Report No: AUS0002202

Ethiopia
Employment in urban and rural Ethiopia

April 2021

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EMPLOYMENT IN URBAN AND RURAL ETHIOPIA

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April 2021

Executive Summary

Ethiopia is one of the fastest-growing economies in Sub-Saharan Africa, driven by investment in development programs. As a result of population growth and migration, Ethiopia is urbanizing fast from a low base, suggesting a strong need for appropriate management and efficient utilization of its young work force. Labor market analysis can support assessing the performance of the economy's ability to provide jobs for Ethiopians and absorb the growing labor force. This note provides evidence on the latest labor market developments and employment dynamics in Ethiopia, utilizing up-to-date labor market indicators and data from latest three rounds of the Ethiopia Socioeconomic Survey (ESS) of 2014, 2016, and 2019. The labor market indicators include, among others, labor force participation rate (LFPR), unemployment rate, employment to population ratio (EPR), share of youth not in employment, education, or training (NEET), status in employment, sectoral employment, and earnings for those in wage employment. The statistics on the labor market outcomes are disaggregated by location (urban/rural), region, age groups, and sex wherever possible.

Ethiopia's labor market structure mimics a typical labor market structure of a low-income economy. Overall, between 2014 and 2019, standard labor market indicators improved. However, the structure of the labor market in urban and rural Ethiopia is diverse with national figures masking large differences across space, sex, and age. The share of the working-age population in total population stood at 54 percent in 2019 and growing over time. The labor market of Ethiopia is characterized by a high and increasing employment-to-working age population ratio (EWPR). The EWPR increased from 59 percent in 2014 to 65 percent in 2019. EWPR is significantly lower in urban Ethiopia (48 percent) than in rural Ethiopia (73 percent) and the EWPR for men (79 percent) is higher than that of women (52 percent). As in many low-income countries, unemployment rates are low at the national level. However, there are considerable differences across locations and gender. Unemployment is much higher in urban areas (19 percent) compared to rural areas (6 percent). Female unemployment is almost three times the rate of male unemployment.

There was strong employment growth between 2014 and 2019—as indicated by the increase in the number of employed people—but limited structural transformation. While employment expanded at a higher rate than the working-age population, it was mainly concentrated in the agricultural sector that tends to have lower employment quality and highest poverty rates. The strong job growth in agriculture—with 3.8 million jobs created between 2014 and 2019—points to limited structural transformation in the country with workers unable to move out of agriculture at large scale. The nonfarm sector added 1.7 million jobs between 2014 and 2019 with most jobs added in community and family-oriented services and commerce, sectors with high shares of informality. There was also a (small) increase in the nonfarm wage employment, mostly driven by the expansion of the private sector.

Employment outcomes for a large part of the Ethiopian population remain precarious and in 2019, employment remained largely dominated by agriculture and non-wage work. Though slightly declining over time, agriculture is the dominant form of employment. Nationally, almost three quarters of the population are employed in agriculture with 90 percent of rural Ethiopians employed in agriculture. Wage-employment in the nonfarm sector—the type of employment that tends to be the norm in richer countries—accounted for only 10 percent of total employment. Employment types are more diverse in urban compared to rural Ethiopia with wage employment—the type of employment that tends to have the highest average earnings—accounting for 38 percent and self-employment—mainly in small household-run enterprises or own-account subsistence activities—for 35 percent. Wage employment in urban areas is dominated by jobs in the service sector. While manufacturing has created substantial employment in recent years, following the opening of several Industrial Parks, the share of manufacturing in urban wage employment has actually declined between 2014 and 2019. The public sector is still the dominant form of urban wage employment with one third of all wage employment in the public sector. Self-employment in the nonfarm sector accounted for the bulk of employment in the nonfarm sector.

Labor market outcomes for the youth in Ethiopia remain precarious despite improvements over the past decade. As in many countries, standard labor market indicators in Ethiopia are worse for youth than for the overall working-age population. Youth have lower labor force participation rates and higher unemployment rates compared to their older counterparts. Although the largely rural nature of Ethiopia creates for a fairly modest youth unemployment rate at the national level, youth unemployment is considerably higher in urban areas, in particular for young women. A non-negligible share of Ethiopia's youth (about 15 percent) is not in employment, education, or training (NEET) and thus not engaged in any productive investment or activity at all in 2019. NEET is fairly high for urban youth and young women despite low youth unemployment at the national level.

Women are at a significant disadvantage in Ethiopia's labor market, and the intersection of gender and age confers an additional disadvantage. There are large differences in labor force participation and employment rates between men and women. Compared to men, women tend to be overrepresented in nonwage employment, and underrepresented in paid employment in 2019. The female unemployment rate is almost three times the rate among men. The female unemployment rate in urban areas is more than double that of men. In a similar vein, the unemployment rate among young women is nearly three times the rate among young men. Although the share of females working in government and State-Owned Enterprises (public sector) is similar to the share of men, fewer women work in private companies, but they are more likely to work for private individuals. Men's and women's distribution across sectors of employment indicates that construction and transport are dominated by men while women dominate wage employment in trade and hotels and other services. Moreover, women earn substantially less than men—total wage earnings for women are on average one third lower than for men—a gap that is only partially explained by differences in endowments and job characteristics. Despite occupational segregation and the higher concentration of women in informal and precarious employment, women earn substantially less than their male counterparts even at the same occupation within the same sector.

The COVID-19 pandemic has had adverse labor market impacts in Ethiopia. The impacts were heterogenous across location, gender, and sector of employment. While the pandemic poses important risk for people's health and economic wellbeing, the government responses implemented in Ethiopia to curb the spread of the pandemic had a negative effect on employment and income of households. Employment rates plunged in the early days of the pandemic, with 8 percent of respondents losing their job at the beginning of the outbreak in April 2020, particularly those who were self-employed or working as casual laborers. Unemployment has increased significantly between February 2020 (the pre-COVID period) and August 2020. The rising unemployment has been much more marked for the least educated, who are also those for whom earning an income is a matter of survival in the very short term. The job impacts of COVID-19 were heterogenous across locations with higher job losses in urban compared to rural areas and for women compared to men. Higher job losses for women will further deepen the already wide gender gaps in employment. The negative labor market effects of the pandemic were more pronounced among workers in the large informal sector. Given the policies to prevent the spread of COVID-19, including business lockdowns and restricted face-to-face interactions, the service sector (tourism, hospitality, aviation, trading, retail), manufacturing, and construction were most affected and the agriculture sector least affected. The COVID-19 pandemic also had a significant negative effect on nonfarm (household) enterprises.

Overall, the Ethiopian labor market encounters important challenges in productively employing a better educated young labor force in urban and rural areas alike. The labor market is characterized by growing workforce. This puts pressure on the absorption capacity of the Ethiopian labor market which is exacerbated by (i) a saturated public sector, an important employer for high-skilled labor and (ii) a private sector which, though flourishing, is still in its early stages. Even though Ethiopia has sustained high levels of growth and labor market conditions have improved over time, with an increase in labor market participation and employment, important challenges for the Ethiopian labor market remain. These challenges are (i) lack of labor market inclusion and productive employment for youth and women; (ii) lack of structural transformation out of agricultural employment in rural areas; and (iii) high unemployment in urban areas. These labor market challenges urge the need to identify short- and long-term strategies to improved labor market outcomes in the country, particularly for youth and women. Given the precarious labor market impacts of COVID-19, designing policy options for mitigating its adverse effects is inevitable to complement ongoing reforms in Ethiopia.

Introduction

Ethiopia is one of the fastest-growing economies in Africa driven by investment in development programs. The country is also characterized by a relatively fast-growing population and, though still among the lowest in Sub-Saharan Africa, a rapid growth in urban population. This raises the need for an appropriate management and efficient utilization of its work force. In this respect, there is a need to monitor labor market outcomes and implement adequate employment policies focused on strengthening the economy's capacity to absorb a growing labor force. This study therefore aims at shedding light on the recent developments in the Ethiopian labor market, including changes in labor market outcomes over time and labor market effects of COVID-19. Moreover, it uncovers trends in labor market outcomes across location (urban vs. rural), gender (men vs. women), and age groups (youth vs. other age groups).

The level of employment and unemployment of the country can be used in numerous ways to evaluate the performance of the economy and its ability to provide jobs for Ethiopians. First, employment analysis is essential to reflect the current employment situation of Ethiopia's population and can provide important information of the social and economic structure of Ethiopia. Second, employment statistics can point towards changes in the future nature of work and labor mobility. Third, employment statistics serve as an important way of tracking objectives on employment and jobs and are, among others, used as an input for the evaluation of the 2030 Sustainable Development Goals (SDGs). Fourth, tracking labor market outcomes allows the Government of Ethiopia (GoE) to monitor and evaluate the effectiveness of the Growth and Transformation Plan (GTP II) of the country.

This note focuses on employment dynamics in Ethiopia between 2014 and 2019, utilizing the most up to date labor market data for urban and rural areas, and provides a summary of standard labor market indicators. Using data from the last three rounds of the Ethiopia Socioeconomic Survey (ESS), the report looks at the latest labor market developments in rural and urban Ethiopia. The labor market indicators include, among others, labor force participation rate (LFPR), unemployment rate, employment to population ratio (EPR), share of youth not in employment, education, or training (NEET), status in employment, sectoral employment, and earnings for those in wage employment (see Box 1.1). Although changes in questionnaire design render certain indicators incomparable across survey years (i.e. unemployment), this note constructs, where possible, comparable labor market series using previous ESS rounds of 2014, 2016, and 2019[1]. The note also provides statistics on standardized labor market outcomes disaggregated by region, urban/rural, age groups, and sex.

Despite data limitations in comparing across years, this note provides the first comprehensive national-level labor market status update since 2013, the year of the latest national Labor Force Survey (Box 1.1). Even though numerous labor market analyses have been published since 2013, these were limited in scope and focused on certain geographic locations (i.e. urban areas) or segments of the labor market.

Box 1.1. Surveys: Ethiopia Socioeconomic Survey (ESS), Urban Employment and Unemployment Survey (UEUS), Labor Force Survey (LFS)

Ethiopia Socioeconomic Survey

[1] The ESS of 2012 is not included in this analysis as the survey design is not comparable to subsequent survey years for urban areas.

The Ethiopia Socioeconomic Survey (ESS) is a collaboration between the Central Statistics Agency of Ethiopia (CSA) and the World Bank Living Standards Measurement Study - Integrated Surveys of Agriculture (LSMS-ISA) project.[2] ESS collects a multi-topic panel household data with a special focus on improving agricultural statistics and better understanding the linkages between agriculture and other household income activities. ESS began as ERSS, the Ethiopia Rural Socioeconomic Survey, in 2011/12. The first wave of data collection covered only rural areas and small towns. As of the second round of ESS, the word "Rural" was dropped from the name when the sample was expanded to urban areas. The urban supplement was designed to ensure that the ESS data can provide nationally representative estimates. Accordingly, the number of survey enumeration areas (EAs) went up from 333 (3,776 households) to 433 (5,262 households). In what follows, ESS refers to the survey in general, ESS1 to the first wave (2011/123); ESS2 to the second wave (2013/14), and ESS3 to the third wave (2015/2016). The three waves together create a panel data set of households from rural and small-town areas. ESS2 and ESS3 together constitute a panel of households and individuals for all areas, urban and rural, and towns of all sizes.

The 2018/19 ESS (ESS4) is a new panel (refreshed sample) based on lessons learnt from previous waves and demand for additional information, not a follow-up to previous ESS waves. It is planned as a baseline survey for the waves to follow. ESS4 was conducted in 565 EAs (316 rural and 219 urban) that cover all of the nine regional states and the two city administrations. Unlike the previous ESS waves, ESS4 is also representative of regions as well as rural and urban areas. For ESS4, the previous survey instruments were revised in collaboration with data users and development partners, in order to ensure that the survey data produced would be consistent with (1) Ethiopian policy and government proclamations (e.g., tax and transfer laws, land policy, and financial sector proclamations), and (2) international development indicators like the Sustainable Development Goal (SDGs), new economic concepts (e.g., the new definition of labor statistics and SDG water, sanitation, and hygiene [WASH] targets), and consistent with current official government surveys, such as the Household Consumption Expenditure Survey (HCES).

The ESS surveys consist of five questionnaires, which ensure comparability over time but are revised each round based on the results of the previous rounds and on need identified for new data. The household questionnaire elicits information on education, health (including anthropometric measurement for children), labor and time use, food and nonfood expenditures**, household nonfarm activities, and other information. The survey includes three** agriculture questionnaires: post-planting, post-harvest questionnaires and livestock questionnaire, administered to all members of households engaged in agricultural activities.

Ethiopian Urban Employment and Unemployment Survey

The Ethiopian Urban Employment and Unemployment Survey (UEUS) provides statistical data on the size and characteristics of the economically active and inactive population of urban Ethiopia on a continuous basis. It is useful for our understanding of labor market dynamics in urban areas where unemployment is high. The survey collects information on sociodemographic characteristics (e.g., education, age, gender, literacy status and education, migration, disability, etc.), usual economic activity during the last seven days and six months (e.g., hours of work in productive work, occupation, industry, status in employment, earnings from employment, job mobility, etc.), and unemployment and characteristics of unemployed persons. The main limitation of UEUS is that the survey is nationally representative only for urban populations, but it does not contain information on rural residents. UEUS is conducted every year or every other year since early 2000.

Ethiopian Labor Force Survey

The Ethiopian Labor Force Survey (LFS) has been administered by CSA since 1999 and aims at providing a comprehensive data on the size, distribution, and characteristics of the labor force in both urban and rural areas of

[2] For more information on the LSMS and LSMS-ISA go to http://surveys.worldbank.org/lsms
[3] In fact, ESS1 is the term now used to refer to the ERSS.

Ethiopia. The survey generates data on particulars of household members, economic activity during the last seven days (for members aged 5 years and above), unemployment and characteristics of unemployed persons (for members aged 10 years and above), and economic activity during the last 12 months (for members aged years and above) and for children aged 5-17 years. The latest LFS conducted is in 2013 following 1999 and 2005 national LFS.

The remainder of this note is organized as follows. The next section provides a brief overview of Ethiopia's labor market structure with a focus on employment trends and growth in the country between 2014 and 2019. Section 2 presents a profile of workers and jobs. Section 3 provides a snapshot of unemployment in 2019. Section 4 discusses women's labor market challenges across various dimensions. Section 5 discussed impacts of COVID-19 on the labor market and section 6 concludes.

