

Sustainable Jobs for All

Plan of Action for Job Creation

2020-2025

Briefing Document

Federal Democratic Republic of Ethiopia



**Jobs Creation
Commission**
ETHIOPIA

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Why does Ethiopia need a Plan of Action for Job Creation?

Over the past years, Ethiopia's economy has been among the fastest growing in the world. The average real GDP growth rate was 9.1% between 2000/01 and 2017/18 and 10.3 % during the GTP I implementation period. This economic expansion has corresponded with a reduction in poverty over the last decade that is substantial but relatively low compared to GDP growth.

Public investment, particularly in construction, has been the principal driver of Ethiopia's recent economic growth. The services sector has grown steadily while massive public investment has fueled growth in construction—which, in 2017-18, contributed over 20% of Ethiopia's GDP. Yet the construction boom has been more capital intensive than labor intensive; its impact on employment appears to be less than what its overall economic impact might suggest.

In the last decade, Ethiopia has invested in the development of industrial parks and export-oriented light manufacturing. Evidence indicates that manufacturing is the main engine of structural transformation and sustained growth for developing countries. Considering this, Ethiopia has developed an ambitious industrial policy and invested in the construction of industrial parks, with a model of “plug and play” for foreign investors. This strategy has provided some encouraging results in terms of attracting FDI and improvement in exports. However, Ethiopia's manufacturing sector is still far from being an engine of economic transformation, as it contributes just under 6% of GDP and its share in employment remains very low.

The relative output share of different sectors of the Ethiopian economy has changed dramatically over the past twenty years. Agriculture remains important, but its share of total economic output has decreased from 66% in 1991 to just under 35% in 2018. In contrast, the service and industry sectors' shares of total output have increased to about 39% and 27%, respectively.

Despite these broader changes within Ethiopia's economy, employment patterns have not substantially changed. Although the agriculture sector's share of economic output has fallen sharply, it employed roughly 73% of the workforce in Ethiopia in 2013 and still accounted for an estimated 67% of employment in 2018.¹ Agriculture in Ethiopia is dominated by smallholder farmers (0.8 hectares on average), relying on low-input and basic cultivation methods for subsistence-level production. Moreover, rural economic diversification has been quite modest; As of 2013, agriculture accounted for 83% of rural employment (down from 88% in 2005), while manufacturing contributed just 4% and services made up 12%. Wage-employment increased slightly from 2005 (7.9%) to 2013 (10%) but remained below average for Sub-Saharan African countries. In 2013, 40% of employed were self-employed and 49% were working without monetary compensation—essentially outside the country's growth cycle.

As in most low-income countries, overall unemployment levels in Ethiopia are low but vary distinctly between urban and rural areas. The unemployment rate is relatively low (4.6% in 2013) and labor market participation indicators are relatively high at the national level, but these broad

indicators mask high levels of vulnerable employment throughout the country and high levels of unemployment concentrated in urban areas, especially among women and youth. The majority of the labor force remains in rural areas (82% in 2013) and engaged in agriculture, where unpaid labor and self-employment predominate—resulting in low levels of “traditionally captured” unemployment. The unemployment rate in urban areas, meanwhile, reached a level of 19.1% in 2018, increasing from 16.5% in 2013. In 2018, unemployment was higher among youth (15-29; 25.3%) and females (27%) in urban areas than among the general urban population.

Ethiopia's growing rates of urbanization and rural-urban migration increase the pressure on the urban labor market. The country's urban population has been growing steadily since 1990. At a current average annual growth rate of 5% (versus 2% for rural areas), the urban population is expected to triple by 2034. Rural-urban migration is mainly driven by rural youth, who tend to be more educated than their parents, and therefore with higher expectations. Rural-urban migration increases the pressure on the urban labor market and exacerbating the employment challenges of urban youth and women.

The private sector remains nascent in Ethiopia and is constrained by structural challenges. Evidence suggests that the private sector is crowded-out by the public sector, notably in access to finance. Credit provided to the private sector continues to represent a small share (36%) of domestic credit, while credit to the public sector (state-owned enterprises and the central government) represents more than 63%. In Ethiopia's rural economy, a combination of high collateral requirements, poorly designed loan products, and an unwillingness of rural households to borrow money limit the diversification of rural livelihoods.

The public (48%) and private sectors (52%) provide a similar share of the nation's wage employment. Combined, the private and public sectors accounted each for about half of total job creation between 2003 and 2018 in urban areas of Ethiopia. Since 2009, the number of civil servants, both at the national and regional level, has more than doubled, with a high-level of graduates and high-skilled youth entering the civil service.

Despite enormous progress in access to education throughout the country, the labor force remains mostly low-skilled; moreover, skills that are being taught align poorly with the labor needs of different sectors. Between 1999 and 2016, the educational attainment of the labor force increased as a result of expanded access to school and training. The share of the labor force with no education fell significantly, and education outcomes are substantially better for youth today than for older labor force participants. However, substantial skill mismatches exist in different sectors, especially in manufacturing and services.

Estimations suggest that more than 2 million youth are entering the labor market every year. The demographic trends in Ethiopia suggest that the working-age population (10+)² is expected to grow to up to 94.2 million by 2025,³ which will increase pressure on the labor market but may drive economic growth. Assuming a constant labor force participation rate (~80%), the labor force is expected to grow from 64 million in 2019 to 75.4 million by 2025. These estimates suggest the need to create 14 million jobs between 2020 and 2025 to absorb the new entrants to the labor market and the current backlog of unemployed (at least 2.5 million in 2018).

¹World Development Indicators, 2018.

²We use here the CSA definition of working-age population

³Source: World Bank population estimates and projection

Sustainable job creation is a critical challenge if Ethiopia is to meet its objective to become a middle-income country by 2025. High levels of subsistence employment, widespread (and minimally productive) self-employment, and very low levels of wage employment characterize the labor market in Ethiopia. The private sector and the public sector have been creating a similar number of jobs in wage employment, while the number of civil servants has doubled since 2009. With about 2 million new entrants to the labor market every year, this trend is unsustainable, especially with the low level of rural economic diversification and the growing pressure that increasing rural-to-urban migration is placing on the urban labor market. Therefore, efforts should concentrate not only on creating new jobs for the entrants to the labor market but also on improving the quality of these jobs and the inclusiveness of the labor market.

The objectives of the Plan of Action for Job Creation 2020-2025

The Plan of Action for Job Creation proposes holistic interventions to solve the employment and job creation challenges and provides a new vision of employment in Ethiopia. The plan aims to foster the business environment and conditions necessary to create 14 million jobs by 2025, to absorb the currently unemployed, and to ensure that jobs are waiting for new entrants to the labor force. The plan has been developed through important and lengthy consultations with relevant stakeholders from the public and private sectors. A primary consideration in drafting the new Plan of Action for Job Creation has been an important paradigm shift from state-led to private-sector-led growth.

The Plan of Action for Job Creation is structured around six main strategic objectives:

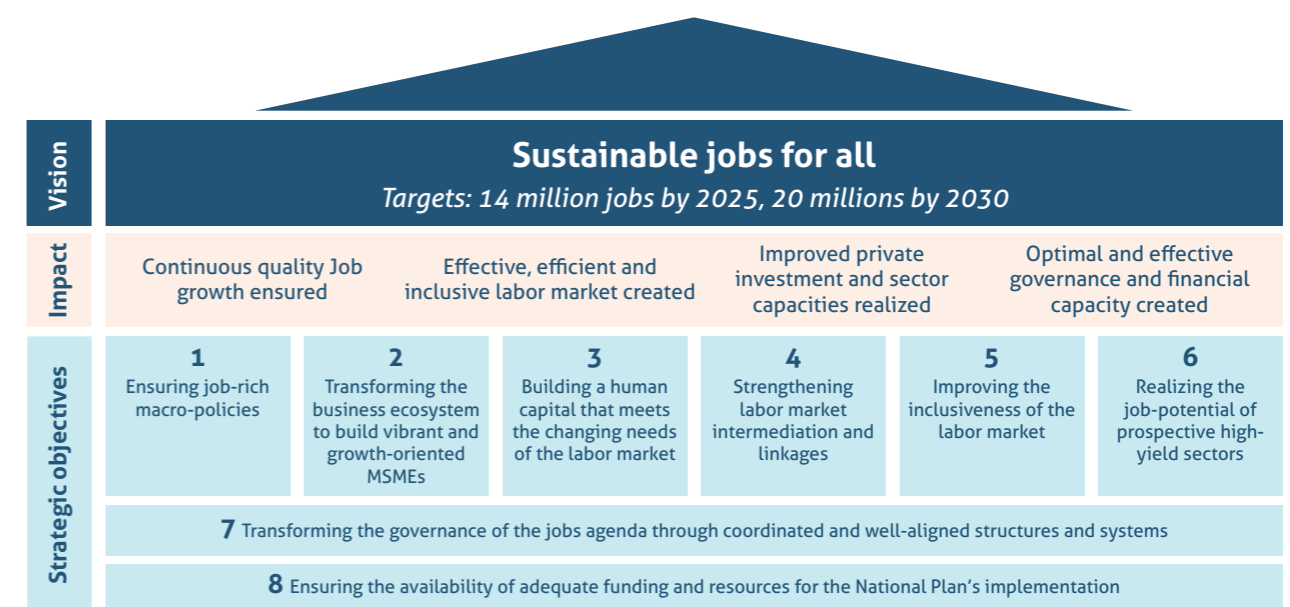
- 1 Adopting job-rich macro-policies** by ensuring macroeconomic stability, optimizing the job-creation potential of public investment, improving the financial sector, and upgrading the institutional and statistical framework for job-rich macro-policies;
- 2 Building a vibrant local private sector** by revamping the current support to MSMEs, effectively supporting high-potential and high-growth MSMEs, and improving the quality of business development services;
- 3 Developing human capital to meet the changing needs of the labor market** by improving the level of work-readiness of the labor force, ensuring its proficiency in the 21st century skills, improving the entrepreneurial mindset, and building more effective linkages between educational institutions and industries;
- 4 Strengthening labor market intermediation and linkages** by (i) building modern employment centers that provide effective employment services and (ii) developing a labor market information system to reduce the asymmetry of information and improve social and spatial mobility in the labor market;
- 5 Improving the inclusiveness of the labor market** by providing targeted services to populations excluded from the labor market as well as to vulnerable populations, such as refugees, migrants, and people with disabilities;

- 6 Realizing the job-creation potential of prospective high-yield sectors:** providing a more balanced development policy with a focus on realizing the job-creation potential of sub-sectors in agriculture, industry, and services:
 - Improving outputs in the agriculture sector (focus on horticulture and poultry) by improving necessary inputs and services including small-to-medium-scale irrigation, improving access to financial services, and building linkages between industries (such as agro-processing) and urban markets;
 - In the industry sector, including manufacturing, focusing on building effective backward and forward linkages, encouraging an innovative and diversified local production, and building a more demand-driven labor force;
 - Developing ICT as an enabler of the services sector and as a sector capable of leading the nation's transition to an inclusive digital economy;
 - Improving the performance of the tourism sector by increasing the accessibility and attractiveness of Ethiopia as a destination and by creating an enabling environment for the creative arts sector to unleash the Ethiopian creativity.

The Plan of Action also includes two cross-cutting strategic objectives:

- Transforming the governance of the job agenda through coordinated and well-aligned government structures, in order to ensure coherence and alignment within government;
- Ensuring the availability of adequate funding and resources for the implementation of different strategies and interventions.

Vision and pillars of interventions of the Plan of Action for Job Creation



Building a job-rich environment and a functioning labor market

1 Ensuring job-rich macro-policies

Current situation and challenges

Macro-economic environment

Over the past years, inflation in Ethiopia has been primarily driven by food-price inflation. Inflation surged to double digits in 2017-18 (FY2018) as a result of a one-off devaluation of the birr against the US dollar in October 2017, expansion of public sector credit in 2017, growth in broad money, and political disruptions (which adversely affected distribution networks).

At 13% of GDP (including grants), public revenues in Ethiopia are well below the Sub-Saharan Africa average (16%) and are inadequate for a developmental state. Tax collection has been hampered in recent years by political disturbances and, more generally, by lacunae in the tax administration process. Increasing tax revenues is a central focus of the government and, as a result, the tax policy directorate in the Ministry of Finance (MoF) is actively reviewing ways in which this can be achieved.

The Ethiopian government has heavily invested in infrastructure, and in fiscal incentives that focus on investment in industrial parks. The designs of infrastructure projects today could be optimized from a labor market and job creation perspective. Fiscal policies already exist that incentivize investment in export-focused industries and those manufacturing entities that can create and sustain export-focused units. The record of fiscal incentives (and, more broadly, industrial policy) has been mixed—in some sectors, such as horticulture, incentives have led to substantial growth; in the leather sector, where Ethiopia would appear to have a comparative advantage, however, they have had minimal impact.

