

REPORT ON THE ETHIOPIAN
ECONOMY

Volume V 2005/06

*Unemployment Challenges
and Prospects*

Ethiopian Economic Association
(EEA)

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Foreword

Promoting economic research and assisting the dissemination of the findings of such research with the aim of supporting the economic policy formulation and implementation capabilities of Ethiopia is one of the core objectives of the Ethiopian Economic Association. In its effort to realize this noble objective, the Association has been publishing an independent Report on the Ethiopian economy every year since 2000. The Report evaluates the yearly performance of the Ethiopian economy both its aggregate and sectoral components. The Association is happy to issue the fifth Report Vol. V, 2005/06. Like in the previous years, this Report has also tried to provide professional assessment of the existing policies and strategies and had attempted to recommend new policy directions wherever appropriate. Following the formats of the previous years the fifth Report has also got two parts. Part one focuses on a broader review of the macroeconomic situation and the performance of the economy at the sectoral levels for the period 2005/06 for which data is available.

The selected thematic focus area for the fifth Report is *Unemployment Challenges and Prospects*, which has significant implications to the national development efforts. The focus on the Unemployment Challenges and Prospects is necessitated by several factors. Theory informs us that there is a close association between employment performance and poverty prevalence. With one of the highest incidence of poverty in the world, Ethiopia urgently needs to create more employment and thus tackle the scourge of hunger, malnutrition and overall low living standards the country

continues to witness. Despite some improvements in the growth of the national economy in recent years, a significant proportion of the Ethiopian people have no jobs or secure sources of income. Decent employment, which strengthens the link between economic growth and aggregate poverty reduction, is thus, the main escape route out of poverty. Unemployment is, therefore, one of the greatest challenges currently facing Ethiopia's economic development. Creating more employment opportunities should thus be one of the most important development goals of the country. This Report attempts to shed some light on the challenges of unemployment and the prospects for creating more employment opportunities.

The Report provides a profile of the employment level in Ethiopia; describe the unemployment levels, and characterize and analyze the reasons for the rising unemployment level and thereby provide policy recommendations.

We hope that the Report would be useful to all readers including policy makers, private business people, civil society organizations, the academia, the media, the international community and the general public.

Finally, I would like to express my appreciation to all those people whose contribution has made this Report possible.

Wolday Amha
President
Ethiopian Economic Association

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Many people have contributed to the completion of this Report and the Ethiopian Economic Association (EEA) would like to extend its appreciation to all of them. In the planning phase of this Report, several members of the Association have made useful suggestions which were very helpful for the preparation of this Report. EEA would like to thank all of them for their constructive inputs. Dr. Assefa Admassie who is the Director of the Ethiopian Economic Policy Research Institute has led the whole project. In part I of the Report, the chapter on the Macroeconomic Development has been prepared by Dr. Haile Keberet, Ato Tamrat Workalemahu, Ato Kasahun Abera and Ato Daniel Gebrehiwot. The chapter on the Performance Status of Large and Medium Scale Manufacturing Industries is written by Ato Kibre Moges and Ato Amin Abedella. Dr. Berhanu Adenew and Dr. Samuel Gebreselassie wrote the chapter on the Performance of the Ethiopian Agriculture. Finally the Chapter on Gender and Development is written by Dr. Deginet Abebaw and Ato Andinet Delelegn.

Several people have contributed to Part II of the Report which deals with the *Unemployment Challenges and Prospects*. Dr. Deginet Abebaw wrote chapter 5 and chapter 7 of the Report. Dr. Berhanu Adenew, Dr. Samuel Gebreselassie, Ato Kibre Moges and Ato Amin Abedella have contributed to Chapter 6 of the Report. In addition, EEA would like to acknowledge the contributions of Ato Fantu Guta and Ato Atlaw Alemu for their input on chapter 8 and chapter 9 which deals the Characteristics of Unemployment in Ethiopia and Explaining the Unemployment Problems, respectively. Finally, Dr. Haile Keberet who wrote chapter 10 of the Report was also responsible for the overall coordination of the work.

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Table of Contents

Foreword	iii
Acknowledgment	v
PART I	
REVIEW OF ECONOMIC PERFORMANCE	
Introduction to Part One.....	1
Chapter 1	
Macroeconomic Developments.....	3
1.1 Introduction.....	3
1.2 Economic Growth Performance.....	5
1.2.1 The Agricultural Sector.....	11
1.2.2 The Industrial Sector.....	13
1.2.3 The Service Sector.....	15
1.3 Saving and Investment.....	16
1.3.1 Saving.....	17
1.3.2 Investment.....	19
1.4 The External Sector.....	23
1.5 Developments in Monetary Aggregates.....	28
1.6 Public Finance.....	33
1.7 Price Developments.....	37
1.8 Summary and Conclusions.....	39
Chapter 2	
Performance Status of Large and Medium Scale Manufacturing Industries	
(1999/00 – 2004/05)	45
2.1 Introduction.....	45
2.2 Economic structure.....	46
2.2.1 Share of Manufacturing in National Income.....	46
2.2.2 Private Sector's Share in Manufacturing.....	47
2.2.3 Share of Strategic and Capital Goods Industries in Manufacturing.....	48
2.2.4 Changes in Production and Employment.....	50
2.2.5 Productivity Trends.....	52
2.2.6 Linkages with International Markets: Export Capacity and Import Intensity.....	53

2.2.6.1	Export of Manufactured Goods	53
2.2.6.2	Import Intensity	56
2.2.7	Capacity Utilization.....	57
2.2.8	Concluding Remark.....	59
2.3	Incentive-Driven Private Investment in Manufacturing	60
2.3.3	Introduction	60
2.3.2	Investment Incentives.....	63
2.3.3	Investment Performance	65
2.3.3.1	Aggregate Private Investment.....	65
2.3.3.2	Investment in Manufacturing.....	69
2.3.4.	Removing Institutional Constraints: A Prerequisite for Revitalizing Private Investment	73
Chapter 3		
The Performance of the Ethiopian Agriculture		75
3.1	Typology and Structure of the Ethiopian Agriculture	75
3.1.1	Smallholder/Peasant Agriculture	75
3.1.2	Medium and Large Scale Commercial Farms	76
3.2	The Role of Agriculture in the National Economy.....	78
3.2.1	Contribution to GDP	78
3.2.2	Contribution to Export Earnings.....	79
3.3	Agricultural Credit and Input Use	83
3.3.1	Agricultural Credit.....	83
3.3.2	Use of Modern Agricultural Inputs	84
3.3.2.1	Improved Seeds.....	84
3.3.2.2	The Use of Fertilizer.....	87
3.3.2.3	Fertilizer Import and Marketing.....	90
3.4	Grain Production.....	91
3.4.1	Production of Cereals	93
3.4.2	Production of Pulses and Oil Crops	96
3.5	Production of Other Crops.....	97
3.6	Summary and Conclusion.....	98
Chapter 4		
Gender and Economic Development		101
4.1	Introduction.....	101
4.2	Conceptual Framework.....	103
4.3	Overview of Gender Issues in Ethiopia.....	104
4.3.1	Gender and Agriculture	104

TABLE OF CONTENTS

4.3.2	Activity and Time Allocation	105
4.3.3	Formal and Informal Sector.....	106
4.3.3.1	Gender and the Formal Sector.....	106
4.3.3.2	Gender and Informal Sector	109
4.3.4	Maternity Leave Benefits.....	110
4.3.5	Unemployment.....	111
4.3.6	Gender and MFIs Outreach.....	112
4.3.7	Governance and Decision Making.....	113
4.3.8	Gender and Education	114
4.3.9	Marriage, Childbearing, and Health.....	117
4.3.10	Gender and HIV/AIDS.....	119
4.4	The Policy Environment and Institutional Platform for Gender Equality.....	120
4.4.1	International Instruments.....	120
4.4.2	National Policies and Instruments	121
4.5	Conclusion.....	126
PART II		
Introduction to Part Two.....		129
Chapter 5		
Characteristics of Ethiopian Labour Market		131
5.1	Introduction	131
5.2	Size and Structure of Ethiopian Labour Force	133
5.2.1	Population Size and Labour Supply	133
5.2.2	Labour Force Participation Rate.....	133
5.2.2.1	Labour Force Participation by Gender	135
5.2.2.2	Children and Young Persons in Labour Force	137
5.2.3	Employment-to-Population-Ratio.....	139
5.2.4	Inactivity Rate.....	140
5.2.5	Determinants of Quality of Labour Force.....	142
5.2.5.1	Educational Attainment and Illiteracy	142
5.2.5.2	Training.....	146
5.2.5.3	HIV/AIDS and Labour Supply.....	148
5.2.6	Migration and Labour Supply	149
5.3	Formal and Informal Labour Markets.....	155
5.2.5	Distribution of Informal Employment by Regions	158
5.2.6	Distribution of Informal Employment by Gender	160
5.3	Over-Seas Employment.....	161
5.4	Employment of Foreign Nationals in Ethiopia	162

5.5	Labour Proclamations and Institutions	163
5.5.1	State Institutions and the Employment Law.....	163
5.6.1	Labour Market Regulation	166
5.6.2	Labour Standards.....	167
5.6.3	Employment Law and Conditions of Work.....	171
5.6.4	Occupational Safety and Health	174
5.6.5	Labour Dispute and Social Dialogue	175
5.6.6	Social Security Laws	176
Chapter 6		
Labour Cost, Productivity and Sectoral Capacity Utilization.....		177
6.1	Agriculture	177
6.1.1	Labour Productivity in Agriculture.....	177
6.1.2	Potential Employment in Agriculture.....	180
6.1.2.1	Concepts and context	180
6.1.2.2	Some Assumptions and Estimated Potential Employment..	181
6.1.2.3	Strategies to Accelerate Employment in Agriculture.....	183
6.1.3	Labour Force Absorption Capacity in Agriculture	186
6.2	Manufacturing.....	191
6.2.1	Unit Labour Cost and Productivity	191
6.2.2	Capacity Utilization.....	194
Chapter 7		
Sectoral Employment and Occupational Choice		197
7.1	Employment Share of Major Sectors	197
7.2	Employment by Occupational Group	199
7.3	Status in Employment.....	201
7.4	Terms of Employment.....	203
7.5	Hours of Work.....	206
Chapter 8		
Characteristics of Unemployment in Ethiopia.....		209
8.1	Unemployment Levels and Trends	209
8.1.1	Population and Labour Force Growth.....	209
8.1.2	Labour Market Characteristics	213
8.1.3	Participation in the Labour Market.....	217
8.1.4	Unemployment Levels and Trends in Rural-Urban Areas.....	219
8.1.5	Unemployment Levels and Trends by Region.....	223
8.2	Characteristic Features of the Unemployed	224

TABLE OF CONTENTS

8.2.1	Unemployment by Gender	225
8.2.2	Unemployment by Region	229
8.2.3	Unemployment by Educational Levels	232
8.2.4	Transitory Vis-à-Vis Structural Unemployment.....	237
8.2.5	Attempts Made to Escape the Unemployed Trap	241
8.3	Summary and Conclusions	249
Chapter 9		
Explaining the Unemployment Problem in Ethiopia		251
9.1	Introduction	251
9.1.1	The Policy Environment and Growth	251
9.1.2	Employment Outcome of the Reform Period	253
9.1.3	Unemployment Types by Source	255
9.1.3.1	Defining Unemployment.....	255
9.1.3.2	Taxonomy of Unemployment by Source	256
9.1.3.3	The Data on Unemployment Vis a Vis Types of Unemployment.....	260
9.2	The Causes of Unemployment	262
9.2.1	Impact(s) of Supply Factors	263
9.2.1.1	Population Growth and Unemployment.....	263
9.2.1.2	Market related policies and unemployment.....	264
9.2.2	Impact(s) of Demand Factors	265
9.2.2.1	Possible Impact(s) of Economic Growth.....	268
9.2.2.2	Other Policies and Unemployment.....	273
9.2.2.2.1	Incentives, Growth and Employment	273
9.2.2.2.2	Unemployment Outcome of Stabilization Policies...	277
9.2.2.2.2.1	Monetary Policy	278
9.2.2.2.2.2	Fiscal Policy	280
9.2.2.2.3	Investment Related Problems and Unemployment.	280
9.3	Summary and Conclusion.....	281
Chapter 10		
Summary, Conclusions and Recommendations		283
10.1	Summary and Conclusions	283
10.2	Recommendations	288
References		291
Annexes.....		298

List of Tables and Figures

A. List of Tables

Table 1. 1: Sectoral growth performance	6
Table 1. 2: Total and sectoral per capita income - (growth rate-%).....	8
Table 1. 3: Growth performance in the industrial sub-sectors	14
Table 1. 4: Growth performance in sub-sectors of the distributive service sector.....	15
Table 1. 5: Growth performance in sub-sectors of the "other services" sector.....	16
Table 1. 6: Gross domestic savings (GDS), gross fixed capital formation (GFCF), and the resource gap (as share of GDP)	18
Table 1. 7: Number, investment capital & employment creation of domestic private investment projects approved by sector, from 1 Hamle 1996 – 30 Sene 1997 E.C.	20
Table 1. 8: Number, investment capital & employment creation of foreign investment projects approved by sector, from 1 Hamle 1996 - 30 Sene 1997 E.C. ...	21
Table 1. 9: Number, investment capital & employment creation of total investment projects approved by sector (from 1 Hamle 1996 - 30 Sene 1997 E.C.) .	22
Table 1. 10: Number, investment capital & employment creation of investment projects under implementation and operation by type (1 Hamle 1996 - 30 Sene 1997 E.C.)	23
Table 1. 11: Growth rate and structure of exports.....	24
Table 1. 12: Percentage share in total import value	26
Table 1. 13: BOP indicators as a percentage of GDP	27
Table 1. 14: Determinants of money supply (in billions of Birr)	29
Table 1. 15: Monetary aggregates and ratios (in millions of Birr)	31
Table 1. 16: Interest rate structure	32
Table 1. 17: Structure of revenue (as percent of GDP)	34
Table 1. 18: The share of sectors in recurrent expenditure (%)	35
Table 1. 19: The share of sectors in total capital expenditure (%).....	35
Table 1. 20: The budget deficit and its financing.....	36
Table 1. 21: Trends in prices (in %).....	37
Table 2. 1: Sectoral shares in the value added at constant prices	46
Table 2. 2: Production shares of public and private manufacturing firms (percent) ...	48
Table 2. 3: Value added share in GVP of LMSM industries (average of 2000-2005)	51
Table 2. 4: Productivity and wage rate in manufacturing-real terms (US\$)	52
Table 2. 5: Export capacity of manufacturing industries	54
Table 2. 6: Import dependency of manufacturing.....	57
Table 2. 7: Capacity utilizations and underlying constraining factors	58
Table 2. 8: Private investment in Ethiopia - million USD.....	65

TABLE OF CONTENTS

Table 2. 9: Annual average growth rates of private investment (percent)	66
Table 2. 10: Private investment shares (percent)	67
Table 2. 11: Sectoral share in total private investment (1993/94-2005/06)	70
Table 2. 12: Investment in manufacturing (values in million USD)	70
Table 2. 13: Investment pattern in manufacturing.....	73
Table 3. 1: The distribution of landholding size of the smallholder households	76
Table 3. 2: Number, land area, production and yield levels of large and medium scale farms in Ethiopia	77
Table 3. 3: Major commodity exports of Ethiopia - (2001-2004)	80
Table 3. 4: Average level of livestock and products export value by period ('000 Birr)	82
Table 3. 5: Agricultural credit - approved, disbursed, and overdue (2001/02 - 2005/06)	84
Table 3. 6: Total fertilizer balance for the year 2004-2005 (in tones)	90
Table 4. 1: Rural household asset by sex: 1994 & 2004	105
Table 4. 2: Work hours spent per day during peak and off-peak agricultural seasons	106
Table 4. 3: Maternity leave benefits, as of 2004	111
Table 4. 4: MFI outreach by: 2003 & 2004	113
Table 4. 5: Women's representation in federal and regional councils	114
Table 4. 6: Trends in gross enrollment ratios at primary and secondary education by sex	116
Table 4. 7: Women in TVET and higher education	116
Table 4. 8: Marriage, childbearing, and health	118
Table 4. 9: Impact of AIDS, 2003 or 2005	119
Table 5. 1: Sizes and growth rates of working age populations in Ethiopia, 1999-2005	134
Table 5. 2: Regional distribution of labour force participation rate (%)	135
Table 5. 3: Labour force participation rates by age groups and gender (%)	138
Table 5. 4: Major reasons forcing children to work in Ethiopia, 2001 (%)	139
Table 5. 5: Employment to population ratio (%)	140
Table 5. 6: Reasons for being economically inactive by gender and location (%)	142
Table 5. 7: Education profile of working age populations in Ethiopia (%)	145
Table 5. 8: Trends in literacy rates of working age populations (%)	146
Table 5. 9: Regional profile of trained working age populations by gender, 1999 (%)	147
Table 5. 10: Regional distribution of internal migration in Ethiopia, 1999 (%)	153
Table 5. 11: Major reasons for migration, 1999	153
Table 5. 12: Distribution of migrant persons by region and type of migration, 1999 (%)	155
Table 5. 13: Contribution of informal economy to GNP in different regions, 2005 ...	157

REPORT ON THE ETHIOPIAN ECONOMY

Table 5. 14: Relative share of urban informal employment (%).....	158
Table 5. 15: Share of informal employment in rural areas by region, 1999 (%)	159
Table 5. 16: Number of Ethiopians employed abroad through private employment agencies	161
Table 5. 17: Number of Ethiopians employed abroad through the public employment office	162
Table 5. 18: Number of work permits issues for foreign nationals in Ethiopia.....	162
Table 5. 19: Distribution of job-seekers, vacancies and placements, 19997/98-2001/02).....	164
Table 5. 20: Some of the ILO's labour standard conventions ratified by Ethiopia....	168
Table 6. 1: The trend of agricultural population and labour force	182
Table 6. 2: Economically active population and the employment rate.....	188
Table 6. 3: Types of employment for economically active labour force in rural areas at different periods	189
Table 6. 4: Wage bill per worker (in thousand Birr).....	192
Table 6. 5: Productivity and wage rate in manufacturing industries (value in 000 birr)	194
Table 6. 6: Capacity underutilization and underlying factors (percent).....	195
Table 7. 1: Gender composition of employment by sub-sectors (%).....	199
Table 7. 2: Employment profile by major occupational group.....	200
Table 7. 3: Employment structure by status in employment	202
Table 7. 4: Distribution of self-employed workers by occupation and gender (%) ...	203
Table 7. 5: Distribution of paid employees by industrial division, 2005 (%)	205
Table 7. 6: Currently employed populations by number of hours worked (%).....	207
Table 8. 1: Trend in population and labour force growth (population in '000)	212
Table 8. 2: Trends in distribution of employment by major economic sectors (in %).....	215
Table 8. 3: Trend in distribution employment by major employers (in %).....	217
Table 8. 4: Trends in participation rate by place of residence (in %).....	218
Table 8. 5: Trends in participation rate by sex	218
Table 8. 6: Trends in rural and urban unemployment rate by sex: 1984 – 2005 (in %)	223
Table 8. 7: Percentage distribution of unemployed population by sex (in %).....	225
Table 8. 8: Unemployment rate by gender (in %)	225
Table 8. 9: Unemployment rate in urban and rural areas by gender (in %).....	226
Table 8. 10: Distribution of urban and rural unemployment by broad age group (in %)	227
Table 8. 11: Trends in urban and rural unemployment rate by region: 1994 – 2005 (in %).....	231
Table 8. 12: Distribution of unemployed population by type of unemployment and gender (in %)	240

TABLE OF CONTENTS

Table 8. 13: Distribution of unemployed population by type of unemployment and region (in %)	241
Table 8. 14: Distribution of unemployed population by steps taken to seek work and broad age groups (in %)	245
Table 8. 15: Distribution of unemployed population by steps taken to seek work and region in 1999	246
Table 9. 1: Labour force and employment.....	263
Table 9. 2: Gross domestic product at 1980/81 constant factor cost, in millions of Birr	270
Table 9. 3: Employment elasticity of growth 1994-2005	270
Table 9. 4: Sectoral share in employment and in GDP in the period between 1994/5 and 2004/5	272
Table 9. 5: Gross domestic saving and gross capital formation at current market prices.....	275
Table 9. 6: Export- import gap at current market prices.....	277

B. List of Figures

Figure 1. 1: Growth rates in real GDP	7
Figure 1. 2: Growth rates in per capita income	9
Figure 1. 3: Composition of real GDP	10
Figure 1. 4: Growth rates in the value added of agricultural sector	12
Figure 1. 5: Growth rates in the value added of the industrial sector	14
Figure 1. 6: The income velocity of money.....	30
Figure 1. 7: Agricultural growth and inflation (1998/99 – 2004/05)	38
Figure 1. 8: General, food and non-food inflation rates (1998/99 – 2004/05)	39
Figure 2. 1: Share of consumption and capital goods (%)	49
Figure 2. 2: GVP growth rate	50
Figure 2. 3: Industries' shares in manufacturing export	55
Figure 2. 4: Operational investment as a proportion of licensed capital.....	66
Figure 2. 5: FDI by country of origin	69
Figure 2. 6: Share of domestic & foreign investment	71
Figure 3. 1: Growth in real GDP and agriculture in Ethiopia	79
Figure 3. 2: Export value of livestock and livestock products for Ethiopia.....	81
Figure 3. 3: The share of value of livestock and products export in total export earnings for Ethiopia	82
Figure 3. 4: Use of improved seeds in the peasant sector in 2005/06 crop year	85
Figure 3. 5: Share of different cereal crops in improved seeds sown (% of 258,884 quintal)	87

Figure 3. 6: Use of fertilizer for production of different cereal crops (% of 3.5 million qt)	88
Figure 3. 7: Inorganic fertilizer (DAP and UREA) use in the peasant sector in 2005/06 crop year	89
Figure 3. 8: Grain production in the four major regions in the 2005/06 crop season (<i>meher</i>)	91
Figure 3. 9: The performance of major food crops in 2005/06 crop season (<i>meher</i>) ..	92
Figure 3. 10: Total and per capita grain production for selected agricultural years....	93
Figure 3. 11: Production of cereal crops in 2005/06 crop year	94
Figure 3. 12: The share of different cereal crops in total cultivated land (%)	95
Figure 3. 13: The share of different crops in total cereal production in 2005/06 crop year (%)	96
Figure 4. 1: Percentage of employees in government and quasi-government establishments by level of education.....	107
Figure 4. 2: Percentage difference of female government and quasi government employees by salary	108
Figure 4. 3: Percentage difference of employed individuals by occupation: 1999/2005	109
Figure 4. 4: Informal sector operators by sex: 1996 and 2002	110
Figure 4. 5: Unemployment rate: 2005	112
Figure 5. 1: Labour force participation rates by age-groups	136
Figure 5. 2: Distribution of internal migrant persons aged ten years and over by gender, 1999 (% female)	152
Figure 5. 3: Employment-related reasons for labour migration in Ethiopia, 1999	154
Figure 5. 4: Distribution of informal employment by age-group and gender, 1999 ..	160
Figure 6. 1: Labour productivity in the Ethiopian agricultural sector over the last 25 years.	179
Figure 6. 2: Change in labour productivity of the Ethiopian agriculture over time....	180
Figure 6. 3: Duration of unemployment for unemployed rural population.....	190
Figure 7. 1: Trends in the employment shares of the major sectors (%).....	198
Figure 7. 2: Trends in hours worked by currently employed persons in the last 7 days	207
Figure 8. 1: Trends in level of urban unemployment: 1984 – 2005	220
Figure 8. 2: Trends in level of rural unemployment: 1984 - 2005	221
Figure 8. 3: Unemployment rate in urban and rural areas by age group	228
Figure 8. 4: Distribution of urban and rural unemployment by region in 1999.....	230
Figure 8. 5: Distribution of unemployed population by region in 2005.....	231
Figure 8. 6: Distribution of unemployed population by broad age group and literacy status in 1999.....	233

TABLE OF CONTENTS

Figure 8. 7: Distribution of unemployed population by broad age group and literacy status in 2005.....233

Figure 8. 8: Distribution of unemployed population by region and literacy status in 1999235

Figure 8. 9: Distribution of unemployed population by region and literacy status in 2005236

Figure 8. 10: Distribution of unemployed population by urban-rural and literacy status237

Figure 8. 11: Distribution of unemployed population by duration of unemployment in months in 1999.....238

Figure 8. 12: Distribution of unemployed population by duration of unemployment in months for 2005239

Figure 8. 13: Distribution of unemployed population by steps taken to seek work and gender in 1999242

Figure 8. 14: Distribution of unemployed population by steps taken to seek work and gender in 2005244

Figure 8. 15: Distribution of unemployed population by type of work sought and gender in 1999247

Figure 8. 16: Distribution of unemployed population type of work sought and gender in 2005.....248

PART I

REVIEW OF ECONOMIC PERFORMANCE

Introduction to Part One

Part I of this Report focuses on the performance of the Ethiopian Economy during 2004/05. This will cover the overall performance of the macro-economy and the various sub-sectors that include agriculture, industry and specific aspects of the social sector. The main aim of Part I is to highlight developments in the main aggregates of the economy during the year in review.

While the first Chapter of Part I will examine the various indicators of macro-economic performance ranging from nominal to real aggregates of the economy, the remaining chapters will delve into the various aspects of agricultural, industrial and social progress made (or lack there of) during the year in review. After a review of the economic developments during the period in Part I, Part II (the selected theme of this year's Annual Report) will investigate in more detail the various aspects of the Ethiopian labour force both in terms of its characteristics and its role in the economy.

Chapter 1

Macroeconomic Developments

1.1 Introduction

The First Chapter of the Report will focus on recent developments in macroeconomic aggregates. As such it will examine sectoral and aggregate growth rates, structural change and the over all performance of the economy. And in terms of scope, it will attempt to cover all aspects of the economy ranging from the productive, service, and financial sectors. Even though the main focus of the Chapter is on the performance of the major aggregates of the macro-economy, selected sub-sectors will also be examined in some detail. Further, recent developments are examined relative to some historical trends to help gauge the extent to which the economy showed any progress (or lack there of) over time.

Following this brief introduction, Section 1.2 examines the performance of the total macro-economy and the specific supply side sectors that include agriculture, industry and the service sectors. The performance of the sub-sectors in each of the above major sectors is also briefly examined to adequately describe the role of the sector in GDP. The sub-section highlights the following major points. First, real GDP grew by a healthy margin in 2004/05 though by a lower rate relative to 2003/04; second, the share of agriculture in GDP is still dominant, though marginally declined as has been the trend over the last few decades; and, third, the overall growth in GDP is spear-headed by the growth in the agricultural sector (owing to its dominance) as was the case in previous years; fourth, the growth rate of the industrial sector has been stable and its performance (as measured by its contribution to employment and output) has not changed much during the year in review; And, fifth, as has been the case since the liberalization period

of 1991/92, the services sector in general and the 'other services' sub-category in particular, registered a noticeable rate of growth and hence in its share of GDP during the review period. A brief outline of the contents of the remaining sub-sections of the first chapter is described below.

Section 1.3 analyzes the size and rates of growth of both saving and investment during the year in review. This is further examined by source (domestic and foreign), by administrative unit (national and regional) and by type of activity for which the investment is allocated. It further reports on the number of new investment projects approved, the size of their capital and the employment opportunities they are expected to create. And finally, the section examines the number of projects implemented and in operation relative to the size of those approved.

Section 1.4 focuses on the foreign sector. It outlines the structure of exports and imports and their respective growth rates during the year in review. Based on the performance of the two sub-sectors it discusses the position of the current account balance and in conjunction with the position of the capital account, it determines the overall balance of the external sector or the balance of payments.

Section 1.5 describes the activities in the monetary sector. That is, it examines the behavior of the monetary aggregates, the structure of interest rates, and the intermediary role of banking institutions in facilitating such activities. In particular, it will highlight developments in the broad money supply and its components, the mobilization of deposits and provision of credit to various users, and the overall monetary stance of the National Bank of Ethiopia during the year in review.

Section 1.6 of the Chapter analyzes the various aspects of the government finance. It describes the various sources of government budget and its allocations. It therefore discusses in detail the relative contributions of domestic (tax and non-tax) and foreign sources to the total revenue-envelop and its relative allocations between current and capital expenditures,

between competing sector activities, and between federal and regional bodies. And based on this analyses it reports the outstanding budget balance for the year in review.

Section 1.7 explores price movements in the economy during the year in review in relation to past trends. It attempts to explain the factors responsible for the price increase that was observed during the year despite the relatively good crop year and at least stable economic environment.

And finally, section 1.8 will briefly conclude by noting the major salient features of the Ethiopian macro-economy.

1.2 Economic Growth Performance

The overall performance of the macro economy, as measured by the GDP growth, was more than satisfactory during the year in review. More specifically, according to the revised national accounts' data, GDP grew by 8.8% only about 3 percentage points less than the preceding fiscal year of 2003/04. As preliminary estimates also suggest that GDP growth for fiscal year 2005/06 is also likely to be positive which will put the Ethiopian economy in a three year consecutive growth trajectory. Nature's collaboration (in terms of timely and adequate rain), some efforts and support for farmers in the form of extension packages and an increase in cultivated land seem to have contributes to this outcome in 2003/04 and 2004/05.

As has been the case in previous years, owing to its size, the performance of the agricultural sector heavily influences the performance of the whole economy. Consequently, the respective 19% and 12% growth rates in agriculture registered in 2003/04 and 2004/05 correspond to the proportional growth rates in GDP during the same years. Such a pattern has also been the case during the last decades in that the performance of the agriculture sector determines the path that the whole economy would take in both its magnitude and direction. This of course is not only due to the dominance of

REPORT ON THE ETHIOPIAN ECONOMY

agriculture but also due the stagnant share of the other sectors, namely industry and services, particularly the former (See Table 1.1 and Figure 1.1 for details).

Further, as noted in previous reports, not only the level and growth rate of GDP but its variability is also influenced by the performance of the agriculture sector. This is mainly because, the non-agriculture sector in general and the industrial sector in particular has had a small share in GDP and its growth rate has moved within a narrow band for the last four decades. Consequently, as more detailed examination of the sub-sectors that will follow will show, the agriculture sector has had a significant influence on the Ethiopian economy for years, both in terms of output share and obviously employment as will be discussed in the Second Part of this Report.

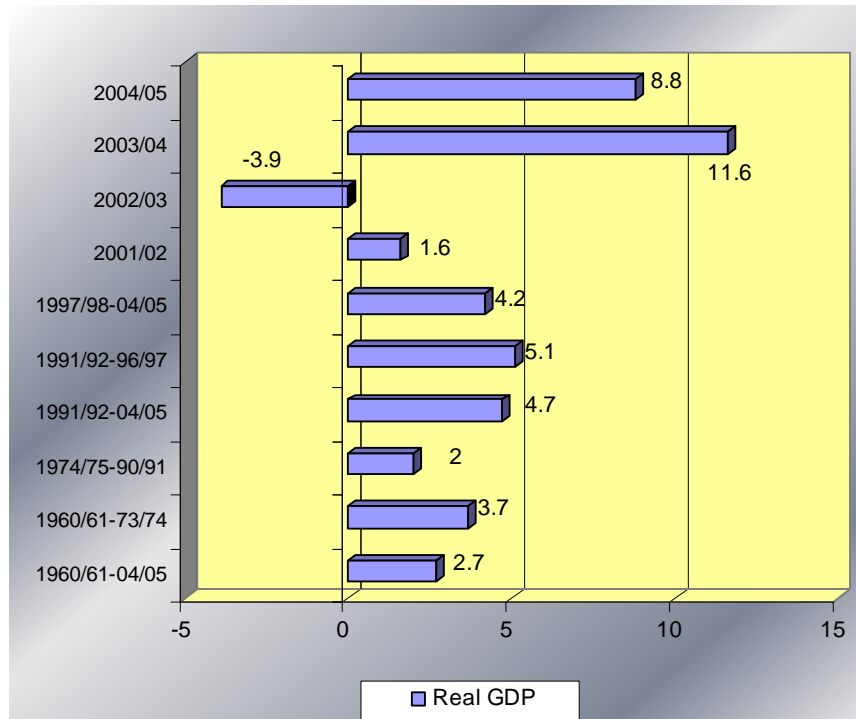
Table 1. 1: Sectoral growth performance`

Sectors	1960/61-04/05	1960/61-73/74	1974/75-90/91	1991/92-04/05	1991/92-96/97	1997/98-04/05	2001/	2002/	2003/	2004/
							02	03	04	05
							Estimate	Estimate	Projection Estimate	Projection Estimate
Agriculture & allied activities	1.4	2.1	0.6	2.3	3.5	2.1	-2.3	-12.6	18.9	12
Industry	3.4	7	3.6	5.7	7.4	5.3	5.8	4.6	6.9	6.6
Distributive services	3.6	7.8	2.5	6.4	8.2	5.5	4.4	3.2	7.6	6.3
Other services	5.8	6.9	4.7	7.6	6.4	7.1	4.6	1.8	6.3	5.4
GDP	2.7	3.7	2	4.7	5.1	4.2	1.6	-3.9	11.6	8.8
Per capita GDP	0.1	1.4	-0.5	1.7	2.2	1.2	-1.2	-6.7	8.7	4.6

Source: Ministry of Finance and Economic Development and staff calculations

Note: Values for 1991/92-96/97, 1997/98-04/05, and single years are simple arithmetic means while other values are computed using time trend.

Figure 1. 1: Growth rates in real GDP



Source: Ministry of Finance and Economic Development

Further, in addition to the aggregate indicators, the Ethiopian economy registered a noticeable increase in per capita income terms during the last two years following a negative growth rate in 2002/03. Even though the growth rate in the overall per capita income registered in 2004/05 is lower (only 4.6%) relative to what was registered in 2003/04 (8.4%), the fact that it still exhibited a positive growth rate for a consecutive year despite the huge population growth rate is encouraging. Similarly, since the economic growth rates at least in the last two years were dominated by the performance of the agricultural sector, the growth rates in agriculture per capita income were particularly high registering a growth rate of about 16% and 8% in 2003/04

and 2004/05, respectively. And corresponding to the relatively slow growth rates in the non-agriculture sector the per capita income grew by only 2.4 and 1.73 per cent during the same years.

A couple of points regarding the movements in per capita income indicators are worth highlighting. First, the urban-rural divide in terms of improvements in per capita income has been significant in the last two years and the preliminary indications are it is likely to continue into 2005/06 for the following reasons: a relatively better performance in the agriculture sector; a more government emphases in favor of the rural sector, for instance in the form credit facilities and similar packages; a more increase in population in urban areas owing to rural-urban migration; and the relatively weak performance of the non-agriculture sector.

Table 1. 2: Total and sectoral per capita income - (growth rate-%)

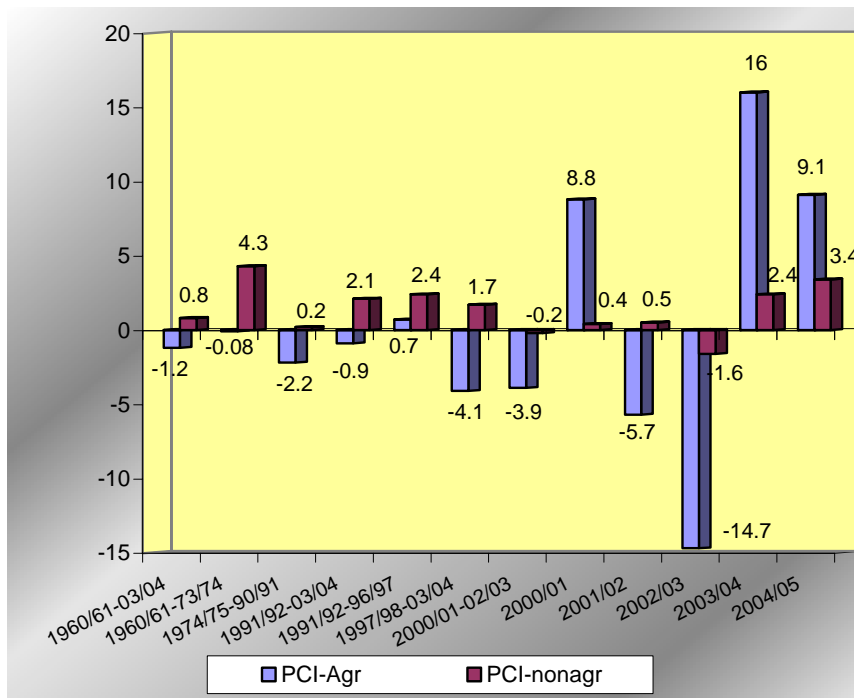
Period	GDP	PCI	PCI-AGRI	PCI-NON AGRI
1960/61-04/05	2.7	0.1	-1.2	0.9
1960/61-73/74	3.7	1.4	-0.08	4.3
1974/75-90/91	2	-0.5	-2.2	0.2
1991/92-04/05	4.7	1.7	-0.4	2.2
1991/92-96/97	5.1	2.3	0.7	2.4
1997/98-04/05	4.5	1.5	0.4	1.1
2002/03-04/05	5.5	2.2	3	0.9
2001/02	1.6	-1.2	-4.8	0.4
2002/03	-3.9	-6.6	-14.8	-1.5
2003/04	11.6	8.4	15.9	2.4
2004/05	8.8	4.6	8	1.7

Source: Ministry of Finance and Economic Development, Central Statistical, Authority and Staff compilation.

Note: - The growth rates for the periods 1960/61 - 2004/05, 1960/61 - 1973/74, 1974/75 - 1990/91, 1991/92 - 2004/05 and 1997/98 - 2004/05 are based on a time trend whereas the rates for the remaining years are simple arithmetic means.

Second, as has been the case over the last decades or so, the growth rate of the population (as measured by fertility rate) is still high which is undermining the economic progress made. And, third, given both the age structure of the population (with a high proportion in the child bearing age) and the attitude towards having children, the problem of population pressures on the existing available resources and any significant dent on the below subsistence level of income per capita seems a long way off. Table 1.2 and Figure 1.2 both clearly show how small the income per capita has been in Ethiopia over the last decades regardless of what sectors or time periods are used to disaggregate over time.

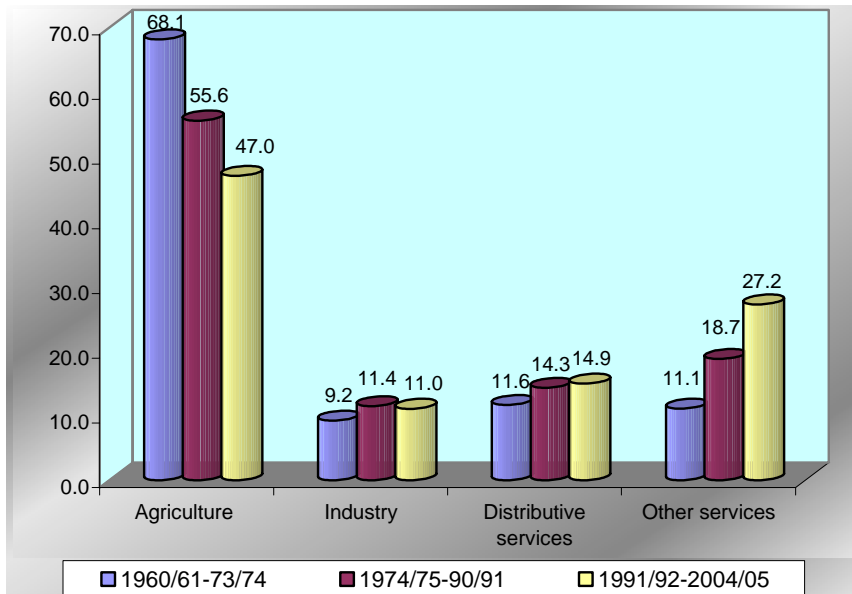
Figure 1. 2: Growth rates in per capita income



Source: Ministry of Finance and Economic Development

Another salient feature of the Ethiopian economy is that its structure has remained more or less constant over the years, except a slight decline in the share of agriculture. As noted in Figure 1.3, agriculture still plays a dominant role both in terms of its contribution to GDP and to employment. In terms of employment, no accurate historical data is available but recent survey¹ suggests that about 88% of the active population lives in the rural areas while the remaining 12% lives in the urban areas, suggesting that a bulk of the Ethiopian work force is mainly engaged in agriculture. In fact the same recent survey suggests that due to the relatively low open unemployment rate in the rural areas, 89.4% of the employed population lives in the rural areas while the remaining 11% live in urban areas.

Figure 1. 3: Composition of real GDP



Source: Ministry of Finance and Economic Development

¹ The Federal Democratic Republic of Ethiopia, Central Statistical Agency "Report on the 2005 National Labour Force Survey," Addis Ababa, May 2006, Statistical bulletin 365.

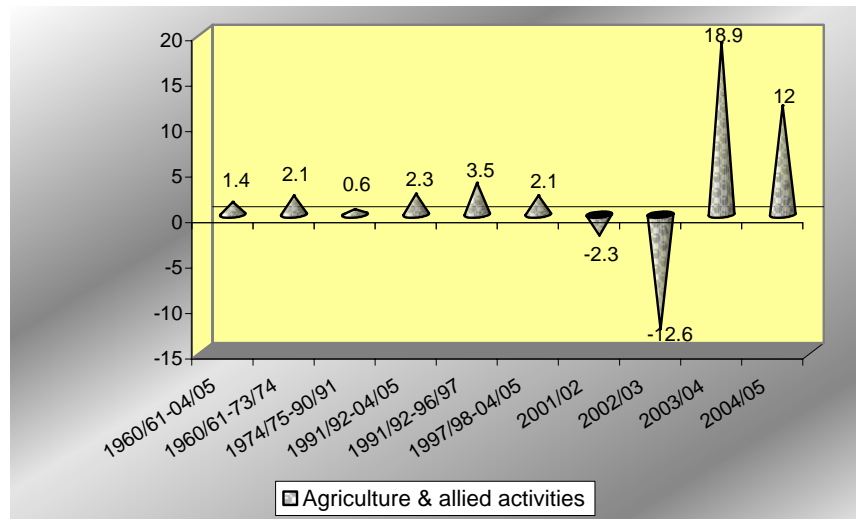
Similarly, agriculture contributed more than 60% to GDP until the mid 1970s and about 50 per cent since then. The disproportionate labour-output ratio implied by the above figures is unmistakably skewed as about 90 per cent of the employed labour force is producing only about 47% of GDP.

On the other hand, the role of industry has always been minimal. In 2004/05 the contribution of industry to GDP was about 11% and only slightly increased in almost over the last three to four decades. The role of the service sectors has steadily increased over the last decade following the liberalization measures undertaken in the last fifteen years. By 2004/05 the share of the services sector in GDP reached about 42 per cent with the 'other services' sector accounting for about 27 percent of the total share (see Figure 1.3, for more details).

1.2.1 The Agricultural Sector

Owing to its size, the influence of the agriculture sector on the Ethiopian economy is overwhelming. In short, it influences the growth, variability and hence the future path of the economy both in terms of its impact on output and overall employment. Consequently, the performance of the economy is a mirror image of the performance of the agriculture sector and the latter on the availability of suitable weather conditions in a given year. The performance of the agriculture sector and hence the economy in the last three years is a case in point. After a 12.6 per cent decline in agriculture output in 2002/03 due to drought, the agriculture sector bounced back with positive growth rates of 18.9 and 12% in 2003/04 and 2004/05, respectively. These resulted in a corresponding GDP growth rates of negative 4 and positive growth rates of 11.6 and 8.8% during the respective years. And since the weather conditions in 2005/06 was also relatively good, the performance of the agriculture sector and hence the overall economy is expected to either be better than or at least as good as the last two fiscal years.

Figure 1. 4: Growth rates in the value added of agricultural sector



Source: Ministry of Finance and Economic Development and Staff computations

It seems difficult to single out one specific factor as the main reason for the improvement of agriculture during the last three years. But it is possible to identify a few candidates as the main determinants that might have contributed to its improvement. First, as the sector is still dominantly dependent on the availability of rain, relatively suitable weather conditions in the last three years significantly contributed to relatively better harvest years. Second, efforts to provide farmers with selected seeds, fertilizers, and expert advice other provisions via a package of extension programs probably positively contributed to the performance of the agriculture sector. Third, in most cases, area expansion (increases in cultivated land) rather than productivity contributed to the increase in output. And, fourth, though difficult to quantify it is possible that the upward movements in the price of agricultural commodities might have served as an incentive for farmers to produce more in the last two years. But it has to be stressed again that the improvements in the last three years rests squarely on the cooperation of nature while the other factors served as necessary conditions. It is true that

some improvements in water harvesting and marginal increases in irrigation have been made in recent years that might have contributed to increases in agricultural output, but all other factors are marginal as Ethiopian agriculture still remains dominantly rain-fed.

1.2.2 The Industrial Sector

As noted in previous Annual Reports, the Ethiopian industrial sector has been small and showed no appreciable growth over the last four decades. The share of industry, broadly defined, has ranged between 9 and 11 per cent of GDP since the early 1960s. Worst yet, though relatively stable, the growth rate of the industrial sector has also been modest, never exceeded 7 per cent over the last four decades, except during the recovery years of 1991/92-96/97. As noted in Figure 1.5, the average growth rate for the last four decades was only about 3.4 per cent. And the average for the Imperial regime (1960/61-73/74) was about 7 per cent, for the Military regime (1973/74-1991/92) it averaged about 3.6 and during the EPRDF regime (1991/92-2004/05) it averaged about 6 per cent. Both due to its small size and low growth rate, therefore, the contribution of the industrial sector to both GDP and employment have been marginal.

The industrial sector is dominated by three sub-sectors which constitute about 81 per cent of the total industrial output. These three sectors are large & medium scale industries (38%), construction (25%) and small scale industries & handcrafts (18%) of the total. The smallest sub-sectors are again electricity and water and mining & quarrying which constituted about 15 and 4 per cent of total industrial output, respectively.

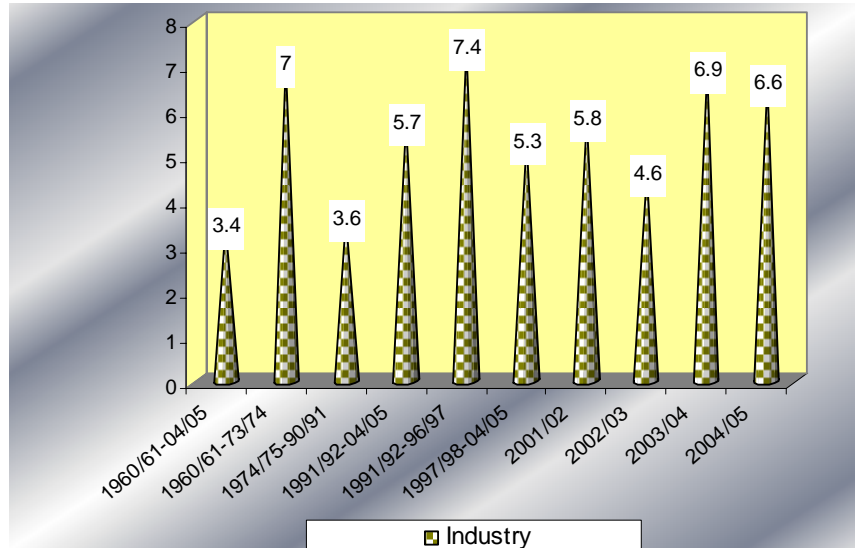
And in terms of growth rate within the sector, the construction sector has recorded the highest average growth rates both over the last five and three years while the small scale industries & handcrafts has recorded the highest average growth rate over the last fifteen years. As noted in Table 1.3, while the overall growth of the industrial sector was modest, mining & quarrying and the construction sub-sectors registered an impressive growth rate in the last five years.

Table 1. 3: Growth performance in the industrial sub-sectors

Sub-Sectors	Share in Sector	Share in GDP	Growth				
	1991/92-2004/05	1991/92-2004/05	1991/92-2004/05	2001/02-04/05	2002/03	2003/04	2004/05
Industry	100	11.3	6.2	6.0	4.6	6.9	6.6
Mining & Quarrying	4.4	0.5	7.2	6.2	4.1	6.5	8.0
Large & Medium Scale Industries	38.0	4.6	8.0	5.3	5.0	6.0	5.0
Small Scale Industries & Handcrafts	17.6	2.1	4.4	4.0	0.1	7.0	5.0
Electricity & Water	14.9	1.8	4.0	5.8	4.3	7.1	6.0
Construction	25.1	3.0	6.5	8.0	7.4	8.2	8.5

Source: Ministry of Finance and Economic Development and staff calculations

Figure 1. 5: Growth rates in the value added of the industrial sector



Source: Ministry of Finance and Economic Development and staff calculations

1.2.3 The Service Sector

This sector constitutes two major sub-sectors, namely, distributive services and the 'other' service sectors. Distributive services include trade, hotels & restaurants and transport & communication; and the other service sector is composed of banking & insurance, public administration and & defense, education, health and domestic and other services. Over the last fifteen years, trade, hotels & restaurants and public administration & defense have had dominant shares in their respective sub-sectors. On the whole, the share of the service sector in GDP has reached about 43% in the last 15 years, making it the second largest sector in the economy after agriculture.

Table 1. 4: Growth performance in sub-sectors of the distributive service sector

Sub-Sectors	Share in Sector	Share in GDP	Growth				
	1991/92-2004/05	1991/92-2004/05	1991/92-2004/05	2002/03-2004/05	2002/03	2003/04	2004/05
Distributive Services	100	15.2	6.6	3.2	3.2	7.6	6.3
Trade, Hotels, & Restaurant	58.1	8.5	6.5	4.4	0.6	6.5	6.0
Transport & Communication	41.9	6.1	7.2	7.5	6.7	8.9	7.0

Source: Ministry of Finance and Economic Development and staff calculations

The two sub-sectors of the service sector had registered a significant growth following the reform period that started in the early 1990s, but that growth rate seems to have slowed down a bit in 2004/05. In 2004/05 the growth rates of both sub-sectors declined by a percentage point from a peak of 7.6% for distributive services and 6.3 for the 'other service' sector in the preceding year of 2003/04. Public Administration & defense registered the highest

average growth over the last fifteen years due to the high expenditure in the late 1990s owing to the border conflict with Eritrea, but during the last five years expenditure allocated for education was the highest which recorded an average growth rate of 11 per cent.

Table 1. 5: Growth performance in sub-sectors of the "other services" sector

Sub-Sectors	Share in Sector	Share in GDP	Growth Rates				
	1991/92-2004/05	1991/92-2004/05	1991/92-2004/05	2002/03-2004/05	2002/03	2003/04	2004/05
The "Other" Service Sector	100	27.4	6.8	4.5	1.8	6.3	5.4
Banking & Insurance	25.8	7.5	5.7	5.3	4.6	4.9	6.5
Public Administration & Defense	42.9	13.2	8.5	2.6	-1.8	6.5	3.0
Education	9.7	2.8	6.9	12.0	13.0	12.0	11.0
Health	4.3	1.3	7.7	5.6	0.8	8.0	8.0
Domestic & Other Services	17.3	5.1	4.6	3.7	3.2	3.8	4.2

Source: Ministry of Finance and Economic Development and staff calculation.

1.3 Saving and Investment

The focus of this sub-section is to examine the behavior of saving and investment in terms of their historical behavior and growth. This is intended to capture the extent to which the economy is vulnerable to saving and investment gap which is a hall-mark of a resource constrained economy like that of Ethiopia. To accomplish this task the sub-section will first examine the extent to which saving mobilization efforts have been successful and then it

will examine the investment sub-sector. The size and the rate at which savings have been mobilized relative to the amount of investment that has been realized then determines the extent of the resource gap, if any.

1.3.1 Saving

Gross domestic saving as a ratio of GDP has been very low in Ethiopia both from a historical perspective and relative to similar economies. For instance, the average gross domestic saving to GDP over the last fifteen years has been about 4.1 per cent and the average for the last three years has been about 2.6% in Ethiopia. Consequently, a respective average resource gap of 14 and 19% as shares of GDP were registered during the same period.

This is partly due to the subsistence nature of the economy in which total consumption constitutes a significant share of GDP. For instance, during the above periods total consumption averaged about 96%, exhausting almost the entire GDP and leaving very little or a small fraction for capital formation or future growth. During the year in review (2004/05) gross domestic saving slightly improved reaching about 2.6% of GDP but still lags behind investment expenditures resulting in negative resource gap that amounts to -13.9.

As Table 1.6 shows, the gap between investment and saving resulted in dependence of the economy on foreign resources to fill the gap. For instance, the share of foreign sources in financing gross fixed capital formation constitutes more than 50% over the last twelve years except during the year in review. During the last twelve and three years, the share of foreign sources that finance investment averaged more than 70%. These clearly show both the inadequacy of domestic sources in financing investment activity and the degree of dependence of the economy on foreign sources. As the last column of Table 1.6 further shows this is reflected in the extent of the external debt that the country owes to foreign sources. Gross external debt slightly decreased relative to historical levels (exceeding 80% of GDP on average) during the year in review probably because the significant reduction in debt burden via the debt

relief emanating from the HIPC initiative. Consequently, unlike previous years, the external debt to GDP ratio in 2004/05 was reduced to only 54%. This is a significant improvement in the debt burden even though still high relative to the capacity of the economy to finance it.

Table 1. 6: Gross domestic savings (GDS), gross fixed capital formation (GFCF), and the resource gap (as share of GDP)

Year	GDS	GFCF	Resource Gap	Share of GFCF Financed from Foreign Sources	Consumption			Debt Service Ratio	Gross External Debt
					Total	Gov.	Private		
1993/94	5.03	15.16	-10.1	66.6	95	11.1	84	56.9	90.8
1994/95	7.43	16.44	-9.01	54.8	92.6	11.9	81	30.2	81.8
1995/96	6.99	16.88	-9.89	58.6	93	11.2	82	34.9	71.4
1996/97	7.71	17	-9.29	54.6	92.3	10.9	81	49.8	63.9
1997/98	7.73	17.15	-9.42	54.9	92.3	13.9	78	15.1	62.2
1998/99	2.14	16.94	-14.8	87.4	97.9	18.7	79	18.2	64.7
1999/2000	0.9	15.85	-15	94.6	99.1	23.8	75	25.2	83.9
2000/01	2.65	17.79	-15.2	85.4	97.4	20.1	77.3	22.2	85.35
2001/02	1.8	20.4	-18.6	91.2	98.2	22.3	75.9	15.4	102.04
2002/03	2.3	20.5	-18.2	88.8	102.1	23.8	73.9	22.3	102.65
2003/04	2.8	22.6	-19.8	87.6	97.2	21.8	75.4	17.04	102.65
2004/05	2.6	20.5	-18.4	87.4	97.4	13.8	83.7	9.9	54
Average (1993/94-2004/05)	4.1	18.1	-13.9	76	96.1	16.9	78.7	26.4	80.4
Average 2002/03 - 2004/05	2.6	21.2	-18.8	87.9	98.9	19.8	77.7	16.4	86.4

Source: MoFED, National Bank of Ethiopia, and Staff compilations

1.3.2 Investment

As noted in our previous Annual Reports, the volume and the diversity of private investment has been on the increase since the introduction of economic liberalization measures in the early 1990s. Unlike in the previous government in which investment activity was mainly carried out by the public sector, both domestic and foreign private sector firms have been actively participating in the investment sector of the economy since the reform of the early 1990s. Accordingly, during the year in review a total of 3105 new investment projects with a total capital of about Birr 43 million were approved. Compared to the preceding fiscal year (2003/04), the total number of approved investment projects and the total capital during the year in review were about 36% and 97% higher, respectively.

Most of the total approved projects and the mobilized capital originated from the private sector. Accordingly, the total approved projects during the year in review were comprised of 2480 domestic and 615 foreign private firms while only the remaining 10 projects were initiated by the public sector. And in terms of approved capital, domestic, foreign and public firms planned to raise about 21 million (49%), 16 million (37%) and 6 million (15%), respectively, during the year in review clearly showing the dominance of the private sector in general and the domestic component of the private sector in particular.

Further, in terms of employment creation and capital intensity of the approved projects, the total projects approved intended to create about 141 thousand permanent and about 607 thousand temporary employees during the year in review. Relative to the preceding fiscal year, while capital and the number of temporary employees per project increased by a significant margin during the year in review, the number of permanent employees per project declined by about 12%. In particular, foreign firms tend to be more capital intensive and tend to hire more permanent employees per project than domestic firms, even though the domestic firms dominate in terms of the size of overall capital and employment creation in both categories (permanent and temporary employment). For instance, the share of domestic firms in the total employment to be created during the year in review was 59% of the permanent employees and 73% of the temporary employees while the share of foreign firms was 38% permanent and 11% of temporary employees.

Further, as was the case in 2003/04, the industrial sector attracted more investment than any other sector as measured in terms of the number of projects approved, the size of the total volume allocated, and in the number of permanent employment created. Accordingly, out of the total investment about 31% of the projects and 27% of the capital was allocated for industry while about 17% of the projects and 19% of the total capital was invested in the Agricultural sector. The third largest investment activity that attracted about 16% of the total projects and about 13% of the total capital invested during the year in review was construction machinery leasing. And corresponding to the choice of sectors and the volume of capital allocated, about 36% of the permanent employment and 4.3% of temporary employment were planned to be created in the industry sector, while the share of the agriculture sector was expected to be 30% of the total permanent employment and 15% of the temporary employment. (For further details see Tables 1.7 – 1.9).

Table 1. 7: Number, investment capital & employment creation of domestic private investment projects approved by sector, from 1 Hamle 1996 – 30 Sene 1997 E.C.

Sectors	No of Project	Capital (in millions)	Permanent Employment	Temporary Employment
Agriculture	369	1703.91	12568	376251
Mining & Quarrying	2	16.28	43	60
Manufacturing	763	6260.36	37448	23616
Electricity Supply	3	5.61	12	114
Construction	127	522.32	3303	14007
Construction machinery leasing	440	5328.25	5472	2737
Real Estate	171	3571.29	4264	12097
Trade	63	307.54	1624	2957
Hotel & Tourism	252	1048.7	7008	4329
Transport & Storage	19	44.49	268	370
Education	190	759.83	7727	4805
Health	39	348.75	1807	1109
Other Businesses	42	787.39	1032	548
Grand Total	2480	20704.72	82576	443000

Source: Ethiopian Investment Agency

It has to be noted that the above paragraphs described the investment initiatives that were approved by the Investment Authority during the year in review. But obviously for a host of factors what was approved during that year may not start operation or even full implementation of the project approved. Accordingly, out of the total previously approved projects only about 178 with a capital of about Birr 3 billion that were able to create about 13,119 permanent and 14,202 temporary employees were at the implementation stage during the year in review. About 73% of the projects with a capital share of about 39% were implemented by domestic firms while 26% of the projects with a capital share of 61% were implemented by foreign firms.

Table 1. 8: Number, investment capital & employment creation of foreign investment projects approved by sector, from 1 Hamle 1996 - 30 Sene 1997 E.C.

SECTOR	No of Project	Capital (in millions)	Permanent Employment	Temporary Employment
Agriculture	144	6409.16	29672	44578
Mining & Quarrying	1	22.32	8	0
Manufacturing	212	5129.77	13289	8652
Electricity Supply	1	0.87	10	10
Construction	26	726.53	1253	4798
Construction machinery leasing	61	356.32	807	349
Real Estate	30	669.05	1465	4368
Trade	16	93.12	256	208
Hotel & Tourism	55	663.58	2106	1220
Transport & Storage	1	4.15	15	0
Education	21	406.29	1207	439
Health	12	940.92	2220	246
Other Businesses	35	221.64	314	217
Grand Total	615	15643.72	52622	65085

Source: Ethiopian Investment Agency

On the other hand, about 324 projects with a total capital of about Birr 3 billion and an employment creation capacity of about 11 thousand permanent and 20 thousand temporary were fully operational during the 2004/05 fiscal year. Out of these about 65% of the projects with a capital share of about 47% and with about 44% of the permanent and 53% of the temporary workers were owned by the domestic firms while 35% of the projects with a capital share of about 53% of the total and with an employment creating capacity of about 56% of permanent and 47% of the temporary employees were made operational during the year in review. Few points that characterize domestic in contrast to foreign investment are worth highlighting. First, more investments projects are approved by domestic firms compared to foreign firms while the capital per project tends to be higher for foreign firms; second, more projects approved by domestic firms seem to be faster implemented and made operational than foreign firms (may be due to the capital intensive nature of the project); fourth, domestic firms tend to hire more temporary works while foreign firms tend to hire more permanent employees.

Table 1. 9: Number, investment capital & employment creation of total investment projects approved by sector (from 1 Hamle 1996 - 30 Sene 1997 E.C.)

Sector	No of Project	Capital (in millions)	Permanent Employment	Temporary Employment
Agriculture	513	8113.4	42240	90236
Mining & Quarrying	3	38.60	51	368
Manufacturing	976	11393	50762	26320
Electricity Supply	12	5537.49	128	244
Construction	154	2089.10	10094	12275
Construction machinery leasing	501	5684.57	6279	1539
Real Estate	201	4240.34	5729	4669
Trade	79	400.66	1880	3165
Hotel & Tourism	307	1712.28	9114	5549
Transport & Storage	20	48.64	283	370
Education	211	1166.12	8934	5244
Health	51	1289.67	4027	1355
Other Businesses	74	1009.03	1346	765
Grand Total	3105	42722	140867	608690

Source: Ethiopian Investment Agency

Table 1. 10: Number, investment capital & employment creation of investment projects under implementation and operation by type (1 Hamle 1996 - 30 Sene 1997 E.C.)

Investment Type	Implementation				Operation			
	Number	Capital (in '000 Birr)	Permanent Employment	Temporary Employment	Number	Capital (in '000 Birr)	Permanent Employment	Temporary Employment
Domestic	130	1,121,650	7,035	9,165	209	1,409,895	4,797	10,713
Foreign	47	1,760,259	5,984	4,977	115	1,602,248	6,039	9,424
Public	1	16,300	100	60				
Grand Total	178	2,898,210	13,119	14,202	324	3,012,143	10,836	20,137

Source: Ethiopian Investment Agency

In summary, as could be seen from Table 1.10, there were about 500 projects with a capital of Birr 5.9 billion in the process of being implemented or that had reached the operational stage during the year in review. These projects planned to create about 24 thousand permanent and about 58 thousand temporary employees. It is interesting to note that while the number of projects that are at the implementation and operation stage during the year in review was much smaller than the preceding year (2003/04), the total capital of these projects was much higher during the fiscal year in review.

1.4 The External Sector

The focus of the next sub-section is the external sector of the economy. This will cover the changes in the growth and composition of exports, imports and the resultant balance of merchandise trade position of the country during the year in review. It will also examine the capital account position and hence the overall balance (or the balance of payments position) during the fiscal year 2004/05.

Following the recovery that started about three years ago, the value of total exports has increased consecutively for the last three years. That is, the value of exports grew by 7.2, 26.6, and 36.6% in fiscal years 2002/03, 2003/04, and 2004/05, respectively. As a single commodity, coffee is still dominant in terms of its share in the total value of exports even though it has declined from its peak in early years when it was above the 50% range.

As was the case for total exports, the recovery in the value of coffee exports also started about three year ago and continued until the year in review (2004/05). During the year in review, it grew by 50.1% compared to the 36% growth registered in 2003/04 and by 102.93% compared to 2002/03. The increase in the value of coffee exports is due to both a significant improvements in the unit price of coffee at the international market and the increase in the volume of exports. The unit price of coffee at the international market increased from USD 1.43/KG in 2003/04 to USD 2.08/KG (or 48% increase) in fiscal year 2004/05.