Section 1: Overview of Ethiopia's labor market

This section provides a brief overview of Ethiopia's labor market and employment growth between 2014 and 2019.

Ethiopia's labor market

Ethiopia's labor market mimics a typical labor market of a low-income economy. It is characterized by a high and increasing employment-to-working-age population ratio (EWPR) (Table A.1). This indicates that a high proportion of the working-age population (about 54 percent of all Ethiopians are of working-age) is employed or engaged in productive activities. The EWPR (based on a 7-day reference period) in 2019 was 65 percent nationally, increasing from 59 percent in 2014. The national number disguises large differences across space and sex. The EWPR in urban Ethiopia was 48 percent in 2019[4] while that of rural Ethiopia was 73 percent, reflecting the large share of rural Ethiopians working in agriculture at some point of the year. The EWPR for men was 79 percent, much higher than the 52 percent of women of working age who were employed. The labor force participation rate (LFPR), the proportion of working-age Ethiopians who participate in the labor force (are either employed or unemployed), stands at 73 percent nationally and is much higher for men (84 percent) than for women (62 percent). According to ILOSTAT data (2018/19), the LFPR for Ethiopia is higher than the average for SSA and low-income countries, and it appears to fall within the middle range among comparator countries in SSA.

Table 1.1. Key labor market indicators, 2019

	National	Urban	Rural	Male	Female
Working-age population (WAP)	53.6	62.5	50.4	52.2	55.0
Labor force participation rate (LFPR)	72.5	60.9	77.5	84.3	61.8
Unemployment rate (UR)	9.2	18.5	6.1	5.2	14.2
Employment to WA population ratio (EWPR) 7 days	64.9	47.8	72.6	79.0	52.2
Employment to WA population ratio (EWPR) 12 months	79.1	54.5	90.0	86.6	72.2
Agricultural employment as percentage of total employment	74.2	4.3	89.5	70.8	77.9
Wage employment as percentage of total employment	9.9	37.3	2.0	11.1	8.3

[4] This is consistent with results from the UEUS.

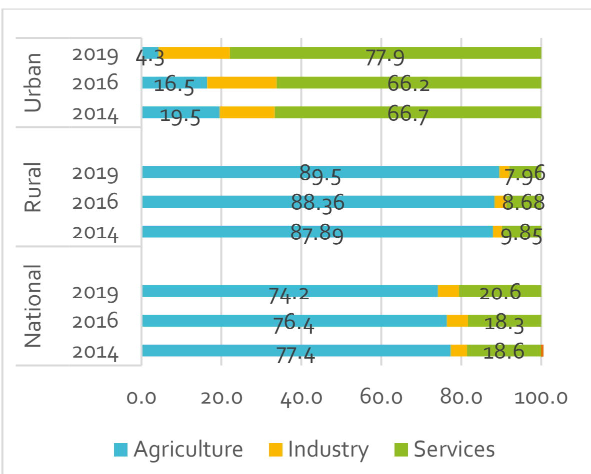
Wage workers in non-agricultural sectors (as share of waged employed)	86.8	93.4	67.9	86.8	86.7
Wage workers in private formal sector (as share of waged employed)	29.6	33.5	17.6	27.3	33.9

Source: ESS, 2019

Though declining over time, agriculture is the dominant form of employment with almost three quarters of the population employed in agricultural activities in 2019 (Figure 1.1). Naturally, employment in agriculture is particularly high in rural areas (90 percent). On the other hand, the dominant sector or employment in urban areas is services. Wage employment is still very low in Ethiopia; only 10 percent of all employed Ethiopians had a wage job in 2019. Wage employment plays a negligible role in rural Ethiopia but has a sizable employment share (37 percent) in urban employment. Of all those working in wage employment, 87 percent worked in the non-agriculture sectors and 30 percent in the private formal sector.

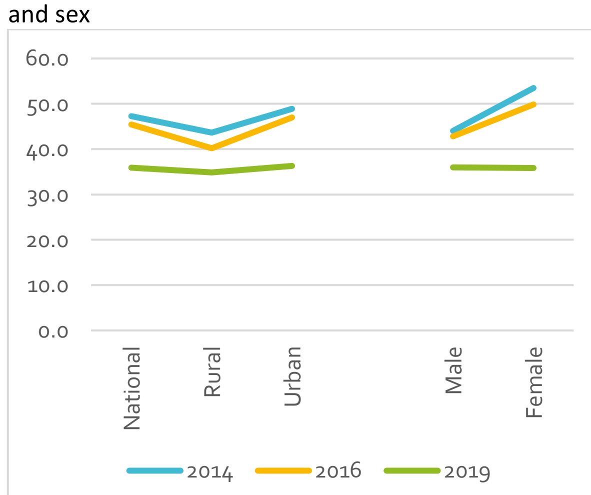
The structure of the labor market in urban and rural Ethiopia is diverse with national figures masking large differences across space, sex, and age. The structure of employment in urban Ethiopia has remained largely unchanged over the past 5 years. The most notable change, if any, was a rising employment share in the services sector (78 percent of employment in 2019 compared to 67 percent in 2014 (Figure 1.1)). The urban economy is dominated by self-employment and wage employment. Wage employment accounted for 38 percent of urban employment in 2019 and self-employment 35 percent (Figure 2.4). The distribution of employment between the public and private sector changed in favor of private sector employment. The share of the public sector in total employment fell from 47 percent in 2014 to 36 percent in 2019 (Figure 1.2).

Figure 1.1. Employment by sectors, by location



Source: ESS, 2014, 2016, 2019

Figure 1.2. Public sector wage employment by location and sex



Source: ESS, 2014, 2016, 2019

Unemployment is high in urban Ethiopia with almost 1 out of 5 urban Ethiopians unemployed in 2019. Rural unemployment on the other hand stands at slightly above 6 percent, reflecting the need to work to earn a living.

The working-age population is growing in Ethiopia, with urban populations growing faster than rural populations. The share of the working-age population in the total population stood at 54 percent in 2019

(Table 1.1) and continues to grow. The growth in the workforce will put pressure on job creation and the ability to productively employ its youth is crucial for Ethiopia to grasp the benefits of a growing workforce. The increase in the working-age population goes hand in hand with a shift towards a more educated young labor force, particularly in urban areas. This puts pressure on the absorption capacity of the Ethiopian labor market which is exacerbated by (i) a saturated public sector, an important employer for high-skilled labor; and (ii) a private sector which, though flourishing, is still in its early stages.

Box 1.2 Labor Market Indicator Definitions

Labor force	The sum of the employed and unemployed of working age.
Employed	A working-age individual who performed any form of productive work for at least one hour in the week prior to the survey.
Employment-to-working-age population ratio (EWPR)	The share of working-age individuals (aged between 15 and 64) who are employed.
Labor force participation rate	The share of working-age individuals who participate in the labor force (i.e., are either employed or unemployed).
Unemployed	A working-age individual who did not work at least one hour in the reference week but was available for work and actively looked for work in a specified recent period.
Unemployment rate	The share of individuals participating in the labor force who are unemployed.
Unemployed-relaxed definition	A working-age individual who did not work at least one hour in the reference week but was available for work. This definition is used in Ethiopia.
Inactive	A working-age person who is neither employed nor actively looking for work.
NEET	A working-age person (aged between 15 and 24) who is not in employment, education, or training.
Waged worker	A worker who has declared being paid a wage or salary for his or her work.
Employer	A person who is in charge of a household nonfarm enterprise or a household farm that hires paid labor from outside the household.
Self-employed	A person who works for oneself, making income from the profits of one's activity. Because the distinction can be blurred in a household between self-employment and unpaid family workers who contribute to a household activity, the report considers as self-employed all workers reporting to be self-employed or unpaid family workers on a household farm or household enterprise.
Formal sector	Any private sector employment, excluding employment in agriculture, in private households (domestic worker), and in producers' cooperatives, where the individual declares himself/herself to be working in an enterprise that keeps books of account. For the sake of comparability across survey rounds, this definition excludes criteria based on whether the enterprise has a license or whether the production unit produces mainly for the market.
Working-age population	The population between 15 and 64 years of age.
Youth	The population between 15 and 24 years of age.
Young worker	A person between 15 and 24 years of age who is employed.
Earnings from wage work	Total cash and in-kind payments as declared in the survey.

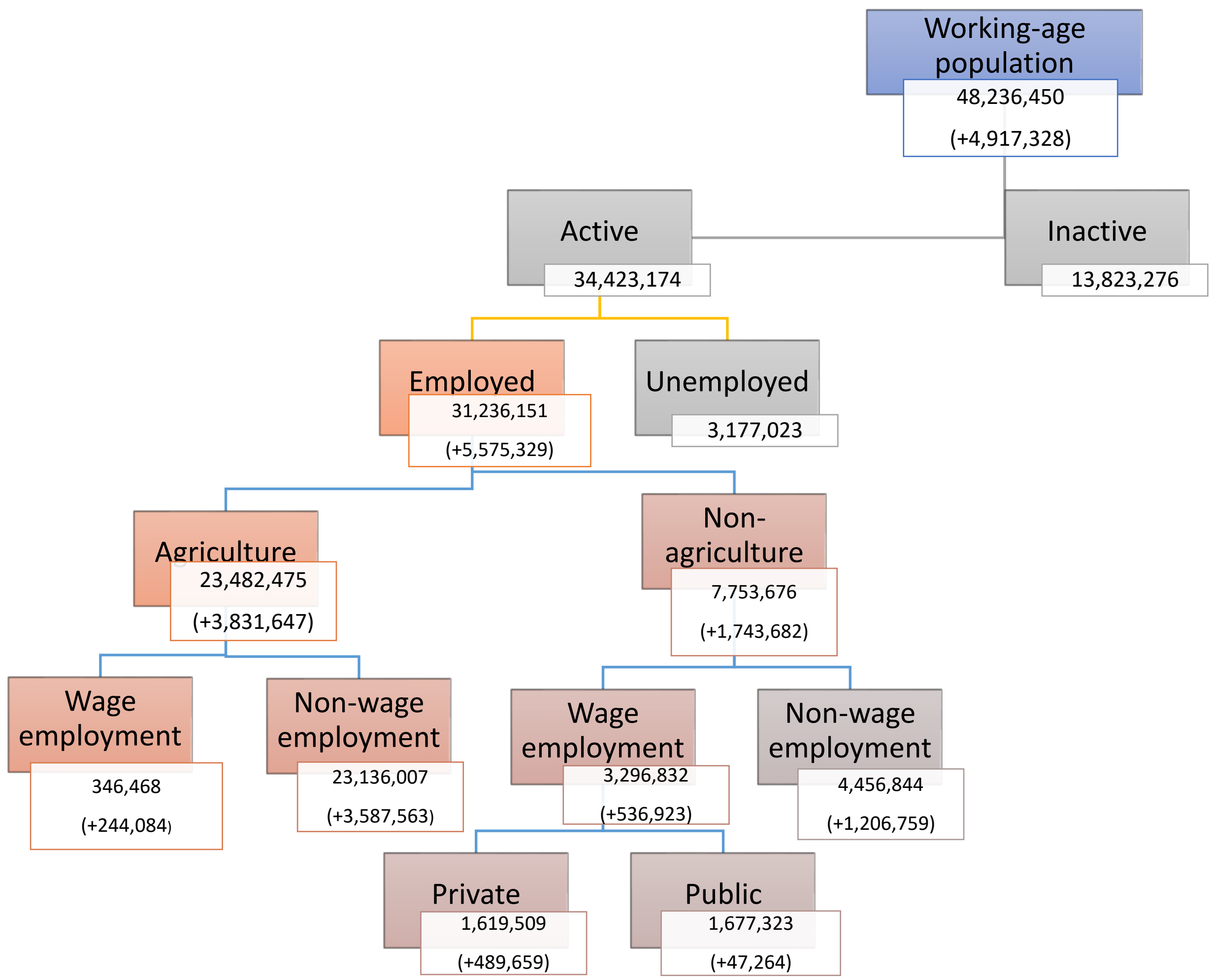
Overall, between 2014 and 2019, standard labor market indicators in Ethiopia improved, yet, employment is largely dominated by low quality jobs. The employment-to-working-age population ratio (EWPR) increased from 59 percent in 2014 to 65 percent in 2019 (using a 7-day reference period). Nonfarm wage employment remained relatively rare, with only 10 percent of Ethiopian workers working for wages in the nonfarm sector in 2019. Due to changes in the questionnaire design, indicators on labor force participation and unemployment rates cannot be compared between 2019 and earlier years (see Table A.1). There were, however, considerable differences across locations (urban vs. rural) in labor market outcomes. Urban Ethiopians in particular, have better labor market outcomes in terms of quality of employment, with larger shares participating in wage employment compared to rural Ethiopians.

Employment growth

Employment growth between 2014 and 2019 was strong. The number of the working-age population grew by about 5 million between 2014 and 2019. The number of jobs grew even more than the working-age population with 5.6 million more people employed in 2019 compared to 2014 (Box 1.2). While employment expanded at a higher rate than the working-age population, it was mainly concentrated in sectors that tend to have lower employment quality.

Box 1.2 Employment growth (2014-2019)

Decomposition of the workforce by type of employment in 2019 and changes since 2014.



Source: ESS, 2014, 2019

Agriculture added most of the new jobs between 2014 and 2019. About 3.8 million jobs were created in agriculture since 2014—which is the occupation that is most precarious and vulnerable and has the highest rates of poverty (World Bank, 2020). Even though starting from a very low base, the nonfarm sector added 1.7 million jobs between 2014 and 2019 and most of the jobs were added in community and family-oriented services and commerce, sectors with high levels of informality. The strong job growth in agriculture relative to the non-agriculture sector points to limited structural transformation in Ethiopia with workers unable to move out of agriculture. However, in urban Ethiopia, most jobs created between 2014 and 2019 were concentrated in non-agriculture sectors, that include both wage and non-wage employment. The shift of labor into services accounted for a large share of the economic growth over that period, as labor productivity in services is higher than in agriculture (World Bank, 2016).

