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Labour market flexibility and employment and
income security in Ethiopia:
Alternative considerations

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Preface

This study has been conducted within the framework of an ILO research project on labour market flexibility and employment and income security (often called “flexicurity”) in developing countries. The notion of “flexicurity” has been conceived and used to address labour market issues and policies in the advanced and transition economies. Applying it to developing countries, in particular to very poor countries like Ethiopia, requires some modifications to its original notion. This paper attempts to provide considerations on some of these modifications and contends that labour markets in developing countries need higher levels of security than of flexibility because of the predominant agrarian and informal nature of poor economies. It is rather obvious that in surplus-labour countries, optimal security is clearly associated with the attainment of full and productive employment of the work force. However, that goal remains a far cry for a country like Ethiopia. It is necessary to explore alternative mechanisms to provide security to the work force.

The present paper essentially provides a synthesis of the findings contained in two reports, concluded in August 2005, on labour market flexibility and employment and income security in Ethiopia. The two reports have been prepared by national consultants and focus respectively on the economic aspects, and on the legal and institutional elements of the studied area.¹ The current paper also attempts to suggest policy measures aimed at reaching a decent balance between labour market flexibility and employment and income security in the country. Such policy recommendations are drawn from findings and conclusions contained in the two national studies already mentioned, but also include considerations based on ILO expertise and international experiences. A first draft of this report was submitted for the attention of ILO constituents on a national level, namely the Ministry of Labour and Social Affairs (MOLSA), the Confederation of Ethiopian Trade Unions (CETU) and the Ethiopian Employers Federation (EEF). Their comments and the additional information they provided as well as those of other national stakeholders have been integrated into the present text. A second draft version of the paper was presented at a national workshop on labour markets and employment in Ethiopia and the emerging policy agenda, held in Addis Ababa in December 2005. The workshop was organized by the Ministry of Labour and Social Affairs in collaboration with the International Labour Organisation and the World Bank. Based on comments and feedback received on that occasion, the report has been further improved in its content and formulation.

The paper first presents an overview of the macroeconomic, employment and labour market situation in Ethiopia, and then describes the institutional and legal framework of the national labour market. It highlights existing problems and analyses emerging issues, by taking into consideration employment and income security measures contributing to a decent balance between labour market flexibility and employment and income security. It concludes with policy recommendations aimed at tackling questions addressed throughout the entire discussion.

The paper presents some ideas and issues which are challenging, but which, as the author argues, approximate the current realities in the labour markets of a developing economy. Needless to say, the views expressed are the author’s own and do not necessarily reflect those of the ILO.

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¹ The economic report has been prepared by Tassew Woldehanna, Fantu Guta and Tadele Ferede from the Department of Economics of the Addis Ababa University, whereas the legal report has been conducted by Yeheneh Tsegaye who is a lecturer at the Department of Law of the Addis Ababa University.

Table of contents

Acknowledgements	iii
Preface	v
Introductory conceptual remarks	1
1. Employment and labour market situation	2
1.1 Macroeconomic developments	2
1.2 Labour market trends	6
1.2.1. Internal migration	6
1.2.2. Labour supply	9
1.2.3. Employment and labour demand.....	12
1.2.4. Unemployment	12
1.2.5. Informal employment.....	19
1.3 Levels of flexibility and security in employment and in the labour market	21
2. Institutions and legal framework of the labour market	23
2.1. Labour market institutions	23
2.1.1. State institutions	23
2.1.2. Employment services	23
2.1.3. Social partners.....	25
2.1.4. Informal labour market entities.....	25
2.2. Labour legislation	26
2.2.1. Rules on the labour relationship	26
2.2.2. Labour contracts	27
2.3. Levels of flexibility and security provided by the institutional and legal framework	29
3. Social security and risk management mechanisms	31
3.1. Social security schemes	31
3.2. Risk management mechanisms	34
3.2.1. Savings.....	34
3.2.2. Microcredit.....	37
3.2.3. Social insurance	39
3.2.4. Public works.....	42
3.2.5. Training.....	43
3.3 How existing social security and risk management mechanisms contribute to a decent balance between labour market flexibility and employment and income security	45
4. Conclusions and recommendations on how to reach a decent balance between labour market flexibility and employment and income security	46
4.1. General conclusions	46
4.2. Final recommendations	47
Annexes	
Table I: Counterfactual simulation of the effects of cash transfers to old age citizens on aggregate poverty	52
Table II: Budgetary implication of universal non-contributory pension schemes for the old age population for various alternative scenarios.....	52
List of references	53

Tables and figures

Table 1.1:	Poverty indicators of Ethiopia.....	2
Table 1.2:	Economic structure: Annual indicators	3
Table 1.3:	Growth episodes, 1974-2003 (%).....	4
Table 1.4:	Trends in inflation (%).....	5
Table 1.5:	Trends in other macroeconomic indicators (%)	5
Table 1.6:	Regional distribution of migrants (%), 1999.....	7
Table 1.7:	Internal migration rates by age, gender and location (%), 1999.....	7
Table 1.8:	Reasons for migration by gender and location (%), 1999	8
Table 1.9:	Population of Ethiopia	9
Table 1.10:	Trends in the urban and rural labour force	9
Table 1.11:	Labour force participation rates in rural areas (%).....	10
Table 1.12:	Labour force participation rates in urban areas, 1999-2004	10
Table 1.13:	Trends in rural employment	12
Table 1.14:	Trends in urban employment	12
Table 1.15:	Trends in employment by age in urban areas (%), 1999-2004	12
Table 1.16:	Distribution of the employed population by working status and gender in rural areas (%).....	13
Table 1.17:	Trends in employment status in urban areas (%), 1999-2004	14
Table 1.18:	Employment by sector and industrial division in rural areas (%).....	15
Table 1.19:	Trends in sectoral distribution of employment in urban areas, 1999-2004.....	15
Table 1.20:	Distribution of employed population by occupation in rural areas (%), 1994-1999.....	16
Table 1.21:	Occupational distribution of urban employment, 1999-2004.....	16
Table 1.22:	Percentage distribution of paid employees by term of employment in rural areas, 1999	17
Table 1.23:	Percentage distribution of paid employees by term of employment in urban areas, 1999.....	17
Table 1.24:	Unemployment rates in urban Ethiopia (%), 1999-2004.....	17
Table 1.25:	Duration of unemployment in urban areas (%), 1999-2004	19
Table 1.26:	Regional distribution of informal employment in rural areas (%), 1999.....	20
Table 1.27:	Regional distribution of informal employment in urban areas (%), 1999-2004	21
Table 2.1:	Number of job seekers, vacancies and placements in Ethiopia as of 2001/2002.....	24
Table 3.1:	Annual average savings in Birr per household by source.....	34
Table 3.2:	Tenure security policies and measures in some Ethiopian regional states (2005).....	35
Table 3.3:	Land tenure system in 2001/2002	36
Table 3.4:	Savings and credit cooperatives in Ethiopia (1978-1999).....	36
Table 3.5:	Regional distribution of cooperatives in Ethiopia (2001).....	37
Table 3.6:	Active clients, share of women and average loan size of microfinance institutions in Ethiopia, January 2001	38
Table 3.7:	Equb: Participation, average annual contribution, membership size and average annual collection	39
Table 3.8:	Iddir: Annual contributions, collections, frequency of contributions and membership size.....	40
Table 3.9:	Use of money collected from Equb (%).....	41
Table 3.10:	Population aged ten years and over by type of training received (%), 1999	44
Figure 1.1:	Pattern of GDP growth rate of agriculture, industry and services (at constant prices) over the period 1962-2002	4
Figure 1.2:	Forms and pattern of internal migration	6
Figure 1.3:	Trends in the distribution of rural inactive population by gender, 1994-1999	11
Figure 1.4:	Pattern of distribution of inactive urban population (%), 1999-2004	11
Figure 1.5:	Male unemployment by work experience in urban areas (share in the total unemployment (%)), 1999-2004.....	18
Figure 1.6:	Female unemployment by work experience in urban areas (%), 1999-2004.....	18
Figure 1.7:	Trends in the distribution of the urban formal sector and informal sector employment (%).....	20
Box 1.1	Some data on indicators of MDG 1 Eradicate extreme poverty and hunger	5
Box 1.2	Some data on indicators of MDG 3 Promote gender equality and empower women	6
Box 1.3	A Rural Employment Guarantee Scheme: The case of India	8
Box 1.4	Statistical data in Ethiopia.....	11
Box 2.1	Strengthening employment and income security through support to informal SMEs	26
Box 3.1	Extending social security coverage to informal workers – The case of Ghana	32
Box 3.2	Alternative ways to provide social security to informal workers	32
Box 3.3	Job insecurity for women in Ethiopia.....	33
Box 3.4	Promoting savings among workers	35
Box 3.5	The case of an Iddir in Addis Ababa.....	40
Box 3.6	Towards youth employment.....	45

Introductory conceptual remarks

In developing countries, especially in low-income economies, the labour market is characterized by large proportions of unpaid family work and self-employment and a very low share of waged employment. Since regulation does not affect much employment with similar features, labour markets tend to be rather flexible and workers' protection is often neglected. Hence, the notion of "flexicurity" needs to be adapted from the one used for advanced economies which mainly focuses on regulated waged employment.

In other words, the situation of the labour markets in poor countries present opposite characteristics compared to those of industrialized economies. A largely prevailing informal economy, a predominating agricultural sector employing most of the labour force, self-subsistence activities and a very small State budget are among the principal features of poor economies. In particular, the large size of the informal economy and of agricultural labour determines a high level of flexibility through the provision of occasional work and irregular incomes, which is not compensated by measures targeting workers' protection.

In general, a good balance between labour market flexibility and employment and income security, acceptable to both parties involved – employers and workers – is achieved when labour input can be easily and quickly adjusted to the needs of labour demand by assuring, at the same time, a reasonable level of protection for workers. This balance is obtained through the interaction of several factors which have a different weight in advanced and poor economies and which may have an impact in only one of the two typologies of economies. Following is a list of such factors:

- **An appropriate legal framework** – A legal system allowing a quick adjustment of labour supply to the needs of labour demand is particularly important in industrialized economies which are mainly formal and characterized by waged employment. In developing countries, it applies only to a very small part of the economy. In addition, in the 1990s and early 2000s, labour market reforms have turned what were deemed to be rigid labour laws into very flexible ones, even more flexible than those of some advanced economies (see, for example, the cases of Egypt, Ethiopia and Ghana).
- **Sound social dialogue** – Although this factor is essential as a methodology in all countries regardless of their level of economic development, it is usually available and rather effective in industrialized countries and often weak and ineffective in poor economies (see, for instance, the cases of Ethiopia and Egypt).
- **Well-functioning labour market institutions** – Labour market institutions are crucial for setting a good balance between flexibility and security. They are very likely to function well in advanced economies, but tend to be weak, inefficient and often uncoordinated in developing countries, especially in low-income economies. A strong and effective supervisory system is particularly important to assure the observation of protection norms; such a system usually performs very poorly in industrializing countries. A clear illustration of this is the low number of labour inspectors in Ethiopia nationwide, where there were only 44 in 2003.
- **Effective labour market policies**² – Used to mitigate the effects of adjustment to labour demand, they are common in industrialized countries, particularly in Europe, and are rather weak or missing in poor countries because of the small state budget available to finance them.
- **Risk management mechanisms** – These measures can prove effective in poor countries to increase the level of economic security of workers in moments of income loss and in situations where the State is too poor and weak to provide labour market policies. They include savings, credit both for consumption and emergency needs and for productive activities, mutual insurance,

² Here meant as both active to improve employability and assist in re-employment of workers and passive to compensate workers' income losses.

training, and public works to provide an income in moments of slack season. In advanced economies, they are not included in the conceptual framework of “flexicurity”.

- **Well-designed and coordinated income generation and poverty alleviation programmes** – They are very important labour market measures in developing countries. Such interventions are usually funded by international donors and NGOs and may provide labour with the desired skills and adaptability and facilitate the match between labour demand and labour supply. They are usually not well coordinated and are subject to externally-influenced policies rather than coherent national ones. They are not included in the “flexicurity” conceptual framework for industrialized economies.

It is against the conceptual framework briefly described hereby that the following chapters will try to examine flexicurity in Ethiopia.

1. Employment and labour market situation

1.1. Macroeconomic developments

From the end of the Ethiopian empire in 1974, Ethiopia was ruled by a military regime which adopted a very rigid socialist political and social approach and a centralized economic system backed by the Soviet Union. In 1991, the so-called Ethiopian Revolutionary Democratic Front gained power after fighting the military regime. Since then, the new government has launched a series of reforms and a structural adjustment programme with the assistance of the IMF (1992-1995) aimed at transforming the Ethiopian economy into a market-based one. Decentralization was part of the adopted reforms and was reflected in the 1994 Constitution under which Ethiopia became a federation.

Ethiopia is one of the poorest countries in the world with GDP per capita at slightly over US\$100 a year. Its poverty incidence is about 45 per cent and it was ranked 170/177 in the UNDP’s Human Development Index in 2005. Its population is being increasingly hit by HIV/AIDS. The prevalence rate reached about 4.6 per cent in 2004. The following table provides some data on poverty in the country.

Table 1.1. Poverty indicators of Ethiopia

	1981	1995	1996	2000
GNI per capita, Atlas method (current US\$)	..	110	110	110
Poverty gap at \$1 a day (PPP) (%)	7.69	7.95	..	4.80
Poverty gap at \$2 a day (PPP) (%)	35.04	32.88	..	29.60
Poverty headcount ratio at \$1 a day (PPP) (% of population)	32.73	31.25	..	23.00
Poverty headcount ratio at \$2 a day (PPP) (% of population)	82.92	76.43	..	77.80
Poverty headcount ratio at national poverty line (% of population)	..	..	45.50	44.20
Poverty headcount ratio at rural poverty line (% of rural population)	..	..	47.00	45.00
Poverty headcount ratio at urban poverty line (% of urban population)	..	..	33.30	37.00

Source: World Development Indicators, 2005.

The post-reform period generated accelerated growth during the nineties, but the positive trend could hardly make up for the negative economic performance of the almost two decades under the military regime. The war with Eritrea (1998-2000) weakened the positive effects of economic reforms, but economic growth has been recovering quickly in very recent years, as can be seen in table 1.2. During the post-reform period, economic growth accelerated and productivity rose, but employment creation was negative, with most job losses in agriculture being due to the poor performance of this sector.

Table 1.2. Economic structure: Annual indicators

	2001 ^a	2002 ^a	2003 ^a	2004 ^b	2005 ^c
GDP at current market prices (Birr bn) ^d	54.2	51.8	57.0	69.7	75.0
Real GDP growth (%) ^d	7.7	1.2	-3.8 ^e	11.6 ^e	7.0 ^e
Exports fob (US\$ m)	456	480	504	656	850
Imports fob (US\$ m)	1,626	1,455	1,922	2,860	3,376
Current-account balance (US\$ m)	-401	-170	-199	-798	-988
Reserves excl gold (year-end; US\$ m)	433	882	956	1,496 ^a	1,540
Total external debt (US\$ bn)	5.7	6.5	7.2	6.0	6.0
External debt service, paid (% of exports)	18.0	7.6	6.8	8.0 ^e	6.5 ^e
Coffee exports ('000 tonnes) ^c	85	116 ^b	137 ^b	170	190
Exchange rate Birr:US\$ (av)	8.46	8.57	8.59	8.64 ^a	8.67 ^a

^a Actual. ^b Economist Intelligence Unit estimates. ^c Economist Intelligence Unit forecasts ^d Fiscal years ending 7 July; National Bank of Ethiopia figures. ^e IMF-World Bank estimates.³

The Ethiopian economy is predominantly agrarian and its performance is heavily dependent on agriculture.⁴ As already mentioned, its evolution is marked by a planned economic system which was in place from 1974 to 1991, and by a more liberal one which has been followed from 1992 until now. Average real GDP growth per annum improved from 3.14 per cent during the planned economic system to an average 4.22 per cent per year between 1992 and 2003. As can be seen from table 1.3, while the average annual growth rates of the industry and especially the services sectors increased from the former to the latter period, the same cannot be said for agriculture where the average annual growth rate declined from 3.10 per cent during the first period to 1.77 per cent in the period 1992-2003. This finding is particularly important since over 80 per cent of the national labour force is employed in agriculture and largely depends on subsistence rural activities linked to it. The highest contribution to GDP growth came from the services sector (1.5 per cent in the period 1960-2002) due to an expansion of administration and defence expenditures.

