The Emerging Picture

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Labor Markets and Employment in Ethiopia and the Emerging Policy Agenda

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Overview

1. Emerging areas of consensus
2. Further highlights – eight ‘stylised facts’
3. Implications for the shape of the policy agenda
Emerging Areas of Consensus

- Disappointing labour market performance of the past several years → Centrality of well functioning labour markets to growth and poverty reduction, thus:

- Urgency of identifying ways to support the expansion of jobs

- Special challenges faced by youth, disabled...

- Avoid disincentives to employment
Stylized Fact (1): Slow structural transformation

- Transition from rural, agrarian society to modern urban-based society has been slow
- Evidence of segmentation:
  - Spatial - characteristics of rural & urban employment very different
  - Sectoral - between public and private sectors

Stylized Fact (2):
Low and falling rates of economic activity, especially in urban areas

- Economic activity: “age 15+, engaged in or available for work”
- Low measured urban economic activity rates:
- Rural economic activity:
  - 77% (1999)
- Cross-country comparisons difficult due to inconsistent data quality; Ethiopia’s national economic activity rate is on the low side but not out of line with neighbors

Source: ILO/EAPEP data, 2005.
Stylized Fact (3): High rates of urban unemployment

- Mixed news, 1999-2004:
  - Male unemployment rate fell slightly (9.3% to 8.7%)
  - Female rate rose (9.8% to 10.5%)
  - Duration has shortened
- Unemployment peaks among youth, and is higher among women, except amongst eldest
- Measured unemployment rate very sensitive to definition:
  - Standard international definition requires active job search
  - Official Ethiopian unemployment figures relax that criterion
- Using the international definition, unemployment is lower than official numbers... But still very high
  → economy is not producing enough jobs but need to understand more about what the unemployed are doing, and why they are unemployed.
Stylised fact (4):
Dominance of the public sector, especially in urban areas

- Public sector accounts for 19% of total urban employment, and almost 40% if self-employed and family workers excluded.
- Expansion of public sector was key driver of growth in the 1990s.

Note: Contract employees excluded. Figures include the non-military staff of the Ministry of Defense.
Stylised fact (5): Low wages but low productivity

- Urban wages around or below poverty lines for less educated:*
  - Red: Lower line—Birr 110
  - Green: Upper poverty line—Birr 163/month
- Private returns to education are noticeable, even at lower education levels
- NB Wage measures only cover “paid employees” (only 48% of urban employed); thus estimates overstate informal sector wages
- Although Ethiopia’s wages are lower than most countries where labor-intensive manufacturing has taken off, productivity too low to be highly attractive to FDI

*These estimates are unweighted averages from the poverty lines for urban areas; World Bank Poverty Assessment, 2005.
Stylised fact (6):
High underemployment, especially for youth
Stylised fact (7):
Labour market is not a major obstacle to doing business

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<th>Share of Ethiopian firms citing <em>very serious</em> impediments to doing business:</th>
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Educational profile of workforce improving, but still low:
- Adult literacy risen impressively in decade to 2004/5: 26% → 38%
- But still:
  - only 1/20 has secondary or higher education
  - educational outcomes far better in urban than in rural areas

Gender gap very significant everywhere – dimensions:
- Average male adult completes 1.8 grades, the average female less than one (0.88) grade
- Despite recent education improvements, 30% of 15-20 year old urban females who are *economically active* are illiterate → low pay
- For same characteristics (education, experience etc), women paid 45% less than men
- Risk of women being unemployed is 25% higher, all else being equal
Thus, major challenges

1. **Need to accelerate the pace of job creation in the economy** – with about 600,000 net entrants (mainly youth) into the total labour market each year; and to make inroads on the stock of unemployment – 450,000 sitting unemployed in Ethiopia’s towns and cities, of whom about half have been jobless for more than 12 months...

2. **Need to improve labour productivity so as to enable increases in real wages**
   - Median urban wage exceeds the urban poverty line BUT our data overstates average wages... most people do not have regular paid employment

3. **Need to improve the position of women in the labour market**

4. **Need effective programs to cater for youth in the labour market**: to facilitate transitions from school, and out of unemployment

   - In the context of weak labour demand, large informal labor markets and weaker capacity to implement programs, which together may limit what some programs can achieve in terms of creating formal employment or increasing wages...
Further challenge – achieving success on active labour market programs

- **Employment services**: counseling, placement assistance, job matching & related services
  - In industrial countries, generally positive impacts on the post-program employment and earnings of participants; costs are relatively low so the cost-benefit ratio is often favorable
  - **BUT** employment services -- at least by themselves -- are of limited use where structural unemployment is high and there is a lack of demand for labor, which is the case in Ethiopia
  - What is the coverage and effectiveness of these services in developing countries where many labor market transactions are informal?

- **Training for the unemployed**: Participants often benefit from these programs in terms of higher employment rates, but not in terms of higher earnings
  - Evidence from developing countries paints a less favorable picture
  - Programs seem to work best with on-the-job training and active employer involvement
  - Results are more positive for women

- **Public works**: An effective short-term safety net but typically do not improve future labor market prospects for participants

- **Micro-enterprise development/self-employment assistance**: Some evidence of positive impacts for older & better-educated workers; however, take-up often low
On pensions

Ethiopia situation is typical of Sub-Saharan Africa = low coverage, limited private savings ... → an obvious need for more innovative approaches
Options include:

- ILO recommendation of extending public sector system to private sector workers – this requires
  1. Analysing the fiscal sustainability of existing public pension arrangements -- introducing a pension system creates long-term fiscal liabilities for the Government and could crowd out investments on health, education, etc.
  2. Reviewing the costs involved in administering the system
  3. Assessment of how to cover the self employed: most countries include the self-employed in their national schemes; others, like Turkey, have separate schemes. Irrespective of which structure is chosen, compliance by the self-employed has been poor..

- An alternative: strengthen the current system while introducing universal (non-contributory) schemes to the extent that resources permit; e.g. Namibia and Mauritius. However recent study indicated that non-contributory pensions for the elderly are not justified for low income African countries given extent of child poverty (Subbarao 2004)

→ Appropriate choice of pension policy should depend on profile of poverty, vulnerability, living arrangements etc. and the short and long term fiscal implications of the proposed program.
Emerging Policy Priorities

- What interventions could foster better functioning of the labour market on the supply side?

- What types of growth policies could be especially effective in fostering or constraining employment creation?

- How to address the specific challenges for youth in the labour market?

- How to address brain-drain from the civil service?

- What gender-specific interventions could be effective?

- Do we have the labor market information needed to inform policy choices and monitoring?