The formal private sector added less than half a million (or under 10 percent) of the jobs created between 2014 and 2019, despite strong economic growth and a strong economic reform agenda in the country. More than half a million jobs were wage employment in the nonfarm sector, yet, the overall employment share of wage employment remains low at 10 percent. The increase in nonfarm wage employment was mostly driven by the expansion of the private sector. Starting from a low base, the private sector in Ethiopia is growing and added approximately half a million of the total 5.6 million jobs created between 2014 and 2019. The public sector, on the other hand, creates good jobs for workers with high (typically tertiary) levels of education. Increasing fiscal pressures, however, imply that this public sector-driven model of jobs growth is no longer sustainable.

The Ethiopian labor market encounters important challenges in productively employing a better educated young labor force in urban and rural areas alike. Even though Ethiopia has sustained high levels of growth and labor market conditions have improved over time, with an increase in labor market participation and employment, important challenges remain. These challenges are (i) lack of labor market inclusion and productive employment for youth and women; (ii) lack of structural transformation out of agricultural employment in rural areas; and (iii) high unemployment in urban areas.

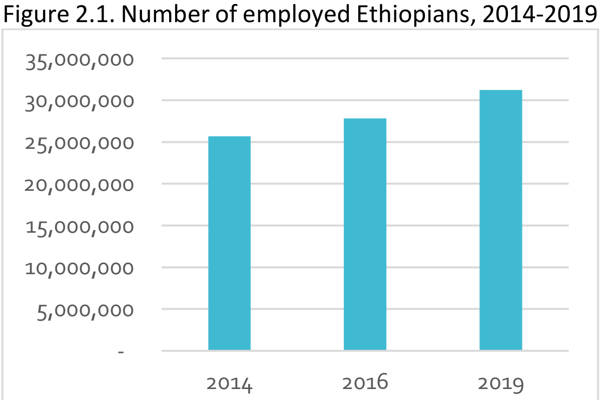
Section 2: A snapshot of workers and jobs

This section focuses on individual employment dynamics and changes in the employment structure in Ethiopia between 2014 and 2019. The section starts by describing the recent employment situation based on the 2014, 2016 and 2019 ESS. We use the most recent data (the 2019 ESS) to sketch the current profile of workers and jobs in Ethiopia. Whenever required, comparisons are made to findings from the latest LFS and UEUS.

Employment profile of Ethiopian workers

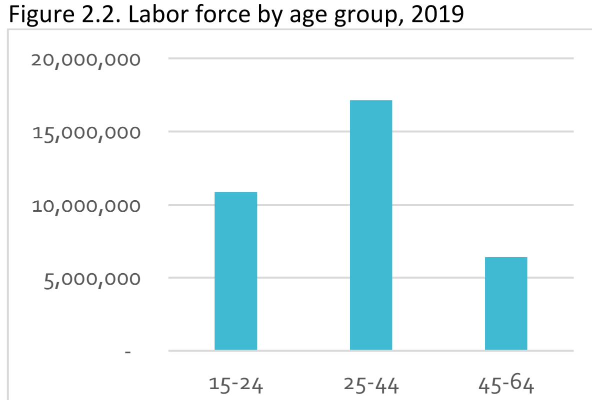
The number of jobs in Ethiopia is increasing as indicated by an increase in the number of employed people over time. According to data from the ESS, the total number of the working-age population employed in a productive economic activity increased from about 26 million in 2014 to over 31 million in 2019 (Figure 2.1).

Figure 2.1. Number of employed Ethiopians, 2014-2019



Source: ESS, 2014, 2016, 2019

Figure 2.2. Labor force by age group, 2019



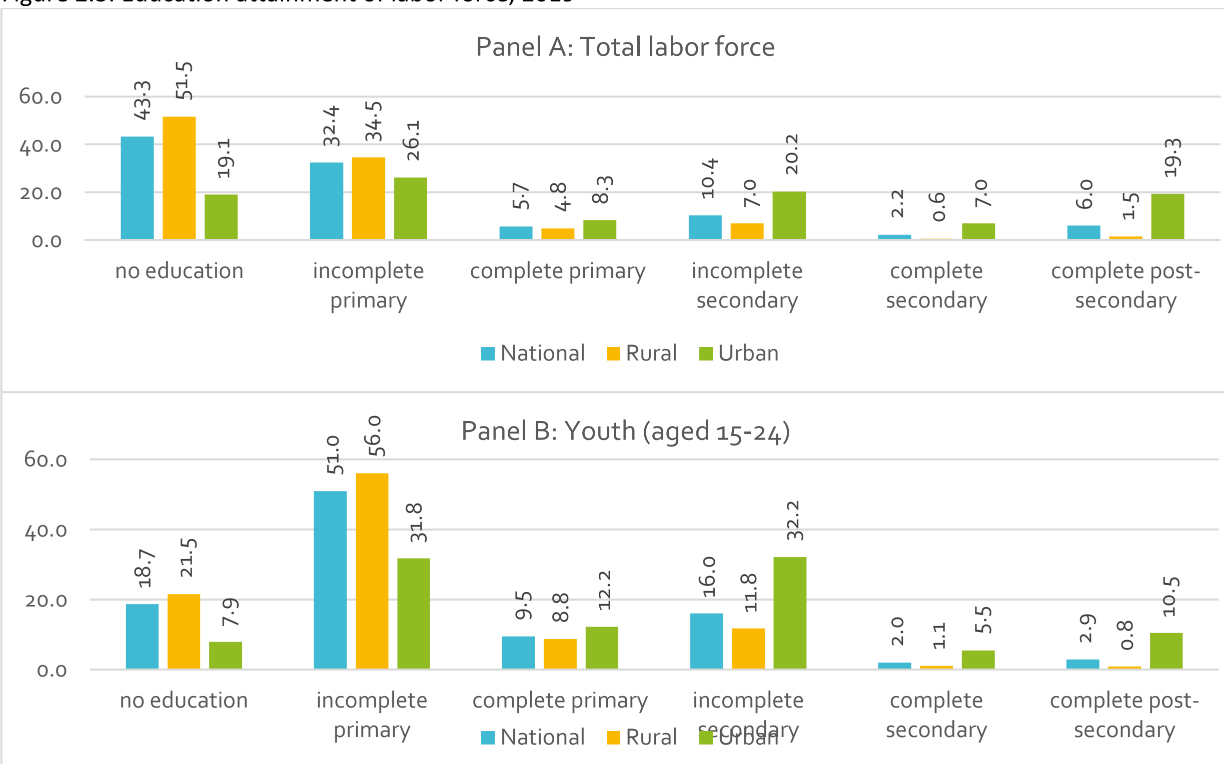
Source: ESS, 2019

Despite improvements, the labor force in Ethiopia remains young and largely uneducated. Almost one third of the labor force is below the age of 25 years in 2019 (Figure 2.2). Moreover, 76 percent of employed Ethiopians had not completed primary school; with almost half not having any education; and another third with incomplete primary education in 2019 (Figure 2.3, panel A). Though largely driven by rural education outcomes, even in urban areas, educational attainment is low with only 26 percent of the labor force having completed secondary education or above. Education levels remain low even among youth. In 2019, only one in three of 15-to-24-year-olds completed primary school or Grade 8 (Figure 2.3, panel

B). These low levels of educational attainment may explain to a large extent why the structural shifts in occupation—the move from low-productivity occupations to higher productivity occupations (usually in services and manufacturing), have been so slow in Ethiopia.

In each sector of the Ethiopian economy, there are significant returns to completing primary education. In agriculture, farmers who completed primary education, have 79 percent higher earnings relative to uneducated farmers controlling for other variables (World Bank, 2017). Earnings in household and micro-enterprises are substantially higher if the owner has completed primary education (relative to incomplete primary or no education). In wage employment, workers who completed primary earn 53 percent more relative to uneducated employees (World Bank, 2017). Returns to education are higher at higher levels of education, but few Ethiopians, particularly the less well-off, reach those higher levels.

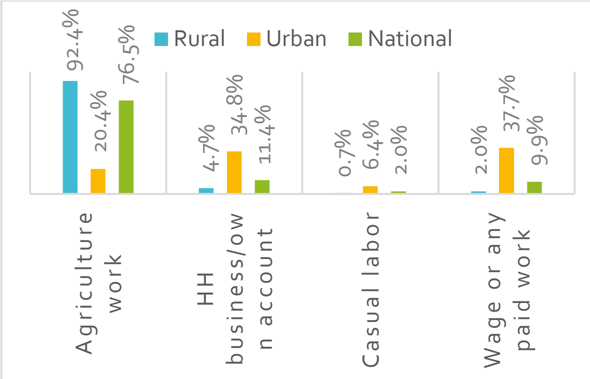
Figure 2.3. Education attainment of labor force, 2019



Source: ESS, 2019

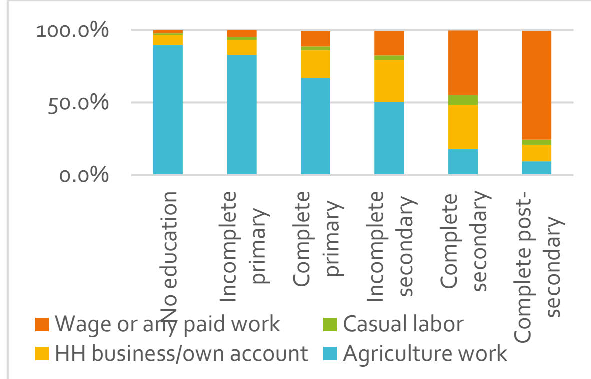
Employment outcomes for a large part of the Ethiopian population remain precarious, still largely dominated by agriculture and non-wage work. Even in urban areas, 1 out of 5 employed Ethiopians are engaged in agricultural work. Self-employment in the nonfarm sector, mainly in small household-run enterprises or own-account subsistence activities accounted for the bulk of employment in the nonfarm sector. Women are at a significant disadvantage in the Ethiopian labor market and are overrepresented in unpaid family labor and in informal self-employment in urban areas.

Figure 2.4. Job type by location, 2019



Source: ESS, 2014, 2016, 2019

Figure 2.5. Job type by education attainment, 2019



Source: ESS, 2019

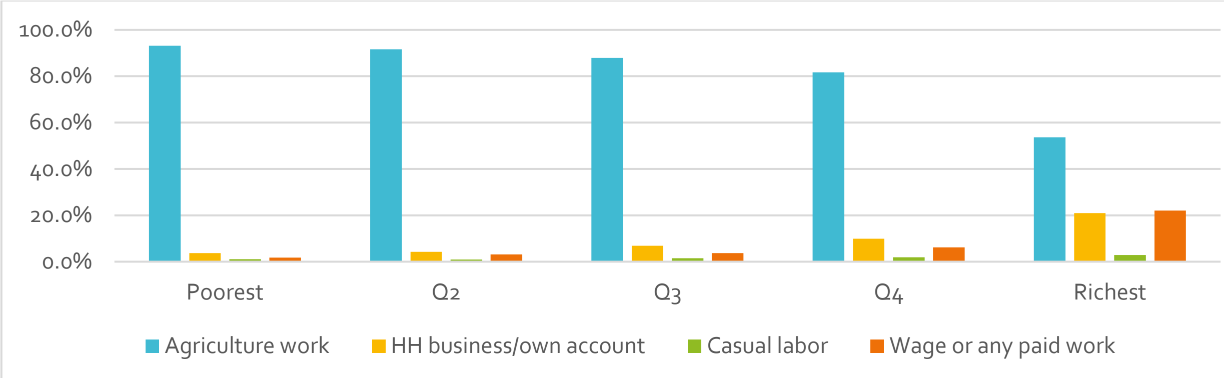
Job type and educational attainment

Education is strongly associated with job type. The share of workers with their main job in agriculture decreases as the level of education increases, from about 90 percent of workers in agriculture having no education to about 10 percent of workers with post-secondary education (Figure 2.5). This suggests that the probability to work in agriculture falls with education (especially in urban areas) and that of working in self-employment and wage employment increases with education. Moreover, the majority of the poorest 20 percent of the population are agricultural workers (Figure 2.6). The probability of being poor decreases with other forms of employment, with wage employment playing a strong role particularly for the richest quintile.

Wage employment is strongly associated with educational attainment and higher welfare. Wage employment dominates among workers with secondary (45 percent) and post-secondary (75 percent) education (Figure 2.5). Moreover, wage employment is strongly associated with improved living standards and wage employment plays an important role for Ethiopians in the upper part of the welfare distribution (Figure 2.6). Ethiopia has among the lowest primary school completion rates in Africa (54 percent), lower than the low-income average (66 percent) and far lower than the lower-middle income average (91 percent), a status Ethiopia aspires to achieve by 2025.[5] For Ethiopians to benefit from wage employment will require a strong push on completion of higher levels of education.

[5] https://data.worldbank.org/indicator/SE.PRM.CMPT.ZS?locations=ET

Figure 2.6. Jobs by income quintiles, 2019



Source: ESS, 2019

Self-employment (household business or own account work) also increases in importance with rising education levels. Self-employment peaks among workers who completed secondary education (30 percent) after which it drops off sharply for workers with tertiary education (12 percent) most of whom become engaged in wage work (Figure 2.5). This could be due to the nature of the urban labor market where there is a deficit of wage employment opportunities for workers with secondary education. In general, while education still comes with substantial returns in Ethiopia, Ethiopia require a larger number of wage jobs to place workers the expanding number of workers with post-secondary education. In the absence of wage employment, the growing number of tertiary educated workers may no longer reap the same benefits that previous generations did. Many workers with incomplete and complete secondary education are likely pushed into self-employment in small nonfarm enterprises by the dearth of wage employment opportunities (World Bank, 2017). See Box 2.1 for a profile of these enterprises in Ethiopia.