Table 1. 11: Growth rate and structure of exports

Year	Annual Growth Rates of Exports(Value)			Percentage Shares	
	Coffee	Non-coffee	Total	Coffee	Non-coffee
1995/96	-4.2	-14.8	-8	66.1	33.9
1996/97	33.8	79.4	49.3	59.3	40.7
1997/98	25.2	-21	6.4	69.8	30.2
1998/99	-26.9	21.8	-12.2	58.1	41.9
1999/00	1	19.7	8.8	53.9	46.1
2000/01	-28.8	28.6	-2.3	39.3	60.7
2001/02	-8.3	5.3	-0.1	36.1	63.9
2002/03	1.8	10.3	7.2	34.2	65.8
2003/04	35.8	21.8	26.6	36.7	63.3
2004/05	50.1	27.9	36.5	41.0	59.0

Source: National Bank of Ethiopia

On the other side of the merchandize trade, the value of imports during the year in review increased from USD 2586 million in 2003/04 to USD 3633.3

million in 2004/05. This represents a growth rate of 40.5% relative to fiscal year 2003/04 and 95.7% relative to fiscal year 2002/03. The increase in the value of imports was partly due to an increase in the volume of goods imported but it was mainly due to the increase in the price of some imported items such as raw materials and fuel products at the international market.

Among the imported items, imports of raw materials, imports of fuel, imports of capital goods and imports of consumer goods grew by 89%, 115.4%, 118.2% and 50.7%, respectively, during 2004/05 relative to 2003/04. Clearly, in addition to the increase in the imported goods during the year in review there was also an increase in the volume of goods imported due to the expansion in sectors that use capital goods. For instance, about 67% of the capital goods imported are industrial goods and the expansion in the real estate sector also resulted in imports of construction related materials. It is also worth noting that the simultaneous increase in both volume of goods imported and their prices suggests that likely to be price inelastic

Similarly, the value of non-coffee exports significantly improved during the year in review relative to the last two years. In particular, the value of non-coffee exports grew by about 28% in 2004/05 while it only grew by 10.3 and 21.8% in fiscal years 2002/03 and 2003/04, respectively. The movement in the international price of the non-coffee exports was mixed. While the prices of some items declined (pulses, and oilseeds, for instance) that of others increased (meat and meat products, and gold, as an example) during the year in review. The growth in the value of non-coffee exports in 2004/05 was, therefore, mainly due to an increase in the volume of items exported.

As was the case in 2003/04, the composition of imports indicate that more than half (about 53%) of total imports during the year in review were also related to the expansion of broad industrial activity. As indicated in Table 1.12, imports of capital goods (33%) and imports of semi-finished goods (18.3%), had the first highest and the third highest share in total imports during the year in review. The share of consumer goods slightly decreased to 27% in 2004/05 than its share of 35% in 2003/04, but is still had the second

highest share in total imports. As would be expected given the attendant international prices and the economic expansion in the domestic economy, the increase in the share of fuel from 12% in 2003/04 to more than 18% of total imports in 2004/05 is significant.

Table 1. 12: Percentage share in total import value

Year	Raw Materials	Semi-finished Goods	Fuel	Capital Goods	Consumer Goods	Miscellaneous
1995/96	2.5	17.5	12.9	35.9	27.1	4.1
1996/97	2	19.2	18.4	38.8	20.6	0.9
1997/98	2	16.4	24.4	29.8	19.7	7.7
1998/99	1.7	16.8	11.4	33.7	28.1	8.3
1999/00	1.2	12.7	15.5	29.2	26.8	14.5
2000/01	1.5	18.3	18.8	28.6	30.1	2.8
2001/02	1.8	17	15.8	28.3	34.6	2.5
2002/03	1.2	14.8	15.5	29.6	35.2	3.7
2003/04	1.3	18.1	12.2	31.6	35.1	1.5
2004/05	1.4	18.3	18.4	33.0	27.1	1.8

Source: National Bank of Ethiopia

Following the huge jump in the total value of imports relative to the increase in exports, the balance in merchandise trade worsened and recorded a deficit of USD 2815.9 million (25.2% of GDP) during the year in review relative to USD 1985.7 million (24.7% of GDP) in 2003/04. To make things worse, the current deficit that includes official transfers also doubled in 2004/05. Consequently, since the deficit in the current account balance more than offset the USD 585 million surplus in the capital account, the balance of payments position of the country registered a deficit of USD 101.4 million (0.9% of GDP) in 2004/05 relative to a surplus of USD 226.7 million (1.8% of GDP) in 2003/04. (See Table 1.13, for details).

Table 1. 13: BOP indicators as a percentage of GDP

Indicators	1996/97	1997/98	1998/99	1999/00	2000/01	2001/02	2002/03	2003/04	2004/05
Exports	9.4	9.2	7.5	7.4	7.1	7.5	7.3	7.6	7.3
Imports	20.5	20.8	24.2	24.7	23.9	28	28	32.6	32.5
Trade Balance	-11.1	-11.6	-16.5	-17.2	-16.8	-20.5	-20.7	-25.0	-25.2
Net Services	1.6	1.4	1	1.5	1.2	1.7	1.8	3.1	2.2
Net Private Transfers	4	4.9	4.5	6.3	5.8	5.8	7.5	8.2	7.2
Net Public Transfers	3.5	4	3.3	4.5	6.1	7.2	9	7.1	6.8
Current Account Deficit (Including Public Transfers)	-5.5	-5.23	-11.1	-9.4	-9.8	-13.1	-11.4	-6.7	-9.1
Current Account Deficit (Excluding Public Transfers)	-9	-9.3	-14.4	-13.9	-15.8	-20.3	-20.5	-13.7	-15.9
Non-Monetary Capital	-2.5	1.3	3.6	2.1	4	8.4	4.6	3.0	5.3
Overall Balance	-6.2	-0.3	-0.7	-4.8	-0.8	5.1	4.6	1.8	-0.9

Source: National Bank of Ethiopia

Other developments in the external sector of the economy worth noting include: movements in the exchange rate, the reserve position of the country and changes in the stock of external debt during the year in review. As per the inter-bank foreign exchange market, the value of the domestic exchange rate slightly depreciated (by 0.372%) to 8.65 per USD during the year in review relative to fiscal year 2003/04 while the parallel market exchange rate depreciated by a corresponding 0.414% during the same period. Consequently the spread between the official and the parallel markets increased from 0.64% in 2003/04 to 0.68% in 2004/05. Similarly, reversing the reserve build-up recorded in the last two years, the net reserve position of the country declined by USD 17.6 million in 2004/05. This is mainly attributed

to the decline in the reserve position of commercial banks following the surge in imports that they were financing which offset the USD 52.8 million net reserve build up by the National of Ethiopia (NBE) during the period. On the external debt side, the stock of the country's external debt declined by 16.4% in fiscal year 2004/05 relative to fiscal year 2003/04 owing to the HIPC debt relief initiative. Or to put it differently, the stock of external debt to GDP declined from 73.4% in 2003/04 to 53.8% of GDP in 2004/05.

1.5 Developments in Monetary Aggregates

This section briefly assesses the performance of the monetary sector during fiscal year 2004/05 in comparison to aggregates registered in previous years in general and in 2003/04 in particular. The variables of interest in the monetary sector include the flow and stock of money supply and demand aggregates, the interest rate and the overall activities of the banking sector. That is, the overall intermediation activities of the banking sector will, therefore, be briefly examined.

Broad money supply grew from about Birr 35 billion in 2003/04 to about 40.2 billion (about 16% annual growth) in 2004/05. The growth in broad money supply was composed of the respective growth rates of narrow money supply (by about 18% and quasi money by about 21.4%) during the period. The share of the two components was stable during fiscal years 2003/04 and 2004/05, with narrow money supply exceeding by about 10 percentage points.

Similarly, as Table 1.14 shows, the mirror image of total broad money supply from the liability side which is mainly composed of domestic credit and net foreign assets also grew by 29.5 and 6.7%, respectively, during the year in review. Of the two components of broad money, domestic credit has had the most dominant share, at least over the last few years, which exceeded more than 85% of total money supply. And within the domestic credit, the share allocated for the central government slightly declined (from about 62 to 54%)

during fiscal year 2004/05 relative to fiscal year 2003/904, respectively, but still maintained the larger share in the total domestic credit.

Table 1. 14: Determinants of money supply (in billions of Birr)

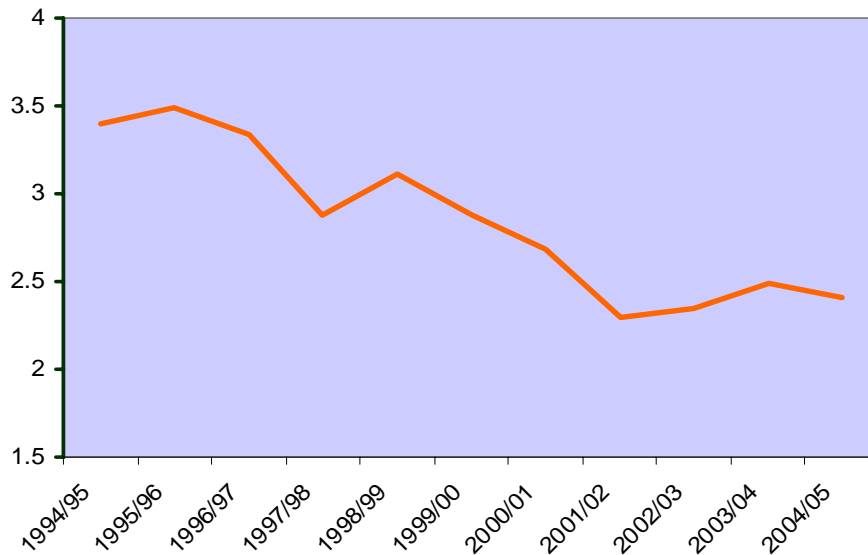
	1998/99	1999/2000	2000/01	2001/02	2002/03	2003/04	2004/05
Domestic Credit(Net)	20.1	26.3	24.6	27.5	28.8	31.1	40.3
Claims on Government(net)	9.6	14.8	13.1	16	17.2	19.2	21.8
Claims on Other Sectors	10.5	11.5	11.5	11.5	11.6	11.9	18.6
Net Foreign Assets	6.1	4.8	4.7	7.8	11	13	13.9
Other Items	-6.8	-8.9	-2.4	-8	-9.3	-9.1	-14
Broad Money Supply	19.4	22.2	31.7	27.3	30.5	35	40.2
Annual Percentage Change							
Domestic Credit(Net)	8.5	30.7	-6.3	11.9	4.6	8.1	29.5
Claims on Government(net)	8.2	54.2	-11.5	22.2	7.8	11.4	12.9
Claims on Other Sectors	8.8	9.4	0.3	0.1	0.2	3.2	56.1
Net Foreign Assets	4.4	-21.6	-0.8	65.3	40.1	18.6	6.7
Broad Money Supply	4.4	14.3	42.9	-13.8	11.5	15	16

Source: National Bank of Ethiopia

And in terms of growth rates during the year in review, total credit channeled to central government grew from 11.4% in 2003/04 to 12.9% in 2004/05 while that of the private sector grew from 3.2% in 2003/04 to 56.1% during the year in review. This shows that other sectors, in effect the private sector, is beginning to emerge as an important client of the banking sector as this probably is a sign that the private sector is expanding further and playing an increasingly bigger role in the Ethiopian economy if the observed shift is to persist in the coming years. The expansion in economic activity (such as the increase in investment, imports and in other sectors) discussed in previous

sub-sections and the relatively active participation of the private sector in those activities seems to support this conjecture.

Figure 1. 6: The income velocity of money



Source: National Bank of Ethiopia

It is further worth noting, while broad money supply (particularly the component of credit to the private sector) noticeably increased during the period, this growth was not exacerbated by an increase in the money multiplier² or the velocity of money³, as both remained almost the same during the year relative to the last two fiscal years, as shown in Figure 1.6 and Table 1.15, below.

² The ratio of nominal GDP to the quantity of money in the economy, the latter usually measured by the monetary base.

³ The number of times a unit of currency is used for transaction purposes during a given period, usually a year.

Table 1. 15: Monetary aggregates and ratios (in millions of Birr)

Particulars	year ended June 30			percentage change		
	2002/03	2003/04	2004/05	2002/03	2003/04	2004/05
1. Reserve requirements(CB'S)	1,320.30	1,549.40	1,827.60	13.4	17.3	18
2. Actual Reserve(CB'S)	3,816.9	4,911.30	12,739.70	41.6	28.7	159.4
3. Excess Reserve(CB'S)	2,496.60	3,362.00	10,912.10	62.9	34.7	224.6
4. Reserve Money	11,117.90	13,404.10	23,913.10	27.4	20.6	78.4
Current in circulation	7,203.70	8,569.50	10,961.70	20.1	19	27.9
Bank Deposited	3,914.20	4,834.50	12,951.40	43.5	23.5	167.9
5. Money multiplier (Ratio)						
Narrow Money to Reserve Money	1.4	1.3	0.9	-14.5	-3	-33.8
Broad Money to reserve money	2.6	2.5	1.7	-13.3	-4	-33
6. Other Monetary Ratio (%)						
Currency to narrow Money	46.7	47.5	51.5	10.3	1.7	8.4
Currency to Broad money	24.8	25.5	27.3	8.7	2.8	7
Narrow Money to Broad Money	53.1	53.6	52.9	-1.4	1.1	-1.3
Quasi Money to Broad Money	46.9	46.4	47.1	1.7	-1.2	1.5
M ₂ /GDP ratio (%)	41.7	39.8	41.5	1.2	-4.4	4.3
Velocity of money (GDP/M ₂)	2.4	2.5	2.4	1.2	4.6	-4.2

Source: National Bank of Ethiopia

On the other hand, despite the significant increase in the amount of credit given to the private sector during the year in review, the banking sector seems to have set aside huge unutilized resources in the form of excess reserves. Particularly, excess reserve of the commercial banks increased from about 3.4 billion (25%)

in 2003/04 to 10.9 billion (45.6% of total reserves) in 2004/05. That is, excess reserves grew by about 225% in 2004/05 relative to 2003/04. While, as noted in our last Annual Report, there are recognized reasons for commercial banks to be cautious about lending (ranging from asymmetric information, moral hazard related issues to ineffective enforcement mechanism of loan operations), but even then the paradox of an existence of such huge idle resources in a capital starved economy like that of Ethiopia is a clear testimony to the ill-functioning of the financial sector.

Table 1. 16: Interest rate structure

Description	1998/99	1999/00	2000/01	2001/02	2002/03	2003/04	2004/05
Deposit Rate							
<i>Saving Deposit (Average)</i>	6	6	6	3	3	3	3
<i>Minimum</i>	6	6	6	3	3	3	3
<i>Maximum</i>	6	6	6	3.15	3.15	3.15	3.15
Time Deposits							
<i>Up to 1 year</i>	6.27	6.28	6.36	3.3	3.35	3.4	3.47
<i>1-2 years</i>	6.36	6.54	6.67	3.51	3.62	3.64	3.71
<i>Over 2 years</i>	6.43	6.69	6.8	3.57	3.82	3.84	3.94
Lending Rates							
<i>Minimum</i>	10.5	10.5	10.5	7.5	7.5	7	7
<i>Maximum</i>	13	13.5	15	14	14	14	14

Source: National Bank of Ethiopia

Similarly, despite the huge liquidity in the banking sector, the interest rate did not change much during the year in review relative to 2003/04. As noted in Table 1.16, saving deposit rates remained close to the legal minimum of 3% and time deposits only increased to an average of 3.7% in 2004/05 relative to 3.6% in 2003/03, while average lending rates stood at 10.5% in both 2003/04

and 2004/05. Consequently, given the recorded inflation during the year in review, the real saving and deposit rates were negative while lending rates was slightly positive in 2004/05. Clearly, as could be observed from the movements of credit, inflation, the structure of interest rates and hence the overall nominal and real economic aggregates, the interest rate does not seem to be in a position to play its conventional role in conducting monetary policy in the Ethiopian economy.

1.6 Public Finance

This section focuses on the structure of government revenue and expenditures during the year in review. To this effect, it will examine the tax and non-tax sources of revenue on the one hand and the various components of government expenditures comprising current and capital outlays of central government categories on the other. And finally, it will evaluate the extent of financing gap that resulted from the revenue and expenditure flows and the sources of finance (domestic and/or foreign) used to fill the gap.

Total government revenue including grants during the year in review reached 19.9 billion which is an 11% increase relative to fiscal year 2003/04. This was about 16% of GDP. As noted in Table 1.17, the shares of tax revenue, non-tax revenue, and grants during the year were 12.7%, 3.3%, and 4.6% of GDP, respectively. Relative to fiscal year 2003/04, tax revenue, non-tax revenue, and grants grew by 16.6%, 20.1% and 10.1% during fiscal year 2004/05. Consequently, total revenue collected during the year covered about 84% of the total government budget for the year. Relative to expectations, revenue from direct taxes and non-taxes were 71% and 67.9% of the set targets, while revenue from indirect taxes reached 106.6% of its target (exceeding expectations) due to the surge in revenue from the Goods and Services tax (VAT).

REPORT ON THE ETHIOPIAN ECONOMY

On the expenditure side, about Birr 24.6 billion was allocated for different government activities during the year in review which exceeded by 20% relative to fiscal year 2003/04. The total expenditure was composed of 13 billion for recurrent and 11.5 billion for capital expenditures. While the current expenditure grew by 9% during the year in review relative to 2003/04, capital expenditures grew by 37.3% during the year in review relative to the same period. On the other hand, the expenditure on special programs declined from 272 million in 2003/04 to 224 million (-17.6%) in 2004/05.

Table 1. 17: Structure of revenue (as percent of GDP)

Components	1998/99	1999/00	2000/01	2001/02	2002/03 Pre-Actual	2003/04 Pre-Actual	2004/05
Tax Revenue	9.8	10.1	11.3	12.7	12.1	12.5	12.7
Direct Tax	3.5	3.7	4.2	5	4.4	3.7	4.1
<i>Of Which: Income and Profit</i>	3.2	3.4	3.8	4.8	4.2	3.4	3.7
<i>Of Which : Land Use Fees</i>	0.3	0.3	0.4	0.2	0.2	0.4	0.4
Indirect Tax							
<i>Of Which : Domestic</i>	2.1	2.3	2.1	2.4	2.4	2.5	2.7
<i>Of Which : Foreign</i>	4.2	4.2	5.1	5.3	5.2	6.3	5.9
Non-Tax Revenue	6.7	5.7	4.8	4.1	4.3	3.2	3.3
Grants	3.1	2.7	4	3.9	3.6	4.8	4.6
Annual Growth Rates							
Tax Revenue	6.3	15.9	14.8	6.6	4	27.6	16.6
Non-Tax Revenue	23	-5.1	-25.3	-9.3	17.1	-8.3	20.1
Grants	38.4	-2.2	52.4	-7.7	87.8	-12.1	10.1
Total Revenue	12.5	7.3	0.3	2.3	7.1	18.3	17.3
Total Revenue & Grants	15.9	5.9	7.9	0.2	5.9	9.5	15.6

Source: National Bank of Ethiopia and Ministry of finance and Economic Development

Table 1. 18: The share of sectors in recurrent expenditure (%)

Sectors	1998/99	1999/00	2000/01	2001/02	2002/03	2003/04	2004/05
General Services	55.3	60.6	48.9	43.9	34.6	42.2	44.2
Economic Services	7.7	5.9	9.1	9.9	9.8	11.3	11.3
Social Services	18.7	15.3	21.5	26.5	23.5	27.2	29
Interest and Charges	9.4	8.2	10.4	9.5	9	9	7.8
External Assistance	8	9.4	9.4	9.5	21.4	5.8	5.5
Others	0.8	0.7	0.7	0.6	1.7	4.4	2.3

Source: National Bank of Ethiopia and Ministry of finance and Economic Development

As indicated in Table 1.18, the largest share of recurrent expenditures (44.2%) was spent on general government services, followed by social services (29%), economic services (11.3%) and interest and charges (7.8%) of the total during fiscal year 2004/05. On the other hand, as noted in Table 1.19, capital expenditure was allocated on three broad categories, namely, economic development (66.8%), social development (29.2%) and general development (4) during the fiscal year in review. Both broad categories except general development increased their share during the year in review relative to fiscal year 2003/04.

Table 1. 19: The share of sectors in total capital expenditure (%)

Sectors	1998/99	1999/00	2000/01	2001/02	2002/03	2003/04	2004/05
Economic Development	58.4	60	63.2	54.3	52.9	54.2	66.8
Social Development	22	18.2	26.6	16.2	21.1	25.3	29.2
General Development	7.4	10.1	10.2	11.3	7	7.6	4

Source: National Bank of Ethiopia and Ministry of finance and Economic Development

Table 1. 20: The budget deficit and its financing

Particulars	2003/04		2004/05		Percentage Change	Performance Rate
	A	B	C			
	Pre. Act	Budget	Pre. Act	C/A		
Revenue and Grants	17,918.00	23,750.00	19,873.00	10.9	83.7	
<i>Revenue</i>	13,917.00	18,083.00	15,466.00	11.1	85.5	
<i>Grants</i>	4,002.00	5,666.00	4,407.00	10.1	77.8	
Total Expenditure	20,504.00	28,712.00	24,617.00	20.1	85.7	
<i>Current Expenditure</i>	11,961.00	14,531.00	13,036.00	9	89.7	
<i>Capital Expenditure</i>	8,271.00	13,414.00	11,357.00	37.3	84.7	
<i>Special Programs</i>	272	767	224	-17.6	29.2	
Overall Surplus/ Deficit						
(Including Grants)	-2,586.00	-4,963.00	-4,743.00	83.4	95.6	
(Excluding Grants)	-6,587.00	-10,629.00	-9,150.00	38.9	86.1	
Total Financing	2,586.00	4,963.00	4,743.00	83.4	95.6	
Net External Borrowings	2,399.00	3,444.00	2,384.00	-0.6	69.2	
<i>Gross Borrowing</i>	2,555.00	3,535.00	2,507.00	-1.9	70.9	
<i>Special Programs</i>	441	767	273	-38.1	35.6	
<i>Amortization Paid</i>	833	804	851	2.2	105.8	
<i>HIPC Relief</i>	678	713	728	7.4	102.1	
Net Domestic Borrowings	2,147.00	1,509.00	3,492.00	62.6	231.4	
<i>Banking System</i>	2,155.00	1,509.00	3,156.00	46.5	209.1	
<i>Non-Bank Sources</i>	-8	0	336			
Privatization Receipts	11	10	10	-9.1	100	
Others and Residuals	-1972	0	-1,143.00	-42		

Source: National Bank of Ethiopia, 2004/05 Annual Report

As the total revenue of 19.9 billion collected during the fiscal year fell short of the 24.6 billion total expenditures outlays of the government, a total deficit of 4.7 billion including grants and 9.2 billion excluding grants were recorded in fiscal year 2004/05. To put it in perspective, the deficit recorded during the fiscal year was about 6.3% or about 12% of GDP, including and excluding grants, respectively. Hence, compared to a similar deficit to GDP ratios of 3.8% and 9.6% registered in fiscal year 2003/04, therefore, there was a slight increase in the deficit recorded in fiscal year 2004/05. The largest portion (74%) of the deficit was financed from domestic sources that included Birr 3156 million from the domestic banking system.

1.7 Price Developments

Except the prices of non-food items, all price categories decreased in 2004/05 relative to fiscal year 2003/04. For instance, the general price level and the prices of food decreased from 8.6% and 11.8% in 2003/04 to 6.8% and 7.7%, respectively, in 2004/05 while the price of non-food items increased from 2.8% in 2003/04 to 5.2% in 2004/05. Similarly, the GDP deflator also decreased from 8.7% in 2003/04 to 4.8% in 2004/05.

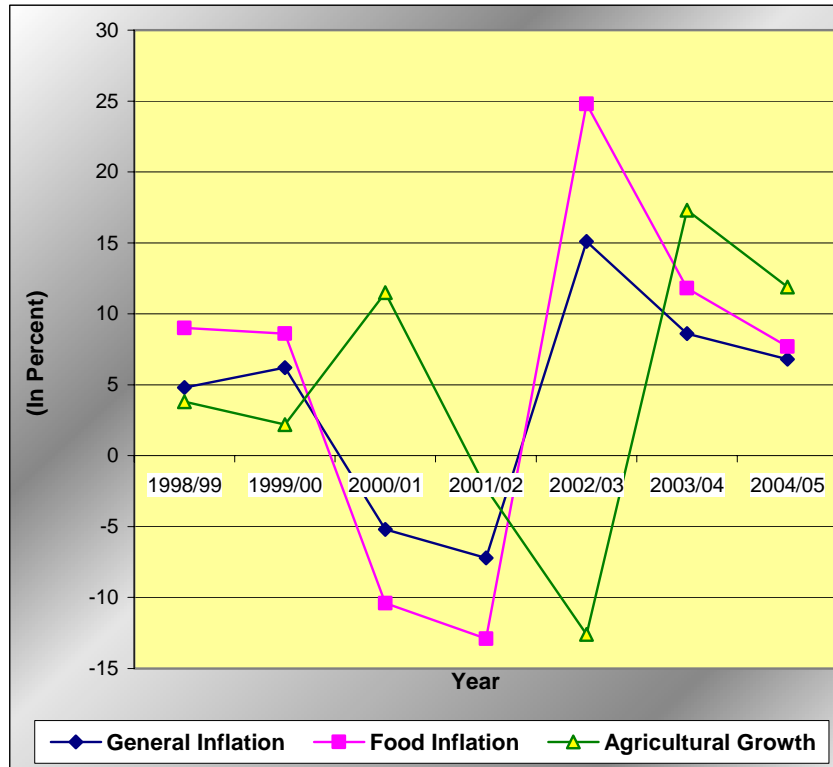
Table 1. 21: Trends in prices (in %)

Year	General CPI Inflation	Food	Non-Food	GDP Deflator	Growth in Agricultural Output	Growth in Broad Money (M2)
1998/99	4.8	9	-1.3	3,7	3,8	4.5
1999/00	6.2	8.6	2.4	3,5	2,2	14.3
2000/01	-5.2	-10.4	1.9	-5,4	11,5	10.5
2001/02	-7.2	-12.9	0.9	-5,7	-2.3	11.4
2002/03	15.1	24.8	0.5	14.4	-12,6	10.2
2003/04	8.6	11.8	2.8	8.7	17.3	15.2
2004/05	6.8	7.7	5.2	4.8	11.9	19.6

Source: Central Statistical Authority.

It is interesting to note that our observation in our previous Annual Reports that the increase in inflation is not influenced by increases in money supply still holds. That is, the above noted decreases in prices occurred despite the increase in money supply by almost 20% during the year in review.

Figure 1. 7: Agricultural growth and inflation (1998/99 – 2004/05)

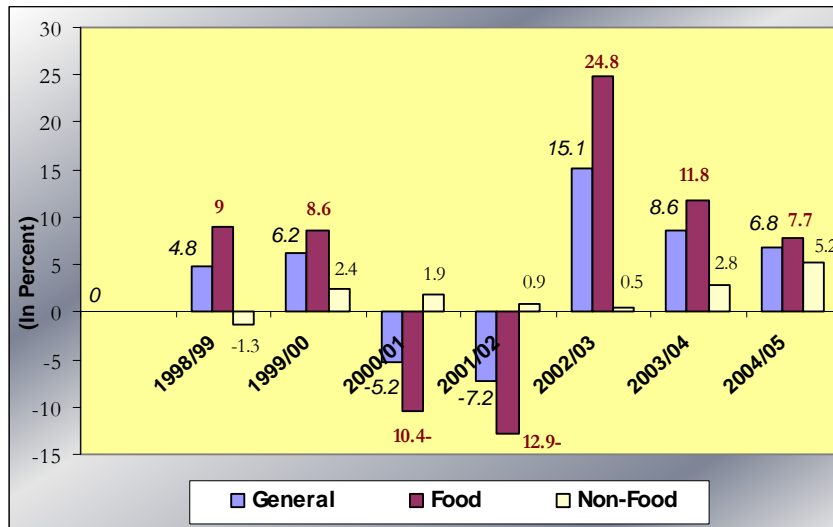


Source: Ministry of Finance and Economic Development and Central Statistics Authority

Similarly, the further decline in overall prices in general and the price of food items in particular was also consistent with the observation made last year regarding the inverse relationship between the two indicators. Accordingly,

agricultural output grew by 12% during they year in review which coincided with the decline in the overall prices and the price of food items during the same year.

Figure 1. 8: General, food and non-food inflation rates (1998/99 – 2004/05)



Source: Ministry of Finance and Economic Development and Central Statistics Authority

1.8 Summary and Conclusions

The purpose of this section is to re-cap the main development in the macroeconomic aggregates of the Ethiopian economy during fiscal year 2004/05. It had highlighted the most noticeable changes and described the salient features of the economy and single out the challenges that the economy had faced during the year in review. This is done to both serve as a summary of the main issues discussed and to put the issues in a broader context of the state of the economy. Further, the section will also discuss the

state of the macro-economy in relation to recent developments as a preamble to the next Annual Report on issues for which a tentative or preliminary data is available.

The growth of the Ethiopian economy (8.9%) in fiscal year 2004/05 following the robust (11.6%) growth in the preceding year and the preliminary assessment that the economy will register a healthy growth rate in 2005/06 seems to have convinced policy makers and optimistic observers that the economy is embarking on a sustained growth trajectory. In particular, the fact that it is agriculture which received all the attention in terms of extension packages and related policies to boost its performance has spearheaded the growth that has been achieved in the last three years is viewed as a validation to the soundness of the policy followed during the reform period. It is important to highlight few points in this regard. First, the fact that the economy grew for three consecutive years and is serving as a source of optimism is understandable and to be encouraged. Second, it is important to recognize that while the policies implemented might have helped in improving the performance of the economy, it is mainly the conducive weather conditions that ensured the good performance of the agricultural sector in particular and that of the economy in general in the last three years. And, third, as long as the economy continues to rely on rain-fed agriculture and the availability of rain on any given year is uncertain so is the growth performance of the economy that depends on it. Therefore, while the policy and the effort that went into implementing that policy is to be applauded and the luck for the attendant conducive weather conditions over the last three years is to be thankful for, the uncertainties of the latter do not ensure the continuity of such performance in subsequent years. This is particularly the case when the sector that is the most affected by the uncertainty is the dominant sector of the economy (both in terms of output and employment). On the other hand, the growth rate of the other sectors, namely industry and services, was not particularly impressive but relatively stable over the last fifteen years.

Further, it is worth noting that the almost 9% growth in GDP did not translate into a comparable improvement in the standard of living of the people as measured by the growth of GDP per capita due to the increase in population. Consequently income per capita only grew by 4.6% in fiscal year 2004/05 relative to fiscal year 2003/04. This suggests that unless and until the demographic structure changes and the rate of increase of the population significantly declines from its and current rate of about 2.5%, such growth rates may not make a dent on the widespread poverty in the country any time soon.

The investment environment is one among the recent bright economic spots in the country. Total investment (by both domestic and foreign firms) has substantially increased and has started contributing to output and employment in the country. Between 1992/03 to 2004/05 about 13,504 investment projects with a capital of about Birr 149 billion were approved. The majority of the investment capital (about 89%) came from domestic sources. Similarly, about 3105 total number of projects with about Birr 43 billion (well above the yearly average for the last 15 years) were approved during fiscal year 2004/05. Again as was the case in the last fifteen years, the majority of the source of investment was domestic. As is well known, the benefits of FDI probably outweighs that of domestic investment (for alleviating foreign exchange constraints and technological transfer, for instance), but the latter is likely to have the tendency to absorb shocks (such as political, for instance) better than the former. That is, it does withstand shocks better and hence more reliable for sustainable growth.

And in terms of development in the external sector, even though export revenue significantly increased (owing to both price and volume effects) during fiscal year 2004/05 it lagged behind the increase in imports bill and consequently the trade balance deteriorated during the year in review. It is interesting to note that this pattern has dominated the external sector of the Ethiopian economy for some time. That is, no matter how exports improve they do not seem to catch up with imports. And one would suspect that this pattern is likely to continue because as the economy grows it will need more

imports of raw materials, semi-finished and capital goods as inputs of production in excess of its capacity to export goods in the foreseeable future. Other notable aspects of the external sector include: (a) despite efforts to diversify, the composition of exports has largely remained intact with coffee as the dominant commodity; (b) the openness of the economy, as measured by the share of merchandise trade in GDP, is increasing which reached about 40% of GDP in 2004/05; (c) The reserve position of the country also declined to only 3.6 months of imports in 2004/05 due to the surge of imports during the period; and (d) the domestic currency still maintained its relative stability or more to the point its orderly depreciation against the major international currencies during the year in review as it has done over the last fifteen years.

On the other hand, among the salient features of the monetary sector the following points are worth highlighting. First, broad money supply grew (by about 20%) in fiscal year 2004/05 relative to 2003/04; second, this is partly due to the significant amount of fresh loans (52% higher relative to 2003/04) granted (about 73% of which was given to the private sector) by the banking system during 2004/05; but, third, despite the increase in credit that the banking system offered to potential clients, the amount of money that the banking system held as excess reserves in absolute terms and relative to the preceding year was high (about 46% of total reserves and about 35% higher than in 2003/04); fourth, as was the case over the last few years, real interest rates (except the lending rate) were negative owing to the relatively high inflation rate recorded in the last few years while nominal interest rates remained stagnant ; and, fifth, financial deepening as measured by M_2 /GDP remained almost static during the year in review as was the velocity of money.

Resource gaps as reflected in the saving and the investment balance, the import and export flows or the BOP position and the flows of government revenue and expenditures as measured by the general government deficit were observed during the year in review as was the case in the past. Government deficit was about 4.7 billion or as a share of GDP almost 10% in fiscal year 2004/05. The deficit occurred because as expenditures increased to 25.5% of GDP, revenue decreased to 16% of GDP. Total expenditure

during the year was allocated for recurrent expenditures (53%) and capital expenditures (47%) in fiscal year 2004/05. Similarly, out of the total 19.9 billion tax revenue collected (an increase of 11% relative to the preceding year) during fiscal year 2004/05, about 79 percent was collected from domestic taxes (68% of which was from indirect taxes). A significant portion of the deficit (74%) was financed from domestic sources, mainly from domestic bank borrowing.

And finally, breaking the pattern observed in the last few years, inflation seems to be creeping up even when agriculture production registered a healthy growth. Consequently, prices increased by 6.8% in 2004/05 despite a 12% growth in agriculture output during the same year. Even though the main increase in the general price level during the year was observed in the price of non-food items ((almost a double surge from 2.8 to 5.2%), the 7.7% increase in food prices also contributed due to its dominant share in the price index and the relative increase during the year in review. It is interesting to note, all price categories increased in all regional states during the year in review. What is even more interesting to note is that except that of Afar, Benishangul Gumuz and Dire Dawa, food prices are lower in Addis Ababa (non-producer of food) than in any other regional state.

Chapter 2

Performance Status of Large and Medium Scale Manufacturing Industries (1999/00 – 2004/05)

2.1 Introduction

An earlier report on manufacturing (EEA, 2004) extensively dealt with “Industrialization and Industrial Policy in Ethiopia”. Since then, last year’s report on manufacturing (EEA, 2005) covered Large and Medium Scale (LMSM) as well as Small Scale Manufacturing industries (SSM). The emphasis, however, was on SSM industries as a new survey result was availed.

Last year’s report summarized that SSM industries are dominated by a single activity – grain milling. Grain mills constitute about 85 percent of the total number of SSM industries. The share of other SSM industries is extremely small in all respects accounting for 2.3, 1 and 1.2 percent of manufacturing value added, employment and fixed assets, respectively. Its dependence on imported input is much lower than that of LMSM industries. However, its export capacity is also very weak, accounting for less than one percent of its GVP in 2001/02. Moreover, they operate below half of their capacity, at very low productivity level and having an insignificant share of total investment.

Regarding LMSM industries, the report discussed the performance of the sector in 2002/03. The general conclusion of the report on the performance of this sector was that though very few additional agro-industries were established, there has been no change in the trend of employment, productivity, export performance, etc., and no ground work has been laid down for introducing technological capability building and hence, a move towards industrialization.

Having extensively dealt with the other sub-sectors, therefore, this Chapter focuses on LMSM industries emphasizing on the last two years, but also providing a recent historical account, covering the past six years: 1999/00–2004/05. It evaluates the performance of the sector, including structural changes, changes in production and employment, capacity utilization, labour productivity, and linkages with international markets. This report is not addressing issues of SSM industries, as new data is not yet available.

2.2 Economic structure

2.2.1 Share of Manufacturing in National Income

The Ethiopian economy is still predominantly agriculture based. During the last six years (1999/00-2004/05) the average share of agriculture, services and manufacturing were, on average, 48.9, 38.4, and 12.7 percent, respectively (Table 2.1). This is typical of LDCs' economic structure. Over the period the respective shares of these sectors have not changed much. Only weather-driven shocks on agriculture seems to have altered the relative shares of these sectors, particularly that of agriculture. Otherwise, in the short term at least, there seems to be no sustainable policy induced structural change of the economy.

Table 2. 1: Sectoral shares in the value added at constant prices

Sector	1999/00	2000/01	2001/02	2002/03	2003/04	2004/05	Average
Agriculture	49.3	50.7	49.6	45.7	48.3	49.7	48.9
Services	38.6	37.4	37.9	40.6	38.6	37.4	38.4
Industry	12.1	11.8	12.5	13.7	13.2	12.9	12.7
o/w Manufacturing	5.6	5.5	5.4	5.6	5.3	5.1	5.4
o/w LMSM	3.7	3.6	3.6	3.8	3.6	3.4	3.6
o/w SSM	1.9	1.9	1.8	1.8	1.7	1.7	1.8

Source: National Bank of Ethiopia, Quarterly Bulletin, 2005/06, Vol. 21, No 4.

The share of manufacturing too, remained, on average, a petty 5.5 percent of national income. Its composition, in terms of size of firms, also remained stagnant. Large and medium scale industries account, on average, for two-third of total manufacturing value added, while the remaining one-third is contributed by small scale and cottage industries. Note that although there is no any concrete or tangible action attached to it, the strategy of the government identifies micro and small scale enterprises as one of its priority areas. Given the high population growth, however, it would not be surprising if small scale and cottage industries increase at a faster rate than medium and large scale enterprises as long as the current strategy remains unchanged in the near future.

2.2.2 Private Sector's Share in Manufacturing

With a change in policy regime, specifically the move towards a market based economic management and the reintroduction of private actors into the modern sector of the economy, the government has also shown its inclination to privatize some of the earlier nationalized state enterprises. Accordingly, a number of relatively small size enterprises have been privatized. However, the pace of privatization has stalled over the last few years. As shown in Table 2.2, the share of state enterprises in manufacturing over the last six years has not changed much. On average, it declined by 2.6 percent annually. For the period under review, the relative share of public enterprises was 58.4 percent. Privatization focused on relatively smaller size firms while retaining large firms under state control. Even today state enterprises account for over 50 percent of the gross value of production.

It should also be noted that the government still controls a significant proportion of service sector production. It dominates the banking service, monopolizes the entire infrastructure provision, still controls significant housing services, media services, and to some extent transport and construction services. Therefore, irrespective of the intention to move

towards a free-market oriented economic management, the ownership structure of the modern sector of the economy is still dominated by the state.

Table 2. 2: Production shares of public and private manufacturing firms (percent)

Year	Public	Private
1999/00	59.1	40.9
2000/01	63.7	36.3
2001/02	61.1	38.9
2002/03	61.6	38.4
2003/04	57.1	42.9
2004/05	51.3	48.7
Average	58.4	41.6

Source: CSA, 'Large and Medium Scale Manufacturing and Electricity Industries Survey, Statistical Bulletins, various issues.

2.2.3 Share of Strategic and Capital Goods Industries in Manufacturing

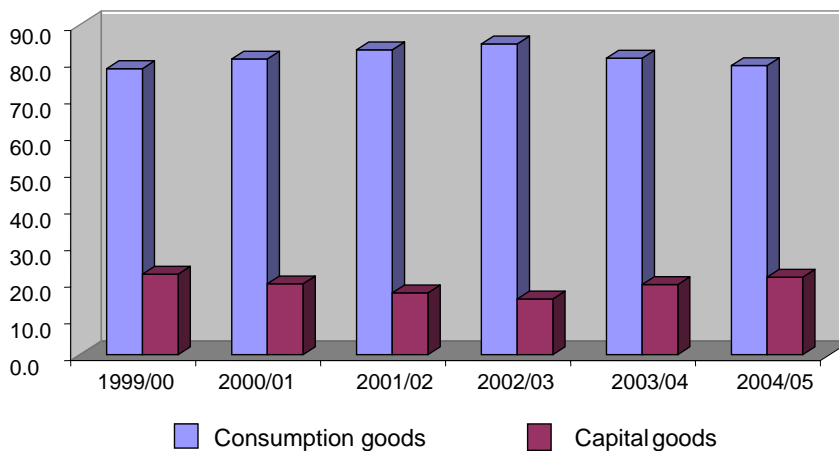
The process of industrialization introduces a change in the respective share of capital goods and consumption goods producing industries. This may signal the beginning of a structural change in manufacturing, hence the long-term sustainable growth of the economy. In light of this, it might be worth investigating the shares of capital goods producing and other strategic industries within manufacturing, to see if at all there is an indication of a shift in investment towards the latter.

As shown in Figure 1.1, the relative GVP shares of these industries remained stagnant over the years. While capital goods industries, including chemical accounted for only 19 percent on average, the overwhelming 80 percent is contributed largely by consumption goods industries. The marginal change over the years is largely owing to the weather factor on agriculture, and recent policy induced sharp price increases of construction materials, particularly cement, cement products, and iron and steel.

LARGE AND MEDIUM SCALE MANUFACTURING INDUSTRIES

The structure of manufacturing is even more skewed than what is portrayed by Figure 2.1. Food products and beverages alone account for over 38 percent of GVP; textiles and leather for another 15 percent; and non-metallic products for nearly 10 percent. So about two-third of the total production is generated by these three industrial groups alone.

Figure 2. 1: Share of consumption and capital goods (%)



Source: CSA, 'Large and Medium Scale Manufacturing and Electricity Industries Survey, Statistical Bulletins, various issues.

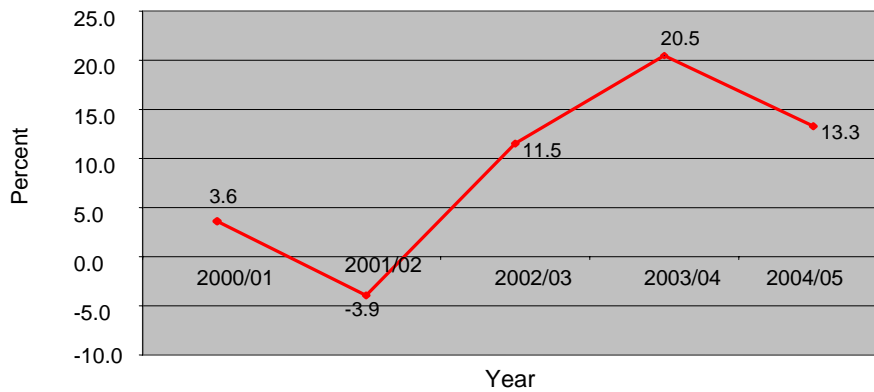
So, over the years, there has not been any systematic change in the broad composition of industries. The lack of structural change, or worse, the expansion of consumption goods at the expense of capital goods, as a result of the policy stance, implies that, the past trend of dependency for capital and intermediate goods on imports, and technological backwardness, will continue in the future.

2.2.4 Changes in Production and Employment

The gross value of production of Large and Medium Scale Manufacturing (LMSM) industries in 2004/05 was \$1423.6 (Birr 12316.4) million. This is the maximum recorded to date. What this means is that the entire LMSM industries (the modern manufacturing sector) annually produces goods only worth \$19.5 (Birr 169) per capita. It goes without saying that its employment capacity too, is insignificant. In a country of over 70 million people, LMSM industries employ only 109,150 workers (Annex 5). With additional 90,000 workers employed in small scale industries, the total employment in manufacturing in general is an insignificant 0.3 percent of the total population.

Over the last six years, GVP of LMSM industries increased by 9 percent, on average. Relatively sharp changes were recorded in 2004 (20.5 percent) and 2005 (13.3 percent), owing to favorable weather conditions and steep rises in the prices of construction materials (Figure 2.2).

Figure 2. 2: GVP growth rate



Source: CSA, 'Large and Medium Scale Manufacturing and Electricity Industries Survey, Statistical Bulletins, various issues.

LARGE AND MEDIUM SCALE MANUFACTURING INDUSTRIES

Over the same period of time, the number of enterprises had also increased by 7.7 percent annually, reaching about 1207 by 2004/05 (Annex 6). However, the marginal contribution to production of new establishments was not substantial as most existing firms operated much below full capacity, owing to limited domestic demand and lack of external competitiveness of firms.

An alternative measure of the production performance of manufacturing industries is the value added, which is also a proxy measure of efficiency (Annex 4). In fact, its Value added as a proportion of GVP was about 40 percent. According to a World Bank study (World Bank, 2003), the corresponding level for developing countries was 60 percent, implying that the efficiency of Ethiopian manufacturing industries is 20 percentage points lower. Moreover, over the years the proportion remained stagnant, on average, at about 40 percent.

Table 2. 3: Value added share in GVP of LSM industries (average of 2000-2005)

Industrial group	VA/GVP (%)
Tobacco	61.2
Wood and w. products	52.8
Paper	42.6
Textile	29.4
Basic iron and steel	28.1
Tanning & leather dressing	20.9
Motor vehicles	20.0

Source: Annex 4 and 5

Perhaps, what is interesting in this regard is the variation of value added by industrial groups. For the six years period average, only tobacco, with a proportion of 60 percent of GVP was up to the standard of developing countries. All other industrial groups have had value added ratios of about 50 percent or less. As shown in Table 2.3, the least efficient firms include leather and textiles, with a proportion of 20 and 29 percent respectively. Given the

policy framework, it would not have been surprising for capital goods industries such as Basic Iron & Steel, and Motor vehicle to be least efficient, but it is for textile and leather industries, which have been given high priority of all other industries. Today, government has, in fact, started renovating the technological base of textile industries under its control.

2.2.5 Productivity Trends

In real terms, the average annual wage bill per worker in LMSM industries in 2004/05 was about \$855 (Table 2.4). Over the period, labour cost increased annually by 2.7 percent. The unit cost of labour is relatively high in capital intensive industries, such as tobacco, motor vehicle, basic metal and steel, etc., because it requires more skilled labour.

Table 2. 4: Productivity and wage rate in manufacturing-real terms (US\$)

Year	Productivity* per worker	Wage per worker**	Productivity per wage-bill
1999/00	3009	778.2	3.9
2000/01	3202	917.2	3.5
2001/02	3004	1081.4	2.8
2002/03	2925	936.1	3.1
2003/04	2844	885.7	3.2
2004/05	2728	854.8	3.2
Average growth rate -%	-1.9	2.7	-3.1

Source: CSA, 'Large and Medium Scale Manufacturing and Electricity

Industries Survey, Statistical Bulletins, various issues

* Value added deflated by the general price index (1999/00=100)

** Wage bill deflated by a weighted index of food, clothing and transport (1999/00=100)

Compared with many other developing countries, the cost of labour in Ethiopian manufacturing is said to be relatively low. This may give manufacturing industries in Ethiopia a competitive edge. However, low labour cost is not the only determinant of competitiveness. Actually, labour skill, or

its productivity, is the major determinant. For instance, manufacturing wage per worker in China is about three times greater than that of Ethiopia, while Chinese labour productivity is five times greater than its Ethiopian counterparts, thereby giving the former a significant competitive margin.

Labour (physical) productivity (value added per production worker), in real terms declined consistently, on average, by nearly 2 percent, annually. Its productivity reduced from just over \$3000 in 1999/00 to \$2728 in 2004/05. This trend had been continuing since the early 90s. The critical factor, building technological capability, has not been the agenda of governments in this country to-date.

The declining trend in productivity can also be seen from another angle. The same table indicates that value added per wage-bill decreased over the same period by 3.1 percent, which is, of course, a reflection of the relative change of the two variables: labour productivities and wages rates. While labour productivity declined, wages have been increasing in real terms. It is likely that newly entering firms, which are relatively less labour-intensive, might have pushed wage rates upwards, but not productivities as they are operating much below their potential. But the extent of their impact has to be studied further.

2.2.6 Linkages with International Markets: Export Capacity and Import Intensity

2.2.6.1 Export of Manufactured Goods

The level of manufactured export in Ethiopia would not be expected to be any different from the status of the sector itself, as portrayed above. It is a reflection of a least industrialized economy, whose manufacturing is largely based on processing of natural resources for consumption. In Ethiopia, leading export-industries predominantly include leather, textile & garment, and food. Rightly so, these industries were initially established to cater to the domestic market and latter extended in search of external markets. But, this

extension is not a natural one – not because these industries were technologically advanced, resulting in a level of production over and above the domestic demand, hence forced to look for external market, but because of distorted development strategy – outward looking inconformity with international economic order, at the expense of industrialization of the domestic economy.

The total export earning from manufactured goods in 2004/05 was about \$118 million – the maximum recorded to date (Table 2.5). Owing to a favorable weather condition, thereby better agricultural output in the last few years, as well as the policy drive which accords high priority for exports, a significant export growth (though from a small base), on average, by nearly 25 percent, annually, has been registered over the six years period.

Table 2. 5: Export capacity of manufacturing industries

Description	1999/00	2000/01	2001/02	2002/03	2003/04	2004/05	Average
Export value (USD Mill)	44.1	52.8	79.4	104.0	90.2	118.1	
Export growth (%)	---	19.8	50.5	31.0	-13.3	30.7	23.8
Export/ manuf. GVP(%)	4.4	5.2	8.4	9.9	7.2	8.3	7.2
Export/ Total Export (%)	9.1	11.4	17.6	21.6	15.0	14.4	14.8
Import cover (%)	18.6	25.2	42.5	55.8	34.9	39.8	36.1
Manuf. Underdevelopment (%)	4.1	4.5	6.1	7.5	4.3	4.2	5.1

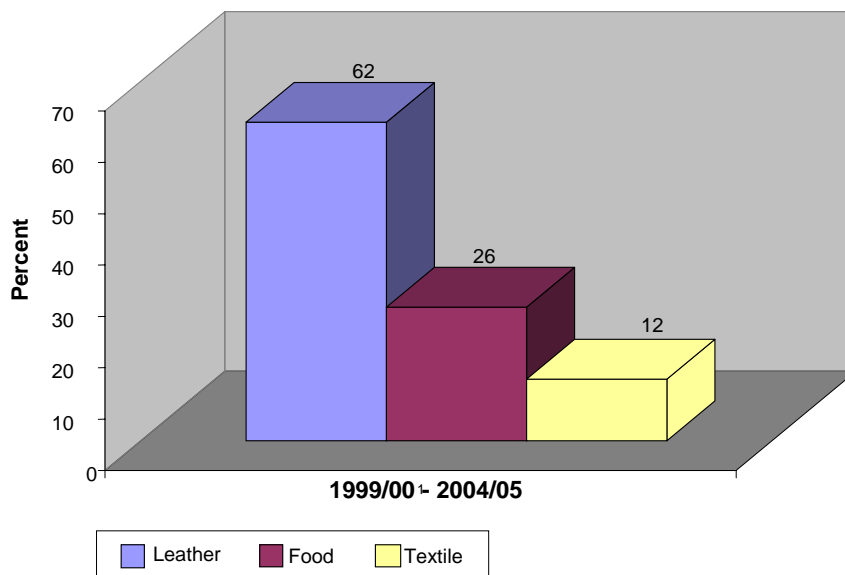
Source: CSA, 'Large and Medium Scale Manufacturing and Electricity Industries Survey, Statistical Bulletins, various issues

But despite the improvement in the rate of growth, the absolute value, noted above is quite small. Export is only a small proportion of the total value of production of the sector – on average, 7.2 percent, for the six years period. As noted above, within manufacturing, only those natural resource-based industries are engaged in export. For the six years, leather accounted, on average for 62 percent, food for 26 percent and textiles 12 percent (Fig 2.3).

LARGE AND MEDIUM SCALE MANUFACTURING INDUSTRIES

Hence export is a few industries' domain, particularly that of the leather industry. For other industries, moving to export trade requires developing a competitive base, which implies building technological capability in manufacturing – a feature of industrialization. Because of lack of industrialization, manufactured export accounted for only 15 percent of the total export of the country – with agriculture holding for the balance.

Figure 2. 3: Industries' shares in manufacturing export



Source: CSA, Large and Medium Scale Manufacturing and Electricity Industries Survey

In light of the development need of the country, and thereby requiring large imports, the trade balance has always been a source of concern. This is more conspicuous in manufacturing than in any other sector. For the period under review export earnings were able to cover, on average, only about

one-third (36 percent) of import demand (Table 2.5), indicating a huge gap. Over the last few years, however, import coverage increased substantially, though not only because of the policy drive for higher exports, as noted above, but also due to a decline in imports during the period.

2.2.6.2 Import Intensity

Manufacturing industries in Ethiopia are heavily dependant on imports, not only for capital goods, which is obvious for all low income and even middle income countries, but also for intermediate and consumption goods. This is a specific feature of Ethiopian manufacturing, which is largely composed of resource-based industries.

Most industries require imported inputs. Annual import value of intermediates, for instance, in 2004/05 was about \$297 million (Table 2.6). Over the years, imports increased at a moderate rate of 6 percent per year. Perhaps, in terms of the absolute value, it is not, as such, too large to be of concern. However, it is its relative magnitude vis a vis exports and total inputs that makes it of some concern. As noted above the trade gap for manufacturing was as high as two-third of total import value, thereby contributing much to the total external trade deficit of the country.

The other concern is the import intensity. Between 1999/00 and 2004/05, imported inputs as a proportion of total raw material, accounted for 46.5 percent, on average (Table 2.6). This is an indication of the dependency on the external sector, hence vulnerable to external shocks. And this does not include imports of capital goods, for which the sector is entirely dependent on foreign supply. Therefore, this sort of structure, where industries largely produce consumption goods but little or no intermediate or capital goods, creates little internal linkages within manufacturing, leading to heavy external dependence and its adverse consequences, particularly when export earning, as shown above, is too small.

Table 2. 6: Import dependency of manufacturing

Description	1999/00	2000/01	2001/02	2002/03	2003/04	2004/05	Average
Import (Mill USD)	237.4	209.1	186.8	186.5	258.1	297.1	
Import growth (%)		-12.0	-10.6	-0.2	38.4	15.1	6.1
Import intensity (%)	51.5	45.4	45.2	43.7	47.1	46.0	46.5

Source: CSA, 'Large and Medium Scale Manufacturing and Electricity Industries Survey, Statistical Bulletins, various issues CSA Survey Reports and Staff Computation' excluding petroleum and grain imports

2.2.7 Capacity Utilization

The attempt to optimize production in the face of changing production and marketing constraints compel firms to adjust their production capacity accordingly. The level of firms' capacity utilization is a reflection of the overall business environment. Between 999/00 and 2004/05, production capacity ranged from a minimum of 47.8 to a maximum of 60.7 percent. On average firms had been operating at about half (53.3 percent) of their full capacity (Table 2.7). Moreover, there had been no discernible trend either way, over the years. Normally, it is logical to expect deep fall in capacity during drought seasons or sharp picks during good weather conditions, as production capacity would be affected by changes in the level of raw material supply and effective demand.

For all the years under consideration, the major factors forcing capacity underutilization were more or less the same. On average, for one-third (32.0 percent) of the cases, the outstanding problem was lack of market/demand. Shortage of raw material supply stands as the second most constraining factor, accounting for about 27.3 percent of the cases. For another 18 percent of the firms, government policies, lack of foreign exchange, and lack of finance were additional barriers. With respect to other constraints, although there are significant variations over the years, the effect is, on average, moderate.

Table 2. 7: Capacity utilizations and underlying constraining factors

Year	Capacity	Factors constraining capacity utilization						
		Market	Raw material	Spare parts	Electric & water	Machinery breakage	Others [*]	Not stated
1999/00	57.17	28.18	28.52	4.12	11.34	5.15	19.94	2.75
2000/01	49.04	41.99	23.38	2.16	2.6	5.19	22.52	2.16
2001/02	47.83	31.76	33.33	4.71	9.41	5.1	14.51	1.18
2002/03	50.36	30.94	23.13	0.63	11.07	6.19	21.2	6.84
2003/04	54.74	28.09	31.10	1.34	4.35	4.12	17.62	13.38
2004/05	60.68	31.23	24.02	1.80	8.11	16.82	11.41	6.61
Average	53.30	32.03	27.25	2.46	7.81	7.10	17.87	5.49

Source: CSA, 'Large and Medium Scale Manufacturing and Electricity Industries Survey, Statistical Bulletins, various issues

^{*} Includes barriers of rules and regulations, lack of working capital and foreign exchange, etc.

Shortage of demand/market is, however, a cumulative effect of multiple factors. Broadly, it involves lack of effective domestic demand, lack of competitiveness, and also lack of external market access, even if firms were competitive. Lack of effective domestic demand is a reflection of the poverty level of the country, and, as such, beyond the control of firms. In today's international market environment, not only firms/industries, but countries too compete. Hence, lack of external market access is also, and at least partly, outside the entrepreneurship quality of firms, which calls for policy intervention. Competitiveness proper involves at least three aspects: those specific and internal to firms, largely reflected by productivity levels; the overall development level of the economy, reflected by infrastructure; and the policy regime.

Unfortunately those industries operating at very low capacity for most of the years are strategic ones that could play critical roles for industrialization. Such industries include, among others, manufacturing of basic chemicals, iron and steel, machinery, etc.

What can be drawn from the existing level of capacity utilization is that with proper policy to address most of the constraints, but with little investment capital, manufacturing output can be increased by two fold. This has a strong implication for new entrants.

2.2.8 Concluding Remark

It is obvious that the manufacturing sector is quite underdeveloped. The total LMSM firms are just over one thousand. Most of these firms are small scale in size, hence incapable of benefiting from economies of scale. Moreover, their technological base is quite backward. As a result, labour productivity has been declining over the years. This limits the ability of the manufacturing sector, in general, to compete, even in the domestic markets. As a result, the sector is forced to operate at half its production capacity. Only a small proportion of the total demand of the population for manufactured consumption goods is met by the sector, leading to large foreign exchange requirement to import the balance. Similarly, in a country with tens of millions of people, the sector is generating employment for only one hundred thousand workers.

Moreover, the sector is structurally distorted and unbalanced. As it is largely composed of consumption goods' industries, it cannot meet its own intermediate, let alone capital goods, demand from within. This inevitably makes the sector dependent on external supply, exposing it, at the same time, to external shocks. Moreover, most consumption goods industries are agro-processing, depending for their inputs on agriculture, dominated by backward peasant farming techniques, which is still at the mercy of nature.

The current policy regime accords priority for agro-based industries, specifically textiles, leather and food processing for export. This is an extension of the agricultural policy. This is primarily because the policy does not have sufficient attention to industries of long-term nature, such as capital goods and other technologically leading engineering industries. Focusing on

agro-based consumption industries is for the short-term benefits of foreign exchange earning.

Moreover, while the policy regime focuses on export, it ignores the complementary import policy – specifically, protecting infant industries from unfair competition. In fact, the central objective of a development policy is to expand the domestic industrial base, not just foreign exchange earning to meet current demand. If so exporting alone is of little long-term advantage, without developing domestic technological capability. To this end, the current policy regime has little element of long-term development.

Historical experience has shown that industrialization is the best avenue for development. This requires the government to put in place appropriate development oriented institutions and an industrial policy for the transformation of the economy, including agriculture. Such a policy needs to put technological capability building at the forefront, with manufacturing at the center of its program. Without any policy change, the current trend of falling productivity and eventual closing down firms will not be halted.

2.3 Incentive-Driven Private Investment in Manufacturing

2.3.3 Introduction

Economic growth is driven by the interplay of a number of factors. Investment is one of the critical elements that determine the level and pace of growth. It helps to introduce technological changes and enhance the quality of human resources, which in turn improve productivities and competitiveness. Conventionally, investment inducing factors are associated with large market, low cost of labour, abundant natural resources and close proximity to major developed countries' markets. However, these factors presuppose the existence of an enabling policy environment. A growing body of literature relating institutions to economic performance argues that good economic

institutions raise economic growth by promoting higher investment. In order to draw a meaningful level of investment, government policies are required to establish developmental institutions (rules, regulations and enforcement mechanisms) aiming at removing constraints and building confidence of the business community.

Growth is largely determined by the rate of investment. Investment, be it on human or physical assets, is largely a long term venture. It is deferred consumption for future benefit. Investment involves not only opportunities but also risks. Ex-ante risk assessment, in particular, is a complex phenomenon, as it involves not only too many factors, but also unpredictable ones. So, detailed and informative feasibility and related studies need be undertaken before the decision to invest. Often, for initiating any investment, one has to be convinced, at least for a start, that at worst the investment would not be loss making.

One of the most important factors for consideration in the decision to invest, particularly in developing countries, is business confidence on the prevailing policy environment.

The cross-country empirical literature on determinants of private investment provides support for the claim that policy uncertainty (lack of business confidence) is associated with lower levels of private investment. In his discussion on FDI and the national development, Rodrik noted the following (South Bulletin, 2004, No. 73, p.80):

What we have come to understand much more about the nature of development policy and the policies that tend to support it, is that the key in all of these instances is to get your own domestic producers, your own domestic investors, your own domestic entrepreneurs excited about investing in the home economy. That in some sense is the central challenge of development – not how to get exports out, not how to get foreign investors in – but how to excite your own domestic entrepreneurs to want to invest and to be entrepreneurial in the home economy.

Confidence is an all embracing concept and depends on many factors, of which governance is the major one. Governance broadly involves the process by which government is selected, monitored and replaced (i.e., voice and accountability, the degree of political stability, and absence of violence), the capacity of a government to formulate and implement sound policies, including the process of policy formulation (government effectiveness and regulatory quality), and the respect of the state (and citizens) for the institutions (the rule of law and corruption). This implies that the confidence that citizens and the international community have on the smooth and peaceful transfer of government power, the quality of the bureaucracy, the relevance, consistency and business friendliness of policies and regulations, the neutrality and enforceability of the rule of law, and the exercise of public power for national gain (absence of corruption) heavily and a priori influence the decision on long term investment. So, at the outset, the decision to invest rests on the confidence of the business community on the quality of governance. Differences in the degree of confidence are, perhaps, one of the basic underlying factors leading to a variation in the level of investment between backward and industrialized countries.

Given an enabling environment, there is then the need to think about on what specific activities to invest. This calls for calculating the familiar (class room knowledge) rate of return. Not all activities pay equal return. There is a need, on the part of the investor, to investigate more on profitable activities.

The state has also a role to play in this respect. Good governance alone may not be enough to attract large investment. Government policies can influence the direction of investment through incentives. Developmental states offer incentives for investments in specific or targeted activities, depending on the development strategy in place. The role of incentives is to reduce risks, thereby increasing the possible rate of return and to direct investments to more growth or development augmenting specific activities at a given stage of economic development.

This section investigates the status of incentive-driven investment in Ethiopia since it has been introduced 13 years ago. It also reviews the incentive environment which led to the prevailing level and quality of investment, with emphasis on manufacturing sector, and attempts to draw some policy implications.

2.3.2 Investment Incentives

With the end of central planning, a hybrid of a command and market oriented economic management (a variant of a mixed-economy) has been introduced. While ownership of land⁴, the basic means of production, is preserved for the state, private sector participation in most (though not in all) economic activities has been largely encouraged. The government has issued various rules and regulations, lifting restrictions imposed on the private sector partially and introducing various forms of incentives to encourage investment.

To cater efficient and effective services to private investors, particularly foreign investors, the Ethiopian Investment Commission (EIC) has been established. In addition to issuing and approving investment permits, EIC provides registration services to newly incorporated business organizations, grants work permits to foreign employees, issues trade and operating licenses to approved foreign investments, facilitate the acquisition of land by foreign investors, etc.

Since the first investment proclamation in 1992, investment codes have been revised a number of times in an attempt to address constraints facing investors. The recent investment code provides the following package of incentives to investors on new enterprises, and making major expansions of existing ones.

⁴ State ownership of land is the bed-rock of the development strategy of the government and the political configuration of the country.

For all investment in priority activities⁵, capital goods and spare parts worth up to 15 percent of the value are eligible for exemption from customs duties and other taxes levied on imports. Depending on the location and type of investment, an income tax holiday ranging from one to five years is granted for new investments. Losses incurred during the tax holiday period shall be allowed to be carried forward for three to five years following the expiry of the holiday.