State-owned enterprises (SOEs) represent an important part of the Ethiopian economy and dominate strategic sectors such as transport, telecommunication, and banking. SOEs represent a significant portion of the Ethiopian economy: the nine largest SOEs contribute 16% of GDP. Evidence suggests that SOEs have been crowding-out the private sector, including in access to finance. In general, the opacity of current governance and accountability arrangements for SOEs has made it difficult to recognize poor performance and identify its causes. The service delivery of SOEs is generally weak, as is their operational performance, and some SOEs require ongoing fiscal support.

Financial sector

The Ethiopian financial sector remains under-developed and is concentrated on the banking sector. In the 2017-18 Global Competitiveness Report, Ethiopia scored 3.4 out of 7 and ranked 109 out of 137 countries in terms of financial market development. For the private sector, access to finance is a structural challenge—in fact, 40% of the enterprises included in the WB Enterprise Survey (ES) declared that access to finance was a major constraint to their development. The credit to the private sector continues to represent a small share of domestic credit: it represents only 36.9% of total domestic credit, while credit to the State-Owned-Enterprises and Central Government represents more than 63.1%.⁴ The main challenges in the banking sector are lack of liquidity and lack of effective infrastructure for credit-scoring. Also, capital market and mobile banking remain very under-developed in Ethiopia, despite their potential in unlocking the job creation potential of the private sector.

Foreign exchange and currency

Foreign exchange shortage is one of the major bottlenecks for business development in Ethiopia and is constantly reported as a major issue by the private sector. Despite investment in export-led sectors, the trade deficit in Ethiopia is widening, as imports have been increasing at larger pace than exports. Also, despite depreciating, the overvalued currency has contributed to a trade deficit, which has driven consistent current account deficits. Currently, the gap between informal and formal exchange rate is estimated to be over 30%.

The foreign currency shortage has led to long delays in accessing foreign currency to import materials, and licensed importers do not always receive their full request, which strongly hinders their business operations. Delays in accessing foreign currency can take up to one year, including for essential imports.

Statistical and institutional macro-framework for job creation

The current statistical framework in Ethiopia is relatively weak and needs to be strengthened to be able to analyze, in a more profound way, the impact of macro-economic policies on job creation and employment. For example, the latest input-output table is from 2011, and analytical instruments such as social accounting matrixes, Computable General Equilibrium Models are not used within institutions to investigate the weight of macro-policies on job creation.

⁴National Bank of Ethiopia, 2019

Proposed strategies

STRATEGY 1 Ensuring a pro-job macro-economic environment, through job-oriented monetary and fiscal policies, and through a better functioning SOEs to create a level playing field for the private sector.

STRATEGY 2 Improving the private sector's access to finance, by improving the financial infrastructure and inclusion and diversifying the sources of finance for the private sector.

STRATEGY 3 Improving the level and access to FX, by implementing a comprehensive remittance strategy, promoting import-substitution and export-led activities, and improving access to forex for private sector importers.

STRATEGY 4 Upgrading the institutional and statistical framework for job-rich macro-policies, through building macro-economic analysis instruments to assess the impact of fiscal and macro-policies on job creation and building capacity of key institutions to adopt job-creation analysis methodologies.

2 Transforming the business ecosystem to build vibrant and growth-oriented MSMEs

Current situation and challenges

In Ethiopia, micro-enterprises abound, and some large firms are present, but SMEs represent a missing middle, including in access to finance. Currently, job creation is concentrated in large established firms in both the service and manufacturing sectors. The Ethiopian government also adopted the Micro and Small Enterprise Development Policy and Strategy of 2010/11,⁵ implemented through the Micro and Small Enterprises program. However, the government's support (including that provided through the youth revolving fund) has produced little effect: less than an estimated 3% of the supported MSEs graduate to become the next-larger-size enterprise. Four broad challenges undermine the support provided to MSMEs: (i) poor policy design, (ii) inadequate skill training, (ii) lack of targeted financial support, and (iv) poor market linkages.

SMEs face a high cost of doing business, lack of access to market, lack of network across value chain actors, and strong constraints in accessing finance. SMEs in need of finance in Ethiopia rely almost exclusively on collateral-based funding provided by the banking sector and equity investments from social networks. Less than one third of SMEs (between 5 and 99 employees) acquire bank loans at all. SMEs are much more likely to be rejected for loans and less likely to have a loan, line of credit, or overdraft facility, than are larger businesses.

Ethiopia's lenders lack business models adapted to SMEs, and more broadly lack an "SME finance culture." There is no standard nationwide definition of MSMEs; consequently, specific

⁵Updated in 2012 and 2016. Available at: <https://www.cmpethiopia.org/content/download/2366/10048/file/MoUDH%20MSE%20Development%20Policy%20&%20%20Strategy%20280416.pdf>.

MSME financing strategies are not in place. The business models of financial institutions are mostly inadequate to serve SMEs.

Proposed strategies

STRATEGY 1 Remodeling government support to incentivize enterprise growth and self-reliance, through notably a better targeting of high-growth MSMEs, the inclusion of high-potential sectors in the support framework, shifting from a mandatory "group" perspective to more "empowered individuals" and a consensual partnership approach, and strengthening the role of families and communities in enterprise formation.

STRATEGY 2 Improving the quality of business development services (BDS), to provide demand-driven skill development support and BDS and supporting the development of incubators and accelerators and facilitate MSMEs' ability to access information about them.

STRATEGY 3 Improving MSMEs access to finance, by notably establishing a partial public credit guarantee scheme, improving MFIs capacity to provide adequate financing and supporting the development of innovative financial products for start-ups.

STRATEGY 4 Improving local value chains and market linkages through horizontal and vertical integration, by establishing sectoral clusters for MSMEs, with a focus on manufacturing, encouraging networking and horizontal collaboration, improving MSMEs' access to public procurement, and promote domestic linkages with foreign investors, including in industrial parks.

STRATEGY 5 Improving the competitiveness and access to technology for MSMEs, by promoting technology diffusion among MSMEs, including through collaboration with universities and sectoral research institutes, providing incentives for high-growth MSMEs to increase their access to inputs, and promoting innovation through the provision of funding for innovation, as part of the Jobs Creation Fund.

STRATEGY 6 Improving the business environment for MSMEs, by streamline bureaucratic and regulatory procedures and facilitate open and closure of business, access to sheds and lands, and access to electricity and infrastructure, and implementing a regulatory sandbox.



3 Developing human capital to meet the changing needs of the labor market

Current situation and challenges

Skill development policies and strategies are central to Ethiopia's growth and transformation vision of becoming a low middle-income economy by 2025. To this end, the Ethiopian government has made remarkable strides in accelerating economic growth on the journey toward the country's renaissance. Despite noticeable improvements in education levels, a large proportion of the population still lacks basic education and employable skills. Unskilled elementary occupations feature heavily across every sector. Ethiopia's current skills base—in contrast to other low middle-income countries—constrains the ability of businesses to achieve transformative economic growth and discourages investors from investing in new enterprises.

A well-qualified and productive workforce is one of the most critical factors in creating sustainable economic growth. Ethiopia's attempt to unlock human capital depends primarily on improving educational attainment. High dropout rates, low literacy levels, and the lack of necessary technical and soft skills to match the needs of the labor market are the primary factors limiting Ethiopia's transition to a middle-income economy. Hence, a critical strategy for Ethiopia should be to prioritize interventions and resource expenditures that enhance human capital.

Ethiopia is taking steps to address deficiencies in the education and training system. Resolving the needs of the labor market, producing a well-qualified labor force, and reducing bottlenecks in accessing information would enhance employability, promote employment, and create jobs. More resources—and a recalibrated focus on the skills sought in the labor market—are needed to improve the education system and up-skill the workforce. Employers are looking for soft and work-oriented competencies in communication; understanding value chains; customer orientation; and interdisciplinary teamwork, to name a few. Additionally, other skills such as adaptability to new situations, thinking in systems, handling complexity, analytical thinking and creativity have become essential elements of training curricula for middle- to high-skill workers around the world. Finally, disruptive, innovative strategy outside the boundaries of traditional, formal education is critical to transforming education, as the changing nature of work increasingly demands core knowledge and skills, resilience, and innovation.

Proposed strategies

STRATEGY 1 Reducing the skills mismatch between the labor market demand and supply, by notably establishing Sector Skills Committees (SSCs) in each sector to ensure that skill development efforts align with industry needs, developing mandatory universal internships and apprenticeship for university students, revamping youth centers to serve as industry/business linkages for youth⁶ ages 15 – 29 and reforming career development centers at all universities and TVETs to serve as one-stop “career success centers”.

⁶Age 15-29

STRATEGY 2 Improving the work-readiness of the labor force, by providing employability skills training in and out of the education system, providing numeracy, reading, and digital and financial literacy skills as building blocks for performing more complex skills, and establishing a center of excellence to ensure continuous supply of quality of trainers to deliver short term courses.

STRATEGY 3 Encouraging an entrepreneurial mindset, through notably the provision of entrepreneurship training within the education system starting from secondary school through university and establishing entrepreneurship guidance services within career development centers.

STRATEGY 4 Ensuring proficiency in 21st-century skill sets to meet the needs of the global labor market, by supporting 21st-century digital and STEM⁷ skill programs in and out of school, providing opportunities to learn and master common global languages, and building 4IR⁸ talent as a critical factor to meet the changing environment of work due to technological advancements.

STRATEGY 5 Cultivating positive behaviors and attitudes toward work, by promoting the value of work within the education system, promoting active participation of the private sector in active advocacy campaigns to promote talent and the value of work and cultivating a continuous learning mindset.

4 Strengthening labor market intermediation and linkages

Current situation and challenges

The labor market in Ethiopia suffers from a significant asymmetry of information, due mainly to a weak labor market intermediation and institutions. Jobseekers take a fragmented approach to their searches, relying mainly on personal connections, public employment services, or private sector linkages. Access to information about jobs and vacancies is limited and costly: an estimated 73% of the unemployed lack information about both vacancies and government services that can provide information. Public central job boards are one of the main channels that jobseekers use, especially in the urban areas; however, accessing these boards is typically costly. Central job boards are physical job boards set up at specific points in cities and urban areas. Fifty percent of unemployed Addis Ababa youth stated that the cost of transport was a major constraint in searching for a job, and 84% of the same population indicated that the cost of transport was at least one of the constraints in their job search.

The absence of strong labor market institutions and information leads to reliance on social networks, which hinders social and labor mobility and can lead to an important misallocation of labor. The absence of access to information about the labor market and reliance on central job boards can lead to a limitation of labor mobility as jobseekers will be geographically constrained

⁷Sciences, Technology, Engineering and Math

⁸4th Industrial Revolution

in their job search process. Reliance on social networks prevents social mobility, as people's social circles tend to be limited to those with similar socioeconomic backgrounds, making it difficult for people with low-skilled peers and family members to find higher-quality employment through this channel.

The labor law in Ethiopia is frequently stated as a constraint to wage-employment, and the recent amendment is an encouraging advancement, but further adjustments remain necessary. The new labor law adopted in 2019 contains better dispositions to improve work culture and work conditions. However, the law does not provide specific dispositions to different sectors, which can constraint job creation, as sectors have different needs and patterns in terms of employment.

Proposed strategies

STRATEGY 1 Building effective employment services and labor intermediation for job-seekers and entrepreneurs, by notably establishing an employment Agency, with service delivery through the creation of Employment Centres, that function as a single window for all jobseekers and potential entrepreneurs and creating a Jobs Creation Fund to promote employment and skill development, with the possible participation of private sector donors.

STRATEGY 2 Promoting digital solutions and the use of technology, by facilitating the use of technology tools and platforms to deliver employment services and ALMPs and establishing a national job portal.

STRATEGY 3 Building a data-rich environment for employment policies, by building a Labor Market Information System that integrates all data produced on the labor market, improving the frequency, regularity, and quality of labor market surveys, and establishing a National Labor Market Observatory.

STRATEGY 4 Reforming the labor law to consider the different labor dynamics within sectors while protecting workers' rights.

5 Improving the inclusiveness of the labor market

Current situation and challenges

Labor market outcomes in Ethiopia have been slightly improving, especially in urban areas, but not equally for all population groups. Several population groups face structural challenges in entering the labor market and to fully developing their economic potential. Women and youth, in particular, face structural challenges when transitioning to work and tend to suffer from a systemic and persistent gap in accessing the labor market when compared to males and adults.

An important proportion of the employed is working as self-employed, which tends to correlate with low skill levels and lack of formal job opportunities. Even if for some workers self-employment is an expression of an entrepreneurial mindset, evidence suggests that self-employment in Ethiopia tends to be a last resort rather than a choice. Evidence shows a trade-off between level

of education, wages, and self-employment in Ethiopia: Evidence suggests that people with higher levels of education and income tend to not be self-employed—and the inverse: those who are self-employed tend not to have a high level of education or earn high incomes. Self-employed are over-represented in medium-to-low-skilled occupations. Moreover, self-employed people with low skill levels tend to be engaged in the informal economy in unproductive activities and to near-subsistence levels of income.