Box 2.1

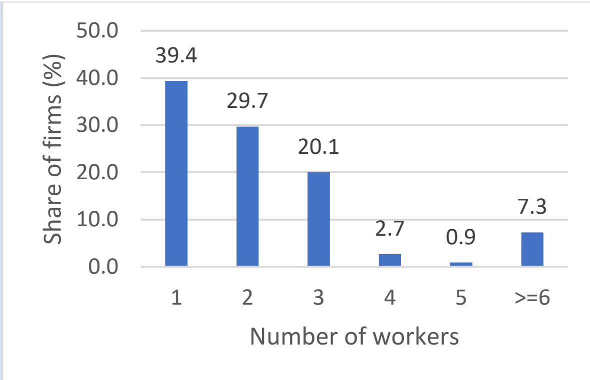
A profile of household enterprises in Ethiopia

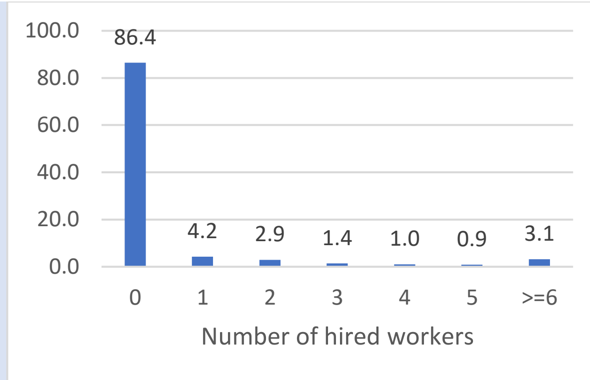
Nonfarm self-employment in Ethiopia is mainly in so-called household enterprises. These household enterprises are often owned and operated by one or more household members and cover a wide expanse of business activities: petty trading, retail of prepared foods, street hawking, tailoring, beauty parlors, electricians, brick layers, etc. The vast majority of household enterprises are engaged in commerce–street vendors and petty trading, are unincorporated and not registered for social security or tax purposes (World Bank, 2017). In 2019, there were about 4.7 million small household enterprises in Ethiopia, providing employment to about 27 million people (household members and hired workers).

Figure 2.6. Household enterprise are small, young, and mainly engaged in services, 2019

A. Household enterprises are small

B. Household enterprises are dominated by own account workers



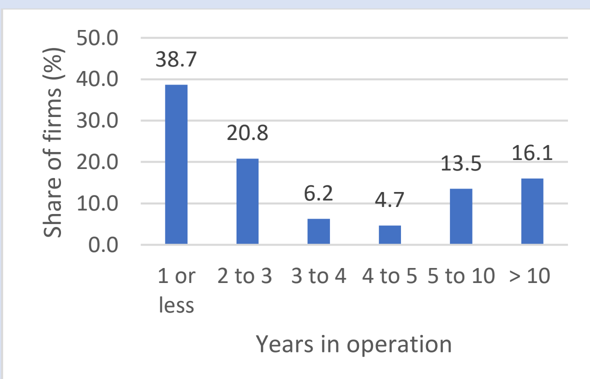


Household enterprises in Ethiopia are small. The greatest share of household enterprises (39 percent) had only 1 worker in 2019 (Panel A of Figure 2.6). Less than 10 percent of all household enterprises in Ethiopia have more than 5 workers.

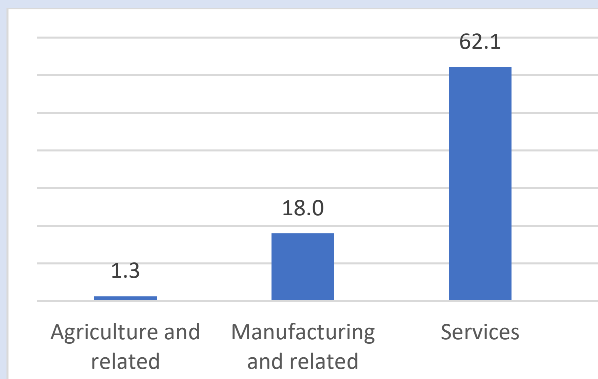
Household enterprises mostly depend on household labor. Only 14 percent of household enterprises hired external (non-household) workers for wages in 2019 (Panel B of Figure 2.6).

Household enterprises tend to be young. About 39 percent of household enterprises interviewed in 2019 had been in operation for one year or less, and 21 percent had been in operation for 2 to 3 years (Panel C of Figure 2.6). About 16 percent of household enterprises had been in operation for 10 years or more, indicating that household enterprises can provide steady long-term employment, at least for the owner, for only a small share of enterprises.

C. Household enterprises are young



D. NFEs are mainly engaged in services



Household enterprises are mainly engaged in services. Household enterprises were mainly active in services, accounting for 62 percent of all enterprises in 2019 (Panel D of Figure 2.6). About 18 percent were engaged in manufacturing and related activities. The share of enterprises in agriculture and related activities was about 1 percent (Panel D of Figure 2.6).

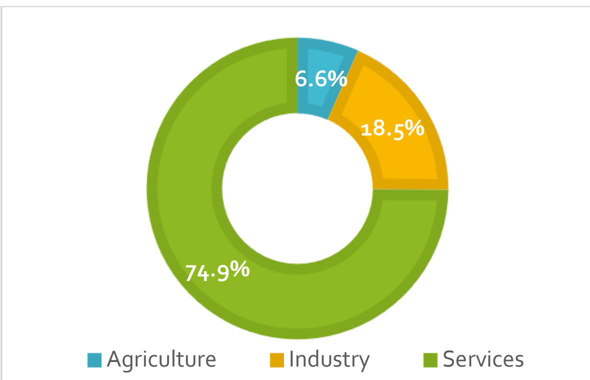
Wage employment in urban Ethiopia

Regular wage employment, especially in the formal sector, is the kind of employment that is strongly related to economic development, rising living standards, and the emergence of a middle-class. The structure of employment is a key defining difference between poorer and richer economies. In Ethiopia, about 10 percent of employment consists of wage-employment (Figure 2.4). In urban areas, however, wage employment constitutes a large share of employment with 37 percent of urban Ethiopians in wage employment. In rural Ethiopia, on the other hand, wage employment is negligible at only 2 percent. Based on these stark differences, we focus on wage employment in urban areas in the subsequent section.

Wage employment in urban areas is dominated by jobs in the services sector. About 75 percent of wage employed urban Ethiopians worked in services in 2019 (Figure 2.7).[6] Industry—composed of manufacturing, mining, quarrying and construction industry divisions—captured about 19 percent of total urban wage employment.

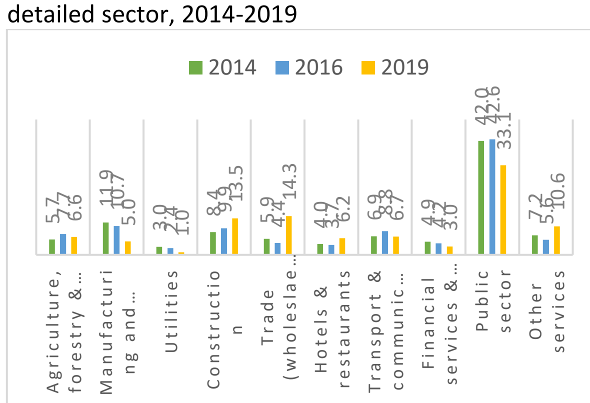
Despite Ethiopia's industrialization strategy in recent years and the opening of Industrial Parks, the share of manufacturing in total employment has not increased over time. The total number of jobs in manufacturing has increased from about 1.4 million jobs in 2014 to about 1.7 million jobs in 2019. Yet, as a share of total urban wage employment, manufacturing and mining has lost importance, decreasing from 12 percent in 2014 to 5 percent in 2019 (Figure 2.8).

Figure 2.7. Sectoral share of wage employment, urban, 2019



Source: ESS, 2019

Figure 2.8. Wage employment in urban Ethiopia, by detailed sector, 2014-2019



Source: ESS, 2014, 2016, 2019

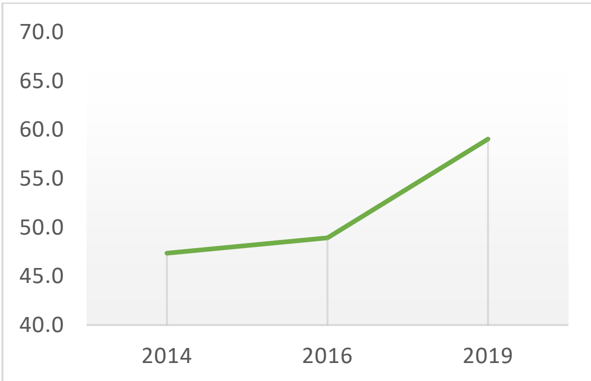
In Ethiopia, public sector is still the dominant form of wage employment. When looking at more detailed sectors of employment, we see that one third of the wage employed in urban Ethiopia are engaged in the public sector (health, education, public administration, etc.) (Figure 2.8). Yet, public sector employment decreased between 2014 (47 percent) and 2019 (36 percent). On the other hand, private sector wage employment in urban Ethiopia increased substantially from 47 percent in 2014 to 59 percent in 2019 (Figure 2.9), reflecting Ethiopia's economic reforms in supporting private sector businesses. In line with this, the private sector contributed over 90 percent of the total additional wage employment (job) growth between 2014 and 2019 (Box 1.2). The other biggest sectors for urban wage employment in 2019 are trade and tourism-related jobs (14 percent) and construction (14 percent).

The sectors of wage employment differ drastically for men and women. Looking at the distribution of wage employment for men and women, we see that men in wage employment in urban areas are more likely to work in construction and transport and communication industries (Figure 2.10). On the other

[6] The sector includes electricity and gas; water supply; transportation; accommodation; information and communication, financial and insurance activities; real estate; professional and scientific and administrative support; public administration, defense, compulsory social security, education, health and other social activities; hotel and restaurants; and wholesale and retail trades.

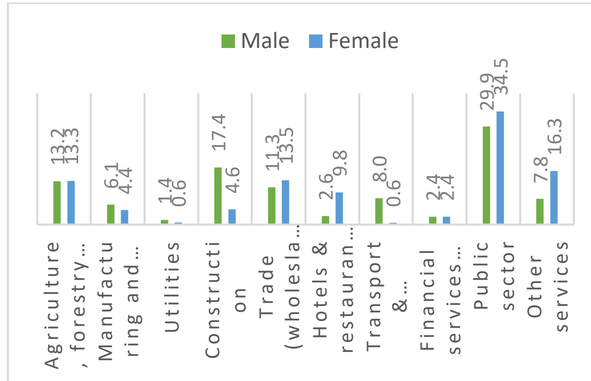
hand, a larger share of urban wage employed women work in the public sector compared to men, and women dominate wage employment in hotels and restaurants and other services.

Figure 2.9. Share of private sector wage employment, urban, 2019



Source: ESS, 2019

Figure 2.10. Wage employment in urban Ethiopia, by detailed sector and sex, 2019



Source: ESS, 2019

Section 3: A snapshot of unemployment in 2019

Unemployment is among the most commonly used indicators to track labor market performance.[7] The unemployment rate is often used to determine the health of the economy and can be used to evaluate the performance of the economy and its ability to provide jobs for Ethiopians. The unemployment rate in Ethiopia is low in rural areas as is usual in largely rural low-income countries. Low unemployment rates in such context reflect the need to work to earn a living rather than strong labor demand. Urban unemployment rates on the other hand are much higher. Using ESS data, unemployment rates are not comparable across years due to changes in the survey design (see Box 3.1) thus analysis below focuses only on 2019.

Unemployment rate

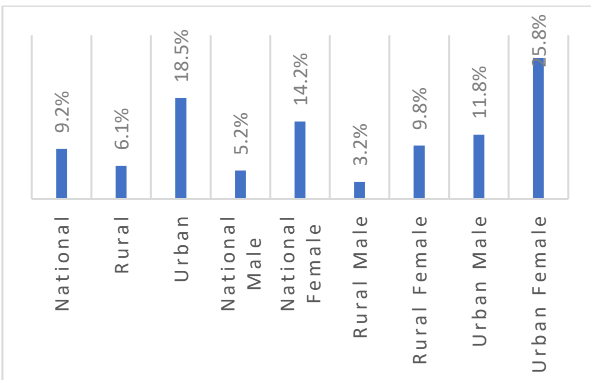
Unemployment rates are modest at national level, but disguise large differences across location and gender. Ethiopia's national unemployment rate stands at 9 percent in 2019. However, considerable differences across locations and gender prevail (Figure 3.1). Unemployment is urban areas (19 percent) is three times the rate of rural areas (6 percent). Three quarters of all the unemployed are in urban areas.

[7] The definitions employed in this study are based on the ILO international standards pre-2013 (13th ICLS). An individual is considered employed if he worked for at least 1 hour in any productive activity, including waged work, production of goods and services for sale, unpaid family work, etc. According to the ILO relaxed definition of unemployment and in line with the standards of the Ethiopian CSA, an individual is classified as unemployed if he did not work at least 1 hour in the reference week and he was available for work in the reference period. The third criterion "seeking work", i.e. someone actively looked for work in a specified recent period, identifies together with the first two the unemployed according to the ILO strict definition of unemployment. Following the practice in Ethiopia, we will not use this strict definition. The relaxed definition includes persons who had no work but available for work. They may either seeking work or not seeking /discouraged job seekers/. Discouraged job seekers are those unemployed who want a job but not taking any active steps to search for work because they thought that job is not available in the labor market.

Moreover, female unemployment is almost three times the rate of male unemployment. The situation is particularly dramatic for women in urban areas, one quarter of whom was unemployed in 2019[8].

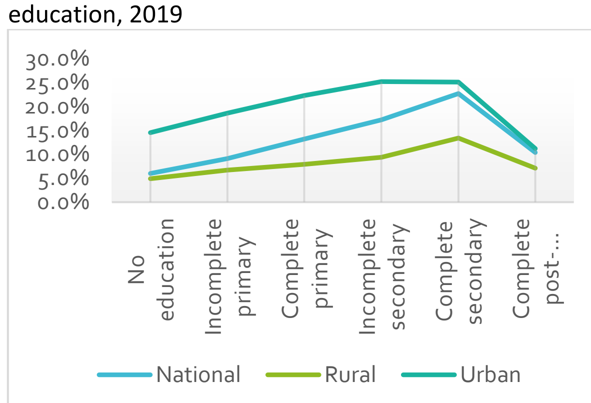
Unemployment rises with attained education with an exception for completed post-secondary education. In many low-income countries, unemployment rates are low at the national level but substantially higher among better educated people in urban areas (World Bank, 2017). Ethiopia is no exception. The 2019 unemployment rate was higher among those having completed secondary education compared to those without education. This difference is particularly striking in urban areas where the unemployment rate for those with completed secondary education stands at 25 percent compared to 15 percent for those without education (Figure 3.2). On the other hand, post-secondary education pays off in Ethiopia's labor market, particularly in urban areas, with the unemployment rates of Ethiopians with post-secondary education among the lowest.