All projects are given two years of profit tax exemption and this is extended to five years if the firm exports at least 50 percent of the output, or supplies at least 75 percent of its output as an intermediate input for an exporting industry. The exemption period is further extended up to seven years if it is considered special, though no criteria have been clearly specified for tagging a project as such. Profits and dividends, principal and interest payments on external loans, etc., are allowed to be remitted in foreign exchange.

Moreover, important raw materials for inputs in the production of export goods are exempted from custom duties. Different rebating mechanisms are introduced, including Duty Draw Back Scheme, Voucher Scheme and Manufacturing Warehouse Scheme. Though there are some restricted activities for foreign investment, the incentives in place (other policies aside) opens better business opportunities for private investors – both foreign and domestic.

⁵ Most investments are eligible for basic incentives. However, priority activities are also entitled for additional incentives. Such additional incentives are largely attached to export trade. In this context, export of agricultural commodities and agro-processed goods come to the forefront. As such, priority is not for production or productivity of agricultural or industrial goods or other services, but only for export. The focus is on export of agriculture related goods very much in line with the theory of international trade and direction of international economic order, where developing countries are encouraged to focus on agriculture and trade not on industrialization. So, the incentive structure has little to do with industrialization. (See Ministry of Information, 2002)

2.3.3 Investment Performance

2.3.3.1 Aggregate Private Investment

Following the first investment proclamation in 1992, a large number of domestic private investors (and few foreign) took investment licenses. As shown in Table 2.8, between 1993/94 and 2005/06, licensed investment capital, amounted to \$23.7 billion, equivalent to about \$1.8 billion per year, on average. Over the period, licensed capital increased, on average, by 30 percent annually (Table 2.9).

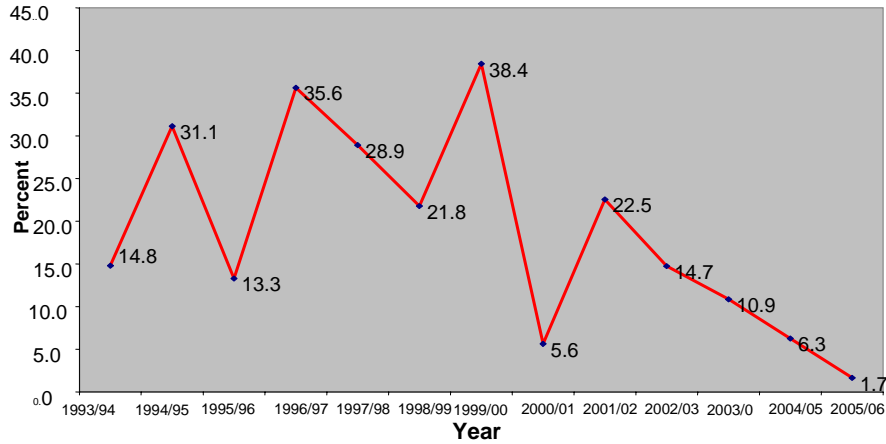
Table 2. 8: Private investment in Ethiopia - million USD

Type of Investment	1993/94–1999/00		2000/01–2005/06		1993/94-2005/06	
	Total	Average	Total	Average	Total	Average
Total licensed	6644	949	17026	2838	23670	1821
Total operational	1816	259	1107	185	2923	225
Domestic operational	1295	185	667	111	1962	151
Foreign operational	521	74	441	73	961	74

Source: Ethiopian Investment Commission, 'Statistics on Investment in Ethiopia, Nos. 2 – 8.

Policy environment permit, this level of licensed investment (and also the trend) indicates the potential capacity of the private sector to invest in modern economic activities. However, only a small proportion of this potential materialized in practice. Over the same period of time, only 19 percent of total capital licensed has been made operational. As shown in Figure 2.4, the larger proportion of investment capital was made in the first half of the period, 1993/94-1999/00. Figure 2.4 also portrays the proportion of actual investment over the 13 years period. Accordingly, actual as a proportion of licensed investment, reached its peak (38 percent) in 1999/00 and declined thereafter.

Figure 2. 4: Operational investment as a proportion of licensed capital



Source: Ethiopian Investment Commission.

Actual investment increased by 74 percent in the first half of the period, but only by 22 percent during the second half (Table 2.9). The decline in the rate of growth was observed in both domestic and foreign investments. So while on the one hand, incentives were effective enough to motivate private investment, on the other, some barriers might have been discouraging actual investment in practice.

Table 2. 9: Annual average growth rates of private investment (percent)

Type of Investment	1994/95–1999/00	2000/01–2005/06	1993/94–2005/06
Total licensed	17.4	43.4	30.4
Total operational	73.6	22.1	47.9
Domestic operational	66.1	38.9	52.5
Foreign operational	1076.6*	124.4	600.5*

Source: Ethiopian Investment Commission, 'Statistics on Investment in Ethiopia, Nos. 2 – 8.

* Too high percentage points due to small initial values

LARGE AND MEDIUM SCALE MANUFACTURING INDUSTRIES

While the deterioration of business confidence is a matter of serious concern, the magnitude of actual investment too, is not comforting either. Actual investment, over the 13 years period, was only \$2,923 million, implying an annual investment level of only \$225 million, on average (Table 2.8). By all standards, this level of investment is quite small. For instance, compared to the gross capital formation in the country, which encompasses all investments (by individuals, households, government, NGOs, etc), in all sectors of the economy, it figured only 15 percent, for the nine years period between 1995/96 and 2003/04⁶. Or as a proportion of GDP, it is only 3 percent (Table 2.10). Note that gross capital formation itself, which is equivalent to less than \$30 per capita per year, is one of the lowest even by Sub-Saharan Africa standard.

Table 2. 10: Private investment shares (percent)

Descriptions/ratios	1993/94- 1999/00	2000/01- 2005/06	1993/94- 2005/06
Operational total/licensed	26.3	10.3	18.9
Domestic/operational total	78.1	65.3	72.2
Foreign/operational total	21.9	34.7	27.8
Operational total/GCF	---	---	15.2*
Operational total/GDP	---	---	3.0*

Source: Ethiopian Investment Commission, 'Statistics on Investment in Ethiopia, Nos. 2 – 8.

* For the period 1995/96 – 2003/04

Another aspect of this incentive-driven private investment worth noting is its ownership composition. As explained above, the incentive structure most favors foreign investment. According to the 'Industrial Development Strategy', the overall development strategy may be regarded, at least partially, as 'export-led', though the document does not provide any consistent and sound

⁶ The figures for the previous period are calculated based on different methodology, hence not consistent

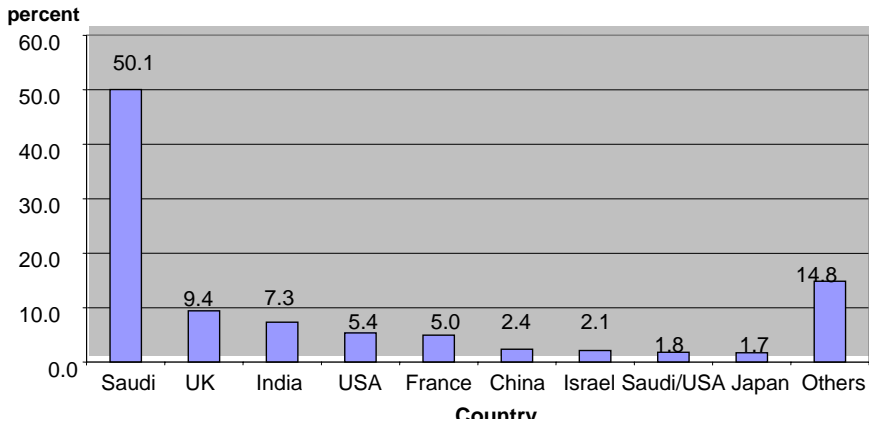
theoretical basis for its argument. The policy document reads to the effect that 'development would not materialize unless the country expands its export base to earn large foreign exchange and attract considerable foreign investment – even if success would be recorded in all other economic activities'. But how significant is foreign investment in Ethiopia and other African countries to make a difference? And as underlined by Rodrik, is development all about exporting and attracting foreign investment, or about expanding domestic investment, the production base, and technological capability building?

As shown in Table 2.8, the total foreign investment in Ethiopia over the 13 years period was just \$961 million, implying annual investment of \$74 million, on average. This accounts for only 28 percent of the total incentive-driven private investment (Table 2.10), or about 1.8 percent of total national investment (gross capital formation). This level of investment hardly matches the incentive priority accorded to it.

What should also be underlined is the skewness of the origin of foreign investment. As portrayed in Figure 2.5, Saudi Arabia alone accounts for half of the total FDI. For the remaining half, each country accounts for less than 10 percent. Even the seemingly high business interest of Saudi Arabia cannot be attributed to policy factors. It is largely due to a one company's factor – Alamoudi's factor. Takeaway this factor, then little is left of Saudi's investment.

Though much smaller or insignificant in the case of Ethiopia, foreign investment in Africa in general, is quite limited – on average about 19 percent of gross fixed capital formation (UNCTAD, 2006). So, the underlying question in this context is that why the over-emphasis on such limited external resources and out-looking development strategy, when the domestic source is the dominant one?

Figure 2. 5: FDI by country of origin



Source: Ethiopian Investment Commission.

2.3.3.2 Investment in Manufacturing

Sectoral share: Given the policy direction, which claims to have given top priority to agriculture, one expects the sectoral distribution of investment to have strong correlation with this sector. However, this does not seem to be the case. Less than one-fourth of the total investment was invested in agriculture, while industry, including mining, manufacturing, construction and electric power⁷ accounted for 42 percent of the total (Table 2.11). In this regard, it should be underlined that agricultural land, the most important means of production, is still state owned and securing one is a difficult, if not an impossible task.

Services accounted for the remaining 35 percent of the total. It should also be noted that investment in some important service activities, such as electric power and telecommunications was allowed for private investment only recently. Moreover, regarding investment in telecommunications, no other

⁷ Note that there is still no private investment in electric power.

form of ownership is allowed, except for joint venture with government. Similarly, in electric power supply, as transmission through the national grid is reserved for the government, any private investment in this sector has to strike a long-term deal with EEPSCO. Moreover, the financial sector is still closed for foreign investment. Such policies inevitably deter private investors, both foreign and domestic, particularly those with adequate capital but regard joint venture as a limitation. Perhaps, had it not been for such constraints, investment in the service sector would have been much more substantial than it is now.

Table 2. 11: Sectoral share in total private investment (1993/94-2005/06)

Sector	Share (%)
Agriculture	22.5
Industry	42.0
of which manufacturing	35.0
Services	35.5

Source: Ethiopian Investment Commission, 'Statistics on Investment in Ethiopia, Nos. 2-8.

Level and growth of investment: Investment in manufacturing, which is the central focus of this section, accounts for about one-third (35 percent) of the total incentive-driven private investment (Table 2.11). Just over 80 percent of the investment in the industrial sector is made on manufacturing.

Table 2. 12: Investment in manufacturing (values in million USD)

Sector	1993/94- 1999/00	2000/01- 2005/06	1993/94- 2005/06
Industry	811.5	359.1	1170.6
Manufacturing total	636.6	331.1	967.7
Manufacturing annual average	90.9	55.2	74.4
Manufacturing annual growth (%)	77.8	-10.3	33.7

Source: Ethiopian Investment Commission, 'Statistics on Investment in Ethiopia, Nos. 2-8.

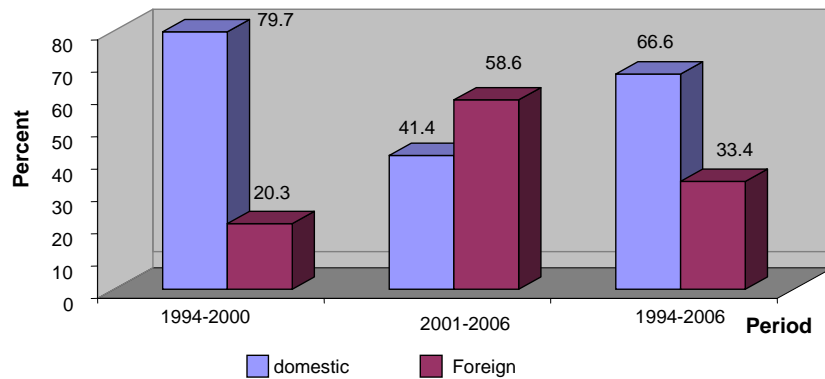
As shown in Table 2.12, the total investment in manufacturing for the whole period was only US \$968 million, which is equivalent to \$75 million per year, on average. For a poor country but with very large population such as Ethiopia,

LARGE AND MEDIUM SCALE MANUFACTURING INDUSTRIES

this is too small an investment to make any difference in its industrialization effort. For the period under discussion, investment in manufacturing increased by 33 percent, on average, annually. But, as noted above, the rate of investment sharply declined in the second half of the period. The highest investment was made in the three years period between 1997/98 and 1999/00. Thereafter, it declined on average by 10 percent per year.

Ownership composition: For the period under discussion, two-third of the total investment in manufacturing is contributed by domestic private while the remaining one-third is by FDI. Over the years, however, the composition changed substantially; foreign investment increased its share from 20 percent in the first half, to 58.6 percent in the second half of the period, while the corresponding shares of domestic private decreased from 80 to 41 percent (Figure 2.6. Relatively high foreign investments were made in 2004 and 2005 only. In all other years domestic private investments are much larger.

Figure 2. 6: Share of domestic & foreign investment



Source: Ethiopian Investment Commission

Size of firms: For long, manufacturing in Ethiopia has been dominated by small size firms. Half of the total firms employ less than 25 workers per firm;

and another 20 percent employ between 25 and 50 workers per firm (EEA/EEPRI, 2005). The size of newly established firms in the last 13 years is a reflection of this fact. For all private firms established during this period, average investment capital per worker was only \$ 27, 000, while capital per firm was about \$1.4 million. This implies an average employment level of 50 workers per firm, suggesting that most of the firms are small size. So, the long enduring problem haunting manufacturing firms in Ethiopia, i.e., the inability to benefit from economies of scale, and thereby the lack of competitiveness, also persists in newly established firms. At the same time, given the low level of capital per firm, it is difficult to think that most of these firms are technologically advanced.

Investment quality: Sub-sectoral distribution of investment in manufacturing: Typical of backward economies, investment in the past concentrated on natural resource-based and other consumption oriented industries. This has been the pattern for the last half a century, since industrialization has been launched in the country. Accordingly, industries such as food processing, beverages, textile and garments, leather and leather products, and non-metallic mineral products were given the lion's share of industrial investment.

Encouraged by the incentive structure and industrial policy orientation of the government, which focused on consumption goods industries, the pattern of investment for the last 13 years followed the same route. Strategic and capital goods industries (such as chemical, basic iron and steel, electrical machinery and apparatus, electronics equipments, medical instruments, motor vehicles and other transport, etc), have been given no consideration. As shown in Table 2.13, between 1992/93 and 2004/05, of the total investment, food products and beverages accounted for 26 percent; textiles and garment for nearly 12 percent, leather and leather products for 8 percent. So such agro-based industries alone absorbed nearly half of the total investment. Intermediate inputs industries such non-metallic mineral products industries alone accounted for 18 percent of total investment. Strategic and capital goods industries (noted above) had a petty share between 6.3 and 10

LARGE AND MEDIUM SCALE MANUFACTURING INDUSTRIES

percent. A recently noted change is the relatively significant investment in pharmaceutical and plastic products industries, which together accounted for about 17 percent, for the same period.

Given the policy orientation of the government, this pattern will continue further retarding technological capability building, and thereby, the process of industrialization of the economy.

Table 2. 13: Investment pattern in manufacturing

Sub-Sector	Share (%)
Food Products and Beverages	26.0
Textiles and Garment	11.8
Leather and lather products	8.1
Non-metallic mineral products	17.7
Plastic/rubber products	11.1
Metal products	10.0
Pharmaceuticals	5.7
Chemical products	4.3
Electrical/electronics, medical instruments & motor vehicles	2.0
others (paper, wood, furniture, etc)	3.3

Source: Annex 1.

2.3.4. Removing Institutional Constraints: A Prerequisite for Revitalizing Private Investment

As discussed above, the policy environment which reinstated private sector role into the modern sector of the economy in the early 1990s failed to motivate private investment further. A study on business confidence clearly demonstrated that the business confidence in Ethiopia has been rather deteriorating, at least since the mid 1990s (Berhanu Nega and Kibre Moges, 2004). Around 60 to 70 percent of business leaders believed that government is ineffective in delivering its services. Another 60 to 63 percent think that policies and regulations were in general restrictive, ineffective and cost imposing. Also, 58 to 64 percent strongly believed that the rule of law in the

country (including the effectiveness of parliament as a law making body, the independence of the judiciary from political influence of government officials, the efficiency of the legal framework for private business to settle disputes, protection of private property, etc.) is inefficient and weak.

To sum up, to rebuild the weak investor confidence of the private sector in Ethiopia, and thereby reinvigorate investment on a sustainable basis, the ground work has to be completed, that is development oriented institutions need to be strengthened. Institutions are necessary, though not sufficient for socio-economic development. Having reliable and predictable institutions in place, the government needs to introduce an investment coordination scheme with a consciously designed incentive structure to direct investments towards development oriented strategic sectors and activities in order to balance for the long-term industrialization interest of the nation. To underline it further, the foremost task of the government is, to rebuild investors' confidence. Two broad reinforcing measures need to be in place: removing institutional constraints ranging from bureaucratic red-tape to inadequate and incentive structure of the investment environment.

Chapter 3

The Performance of the Ethiopian Agriculture

3.1 Typology and Structure of the Ethiopian Agriculture

National data on the structure of Ethiopian farms in terms of farm size, employment of factors and their productivity, level of commercialization, etc. are generally scanty. Nevertheless, the 2001/02 Sample Agricultural Enumeration provides some data on some of these issues. Based on the sample enumeration, the Central Statistical Authority produced a series of agricultural census reports in 2003 and 2004 that showed the structure of farms in Ethiopia. The reports have identified three categories of farms: small rural and urban private farms and large-scale commercial farms. There were no cooperative farms in the country at the time of the census (Girma, 2006).

3.1.1 Smallholder/Peasant Agriculture

The total agricultural population of Ethiopia in 2002 was 53,696,064 (80% of the country's population). This population lived in 10,419,507 agricultural households, with average 5.15 persons per household. The total landholding size of these agricultural households was 11,047,249 hectare with an average holding size of 1.06 ha per household⁸. Of the total 11,047,249 hectare land holding, 74.2% (8,193,391 ha) was used for temporary crops, while only 6% (667,768 ha) was used for permanent crops. The remaining

⁸ Land holding refers to land under temporary/annual crops, permanent crops, grazing land, fallow land, wood land, and land used for other purposes. Agricultural household refers to a household where at least one of the household members is engaged in growing crops and/or raising livestock.

was used for other purposes. The distribution of land by tenure system in 2001/02 was known to be 86.3% cultivated by farmers having use rights, 10.1% rented and 3.6% of other tenure type (Girma, 2006). As shown in Table 3.1, in terms of landholdings the structure of the Ethiopian peasant farms is relatively homogenous. Over 86% of the farming community cultivates farm land with area less than 2 hectare. Farmers who cultivate land as small as 0.1 hectare or less constitute 7% while another 29% cultivate farms less than 0.5 hectare (but greater than 0.1 hectare). Some 26% of the farmers cultivate farms that vary between 0.5 and 1 hectare in size.

Table 3. 1: The distribution of landholding size of the smallholder households

Land holding size	% of agricultural households	Cumulative % of agricultural HHs
< 0.10 ha	7.2	7.2
0.10-0.50 ha	28.6	35.8
0.51-1.00 ha	25.8	61.6
1.01-2.00 ha	24.8	86.4
2.01-5.00 ha	12.5	98.9
5.01-10.00 ha	1	99.9
>10.00 ha	0.1	100

Source: Girma (2006).

3.1.2 Medium and Large Scale Commercial Farms

In terms of ownership structure, there are three types of medium and large-scale commercial farms: state owned, and private and semi-private commercial farms. The later includes farms owned by institutions with non-agricultural mandates such as prisons, schools, etc., grouped under 'other farms'. Among the 2809 large and medium scale farms that existed in the country in 2001/02, those owned by private commercial farmers are 740 (26%), their average size

THE PERFORMANCE OF THE ETHIOPIAN AGRICULTURE

being 320 hectare⁹. While only 1% of the farms are state owned, the large majority, 73% are grouped under 'other farms' (see Table 3.2).

Relatively speaking, commercial farms are not significant in terms of the area of cultivated land and volume of production in the country's agricultural sector. The land area cultivated by medium and large scale farms was 362,914 ha. Out of the total 136.31 million quintals of output reported to have been harvested during the 2001/02 agricultural year, 3.3 million quintal (2.4%) came from the commercial farms. About 96.8% of the total agricultural land was cultivated by the smallholder sector which produced 97.6% of the agricultural output in 2001/02. According to Girma (2006), among many factors, the government policies and strategies marginalized the large-scale commercial agriculture and discouraged their development.

Table 3. 2: Number, land area, production and yield levels of large and medium scale farms in Ethiopia¹⁰

	Unit	All farms	State farms	Private Commercial farms	Others
Number of farms	No.	2809	31	740	2,038
Average farm size	Ha	129	2,310	320	27
Temporary food crops area	Ha	284,174	32,214	206,222	45,738
Temporary food crop production	Qt	2,294,070	841,231	1,046,033	406,748
Yield of temporary crops	Qt/ha	8.1	26.1	5.1	8.9
Permanent crops area	Ha	49,888	25,051	16,067	8,770
Permanent crops production	Qt	682,771	210,935	361,310	102,619
Yield of permanent crops	Qt/h	13.4	8.4	22.5	11.7

Source: Girma (2006).

⁹ Even though data is not readily available, the role of commercial agriculture has slightly increased with the recent phenomena of flourishing cut-flower farms in the country. The flower sector is largely dominated by foreign investments.

¹⁰ The table does not include cotton (a temporary crop). At the time of the census, cotton covered a total area of 28, 851 ha land of the state and commercial farms only, with a total production of 322,332 qt.

The total irrigated area for large and medium farms was only 97,651 ha or 27% of the land cropped by these farms¹¹. Of the irrigated land, the share of private commercial farms was 61.3% (59,833 ha.). The main crops that were irrigated in the order of their importance were permanent crops, grain, root, cotton, vegetable and other crops.

3.2 The Role of Agriculture in the National Economy

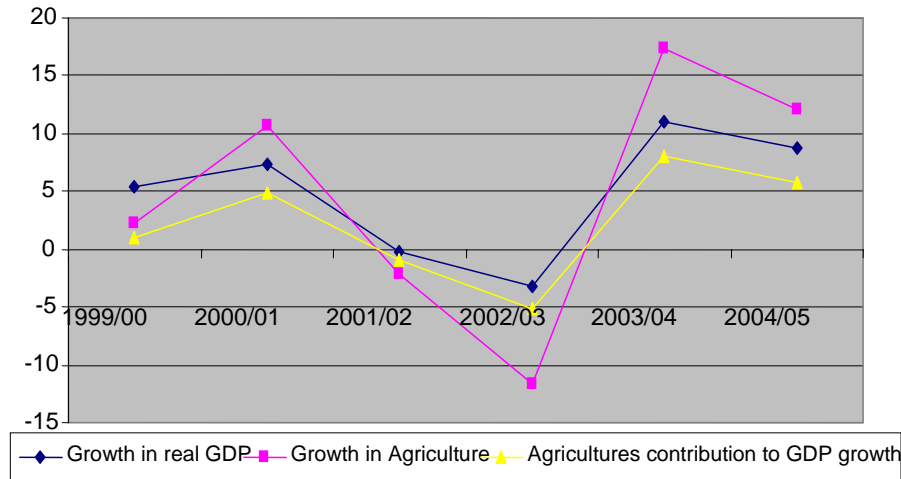
3.2.1 Contribution to GDP

The Ethiopian economy is highly dependent on agriculture, which contributed about 48 percent to GDP in 2004/05 (NBE, 2005). In the last three years, the agricultural sector has performed well. After a decline of 12 percent in 2002/03, its value added increased by 19 percent in 2003/04 which further bounced by 12 percent in 2004/05 (NBE and MoFED, quoted from FAO/WFP, 2006). Further, the contribution of agriculture to GDP growth was the highest relative to the other sectors. For instance, in 2004/05, the economy grew by 8.8% of which 5.8% (or 66%) was contributed by the agricultural sector (Figure 3.1).

Even though the agricultural sector performed well in recent years, the annual growth rate of its GDP fluctuated from year to year. Growth rate was negative in 2001/02 and 2002/03, while it was positive and robust then after. This variation was largely associated with weather condition. Moreover, expansion in the size of cultivated land (and land converted from other uses like grazing, forest and fallow) and improvement in the use of fertilizers had also contributed to the recent improvement in the performance of the sector.

¹¹ The total area of irrigated land in Ethiopia for all kinds of crops and for both peasant, medium and large- scale commercial farms in 2001/02 was 273,387ha. This area made only 2.8% of the cropped land, and 7.8% of the 3.5 million ha potential irrigable area of the country.

Figure 3. 1: Growth in real GDP and agriculture in Ethiopia



Source: Computed based on data obtained from NBE, 2004/05 Annual Report.

3.2.2 Contribution to Export Earnings

During the fiscal year 2004/05 total export earnings which stood at 818 million US\$ has shown an increase by 36 percent relative to the preceding fiscal year. Agricultural export accounted for more than 83 percent of this total earning. Most of the export products were unprocessed raw products, while few were semi-processed agricultural products. Among the agricultural commodities, coffee contributed about 41% of the export revenue in 2004/05, while semi-processed agricultural commodities did not exceed 3%.

The recent improvement in export earnings could be attributed to the increase in the volume of export and improved world price of agricultural export commodities. The volume of coffee exports rose by 28 percent between 2002/03 and 2004/05 (Table 3.3). During the same period, export of oil seeds and pulses grew by 70 percent and 83 percent, respectively. The revenue obtained from these export commodities increased even by higher

rate during the corresponding years. Earning from coffee exports doubled, while that of oilseeds and pulses increased by over 120 percent and 78 percent, respectively. Similarly, world price for hides and skins, meat and meat products, fruits and vegetables, and live animals all increased by about 23, 6, 75, and 133 percents respectively, during the 2004/05. For others, such as pulses and sugar and molasses, world price declined by about 15 and 94 percent respectively (FAO/WFP, 2006).

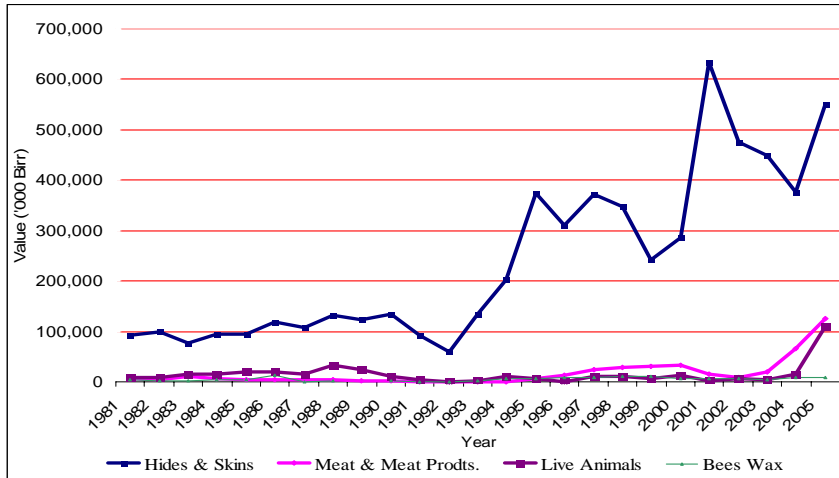
Table 3. 3: Major commodity exports of Ethiopia - (2001-2004)

Commodity	2002/03	2003/04	2004/05	Change (%) (2004/05)/(2002/03)
Coffee (US\$ Million)	165.2	223.6	335.4	103.0
Volume (000' tones)	126.1	159.7	161.0	27.7
Pulses (US\$ Million)	20.0	22.6	35.5	77.5
Volume (000' tones)	66.2	73.0	121.6	83.4
Oilseeds (US\$ Million)	46.1	82.7	102.3	121.9
Volume (000' tones)	83.0	106.0	140.7	69.5
Chat (US\$ Million)	58.0	88.1	99.9	72.2
Volume (000' tones)	8.07	13.80	21.67	168.5
Other exports (US\$ Million)	193.3	183.7	244.8	26.6
Total exports (US\$ Million)	482.7	600.7	817.9	69.4

Source: Customs Authority, National Bank of Ethiopia (as quoted in FAO/WFP, 2006).

Livestock trade activities have also improved in recent years. Not only were earnings from export of the livestock and products low, but were fluctuating from year to year (Figure 3.2). The largest contributor in this sub-sector is hides and skin. Export of meat and live animals seem to have revived in the last few years after facing serious challenges from export banning particularly in Middle Eastern countries for fear of suspected animal diseases in east African countries. In 2004/05, Ethiopia earned over 500 million birr each from export of live animals and meat.

Figure 3. 2: Export value of livestock and livestock products for Ethiopia

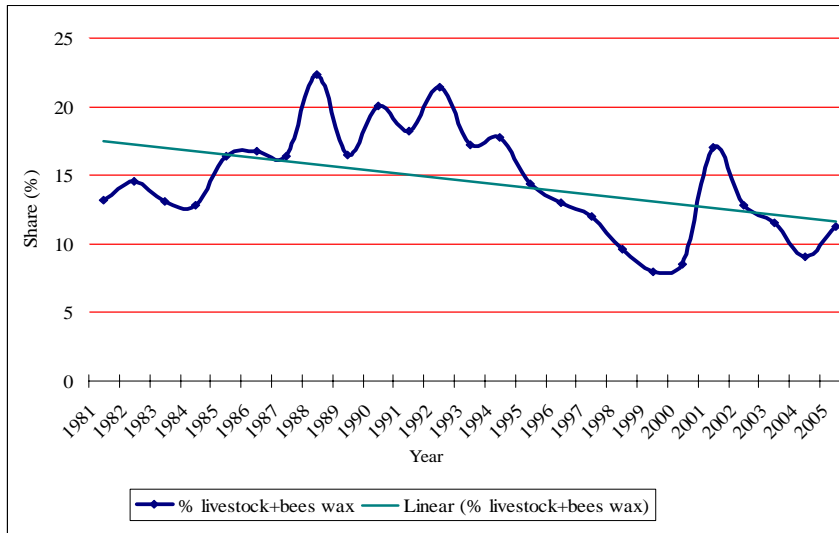


Source: Computed from FAOSTAT database.

The share of livestock and livestock products in total export earnings has fluctuated from year to year in Ethiopia. Over the last two and half decades, the share of livestock in total export earnings has shown a declining trend (Figure 3.3). Particularly, there was a drastic fall in the second half of the 1990s. Between the years 2000 and 2003, the down-ward trend started to reverse and the demand for export of live animals and meat witnessed a significant improvement in the last two years, namely, 2004/05 and 2005/2006.

In absolute terms, the average values of export from livestock and products, honey bee and wax were the largest in the second half of the 1990s. The average export value between 2000–2004/05 was only about 20% of the average for the second half of the 1990s (see Table 3.4). During the five years after 2000, the average share of the livestock sector in total export earnings for the country stood at only 14% of the total.

Figure 3. 3: The share of value of livestock and products export in total export earnings for Ethiopia



Source: Computed from FAOSTAT database.

Table 3. 4: Average level of livestock and products export value by period ('000 Birr)

Period	Hides & Skins	Meat & Meat Products	Live Animals	Bees Wax	Total	Share of livestock* (%)
1980-1984/5	91,510	6,335	13,679	3,081	114,604	14
1985-1989/90	123,666	3,523	20,254	4,414	150,974	18
1990-1994/5	172,505	1,639	5,074	3,060	182,278	18
1995-1999/0	311,833	26,007	8,479	8,628	354,947	10
2000-2004/5	71,078	4,714	2,260	1,527	78,891	14

* Share of value of livestock and products export in total export earnings for the country.

Source: Computed from FAOSTAT.

3.3 Agricultural Credit and Input Use

3.3.1 Agricultural Credit

Shortage of capital to finance agricultural production and marketing activities is one of the major problems the Ethiopian smallholder farmers face. Smallholder farmers need agricultural credit to meet short-term requirements of working capital and long-term investment in agriculture and other income-bearing activities. In Ethiopia, farmers need credit for short-term requirements usually to buy fertilizers and to a lesser extent improved seeds that can increase yield and production. Subsistence-oriented farm households also need credit to smoothen-out seasonal fluctuations in earnings and expenditure. Usually, rural households are vulnerable to various shocks (production, health, etc) that adversely affect their flows of income and hence consumption.

The Commercial Bank of Ethiopia (CBE) is the largest source of agricultural credit in the country. According to FAO/WFP (2006), more than 2.5 million farmers, accounting for a little less than 25 percent of total smallholder farms, obtained credit for the purchase of inputs, mainly fertilizer in 2005/06. The bulk of this credit was provided by the commercial banks with the intervention of the state governments to underwrite the loans. During the cropping year 2005/06, CBE approved loans amounting to a total of Birr 1.2 billion for agricultural input based on credit requests submitted by regional governments - Oromia, Amhara, SNNP, Tigray, and Addis Ababa. Table 3.5 presents the total agricultural input credit approved, disbursed, and overdue for the last five years.

The amount of agricultural credit approved by CBE for the cropping year 2005/06 is about 21 percent higher than that of 2004/05 and the highest compared to the last five cropping years. The credit repayment default rate was kept under control and it is expected that it will decline in the coming year given the prospect of good harvest. Furthermore, the regional governments in their capacity as guarantors of agricultural input loans are implementing measures to reschedule part of the past outstanding loans. The

interest rate on these loans is 7.5 percent shared between the CBE which receives 5.25 percent on the disbursed amounts and regional governments who receive 2.25 percent for loan disbursement, recovery, and administrative charges (FAO/WFP, 2006).

Table 3. 5: Agricultural credit - approved, disbursed, and overdue (2001/02 - 2005/06)

Year	Approved (Birr '000)	Total disbursed, (Birr '000)	Disbursed (percent)	Overdue (Birr '000)
2001/02	641 362	455 242	71	0
2002/03	545 303	304 625	56	27 433
2003/04	780 147	415 800	53	0
2004/05	989 316	795 604	80	258 349
2005/06*	1 194 139	532 119	45	556 156
Total	4 150 267	2 503 390	60	841 938

*Data as of September 2005.

Source: Commercial Bank of Ethiopia (FAO/WFP, 2006).

The amount of loans approved for the agricultural sector by the Commercial Bank of Ethiopia during the last five years has showed an upward trend. The amount disbursed, however, was almost constant, indicating a problem of not utilizing all the available credit offered or slow in executing loan disbursements.

3.3.2 Use of Modern Agricultural Inputs

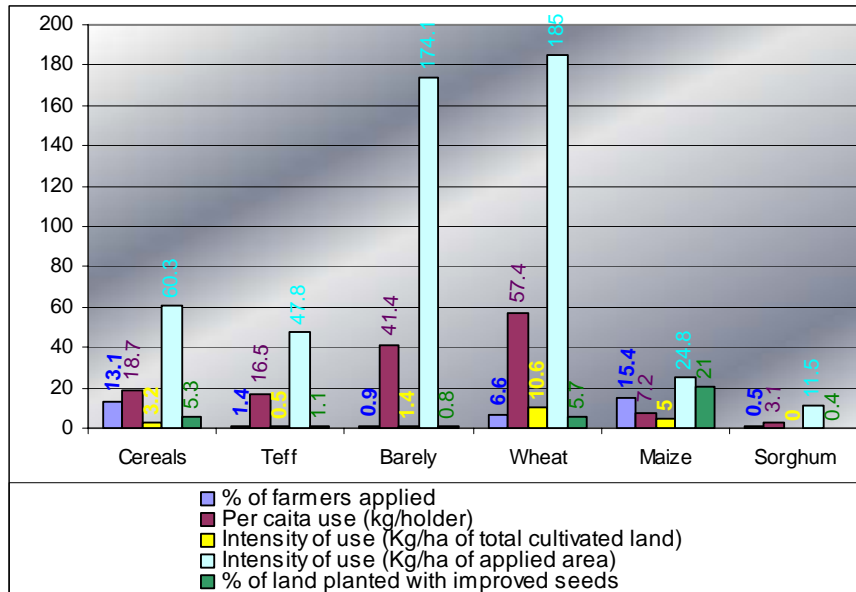
3.3.2.1 Improved Seeds

Improved crop varieties are crucial to increase agricultural productivity. Agronomists believe that improved seeds are the nucleus of all improvements where the potential impact of other farm inputs depends on. While the use of good quality seeds of adapted and improved varieties is widely recognized as fundamental to ensure increased crop production and productivity for centuries, the Ethiopian farmers largely use land races for

THE PERFORMANCE OF THE ETHIOPIAN AGRICULTURE

agricultural production. Even today, some 85 percent of Ethiopian farmers are believed to depend upon these seeds (Kebede, 1997, see EEA/EEPRI's Fourth Annual Report). The problem in Ethiopia is not only the production of high quality improved seeds but also marketing of seeds. Seed marketing is the weakest link in the seed production/marketing chain. The formal seed sector in Ethiopia does not have small- to medium-size enterprises that can produce and distribute seeds of improved varieties and guarantee supply of all types of crop seeds for the farmers.

Figure 3. 4: Use of improved seeds in the peasant sector in 2005/06 crop year



Source: Computed based on CSA (2006b)

As in 2004, in the meher season of 2005, 98 percent of the seeds used were local seeds carried over from the previous harvest either by the farmers themselves, following the traditional on-farm selection process whereby the farmer identifies next year's seed stock while it is still maturing in the field and

gives it special protection, or by buying from preferred seed stock kept by farmers in the same locality. In the surplus areas, such seeds are mostly open-pollinated releases from government seed agencies. Farmer multiplication of more recent releases, followed by farmer-to-farmer exchanges, augment the flow of quality seeds but their volume is difficult to quantify. In the more marginal areas local landraces are also in evidence and are exchanged or sold between farm families as needed (FAO/WFP, 2006).

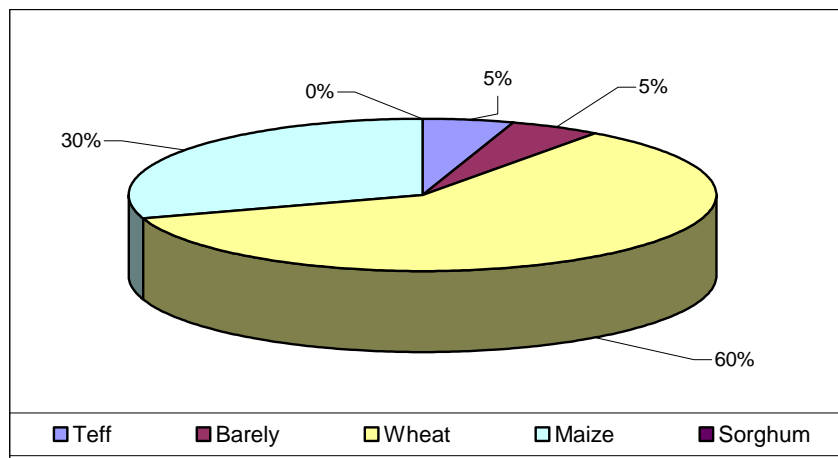
There was some minor improvement in the use of improved seeds in 2005/06. According to CSA's latest report, about 5.3% of the cultivated land under cereal crops was sown improved seeds (CSA, 2006b) while 95% of the area was covered by local seeds (Figure 3.4). In terms of the number of farmers, from the reported 10.6 million cereals growers (holders), about 13% planted some improved seeds in 2005/06. In addition to the low level of use both in terms of area and number of farmers, the use of improved seeds is highly skewed among the different cereal crops. Wheat, for instance, constituted about 60% of the total (258,884 quintals) improved seeds sown by the peasant sector in the 2005/06 crop season (Figure 3.5). Maize followed with 30% and barely and *tef* each with about 5%, while sorghum has a share of less than 1%. This variation in total use of improved seeds is directly reflected in the number of farmers applied improved seeds. The CSA data indicates that about 15% and 7% of maize and wheat growers, respectively, used improved seeds, while only 1.4%, 0.9% and 0.5% of *tef*, barely and sorghum growers, respectively, applied improved seeds in 2005/06 (CSA, 2005/06).

With the exception of wheat and barely, the intensity of improved seeds use (i.e. amount applied per hectare of cultivated land) is low, well below the level recommended by agronomists for most crops. The CSA report indicates that about 185 and 174 kilogram of improved seeds of wheat and barely, respectively, was sown on a hectare of land planted with these crops. A lower rate, only 25 and 16 kilogram, was sown on a hectare of maize and sorghum land, respectively (CSA, 2006b).

Reports indicate that the quality of seeds used in Ethiopia is low for various reasons. Among such reasons is loss of genetic quality due to long period of

repeated use (EEA, 2005). It is also argued that there have been weaknesses on the part of the research system to replace the old varieties. The service providing agencies in the seed industry have also some limitations. In general, the use of improved seeds is far behind the use of fertilizer while it is proved that, to be more effective in raising crop yields, both improved seeds and fertilizers must be used together.

Figure 3. 5: Share of different cereal crops in improved seeds sown (% of 258,884 quintal)



Source: Computed based on CSA (2006b)

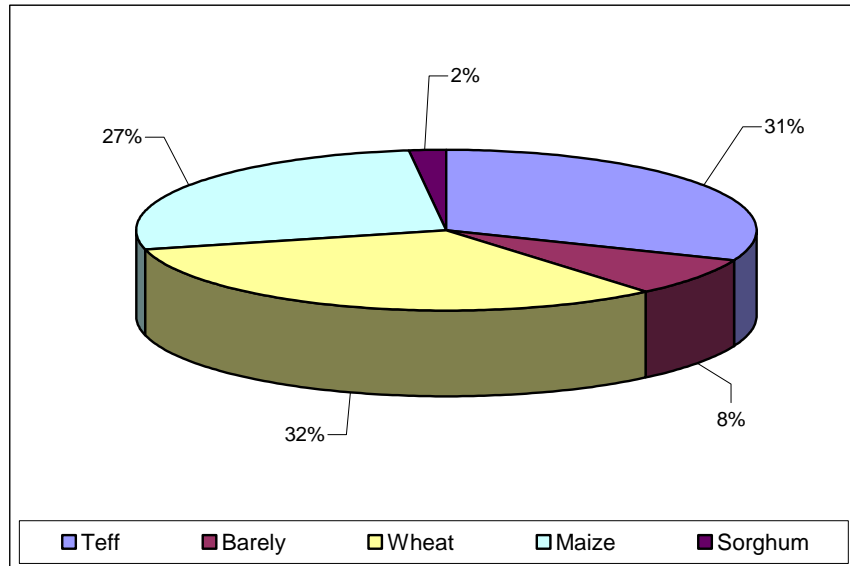
3.3.2.2 The Use of Fertilizer

As had been the case in recent years, the use of fertilizer increased by about 7.9 percent and reached 346,000 tones in 2005, despite a significant increase in the prices of DAP (di-ammonium phosphate) and urea. The price of DAP increased to 380 Birr per quintal (US\$ 439/tonne) while that of urea reached 318 Birr per quintal (US\$ 368/tonne)¹². Retail prices of fertilizer went up by around 20 percent for DAP and 18 percent for Urea. The demand

¹² www.fao.org/docre/008/j7071e/j7071e00.htm

appears to have been greater than the supply in the main production areas, particularly urea for top-dressing application (FAO/WFP, 2006).

Figure 3. 6: Use of fertilizer for production of different cereal crops (% of 3.5 million qt)



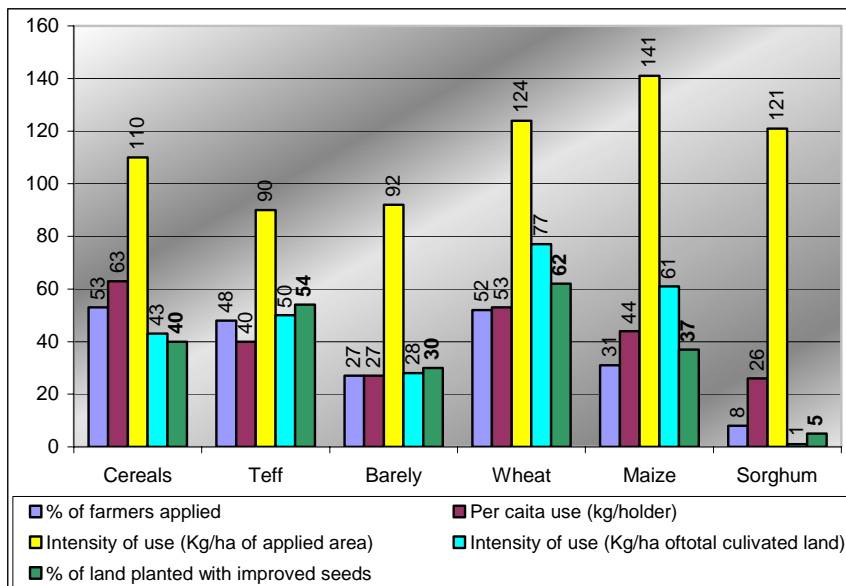
Source: Computed based on CSA (2006b)

Regarding the application of fertilizer to different cereal crops, wheat and tef used the highest fertilizer inputs in 2005/06, probably reflecting the high price of these crops in the market and the profitability of fertilizer use in these crops. These two crops absorbed 63% of the total fertilizer consumed in the peasant sector in 2005/06. Maize accounted for 27%, while the rest was used in the production of barely (8%) and sorghum (2%) (CSA, 2006b).

A little more than half (53%) of cereal farmers used inorganic fertilizers in 2005/06 crop year. There was a gap in terms of land fertilized and sown with improved seeds. About 40% of cultivated land was fertilized in 2005/06, while

only about 5% of land was covered by improved seeds during the same year (Figure 3.6). This wide gap implies the inability to realize the potential of increasing crop yield and production from combined effects of fertilizer and improved seeds. This unmatched use could arise either due to lack of access to improved seeds, unavailability, lack of quality seeds or high price of improved seeds or combination of these problems.

Figure 3. 7: Inorganic fertilizer (DAP and UREA) use in the peasant sector in 2005/06 crop year



Source: Computed based on CSA (2006b)

On the other hand, the rate of application of fertilizers has been much lower than what the experts recommend. The CSA data reveals that on average 110 kilogram of fertilizer was applied per hectare. This, however, varies between 141 kg/ha for maize, about 120 kg/ha in wheat and sorghum production, and 90kg/ha for teff or barely production, respectively. These rates of application are very low when compared to the 200 kg/ha recommended by the ministry

of agriculture. The intensity of fertilizer use would be much worse if we consider all cultivated lands. Only 43 kilogram of DAP and Urea were applied on a hectare of cultivated land (fertilized and unfertilized) in 2005/06.

3.3.2.3 Fertilizer Import and Marketing

With regard to fertilizer import, the foreign exchange needed for fertilizer importation was financed through loans, donor assistance (grants) and government treasury. The fertilizer sector has been deregulated and opened for private competition since the mid 1990s. The private sector in fertilizer trade is, however, still negligible. The state-owned enterprise, Agricultural Input Supply (AISE), other enterprises like *Ambasel* and *Wondo* and farmers' cooperative unions have been participating in the import and distribution of fertilizers in recent years.

Table 3. 6: Total fertilizer balance for the year 2004-2005 (in tones)

Enterprise	Opening Stock			Import			Total Supply		
	DAP	Urea	Total	DAP	Urea	Total	DAP	Urea	Total
AISE	4 363	25 627	29 990	125 000	99 521	224 521	129 363	125 148	254 511
Ambasel	6 580	5 048	11 628	50 000	25 000	75 000	56 580	30 048	86 628
Wondo	14 143	1 493	15 636	25 000	0	25 000	39 143	1 493	40 636
Merkeb	0	0	0	50 000	0	50 000	50 000	0	50 000
Lome-Adama	0	0	0	25 000	0	25 000	25 000	0	25 000
Yerer	0	0	0	0	25 000	25 000	0	25 000	25 000
Total	25 086	32 168	57 254	275 000	149 521	424 521	300 086	181 689	481 775
Sales							224 819	121 735	346 554
Closing							75 267	59 954	135 221

Source: Agricultural Input Market Department, Ministry of Agriculture and Rural Development (MoARD) (quoted from FAO/WFP, 2006).

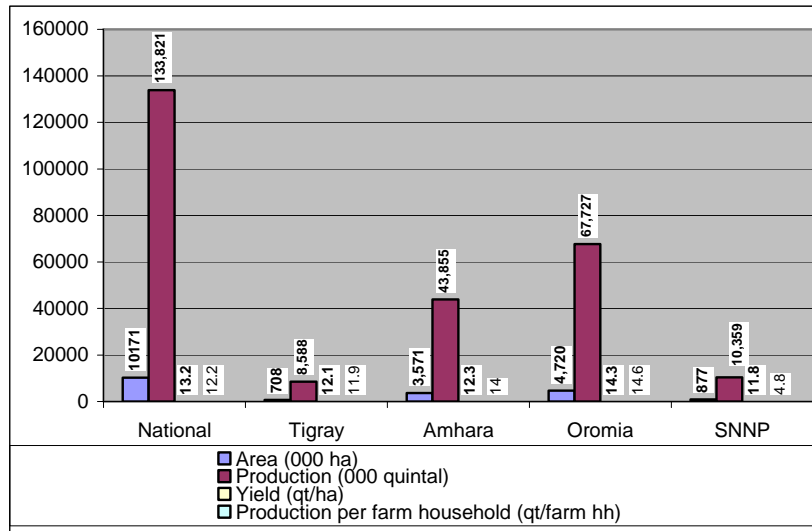
As fertilizer plays a very crucial role in achieving food security, the government is still involved in the sector by making credit available to farmers and encouraging more fertilizer use. In 2004/05, total fertilizer availability amounted to 482 000 metric tones comprising 425 000 metric tones of new imports for a total value of

US\$ 122 million and 57 000 metric tones of carry-over stocks (FAO/WFP, 2006). The level of fertilizer demand in 2005/06 amounted to 347 000 tones, which exceeded the previous year's demand by about 7 percent (Table 3.6).

3.4 Grain Production

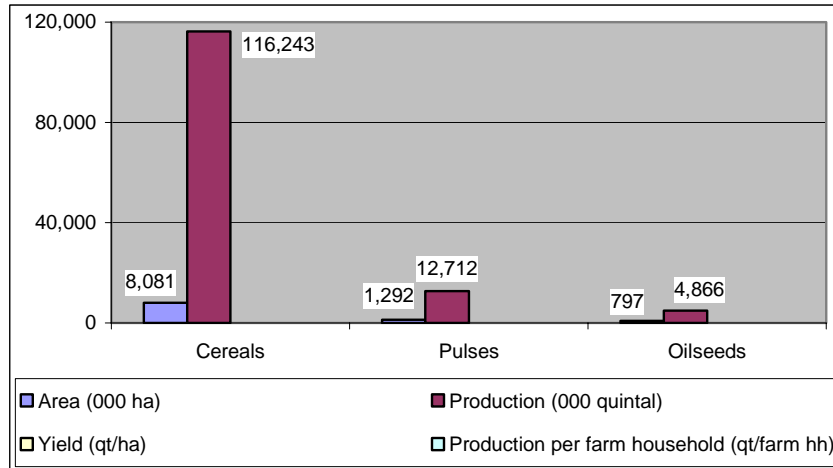
According to CSA's recent publication, over 10 million hectares of land was cultivated for grain production in 2005/06. Land under grain crops (cereals, pulses and oil seeds) constituted about 84% of the total cultivated land in 2005/06 crop season (Figure 3.8). Out of the total, the share of the four major regions accounted for over 95%. Similarly, in terms of production, the share of grain was 76%. Of the total cultivated land, Oromia and Amhara regions accounted for 46% and 35%, respectively. Farmers in SNNP and Tigray regions cultivated 8.6% and 6.9% of the total land covered by grains in 2005/06 crop year.

Figure 3. 8: Grain production in the four major regions in the 2005/06 crop season (*meher*)



Source: Computed based on CSA data (2006).

Figure 3. 9: The performance of major food crops in 2005/06 crop season (*meher*)



Source: Computed based on CSA (2006).

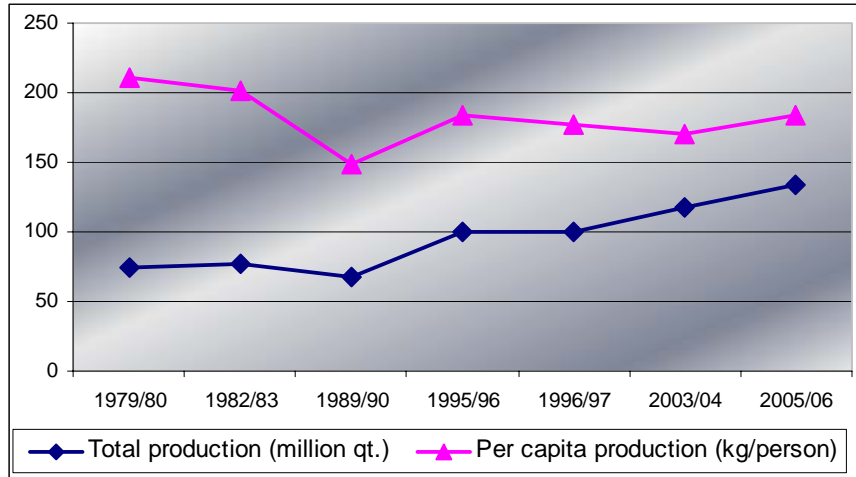
In terms of production, about 13.38 million tones of grain were produced. Compared to 2003/04, this indicates a 12.1% growth or an additional 14.5 million quintals. According to the official data, out of the 14.5 million additional productions, 4.4 million quintals (or 31%) was attributed to the expansion of area of cropped land while the remaining 10.1 million quintals (69%) resulted from increased land productivity which grew by 8.4%. The favorable weather condition (rainfall both in amount and distribution) also contributed to increases in level of production.

At a national level, the total volume of grain produced had progressively increased compared to some years in the past. But as noted in Figure 3.10, due to the significant influence of the increases in population in the country, the average per capita production of 183 kilogram is not far from the averages of previous years. Nevertheless, the trend in total grain food production is encouraging.

Despite the good harvest, some 2.6 million acutely food insecure people were required emergency food assistance. In addition some 7.2 million chronically

food insecure people were required food assistance through the productive safety net program (FAO/WFP, 2006).

Figure 3. 10: Total and per capita grain production for selected agricultural years



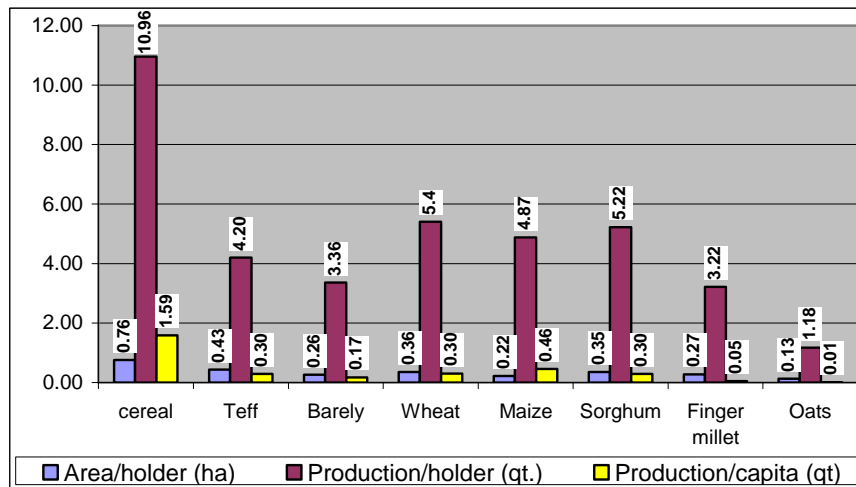
Source: Computed based on various CSA annual agricultural survey reports.

3.4.1 Production of Cereals

Cereals constitute the major staple food as well as the main source of income for the majority of Ethiopian farmers. Production of cereals also takes the largest share of cultivated land and inputs such as chemical fertilizer. In terms of land area coverage, cereals are the dominant crops grown in all regions of the country. Out of the total area cropped with grains as reported for the year 2005/06, about 79.5% (8.1 million hectares) was under cereals. Among cereals, tef and maize took up 22.1% (2.2 million hectares) and 15.0% (1.5 million hectares), respectively, while sorghum and wheat constituted 14.4% (nearly 1.5 million hectares) each. In terms of production, maize, wheat, tef and sorghum made up 24.9% (33.4 million quintals), 16.3% (22.2 million quintals), 16.3% (21.8 million quintals) and 16.2% (21.7 million quintals) of the total grain production, respectively (CSA, 2006).

The CSA's latest agricultural survey indicated that an average cereal producer cultivated about 0.76 ha of land and harvested 11 quintals of grain in 2005/06 crop year (Figure 3.11). On per capita bases, the nation produced only 1.6 quintals of different kinds of cereals per person. During the same year, an average tef grower cultivated 0.43 hectare of land which makes tef the leading crop in terms of the size of cultivated land. Tef also covered 28.8% of the 8.08 million hectares of land cultivated by cereals. In terms of production, Tef accounted for only 19% of the total production (Figure 3.13), reflecting the lowest yield for tef (9.7 qt/ha compared with 21.8qt./ha for maize or 15.3 qt/ha for wheat) according to CSA (2006). However, as tef fetches the highest price, it is still the most profitable crop.

Figure 3. 11: Production of cereal crops in 2005/06 crop year

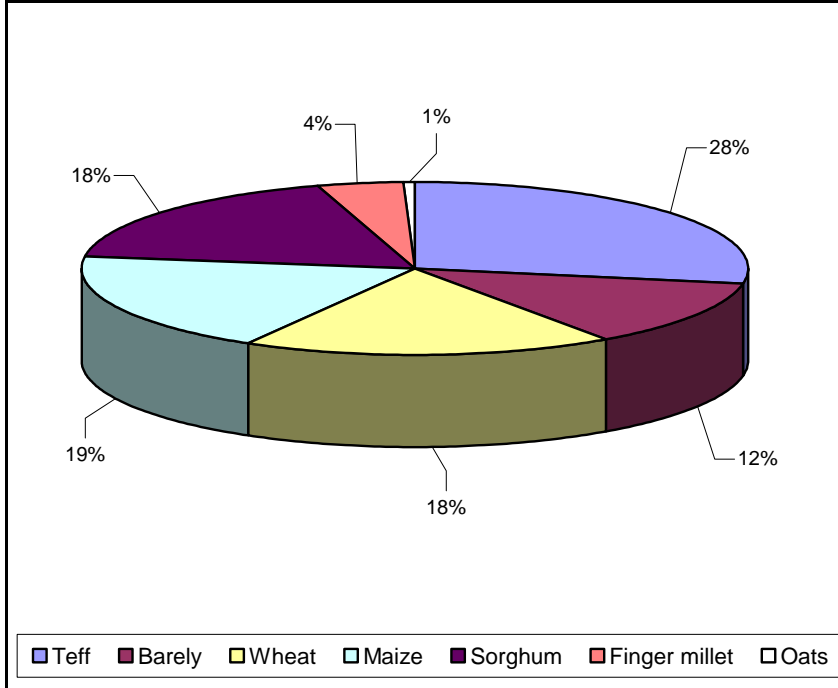


Source: Computed based on CSA data (2006a)

Maize covered the second largest share of the cultivated land in 2005/06. Total maize area was about 19% of the area planted by cereals (Figure 3.12). Because of its highest productivity (21.8 qt/ha) compared to other cereals, its contribution to cereal production was 10% higher than its area share. In terms of per holder (grower), maize was, however, less important than crops like wheat and sorghum. The average size of cultivated area (per grower) under wheat and

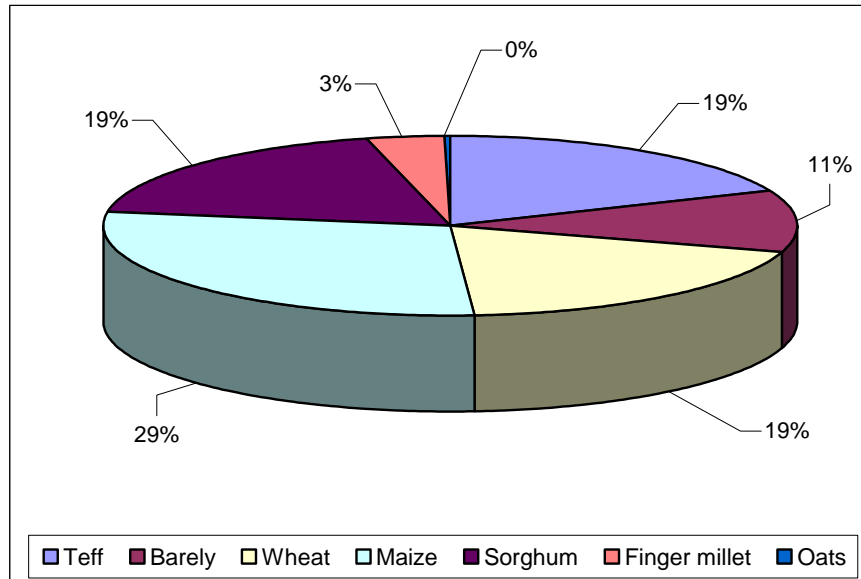
sorghum were 0.36 ha and 0.35 ha, respectively, while the average maize grower planted only 0.22 ha with maize in 2005/06 crop year. This indicates a large number of farmers (6.8 million) that rely on maize production for their livelihood.

Figure 3. 12: The share of different cereal crops in total cultivated land (%)



Source: Computed based on CSA data (2006a)

Figure 3. 13: The share of different crops in total cereal production in 2005/06 crop year (%)



Source: Computed based on CSA data (2006a)

3.4.2 Production of Pulses and Oil Crops

The 2005/06 CSA survey results indicate that pulses are grown all over the country both as staple and cash crops. According to the same survey, pulses covered about 12.7% (nearly 1.3 million hectares) of the total area cultivated while their share in grain production was only 9.5% (1, 27 million tones). The land areas used to plant faba beans, field peas and chickpeas were 4.5% (457 thousand hectares), 2.3% (233 thousand hectares) and 2.0 (201 thousand hectares) of the total area used for grain crops, respectively. Total production of faba beans, field peas and chickpeas in 2005/06 were 0.51 million, 0.18 million and 0.21 million tones, respectively.

Oilseeds covered 7.8% (797 thousand hectares) of the area cultivated by grain and contributed 3.6% (4.9 million quintals) to the total grain production in 2005/06. The three most important oilseeds, namely, *neug*, linseed and sesame covered 3% (about 307 thousand hectares), 2.1% (215 thousand hectares) and 2% (205 thousand hectares) of the grain crop area and 1.1% (1.5 million quintals), 0.94% (1.3 million quintals) and 1.11% (1.5 million quintals) of the grain production (CSA, 2006).

3.5 Production of Other Crops

The other important crops are vegetables, roots and tubers, fruits and stimulants. A great majority of Ethiopian peasant farmers do not commonly produce vegetable crops. Vegetables are mostly grown by farmers who have better access to markets or by those who live in peri-urban areas. According to CSA statistics, vegetables constituted 1.1% of the total area under all crops at the national level in 2005/06. Of all areas under vegetables during the same year, red peppers and Ethiopian cabbage constituted 69.3% and 19.6%, respectively. In terms of production, red peppers and Ethiopian cabbage took a share of 39.8% and 40.2%, respectively.

After cereals, root crops are important in Ethiopian diet, predominantly in the rural households of the southern and southwestern parts of the country. Some root crops like onion and garlic are indispensable components of '*wat*', Ethiopian stew used for daily consumption together with '*enjera*'. Others like potato, *enset* and taro are used as major food crops in many parts of the country. According to CSA (2006), root crops covered more than 1.55% of the cultivated area in the 2005/06 crop year. Potatoes, sweet potatoes and taro (*godere*) added 36.5%, 29.7% and 15.1% of the area to the root crops total. In terms of production, these crops contributed 33.7%, 30.6% and 12.9% in that order. Onion had a share of 9.8% in area and 13.2% in production.