Table 1.3. Growth episodes, 1974 – 2003 (%)

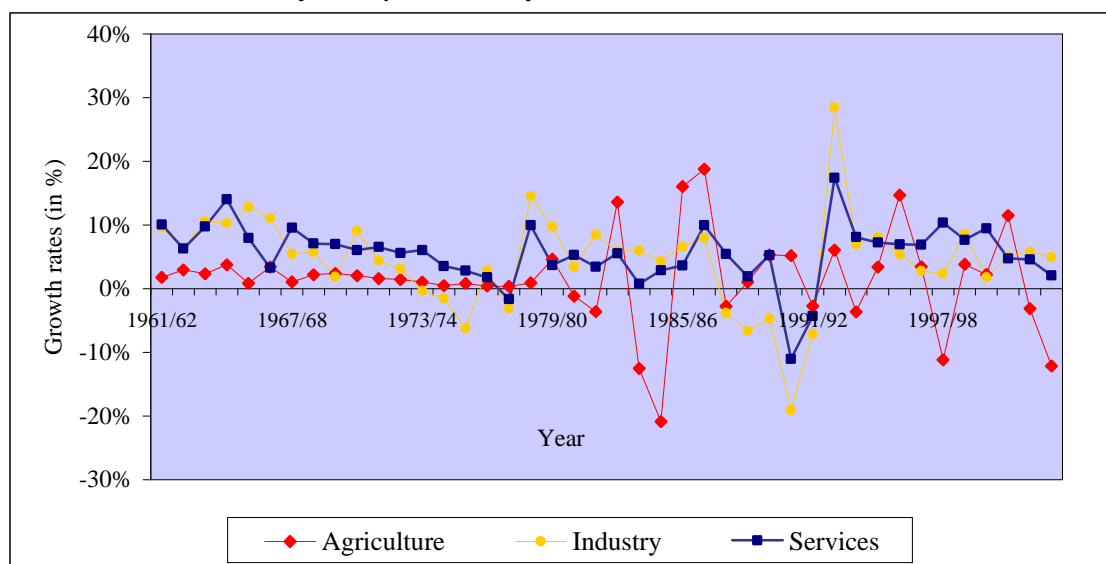
Sector/Year	1974-1991	1992-2003
Real GDP at constant factor cost	3.14	4.22
Agriculture	3.10	1.77**
Industry	1.19	4.86
Services	3.87	6.76

Source: Computed by Tassew Woldehanna, Fantu Guta, Tadele Ferede, from EEA/EEPRI database.

** These figures are low because of the sectors poor performance in 2001 and 2002. The growth rate of agriculture for the period increases to 2.26 per cent if the two years are excluded.

Despite its improved performance in the 1990s, the Ethiopian economy has experienced deep fluctuations due to the strong impact of weather conditions, droughts, war and inappropriate policies on agriculture. The following figure provides an overview of fluctuations in GDP annual growth rates for agriculture, as well as for industry and services, which suffered from less sharp, yet non-negligible variations.

Figure 1.1. Pattern of GDP growth rate of agriculture, industry and services (at constant prices) over the period 1962-2002



Source: Computed by Tassew Woldehanna, Fantu Guta, Tadele Ferede from EEA/EEPRI database.

Other macroeconomic indicators that reveal important aspects of the Ethiopian economy include inflation, aggregate domestic consumption expenditure, investment and domestic savings (see tables 1.4 and 1.5). Price variation is highly correlated with agricultural production, especially food production. In the 1990s, the inflation rate almost always remained below 5 per cent. In the period 2000-2001, favourable weather conditions and a good performance of the food sub-sector contributed to a negative inflation rate.

Table 1.4. Trends in inflation (%)

	1997/98	1998/99	1999/00	2000/01	2001/02	2002/03	2003/04
National	3.9	4.8	6.2	-5.2	-7.2	15.1	9.0
Urban	4.3	4.8	5.7	-3.5	-	-	-
Rural	3.8	3.7	3.8	-8.1	-	-	-

Source: NBE, 2004/05.

Aggregate domestic consumption expenditure as a proportion of GDP grew from an annual average of about 86 per cent in the period 1960-1973 to 96 per cent in the decade 1992-2002, indicating a very low level of savings. Private consumption accounts for a large share of domestic expenditure and has maintained a rather constant rate as a proportion of GDP (around 78 per cent).

Domestic savings has recorded a declining trend since 1960 and was on average 4.2 per cent per year during the period 1992-2002. Ethiopia has one of the lowest savings rates in Africa. In rural areas, it was 0.05 per cent of rural household's income in 1999-2000. The gap between investment and domestic savings has increased over time, reaching over 12 per cent of GDP as an annual average during the decade 1992-2002. The opening of the economy as of 1992 has made investment more dependent on foreign resources.

Table 1.5. Trends in other macroeconomic indicators (%) of GDP

	1960-1973	1974-1991	1992-2002	1960-2002
Demand and savings				
Aggregate domestic consumption	85.85	93.14	95.83	91.46
Government consumption	8.40	15.13	16.11	13.19
Private consumption	77.46	78.01	79.72	78.27
Gross capital formation	15.94	13.03	17.28	15.07
Gross domestic saving	14.15	6.86	4.17	8.54

Source: Computed by Tassew Woldehanna, Fantu Guta, Tadele Ferede from the national accounts data.

In Ethiopia, the achievement of the millennium development goals (MDGs) is perceived as a crucial issue. Economic and social policies usually include reference to them. The two boxes below provide some data on indicators of Goal I Eradicate extreme poverty and hunger, and Goal 3 Promote gender equality and empower women, which are of particular relevance for employment and labour market policies based on the flexicurity approach. As can be seen from the information presented in the two boxes, although data are scanty, some improvement has been recorded especially in poverty eradication. Poverty seems nonetheless to have increased in urban areas. Box 2 shows that much is yet to be done in the field of women's education.

Box 1.1: Some data on indicators of MDG 1 Eradicate extreme poverty and hunger

Poverty, % of population below \$1 (1993 PPP) per day consumption (WB) – 31 in 1995 and 23 in 2000.

Poverty, % of population below national poverty line, total (WB) – 45.5 in 1996 and 44.2 in 2000.

Poverty, % of population below national poverty line, urban (WB) – 33.3 in 1996 and 37 in 2000.

Poverty, % of population below national poverty line, rural (WB) – 47 in 1996 and 45 in 2000.

Poverty gap ratio: mean percentage distance below \$1 (PPP) per day (WB) – 8 in 1995 and 4.8 in 2000.

Poorest quintile's share in national income or consumption, per cent (WB) – 9.1 in 2000.

Children under 5 moderately or severely underweight, per cent (UNICEF estimates) – 47.6 in 1992 and 47.2 in 2000.

Children under 5 severely underweight, per cent (UNICEF estimates) – 16.1 in 2000.

Source: http://unstats.un.org/unsd/mi/mi_goals.asp

Box 1.2: Some data on indicators of MDG 3 Promote gender equality and empower women

Women wage in non-agric sector as of total non-agric employees (ILO) – 39.9 in 1990.
Women-men index, as ratio of literacy rates, aged 15-24 (UNESCO) – 0.66 in 1990, 0.82 in 2004 and 2 in 2005.
Women in parliamentary seats, per cent (IPU) – 2 in 1997 and 8 in 2001.
Parliamentary seats occupied by women (IPU) – 11 in 1997 and 42 in 2001.
Girls to boys ratio, tertiary level enrolment (UNESCO) – 0.22 in 1990 and 0.36 in 2001.
Girls to boys ratio, secondary level enrolment (UNESCO) – 0.75 in 1990 and 0.62 in 2001.
Girls to boys ratio, primary level enrolment (UNESCO) – 0.66 in 1990 and 0.71 in 2001.

Source: http://unstats.un.org/unsd/mi/mi_goals.asp

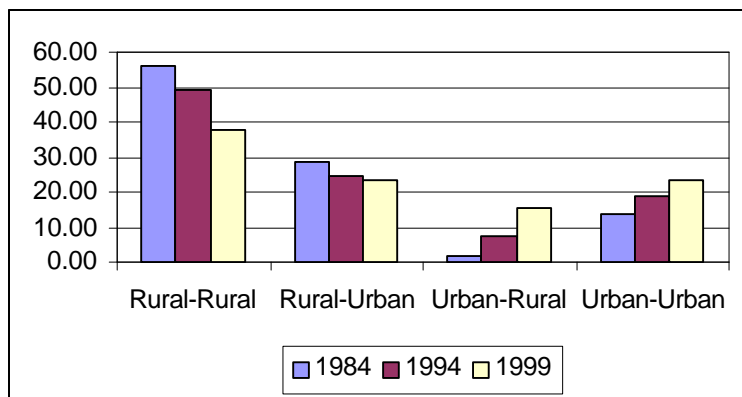
1.2. Labour market trends

1.2.1. Internal migration

Over 80 per cent of the Ethiopian population lives in rural areas. Although small, the proportion of the urban population has been growing in recent years also due to migration from rural areas. In 1994, migrants were about 44.7 per cent of the urban population, most of whom had migrated to look for a job.

Internal migration can take four forms: rural-rural, rural-urban, urban-rural, and urban-urban. As can be seen in figure 1.2, rural-rural migration was the prevailing form of the population's movement in Ethiopia in the 1990s. This type of migration is typical of rural areas and is linked to seasonal agricultural and pastoral labour. Rural-rural migration has been following a declining trend. It was 55.8 per cent in 1984, then 48.9 per cent in 1994, and 37.6 per cent in 1999. Rural-urban migration ranked second and revealed a slightly decreasing trend, from 24.8 per cent in 1994 to 23.5 per cent five years later. However, it is to be noted that often urban-urban migration originates from a rural-urban move. Urban-urban migration was about 18.9 per cent in 1994 and reached 23.2 per cent in 1999. Like urban-urban movements, urban-rural migration has also increased in recent years, despite its relatively small share. In general, though, rural-urban migration prevails in the country according to the 1999 data, also considering that urban-urban movements derive from rural to urban migration.

Figure 1.2. Forms and pattern of internal migration (%)



Source: Tassew Woldehanna, Fantu Guta, Tadele Ferede, 2005.

As table 1.6 indicates, there are regional variations in migration movements. In 1999, rural-rural migration was above 40 per cent of total migration per region in Amhara, Oromiya, Gambella and Benishangul-Gumuz. In this latter region, it reached 63.9 per cent, which reflects the agricultural and

pastoral nature of local labour. Rural-urban flows are particularly high in Addis Ababa where they represented 50.3 per cent of total migration in 1999. This is due to the fact that in Addis Ababa, more than in other areas, it is relatively easy to find employment especially in the informal economy.

Table 1.6. Regional distribution of migrants (%), 1999

Region	Forms of migration				Total
	Rural-Rural	Rural-Urban	Urban-Rural	Urban-Urban	
Tigray	23.8	24.1	20.7	31.4	100.0
Afar	22.2	11.4	7.5	58.9	100.0
Amhara	43.7	20.8	17.7	17.8	100.0
Oromiya	44.2	22.1	14.1	19.6	100.0
Somali	18.2	25.6	21.9	34.3	100.0
Benishangul-Gumuz	63.9	8.8	9.1	18.2	100.0
SNNP	36.8	19.9	24.2	19.1	100.0
Gambella	49.4	11.8	11.9	26.9	100.0
Harari	4.3	26.7	1.9	67.1	100.0
Addis Ababa	0.9	50.3	0.1	48.7	100.0
Dire Dawa	3.4	32.8	6.0	57.8	100.0
Country total	37.6	23.5	15.7	23.2	100.0

Source: CSA, 1999.

Women tend to prevail over men in migration flows. In 1999, they represented 57 per cent of total migration and 58 per cent of rural-urban moves.⁵ Uneducated and with very low skills levels, women migrate to cities and towns to be employed as domestic workers and/or as prostitutes. They often work in hotels and restaurants in very precarious, flexible and insecure conditions, and may perform both types of job at the same time. As can be seen from table 1.7 below, women aged 15-64 represented a higher share of internal migrants as compared to men in 1999.

In terms of ethnicity, the Oromo and the Amhara dominate migration flows, with the latter moving more towards urban centres, and the former migrating to rural destinations.

Table 1.7. Internal migration rates by age, gender and location (%), 1999

Age groups	Rural			Urban			Country		
	M	F	T	M	F	T	M	F	T
0-14	32.9	26.5	29.5	29.1	29.1	29.1	17.0	27.7	21.2
15-64	65.3	72.4	69.1	69.6	69.3	69.4	36.6	70.9	50.2
65 and above	1.8	1.1	1.5	1.3	1.6	1.5	46.4	1.4	28.6
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: CSA, 1999.

Table 1.8 shows that the main reason for migrating (24.5 per cent) is to follow one's family. This may be due to employment opportunities of a relevant family member or of the household's head. Work-related reasons (including search for a job and job transfer) are the second principal causes for migration (totalling 22.5 per cent) in 1999. Urban migration for work-related reasons reached 30.7 per cent during the same year, indicating that movements from rural to urban areas are closely linked to employment opportunities, especially when seeking an informal job. Informal employment as the ultimate goal implies that people move from a situation of insecurity in rural areas to one which is equally insecure in urban areas. If migration is temporary, then the urban informal job becomes a secondary activity which can be

⁵ Tassew Woldehanna, Fantu Guta, Tadele Ferede, 2005 (unpublished).

conciliated with the intention of keeping land entitlements and rural social networks. Since land belongs to the State and is redistributed only from time to time, people feel they can stay a long while in urban areas. Interestingly, 2.8 per cent of rural migration occurs because of land shortage against only 0.5 per cent in urban areas. In sum, work-related reasons, including following one's family, account for the main migration cause in Ethiopia.

Table 1.8. Reasons for migration by gender and location (%), 1999

Reason	Rural			Urban			Country		
	M	F	T	M	F	T	M	F	T
Education	3.2	1.0	2.0	20.0	14.4	16.9	10.8	7.5	9.0
Marriage	2.0	36.6	20.5	0.7	8.2	4.9	1.4	23.0	13.2
Marriage dissolution	0.6	7.1	4.0	0.3	2.9	1.8	0.4	5.1	3.0
Search for job	21.7	5.5	13.1	22.8	21.9	22.3	22.2	13.4	17.4
Job transfer	4.2	0.6	2.3	14.5	3.7	8.4	8.8	2.1	5.1
Displacement	3.3	2.7	3.0	3.4	3.8	3.6	3.4	3.2	3.3
To follow family member	24.3	25.1	24.7	22.2	25.7	24.2	23.4	25.4	24.5
Returned back home	20.9	8.0	14.1	5.8	6.7	6.3	14.1	7.4	10.4
Shortage of land	4.3	1.6	2.8	0.6	0.4	0.5	2.6	1.0	1.7
To live with relatives	10.4	8.6	9.4	5.7	7.8	6.9	8.3	8.2	8.2
Health problem	0.5	0.4	0.4	0.8	0.8	0.8	0.6	0.6	0.6
Lost family	0.5	0.3	0.4	0.4	0.6	0.5	0.4	0.4	0.4
Others	2.6	1.3	1.9	2.4	2.7	2.5	2.5	2.0	2.2
Not stated	1.5	1.2	1.4	0.3	0.4	0.4	1.0	0.8	0.9
Total	100.0	100.0	100.0	99.9	100.0	100.0	100.0	100.0	100.0

Source: CSA, 1999.

