

# Meeting the Challenge of Youth Employment in Ethiopia:

## Transitioning from the Public to the Private Sector



The population surge in Ethiopia over the past three decades has created a reservoir of young people for the labour market. This is particularly evident in urban areas, where the labour force grew by 11% per year on average. While traditionally the public sector absorbed the bulk of new entrants, as the youth population continues to grow, the decline in public employment has paved the way for an increasing reliance on private initiatives to provide jobs. A recent study on *Youth Self-Employment in Ethiopia* identifies some of the key bottlenecks and opportunities for fostering sustainable youth livelihoods.

### Persistent Gender Gaps

Ethiopia's constitutions, laws and regulations guarantee equal rights and obligations for both sexes and outlaw discrimination based on gender. In reality, however, significant gender gaps remain. Available data suggests that youth female unemployment rate (28.1 %) was almost twice as that of the youth male (14.4 %) in the urban areas of the country and tends to worsen as the population ages. Women exit the workforce more rapidly than males, with the implication that they lose their places on the career ladder and end up confined to the home. Once out of the workforce, they are expected (and seem to expect) to take on the roles of homemaker,

domestic worker and to take on the overall responsibility for running the home.

The study shows that women tend to have more trouble finding employment and once they get the jobs they find it hard to have longer employment as compared to men. Similarly, women entrepreneurs are suffering from much higher risk of drop-out than do men. This could be partly due to greater difficulty in finding finance, lack of business knowledge and skill, access to information and market outlets, and gender based discrimination in the bureaucracy. The main challenges for women in accessing financial services are well documented, and include: limited outreach from financial institutions to where women entrepreneurs are located, often in rural villages or domestic locales; limited saving and credit products that do not recognise or take into account the type of economic activities in which women are engaged; exclusion of the poorest women from forming a borrowing group and the absence of individual loan schemes specifically directed towards poor women; the fact that women often are engaged in less profitable but less risky enterprises (generally in limited and traditional activities); and the fact that women may have more inadequate market outlets.

## Addressing the Gender Gap

The study points to the need for targeted interventions within public employment and enterprise support programmes for young women. These need to be informed by a clear understanding of the barriers that hold young girls and women back. The role of education is crucial, both in combatting prejudice and bias, and in equipping women with the skills they need either to pursue a career or to establish and run their own business. The support needs to be on-going; if women entrepreneurs have a higher drop-out rate than men, there may be public policies that can support established businesses, as well as start-ups and thus keep female entrepreneurs in business longer. The role of advice, counsel and mentoring adapted to women's needs, is also important for the stability and sustainability of SMEs run by women. The arrival of children should not mean the end of entrepreneurial activity. The type of business, the extent of shared responsibilities between partners and generations within the home and the availability of external help are all important. As indicated in Box 1, however, not all women are victims of the gender gaps. Some overcome these boundaries to succeed.

### Box 1: A Young woman's success by overcoming gender boundaries

Like many other young women in Ethiopia, Lishan has been unemployed for some time. She spent most her time at home doing domestic work. One day, she decided to start preparing home-made dry biscuits, and sell them on the road side. Her start-up capital for this micro enterprise was ETB 21 (USD 1.00). Today, together with her friends, she runs a successful enterprise in biscuit production, employing nearly 34 people. Her vision is to establish a biscuit factory and to export its products.

Specific attention needs to be given to the needs of female entrepreneurs for financing. In particular, policies that are designed to overcome the reluctance of the financial institutions to support women-led entrepreneurial initiatives are urgently required. Recognising that female entrepreneurs play a vital role in Ethiopian society and taking into account more than the meagre resources they may have to deploy, women entrepreneurs should be given additional help to set up and run an enterprise over and above the normal rules applied by banks and MFIs to their loan portfolios. This can only happen with the support of the government and when existing initiatives are expanded.

There are also specific barriers to the entry of women into paid employment. Public policy can be crafted in such a way as to recognise their particularities and create more favourable conditions for the entry and continuity of women in the labour force. Supporting female participation in the workforce will contribute to overall growth and prosperity.

## The Knowledge Challenge

Ethiopia's economy is developing and increasingly linking to the outside world. The growth of the private sector, including foreign firms established in the country, has been accompanied by the arrival of new firms and market competition. In order to be able to compete, locally based firms, including in the SME sector, need to have skilled and dynamic workforces capable of providing products and services on a level equal to or superior to those that are imported. Existing firms in manufacturing are being supplemented by service-oriented enterprises, often on the level of SMEs, that are owned and operated by dynamic young people who, nonetheless, find that their education has ill-equipped them for setting up and running an enterprise, much less providing the quality services and products they need to earn a good living on a sustainable basis. At the same time, these same young people are unable to find good and stable waged employment because they lack the skills necessary for that.