More than 45 thousand hectares of land was under fruit production in Ethiopia (CSA, 2006). Banana accounted for about 62.4% of the fruit crop area followed

by mangoes which covered 12% of the total. About 4.3 million quintals of fruit was produced in 2005/06. Banana, papaya, mango and oranges constituted 49.4%, 16.6%, 12.8% and 11.8% of the fruit production during the crop year, respectively (CSA, 2006).

The CSA 2005/06 agricultural sample survey indicated that more farmers grew stimulant crops than they did fruit crops. *T'chat* and coffee are the most important stimulant cash crops both for the growers and the national economy. The production of these crops is usually greater than that of fruits crops as they earn more cash income for the producers. About 1.2 million quintals of *t'chat* and 1.7 million quintals of coffee were produced in the 2005/06 crop year (CSA, 2006). The volume of production of *t'chat* may well be above this as its measurement is less accurate and a significant amount is also consumed by the producing communities largely unaccounted for.

3.6 Summary and Conclusion

The performance of the agricultural sector during the past few years has been positive and encouraging supported by the favorable weather condition and increased utilization of inputs especially fertilizer. The total food grain production has been on an increasing trend. In 2005/06 crop season 13.38 million tones of grain was produced showing a 12.1% growth or an additional 14.5 million quintals over that of 2004/05. While the use of chemical fertilizers is still on the rise, the share of improved seeds in coverage of cultivated land is still low signaling the gap in realizing higher yields and production if completed with higher fertilizer uses. The amount of agricultural credit disbursed by banks against the approved amount was lowest at around 45% in the crop year 2005/06 compared to the pervious four years. The role of the medium and large scale commercial farms in the national economy and food security is still low relative to the smallholder sector. Medium and large-scale farms account for only 3.2% of the total cultivated land and 2.4% of agricultural production. In the input marketing and distribution sector the involvement of farmers' cooperative unions in fertilizer import and distribution along the public and other

THE PERFORMANCE OF THE ETHIOPIAN AGRICULTURE

enterprise groups has been a positive development towards enhancing the bargaining power and access of the farming community and reduction of distribution inefficiency. Cooperative unions are also engaged in export market, notably in coffee. There is an emerging tendency of agricultural and related export diversification whereby the role of the non-traditional high value commodities including cut flowers is increasing. Export volume of coffee, pulses, oil seeds and t'chat has been rising during the last few years. Similarly, export of livestock and products improved following the rising demand. However, the supply has not been adequate particularly for meat and live animals export creating some pressure on domestic price and consumption. The implication is that the existing smallholder production based supply system will not sufficiently cope with the growing demand unless supplemented with modern and better organized systems like ranching.

Chapter 4

Gender and Economic Development

“Human Development, if not engendered, is endangered” (UNDP, 1995).

4.1 Introduction

Gender can be defined in a variety of ways. According to the World Bank's (2001) definition, gender refers to socially constructed roles and socially learned behaviors and expectations associated with females and males. In this respect, it is important to note that gender is distinct from “sex”, which refers only to the biological differences between men and women. Unlike sex, gender differences and relations between women and men vary from culture to culture, from place to place and also over time. The main objective of this chapter is to give an overview of the current status of gender disparity in Ethiopia and the policies and programs adopted to address it.

More than ever before, gender equality (or lack thereof) has now received major attention from various governments, international communities and policy makers. Among others, this can be seen from The Millennium Development Goal (MDG) 3, which sets the global commitment among the international community to promote gender equality and empower women. It is now well recognized that ensuring gender equality is one of the major tasks of country Poverty Reduction Strategies (PRS), if these strategies are to be successful in reducing poverty and in supporting the realization of the Millennium Development Goals (MDGs). In fact, according to the United Nations Development Program (UNDP, 1995) human development without gender equality is impossible to achieve. The UN continues to emphasize that: “as long as women are excluded from the development process, development will remain weak and lopsided and that sustainable human development implies engendering the development paradigm.” In other

words, higher gender inequality remains the key dimension of poverty and concentrated efforts are needed to remove it and pave the way for sustained human development.

Apart from raising the access to and command over a range of resources, namely, economic, social, physical and political capital for women, higher gender equality would generate a variety of positive externalities to society and economy by empowering women. In fact, a number of empirical studies carried out in different countries and societies provide a strong validation of the above argument. According to a recent publication of the World Bank (World Bank, 2001), raising female education has a significant positive influence on promoting the quality and quantity of education of children. In other words, educational achievement of a mother enhances quality and quantity of education of her children. Another benefit of gender equality comes through population growth. Increasing women's access to education and employment are the crucial factors to lower the total fertility rate. Lower fertility rates through its effect on fewer children and dependents in the family in turn assists that every one in the family has higher per capita resources for consumption, production and investment. According to the recent Demographic and Health Survey in Ethiopia (EDHS, 2005), the incidence of child morbidity and mortality among educated mothers is also lower, suggesting that women's education is an important instrument to fight poverty and achieve the Millennium Development Goals.

Literature surveyed by Quisumbing *et al.* (1995) reveals that women's income has a greater effect on household food security and child nutrition than men's income. Why this so happens is that women typically spend a larger proportion of their income on food and health care for children and other goods for general household consumption.

In response to these and other similar concerns the Government of Ethiopia has placed gender issue high on the country's poverty reduction and development programs. There is some progress in the area of gender equality in terms of access to some social and economic services such as

education and health and there are now legal and regulatory provisions and reforms favoring gender equality in the country. Despite this progress, gender inequality still persists in various aspects of life. Further political and policy commitments are, therefore, needed to close the gap and sustain equality among men and women in Ethiopia. In this report, we present a brief assessment of important economic roles played by women and of their access to and participation in basic social and economic services such as access to employment opportunities, productive, resources, education, health and other factors of production, and political participation in Ethiopia.

4.2 Conceptual Framework

The gender issue has now entered almost every aspect of development process (including social, culture, economic, political, legal and governance, environment and so on). In the context of a peasant society, Ellis (1996) identified and singled out the concept of gender in the division of labour, reproduction and production, time allocation non-wage labour and subordination of women. As mentioned above, gender doesn't merely entail the narrow biological differentiation of women and men. It reflects the social customs, norms, and beliefs which govern and circumscribe the individual behavior, socially delineate allocation of tasks and roles in societies between women and men. These socially constructed roles are usually unequal in terms of power, decision making, control over events, freedom of action, access to and control over resources, etc. Naturally designated role of women in society is responsibility for biological childbearing (biological reproduction) and the early nurturing of infants (generational reproduction). In addition, in most societies all daily reproduction and daily maintenance of the household such as cooking, collecting firewood and water, mending and washing clothes, cleaning the house, etc are predominantly assigned to women.

In fact, women also have an immense participation in a variety of productive activities in all societies. In Africa including Ethiopia, these activities consist of

farm works such as land preparation, weeding, fertilizing and harvesting; home production for direct household uses; food processing, weaving, making of pots and implements for clothes; non-farm income earning such as handicraft production for sale; and off-farm casual or intermittent wage labour. However, most of women's household activities are not valued in terms of market prices; it is production for use rather than for exchange. In most places subordination of women has been existed since time immemorial and is frequently observed phenomenon manifested in terms of patriarchy. It describes the power relationship between men over women, in which men control the property, resources, and income of the household, control over labour time of women, over freedom of movement, and over their level of consumption (Ellis 1996).

4.3 Overview of Gender Issues in Ethiopia

4.3.1 Gender and Agriculture

Women are key participants in Ethiopia's agricultural production. According to the 2004 ERHS data, the percentage of female household heads in the rural area was about 27.7%. From the same data, the average household size was estimated to be 5.9 individuals under a single roof. Interestingly, female-headed households had smaller family size than male-headed households. One can easily figure out that this result may reflect the dominance of men over women on key intra-household decisions including number of births, the use of contraceptive and other family planning issues. The call for effective family planning programs should also give weight for creating awareness and other means of family planning which are not only targeting women but also oriented towards men.

Land and livestock (particularly, oxen) are key assets in the livelihood of rural Ethiopians. Land is the primary source of livelihood while oxen are the major source of traction and store of wealth. It is essential thus to examine the ownership pattern of these assets by gender in the Ethiopian economy. As shown in Table 4.1, landholding arrangement in rural Ethiopia is persistently against women, where the per capita landholding for female headed

households is less than that of male headed households. In 2004, the per capita land holding of female headed households was just 0.31 hectare. Gender dimension of oxen possession also bear a similar trend. Whilst the per capita oxen holding of female headed households declined from 0.69 in 1994 to 0.62 in 2004, the per capita oxen holding of male-headed households increased from 0.72 to 1.72 between the two periods.

Table 4. 1: Rural household asset by sex: 1994 & 2004

Sex of the Head		1994 (Round 1)	2004 (Round 6)
Land Per Capita	Male	0.36(0.45) ^a	0.33 (0.47)
	Female	0.28(0.37)	0.31 (0.33)
	Overall	0.34(0.44)	0.33 (0.44)
Number of Oxen	Male	0.72 (1.46)	1.27 (1.36)
	Female	0.69 (1.42)	0.62 (1.12)
	Overall	0.72 (1.45)	1.09 (1.33)
Rural Household Size	Male	6.49 (3.03)	6.29 (2.58)
	Female	4.91 (2.40)	4.54 (2.22)
	Overall	6.16 (2.98)	5.81 (2.60)

Source: ERHS data 1994-2004

Note: ^aStandard Deviations in Parenthesis.

4.3.2 Activity and Time Allocation

Women are burdened with their triple role in society; childbearing, household chores and farm activities. Usually, women in rural areas have access to cultivation land through men. Or those who have access should have to rent /sharecropped out their land or hire-in men labour for plowing.

According to some small sample data and case studies depicted in Table 4.2, in rural Ethiopia women spent an estimated 14-18 hours per day during peak seasons and 12-16 hours during off-peak agricultural seasons on productive and reproduction works. Since labour time is finite, longer work hours in field as well as at home implies that women have limited or no time for leisure and

other social activities. This picture of activities and time allocation in rural Ethiopia clearly reveals the unfair distribution of tasks and time between women and men. It also indicates the command of men not only on productive resources such as cultivation of land and other productive assets but also the time allocation of women. These kinds of biases are usually buttressed by an ill-conceived social norms and practices.

Table 4. 2: Work hours spent per day during peak and off-peak agricultural seasons

Agricultural Seasons	Activities	Men	Male Youth	Female	Female Youth	Female Heads
Peak	Productive	9	8	8	5	14
	Reproductive	0.5	0	9	9.5	4
	Total	9.5	8	17	14.5	18
Off-Peak	Productive	5	7	7.5	4.5	n.a.
	Reproductive	0	0	8.5	8	n.a.
	Total	5	7	16	12.5	n.a.

Source: FAO (Rachel Percy, 1997).

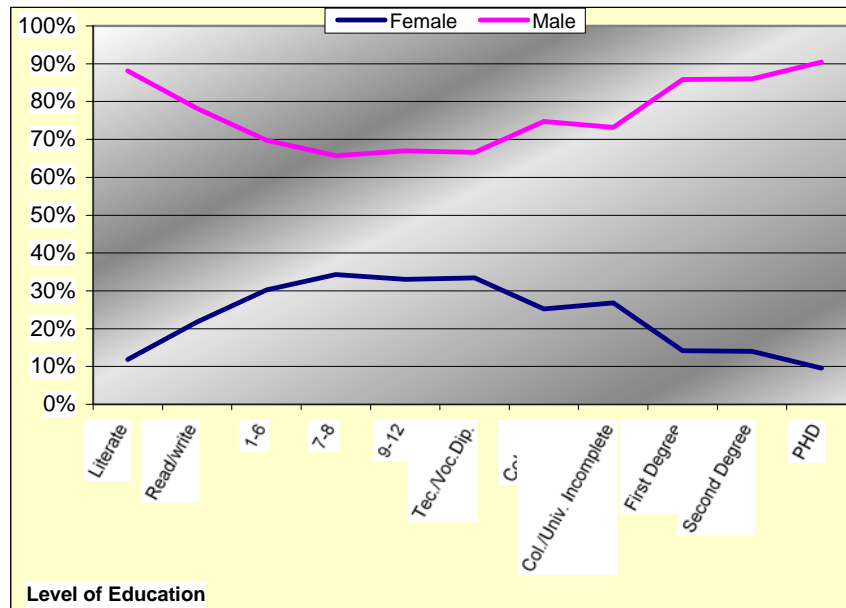
4.3.3 Formal and Informal Sector

4.3.3.1 Gender and the Formal Sector

In LDCs, the gender composition of economic sectors and sub-sectors demonstrate the fact that the largest proportion, around 85%, of occupations in the formal sector jobs are male-dominated (Ellis 2000). Empirical findings from different studies show that the prevalence of job segregation and high wage differential in the formal sector against women is widespread.

As can be seen from Figure 4.1, data from the Ministry of Labour and Social Affairs in 2002 show that out of the total number of employees in government or quasi-government establishments women constituted less than 30% of the total employees at each level of education. The gap gets worse as the level of education increases to a tertiary level. This clearly shows that the formal sector is dominated by men.

Figure 4. 1: Percentage of employees in government and quasi-government establishments by level of education

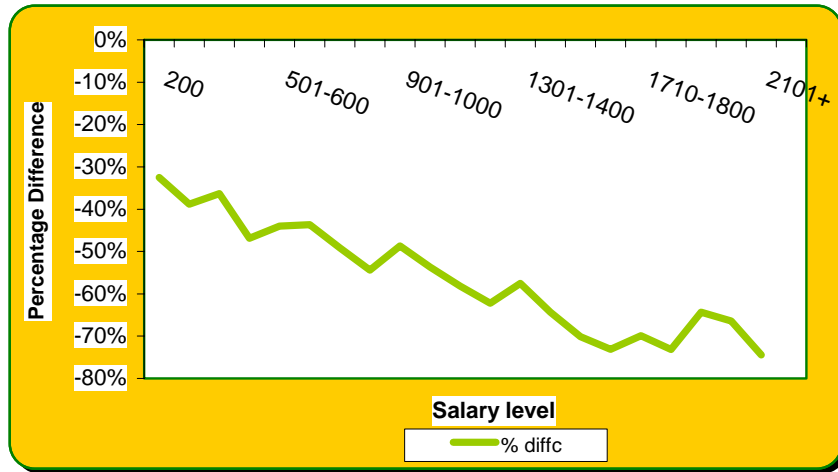


Source: Ministry of Labour and Social Affairs 2002

On the other hand, the percentage difference between female and male employees by salary level increases as the level of salary increases, implying that females are less well-paid compared to male employees. In some countries, women's wage levels are around three-quarters of male wages. These wage differentials are partly a function of women being engaged in lower wage occupations than men and partly a function of wage discrimination within the same occupation (Ellis 2000). From Figure 4.3, it is clear that there is persistent job segregation, where legislator senior officials & managers, professional, technical and associate professionals, skilled agricultural and fishery, plant, machine operators and assemblers are dominantly male occupations in Ethiopia. Relatively, female dominated jobs are clerks, service workers, shop and market sales, crafts and related

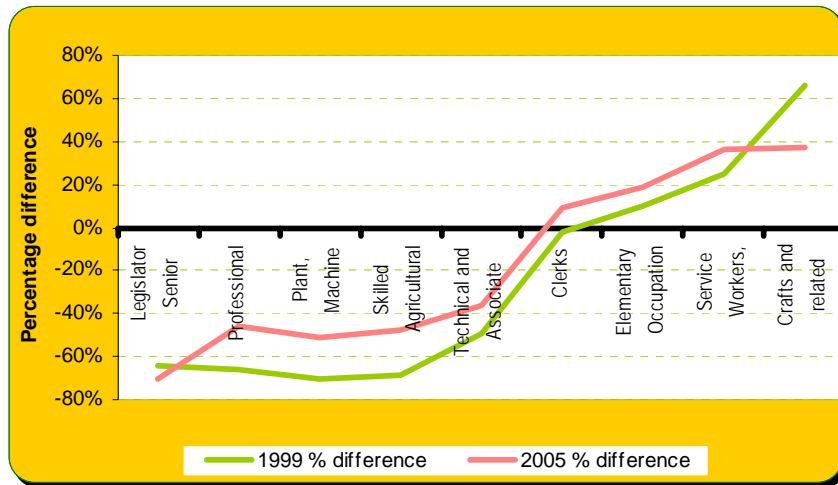
activities, and elementary occupations. There was a slight improvement in job segregation in 2005 compared to that of the 1999 data.

Figure 4. 2: Percentage difference of female government and quasi government employees by salary



Source: Ministry of Labour and Social Affairs 2002.

Figure 4. 3: Percentage difference of employed individuals by occupation: 1999/2005

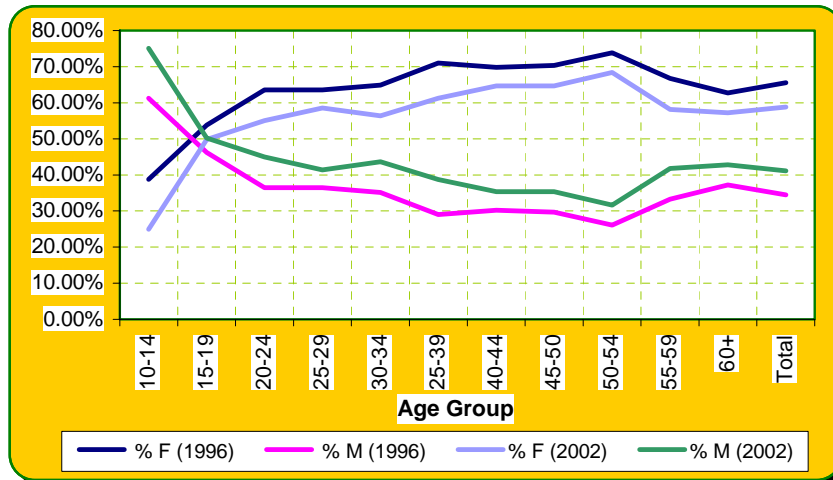


Source: CSA (1999, 2005).

4.3.3.2 Gender and Informal Sector

According to the informal sector survey conducted by CSA in 1996 and 2002, the majority of informal sector participants were female. This is due to the fact that women had limited access to formal sector employment given their low level of education and/or segregation in some formal sector jobs, which are usually designated to men such as heavy manufacturing and construction, senior legislation, executives, and other key positions. The dominant sector for women employment in countries like Ethiopia is the informal sector, which is characterized by low start-up capital, no skill requirement, ease of entry and exit, no legal or administrative red-tape, etc. Although, matters seem easier in informal sector, some studies in fact assert the toughness of the informal sector operations for women. They face different kinds of harassment, sexual abuses, rape, physical attack and a variety of crimes both from their men competitors and others.

Figure 4. 4: Informal sector operators by sex: 1996 and 2002



Source: CSA 1996 and 2002 Urban Informal Sector Survey.

Data from the 1996 and 2002 urban informal sector surveys conducted by CSA prove the claim that informal sector was dominated by female operators. According to Figure 4.4, except for 10-14 age categories, in both survey periods female informal sector operators dominated male operators. As age increases, the proportion of female informal sector operators increases. For instance, between the ages of 50 and 55 years, the number of women was 280% higher than that of male operators. This was due to the fact that at a higher age the bulk of family responsibility was imposed on females either because they were divorced, widowed, or their husbands died or lived somewhere else. Although the data was collected from urban centers, the picture in rural areas was not different from this fact.

4.3.4 Maternity Leave Benefits

Although, there is high prevalence of job discrimination and wage differentials in the formal sector in Ethiopia, the maternity leave benefits for the employed

women are in line with internationally recognized standard. Comparatively speaking, the structure and packaging of maternal benefits in Ethiopia are fair compared to countries both in Africa and worldwide. For instance, the length of maternal leave in Ethiopia is 90 days for which the wage coverage is 100%. In relative terms this is better than that of Kenya which grants 60 days of maternity leave.

Table 4. 3: Maternity leave benefits, as of 2004

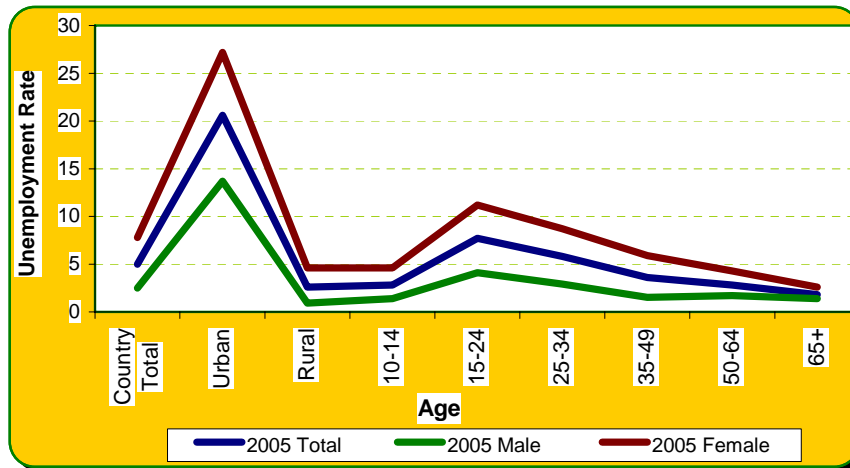
	Ethiopia	Kenya	Germany
Length of maternity leave	12 weeks	8 weeks	14 weeks
Percentage of wages paid in covered period	100	100	100
Provider of coverage	Employer	Employer	Social security (up to a ceiling) / Employer (pays difference)

Source: *The World Women 2005: Progress in Statistics*

4.3.5 Unemployment

Figure 4.5 below depicts the unemployment rate in Ethiopia disaggregated by sex, age group and location. According to the 1999 national labour force survey conducted by CSA, the rate of unemployment at a country level was 8%, where the rate was higher for females (12.46%) than for males (4.32%). In contrast to rural areas, unemployment was a serious problem in urban Ethiopia, especially Addis Ababa, where the unemployment rate was 37.7% in 1999 and 31.2% in 2005. Urban unemployment rate in 1999 for females was 34% and (47.9% in Addis Ababa) while it was 18.34% (27.63% in Addis Ababa) for males. Compared to that of 1999, as reported by CSA 2005, unemployment rate at country level was around what is conventionally referred to as the natural rate, where it was only 5% in 2005. Despite this improvement at the national level, there was still a huge gap between male and female unemployment rates. For instance, urban unemployment rate for women (27.2% urban average and 40% in Addis Ababa) was double that of males (13.7% urban average and 22.5% in Addis Ababa). There was also a consistent gap between male and female unemployment rates at each age group and level of education.

Figure 4. 5: Unemployment rate: 2005



Source: CSA (2005)

The worst part of the gender gap in unemployment rate is that the gap is wider in the economically active age group and it decreases towards the tail. Compared to that of 1999, urban unemployment rate for female declined in 2005. Since there was little indication of expansion in informal sector activities by men, this decline in women unemployment rate could be explained by the shift into self-employment, largely food processing, crafts and other petty trading.

4.3.6 Gender and MFIs Outreach

Although Ethiopia is a home of the two largest MFIs in Africa; Amhara Credit and Saving Institution and Deditbit Credit and Saving Institution, the percentage of active women borrowers has not reached that of the African average. Among the total number of active borrowers covered by 15 micro finances included in the Association of Ethiopia MFI's (AEMFI, 2004), there were 973,833 borrowers. The percentage of women borrowers was about 29%, which was less than that of 2003's outreach (Table 4.4). Gender

sensitive Micro Finances, with more than 50% women active borrower, included in the report were only seven institutions, namely Addis C&SI, Africa Village Financial Services, Buussaa Gonfa MFI, Gasha MFI, Meklit MFI, Poverty Eradication and Community Empowerment, and Specialized Financial and Promotional Institution.

Table 4. 4: MFI outreach by: 2003 & 2004

		2003	2004
Ethiopia	TNAB	729,298	973,833
(Weighted Average)	% Women	30.3%	29.0%
Africa	% Women	63.5%	60%

Source: Association of Ethiopian Microfinance Institutions 2005.

[http://www.mixmarket.org/medialibrary/mixmarket/2004_MFI_Benchmarks\[2\].xls](http://www.mixmarket.org/medialibrary/mixmarket/2004_MFI_Benchmarks[2].xls)

Note: TNAB = Total No. of Active Borrowers

Micro finance institutions have been the major stakeholders in the battle for reduction/eradication of poverty in many LDCs. They basically have targeted the poor while some are specialized towards specific group within the poor segments of population such as women and the disabled. Therefore, higher and persistent gender disparity in this regard should not be tolerated to ameliorate poverty at the grass-root level.

4.3.7 Governance and Decision Making

Representation of women in leadership and decision making process at all hierarchical levels (ministerial, regional, *woreda* and *kebele* council) are important. Although, the government of Ethiopia is committed towards gender equality and there are some improvements in this regard, the current indicators reveal the apparent gender gap in leadership and decision making at different positions. Currently, the number of elected women in the People's House of Representatives is 22% (of 547 parliament seats, 528 are currently attending while the rest have boycotted), 18.8% out of the 112 seats in the House of Federation and 26% in Regional State Councils. Compared to the previous two terms, i.e. 1995 and 2000, there is an encouraging improvement

in gender equality in representation. Election at the *Woreda* and *Kebele* Council levels is yet to be undertaken.

In addition to increasing the representation of women in politics, parallel focus should also be given to empowering them through training and experience sharing on important issues.

Table 4. 5: Women's representation in federal and regional councils

Position	1995	2000	2005
People's House of Representatives	2.7%	7.7%	22.0%
House of Federation	8.1%	6.0%	18.8%
Members of Regional State Council	5.4%	12.9%	26.0%
Member of Woreda Council	..	7.1%	..
Member of Kebele Council	..	13.9%	..

Source: National Election Board (1992 E.C.) in Gender Relations in Ethiopia (MoWA) 2005 and National Election Board 2006.

Statistics reveals that the apparent gender disparity in some key high government positions, which are vital for important decisions. For instance, in the Federal Government there is only one woman Minister, three State ministers and one vice State Minister in the current cabinet. Data from some studies shows that there is gender gap in other important decision making positions in other government offices, NGOs and CEOs. Out of 52 higher positions in the executive branch of the federal government at Minister and vice Minister levels, women represent only 11.54% while out of the 1,673 high civil service positions in 2001, there were only 414 women. This gap is a result of insufficient focus on the issue, limited number of qualified women, backward attitude in the community in general and government officials towards women leadership in particular, males' resistance to share power, etc. (MoWA, 2006).

4.3.8 Gender and Education

Education is one of the major means of achieving broader development objectives and gender equality in the country. Major international consensuses and agreements geared towards gender equality such as Convention for Elimination of all Forms of Discrimination against Women 1981 (CEDAW), the Beijing Platform for Action 1995 (BPA), the MDG 2, prioritize the equal access of education to boys and girls. In line with these international instruments, Ethiopia has also ratified all the international instruments towards gender equality. The Education and Training policy, in this regard, clearly aims at the provision of education on an equal basis and an extra effort to bridge the existing gap through school materials and affirmative actions to women in educational enrollment. In the Education Sector Development Program II (ESDP II), a number of strategies are marked out towards increasing admission, completion and transition rates of girls. Although, there had been enormous progress in terms of school enrolment in both primary and secondary cycles in the ESDP Phase I that was under implementation from 1997/98 to 2000/01, the gender gap at the secondary level is widening. While the gap is declining for the primary cycle from that of 20% in 2000/01 to 16.5% in 2004/05, it is consistently increasing for the secondary cycle from as low as 4% in 2000/01 to 14.8% in 2004/05 (Table 4.5).

Trend of both the Gender Gap (GG) and Gender Parity Index (GPI) reflects a consistent increase in gender gap at the secondary cycle, which calls for corrective measures to be taken during the second implementation phase of the ESDP. For the achievement of broader development strategies as well as the success of ESDP II and ESDP III, the strategies set forth in the documents should be put into action, particularly to narrow the gender gap at the secondary level.

Table 4. 6: Trends in gross enrollment ratios at primary and secondary education by sex

	Year	2000/01	2001/02	2002/03	2003/04	2004/05
Primary Cycle (1-8)	Total	57.4	61.6	64.4	68.4	79.8
	Boys	67.3	71.7	74.6	77.4	88.0
	Girls	47.0	51.2	53.8	59.1	71.5
	GG	20.30	20.50	20.80	18.30	16.50
	GPI	0.70	0.71	0.72	0.76	0.81
Secondary Cycle (9-10)	Total	14.1	17.1	19.3	22.1	27.3
	Boys	16.1	20.4	24.0	28.2	34.6
	Girls	12.1	13.7	14.3	15.9	19.8
	GG	4.00	6.70	9.70	12.30	14.80
	GPI	0.75	0.67	0.60	0.56	0.57

Source: MoE, Education Statistics Annual Abstract 1997 E.C. (2004/05)

Note:

- a. GG=Gender Gap (the difference between the male and female enrolment ratios)
- b. GPI=Gender Parity Index (the ratio between the female and the male enrolment ratios)

Data from the MoE indicates that the percentage of girls in TVET had been improving from that of 23.4% out of total enrolment of only 8,639 in 2000/01 to 51.2% of 106,336 total enrolled pupils in 2004/05. Although, it is still low, the percentage of females in higher education has been improving since 2000/01. For instance, the percentage of female students in diploma and undergraduate degree has reached 24.7% in 2004/05. This fact is also true in the case of postgraduate degree and higher education teachers. What is less known is the rate of success of female students at higher education.

Table 4. 7: Women in TVET and higher education

		2000/01	2004/05
TVET	Enrollment	8639	106336

GENDER AND ECONOMIC DEVELOPMENT

	% Female	23.4	51.2
Teacher Education	Enrollment		1047
	% Female		39.5
Diploma and Undergraduate Degree	Enrollment	86145	187561
	% Female	21.6	24.7
Postgraduate Degree	Enrollment	1286	3604
	% Female	7.5	9.2
Higher Education Teachers	Total	3232	4847
	% Female	7.6	10.3

Source: MoE, Education Statistics Annual Abstract 1997 E.C. (2004/05)

There are multitudes of social, economic and cultural factors that deter women's and girls' education. Economic factors like extreme poverty, seasonal migration in pastoralist areas and dropout in chat and coffee growing areas for harvesting, socio-cultural nuisances such as harassment and violence including rape, early marriage, etc, household discriminations and overburdened with household chores, lack of follow-up and encouragement and unequal treatment compared to boys etc increase the dropout rate of girls as well as hinder new enrollment (MoWA 2005).

4.3.9 Marriage, Childbearing, and Health

According to data from *The World Women: Progress in Statistics 2005*, out of the total population between 15 and 19 years old, 30% of Ethiopian girls are married, which is the highest figure relative to both World and African averages. Singulate mean age at marriage is an estimate of the average age at which women or men marry for the first time. It is the average number of years lived prior to first marriage by a hypothetical cohort, if they marry before age 50. Compared to that of men (26 years) and that of African and World mean age, singulate mean age for women in Ethiopia is the least at 21 years. The percentage of contraceptive use is only 8%, which is among the least in

Africa. In the face of low contraceptive use, we expect higher fertility rate. For instance, between 2000 and 2005 fertility rate per women was about 6, which calls for an aggressive family planning programs and dissemination of contraceptives and awareness creation on utilization.

Table 4. 8: Marriage, childbearing, and health

		Ethiopia	Africa	World
Population aged 15-19 ever married (%), 1995/2002	Women	30	24	14
	Men	3	2.66	..
Singulate mean age at marriage, 1995/2002	Women	21	22	24
	Men	26	27	28
Legal age for marriage, around 2003	Women	18	18	18
	Men	18	19	19
Contraceptive use (%), 1995/2002		8	27	47
Total fertility rate (births per woman), 2000-2005		5.9	5	3.2
Births per 1,000 women aged 15-19, 2000-2005		96	109	62
Infant mortality rate (per 1,000 live births), 2000-2005	Women	92	78	39
	Men	107	90	45
Maternal mortality ratio, 2003/04		871	516	207
Percentage pregnant women receiving prenatal care, 2003/04		27	78	79
Percentage deliveries attended by skilled attendant, 2003/04		6	55	76

Source: The World's Women 2005: Progress in Statistics and MoH 2004/05.

On the other hand, during the year 2003/04 Maternal Mortality Rate (MMR) stood at 871/100,000, which is among the highest in Africa. Due to the difficulty of exactly measuring MMR in cases where there are no comprehensively reported deaths through the civil registration system and where there is no medical certification of cause of death, it is prone to measurement error, which may undermine the problem in countries like Ethiopia. The percentage of pregnant women receiving prenatal care in the year 2003/04, on the other hand, was only 27%. Among the worst indicator is the percentage of deliveries attended by skilled attendants, which was only 6% compared to African average of 55%. There is also high observed regional disparity in different health indicators as well from 4% in Somali to

80.2% in Addis and attended delivery ranges from the a low of 1% in Afar to a high of 35% in Tigray.

4.3.10 Gender and HIV/AIDS

It is well known that, Ethiopia has one of the highest HIV/AIDS prevalence in Africa with an estimated rate of about 3.5% for men and 4.4% for female in 2003. The adult prevalence rate is calculated by dividing the estimated number of adults living with HIV/AIDS at yearend by the total adult population at yearend. Although, the prevalence rate in 2005 was much lower than that of the 1999, 10.63%, still it is among the highest in Africa. It is posing a serious threat to the development efforts of the country by attacking the most productive segment of the population (i.e. 20-49 years). Women are the most vulnerable group in society to STDs and HIV/AIDS due to biological, social and economic factors. Youths ranging from 15-34 years old are the majority of the population infected with these diseases. According to ILO estimates, there was a 4.3% loss in labour force in 2005 due to AIDS. Out of the total number of persons living with HIV/AIDS in 2003, a slight majority (50.7%) were women aged between 15-49 years. Compared to men in a similar age group, the number of women infected was relatively much larger. The impact(s) of AIDS was multidimensional ranging from social exclusion and stigmatization to a wider impact on the national economy through monetary implication(s) and loss of productive resources. In human terms, some estimates suggest that there are more than 1 million orphan children, 120,000 infected children aged 0-14 years, and around half of urban hospital being occupied by AIDS patients in Ethiopia.

Table 4. 9: Impact of AIDS, 2003 or 2005

	Overall	0-14 years	15-49 years	
			Men	Women
HIV prevalence rate (2003) (%)	4.4	..	3.5	4.4
Number of people living with HIV (2003) (000)	1,520	120	630	770
Number of persons 15-64 in the Labour Force who are HIV positive (2003) (000)	1,337

REPORT ON THE ETHIOPIAN ECONOMY

Total cumulated lost Labour Force by 2005 (000)	1,785	..	923	862
Proportion of total 2005 Labour Force lost (per cent)	4.3
AIDS deaths in 2005 of working-age men and women (000)	199	..	91	108

Source: ILO (<http://www.ilo.org/public/english/protection/trav/aids/index.htm>)

There are different possible factors that may explain the high prevalence of HIV in Ethiopia which include widespread practice of unsafe sex and high frequency of casual sex. Other important factors such as extreme poverty, high rate of unemployment, increasing rural-urban migration, lack of awareness and misconceptions of the transmission mechanism, rape and genital mutilation, etc perpetuate the spread of the epidemic in the country. Despite their vulnerability, the level of women's HIV/AIDS awareness remains lower than men's (SIDA, 2002). To curb this national threat, a number of efforts have been made by the Ethiopian government, NGOs, and international institutions. An observation in this regard is that there is duplication of efforts and inefficiency in fund utilization and low marginal return compared to the magnitude of resource and manpower expended on this effort.

4.4 The Policy Environment and Institutional Platform for Gender Equality

4.4.1 International Instruments

Ethiopia has ratified major international instruments and conventions towards gender equality. It has also revised the family laws and the criminal code in view of promoting gender equity. One of the prominent international instruments which Ethiopia has ratified is the 1981 Convention on the Elimination of All forms of Discrimination Against Women (CEDAW). CEDAW encompasses a variety of political, social, economic, and legislative issues

for the elimination of discrimination against women and foster gender equality. It is the only human rights treaty that affirms the reproductive rights of women. Another important ingredient of CEDAW is it integrates continuous monitoring and review mechanisms by requiring signatory countries a progress report every four year.

Another important international platform for gender equality is the Fourth World Conference on Women held in Beijing in 1995 – the Beijing Platform for Action (BPA), which called for a renewed commitment towards the full implementation of human rights instruments and effective strategies for achieving gender equality that have been developed in CEDAW and other key provisions. BPA called on governments to commit to strengthening institutional mechanisms in charge of promoting gender equality and to take immediate and rigorous action in terms of implementing the wide-ranging commitments. The 12 critical areas that the BPA identified include poverty, education and training, health, violence, armed conflict, the economy, power and decision-making; institutional mechanisms, human rights, media, the environment, and the girl child; and has committed countries to design national action plans for gender equality (MoWA 2005).

In line with the CEDAW and BPA, the MDGs declaration recognizes the promotion of gender equality and women's empowerment as an important cutting edge of combating poverty, hunger and diseases and for simulating sustainable development. There are eight MDGs, which range from halving extreme poverty to halting the spread of HIV/AIDS and providing universal primary education, all by the target date of 2015. It explicitly targets to "Promote gender equality and empowerment of women" by 'Eliminating gender disparity in primary and secondary education preferably by 2005, and at all levels by 2015'. The MDGs has set targets and indicators, which serves as tools to assess progress of countries on a regular basis at the country level through national MDG reports.

4.4.2 National Policies and Instruments

Ethiopia has ratified various international conventions dealing with gender equality. The Ethiopian constitution guarantees all Ethiopians to an equal treatment before the law and specifically asserts women rights equally with men without any sexual, religious or cultural discrimination. The constitution also has a number of provisions towards equality of women through dealing with harmful customs, traditional and cultural practices.

Since 1991, the government of Ethiopia has been undertaking a number of economic and social reforms. At the heart of its economic development policy has been what is referred to the Agriculture Development Led Industrialization (ADLI). Subsequent economic and social strategies and programs; I-PRSP, SDPRSP and PASDEP have been adopted. Other social and demographic policies such as the National Policy of Ethiopian Women, the National Population Policy, the Education Policy, Health Policy, etc have also been scripted. Starting from ADLI, in almost all economic and social policies designed by the government, gender issues have been given attention at the policy level in terms of encouraging women participation in the economy. At a program level, however, there are a number of practical tasks to be done. Practically, efforts should be exerted to mainstream gender issues in all sectoral programs by setting concrete targets, creating functional incentive system, and developing a continuous monitoring and correction mechanisms. It is well understood that gender is essential to all sectors; education, health, population, food security, agriculture, industry, trade, etc. and it is doubtful to achieve the national development objectives without right-positioning women at every front. Hence mainstreaming gender in all the strategies and programs will obviously change the gear and accelerate the wheel towards sustainable development and poverty eradication in the country.

In trying to address the persistent gender gap in Ethiopia, the Ethiopian government has adopted several measures. In 1991 the government established Women's Affairs Office (WAO) under the Prime Minister Office and the Regional and Zonal Women's Affairs Sectors, and the Women's Affairs Department (WAD) in various Ministries. The objective of the National Policy of Ethiopian Women are creating and facilitating conditions for equality

between men and women; creating environment to make rural women beneficiaries of social services like education and health, and eliminating stereotypes, and discriminatory perceptions and practices that constrain the equality of women. To this end policies, laws, rules and regulations have been designed which are geared towards ensuring gender equality. However, according to some assessments both WAO and the WADs were suffered from lack of capacity, defective structure, lack of resources and skill (SIDA 2002).

In recognition of the short-handed WAO, which fails to materialize mainstreaming gender in all sectoral policies, the government has reformed the Office as an independent Ministry, Ministry of Women's Affairs (MoWA), by 2004. According to Federal Democratic Republic of Ethiopia Proclamation No. 471/2005, the MoWA has been given the authority to twelve important provisions, such as to follow-up federal government organs by designing strategies, preparation of policies, legislations, development programs and projects to give due consideration to gender issues, and other advocacy and coordination tasks. With the initiative of the WAO, the MoWA has formulated the National Action Plan for Gender Equality (NAP-GE) in keeping its commitment with the Beijing Platform for Action and the 2000 Beijing+5 update. It is in line with the MDGs and will be incorporated in the final PASDEP. The government of Ethiopia has expressed its commitment towards the success of the NAP-GE through creating awareness of gender related issues, assigning MoWA as an owner of the plan, government commitment through participation, budgeting and resource allocation, networking different government and other stakeholders, and effectively monitoring and evaluating the plan.

The goal of this 5-year NAP-GE (2006-2010) is to contribute towards the attainment of equality between men and women, in social, political and economic development. The major objectives linked to the pillars of PASDEP are to enhance women's and girls economic empowerment, the role and benefits of women in environmental management and protection, promote equal access and success in education and training for women/girls, improve women and girls reproductive rights, health and HIV/AIDS status; reduce

violence against women and girls and improve their human rights; increase women's access to all levels of decision making, in particular in political and public spheres; and implement a gender-based analysis and approach in all government departments and support institutional mechanisms for gender mainstreaming.

The initiative of the PRSP in 2000 was taken by the Bretton Wood Institutions aiming at reducing poverty in Ethiopia. The PRSP-I revolves around four core development agendas; ADLI, judiciary and civil service reform, decentralization and empowerment, and capacity building in public and private sectors. ADLI is the crux of PRSPs. In the interim paper, through decentralization of fiscal, power, and responsibility to a district level, public participation at local level in local development programs can be ensured. Although, the document has kept quite on mainstreaming gender in all sectoral development programs, it has recognized the importance of gender equality and empowerment in the poverty reduction endeavor. To this end, the WAO has executed Women Development Initiative Project (WDIP), which consisted Grassroots Initiative Fund (GIF) and Institutional Strengthening and Information Education Component (IEC). The GIF and IEC operate as a financing window providing for women group and education on social and legal issues pertaining to women.

The SDPRSP is the full set of the PRSPs with regarding to the reduction of poverty in Ethiopia. The main objective of this program is to reduce poverty. It was targeted to reduce level of poverty by 10% at the end of the program period 2004/05 from its level of 44% in 1999/00. Like the IPRSP, the four building blocks of SDPRSP are ADLI and food security, judiciary and civil service reform, governance, decentralization and empowerment, and capacity building in public and private sectors. The key sectoral development programs in the SDPRSP are the agricultural sector development and food security program, the education sector development program, the health sector development program, HIV/AIDS, road sector development program, and water and sanitation.

Gender and development is one of the cross-cutting issues in all these programs, where gender dimension of poverty is recognized. Efforts in this regard has been exerted from the government side since the endorsement of the National Policy for Ethiopian Women, the consecutive initiatives and reforms in legal aspects such as revision of the family code and sectoral policy guidelines to address gender issues. Although, considerable efforts have been made to introduce gender issue in the SDPRSP, it has been criticized for it does not address the gender differential in the indicators used. Its poverty indicators and basis of analysis also treats households as a black-box disregarding the gender dimension of intra-household level of poverty. It is also criticized that, in spite of their importance to effective poverty reduction, access to decision-making and empowerment by both men and women have not been considered and does not provide gender financing and the type of resources that would promote gender-equitable development.

Program for Accelerated and Sustained Development to End Poverty (PASDEP) is a guiding strategic framework for the five-year period spanning between 2005 and 2010. The PASDEP represents the second phase of the PRSP process begun under the SDPRP, 2000/01-2003/04. It is a continuum of strategic directions pursued under the previous versions of PRSPs regarding human development, rural development, food security, and capacity-building and also embodies new direction towards accelerated growth such as greater emphasis on commercialization of agriculture and the private sector as well as intensifying efforts to achieve the MDGs.

However, activating and encouraging the potential of Ethiopia's women is one of the seven strategic elements of PASDEP for the coming five years. To this end, according to the draft document, there will be direct interventions in education in terms of achieving gender parity at the end of the fifth year; health sector through female outreach health program and nationwide Making Pregnancy Safe program; making water supply available within 0.5km radius for about 85% of the population by 2010 of which women and girls are deemed to be the primary beneficiaries; creating new business opportunities and productivity increasing through supporting micro and small scale women entrepreneurs in credit availability, agricultural extension,

natural resource management, and small business promotion; and continued legislative and institutional reforms geared towards women rights. The program has also approved NAP-GE and implantation of the action plan through PASDEP. It also states commitment of the government to continue towards emphasizing gender equality in the process of decentralization and empowerment as well as taking measures to reduce violence against women.

Although, the document claims that the majority of direct interventions to improve gender outcomes are integrated in the individual sector strategies, mainstreaming of gender in all sectoral programs is not yet grounded. Except in the health sector development program and education sector program, in which explicitly quantified or functional targets and strategies are set, in other sectors they are not set, especially in income and productivity increasing activities or sectors such as micro and small business activities, agricultural and forestry activities and the export sector. Although, it is not yet practically included in the PASDEP analytical basis, the document acknowledges the importance of generating gender disaggregated data and the basis of analysis is methodologically gender-insensitive which treats households as a black-box. This approach camouflages the wide arrays of gender inequalities and the pain of women at the intra-household level which is prevalent in Africa as well as Ethiopia.

4.5 Conclusion

It is now well understood that gender equality contributes to poverty reduction and sustainable development. Gender equality means that men and women and boys and girls do have equal opportunities to benefit from and control over resources and socioeconomic development. In Ethiopia, females constitute half of the total population. In rural areas, about 28% of the household population is headed by females.

A look at the resource distribution by gender in rural areas shows that although land and livestock (particularly, oxen) are important assets in the rural area, land holding arrangement is persistently against women, where the per capita land for female headed is less than that of male headed

households plus the total number of oxen owned by female headed households is much less than that of male headed households. Women's role in agriculture is heterogeneous varying across different types of farming system, ethnic group and culture, level of income and wealth. They are burdened with their triple role in the society; childbearing, household chores and farm activities. Some survey results show that during peak seasons women working hours stretched from 14-18 hours per day.

In urban formal sector, there is persistent job segregation, where legislator senior officials & managers, professional, technical and associate professionals, skilled agricultural and fishery, plant, machine operators and assemblers are dominantly male occupations in Ethiopia. There is also high wage differential between male and female employees. Comparatively speaking, the structure and packaging of maternal benefits in Ethiopia are fair compared to countries both in Africa and worldwide. Unfortunately, this policy measure does not benefit all women in the labour force as most women continue to work in unregulated informal sector activities.

Another important dimension of gender disparity in Ethiopia is a huge gap between male and female unemployment rates. For instance, as noted above, urban unemployment rate for women (27.2% urban average and 40% in Addis Ababa) is double that of male (13.7% urban average and 22.5% in Addis Ababa). Although MFIs are important partners in combating poverty and unemployment in Ethiopia, the percentage of women borrowers is about 29%, which is far less than that of the African average.

In education, Ethiopia has made various affirmative actions to narrow the gender gap at all levels of schooling. In 1994 the country adopted a new education and training policy. Likewise, Ethiopia has formulated and implemented successive education sector development programs which aim among other things to close the gender gap in educational achievements of young girls and boys. In this respect, these efforts have achieved some encouraging results in increasing equal schooling opportunities for both sexes, but such progress is still wanting. While the gender gap is declining from 20% in 2000/01 to 16.5% in 2004/05 for the primary cycle, it is

consistently increasing from 4% in 2000/01 to 14.8% in 2004/05 for the secondary cycle. Moreover, despite some of the improvement overtime, the gender disparity at the tertiary level of education is still high.

It is well known that, Ethiopia has one of highest HIV/AIDS prevalence rate in Africa, with an estimated prevalence rate of 3.5% for men and 4.4% for female in 2003. Due to biological and social circumstances, studies show that, women are the most vulnerable group of the population. Maternal mortality rate stood at 871/100,000, which is among the highest in Africa.

Although, the government of Ethiopia is committed towards gender equality and there have been some improvements in this regard, the current indicators reveal the prevalence of gender gap in various respects, which calls for elevating efforts towards gender equality in the country. Currently, the number of elected women in the People's House of Representatives is 22% and 18.8% are women in the House of Federation and 26% in Regional States council. Compared to the previous two elections, in 1995 and 2000, there is an encouraging improvement in gender equality in representation. However, the international standard in this regard is 30%. Besides, mainstreaming of gender in all sectoral programs with objectively measured or quantified targets and direct interventions is still sluggish or less functional.

PART II

UNEMPLOYMENT CHALLENGES AND PROSPECTS

Introduction to Part Two

As noted in the general introduction, Part II of the Annual Report will focus on the labour market in Ethiopia. There are various reasons for focusing on the labour market in Ethiopia. First, employment (unemployment) is a crucial macroeconomic indicator with which to gauge the extent to which the economy utilizes its fundamental resource and to analyze the future path of the economy. This being the case, second, there has never been any systematic attempt previously to shed light on employment (unemployment) in Ethiopia probably mainly due to lack of data. Third, the availability census and survey data in recent years has prompted economic analysts to fill the existing gap on labour market studies. And, fourth, given the recent explicit and implicit interest in evaluating and charting the future development of path of the country, having, at least, a modest grasp on one of the fundamental factors that influence this path becomes of paramount importance.

To accomplish this, Part II of the Report contains five chapters that address the various aspects of the labour market in Ethiopia. Chapter Five deals with the basic characteristics of the labour force of recent ranging from its size, participation rate to the institutions and laws the govern it. Chapter Six, deals with labour cost, productivity and its rate of utilization in the country focusing on the agriculture and the manufacturing sectors. Chapter Seven outlines employment by various occupational groups in which duration of employment and hours of work are discussed. Chapter Eight discusses the characteristics of the unemployed in Ethiopia including its trends and the socio-economic features of the unemployed. As a follow up to the size, descriptions of the

characteristics of the unemployed and variations across occupational and age groups, Chapter Nine attempts to outline the factors (both policy and non-policy) that may have contributed to the performance of the labour market in recent years. And finally, Chapter Ten, concludes the part with some conclusions and tentative recommendations.

Chapter 5

Characteristics of Ethiopian Labour Market

5.1 Introduction

With inadequate access to financial capital, land and other physical assets, poor households and individuals in developing countries heavily rely on their own labour for their sustenance. If they lack the access to an active labour market the poor need to be supported by either formal social insurance mechanisms or informal social networks. However, market-based formal insurance arrangements in most African countries are absent. The only way that the poor can derive their livelihoods is by seeking employment in the labour market or by relying on their employed relatives through the social network (UNECA, 2005). In view of this and other similar concerns, there is a growing consensus among development economists, policy makers, international institutions and civil society organizations that the success of pro-poor and pro-employment growth requires a well-functioning labour market. Toward this end, the International Labour Organization (ILO) has persistently championed the cause of expanding decent work opportunities for the poor as an effective means of poverty reduction (Osmani, 2003).

The notion of a decent work should be taken as an integrated concept that combines both quality and quantity of labour. Decent employment creates for the poor not only a sufficient amount of income but also ensures social security, good working conditions and a voice at work (ILO, 2005). Unfortunately, many people in developing countries either do not have jobs or are engaged in an unproductive work. This state of affairs is closely associated with a variety of both demand and supply side barriers to decent employment opportunities. While the demand side factors are mainly associated with the lack of absorptive capacity of the economy or its lack of

ability to create new jobs; on the supply-side, lack of proper education of the workforce, lack of training and experience limits the ability of the poor to integrate into and benefit from the growth process (Osmani, 2003).

In view of the decent work concept, various characteristics of the Ethiopian labour market is worth noting. As in many other developing countries, the labour market in Ethiopia is typically characterized by huge inefficiency and underdevelopment (Buckley, 2003). Labour supply in the economy by far exceeds labour demand and many men and women are unable to find suitable jobs. Apart from few of those who are gainfully employed, most often many work either less than full-time (open underemployment) or simply work full-time but at low intensity (disguised underemployment).

Another interesting feature of Ethiopian labour market is that it is heavily segmented, with important distinctions occurring between formal and informal employment, private and public job markets and wage employment and self-employment and so on. Furthermore, one finds important differences between urban and rural labour market opportunities. While the majority of formal employment activities are found in cities, a substantial amount of informal sector workers are self-employed agricultural workers in rural areas.

Review of the labour market literature internationally in a similar developing country context clearly shows that the segmented labour markets differ from one another in terms of the factors influencing entry and exit, wage, social security and legal labour protection, and other features. As such, understanding the size and characteristics of the different labour markets in Ethiopia could provide important implications for the formulation and implementation of appropriate labour market policies and programs in the country.

In this Chapter, the report attempts to assess the relevant characteristics of the Ethiopian labour market. The main sources of the data and information for the report are the 1999 and 2005 national labour force surveys, Ethiopia's labour legislation documents and other relevant publications.

5.2 Size and Structure of Ethiopian Labour Force

5.2.1 Population Size and Labour Supply

With a total population of 77 million (UN, 2005), Ethiopia is the second most populous nation in sub-Saharan Africa, next to Nigeria. Not only is the size of her population large but it is also growing relatively at a rapid rate (2.7% per year). Population growth rates in the country show a considerable amount of variation over time and also between urban and rural areas. In the rural areas, total population grows by 2.5% per year whereas in urban areas the corresponding figure is 3.7%.

One interesting feature of the growth rate of the Ethiopia's population is its strong correlation with the growth rate of the country's working age population. Between 1999 and 2005, for instance, the working age population had increased by 2.3% per annum. But again, its growth rate has been significantly higher for urban (3.7%) than rural areas (2.1%). One important reason for this difference could be the rapid rural-urban migration due to a host of socio-economic factors.

5.2.2 Labour Force Participation Rate

At the outset it is essential to define labour force. Labour force refers to all economically active persons within a working age population. The ratio of the economically active persons to the total number of working age population indicates what is known as the labour force participation rate. According to the Central Statistical Agency (CSA) of Ethiopia, persons aged ten years and above are considered to be in the working age population. The working age population consists of both economically active and economically inactive persons. On the other hand, employed and unemployed persons make up the economically active population.

In the 1999 and 2005 Ethiopia's labour force surveys, economic activity was defined as the production of goods and services that fall within the United

Nations Systems of National Accounts (SNA) production boundary (ILO, 1990). Economic activities may be organized by private households, businesses, governments and other agencies and are performed by individuals for own consumption, market sales, or further processing.

Table 5. 1: Sizes and growth rates of working age populations in Ethiopia, 1999-2005

Age Group	Urban		Rural		Growth Rate (%)/annum		
	1999	2005	1999	2005	Total	Urban	Rural
10-14	1,012,015	1,107,652	6,151,315	6,473,822	1.0	1.6	0.9
15-19	1,074,198	1,423,842	4,778,505	5,258,355	2.4	5.4	1.7
20-24	768,493	967,781	3,400,761	4,062,811	3.4	4.3	3.2
25-29	664,990	826,558	3,255,449	3,876,743	3.3	4.0	3.2
30-34	417,176	556,493	2,321,178	2,969,628	4.8	5.6	4.7
35-39	428,139	516,393	2,349,602	2,634,666	2.2	3.4	2.0
40-44	302,216	360,099	1,926,846	1,951,767	0.6	3.2	0.2
45-49	253,004	305,679	1,588,770	1,788,410	2.3	3.5	2.1
50-54	180,393	212,037	1,204,166	1,382,965	2.5	2.9	2.5
55-59	146,886	162,326	963,451	1,027,389	1.2	1.8	1.1
60-64	124,865	145,445	869,191	954,603	1.8	2.7	1.6
> 64	239,918	282,739	1,600,939	1,769,884	1.9	3.0	1.8
<i>All Working ages</i>	<i>5,612,293</i>	<i>6,867,044</i>	<i>30,410,173</i>	<i>34,151,043</i>	<i>2.3</i>	<i>3.7</i>	<i>2.05</i>

Source: NLFS data (CSA, 1999, 2005).

In gathering the labour force surveys data, the CSA used two main approaches namely, the "Usual Approach" and the "Current Approach" to collect the data. In the "Usual Approach" respondents were asked to report their economic activity status during the twelve months prior to the interview. On the other hand, in the "Current status Approach" they were asked to disclose their economic activity during the seven days prior to the date of the interview. Unless and otherwise stated, the data and information used in this Chapter are those that had been obtained through the Usual Status Approach. One advantage of the data obtained from this approach is that it is

CHARACTERISTICS OF ETHIOPIAN LABOUR MARKET

not affected by seasonality of work in certain sectors such as agriculture and allied sectors.

Table 5.1 shows the trends in the size of Ethiopia's working age population between 1999 and 2005. Descriptive statistics of the survey data clearly show that the annual growth rate of the working age population was higher for urban areas (3.7%) than for rural areas (2.05%) during this period. However, as can be seen from the same table, the growth rates of the working age population substantially vary among the different age groups and between urban and rural settings. The highest and the lowest growth rates were observed for the 30-34 and 40-44 age groups, respectively.

Table 5. 2: Regional distribution of labour force participation rate (%)

Region	1999		2005	
	Working Age Persons	Participation Rate	Working Age Persons	Participation Rate
Tigray	2,162,057	70	2,682,732	75
Afar	185,793	71	143,431	70
Amhara	9,518,217	77	10,917,013	83
Oromia	13,755,964	70	15,999,488	79
Somali	404,747	71	391,665	73
Benishangul Gumuz	400,912	70	462,674	80
S.N.N.P. Region	7,356,627	70	8,265,977	79
Gambella	128,726	61	18,882	49
Harari	102,711	56	110,769	66
Addis Ababa	1,828,747	57	1,800,675	61
Dire Dawa	177,973	62	224,796	66
Country Total	36,022,465	71	41,018,088	79

Source: NLFS data (CSA, 1999, 2005).

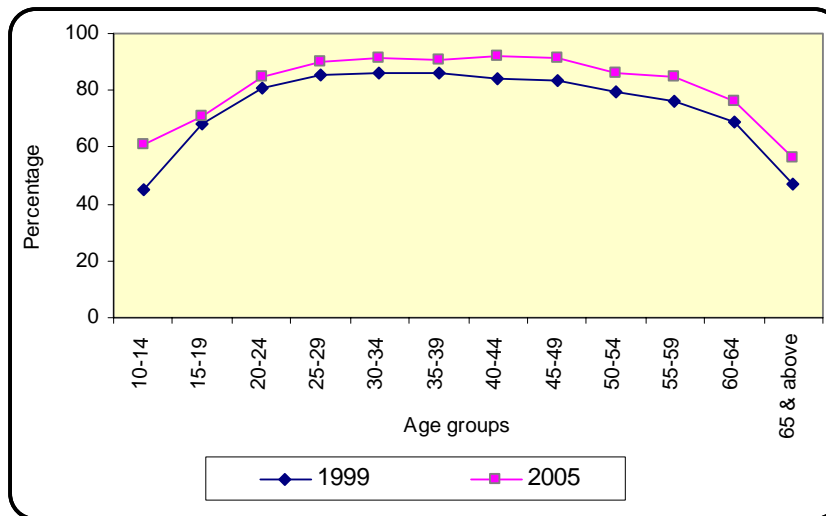
5.2.2.1 Labour Force Participation by Gender

Examining the geographical distribution of the working age population in Ethiopia also gives an interesting pattern. Table 5.2 indicates the working age profile of the different regions in the country. With a few exceptions, the

descriptive statistics in the table clearly imply that both labour supply and labour market participation were rising. Oromia had the largest number of working age population in Ethiopia followed by the Amhara and SNNPR regions, in that order. However, in terms of the labour market participation rate, the Amhara regional state took the lead. The Gambella region had the smallest participation rate in 2005.

Between 1999 and 2005, the labour force participation rate in Ethiopia had increased by eight percentage points. However, as can be seen from Figure 5.1, this aggregate increment masks important differences that were observed across the different age groups. Furthermore, it is essential to note that the rates are higher for men than for women in both periods (see, Table 5.3). However, the gender gap in the labour force participation rates in Ethiopia had narrowed mainly because of faster growth of women's labour market participation than that of men's. Taken together, in 2005, the women's share of the total economically active labour force increased to 48% from its 45% figure in 1999.

Figure 5. 1: Labour force participation rates by age-groups



Source: NLFS data (CSA, 1999, 2005).

This improvement in women's labour market participation could be attributed to several factors, including improved access to education and training, favorable labour market legislation and reduced gender discrimination, improved access to birth control facilities (FMOH, 2005) and improved division of labour in the family. In fact, women's activity rate would have been even higher if their engagement in the domestic chores such as housekeeping, preparing food and collecting firewood were accounted for in the official statistical data.

5.2.2.2 Children and Young Persons in Labour Force

As would be expected, compared to other working age groups, the labour force participation rates for children (10-14 years) and the elderly (65 years and over)¹³ appear to be smaller. For the children this might be attributed to their lack of work experience to enter the labour market, their school enrollment or child labour legislation. On the other hand, reduced participation of the elderly might be because of lack of sufficient physical capacity to do work and/or of improved availability of retirement pension. The highest labour market participation rate was observed for persons in the 35-39 years age group (in 1999) and for the 40-44 age cohorts (in 2005).

In Ethiopia, labour force participation of children and young persons has been increasing over the past few years. Between 1999 and 2005 labour force participation increased from 45% to 74% for children and from 61% to 77% for the youth. In Ethiopia, as in other developing countries, a variety of factors are responsible for increasing the incidence of child labour. Table 5.4 highlights some of these factors in a very much aggregated fashion. As pointed out by Assefa (2002), most of the casual factors of child work in Ethiopia are related directly or indirectly to widespread poverty in the country.

¹³ It has to be noted that these age groups are not part of the labour force by international standards.

Table 5. 3: Labour force participation rates by age groups and gender (%)

Age group	1999			2005		
	Male	Female	Total	Male	Female	Total
10-14	51.6	38.5	45.3	66.6	54.5	60.7
15-19	73.7	63.3	68.5	73.2	69.1	71.1
20-24	90.1	72.9	80.7	88.7	81.9	84.9
25-29	96.8	75.3	85.3	95.9	85.6	90.2
30-34	97.4	76.3	86.0	97.8	85.8	91.7
35-39	97.8	76.5	86.2	97.9	84.5	90.9
40-44	97.2	73.2	84.2	98.1	86.6	92.2
45-49	96.4	70.0	83.2	97.7	85.3	91.2
50-54	95.3	65.0	79.5	95.3	77.6	85.9
55-59	92.5	57.3	76.0	96.1	73.8	85.0
60-64	87.8	50.2	69.1	92.8	58.7	76.3
65 & above	64.1	26.2	47.4	73.4	35.1	56.3
All ages (ten & above)	80.4	62.2	71.1	84.8	73.5	78.9

Source: NLFS data (CSA, 1999, 2005).

It is worth noting that the labour force participation rates of children differ between rural and urban areas. As would be expected, the labour force participation rate of rural children was greater than urban children both in 1999 (51% versus 12%) and 2005 (68% versus 17%). According to the 2001 Ethiopia's Child Labour Survey, about 90% of the economically active children (5-17 years old) were found in the agricultural sector¹⁴. The above figures provide clear evidence that Ethiopia has had one of the highest child labour in Africa and in the world. In fact, the problem of child labour in Ethiopia has also been common among the younger children (5 to 9 year olds), because, for instance, around 39% of them were estimated to be economically active (CSA, 2001). Even though child labour contributes to current family income, it entails negative effect on child human capital formation such as education, and health. By so doing, child labour ensures for poverty to pass from one generation to the next.

¹⁴ According to Edmonds and Pavcnik (2005), comparable figures are found in agriculture sector's of Cambodia (73% in 2001), Guatemala (63% in 2000), Kenya (77% in 1998), Morocco (84% in 2000), Pakistan (67% in 1996), Vietnam (92% in 1998) and Yemen (92% in 1998).

Table 5. 4: Major reasons forcing children* to work in Ethiopia, 2001 (%)

Major Reasons	Total	Gender		Location	
		Male	Female	Urban	Rural
To supplement household income	23.8	23.9	23.7	37.0	23.1
To pay debt	0.1	0.1	0.1	0.2	0.1
To assist household enterprise	66.0	66.3	65.5	32.0	67.7
Lack of suitable conditions for education and training	0.8	0.8	0.7	3.4	0.6
Education/training institutions are very far	0.3	0.3	0.2	0.4	0.3
For work experience	4.1	3.9	4.6	8.2	3.9
To help one self	2.9	2.8	2.9	12.2	2.4
Others	2.0	1.8	2.3	6.6	1.8

*Data refers to children aged 5 to 17 years.