Different groups tend to be vulnerable in the labor market and suffer from important social and labor market exclusion. These groups include rural-to-urban migrants looking for jobs, persons with disabilities, refugees, and internally displaced people. The challenges that each group faces in the labor market are specific to their situation and require targeted support from employment services and government. In addition to these groups, it is important to continue monitoring for new groups that suffer from structural exclusion within the labor market.

Ethiopian pastoralists are one of the Ethiopian economy's most vulnerable groups in need of support to improve the resilience of their livelihoods. Ecological challenges and large-scale commercialization have shrunk pastoral lands, disrupted migration routes, and reduced the herd sizes of livestock. Limited basic infrastructure has hindered pastoralists' access to education and skill training and has also contributed to the lack of diverse economic options, which has left them vulnerable to economic and environmental changes. However, the economic diversification of the pastoralists has its challenges, including the sets of employability skills that it requires. Supporting pastoral communities through skills training and employment services, as well as providing new market linkages for livestock-based products, can help pastoralists overcome significant hurdles in transitioning to new markets and integrating into semi-urban or urban areas.

Proposed strategies

STRATEGY 1 Providing specific support to improve youth employment, through providing targeted support to youth NEET, long-term unemployed tertiary graduates and up-to secondary education youth, and promoting off-farm activities and connection to nearby cities to reduce under- and unpaid employment in rural areas for youth.

STRATEGY 2 Promoting women's economic empowerment, by implementing programs that reduce the level of unpaid employment in rural areas among women, developing childcare services in urban areas, and expanding village and community-based economic empowerment and livelihood programs for women.

STRATEGY 3 Providing activation programs to improve productivity in self-employment, by notably providing basic business and entrepreneurship skill training and providing incentives for self-employed informal workers to move into the formal economy.

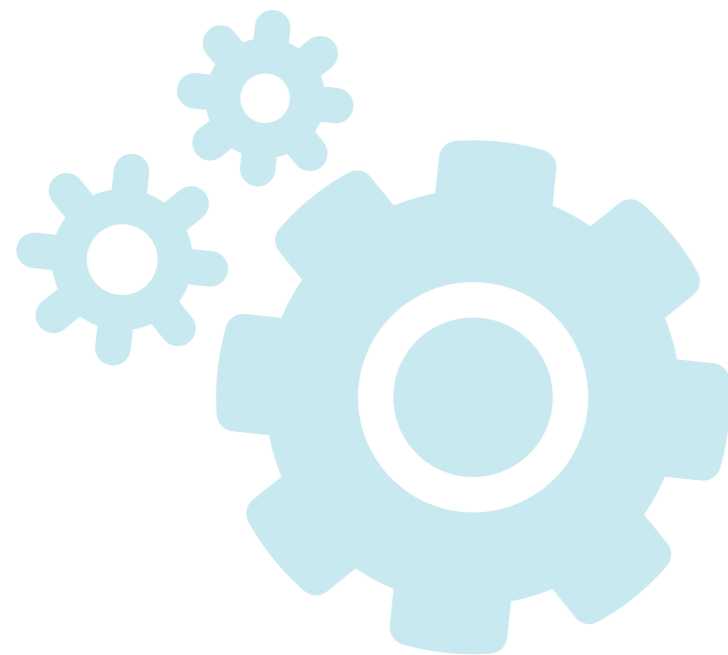
STRATEGY 4 Implementing programs targeted to internal rural-to-urban migrants, by improving the pull-factors in urban areas, providing specific employability support for rural-urban migrants, and improving the push-factors in rural areas, by encouraging and improving agricultural productivity and rural economic diversification.

STRATEGY 5 Building a disability-friendly labor market, by implementing affirmative actions for people with disabilities, improving their employment opportunities by developing employment quotas in the public sector and providing incentives to the private sector, and providing targeted support within employment centers.

STRATEGY 6 Integrating refugees and internally displaced people (IDPs) into the labor market, by notably providing vocational language training and basic skills training to refugees and IDPs to improve their employability, develop outreach campaigns and deliver support to refugees and IDPs and providing local community development programs.

STRATEGY 7 Improving livelihood support to pastoralists, by notably investing in public infrastructure including water supply for pastoral communities, developing skill development programs tailored to mobility patterns and encouraging the use of livestock as collateral for credits from financial institutions.

STRATEGY 8 Improving working conditions and social protection in the labor market, by introducing a minimum wage, launch a national consultation and study to explore the possibility of introducing national unemployment insurance, and promoting transitions to productive labor for the Productive Safety Net Program recipients.





Realizing the job-potential of prospective high-yield sectors

A Cross-cutting issues

A1 Encouraging private sector investment

Current situation and challenges

In line with broader economic growth in Ethiopia, the level of investment has increased from 24.3% of GDP in 2003 to 39.0% in 2017—although the private sector’s relative contribution has diminished. The gross capital formation of the private sector has increased to 24.5% of GDP in 2015. However, private sector investment remains low, accounting for about half of the gross capital formation. Moreover, private sector credit to GDP ratio is just 9%, compared to an average of 20% across all sub-Saharan African countries. The level of foreign direct investment (FDI) has increased steadily since 2011, in line with the government strategy to develop export-led manufacturing, except for a small decrease in 2017/18 linked to political changes in the country. FDI reached more than 5% of GDP in 2016/17, at which time Ethiopia was among the top five FDI destinations in Africa.

While FDI is concentrated in the manufacturing sector, local investors are mainly engaging in non-productive sectors. Domestic investment is more focused on the service sector (30% of total investment between 1996 and 2016)⁹ and concentrated in highly and quickly profitable sectors such as the real estate and rental sectors. Moreover, private sector investment is characterized by a very low level of project implementation, especially among local investors. Over the past 25 years, only 12% of the approved projects were implemented and became operational, with lower implementation rates for domestic investors than foreign investors (9.5% vs. 51.3%).¹⁰

⁹Gebreyesus, (2019) “The private sector in Ethiopia’s transformation, Oxford Handbook of Ethiopian Economy”
¹⁰Gebreyesus, (2019) “The private sector in Ethiopia’s transformation, Oxford Handbook of Ethiopian Economy”

Proposed strategies

STRATEGY 1 Improving the implementation rate of investment projects to maximize job creation, by developing an effective after-care strategy for investors.

STRATEGY 2 Increasing the level of local investment in productive sectors, by reviewing the current set of incentives to encourage local investment in productive sectors.

STRATEGY 3 Attracting FDIs in all prioritized sectors, by developing an investment strategy to attract FDIs in different prioritized sectors.

STRATEGY 4 Encouraging private sector investment in development projects through Public-Private-Partnership (PPPs) schemes.

A2 Investing in rural-urban linkages

Current situation and challenges

Effective rural-urban linkages are an important factor in the structural transformation in Ethiopia. However, the scale of linkage between agriculture and non-agricultural activities, especially manufacturing, appears to be small. Most manufacturing sectors, such as leather and textiles, depend on imported inputs instead of using the local supply. This suggests that the magnitude of inter-sectoral linkages between agriculture and other sectors has remained weak despite the rapid economic growth of the last couple of decades.¹¹

Small and secondary cities can play an essential role in creating effective and productive rural-urban linkages. Small and secondary cities represent almost 65% of the working-age population in Ethiopia and can be an important link between the rural and the urban economies. Small and secondary cities can serve as an important market for agricultural goods and outputs, a distribution platform of these goods to other urban areas, and a supplier of non-agricultural goods and services to rural areas. Investment in infrastructure, including transportation, and basic services, including access to finance in small and secondary cities located near rural areas, is the backbone of the urban-rural development linkage approach and would allow for better access to markets, jobs, and services for rural workers.

Proposed strategies

STRATEGY 1 Ensuring infrastructure development across urban areas bordering rural areas, by promoting the development of infrastructure (including utilities) and basic services (including finance) to connect rural areas to secondary and small cities.

STRATEGY 2 Investing in rural-urban growth corridors, by developing agro-processing clusters in nearby cities and promoting industry linkages with farmers.

¹¹Ferede et al. (2019) “Rural-Urban Linkages in Ethiopia - handbook of the Ethiopian economy”

A3 Access to land

Current situation and challenges

Land is the primary production factor in Ethiopia, as 70% of the employed population remains in agriculture. Land represents also an important public resource, as it is estimated that 90% of city administration revenues are generated from land and land-related sources in Ethiopia. Accordingly, land policies in the context of Ethiopia, with 80% of the labor force in rural areas, are a crucial point in economic development reforms.

Ethiopia is facing severe problems of land fragmentation, notably due to the fast-growing population density. Most farmers in Ethiopia are smallholder farmers, with more than half of them cultivating around 0.8 hectares of land. With the important demographic evolution and the number of youths entering the labor market in rural areas, the land fragmentation issue will only increase. Evidence shows that youth-headed households in rural areas tend to have less access to inputs, including land, than their adult peers. Moreover, land rights and use, including for farmers, are restricted in the absence of clear national land use policy. Developing national legal and regulatory frameworks and encouraging shareholder-based farming and commercial farms is critical for improved agricultural productivity.

Access to land remains a severe constraint to enterprise establishment in urban areas. Land allocation decisions are subject to uncertainty, and major delays exist in answering land access requests, as some enterprises report waiting up to three years to obtain land. Lack of access to land is systematically reported as one of the major constraints for doing business, and one of the major reasons explaining the low implementation rate of investment projects in Ethiopia.

Inefficient land administration systems are a major challenge in undertaking land administration reforms in Ethiopia. The absence of a strong vertically integrated institution, that gives clear policy, legal, technical, and financial guidance and overall coordination for both rural and urban lands, has resulted in uncertainty and duplication of efforts. Formal land registration and conventional cadastral system is a relatively recent development in Ethiopia particularly in rural settings. The present land certification system, despite its being innovative in several aspects, is limited to administrative records and manual inscription which lacks basic spatial framework, registry maps and is static and monotonous.

Strategies and Interventions

STRATEGY 1 Improving access to and use of land for farmers and businesses, by allowing farmers' rights to use land, encouraging farmers to become shareholders in commercial farms, and optimizing land use for youth and women in rural areas while encouraging the establishment of commercial farms.

STRATEGY 2 Improving land planning and administration, by building a uniform and robust land governance and administrative capacity at all levels and establishing a modern urban land cadaster system that prioritizes land zoned for commercial, industrial, and mixed uses.

A4 Logistics

Current situation and challenges

Ethiopia adopted a national logistics strategy in 2017, currently under implementation. Ongoing reforms, as part of the strategy, include liberalization of the sector: Ethiopia has opened its logistics sector to foreign investors in the form of joint ventures with local firms. The state-owned ESLSE will also be half privatized as part of the liberalizing reform. The strategy also includes the digitalization of the customs process. The Ethiopia Customs Commission and Revenue Authority (formerly known as ERCA) is implementing an updated electronic customs management system to simplify its customs procedures. It has also established an electronic single-window service delivery outlet for international trade logistics through Kenya and Djibouti borders. Finally, the strategy includes, among other interventions, improving the logistics infrastructure through the operationalization of Ethio-Djibouti railroad, the upgrading of the Modjo dry port, and the improvement of last-mile road connectivity through the Universal Road Access Program.

Despite numerous initiatives, time- and cost-related challenges limit the country's competitiveness in the logistic sector. Ethiopia is lagging behind neighboring countries such as Kenya and Tanzania as indicated by the Logistics Performance Index. The challenges faced by businesses, exporters, and manufacturers include a heavy bureaucratic customs process and inadequate logistics services, under-developed transport systems, inadequate terminal facilities, limited utilization of ICT systems, and an inefficient regulatory framework.

Customs processes and procedures are burdensome, convoluted, and lengthy. Document clearance is a long and fragmentary process involving numerous forms required by multiple offices, resulting in duplicative efforts and added expense. As a result, on average, document preparation and customs clearance account for 77% of the time required to trade internationally. Ethiopia requires 12 documents for export compared to 9 in Kenya and 6 in Vietnam. Moreover, there is a high physical inspection ratio, as 32% of goods go through the "red channel" and are physically inspected, while the target is 20%. Finally, private sector actors regularly highlight the insufficient competency and poor coordination among customs service providers. Customs agents lack the necessary technical knowledge and professionalism to provide services and trainings are unpredictable and only provided by the customs commission. As a result of these deficiencies in expertise and procedures, it takes on average three days to inspect and classify one container.

Encouraging both domestic and foreign private sector engagement in the transport system can help make it more efficient. The current multimodal system designed and led by Ethiopian Shipping and Logistics Services Enterprise (ESLSE) lacks transparency and efficiency. Because there is no cargo assignment system in place to facilitate the multimodal transition, truckers prefer to wait in Djibouti for cargo. This prevents the possibility of contracting round trips, which would eliminate some of the empty back-haul trips. In addition, 40% of businesses confirmed in a recent survey that there is a shortage of truckers and transports. Most trucks are general-purpose vehicles that lack modern amenities such as cold-chain facilities to transport perishable goods. As a result, companies (e.g., in the horticulture industry) currently invest in their own cold chain facilities. Moreover, trucks are not utilized at full capacity both in terms of distance traveled and load carried. Finally, railway

lines in Ethiopia have limited geographic coverage and efficiency, as the Addis-Djibouti railway line ends prior to reaching Djibouti port, requiring trucking services to deliver goods to the port.