Figure 3.1. Unemployment rate by location and gender, 2019



Source: ESS, 2019

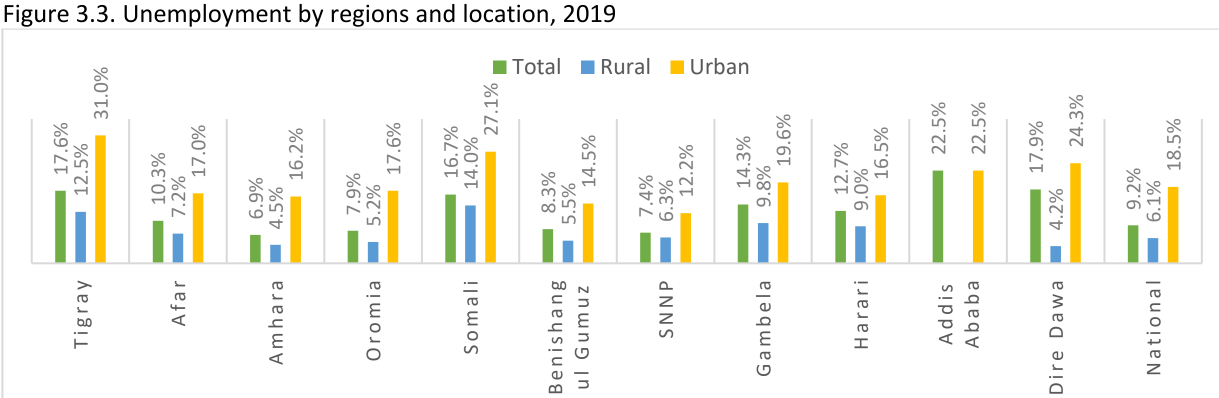
Figure 3.2. Unemployment rate by the level of education, 2019



Source: ESS, 2019

Regional variations in unemployment are high. Urban unemployment was particularly high in 2019 in Tigray (27 percent), Dire Dawa (24 percent), Addis Ababa (23 percent), and Somali (17 percent) (Figure 3.3). Rural unemployment on the other hand is highest in Somali (14 percent), Tigray (13 percent), and Gambella (10 percent).

Figure 3.3. Unemployment by regions and location, 2019



[8] This is in line with the results of the UEUS, which finds that the urban employment rate was 19.1 percent in 2018 and 18.7 percent in 2020. For males, the rate was 12.1 percent in both periods. For females, however, it slightly falls from 26.4 percent in 2018 to 26.1 percent in 2020.

Source: ESS, 2019

Long-term unemployment is a challenge for Ethiopia's labor force, particularly for women. As unemployment becomes long-lasting, its impact can have a negative lasting effect on future employment and earnings. Long-term unemployment is a challenge in Ethiopia's labor market. More than one quarter of all the unemployed were unemployed for one year or more in 2019. Even though, there is little variation across urban and rural areas, females are particularly hard hit by long-term unemployment; 31 percent of women were unemployed for one year or more compared to 19 percent of men.

Box 3.1 **Comparability of ESS (LSMS) Labor Modules (2014-2019)**

The labor module in ESS4 has been updated to reflect the concepts and definitions as endorsed by the 19th International Conference of Labor Statistics in 2013. Employment is defined as work for pay or profit, work as all activities to produce goods and services. Thus, it covers employment, volunteering, own-use production, unpaid training, among other forms of work. Below, we compare the employment/labor related questions asked in ESS4 and the previous rounds of ESS.

ESS2 (2014) and ESS3(2016) ask questions about the hours worked in the last seven days in the particular work (agriculture, household non-agricultural business, casual labor, wage or salary job, and unpaid appreciate). The ESS4 (2019), however, also includes a "yes" or "no" questions whether they have worked or not in the particular job. The main challenge arises from the inability to compute unemployment and hence labor force using the 2014 and 2016 data because the surveys do not capture information on temporary absence of individuals from employment/jobs. ESS4 also includes questions on job search, unemployment characteristics for unemployed persons, and availability for work. As a result, it was only possible to compute unemployment rate and labor force participation rate for 2018/9.

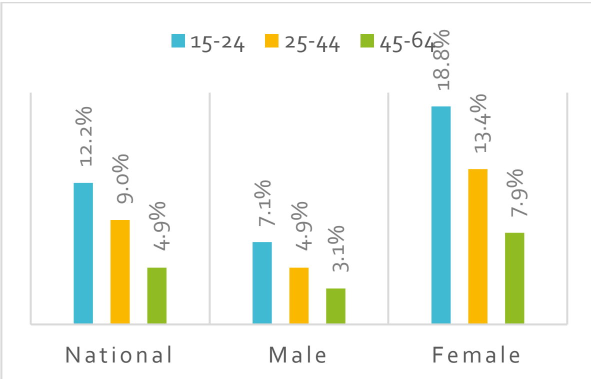
The other challenge related to using the LSMS-ISA and comparing labor market indicators across the different waves arises from the change in the survey design in ESS4. For instance, ESS4 is representative of all the regional states of Ethiopia which was not the case in 2014 and 2016. Therefore, caution needs to be taken when comparing the labor market indicators across years and regions.

Youth unemployment

Ethiopia has experienced a high pace of growth, but the main challenge going forward, is to enhance inclusiveness, especially for young Ethiopians. A growing gap between aspirations and opportunities for socio-economic inclusion contributes to fostering disenfranchisement among Ethiopian youth. The ability to productively employ its youth is crucial for Ethiopia to grasp the benefits of its young and growing population. The increase in the working age population goes hand in hand with a shift towards a more educated young labor force, particularly in urban areas. This puts pressure on the absorption capacity of the Ethiopian labor market which is exacerbated by reduced hiring in the public sector, which is the main employer for high-skilled labor and a relatively weak private sector. The Ethiopian labor market encounters important challenges in productively employing a young labor force. Even though Ethiopia has sustained high levels of growth and labor market conditions have improved slightly over time, important challenges remain in including and productively employing youth.

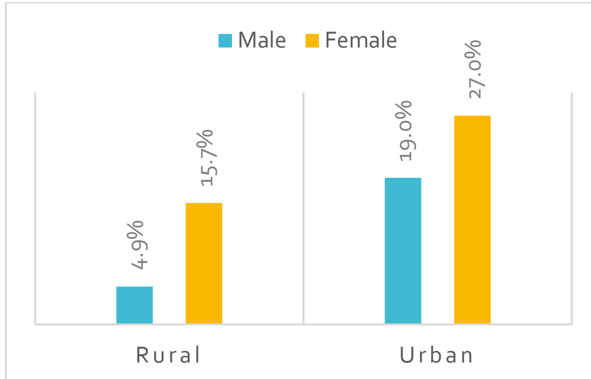
Unemployment is a challenge for Ethiopian youth. Due to the sheer number of young Ethiopians and their worse labor market outcomes compared to their older counterparts, there is a strong need for focused attention on youth.[9] As in many countries, standard labor market indicators in Ethiopia are worse for youth compared to the overall working-age population. In 2019, the youth unemployment rate was 12 percent at the national level compared to 9 percent for 25 to 44 year olds and 5 percent for 45 to 64 year olds (Figure 3.7). The higher unemployment rates for youth is almost entirely driven by first-time job seekers. Unemployment rates sharply drop for "older" youth (25-29), suggesting that it is the first work experience that is so important yet so difficult to obtain.

Figure 3.7. Unemployment by age group and sex, 2019



Source: ESS, 2019

Figure 3.8. Youth (15-24 year olds) unemployment by location and sex, 2019



Source: ESS, 2019

The national average for unemployed youth masks the large challenges for young Ethiopians in urban areas where 1 in 5 youth looking for a job end up in unemployment. The largely rural nature of Ethiopia drives down the national youth unemployment rate, but youth unemployment is particularly high in urban areas. In 2019, 27 percent of urban youth was unemployed, compared to 24 percent of the overall urban working-age population.

Female youth suffer a higher risk of unemployment than their male counterparts. Young females are particularly disadvantaged with respect to unemployment, but urban female youth bear the largest brunt of unfavorable labor market conditions. About 27 percent of urban female youth were unemployed in 2019 (Figure 3.8). This compares to an unemployment rate of 19 percent for young urban males.

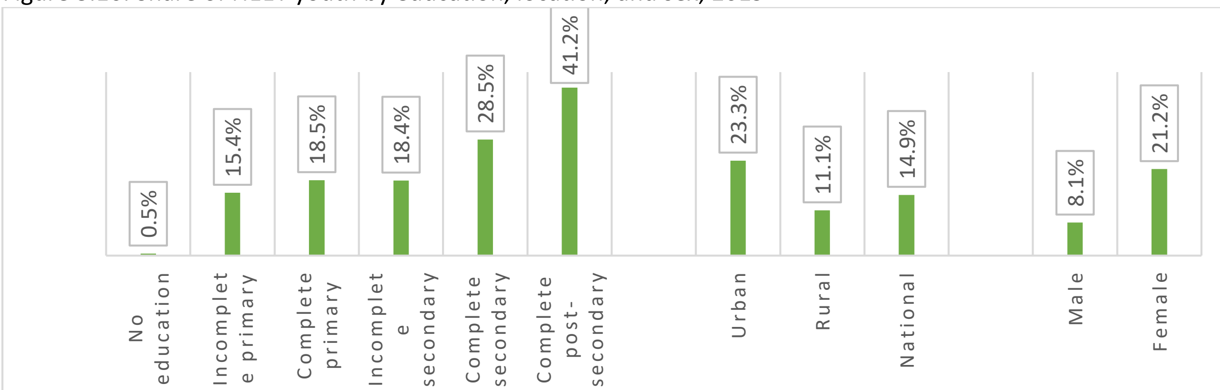
Youth Not in Employment, Education, or Training (NEET)

Youth who are not in school, education, or employment (NEET) are a concern in Ethiopia. The NEET rate is a relatively new indicator but one of increasing importance as it measures vulnerabilities among youth. While unemployment and NEET are correlated, there are several important differences in characteristics that makes NEET a valuable addition to standard employment indicators (ILO, 2015; World Bank, 2017). The main merit of the NEET indicator is its capacity to identify groups that are most vulnerable and at higher risk of exclusion from the labor market. NEET is particularly applicable to youth, as it measures a state of complete idleness (in the sense of not being employed nor investing in skills to improve future employability) at a crucial time when skills and work experiences should be accumulated. NEETs are at

[9] In this note, youth comprise those persons aged 15-24 years. This is in contrast to the national context that defines youth to comprise those persons aged 15-29 years.

risk of both labor market and social inclusion because they are neither improving their future employability through investments in skills nor gaining experience through employment (ILO, 2015).

Figure 3.10. Share of NEET youth by education, location, and sex, 2019



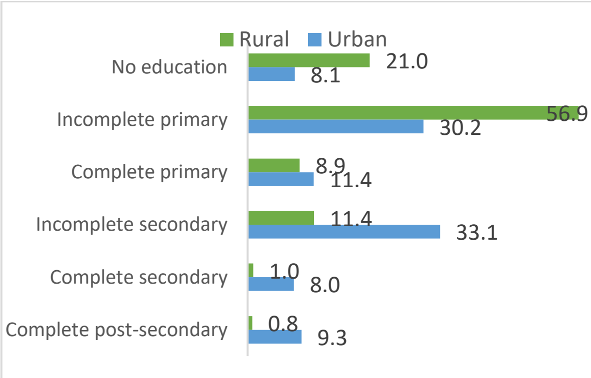
Source: ESS, 2019

Overall, NEET has decreased in 2019. **However, it is fairly high despite low youth unemployment at the national level**. The share of young Ethiopians who are NEET is high at 15 percent and almost 1 in 4 young urban Ethiopians is NEET (Figure 3.10). Of the 15 percent of Ethiopian youth who are NEET, over 70 percent are female. Yet, while the share of NEET has declined over time, many youths are left at the margin of any productive engagement, either in school or in the labor market. Though NEET is highest in urban Ethiopia (about 23 percent), 11 percent of rural youth are NEET, higher than the share of rural youth who are formally unemployed (about 6 percent in 2019). NEET is lowest for youth with no education and increases steadily with educational attainment. Given the lower than average unemployment rate for youth with post-secondary education, this shows that many youth with higher levels of education are idle, not even looking for a job.

Skills mismatches for youth

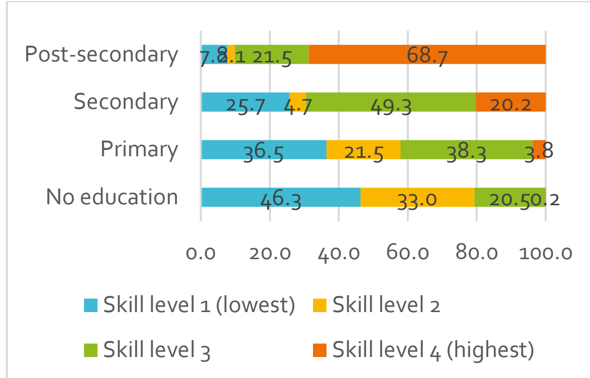
Ethiopia's youth remains largely unskilled, though there is a large disparity between youth in rural and urban areas. In 2019, 21 percent of rural youth had never gone to school, 57 percent had not completed primary education, and only about two percent had completed secondary education or higher (Figure 3.11). Urban youth have higher levels of education with 17 percent having completed secondary education or higher in 2019. These figures reveal an important challenge of Ethiopia's labor force: though the current generation of youth is better educated than any generation before them, education outcomes remain low according to any standard and are expected to remain low in the near future.

Figure 3.11. Educational attainment of youth, by location, 2019



Source: ESS, 2019

Figure 3.12. Skills content of jobs by education level of young workers, youth, 2019



Source: ESS, 2019

Comparing youth's education levels with job skills requirements suggests the coexistence of overqualified youth and skills shortages. Breaking down jobs by skill requirements according to the four skill levels as standardized by the International Classification of Occupations (ISCO) (see Box 3.2 in Annex), Figure 3.12 illustrates that despite higher education levels than their older counterparts, youth are mostly engaged in low-skilled occupations (Figure 3.12). In 2019, 29 percent of the youth were employed in jobs belonging to the lowest skills category (skill level 1—typically requiring the performance of simple and routine physical or manual tasks; for a detailed description of skills levels, please refer to Box 3.1), compared to 27 percent of all wage workers. About 14 percent of the youth were employed in jobs that required skill level 2—typically involve the performance of tasks such as operating machinery and electronic equipment; driving vehicles—compared to 10 percent of all wage workers. Only 19 percent of youth took jobs that require highest skill levels, compared to 30 percent of all wage workers.