Box 1.3: A Rural Employment Guarantee Scheme: The case of India

To combat high unemployment rates and increasing rural-urban migration in the country, the Indian authorities passed the so-called National Rural Employment Guarantee Act in August 2005. This act makes it mandatory for the Indian State to provide 100 days of work a year to rural households. The scheme is a social security programme which aims at also including landless families in the national social safety net. In addition, the National Rural Employment Guarantee Act makes the right to work legally enforceable for all, including the rural poor.

Every adult who is a member of a rural household can voluntarily apply for unskilled manual work. At least one-third of beneficiaries shall be women. Until a further decision is made, the wage paid to workers employed under this scheme shall be equal to the minimum wage set for agricultural labour. If an eligible applicant is not given a job within fifteen days from receipt of his/her application, he/she is entitled to a daily unemployment allowance.

A Central Employment Guarantee Council composed of representatives of the state governments, of workers and disadvantaged groups, of tribes and castes monitors the implementation of the scheme.⁶ At least one-third of the Central Council's members shall be women. Councils with a similar composition are set up also at a state level to monitor the implementation of the employment programme locally.

The total cost of the scheme is estimated to be about one per cent of India's GDP. A 7-8 per cent annual growth rate should ensure costs coverage. As for funding, a National Employment Guarantee Fund is established at a central level to finance part of the programme's costs. The Fund is financed through grants and loans which can also be subtracted from other already existing employment and poverty alleviation programmes. The remaining costs shall be borne by State employment guarantee funds which would therefore play a complementary role to the national fund.

Sources: <http://www.thesouthasian.org/archives/000498.html>; <http://pib.nic.in/release/release.asp?relid=11820>; <http://66.249.93.104/search?q=cache:j-97DXgBudgJ:us.rediff.com/money/2005/aug/22spec1.htm+The+National+Rural+Employment+Guarantee+Act,+2005&hl=en>

⁶ India is a federal republic composed of states.

1.2.2. Labour supply

The Ethiopian population has been increasing considerably during the past decades. Its size was about 71 million in 2004 with an annual growth rate of 2.65 per cent. Based on such population growth rate, the population of Ethiopia is estimated to reach 140.3 million in 2030. Subsequently, the national labour force is also expected to increase from 44.2 million in 2004 to 81.9 million in 2030, with an annual growth rate of 2.4 per cent. These figures suggest that about 2 million people will join the labour force each year.

The high population growth rate of the past decades has generated a large share of young people aged 0-14 years. Persons in that age group were 48.2 per cent of the total population in 1984 and 34.7 per cent in 2004. Such a declining trend leads to a lower child dependency ratio, but leaves the current emerging issue of youth employment open, especially because population in that age group will continue to grow in absolute terms.

Table 1.9. Population of Ethiopia

Year	Population (In '000)	Growth Rate (in %)	Population aged <15 years
1984	40,066.3	3.00	19,311.96
1994	53,087	2.81	24,101.50
2004	71,066	2.65	24,641.42

Source: CSA, 1984 and 1994 and NOP, 2000.

As can be observed from table 1.10 below, women are joining the labour force at a higher rate than men both in urban and in rural areas. The share of the female labour force rose from 42 per cent in 1984 to 45 per cent in 1999. Factors accounting for increasing women's labour force participation are rising female education, delayed marriage, lower birth rates, and work-related migration.

Table 1.10. Trends in the urban and rural labour force⁷

Year	Labour force (%)					
	Urban		Rural		Total ('000')	
	Male	Female	Male	Female	Male	Female
1984	6.0	3.9	52.2	37.9	8,582	6,161
1994	6.1	4.3	50.6	39.0	15,026	11,477
1999	6.6	6.1	48.6	38.6	14,253	11,540
2003	51.0	49.0	-	-	1,974	1,894
2004	54.8	45.2	-	-	1,866	1,539

Source: CSA, 1984, 1994, 1999 and 2004.⁸

In general, the labour force has been increasing faster in urban than in rural areas, probably because of high levels of rural-urban migration. The share of the urban labour force rose from 9.8 per cent in 1984 to 12.4 per cent in 1999.

⁷ Figures for 2003 and 2004 refer to urban areas only (i.e. the proportion is computed based on the total urban labour force). This accounts for the big jump from the previous figures. Also note that figures on the total labour force for 2003 and 2004 refer to the total urban labour force.

⁸ All tables contained in this chapter from tables 1.3 on are contained in Tassew Woldehanna, Fantu Guta, Tadele Ferede, 2005 (unpublished).

As the following table shows, the labour force participation rate remained rather stable in rural areas increasing only from 51.5 per cent in 1996 to 52 per cent in 2001. Reasons explaining this trend include the unchanged share of the rural population out of the economically-active age group, limited rural to urban migration in that period, and the unchanged sectoral composition of the rural labour force anchored around agriculture, mainly because of the lack of alternative employment opportunities. The female labour force participation rate in rural Ethiopia has been higher than that of men. It was 52.2 per cent in 1996 when the corresponding figure for men was 50.7 per cent. In any case, the gap is getting smaller.

Table 1.11. Labour force participation rates in rural areas (%)

	Male	Female	Total
1996	50.7	52.2	51.5
1997	50.9	52.3	51.6
1998	51.0	52.3	51.6
1999	51.1	52.3	51.7
2000	51.2	52.3	51.8
2001	51.5	52.5	52.0

Source: Computed by Tassew Woldehanna, Fantu Guta, Tadele Ferede from MOFED data.

In urban areas, labour force participation has decreased from 65.4 per cent in 1999 to 55.2 per cent in 2004. This decline concerns women more than men. The participation rate for women reportedly decreased from 61 per cent in 1999 to 34 per cent in 2004, whereas the corresponding figures for men were 79 per cent and 50 per cent in the same years.⁹ As table 1.12 indicates, the drop in participation rate is particularly sharp in the age group 10-24, which implies a positive trend linked to increasing levels of education for young people.

Table 1.12. Labour force participation rates in urban areas (%), 1999-2004

Age group	1999	2003	2004
10-14	21.9	10.2	8.6
15-19	51.6	36.1	33.0
20-24	81.4	71.0	66.3
25-29	90.3	84.9	81.6
30-34	91.1	89.1	85.2
35-39	91.1	88.2	87.3
40-44	88.2	86.9	83.5
45-49	86.4	79.7	79.2
50-54	76.0	74.2	72.0
55-59	70.9	67.4	57.8
60-64	61.6	50.3	54.0
65 and above	40.6	33.0	28.9
Total	65.4	57.9	55.2

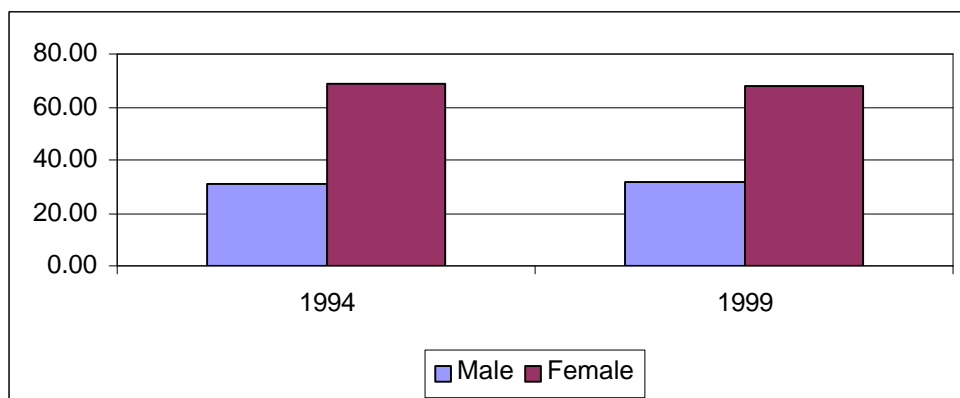
Source: Computed by Tassew Woldehanna, Fantu Guta, Tadele Ferede from CSA (1999, 2004).

As the following figures indicate, inactivity trends in Ethiopia differ according to gender and location. The proportion of inactive women rose from 27.5 per cent in 1994 to 51.2 per cent in 1999,

⁹ See Tassew Woldehanna, Fantu Guta, Tadele Ferede, 2005.

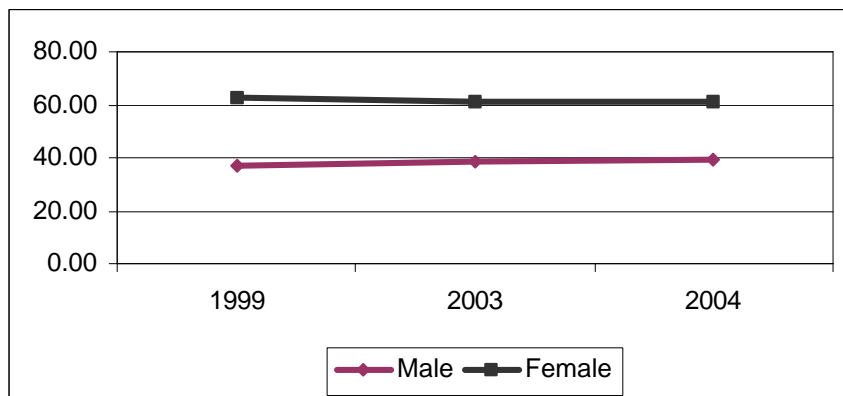
whereas that of men declined from 67.4 per cent to 24 per cent in the same period. As for location, about 72.5 per cent of the total inactive population was found in rural areas in 1994 and the proportion increased to 75.2 per cent in 1999. The main reasons for inactivity are: being a student, which is very positive for the national economy; being a domestic servant, which is particularly common among women; and illness.

Figure 1.3. Trends in the distribution of rural inactive population by gender (%), 1994-1999



Source: Tassew Woldehanna, Fantu Guta, Tadele Ferede, 2005 (unpublished).

Figure 1.4. Pattern of distribution of inactive urban population (%), 1999-2004



Source: Tassew Woldehanna, Fantu Guta, Tadele Ferede, 2005 (unpublished).

Box 1.4: Statistical data in Ethiopia

Like in most developing countries, in Ethiopia labour market indicators are not monitored very frequently. National labour market surveys are carried out every five years both in rural and in urban areas. The Central Statistics Authority (CSA) conducts an urban employment and unemployment survey every two years, but this survey leaves rural areas totally uncovered. This explains why the most recent information on rural areas provided in this paper is from 1999, whereas data on urban areas are much closer to the present time and refer to 2004. New findings from national labour market surveys both in rural and in urban areas should be available in June 2006.

Source: CSA as reported at the workshop on labour markets and employment in Ethiopia and the emerging policy agenda, held in Addis Ababa in December 2005. Poverty, % of population below \$1 (1993 PPP) per day consumption (WB) – 31 in 1995 and 23 in 2000.

1.2.3. Employment and labour demand

Since the 1990s, employment has been declining both in rural and in urban areas. As table 1.13 indicates, in rural areas, it has decreased both for men and for women, almost equally, with a loss of 1,134,000 employed units between 1994 and 1999. In urban areas, despite the marginal increase in absolute terms (some 35,000 units) between 1999 and 2004, the employment rate decreased from 48.2 per cent in 1999 to 40.9 per cent in 2004, with a sharper decline for women than for men, as can be seen in table 1.14. Urban employment increased for persons aged 20-44, with the largest decline hitting the age group 10-19 (see table 1.15). Increased access to education may account for this phenomenon. Unlike in accepted international definitions, Ethiopian official statistics include children in the economically-active population. In 1999, 61.4 per cent of children aged 5-14 were engaged in domestic and productive activities including household agriculture enterprises, household non-agriculture enterprises and paid agriculture and non-agriculture enterprises, paid domestic services and self-employment. Similarly, in 1999, 10.4 per cent and 4.4 per cent of children aged 5 years were employed in domestic and productive activities respectively. Children in rural areas are more likely to be participating in productive activities than children in urban areas. In 1999, corresponding figures for children aged 5 were about 5 per cent in rural areas and 0.8 per cent in urban ones.

Table 1.13. Trends in rural employment

	Employed population ('000)			Employment rate (in %)	
	Male	Female	Total	Male	Female
1994	13,318	10,263	25,575	56.1	43.2
1999	12,511	9,931	24,441	55.6	44.1

Source: CSA, 1994 and 1999.

Table 1.14. Trends in urban employment

Year	Employment ('000)			Employment Rate (%)		
	M	F	T	M	F	T
1999	1459	1243	2702	57.4	40.5	48.2
2003	1629	1230	2859	51.8	34.8	42.8
2004	1541	1196	2737	48.9	33.7	40.9

Source: CSA (1999, 2004).

Table 1.15. Trends in employment by age in urban areas (%), 1999-2004

Age group	1999	2003	2004
10-14	12.8	2.8	2.6
15-19	15.6	11.3	10.5
20-24	12.8	15.0	15.7
25-29	12.9	18.2	18.7
30-34	9.2	13.6	13.4
35-39	9.4	12.2	13.6
40-44	7.4	8.8	9.1
45-49	6.0	6.8	6.8
50-54	4.3	4.5	4.6
55-59	3.3	2.5	0.3
60-64	2.7	1.9	2.2
65 and above	3.5	2.5	2.5

Source: Computed by Tassew Woldehanna, Fantu Guta, Tadele Ferede, from CSA (1999, 2004).

As for status in employment, in rural areas during the period 1994-1999 the proportion of unpaid family workers declined slightly from 55 per cent to 51.4 per cent, and that of the self-employed increased from about 40 per cent to 44 per cent (see table 1.16). Women are largely employed in unpaid family work. Although in rural areas waged employment maintains very low rates, it has increased, predominantly in the private sector rather than in the public one (the shares were 2.4 per cent and 1.1 per cent of total employment respectively in 1999). The positive trend of private waged employment is an encouraging sign indicating that the private sector is slowly emerging as a valid source of employment in rural areas.

Table 1.16. Distribution of the employed population by working status and gender in rural areas (%)

Employment status	1994			1999		
	Total	Male	Female	Total	Male	Female
Employer	2.6	3.6	1.2	0.8	1.2	0.2
Self-employed	39.6	52.6	22.7	44.0	56.6	27.4
Government employee	0.7	0.9	0.4	1.1	1.3	0.7
Private employee	1.6	2.3	0.7	2.4	3.3	1.1
Member of cooperative	0.1	0.1	0.1	0.0	0.0	0.0
Unpaid family worker	55.0	40.1	74.4	51.4	37.3	70.1
Others	0.0	0.0	0.0	0.2	0.2	0.2
Not stated	0.4	0.3	0.4	0.1	0.1	0.2
Total	100.0	100.0	100.0	100.0	100.0	100.0

Source: CSA, 1994 and 1999.

Interestingly, according to a recent survey on disability in Ethiopia,¹⁰ 60 per cent of persons with disabilities in the country were unemployed in 1995. Two-thirds of those who were employed were self-employed in rural areas in occupations such as agriculture, animal husbandry or forest activities. None of the disabled people surveyed were reported to be employed in administration or management positions.¹¹

As can be observed from the following table, in urban areas the trend is different and, although waged employment rose from 39.5 per cent to 49.6 per cent in the period 1999-2004, private waged employment decreased, reaching 16.5 per cent in 2004, while the share of public employment was 19.4 per cent in the same year. Labour demand from the private sector has declined, possibly both for the poor performance of the sector and for the use of capital-intensive technologies. In addition, public jobs still offer higher salaries, better working conditions and more security than private sector employment. In urban areas, self-employment remains the principal form of employment, despite a slight decline from 42.2 per cent in 1999 to 41.3 per cent in 2004. Unpaid family work represents a rather small share of urban employment and declined considerably from 15.5 per cent in 1999 to 7.2 per cent in 2004. From a gender perspective, the share of women in self-employment and unpaid family work has decreased, with the latter still remaining the most common status in employment for women. The proportion of female waged employment has risen slightly, contributing to some improvement in the level of employment and income security for women.

¹⁰ Baseline Survey on Disabilities in Ethiopia, Institute of Educational Research, Addis Ababa University, 1995.

¹¹ ILO, 2004.

