced access to mechanical and biological technologies and knowledge, and improved access to markets and finance.

viii) Promote productive employment in livestock husbandry and poultry

Given the growing population pressure in many agricultural areas of the country, a shift to livestock and poultry is the most appropriate measure to increase labor productivity and income from a farmland that is getting smaller and smaller by the year. Dairy, poultry and fattening also provide the best opportunity for many young people to join the farming occupation and become productive workers.

The following areas deserve special consideration if the livestock sector objectives of PASDEP are to be achieved with the highest level of employment intensity and decent employment:

- Develop and implement a special incentive scheme and regulatory system to promote private veterinary services to complement efforts by the public sector.
- Develop a more efficient veterinary service through the establishment of an enabling environment for private animal health providers and the promotion of effective public-private partnerships;
- Institute effective regulatory and inspection systems to ensure safety and quality at all levels of livestock production and on the marketing chain. Livestock producers in Ethiopia have difficulty accessing international markets due to diseases. The capacity of public laboratories needs to be developed to provide effective regulatory and inspection services;
- Take measures to establish dairy, beef, sheep, goat, fishery, beekeeping, poultry and pig producer associations in order to protect the interest of livestock producers. Improved access to veterinary care, grazing lands, feed, reliable water sources, good roads, breeding technologies and financial services cannot be guaranteed without direct participation of livestock producers.

ix. Improve the productivity of the pastoral community

The pastoral sub-sector is an important component of the rural livelihood in Ethiopia and it contributes a major share to the livestock population (cattle, sheep, and goat) of the country. Improving the productivity of the sector will be useful to the pastoral community and for the national economy as well. Given the growing importance of markets for livestock products, both nationally and globally, improving the productivity and market linkage of the livestock sector would be important for improving the livelihoods of the dependents of the sector. Improvement of grazing lands, provision of adequate watering points, improving veterinary services, developing infrastructure such as road, water canals, telephone and electricity, and value chain development for better market linkage are important. There needs to be a special focus towards commercializing the sector by promoting market linkages through value chain development initiatives. In addition, strengthening extension services and provision of social services such as education, training, and health care services in the pastoral areas of the country are necessary to enhance awareness, knowledge, and skill among community members.

x) Enhance support to urban and peri-urban agriculture

By virtue of better access to markets and information, urban and peri-urban agriculture offers the advantage of better income generation to urban youth. This type of agriculture

needs to specialize in fattening, dairy, poultry, and vegetable production activities. They can produce high demand products for the markets in the urban areas, by using only small plots of land. Urban and peri-urban agricultural activities can be established with relatively small capital and the products can secure markets in the urban centers. A concerted municipal level support shall be needed to promote the development of such activities.

Measures required promoting the size and quality of employment include:

- Identifying and demarcating areas for urban and peri-urban agriculture;
- Developing guidelines and support measures to promote and ensure the safety and quality of food produced in urban and peri-urban areas.
- Take the necessary steps to establish associations of urban and peri-urban farmers.

xi) Promote value addition in the supply chain

The value chain for most agricultural products in Ethiopia is very short, with little or no value addition in the system. The distribution network is characterized by long and fragmented marketing chains that add very little value and hence employment. High risks of coordination failure, coupled with high transport and transaction costs, do not encourage complementary and simultaneous investment by input suppliers, transporters, traders, financiers and farmers. Developing the value chain from input supplier to consumers will create enormous opportunities for productive employment.

The following actions are proposed to create remunerative jobs along the supply chain:

- Design and implement incentive schemes to attract private investment, including FDI. The objective is to stimulate investment in processing of agricultural products and delivering agricultural inputs, finance, technology and advisory services;
- Develop acceptable quality standards of primary materials needed by processors. This includes greater attention and investment of resources to conduct research into the collection, selection, propagation and pre-processing of suitable cultivators specifically for agro-processing;
- Provide technical and financial support to empower agri-businesses. Associations of processors, exporters and traders should be supported to develop adequate capacity to become more effective participants in the development of supply chain and value addition in Ethiopia.