Source: Child Labour Survey Report (CSA, 2001).

Youth participation in the labour market also grew from 79% in rural areas and 50% in urban areas in 1999 to, respectively, 83% and 52% in 2005. The lower participation rates of children and young persons in urban areas may be attributed to one “good”, one “bad” or both factors. The good influence is that more children and young people are staying in the education and training system for longer periods of time. The “bad” factor is that as a result of the higher incidence of unemployment in urban areas, more young people are discouraged to search for jobs. On the other hand, the rising school enrollment and increasing labour market participation in urban areas may suggest that both the “bad” and the “good” influences are operating such that children and young people combine schooling and work.

5.2.3 Employment-to-Population-Ratio

The employment-to-population ratio is one of the parameters that provide important clues regarding performance of a given labour market. It gives the proportion of the working age population engaged in certain economic activities. As shown in Table 5.5, the employment to population ratio in Ethiopia has

increased by five percentage points between 1999 and 2005 for almost all the working age groups. By 2005, about 75% of Ethiopia's working age population was employed. Given a rising working age population, an increase in employment-to-population ratio means that the economy was able to generate additional employment opportunities. However, this statistics on its own cannot give a clear picture of the quality of the jobs being created in one's economy.

Table 5. 5: Employment to population ratio (%)

Age-group	1999			2005		
	Total	Male	Female	Total	Male	Female
10-14	45.1	51.4	38.2	57.5	64.0	50.6
15-19	67.0	72.4	61.6	65.4	69.2	61.8
20-24	76.9	86.9	68.6	78.0	84.4	72.9
25-29	82.7	94.7	72.2	84.3	92.6	77.8
30-34	84.4	96.0	74.7	87.7	95.8	79.9
35-39	85.1	97.0	75.0	87.2	96.1	79.0
40-44	83.3	96.4	72.2	88.6	96.2	81.5
45-49	82.4	95.8	69.0	88.1	96.1	80.9
50-54	78.7	94.4	64.2	82.9	93.6	73.6
55-59	75.5	91.8	57.0	81.9	93.9	69.6
60-64	68.5	87.1	49.7	73.6	90.8	55.2
65 and over	47.1	63.8	26.1	54.1	71.2	33.0
All Working Ages	69.7	79.3	60.6	74.6	82.0	67.6

Source: NLFS data (CSA, 1999, 2005).

5.2.4 Inactivity Rate

When a person reaches a working age, he/she chooses between entering the labour market or remaining outside the labour force. In this respect, a person who stays outside the labour force is referred to as (economically) inactive. This inactivity can arise from several factors. The first one can be voluntary in which the person willingly chooses to either stay at home, to begin or to continue education. The second one is involuntary if the person has given up looking for work as a result of loosing hope of finding one. In many instances,

national statistics on inactivity rate may include persons whose main activities are not counted as one that produces market goods and services. Included in this category are those who are engaged in producing home goods and services.

In Ethiopia, the national labour force surveys shed light on the main underlying causes of inactiveness among the working age population (Table 5.6). As indicated in the table, the relative importance of the various underlying causes differs across location and also between men and women. The descriptive results indicate 36% and 21% of the total inactive populations respectively in 1999 and 2005 were forced to be out of the labour force because of their engagement in home-making activities. Inactiveness due to domestic chores were more important in rural than urban areas and for women than for men by a significant margin. However, as can be seen from the table, the importance of this cause has been declining over time and in 2005 schooling became the most important reason for inactivity in rural areas. In fact, failure to count household chores as work implies under-reporting of female participation in the labour force (Denu *et al.*, 2005) and their contribution to the household economy in particular and the country's national income at large. The increased inactivity of youth and children due to schooling and training is increasingly viewed as an important positive development in Ethiopia as this holds big promise for increasing skilled manpower in the future.

Over the past few years, an increasing number of working age population in the country has become economically inactive due to a variety of health problems, particularly in the rural areas. For instance, around 10% and 9% of the total inactive persons, respectively, in 1999 and 2005, were compelled to do so because of illnesses. It is important to note here that illness-induced inactivity is more frequent among women than men. The main reason for this may be that women have lower capacity to spend on health care activities than do their men counterparts. This poor health status of women may in turn exacerbate their poverty due to lost earnings. A significant number of persons have also become inactive due to old age and pension. Disability is

another important cause of inactivity in Ethiopia. It is estimated that about 7.6% of Ethiopia's total population was disabled in 2003 (De Gobbi, 2006).

Table 5. 6: Reasons for being economically inactive by gender and location (%)

Reasons	1999					2005				
	Location			Gender		Location			Gender	
	Urban	Rural	Total	Male	Female	Urban	Rural	Total	Male	Female
Home-makers	20.2	36.1	32.3	5.3	45.6	12.0	21.2	18.2	2.3	26.8
Students	58.9	29.3	36.4	63.5	23.0	64.1	37.7	46.3	67.2	35.0
Disabled	0.7	1.4	1.2	1.7	1.0	1.0	3.1	2.4	3.1	2.0
Illness	6.3	11.0	9.8	9.1	10.2	6.9	13.1	11.1	8.6	12.4
Too young	2.7	8.8	7.3	8.4	6.8	2.5	7.0	5.5	6.0	5.3
Remittances	n.a	0.0	0.0	0.0	0.0	1.3	0.2	0.6	0.2	0.7
Prostitutes	0.4	0.1	0.2	0.0	0.3	0.0	0.0	0.0	0.0	0.0
Old age/ pension	7.7	10.9	10.1	9.6	10.4	6.6	10.4	9.2	6.7	10.5
Pregnancy	n.a	0.0	0.0	0.0	0.0	0.6	1.3	1.0	0.0	1.6
Others	2.4	1.8	1.9	1.6	2.1	4.7	5.7	5.4	5.5	5.4
Not stated	0.8	0.6	0.7	0.7	0.6	0.3	0.4	0.4	0.4	0.4
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Note: n.a means data not available.

Source: NLFS data (CSA, 1999, 2005).

5.2.5 Determinants of Quality of Labour Force

5.2.5.1 Educational Attainment and Illiteracy

The contribution of a given labour force to economic growth depends not only on its size but also on the skill and human capital embodied with it. Human capital in a broad sense has several aspects including education, training, health, experience and so on. Education and training are important means of producing skilled labour force for raising production and productivity. Health affects not only time worked but also determines productivity of labour in a

given economy. Thus, there is a close association between human capital formation and improved labour productivity and higher wages.

In this respect, modern growth theory suggests that human capital increases economic growth and is an important means of poverty reduction. Education and training holds huge promise for poverty reduction in Ethiopia. A recent empirical study by Mulat *et al.* (2003) indicated that adult literacy tended to reduce rural and urban poverty in Ethiopia. Unfortunately, however, the literacy rate among the country's working age population stands at 38% (Table 5.7).

The slight reduction in the illiteracy rate between 1999 (70%) and 2005 (62%) resulted from mainly the reduction in illiteracy among the youth and children, who seem to be the direct beneficiaries of the Ethiopian Government's recent government education reform. In both periods, we also see that the younger the age cohort, the more literate, indicating improved access to primary and secondary schooling. On the other hand, the lower literacy rate among age cohort in mid thirties and above implies the lower access to schooling in the past.

Apart from its small size in absolute terms, Ethiopia's literate work force has a very shallow educational profile. As can be seen from Table 5.7, up to 27% of the total literate working age populations has had only non-formal or primary schooling, while those with some secondary schooling or beyond remained less than 3%.

As expected, according to recent surveys, the literacy rate of the working age populations was higher in urban than rural areas. Interestingly enough, however, the rural literacy rate showed some progress during this period (22% in 1999 and 26% in 2005), whereas the urban literacy rate did not show any noticeable change at all (72% in both periods). In fact, these differential sectoral education outcomes closely follow the government's more aggressive effort in expanding access to education in rural areas. For

example, as pointed out by Lasonen *et al* (2005), about 86% of the total new primary schools constructed in 2002/03 were located in rural areas.

Educational achievements of the working age population in Ethiopia also show an interesting variation by gender. Women had lower literacy rates than men in both 1999 and 2005. According to some sources (FDRE and UNICEF, 2001 as cited in Lasonen *et al.*, 2005) women's illiteracy rate in Ethiopia reached as high as 75%. Among others, the higher level of women's illiteracy could be associated with tradition, legal systems, customs, poverty and discrimination that have reduced girls' participation in education and training. As was indicated in Part I of this report, the Ethiopian Government has taken several policy measures including the 1994 education and training policy and the 1993 national policy for women to minimize gender disparity in education.

For age cohorts 25 and above, illiteracy rate for women was 75% and over. An interesting feature of the women's illiteracy rate was that it tended to rise with an increasing age suggesting their lower access to education facilities in the past. Over all, between 1999 and 2005, the working age women's literacy rate grew by 1% per year, and in 2005 their literacy reached around 27%.

Table 5. 7: Education profile of working age populations in Ethiopia (%)

Age Group	1999						2005					
	AllLiterate	Grades					All Literate	Non -formal	Grades			
		Non formal	Pri.	Mid.	Sec.	12 & above			Pri.	Mid.	Sec.	12 & above
10-14	34.2	1.7	30.5	1.7	0.2	1.5	50.7	1.4	46.5	2.6	0.1	0.0
15-19	38.3	2.0	23.7	7.0	4.7	0.9	56.6	1.1	36.0	12.0	5.8	0.0
20-24	37.4	2.5	18.7	6.1	4.6	0.6	40.9	1.5	20.9	7.2	4.4	0.0
25-29	37.8	3.7	18.3	5.8	3.4	7.6	35.8	2.2	18.2	6.0	2.9	0.0
30-34	32.3	5.2	15.0	4.0	2.5	0.0	36.3	3.8	19.0	5.6	2.1	0.0
35-39	27.7	6.2	12.7	2.9	1.6	0.0	32.4	4.7	16.2	4.0	2.2	0.0
40-44	20.0	5.8	8.6	1.8	0.9	0.0	27.7	6.2	12.2	2.8	1.6	0.0
45-49	18.9	6.3	8.5	1.3	0.8	0.0	21.7	5.8	9.6	1.7	1.3	0.0
50-54	14.0	6.5	5.2	0.8	0.3	0.0	15.6	4.7	6.9	1.4	0.7	0.0
55-59	11.8	5.9	4.0	0.6	0.3	0.0	13.9	5.3	6.0	0.9	0.6	0.0
60-64	10.5	5.5	3.5	0.6	0.2	0.0	10.7	4.5	4.5	0.7	0.2	0.0
65 & over	8.0	5.8	1.6	0.3	0.1	0.0	9.0	4.9	2.9	0.5	0.1	0.0
All (10 & above)	29.9	3.8	17.7	3.6	2.2	0.0	37.7	2.9	23.9	5.2	2.4	0.0

Source: NLFS data (CSA, 1999, 2005).

Table 5. 8: Trends in literacy rates of working age populations (%)

Age Group	1999		2005	
	Male	Female	Male	Female
10-14	39.3	28.6	53.2	48.0
15-19	47.9	28.7	67.9	45.9
20-24	49.1	27.7	56.4	28.4
25-29	53.0	24.4	50.8	23.9
30-34	52.1	15.9	51.9	21.1
35-39	48.0	10.7	49.9	16.2
40-44	36.6	6.0	46.9	9.7
45-49	32.8	5.0	38.2	6.6
50-54	25.4	3.5	28.9	3.8
55-59	20.2	2.3	24.4	3.3
60-64	19.6	1.3	18.9	2.0
65 and over	13.8	0.7	15.2	1.3

Source: NLFS data (CSA, 1999, 2005).

5.2.5.2 Training

Like education, labour training in Ethiopia has been highly insufficient. For instance, available data indicate that of the total 36, 022,473 working age population available in 1999, only 2.2% had received some kind of training. In fact, not only is the present status of labour force training very low but its distribution also leaves huge disparities among regions and between men and women (Table 5.9). Most (70%) of the trained labour forces were men in 1999 indicating that women have had disproportionately lower access to training opportunities in the country. Furthermore, the distribution of trained labour force in Ethiopia is highly skewed toward urban areas and some regions. About 73% of the total trained labour force was found in the urban areas, which has only 12% of the country's labour force. In fact, more than one-third of all trained labour force in the country work in Addis Ababa. Certain regions like Afar, Benishangul-Gumuz, Gambella and Somali together possess less than one-fifth of Addis Ababa's total trained work force. Several factors might be attributed for the observed regional discrepancies in

CHARACTERISTICS OF ETHIOPIAN LABOUR MARKET

human resource training in Ethiopia. One such factor is that the country has had for a long time period very few labour training institutions which, unfortunately, almost all were located in the capital city and other major towns. Secondly, and most importantly, Addis Ababa, due to its better socioeconomic and infrastructure development, has had better opportunities to retain and/ or attract skilled human resources from other regions.

Table 5. 9: Regional profile of trained working age populations by gender, 1999 (%)

Regions	Total	Male	Female	Urban	Rural
Tigray	3.9	3.7	4.3	4.3	2.8
Afar	0.4	0.5	0.2	0.5	0.2
Amhara	14.9	16.6	11.0	11.2	25.1
Oromia	25.3	27.7	19.4	21.0	36.9
Somali	0.9	1.1	0.5	1.0	0.6
Benishangul-Gumuz	1.1	1.3	0.6	0.7	2.1
SNNP	15.0	17.1	9.8	9.4	30.1
Gambella	0.8	1.0	0.4	0.6	1.4
Harari	1.5	1.5	1.3	1.9	0.3
Addis Ababa	34.4	27.8	50.6	47.0	0.2
Dire Dawa	1.9	1.8	1.9	2.4	0.3
Total	100.0	100.0	100.0	100.0	100.0

Source: NLFS data (CSA, 1999, 2005).

But, in general, the lack of sufficient attention given to vocational and technical training in the past is among the major reasons for the present low level of labour training status in Ethiopia. To remove this drawback, the Ethiopian government has formulated and implemented various education and training policy measures and strategies over the past few years. The main aim of government intervention in the education sectors has been to establish appropriate vocational and technical training system and create a strong linkage with the academic system (Mulat *et al.*, 2005). Apart from reforming the formal education system, the Education Sector Development Program (ESDP), adopted by the Ethiopian government envisages to expand non-formal education opportunities for drop-outs, out-of-school children and

young people (Lasonen *et al.*, 2005). Many observers have strong expectation that this reform would better prepare the youth for the labour market in the coming future. However, Ethiopia faces a serious challenge in improving coherence of the quantity and quality of technical and vocational training (Lasonen *et al.*, 2005). According to these authors the main problems facing Ethiopia's TVET programs at present could be summarized as follows:

- the range of occupational areas, skills and knowledge covered by available training programs is very limited,
- girls and women are underrepresented in training programs, existing provision mainly addresses typical male skills and occupations, and training provision for operating micro and small entrepreneurs and people in employment hardly exists.

5.2.5.3 HIV/AIDS and Labour Supply

Ethiopia has the third highest HIV positive population in Africa, next to Nigeria and South Africa. According to the Federal Ministry of Health (MoH, 2004/05) the total number of people living with HIV/AIDS in Ethiopia is estimated to be around 1.6 million in 2004/05. During this period, the HIV/AIDS adult prevalence rate was estimated to be 4.6%. However, this figure masks important differences that exist between men and women and also between urban and rural areas in the country. The HIV/AIDS adult prevalence rate is higher for women (5.2%) than for men (3.9%) and among urban areas (12.5%) than rural areas (2.8). However, it is important to note that the prevalence of the disease has been increasing from 1.9% in 2000 to 2.8% in 2005.

The most widely perceptible impact of HIV/AIDS on labour force stems from its negative impact on mortality and morbidity. Working age adult mortality due to HIV/AIDS in Ethiopia is extremely high. Available information indicates that in 2003 alone, about 30% of all adult deaths in the country were due to AIDS. By 2004/05, the total annual deaths due to AIDS are estimated to be

124,178. According to recent estimate by the UN (2004), AIDS had reduced the average Ethiopian life expectancy from 52.2 years (without AIDS) to 47.6 years during 2000-2005 period. HIV/AIDS also reduces savings and investment by diverting productive resources for spending on funeral and mourning, financing treatment, care and medication. According to a recent study for Ethiopia, the sum of these costs is many times greater than what a typical household actually earns in the country (Bollinger *et al.* 1999).

HIV/AIDS also re-enforces the vicious circle of poverty by reducing adult labour productivity and making children orphans. In Ethiopia, it is estimated that there are more than 500,000 children orphaned by AIDS. Even though accurate data is lacking on the Ethiopian case, an empirical study for neighboring Kenya indicated that HIV/AIDS diminishes human capital formation of the orphaned children by reducing the intensity of their school participation or by forcing them to quit school at all (Evans and Miguel, 2004).

Apart from its impact on households and individuals, HIV/AIDS in Ethiopia has caused an enormous negative impact on firms. According to a survey carried out some ten years ago of 15 different establishments in the country, 53% of the total reported illnesses (15,363) over a five year period were due to HIV/AIDS (Bersufekad, 1994 cited in UN, 2004).

5.2.6 Migration and Labour Supply

Migration has been an important human activity in Ethiopia. The international evidence on the causes and effects of migration is vast but it can be said that migration involves both positive and negative consequences for economic development. In the positive side, migration of people from a dispersed, rural mostly agrarian to cities is a prerequisite for development of a more concentrated urban industrial society (Bardhan and Udry, 1999). Previous studies have pointed out that historically migration of people from rural areas accounted for at least 50% of all urban growth in Africa during the 1960s and 1970s and about 25% of urban growth in the 1980s and 1990s (Brockhoff, 1995). Furthermore,

migration raises economic efficiency by facilitating spatial re-organization and allocation of human resources in a society. Some recent studies also indicate that migration is an important means to alleviating income disparity among different regions and between urban and rural areas in an economy (Lin *et al.*, 2004). Still other studies emphasize the key role on rural livelihoods of remittance flows to private households and their members.

On the contrary, migration of labour force can influence negatively the destination as well as source communities through several pathways. For instance, if destination areas do not have enough capacity to absorb large migrant population flows, in terms of providing access to social and economic facilities, migration would induce a source of tension or social stress in the destination areas. In other words, mass migration of people from one area to another may create new or further exacerbate existing problems in the destination areas. In the literature, the socioeconomic problems resulting from excess migration include unemployment, social conflict and development of slums in cities. In rural areas, migration may also exacerbate the pressure on scarce natural resources such as land, water and forests and thereby contribute to accelerated environmental/natural resources degradation. In the source communities, out migration may also retard development activities by reducing locally available labour force.

The intention of highlighting these arguments is not to invalidate or ascertain the relationship between migration and economic development in this report but to point out the potential pros and cons of such an important economic phenomenon. In that context, therefore, the report aims at examining the socioeconomic and demographic and labour market characteristics of migrant population in Ethiopian. More particularly, the main questions which this report tries to answer are as follows:

- Who is migrating?
- How important is labour market induced migration?
- What is the magnitude of internal labour migration in the country? and
- Where are the dominant destinations for migrants?

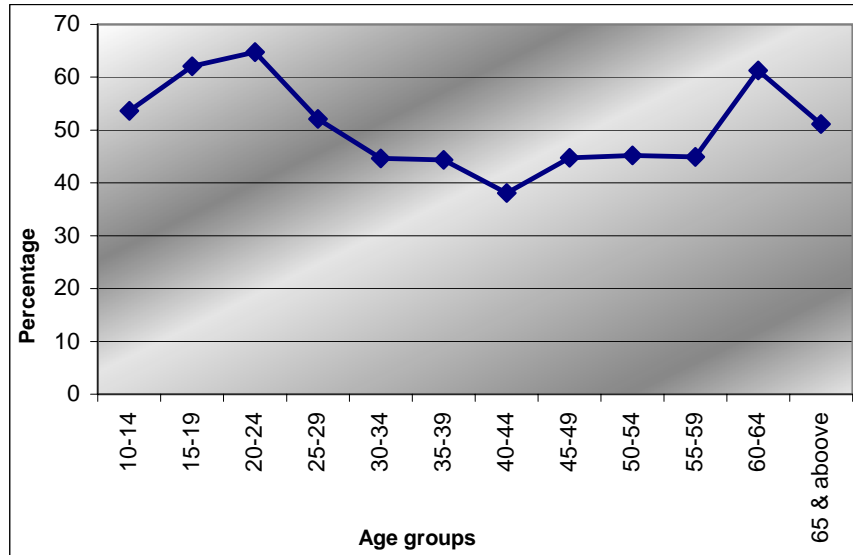
In Ethiopia, little documented information exists about the relationship between migration and labour market. One of the reasons for this information gap is the paucity of relevant migration data in the country. In this section, we use migration data from the 1999 labour force survey. In the survey, a migrant is defined as a person who stayed less than five years in current location. Figure 2.2 portrays the differential migration flows for men and women for all the working age populations in Ethiopia. From the Figure it is evident that women in the age groups 10-29 and 60 years old and above had higher migration rates than for men in the same age groups. In fact, the highest migration gap between women and men migration rate was observed for the young population (15-24 years old). As age progresses between 15 and 24 years old, it is observed that migration increases for girls and decreases for boys. For the middle age groups (30-60 years old), the migration rate was higher for men than for women. In all, around 55% of the total migrant populations in the country over the same period were females.

Theoretically, the observed difference in migration behavior among women and men can be explained by their differential access to potential labour markets or by other social factors such as marriage. For instance, according to the 1999 labour force survey, the likelihood of finding paid employment for women in the private households and restaurants and hotels was higher than for men. Given all other factors constant, this implies that more women than men would migrate to the cities because of the fact that most activities in these sectors are currently in urban areas of Ethiopia. Apart from this, young girls encounter greater amount of social and family pressure to get married in their early ages without their consent. In this respect, marriage by abduction is a common practice in Ethiopia. This state of affairs contributes to marriage dissolution, which in turn is a major cause of internal migration among women in general and young girls in particular.

Looking at the geography of migration flows in Ethiopia one can distinguish four kinds of internal migration in the country, namely, rural to urban, rural to rural, urban to rural and urban to urban migration flows. Rural to rural was the dominant kind of internal migration in the country over the five years period

prior to the March 1999 labour force survey (Table 5.10). About 47% of total migration flow over the same period was either from rural to urban or urban to urban areas.

Figure 5. 2: Distribution of internal migrant persons aged ten years and over by gender, 1999 (% female)



Source: NLFS data (CSA, 1999).

In the migration literature a variety of explanations are given for the motivation to migrate. On one hand, one of the earliest works on migration (e.g. Todaro, 1969; Harris and Todaro, 1970) suggested that the expected urban to rural wage differential and better employment opportunities in cities create the motivation for migration. On the other hand, some researchers contend that migration could take place for other reasons even if wages are not different between destination and source communities (Stark, 1991; Bardhan, 1979; Rodgers, 1991). For instance, a high population density in rural areas and social amenities and expected better living conditions in urban areas raise the motivation to migrate to cities.

Table 5. 10: Regional distribution of internal migration in Ethiopia, 1999 (%)

Region	Rural-urban	Rural-rural	Urban-rural	Urban-urban	Total
Tigray	20.0	24.0	23.9	32.1	100.0
Afar	11.0	21.3	7.3	60.4	100.0
Amhara	19.9	43.6	17.6	18.9	100.0
Oromia	21.8	44.2	14.2	19.7	100.0
Somali	22.7	18.2	20.9	38.1	100.0
Benishangul	8.6	63.8	9.7	17.9	100.0
SNNP	19.8	36.7	24.3	19.1	100.0
Gambella	11.9	49.3	11.9	26.9	100.0
Harari	26.4	4.1	2.0	67.5	100.0
Addis Ababa	48.4	0.8	0.1	50.7	100.0
Dire Dawa	30.0	3.1	5.7	61.2	100.0
Country total	22.8	37.3	16.0	24.0	100.0

Source: NLFS data (CSA, 1999).

According to the 1999 labour force survey results, the most frequently cited reasons (25%) for migration were family-related and demographic issues. As can be seen from Table 5.11, marriage-induced migration accounted for about 16% of the total internal migration in the country. The second major reason reported was job-related (23%). An interesting point to note here is that the magnitude of work-related migration flows varies across age groups and also between males and females. More particularly, job-related migration was very common among persons aged between 25 and 44 years.

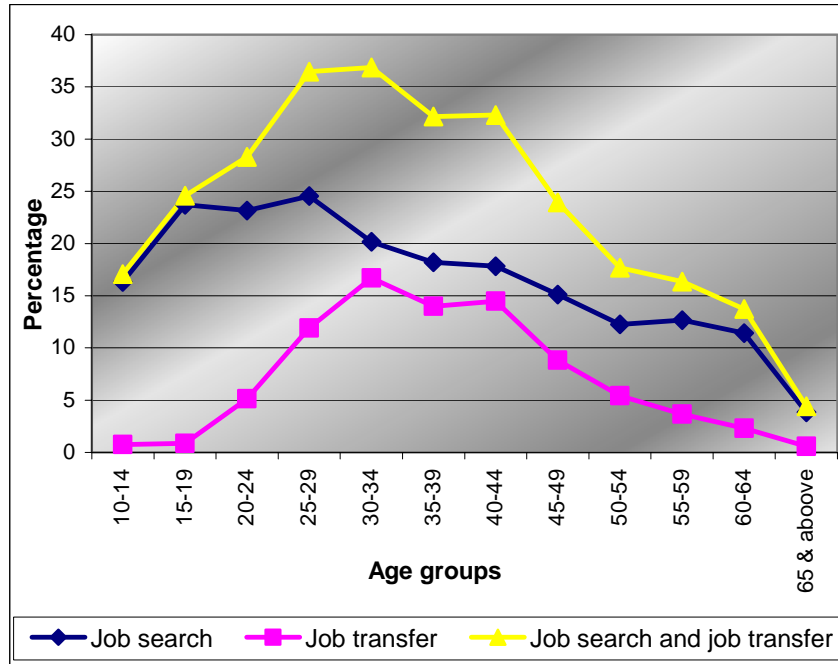
Table 5. 11: Major reasons for migration, 1999

Major reasons	Total Persons	%
Moving with family	569,786	24.5
Work-related	525,356	22.5
Marriage	376,635	16.2
Education	208,962	9.1
Seeking to live with relatives	191,760	8.2
Others	456,777	19.6

Source: NLFS data (CSA, 1999).

About 9% of the total reported migration was caused mainly for education purposes. The proportion of education-induced migration was higher for teen-agers (15-19 years old) and children (10-14 years old) than for other age-groups.

Figure 5. 3: Employment-related reasons for labour migration in Ethiopia, 1999



Source: NLFS data (CSA, 1999).

Another important issue is the distribution of migrant populations within and across regions in Ethiopia. From the available data (Table 5.12), it can be seen that some regions had higher proportion of intra-regional migrants to its total migrant population while others predominantly had inter-regional migrants. A close look at the migration characteristics of different regions in the country bear interesting features. In small regions such as Afar, Harari, Addis Ababa and Dire

Dawa the proportion of inter-regional migrant population was over 90%. In fact, in Addis Ababa, the figure reached as high as 100%. In the large regions like Oromia, Amhara, SNNP and Tigray the share of intra-regional migrants were higher than the share of inter-regional migrants.

Table 5. 12: Distribution of migrant persons by region and type of migration, 1999 (%)

Regions	Intra-regional	Inter-regional
Tigray	63.93	36.07
Afar	25.02	74.98
Amhara	76.39	23.61
Oromia	77.16	22.84
Somali	47.79	52.21
Benishangul-Gumuz	35.06	64.94
SNNP	71.60	28.40
Gambella	34.44	65.56
Harari	1.57	98.43
Addis Ababa	0.20	99.80
Dire Dawa	7.82	92.18

Source: NLFS data (CSA, 1999).

5.3 Formal and Informal Labour Markets

A better understanding of developing countries' labour market cannot be complete without recognizing informal sector employment. The main reason is that the informal sector jobs in developing countries are large and also growing. According to du Jeu (1998), for example, about 60 percent of the urban work force in Africa and Latin America is employed in informal activities. In fact, several researchers and observers state different explanations for the existence of a large informal sector in less-developing countries. Following Heckman and Sedlacek (1985) some would therefore argue that the informal sector employment is supply-led and voluntary. In this respect, individuals compare the costs of and returns to labour between formal jobs and informal sector employment. Individuals would then prefer to

work in the informal sector if its marginal returns to labour exceed that of the formal sector. On the other hand, others argue that employment in the informal sector is involuntary and demand-driven. Stated in other words, informal sector employment is determined by firms' demand for employment and workers' need to find a job. As a result, those who are unable to find job in the formal sector due to their labour characteristics, institutional setting and/or labour market discrimination would resort to working in the informal sector (Fields, 1975).

There are a variety of reasons why informal labour market activities are of interest for policy makers and development agencies. Firstly, the informal sector employment is mainly characterized by poor workplace conditions, including low labour standards and social security (Galli and Kucera, 2004). Secondly, the informal sector employment exacerbates low level of income and poverty in developing countries through its low and irregular wages to labour. Along this line, the UNECA (2005) on its "Economic Report on Africa 2005: Meeting the Challenges of Unemployment and Poverty in Africa" has pointed out that "workers in the informal sector are subject to face substantially higher prevalence of poverty and higher exposure to risk". In Ethiopia, a few available studies (see for e.g. Mulat *et al.*, 2005) also reveal that informal sector employment and poverty are closely correlated. As has been pointed out earlier, the relationship between informal sector employment and poverty is bidirectional since the poor are more likely to be employed in the informal sector than in the formal sector of the economy.

However, despite its direct and indirect impact on poverty, the informal sector activities have been and still are important sources of income and livelihood to many people around the world (Table 5.13). As the table indicates, the informal economy's share in GNP varies between developed and developing countries. More specifically, its share is higher in low income countries such as Ethiopia (40.3%) and lowest in OECD countries like the USA (8.8%).

Table 5. 13: Contribution of informal economy to GNP in different regions, 2005

Region or Country	Informal Economy (% GNP)
OECD	17.4
South Asia	35.7
Latin America and Caribbean	41.5
Sub-Saharan Africa	42.3
Ethiopia	40.3
Kenya	34.3

Source: Doing Business database, World Bank (www.doingbusiness.org)

According to Becker (2004) the main issues surrounding informal sector employment could be stated as follows:

“... It is clear that the informal economy has a significant job and income generation potential and that the existence of the informal economy also helps to meet the needs of poor consumers by providing accessible and low-priced goods and services. Therefore, in order to intervene in the best way to stimulate sustainable economic growth and job creation, the informal economy needs to be better understood both by governments and donors.”

In fact, one important feature of the Ethiopian labour market relates to the high preponderance of employment in the informal sector. In defining informal sector, the Central Statistical Agency of Ethiopia uses three main interrelated criteria, namely, firm size, whether or not the firm keeps book of account, and has business license. Then a person is considered as an informal sector worker if the business he/she is engaged in has less than ten workers, no book of account or do not have a business license from any government authority. Broadly speaking, the informal sector workers are predominantly located in small firms and self-employment. As it will be discussed below, among others, distinction between formal and informal labour markets could bear important implications for poverty reduction and workers' well-being.

5.2.5 Distribution of Informal Employment by Regions

Looking at Table 5.14, it can be seen that the informal sector substantially contributes to total labour force employment in both rural and urban areas of Ethiopia. According to the 1999 NLFS (CSA, 1999), about 50% (1,149,484) of urban jobs come from the informal sector. Nearly 76% of the total informal sector workers in the country are found in rural areas. The informal sector's share of urban employment in Ethiopia has varied substantially over time and across regions. In 1999, the highest incidence of urban informal sector employment was found in the Amhara and Somali regions, whereas the lowest was found in the Addis Ababa city administration. In 2005 too, the share of urban informal sector employment in the Amhara, Somali and Oromia regions were among the highest.

Table 5.14: Relative share of urban informal employment (%)

Regions	1999		2005	
	Formal	Informal	Formal	Informal
Tigray	47	51	52	40
Afar	45	53	61	32
Amhara	35	64	45	47
Oromia	37	61	51	44
Somali	36	64	44	49
Benishangul-Gumuz	52	47	62	33
SNNP Region	40	59	54	41
Gambella	69	31	64	30
Harar town	58	42	57	35
Addis Ababa	71	27	62	22
Dire Dawa	57	42	47	41
Total	48	51	53	38

Source: NLFS data (CSA, 1999, 2005).

In sum, the share of urban informal sector employment in total informal employment has shown a declining trend between 1999 and 2005 (see Tables 5.14 and 5.15). As noted by Mulat *et al.* (2005), the decline in the share of

CHARACTERISTICS OF ETHIOPIAN LABOUR MARKET

informal sector employment in the country might be attributed to the recent adoption of a strategy for the formalization of the informal economy. The urban informal sector employment activities were dominated by women (57%).

Of the total 6,492,968 employed national labour force in 1999, 4,814,816 (74%) were engaged in the informal sector, of which about 76% were located in rural areas. In fact, nearly 87% of the total rural employment was found in the informal sector. However, the importance of informal sector employment in Ethiopia varies from one region to another (Table 5.15). The share of rural informal sector employment was the highest in Somalia (96%) followed by Harar town (92%) and SNNP (92%), and the lowest was in Tigray (48%).

Table 5. 15: Share of informal employment in rural areas by region, 1999 (%)

Regions	Formal	Informal
Tigray	52	48
Afar	19	76
Amhara	9	90
Oromia	10	89
Somali	4	96
Benishangul-Gumuz	15	85
SNNP Region	7	92
Gambella	42	57
Harar town	8	92
Addis Ababa	n.a.	n.a.
Dire Dawa	25	75
Total	12	87

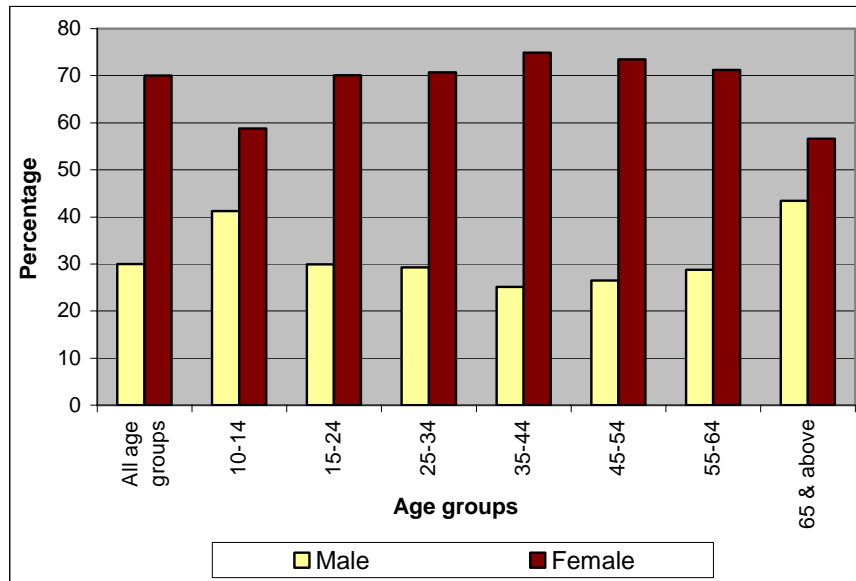
n.a. means data not available.

Source: NLFS data (CSA, 1999).

5.2.6 Distribution of Informal Employment by Gender

One of the major characteristics of the informal sector is that it has an unbalanced gender composition in employment. According to recent report of the Economic Commission for Africa (ECA, 2005 women are over represented in various informal sector activities), in many African economies and Ethiopia is no different. Gender differences in informal sector employment are present across working age cohorts of the populations. On average, women’s share of informal sector employment in Ethiopia is about 70%, closely conforming to the world’s average, which remained between 60 and 80% (Becker, 2004). However, for certain age groups the share of women in informal sector employment actually exceeds the above average.

Figure 5. 4: Distribution of informal employment by age-group and gender, 1999



Source: NLFS data (CSA, 1999).

As seen in Figure 5.4, the incidence of female informal labour market participation is relatively lower for children (10-14 years) and the elderly (65 years old and above). Over-representation of women in the informal sector employment can be attributed to both supply and demand side factors. On the supply side, women's informal sector choice may be influenced by their low level of education, training and skills and by other demographic and family characteristics. On the demand side, the formal sector jobs demand higher skills, education and training, and most of them are located in the urban sector.

5.3 Over-Seas Employment

Tables 5.16 and 5.17 indicate the number of Ethiopian workers who left for foreign countries to work through both the Private Employment Exchange and the Public Employment Exchange Offices, respectively. As the tables show, a significant majority of these workers were women. Of the total official over-seas employment effected between 2002/03 and 2005/06, nearly 60% was carried out through the private employment agencies. However, as can be observed from the tables, the number of workers going abroad for work through the public employment exchange office is slowly rising. The vast majority of workers employed abroad are found in the Middle East countries. A look at the demographic characteristics of the over-seas workers indicate that most of them are in their early twenties with some senior secondary education.

Table 5. 16: Number of Ethiopians employed abroad through private employment agencies

Year	Male	Female	Total
2000/01	0	1,202	1,202
2001/02	98	4,568	4,666
2002/03	0	7,003	7,003
2003/04	1	7,024	7,025
2004/05	87	1,972	2,059
2005/06	125	7,418	7,543
Total	311	29,187	29,498

Source: MoLSA, Employment Exchange Service (various issues).

Table 5. 17: Number of Ethiopians employed abroad through the public employment office

Year	Male	Female	Total
2002/03	1,224	914	2,138
2003/04	989	1,022	2,011
2004/05	1,491	4,019	5,510
2005/06	413	5,542	5,955
Total	4,117	11,497	15,614

Source: MoLSA, Employment Exchange Service (various issues).

5.4 Employment of Foreign Nationals in Ethiopia

Even though small in size, nationals of foreign countries have obtained work permits in Ethiopia. In fact, the number of foreign workers in Ethiopia has been on the rise since in recent past (Table 5.18). By 2005/06, 5,724 foreign nationals were involved in some kind of economic activity in the country. Most of these foreign nationals working in Ethiopia are professionals and managerial workers and most of them are the nationals of Asian and European countries.

Table 5. 18: Number of work permits issues for foreign nationals in Ethiopia

Year	Number of Workers
2001/02	2,529
2002/03	3,045
2003/04	3,415
2004/05	4,271
2005/06	5,724

Source: MoLSA, Employment Exchange Service (various issues).

5.5 Labour Proclamations and Institutions

Effective labour market laws and institutions enhance the performance of the labour market through a variety of pathways *inter alia* on wages and productivity, employment and worker rights, and labour management relations and social dialogue. Labour market institutions create a host of constraints and incentives that shape the functioning of the market. The main aim of this sub-section is to provide an overview of the labour market policies and institutions prevailing in Ethiopia.

5.5.1 State Institutions and the Employment Law

The Ministry of Labour and Social Affairs (MoLSA) is the main state organ responsible for addressing labour market issues in Ethiopia. More specifically MoLSA is responsible to set up labour legislations and regulations in the country and to revise or amend them when required. MoLSA also bear responsibility to register labour organizations and to closely monitor their activities in the market. Upon request and in pursuant to its labour rules and regulations, MoLSA extends its technical support to workers and employers to settle labour disputes through social dialogue and collective agreements. In the regions, MoLSA has its branch offices dealing with the above labour issues.

The international conventions on employment exchange services that Ethiopia is a party to include ILO's Organization of the Employment Service Convention No. 88(1963), and the Private Employment Agencies Convention No.181 (1997). Ethiopia has ratified both of these conventions in 1999 and 2000, respectively. Accordingly, Ethiopia has legislated the Private Employment Agency Proclamation No. 104/11998, which gives any person, independent of government bodies, the right to perform employment exchange services for workers, without directly or indirectly receiving payments from them.

At present, employment services are therefore provided by a public body, MoLSA and by private agencies. MoLSA keeps records of vacancies, and registers job seekers and also placements of job seekers. However, the submission of vacancies to the Ministry by employers and of job application by job seekers is up until now voluntary. As a result, the number job-seekers and the number of vacancies registered by the Ministry underestimates the actual magnitudes of job-seekers and advertised vacancies in the economy.

In the different regions of Ethiopia, the employment exchange services are provided by Regional Bureau of Labour and Social Affairs. Currently there are about 49 public employment exchange service offices in the country (Denu *et al.*, 2005). As could be seen from Table 5.19, the number of job-seekers registered by MoLSA over the four years period (1997/98-2001/02) greatly exceeds the number of notified vacancies through the Ministry. Looking at these numbers, one would say that MoLSA's employment exchange service has been highly inefficient in matching workers to jobs in the country. Of the total job-applicants registered by the Ministry every year during the same period, those who obtained placements were less than or equal to 6% implying the Ministry's inefficiency to match workers with suitable jobs in the economy.

Table 5. 19: Distribution of job-seekers, vacancies and placements, 19997/98-2001/02)

Year	No. of Job-Seekers	No. of Notified Vacancies	No. of Placements
1997/98	29,494	2,347	1,636
1998/99	25,686	4,725	4,142
1999/00	24,230	1,880	1,484
2000/01	22,290	1,601	1,155
2001/02	23,874	1,613	1,157

Source: MoLSA, Employment Exchange Information (May, 2003), MoLSA.

According to the Private Employment Agency Proclamation No. 104/1998, Private Employment Agents are legalized to take part in the provision of employment exchange services for both local and over-seas employment,

without receiving payments from the workers. The Private Employment Agencies are required to be registered by and get a business license from the Ministry. The law also puts certain financial restrictions on the private employment agency in doing business. For example, the law obliges the Private Employment Agency to deposit a guarantee fund equal to 30,000 US Dollars, 40,000 US Dollars, and 50,000 US Dollars or its equivalent in Ethiopian Birr, respectively, when sending up to 500, 501-1,000 and more than 1,000 workers abroad for work (Article 14).

The new labour legislation (Article 174) permits employment of foreign nationals in Ethiopia in any type of work. In receiving the employment service, they are charged for the issuance, renewal or replacement of the work permit.

The history of formal labour law in Ethiopia dates back to the 1960s when the Imperial government established the first "Labour Relations Proclamation No. 210/1963". This proclamation was meant to provide workers the right to establish their own associations and to bargain collectively for their common issues with the other party. However, this start did not last long. It was abandoned by the Military government who ruled the country for seventeen years (1974-1991). Instead, the Military government passed its own Labour Proclamation No. 64/1975, based on the spirit of socialist production relations and command economic policy. During the same period, labour employment was centrally controlled and the government was the only source of formal employment services in the country.

The current government, who replaced the Military government in May 1991, again discarded the previous labour law and developed its labour law referred to as the Labour Proclamation No. 42/1993. This proclamation repealed the previous labour laws, and gave workers and their employers the freedom to form their own associations and to bargain collectively for advancing issues of their common interest. However, as pointed out by Sommer and *Wexels-Riser* (2004) this proclamation was still criticized by the ILO Committee of Experts, mainly on the discrepancy between national

legislation and the Freedom of Association and Protection of the Right to Organize Convention, 1948 (No.87). Partly as a response to this observation, the Ethiopian government established a new labour proclamation called Labour Proclamation No. 377/2003. This act is the major source of labour law in the country at present. The same proclamation constitutes the main source of reference to the materials contained in this report.

5.6.1 Labour Market Regulation

In dealing with the regulation of work, the oft-asked question found in the literature is why economies need labour market institutions or regulations. There are a variety of answers for the same question, but the fundamental response would be that the markets for labour are not, by their nature, perfectly competitive (IMF, 2003). In other words, the market for labour is subject to various sources of imperfections which if not regulated would generate less than optimal labour market outcomes for both workers and employers. The first source of imperfection emerges from asymmetric information problems in the labour market. The incidence of asymmetric information between job seekers and employers undermine the efficiency of the labour market through various path ways. With imperfect information job seekers fail to allocate their job search efforts optimally and find suitable employers. Moreover, even after they find jobs, workers face information problems to evaluate their contribution to the firm's output and productivity. On the demand side of the labour market, employers cannot make efficient recruitment and placement decisions in the presence of asymmetric information. Once again, asymmetric information about labour qualities and efforts on work contributes to problems in the wage and other incentives setting processes.

The second source of labour market malfunctioning comes from market power. Differences in the market power between workers and employers also yield inefficient labour market outcomes. For instance, as pointed out by the IMF (2003), if employers dominate the labour relations, wages may be

pushed too low, and if workers are more powerful, wages can be too high. Much more examples can be given but the point here is that labour market institutions or regulations are needed to assist the labour market to achieve desirable labour relations and economic performance.

Along this line, some authors (e.g. Botero *et al*, 2004) have discussed the main areas of labour market interventions by governments. First, governments ban discrimination in the labour market and provide workers with some basic rights and responsibilities in employment. Second, governments regulate labour employment relationships for example by restricting the range of feasible contracts and raising the costs of both laying off workers and increasing hours of work. Third, governments provide support to trade unions and employers' associations to advance common interests of workers and employers, respectively. Fourth, governments themselves provide workers with social insurance against unemployment, old age, disability, sickness and health, or death. In what follows, the report makes brief assessment of Ethiopia's labour market policies and institutions vis-à-vis ILO's fundamental principles and rights at work.

5.6.2 Labour Standards

ILO's labour standards consist of five main articles. Three of these standards are prohibitive in character and ban forced labour, exploitative child labour and discrimination. Two are affirmative in character and give workers the right of freedom of association and the right to engage in collective bargaining. In this respect, Ethiopia has ratified quite a number of ILO's labour conventions dealing with labour standards and employment relations (see Table 5.20). In what follows, Ethiopia's labour standards are reviewed with reference to the fundamental ILO Conventions.

Table 5. 20: Some of the ILO's labour standard conventions ratified by Ethiopia

Labour Standard Conventions	Year Ratified
the Freedom of Association and Protection of the Right to Organize Convention, 1948 (No. 87)	1963
the Employment Service Convention, 1948 (No. 88)	1963
the Right to Organize and Collective Bargaining Convention, 1949 (No. 98)	1963
the Equal Remuneration Convention, 1951 (No. 100)	1999
the Discrimination (Employment and Occupation) Convention, 1958 (No. 111)	1966
the Forced Labour Convention, 1930 (No. 29)	2003
the Vocational Rehabilitation and Employment (Disabled Persons) Convention, 1983 (No. 159)	1991
the Occupational Safety and Health Convention, 1981 (No. 155)	1991
the Abolition of Forced Labour Convention, 1957 (No. 105)	1999
the Minimum Age Convention, 1973 (No. 138)	2003
the Worst Forms of Child Labour Convention, 1999 (No. 182)	2003

Source: <http://www.ilo.org/ilolex/english/newcountryframeE.htm>

A. Freedom of Association and the Right to Collective Bargaining

International laws on the freedom of association are ILO Conventions on the Freedom of Association and Protection of the Right to Organize Convention 1948 (No.87), and the Right to Organize and Collective Bargaining Convention, 1949 (No. 98). Convention No. 87 is one of the most important of all ILO Conventions, and the most valued by workers everywhere.

Ethiopia has ratified ILO's labour conventions on freedom of association, No. 87 and No. 98. Article 113 of the country's new labour proclamation (No. 377/2003), states that "workers and employers have the right to establish and form trade unions and employers associations, respectively and participate therein". It has been proclaimed that ten or more employees in an undertaking can establish a trade union provided however that the number of members of the union shall not be less than ten. Additionally, workers from

an undertaking with less than ten employees may form a general trade union, provided, however, that the number of the members of the union shall not be less than ten. The law also outlines several items which these associations should fulfill in order to get registered by MoLSA and hence acquire the legal personality. On this issue, Articles 115 and 116 outlines the organizations' functions as follows:

1. observe the conditions of work and fulfill the obligations set forth in the proclamation; respect the rights and interests of members in particular, represent members in collective negotiations and labour disputes before the competent body when so requested or delegated;
2. ensure that laws, regulations, directives and statements are known to, be observed and implemented by members;
3. initiate laws and regulations pertaining employers and workers; participate actively during their preparation and amendments;
4. strengthen the unity and spirit of co-operation of their members; participate in the determination or improvement of the conditions of work at the trade or industry level as well as encourage members to strengthen their participation in the construction of the national economy,
5. to represent their organization in any conference, and
6. to discharge other functions in accordance with their constitutions.

Even if the right to establish trade unions or employers' organizations is recognized by the national legislations of several African countries, official registration of the same is confronted with several bottlenecks to the freedom of organization in practice (Ably *et al.*, 2005). The Ethiopian labour law also puts various eligibility criteria for the registration of Trade Unions and Employers Associations. For the cancellation of a registration, the Ministry applies to court. The law states that the organizations can direct their appeal to the court within fifteen days from the date of the receipt of the Ministry's decision in writing.

The Confederation of Ethiopian Trade Unions (CETU) is currently the only national organization representing workers in the country. The first trade union in Ethiopia was known as the Ethio-Djibouti Rail Ways Workers' Union. It was established in 1945 (Buckley, 2003). However, it became legally

recognized in 1964. CETU now claims that its membership size stands at 300,000 workers, and has nine federations and 445 basic unions. Compared to Ethiopia's labour force size, the share of unionized workers is very small (1%) (De Gobbi, 2006). Furthermore, in Ethiopia the informal sector workers and agricultural households are not represented by CETU.

Ethiopian Employers are collectively represented by the Ethiopian Employers' Federation (EEF). It was established during the Imperial Regime in 1964. However, EEF's activity had been restrained during the Military Government (1974 to May 1991). In 1997, it was re-established. At present EEF consists of 4 employers' associations and 64 enterprises which provide employment for 100,000 workers in the country.

B. Freedom from Discrimination

ILO's Convention No. 100 (1951) stipulates that all men and women workers have the right to get equal remuneration for work of the same value. The Ethiopian Constitution guarantees the right to equality in employment, promotion, pay and transfer of pension entitlement (Article 35, paragraph 8 of the Constitution). In same vein, the new labour proclamation (Art. 14) penalizes any discrimination against women workers in matters of remuneration. The same article contains a general provision against discrimination on the basis of sex, religion, political outlook or any other condition. Furthermore, the new act introduces a clear ban on compulsory HIV/AIDS testing. The Ethiopian Government has also ratified Vocational Rehabilitation and Employment (Disabled Persons) Convention, 1983 (No. 159) in 1991 and the new labour law bans any discrimination against disabled persons in employment.

However, in practice, as noted by Buckley *et al.* (2004), equal work opportunities for all people with different personal characteristics is still far from being realized. As these authors have concluded, Ethiopia needs to put additional efforts to enforce existing policies and laws to maximize welfare to the total workforce.

C. The Elimination of All Forms of Forced and Compulsory Labour

The Forced Labour Convention, 1930 (No. 29) and the Abolition of Forced Labour Convention, 1957 (No. 105) require governments to suppress all forms of forced and compulsory labour in their territories. This convention requires that labour which a worker performs must be voluntarily and be free from threat of penalty. The Ethiopian Government took long time before adopting these conventions as they were ratified, respectively in 2003 and 1999.

D. The Effective Abolition of Child Labour

It needs to be noted that Ethiopia has ratified ILO's 'the Worst Forms Child Labour Convention', 1999 (No. 182) in 2003 and the Minimum Age Convention, 1973 (No. 138) in 1999. Chapter Two of Ethiopia's new Labour Proclamation No. 377/2003 covers working conditions of young¹⁵ workers and forbids employing persons less than 14 years of age. However, in practice, the above international conventions and corresponding national articles which ratify them have been widely violated in Ethiopia (Buckley *et al.*, 2004), especially in the rural areas and the informal sector in which labour regulations are not operational. As noted earlier in this report, it has been estimated that in 2005 about 61% of all children between the age of ten and fourteen in Ethiopia were in the labour force. According to several authors (e.g. Alby *et al.*, 2005; Assefa, 2002), the problem of child labour in Africa is mainly associated with poverty and household survival. Thus, if poverty drops and the education policy of the Ethiopian government achieves the Millennium Development Goal (MDG) of universal primary education by 2015 is going to be realized then the problem of child labour will be minimized.

5.6.3 Employment Law and Conditions of Work

Labour market performance depends on individual employment relations and also on wage, working hours and other work conditions. According to

¹⁵ Young worker is defined here as a person who has attained the age of 14 but is not over the age of 18 years.

Ethiopia's Federal Civil Servants Proclamation, workers can be employed either as temporary or permanent workers. In the new Labour Proclamation (Article 9), it is stated that any contract of employment can be concluded generally for an unlimited period. According to Article 10 of the proclamation, the specific conditions for which a limited period contract can be applied are as follows:

- the replacement of a worker who is temporarily absent;
- the performance of urgent work to prevent damage or disaster to life or property, to repair defects break downs in works, materials, building or plant of the undertaking,
- seasonal work,
- the temporary placement of a worker who has suddenly and permanently vacated from a post,
- an irregular work which relates to permanent part of the work an employer but performed on an irregular basis, and
- occasional work performed intermittently.

For any labour demand for the above mentioned works, it is proclaimed that an employer can recruit workers for a limited duration.

One of the key issues in the labour market is the issue of wages. The Ethiopian labour law does not prescribe a universal applicable minimum wage. Public sector jobs adhere to a pay scale. The law stipulates that wages shall be paid in cash. However, if the parties so agree, payment in kind is acceptable as far as it does not exceed 30% of the cash wage (Article 55). Any deduction from the worker's wages by the employer, if needed, shall not exceed one-third of his monthly wages. The employer is obliged to keep pay records and to make the register accessible and to explain to the entries there of to the worker.

Working time in Ethiopia is regulated by legislation. According to Article 61 of the new proclamation normal working hours shall not exceed eight hours a day and forty-eight hours a week. The law also imposes a minimum daily rest of 14 hours for a worker. However, over-time work is allowed as long as it

does not exceed 2 hours in a day. A worker is also entitled to get a sick leave and a day rest per week. The law gives the worker the right to get uninterrupted annual leave with pay of fourteen days for the first year service and plus one working day for every additional year of service (Article 77).

An interesting provision of the Ethiopian labour law is related to the rights of pregnant women. As indicated in Part I (Chapter 4) of this report, pregnant women are granted a paid maternity leave (Article 88), which is 30 days before the presumed date of her delivery and 60 days after the birth of a child. However, the law does not say whether this provision applies equally to women who have still-born child. Another feature worth mentioning is that the law recognizes workers obligations and needs for social sector activities. In this regard, a worker is entitled to a leave on family events (own marriage and death of a spouse or a close relative) and court hearings. The new labour law entitles trade union leaders leave for purpose of presenting cases in labour disputes, attending union meetings, seminars and training courses. Upon collective agreement a worker is entitled to educational or training leave with pay. According to the Ethiopian legislation it is unlawful to employ young persons on night work, overtime work, weekly rest days or public holidays.

Article 26 of the new labour proclamation also indicates that the following grounds do not constitute legitimate grounds for termination of a contract of employment or dismissal of a worker:

- membership in a trade union or his participation in its lawful activities,
- seeking or holding office as a worker's representative,
- submission of grievance against employer or participation in judicial or other proceedings,
- nationality, sex, religion, political outlook, marital status, race, color family responsibility, pregnancy, lineage line and descendency or social status.

According to the same law the following conditions constitute lawful grounds for dismissal or termination of a work contact:

- loss of capacity to perform work to which he has been assigned;
- lack of skill to continue his work;

- inability to acquire the necessary skill;
- permanently unable to perform his work due to health and disability;
- unwillingness to move to a locality to which the undertaking moves;
- the post of the worker is cancelled for good cause and the worker cannot be transferred to another post.

In Ethiopia, whenever a reduction of a workforce takes place, the employer is obliged to consult with a trade union or workers' representative (if any). It is important to note that Ethiopian law rules out any arbitrary work force reduction. The law outlines that workers having skills and higher productivity get priority of being retained in their posts. In case of equal skill and rate of productivity, first to be dismissed are workers with shortest length of service in the undertaking and those with fewer dependents. On the other hand trade union workers and pregnant woman should be last for being dismissed, in that order. Labour regulation in Ethiopia also imposes severance payment for dismissal.

5.6.4 Occupational Safety and Health

According to Ethiopian labour law employers are obliged to safeguard workers' safety and health on the job. There is also emphasis on the importance of precautionary measures in the work place to minimize risk to workers. The law obliges workers to pay a meticulous care and proper use of all safeguards and safety devices. It is the responsibility of MoLSA through its Labour Inspectorate to monitor and enforce work conditions. The labour law gives a labour inspector the power to take corrective measures on an employer who violates work conditions and safety and health regulations. While it is interesting that work safety and health are given high attention in the labour legislation in Ethiopia, it is highly disappointing that the country has very limited human resources with the Ministry to translate the legislation to action. The Ministry had only 48 labour inspectors, as of 2004, and some regions have not any at all (Buckley, 2003). In some areas, labour inspection is considered only just nominal (De Gobbi, 2005).

5.6.5 Labour Dispute and Social Dialogue

Using data from a survey of 427 Ethiopian firms Alby *et al.* (2005), pointed out that Ethiopia has had a higher incidence of strikes and labour unrest in Africa, after Nigeria. Thus, advancing good industrial relations, namely, the employer-employee relationships, and labour peace are essential to promote decent work environment and raise productivity of labour. In other words, workers and employers require relevant institutional setup that enables them to make their voice heard at the enterprise, sectoral and national level. In this regard, the Ethiopian labour law sets out the procedures for a peaceful settlement of work place disputes and establishes the framework for bipartite and tripartite consultation on labour market and related issues. Even if the law permits collective bargaining at different levels, namely, enterprise, sectoral and centralized (national), the dominant form of collective bargaining prevalent in Ethiopia is at the company or enterprise level (Buckley *et al.*, 2004).

The Ministry, according to Chapter Three of the new labour law, assigns Conciliators to resolve the dispute arising on matters related to wages and other benefits, new conditions of work, claims regarding promotion, transfer and training, and reduction of workers. The law also outlines the procedures for the establishment of the Labour Relations Board to hear labour disputes on matters specified above and other similar issues. The new labour legislation establishes the procedures for court-based resolution of labour disputes in Ethiopia. This new act permits workers to strike and employers to lock-out. However, according to an ILO report (Buckley *et al.*, 2004) legal strike action in Ethiopia continues to be hard to achieve in practice. Workers and employers who demand to strike or lock-out are obliged to fulfill several restrictions. The party initiating the strike or the lock-out should give an advance notice to the other concerned party and to the representative of the Ministry with its reasons for taking the said action. The strike envisaged by the workers should be supported by a majority of the workers in a meeting in which two-thirds of the members of the union are present. The law obliges the parties to wait, a cooling period of 30 days after the notice. Before initiating a strike or a lock-out, the parties are obliged to make all efforts to solve and settle their labour dispute through conciliation. Workers in

“essential public service undertakings” do not have the right to strike. Included in these services are air transport, electric power supply, water and sanitation, urban bus services, hospitals, clinics, dispensaries and pharmacies, fire brigade services and telecommunication services. According to ILO (Buckley *et al.*, 2004) this definition marks an improvement over the longer list that had existed in the previous labour law. However, ILO explains that some of these services such as air transport and urban bus services are not essential services in the strict sense of the term. As such, rather than an outright ban on strikes therein, ILO suggested, the Government should further seek a system of minimum services in these undertakings.

5.6.6 Social Security Laws

The Ethiopian labour law and public servants’ pension proclamation outlines social needs and conditions for which social security benefits shall be provided to workers and their dependents. These benefits cover for the risks of disability, injury, sickness and death and for old-age pension. Most Ethiopian workers do not have access to private social security benefits. Additionally, all Ethiopian workers lack unemployment insurance as is observed in advanced countries. A worker has the legal right to receive medical and cash benefits for treatment of occupational diseases and accidents.

The Ethiopian law sorts out workers’ retirement benefits. According to Ethiopia’s Public Servants’ Pensions Proclamation No. 345/2003, the retirement age of a public servant is 60 years, for both men and women. A public servant, who has rendered ten years of service and above and has also paid 4% of his/her salary to the civil service fund, is entitled to the retirement pension fund for life. In the case of death of the worker, the social security benefits goes to his/her spouse, children under the age of 18 and any parent who was supported by the deceased worker.

Chapter 6

Labour Cost, Productivity and Sectoral Capacity Utilization

6.1 Agriculture

6.1.1 Labour Productivity in Agriculture

Empirical evidences from late and early industrialized countries show some pattern of the growth of the national economic sectors. Industrial and general economic growth is preceded by agricultural growth or occurs simultaneously with agricultural growth, usually financed through resources extracted from the agricultural sector directly through agricultural land tax, income or export tax, or indirectly through low agricultural terms of trade or quota delivery of basic farm products. In addition, these effects will be possible when farm labour productivity is increased significantly and continuously.

As experienced in many countries, improvement in agricultural labour productivity comes from different factors. For instance, experiences of China, Chile and Morocco show that agricultural labour productivity was achieved due to many reasons under their respective circumstances. The three countries illustrate different patterns and sources of labour productivity improvements¹⁶. In the case of Morocco, productivity improved as labour moved from rain-fed to irrigation agriculture while in the case of China it improved as a result of reallocation to non-agricultural rural activities. In Chile improvement in labour productivity was achieved through the reallocation from import to export oriented agricultural activities.

¹⁶ Ethiopia- Country Economic Memorandum- Concept Paper, November 2003.

Agricultural labour productivity is computed by dividing the real gross agricultural and allied activities value production by the number of labour force engaged in the production. Not only is the labour productivity in Ethiopian agriculture very low but also varies from year to year mainly as a result of a high degree of variability in weather conditions that affect the performances of the agricultural sector.

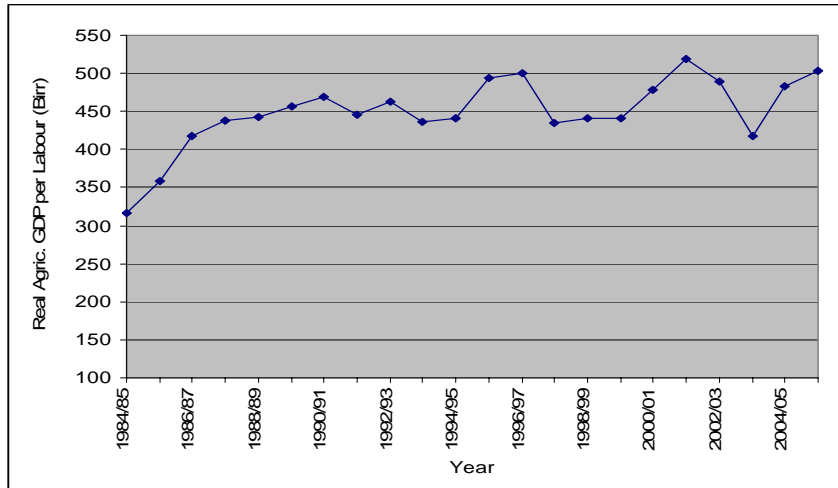
Data obtained from secondary sources (Mulat et al, 2003 and MoFED) show that over the last twenty years (1984/5 to 2005/06), agricultural labour productivity increased from 316 birr in 1984/5 to 503 in 2005/06 (Figure 6.1.). That is, it increased/grew by an average of 1.42% per annum over the period (see Figure 6.2). While during the second half of the 1980s labour productivity had increased by an average of 2.7% per annum, it declined by an annual average of -0.6% between 1990/91-1994/5. In the second half of the 1990s, the change in productivity was positive but its average was only about 0.36% per annum. After the year 2000, average productivity was 2.7% per annum.

Between 1997/98 and 1999/2000, agricultural production and hence labour productivity slowed down as a result of the incidence of crop failure in 1997/98 and the general economic effects of the Ethio-Eritrea war in subsequent years. Labour productivity was as low as -13% in 1997/98, -6% in 2002/03 and -15% in 2003/04. On the other hand, productivity surged back by 16% in 2004/05 and 4% in 2005/06.

While agricultural employment expanded by an average of 5.5% during the period 1984/85 to 2005/06, the low average labour productivity during the same period suggests a decline in marginal labour productivity which led to the stagnation of the agricultural sector. It also suggests underemployment and dwindling in real incomes/wages. This is expected in the face of increasing landlessness in the rural areas and the general slow progress in adoption of land and labour productivity augmenting technologies in Ethiopian agriculture. Over the last 40 years (looking at data spanning from 1963 to 1995) rural per capita income, as proxy for agricultural income, has

been declining (EEA/EEPRI, 2004/05). However, in recent years, between 1999/00 and 2005/06, it has been rising at an average rate of 1.8% per annum.

