# MACROECONOMIC AND SECTOR ANALYSIS
REPORT: ETHIOPIA

The African Union Development Agency (AUDA-NEPAD) through the Skills Initiative for Africa (SIFA) commissioned a study to prioritise three economic sectors in Ethiopia which, based on forecasts, and controlling for the impact of COVID-19, would lay the groundwork for targeted activities aimed at improving skills in the country. In order to do this, a mixed methods (quantitative and qualitative) analysis was undertaken to understand labour demand and labour supply in the country. These findings were then verified and discussed by professional representatives in the skills planning space from Ethiopia, who assisted in the completion of a widely validated report.

Labour Demand is defined as **the amount of labour that employers need to hire in a given time period**
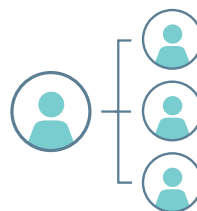
Labour Supply is defined as **the amount of labour that households can provide employers in a given time period**

In most cases, it is not possible to measure labour demand and labour supply directly. Because of this, an analysis of labour supply and demand has to rely on a deep understanding of all relevant quantitative and qualitative evidence at one's disposal.

Labour Demand in Ethiopia

Quantitative evidence, and evidence based in the literature, were used to rank economic sub-sectors in Ethiopia based on whether those sub-sectors were expected to demand more labourers in the next 3-5 years. The following signals (indirect measures) were used to assess labour demand in each sub-sector:

The sub-sector is gender equitable as an employer

The sub-sector is identified as being a strategic priority for the government

The sub-sector shows evidence of relatively strong GDP growth and employment growth/employment absorption

The sub-sector is going to be impacted by COVID-19

The sub-sector largely contributes to national GDP and employment

These factors were combined together into an index using Principal Components Analysis. This index measures labour demand between now until 2024 in Ethiopia at a sub-sectoral level. **If GDP growth was not forecast to be the highest for a given sub-sector, it might still rank in the top 3 sub-sectors due to that sector exhibiting other signals. The evidence is all reviewed simultaneously, and not in isolation.**

At a national level, COVID-19 is expected to have a large impact on Ethiopia's economy:

Real GDP Growth (National)
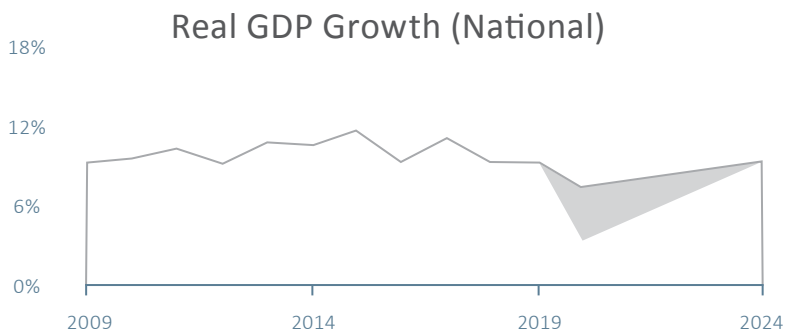
Economic growth is expected to slow down to 3.5% in 2020 as opposed to between 7 and 8% prior to the COVID-19 pandemic. This translates to a decrease in employment of as much as 2%, equivalent to the loss of as many as 560 000 jobs in Ethiopia.

Employment Growth Rate (National)
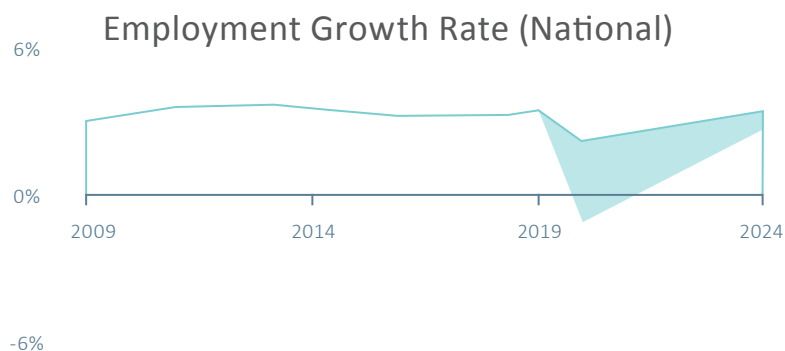
Based on this index ranking system, the three sectors exhibiting the strongest signals of labour demand are:

 Manufacturing
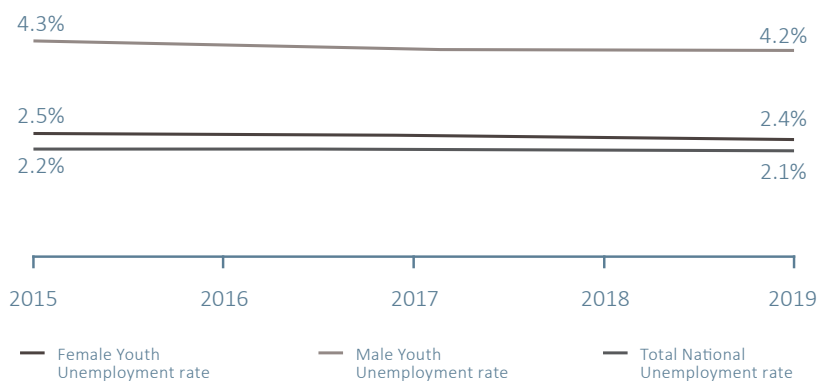
 Agriculture, Forestry and Fishing