Table 1.17. Trends in employment status in urban areas (%), 1999-2004

Employment status	1999	2003	2004
Government employee	15.4	18.3	19.4
Government parastatals ¹²	2.4	2.1	2.1
Private employee	19.6	15.6	16.5
NGO employee (Other paid employee)	2.1	1.9	2.0
Domestic employee		9.9	9.5
Total paid employees	39.5	47.8	49.4
Self-employed	42.2	42.0	41.3
Unpaid family worker	15.5	8.6	7.2
Employer	1.0	0.6	0.6
Apprentice	0.3	0.2	0.3
Member of cooperative	0.2	0.1	0.2
Others	1.2	0.7	0.9
Not stated	0.2	0.0	0.0

Source: CSA (1999, 2004).

Analysing employment by sector, Ethiopian rural areas are dominated by employment in agriculture, which is nonetheless following a declining trend, shifting from 96.6 per cent in 1994 to 88.1 per cent in 1999. As indicated in table 1.18, employment in services shows an increasing pattern, especially in wholesale and retail trade, and hotels and restaurants. The manufacturing sub-sector has also been growing. The decline in work in agriculture has been compensated by an increase of women's employment in the above-mentioned sectors.

In urban areas, as can be seen in table 1.19, the distribution of employment by sector appears as much more diversified than in rural areas. employment increased in manufacturing, construction, education, health and social work, and public administration and defence, whereas it declined in agriculture, wholesale and trade, and hotels and restaurants. A shift from wholesale and trade, and hotels and restaurants to manufacturing and construction is likely to have occurred, especially because of the big construction projects that have recently been launched. Wholesale and trade, manufacturing, hotels and restaurants are the main sources of urban employment, with a high concentration of women in wholesale and trade, hotels and restaurants.

Data on employment by occupation in rural areas indicate that the share of skilled agricultural and fishery workers declined from 76.1 per cent in 1994 to 41.5 per cent in 1999, while that of elementary occupations, craft and related trade workers, and shop and market sales workers rose during the same period (see table 1.20). The introduction of a liberal economic system and the availability of microcredit may have accounted for the shift both in rural and in urban areas. The share of skilled agricultural and fishery workers, crafts and related trade workers and service, shop and market sales workers followed a declining pattern in urban areas whereas elementary occupation professionals, clerks and legislator and senior officials and managers increased during the period 1999-2004 (see table 1.21).

¹² Government parastatals are public companies or organizations such as Ethiopian Grain Trade Enterprises, Agricultural Input Supply Enterprises, etc., which are owned by the Government.

Table 1.18. Employment by sector and industrial division in rural areas (%)

Sector	1994			1999		
	Total	Male	Female	Total	Male	Female
Agriculture, hunting, forestry and fishing	96.6	98.0	94.8	88.1	94.1	80.1
Mining and quarrying	0.0	0.0	0.0	0.0	0.0	0.0
Manufacturing	0.8	0.4	1.3	3.3	1.3	6.0
Electricity, gas and water supply	0.0	0.0	0.0	0.0	0.0	0.0
Construction	0.0	0.1	0.0	0.5	0.8	0.2
Wholesale, retail trade repair of vehicles, personal and household goods	0.8	0.5	1.2	3.6	1.6	6.2
Hotels and restaurants	0.9	0.1	1.9	2.3	0.2	5.1
Transport storage and communication	0.1	0.1	0.0	0.1	0.1	0.0
Financial intermediation	0.0	0.0	0.0	0.1	0.1	0.0
Real estate, renting and business activities	0.0	0.0	0.0	0.2	0.3	0.0
Public administration and defence, compulsory social security	0.1	0.2	0.0	0.3	0.3	0.2
Education, health and social work	0.2	0.3	0.1	0.6	0.5	0.8
Other social, cultural, personal and household activities	0.1	0.1	0.1	0.7	0.6	0.8
Private households with employed persons	0.1	0.0	0.2	0.1	0.0	0.3
Extra-territorial organization and bodies	0.0	0.0	0.0	0.0	0.0	0.0
Not stated	0.3	0.3	0.4	0.1	0.1	0.2
Total	100.0	100.0	100.0	100.0	100.0	100.0

Source: CSA, 1994 and 1999.

Table 1.19. Trends in sectoral distribution of employment in urban areas (%), 1999-2004

Sector	1999	2003	2004
Agriculture, hunting, forestry and fishing	13.9	8.9	7.9
Mining and quarrying	0.3	0.6	0.4
Manufacturing	13.5	15.4	15.6
Electricity, gas and water supply	0.9	1.1	1.0
Construction	3.8	5.5	5.6
Wholesale and retail trade, repair of vehicles personal and household goods	23.9	23.4	21.8
Hotels and restaurants	14.1	7.9	9.0
Transport, storage and communication	3.9	4.2	4.2
Financial intermediation	0.7	0.8	0.8
Real estate, renting and business activities	1.0	1.3	1.6
Public administration and defence, Compulsory social security	6.0	7.8	7.0
Education, health and social work	6.2	8.4	8.2
Other social, cultural, personal and household activities	5.5	6.9	9.0
Private households with employed persons	5.9	7.5	7.5
Extra-territorial organization and bodies	0.3	0.2	0.6
Not stated	0.2	0.1	0.0

Source: Computed by Tassew Woldehanna, Fantu Guta, Tadele Ferede from CSA (1999, 2004).

Table 1.20. Distribution of employed population by occupation in rural areas (%), 1994-1999

Occupation	1994			1999		
	Total	Male	Female	Total	Male	Female
Legislator, senior officials and managers	0.0	0.0	0.0	0.0	0.1	0.0
Professionals	0.0	0.0	0.0	0.0	0.0	0.0
Technicians and associate professionals	0.2	0.3	0.1	0.3	0.4	0.1
Clerks	0.0	0.0	0.0	0.1	0.1	0.0
Service, shop and market sales workers	1.5	0.5	2.7	3.3	1.6	5.6
Skilled agricultural and fishery	76.1	78.5	73.0	41.5	61.5	15.0
Crafts and related trades	1.0	0.4	1.6	10.5	1.9	21.8
Plant, machine operators and assemblers	0.1	0.1	0.0	0.1	0.2	0.1
Elementary occupation	20.8	19.7	22.2	44.0	34.1	57.1
Not stated	0.3	0.3	0.4	0.2	0.1	0.2
Total	100.0	100.0	100.0	100.0	100.0	100.0

Source: CSA, 1994 and 1999.

Table 1.21. Occupational distribution of urban employment (%), 1999-2004

Occupation	1999	2003	2004
Legislator, senior officials and managers	2.1	3.2	3.8
Professionals	1.7	2.7	2.5
Technicians and associate professionals	6.4	7.9	8.1
Clerks	4.5	4.4	4.8
Service, shop and market sales workers	24.8	24.2	22.6
Skilled agricultural and fishery	7.1	5.1	4.6
Crafts and related trades	24.7	23.8	23.3
Plant, machine operators and assemblers	3.6	4.0	4.0
Elementary occupation	24.7	24.5	26.1
Not Stated	0.4	0.2	0.2

Source: Computed by Tassew Woldehanna, Fantu Guta, Tadele Ferede from CSA (1999, 2004).

The bulk of jobs in rural Ethiopia are in agriculture and in self-employment on small holdings. As observed in table 1.16, waged employment exists, but in small proportions, and reached only 3.5 per cent of total rural employment in 1999. Although as shown in table 1.17 the proportion of paid jobs in urban areas is higher, on a national level waged employment is less than 10 per cent. Considering the terms of employment of paid employees, as can be seen in table 1.22, in rural areas, casual workers, or workers with no clear contractual arrangement and who are paid on a daily or weekly basis, were the large majority (77.9 per cent in 1999), followed by employees with a fixed-term contract (12 per cent in the same year). Temporary jobs in rural areas constituted about 90 per cent of total rural waged employment. In rural Ethiopia, workers in the most precarious employment situations are women.

In urban areas, where a small proportion of the national labour force is concentrated, waged employment represents a rather large share of total employment (49.4 per cent in 2004) and is dominated by permanent and casual work (about 46 per cent each in 1999), with permanent positions being mainly in the public sector and dominated by men (table 1.23). Like in rural areas, also in urban ones women prevail in temporary jobs.

Table 1.22. Percentage distribution of paid employees by term of employment in rural areas, 1999

Gender	Permanent employees	Contract employees	Casual employees
Male	11.8	14.1	74.1
Female	5.5	6.3	88.2
Total	10.1	12.0	77.9

Source: Computed by Tassew Woldehanna, Fantu Guta, Tadele Ferede, from CSA data.

Table 1.23. Percentage distribution of paid employees by term of employment in urban areas, 1999

Gender	Permanent employees	Contract employees	Casual employees
Male	51.37	9.47	39.15
Female	36.76	5.91	57.33
Total	45.61	8.07	46.33

Source: Computed by Tassew Woldehanna, Fantu Guta, Tadele Ferede, from CSA data.

1.2.4. Unemployment

In rural areas, unemployment rates are low because of the seasonality of agricultural labour. Rather than open unemployment, low productivity agricultural underemployment can be found. Underemployment is a widespread phenomenon also in urban areas, particularly in the public sector and in the informal economy.

Unemployment rates are much higher in urban areas. Urban unemployment rose from 7.9 per cent to 22 per cent between 1984 and 1994, while in rural areas, it increased only from 0.42 per cent to 0.69 per cent during the same period. The sharp increase of urban unemployment may be due also to high rural-urban migration. As the following table reveals, in urban areas, unemployed people aged 15-24 represented over 45 per cent of total unemployment in the period 1999-2004, indicating that urban unemployment is mainly a youth phenomenon. This is confirmed also by the fact that the structural adjustment programme introduced in the 1990s determined the retrenchment of many young employees from the public sector. Even if youth unemployment in Ethiopia is not as high as in other African countries such as Ghana and Mozambique, it is an emerging employment issue in the country and has recently become a policy priority.

Table 1.24. Unemployment rates in urban Ethiopia (%), 1999-2004

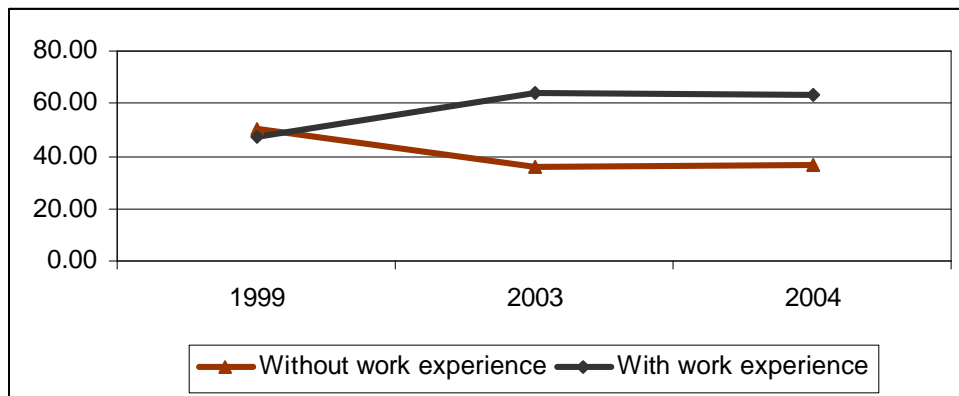
Age Group	1999			2003			2004		
	M	F	T	M	F	T	M	F	T
10-14	2.8	1.7	2.1	2.9	2.1	2.4	0.9	0.9	0.9
15-19	15.3	16.2	15.9	20.3	18.2	18.9	11.4	16.3	13.9
20-24	31.3	33.9	32.8	28.9	27.4	27.9	24.6	31.6	28.2
25-29	19.9	22.0	21.2	18.2	22.3	20.9	15.4	22.8	19.2
30-34	9.5	8.4	8.8	7.7	10.0	9.2	6.4	10.0	8.3
35-39	5.5	7.6	6.8	4.5	7.4	6.4	4.9	8.5	6.7
40-44	4.1	4.0	4.0	3.5	4.7	4.3	2.6	3.5	3.1
45-49	2.6	3.0	2.8	3.5	3.6	3.6	3.7	3.3	3.5
50-54	3.4	1.7	2.4	2.6	2.1	2.3	3.2	1.2	2.2
55-59	1.8	0.5	1.0	3.3	0.9	1.7	2.3	1.0	1.6
60-64	2.3	0.6	1.3	2.4	0.7	1.3	2.2	0.5	1.4
65 and above	1.5	0.5	0.9	2.1	0.5	1.1	1.8	0.3	1.1
Total	10.4	17.5	13.8	15.4	27.1	20.8	13.8	22.3	17.6

Source: Computed by Tassew Woldehanna, Fantu Guta, Tadele Ferede, from CSA data.

Last but not least, it is to be observed that both in rural and in urban areas, female unemployment prevails over male unemployment.

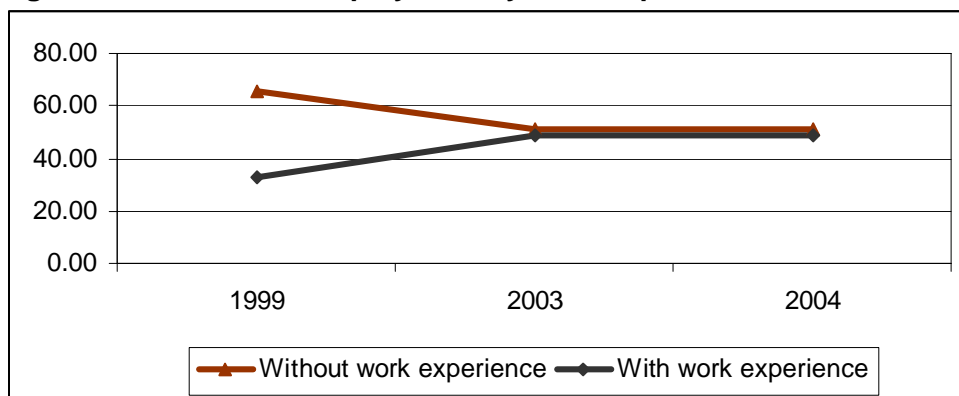
As the following figures show, in urban areas most unemployed persons are first job seekers, although this phenomenon is following a declining trend. As a matter of fact, unemployed first job seekers represented 60.6 per cent of unemployed persons in 1999 and 45.9 per cent in 2004, whereas numbers for unemployed persons with previous work experience rose from 37.7 per cent to 54.1 per cent in the same years.

Figure 1.5. Male unemployment by work experience in urban areas (share in the total unemployment (%)), 1999-2004



Source: Tassew Woldehanna, Fantu Guta, Tadele Ferede, 2005 (unpublished).

Figure 1.6. Female unemployment by work experience in urban areas (%), 1999-2004



Source: Tassew Woldehanna, Fantu Guta, Tadele Ferede, 2005 (unpublished).

As table 1.25 clearly shows, urban unemployment reveals an increasingly long-term nature. In 1999, some 61.59 per cent of those seeking a job had been unemployed for over 12 months. Although in 2004 the corresponding figure decreased to 49.7 per cent, the share of long-term unemployed remains high and includes about half of the total number of unemployed persons. Interestingly, women are more likely to be unemployed long-term than men, perhaps indicating that the harder it becomes to find a job, the more women are marginalized as compared to men. High and increasingly long-term unemployment is certainly and primarily due to the generally poor performance of the economy and its incapacity to create new jobs following population growth, but can also be linked to the different and less effective role of active labour market policies in general and of public employment services in particular. As will be

discussed in section 2.1.2, these latter institutions first lost their key position in placing job seekers with the introduction of liberalization, and then were further weakened in their structure and organization by decentralization.

Table 1.25. Duration of unemployment in urban areas (%), 1999-2004

Period	1999			2003			2004		
	M	F	T	M	F	T	M	F	T
Less than one month	6.32	5.46	5.75	15.24	9.92	11.74	18.38	13.35	15.16
Between 1-6 months	19.18	13.11	15.16	25.67	18.47	20.94	16.24	13.15	14.26
Between 7-12 months	18.69	16.89	17.50	17.62	18.41	18.14	21.61	20.45	20.87
Greater than 12 months	55.80	64.55	61.59	41.47	53.19	49.18	43.77	53.05	49.71
Total	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00

Source: CSA (1999, 2004).