Youth who completed post-secondary education have a good fit into the skills distribution. About 90 percent of youth with post-secondary education worked in jobs using the highest skills level (skill level 3 and 4) in 2019, pointing to a good match of education and required skill levels at the upper end of the skills distribution. However, about 10 percent of the youth with post-secondary education are engaged in low skill jobs (skill level 1 and 2). This suggests that a considerable share of the youth was 'overqualified' for the jobs they are doing. On the other hand, youth with completed secondary education seem less fortunate in matching education and required skills. Almost one quarter of youth who completed secondary education are engaged in the lowest skilled jobs (skill level 1), pointing to a shortage of jobs with higher skill levels.

On the other hand, there also seems to be a skills shortage. Over 40 percent of youth with completed primary education perform jobs with skill level 3 and 4. About 4 percent were under educated in the sense that they are engaged in jobs that require higher educational attainment (Skill level 4 jobs). These youth perform jobs for which they have a skills deficit, highlighting the importance of increasing quality and completion rates in basic education to increase productivity in the relatively low-skilled jobs most Ethiopian youth are engaged in.

Box 3.2 **Definitions of ISCO skill levels**

Skill Level 1. Occupations at Skill Level 1 typically require the performance of simple and routine physical or manual tasks. They may require the use of handheld tools, such as shovels, or of simple electrical equipment, such as vacuum cleaners. They involve tasks such as cleaning; digging; lifting and carrying materials by hand; sorting, storing, or assembling goods by hand (sometimes in the context of mechanized operations): operating non-motorized vehicles; and picking fruit and vegetables. Many occupations at Skill Level 1 may require physical strength and/or endurance. For some jobs, basic skills in literacy and numeracy may be required. If required these skills would not be a major part of the job.

Skill Level 2. Occupations at Skill Level 2 typically involve the performance of tasks such as operating machinery and electronic equipment; driving vehicles; maintenance and repair of electrical and mechanical equipment; and manipulation, ordering and storage of information. For almost all occupations at Skill Level 2 the ability to read information such as safety instructions, to make written records of work completed, and to accurately perform simple arithmetical calculations is essential. Many occupations at this skill level require relatively advanced literacy and numeracy skills and good interpersonal communication skills. In some occupations, these skills are required for a major part of the work. Many occupations at this skill level require a high level of manual dexterity.

Skill Level 3. Occupations at Skill Level 3 typically involve the performance of complex technical and practical tasks that require an extensive body of factual, technical, and procedural knowledge in a specialized field. Occupations at this skill level generally require a high level of literacy and numeracy and well-developed interpersonal communication skills. These skills may include the ability to understand complex written material, prepare factual reports and communicate with people who are distressed.

Skill Level 4. Occupations at Skill Level 4 typically involve the performance of tasks that require complex problem solving and decision making based on an extensive body of theoretical and factual knowledge in a specialized field. The tasks performed typically include analysis and research to extend the body of human knowledge in a particular field, diagnosis and treatment of disease, imparting knowledge to others, design of structures or machinery and of processes for construction and production. Occupations at this skill level generally require extended levels of literacy and numeracy, sometimes at a very high level, and excellent interpersonal communication skills. These skills generally include the ability to understand complex written material and communicate complex ideas in media such as books, reports, and oral presentations.

Source: World Bank (2017)

Section 4: A snapshot of women's labor market challenges

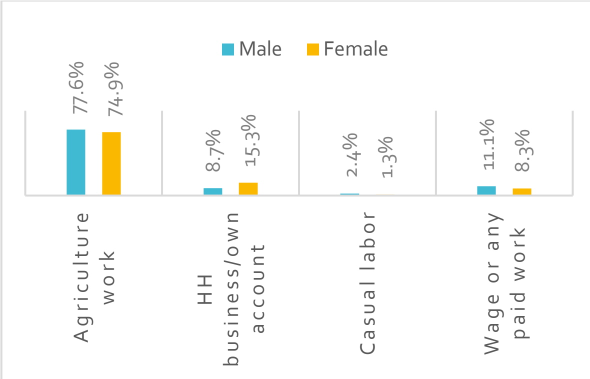
Women are the most disadvantaged group in the labor market, at all age groups and in most countries around the world. Among the important factors that put women at a disadvantage in the labor market include lower human capital endowments, the burden of household and care responsibilities, lack of adequate infrastructure, and social and cultural norms. Women's participation in the labor market is often more discontinuous than men's; they are more likely to be employed in seasonal and part-time jobs (Theunissen, Kuijper, & Alencar, 2019). Worldwide, women earn less than men for the same work. Women and men tend to work in different sectors, which often goes hand-in-hand with lower wages for perceived 'female' work. Gender discrimination in the labor market when they become pregnant and a 'motherhood penalty' (when they become mothers) can further hamper women's equal participation in the labor market and widen gender gaps in labor market outcomes (Theunissen et al., 2019). Policy directions in Ethiopia, and the recent labor proclamation (No. 1156/2019) in particular, outlaw any form of gender-based discrimination in Ethiopia. However, in reality, significant gender gaps in many areas, including employment status, labor participation, and earnings, prevail. LFPR are lower amongst women than men and a significant and increasing gender wage gap exists. Factors that explain gender inequality in the labor market include gender differences in demographic characteristics (such as age), education level, wealth, household composition, and geographical location. Moreover, gender-based discrimination that features norms and beliefs influence division of labor, and women's limited access to technical training and skills development, as well as women's higher prevalence in the informal sector determine existing gender gaps in employment and wage (World Bank, 2019).

Women are at a significant disadvantage in Ethiopia's labor market and the intersection of gender and age confers an additional disadvantage. Evidence presented earlier showed the significant disadvantages of women in many areas. Unemployment among females is almost three times the rate among men in 2019 nationally and more than double that of men in urban areas where unemployment rates are significantly higher overall. In a similar vein, the unemployment rate among young women and men are 19 percent and 7 percent, respectively (Figure 3.7). Women are less likely to be in work overall, evidences in the large differences in employment-to-working-age population ratios between men (79 percent) and women (52 percent) (Table 1.1) or lower labor force participations rates at about 62 percent compared to 84 percent of men in 2019. This amounts to a gap of 22 percentage points in labor force participation rates. Compared to men, women tend to be overrepresented in non-wage employment, and underrepresented in paid employment. In 2019, 6.5 percent of women had their main occupation in nonfarm wage employment, compared to 14 percent for men.

Job types, sectoral employment, and occupations

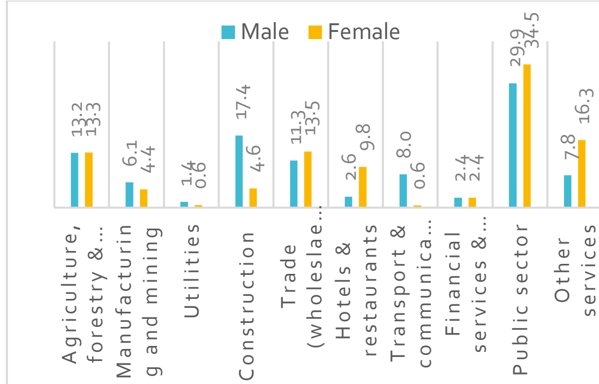
Strong gender differences prevail in sectoral employment and occupation. Both women and men in Ethiopia are high likely to be engaged in agriculture work. About 75 percent of women and 78 percent of men are engaged in agriculture work. The main differences are in the types of non-agriculture employment men and women engage in. Women are less likely to be engaged in wage employment compared to men but are almost twice as likely to be self-employed (Figure 4.1). When looking at more detailed sectors of employment, we observe that fewer women were employed in traditionally male-dominated sectors, such as construction and transport, in 2019 (Figure 4.2). On the other hand, there are slightly more women in the public sector, which includes traditionally female professions such as teachers and health care workers. Moreover, the types of occupation that men and women engage in are vastly different. Partially resulting from social norms, women tend to prefer occupations that are "socially acceptable" and they are thus more likely to choose professions that allow them to combine work and childcare responsibilities. Although the share is small for both men and women, women are less likely to take up wage employment as managers. The share of women working as clerks (5 percent) is higher than that of men (1 percent). The share of women taking up elementary operations (31 percent) is higher than that of men (22 percent) in 2019. Occupational segregation by sex could lead to allocative inefficiencies and gaps in earnings.

Figure 4.1. Employment by job type and sex, 2019



Source: ESS, 2019

Figure 4.2. Wage employment by sector and sex, 2019



Source: ESS, 2019

Wage differentials

Women earn substantially less than men, a gap that is only partially explained by differences in endowments and job characteristics. Total wage earnings for women are on average one third lower than wages for men (Figure 4.3). Explaining factors for these wage differentials could be occupational segregation and the higher concentration of women workers in informal and precarious employment. Women's wages are not only lower by sector, women's employment was also concentrated in low paying sectors in 2019 (Figure 4.4). Addressing gender gaps in the labor market, particularly in terms of wage differentials, is challenging and includes examining the nature of employment creation in a country.

Even in sectors with a strong share of female employment, wage differentials are pronounced. For example, 37 percent of all urban wage employment in the public sector was undertaken by women in 2019. Yet, women in this sector earn approximately one third less than their male counterparts. Looking at occupations within the public sector, we examine that women are overrepresented in low-level occupations which accounts for some of this difference. However, even within the same occupation, wage differentials are pronounced and women earn less than their male counterparts across all occupations (except managers) in urban Ethiopia. For example, male "professionals and technical and associate professionals" in urban areas earn an average wage of ETB 6,000 per month while women only earn ETB 4,300 per month. Moreover, in the hospitality sector (hotels and restaurants), a sector where 66 percent of all jobs are taken by women, women across all occupations earn less than their male counterparts, a difference particularly pronounced for managers.

Figure 4.3. Monthly wage earnings by sex, 2014-2019

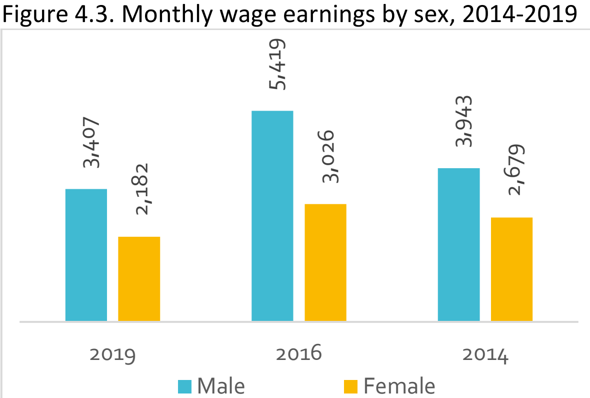
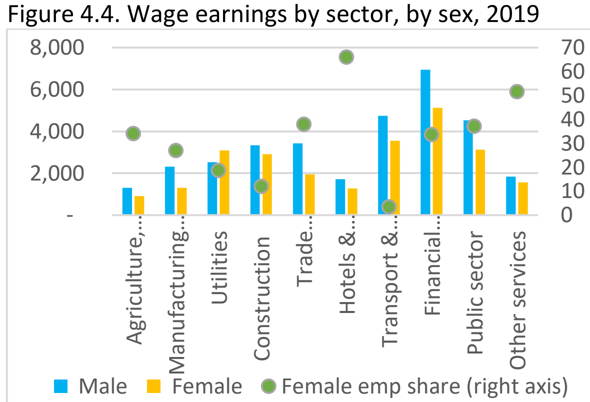


Figure 4.4. Wage earnings by sector, by sex, 2019



Source: ESS, 2014, 2016, 2019 Source: ESS, 2019

Section 5: Impacts of COVID-19 on the Ethiopian Labor Market

The outbreak of COVID-19 pandemic has caused major disruptions to economic activity, and its impact on labor market has become an issue of global concern. While the pandemic poses important risk for people's health and economic wellbeing, the stringent government response measures have a devastating impact on employment, production, and income of workers and their dependents. Government's responses to contain the virus that include workplace and market closures, mobility restrictions, suspension of some activities, and the associated reduction in demand for goods and services have resulted in job loss, slowdown in production and caused a reduction in working hours and labor earnings. This is more likely to affect workers in the large informal sector because they generally rely on daily sales for their earnings, lack mechanisms for collective bargaining, and tend to be in activities that are contact intensive and thus particularly affected by the pandemic response measures—such as restaurants, tourism, small retail shops, hairdressers, and taxi drivers (Danquah, Schotte, & Sen, 2020; Schwettmann, 2020). This section discusses the impacts of COVID-19 on the Ethiopian labor market and how labor market outcomes have affected households based on high-frequency phone surveys[10].