Effective terminal facilities are a critical element in logistics and could be improved through the expansion of dry ports and increased private sector service provision. Due to the limited carrying capacity and operational constraints of its own dry ports, Ethiopia's trade relies on Djibouti's port – which is congested and poorly organized. Moreover, ESLSE, which has a monopoly on the seaport, lacks capacity to coordinate agencies and plan for optimal usage. Lack of companies that offer warehouse services further hampers the logistics sector; existing warehousing infrastructure and human resources are insufficient to support operating hours required for timely offloading, resulting in delays.

Under-utilization of ICT also constrains the logistics sector. The IT software and systems that track cargo and report on customs processes are not fully operational or integrated. The Ethiopian Customs Commission and Revenue Authority is currently using an updated automated customs clearance system (eCMS); however, several checkpoints along trade routes lack access to the internet, preventing clearing community and traders from accessing the web-based portal.

Strategies and Interventions

The strategies and interventions listed below are complementary to the ongoing efforts of the 2017 national logistics strategy.

STRATEGY 1 Streamlining standards and procedures, by expanding the automated risk management system, introducing performance incentives and expanding training and up-skilling for customs staff.

STRATEGY 2 Optimizing transport systems, by revising traffic laws, supporting optimization platforms, revising the pricing structure for railway services, and encouraging foreign investment.¹²

STRATEGY 3 Improving ICT utilization, by expanding the broadband network, with a specific focus on trade corridors.

B Agriculture

Agriculture is expected to remain the main driver of employment in the coming years, despite declining in the overall share of jobs it provides. The principal challenges to be addressed today in agriculture are the need to improve productivity levels, especially for smallholder farmers, improving market linkages with urban areas and forward industries, and decreasing levels of subsistence employment in order to fully integrate rural areas into the growth cycle. Increasing productivity requires providing necessary inputs and services to smallholder farmers, including access to small- to medium-scale irrigation systems, and improving access to financial services by developing a legal framework for agriculture-specific products. Other necessary interventions in agriculture include encouraging private sector investment in agricultural R&D and using PPPs to expand extension services and medium and large-scale irrigation infrastructure, and building linkages with urban areas

¹²The EIC has an investment draft underway to open trucking for foreign investment

and industry sectors, such as agro-processing, leather, and textiles, among others.

In Agriculture, Horticulture and Livestock (poultry) sectors have been prioritized due to their potential in terms of job creation, and their potential contribution to the economic transformation of Ethiopia.

B1 Horticulture

Current situation and challenges

Horticulture production is dominated by smallholder farmers; a very small fraction of this production is exported. In the fruit value chains, smallholder farmers account for 90% of production and only 3% of total production is exported. In the vegetable value chain, smallholder farmers are responsible for half of the production. Only 6% of domestically consumed produce is processed, and only 1.3% is exported.

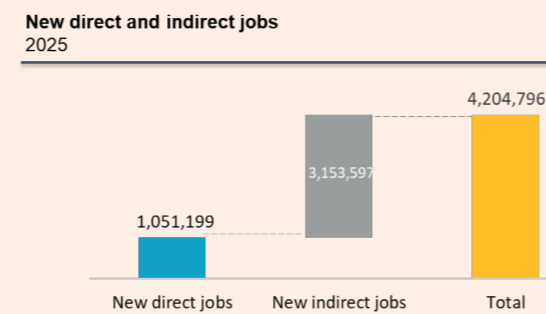
Lack of technical skill is a constraint at all steps of the value chain in horticulture while a lack of quality standards limits export opportunities. Poor post-harvest handling techniques lead to losses estimated at 25-30%. Further skills gaps include lack of knowledge on how to develop new seeds, how to grow quality crops, and best processing methods; limited access to high-quality training and research skills; low-quality TVET graduates; and poor extension service in integrated high-value crop production. Logistics and infrastructure challenges include high ground transport and freight costs that increase prices of Ethiopian exports; lack of capacity in aggregation procedures and storage facilities; information asymmetry on farmer's produce and location; minimal domestic and international market linkages; the high cost of air freight (at 35% of total export value); and insufficient knowledge of export market opportunities.

Horticulture farmers face additional challenges that include a lack of access to finance to pay for fertilizers and irrigation equipment; insufficient access to quality seeds and pesticides; and a reliance on unpaid employment of family members. Due to the high expense, less than 5% of smallholder farmers use improved seeds, and only 3% use mechanized tools.



Potential of job creation

According to the Ministry of Agriculture, there are 6,323,879 farmers engaged in Horticulture in 2018. Many farmers undertake mixed activities across multiple crop types. By 2025, estimation suggests that a total of 1,051,199 direct jobs could be created across the sector, including in seed and seedling production, crop spraying, crop production, and sorting and grading produce. Over half of the potential jobs created are suitable for youth. The estimation of the multiplier effect of job creation means



that employment in the horticulture could also generate up to 3.1 million indirect jobs.¹³

Proposed strategies

STRATEGY 1 Improving horticulture's productivity by ensuring the availability of public and private extension services, introducing an integrated input production and supply system for smallholder farmers (SHF), promoting small-scale irrigation systems for SHF, encouraging business development in activities contributing to decreasing post-harvest loss, and improving linkages with the agro-processing industry

STRATEGY 2 Developing mechanisms to integrate smallholder farmers with commercial nucleus farms, through the development of farmer out-grower schemes

STRATEGY 3 Ensuring that the enabling environment fosters horticulture sector development by notably supporting a regulatory change to allow the private sector to import and distribute fertilizers for use by commercial farms, including agri-inputs on the priority list for foreign exchange approval by NBE, and providing incentives to medium-scale agricultural mechanization

STRATEGY 4 Designing tailor-made skill development programs, by using Rural Transformation Centers (RTCs) as skills training hubs and providing training support for post-harvest loss.

¹³Multiplier for the horticulture is 3.0 indirect jobs for every direct job (benchmarking of Tanzania)

B2 Poultry

Current situation and challenges

Ethiopia holds key advantages in the poultry sector, including a large livestock and large consumer market, low cost of production, and investment incentives; however, the value chain suffers from structural challenges. The poultry value chain in Ethiopia is characterized by low production of inputs, low-quality production, and shortage of feeds. Medicine, vaccines, and disinfectants (MVD) are another critical input and are in short supply, thanks in large part to regulatory bottlenecks and a shortage of foreign currency, while a weak surveillance system makes it difficult to prevent new infections in chickens. Smallholder farmers typically hatch their own chicks—public hatcheries are few (just ~18 in the entire country) and operate well below capacity. Effective animal health services are not available to most backyard producers and farming practices are in many cases poor, leading to disease, high rates of mortality, and suboptimal chicken breeds.

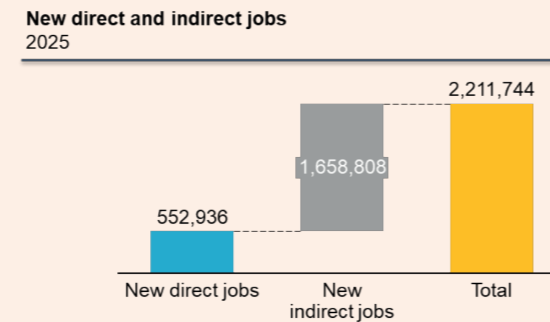
Further down the value chain, challenges with production, pricing, and regulation constrain the sector. At the collecting and trading stage, poor coordination between farmers and processors reduces the amount of meat available to be processed. The absence of a free market pricing structure inhibits segment development, and middlemen, brokers, and traders sometimes take advantage of smallholder farmers by offering unfair prices. The processing of chicken meat takes place in local butcherries, which limits the volume that can be produced. Poor sanitation standards at many slaughterhouses affect both quality and consumer interest. Processing infrastructure is poor throughout the country, yet traders, processors, and smallholders lack access to capital to address this limitation. An overall lack of regulation extends to traders, processors, and processing standards.

The skills gap in the poultry value chain is most pronounced at the processing stage. Minimal extension services are available to farmers; the lack of a skills training institute for the poultry sector (similar to TVET) is another challenge for the sector. A lack of emphasis on poultry in university curricula for veterinary students results in just four contact hours dedicated to poultry over a six-year study period.



Potential of job creation

Livestock is estimated to employ 2,882,974 workers in 2013. Between 2013 and 2018, employment in the livestock sector is estimated to have grown by 33% to reach 3,826,955 jobs and is expected to grow by an additional 14% by 2025, creating more than 550,000 new direct jobs (for a total of ~ 4.38 million) and 1.66 million indirect jobs.¹⁴ Poultry is expected to grow at the same rate as the sector, although its relative contribution to livestock sector jobs is not available. The greatest opportunities for indirect jobs related to livestock lie with the hotel and restaurant



and logistics sector, due to increased trade and processing of chicken produce.

Proposed strategies

STRATEGY 1 Strengthening the sector's productivity, by supporting the development and production of alternative ingredients for poultry feed, promoting large-scale commercial feed production, attracting investment in breeding and production of parent stock, introducing to commercial farms an integrated input production and supply system for smallholder farmers, and encouraging the establishment of MSMEs throughout the value chain.

STRATEGY 2 Transforming traditional backyard family poultry farming into a market-oriented and improved family poultry system, by ensuring the availability of private extension services to support poultry production and consumption, facilitating the implementation of innovative solutions such as powdered egg production and ensuring the availability of finance, technical support, and working space/land to facilitate formal production.

STRATEGY 3 Enhancing vibrant entrepreneurship and business interaction in the chicken industry, by developing and implementing appropriate biosecurity standards within production systems and improving and incentivizing market linkages for poultry producers.

¹⁴Future jobs calculated using NPC GDP forecasts per sector and employment elasticity to growth from World Bank calculations. Where data is unavailable at the sub-industry level, projections for the industry or sector have been used as proxy. Multiplier for the livestock industry has been benchmarked from Tanzania and is estimated at 3 indirect jobs for every direct job

C Industry

The recent focus of the Ethiopian government on manufacturing is essential for Ethiopia's economic transformation; investment in labor-intensive manufacturing needs to continue. Manufacturing plays a relatively marginal role today in job creation, output, and exports, and linkages with domestic firms remain minimal, know-how transfer and technology capability building are virtually nonexistent. For manufacturing to become an engine for growth and economic transformation, Ethiopia must invest in creating effective backward and forward linkages and providing comprehensive support to MSMEs in the sector. The level of productivity in manufacturing remains low due mainly to low skill levels—therefore, a demand-driven approach to skills development is an essential step toward developing a vibrant manufacturing sector that increasingly relies on domestic firms and Ethiopian workers.

In addition to sectors in manufacturing with high-potential in job creation, construction, mining, and renewable Energy have been prioritized. Construction is expected to remain an important sector both in terms of investment and job creation in the next years. Mining has an untapped potential in Ethiopia due to several institutional and technical constraints. Strategies to improve pricing, formalize small artisanal miners and improve large-scale miners' relationships with local communities in the sector are necessary to unlock the sector's potential in direct and indirect job creation. Improvement in power supply and reliability can have a substantial impact on job creation and productivity across the economy. Investing in diversifying energy sources and promoting the off-grid value chain can help towards achieving this objective and create jobs, including for low and mid-skilled youth.

C1 Agro-processing – Food and Beverages

Current situation and challenges

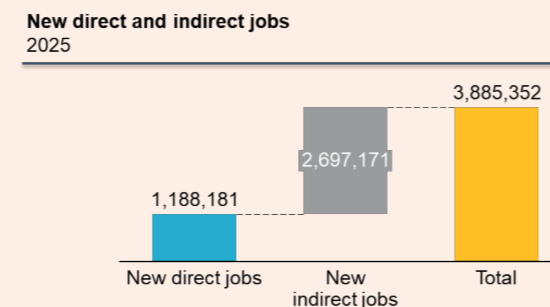
The food and beverage processing industry has the potential to be an important driver of agriculture productivity and rural economic transformation. Government support is crucial to addressing some of the systemic agro-processing challenges in the value chains. The government of Ethiopia has developed initiatives to address enabling environment challenges that hinder agro-processing, export growth, and import substitution, particularly in the country's food and beverage processing industry. Despite being the third largest contributor to the industrial sector, production levels in the food and beverage processing industry (FBPI) are far below demand, leading to an 18% increase in food and beverage imports between 2012 and 2016. The government has prioritized import substitution in the wheat and sunflower value chains.

The wheat value chain is hindered by poor farming practices, poor access to markets, inconsistent quality, limited storage, outdated processing equipment, and the subsidization of wheat imports. In the sunflower value chain, farmers grow poor quality varieties using limited knowledge of best farming practices, processors lack up-to-date equipment and technique, and distributors and retailers lack market information and the ability to export oil that is not packaged in compliance with international requirements.