1.2.5. Informal employment

During the past few years, the informal economy has become the main source of employment for the growing population of Ethiopia. In 1999, about 4.8 million Ethiopians were informally employed. In the same year, the share of informal employment in rural areas was 86.9 per cent of the total employed population.

In 1999, about a quarter of total informal workers were found in urban areas. During the period 1999-2004, informal employment in Addis Ababa rose from 15 to 22 per cent. One fact accounting for this increase may be the policy of the local government in favour of micro and small enterprise development and special incentives granted to informal operators. In connection with this, it is to be noted that very often in Ethiopia micro and small enterprises are informal and it is almost possible to identify the informal economy with SMEs and vice versa.¹³

Tables 1.26 and 1.27 show that informal employment is concentrated in three rural regions (Amhara, Oromiya and SNNP) where it constituted 93.1 per cent of total informal rural employment in 1999, and three main urban areas (Oromiya, Amhara and Addis Ababa). Surprisingly, almost all those regions have relatively low rates of poverty. The incidence of poverty in 1999 was 41.8 per cent in Amhara, 39.9 per cent in Addis Ababa and 36.1 per cent in Oromiya. Table 1.27 indicates that, contrary to what is normally believed, women are only marginally more involved in informal activities than men.

¹³ Information obtained at a meeting with EEF's representatives, Mr. Yohannes Beshah, Executive Director, and Mr. Alem Seged, national coordinator of an ILO ACT-EMP child labour project on 26 October 2005, in Addis Ababa.

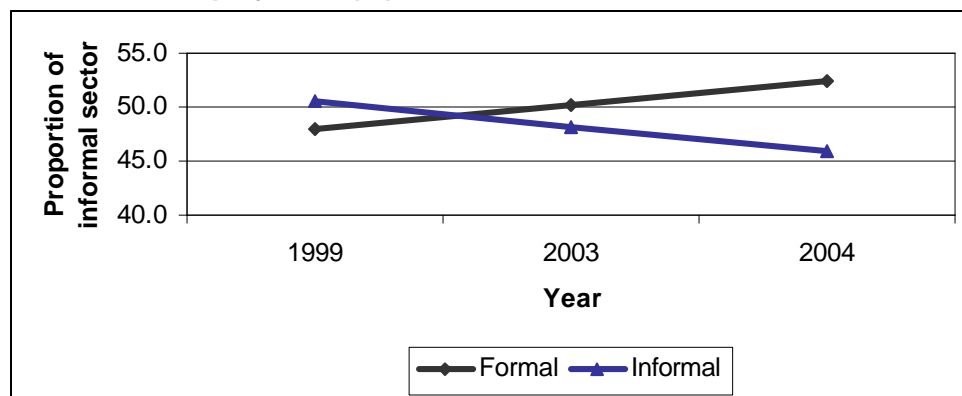
Table 1.26. Regional distribution of informal employment in rural areas (%), 1999

Region	Share
Tigray	3.75
Affar	0.48
Amhara	35.34
Oromiya	35.51
Somali	1.40
Benishangul-Gumuz	0.75
SNNP	22.29
Gambella	0.19
Harari	0.16
Dire Dawa	0.12
Total	100.00

Source: CSA, 1999.

Nationwide, informal employment has been declining recently thanks also to measures adopted by the Government for the formalization of informal operators. Particularly important in this regard is a strategy for the development of micro and small enterprises which attempts to create an enabling legal and institutional environment and provides support services. Figure 1.7 shows that in urban areas the informal economy has decreased from 50.6 per cent in 1999 to 45.8 per cent in 2004. As already observed, Amhara, Oromiya, SNNP and Addis Ababa are the regions with the highest levels of informal economy.

Figure 1.7. Trends in the distribution of the urban formal sector and informal sector employment (%)



Source: Tassew Woldehanna, Fantu Guta, Tadele Ferede, 2005 (unpublished).

Table 1.27. Regional distribution of informal employment in urban areas (%), 1999-2004

Region	1999			2003			2004		
	M	F	T	M	F	T	M	F	T
Tigray	4.0	7.4	6.0	4.2	7.7	5.9	5.9	7.6	6.8
Afar	1.1	1.0	1.0	0.7	0.8	0.8	0.8	0.7	0.8
Amhara	17.2	23.6	20.9	17.6	23.6	20.7	15.0	23.4	19.3
Oromiya	38.4	38.9	38.7	28.4	31.9	30.2	31.1	31.7	31.4
Somali	2.5	2.1	2.3	2.8	3.3	3.1	2.1	3.1	2.6
Benishangul-Gumuz	0.6	0.6	0.6	0.4	0.5	0.5	0.4	0.6	0.5
SNNP	12.4	12.7	12.6	13.1	13.3	13.2	12.8	14.2	13.5
Gambella	0.3	0.4	0.3	0.4	0.8	0.6	na	na	na
Harari	1.0	1.0	1.0	1.1	1.2	1.1	1.1	1.2	1.2
Addis Ababa	20.8	10.7	15.0	29.7	14.8	22.1	28.3	15.3	21.7
Dire Dawa	1.7	1.7	1.7	1.6	2.0	1.8	2.5	2.2	2.3
Country total (Urban)	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: CSA, 1999 and 2004.

Note: "na" means not available.

1.3. Levels of flexibility and security in employment and in the labour market

Labour market flexibility and employment and income security stands for the capacity of labour supply to adjust to the needs of labour demand by maintaining a certain level of employment and income security for the former (workers). Flexibility in the present paper is meant as "numerical", namely as the ease of entries, to and exits from, the labour market, and of shifts from one job to another.¹⁴ From the findings presented so far, a high level of flexibility and insecurity at the same time emerges from the fact that employment nationwide is mainly in agriculture as a sector, in self-employment as status, and informal in nature. Agricultural labour is seasonal and, hence, both temporary and fluctuating, depending on unpredictable weather conditions. Entries to and exits from the labour market in this case are very frequent and subject to natural events. Agricultural labour is usually in the form of subsistence activities, where income security is never guaranteed. Although unpaid family work is still prevailing, it is declining with a shift towards self-employment. This employment status is rising at a national level despite a slight decline in urban areas. Self-employment is usually informal and hence easy to enter and exit. In addition, it is characterized by very little employment and income security due to its usual low productivity and poor working conditions.

Waged employment could somehow offer a higher degree of security, at least when it is formal, but in Ethiopia its share in total employment nationwide is very small and does not even reach 10 per cent. Moreover, in most cases, it takes the form of casual work which assures a high degree of labour market flexibility and very little employment and income security for workers. As pointed out in sub-section 1.2.3, in rural areas temporary waged employment constituted 90 per cent of total paid jobs in 1999. It is to be noted that in Europe the average share of temporary work was about 13.5 per cent in year 2000 with

¹⁴ Two other types of flexibility are well-known: "functional" flexibility and "wage" flexibility. While the latter is self-explanatory in its denomination, the former refers to moves between jobs having specific characteristics involving different skills within a given enterprise.

Spain being an exceptionally problematic case recording a national average of temporary employment of about 32.6 per cent.¹⁵

In Ethiopia, it is especially the public sector which tends to offer permanent jobs, but its share in total employment is very low, especially in rural areas. In urban areas, besides public employment, the private sector also provides a non-negligible share of waged employment, but once more, very often in the form of casual work or work for a limited duration (fixed-term contracts where pension benefits and other social security benefits are not provided).

It is to be noted that the proportion of women employed in temporary jobs and in activities providing low security levels, such as unpaid family work and domestic work, is higher than that of men both in rural and in urban areas. Particularly striking are the high figures presented in tables 1.22 and 1.23 on women employed in casual work.

To overcome the high level of income insecurity in rural areas, many people migrate to urban areas to look for a job. Nevertheless, what they find in cities and towns is informal employment which does not really provide a much higher level of employment and income security.

A useful tool to manage the risk of losing income and employment is savings. Findings presented in section 1.1 indicate that savings are very weak in Ethiopia. This aspect will be discussed more in depth in sections 3.2.1 and 3.3.

A concept which ought to be mentioned and which shall not be confused with “labour market flexibility” is that of “labour mobility”. A definition of the former has already been provided above. The latter refers to “changes in the location of workers both across physical space (geographic mobility) and across a set of jobs (occupational mobility). [...] Occupational mobility can be lateral (within a broad class of jobs similar in socioeconomic status) or vertical (from one job to a better or worse job).”¹⁶ In Ethiopia, although a rather considerable proportion of the population migrates within the country resulting into rather high geographic mobility, the type of labour involved in those movements is characterized by low levels of skills both when it is agricultural labour in the case of rural-rural migration, and when it is labour in informal jobs as it often happens in rural-urban movements. In Ethiopia, there seems to be lateral occupational mobility, whereas vertical mobility tends to be low. Poor skills and almost non-existing skills upgrade mechanisms are among the principal determinants of low vertical occupational mobility in the country. An important obstacle to labour mobility is information asymmetries, due to the limited access to labour market information. As will be shown in sub-section 2.1.2, employment services have a very weak impact in facilitating the dissemination of data on labour and no alternative mechanism to channel relevant information, such as bulletins, newspaper advertisements, etc., is commonly available. The different languages spoken in specific regions constitute an additional barrier to labour mobility. Workers tend to move within regions where the same language is spoken, which prevents an efficient allocation of labour according to skills availability and labour market needs.

¹⁵ *EU Labour Force Survey* http://epp.eurostat.cec.eu.int/cache/ITY_PUBLIC/3-19072002-AP/EN/3-19072002-AP-EN.HTML

¹⁶ Jason Long (Colby College) and Joseph Ferrie (Northwestern University), *Oxford Encyclopedia of Economic History*. <http://66.249.93.104/search?q=cache:CCKZkkivPpQJ:faculty.econ.northwestern.edu/faculty/ferrie/papers/Labour%2520Mobility.pdf+what+is+labour+mobility&hl=fr>

2. Institutions and legal framework of the labour market¹⁷

2.1. Labour market institutions

2.1.1. State institutions

In Ethiopia, the main State institutions which play a significant role in facilitating the match between labour supply and demand and which bear responsibility in planning and coordinating employment promotion activities are the Ministry of Labour and Social Affairs (MOLSA), and the Labour Advisory Board. Amongst MOLSA's responsibilities are: registering labour organizations (or refusing registration), registering collective agreements and assuring their enforcement, facilitating the settlement of disputes including assigning conciliators and arbitrators upon the request of the parties, undertaking studies on the national labour force, collecting and disseminating information on the labour market, developing special programmes for vulnerable groups of workers (women, youth, elderly, etc.), and issuing directives on working conditions, occupational safety and health at work. MOLSA has been active in organizing technical training workshops and seminars for workers' organizations on social dialogue and collective bargaining. Despite its relevant responsibilities, MOLSA has limited financial, material and human resources and encounters difficulties in effectively performing all of its tasks.

Set up by MOLSA, the Labour Advisory Board is in charge of studying matters concerning employment, labour legislation, working conditions and occupational safety and health at work and is able to give advice to the Minister of Labour. The Board is tripartite and is composed of 15 members: five representatives of workers, five representatives of employers and five representatives of different ministries (Ministry of Finance and Economic Development, Ministry of Justice, Ministry of Education, Ministry of Trade and Industry, Public Enterprises Supervision Authority and MOLSA).

2.1.2. Employment services

Ethiopia has ratified two ILO Conventions on employment services. The former is Convention No. 88 concerning the Organisation of the Employment Service which was ratified back in 1963. The latter was ratified in 1999 and it is the Private Employment Agencies Convention, No. 181 of 1997. This Convention came into force in 2000. Hence, employment services in Ethiopia can be both public and private. In the former case, they depend on MOLSA, whereas in the latter they are provided by private agencies.

Public employment services are provided through regional offices linked to MOLSA. The decentralization process, which was introduced in the mid 1990s when Ethiopia became a federation, led to the restructuring and reorganization of such services at a regional level. The limited resources available locally, coupled with the poor implementation capacity, determined the present situation of the almost absence of public employment services in some areas of the country.¹⁸

In general, public employment services currently consist only of placing suitable registered job seekers in available registered positions. Although permitted by national legislation, other tasks, such as establishing links with employment and training programmes for the unemployed and collecting labour market information, are not performed. As indicated in table 2.1 below, public employment services are more effective in urban areas than in rural ones. In Addis Ababa, between 1998 and 2002, 51,761 job seekers and 4,184 vacancies were registered and a total of 3,249 persons were placed in suitable jobs.

¹⁷ The information contained in chapter 2 is based on Yehene Tsegaye, 2005 (unpublished) unless otherwise specified. Section 2.3 contains an analysis by the author of this paper.

¹⁸ Information obtained at a meeting with EEF representatives, Mr. Yohannes Beshah, executive director, and Mr. Alem Seged, national coordinator of an ILO ACT-EMP child labour project on 26 October 2005 in Addis Ababa.

As for private employment services, Proclamation No. 104/98 states that private agencies may provide services, such as making a worker available locally or abroad to a third party, or matching job applications with vacancies for local employment, under the condition that no direct or indirect fee is charged to candidate employees. Private employment agencies need a licence either from MOLSA or from regional authorities. The licence has a validity of two years and entails financial guarantee requirements often deemed stringent for those agencies which wish to send workers abroad. In the case of employment abroad, the private agency must take care of a number of tasks: administrative requirements for the worker, the provision of some orientation on the country where the candidate employee is assigned, with assurances that part of the salary is remitted if the worker so wishes, and reporting to MOLSA on the developments of jobs provided.

Table 2.1. Number of job seekers, vacancies and placements in Ethiopia as of 2001/2002¹⁹

Region	Job seekers	Notified vacancies	Placement
Amhara	3,831	12	119
Benishangul Gumuz	701	9	8
Gambella	51	-	9
Harari	106	9	9
Oromia	5,702	150	68
SNNP	2,286	25	10
Somali	405	-	-
Tigray	432	423	423
Addis Ababa administration	9,898	922	495
Dire Dawa	462	62	16
Total	23,874	1,612	1,157

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

In the period 2001-2002, in Addis Ababa there were nine private agencies operating in local employment services. During that year they managed to collect 1,883 vacancies and placed 1,396 job seekers. Data available indicate that about 70 per cent of placed candidates were between 20 and 29 years of age, whereas placed job seekers aged 30-39 were about 25.5 per cent. About 58.4 per cent of them were women.

In the same year, three agencies were officially registered to provide overseas employment, but only two were operational. These agencies specialize in one or more specific countries where workers can be placed. Data reveal that out of 5,015 placed workers in that year, 98 per cent were women and most of them, about 93.3 per cent, were employed in Lebanon.²⁰ Jobs found were mainly as domestic workers, where working conditions are poor and chances of abuse rather high. Unfortunately, the number of trafficked migrant workers who are employed in the Gulf States is much larger than that of legal migrant workers with a regular work permit obtained from MOLSA. Such trafficked employees, especially women, are subject to very abusive working conditions which include confiscation of travel documents, long working days with no adequate pay, restrictions on the freedom of movement, beating and sexual exploitation.

As of December 2005, the number of agencies providing overseas employment has increased to 17. All of them are operational and allow Ethiopian citizens to be legally placed in six countries: Saudi

¹⁹ Table adopted with modification from MOLSA, Employment Exchange Information, (May 2003).

²⁰ Figures calculated from data contained in table 12 of the paper by Yehenew Tsegaye, 2005 (unpublished). This table refers only to data on placed workers in Lebanon and Saudi Arabia.

Arabia, Lebanon, Kuwait, Yemen, the Syrian Arab Republic and the United Arab Emirates.²¹ When the new legislation on private employment agencies was introduced, some provisions of the law seemed to be too restrictive to start business in placing workers abroad. The financial guarantee required for agencies providing overseas employment was considered to be too high. MOLSA decided to organize some briefing sessions for private entrepreneurs who were interested in that type of business. This initiative seems to have cleared doubts and perplexities on the law and subsequently several private employment agencies have been set up.