Effects of COVID-19 on employment

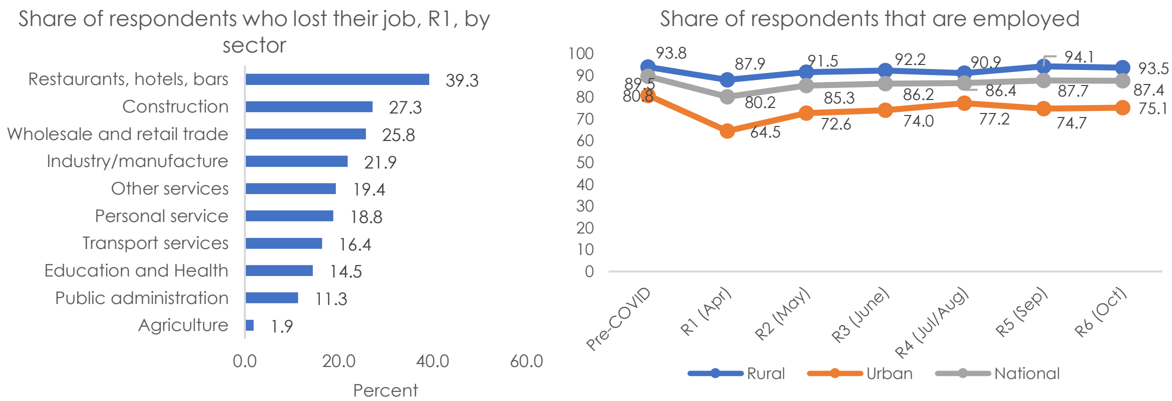
The COVID-19 pandemic had disturbing impacts on employment, particularly at the onset of the pandemic. Employment rates plunged in the early days of the pandemic, with 8 percent of respondents losing their job at the beginning of the outbreak, particularly those who were self-employed or working as casual laborers (World Bank, 2021)[11]. The job impacts were heterogenous across locations with high job losses in urban areas (20 percent) than in rural areas (3 percent), and across genders being higher for women (13 percent) than for men (7 percent). Employment rates rebounded in the second half of 2020 reaching pre-COVID levels in rural areas but remaining slightly lower than before the pandemic in urban areas (Figure 5.1, right panel). There were projections of a 10-15 percent loss of employment leading to a

[10] The two high-frequency phone surveys, one with formal firms in Addis Ababa (HFPS-F) and one with households (HFPS-HH) were designed and implemented by the World Bank Ethiopia team, in collaboration with the government to monitor the impacts of the COVID-19 pandemic on Ethiopia's economy and people. The HFPS-F monitors the effects of and responses to the Covid-19 pandemic on firm operations, hiring and firing, and expectations of future operations and labor demand. The survey is based on a stratified sample from an administrative register of all formal firms in Addis Ababa and data collection began in mid-April 2020, and firms are called back every three weeks for a total of eight survey rounds. The HFPS-HH is based on a subsample of households that had been interviewed for the Living Standards Measurement Study (LSMS) in 2019, covering urban and rural areas in all regions of Ethiopia. It helps to monitor the impacts of the Covid-19 pandemic in Ethiopia on households' welfare. The questionnaire covers a series of topics, such as knowledge of Covid-19 and mitigation measures, access to routine healthcare as public health systems are increasingly under stress, access to educational activities during school closures, employment dynamics, household income and livelihood, income loss and coping strategies, and external assistance. Survey data collection started at the end of April 2020, and households are called back every three to four weeks for a total of seven survey rounds to track the impact of the pandemic as it unfolds and inform government action. Details on the survey can be found at: https://www.worldbank.org/en/country/ethiopia/brief/phone-survey-data-monitoring-covid-19-impact-on-firms-and-households-in-ethiopia.

[11] Employment statistics based on the high-frequency surveys only include information on the respondent to the phone survey (typically the household head) but are not representative for all household members participating in the labor market.

cumulative loss of perhaps 1.6 - 2.4 million jobs depending on the severity and duration of the crisis, mostly in urban areas. In the worst-case, 3.2 -4 million could lose their jobs (UN, 2020). So far, however, the impacts of COVID-19 on jobs volume in the country has been small yet persistent (World Bank, 2021).

Figure 5.1. Employment losses have been more severe in services sectors and urban areas



Source: World Bank, 2021

The job impacts of COVID-19 are heterogenous across locations, specific groups (informal workers and women), and sectors. Urban jobs were lost in higher proportion than in rural areas. This could be due to the high likelihood of closure of businesses and large-scale loss of jobs/livelihoods, in both the formal and informal sectors, especially in urban areas. The labor market effects of the pandemic are likely to be severe for vulnerable groups and individuals. Workers employed in micro, small and medium-size enterprises (MSMEs) in the urban and informal sectors are among the most impacted (UN, 2020). Given the nature of their work, many informal employees will remain particularly vulnerable to contracting the virus. These workers are at high risk because they are low-income earners that generally rely on daily sales for their earnings, lack mechanisms for collective bargaining, without unemployment insurance, limited access to healthcare, and no back-up savings (Danquah et al., 2020). In addition, the pandemic response measures may also aggravate gender inequalities in employment. Women, who are disproportionately represented in the informal sector, will be impacted seriously (UN, 2020). Women often run the smallest and most vulnerable businesses. They will also be disproportionally affected by school and day care closures, and often exit the labor market to care for children or sick relatives (World Bank, 2021). Moreover, informal workers are likely to be in activities that are contact intensive and thus particularly affected by the pandemic response measures—such as restaurants, tourism, small retail shops, hairdressers, and taxi drivers. As such the sectors most impacted include manufacturing, construction, trading, retail, hospitality and tourism, sectors that either require close human contact or are highly covariate with the business cycle (World Bank, 2021; UN, 2020). According to the World Bank (2021), the share of respondents who lost their job was highest in the hospitality sector, construction, and wholesale and retail trade (Figure 5.1, left panel).

Due to COVID-19, unemployment has been rising and inactivity has been decreasing, as households need additional members to start earning an income. Unemployment has increased significantly between February 2020 (the pre-COVID period) and August 2020 in Ethiopia (Luca Fedi & Triki, 2020). Many people have simply stopped working due to COVID-19. By June, in Ethiopia 8 percent had stopped working. COVID-19 has also limited opportunities to look for jobs: among those in the potential labor force, 73 percent were not searching for a job "because of COVID-19". It is, therefore, useful to consider additional measures of labor underutilization. When those who are not actively searching for a job are added to the number of unemployed, both the extent of unemployment and disparities by age and gender are magnified. Moreover, precarious work has also been growing as formal employment shrinks and informal work progresses (Luca Fedi & Triki, 2020). Rising unemployment has been much more marked for the least educated, who are also those for whom earning an income is a matter of survival in the very short term. Prior to the COVID-19 epidemic, as in other African countries, those with a higher level of educational attainment were more likely to be unemployed. Since March, rising unemployment has had the most significant effect on those with lower educational attainment, those for whom earning an income is a matter of survival in the very short term (Luca Fedi & Triki, 2020).[12]

The labor market impacts of COVID-19 have been severe for women and female-headed households. Following the outbreak of the pandemic, the share of working women shrank. Female-headed households have lower employment rates than male-headed households—before and after the onset of the COVID-19 pandemic. More women lost their job due to COVID-19 than men. This exacerbates existing gender gaps in the labor market. When looking at reasons for losing their jobs, most male- and female-headed households in urban areas reported the COVID-19 pandemic as the main reason, specially at onset of the pandemic, but in May many female-headed households (20 percent) reported being ill or taking care of ill relatives as a main reason, compared to only 8 percent of male-headed households. In rural areas, most male-headed households reported in May temporary layoffs or seasonal work as reasons for being out of work, whereas female-headed households report being ill or losing their jobs due to the pandemic as main reasons. By October, the main reasons for being out of employment in rural areas were temporary layoffs and illness. In urban areas, we observed the same trend as in early months of the pandemic with female-headed households reporting being ill or taking care of ill relatives as the main reason for losing jobs while male-headed households reported seasonal work as the reason for losing jobs (World Bank, 2021).

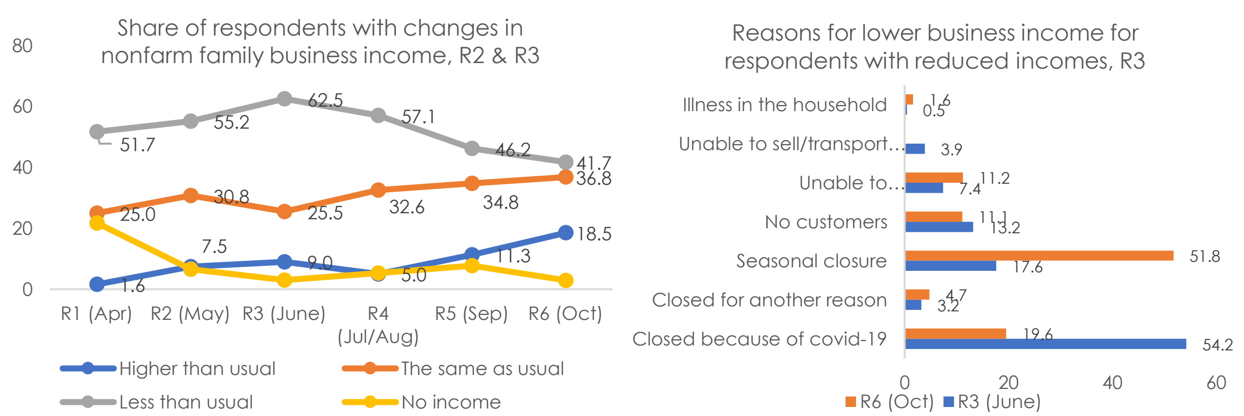
The sector most affected by the COVID-19 pandemic is services followed by industry, while agriculture is the least affected. The impact on agriculture, the primary employer in rural Ethiopia, has been relatively small, with the majority of households engaged in farming able to continue their normal farming activities following the COVID-19 outbreak. Though rural Ethiopia faced losses of income, stemming from interruptions in farming activities, induced by COVID-related restrictions to mobility of goods and people, at the onset of the crisis, losses in farming activities and income recovered quickly. For example, less than 10 percent of households that grew crops or raised livestock indicated that the pandemic affected their activities, even at the onset of the pandemic. Moreover, in November 2020, only 1 percent of households working in farming reported interruptions in the month prior to the survey. The main channels through which the rural economy was affected were mobility restrictions at the onset of the crisis. Moreover, most households engaged in livestock activities were able to sell their livestock or livestock products during the pandemic, though few households were affected by low sales prices (Wieser et al., 2021). On the other hand, the services sector, which largely depends on the movement of people and goods and is affected by policies to prevent the spread of COVID-19, including business lockdowns and restricted face-to-face interactions, has been the most impacted. The construction sector has also been under severe pressure and likely to be one of the most impacted sectors. In the manufacturing sector, there have been total shutdown or sharp drop in production capacity and reduced employment in industrial parks. Sub-sectors

[12] The ILO conducted a rapid phone survey of the labor market of Ethiopia conducted in August 2020. The survey was designed in line with the ILO Statistical Department's guidance for rapid surveys on the impact of COVID19 on the labor market. Questions covered the situation of respondents before the pandemic (in February) and at the time of the survey (during the previous week or month, depending on the variable).

such as textiles and garment (T&G) and leather and leather products will be hit hard. While the flower industry faces catastrophic losses, agro-food processing and beverages sub-sector were relatively less impacted (UN, 2020).

The COVID-19 pandemic has also had a significant impact on nonfarm (household) enterprises (NFEs). During May 2020, about 20 percent of households ran a nonfarm household enterprise. By June 2020, 67 percent of these enterprises were still operational; the other 33 percent had closed, some temporarily, some permanently. In most cases, closures were a consequence of the COVID-19 outbreak: "usual place of business closed because of coronavirus" (54 percent) and "no customers" (13 percent). Of those June households still operating a nonfarm family business, almost two-thirds indicated that income from the business was less than it had been in May 2020 (Figure 5.215.2, left panel). The reasons most often stated were: (i) there were no customers, (ii) the place of business is closed because of coronavirus, and (iii) they are unable to sell their products (Figure 5.215.2, right panel). By October 2020, 87 percent of households running a nonfarm household enterprise were still operational. Closures were mainly due to seasonality (52 percent), with another 20 percent reporting the coronavirus as the main cause. Over time, fewer households in nonfarm activities reported losses in their income with only 40 percent of nonfarm households reporting income losses in October 2020 (World Bank, 2021).

Figure 5.21. Business income have decreased due to lack of customers and closures



Source: World Bank, 2021

COVID-19 impact on wages and income

The COVID-19 pandemic has had severe impacts on household incomes, resulting from reduced employment and wages. About 55 percent of respondents reported that household incomes were either reduced or had completely disappeared, affecting urban and rural households alike in the early weeks of the pandemic. In October 2020, income losses continued for 26 percent of households (World Bank, 2021). The loss in household income has been more pronounced among female-headed households compared to male-headed households. Despite the limited job loss, incomes of urban households are primarily affected through reduced demand and thus income from self-employment, wage employment, and nonfarm household enterprises as well as job losses. The decrease in household's labor income is particularly pronounced for non-family farm businesses followed by for wage employed workers. The firm survey shows that compared to the pre-COVID-19 pandemic period in April 2019, real wages declined by about 14 percent for high-skilled workers in Addis Ababa and by about 4 percent for low-skilled workers in April 2020. In rural areas, seasonality (which creates fluctuations in income) could also be at play, with the survey starting as the lean season—associated with lower incomes—began (World Bank, 2021).

Workers in industrial parks who are already laid off or in danger of losing their jobs. The mean monthly employment income has dropped by 24 percent between February and July. The drop affects both genders and cuts across age groups. Low-skilled workers have suffered much larger labor income contractions than high-skilled workers and managers. Labor income losses vary largely between sectors: hospitality, bars and restaurants are the hardest hit, with a mean labor income loss of 50 percent; urban agriculture, logistics and trade are also heavily affected. While incomes from employment have remained stable in the formal sector, they have dropped significantly in the informal economy (UN, 2020).

Section 6: Conclusions

Ethiopia's labor market structure mimics a typical labor market structure of a low-income economy. It is characterized by a high and increasing employment-to-working age population ratio (EWPR). Overall, between 2014 and 2019, standard labor market indicators improved. The structure of the labor market in urban and rural Ethiopia is diverse with national figures masking large differences across space, sex, and age. Urban areas in particular have been performing better than rural areas, although they have larger unemployment rates. The EWPR increased from 59 percent in 2014 to 65 percent in 2019. EWPR is significantly lower in urban Ethiopia (48 percent) than in rural Ethiopia (73 percent). There is also a significant difference across sexes, with the EWPR for men (79 percent) higher than that of women (52 percent). The share of the working-age population in total population stood at 54 percent in 2019. The working age population is growing in Ethiopia, and urban areas account for a larger share of the growth in working age population.

The growth in the workforce will put pressure on job creation and the ability to productively employ its youth is crucial for Ethiopia to grasp the benefits of a growing workforce. The increase in the working-age population goes hand in hand with a shift towards a more educated young labor force—particularly in urban areas—though education remains low, even for youth. This puts pressure on the absorption capacity of the Ethiopian labor market which is exacerbated by (i) a saturated public sector, an important employer for high-skilled labor and (ii) a private sector which, though flourishing, is still in its early stages.