 Construction

These sub-sectors all contribute greatly to the Ethiopian economy, whilst also being strategic priority sub-sectors for the government.
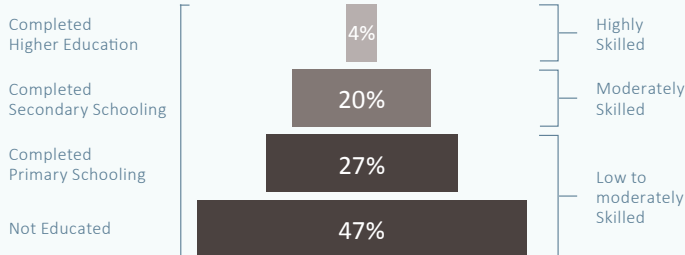
Ethiopia Labour Supply Analysis

By African and global standards, unemployment in Ethiopia is extremely low.

	2015	2016	2017	2018	2019

- — Female Youth Unemployment rate
- — Male Youth Unemployment rate
- — Total National Unemployment rate

This low unemployment rate and relatively low informal employment rate of 26%, however, masks a high self-employment rate (accounting for close to 86% of employment in the country across genders).

It does bear mentioning that the unemployment for female youth is very close to the national average unemployment rate (2.4% and 2.1% respectively). However, male youth unemployment is roughly double national unemployment signalling that male youth are less likely to be absorbed into the workforce.

Completed Higher Education	4%	Highly Skilled
Completed Secondary Schooling	20%	Moderately Skilled
Completed Primary Schooling	27%	Low to moderately Skilled
Not Educated	47%	

Our estimates suggest that only 4% of the Ethiopian population has some form of post high school qualification. Of these, roughly

1 200 000

have qualified through the TVET system in Ethiopia.

25.8%
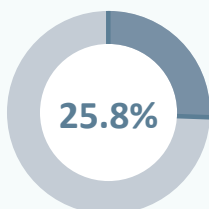
Estimate of the proportion of Ethiopian employed in the informal sector

13.4m

This translates to the informal sector employing as many as 13.4 million Ethiopians out of its 52 million employees

83% of females are self-employed

67% of males are self-employed

In absolute terms, informal employment is high, but in percentage terms it is low in comparison to other African countries. However, the proportion of workers self-employed is extremely high in Ethiopia. Because of this:

1. Job security is potentially moderate in the economy, and

2. Skills levels are potentially moderate as well, given the low informal employment rate, but the extremely high self-employment rate.

In Ethiopia, as of 2017, our estimates suggest 20% of the population had not completed any form of education or were not categorised. Roughly 24% of the working population is moderately to highly skilled, with the remaining 76% possessing lower skills bases.

Areas with strong employment prospects

Horticulture
Poultry
Agro-processing

Agriculture, Forestry and Fishing

Agro-processing
CTFL
Construction
equipment

Manufacturing

Site examination
Construction design

Construction

Skills gaps in focal areas

·   Harvest-handling techniques
·   Seed production
·   Crop production methods
·   Feed production studies
·   Animal sciences
·   Butchering

·   Food processing science
·   Beverage processing sciences
·   CTFL machine operating skills
·   Construction equipment manufacturing

·   Draughting
·   Engineering processes
·   Site inspection skills
·   Woodwork
·   Metalwork
·   Finishing (flooring, tiling, roofing and so forth)

Clearly, these areas also have skills gaps which the Ethiopian education is yet to close. This is probably due, in part, to a lack of government focus on vocational education, and in part to a lack of the necessary resources, tools and machinery to provide a practical education to individuals in the TVET space.

Validation discussion points

The validation conducted with stakeholders in Ethiopia provided the following input:

- Broadly, the sectors identified directly overlapped with what sectors are pointed out by the Job Creation Committee in Ethiopia and the government's strategic priority areas as well.
- However, stakeholders also pointed out that:
  - The quality of education in the country requires improvement. This issue of pedagogy likely feeds into a TVET system which is not sufficiently practical, and constrained from an educator capacity perspective.
  - The ICT industry is also crucial for the development of the country going forward. However, due to the small size of the Transportation, Storage and Communications sector's labour market, this sector would likely not yield strong employment demand in the short-term in absolute terms.

Conclusions and recommendations

Based on the discussions and a balanced view of quantitative and qualitative evidence, the three sectors that the country should focus on are indeed the:

1. Agriculture, Forestry and Fishing sub-sector,

2. Manufacturing sub-sector, and

3. Construction sub-sector

- In Ethiopia, individuals trained in the following areas are scarce:
  - Harvest-handling techniques,
  - Seed and crop production studies,
  - Feed production studies,
  - Animal sciences, and
  - Butchering
- Horticulture, Poultry and Agro-Processing industries are the main focus of job creation in the country going forward. Providing learning opportunities in the above-mentioned areas of scarcity will close some skills gaps which have developed in the country in light of a less practical TVET system.

- The manufacturing sub-sector is an enabler to other economic sub-sectors in the country. Specifically, agro-processing (food and beverage processing) and construction resource manufacturing should be considered going forward to make each sector more competitive.
- Beyond this, skills gaps exist in the clothing, textile, footwear, and leather goods manufacturing space, especially in relation to the usage of machinery in the space.

- The construction sector in Ethiopia currently imports many skills. Development of individuals with the following skills could begin addressing the dire skills gaps in the country:
  - Professional skills in engineering, draughting, and site inspection, and
  - Technical skills in woodwork, metalwork as well as building finishing (i.e., tiling, roofing, flooring, carpeting and so forth).

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