From the employers' point of view, including young employers just starting a business, the

problem is the same seen through the other end of the lens. They perceive a labour market with a surplus of unemployed young people, but with a deficit in the skills they need to advance their enterprises. This transforms a theoretical labour surplus into a functional labour shortage. A perverse effect of this is to drive up wages in the formal sector, thus making it more attractive, while increasing frustration in would-be workers because they are deemed to be unqualified for the positions available. At the same time, the study reveals, employers appear to be unwilling

to employ young people and equip them with skills through in-service training. This may be because of the cost involved or related to the conviction of employers that it is the job of the state to provide young people with skill sets for the workplace. In any case, the skills deficit is perceived by both sides as a major barrier to increased and improved youth employment, especially in the urban areas of Ethiopia. This is important, for it is in the rapidly growing urban areas that the bulk of new employment in both the formal and the informal sectors of the economy is taking place.

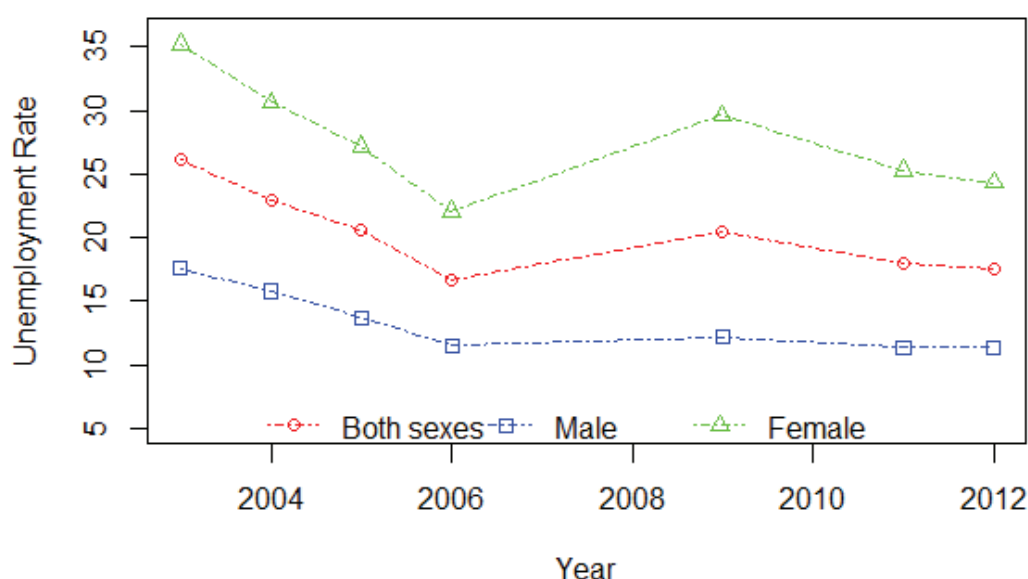


Figure A: Urban unemployment by gender between 2005 and 2012

## Meeting the Skills Challenge

Young people and employers both complain that the educational system does not provide skill sets that are relevant to the existing world of work. However, it is not a simple matter of altering the curriculum to become more “practical”. Indeed, only an alliance with the private sector through consultation and discussion can produce appropriate educational policies and curricula to be put in place. The educational system should provide the basic skills to enter the world of work. It should include technical skills, such as accountancy, ICT and sciences, but should also equip young people with the means to manage their money, make budgets and establish career paths.

Meeting the skills challenge will require an overhaul of the educational system to integrate pure academic studies with work-oriented skills throughout. It will, therefore, require a long-

term commitment on the part of government, the educational institutions, and teacher-training colleges. It is evident that such a redesign will take time and requires long-term investment, and hence the visibility of the impact will take many years. The study clearly demonstrates that failing to reform the educational system is not an option for Ethiopia and the commitment to embark on reform is needed now.

## The Training Challenge

The educational system has not been equipping young people with the basic skills required for the world of work nor has it left them with sufficient training in specific skills. Employers remain reluctant to devote their own resources to training young employees, but nonetheless complain that they are under-trained. While filling an important gap, Technical Vocational Education and Training (TVET) schemes are inadequate and fall short of providing the skills necessary.