Employment outcomes for a large part of the Ethiopian population remain precarious and in 2019, employment remained largely dominated by agriculture and non-wage work. Though slightly declining over time, agriculture is the dominant form of employment. Agriculture employed almost three quarters of the population nationally, about 90 percent of rural employment. Wage-employment in the nonfarm sector—the type of employment that tends to be the norm in richer countries—accounted for 10 percent of total employment. Self-employment in the nonfarm sector accounted for the bulk of employment in the nonfarm sector. Employment types are more diverse in urban Ethiopia with wage employment—the type of employment that tends to have the highest average earnings—accounting for 38 percent and self-employment—mainly in small household-run enterprises or own-account subsistence activities—for 35 percent. Wage employment in urban areas is dominated by jobs in the service sector. While manufacturing has created substantial employment in recent years, following the opening of several Industrial Parks, manufacturing's share of urban wage employment has actually declined. The public sector is still the dominant form of wage employment. The public sector dominates urban wage employment with one third of all wage employment in public sector.

Employment growth, as indicated by the increase in the number of employed people, between 2014 and 2019 was strong. The total number of working-age people employed in a productive economic activity increased from about 26 million in 2014 to over 31 million in 2019. The number of jobs grew even more than the working-age population with 5.6 million more people employed in 2019 compared to 2014. While employment expanded at a higher rate than the working-age population, it was mainly concentrated in sectors that tend to have lower employment quality. The bulk of employment was generated in agriculture—about 3.8 million jobs were created in agriculture since 2014—which is the occupation that is most precarious and vulnerable and has the highest rates of poverty. The strong job growth in agriculture, which remains non-mechanized and labor-intensive, points to limited structural transformation in Ethiopia with workers unable to move out of agriculture at large scale. The nonfarm sector added 1.7 million jobs between 2014 and 2019 and most of the jobs were added in community and family-oriented services and commerce, sectors with high levels of informality.

The increase in nonfarm wage employment was mostly driven by the expansion of the private sector, likely related to recent economic reforms in the country focusing on strengthening private sector growth. Building on strong economic growth between 2014 and 2019 and the ambitious set of economic reforms initiated in 2018, which put the private sector as the main engine of job creation, the formal private sector was able to create wage jobs but remains at its early stages with less than half a million of the 5.6 million new jobs created in the private sector. The public sector, on the other hand, creates good jobs for workers with high (typically tertiary) levels of education. Increasing fiscal pressures, however, imply that this public sector-driven model of jobs growth is no longer sustainable. Going forward, the reforms under government's Homegrown Economic Reform Program aimed for the private sector to become the main engine of job creation by improving the investment climate and the ease of doing business in Ethiopia, must continue to allow the private sector to play a more central role to provide employment in non-subsistence agriculture and in nonagricultural sectors.

Education is strongly related to job type and sector of employment. The share of workers with their main job in agriculture decreases with the level of education, from about 90 percent of workers in agriculture having no education to about 10 percent of workers with post-secondary education. The probability to work in agriculture falls with education (especially in urban areas) and that of working in self-employment and wage employment increases with education. In agriculture, farmers who completed primary education have 79 percent higher earnings relative to uneducated farmers. The share of workers in wage employment increases with increasing educational attainment, suggesting that wage employment is strongly associated with high levels of education. In wage employment, workers who completed primary education earn 53 percent more relative to uneducated employees (World Bank, 2017). However, the vast majority of Ethiopians cannot benefit from wage employment due to lagging educational attainment. Self-employment also increases in importance with rising education levels and peaks among workers who completed secondary education. This could be because many workers with incomplete and complete secondary education are likely pushed into self-employment in small nonfarm enterprises by the dearth of wage employment opportunities (World Bank, 2017). Earnings in household and micro-enterprises are also substantially higher if the owner has completed primary education (relative to incomplete primary or no education). Overall, returns to education are higher at higher levels of education, but few Ethiopians, particularly the less well-off, reach those higher levels. For Ethiopians to benefit from wage employment will require a strong push on completion of higher levels of education.

Unemployment rates are low at national level, but there are significant differences across locations, gender, region, and level of education. As in many low-income countries, unemployment rates are low at the national level. However, there are considerable differences across locations and gender. Unemployment is much higher in urban areas (19 percent) compared to rural areas (6 percent). Female unemployment is almost three times the rate of male unemployment. In urban areas, one quarter of females are unemployed. Unemployment also rises with attained education (with the exception for completed post-secondary education). The 2019 unemployment rate was higher among secondary – and tertiary-educated labor force participants (23 percent and 10 percent, respectively) than among the uneducated (6 percent). Regional variations in unemployment also persist with Tigray, Somali, Dire Dawa City Administration, Addis Ababa City Administration, and Gambella reporting above the national average rate. Urban unemployment is particularly high in Addis Ababa, Dire Dawa, Tigray, and Somali. Urban areas of other regions report unemployment rates below the national average.

Labor market outcomes for the youth in Ethiopia remain precarious despite improvements over the past decade. As in many countries, standard labor market indicators in Ethiopia are worse for youth than for the overall working-age population. Youth have lower labor force participation rates and employment rates than older workers. Youth are more likely to be unemployed relative to older workers or working age people in other age categories. Although the largely rural nature of Ethiopia makes youth unemployment fairly low, youth unemployment is considerably high in urban areas, in particular for young women. A non-negligible share of Ethiopia's youth (about 15 percent) is not engaged in any productive investment or activity at all (in other words, is NEET—not in employment, education, or training) in 2019. NEET is fairly high for urban youth and young women despite low youth unemployment at the national level.

Women are at a significant disadvantage in Ethiopia's labor market, and the intersection of gender and age confers an additional disadvantage. The female unemployment rate is almost three times the rate among men. The female unemployment rate in urban areas is more than double that of men. In a similar vein, the unemployment rate among young women is nearly three times the rate among young men. There are large differences in labor force participation and employment rates between men and women. Compared to men, women tend to be overrepresented in nonwage employment, and underrepresented in paid employment in 2019. Although the share of females working in government and SoE (public sector) is similar with the share of men, fewer women work in private companies, but they are more likely to work for private individuals. Men's and women's distribution across sectors of employment indicates that construction and transport are dominated by men, and women dominate wage employment in trade and hotels and other services. Also, there are slightly more women in public sector.

Women also earn substantially less than men, a gap that is only partially explained by differences in endowments and job characteristics. Total wage earnings for women are on average one third lower than wages for men. Existing wage or earnings gaps between men and women can partly be explained by the fact that women tend to work in low paying sectors, do most of the household's care work, subsistence production (food, clothing) or unpaid work in the family business (Theunissen et al., 2019). The possible reasons for the lower wage earnings for women compared to men could be occupational segregation and the higher concentration of women workers in informal and precarious employment. Yet, even at same occupation within the same sector, women earn substantially less than their male counterparts.

The COVID-19 pandemic has adverse labor market impacts in Ethiopia. The impacts were heterogenous across location, genders, and sectors. While the pandemic poses important risk for people's health and economic wellbeing, the stringent government response measures have a devastating impact on employment and income of workers and their dependents. Employment rates plunged in the early days of the pandemic, with 8 percent of respondents losing their job at the beginning of the outbreak, particularly those who were self-employed or working as casual laborers. Unemployment has increased significantly between February 2020 (the pre-COVID period) and August 2020. The rising unemployment has been much more marked for the least educated, who are also those for whom earning an income is a matter of survival in the very short term. The job impacts of COVID-19 were heterogenous across locations—high job losses in urban areas than in rural areas, and across genders—higher for women than for men. Employment rates before and after the onset of the pandemic were lower for female-headed households than male-headed households. More women lost their job due to Covid-19 than men, that deepens the already wide gender gap in employment. The labor market impacts of the pandemic were pronounced more among workers in the large informal sector. Given the policies to prevent the spread of COVID-19, including business lockdowns and restricted face-to-face interactions, the service sector (tourism, hospitality, aviation, trading, retail) has been the most impacted. The other sectors most impacted include manufacturing and construction. The agriculture sector is least affected. The COVID-19 pandemic has also had a significant impact on nonfarm (household) enterprises.

Overall, the Ethiopian labor market encounters important challenges in productively employing a better educated young labor force in urban and rural areas alike. Ethiopia's strong economic growth since the early 2000s has been accompanied by substantial employment growth and labor market conditions have improved over time, with an increase in labor market participation and employment. However, important challenges for the Ethiopian labor market remain. Despite this substantial employment growth, most employment was added in own-account agriculture, characterized by low earnings and pervasive underemployment. Wage employment in the formal private sector, which is associated with development and the growth of the middle class, hardly grew. Moreover, employment in Ethiopia remains dominated by own-account agriculture and self-employment in services. With a labor force that is growing at two million per year, Ethiopia is faced with the twin challenges of improving current jobs while creating sufficient new jobs to accommodate a burgeoning labor force. Tackling these challenges will require the need to identify short- and long-term strategies to improved labor market outcomes in the country, which could take place in the following areas:

- **Improving productivity and incomes in the large agricultural sector.** The low base of formal private sector wage employment and the rapidly growing labor force imply that most of the employment growth in the near future will still be in agriculture and non-farm self-employment. Improving productivity in these occupations will therefore be key to raise earnings and living standards for the largest segment of the population. This could be achieved through a broader and more timely access to a wider variety of inputs and a more efficient allocation of agricultural land that are key to raising productivity and earnings in agriculture. Liberalizing the state-dominated fertilizer supply chain and liberalizing land rental markets are essential to making this happen.

- **Growing private sector wage jobs.** A less-constrained environment for the private sector is likely to lead to much-needed private sector jobs growth, though its employment share will remain small given its low base. This could be achieved through a revised small and medium enterprise

(MSE) strategy, re-orienting the role of government to a facilitator rather than a creator of MSEs and channeling the resources currently devoted to MSE creation into credit lines for existing MSEs.

- **Improving formal wage employment in the manufacturing sector.** Despite some success with direct job creation in the Industrial Parks (IP) in recent years, the limited extent of linkages between IP firms and domestic firms inhibits the potential for job creation and productivity upgrading in the domestic sectors. Moreover, low productivity in the manufacturing sector undermines its competitive advantage, while high labor turnover is an additional challenge, which can potentially also have detrimental impact on firm productivity. Recommendations include addressing constraints to developing more business-to-business linkages between foreign manufacturing firms and domestic SMEs in the services and trade activities; scaling-up proven skills interventions to develop an industrial workforce; and comprehensively pursuing both public and private sector solutions to issues contributing to high labor turnover.

- **Improving the macroeconomic environment and economic structure to improve the business environment and aid job creation.** The public-investment driven model, financed by external borrowing by state-owned enterprises and diversion of resources towards infrastructure investment, has resulted in large imbalances including significant exchange rate overvaluation and persistent and widespread shortages of foreign exchange, elevated inflation and build-up of public external and domestic debt. It is important to continue the economic reform agenda launched by the government focusing on macroeconomic stabilization, correcting foreign exchange rate imbalance, modernizing monetary and fiscal policy and introduction of capital markets, restructuring SOEs and reducing state dominance, and expanding the role of the private sector in the economy.

- **Improving the poor business environment, insufficient access to finance, and poor logistics could aid private sector development and job creation.** The Homegrown Economic Reform Program has spearheaded significant improvements but it is necessary to continue reform efforts to improve and simplify the business environment for all types of firms; promote access to finance and improve logistics (IFC, 2019).

- **Improving the extremely low education of the labor force.** Ethiopia has one of the lowest primary school completion rates in Africa, partly as a result of a financing system which is geared towards tertiary education. Broad-based improvements in job quality and earnings will require strong improvements in basic education.

- **Expanding access to demand driven training through the Public Employment Services (PES) to enhance skills development and connect people to jobs.** To create and transition to more formal and better paid jobs, there is need to strengthen inclusive and demand-driven skills development for Ethiopia's labor force that failed to reap the benefits of tertiary education. Moreover, to reduce job search costs and matching frictions, labor market intermediation has to be strengthened in line with the National Plan for Job Creation 2020-2025. Expanding youth apprenticeship programs like the one under the Urban Safety Net and Jobs Project (UPSNJP) can address youth's inability to signal their skills and connect them to better employment opportunities.

- **Providing comprehensive support to women to improve their labor market outcomes.** Women continue to have worse labor market outcomes compared to men and fall behind on livelihood dimensions. Many of these gaps are deeply rooted in social norms and have important implications for broader poverty alleviation and growth at the national level. Providing support to women in the following areas could ensure a more productive engagement in the labor market: (i) alleviating time constraints for women by providing services and interventions to reduce the time burden posed by household duties; (ii) promoting educational opportunities, as well as job skills development through vocational and technical training; (iii) expanding access to customized agricultural extension services for female farmers; (iv) increasing women's access to key inputs in agriculture and entrepreneurship; (v) improving women's access to credit, and especially to midsized lending products, when they often lack access to enough collateral to be considered "creditworthy"; (vi) tackling gender norms and institutional constraints that limit women's economic empowerment; and (vii) achieving better balance of work and family life by recognizing, reducing, and redistributing unpaid care work (World Bank, 2019).

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Appendix

Table A.1. Key labor market indicators

	2014	2016	2019
Working-age population (WAP)	51.7	52.7	53.6
Labor force participation rate (LFPR)			72.5
Unemployment rate (UR)			9.2
Employment to WA population ratio (EWPR) 7 days	59.4	54.7	64.9
Employment to WA population ratio (EWPR) 12 months	86.4	83.9	79.1
Agricultural employment as percentage of total employment	77.4	76.4	74.2
Wage employment as percentage of total employment	9.2	8.9	9.9
Wage employment in non-agricultural sectors (share of total wage employment)	90.1	90.6	86.8
Wage employment in private formal sector (share of total wage employment)			29.6

Source: ESS, 2014, 2016, 2019

Note: There is not enough information to compute some of the indicators in 2014 and 2016.

Table A.2. NEET (for youth aged 15-24 years) by education level and location, 2014-2019

Education level	2019			2016			2014		
	National	Urban	Rural	National	Urban	Rural	National	Urban	Rural
No education	0.6	0.0	1.2	0.3	0.9	0.0	0.7	1.2	0.4
Incomplete primary	49.5	32.1	66.5	52.5	28.7	64.8	58.4	31.8	71.7
Complete primary	11.9	8.8	14.9	10.1	8.0	11.2	11.8	11.6	11.9
Incomplete secondary	22.4	29.3	15.8	29.4	43.7	22.1	20.6	37.3	12.4
Complete secondary	6.0	12.1	0.2	1.3	2.8	0.5	2.5	5.1	1.3
Complete post-secondary	9.5	17.8	1.5	6.4	15.9	1.5	6.0	13.1	2.4

Source: ESS, 2014, 2016, 2019