Figure 6. 1: Labour productivity in the Ethiopian agricultural sector over the last 25 years.



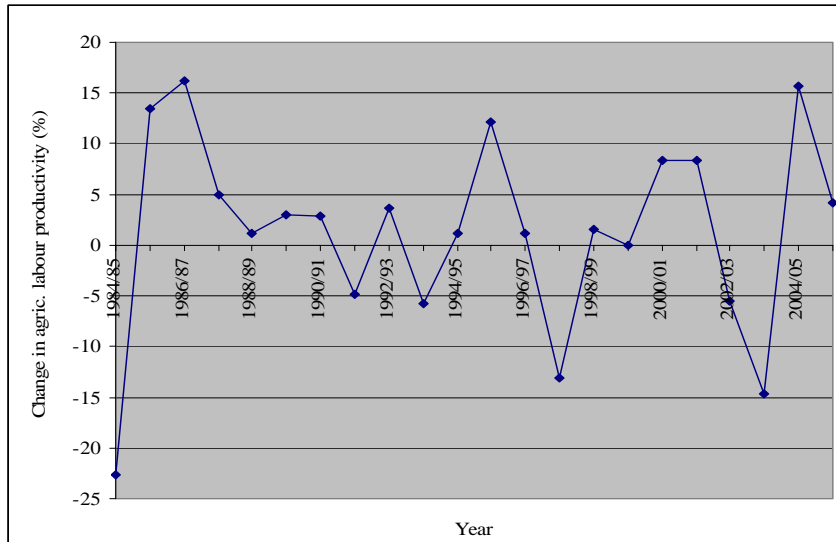
Source: Mulat Demeke et al., 2003 (for data 1984/85 to 1999/2000), and MoFED from 2000/01 to 2005/06. Data for the years 2004/05 and 2005/06 is projected one.

It is necessary for agricultural income to rise faster than population growth in order to significantly reduce rural poverty. The current level of labour productivity in Ethiopia is estimated to be less than one-fifth of the average for Sub-Saharan Africa (EEA, 2005). Given that the rural population in Ethiopia is still increasing at a higher rate per year, there is a need for sustained agricultural growth, more than the pace of population in order to raise rural incomes.

Low level of yield and rapidly increasing rural labour force has resulted in low and stagnating levels of labour productivity. Any intervention in the rural sector, hence, should target how to increase the productivity of rural labour in general and

agricultural labour in particular. These measures encompass enhancing land productivity, the development of the non-farm sectors, labour migration through easing factors that hinder labour mobility including the land policy.

Figure 6. 2: Change in labour productivity of the Ethiopian agriculture over time



Source: Mulat Demeke et al., 2003 (for data 1984/85 to 1999/2000), and MoFED from 2000/01 to 2005/06. Data for the years 2004/05 and 2005/06 is projected one.

6.1.2 Potential Employment in Agriculture

6.1.2.1 Concepts and context

The concept of potential level of agricultural employment in this report refers to the amount of labour that could be employed in the sector given the cultivable land, water resources, existing technology and production system. Data is not adequately available to warrant full analysis to answer important questions like:

- Does the Ethiopian agricultural sector have the capacity to absorb the existing and future population?
- How does the declining landholding resulting from increasing population pressure affect labour absorption and employment levels?
- What is the level of disguised unemployment in the agricultural sector?
- What are the effects of technologies on land and labour productivity and employment levels?
- How will changes in farm structure affect potential employment in agriculture?

In other words, the potential level of employment should be assessed with respect to these and similar questions and influencing factors.

6.1.2.2 Some Assumptions and Estimated Potential Employment

Lack of adequate access to productive resources, rapidly growing population and slow progress in agricultural productivity are the major impediments to productive agricultural employment in Ethiopia. The potential agricultural employment level is dependent on the size and quality of the available agricultural land, productivity of land, labour and other productive inputs, the level of technology in use, the extent of water resource utilization for irrigated agriculture, and many other factors that affect the performance of the agricultural sector including markets and agro-processing. In the absence of adequate and reliable data on these and other factors of agricultural productivity and employment, this report could only make some rough estimation based on some assumptions.

Access to agricultural land is one of the major resources that affect employment potential in the sector. Although the Ethiopian land reform of 1975 allowed for a maximum plot size of 10 ha per household, in practice plot size varies from 0.25 to 0.5 ha in densely populated areas and from 1.5 to 2 ha in the cereal-complex zones of the country.

Table 6. 1: The trend of agricultural population and labour force

Year	Agricultural and rural population (million)			
	Agricultural/rural population	Working age	Engaged in agriculture	Agricultural households
1999/00	54.04	28.00	23.88	10.74
2000/01	55.40	28.80	24.56	11.16
2001/02	56.92	29.80	25.41	11.51
2002/03	58.38	30.54	26.04	11.84
2003/04	59.89	31.40	26.78	12.17
2004/05	61.37	32.16	27.43	12.47
2005/06	63.15	33.09	28.22	12.83

Source: Computed based on data obtained from CSA, NBE and EEA/EEPRI 2005 database.

- *Data for 2004/05 and 2005/06 on number of people and households indicate projected values. Total number of population engaged in agriculture is computed based on the 2001/02 CSA data which shows 85.28% of the rural working age population was engaged in agriculture. Total number of households engaged in agriculture 2002/03 and 2003/04 was computed based on the trend between 1997/98 and 2001/02.*

According to a recent study (IFAD, 2005), the average Ethiopian household, under the existing condition, requires 3 - 4 ha of good land with normal rainfall to meet its needs. Other studies also confirm the need for a similar size of land to remain above the poverty line (EEA, 2005; Mulat and Gijssberts, 1993). The available data shows that in 2003/04 out of the estimated 59.9 million agricultural population 32 million was of working age (Table 6.1). Out of this, the total population employed in agriculture was 26.8 million. The other 7.2 million (22.5%) was either employed in non-agricultural sectors or considered to be unemployed.

According to an official report (NBE, 2005), 45% (0.513 million sq. km) of the country's estimated 1.14 million square kilometre landmass is arable land. In other words, official statistics indicates that the country has 51.3 million hectares of arable land. If we assume that an adult rural dweller and his family need an average of 3 hectares of land, this potentially available 51.3

million hectares of arable land can support 17.1 million farm households. Currently, it is estimated that close to 12.8¹⁷ million farm households exist in rural Ethiopia. Given the above general assumption and the estimation of potential employment, the country's agricultural land may support an additional 4 million farm households. Other ways of thinking of the potential employment in agriculture may be in reference to the development of potentially irrigable agricultural land. Ethiopia is believed to possess 3.7 million hectares of irrigable land, out of which only 3% is irrigated for farming (EEA/EEPRI, 2005). Although no accurate data is available as to the size of irrigated agricultural land required for an average farm household, the development of this large irrigable land resource would support millions of agricultural labour force.

Higher employment in agriculture comes from concerted effort(s) in investment in the sector including research and technology development, skill and capacity building, and better management of farming and business. Mulat *et al* (2003) estimated the employment elasticities of output for the agricultural sector. Based on their findings they have concluded that investment in the sectors including agriculture would create higher employment opportunities, thereby reducing the prevailing poverty in the country.

6.1.2.3 Strategies to Accelerate Employment in Agriculture

Measures to increase productive employment in Ethiopia may be based on expanding cultivated land, agricultural intensification, agricultural commercialization and/or diversification (Mulat and Gijssberts, 1993). These alternative strategies are not mutually exclusive since one type of strategy may be more appropriate in one area or one time than another, and the combinations of elements of the different strategies may be more appropriate option for a country as diverse as Ethiopia. Given the diverse livelihood,

¹⁷ Whether this general definition of 'farm households' includes pastoralist communities is not very clear.

socio-economic and biophysical conditions in the country, new scenarios supported by technology, market, institutional and other interventions must be compatible with existing pathways of change.

i. Expanding Cultivated Land

Increasing the frontier of agricultural land by expanding cultivated land has been one of the major avenues for expanding agricultural employment and production. As far as land is abundant, new entrants into the labour force can be absorbed into agriculture. But once population pressure increases and all available land is exhausted, it becomes increasingly difficult to provide productive employment in agriculture. In the absence of progressive agricultural technologies and appropriate land management, expanded cultivation will lead to land resource degradation. In much of the highland agricultural zones, agricultural land suitable for cropping has already been put to use. The remaining arable land of the country lies in some low land areas where land reclamation (development) needs a lot of effort including infrastructural development such as access to road and communication. The opening up of new land in these areas should help reduce population pressure in the highlands and pave the way for gainful employment in agriculture. However, it should be an environmental friendly intervention so that opening up new agricultural land should be considerate of environmental protection and appropriate land management.

ii. Agricultural Intensification

In view of the ever increasing population pressure in rural Ethiopia, agricultural intensification is an indispensable intervention. The situation of dwindling farm holding per agricultural labour force and reduced access to land would not necessarily translate into increased underemployment and poverty if a transition is made to intensive land use and increased land productivity. With the exhaustion of the available agricultural land, intensive cultivation of land with application of productive technologies becomes the norm. In addition, introduction of land intensive and high productive systems

would help in increasing the employment capacity of agriculture. The development of water resources and irrigation for agriculture is instrumental in bringing about intensification.

iii. Agricultural Diversification

In a situation where pressure on productive resources like agricultural land is mounting leading to severe scarcity and low productivity, diversification offers an important means of moving into high-value crops and raising household income. Diversification of the agricultural base through the introduction of high-value crops and integration of crop and livestock production would contribute to increased employment opportunities and better distribution of labour requirements throughout the year.

For agricultural diversification, a number of pull factors need to be in place, including incentives to diversify both locally and in towns into non-farm, but agriculture-linked activities. While there have been much work discussing on diversification strategies, diversification as part of an agricultural growth strategy has seen less prominent in Ethiopian (Samuel, 2006). Empirical evidences shows that the promotion of non-farm activities may take two forms: supply- and demand-side approach. From the supply-side, creating and expanding institutions for channeling inputs such as credit, buildings and other infrastructure, technical training, new technologies, management training and extension advice on how to run small business is necessary. The demand-side elements, on the other hand, include investment in infrastructure and social services and price reform. These would help ensure favorable terms of trade or increase farmers' income. Country studies have shown that demand-side policies resulting in increase in rural income are more effective in stimulating non-farm employment than the supply-side provision of inputs (Mulat and Gijsberts, 1993).

6.1.3 Labour Force Absorption Capacity in Agriculture

Many factors have caused/exacerbated the widespread rural poverty in Ethiopia. Among them are sub-economic landholdings and landlessness of the smallholder farmers in the major agricultural areas, low or lack of access to non-agricultural livelihoods, erratic and unfavorable weather conditions, and land natural resources degradations. In addition, low land and labour productivity reveals part of the vicious cycle of low productivity-low income-low saving of the mass of rural and agricultural population in Ethiopia. In the face of low capacity to adequately employ the increasing labour force in rural areas, the high population growth rate has also become a major challenge. Hence, absorption of labour has become the major problem of the agricultural sector and the national economy at large.

The problem of the Ethiopian agriculture is that it is mainly dominated by smallholder farm households. Its challenge is not only that it faces to ensure food security, but also the need to provide employment for the growing labour force. Although efforts have been underway to increase agriculture and food production using measures like increased fertilizer and improved seeds use, some researchers argue technological interventions alone could not provide solution to the problems caused by high population pressure in rural Ethiopia. In this respects, Marie Cour (2003) noted that many of the problems now facing the government with respect to rural poverty and underdevelopment of domestic markets are a direct or indirect consequence of the de facto "rural bias" of the strategies and policies followed by successive governments of Ethiopia, including the present one. The fact that the liberalization of the economy that adopted in 1991 is not yet accompanied by a parallel liberalization in population dynamics is, at least partially, due to an insufficient understanding of the mechanisms and issues involved.

The government considers smallholder agriculture as the sector that could continue to provide employment for Ethiopia's growing population (FDRE, 2001). However, experts warn that the sector is overpopulated and could not

productively absorb any additional labour (Mulat and Gijsberts, 1993). Even providing productive employment for the existing agricultural labour force under the existing realities of low factor proportion i.e. low capital-labour and land-labour ratio is difficult.

According to the Central Statistical Authority, all persons aged 10 years and above are considered as potential workers. But to be economically active (working population), one should be engaged in the production of goods and services that can be sold for cash or can be exchanged for other commodities or consumed at household level. Based on this definition, the size of economically active population in rural areas in the year 2005 was 82.6%. The number of rural-based economically active population grew from 13,292,262 in the year 1984 to 28,748,524 in 2005. The data show that over the last two decades every year an average of 760,000 people were added to the economically active population in rural areas. It shows an average growth rate of 5.5 % per annum.

Based on the two national population census of 1984 and 1994 as well as the labour force surveys of 1999 and 2005, the rate of growth in economically active population, number of active population employed, rate of unemployment and the role of the agricultural sector in employment generation is shown in Table 6.2. Over a span of 21 years, the number of economically active population grew from 14.7 million in 1984 to 27.5 million in 1999. On average the economically active population or labour force has been growing at a rate of 6% per annum. According to the existing data, people who got employment increased from 14.6 million to 31.4 million between 1984 and 2005. This data shows that while employment has been growing by 5.5%, the average rate of unemployment during the period was 4.3%. Unemployment rate grew from 1.2% in 1984 to 7.9% in 1999. Obviously, the largest share of employment went to the agriculture agricultural sector, which as high as 89% was recorded in 1994. The data does not show a clear tendency of a gradual decline of the share of employment in agriculture, as there has been fluctuation between the years. For instance, the share of employment in agriculture slightly increased in the 2005 compared to the level recorded in 1999. Nevertheless, over the period of tow decades the share of employment in agriculture has been declining only by 0.5% per annum showing a

very slow movement in the aspect of transformation of the national economy i.e. the shift of labour force from the agriculture to the non-agricultural sectors.

Table 6. 2: Economically active population and the employment rate

Year	Economical ly active (million)	Employed (million)	Unemploy ment rate (%)	Employed in Agriculture	
				(%)	Number (million)
1984	14.7	14.6	1.2	88.6	12.9
1994	26.5	25.7	2.9	89	22.9
1999	27.5	25.3	7.9	79.6	20.1
2005	33.1	31.4	5	80.2	25.2
Growth rate, mean of 21 years (%)	6.0	5.5	4.3	-0.5	4.5

Source: Computed from the 1984 and 1994 population census and the 1999 and 2005 labour force surveys.

As of 2005, over 25 million people are reported to be engaged in agriculture about double that of twenty years ago. This indicates a yearly average growth rate of 4.5% in the agricultural sector during the period. In fact this data does not distinguish between whether people are employed in the sector as full-time or part-time employees. This is important because for practical purposes, the seasonality of the major production activities in the sector, availability of other inputs including land, tools and implements as well as draft power determine the effective utilization of the labour force capacity.

Given the slow rate of expansion of cultivated land into the potentially productive agricultural areas due to difficulty of reclaiming new lands particularly in remote and low land areas, the new entrants to agricultural employment put lots of pressure on the available land resources. In addition, the dwindling farm holdings lead to over exploitation on the land and soil fertility decline under the existing situation of land and natural resources management. The situation could also exacerbate rural poverty unless measures are taken to improve labour

productivity in agriculture and expand alternative non-agricultural employments both in rural and urban areas. Hence, absorption of a large rural labour force into productive employment remains one of the major challenges.

Analysis of the data on the status or structure of employment indicates that the majority of economically active people are self-employed, though its percentage share declined from 59% in 1984 to 41% in 2005 while the share of unpaid family workers increased by 32% during the same period. On the other hand, the share of paid workers did not show much change. On average, 48,973 paid jobs per annum, were created in the rural areas during the past 11 years (1994 to 2005).

Table 6. 3: Types of employment for economically active labour force in rural areas at different periods

Employment type/status	Economically active population (million) in the years		
	1984	1994	2005
	13.3	21.5	28.8
Employer	0.8	2.6	0.6
Self employed	58.8	39.6	41.0
Employee, paid worker	1.5	2.3	3.6
Unpaid family worker	37.5	55.0	54.6
Others	1.5	0.54	0.2

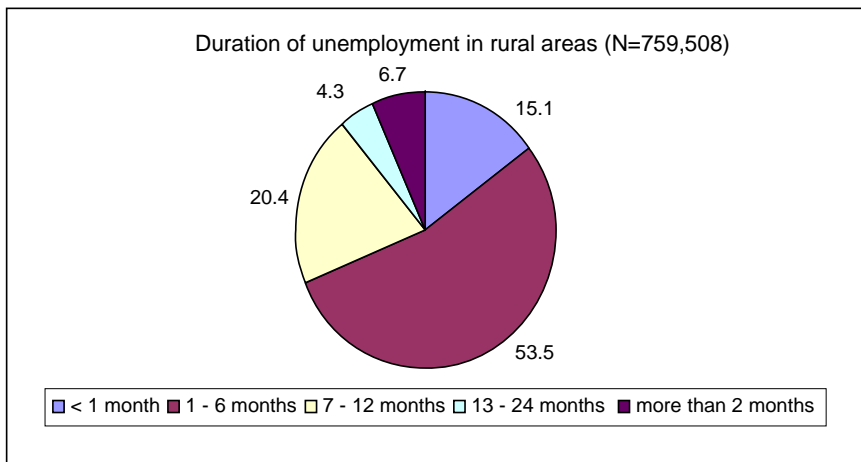
Source: CSA, 1999 (quoted in Shumiye Abuhaye, 2003), CSA (2005).

A study made by MoLSA in 1997 indicated that 63% of the employers of wage workers in rural areas were smallholders. The same study indicated a generally low level of participation. Only 3.2%, 5.7%, 9.4%, 16.4% and 20% of rural households of Afar, SNNPR, Tigray Amhara and Oromia regions, respectively, participated in wage employment in 1997. In the majority of these households (in over 85%) only one person (from a household) was able to engage in wage employments, though over 57% of participating households indicated their preference for more wage work. Lack of employment opportunity, own farm work and low wage rate might have restricted participation of more family members. The shares of private commercial farms, state farms, government, cooperatives and NGOs in

creating jobs for wage workers were 4%, 1%, 11%, 3% and 7.4%, respectively¹⁸ during the study period.

A decline in the share of self-employed labour in rural areas may indicate that rural households had faced difficulties to continue with their accustomed practice of sharing part of their farm land to their children who reached the working age as holdings are getting smaller and smaller.

Figure 6. 3: Duration of unemployment for unemployed rural population



Source: computed based on CSA data (2006).

Accurate data that shows the level of effective employment of the active labour force in rural areas is lacking. MoLSA's study made early in 1997 in Tigray, Afar, Amhara, Oromia and SNNPR regions, reported that, on average, one or more members of the 13% of surveyed households were job seekers but were not employed. About 70% of the households reported unemployment for 2 to 5 months which could correspond to the slack agricultural seasons in the country.

¹⁸ Ibid.

The CSA data of 2006 also shows that 54% of the surveyed reported that they had been unemployed for a period ranging from 1 to 6 months. About one fifth reported not to had been employed for a period of 7 to 12 months. About 7% were out of work (unemployed) for over 2 years. These data clearly shows the absence of full employment opportunities year round in the rural areas. High population growth coupled with slow economic progress could further retard employment generation capacity of the rural economy. Some researchers attempted to estimate the employment generating capacity need to keep the current level of unemployment. According to Assefa (2004), in order to maintain the current unemployment level by 2050 in Ethiopia, an average of 1.8 million jobs per year need to be created for the next fifty years.

6.2 Manufacturing

6.2.1 Unit Labour Cost and Productivity

Labour is one of the most important factors of production, along with capital, land and entrepreneurship. The significance of one factor in a given production process depends on the degree of its intensity. For instance, it is obvious that the intensity of labour is far lower in the industrial sector compared to the agriculture as the former employs labour replacing machines more often than the latter. Thus, the per-unit cost of labour is determined accordingly on its intensive use.

The wage bill per worker has increased from 7.6 thousand in 2001/02 to Birr 8.6 thousand in 2004/05 averaging at Birr 8.1 thousand (which is equivalent to USD 939.5) during the review period. The monthly per worker wage is, therefore, Birr 673 (or USD 78.3). Cross country comparisons of manufacturing sector's wage per worker shows that Ethiopian manufacturing sector's workers earn lower remuneration compared to other developing countries. The increase in the wage bill of the manufacturing sector can be attributed to the nominal increase in labour productivity and increase in wage rate so as to adjust for the rising inflation. Among the industrial sub-groups, the per unit cost of labour is higher in the tobacco, motor vehicle and basic

metal and steel. This is because these industries are relatively capital intensive and employ relatively skilled labour. In wearing apparel, machinery and equipment, furniture and textile sub-groups the per unit cost of labour is lower with respective average of Birr 5 thousand, 5.3 thousand, 5.4 thousand and 5.7 thousand during the review period. This result, in turn, is in line with the inverse relationship expected between labour intensity and wage rate. (see Table 6.4).

Table 6. 4: Wage bill per worker (in thousand Birr)

Industrial group	2001/02	2002/03	2003/04	2004/05	Period Average
Food	9.3	9.5	9.7	10.2	9.7
Tobacco	17.3	17.3	16.5	20.0	17.8
Textile	5.3	5.3	6.4	5.7	5.7
Wearing apparel	4.5	5.0	5.5	5.0	5.0
Leather	9.1	8.0	7.1	8.7	8.2
Wood and products of wood	5.6	6.4	7.0	6.8	6.4
Paper	8.6	8.5	8.8	10.0	9.0
Chemical	7.4	8.3	9.2	9.5	8.6
Rubber and plastic	7.4	8.0	8.7	8.4	8.1
Non-metal	6.9	9.1	8.1	8.5	8.2
Basic iron and steel	11.6	13.4	12.6	15.9	13.4
Fabricated metal	7.4	7.8	8.7	8.9	8.2
Machinery and equipment	5.5	4.6	4.8	6.1	5.3
Motor vehicles	12.0	15.1	17.4	14.5	14.7
Furniture	4.9	5.2	5.6	5.8	5.4
Total	7.6	7.9	8.3	8.6	8.1

Source: CSA and staff computation

The cost of labour in Gross Value of Production (measured as wage bill/ GVP ratio) declined from 9.2 percent in 2001/02 to about 7.6 percent in 2004/05 thereby depicting annual average decrease of 6.1 percent. This implies that

the share of labour in the cost of production is minimal; rendering other factors such as capital, raw material and energy prime importance.

Ethiopia's cheap labour underpins comparative advantage for industries that are highly labour intensive. However, evidences show as the bottom-line for comparative advantage is not the cheapness of labour but how much productive it is. For instance, China's manufacturing wage per worker is about three times that of Ethiopian rate, but, the productivity of Chinese labour is about five times that of Ethiopia. This implies that it is the level of labour productivity that should be underlined while comparing countries' competitiveness in producing and selling products, not the per hour wage. In this regard, improving the productivity of industrial workers through various mechanisms such as provision of skill upgrading training is a strategy that should soon be implemented.

Of course, significant improvements in labour productivity can only be ensured over a long period of time as it requires substantial enhancement in technological capability of the sector as a whole. The absolute value of annual (physical) labour productivity (value added per worker at current factor cost), in the review period, was on average, only Birr 25.7 thousand. Between 2001/02 and 2004/05, labour productivity increased from Birr 22.6 thousand per worker per annum to Birr 27.7 thousand. Over the four-year period, it increased, on average, by 2.7 percent annually (Table 6.5).

Capital intensity (measured as capital stock per labour) of the sector is, on average, about Birr 6.9 thousand for the review period. Compared to the period average the intensity in 2003/04 was the highest whereas that of 2004/05 was the lowest. The stagnation in the capital intensity shows that investment in the sector had also been growing as the same rate as the growth in the number of employees in the sector. Investment in manufacturing had been increasing on average by 18.2 percent per annum over the period 2001/02-2004/05. But the investment rate as a proportion of the total value of production was only 6.8 percent. In light of the 20 percent minimum requirement of overall rate of investment to bring the required

change, the registered rate was far behind meeting the development objective. Despite the increase in investment rate and the expectation that new establishments are more capital intensive than older ones, the stagnation witnessed in the level of capital intensity was paradoxical.

Table 6. 5: Productivity and wage rate in manufacturing industries (value in 000 birr)

Year	Labour productivity	Capital productivity	Capital intensity	Wage rate per Worker
2001/02	22.6	35.8	6.8	7.6
2002/03	25.6	39.6	6.9	7.9
2003/04	26.9	43.6	7.1	8.3
2004/05	27.7	47.2	6.7	8.6
Average	25.7	41.5	6.9	8.1

Source: CSA's report on LMSME industries survey

In line with the improvements witnessed in the productivity of labour (nominal), wage per worker had also depicted a slight improvement from Birr 7.6 thousand in 2001/02 to Birr 8.6 thousand in 2004/05, averaging about Birr 8.1 thousand during the review period. Productivity of capital (value added per capital stock¹⁹) slightly increased from Birr 35.8 thousand in 2001/02 to Birr 47.2 thousand in 2004/05 depicting an average annual growth of 9.7 percent probably mainly due to the stagnation of capital intensity of the manufacturing industries in the review period (Table 6.6).

6.2.2 Capacity Utilization

The attempt to optimize production in the face of all production and marketing problems compels firms to adjust their production capacity accordingly. The level of capacity utilization is a reflection of the overall business condition of a firm. In the period 2001/02-2004/05, production capacity ranges between 47.8 and 60.7 percent, on average operating at 53.3 percent per annum

¹⁹ Capital stock is measured here as the sum of the total value of fixed asset plus new capital expenditure

(Table 6.6). From this figure one can speculate the possibility of doubling output of the sector without additional enterprises simply by enabling the existing manufacturing industries to operate at their full capacity.

For all the years, the major factors forcing capacity underutilization were more or less the same. For 30.5 percent of the firms, on average; the outstanding problem was lack of market or stiff competition from cheap imports. Shortage of raw material supply stands as the second most constraining factor, accounting for about 27.9 percent of the cases. Moreover, shortage of electricity and water supply was the third crucial factor during the review period.

Table 6. 6: Capacity underutilization and underlying factors (percent)

Years	Capacity	Market	Shortage of Raw Materials	Spare parts problem	Shortage of electricity and water supply	Frequent Machinery breakage	Not stated	Other* Constraint
2001/02	47.83	31.76	33.33	4.71	9.41	5.1	1.18	14.51
2002/03	50.36	30.94	23.13	0.63	11.07	6.19	6.84	21.20
2003/04	54.74	28.09	31.10	1.34	4.35	4.12	13.38	17.62
2004/05	60.68	31.23	24.02	1.80	8.11	16.82	6.61	11.41
Average (2001/02-2004/05)	53.40	30.51	27.90	2.12	8.24	8.06	7.00	16.19

Source: CSA's report on LMSME industries survey

* includes problems with government rules and regulations, lack of working capital, lack of foreign exchange and others

The absence of demand/market is, however, a cumulative effect of many factors. Broadly, it involves the lack of competitiveness of the sector, and lack of access to markets (particularly external markets) even if they were competitive. The latter is external to the sector while the former involves three

problems: those specific and internal to industries, largely reflected by productivity levels; the overall development level of the economy, reflected by infrastructure; and the policy regime.

Unfortunately industries that had operated at low capacity for most of the years are strategic ones that could play critical roles in industrialization. Such industries include, among others, manufacturing of basic chemicals, iron and steel, machinery, etc.

In fact, the current level of manufacturing output of the country can be doubled by improving quality if the underlying reasons for capacity under utilization are addressed and capacity is raised to its maximum. If so, new industries entering the sector should be guided by concerned government body to focus on the following issues. First, firms should focus on production of strategic goods that help strengthen inter-sectoral linkages. This, of course, can materialize through investment coordination initiatives, by for instance, giving relatively generous incentives for the badly needed strategic undertakings, and other incentives. Second, industries should emphasize on producing for exports or to replace goods that are imported in large quantities, but not produced locally. If government doesn't intervene and lets investment uncoordinated, the chance that newer enterprises joining the sector are identical to those already in operation is high. This, in turn, leads to competing over the thin domestic market and further deterioration in the already low capacity utilization of the sector.

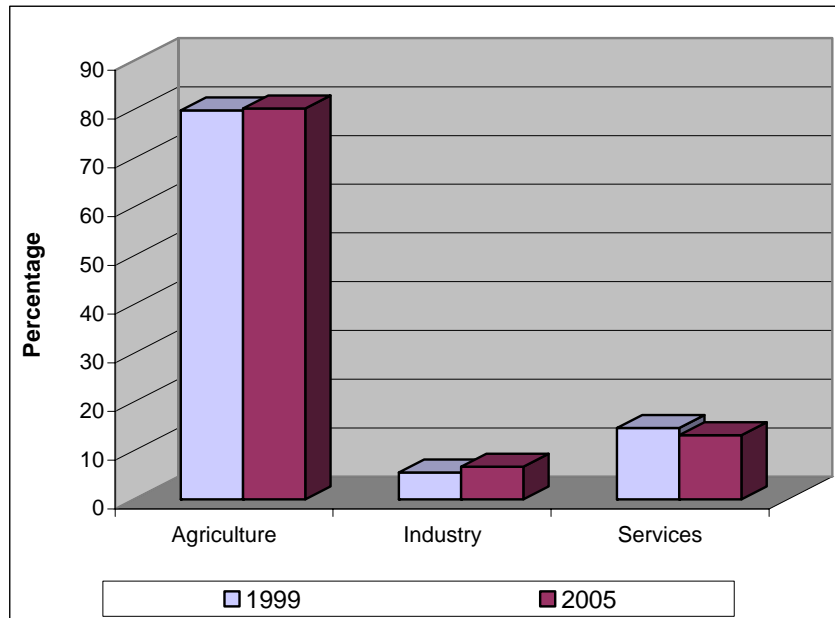
Chapter 7

Sectoral Employment and Occupational Choice

7.1 Employment Share of Major Sectors

It has been said time and again that agriculture is the backbone of the Ethiopian economy. Among other things, it is the single most important source of income and employment in the country. The share of agricultural workers in total employment stayed around 80% for many years. In fact, in absolute numbers, the agricultural workers are still increasing by several millions, with an ever increasing sub-division of existing agricultural land into smaller pieces. The high level of the agricultural employment on one hand and the low level of the industrial or service employment on the other hand imply that there is limited labour transformation in the economy. The employment share of the service sector exceeded that of the industrial sector in Ethiopia by nearly 10 percentage points between 1999 and 2005. However, whilst the employment share of the industrial employment has increased over the past few years, the share of service employment has slightly declined. One important source of rising industrial employment in Ethiopia is the expansion of construction activities in the country's economy.

Figure 7. 1: Trends in the employment shares of the major sectors (%)



Source: NLFS data (CSA, 1999, 2005).

Analysis of currently employed workers reveals substantial variation among the different sub-sectors. As can be seen from Table 7.1 women are less well represented in many sectors and disproportionately over-represented in some other sectors. For instance, mining and quarrying, construction and transport, storage and communications sectors are highly men-dominated sectors whereas women are found in their larger numbers in hotels and restaurants, private household sectors as maids, the manufacturing and trade sectors. However, in most sectors, the employment discrepancy between men and women employment figures has decreased slowly in recent years and women's share of employment grew from 43% in 1999 to 46% in 2005.

SECTORAL EMPLOYMENT AND OCCUPATIONAL CHOICE

Table 7.1: Gender composition of employment by sub-sectors (%)

Sectors	1999			2005		
	Male	Female	Total	Male	Female	Total
Agriculture, hunting, forestry & fishing	61.1	38.9	100.0	56.4	43.6	100.0
Mining & Quarrying	81.8	18.2	100.0	62.7	37.3	100.0
Manufacturing	33.2	66.8	100.0	29.0	71.0	100.0
Electricity, gas & water supply	75.4	24.6	100.0	76.7	23.3	100.0
Construction	84.9	15.1	100.0	78.5	21.5	100.0
Wholesale and retailer trade, repair of vehicles, personal & household goods	37.8	62.2	100.0	39.8	60.2	100.0
Hotel and Restaurant	8.8	91.2	100.0	12.6	87.4	100.0
Transport, storage and communications	90.4	9.6	100.0	90.1	9.9	100.0
Financial Intermediation	62.5	37.5	100.0	56.9	43.1	100.0
Real Estate and Renting and business activities	77.1	22.9	100.0	69.0	31.0	100.0
Public administration & defence compulsory social security	69.1	30.9	100.0	65.8	34.2	100.0
Education, health and social work	60.1	39.9	100.0	62.0	38.0	100.0
Other community, cultural & personal services	63.0	37.0	100.0	69.2	30.8	100.0
Private household with employed person	13.6	86.4	100.0	9.3	90.7	100.0
Extra territorial organization & NGOs	60.1	39.9	100.0	62.9	37.1	100.0
Not stated	43.8	56.2	100.0	63.0	37.0	100.0
Total	56.7	43.3	100.0	53.6	46.4	100.0

Source: NLFS (CSA, 1999 and 2005).

7.2 Employment by Occupational Group

As indicated in Table 7.2, the total number of employed workers in different occupations in Ethiopia grew by 26 percentage points between 1999 and 2005. However one should note that a homogeneous trend is not discernible among the occupations. The relative importance of the different occupations

in terms of employment size shows considerable variation across enterprises. Furthermore, their capacity to attract additional work force over time remained almost unchanged, implying limited flexibility and dynamism in the Ethiopian labour market. Over the same period, the largest number of employed workers was found in the elementary occupations, which consists of street vendors, cleaners, launderers, building caretakers, garbage collectors and other labourers in the agricultural and allied sector. Employing close to nine and thirteen million persons, respectively, in 1999 and 2005, the skilled agricultural and fishery activities constituted the second largest occupational group in Ethiopia.

Table 7. 2: Employment profile by major occupational group

Major Occupational group	1999		2005	
	employed workers	%	employed workers	%
Legislators, senior officials & managers	68,737	0.28	100,666	0.32
Professionals	49,893	0.20	158,668	0.50
Technicians & associate professionals	242,991	0.98	310,697	0.99
Clerks	142,628	0.57	182,399	0.58
Service workers, shops & market sales	1,404,375	5.64	2,102,293	6.69
Skilled agricultural & fishery workers	9,383,875	37.69	12,724,914	40.48
Crafts & related trade workers	3,003,124	12.06	2,198,620	6.99
Plant, machine operators & assemblers	135,510	0.54	178,925	0.57
Elementary occupation	10,420,300	41.85	13,464,210	42.83
Not stated	45,153	0.18	13,715	0.04
Total employed population	24,896,586	100.00	31,435,107	100.00

Source: NLFS Data (CSA, 1999, 2005).

As shown in Table 7.2, except the crafts and related trade activities, all occupations had expanded the number of their employees. The number of professional workers employed in the economy had the highest growth rate between 1999 and 2005. The second highest employment growth rate came from clerical jobs. The employment contribution of crafts work declined both as a share of total employment and in absolute terms during the above periods.

7.3 Status in Employment

In this section, the report examines characteristics of Ethiopian labour force size according to status in employment. Disaggregating total employment by employment status is of paramount importance to understanding the dynamics of the labour market and the level of economic development of a given economy. In theory as an economy grows one would typically expect to observe a shift in employment from agriculture to industry and service sectors, with an increase in wage and salaried workers and a decline in self-employment and unpaid family workers (ILO, 2003).

In examining Ethiopian workers employment profile one can observe that over 90% of the workers are found in either self employment or unpaid family activities. The majority of the self-employed workers are found in informal segments of the labour market. On the other hand, most of the unpaid contributing family workers in Ethiopia are engaged in elementary occupations, agriculture and fisheries, trade and crafts work. The share of the private sector employment in total employment remains low (4% in 1999) and getting worse (3% in 2005). As pointed out by De Gobbi (2006), the low level of the private sector employment suggests the poor performance of the sector and/or its insufficient use of labour-intensive production technologies.

Table 7. 3: Employment structure by status in employment

	1999		2005	
	Total	%	Total	%
Paid employees	2,031,816	8.16	2,478,221	7.88
Government employees	597,146	2.40	815,481	2.59
Government parastatal	133,744	0.54	177,367	0.56
Private organization	1,075,778	4.32	911,320	2.90
NGOs	n.a	n.a	143,258	0.46
Domestic employees	n.a	n.a	376,861	1.20
Other employees*	225,148	0.90	53,934	0.17
Self employed	10,837,707	43.53	12,852,678	40.89
Unpaid family workers	11,697,520	46.98	15,806,097	50.28
Employer	192,648	0.77	189,786	0.60
Member of cooperatives	8,801	0.04	11,289	0.04
Apprentice & others	92,210	0.37	85,622	0.27
Not stated	35,871	0.14	11,414	0.04
Total employed population	24,896,573	100.00	31,435,107	100.00

*data includes employees of NGOs and domestic workers.

Source: NLFS data (CSA, 1999, 2005).

Table 7.4 indicates the trends in the distribution of self-employed workers among different occupations in Ethiopia. In 1999, the vast majority (69%) of self-employees were found in skilled agricultural and fishery activities. Over the past few years, however, the share of self-employed skilled agricultural and fishery workers had declined. In 2005, for instance, they accounted for only 12% of the total self-employed in the country suggesting existence of significant occupational changes by the self-employed during the same period. By 2005, over 70% of the non-agricultural self-employed workers were engaged in the service, crafts and related occupations. Over both periods, self-employed workers were least represented in professional and clerical occupations. Interestingly enough, the descriptive results presented in Table 7.4 reveal that the share of the self-employed women workers engaged in the elementary occupations had drastically reduced between 1999 (20%) and 2005 (6%). However, the share of self-employed women in

SECTORAL EMPLOYMENT AND OCCUPATIONAL CHOICE

the service, shops and market sales activities grew by 25 percentage points over the same period.

Table 7. 4: Distribution of self-employed workers by occupation and gender (%)

Occupation	1999			2005		
	Total	Male	Female	Total	Male	Female
Legislators, senior officials & managers	0.06	0.05	0.07	0.56	0.7	0.4
Professional	0.02	0.02	0.02	0.51	0.9	0.1
Technicians & associate professionals	0.26	0.34	0.08	1.33	2.4	0.2
Clerks	0.06	0.06	0.05	0.37	0.6	0.2
Service workers, shops & market sales	8.90	4.81	18.87	38.19	32.9	43.8
Skilled agricultural and fishery workers	68.54	86.39	24.97	12.28	17.8	6.4
Crafts and related trade workers	12.94	3.65	35.62	33.50	25.0	42.5
Plant, machine operators & assemblers	0.19	0.23	0.07	1.23	2.2	0.2
Elementary occupations	9.01	4.41	20.24	12.03	17.6	6.1
Not stated	0.03	0.03	0.02	0.01	0.0	0.0
Total	100.00	100.00	100.00	100.00	100.0	100.0

Source: NLFS data (CSA, 1999, 2005).

7.4 Terms of Employment

Terms of employment relationship, as the name implies, influence and can also be influenced by both supply and demand side factors of the labour market. Terms of employment has a strong link with the economy through its impact on worker productivity and efficiency. A recent empirical evidence for industrialized European countries points that a stable employment relationship is beneficial to productivity growth, human capital investment and worker motivation (ILO, 2006). However, there is also an increasing pressure for gaining flexibility in employment relationship focused on the ease of firing

and hiring and on working time. Thus, both stability and flexibility can be considered useful for enhancing productivity and efficiency, but arguably with different employment consequences. As pointed out by the ILO (2005), finding a right balance between ensuring stability and enabling mobility remains a critical challenge for developed and developing countries alike. The ILO emphasizes that addressing this challenge mainly rests on labour laws and institutions of each country.

In this section the report examines the size and share of total paid employees in Ethiopia operating under different terms of employment relationship. As can be seen from Table 7.5, most of the paid employees have either permanent, temporary, contract or casual employment relationships with their employers. In all, about 36% of the total paid employees in Ethiopia are under permanent employment status. Most of the contract and casual workers are found in the industry and agriculture sectors.

In Ethiopia, paid employees are found in all sectors of the economy. However, certain terms of employment are more prevalent in one sector and location than another in the economy. Nearly 90% of the total paid workers in financial institutions are permanent employees. Of its total paid workers in the education, health and related other social sectors, around 83% are permanent workers. As one would expect, a significant majority (89%) of the total paid employment opportunities in the agricultural and allied sector are non-permanent employees. In fact the high preponderance of non-permanent employees in the agricultural sector may be attributed to several factors. First, agricultural production in Ethiopia is heavily dictated by nature and as a result agriculture has seasonal labour demand. Second, the fact that about 95% of the country's total agricultural output comes from smallholder agricultural producers means that there is very little room for extensive permanent labour employment. Third, the high incidence of recurrent drought and other sources of uncertainties in the agricultural sector create additional incentives for farmers to rely heavily on their own family labour force and on non-permanent paid workers.

SECTORAL EMPLOYMENT AND OCCUPATIONAL CHOICE

Table 7. 5: Distribution of paid employees by industrial division, 2005 (%)

Major Industrial Division	Permanent	Temporary	Contract	Casual	Others	Total
Agriculture, hunting, forestry & fishing	11	53	22	13	1	100
Mining & Quarrying	12	29	25	34	1	100
Manufacturing	33	45	9	12	2	100
Electricity, gas & water supply	59	24	15	1	2	100
Construction	8	59	16	15	1	100
Wholesale and retail trade, repair of vehicles, personal & household goods	22	52	7	16	4	100
Hotel and Restaurant	15	69	8	5	3	100
Transport, storage and communications	37	47	9	6	1	100
Financial Intermediation	90	4	6	0	0	100
Real Estate and Renting and business activities	63	21	12	2	1	100
Public administration & social security	64	23	8	4	1	100
Education, health & social work	83	10	7	0	0	100
Other community, cultural & personal services	27	42	5	22	3	100
Private household with employed person	5	83	4	6	2	100
Extra territorial organization & NGOs	16	46	21	16	0	100
Total	36	43	11	9	1	

Source: NLFS data (CSA, 1999, 2005).

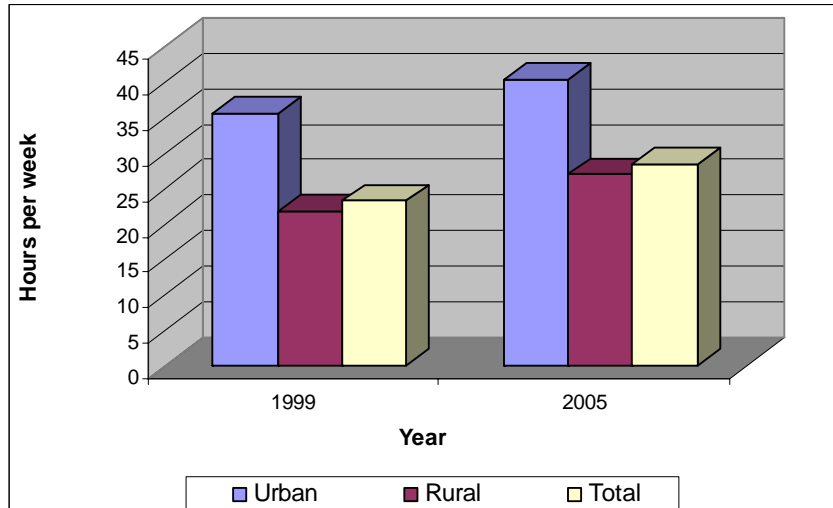
The construction and the private household sectors are characterized by limited share of permanent jobs in their total employment. About one-third of the total permanent job holders in the country are found in the education, health and related social service sectors. The public administration and defense sectors absorb a slightly more than one-quarter of the permanent job holders. Clearly, from the above figures one may conclude that the distribution of permanent jobs in Ethiopia is skewed towards the service sector and the urban economy.

Gender composition of paid employment opportunities gives an interesting variation among sectors and sub-sectors in the Ethiopian economy. With the exception of such sectors as hotels and restaurant and private households, all other sectors have a larger number of men workers than women workers. Women's share of paid employment in hotels and restaurants and private household sectors are estimated to be 61% and 90%, respectively. Using the 2005 national labour force survey data, it can be seen that among the 54,524 employed women workers nationally, the urban sector employed 49,395 workers, of which around 70% were temporary employees. Likewise, the same survey shows that 93% of the total paid women workers employed by private households were temporary employees of whom some 82% were found in urban areas. A significant majority of women and men permanent employees in the economy were absorbed in education, health and related social service sectors.

7.5 Hours of Work

Available information on the Ethiopian labour force reveals that work intensity has significantly increased over the last several years. The number of hours worked by a typical worker had increased from 23 hours per week in 1999 to 28 hours per week in 2005. A closer look at the available data also reflects that workers in urban areas spent increasingly more time on work than do rural workers in Ethiopia (Table 7.6). Among other things, shorter hours of work in rural areas might be attributed to time-related underemployment. An average worker in urban areas expended 36 hours and 40 hours per week in 1999 and 2005, respectively. The corresponding figures for rural areas were 22 hours and 27 hours per week. But, in fact, the vast majority (73%) of employed persons still spends less than 40 hours on work in a week. In the industrialized countries, however, more people are working longer hours than the standard 35 to 40-hour per week (ILO, 2006). In the Ethiopian case, one would find that the amount of the weekly hours worked varies among different age cohorts and between urban and rural areas. Further, about 12% and 15% of employed workers, respectively, in 1999 and 2005 had worked longer than or equal to 49 hours in a week. These figures do imply that the share of employed persons working longer than the country's standard 48-hour week is rising.

Figure 7. 2: Trends in hours worked by currently employed persons in the last 7 days



Source: NLFS data (CSA, 1999, 2005).

Table 7. 6: Currently employed populations by number of hours worked (%)

Hours Worked	1999			2005		
	Urban	Rural	Total	Urban	Rural	Total
0-3	9.79	17.63	16.78	4.46	7.89	7.52
4-12	9.58	18.09	17.16	8.84	16.00	15.22
13-21	11.90	21.35	20.33	10.58	19.14	18.21
22-30	11.56	16.63	16.08	10.61	18.84	17.94
31-39	12.15	10.14	10.36	10.96	14.24	13.88
40-48	18.77	6.44	7.78	20.34	11.01	12.03
49-57	9.74	4.09	4.70	14.65	7.05	7.89
58-74	10.56	4.57	5.22	11.77	4.63	5.41
75 & above	5.95	1.07	1.60	7.70	1.17	1.89
Total	100.00	100.00	100.00	100.00	100.00	100.00

Source: NLFS data (CSA, 1999, 2005)

Chapter 8

Characteristics of Unemployment in Ethiopia

8.1 Unemployment Levels and Trends

This Chapter describes unemployment levels and trends as well as characteristic features of the unemployed in the country since 1984 population and housing censuses (PHC). In describing unemployment levels and trends, attempt will be made to look into issues of population and labour force growth, labour market characteristics, participation in the labour market, and unemployment levels and trends by rural-urban areas and region. The analyses will mainly depend on the population and household censuses of 1984 and 1994 and on the labour force surveys of 1999 and 2005 all conducted by the Ethiopian Central Statistical Authority (CSA).

8.1.1 Population and Labour Force Growth

According to the 1984 CSA population and housing census the size of Ethiopia's total population stood at about 42.6 million while the 1994 CSA population and housing census put the country's population at about 53.5 million. This suggests that an average population growth rate of 2.3% per annum between these two censuses. The 1999 CSA national labour force survey put the country's population at about 54.9 million, which implies a population growth rate of about 0.5% between 1994 and 1999. On the other hand, the 2001 CSA statistical abstract put the size of the Ethiopian population at about 61.7 million for the year 1999. This implies an average growth rate of about 11% between the 1994 population census and the first national labour force survey conducted in 1999. As could be observed, the

figures for the size of the Ethiopian population for 1999 vary between what was reported in the 1999 CSA national labour force survey and the 2001 CSA statistical abstract by close to 7 million people (or by about 12% of the population). Such discrepancy between the Labour Force Survey and the statistical abstract unfortunately continued into later years. For instance, the 2005 CSA labour force survey puts the size of Ethiopia's population for that year at about 63.2 million. This indicates an average population growth rate of 2.4% between 1999 and 2005, taking the 1999 labour force survey figure as the base year. However, the 2005 CSA Statistical Abstract put the country's population for the year 2004 at about 71.1 million people, which is again inconsistent with the size of the country's population, reported in the 2005 CSA labour force survey. On the bases of the implied population growth rates, it seems that the 1999 and 2005 CSA labour force surveys understated the size of the country's total population.

The ILO standard definition of economically active labour force includes any person between the ages of 15 and 64 years (inclusive) who is currently working or is willing to work. Any individual that falls under this category is regarded as part of the economically active population or labour force. However, the CSA defines the economically active population (labour force or supply of labour) as people aged 10 years and above who actively participate in economic activities by being employed or by actively if they are out of work. In this Report the CSA definition of economically active labour force is used. Accordingly, the 1984 CSA population and housing census put the economically active population (Size of the labour force) in Ethiopia at about 14.7 million people which according to a similar census carried out in 1994 reached about 26.5 million people. These figures suggest that the proportion of the working age population that was active during the two census years was 67 and 72.4%, respectively. Similarly, the 1999 and 2005 CSA labour force surveys showed that the size of the country's labour force stood at about 25.8 and 32.4 million people, respectively. The proportion of the active working age population during these two national labour force surveys stood at about 71.1% and 79% respectively. Hence one may conclude that the ratio

of active population had shown an increasing trend from the 1984 up until the 2005 report with the exception of the year 1999.

The 1984 and the 1994 CSA population and housing censuses reported that the growth of the country's labour force between the two population census years was 6% while the growth rate between the 1994 population census and that of the 1999 CSA national labour force survey was -0.3%. This was followed by labour force growth rate of about 2.1% between the 1999 and 2005 labour force surveys. The average labour force growth rate over the past 21 years (from 1984 to 2005), was about 3.8% per annum.

As noted above, unemployment is a state in which members of the working age population who are both willing and actively looking for work are unable to secure suitable employment at the going market wage rate. The labour force of a country, therefore, consists of those who are employed and unemployed among those in the working age population. Before discussing the employment and unemployment situation in Ethiopia, it is worth noting a couple of caveats. First, collecting labour force data, especially at a national level, is a recent phenomenon in Ethiopia; second, the surveys carried out in Ethiopia by CSA put the working age population as ten years and above which starts at a lower age than the international standard and does not exclude the elderly (65+) as is common in many countries; and, third, the survey data collected in some of the years seems an outlier relative to what was observed in other years, indicating some data inconsistency probably due to measurement or other errors.

The above caveats notwithstanding, recent CSA surveys have accounted for the size of the employed and unemployed in Ethiopia across various attributes of the labour force. Accordingly, the 1984 population census reported that among a total labour force of about 14.7 million about 14.6 million of them were employed in various sectors of the economy implying a national unemployment rate of 1.2% during the survey year. On the other hand, the absolute magnitude of the employed labour force in the country according to the 1994 population census was about 25.7 million people

indicating an unemployment rate of 2.9% in 1994 compared to the 1.2% unemployment rate in 1984. Further, the 1999 CSA national labour force survey put the absolute magnitude of the employed population in the country at about 25.3 million people indicating a decline in the total number of employed population in 1999 compared to 1994. And this resulted in a national unemployment rate of about 7.9%. Similarly, the 2005 CSA national labour force survey showed that the absolute magnitude of the total employed population in the country stood at about 31.4 million people indicating a national unemployment rate of 5%.

In terms of the size of the unemployed, the absolute magnitude of the unemployed population in the country was about 170 thousand people in 1984, 771 thousand people in 1994, 2.2 million people in 1999 and 1.7 million people in 2005. Unemployment rate for the nation showed an increasing trend over the census years of 1984 up until 1999 which reached 7.9% and declined to 5% in 2005. Table 8.1 shows trends in population and labour force growth.

Table 8. 1: Trend in population and labour force growth (population in '000)

Population Size	1984	1994	1999	2005
Total Population	42,617	53,477	54,862	63,229
Ten years and above	21,939	36,626	36,293	41,018
Economically Active	14,743	26,503	25,794	32,380
Economically not Active	7,196	10,041	10,449	8,596
Total Employed	14,573	25,732	25,289	31,435
Total Unemployed	170	771	2,172	1,654
Economic Activity Rate	67.2%	72.4%	71.1%	78.9%
Population Growth Per annum	-	2.3%	0.5%	2.4%
Labour Force Growth Per Annum	-	6.0%	-0.3%	2.1%
Unemployment Rate	1.2%	2.9%	7.9%	5.0%

Source: Various CSA publications

As can be observed from Table 8.1, population growth and labour force growth are not of the same order of magnitude for the years under consideration. This is because of the pyramid like structure of the population. Hence, due to differences in the population growth rates of different cohorts, population growth diverged from labour force growth rate.

8.1.2 Labour Market Characteristics

The Ethiopian labour market is mainly dominated by employment in the agriculture sector of the economy. One may strongly assert that at least 80% of the total labour force in the country is engaged in the agricultural sector where employment in this sector could probably be characterised as underemployment, where underemployment is defined as under use of the labour force as in overstaffing. One justification for this assertion is that the contribution of this sector is very low relative to the size of the labour force engaged in this sector (i.e about 80% of the labour force contributing less than 50% to GDP). As an instance, according to the 1984 Population and Housing Census about 88.6% of the labour force was engaged in the agricultural activities of the economy followed by the public administration, social, cultural, recreational, personal & household services sectors of the economy, accounting for about 5.1% employment. The same census also showed that the wholesale trade, retail trade and catering sector of the economy were the third largest sectors in terms of employment creation, which employed about 3.8% of the labour force. This was followed by the manufacturing sector which employed nearly 1.6% of the labour force as per the 1984 population census. The remaining sectors of the economy altogether employed about 0.9% of the labour force.

Sectoral distribution of employment according to the 1994 Population and Housing Census was slightly different from that of the 1984. According to the 1994 population census data, the employment share of the agricultural sector of the economy slightly increased to over 89%. The second important sector in terms of creating employment for the active labour force was the whole

sale trade, retail trade and catering sectors of the economy, employing about 4.2% of the labour force. This was followed by the public administration, social, cultural, recreational, personal & household services sector of the economy employing about 2.8% of the labour force down from 5.1% in 1984. Employment share of the manufacturing sector of the economy had slightly increased to 1.8% in 1994 from 1.6% in 1984. The remaining sectors of the economy employed about 1.9% of the labour force in 1994.

The structure of the share of employment observed in 1999 was slightly different from that of 1994. According to the 1999 national labour force survey, the employment share of the agricultural sector of the economy declined to about 79.6% from about 89.3% in 1994. This was a reflection of a shift from the agricultural sector towards the industrial sector after the reforms of the early 1990s. In terms of the share of employment, the agricultural sector is followed by the whole sale trade, retail trade and catering services sector and manufacturing sectors, employing about 9.6% and 4.4% of the labour force, respectively. This was followed by the public administration, social, cultural, recreational, personal & household services sector whose employment share in 1999 stood at about 4.2% of the labour force while the share of the remaining sectors was about 2.2%.

The structure of the sectoral distribution of employment in 2005 is similar to that of the year 1999. As per the 2005 CSA national labour force survey, the share of employment in the agricultural sector stood at about 80.2%. This was followed by whole sale trade, retail trade and catering services sector, manufacturing sector, and public administration, social, cultural, recreational, personal & household services sectors, employing about 7.7%, 4.9% and 4.5% of the labour force, respectively. The remaining sectors employment share stood at about 2.8% in 2005.

The average share of employment in the agricultural sector over the past 21 years was about 83.7% followed by the whole sale trade, retail trade and catering sector and the public administration, social, cultural, recreational, personal & household services sectors that employed about 6.7% and 4.1%

CHARACTERISTICS OF UNEMPLOYMENT IN ETHIOPIA

of the labour force, respectively. The following Table shows trends in sectoral distribution of employment.

Table 8. 2: Trends in distribution of employment by major economic sectors (in %)

Sectors of Employment	1984	1994	1999	2005	Average
Agriculture, Hunting, Forestry & Fishing	88.6	89.3	79.6	80.2	83.7
Mining & Quarrying	0.1	0.1	0.1	0.3	0.1
Manufacturing	1.6	1.8	4.4	4.9	3.4
Construction	0.3	0.3	0.9	1.4	0.8
Electricity, Gas & Water Supply	0.1	0.1	0.1	0.1	0.1
Wholesale, Retail Trade & Catering	3.8	4.2	9.6	7.7	6.7
Transport & Related Worker	0.4	0.6	0.5	0.5	0.5
Bank, Insurance and Business Service	0.1	0.1	0.4	0.3	0.2
Public Adm., Social, Cultural, Recreational, Personal & Household Services	5.1	2.8	4.2	4.5	4.1
Extra-Territorial Organization & Bodies	-	0.0	0.0	0.2	0.1
Not Stated	-	0.8	0.2	0.0	0.3
Total	100	100	100	100	100

Source: Various CSA publications

The 1984 CSA population and housing census showed that 57.1% of the labour force was engaged in self employment followed by unpaid family work accounting for about 34.2% of the labour force. According to this population and housing census government employees were 4% of the labour force. During the same population census private organizations' employment accounted for about 2% of the country's labour force. As per the 1994 Population and Housing Census unpaid family workers surpassed the share of the self employed in the total labour force. Unpaid family workers accounted for about 51.1% of the total labour force while the share of self employed population declined to 39.5% in 1994 from 57.1% in 1984. Private employment took over government employment in terms of employment-share according to the 1994 population and housing census. The share of government employment declined to 2.7% in 1994 from 4% in 1984 following

policy reforms of the 1990s while the share of private sector employment rose to 3% in 1994 from 2.2% in 1984.

According to the 1999 national labour force survey, the share of unpaid family workers still took the largest proportion of employed population in the country though its share declined to 46.9% in 1999 from 51.1% in 1994. This was followed by self employment whose share in the labour force rose to 43.5% in 1999 from 39.5% in 1994. Private sector was the third largest sector of the economy in terms of share of employment according the 1999 labour force survey. According to this labour force survey the share of private sector employment further rose to 4.3% in 1999 from a share of 3% in 1994. Share of government employment further declined to 2.4% in 1999 from 2.7% in 1994.

The 2005 CSA national labour force survey also revealed that unpaid family workers accounted for the largest proportion of employed labour force in the country accounting for about 50.3%. This was followed by the self employment that accounted for about 40.9% of the labour force. The share of the private employment declined to 2.9% in 2005 from a share of 4.3% in 1999 labour force survey whereas the share of government employment rose to 2.6% of the labour force in 2005 from a share of 2.4% in 1999.

The average share of employment over the past 21 years from 1984 up until 2005 showed that unpaid family workers constituted about 47.2% of the labour force followed by self employment at about 43.7% of the labour force. The private sector was the largest employing sector in the economy in terms of average share of employment over the past 21 years taking an average share of about 3.2% of the labour force. The government sector was the fourth leading employer as per the average share of employment of 2.8% of the labour force over the past 21 years. Table 8.3 shows the distribution of employment by major employers.

CHARACTERISTICS OF UNEMPLOYMENT IN ETHIOPIA

Table 8. 3: Trend in distribution employment by major employers (in %)

Employment Status	1984	1994	1999	2005	Average
Employer	0.9	2.6	0.8	0.6	1.2
Government Employee	4.0	2.7	2.4	2.6	2.8
Employees or Members of Cooperatives	0.9	0.1	0.6	0.6	0.5
Private Organization Employee	2.2	3.0	4.3	2.9	3.2
International Organization Employee	0.1	-	-	-	0.0
Self Employed	57.1	39.5	43.5	40.9	43.7
Unpaid Family Worker	34.2	51.1	46.9	50.3	47.2
NGO's Employees	-	-	-	0.5	0.1
Domestic Employees	-	-	-	1.2	0.4
Others	0.6	0.1	1.3	0.4	0.6
Not Stated	0.0	0.8	0.1	0.0	0.3
Total	100.0	100.0	100.0	100.0	100.0

Source: Various CSA publications.

8.1.3 Participation in the Labour Market

Significant differences in the labour market participation rate existed over time and across place of residence. According to the 1984 population and housing census participation rate for the rural population of the country stood at about 71.5%, which rose to 76.4% according to the 1994 population and housing census. Participation rate in the rural areas of the country fell to 74% in the 1999 national labour force survey and then rose to 82.9% in 2005. The average participation rate for the rural population over the past twenty one years stood at about 76.9%. This would imply that there was no clear trend in the rural population participation rate in the labour market. When it comes to the urban population participation rates in the labour market, a clear upward trend was observed. According to the 1984 population and housing census, urban population participation rate of the labour market stood at about 43.5% followed by a participation rate of 49.7% in 1994 which in turn further rose to about 55.8% in 1999. This trend continued and reached 59.3% in 2005, yielding an average participation rate of 53.4% over the past twenty one

years. Table 8.4 shows an average upward trend in participation rates by place of residence.

Table 8. 4: Trends in participation rate by place of residence (in %)

Place of Residence	1984	1994	1999	2005	Average
Rural	71.5	76.4	74.0	82.9	76.9
Urban	43.5	49.7	55.8	59.3	53.4
Total	67.2	72.4	71.1	78.9	73.2

Source: compiled from various CSA publications

Trends in the labour market participation rates also showed a significant difference in participation rates by sex. According to the 1984 population and housing census labour market participation rate for males stood at about 79.2% compared to females labour market participation rate of 55.5% for the year. In the 1994 population and housing census labour market survey, participation rates for both males and females had increased compared to their respective rates in 1984. According to the 1994 population and housing census, labour market participation rate for males rose to 81.9% while that of females' increased to 62.8%. These rates of labour market participation for males and females declined to 80.4% and 62.2%, respectively, in the 1999 CSA national labour force survey. The 2005 CSA national labour force survey showed that labour market participation rates for males and females rose to 84.7% and 73.5%, respectively, with an average participation rate of 78.9% for both sexes. The average participation rate for males and females over the past twenty one years stood at about 81.9% and 64.7%, respectively, showing a significant difference in labour market participation rates by sex. Table 8.5 depicts trends in participation rate by sex.

Table 8. 5: Trends in participation rate by sex

Sex	1984	1994	1999	2005	Average
Male	79.2	81.9	80.4	84.7	81.9
Female	55.5	62.8	62.2	73.5	64.7
Both sexes	67.2	72.4	71.1	78.9	73.2

Source: compiled from various CSA publications

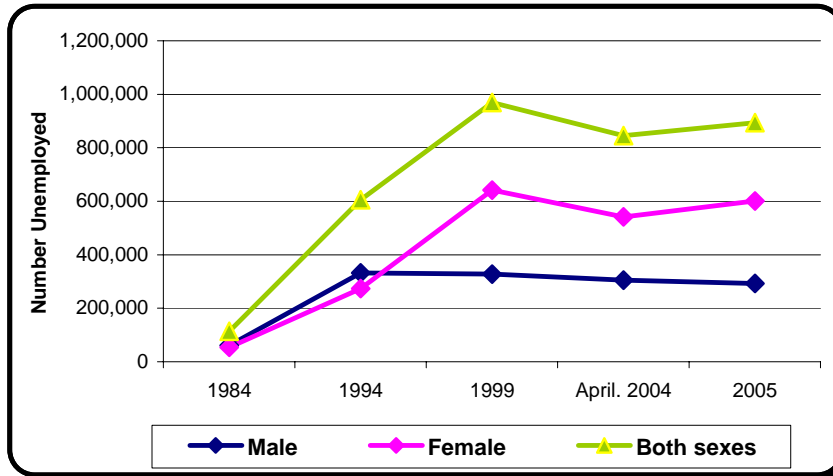
8.1.4 Unemployment Levels and Trends in Rural-Urban Areas

The respective male and female unemployment was in the order of 60.2 and 53.9 thousands in the urban areas of the country in 1984. The number of both male and female unemployed population had increased by more than five fold in 1994 relative to 1984. The absolute magnitude of unemployed males in urban areas stood at 331.8 thousands in 1994 and that of females was estimated to be about 274 thousands. According to the 1999 CSA national labour force survey, the number of unemployed males in urban areas was slightly lower than that in 1994. According to the same labour force survey, the number of unemployed males in the urban areas was estimated at about 327.7 thousands. Similarly, there was a substantial difference in the number of unemployed females in urban areas for the years 1994 and 1999. As per the 1999 labour force survey, the number of unemployed females in urban areas stood at about 641.5 thousands compared to 274 thousands in 1994.