The same is true of the universities that persist in producing graduates ill-adapted to finding employment or establishing an enterprise. At the current time, there is high unemployment of tertiary-institution graduates, especially in the urban areas, which tends to suggest that the direct transition from education to workplace is the exception, rather than the rule.

## Meeting the Training Challenge

Providing marketable skills and re-training the unemployed youth, particularly for those leaving formal schools, including TVET and university graduates, is a key intervention to improve the transition from school to work. Instead of delivering generic training and support services to the youth, there is a need to provide tailored technical skill and behavioural (soft) skill training to meet the labour-market demand and, in turn, boost employability. Importantly, there should also be programmes aimed at re-engaging long-term unemployed young people to training and further education. TVET institutions need to be expanded and provided with the capacity to offer more workplace-relevant courses and to fill the gaps left by the current educational system in training for work and entrepreneurship.

### Box 2: Employers demand well-trained youth employees

#### Ayi, 33 years, private employer at food processing, Adama

Many young people lack the skill and experience to work in factories and industries. They should learn both theory and practice in order to become successful in their jobs. ... The training institutions should include the importance of blue-collar works in their curriculum which can help young people to have necessary skills and knowledge and work in any blue-collar jobs. ....Private organizations should also provide on job-training for newly recruited youth.'

To address the training challenge, the government has expanded TVET based on four pillars: (i) specific technical/skills training; (ii) technology acquisition; (iii) business skills acquisition and entrepreneurship training; and (iv) productivity improvement. As part of this effort, the government has established 520 TVETs in the national territory and 45 one-stop-service centres in Addis Ababa. Moreover, various institutions and stakeholders were involved, at Federal, regional and Woreda levels, to facilitate and implement the five-year MSE development strategy and government support programmes.

The TVET program is a key to the successful development of a qualified and responsive workforce in Ethiopia. While reform of the university system is also very important, it is more long-term and complex than reforming TVET institutions. Again, reform cannot be undertaken in a vacuum and should be the result of communication and consultation with employers, professionals and young people themselves. Identifying market oriented and productive training courses is vital to the success of the TVET system and does not appear to have been a priority in the past. The situation now urgently requires such a targeted approach. Reform should follow specific analysis both of the present system and the characteristics of the economy. The study that informs this policy note has made a significant progress in this process, but much more needs to be urgently done.

## The Finance Challenge

Recognising the inability of the formal private sector to absorb all of the new entrants to the labour market, the Ethiopian government has adopted the option of young people's starting their own businesses. This "MSE" (micro and small-sized enterprise) option is also becoming a choice for young people on a par with or surpassing the preference for a wage-paying job. This is also reflective of a bias against so-called "blue-collar" jobs that imply a low level of education and social status, especially rejected by the most qualified. Having a high level of formal education, however, does not guarantee entry into a white-collar position; quite the contrary, hence the willingness to consider self-employment. This option, however, is not without its financial perils.



Young Ethiopian entrepreneurs, in common with their counterparts almost everywhere, do not represent a good investment for financial institutions, at least not when measured by regular financial-risk criteria. They lack both experience and collateral. Despite the potential they represent for high returns, the formal financial institutions tend to regard them with some suspicion and require higher levels of guarantee before offering them loans. This problem is compounded by the absence in many Ethiopian institutions of loans officers who are trained in relating to young entrepreneurs and by the generally conservative nature of these institutions.

Financial institutions, despite government encouragement, tend to congregate in the capital and a few other urban centres. Hence, in addition to the reputational problem, young people emphasise the difficulty of reaching relevant financial institutions because of their location and the limited number of branches available for seeking out loan officers. Moreover, MFIs in Ethiopia provide generic products for all types of businesses and people, and fail to offer tailored products for the youth and

female operators. On the other hand, many factors – such as increased workload as a result of engaging in additional income-generating activities, weak social networking, absence of tailored training and support services, inflexibility in the time of disbursement and repayment of loans, and external shocks affecting their business – discourage formal financial institutions from reaching out to new and perceived risky borrowers.

## Meeting the Finance Challenge

The Ethiopian government has, as part of its youth-employment and business-creation plans, urged the formal financial sector, including microfinance institutions (MFIs) to lend to young entrepreneurs and would-be business people. The government's five-year MSE development strategy (2010/11-2014/15), gives the responsibility for financing MSE operators to the MFIs. The target was to distribute ETB 11 billion (USD 500 millions) of loans to 2.2 million MSE operators, generated through savings from domestic sources. The strategy indicates that, by the end of the period, about 80% of the loan portfolio of MFIs should be generated from domestic savings mobilisation.