2.1.3. Social partners

In general, the social partners in Ethiopia are weak in terms both of membership and in experience. Even if they have been actively involved in the process of revision of the labour proclamation of 2003, their impact in the formulation of social and economic policies could be much stronger.

According to Ethiopian legislation, ten or more employees in an undertaking can establish a trade union. In addition, employees from different enterprises with less than ten employees can form a general trade union. Founded in 1964, the Confederation of Ethiopian Trade Unions (CETU) is the only institution representing workers in the country. At present it consists of nine federations and has a membership of 181,647 workers organized in 445 basic unions. Be it 300,000 or 200,000 as at times debated, CETU's membership does not even reach 1 per cent of the total labour force in the country. A large majority of the Ethiopian population is employed in agriculture often in unpaid jobs or in self-employment. This reality does not favour unionization. The recent growing horticulture farms with waged employment may facilitate the creation of unions in this agricultural sub-sector in the near future.

The Ethiopian Employers' Federation (EEF) is the only employers' association in the country. It was founded in 1964 and was dismantled in 1974 by the military junta. It was re-established only in 1997. EEF's current membership is composed of 64 enterprises and 4 employers' associations (the Ethiopian Garage Association, the Ethiopian Hotel Association, the Ethiopian Constructors' Association, and the Abbai and Tana Employers Association). Workers employed in EEF's member enterprises are about 100,000 in total. The principal challenges faced by EEF include lack of experience in social dialogue due to its recent formation, poor financial and material resources to run the organization efficiently, and lack of awareness of industrial relations and social dialogue among employers nationwide.

2.1.4. Informal labour market entities

In Ethiopia, in particular in rural areas and where the informal economy prevails, some typical informal labour market entities are found in the form of community-based organizations. Mahabers (religious associations) and debos (farm work groups or "labour sharing organizations") are the most common ones, especially in the Northern regions. Some of the main functions of mahabers are mutual support and the resolution of small-scale conflicts also related to labour. Debos are agricultural work groups in rural Ethiopia based on labour exchange. The labour of a number of people from a certain area is offered to assist one or more individuals in tasks such as building a house, cultivating a large piece of land, harvesting crops, clearing forests for ploughing, etc. This type of labour organization is very flexible and can easily and quickly adjust to the needs of agriculture. Group members pay for the labour they receive with their own personal labour, thus avoiding the payment of wages. Group members in a given

²¹ Information obtained from MOLSA at a national workshop on labour markets and employment in Ethiopia and the emerging policy agenda, organized by MOLSA in collaboration with the ILO and the World Bank on 8-9 December 2005 in Addis Ababa.

community have a social obligation to comply with the request for their labour whenever it arises. Non-compliance entails ostracization in the community.²²

Urban informal sector employment is concentrated in the manufacturing, trade, hotel and restaurant sub-sectors and usually takes the form of self-employment. No structured social dialogue seems to occur among the self-employed or between informal sector workers and employers. Informal dialogue may occur, but it seems clear that informal sector employees have essentially no bargaining power.

The Confederation of Ethiopian Trade Unions (CETU) claims that, according to existing legislation, unions can be established only where there is an employer-employee relationship. Most informal sector operators are self-employed and hence cannot become CETU members. In addition, they are difficult to reach because of their individual different location and economic activity. CETU certainly makes efforts to reach those informal sector employees who work in poor conditions as, for example, in the recently emerging floriculture sub-sector where CETU is acting rapidly. A governmental organization, the Federal Micro and Small Enterprise Development Agency, is trying to organize the self-employed, but this is far from being a form of spontaneous association for the facilitation of social dialogue.²³

Box 2.1: Strengthening employment and income security through support to informal SMEs

Approaching informal sector operators is a key item in the agenda of EEF. Although the Ethiopian Employers Federation can have as members enterprises comprised of at least two people, at present it does not have any member with similar characteristics. Recently, an attempt to reach small and micro enterprises has been made. With USAID support, EEF has started a programme aimed at extending financial and business development services to informal enterprises. Since informal sector operators often lack collateral to offer as guarantee for loans, the project provides a 50 per cent guarantee to obtain credit from financial institutions. In addition, other technical support, such as drafting a business plan is offered.

Source: EEF.^{24, 25}

2.2. Labour legislation

2.2.1. Rules on the labour relationship

The first regulation on employment was introduced in Ethiopia only in 1960 when a civil code was adopted. Until then, the employment relationship was similar to one between a master and a servant who owed obedience. The employer had a paternalistic attitude to the worker and, besides a very low salary, provided food, housing, clothes and medical care to the employee and his dependants. Slavery was abolished only in 1942 and, until then, the worker was considered as the property of the owner. The legacy of slavery was hard to remove in its effect on the modern conception of “employee”.

²² The information provided in this paragraph is partly contained in the report by Yehene Tsegaye and has been completed with information obtained at a meeting with CETU representatives, Mr. Amare Alemayehu, President, Mr. Haile Kiros, head of the Social Affairs Department, and Mr. Tessema Heramo from the Workers' Training and Education Department, on 28 October 2005 in Addis Ababa.

²³ Meeting with CETU representatives, Mr. Amare Alemayehu, President, Mr. Haile Kiros, head of the Social Affairs Department, and Mr. Tessema Heramo from the Workers' Training and Education Department, on 28 October 2005 in Addis Ababa.

²⁴ Meeting with EEF's representatives, Mr. Yohannes Beshah, executive director, and Mr. Alem Seged, national coordinator of an ILO ACT-EMP child labour project on 26 October 2005 in Addis Ababa.

²⁵ Information obtained at a meeting with EEF's representatives, Mr. Yohannes Beshah, executive director, and Mr. Alem Seged, national coordinator of an ILO ACT-EMP child labour project on October 26 2005 in Addis Ababa.

A “Labour Relations Proclamation” was adopted in 1963. Besides providing rules on the employment relationship, this act also authorized, for the very first time, the creation of workers’ and employers’ organizations. Until the adoption of Proclamation No. 42/1993, collective bargaining was envisaged only at an enterprise level. This historical factor and the general weakness of workers’ and employers’ organizations account for the fact that even at present, collective agreements do not take place on a sectoral or national level, although the 1993 Labour Proclamation envisages it. Labour Proclamation No. 377/2003 is the act currently regulating the employment relationship. It differs from Proclamation No. 42/1993 in areas concerning international labour standards and constitutional provisions.

Remarkable differences in the level of flexibility and security in the Ethiopian labour market can be found, comparing the Labour Proclamation of 1975, which was one based on a socialist system, with that of 1993. Under the socialist regime, recruitment had to happen through public employment offices, which was no longer the rule after Proclamation No. 42/1993 was adopted. Other changes include the end of guaranteed employment in the public sector for college and university graduates; the ease of conditions allowing temporary employment; the shortening of probation contracts from 90 to 45 days; widening the range of cases where dismissal is not unlawful.

Even if the level of employment protection has been increasing since the 1960s, beneficiaries are very few. Legislation is often disregarded in the private sector and is simply not applied in the informal economy. In addition, measures to combat abuses and violations of labour law are not effective, although their enforcement has recently improved thanks to slightly more efficient courts. Labour inspection services can inspect only enterprises with at least 1,000 employees and only every five years. In addition, although they are legally assigned several relevant tasks, their limited financial and human resources do not allow them to operate in an efficient manner. The decentralization process that started in the mid 1990s has further weakened this control mechanism due to its reorganization and to the very poor resources available locally. In some areas of Ethiopia, labour inspection services are said to be only “nominal”.²⁶ The total number of labour inspectors is reported to be 44, as of 2003.

One feature of the Ethiopian economy is that extreme poverty and decades of war have resulted in a high number of persons with disabilities. It is estimated that in 2003, 7.6 per cent of the Ethiopian population was disabled. Ethiopia has ratified ILO Convention No. 159 on Vocational Rehabilitation and Employment (Disabled Persons) in 1991. The federal government has adopted several measures to address the needs of persons with disabilities in the country, including Proclamation No.101/1994 concerning the employment of persons with disabilities. While providing for equal employment opportunities, the law has not entered into effect as no regulations and directives have been adopted for its implementation. The proclamation makes it mandatory for employers to finance all necessary adaptations to make a job accessible to disabled workers. Such costs are perceived as a burden by employers and a factor discouraging the recruitment of persons with disabilities.

2.2.2. Labour contracts

Proclamation No. 377/2003 regulates the employment relationship in the private sector, whereas Federal Servants Proclamation No. 262/2002 and other minor acts contain rules on the employment relationship in the public sector. According to Proclamation No. 377/2003, a labour contract can be for a definite or indefinite period or for a specific task. A labour contract is presumed to be for an indefinite period unless specific conditions are met. Such conditions include:

²⁶ Meeting with CETU representatives, Mr. Amare Alemayehu, President, Mr. Haile Kiros, head of the Social Affairs Department, and Mr. Tessema Heramo from the Workers’ Training and Education Department, on 28 October 2005 in Addis Ababa. Also, meeting with EEF representatives, Mr. Yohannes Beshah, executive director, and Mr. Alem Seged, national coordinator of an ILO ACT-EMP child labour project, on 26 October 2005 in Addis Ababa.

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- the performance of a specific task; the replacement of a worker who is temporarily absent;
 - the performance of work in a situation of exceptionally high workload; the performance of urgent work to avoid danger or damage;
 - the performance of irregular work which relates to the permanent activity of the enterprise but which occurs at irregular intervals;
 - seasonal work;
 - occasional work performed intermittently;
 - the temporary placement of a worker who has suddenly lost a permanent job (for a maximum 45 days and not renewable);
 - the temporary placement of a worker before a vacancy is filled through regular procedures (for a maximum of 45 days and not renewable).

No other temporary limit is set. It is therefore possible for employers to repeatedly recruit employees for a limited duration thereby avoiding the application of the higher protection standards provided to workers recruited with contracts for an indefinite period.

A valid employment contract can be entered into only by individuals who are over 14 years old. No special form is required; only modifications of employment conditions must be put in writing. The written form is necessary only for probation contracts, and for apprenticeship contracts which must also be attested by MOLSA. Apprenticeship contracts are particularly important for the recruitment of young unemployed people. The labour proclamation establishes that the written contract must specify the nature and duration of the training, remuneration due to the trainee and the conditions of work. MOLSA's approval is aimed at avoiding the abuse of this type of contract. In practice, apprenticeship contracts are often concluded without MOLSA's approval. The initiative on recruiting persons with an apprenticeship contract does not come from employers or business associations in general, but rather from training institutions in their attempt to place their graduates.

Part-time work is not specifically regulated; it rather falls under one or more of the conditions listed above for contracts for a limited duration or for a specific task.

According to the Federal Civil Servants Proclamation, employees in the public sector can be hired either temporarily or for an indefinite period. A permanent appointment requires a probation period of six months with a possible extension of three additional months. Temporary employment is allowed for a job which is not of a permanent nature, or when the circumstances so require.

Ethiopia ratified Convention No. 158 concerning Termination of Employment at the Initiative of the Employer in 1991. Lawful grounds for termination of a labour contract according to Proclamation No. 377/2003 are related to the conduct of the employee, the ability of the worker to perform his/her task, and operational requirements of the undertaking. A public sector employee can be lawfully dismissed after sick leave for 8 months in a year or 12 months over 4 years, or after 6 months of absence, and as a penalty following disciplinary action. Negative annual performance evaluations may also lead to lawful dismissal in the public sector, but before actual dismissal on that ground takes place, training and job transfers are offered to improve a civil servant's performance.

Lawful dismissal requires a notice period of between one to three months, depending on the number of years of service of the employee. If the lawful cause for contract termination is the cessation of enterprise operations or labour force reduction, the notice period is of two months. If contract termination is due to unlawful dismissal, permanent cessation of enterprise operations or labour force reduction, misconduct of the employer or disability, the employee is entitled to receive severance payments. The amount of severance payment ranges between 30 days of salary for a year of service, increased by one-third per additional year of service, until a maximum of 12 months of salary. If contract termination is due to the cessation of enterprise operations or labour force reduction, 2 additional months of salary are added to the said amount of severance payment. Non compliance with dismissal rules makes contract termination unlawful. Remedies against unlawful contract termination are either the reinstatement of the worker in the workplace and the payment of due wages, or compensation in addition to severance payment. A reduction

of the labour force of at least 5 units makes it mandatory for the employer to consult trade unions or workers' representatives.

Proclamation No. 262/2002 contains rules on the retrenchment of redundant government employees. First to be dismissed are those employees whose performance and qualifications are worse than those of other employees in similar positions.

2.3. Levels of flexibility and security provided by the institutional and legal framework

The first striking observation that the information presented in section 2.1 suggests concerns the very weak and almost lacking linkages between formal and informal sector labour market institutions. MOLSA and the Labour Advisory Board are useful and well designed institutions which, despite their limited financial and human resources, are in a position to influence and determine crucial aspects of the labour market. The activities of MOLSA in support of social partners and public employment services are positive measures towards more labour market security, but both initiatives cover only the formal economy. The tripartite structure of the Labour Advisory Board is very well conceived, especially where it includes representatives of different ministries whose action somehow has an impact in the national labour market. As a matter of fact, a good level of flexibility and security can be reached in the labour market only if all concerned parties are involved in consultation and decision making. Even in this case, though, there is no representation of the informal economy.

Employment services are very important mechanisms to provide assistance and protection, hence security, to vulnerable groups in the labour market. Their good connections with the world of enterprises and employers in general also contribute to promoting flexibility through a quick adjustment of labour supply to the needs of labour demand. There seems to be scope for improving the effectiveness of public employment services in Ethiopia. Efficiency in the placement task they currently perform could be increased and other complementary tasks could be added. Moreover, the social partners could be more involved in the implementation of the activities of employment services in order to enhance their effectiveness in the labour market. Considerations on expanding tasks performed apply to private employment agencies as well which at present only focus on job placement.

On a positive note, the law on private employment agencies is a good example of protection and security provided to workers employed overseas. This particular act represents a big effort of the Ethiopian state authorities to intervene in an area where workers are particularly subject to abusive working conditions. The growing number of private agencies providing overseas employment is a sign of success of such an innovative and needed measure. In general, the ratification of ILO Conventions Nos. 88 and no. 181 reveals the special value that Ethiopia attaches to employment services and makes it clear that employment services in the country have some concrete potential for enhancing security levels.

Workers' and employers' organizations in Ethiopia are very weak, in terms both of membership and of the impact of their action on the labour market. Their role in determining a good level of flexibility and security is essential, but in order to make their voices heard at a national level, they need to grow considerably stronger. In addition, more efforts could be made to reach the agricultural and informal sectors, where security, and in particular protection through representation, are badly needed. Initiatives aimed at reaching informal sector operators like the EEF's experience described in box 5 or CETU's action in the floriculture sub-sector should be expanded and further promoted because they allow the creation of linkages between formal and informal sector operators on one hand and the strengthening of employment and income security in the informal economy on the other. Another type of initiative which deserves special attention in the present discussion is CETU's establishment of worker banks as presented in box 9. Through such organizations, workers can better manage risks and hence strengthen their security level.

Decentralization is another striking feature which emerged from findings presented in sections 2.1 and 2.2. It has been observed that collective bargaining tends to take place at an enterprise level rather

than at a sectoral or national one. This is generally considered to be a positive factor, in that it allows more flexibility in fixing rules related to employment and working conditions. On the other hand, however, the decentralization process which resulted from the adoption of the Federal Constitution in 1994 has, so far, had rather negative consequences in the balance between labour market flexibility and employment and income security. As a matter of fact, in this case, decentralization has led to the inefficiency and almost non-existence of both public employment services and labour inspection services. As already noted, public employment services can play a very important role both in increasing flexibility and in enhancing security. As for labour inspection services, the generally high level of insecurity which prevails in the Ethiopian economy would require a decent degree of control in order to avoid or sanction the violation of existing norms.