As a whole, the food and beverage sector faces skills gaps up and down the value chain stemming from lack of knowledge of effective farming practices, TVET curriculum that does not match demand, limited marketing and trade promotion of local processors, little professional knowledge of the business process, low levels of skill in the production processes, and poor linkages between tertiary graduates and value chain actors.

Potential of job creation

Food and beverage is a major manufacturing sub-industry, employing around 843,000 people in 2013, and estimation of 1.4 million jobs in 2018. Employment in the food and beverage industry is forecasted to grow by 86% by 2025, creating a total of almost 1.2 million new direct jobs and 2.7 million indirect jobs.¹⁵ With an increased focus on industrialization in the country, there are growing opportunities in agro-processing for those who learn modern techniques, and the potential for up to 400,000 new jobs in agro-processing industrial parks alone. As the industry becomes more capital-intensive, it is possible that opportunities for entry-level jobs



will decrease. At the same time, the demand for jobs with specialized skills, such as line engineers and product quality surveyors, is likely to grow.

Proposed strategies

STRATEGY 1 Improving forward and backward linkages in agro-processing value chains, by notably ensuring an integrated input production and supply system for smallholder farmers selling to commercial farms, encouraging contract-farming, supporting medium-scale agri-mechanization, expanding the Agricultural Commercial Clustering (ACC), developing extension services through public-private partnerships (PPPs), improving access to information, building the aggregation and processing capacity of unions, cooperatives and MSMEs, and optimizing the job-creation potential of integrated agro-industrial parks for jobs.

STRATEGY 2 Encouraging and attracting local agro-processing investments by providing a comprehensive incentive package to domestic input providers and processors, prioritizing incentives for local companies in the agro-processing sub-sector, and extend incentives to agricultural input producers.

¹⁵Future jobs calculated using NPC GDP forecasts per sector and employment elasticity from World Bank calculations. Where data is unavailable at the sub-industry level, projections for the industry or sector have been used as proxy. Multiplier for the food and beverages industry is 2.3 indirect jobs for every direct job (benchmarking from India)

STRATEGY 3 Designing tailor-made skill development programs, by developing skill curriculums at the TVET and university level to meet the needs of the agro-processing sector and providing education on and financial support for modern farming practices.

STRATEGY 4 Encouraging investment in auxiliary industries, by providing comprehensive incentives to the private sector to invest in activities critical to marketing agro-processing products, such as packaging, cold chain, transport, etc.

C2 Textile and Apparel

Current situation and challenges

Several development plans have prioritized the textile and apparel sector due to its labor intensity and high export potential. Spurred by government incentives, FDI in textiles has increased over the past decade—growing by 4.4% in 2018 alone. In 2016, there were 20 international garment factories in Ethiopia—all of which sold 100% of their pieces to exporters. Government and private institutions have invested substantially in textile-focused, export-oriented industrial parks.

However, job creation throughout the value chain is hindered by challenges in input production, market linkages, productivity levels, low levels of skill and efficiency in piece production, and high labor turnover. For a number of reasons, Ethiopian farmers produce enough cotton to meet only 40% of industrial demand: just 5% of land available for cotton cultivation is used in the forward textile industry, equipment is outdated, farming methods are relatively unproductive, and high-yielding seed varieties are largely unavailable in Ethiopia, particularly for smallholder farmers. Factories rely both on imported cotton and—because the aging spinning equipment used locally is unable to produce standard yarns for the global market—imported yarn. Fabric production, dyeing, and finishing all require heavy capital investment to improve their competitiveness. Employee turnover is high at companies in industrial parks. Efficiency is as low as 40 - 45% in production in textile/garment assembly units due to poor utilization of capacity, single-skilled workers, and the low quality of raw materials. Even at slower rates of production, the defect rate is high, and the quality of finished apparel is low.

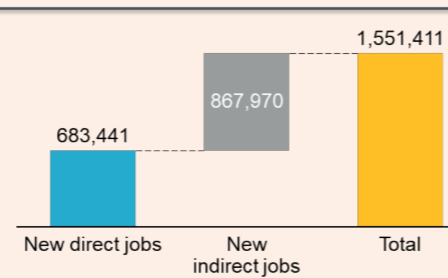
Cross-cutting challenges include logistics constraints, weak support systems for industrial parks, high skills gap, and lack of formal training in material planning and supply chain management. In large part due to Ethiopia's lack of a domestic port, the average cost to export is 61% higher than that of Tanzania and 19% higher than that of Kenya. Trade finance and bank processes are inefficient, shipping times are lengthy, transport costs are high, port operations are cumbersome, and customs processes and requirements are both opaque and unpredictable. The lack of international container freight systems adds to the costs of import and export.

Potential of job creation

The Ethiopian textile and apparel sector employed roughly 485,000 in 2013. Locally-owned private firms—mostly medium in size—dominate the sector and account for 51% of employment. Larger foreign-owned firms constitute 34% of the total number of firms and 49% of employment in the sector. Women make up 80 - 90% of the workers in the sector. Close to 60% of the female production workers are considered unskilled workers (as opposed to 28% for males).

Employment in the textiles and apparel industry is estimated at 798,752 in 2018 and is forecast to grow by 86% through 2025, creating more than 683,000 new direct jobs

New direct and indirect jobs
2019-2025



and almost 868,000 new indirect jobs.¹⁶ Industrial parks and domestic linkages with SMEs can play a pivotal role in accelerating the growth of the textile industry and scaling job opportunities.

Proposed strategies

STRATEGY 1 Improving market linkages and SME development, by enhancing backward linkages to develop competitive local production and encourage import substitution, encouraging FDI and large companies' backward linkages with local companies and SMEs, creating a platform to connect businesses at different levels of the value chain, building the aggregation and processing capacity of cooperatives and establishing a cotton exchange platform to lead the way for storage, marketing, and aggregation of cotton.

STRATEGY 2 Improving the production of inputs and encouraging innovative and diversified production, by notably promoting innovation that can improve large-scale production, encouraging large-scale commercial production, encouraging and supporting the diversification of fabric sources (synthetic, silk, wool, hemp), encouraging the establishment of local chemical plants, and incentivizing innovation and private sector investment.

STRATEGY 3 Developing a highly skilled and market-oriented workforce, notably by establishing a Sector Skills Committee to ensure demand-driven education and improved industry-education linkages, using Rural Transformation Centers as skill training hubs, developing employability and industrial skill courses, with certification, and introducing an industry institute partnership cell to strengthen linkages between industry and various departments of technical institutes and universities.

¹⁶Future jobs calculated using NPC GDP forecasts per sector and employment elasticity to growth from World Bank calculations. Where data is unavailable at the sub-industry level, projections for the industry or sector have been used as proxy. The multiplier for the textile and apparel industry has been benchmarked from Chile and is estimated at 1.3 indirect jobs for every direct job

STRATEGY 4 Improving working conditions, by encouraging and incentivizing industrial parks and large firms to provide integrated services, including housing, childcare, catering, etc., and encouraging companies to adopt performance-based managerial practices.

C3 Leather

Current situation and challenges

Leather manufacturing is one of Ethiopia's oldest industries. The large livestock resource and competitively priced labor force give Ethiopia a competitive advantage. Historically, semi-processed leather exports have surpassed finished leather and leather products and have limited the growth of value-additive sectors, like finished leather and footwear production.

Ethiopia is still emerging as a leading exporter of semi-processed and finished leather products on the continent. Despite the recent increase in the level of exports, Ethiopia is still lagging behind in terms of processing finished leather. The country exports about half of its finished leather; the rest goes to leather product manufacturers. However, FDI manufacturers import finished leather for their production. Moreover, despite that total leather exports increased by 39% between 2012 and 2016, while total leather exports in South Africa, Egypt, and Tunisia decreased over the same period, Ethiopia's processed leather exports still lag behind those of South Africa and Egypt.

Livestock production is largely dominated by small-scale farmers—80% of cattle and 90% of goats are slaughtered at home, while formal slaughterhouses contribute only 30% of cattle hide and 10% of sheepskin and goatskin to tanneries. Collectors go door-to-door to gather rawhide and skin (RWS) from households, butcheries, hotels, and restaurants. On average, a high percentage (as much as 65%) of skins are rejected due to bad practices in curing, collection, and general handling.

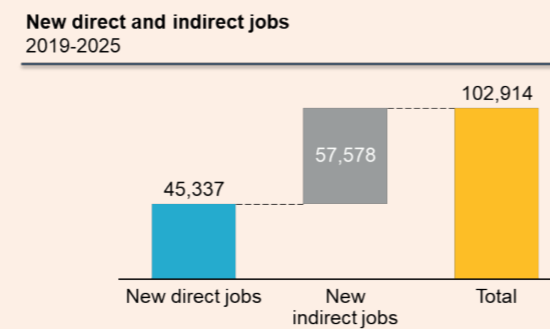
There is very limited production of necessary chemicals for tanning in Ethiopia. Only 5-10% of the total required chemicals for tanning are produced in Ethiopia, while 20% of hides and skins produced are air-dried. The current bonded warehouse scheme is serving the market at just 11% capacity. Tanneries are largely limited to semi-processing (14% of tannery output in finished leather). RHS trading guidelines prohibit tanneries from dealing directly with slaughterhouses.

The bulk of profit in the leather value chain is in the sale of finished goods, but the erratic supply of quality local leather presents a challenge to producers. Approximately half of Ethiopia's finished leather is used locally. About 2,000 to 3,000 small and microenterprises are engaged in the production of footwear—a number of these enterprises are vertically integrated with tanneries. Local brands sell products domestically through their retail shops. Ethiopia export firms are smaller than their counterparts in other leading leather exporting countries, and therefore lose out on economies of scale in global markets. Over 90 % of the export is conducted by FDIs.

Job Creation Potential

Approximately 32,000 people worked in the leather sector in 2013, and this number is estimated to have grown to roughly 53,000 in 2018. This accounts for just 2% of total employment in manufacturing.

In 2013, most employees (76%) were male. 70% of employees lived in urban areas and 30% were from rural areas in 2013. Typical production workers in leather product manufacturing are high-school graduates or drop-outs. Employment in the leather industry is forecasted to grow by 85% through 2025,



with over 45,000 new direct jobs and almost 58,000 indirect jobs created.¹⁷

Proposed strategies

STRATEGY 1 Improving backward and forward linkages, by ensuring the availability of PPP extension services to support livestock production, promoting the establishment of slaughterhouses, creating a cluster of MSMEs, including for collecting and processing hides and skins, with linkages to industrial parks to enable production at scale, and creating an expert exchange program in collaboration with manufacturers in other countries to facilitate knowledge transfer.

STRATEGY 2 Promoting investment in inputs production by providing investment incentives and preferential treatment (e.g., facilitating forex access) for input manufacturers to locally produce input chemicals.

STRATEGY 3 Developing a demand-driven workforce, through the provision of farmer skills training on best practices for animal husbandry and the handling of raw hides and skin and ensuring a demand-driven training of the workforce by revising training curriculum of LIDI¹⁸ and TVET.

¹⁷Future jobs calculated using NPC GDP forecasts per sector and employment elasticity to growth from World Bank calculations. Where data is unavailable at the sub-industry level, projections for the industry or sector have been used as proxy. Multiplier for the leather industry is 1.3 indirect jobs for every direct job (benchmarking from Chile)

¹⁸Ethiopian Leather Industry Development Institute

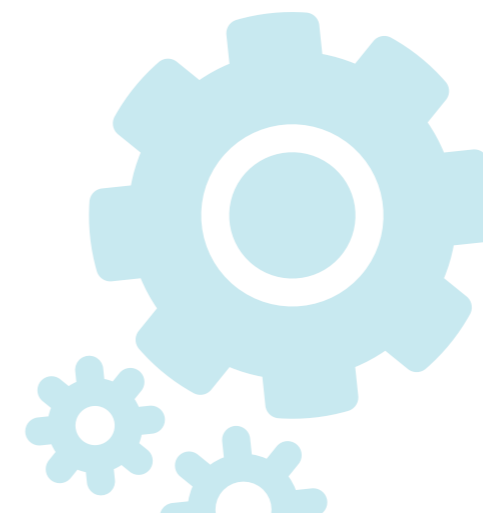
C4 Construction

Current situation and challenges

Significant public investment was made in the construction sector over the last decade in line with Ethiopia's growth targets. The government has been investing in mega-projects such as power generation plants, express roads, and railway expansion. As a result, the construction industry has been growing steadily and at a faster pace than the African average. During the GTP I period, the construction industry grew at 28.7% per annum on average, increasing its share of GDP by 4% between 2009/10 and 2014/15.