*Amara Credit and Saving Institution, Bahir Dar Office*  
Source: AEMFI, 2015

The study reveals the need to improve the training of loan officers within financial institutions to equip them better to analyse and respond to loan requests. Similarly, it also points to the need to equip young people with the skills required to draft a competent loan request.

Financial institutions are unlikely to take on new enterprises run by young people without a back-up plan which the Ethiopian government has been trying to address in the five-year plan. As a result, many municipalities are providing production and marketing premises to start-ups, including the construction of business sheds, and credit guarantee schemes for MFIs offering loan provision to MSE operators without requiring collateral.

These types of schemes cannot entirely overcome the reluctance on the part of lenders to offer loans to young people starting a business. However, by demonstrating the government's faith in young entrepreneurs, they can mitigate the effects of prejudice against young entrepreneurs in the financial marketplace of Ethiopia. The impact of such initiatives and schemes, however, remains fully to be measured. Whether they are to be renewed and continued will depend on accurate measurement of their results.

## **The Enterprise Challenge**

As a result of government efforts and young people themselves, a number of successful MSEs have emerged playing a significant role in employment creation and poverty alleviation. However, the failure rate of youth-operated enterprises is very high, especially in the start-up period. Although a high rate of attrition is expected in a context of rapid economic growth, some of the reasons for failure could have been tackled and the rate of survival increased. The study found that young MSE operators encountered multifaceted problems mainly related to the socio-cultural context, access to finance, business premises, lack of proper skill training and mentoring, and lack of appropriate business development services to meet their needs.

The government is offering a number of support services and schemes, but the interventions have not always had the intended effect. One reason

is their disparate nature. There is, for example, a lack of synergy between the non-financial and financial support service providers. Information about such services is insufficiently distributed and where the services do exist they are not easily accessible by young people. The very idea of entrepreneurship is often misunderstood and the challenges underestimated. Self-employment has been largely driven by necessity, rather than a desire to market a product or an idea that impassions the would-be entrepreneur. This impacts on many aspects ranging from the amount of time the entrepreneur is prepared to give to the enterprise, to how convinced potential lenders are to support the enterprise initiative. The lack of knowledge about the nature of starting and running a business is compounded by the lack of "good news" stories that highlight the experiences of successful young business women and men. Similarly, little information is available or known about the successes of government-sponsored support services and, in particular, how these support mechanisms have impacted on youth employment and gender disparities.

The choice of product or sector is very important for the success or failure of an enterprise. The study demonstrates that, while manufacturing offers the best chance for success and good profit margins, the majority of youth-operated enterprises are in low-level services. There is also a problem of "crowding in", where young entrepreneurs effectively copy each other, thus increasing competition in an often-shrinking market and lowering profit levels to unsustainable or subsistence levels. These sectors are those that require the least training or technical expertise, as well as the least start-up capital, since they require little or no capital investment.

Young Ethiopian entrepreneurs face a problem common in sub-Saharan Africa, which is the access to suitable premises for their enterprise. Paradoxically, this is a problem that afflicts disproportionately the most profitable sector: manufacturing. However, it is also mentioned as a significant challenge across the board. There is fierce competition in the markets for positions and the multiplication of stalls selling similar or identical products makes it very difficult for market managers to differentiate between enterprises wishing to set up. In the towns and

urban areas, there is a physical shortage of any kind of premise and this is cited over and over by young entrepreneurs as a significant barrier to the growth or even survival of their businesses.

## **Addressing the Enterprise Challenge**

The Ethiopian government has embarked on initiatives to increase the availability of premises for enterprises to establish their operations. The government is expecting newly-created or growing SMEs to absorb much of the new supply of entrants to the labour force, and there has already been a significant increase in small and medium-sized enterprises. The complaint about the shortage of premises, however, is remarkably constant throughout the national territory and it is evident that it is a constraint on business activities, so the authorities need to give specific attention to alleviating the shortage.