As for the effects of the legal framework on labour market flexibility and security, proclamations adopted since 1993 do not seem to be the cause of any particular rigidity. It is possible for employers to freely select their employees. In addition, firing costs related to workers hired for an indefinite period are not too high compared to other countries. Moreover, employers can easily recruit on a temporary basis, since Proclamation No. 377/2003 provides a rather long and generic list of situations in which employment for a limited period is admitted. The fact that fixed-term contracts can be concluded between the same two parties (employer and worker) for an unlimited number of times makes it possible for employers to completely avoid the protection costs that permanent employment may involve. These findings have been discussed with employers' representatives in Ethiopia. It seems that real obstacles to enterprise creation and expansion are rather to be found in the slow bureaucracy which characterizes public administration, and access to land and capital also because of poor financial services available in the country. Data from a survey on the investment climate conducted by the World Bank in 2002 confirm these findings and reveal that the main constraints to enterprise development are access to land, tax and access to credit. Only 5 per cent of surveyed firms considered that labour legislation is an obstacle to doing business.^{27, 28}

Considering what has been said so far on labour legislation and employment contracts, workers may even lack sufficient protection and be subject to abuses of fixed-term contracts. For example, employees recruited with a fixed-term contract are not entitled to pension benefits as well as most of other social security benefits. One measure which could somehow protect workers in this regard is the strengthening of labour inspection services which at present are very weak and function according to rules which could be improved.

In order to tackle youth unemployment and make entry into the labour market easier for young job seekers, more efforts could be made to facilitate the use of apprenticeship contracts.

Last, but not least, the fact that employers must bear the costs for adjusting a job to the needs of a disabled employee may hinder both the development of the private sector and employment opportunities for the disabled. An alternative solution for funding of workplace accessibility, specialized equipment and other required job adjustment measures might be examined in order to ease entry into the labour market for persons with disabilities. Costs of positive social policies and affirmative actions for the employability of persons with disabilities – as well as the retention and workplace assistance for those enduring work place accidents – should be borne by responsible public agencies rather than by individual firms. Otherwise, the costs associated with disability will become a disincentive to enterprises whose primary objective is profit maximization. Employers ideally perceive disability-accommodation as counteractive to their profit making.

²⁷ Information obtained at a national workshop on labour markets and employment in Ethiopia and the emerging policy agenda, organized by MOLSA in collaboration with the ILO and the World Bank on 8-9 December 2005 in Addis Ababa.

²⁸ Meeting with EEF representatives, Mr. Yohannes Beshah, executive director, and Mr. Alem Seged, national coordinator of an ILO ACT-EMP child labour project, on 26 October 2005 in Addis Ababa.

3. Social security and risk management mechanisms

3.1. Social security schemes²⁹

In Ethiopia, existing social security schemes have a rather limited scope and cover risks related to work injury, sickness, old age and death. Statutory provisions assure social security coverage to civil servants, employees in public enterprises and workers employed in the military and police forces. General norms establish that private sector employers must provide benefits for sickness, injury and death at work for their employees, but such rules are often neglected because there is no clearly specified legal obligation binding employers. Some private social security schemes in the form of provident funds or cash benefits are in place usually where collective agreements have been concluded to this end. The percentage of private sector formal employees who benefit from social security coverage remains low and is not more than 10 per cent. While according to statutory provisions, public pension schemes are financed 60 per cent by the employer (the State) and 40 per cent by workers, the contributory mechanism for provident funds is not determined by law and varies from case to case.

In the private sector, practice shows that all permanent employees of an enterprise where provident funds exist benefit from their coverage. The employer has nonetheless the legal obligation deriving from the labour proclamation of compensation for any work-related injury, sickness or death of any of his/her employees regardless of whether such funds exist. If a permanent, temporary and/or partial disability follows injury, besides payment of medical expenses, the employer owes the worker an additional compensation in cash, the amount of which is fixed by law. The same labour proclamation also determines the amount of compensation which is owed to survivors after the death of a worker.

It has been pointed out that because of the existing different social security coverage between formal sector public employment and formal sector private employment, it is not possible to claim that in Ethiopia formal sector employment means adequate social protection and informal sector employment involves lack of social protection. In other words, being formally employed does not necessarily mean having a decent social security coverage. In addition, different employment contracts imply unequal levels of social security coverage. For example, as already observed, workers with a fixed-term employment contract do not receive pension benefits. The situation of workers hired with a contract for a specific task is even worse, since they often have no social security coverage at all, as is the case for construction workers. It has been suggested that a national social security system both for formal and informal employees be designed and adopted, so that all workers, both formal and informal and in both public and private sectors be duly protected.³⁰

It should be noted at this point that, in order to address the health problem of the country, the Government of Ethiopia adopted a national health policy in September 1993. Some of the principles on which the policy is based include: democratization and decentralization of the health service system; development of an equitable and acceptable standard of health service system that will reach all segments of the population within the limits of resources; promoting and strengthening of intersectoral activities; promotion of attitudes and practices conducive to the strengthening of national self reliance in health development by developing and maximally utilizing internal and external resources; assurance of accessibility of health care for all segments of the population; working closely with neighbouring countries, regional and international organizations to share information and strengthen collaboration in all activities contributory to health development including the control of factors detrimental to health;

²⁹ The information presented in this section is mainly contained in part 2 of Yehene Tsegaye's report and Chapter 3 of the paper by Tassew Woldehanna, Fantu Guta and Tadele Ferede.

³⁰ This idea has been suggested by employers' representatives. (Meeting with EEF representatives, Mr. Yohannes Beshah, executive director, and Mr. Alem Seged, national coordinator of an ILO ACT-EMP child labour project, on 26 October 2005 in Addis Ababa.)

development of appropriate capacity building based on assessed needs.³¹ This policy has remained largely ineffective as of today and there is no evidence showing that it is likely to be implemented in the near future. Ethiopians do value social security as one of the country priorities which should be urgently addressed, but the small state budget undoubtedly represents a major impediment for the adoption of concrete measures in this area.

Box 3.1: Extending social security coverage to informal workers – The case of Ghana

In Ghana, a social insurance scheme for the formal sector has been operating since 1965. This scheme provides old-age and invalidity pensions to formal workers. As for survivors' pensions, only a small lump sum is granted and there is scope for improvement. Recently, a national health insurance system has been introduced in the country. In the past, formal workers employed in the public sector enjoyed health insurance benefits which were the same for all employees, while formal employees in the private sector were granted insurance health benefits defined in collective agreements at an enterprise level. Workers in the private sector were therefore treated in different ways according to the enterprise where they worked. Employers in large firms set up their own hospital inside the enterprise itself. For those workers employed in an enterprise without an internal hospital, a cash and carry system was available. According to that system, individuals in need of medical treatment had to pay before receiving the treatment. The new system which was introduced last year is a fusion of Social Health Insurance and Mutual Health Organization (MHO) concepts. It draws resources from the formal sector, but applies to the informal one as well. Formal workers pay 17.5 per cent of their wages for social security (old-age and invalidity pension). Some 2.5 per cent of their salaries (included in that 17.5 per cent) is used for health insurance. Additional funding for the national health system comes from a 2.5 per cent VAT-type tax. Informal workers must pay a fixed per capita contribution in order to be covered by the health insurance system. The new system will build on MHO that have developed during the past few years and that will shortly be operational in each of the 130 or so districts of Ghana.

Source: ILO, Social Security Department, November 2005.

Box 3.2: Alternative ways to provide social security to informal workers

The Republic of Korea has extended compulsory coverage to self-employed workers for pensions and health insurance. Pension coverage has been extended first to self-employed workers in rural areas, and then to the self-employed in urban areas. The State covers the cost of contributions (6 per cent of a 9 per cent contribution) with the gradual disappearance of the subsidy over 10 years.

Sri Lanka has introduced a pension scheme for agricultural workers, fishers and self-employed workers, based on voluntary membership and with a state subsidy.

In Senegal, since 1998, the Social Security Fund has been working with the Federation of Chambers of Trade to encourage handicraft workers to join on an individual basis in order to cover work injury.

In Uruguay, three categories of workers have been identified as encountering particular problems deriving from the precarious and informal nature of their employment: construction workers, domestic servants and the self-employed. Specific arrangements have been designed for each category: one scheme covering construction workers for old-age pensions, sickness, family and employment injury benefits; a health insurance scheme for domestic servants; and coverage for the self-employed by the country's main social security institution (the Social Insurance Bank) for old age pensions, survivors and invalidity and sickness benefits.

Source: E. Reynaud, 2001. Extension of Social Security, The extension of social security coverage: The approach of the International Labour Office. Paper 3, Social Security Policy and Development Branch, ILO, Geneva.

Other countries have targeted specific categories of workers (both formal and informal) and have developed social security schemes meeting their specific needs and characteristics.

³¹ ILO unpublished document, Addis Ababa, November 2005.

In 1999, Ethiopian employees working in the Government and public enterprises totaled about 4.3 per cent of the employed population in the country. Although in 2004 Ethiopians aged over 60 were about 4.5 per cent of the total population, old age pension schemes were available only to public sector employees. The pension proclamation mentions two funds, one for civil servants and another for military and police servants. In both cases, besides an old age pension, benefits for invalidity, incapacity and survivors are provided. The retirement age is fixed at 60 years; some exceptions for an earlier age are foreseen for military and police officers. The basic pension is 30 per cent of the salary. That amount can be higher if some specific conditions are met, but can never be over 70 per cent of the salary. The amount of invalidity pension is the same as the old age pension. An incapacity pension due to a work related injury is assigned only when the incapacity level is at least 10 per cent and causes a total loss of working capacity. It is equal to 45 per cent of the salary. This pension is discontinued when the former employee engages in gainful activities and is granted again when such income-generating activity ceases. When the incapacity degree is at least 10 per cent but does not cause a total loss of working capacity, the employee is entitled to receive a lump sum. A pension for survivors is 50 per cent of the pension which the deceased worker would have received for the widow/er, 20 per cent of the pension for children under 18, and 15 per cent of the pension for parents who depended on the worker's income.

No unemployment benefits exist in Ethiopia.

In 2002-03, government pension scheme expenditure was 2.4 per cent of government revenue and grant expenditure and has been declining as a proportion of national gross disposable income since the introduction of the structural adjustment programme in the early 1990s.

In order to extend the coverage of social security in Ethiopia, the possibility of setting up a universal pension scheme has been explored (see tables I and II in the annexes). Universal schemes cover all the target population, (for instance above a certain age), without any conditions as to contributions or income. By redistributing part of the State budget through very small pensions, this measure has the dual beneficial effect of empowering vulnerable people on the one hand and of strengthening domestic demand and promoting employment creation on the other. As for Ethiopia, results indicate that the limited state budget does not allow for any of the models tested (for all people over 60 or 65 with pensions of different amounts) to be financed. Some selection criteria based, for instance, on the poverty level of people over a certain age could be introduced to decrease the number of beneficiaries and hence to lower costs. Besides the burdensome financial weight of a universal pension scheme, the lack of administrative capacity to implement it further discourages the adoption of such a social security measure in the country.

Box 3.3: Job insecurity for women in Ethiopia

- As in many other parts of the world, Ethiopian women live in less secure conditions than men. More than their male counterparts, women are employed in unpaid family work and, as a consequence, do not enjoy the same levels of financial autonomy and economic power as men.
- Women in Ethiopia are more likely than men to be employed in the service or leisure industry, such as hotels, bars and restaurants. These types of occupations bring them into industries where they are more likely to become involved in commercial sex work.
- Women represent the majority of migration flows, in particular in international migration. These women are often the victims of sexual, financial and labour exploitation.
- Ethiopian women are employed in casual work and temporary jobs in much greater proportions than men. In the current climate of privatization, and resulting retrenchment, these jobs are the least secure and most likely to be lost.
- Women in Ethiopia are much more likely than men to be illiterate or have a very poor education, which in turn means they have less opportunity to obtain "decent" jobs.

Source: Brief summary of findings from Tassew Woldehanna, Fantu Guta, Tadele Ferede, 2005; Yehenew Tsegaye, 2005.

3.2. Risk management mechanisms³²

3.2.1. Savings

In a national economy characterized by a high level of employment and income insecurity, savings are of the utmost importance to cope with the risk of sudden income loss. Data on savings in Ethiopia are rather scanty and leave many questions open, such as how and to what extent the poor in rural areas save.

A survey conducted in 1999-2000 on household income, consumption and expenditure tried to estimate household's savings through expenditure on different items.³³ According to this estimate, rural households save on average Birr 204 per year, whereas urban households save Birr 506 per annum. The average annual savings rate stood at about 3.6 per cent of earnings in rural areas and 5.2 per cent in urban areas. In rural households, some 54 per cent of savings is in the form of household investment, followed by loans repayment and Equb contributions. Contributions to Equbs absorb 50 per cent of urban households' savings, followed by household investment and Iddir contributions (see table 3.1). Equbs, church associations (Maheber), and Iddirs are all traditional forms of savings and credit organizations. In all these community-based organizations, savings are collected regularly in order to assist members in need of financial help for health, funeral expenses, or to build roads, schools and even health centres. More specific information on these organizations is provided in sections 3.2.2 and 3.2.3.

Table 3.1. Annual average savings in Birr per household by source

Source of Savings	Rural		Urban		Country level	
	Savings (in Birr)	Share in %	Savings (in Birr)	Share in %	Savings (in Birr)	Share in %
Equb	23.47	11.5%	254.27	50.2%	56.95	23.0%
Loans given out	8.73	4.3%	17.07	3.4%	9.94	4.0%
Loans repaid	39.82	19.5%	42.65	8.4%	40.23	16.2%
Insurance premium	3.12	1.5%	16.99	3.4%	5.13	2.1%
Bank deposit	3.29	1.6%	9.79	1.9%	4.23	1.7%
Interest	0.11	0.1%	0.26	0.1%	0.13	0.1%
Iddir contributions	15.95	7.8%	60.72	12.0%	22.44	9.1%
Investment	109.33	53.6%	104.7	20.7%	108.66	43.9%
Total	203.82	100%	506.45	100%	247.71	100%

Source: CSA (2001). Report on the 1999/2000 Household Income, Consumption and Expenditure Survey, Statistical Bulletin 258. Central Statistical Authority, The Federal Democratic Republic of Ethiopia.

³² The information presented in this section and its sub-sections is mainly contained in part 4 of Yehenew Tsegaye's report and in Chapter 5 of the paper by Tassew Woldehanna, Fantu Guta and Tadele Ferede.

³³ This information is contained in Tassew Woldehanna, Fantu Guta, Tadele Ferede, 2005.

Box 3.4: Promoting savings among workers

CETU has been promoting savings among its members for years through the establishment of savings and credit associations (these institutions are technically called “workers banks”). Most unions have set up such institutions which function well and have actually proven to be quite successful. Workers contribute to these associations with a percentage of their salary which may vary between a minimum of 10 per cent to a maximum of 30 per cent a month. Loans are usually granted for buying or building a house, or for other consumption purposes.

Source: CETU.³⁴

Worldwide, a very well known form of savings is land. In Ethiopia, the land tenure system presents rather country-specific characteristics which affect both savings and employment mainly through agriculture. In 1975, a socialist land reform nationalized all existing land and assigned each peasant household possessory rights over a plot of maximum 10 hectares. The situation has remained unchanged and the principle of state ownership of national land is contained in the 1995 Constitution. However, some local governments have recently started to issue tenure security certificates through which land can be rented out. Some examples are described in the table below. Land sale remains prohibited. In addition, land cannot be used as collateral for loans. Informal land transactions take place through mortgage and renting contracts, sale and donations. A common practice is renting land for a period of about three years at the time. Table 3.3 provides an overview of the de facto tenure situation in the country. It may be worth mentioning that the right to ownership has three dimensions: *usus* which involves the right to use the property, *fructus* which entails the right to benefit from the fruits accrued from the property, and *abusus* which implies the right to dispose of the property. In the case of land, farmers can enjoy *usus* and *fructus*, whereas *abusus* remains a prerogative of the state only.³⁵

Table 3.2. Tenure security policies and measures in some Ethiopian regional states (2005)

Regional state	Policy and measures adopted
South Nations, Nationalities and Peoples	In February and March 2005, tenure security certificates have been issued for some farmers.
Tigray	A land policy was adopted in 1997, according to which land certificates are issued to allow renting out for cash or sharecropping parts of land for up to 10 years if modern technologies are used, and up to 2 years if traditional technologies are applied.
Oromyia	Land Use and Administration Proclamation No.56/2002 allows renting out for cash or sharecropping of up to 50 per cent of land for up to 15 years if modern technologies are used and up to 3 years otherwise.