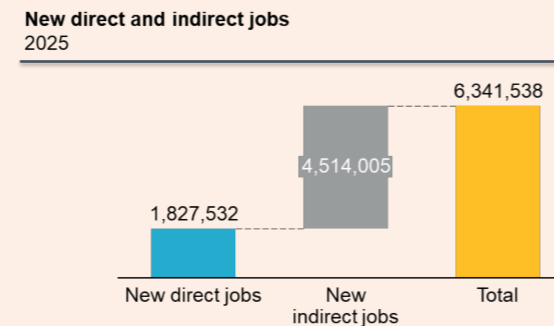
However, the sector relies on imported inputs, including in road construction, where almost half of all construction projects are still executed by foreign companies. The industry is largely reliant on imports of construction material, signaling a need to develop local industries in order to meet the growing demand. In 2017, Ethiopia imported more than USD 1.2 billion worth of construction machinery, vehicles, and prefab buildings. Local competencies do not yet allow for the affordable production of these materials. Multiple policies have been put in place to facilitate the development of local stakeholders and develop the sector—through, for example, giving priority for construction contracts to local contractors, including capacity building as a part of contracts in order to ensure skill transfer, and incentivizing the hiring of local subcontractors.

The construction value chain is dominated by international players, notably due to the lack of expertise of local companies. For building construction, raw materials such as stones and soils from natural reserves are collected locally. Domestic steel production is minimal—steel is mostly imported. The processing stage involves converting raw materials into usable inputs for construction. This includes cement production, briquette making, stone crushing, and bitumen making. Finishing materials—including woodwork, piping, fitting, etc., for building projects, as well as road lights, pavements tiles, and signs for road projects—are largely imported. Most qualified jobs in the sector are international hires. Engineers and foremen direct onsite construction executed by construction workers. Stakeholders in the construction phase are mostly local hires. Regulators and contractors struggle to maintain high quality and ensure security on site. Small infrastructure facilities for the rural population are constructed by the informal sector. Actors in this segment are mainly micro-entrepreneurs.



Potential of job creation

The construction sector employed near 800,000 people in 2013 and is estimated to have grown to almost 2.2 million jobs in 2018 across building construction, civil engineering, and other specialized activities. The government's policy to boost job creation through the construction of low-cost houses in Addis Ababa and other regions succeeded in creating work-building construction employed the most people in the construction industry (more than half). Most of these jobs are low skilled or semi-skilled laborers (masonry, carpentry, plumbing, etc.); for the most part, they are informal. The limited capacity of TVET explains the shortage of competent, registered and certified human resources—a persistent challenge for the sector.



By 2025, a total of almost 1.8 million direct jobs could be created across the industry, an increase of 83%. The growth pushed by construction could also create approximately 4.5 million indirect jobs given the multiplier effect of job creation in the industry.¹⁹

Proposed strategies

STRATEGY 1 Designing tailor-made skill development programs, by creating a skills development program for local (community-based) producers of construction inputs, providing targeted training programs for skilled and semi-skilled workers in the sector, and creating apprenticeship and training programs for professionals and university students in the construction sector.

STRATEGY 2 Ensuring a robust enabling environment to foster construction sector development, by providing incentives to facilitate private sector investment in the construction sector, facilitating the creation of share companies, through minority investor protection directives, including for construction projects, encouraging local production of finishing materials, expanding leasing and maintenance of equipment and machinery for SMEs in the construction sector and supporting the establishment of a formalization system (firm-based sub-contracting and sourcing services).

STRATEGY 3 Improving the ease of doing business in the construction sector, by enforcing partnership requirements between international and local construction companies in bidding for and undertaking construction projects, strengthening professional license provision and quality control systems for local and small-scale contractors, and revising the law on raw materials to ensure that ownership of raw materials is well defined.

¹⁹Future jobs calculated using NPC GDP forecasts per sector and employment elasticity to growth from World Bank calculations. Where data is unavailable at the sub-industry level, projections for the industry or sector have been used as proxy. Multiplier for the construction sector is estimated 2.5 indirect jobs for every direct job (Benchmarking from Scotland)

STRATEGY 4 Maximizing job creation potential through designing and implementing innovative flagship programs, by implementing a flagship project to promote housing and infrastructure construction in rural areas, financed by the public sector and through PPPs, introducing a construction materials delivery program for formalizing and aggregating construction input supply, and implementing a flagship cadaster (land survey) project.

C5 Renewable Energy

Current situation and challenges

Ethiopia's electricity sector is a key priority for the country's socioeconomic growth. Electricity demand has grown continuously in Ethiopia for the past 20 years, surging from roughly 1.4 TWh in 2001 to around 9.5 TWh in 2017, in parallel with the country's growth in population and GDP. Ethiopia has managed to cope with the rising demand for electricity by expanding its installed generation capacity from less than 2 GW in 2007 to 4.5 GW in 2018. The country today relies on its huge hydroelectric potential while exploring new opportunities in other renewable energy sources, such as solar, wind, geothermal and biomass.

Power shortages are very frequent and represent an important binding constraint for job creation in Ethiopia. The reliability of power supply remains very poor due to failures and maintenance problems on T&D networks (system losses are estimated at around 22%–16.5% on the distribution grid and 5.5% on the transmission one) and the risks rising from the extremely high dependence on hydro resources for electricity generation. Recent studies suggest that companies suffered from 200 h/year of load shedding on average. On global Quality of electricity supply Index, Ethiopia scores 3.17 on a scale from zero to eight, well below the world average of above 5. By comparison, while Nigeria scores lower than Ethiopia (1.42), neighboring Kenya and Rwanda score four and 4.4, respectively.²⁰

Challenges on the on-grid value chain

Two state-owned companies dominate the on-grid value chain: EEP²¹ handles generation, and transmission and EEU²² is in charge of distribution and sales. These public-run entities suffer from a lack of efficiency and capacity, poor financial management, and a lack of participation of the private sector. At the generation stage, heavy reliance on hydropower means that water shortages pose a risk to the electricity supply. Power generation is limited to public entities. Government bureaucrats and decision makers lack experience working in or with the private sector and coordinate poorly procurement processes and mechanisms. Also, the lack of communication between government and local delivery causes delays in licensing for companies and investors. At the transmission stage, old equipment and lack of maintenance cause frequent outages and voltage drops. Lack of capacity and equipment deterioration leads to a 19% loss in the distribution system. Meanwhile, the transformers and distribution lines are overloaded from increased demand.

²⁰World Bank 2018; WEF 2016, based on International Energy Agency data

²¹Ethiopian Electric Power

²²Ethiopian Electric Utility

Lack of processes and commercial mindset means EEU is operating below optimum standards. Staffing is inefficient—of 18,000 staff members, just 700 are engineers. Eighty percent of firms experienced an average of 8.2 outages per month, each lasting just under 6 hours. EEU’s relationships with its customers are plagued by poor billing practices and unfair disconnections, which increase the risk of illegal connections from customers. Moreover, it currently takes 95 days for EEU to connect a customer, at an average cost of USD 1,000 for those located far from the grid.

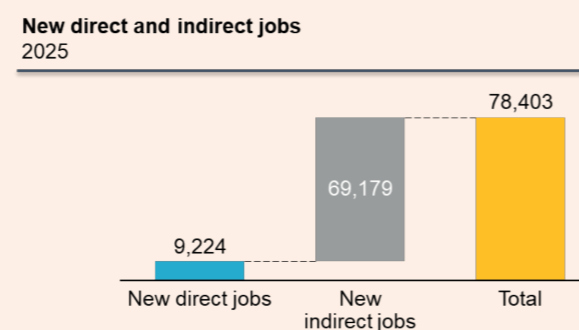
Challenges on the off-grid value chain

Challenges in the off-grid value chain include quality regulations restricting imports. The lack of domestic manufacturing of any component parts means that the product must be imported—but mandatory local testing of every imported product has resulted in products that already passed international quality standards being held up at customs. Access challenges include poor integration with mobile money, which hampers uptake and ease of operations. Poor logistics and transport add significantly to distribution costs and makes initial business development a challenge in rural areas. The value chain is fragmented and characterized by many retail brokers who can be challenging to trace. Limited access to rural areas complicates maintenance and after-sales services, exacerbating the lack of accountability of retail brokers. For mini-grids, regulatory frameworks are still incomplete and do not allow for the investment of private sectors in this segment.

A number of challenges are crosscutting, including customs processes and a lack of foreign currency, poor implementation of taxes and import duties, restrictive financial regulations and high requirements from risk averse lenders, low internet penetration and connectivity (hampering off-grid tracking technology), lack of technical knowledge, and skills gaps in coding and design, financial systems and software, digital literacy, soft skills, and people management.

Job Creation potential

The renewable electricity industry represented over 24,000 jobs in 2013 and an estimation of approximately 26,000 jobs in 2018. By 2025, a total of almost 35,000 direct jobs could be created across the industry, an increase of 36%. The multiplier effect of job creation means that employment in the renewable electricity industry could also create up to 70,000 new indirect jobs, including those created through linkages with local suppliers for transport, construction, finance, and telecoms. However, this number could increase with further government support for the domestic manufacturing industry. A local



manufacturing and service industry for solar PV systems alone could create an estimated 50,000 full-time skilled jobs by 2020.

Further employment could be catalyzed through the productive use of solar power; jobs in the off-grid solar market alone across East Africa are estimated to reach 350,000 by 2022. Most of these jobs would be lower-skilled positions in sales and distribution. Installation and maintenance are the second-most in-demand job, requiring practical skills

that could be taught at TVET. Productive use of solar—for example, improved irrigation with solar water pumps—could lead to additional employment. Moreover, a better supply of power and reliability of the service can have a substantial positive impact on job creation throughout the economy.

Proposed strategies

STRATEGY 1 Ensuring high-quality and predictable energy services in the on-grid and off-grid segments. In the on-grid segment, necessary interventions include fostering private sector participation along the power sector value chain, supporting independent power producer (IPP) projects in renewable energy, and encouraging private investment including FDI, for the local assembly of transmission equipment such as lines, poles, etc.

In the off-grid segment, necessary interventions include supporting off-grid renewable energy projects and support mini-grid development via financial subsidy and tax incentives and incentivizing household-level generation of renewable energy (e.g., solar, biofuel) for local use and distribution. It is also essential to promote quality products and optimal consumption by clients through (i) developing quality laboratories to test product quality and authenticity of units and (ii) overhauling customs quality test procedures by introducing a pre-approved quality control system.

In both segments, interventions include building capacity at EEP and EEU to ensure that the management of internal operations meets global standards of practice and to create public-private partnerships within the sector.

STRATEGY 2 Developing necessary skills for diversified and sustainable energy production, by providing targeted skill training, at all skill levels and across the value chain in the on-grid and off-grid segments, supporting training in solar power systems and off-grid products (including sales, distribution, installation, maintenance, and customer-care services), subsidizing a range of universities, TVET, and short-term courses in renewable energy, and providing training on business development for technology and renewable energy entrepreneurs.

STRATEGY 3 Improving consumption and use of renewable energy, by launching campaigns to increase public awareness of environmental protection, climate change, and the benefits of renewable energy, promoting the development of last-mile delivery kiosks for renewable-energy solutions, promoting investment in logistics and distribution of renewable-energy products, and using use mobile payment and diversified payment options in renewable energy.

C6 Mining

Current situation and challenges

Mining and quarrying have the potential to be an important economic catalyst for the government's export-oriented development strategy, but the sector is currently underdeveloped, representing less than 1% of the GDP in 2018. Ethiopia has reserves of gold, platinum, copper, potash, gemstone (sapphire and emerald), oil and natural gas, and shale oil produced from oil shale. The country's reserves of salt may be as much as 4.3 million kilotons (kt) and of potash 1.3 million kt, but current production levels are meager. Recent exploration and mining licenses have been provided to potash, gold, and base metals mining firms—once these come online, there is potential both to increase exports of gold and base metals and to kick-start Ethiopia's large-scale potash production.

The mining sector is mostly informal and artisanal in Ethiopia, employing at least 1.5 million people (74% of miners) and accounting for 65% of mining foreign exchange earnings. Artisanal mining in Ethiopia primarily focuses on gold, employing 1.26 million people in the Oromia and SNNPR regions alone. An artisanal gold miner earns between 8,000 to 10,000 birr per annum.

Artisanal and large-scale mining follow different value chains in Ethiopia, with different challenges. For large-scale operations, an absence of technical skills/expertise among local Ethiopian workers means that even local companies rely on international companies for geological assessments and feasibility exercises. At the same time, government workers are not sufficiently trained to effectively monitor mining projects. Mine development is limited by the lack of well-trained local engineers able to operate at scale and by a general lack of local understanding of mine development processes. The extraction phase carries the risk of environmental damage as cyanide and other chemical releases into water bodies can be harmful to aquatic organisms and wildlife. Local processing and refining skills are typically not up to international standards, and instruction at TVET institutions does not match the requirements of specific industries. Finally, inefficient value chains, price volatility, and lack of direct marketing and training on exports all challenge the profitability of mining activities.