Following the urban bi-annual employment unemployment survey report of April 2004, the number of unemployed males and females decreased slightly compared to the preceding year. The 2005 CSA labour force survey showed that the number of unemployed urban males had fallen compared to its level in April 2004 whereas the level of urban unemployed females rose to about 601.5 thousands in 2005.

Urban males' unemployment rate increased from 1984 up until 1994, and showed a declining trend from 1994 to 2005. On the other hand, urban females' unemployment rate increased in 1999 relative to 1984 and then declined in 2004. However this declining trend in urban females' unemployment rate in 2004 was not continued but instead increased in 2005. The following figure depicts trends in urban unemployment.

Figure 8. 1: Trends in level of urban unemployment: 1984 – 2005

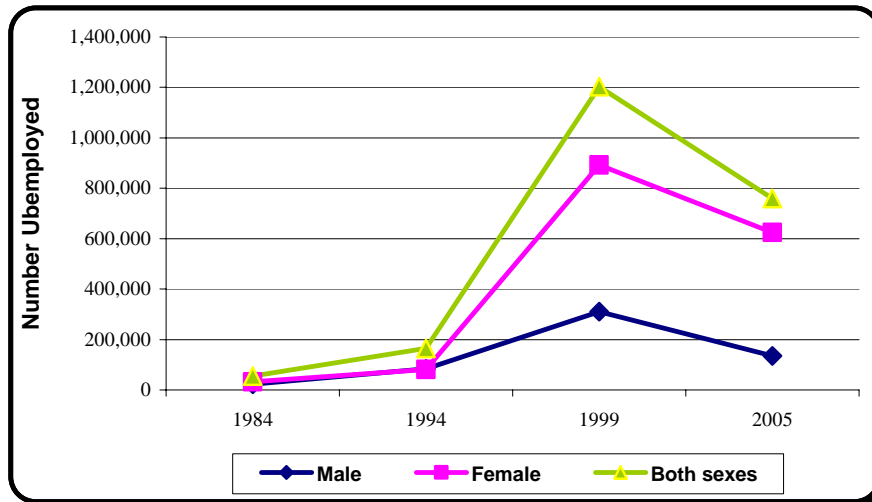


Source: Compiled from various CSA publications.

According to the 1984 population and housing census, rural unemployment was not likely to be of policy concern as it was very low. The absolute magnitude of unemployed rural males and females in 1984 were in the order of 22.8 thousands and 32.6 thousands, respectively. Rural unemployment in 1994 increased by about 109.5 thousands compared to the level in 1984. The absolute magnitude of rural unemployed males increased to about 83.9 thousands in 1994 whereas that of females increased to 81.1 thousands. A substantial difference in unemployment levels exist between the 1994 population and housing census and the 1999 labour force survey. Rural unemployment increased in 1999 by about 1,037.6 thousands compared to its level in 1994. Such a huge gap in a span of four years defies any economic explanation unless it is a measurement error of some sort. As per the 1999 national labour force survey the absolute magnitude of unemployed rural males stood at about 310.4 thousands whereas that of females stood at about 892.2 thousands. This clearly shows that the number of unemployed rural males increased nearly four fold while that of females increased by almost eleven fold. The 2005 CSA national labour force survey showed that

the level of rural unemployment had fallen substantially compared to its level in the preceding labour force survey. The absolute magnitude of unemployed rural males declined to 135.2 thousands in 2005 compared to 310.4 thousands in 1999. A similar pattern was also observed for rural females' unemployment where the number of unemployed rural females declined to 624.3 thousands in 2005 compared to 892.2 thousands (a whopping 43% decline) in 1999. This would imply that the economic activities in the rural areas of the country generated employment for about 443 thousand rural residents within a period of six years, which is not easy to explain the source of rural employment for nearly half a million population as most investments were made in urban centres of the country where there was a relatively better access to infrastructure. In fact a decline in rural unemployment will not necessarily be as a result of job creation in the rural parts of the country but it could also be as a result of rural-urban migration of those unemployed, though the magnitude of the decline is likely to be small. Figure 8.2 depicts the trend in rural unemployment.

Figure 8. 2: Trends in level of rural unemployment: 1984 - 2005



Source: compiled from various CSA publications.

Significant differences exist between male and female unemployment rates in urban areas of the country over time. As per the 1984 population and housing census dataset male unemployment rate in urban areas stood at about 6.8% while females' unemployment rate was estimated at 9.5%. Both males and females unemployment rates in urban areas substantially increased in the 1994 population and housing census. Urban male unemployment rate rose to 20.4% in 1994 compared to the 6.8% in 1984 whereas urban female unemployment rate jumped to 24.2% in 1994 compared to the 9.5% rate in 1984 with an average rate of unemployment of 22% for the year 1994. As per the 1999 national labour force survey urban male unemployment rate slightly decline to 18.3% whereas urban female unemployment rate rose to 34% with an average unemployment rate of 26% for both sexes. As per the report on urban bi-annual employment unemployment report of April 2004, urban male unemployment rate further declined to 13.8% and that of females also declined to 22.3% with an average unemployment rate of 17.6% for both sexes. However, the 2005 CSA national labour force survey showed an increase in urban female unemployment rate to 27.2% though urban male unemployment rate slightly declined to 13.7% with an average unemployment rate of 20.6% for the year.

Rural unemployment was not a serious matter of policy concern to the government as it was below 1% during both the 1984 and 1994 population and housing censuses. The low level of rural unemployment was probably a reflection of the existence of extensive disguised employment in the agricultural sector of the economy. However, as per the 1999 CSA national labour force survey, both rural males and females' unemployment increased substantially. According to this survey, rural male unemployment rate rose to 2.4% in 1999 from 0.6% in 1994 while rural female unemployment rate rose to 8.6% in 1999 from 0.8% in 1994 with an average unemployment rate of 5.1% in 1999. It is surprising to observe such an increase in rural unemployment rate over just five years period. The only likely reason could only be changes in demographics. Rural unemployment rate declined for both sexes as per the 2005 labour force survey. Since the structure of the rural economy didn't change substantially, it remains a puzzle to explain the

decline in the rural unemployment rate between 1999 and 2005. Table 8.6 depicts trends in rural and urban unemployment rate by sex.

Table 8. 6: Trends in rural and urban unemployment rate by sex: 1984 – 2005 (in %)

Sex	1984	1994	1999	April. 2004	2005
Male - Urban	6.8	20.4	18.3	13.8	13.7
Female - Urban	9.5	24.2	34.0	22.3	27.2
Both Sexes - Urban	7.9	22.0	26.4	17.6	20.6
Male - Rural	0.3	0.6	2.4	-	0.9
Female - Rural	0.6	0.8	8.6	-	4.6
Both Sexes - Rural	0.4	0.7	5.1	-	2.6

Source: Compiled from various CSA publications

8.1.5 Unemployment Levels and Trends by Region

According to both the 1994 population and housing census and the 1999 CSA national labour force survey the absolute magnitude of urban unemployed population was the largest for Addis Ababa City Administrative Council followed by the urban centres in the Oromia Regional State and the least was observed in Gambella Regional State. As per the 1994 population and housing census, the number of people unemployed in urban areas in Addis Ababa City Administrative Council and the Oromia Regional State were 312.7 and 106.5 thousands of people, respectively. And as per the 1999 CSA national labour force survey, the urban unemployed in Addis Ababa City Administrative Council were 448.4 and that of the Oromia Regional State where about 207.2 thousands of peoples. The reason for the low unemployment in Gambella Regional State was probably due to low level of urbanization and size of the region's population. As per the 1994 population and housing census, urban unemployment in the country stood at about 605.8 thousand people but according to the 1999 labour force survey the number of people unemployed was 969.1 (a difference of almost 60% in about five years).

And in the 2005 CSA national labour force survey still Addis Ababa City and Oromia Regional State ranked first and second in terms of having the highest number of unemployed people. The respective figures were 360.2 and 189.7 thousands of workers. As could be observed the size of the unemployed declined in both regions in 2005 relative to the 1999 figures. The decline in the size of urban unemployment was also true at a national level which slightly declined to 894.2 thousands in 2005 relative to the 961.1 figure registered in 1999.

Unlike urban unemployment, rural unemployment is reported to be very low both according to the population and housing census and the CSA national labour force surveys carried in different years. What is more, the regional distribution of unemployment reflects the regional population size. That is, rural unemployment though insignificant in all regions is the largest in the Oromia regional state followed by Amhara Regional State.

To sum, from the above discussion one could conclude that both urban and rural unemployment increased in absolute magnitude in 1999 relative to 1994 for all the regional states with the exception of the Somali Regional State where the absolute number of unemployed population declined in both rural and urban areas of the region. The trend in the absolute number of unemployed population by region almost reversed when we compare the level of unemployment in 1999 to 2005. That is, the level of unemployment declined in both rural and urban areas of the regional states in 2005 compared to 1999 with the exception of Tigray Regional State, SNNP, and Dire Dawa City Administrative Council where urban unemployment increased relative to the year 1999.

8.2 Characteristic Features of the Unemployed

This section attempts to describe the characteristic features of the unemployed population in the country. The features that will be discussed include unemployment by gender, educational status and region.

8.2.1 Unemployment by Gender

Labour participation rate among in economic activities among men and women significantly differed. The 2005 CSA labour force survey reported that while that of women was as low as 35.1% that of men was about 73.4%. As a result women face higher level of unemployment compared to their male counter parts. Of the total unemployed population of about 2.17 million people in 1999 about 29% were men and the remaining 71% were women. Table 8.7 shows the distribution of unemployed population by gender.

Table 8. 7: Percentage distribution of unemployed population by sex (in %)

Sex	Year of Survey		
	1999	2005	Average
Male	29.4	25.9	27.9
Female	70.6	74.1	72.1
Both sexes	100.0	100.0	100.0

Source: CSA National Labour Force Survey, 1999 & 2005

Further, the 1999 and 2005 labour force surveys conducted by CSA showed that unemployment rate had declined from 8% in 1999 to 5% in 2005. This decline is reflected in the decline of both male and female unemployment rate but they did so for men than for women, particularly in 1999. Accordingly, female unemployment rate declined from 12.5% in 1999 to 7.8% in 2005 while male unemployment rate had fallen to a low level of 2.5% in 2005 compared to 4.3% in 1999. Table 8.8 shows unemployment rate by gender.

Table 8. 8: Unemployment rate by gender (in %)

Sex	Year of Survey		
	1999	2005	Average
Male	4.3	2.5	3.3
Female	12.5	7.8	9.8
Both sex	8.0	5.0	6.4

Source: CSA National Labour Force Survey, 1999 & 2005

The incidence of unemployment could also be analyzed in terms of its geographical distribution. Owing to the contrast in the nature of the activities which defies an accurate measurement of latter relative to the former, open unemployment is larger in urban areas than in rural areas. Hence, according to the 1999 labour force survey, urban unemployment accounted for about 44.6% of the total unemployed population while rural unemployment constituted the remaining 55.4%. This share was reversed in the 2005 CSA labour force survey in which urban unemployment accounted for about 54.1% of the total while rural unemployment declined to 45.9% of the total unemployed. In absolute numbers, rural unemployment declined from around 1.2 million in 1999 to about 760 thousands in 2005. On the other hand the urban unemployed population declined from around 970 thousands in 1999 to about 895 thousands in 2005. This indicates that economic activities in urban areas of the country generated employment for about 75 thousands workers between 1999 and 2005. Table 8.9 shows unemployment rate in rural and urban areas of the country by gender.

Table 8. 9: Unemployment rate in urban and rural areas by gender (in %)

Sex	1999			2005		
	Urban	Rural	National	Urban	Rural	National
Male	18.3	2.4	4.3	13.7	0.9	2.5
Female	34.0	8.6	12.8	27.2	4.6	7.8
Both Sex	26.4	5.1	8.0	20.6	2.6	5.0

Source: CSA National Labour Force Survey, 1999 and 2005

From the above table it can be seen that urban as well as rural unemployed population fell for both sexes. Urban male unemployment rate declined from 18.3% in 1999 to 13.7% in 2005. Similarly urban unemployment rate for females also fell from 34% in 1999 to 27.2% in 2005. By the same token rural unemployment rate for males substantially declined and came down to a mere 0.9% in 2005 from a rate of 2.4% in 1999. Female unemployment rate in rural areas of the country was almost halved (declined from 8.6% to 4.6%) between 1999 and 2005.

CHARACTERISTICS OF UNEMPLOYMENT IN ETHIOPIA

Age is an important characteristics that affects the status of employment and there lack of. Accordingly as Table 8.10 shows, proportion of unemployed population declines with an increase in ages in both the rural and urban areas of the country except in the 20 to 29 age category.

Table 8. 10: Distribution of urban and rural unemployment by broad age group (in %)

Age Group	1999			2005		
	Urban	Rural	National	Urban	Rural	National
10-19	12.9	22.3	35.2	11.5	17.7	29.2
20-29	18.4	16.5	34.8	24.5	15.2	39.6
30-39	6.6	9.0	15.7	9.2	7.1	16.4
40-49	3.5	4.7	8.2	4.6	3.2	7.8
50-59	1.8	1.9	3.8	2.7	1.8	4.5
60 ⁺	1.4	1.0	2.4	1.6	0.9	2.5
All Ages	44.6	55.4	100.0	54.1	45.9	100.0

Source: CSA National Labour Force Survey, 1999 & 2005

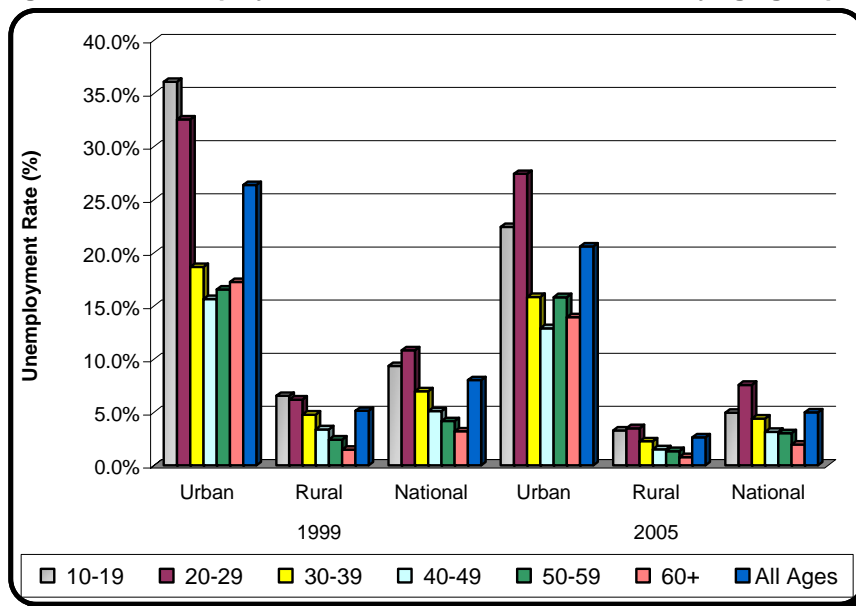
Table 5.10 also shows that the largest proportion of urban unemployed population was between the ages of 20 and 29 years. This age group alone constituted about 18.4% of urban unemployed population in 1999 while the share of this age group in the total unemployed population was about 24.5% in 2005. Such distribution of unemployed population by age in urban areas of the country is consistent with the conjecture that this age group constitutes a younger generation who completed a secondary education and starts looking for a job. It is also believed that this age group may constitute migrants from the rural to urban areas, who seek jobs in the urban centres of the country, as population in this age group are more probable to migrate to urban centres than population in any other age groups.

On the other hand, the largest proportion of the rural unemployed population in the 1999 and 2005 labour force surveys was between the ages of 10 and 19 years. This pattern of unemployment distribution by age group in the rural areas was consistent with the hypothesis that younger rural population largely constituted that segment of the population who could be characterised

as landless. This age group mainly constitutes young school age population. Unemployment rate for this age group stood at 36.1% in 1999 followed by unemployment rate of 32.6% for the age group 20 to 29 years. Almost similar pattern of unemployment rate for all age categories was observed in 2005.

A similar pattern of unemployment was observed at the national with regard to specific age groups. That is, with the exception of few age groups, unemployment rate fell with an increase in age. In fact unemployment rate was the highest for the age group from 20 to 29 years both in 1999 and 2005. Unemployment rate for this age group declined to 7.6% in 2005 from 10.8% in 1999. Unemployment rate was the smallest for the age group 60 years and above. Figure 8.3 depicts urban and rural unemployment rate by broad age groups.

Figure 8. 3: Unemployment rate in urban and rural areas by age group



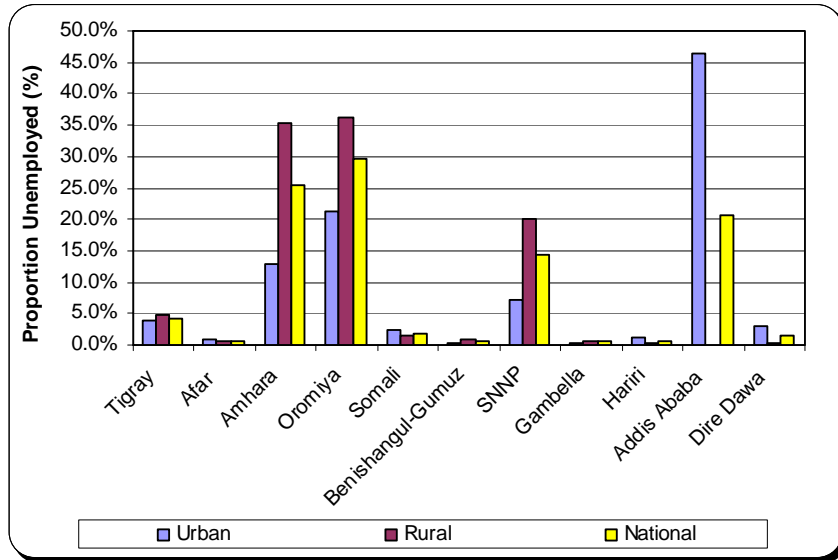
Source: Compiled from CSA Labour force Surveys of 1999 and 2005

As the figure shows, unemployment rate declined to 5% in 2005 from 8% in 1999. The major decline in unemployment came from the fall in rural unemployment. According to the 2005 CSA labour force survey, rural economic activities generated employment for close to half a million rural unemployed population between 1999 and 2005.

8.2.2 Unemployment by Region

It is not surprising that given the difference in the size of the population in the respective regional states, the largest proportion of unemployed population reside in Oromia Regional State followed by the Amhara Regional State according to the 1999 labour force survey. During this year, 29.5% of the total unemployed population resided in Oromia region and 25.3% in Amhara regional state. The third largest was in the Addis Ababa City Administrative Council accounting for 20.7% of the total unemployed population. In the 2005 CSA labour force survey the Oromia Regional State accounted for 32.3% followed by the Addis Ababa City Administrative Council with 21.9%. Although the population of the Addis Ababa City Administrative Council is much lower than the population of most of the regional states, the proportion of unemployed population in the city was much larger than most of the regional states, probably due to migration. And according to the 1999 labour force survey the Addis Ababa City alone accounted for 46.3% of the total urban unemployed population in the country which slightly fell to 40.3% by 2005. Oromia region stood second with 21.4% share of the urban unemployed population in 1999 and 21.2% in 2005. The share of unemployment in the rural areas is a mirror image of the size of the population. For instance, in 1999 the Oromia and Amhara Regional States accounted for 36.1% and 35.3%, respectively, both accounting for about 61% of the total rural unemployment in the country. Figure 8.4 shows the distribution of urban and rural unemployed population by region.

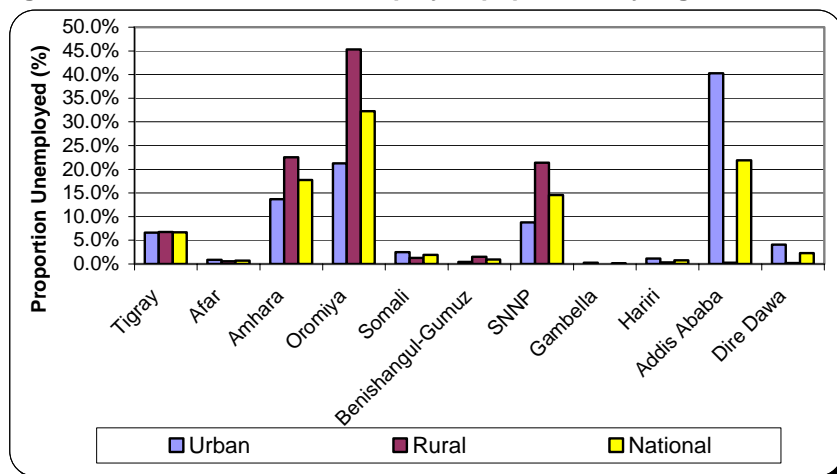
Figure 8. 4: Distribution of urban and rural unemployment by region in 1999



Source: Compiled from CSA Labour force Surveys, 1999

As shown in Figure 8.4, rural unemployment rate ranged from a low of 0.3% in Amhara, Benishangul-Gumuz and Gambella Regional States to a high of 8% in rural areas of Addis Ababa City according to the population and housing census of 1994. Rural unemployment rate by region is computed as the ratio of unemployed population in the rural areas of the region to the total labour force in the rural part of the region. It is worth noting that according to the 999 CSA national labour force survey, rural unemployment rate increased virtually for all the regions in the country as noted in Table 8.11.

Figure 8. 5: Distribution of unemployed population by region in 2005



Source: Compiled from CSA Labour force Surveys, 2005

Table 8. 11: Trends in urban and rural unemployment rate by region: 1994 – 2005 (in %)

Region	1994			1999			2005		
	Urban	Rural	Average	Urban	Rural	Average	Urban	Rural	Average
Tigray	9.8	0.7	1.6	19.8	4.1	6.1	18.3	2.9	5.3
Afar	11.1	0.7	1.4	23.2	6.0	10.4	18.8	6.5	11.4
Amhara	11.8	0.3	1.0	22.5	6.4	7.7	16.0	2.1	3.2
Oromia	15.4	0.6	1.7	19.0	4.6	6.1	15.0	2.9	4.1
Somali	31.9	2.0	5.2	32.0	7.2	12.8	29.7	4.5	11.1
Benishangul-Gumuz	7.2	0.3	0.7	18.8	4.0	5.2	10.3	3.6	4.4
SNNP	11.4	1.1	1.7	18.1	4.6	5.5	15.0	2.6	3.5
Gambella	11.2	0.3	1.6	21.1	10.2	12.5	25.7	-	-
Harari	27.1	1.1	14.4	29.1	11.0	21.5	27.1	6.3	16.8
Addis Ababa	35.1	8.0	34.7	38.1	5.7	37.8	31.4	11.0	31.2
Dire Dawa	35.4	3.0	24.1	35.3	4.8	24.6	32.5	3.2	23.9
All Regions	22.0	0.7	2.9	26.4	5.1	8.0	20.6	2.6	5.0

Source: Compiled from various CSA publications

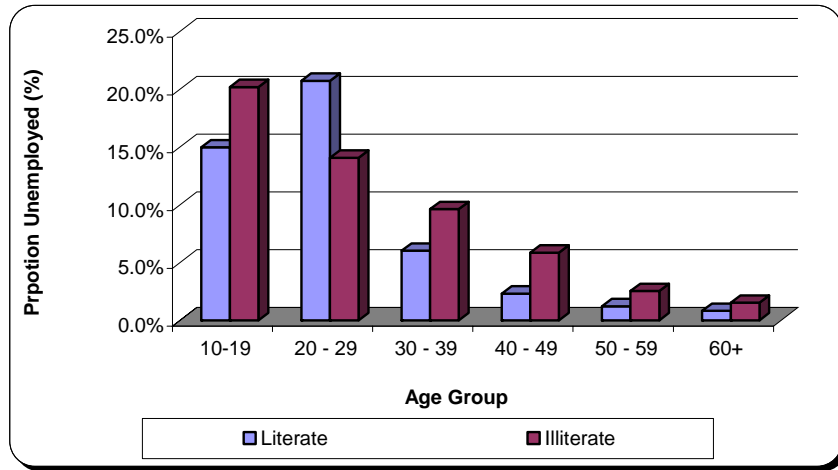
8.2.3 Unemployment by Educational Levels

Both the 1999 and the 2005 CSA labour force surveys showed variation in the incidence of unemployment by level of education. In the 1999 survey, out of the total unemployed population of about 2.17 million people 53.9% were illiterate and while the remaining 46.1% were classified as literate. On the other hand the 2005 CSA labour force survey showed that, of the total unemployed population of about 1.7 million people, 54.3% were literate while the remaining 45.7% were illiterate. This implies that incidence of illiterate unemployment declined to 45.7% in 2005 compared to 53.9% in 1999 while incidence of literate unemployment increased to 54.3% in 2005 from 46.1% in 1999. This relative decline in incidence of illiterate unemployment was a reflection of more employment creation in rural areas of the country where the majority of illiterate unemployed population of the country resides. When we look into incidence of unemployment by age group one can clearly observe that incidence of illiterate unemployment fell with an increase in age in 1999 except for the 20-29 age group.

Distribution of unemployed population by age and educational levels in 2005 was somewhat different from that of 1999 in that, except for the 20-29 age group, incidence of both illiterate and literate unemployment decreased with age. Figure 8.6 shows the distribution of unemployed population by broad age group and literacy status in 1999.

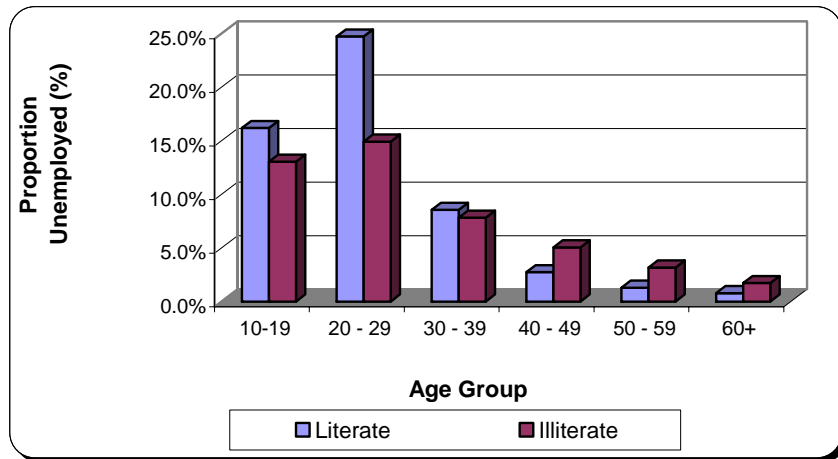
Distribution of the unemployed population by broad age group shows that 35.2% of the total unemployed population was aged from 10 to 19 years followed by the age group from 20 to 29 years, which accounted for about 34.8% of the total unemployed population during the 1999 CSA labour force survey. From the above figure, one may concluded that the share of unemployed population decreased with age. Figure 8.7 shows the distribution of the unemployed population by broad age groups and literacy status in 2005.

Figure 8. 6: Distribution of unemployed population by broad age group and literacy status in 1999



Source: Compiled from 1999 CSA Labour force Survey.

Figure 8. 7: Distribution of unemployed population by broad age group and literacy status in 2005



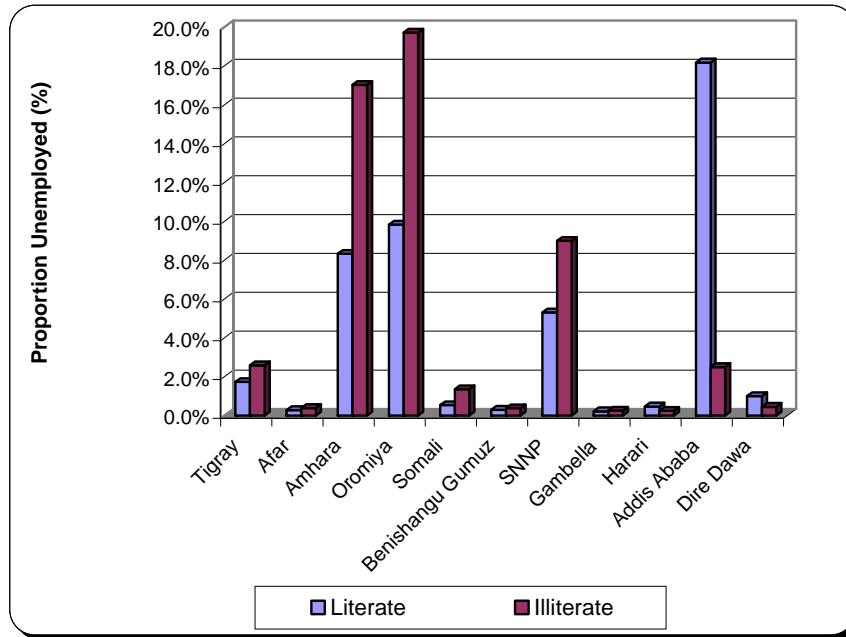
Source: Compiled from 2005 CSA Labour Force Survey.

As could be seen from Figure 8.7, the share of the unemployed population in the 10 to 19 age group fell to 29.2% 2005 compared to 35.2% in 1999. On the other hand the share of unemployed population in the 20 to 29 age group increased to 39.6% in 2005 compared to 34.8% in 1999. One can observe that the share of unemployed population, with the exception of the 20 to 29 age group falls with an increase in age.

And in terms of level of education, the 1999 labour force survey registered that Addis Ababa city Administration was the home of the largest proportion of literate unemployed population in the country. Literate unemployed population in the Addis Ababa city alone accounted for 18.2% of the total unemployed population in the country followed by Oromia and the Amhara Regional States with 9.8% and 8.3%, respectively. And in terms of illiterate unemployed population, the Oromia Regional State alone accounted for 19.7% of the total unemployed population in the country followed by the Amhara Regional State with 17% in the country. This means illiterate unemployed population in Oromia and Amhara Regional States combined accounted for 36.7% of the total unemployed population. And in terms of both literate and illiterate unemployed population in the country these two regional states alone accounted for 54.9% of the total unemployed population in the country as the labour force in these two regional states accounts for over 60% of the total labour force in the country. Figure 8.8 shows the distribution of unemployed population by region and literacy status for the year 1999.

And in terms of the education and employment status of the unemployed, the 2005 CSA labour force survey indicated Addis Ababa city administration was the home of the largest proportion of literate unemployed population in the country accounting for about 18.8% of the literate unemployed population in the country, followed by the Oromia Regional State with 14.7%.

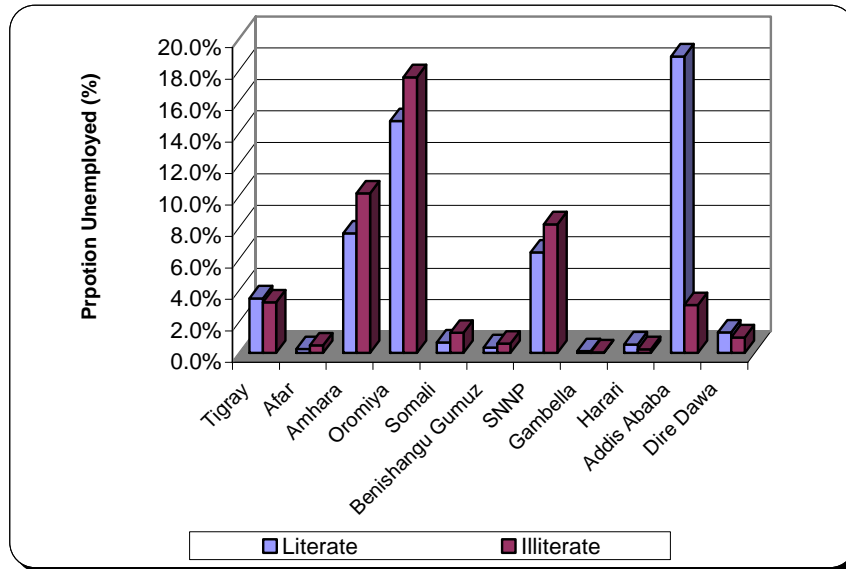
Figure 8. 8: Distribution of unemployed population by region and literacy status in 1999



Source: CSA Labour Force Survey, 19999.

In terms of illiterate unemployed population, Oromia Regional was the home of the largest proportion of unemployed population in the country followed by the Amhara Regional state which is consistent with the regional population sizes. Of the total illiterate unemployed population in the country in the 2005 CSA labour force survey, Oromia regional State accounted for 38.3% followed by the Amhara Regional State which accounted for 22.2% implying that these two regional states alone accounted for 60.5% of the total illiterate unemployed population in the country. Figure 8.9 shows the distribution of unemployed population by region and literacy status in 2005.

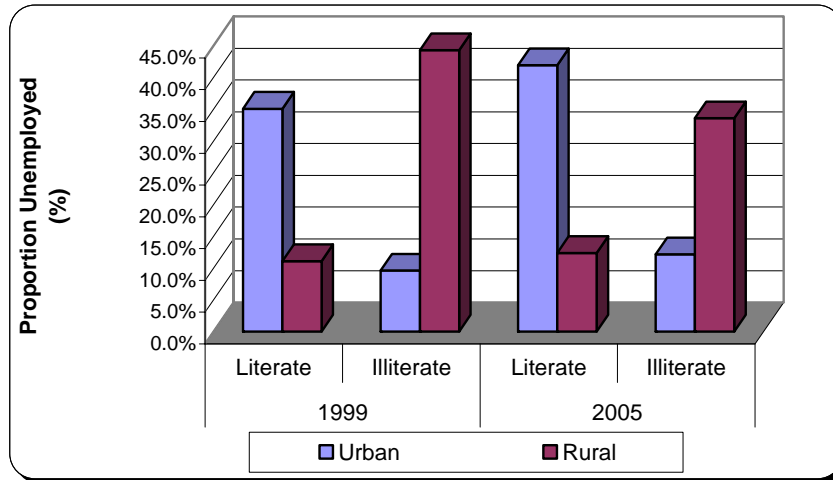
Figure 8. 9: Distribution of unemployed population by region and literacy status in 2005



Source: CSA Labour force Survey, 2005

Further, the 1999 and the 2005 CSA labour force surveys noted that there were more literate unemployed in urban areas while the illiterate unemployed concentrated in the rural areas. For instance, out of the total literate unemployed population 76% in 1999 and 77.2% in 2005 were living in urban areas while the remaining were living in the rural areas of the country. Similarly out of the total illiterate unemployed population in the country 82.2% in 1999 and 73.4% in 2005 were from the rural areas and the remaining were in the urban areas of the country. Figure 8.10 shows the distribution of unemployed population by urban-rural and literacy status for the years 1999 and 2005.

Figure 8. 10: Distribution of unemployed population by urban-rural and literacy status



Source: CSA Labour Force Surveys, 1999 and 2005

Aside from the general categories of literate and illiterate, the 1999 and 2005 labour force surveys reported a link between level of education and In terms of level of education, of the literate unemployed population in the country in 1999, 37.2% were from grade 1 to 6 followed by those who completed grade 12, accounting for 19.7%. Literate unemployed population whose level of education is from grade 7 to 8 constitutes 18.6% of literate unemployed population. According to the 1999 labour force survey there was no unemployed person with education level of beyond grade 12.

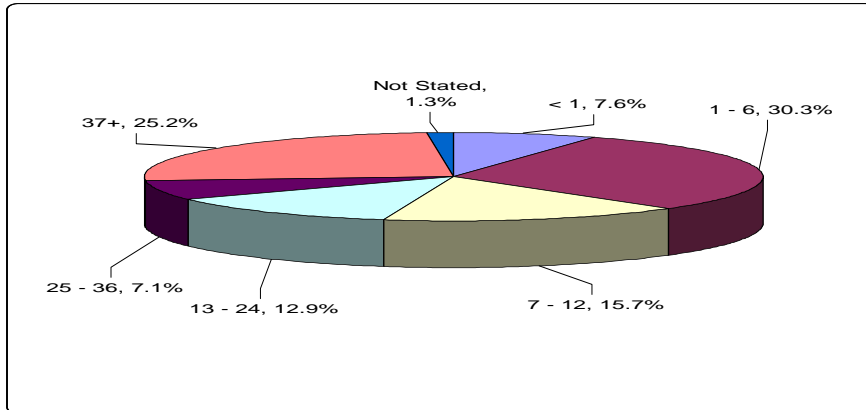
8.2.4 Transitory Vis-à-Vis Structural Unemployment

One alternative way of describing the characteristics of the unemployed population is classifying the unemployed by duration of unemployment. On this basis one may classify unemployment as transitory and structural unemployment. For brevity, transitory (frictional) unemployment may be

defined as type of unemployment whereby individuals are unemployed for a short period of time, usually for not more than 12 months at the time of the survey. On the other hand, one may classify those who had been unemployed for more than twelve months as facing structural unemployment.

In accordance to the above classification, the 1999 CSA labour force survey reported that about 30% of the total unemployed workers were out of work for not more than six months of the year while about 15.7% had been out of work for about seven to twelve months. This implies that transitory or frictional unemployment nearly accounted for about 46%. The same survey showed that about 54% of those unemployed were being unemployed for more than twelve months, which indicates that structural unemployment was a serious matter during the survey year.

Figure 8. 11: Distribution of unemployed population by duration of unemployment in months in 1999

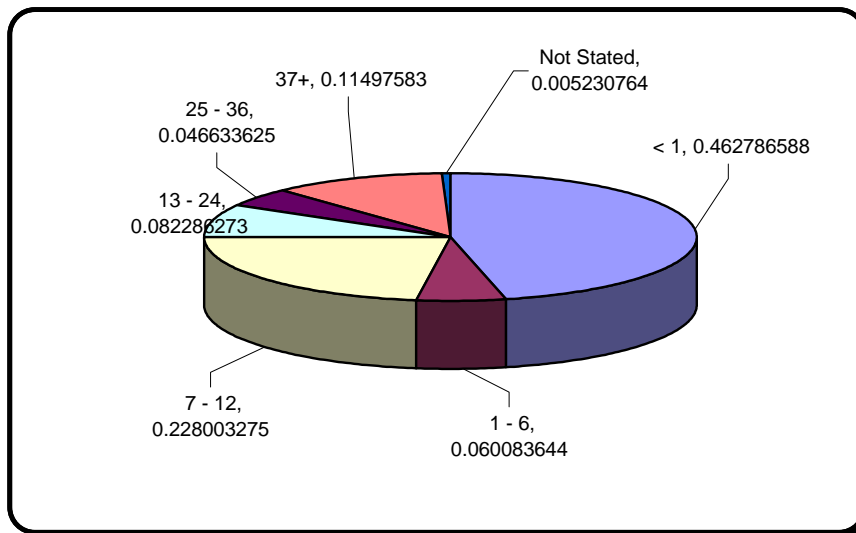


Source: Compiled from CSA Labour Force Surveys, 1999 and 2005

The 2005 CSA labour force survey, on the other reported that the duration of unemployment was different from what was observed in 1999. It indicated that about 46% of those unemployed were only out of work for not more than one month compared to 7.6% in 1999. Hence, the dominant unemployment

type may be characterised as transitory unemployment which in total accounted for about 75%. According to this relatively recent survey structural unemployment accounted for about 24% while the proportion of the unemployed population for which duration of unemployment was not stated was about 0.5%. Figures 8.11 and 8.12 depict the distribution of the unemployed population by duration of unemployment for 1999 and 2005.

Figure 8. 12: Distribution of unemployed population by duration of unemployment in months for 2005



Source: Compiled from CSA Labour Force Surveys, 1999 and 2005

When disaggregated by sex, transitory unemployment increased for both sexes during the two labour force surveys. Transitory unemployment for male unemployed population rose from about 60% in 1999 to about 75% in 2005 while for that of females it rose from about 50% in 1999 to about 75% in 2005. This implies that structural unemployment had fallen for both sexes between the two labour force surveys. Structural unemployment had fallen from 38% in 1999 to about 24% in 2005 for males while that of females

decline to about 24% in 2005 from 48% in 1999. Table 8.12 shows the distribution of unemployed population by sex and type of unemployment.

Table 8. 12: Distribution of unemployed population by type of unemployment and gender (in %)

Sex	Type of Unemployment/Year					
	Transitory Unemployment		Structural Unemployment		Not Stated	
	1999	2005	1999	2005	1999	2005
Male	60.4	75.3	38.0	24.3	1.6	0.4
Female	50.7	75.0	48.1	24.4	1.2	0.6
Both Sexes	53.6	75.1	45.1	24.4	1.3	0.5

Source: Compiled from CSA Labour Force Surveys, 1999 and 2005.

In terms of regional distribution, the 1999 CSA labour force survey reported that transitory unemployment was the highest for Benishangul-Gumuz Regional state which stood at about 75% followed by the Amhara Regional State in which transitory unemployment nearly accounted for about 70% of unemployment. Similarly, the Benishangul-Gumuz Regional State still led all regions in terms of the proportion of transitory unemployment in 2005 in which transitory unemployment accounted for about 90% of total unemployment in the region. This was again followed by the Amhara Regional whose transitory unemployment stood at about 84% in 2005 compared to about 70% in 1999. In general, it seems that transitory unemployment virtually increased in 2005 relative to 2005 for all regions in the country, reflecting a change in the structure of unemployment.

And in terms of structural unemployment, the Addis Ababa and the Dire Dawa city administrations led all the regions both in the 1999 and the 2005 CSA labour force surveys. In the 1999 CSA labour force surveys structural unemployment in Addis Ababa city stood at about 66% followed and the Dire Dawa City Administrative Council and the Afar Regional State with 61.1% and 61%, respectively. In the 2005 CSA labour force survey, on the other hand, the Dire Dawa City Administrative council took over the Addis Ababa

CHARACTERISTICS OF UNEMPLOYMENT IN ETHIOPIA

City in terms of Structural unemployment. This survey showed that structural unemployment for the Dire Dawa City Administrative council stood at about 45% compared 61.1% in 1999 followed by the Addis Ababa City Administrative at about 40% in 2005 compared to 66% in 1999. The general trend of structural unemployment during these two labour force surveys showed that structural unemployment fell in 2005 for all the regions in the country relative to 1999. Table 8.13 depicts the distribution of unemployed population by type of unemployment and regions.

Table 8. 13: Distribution of unemployed population by type of unemployment and region (in %)

Region	Type of Unemployment / Year					
	Transitory		Structural		Not Stated	
	1999	2005	1999	2005	1999	2005
Tigray	65.3	79.6	32.4	18.9	2.3	1.5
Afar	34.4	76.0	61.0	22.5	4.5	1.5
Amhara	69.7	83.9	29.4	15.6	0.9	0.5
Oromia	55.2	81.4	44.1	17.8	0.8	0.8
Somali	50.3	65.7	49.1	33.5	0.6	0.8
Benishangul Gumuz	75.1	89.9	23.8	9.4	1.2	0.6
SNNP	53.1	75.6	46.5	24.0	0.4	0.4
Gambella	55.4	69.6	39.9	30.4	4.7	0.0
Harari	46.5	62.8	53.3	37.2	0.3	0.0
Addis Ababa	30.9	59.6	66.3	40.4	2.7	0.0
Dire Dawa	36.7	54.6	61.1	45.4	2.2	0.0
All Regions	53.6	75.1	45.1	24.4	1.3	0.5

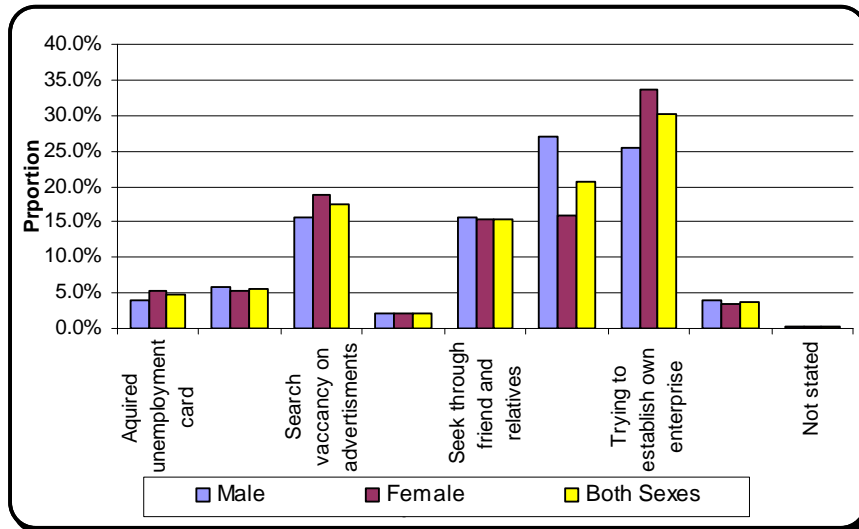
Source: Compiled from SCA Labour Force Surveys, 1999 and 2005

8.2.5 Attempts Made to Escape the Unemployed Trap

Different people among the unemployed followed different strategies to escape the unemployment trap that ranged from extending their search for work to starting their own business. According to the 1999 CSA labour force survey about 30% of the total unemployed population were trying to establish

their own enterprises while about 21% were looking for job by checking at work sites. The same survey also revealed that about 17% of the unemployed population was engaged in searching vacancy on advertisement board and those who were seeking for work through friends and relatives accounted for about 16% of the total unemployed population. This survey also showed that about 6% of the unemployed population had made an application job while those who had acquired unemployment card stood at about 5% of the total unemployed population. The distribution of unemployed population by the approaches taken to escape the unemployment trap was similar for both male and female unemployed population. Of the total male unemployed population those who had been checking for job at work sites and trying to establish their own enterprises accounted for about 27% and 26%, respectively. On the other hand the respective percentages for unemployed females were 19% and 34%. Figure 8.13 shows the distribution of unemployed population by steps taken to seek work and sex.

Figure 8. 13: Distribution of unemployed population by steps taken to seek work and gender in 1999



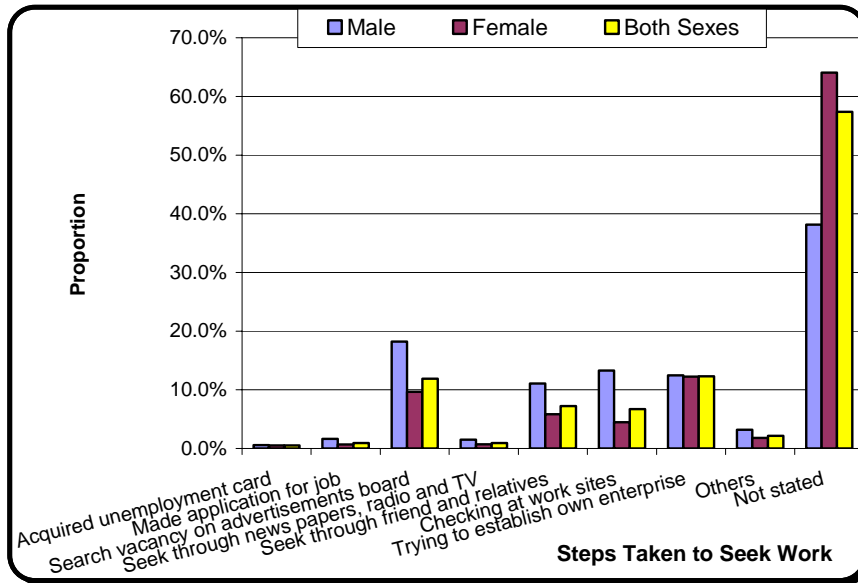
Source: CSA Labour Force Survey, 1999

And in the 2005 CSA labour force survey, about 12% of the total unemployed population were trying to establish their own business or enterprise while 11.9% were searching for vacant posts on advertisement boards. This survey further indicated that of the total unemployed population about 7% were looking for jobs through friends and relatives while about 6.7% were searching for jobs by checking at work sites. The distribution of the unemployed in terms of the approach chosen to escape unemployment was very different in 2005 from that of 1999. According to the 2005 CSA labour force survey about 57% of the total unemployed population did not state they are engaged in further search for employment compared to only 0.3% in 1999. If the two surveys accurately captured this category of the unemployed, it means that there were more discouraged workers in 2005 compared to 1999.

And in terms of gender distribution, the 2005 labour force survey indicated that about 18% of males were looking for jobs by searching on advertisement boards while about 13% were checking at work sites. However about 38% of them did not report taking any action to seek employment compared to about 64% of females during the same period. Hence, according to the 2005 labour force survey the majority of the unemployed seems to have not reported taking any action to get out of unemployment. Figure 8.14 indicates the distribution of unemployed population by steps taken to seek work in 2005.

Age distribution of the unemployed population by type of search employment showed that about 66% of those who had acquired unemployment card were aged 20 to 29 years followed by the 10 to 19 age groups which accounted for about 16%. This survey also showed that non of the unemployed who are older than 49 years took unemployment card in order to seek employment. Of those unemployed population who applied for job, about 61% were between the ages of 20 to 29 years while those between the ages of 30 to 39 accounted for about 16% of those who had applied for jobs. In general, in terms of steps taken to seek work, the unemployed population in the age group 20 to 29 were very active compared to any other unemployed age groups. Table 8.14 depicts the distribution of unemployed population by steps taken towards seeking work and broad age groups.

Figure 8. 14: Distribution of unemployed population by steps taken to seek work and gender in 2005



Source: CSA Labour Force Survey, 2005

And owing to difference in size and economic conditions among the regional states the proportion of people who chose one approach compared to others varied across regional states. For instance, the proportion of the unemployed population who were looking for job by checking at work sites in 1999 in Tigray regional state were 27% followed by those who were trying to establish their own of enterprises which constituted about 23%. In the Afar Regional state, on the other hand, about 43% of the unemployed population were looking for job by checking at work sites while about 21% of them were trying to establish their own enterprises. Similar patten was observed in Oromia Regional State in which about 38% of the unemployed population was trying to establish their own businesses followed by those who were searching for job by checking at work sites which accounted for about 23% of the unemployed population in the region.

CHARACTERISTICS OF UNEMPLOYMENT IN ETHIOPIA

Table 8. 14: Distribution of unemployed population by steps taken to seek work and broad age groups (in %)

Age Group	Steps Taken to Seek Work								
	Acquired unemployment card	Made application for job	Search vacancy on advertisement boards	Seek through newspapers, radio and TV	Seek through friends and relatives	Checking at work sites	Trying to establish own enterprise	Others	Not stated
10-19	16.4	9.3	18.9	11.9	27.4	24.0	27.8	31.9	40.3
20-29	66.2	61.1	65.4	55.4	46.1	40.2	33.3	33.0	51.6
30-39	14.8	16.0	12.1	20.1	13.5	17.5	18.4	17.6	0.6
40-49	2.5	7.1	1.8	1.2	5.6	9.3	11.3	10.1	7.5
50-59	0.0	5.2	1.2	7.7	3.9	5.0	6.9	4.8	0.0
60+	0.0	1.3	0.6	3.6	3.5	4.2	2.3	2.5	0.0
All Ages	100	100	100	100	100	100	100	100	100

Source: CSA National Labour Force Survey, 1999

The 1999 also revealed that, steps taken to seek work in Somali Regional State was some what different from that of the Oromia and Amhara Regional States. In this region the majority of the unemployed population was seeking for job by checking at work sites followed by those who were trying to get job through their friends and relatives, accounting for about 36% and 28%, respectively, of the total unemployed population in the region. In terms of the steps taken to seek work, Benishangul-Gumuz and SNNP Regional States had similar characteristics as the Amhara and Oromia Regional States, where trying to establish their own enterprises was the major step taken to seek work among the unemployed population in these regions. The situation in terms of steps taken to seek work in Gambella region and Dire Dawa City Administrative Council was some what similar to that of the Somali region, where searching for job by checking at work sites accounted for a larger proportion of the unemployed population in the region. The Addis Ababa City Administrative Council and the Harari Regional State had as well similar pattern in terms steps taken to seek work, where searching on vacancy advertisement board accounted for about 29% and 35%, respectively, of the total unemployed population. Unlike the 2005 CSA labour force survey which

failed to make such distinctions, It has to be noted that the 2005 CSA labour force survey failed to make distinctions about steps taken to seek work. Table 8.15 shows the distribution of unemployed population by steps taken to seek work and region for 1999.

Table 8. 15: Distribution of unemployed population by steps taken to seek work and region in 1999

Region	Steps Taken to Seek Work									Total
	Acquired unemployment card	Made application for job	Search vacancy on advertisement boards	Seek through newspapers, radio and TV	Seek through friends and relatives	Checking at work sites	Trying to establish own enterprise	Others	Not Stated	
Tigray	1.9	5.7	13.5	0.3	18.2	27.2	23.1	8.2	1.8	100.0
Afar	0.5	17.4	3.0	0.0	6.7	43.4	20.7	8.2	0.0	100.0
Amhara	3.0	4.9	8.7	0.1	10.5	14.7	53.4	4.6	0.0	100.0
Oromia	2.6	5.8	10.0	0.6	13.1	23.1	38.2	6.0	0.7	100.0
Somali	0.0	7.0	7.5	0.2	28.1	35.0	17.2	2.0	0.0	100.0
Benishangul-Gumuz	0.4	4.1	15.3	0.0	4.8	19.8	48.4	5.7	1.5	100.0
SNNP	2.8	2.8	9.8	0.4	6.3	16.3	57.3	4.4	0.1	100.0
Gambella	7.7	14.0	10.3	0.0	4.1	36.6	22.6	3.7	1.0	100.0
Harari	3.5	10.1	34.8	0.0	9.6	25.5	12.0	4.3	0.2	100.0
Addis Ababa	8.2	6.2	28.5	4.9	21.6	21.1	8.0	1.5	0.1	100.0
Dire Dawa	1.2	2.7	23.0	0.0	16.4	38.7	15.7	2.3	0.0	100.0
All Regions	4.8	5.5	17.4	2.1	15.5	20.6	30.1	3.7	0.3	100.0

Source: CSA National Labour Force Survey, 1999

The 1999 CSA labour force survey categorized job seekers by the type of employment they are looking for. According to the survey the majority of the unemployed were ready for any type of employment followed by the proportion unemployed population who seek to establish their own business which stood at about 20% of the unemployed population. Out of the male unemployed population, about 66% were available for any type of work while

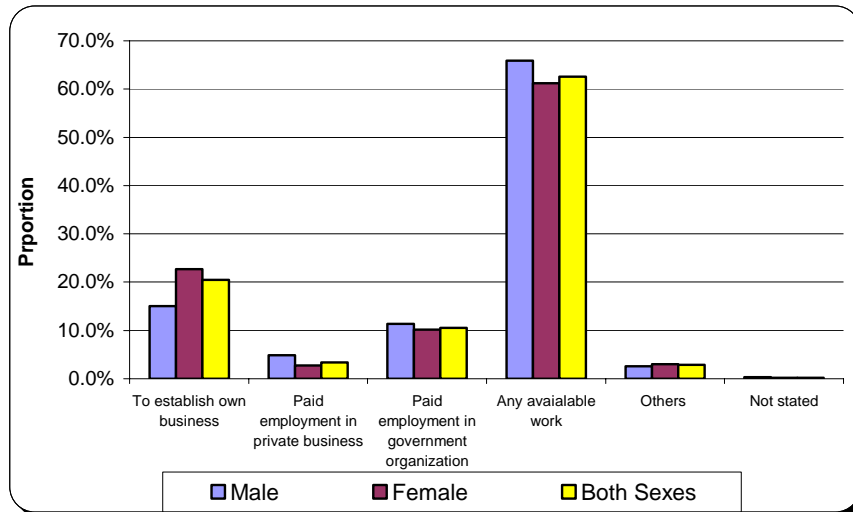
CHARACTERISTICS OF UNEMPLOYMENT IN ETHIOPIA

the percentage of unemployed females that were available for any kind work was about 61%. The proportion of unemployed females seeking to establish their business stood at about 23% while the proportion of unemployed males who were prepared to establish their own business accounted for about 15%.

The same labour force survey showed that about 11% of those unemployed were looking for paid employment at government institutions while those who were seeking for paid employment at private business institutions accounted for about 3%.

The same labour force survey showed that about 11% of those unemployed were looking for paid employment at government institutions while those who were seeking for paid employment at private business institutions accounts for about 3%. Figure 8.15 shows the distribution of unemployed population by type of work sought and sex.

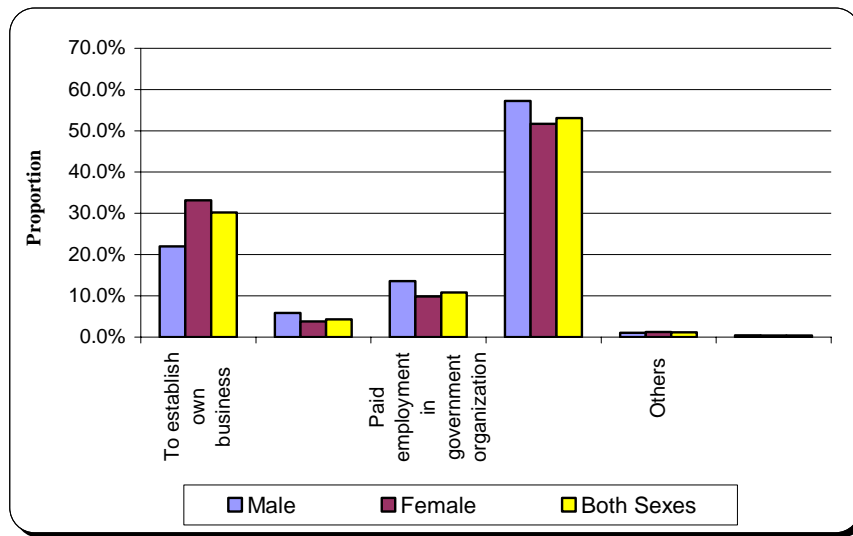
Figure 8. 15: Distribution of unemployed population by type of work sought and gender in 1999



Source: CSA Labour Force Survey, 1999

Distribution of unemployed population by type of work sought and sex for the year 2005 is similar to that of the year 1999. About 53% of the unemployed population in 2005 were ready to take on any available work. According to this survey about 57% of unemployed males sought any available work while 52% of females were ready for any available work. Figure 8.16 shows the distribution of the unemployed population by type of work sought and sex in 2005.

Figure 8. 16: Distribution of unemployed population type of work sought and gender in 2005



Source: CSA Labour force Survey, 2005

According to the 1999 CSA labour force survey, about 89% of the urban unemployed population was not trained while the remaining 11% were trained. The unemployed population in the rural areas of the country was virtually untrained. The same labour force survey showed that about 95% of the total unemployed population in the country was not trained for any kind of available job of which unemployed females accounted for about 71%. The

survey revealed also that of the total unemployed population in 1999 about 40% of them were with work experience of some kind while about 59% of them were without work experience of any kind. The work experience status of the remaining work force was not stated.

And according to the 2005 CSA labour force survey, about 52% of the unemployed population was with some kind of work experience in contrast to about 48% of them with out one. The proportion of unemployed population for which status of work experience was not stated was almost negligible. The same labour force survey showed that out of the total unemployed population in the country about 48% of them were married followed by those who never married accounting for about 39%. The distribution of unemployed population by marital status also showed that about 6% were widowed followed by those who were divorced and separated, accounting for about 5% and 1%, respectively. Unemployed population for which marital status was not stated is almost negligible.

8.3 Summary and Conclusions

The 1984 and 1994 population and housing censuses and the 1999 and 2005 national labour force surveys implied that the number of unemployed population stood at about 170 thousand people in 1984, 771 thousand people in 1994, 2.2 million people in 1999 and 1.7 million people in 2005. This would imply unemployment rate of 1.2% in 1984, 2.9% in 1994, 7.9% in 1999 and 5% in 2005. From these figures one can clearly observe that unemployment rate had shown an increasing trend up until the 1999, and slightly declined in 2005. There was a substantial jump in unemployment rate from 1994 to 1999 where a possible reason might be the fact that the country undergone a major policy changes in the form structural adjustment process that led to a retrenchment program of the mid 1990's. There was also a decline in unemployment rate according to the 2005 national labour force survey where much of the decline was in rural unemployment. Among the possible contributing factors for the decline might be rural-urban migration and an increase in off-farm and non-traditional farm activities in the rural areas.

As noted in detail earlier, according to both the population and housing census and the labour force surveys discussed above, the rate, the characteristics, and the structure of unemployment was substantially different over time and across regions. For instance rural unemployment rates were 0.4% in 1984, 0.7% in 1994, 5.1% in 1999 and 2.6% in 2005. But urban unemployment was much higher during all the periods in which the studies were undertaken. In particular urban unemployment rates were 7.9% in 1984, 22% in 1994, 26.4% in 1999 and 20.6% in 2005.

Some of the characteristics features of unemployment in the country and the regions may be summarized as follows. First, urban unemployment was much higher in all the reported years relative to rural unemployment both at the national and regional levels. Second, unemployment rates exhibited an upward trend in both the rural and urban areas. Third, starting from similar rates of unemployment for males and females in the 1984 and 1994 population and housing surveys, female unemployment rates climbed to about three-fold of males (i.e. 4.3 versus 12.5% in 1999 and 2.5 versus 7.8% in 2005) in the 1999 and 2005 labour force surveys. The gap in female and male unemployment rates was observed in both the rural and urban areas. Fifth, the Dire Dawa City Administration registered the highest urban unemployment rate at 35.4% compared to all the regions in 1994 followed by the Addis Ababa city Administration at 35.1%. The lowest unemployment rate in 1994 was observed in Benishangul-Gumuz regional state at 7.2%. Sixth, by 1999 urban unemployment increased in all urban centres ranging from a low of 18.1% in Southern Nations Nationalities and Peoples regional state to a high of 38.1% in Addis Ababa city Administration. The increase in 1999 was partially offset by a decline in 2005 that recorded a low of 10.3% in urban centers of Benishangul-Gumuz region and a high of 32.5% in urban areas of Dire Dawa City Administration. And, seventh, unemployment by literacy status showed that about three quarters of the unemployed population in urban centres areas are literate while only about one quarter of unemployed population in the rural areas are literate.

Chapter 9

Explaining the Unemployment Problem in Ethiopia

9.1 Introduction

Unemployment is a key macroeconomic indicator which serves as primary diagnosis to test the state or health of the economy. It shows the extent to which human as well as non-human resources of the country are fully utilized and hence the gap between the potential and the actual output that is produced at a given point in time. The objective of this Chapter is to assess the extent to which reform programs and macroeconomic policies in general and labour market related policies in particular contributed to the attendant state of employment/unemployment conditions in the country over the last few years.

9.1.1 The Policy Environment and Growth

Development paradigms and the specific policies that follow such general direction do influence how the labour force is organized, trained and utilized. Accordingly, the modernization strategies of the fifties and sixties, Basic needs strategy of the seventies, the Structural Adjustment Programs of the eighties and nineties and Poverty Reduction Strategies at the turn of the century have had a significant effect on the workings of the labour market (and hence on employment /unemployment) in Ethiopia. The latest reform programs implemented and still in the process of being implemented, respectively, are Structural Adjustment and Poverty Reduction programs.

Structural adjustment program of the first generation, which mainly focused on privatization and lifting market restrictions, were implemented during

second half of the 1990s but seemed to have failed to produce high growth and therefore high employment in a short period of time as expected. These policy packages were later succeeded by second-generation reforms, which emphasized institutional changes and good governance that were believed to enable the measures of the first generation reforms to work. The tenets of the policy package is incorporated in the second-generation reforms otherwise known as "Poverty Reduction Strategy Paper" (PRSP).

Ethiopia, like many other developing countries, has gone through these reform programs that were sponsored and guided jointly by the International Monetary Fund (IMF) and the World Bank (WB). The country implemented major structural adjustment measures which cover an array of macro and micro economic policy changes along with short-term stabilization measures. Following such changes under the structural adjustment program (SAPs), the Ethiopian version of the PRSP referred to as Sustainable Development and Poverty Reduction Program (SDPRP) was finalized in November 2002. This document served as part of the overall development strategy and the particular policy guide to reduce poverty until fiscal year 2004/2005 (Tassew W. and Eberlei W., 2004).