The youth can play a significant role in the Ethiopian economy via self-employment. However, in addition to the general public support for enterprise creation, they require extra services. There needs to be better co-ordination between services and these should be linked to services provided in the financial sector to create a comprehensive set of products that can be accessed by young entrepreneurs in a strategic and logical manner. In this way, not only would their effectiveness as a whole be increased but information about them could be better and more comprehensively distributed. This would have the result of better informing young people's decision about going into business, continuing with an existing enterprise, expanding an initiative, modifying a product line, obtaining training and developing the entrepreneur, as much as the enterprise.

Public policy needs to be more selective in the type of entrepreneurial initiatives that it supports. While it may be tempting to treat all new enterprises or struggling businesses equally, the reality is that some businesses are doomed either to failure or to remain at a very low level of operation. The study reveals that the latter are generally those created out of necessity, rather than by opportunity-oriented entrepreneurs. In providing selective support, the government is sending a message that certain types of enterprise are more viable than others and, thus,

more likely to make a long-term contribution to the growth of the economy and the provision of employment. Public policy can be used in this way to steer young people into entrepreneurial activities that are not only good for them and their families, but good for the country, as well, thus justifying the use of public funds.

Public channels of information can and should be used to encourage economic activity in those sectors that have long-term potential and contribute to the country's growth trajectory, including in employment creation. "Good news" stories are more about the attitudes of entrepreneurs and the nature of the sectors in which they operate, than about the individuals themselves. By demonstrating that success is possible, the means that can be employed to achieve it and the contribution both to the society in terms of employment and from society in the form of government support, such information campaigns can contribute to encouraging young people into sectors and activities that have the greatest potential for success and reducing unemployment as their enterprises grow. They might also contribute to overcoming the "attitude" problem, which is a reported belief on the part of private-sector employers that young people are unreliable, lowly qualified but filled with a sense of entitlement and, therefore, unlikely to be able to make a significant contribution to the well-being and growth of an enterprise. According to some young people, this is a widely-held attitude that hinders their chances of finding employment.

Even where a potential entrepreneur has wisely chosen the sector she/he wishes to enter and the products or services she/he wishes to commercialise, basic skills are still required to run a business. The absence of core business competencies – accounting, use of ICT, customer relations, advertising, distribution, profit management and sales – is shown to be a major cause of failure. Although efforts are being made to overhaul the system of TVET in Ethiopia to impart some of these skills, those who are already in the marketplace will not be able to benefit unless a concerted effort is made to provide in-service training to existing entrepreneurs. Those enterprises whose owners are competent in the core skills have been shown to have a disproportionate chance of success over those whose owners do not.



Similarly, young people who are currently in post-school should also be able to avail themselves of TVET schemes that could help them establish an enterprise or that could assist them to success. Young unemployed women should be specifically targeted by such schemes. Female entrepreneurs statistically have lower levels of education and

training than male entrepreneurs and higher rates of failure. By improving the technical competences of women engaged in business, therefore, there is a likelihood that the female failure rate could be reduced. Entrepreneurial training through the TVET system is, therefore, central to efforts to enhancing enterprise survival and reducing unemployment.



*Production requires skilled human power*  
Source: AEMFI, 2015

## Conclusion

In line with its strategy to absorb the large number of entrants to the job market, the Ethiopian government has established a number of initiatives to support job creation through enterprise creation. There have been some successes and a number of SMEs have been created that have contributed to employment in the urban areas and, to a lesser extent, in the rural areas. However, a number of bottlenecks remain.

*Youth Self Employment in Ethiopia* uncovered persistent gender gaps both in wage employment and in the creation and maintenance of enterprises. Women tend to be confined to low-margin, precarious micro-enterprises, while men can aspire to higher

quality business initiatives. Both genders face similar problems when it comes to raising finance, finding adequate premises, receiving adequate and appropriate training and an education commensurate with the needs of the economy, although women face these challenges to a greater degree.

Government strategies and initiatives can be modified, integrated and streamlined to provide better outcomes. The study, on which this summary is based, is the first in a necessary series to examine the root causes of youth unemployment, gender bias and enterprise fragility in Ethiopia. It combines rigorous analysis with wide-ranging insights from those most affected: young people themselves.

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This brief draws on a study on *Youth Self-Employment in Ethiopia: Promoting Micro and Small Enterprises (MSEs) Through Government Support Programmes* by Wolday Amha, Tassew Woldehanna, Manex Bule and Yisak Tafere. The research was carried out under the auspices of the Association of Ethiopian Microfinance Institutions (AEMFI) with financial support from Canada's International Development Research Centre (IDRC). The views expressed in this brief are those of the researchers and do not necessarily reflect those of IDRC and AEMFI.



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