Challenges that are more particular to artisanal mining include rudimentary mining practices; high levels of unlicensed, informal operations; limited small-scale processing technology; water shortages; and the lack (or poor conditions) of roads. A number of skills gaps and training issues are cross-cutting and stem from a related set of challenges: outdated equipment leads to highly theoretical education, new curricula are implemented slowly and unevenly, a lack of professional graduates (e.g., geologists, engineers) makes mentorships and apprenticeships more difficult, and individual talent and entrepreneurship are not typically rewarded by promotion in mining.

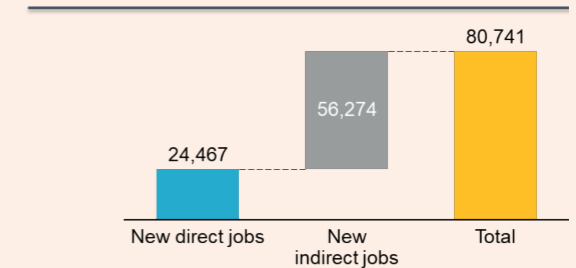
Poor infrastructure and limited access to reliable energy and water supply are also cross-cutting issues. Artisanal miners, in particular, incur high transportation costs. The entire sector endures long and complex procedures to obtain mining licenses, permits, and authorizations, as well as lack of coordination and integrated framework.

Potential of job creation

Mining is a capital-intensive sector and creates far less direct employment than other secondary subsectors. Current estimates are that the sector contributes around 1-2 % of total direct employment in a country; when indirect (e.g., contract) and induced employment (i.e., resulting from spending by mining employees) are included, the contribution can jump to 3 - 15%.

There were approximately 180,000 mining jobs in 2013, but just an estimated 132,000 in 2018 due to negative GDP growth in the sector. However, by 2025, the industry could create more than 24,000 direct mining jobs across the industry, plus more than 56,000 indirect jobs.²³ Quarrying of stones, sand,

New direct and indirect jobs 2025



clay and other mining contributed to 58% of all mining jobs in 2013. Most jobs exist at the extraction stage. Adult men dominate artisanal gold mining—digging, rock breaking, grinding, and transporting. Women are more prominent in transporting and washing.

Proposed strategies

STRATEGY 1 Building a robust policy framework and enabling environment, by formalizing SMAs in order to facilitate government provision of business development support, enforcing the existing legal framework to promote artisanal miners, and improving the ease of access to licenses and finance for SMEs and large-scale miners working in mining value addition.

STRATEGY 2 Improving horizontal and vertical integration in the mining sector, by promoting and marketing Ethiopia's mining potential to the international market, improving the accessibility of licensed buyers to artisanal miners, providing competitive prices for gold and similar precious stones, encouraging the formation of MSMEs to aggregate artisanal miners' production, and creating incentives for artisanal miners supplying to licensed buyers.

STRATEGY 3 Designing tailor-made skill development programs, by creating a fellowship program targeting professionals in the mining sector, developing SME skills and readiness to provide auxiliary services and products to large-scale firms, integrating training on mineral exploration methodologies into business development support to formalize SMAs, and providing vocational training in value-addition practices.

STRATEGY 4 Designing and implementing innovative flagship projects/programs, such as introducing lease capital for the purchase of equipment—e.g., as part of formalization support, and support geo-chemical atlas mapping.

²³Future jobs calculated benchmarks from Iran. Source; Central Bank of The Islamic Republic of Iran, 2007-2018; Iran Data Portal, Employment by Industry Sector (1956-2011)

D Services

Despite the economic importance of industrialization, it is unlikely that the sector will be able to absorb the new entrants to the labor market in the next 5-6 years. Therefore, there is a need to develop high-potential services, such as ICT, tourism, and creative arts. Investing in these sectors will enable Ethiopia to start the transition into an inclusive digital economy, and to provide sustainable job creation opportunities for youth across the country.

D1 Tourism

Current situation and challenges

Home to nine UNESCO world heritage sites, Ethiopia has the potential to become a competitive destination for tourists from all over the world. The tourism sector is growing steadily—the number of international visitors grew at 10% CAGR between 2007 and 2017, and this upward trend is projected to continue over the next few years. International tourist arrivals are forecast to reach 5 million per year, generating expenditure of USD 6.2 billion, by 2025. Tourism’s contribution to the nation’s GDP has consistently grown over time and has indirectly led to the growth of other sectors. Although Ethiopia receives only 2% of the sub-Saharan African tourists, the average expenditure per visitor is among the highest on the continent, at USD 1,191, significantly more than Kenya’s USD 550 and the continental average of USD 638 (the average expenditure is less than Tanzania’s USD 1,637 which is the highest on the continent).

Ethiopia’s poor international image and visibility as a tourist destination persist, putting the country at a disadvantage as a tourist destination. Europeans, for example, list a lack of destination awareness and health and safety concerns as the main reasons for not choosing Ethiopia as a travel destination. Ethiopian travel agencies and other tour planning suppliers, meanwhile, are still not very present online, where more than 70% of the bookings are made. Marketing initiatives are fragmented and there is a lack of common vision on presenting Ethiopia’s tourist destinations and cultural features.

Understanding of tourism by the general public is weak, and domestic tourism remains in its infancy. Major Ethiopian tour operators have limited capacity in terms of knowledge and skill and are only lightly involved in source markets. The low capacity of domestic air transport, meanwhile, is an issue that is exacerbated during high international tourist seasons and peak seasons related to national festivities. The availability of accommodations and services remains a major challenge. Tourism-related infrastructure is poor—ICT usage is low, as is road density, the total number of hotel rooms, and the number of ATMs. There are not enough trained workers in the sector, and little private sector investment goes into tourism-related training. What training exists is not market-oriented and lacks a strong industry experience focus. Hotel ratings are also lax in relation to international standards.

Ethiopia has a competitive advantage in natural resources and cultural sites and can use this to capitalize on the tourism sector. However, professionalism is lacking in the management of natural, cultural, and historical attractions. Most of the attractions are off-road and inaccessible during the rainy season. Leisure activities are also not well developed or managed due to a lack of knowledge and understanding of international markets.

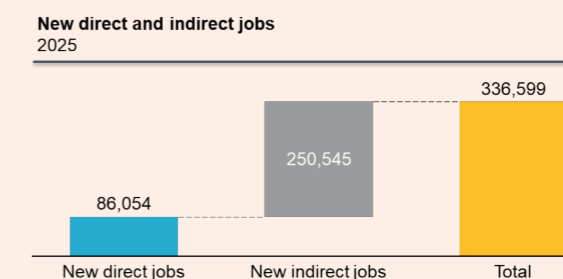
A number of challenges cut across different stages of the value chain: awareness of job opportunities in the sector is low, the government provides limited incentives for investors interested in the sector, tour operators and crafts makers have little access to finance, training institutes lack handcraft training, jobseekers lack soft skills, and skills institutes do not offer practical training for the industry.

Potential of job creation

In 2017, the tourism sector employed 604,000 workers, against 480,000 in 2013.²⁴

The growth in the sector was catalyzed by the increase in hotel and accommodation options in the country which created direct employment opportunities. Additionally, a 7.1% and 4.3% increase in leisure and business spending respectively between 2017 and 2018 drove direct and indirect employment in the sector.

Employment in tourism is forecasted to grow by 14% through 2025, reaching a total of over 700,000 direct jobs, an increase of 14% from 2018 (an increase of 86,000 direct jobs). This



is expected to be driven by an increase in the promotion of Ethiopia as a tourist and travel destination for both leisure and business. The multiplier effect of job creation also means that employment in tourism could also create over 250,000 indirect jobs.²⁵

Proposed strategies

STRATEGY 1 Diversifying tourism products and strengthening market linkages, by promoting stopover tourism for transiting travelers—in particular, by tapping into diverse creative arts products, supporting the development of MSMEs in handicrafts, strengthening the linkage to the agriculture sectors by promoting use of local produce at hotels and restaurants, expanding and strengthening eco-tourism and community-based tourism and hospitality programs, engaging with SMEs to introduce diverse tourism products (e.g., sport tourism, fragility tourism, religious tourism, immersive experiences), and encouraging the development of products targeting low- to mid-budget tourists.

STRATEGY 2 Transforming the quality of tourism products and services, by improving the skill level through the establishment of a sector skill committee, establishing a public capital investment fund with clear objectives for supporting MSMEs working in different segments of the tourism value chain, working with service providers to maintain professionalism in the development and management of destinations, promoting the development of formal, integrated and quality tourist services, investing

²⁴There are no estimates for tourism jobs alone in 2013, so food & accommodation is used as a proxy.

²⁵Forecast of direct and indirect jobs from WTTC, Travel & Tourism Economic Impact Ethiopia, 2018.

in the upkeep of attraction sites and the infrastructure around these sites, and encouraging federal and regional incentive packages to promote foreign investment in tourism.

STRATEGY 3 Modernizing marketing and destination promotion, through investing in branding and building Ethiopia's international image, curating and promoting key destinations and experiences, investing in seamless services such as online booking, online customer services, and digital payment, and maximize access to the market through building linkages between local and international tour operators.

STRATEGY 4 Building pro-tourism infrastructure and services, by notably enhancing tourism mobility, improving the ease of entry, improving infrastructure at tourist sites (expanding the financial infrastructure in hospitality facilities (e.g., expand digital payment and nearby ATMs, etc.)), providing government incentives to hospitality facilities to accept digital and credit card payments, and Improve linkages between local producers and hotels, restaurants, and tourist-industry actors.

D2 ICT

Current situation and challenges

The information, communications, and technology (ICT) sector consists of telecommunications, IT services, and IT enabled services (ITes), including business process outsourcing (BPO). Ethiopia's growth strategy relies on ICT as both a sector in its own right and as an enabler of growth across other sectors. Government policy objectives include building infrastructure and improving accessibility, fostering skills for the use and application of ICT, developing a suitable legal framework, and strengthening the role of the private sector. While Ethio Telecom remains the sole provider of telecommunication services, the government has started the process of further liberalizing the sector and has made major investments in improving service quality, expanding service coverage, and enhancing institutional capacity in the sector.

However, ICT performance remains poor in comparison to neighbors; mobile penetration is low and Ethiopia is a net importer of ICT services. According to the 2017 ITU's ICT development index, Ethiopia ranks 170 out of 176 countries, 32 positions down from Kenya. Ethiopia's scores related to ICT use and skills are especially low, as is its level of telecommunication services penetration: the mobile penetration rate reached 41% in 2018 compared with 51% in Kenya and 49% in sub-Saharan Africa as a whole. Barriers in the digital ecosystem include a poor digital business environment, a lack of digital skills, and the nascent nature of the industry. Sector regulation and oversight suffer from poor management processes within government institutions, a lack of effective incentives for the involvement of the private sector, and a lack of openness to new ways of working.

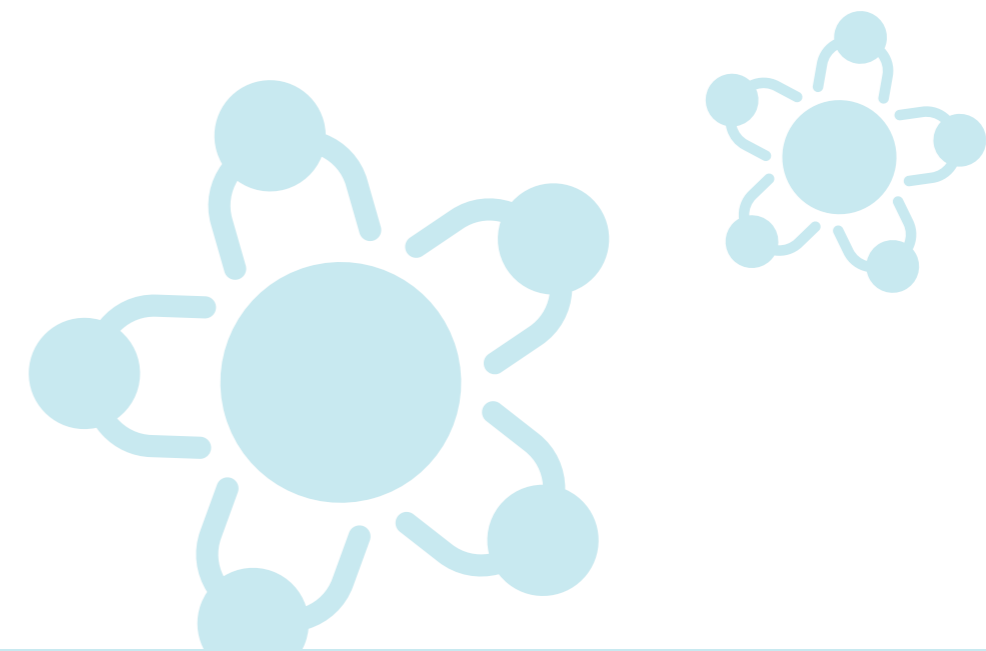
Major connectivity and power issues, both energy and internet blackouts, continue to affect the IT sector. Systems are opaque—even people working within telecoms may not be aware of internet shutdowns. New products such as 4G packages are helping, but outside of Addis Ababa, only 3G is available—and just 2G in rural areas, where Ethio Telecom's budget underutilization and lack of efficiency has led to poor quality service delivery. High data costs make doing business and operating mobile devices expensive for all consumers, and lack of accountability and lack of transparency all reinforce a general cultural mistrust of the private sector. Bandwidth in Ethiopia should be good—

there is a fiber connection from Djibouti and three undersea cables reach Ethiopia—but fiber cables and infrastructure go unused due to poor external connectivity and lack of demand.