The underlying assumption of SDPRP is that there exists surplus labour that is both unemployed and underemployed and, hence, labour intensive and land augmenting technologies have to be used to reduce poverty and realize growth. The use of labour-intensive technologies is meant to bring about growth with employment. The strategy of growth with employment, of necessity, gets constrained by the short-term objective of stabilization, which could have undesirable effects on employment. "The overarching objective of the government's development strategy has now become the reduction of poverty through enhancing rapid economic growth while at the same time maintaining macro economic stability (Assefa A., 2004). The goal of rapid growth, which is a long run objective to be realized through a series of adjustment processes, has to be accompanied by macro economic stability, which is a short-term objective.

The salient outcomes of the reform will have to be seen from the perspective of growth and employment to assess its impact on the labour market, specifically in terms of increasing employment. Computed on the basis of National Accounts data of the Ministry of Finance and Economic Development (MoFED), the annual real GDP growth rate in the post-reform period covering 1991/2 and 2004/5 was 4.7%. In effect, the average growth rate registered between 1991/2-2004/05 almost doubled relative to what was registered during the average registered between 1974/75 and 1990/91. But despite such improvements in GDP growth the level of unemployment among urban dwellers in general and the Youth in particular has remained significantly high. The crucial question is then what explains the attendant huge unemployment despite the various policy reforms undertaken and the healthy GDP growth rates registered in Ethiopia over the last few years?

9.1.2 Employment Outcome of the Reform Period

Country level data on unemployment rate and level is available for the two census years of 1984 and 1994, and for two National labour force survey years of 1999 and 2005. According to these sources, the national unemployment rate in the post reform period, i.e., in 1994, 1999 and 2005 were 2.91%, 8% and 5% respectively²⁰. With the assumption that consistent methodology in collection of data and measurement of unemployment were used in all the censuses and survey years, the data indicates that in the period between 1994 and 1999, a period of structural adjustment, the unemployment rate grew from 2.91% to 8%. In the period between 1999 and 2005, a period of SDPR, the unemployment declined from 8% to 5%. The percentage change in the unemployment rate between 1994 and 2005 was 72% (?).

It has to be noted that the relatively modest increase in the rate of unemployment in 1999 and then the decline in 2005 was taking place in the

²⁰ Details are in CSA: The 1994 Population and Housing Census of Ethiopia, Statistical Report on the 1999 National Labour Force Survey; and Report on the 2005 National Labour Force Survey.

face of a huge absolute increase in the size of unemployed people during the period. In absolute terms, the size of the unemployed increased from 770,844 in 1994 to 1,653,687 in 2005 according to CSA's 1994 Population and Housing Census of Ethiopia and Report on the 2005 National Labour Force Survey. That is, there were 882,843 more unemployed people in 2005 than there were in 1994. Although the country level figures are not highly alarming, especially with the declining unemployment rate in the later years, the reform period in general witnessed a rising unemployment rate. The figures were particularly high when the unemployment rates are disaggregated into urban and rural components.

Urban unemployment was 21.97% in 1994 and 20.6% in 2005. On average, the urban unemployment rate was 21.3% during the post-reform period. On the other hand, rural unemployment was 0.7% in 1994, 2.6% in 2005 and averaged about 1.7% during the entire post-reform period. It is interesting to note that the growth of urban unemployment rate between the years 1994 and 2005 was nearly zero or slightly negative, while that of rural unemployment significantly increased during the period, albeit starting from a low base.

Turning to the **employment** aspect between 1994 and 2005, the national level **employment rate** declined by 2%. In the same period, urban employment rate increased by 4.6% and rural employment rate declined by 2.3%. The percentage increase in the absolute number of employed people was 18.8%.

In a span of a decade (1994/95 - 2004/05), in which the reform program was underway, real GDP increased by 63.7% and employment by 18.8%. The fact that employment grew at a lower pace than the rate of GDP growth could have been taken as productivity growth if it were not accompanied by high urban unemployment and a rise in rural unemployment. The performance of the reform period suggests that the registered growth in GDP was not accompanied by a proportional reduction in the unemployment rate for reasons that will be discussed later.

9.1.3 Unemployment Types by Source

Before analyzing possible impacts of policies and reforms on the observed unemployment in Ethiopia, a brief digression to the definition and taxonomy of unemployment by sources of unemployment may be in order. The decomposition of unemployment by sources is important, as it provides the indication regarding the type of unemployment that exists in the country. In turn, the types of unemployment categorized by the sources would enable to identify the type of policies and reforms that might have played an important role in engendering or exacerbating that unemployment type.

9.1.3.1 Defining Unemployment

A segment of the working age population that is either working or actively seeking a suitable job is categorized as the total labour force of the economy while those that are not either working or not seeking employment are considered as out of the labour force regardless of the age. Hence, the labour force defines the maximum labour supply of the economy in terms of head counts.

Unemployment is, therefore, the status of the labour force where there are individuals not in working at present but actively looking for **suitable work** (Branson W. H., 2006). If the individuals are experiencing unemployment because of non-availability of job opportunities at the going wages the unemployment status is a forced or involuntary unemployment. Under the circumstances of involuntary unemployment excess supply of labour will always be observed (Bosworth et al, 1996).

If the individuals are experiencing unemployment because of non-availability of job opportunities at or above their reservation wage the unemployment status is a voluntary unemployment. Reservation wage is the minimum wage rate at which individuals will be induced to participate as they consider the wage rate to be acceptable (Bosworth et al, 1996; McConnell et al 2003).

Such workers who voluntarily withdraw from the labour force are not officially unemployed (McConnell et al 2003). This leads to the conclusion that voluntary unemployment is no more unemployment as those who are voluntarily unemployed have dissociated themselves from the labour force. However, if the cause of their unemployment lack of suitable jobs at the going market wage rate they will be considered as unemployed and hence part of the labour force.

9.1.3.2 Taxonomy of Unemployment by Source

On the basis of the sources of unemployment, the literature (see Bosworth et al 1996; McConnell et al 2003; *Wikipedia.com*), identifies various types of unemployment categories. Such types of unemployment categories might be loosely grouped into those related to the state of the economic activity at a given point in time, those that reflect the inherent workings of the economy and those due to measurement errors or lack of precision in measuring unemployment. In the first category the following types of unemployment might be identified: Frictional, Structural, Seasonal, Demand deficient (cyclical) and Technological unemployment. In the second category the main categories are Classical unemployment and Marxian unemployment, and in the third sub-category Hidden unemployment, Underemployment and Disguised unemployment are the major ones. A brief description of each is given below.

Frictional unemployment

This unemployment is what is otherwise called search unemployment. It is unemployment of people who are temporarily between jobs, looking for new ones; it occurs even when full employment prevails. It arises when employers expel workers or workers quit on their own. There are as many, or at least sufficient, vacancies as the number of frictionally unemployed. Aggregate demand or policy induced remedies may not remove this type of unemployment while the provision of better information for job seekers and employers can facilitate employment and reduce this kind of unemployment.

Structural unemployment

This involves a **mismatch** between the workers looking for jobs and the vacancies available. Even though the number of vacancies may be equal to the number of the unemployed, the unemployed workers lack the skills needed for the jobs or are in the wrong part of the country to take the jobs offered. That is, it is either very expensive or physically difficult to bring the workers to where jobs are or to train the workers for the available jobs at a given point in time. Structural unemployment lasts longer and demand management does not easily eliminate it. To reduce this type of unemployment facilitation and implementation of training programs, subsidization of mobility of workers etc are required along with demand management instruments.

Seasonal unemployment

Seasonal unemployment arises because of both supply side and demand side seasonality. Variations in product demand, such as seasons of festivities, lead to variation in the demand for labour associated with the production of that commodity. Production seasonality from the supply side, such as harvesting of agricultural produce, leads to the seasonal variation in labour demand.

Demand deficient or cyclical unemployment

This type of unemployment arises due to inadequate effective aggregate demand. Gross domestic product may not be as high as potential output because of demand failure. Demand may shrink due to: expectations which discourage private investment spending, low government spending or high taxes, low private consumption, low exports net of imports. Under demand deficient unemployment condition, the number of unemployed workers far exceeds the number of job vacancies or available jobs. That means even after all open jobs are filled, some workers would remain unemployed, although unemployed capital goods exist. Traditional Keynesian type of policies to address such unemployment type is either deficit spending or expansionary monetary policy or some combination of both.

Technological unemployment

Technological change manifests itself through either or both product design change and process changes. It often involves a mixture of both product and process changes. One of the employment consequences of technological change may be in creating jobs for certain skills and reducing the demand for others. In this regard technological unemployment can be seen as a kind of structural unemployment. Other consequences of technological change on employment are observed when productivity grows at a faster rate than the growth of product demand. Technological changes that are not induced by factor endowment, say labour scarcity and high wage leading to labour saving technologies, rather determined by exogenous factors, may result in productivity growth at a faster rate than the growth of product demand (Bosworth et al 1996). This creates unemployment, as less labour is required to produce output that satisfies the stagnant demand. This kind of technological unemployment could be seen as demand deficient unemployment since it is the outcome of the adoption of labour saving technologies in the absence of local and international demand for the output. If labour saving adoptions of technology or innovations are taking place, under low domestic demand, they have to lead to higher exports in order to achieve higher employment in the domestic economy.

Classical unemployment

This unemployment type is characterized by situation in which the number of job seekers exceeding the number of vacancies, like that of cyclical unemployment, but not because of deficient aggregate demand but because real wages are higher than the market-equilibrium wage. The going wage rate deters employers from hiring all of the available workers, because the marginal cost of hiring labour would exceed the marginal revenue product of the labour employed. Increasing the flexibility of wages to make the labour market more like a financial market can reduce this type of unemployment.

Marxian unemployment

The **reserve army of the unemployed**, according to Karl Marx, is normally needed in order to maintain work discipline in jobs, keep wages down, and

protect the profitability of business. To Marxists, this kind of unemployment is a necessary part of the capitalist system and cannot be abolished without overthrowing capitalism as an economic system. Like in cyclical and classical unemployment, with Marxian unemployment, the number of unemployed far exceeds the number of available vacancies. However, demand management is powerless to remove this unemployment if the capitalists refuse to hire or to invest. The outcome of demand management under such circumstances will simply be inflationary.

Hidden unemployment

Unemployment of potential workers not captured by the official unemployment statistic is hidden unemployment, due to the way the statistics are collected. In many countries only those who have no work but are actively looking for work are counted as unemployed. Those who have given up looking for work and those who have taken early retirement to avoid being laid off, but would prefer to be working are not officially counted among the unemployed. Because of hidden unemployment, official statistics often underestimate unemployment rates.

Underemployment

Underemployment represents the employment of workers having high-level skills in low paying jobs that do not require such abilities. For example, someone with a college degree may be doing secretarial jobs or serving as a taxi driver. This may be the result of a situation of unemployment where workers with financial responsibilities have to take almost any jobs available, even if they do not use their full capacities and skills. Underemployment is also defined as under use of economic capacity, as under use of employed worker as in overstaffing (Wikipedia.com). **Disguised unemployment** is also underemployment where people have little to do or produce while they are still retaining their employment status, due to lack of complementary resources or absence of demand for the output.

9.1.3.3 The Data on Unemployment Vis a Vis Types of Unemployment

Available data on unemployment do not enable the conclusive identification of the existence and extent of underemployment by the types of unemployment described above. Hence only suggestive conclusions could be made regarding the types of employment that exists in Ethiopia. For instance, the process of land holding fragmentation in the past 30 years suggests disguised unemployment must have been pervasive in the agricultural sector. Land holdings of agricultural households have been successively fragmented to accommodate newly formed households that need farmland for their livelihood. Similarly, the data also suggests, to some extent, the existence and extent of frictional (including seasonal) structural and demand deficient (including technological) types of unemployment.

The data on duration of unemployment indicates, in general terms, the possible existence of frictional, seasonal, and structural unemployment. Unemployment duration that is less than a year could possibly incorporate seasonal unemployment and frictional unemployment without precluding structural ones. Unemployment duration above a year is unlikely to be seasonal or frictional. For unemployment that lasts longer than a year, Structural unemployment will be the likely candidate without precluding the demand deficient unemployment.

The duration of unemployment that lasted for less than a year constituted 54% and 75% of the unemployed respectively in the 1999 and 2005 CSA's labour force surveys and unemployment that lasted more than a year stood at 45%, 24% during the respective years. The presence of such a huge ratio of workers staying unemployed for more than a year suggests that there exist a significant level of either structural or demand deficient unemployment or a combination of both. 54% and 75% of the unemployed being out of work for less than a year could possibly be due to partly frictional and partly structural or demand deficiency reasons.

The data on the work experience of the unemployed suggest that structural and demand deficient unemployment might have constituted the highest proportion of unemployment. According to the 1999 CSA labour force survey, about 40% of the unemployed were with some work experience and about 59% of them were without work experience of any kind. Frictional and seasonal unemployment were common among those with work experience (constituting 40% of the unemployed), and young and new comers to the labour force were more often than not victims of structural and demand deficient unemployment which constituted about 59% of the unemployed in this category. The structural unemployment could simply be due to lack, on the part of the young labour force, of the type of skill to be developed through experience demanded by employers, while the demand deficient unemployment could be due to the absence of new jobs for newly coming young labour force, as the demand for output does not need more labour than the already employed.

The above observations are reinforced by the data on the skills of the unemployed. According to the 1999 CSA labour force survey, about 89% of the urban unemployed population was not trained with any skill, while the remaining 11% were trained. Unemployed population in the rural areas of the country was virtually untrained. The same labour force survey showed that about 95% of the total unemployed population in the country was not trained in any skill.

According to the 2005 CSA labour force survey, about 52% of the unemployed population was with some kind of work experience, while those without work experience accounted for about 48%. In the absence of training (and also the absence of work experience that would serve, to some extent, as on-the-job-training), the demand for skilled or experienced labour would likely subject the young labour force to structural unemployment.

The other indication as to what type of unemployment was prevalent in the country is the data on "Steps Taken To Seek Work and Type of Work Sought". As per the 2005 and 1999 CSA labour force survey, the distribution of the unemployed population by type of work sought showed that majority of the unemployed population (i.e., 53% and 63% respectively) were available for any type of work. This means these percentages of the unemployed couldn't have been the classical type of the unemployed as they were ready to accept any employment if it existed. The compelling circumstance for unemployment was the absence of jobs, which could have been due to structural mismatch or due to demand deficient. **It can safely be concluded that long term unemployment of mainly the younger section of the population, which could be the combination of structural and demand deficient unemployment, has been the dominant type of unemployment in Ethiopia, inviting policy intervention.**

9.2 The Causes of Unemployment

Like any other phenomena in economics, the ultimate state of employment/unemployment is dependent on the supply of and the demand for that factor at any given point in time. Hence, the factors that increase the supply of labour and the state of economic activities that influence its demand determine both the size and the type of employment /unemployment that exists. The factors that influence the supply of labour include the natural increase in the labour force or population and the labour market environment that may encourage or discourage the active population to join the labour force or not.

Similarly, the demand for labour is determined by the state of the economy and the policies followed to generate the scope and the level of the economic activity underpinned by the specific technological know-how attendant at the time. That is, by how much the economy is expanding and the direction or the choice of production techniques adopted in the process. In what follows, developments in the supply side and the demand side and their likely impact on the employment or unemployment situation in Ethiopia in recent years will be briefly examined.

9.2.1 Impact(s) of Supply Factors

9.2.1.1 Population Growth and Unemployment

Population growth is the major cause of growth in the labour force. Hundreds of thousands of young people join the labour force every year, putting pressure on the economy to create jobs that should absorb the additional labour force. The Ethiopian labour force grew by 21.3% between 1994 and 2005 while employment-creation grew only by 18.7%. That means on average, about 3% new jobseekers were added to the rank of the unemployed every year during the period owing to the inability of the economy to create proportionate number of jobs to absorb the new entrants to the labour force or to catch up with the increase in population / labour force.

Table 9. 1: Labour force and employment

	1994	1999	2005	Growth between 1994 and 2005
Economically Active	26,503,055	25,793,778	32,158392	21.3%
Urban	2,757,292	3,281,181	3,964,380	43.78%
Rural	23,745,763	22,512,597	28,194,012	18.73%
Activity rate	72%	71%	78.4%	8.89%
Urban	50%	56%	57.7%	13.3%
Rural	76%	74%	82.56%	8.6%
Employment	25,732,211	25,288,862	30579115	18.84%
Urban	2,151,474	2,846,974	3235387	50.38%
Rural	23,580,737	22,441,888	27344223	15.96%

Source : CSA, 1994 population and Housing census; Report on 1999 Labour force survey , Report on 2005 Labour force survey

Whether Labour market related policies have positive outcome on reducing unemployment or not would be assessed by scrutinizing the effect of the policies on the actual demand for and supply of labour and on the wage rate. If the demand for labour decreases or the real wage increases the effect is increasing the unemployment rate. If, other things being equal, the policies tend to increase the supply of labour, in the absence of comparable increase in demand for labour, the outcome would be increasing the unemployment

rate. In this case education and training policies would also be relevant as the policies affect the growth of labour supply.

9.2.1.2 Market related policies and unemployment

How the labour market functions strongly influences the employment outcome. A properly functioning labour market would result in fast response of supply to changes in labour demand, quick allocation of labour to a higher productivity use, distribution of human capital to the various occupations and a tendency to adjust pays to market clearing wages. The employment outcome of a well functioning labour market is high labour absorption which leads to full employment.

Labour market related policies influence the functioning of the labour market either by affecting the demand for labour or the supply of labour. If demand for labour decreases or the real wage increases the effect is increasing the unemployment rate.

Legislations on minimum wages have the effect of reducing employment if the stipulated wage is greater than the market wage rate. Minimum wage in this country is practically applicable in public sector permanent employment and to some extent in the formal private sector employment. The legal framework on labour market flexibility and security do not seem to be the cause of rigidity (De Gobbi, 2005). The existence of generally higher wages in public employment raises the expectation of people and leads to queuing for government employment.

The labour law on labour unions has contributed to the protection of employed workers. Unions rarely concern themselves on issues of those outside the union i.e., the unemployed and those not covered by unions. Unions' negotiation in collective agreements and wage rises tend to raise the wage and non wage benefits for those employed and covered by union membership, which, in turn, may reduce the chance of employment of those unemployed by reducing the demanded quantity of labour by employers.

Another area worth mentioning, regarding labour legislation affecting a specific segment of the labour market, is labour legislation adopted by the government of Ethiopia, concerning disabled workers (De Gobbi, 2005). Regarding the employment of people with disabilities there exist a proclamation that makes it mandatory for employers to finance all necessary adaptations to make the job accessible to disabled workers. The cost of adapting to the job increases the burden on employers as it raises the *effective* wage attached with each disabled worker's labour supply. Given the same demand schedule for labour by employers the consequence of higher cost attached with labour supply would reduce the employment of disabled workers, as the demanded quantity of labour declines with higher wages.

Despite the high demand for employment services, employment services are weak in the country. There are very few private firms providing employment services. Government agencies under the Ministry of Labour and Social Affairs (MoLSA) have not sufficiently bridged the gap. The absence of adequate service in this regard increases the frictional unemployment and prolongs the unemployment period. It would also reduce labour market efficiency in allocating labour to its most productive uses.

The education policy is closely related with the labour market outcome. The policy tends to produce young job seekers at early age after completion of the second cycle primary or at a lower secondary level of education. The supply of labour increases as 10th graders join Technical and Vocational Education and Training (TVET) and soon graduate to be job seekers. This must have contributed to the unemployment of the urban youth as the graduates from TVETs generally search employment in urban areas.

9.2.2 Impact(s) of Demand Factors

The factors that lead to an increase in the demand for labour are both direct which affect an expansion of the economy and hence a decrease in unemployment and indirect such as policies which affect the growth of the

economy and the absorption capacity for a given level of economic activity. Some of these possible direct and indirect effects on the rate of unemployment in Ethiopia are briefly sketched below. In doing so an attempt is made to review the policy regimes followed by the Ethiopian Government in recent years.

In that context, the Report attempts to answer the following and similar question. What were the possible contributions of structural adjustment and stabilization policies, labour market related policies and other domestic and international factors in explaining the attendant unemployment in Ethiopia in general and structural and demand deficient unemployment in particular? The data on unemployment rate and type, and the data on employment growth and GDP growth in the post reform period also raise the following questions:

- Has the existing incentive structure created by the adjustment program led to sufficiently high growth and high employment?
- Was the economic growth that followed the policy reforms accompanied by growth in employment?
- Were the stabilization policies expansionary enough to reduce unemployment?
- Was the business environment and Labour market related policies favorable for reducing unemployment?

Whether the incentive structure created by the adjustment program has brought high growth with employment that could absorb the ever-increasing labour force or not is to be examined by the analysis of the adjustment measures taken and instruments used. Privatization and liberalization of the economy to enable the market to function efficiently in allocating resource was the direction of reform the country charted to bring about growth. Along with these institutional changes, the instruments to be used were the real interest rate and the exchange rate that have impacts on domestic saving, investment and export.

Whether “economic growth that followed the Structural Adjustment Program and reforms was not labour absorbing” or not is to be evaluated by the analysis of the Employment Elasticity of Economic Growth in the period. Employment elasticity of growth is the percentage change in employment that results from percentage change in growth (Mulat et al, 2003). Higher elasticity would mean more employment enhancing and unemployment reducing growth. Comparing employment elasticity of growth with the required employment elasticity that would limit unemployment rate (particularly the urban unemployment rate) to a minimum possible (perhaps to 4% or 5%) would tell how far the growth process performed in reducing unemployment. Employment elasticity of growth under the different policy regimes may be used to compare the employment impact of the regimes i.e., whether the growth process and the policy environment were employment enhancing and unemployment reducing. Growth and employment data in the post-reform period can be used to that effect and the outcome can be compared with chosen references such as performances that limit unemployment to possible minimum level or with employment outcome of pre reform period.

Whether the “Stabilization policies were expansionary enough to reduce unemployment rate” or not is to be scrutinized through the analysis of the monetary and /or fiscal instruments used and their effects. That would show how much expansionary or contractionary the stabilization measures were under the assumption that expansion goes with a reduction of unemployment and contraction with increase of unemployment. The demand for and the availability of credit to the productive sectors, the inflation rate and the control mechanism employed, the extent of financial repression, the level and growth of interest rates and the nature of government finance are some of the indicators that may be used to identify the contractionary and expansionary nature of the policies.

Whether the business environment was favorable enough for growth of investment or not is to be examined by the assessment of the level and growth of investment (domestic and foreign) in the relevant period. Relatively

high investment level or high growth of investment is associated with the existence of favorable environment and low rate of investment growth or level suggests unfavorable environment in an economy where high level or rate of investment is mandatory for economic growth and employment growth.

9.2.2.1 Possible Impact(s) of Economic Growth

The reasons for the inability of the economy to create additional employment are due to a multiple of factors. Priorities in economic policies and reforms, the structure of the economy, technological choice and their combined effects are likely some of the causes for the inability of the economy to create the desired jobs by limiting its growth and hence its absorbing capacity.

Growth in employment is organically linked with growth of output and the nature of growth. Growth of output is a precondition for growth of employment and the employment outcome of growth largely depends on the nature of growth. Registered growth rates of same magnitude under two different regimes could possibly have different employment outcomes. Growth strategies may employ technologies that could be labour intensive or capital-intensive in nature. Unemployment will grow either with declining growth or when growth of output has come not through labour using technology.

Economic policies and reform programs have short-term stabilization goals and long-term growth objectives. Structural adjustments are reforms in microeconomic and macroeconomic policies and changes in institutions that are geared to enhance efficiency in resource use. Enhanced efficiency in resource use is, in other words, expanding the production possibility frontier. This means the goal of structural adjustment reforms is long-term growth.

The attainment of efficiency through the adjustment programs requires skillful choice of adjustment instruments. "The nature of the adjustment instruments adopted has a powerful influence on the employment outcome both by their

effect on growth of output and on the employment-intensity of growth" (Khan and Muqtada, 1996).

The adjustment process involves the organization of the system of incentives. Applying wrong instruments and creating inappropriate incentives such as inappropriate pricing of factors, exemplified by persistent negative real interest rate and the imposition of adverse terms of trade for particular sectors, would hinder employment by adversely affecting growth. Even when growth is not affected the employment intensity of growth could be affected by promoting inappropriate technologies that do not enhance employment.

The questions to be posed in employment growth nexus is whether the structural adjustment program has created conducive environment for growth, and if growth has been realized, was the growth process employment intensive? The employment impact of growth could be evaluated using the concept of employment elasticity of growth (Mulat et al 2003).

Mulat *et al* (2003) estimated **arc and econometric employment elasticity of growth** for the various sectors and sub sectors. The post reform period (1994-1999) arc elasticity estimated for the economy as a whole, was -0.23 while that for the pre reform period was 1.91. That means as the economy was growing at a rate of 1%, employment was declining by 0.23% in the reform period until 1999.

To update the figure with inclusion of the years after 1999, the arc elasticity calculated for the period 1994/95 - 2004/05 is 0.30, which means 1% change in GDP led to 0.30 % change in employment, and this reinforces the previous finding by Mulat *et al* (2003) that growth in the reform period is less employment generating than that in the pre reform period.

Table 9. 2: Gross domestic product at 1980/81 constant factor cost, in millions of Birr

1994/95	1995/96	1996/97	1997/98	1998/99	1999/2000	2000/01	2001/02	2002/03	2003/04	2004/05
12,644.3	13,930.9	14,640.2	14,429.0	15,294.1	16,112.3	17,354.4	17,632.2	16,941.5	18,901.0	20,702.1

Source: Ministry of Finance and Economic Development

Table 9. 3: Employment elasticity of growth 1994-2005

GDP 2004/5	GDP 1994/5	Employment t 2005	Employment 1994	Growth in GDP	Growth in employment	Arc employment elasticity of growth
20,702.1	12,644.3	30579115	25732211	0.64	0.18	0.30

Source: computation made on the basis of data in Tables A and B above

In the post reform period the urban unemployment rate was 21.3%, on average, and that of rural unemployment rate was 1.65%. This implies that curbing the urban unemployment rate to 5% (or reducing it from 21 to 16%) would have required employment elasticity with respect to growth that exceeds 0.30. One possible explanation for the declining elasticity of employment could be that in the pre reform period there might had been "overstaffing" and the subsequent rationalizing process might have thinned down employment through more efficient use of resources. The effect of such attainment in efficiency would eventually lead to higher employment and hence there is no basis for worrying. However, this explanation does not go with the reality on the ground, particularly with the nature of the unemployed, who are largely young who couldn't have been the product of the rationalization process.

The second possible explanation could be that the economy is under structural transition from predominance of Agriculture to Service, and the high unemployment phenomenon is the necessary evil of the period and would be removed as the transformation progresses. Time would tell the validity of this explanation. Assuming the explanation to be true in general terms, however, there is a basis to worry about the need for policy intervention required to guide the transformation process in the direction of higher employment growth.

The third explanation may possibly be that the adjustment process followed a growth path with the use of production technology that was not sufficiently labour using. The implication of this is that the nature of growth is inherently generating unemployment because of the influences of the incentive structure of the reform period leading to a choice of technology that employs less labour. This explanation seems to garner some support of the data and lays the ground for concern.

The kind of unemployment under the circumstances seems to have a larger component of technological unemployment as growth rate of GDP was accompanied by less growth rate in employment. Output produced by adoption of labour saving technologies in the absence of local and international demand for the output will limit the number of employed, as the productivity of labour is higher. A country can expand its output using labour saving techniques if it can attain high level and fast growth in tradable products. In the absence of this, though there may be output growth, there will exist a marked size of technological unemployment. Ethiopia being highly dependent on labour-intensive agriculture, where does the labour saving growth come from?

Growth of the country's GDP in the last 10 years has largely come from the non-agricultural sectors, which altogether constituted more than half of the GDP. The various non agricultural sub sectors under the service and manufacturing sectors accounted for most of the GDP growth rate attained in the period, i.e. they contributed to GDP growth almost double that of the

contribution of the agricultural sector. Employment in the non-agricultural sectors was about 16% of the total employment on the average. The labour-intensive agricultural sector, taking about 84% share of employment was contributing only about 50% of the overall growth, i.e., 2.1 out of 4.2 growth rate. The overall effect was less employment growth than GDP growth. The growing non-agricultural sectors were less labour using than agriculture and hence were not absorbing additional labour that was joining the labour force during the period in review.

Table 9. 4: Sectoral share in employment and in GDP in the period between 1994/5 and 2004/05

Sectors / Activities	share in employment	share in GDP
Agriculture & Allied Activities	83.7	45.2
Non Agricultural activities	16	54.8
Industry	4.4	10.9
Distributive Services	7.2	14.9
Other Services	4.3	29.0

Source : Computation based on employment data of CSA 1994 census, labour force surveys 1999 and 2005; National Accounts Data of Ministry of Finance and Economic Development

The country's choice of technology relies on the available supply of technology from developed countries. It is not without basis to think in terms of the country's needs of an industrial policy that fully takes into account its resource endowment and employment situation to guide its investment and trade activities so that the industrial and service sectors (non agricultural sectors) take over the employment share comparable to the GDP share.

Every investment is not a worthwhile investment. Individual investors may not identify socially profitable investments through the market system. Guidance and support from government, genuinely inspired by growth and equity, is instrumental in channeling investment to worthwhile activities consistent with sustainable employment growth. The intervention in the market must be a

balanced move that does not affect allocative efficiency and the incentive system (Khan and Muqtada 1996).

9.2.2.2 Other Policies and Unemployment

9.2.2.2.1 Incentives, Growth and Employment

Whether the adjustment process has gone far enough, employed the right instruments and established the right incentive system may be explored by reviewing the extent of liberalization, the status of interest rates and exchange rates put in place during the reform period. That would indicate whether the right institutions have been created or the right instrument have been used for the market to function better. Here policy makers may have to give a balanced judgment whether the major obstacles in the private sector development have been removed, the involvement of government has been reduced in areas where the private sector should play the upper hand, in general, whether the leveling of the ground for private actors and for the market institution have been accomplished.

“Financial Repression” is the term employed to express the outcome of government action that keeps the financial system small, limited in size and geographic distribution (Agenor and Montiel 1996), which typically characterizes the financial system of developing countries and that of Ethiopia as well. The financial system is limited in scope i.e. the menu of assets that are made available for private savers are limited to cash, demand deposits and time deposits.

Financial intermediation is largely accomplished by Commercial Banks, to which private individuals have limited access, though banks constitute the major source of credit for private individuals and firms next to own fund. Micro finance institutions that have come to the scene to fill the gaps in financial intermediation services have to go yet a long way to widen the access to the service.

Commercial banks are subjected to government-imposed restrictions on deposit and lending interest rates. The saving deposit interest rates were kept low between 6% and 3% during most of the period. The lending rate had maximum and minimum limits. The minimum limit was 10.5% while the maximum was 12 % in earlier years of the reform period. In the later years of the period the range of lending interest rates widened to a minimum of 7% and a maximum of 14%.

Low nominal saving deposit rates combined with inflation rates higher than the saving deposit rates will result in negative returns on domestic financial assets. The saving deposit rate being 3% and the inflation rate being 5% or more, the real interest rate on financial assets will be negative. One possible consequence of this is that savers prefer the acquisition of real assets, assets traded in the informal markets and foreign assets. The real assets include gold, real estates etc. The induced incentive for holding these real assets is not the sign of the attainment of high levels of investment. This could have a consequence where domestic saving would fail to finance domestic investment other than housing construction due to negative real saving rates on the one hand, and the accumulation of passive assets and lack of productive assets that create sustainable basis for employment. In sub-Saharan Africa, the failure of the rate of investment to rise was due to the failure of the rate of domestic saving to rise (Khan and Muqtada, 1996).

The existence of negative real interest rate would affect growth through the link between saving and investment and the transmission mechanism of saving - investment link would function in the presence of a well functioning financial intermediation and conducive business environment. If the financial intermediation fails to function well or the business environment is not conducive, saving would not be converted to investment, meaning under the going saving interest rate liquidity of commercial banks could be excessive, further leading to lower interest rates and exacerbating the downward movement of the real interest rate.

Table 9. 5: Gross domestic saving and gross capital formation at current market prices

Year	Gross Saving	Gross Investment	Gap
1994/5	2517.1	5569.0	-3051.9
1995/6	2652.0	6404.4	-3752.4
1996/7	3195.0	7049.1	-3854.1
1997/8	3466.3	7690.6	-4224.3
1998/9	1044.7	8268.1	-7223.4
1998/00	480.2	8431.8	-7951.6
2000/01	1433.9	9646.0	-8212.1
2001/02	931.5	10613.5	-9682.0
2002/03	1315.9	11674.9	-10359.0
2003/04	1950.4	15644.3	-13693.9
2004/05	92.1	18242.0	-18149.9
Average	1734.5	9930.3	-8195.9

Source: Ministry of Finance and Economic Development

In this connection it may be appropriate to point out the weakness of financial intermediaries in encouraging credits and upholding the stance of partnership with small and big investors. It was observed in many occasions that projects are not jointly developed and the burden of risks not shared in terms of extending further loan or extension of the payment period at hard times. So many foreclosures and non performing loans reflect not only the failure of businesses but the failure of the lending banks as well.

Between 1994/5 and 2004/05 Domestic Saving at current market prices was declining at a rate of 20.67% while Gross Capital formation(Gross Investment) was increasing at a rate of 10.74%. The gap between domestic saving and investment was growing in the period. A declining trend of domestic saving and a trend of growing gap between saving and investment are indicators of threats posed to sustainable growth and employment.

Trade and exchange rate policies were also part of the structural adjustment during the reform period which potentially affects growth and employment. There are direct and indirect effects of trade and exchange rate regimes on

employment (Khan and Muqtada, 1996). Trade and exchange rate regimes directly affect the relative factor prices and the composition of demanded goods. For instance, they may cheapen capital relative to labour and directly affect employment. They may discriminate against some sectors and create a system of incentives that affect employment.

On the other hand, trade and exchange rate regimes indirectly affect employment through their effect on the growth of output. In this regard it is of paramount importance to use the exchange rate regime to be flexible enough to support the growth of export of goods and services of the country. The growth of export is the growth of domestic labour demand and hence the growth of employment through the various linkages. Moreover, exchange rate policy affects employment through its effect on import. Rising import is a rising demand for foreign goods that are produced by foreign labour. Domestic labour would benefit in the long run from import induced employment generation if the imports were more of producers goods. A country would benefit from international trade by placing itself as exporter rather than as importer. Extreme gap between import and export does not lead to sustainable growth and employment generation.

The performance of the Ethiopian economy in this respect may be judged by a brief review of the import and export trend in the last decade. The value of export in current market prices was growing at a rate of 9.7% while import was growing at a rate of 13.1%. The gap between the values of import and export was growing at a rate of 17.1%. Here again there arises a need to review the trade and exchange rate policy to narrow the growing gap and eventually enhance employment and growth. High and growing imports over exports could cause demand deficient unemployment.

Exchange rate and trade policies would also involve the placing of priorities in the development of exports and imports in the order of their strategic importance in view of the structural transformation that a developing economy has to undergo. The incentive structure created by Trade and Exchange rate policies play extremely important roll in shaping the structural

transformation and the concomitant growth and employment process that follow.

Table 9. 6: Export- import gap at current market prices

Year	Export	Import	Gap
1994/5	4898.1	7950.0	3051.9
1995/6	4969.7	8721.5	3751.8
1996/7	6730.6	10584.7	3854.1
1997/8	7116.9	11341.2	4224.3
1998/9	6878.0	14101.5	7223.5
1999/00	8017.6	15969.3	7951.7
2000/01	7981.5	16193.6	8212.1
2001/02	8027.4	17709.5	9682.1
2002/03	9778.0	20137.0	10359.0
2003/04	11611.8	25305.8	13694.0
2004/05	15578.8	33728.7	18149.9

Source: Ministry of Finance and Economic Development

9.2.2.2.2 Unemployment Outcome of Stabilization Policies

Macroeconomic stability refers to the balance of government revenue and expenditure, balance of savings and investment, the balance of payments and the control of inflation. The deficits or surpluses in some of the macroeconomic variables do not by themselves entail economic instability. Fiscal imbalances and imbalances in current account would entail instability if they cannot be financed in a sustainable manner. Stabilization uses public expenditure, taxes and money supply as instruments. Macroeconomic instability does not go with the objective of growth. One indicator of instability is accelerating inflation. High inflation is risky in that it disrupts the incentive system and equitable distribution of income. The control of inflation requires macroeconomic stabilization measures that entail reduction in aggregate demand.

The employment effect of a certain policy would first be understood by its impact on current output. Demand for labour being derived demand, policy induced changes in overall performance of the economy are reflected in changes in the demand for labour. Macroeconomic and sectoral policies, which affect aggregate demand, would alter the demand side of the labour market. The reduction in aggregate demand for goods and services means a reduction in demand for labour, which means curbing employment. Some sectoral policies such as education and training policies affect the supply side of the labour market. Labour policies and other institutional arrangements may work from both supply and demand side affecting the employment situation in some defined way.

9.2.2.2.1 Monetary Policy

After embarking on the structural adjustment program in 1992, monetary policy was active with the framework of conflicting objectives of restraining inflation and accelerating economic growth. How much has it succeeded in meeting the objectives of ensuring money supply growth consistent with restraining inflation, and accelerating economic growth? The instruments at the disposal of the monetary authorities include interest rate, reserve requirement, credit and exchange rate policies.

Inflation control to a targeted level seemed to have been the major preoccupation of the monetary authorities of Ethiopia, even at the expense of output growth. The general rate of inflation between the years 1998/99 and 2004/5 was 4.1%. In the years 2000/1 and 2001/2 the general inflation figures were even negative, i.e., -5.2% and -7.2% respectively. In 2002/3, inflation rose to a figure of 15.1%, following agricultural output decline, which resulted in cost-push inflation. In the next consecutive two years general inflation was declining. Urban unemployment rate was high and rural unemployment was rising while, at the same time, inflation was very low. With due recognition of the deflation that originates from the supply side (agricultural good yield) one may still conclude that either inflation control was effected through demand restraint to a considerably high extent, or monetary

policy was not resorted to, to stimulate demand, which in turn restricted derived demand for labour and employment.

Khan and Muqtada (1996) observe that overcautious policies to attain low single -digit rates of inflation are unnecessary for developing countries. "As the Korean experience and indeed some Latin American experience shows, moderately high rates of inflation do not necessarily damage efficient growth as long as exchange rate policy is used in a flexible manner" (Khan and Muqtada, 1996)

Additional evidences from employment survey may also be used to support the argument. The main problem of nearly two third of the urban unemployed, who want to establish their own business (self employment), according to the surveys of October 2003 and April 2004, was shortage of finance (CSA, statistical bulletin 319). Shortage of finance is the result of weak financial intermediation in the country in making credit easily available, and could also be the outcome of the monetary policy of the time.

Expansionary monetary policy stimulates non-governmental spending by lowering lending interest rates. The minimum lending rate has declined to 7% in the later years of the period while the maximum lending rate has risen to 14%. The annual disbursement of loans, excluding lending to central government in the form of treasury bills and government bonds, was generally declining in the period between 1997/8 and 2001/2 and was rising in the following years. There is an indication of an increasing loan following the lowering of the minimum limit and raising the maximum limit of lending interest rate as an expansionary monetary policy instrument. The claimed reduction in the unemployment rate in the later part of the period could possibly be the result of the expansionary monetary policy pursued in the period.

Credit availability was enhanced by the growth of microfinance institutions. The number of microfinance institutions and the size of credit have been increasing in the reform period. In period between the years 1997/8 and 2004/05 the growth rate of microfinance credit was 28.4%. The positive growth effect of the expansion of micro financing is yet to be seen in the coming years.

9.2.2.2.2 Fiscal Policy

Overall fiscal deficit of the country in the years between 1995/6 and 2004/05 was about 5% of GDP on the average. The deficit was growing at a rate of 14.4 %. The financing of the deficit was largely external (about 60%) while domestic financing covered the remaining balance of about 40 %. The share of the external sources was growing at a rate of 16% and the domestic component was growing at an insignificant rate. Growth financed by high external borrowing and debt burden will have eventual undesirable outcomes. Despite the government's effort in enhancing revenue through tax reform program and expenditure management, it seems that the process of containing the growing deficit will have to go along way before a sustainable level of deficit could be maintained.

9.2.2.2.3 Investment Related Problems and Unemployment

Positive measures were taken by the government to enhance investment by granting incentives to both domestic and foreign investors. Exemption from the payment of import duties on all imported investment capital goods and raw materials necessary for the production of export goods is one incentive to promote investment. Income tax and profit tax holidays for earmarked investment areas have also been put in place to promote investment. With regard to foreign investors, guarantees to repatriate capital and profit and guarantees against expropriation were part of the measures taken to promote investment.

Despite these officially proclaimed measures to promote investment, evidences coming from studies on obstacles in doing business in Ethiopia (Klugman, 2005; Amin, 2005) indicate that tax rates and tax administration were the main obstacles.

Investment constituted 19.3 % of GDP on the average in the period between 1997/8 and 2004/05. The rate of growth of Investment (gross capital formation) was 9.2 %, which was greater than GDP growth (5.3%) in the same period. The share of investment in GDP is quite high and the growth

rate is also promising if maintained. Were it not for the nature of the investment, assuming the data is accurate, such a huge share of investment in GDP and its growth rate would have been strong foundation for employment growth. Improvement in environmental factors affecting investment, such as political stability, good governance, and effective and efficient legal system could enhance the investment climate to create a perception on the part of investors that the investment has low risk. The prevailing perceptions on political stability, good governance and the efficiency of the legal system are strongly linked to investment decisions and the assessment of involved risk. Assessment of these issues is politically sensitive and tends to engage a partisan debate based on subjective assessment.

9.3 Summary and Conclusion

According to the above indicated recent surveys, unemployment in Ethiopia is fundamentally urban and Youth unemployment. The unemployment rate remained above 20% which is a serious concern in a subsistence economy like that of Ethiopia. The unemployment type is largely structural and demand deficient. In the reform period employment growth lagged behind Economic growth. The nature and types of unemployment provide clues as to what policies, or lack there of, might have contributed to massive unemployment.

Economic growth in the past decade mainly came from non-agricultural sectors that absorbed not more than 16% of the employed labour force. Why such an important sector in terms of its contribution to GDP failed to take its employment share begs the question. The type of technologies used in the non-agricultural sectors was not as labour intensive as the agricultural sector. In this respect the structural and demand deficient unemployment takes the specific form of technological unemployment, which has characteristic feature of relatively high productivity obviating the need for more employment. The reduction of this type of unemployment calls for an industrial policy geared to foster investment, using technology that enhances employment.

In connection with employment-growth nexus one may question whether the reform programs have gone far enough in the direction of attaining efficiency and expansion of the frontier. There are many steps yet to be taken to enable the market to function well and create a level ground for competition and accelerated growth.

As employment and growth are organically linked, demand deficiency must have limited output growth and, therefore, employment growth. Demand deficiency emanates from low government spending or high taxes, expectations that discourage private investment spending or inadequate availability of credit, low private consumption, and low exports net of imports. The evidences may lack strength in identifying low government spending, but there were complaints on government taxes as hindrances to business and non-availability of credits from financial intermediaries. Moreover, the state of inflation in the period points to the overcautious monetary policies pursued during the same period at the expense of employment.

The data also adequately testify to the fact that exports net of imports have always been negative and the gap was widening at an increasing rate. As a result demand for domestic products has been kept low and hence demand for domestic labour has remained low, giving rise to demand deficient unemployment. This calls for Trade and Exchange rate policies geared to enhance export and reduce the gap between import and export.

Labour market related policies also seem to have little influence on unemployment from demand as well as supply side of the labour market. Among the few instances that have influences on the demand for labour are union wages and their impact on the unemployed and the mandatory requirement on employers to finance all necessary adaptations to make the job accessible to disabled workers. In both cases, though in a limited scope, the actual demand for labour would shrink and employment could be affected. On the supply side, the policy on Education and Training tend to release young job seekers at earlier age and the labour force increases. In the absence of comparable job creation the new labour force will be subjected to unemployment.

Chapter 10

Summary, Conclusions and Recommendations

10.1 Summary and Conclusions

- ⌘ As in many other developing countries, Ethiopia's labour supply by far exceeds labour demand and the labour market is heavily segmented, with important distinctions occurring between formal and informal employment, private and public job markets and wage employment and self-employment. A disproportionate share of formal employment activities are found in cities while a substantial amount of informal sector workers are self-employed agricultural workers in rural areas.
- ⌘ With a total population of 77 million, Ethiopia is the second most populous nation in sub-Saharan Africa and it is growing at a relatively rapid rate of 2.7% per year.
- ⌘ Though vary across age groups, the labour force participation rate in Ethiopia increased by eight percentage points between 1999 and 2005.
- ⌘ According to the 1999 National Labour Force Survey, about 50% of urban jobs came from the informal sector. Nearly 76% of the total informal sector workers in the country are found in rural areas.
- ⌘ Not only is the labour productivity in Ethiopian agriculture very low but also varies from year to year mainly as a result of a high degree of variability in weather conditions that affect the performances of the agricultural sector.
- ⌘ Data obtained from secondary sources show that over the last twenty years (1984/5 to 2005/06), agricultural labour

productivity increased from 316 birr in 1984/5 to 503 in 2005/06. But due to obvious factors, over the last 40 years (1963 to 1995) rural per capita income, as proxy for agricultural income, had been declining. However, in recent years, between 1999/00 and 2005/06, it increased at an average rate of 1.8% per annum.

- According to an official report, 45% (0.513 million sq. km or 51.3 million hectares) of the country's estimated 1.14 million square kilometre is arable land. If we assume that an adult rural dweller and his family need an average of 3 hectares of land, this potentially available 51.3 million hectares of arable land can support 17.1 million farm households. Currently, it is estimated that close to 12.8 million farm households exist in rural Ethiopia. This suggests, given the above general assumption and the estimation of potential employment, the country's agricultural land may support an additional 4 million farm households.
- Further, Ethiopia is believed to possess 3.7 million hectares of irrigable land, out of which only 3% is irrigated for farming.
- Many factors have caused/exacerbated the widespread rural poverty in Ethiopia. Among them are sub-economic landholdings and landlessness of the smallholder farmers in the major agricultural areas, low land and labour productivity, low or lack of access to non-agricultural livelihoods, erratic and unfavorable weather conditions, and land natural resources degradations.
- On average the economically active population or labour force has been growing at a rate of 6% per annum. According to the existing data, people who got employment increased from 14.6 million in 1984 to 31.4 million in 2005. This data shows that while employment has been growing by 5.5%, the average rate of unemployment during the period was 4.3%.
- The status or structure of employment indicates that the majority of economically active people are self-employed,

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

though its percentage share declined from 59% in 1984 to 41% in 2005 while the share of unpaid family workers increased by 32% during the same period.

- ❏ The CSA data of 2006 also shows that 54% of the surveyed reported that they had been unemployed for a period ranging from 1 to 6 months. About one fifth reported to have been out of work for a period of 7 to 12 months. About 7% were unemployed for over 2 years.
- ❏ Between 2001/02 and 2004/05, labour productivity increased from Birr 22.6 thousand per worker per annum to Birr 27.7 thousand. Over the four year period, it increased, on average, by 2.7 percent annually.
- ❏ In line with the improvements witnessed in the productivity of labour, wage per worker had also depicted a slight improvement from Birr 7.6 thousand per annum in 2001/02 to Birr 8.6 thousand in 2004/05, averaging about Birr 8.1 thousand during the review period.
- ❏ Productivity of capital (value added per capital stock) slightly increased from Birr 35.8 thousand in 2001/02 to Birr 47.2 thousand in 2004/05 depicting an average annual growth of 9.7 percent.
- ❏ Between 2001/02-2004/05, production capacity ranged from 47.8 and 60.7 percent, on average operating at 53.3 percent per annum. For all the years, the major factors causing capacity underutilization were more or less the same. For 30.5 percent of the firms, on average; the outstanding problem was lack of market or stiff competition from cheap imports. Shortage of raw material supply stands as the second most constraining factor, accounting for about 27.9 percent of the cases. Moreover, shortage of electricity and water supply was the third crucial factor during the review period.
- ❏ In terms of the size of the unemployed, the absolute magnitude of the unemployed population in the country was about 170 thousand people in 1984, 771 thousand people in 1994, 2.2 million people in 1999 and 1.7 million people in 2005.

Unemployment rate for the nation showed an increasing trend over the census years of 1984 up until 1999 which reached 7.9% and declined to 5% in 2005.

- The average share of employment over the past 21 years (1984 up until 2005) showed that unpaid family workers constituted about 47.2% of the labour force followed by self employment at about 43.7% of the labour force. The private sector was the largest employing sector in the economy in terms of average share of employment over the past 21 years taking an average share of about 3.2% of the labour force. The government sector was the fourth leading employer as per the average share of employment of 2.8% of the labour force over the past 21 years.
- The largest proportion of urban unemployed population was between the ages of 20 and 29 years. This age group alone constituted about 18.4% of urban unemployed population in 1999 while the share of this age group in the total unemployed population was about 24.5% in 2005. On the other hand, the largest proportion of the rural unemployed population in the 1999 and 2005 labour force surveys was between the ages of 10 and 19 years.
- In short, the following observations about incidence of unemployment are worth noting.
- First, urban unemployment was much higher in all the reported years relative to rural unemployment both at the national and regional levels.
- Second, unemployment rates exhibited an upward trend in both the rural and urban areas.
- Third, starting from similar rates of unemployment for males and females in the 1984 and 1994 population and housing surveys, female unemployment rates climbed to about three-fold of males (i.e. 4.3 versus 12.5% in 1999 and 2.5 versus 7.8% in 2005).

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

- ❑ Fourth, in the 1999 and 2005 labour force surveys, the gap in female and male unemployment rates was observed in both the rural and urban areas.
- ❑ Fifth, the Dire Dawa City Administration registered the highest urban unemployment rate at 35.4% compared to all the regions in 1994 followed by the Addis Ababa city Administration at 35.1%. The lowest unemployment rate in 1994 was observed in Benishangul-Gumuz regional state at 7.2%.
- ❑ Sixth, by 1999 urban unemployment increased in all urban centers ranging from a low of 18.1% in Southern Nations Nationalities and Peoples regional state to a high of 38.1% in Addis Ababa city Administration. The increase in 1999 was partially offset by a decline in 2005 that recorded a low of 10.3% in urban centers of Benishangul-Gumuz region and a high of 32.5% in urban areas of Dire Dawa City Administration.
- ❑ And, seventh, unemployment by literacy status showed that about three quarters of the unemployed population in urban centres areas are literate while only about one quarter of unemployed population in the rural areas are literate.
- ❑ According to the above indicated recent surveys, unemployment in Ethiopia is predominantly an urban and Youth phenomena. Urban youth unemployment rate remained above 20% during the years which is a serious concern in a subsistence economy like that of Ethiopia.
- ❑ As reflected in the country's low exports and huge imports, the demand for domestic products has been low contributing to low demand for domestic labour.
- ❑ Labour market related policies (both demand as well as supply side) also seem to have had little influence on unemployment; for instances, union wages and providing mandatory access to disabled employees have not had any shrinking effect on the employment level.
- ❑ In essence, among the central messages of the report is that, unemployment in general and youth unemployment in

particular is one of the policy challenges that the Ethiopian economy will face, at least in the short- to medium-term.

- Consequently, employment generation should take the center stage or objective of any economic policy that is to be pursued in Ethiopia.

10.2 Recommendations

- As noted above, urban youth unemployment rate has remained above 20% since the first Census of 1984. And the recent initiatives (vocational training, credit facilities to start own business etc) are encouraging attempts to address the problem but are less likely to make any significant dent on the unemployment rate for two reasons. First, the unemployment has been accumulating for a long time and it is huge in magnitude. And second some of them have been unemployed for a while such that they may need re-training to make them productively employable. Thus in addition to these efforts a more comprehensive, at least in the short- run, that includes both fiscal and monetary policy measures are required to get the economy jump start in the urban areas.
- It is true that the imbalance between the supply of and the demand for labour is rooted in the population structure in which those who annually join the labour force far exceed those that exit. Further, the growth of the economy has not been able (particularly in the urban areas) to absorb such a huge numbers. Therefore, unless in the medium to long-run, the increase in population is checked this problem will persist regardless of how the economy performs. This calls for an aggressive and well coordinated population policy if the unemployment problem is to be addressed. It has to be noted that this is not to suggest that size of a population is a problem per se. But the mismatch between the speed with which the economy could absorb additional workers and demographic

structure that adds a much larger number of new workers is more a curse than a blessing.

- ❏ A related policy issue that impacts both unemployment and the population issue is the status of women in society. Empowering women and making them equal decision makers in society both address the population issue and ultimately reduce unemployment by increasing production and productivity. Therefore, as has been significant advances to close the gender gap in the education sector, a policy that aims a much more comprehensive and aggressive stance to narrow the gender gap in other aspects of socio-economic and political life will log a long way in addressing both population and therefore unemployment issues.
- ❏ Another factor that is adding to unemployment is the relatively low capacity utilization rate (averaging about 60%). This means there is a substantial room to increase capacity utilization and hence employment. Even though the degree to which this could be improved depends on the factors that limit full (or at least close) capacity utilization, well thought out and coordinated policies could address both demand and/or supply bottlenecks to boost production and productivity and hence employment.
- ❏ In parallel to the open unemployment in the urban areas, there is also another facet of the problem in the form of disguised or underemployment in the rural areas. This problem might be viewed as failure to achieve optimal resource utilization. This is so because in the face acute landlessness in some areas there seems to be still arable land that could be used assuming a reasonable land distribution structure and provided certain supporting policies in the areas of infrastructure and social provisions are in place. In other words, in line with the resettlement initiatives underway there is still ample room to expand that program as the potential arable land even with conservative estimates could provide for additional five million farmers. What is required is putting the required infrastructure,

health and education facilities in place to make such areas livable and attractive. Therefore, while the resettlement programs that have been underway are commendable, the initiative has to be pursued more vigorously as it is likely to address both medium- and long-term problems of the sector.

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Annexes

Annex 1: The performance of the cereal sector in 2005/06 agricultural year

Crop	Number of holders	Area (ha)	Area/holder (ha)	Production (qt.)	Production/capita (qt)	Production/holder (ha)	Average yield (qt/ha)
Cereals	10,610,876	8,081,401	0.76	116,242,707	1.59	10.96	
Tef	5,177,125	2,246,017	0.43	21,755,977	0.30	4.20	9.69
Barely	3,784,238	997,868	0.26	12,706,798	0.17	3.36	12.73
Wheat	4,109,464	1,459,540	0.36	22,190,754	0.30	5.4	15.2
Maize	6,846,410	1,526,125	0.22	33,367,952	0.46	4.87	21.87
Sorghum	4,161,526	1,468,070	0.35	21,735,986	0.30	5.22	14.81
Finger millet	1,232,912	333,029	0.27	3,970,017	0.05	3.22	11.92
Oats	341,612	44,401	0.13	401,634	0.01	1.18	9.05

Source: CSA (2006a)

Annex 2. Gross value of production (in million birr)

Industrial group	1999/00	2000/01	2001/02	2002/03	2003/04	2004/05	Average
Food products and beverages	3337.2	3335.5	3136.3	3577.4	3996.1	4418.4	3633.5
Tobacco	261.5	250.4	256.8	256.8	364.1	324.6	285.7
Textile	603.3	699.9	675.4	751.9	956.5	897.3	764.0
Wearing apparel	62.7	55.7	57.6	73.1	86.5	62.6	66.4
Tanning and dressing of leather	591.3	840.0	825.3	790.5	813.1	984.7	807.5
Wood and products of wood	34.3	40.4	41.2	61.2	58.4	58.0	48.9
Paper	344.2	379.2	431.2	433.7	612.9	780.2	496.9
Chemical	464.5	501.7	513.5	573.4	726.4	788.8	594.7
Rubber and plastic	380.6	439.1	467.1	488.1	557.4	688.2	503.4
Non-metal	599.3	635.5	694.4	1022.8	1179.6	1163.8	882.6
Basic iron and steel	235.5	403.7	454.5	382.7	761.8	1085.3	553.9
Fabricated metal	116.1	151.4	163.0	218.1	299.6	474.0	237.0
Machinery and equipment	6.1	5.5	6.0	8.8	14.5	13.7	9.1
Motor vehicles	965.0	567.5	228.6	190.0	275.3	243.2	411.6
Furniture	127.4	117.7	140.7	195.7	169.7	333.7	180.8
Total	8129.1	8423.3	8091.7	9024.2	10871.8	12316.4	9476.1
Total(in Million USD)	998.3	1010.2	947.2	1051.7	1261.3	1423.6	1115.4
Per Capita GVP	128.0	129.0	120.4	130.6	152.9	168.7	138.3

Source: CSA (2006a)

Annex 3: Private investment by industrial category (1992/93-2004/05)

No	Industry	Value (Birr Million)
1	Food products	1037.5
2	Beverages	763.2
3	Textiles, except garment	679.7
4	Garment and related activities	135.7
5	Tanning	249.8
6	Footwear	310.2
7	Wood products except furniture	4.0
8	Paper, paper products and printing	140.5
9	Chemical products	295.0
10	Pharmaceuticals	392.5
11	Plastic/rubber products except footwear	767.1
12	Non-metallic mineral products	1219.4
13	Metal products, including machinery	687.3
14	Electrical machinery and apparatus	67.3
15	Radio, TV, and communication equipment	2.8
16	Medical instruments	28.6
17	Motor vehicles and other transport equipments	41.2
18	Furniture	79.1
19	Other manufacturing	6.1
20	Total	6907.0

Source: CSA, LMSMIE (various issues)

Annex 4: Value added at current market price (in million birr)

Industrial group	1999/00	2000/01	2001/02	2002/03	2003/04	2004/05	Average
Food products and beverages	1599.8	1765.7	1568.4	1865.2	2030.0	2077.8	1817.8
Tobacco	173.5	151.1	142.3	142.3	241.0	205.7	176.0
Textile	207.0	221.9	192.7	203.3	238.9	267.1	221.8
Wearing apparel	21.1	18.6	20.4	32.0	35.0	24.8	25.3
Tanning and dressing of leather	140.7	152.4	188.7	147.3	189.2	181.6	166.7
Wood and products of wood	16.3	21.4	21.3	35.4	31.2	30.8	26.1
Paper	154.4	160.8	182.1	185.9	249.0	333.6	211.0
Chemical	159.6	152.7	165.3	196.1	259.2	243.8	196.1
Rubber and plastic	147.1	167.3	197.4	214.9	247.4	231.7	201.0
Non-metal	266.8	273.3	300.6	439.8	503.8	415.2	366.6
Basic iron and steel	74.5	94.9	122.6	101.1	202.7	361.2	159.5
Fabricated metal	44.1	52.3	63.8	74.9	114.4	153.3	83.8
Machinery and equipment	2.5	2.5	2.2	2.8	4.2	3.7	3.0
Motor vehicles	226.3	128.5	69.4	47.1	-1.7	47.7	86.2
Furniture	49.8	48.7	57.3	70.5	74.8	138.5	73.3
Total	3283.3	3412.2	3294.6	3758.5	4419.1	4716.5	3814.0
Value Added (in million USD)	403.2	409.2	385.7	438.0	512.7	545.1	449.0
Value Added/GVP	40.4	40.5	40.7	41.6	40.6	38.3	40.4

Source: CSA, LMSMIE (various issues)

Annex 5: Employment

Industrial group	1999/00	2000/01	2001/02	2002/03	2003/04	2004/05	Average
Food products and beverages	28324	27260	28860	30570	31359	31693	29677.7
Tobacco	854	822	792	792	785	697	790.3
Textile	23747	24284	22373	21938	22900	20701	22657.2
Wearing apparel	3752	3720	3681	4278	3806	2606	3640.5
Tanning and dressing of leather	6989	7040	6740	7232	7665	7913	7263.2
Wood and products of wood	1124	1033	1313	1669	1616	1563	1386.3
Paper	5888	5519	6142	6405	6940	7507	6400.2
Chemical	4287	4069	5072	5094	5071	5975	4928.0
Rubber and plastic	3144	3401	4326	4424	4410	5673	4229.7
Non-metal	7269	7328	8232	7835	9138	9047	8141.5
Basic iron and steel	1164	1100	1448	1466	1699	1762	1439.8
Fabricated metal	2482	2477	2740	3412	3453	3828	3065.3
Machinery and equipment	275	172	190	244	256	221	226.3
Motor vehicles	1729	1060	1082	1019	1130	1232	1208.7
Furniture	3979	4230	5145	5026	5153	8732	5377.5
Total	95007	93515	98136	101404	105381	109150	100432.2

Source: CSA, LMSMIE (various issues)

Annex 6: Number of establishments

Industrial group	1999/00	2000/01	2001/02	2002/03	2003/04	2004/05	Average
Food products and beverages	235	251	282	288	322	370	291.3
Tobacco	1	1	1	1	1	1	1.0
Textile	36	35	36	38	38	40	37.2
Wearing apparel	25	24	29	32	37	29	29.3
Tanning and dressing of leather	53	54	52	56	65	62	57.0
Wood and products of wood	16	14	21	17	20	18	17.7
Paper	64	59	73	73	98	82	74.8
Chemical	40	38	41	46	46	52	43.8
Rubber and plastic	29	32	39	41	42	47	38.3
Non-metal	85	87	100	115	123	144	109.0
Basic iron and steel	8	10	11	10	13	13	10.8
Fabricated metal	51	53	61	73	78	76	65.3
Machinery and equipment	15	8	8	10	11	8	10.0
Motor vehicles	11	9	7	8	8	9	8.7
Furniture	119	121	148	158	172	256	162.3
Total	788	796	909	966	1074	1207	956.7

Source: CSA, LMSMIE (various issues)

Annex 7: Growth rates in the number of establishments (in %)

Sub sectors	2001/02	2002/03	2003/04	2004/05	Period average
Food and Beverages	12.4	2.1	11.8	14.9	10.3
Tobacco	0.0	0.0	0.0	0.0	0.0
Textile	2.9	5.6	0.0	5.3	3.4
Wearing apparel	20.8	10.3	15.6	-21.6	6.3
Leather	-3.7	7.7	16.1	-4.6	3.9
Wood and products of wood	50.0	-19.0	17.6	-10.0	9.6
Paper	23.7	0.0	34.2	-16.3	10.4
Chemical	7.9	12.2	0.0	13.0	8.3
Rubber and plastic	21.9	5.1	2.4	11.9	10.3
Non-metal	14.9	15.0	7.0	17.1	13.5
Basic iron and steel	10.0	-9.1	30.0	0.0	7.7
Fabricated metal	15.1	19.7	6.8	-2.6	9.8
Machinery and equipment	0.0	25.0	10.0	-27.3	1.9
Motor vehicles	-22.2	14.3	0.0	12.5	1.1
Furniture	22.3	6.8	8.9	48.8	21.7
Total	14.2	6.3	11.2	12.4	11.0

Source: CSA survey reports

Annex 8: Production structure of LSM industries (share in %)

Industrial group	2001/02	2002/03	2003/04	2004/05	Period Average
Food	38.76	39.64	36.76	35.87	37.8
Tobacco	3.17	2.85	3.35	2.64	3.0
Textile	8.35	8.33	8.80	7.29	8.2
Wearing apparel	0.71	0.81	0.80	0.51	0.7
Leather	10.20	8.76	7.48	7.99	8.6
Wood and products of wood	0.51	0.68	0.54	0.47	0.5
Paper	5.33	4.81	5.64	6.33	5.5
Chemical	6.35	6.35	6.68	6.40	6.4
Rubber and plastic	5.77	5.41	5.13	5.59	5.5
Non-metal	8.58	11.33	10.85	9.45	10.1
Basic iron and steel	5.62	4.24	7.01	8.81	6.4
Fabricated metal	2.01	2.42	2.76	3.85	2.8
Machinery and equipment	0.07	0.10	0.13	0.11	0.1
Motor vehicles	2.82	2.11	2.53	1.97	2.4
Furniture	1.74	2.17	1.56	2.71	2.0
Total	100.00	100.00	100.00	100.00	100.0

Source: CSA survey reports