ITes, including business process outsourcing (BPO), are limited by legal restrictions placed on VOIP, lack of language skills, and restrictive labor laws—which prevent hiring contractors for more than three projects before bringing them onto the payroll. BPO services include enterprise resource management, human resource management, and customer resource management. The BPO industry requires a good talent pool, low labor costs, and the availability of high-quality and reliable telecommunications, power supply, and transportation. Along with connectivity and power issues, the general lack of digital literacy within the country, and the fact that English is not seen as a necessary language, both work against ITes in Ethiopia. However, the biggest constraint for Ethiopia is the law that bans the use of voice over internet protocol (VOIP) by businesses operating in Ethiopia, which has prevented BPO companies from starting operations in the country.

Skill challenges for Ethiopian workers and consumers alike include lack of exposure to the digital environment; lack of consumer education and domestic market; and lack of attention to detail. There are not enough skilled workers to meet demand and employers both mistrust education certificates and avoid the risk/burden of new graduates. ITC-related curricula are too often outdated or entirely irrelevant to current technologies and jobs. Applied work experiences and internships are scarce in ITC, and local digital content is lacking.

Restrictive import and customs processes for component parts affect all aspects of ICT, as do finance and forex barriers that limit access to loans for students to invest in higher education, make business loans difficult due to a lack of credit scores and lack of business accountability for finance, and place restrictions on investment for foreign businesses. At the policy and planning level, the lack of coordination between government institutions creates a number of challenges, as does government interference in private sector pricing decisions, a lack of skill and experience in policymaking around tech-related concerns, and a lack of government understanding of IT input materials.

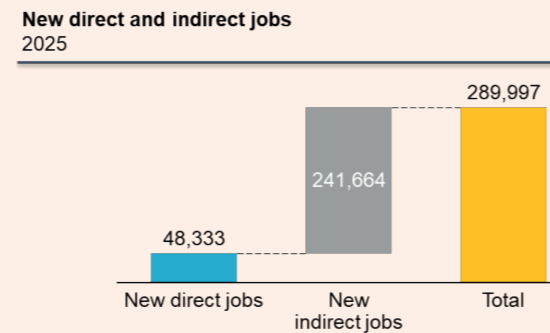


Potential of job creation

Job creation in ICT as a sector remains low but has been increasing over the past years.

Approximately 60,000 were employed across ICT fields in 2013, growing to an estimated 78,000 in 2018. Telecommunications is the largest employer, with 19,500 people employed in 2013. The majority of these are employed by Ethio-Telecom (15,000 in 2018). Information services employed almost 17,000 people in 2013, approximately 28% of the ICT sector; 7,500 of these were employed in data processing and web systems. Just 7,800 people were employed in computer programming.

By 2025, the sector could employ over 126,000 workers across the industry, an increase of 62% from 2018. As the digital ecosystem supports growth across the economy, the number of direct jobs in ICT



could be even higher. The multiplier effect of job creation means that employment in the ICT industry could also create over 240,000 new indirect jobs.²⁶ A large number of indirect jobs compared to direct jobs reflects the potential for ICT to act as a digital enabler. Purely digital jobs and some digitally enabled jobs in other sectors are reflected in these indirect job numbers.

Proposed strategies

STRATEGY 1 Improving ICT as an enabler by building a robust policy framework and enabling environment. Necessary interventions include establishing an ICT Intelligence Unit—a dedicated innovation team that will keep abreast of changes in innovation, capable of recommending policy changes, introducing regulation, and championing the digital economy. Interventions include as well providing tax incentives on IT equipment to encourage the development of the ICT sector, developing a local content policy to allow local SMEs to provide ICT solutions to government and private customers, liberalizing the telecom industry, ensuring that existing projects on digital ID systems are successful nationwide, promoting e-commerce and e-market places, and expanding infrastructure development, including broadband network expansion through private investment (support the rollout of broadband country wide in every kebele).

STRATEGY 2 Building a vibrant ecosystem for ICT companies, by revitalizing the ICT-park (concept, management, infrastructure and readiness for services to attract investors), supporting a strong digital ICT start-up environment by leveraging youth centers in the city, and facilitating the creation of incubators by providing them with support for obtaining business licenses.

²⁶Future jobs calculated using NPC GDP forecasts per sector and employment elasticity from World Bank calculations. Where data is unavailable at the sub-industry level, projections for the industry or sector have been used as proxy. Multiplier for the ICT industry is 5.0 indirect jobs for every direct job (benchmark from US)

STRATEGY 3 Building digital skills, by re-creating and expanding short-term training programs on digital literacy for ICT-enabled jobs, revising teaching curriculums and integrating digital literacy within formal and informal systems, and developing high-value digital skills to prepare graduates for innovative ICT segments such as Artificial Intelligence, data science, etc.

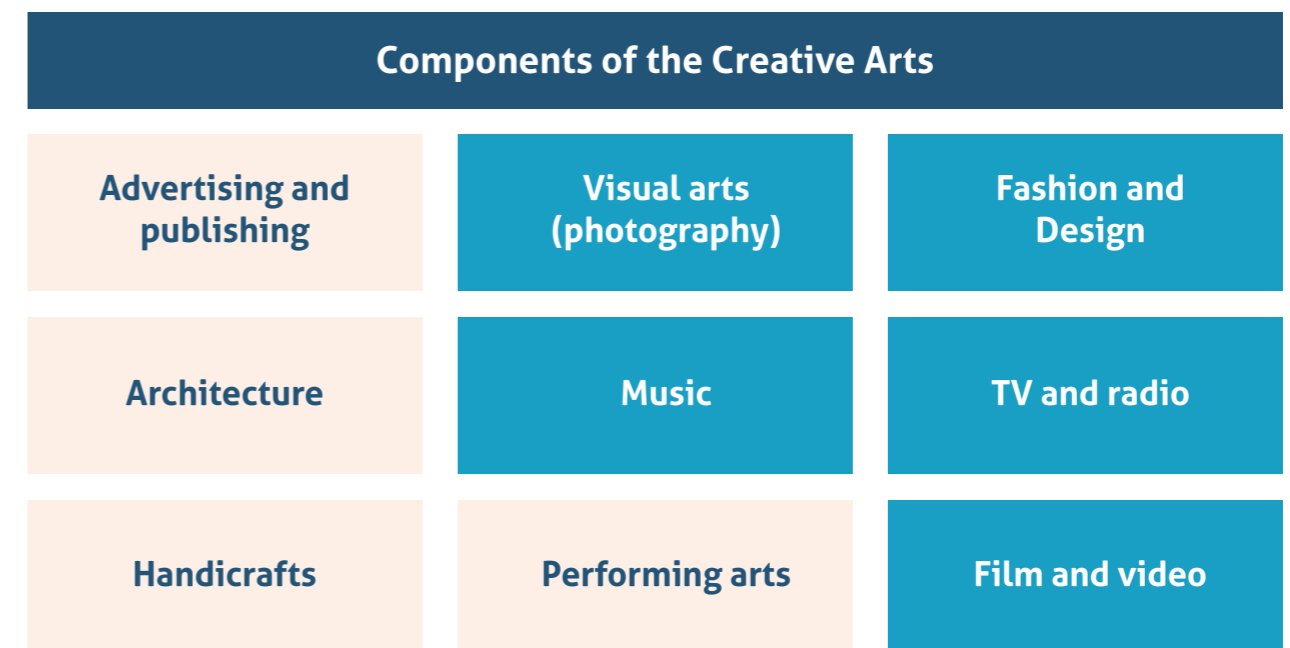
STRATEGY 4 Promoting the development of BPO in Ethiopia by adopting BPO-friendly regulations and policies including permitting VOIP, foreign currency access for communication transactions, etc., encouraging private investment and donor support in building capacity in the sector, improving the quality and predictability of internet service including permitting VSAT for mid-high capacity BPO companies or aggregations, and branding and marketing Ethiopia as a BPO-primed site.

D3 Creative Arts

Current situation and challenges

Creative Arts and creative industries are defined as “activities which have their origin in individual creativity, skill, and talent and which have a potential for wealth and job creation through the generation and exploitation of intellectual property.”²⁷ The creative arts industry or creative economy is composed of several segments (cf. figure). We focus on the following segments: visual arts (Photography), Music, Fashion and Design, TV and radio and Movies.

A pioneering study conducted by WIPO on the economic contribution of creative industries in Ethiopia in 2014 used copyright industry classification. The study estimated the creative arts to employ more than 240,000 workers and to contribute up to 4.7% to national GDP. Ethiopia imports more creative goods than it exports with an estimated trade deficit of \$306 million in 2014. Creative



²⁷UK DCMS Creative Industries Task Force, 1998

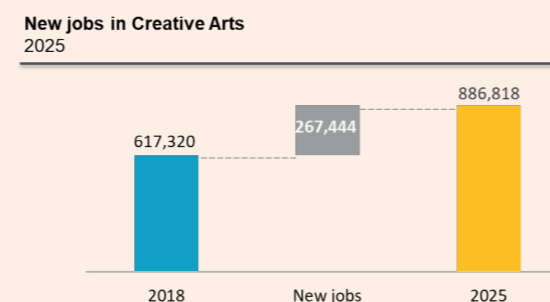
goods export grew from less than \$1 million in 2005 up to \$11.5 million in 2014 attributed to artisanal craft and design goods, driven by the textile industry. Design goods, publishing (books and journals), and artisanal crafts account for the largest share of imports.

All five segments (Music, Film, Fashion, Photography/fine arts, and Music) in creative arts remain highly unorganized and suffer from structural problems, such as high tax rates, lack of institutional support, and lack of skilled labor. There is a unanimous agreement across all segments in the sector that the existing tax structure on the creative industries is stifling growth and limiting entry into the sector. The burden of current tax structure is two-fold: (i) Withholding 30% from artists that are struggling to survive hinders the possibility to pursue a career in the creative industries as a professional; (ii) Luxury taxes on imports for this sector make it impossible for the local market to have access to high quality technical supplies that include everything from art supplies, to archival printing materials, and the latest photographic and video equipment.

Lack of organization of the sector, absence of institutional support, scarcity of skills, and lack of exposure to markets across all the segments are important binding constraints for the development of creative production. For the **movie industry**, for example, the absence of co-production treaties, lack of professional producers to develop stories and scripts, lack of casting agents to identify and pool talent, poor production planning due to shortage of technical skills, are important barriers to production and competitiveness. The key barriers in the **fashion and design ecosystem** include unreliable access to raw materials and aging equipment, which both affect quality and competitiveness. **The photography/fine arts** segment suffers from limited access to training and limited access to market opportunities. Only a few galleries in Addis Ababa provide a potential market for this segment, and international exposure is almost inexistent, except through social media. The music industry is highly unstructured, notably with the absence of record companies existing in Ethiopia. Moreover, digital revenue sales are driving the global **music industry**, but without online payment systems, local musicians are limited marketing and promotion. The music segment is also hindered by the lack of a legal framework and absence of performance right organization that could provide protection to artists and help to monetize their production.

Job creation potential

Employment in the Creative Arts sector is not monitored by official statistics and therefore is harder to estimate. Current levels of employment and projection have been done through interviews with major stakeholders in the industry and by benchmarking of other African countries such as Nigeria. Estimation suggests that Creative Arts across all five segments employ 617,320 workers in 2018. Most of these jobs are in fashion and design (tailors) and are either informal or in self-



employment. The sector is projected to create more than 267,000 direct jobs by 2025.

Proposed strategies

STRATEGY 1 Facilitating doing business in the Creative Arts, by reducing tax for artists and tax burden on imported technical equipment, establishing a multi-purpose physical venue for artists and linking it with tourism products, providing a legal framework and protection for artists and developing arts education curriculum (music, painting, etc.) starting from primary school.

STRATEGY 2 Creating effective market linkages and opportunities for all segments of Creative Arts. For example, for films, by establishing film co-production treaties, with countries that have a robust film industry, promoting Ethiopia as a shooting-site for big international productions, and collecting centralized statistics about gross revenues for films, to establish the business-case for investment in films as a commercial opportunity.

STRATEGY 3 Liberalizing the television advertising market, by incentivizing the growth of the television advertising market and remove heavy-handed regulations that stifle growth.

STRATEGY 4 Creating a competitive environment for the creative arts industry, by organizing national creative arts talent competitions that will galvanize interest and help identify emerging talent in the sector and provide financial and technical support, including seed funding.



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