Source: Information contained in Yehenew Tsegaye, 2005.

³⁴ Meeting with CETU representatives, Mr. Amare Alemayehu, President, Mr. Haile Kiros, head of the Social Affairs Department, and Mr. Tessema Heramo from the Workers' Training and Education Department, on 28 October 2005 in Addis Ababa.

³⁵ Information provided by Yehenew Tsegaye on 14 November 2005.

The following table provides an overview of the land tenure situation in Ethiopia in 2001-2002. It is assumed that “owned” means “possessed”.

Table 3.3. Land tenure system in 2001/2002

Tenure type	Number of households	Of area (ha)
Owned	10,547,597	86.3
Rented	2,134,137	10.1
Other	1,000,815	3.6
Total	13,682,549	100%

Source: Central Statistic Authority (2003).

Different types of institutions and entities facilitating savings and credit exist in Ethiopia. Proclamation No. 147/98 regulates savings and credit cooperatives and grants them tax exemption. In savings and credit cooperatives, savings contributions from members are mandatory. Loans can be disbursed only to members who are entitled to receive dividends and interest. Table 3.4 indicates the number of existing savings and credit societies from 1978 until 1999. It can be observed that in 1992 the number of cooperatives dropped most probably due to the political and economic instability of the moment.

Table 3.4. Savings and credit cooperatives in Ethiopia (1978-1999)

Year	No. of cooperatives	Membership	Contributions and savings (in Birr)	Outstanding loans(in Birr)	Reserves (in Birr)	Total assets (in Birr)
1978	60	13,020	4,056,732	2,050,546	21,0851	430,9753
1979	62	13,958	3,848,144	2,432,829	22,1873	5,336,122
1980	160	19,337	3,954,204	2,470,245	220,999	5,468,655
1981	163	19,630	4,576,273	3,319,712	251,775	6,268,219
1982	171	22,371	6,219,311	7,383,086	251,775	7,854,249
1983	160	27,556	7,528,691	8,136,677	437,895	9,996,753
1984	171	30,815	9,421,332	9,153,030	7,233,338	14,084,043
1985	217	38,166	12,970,879	12,561,829	881,672	19,239,674
1986	264	56,885	22,925,673	2,3517,531	1,738,320	29,887,557
1987	309	63,540	23,300,011	23,644,390	1,676,556	30,332,813
1988	371	68,366	30,845,398	33,375,253	2,148,308	42,053,667
1989	419	98,973	50,406,195	52,104,599	2,173,238	69,926,742
1990	484	118,037	68,959,446	69,834,856	4,019,913	90,781,491
1991	495	119,799	78,772,710	79,919,665	4,497,197	102,168,224
1992	420	109,231	87,035,927	89,200,462	5,097,756	109,756,427
1993	426	101,299	86,105,842	87,474,898	5,484,551	112,286,156
1994	497	112,664	99,767,864	100,394,074	7,396,189	135,371,088
1995	522	116,619	111,173,060	93,582,753	8,163,985	150,707,746
1996	578	129,216	124,441,325	118,878,606	9,392,965	168,612,385
1997	620	147,302	159,865,849	148,491,188	10,989,767	196,132,447
1998	670	150,468	167,059,812	155,173,291	15,538,636	207,900,393
1999	716	156,938	174,577,503	162,311,262	16,626,340	220,374,417

Source: Wolday Amha, Microfinance in Ethiopia: Performance, Challenges and Role in Poverty Reduction, Occasional Paper No. 7 (2003), contained in Yeheneu Tsegaye, 2005.

As table 3.5 indicates, the highest number of cooperatives in Ethiopia in 2001 could be found in Addis Ababa, Oromiya and Amhara.

Table 3.5. Regional distribution of cooperatives in Ethiopia (2001)

Regional State	Number of Associations	Number of members			Capital in millions of Birr
		Male	Female	Total	
Tigray	551	234,483	65,993	300,476	11.1
Amhara	1,235	1,166,796	134,098	1,300,894	51.3
Oromia	1,947	1,009,382	80,107	1,089,489	139.0
SNNP	884	717,883	93,941	811,824	109.33
Addis Ababa	2716	150,648	26,903	177,551	202.5
Dire Dawa	15	697	-	697	0.3
Harari	9	1,361	-	1,361	1.18
Afar	8	1,339	-	1,339	0.7
Somali	1	481	-	481	0.3
Benishangul	-	-	-	-	-
Gumuz	-	-	-	-	-
Gambella	-	-	-	-	-
Total	7,366	3,283,070	401,042	3,684,112	515.71

Source: Wolday Amha, *Microfinance in Ethiopia: Performance, Challenges and role in poverty reduction*, Occasional Paper No. 7 (2003), contained in Yehene Tsegaye, 2005.

Since 1996, the National Bank of Ethiopia has established a legal framework for microfinance institutions (MFIs) in the country. So far, 23 MFIs have been set up both in rural and in urban areas. They disburse loans of up to Birr 5,000 to poor people operating also in the informal sector. These institutions often require savings as a condition to obtain credit. The Ministry of Finance may decide on whether and to what extent income tax exemption is to be granted. The outreach of MFIs remains low and reaches about one million clients, which is supposed to be about 10-15 per cent of the persons in need of financial services in the country. In addition, MFIs experience sustainability problems; in December 2000, savings was only 32 per cent of their total assets and 56 per cent of total loans. More information on the services provided by microfinance institutions in Ethiopia will be provided in section 3.2.2 below.

3.2.2. Microcredit

Credit for productive activities is another essential tool which allows poor people to cope with income losses by developing alternative sources of income or by expanding their existing micro-businesses. Particularly important for income and food security are also loans for consumption and emergency needs. In Ethiopia, the principal sources of credit are informal channels, such as moneylenders, relatives, friends, traders, etc. There are then traditional sources of funding, such as Iddirs, church associations (Maheber), and Equbs. The share of credit provided by the formal banking system is very low and does not reach 0.5 per cent at a country level. In urban areas, only 16 per cent of households had a bank account in 1999-2000, whereas in the same year, 6.7 per cent of urban households were members of a savings and credit cooperative. Corresponding figures for rural areas are not available, but they would be either negligible or non-existent. To confirm this trend, from table 3.5 above, it is possible to see that the highest concentration of cooperatives is to be found in Addis Ababa, the capital city.

Microfinance institutions are an emerging viable and affordable source of funding for the poor in Ethiopia. In 2001, 19 MFIs were operational with 103 branches all over the country and a total of 495,487 clients (see table 3.6). Women were about 42 per cent. Most clients (62 per cent) were in rural areas, a positive indication of the capacity of MFIs to reach poor areas in the country.

Table 3.6. Active clients, share of women and average loan size of microfinance institutions in Ethiopia, January 2001

Microfinance institutions	Region of operation	No. of branches	Active clients	Women as percentage of total borrowers	Active rural clients (%)	Active urban clients (%)	Average loan size (Birr)
Amhara Credit And Savings Institution S.C.	Amhara	15	192,571	47	75	25	900
Dedebit Credit And Savings Institution S.C.	Tigray	12	187,550	41	80	20	600
Oromiya Credit And Saving Institution S.C.	Oromiya	29	37,000	12	99	1	1,000
Omo Microfinance Institution S.C.	SNNPRS	8	39,342	35	95	5	600
Specialized Financial and Promotional Institutions S.C.	Addis Ababa	1	3,700	80	1	99	1,000
Gasha Microfinance S.C.	Addis Ababa	2	3,217	85		100	800
Wisdom Microfinance S.C.	Amhara & SNNPRS	2	8,535	30	85	15	755
Asser Microfinance S.C.	Amhara & SNNPRS	3	3,100		73	27	NA
Africa Villages financial Services S.C.	Addis Ababa	1	450	60		100	1,500
Bussa Gonofa Microfinance Institution S.C.	Oromiya	3	2,758	85	87	13	NA
Mekket Microfinance Institution S.C.	Amhara	1	2,300	85	100		400
PEACE Microfinance Institution S.C.	Amhara, Oromiya & SNNPRS	7	974	62	100	NA	682
Addis Credit and Savings Institution S.C.	Addis Ababa	4	7,000	70		100	1,300
Eshete Microfinance Institution S.C.	Oromiya	1	516	54	70	30	500
Wasasa Microfinance Institution S.C.	Oromiya	2	562	31	69	31	498
Meklit Microfinance Institution S.C.	Addis Ababa & Oromiya	2	1,001	73		100	700
Benishangul Microfinance Institution S.C.	Benishangul	NA	425	60	100	NA	NA
Shashemene Iddir Yelimat Agar MFI S.C.	Oromiya	NA	200	58	NA	NA	1,275
Total		103	495,487	42	62	38	793

Source: Adopted from Berhanu Temesgen, "Microfinance and Women in Ethiopia: The case of Microfinance Institutions in Addis Ababa" in *Microfinance Development in Ethiopia: Prospects, Sustainability and Challenges on Poverty Reduction (2002)*, contained in Tassew Woldehanna, Fantu Guta, Tadele Ferede.

Equbs are traditional financial schemes which have both a social and an economic character. Their economic component allows members to borrow money for business activities. However, MFIs seem to be a much more effective and viable solution for access to financial services for productive reasons.³⁶ The share of Equb's membership was about 20 per cent in urban areas and 13 per cent in rural ones in 1999-2000. Equb's members must contribute savings regularly and are entitled to receiving credit for an amount equal to what they contributed. Table 3.7 provides data on Equbs in three regions in the country.

Table 3.7. Equb: Participation, average annual contribution, membership size and average annual collection

Region	Equb participation in per cent	Mean annual contribution (Birr/member)	Average membership size	Frequency of contribution (per month)	Mean annual collection (Birr/member)
Amhara	16.5	376.5	65.6	3.43	319.5
Oromia	6.7	546.5	35.0	8.71	347.6
SNNP	23.6	342.7	31.5	4.62	196.2
Total	13.3	390.2	42.5	5.02	261.8

Source: Fifth Round Ethiopian Rural Households Survey, Department of Economics, Addis Ababa University (1999/00).

Interestingly, in urban areas, in 1999-2000, credit beneficiaries of Equbs were 24 per cent self-employed people and 21 per cent civil servants. The situation was quite different in rural areas, where 73.2 per cent of beneficiaries were farmers or family workers and 15.5 per cent domestic workers and housewives.

Credit is often used not only to start or expand a business, but also to face emergency situations, especially in rural areas where poverty levels are particularly high. In urban areas, during the period 1999-2000, in 28 per cent of cases loans from Equbs were used for productive activities and in 27 per cent of situations for buying food for the household. The picture is very different in rural areas where in 44 per cent of cases credit was used to purchase food. More information on the use of money borrowed from Equbs is presented in table 3.9.

3.2.3. Social insurance³⁷

The very limited coverage of national social security as observed in section 3.1 does not exclude the existence of alternative informal social insurance mechanisms in the country, especially in rural areas. In Ethiopia, the provision of social protection existed as a traditional cultural experience on the basis of extended family system. By and large it was the family or the extended family and to a certain extent the community that had the responsibility to take care of the aged and their poor at large. Religious institutions, municipal organizations and associations like Iddirs also played a significant role in taking care of the needy.³⁸ The two very well-known traditional schemes of this type, both in urban and in rural Ethiopia, are Iddirs and Equbs.

Iddir is an indigenous community-based organization where members regularly contribute resources in cash or in kind to a pool in order to support a needy member of the community. Membership may be open to all villagers or restricted to specific groups of people living in the same area, such as women, youth, ethnic groups, etc. Iddir is governed either by social sanctions or by rules established by members. Membership of Iddirs varies from region to region, but is on average about 100 persons. Very

³⁶Meeting with EEF's representatives, Mr. Yohannes Beshah, executive director, and Mr. Alem Seged, national coordinator of an ILO ACT-EMP child labour project on 26 October 2005 in Addis Ababa.

³⁷The information presented in this sub-section is based on Tassew Woldehanna, Fantu Guta, Tadele Ferede, 2005.

³⁸ILO unpublished document, Addis Ababa, November 2005.

poor members may be exempted from contributions. The support Iddirs provide can be in the form of cash or in kind depending on the type of shock experienced. The main reason for seeking Iddir's support is the death of a family member. As a matter of fact, the principal purpose of Iddirs is to assist members in funeral ceremonies. The spread of HIV/AIDS has increased funeral expenses over time. The average treatment costs for HIV/AIDS and funeral expenses have been estimated to be birr 2,494, compared to the annual net farm income which varies between birr 270 and 620.³⁹ Besides funerals, weddings also require enormous resources and hence collective help.

Quantitative data are available only for Iddirs in rural areas. From 1999-2000, participation in Iddirs was rather high in rural Ethiopia and reached about 80 per cent. Iddir is much more common in the South than in the North, most probably because of better economic conditions. Table 3.8 provides data on Iddirs in four regions of the country.

Table 3.8. Iddir: Annual contributions, collections, frequency of contributions and membership size

Region	Participation rate (%)	Mean annual contribution (Birr/member)	Average membership size	Frequency of contribution (per month)	Mean annual collection (Birr/member)
Tigray	5.3	12.4	36.43	1.46	0.00
Amhara	77.3	67.8	88.89	1.25	35.13
	95.4	47.6	109.12	1.30	32.38
SNNP	81.1	39.2	96.74	1.93	20.24
Total	78.6	50.6	102.03	1.47	29.29

Source: *Fifth Round Ethiopian Rural Households Survey*, Department of Economics, Addis Ababa University (1999/00).

Box 3.5: The case of an Iddir in Addis Ababa

With a membership of 450 people (440 Christians and 10 Muslims), Iddir X in Addis Ababa has just contributed Birr 3,000 (about USD 346) for the death of one of its members. Started as a Christian tradition, Iddirs are common also in Muslim communities both in urban and in rural areas. When an Iddir member or a member of his/her family dies, a social gathering in honour of the dead person takes place. The ceremony can last up to 3-4 days in urban areas and even a whole month in rural ones where it takes people longer to pay their visit because of the large distance between households and poor infrastructure. The ceremony involves the provision of food and drinks to those who visit the family of the dead person. The Iddir provides both financial and in-kind support in order for the ceremony to take place. Iddir X is an association which is formally registered at the Ministry of Justice and has its own statutes, as often happens for urban Iddirs. In rural areas, Iddirs are more informal and tend to be neither registered nor regulated by statutes. Members of Iddir X make their individual contributions once a month. All contributions are kept in a bank account. As is often the case for Iddirs, according to its statutes, the objective of Iddir X is not only the provision of support for funeral celebrations, but also the implementation of development work, such as activities to establish and support schools, clinics, roads, etc. Unfortunately, Iddir X has not been able to do any development work so far, because funerals have absorbed all of its financial resources. Like all other Iddirs, Iddir X holds two types of meetings: those requested by the government to inform the population about new legislation, and those concerning Iddir's activities. The former type of meetings through which the government tries to channel messages to the population, is usually disregarded by Iddir's members, whereas the latter form of meetings is highly attended and members participate very actively.

Source: Mr. Urgessa Bedada, chair of Iddir X in Addis Ababa.⁴⁰

Equb is a rotating savings and credit association where members regularly contribute to a common pool of resources in cash only. Equb has a dual function in that it can be used both for financing

³⁹ This information is contained in Tassew Woldehanna, Fantu Guta, Tadele Ferede, 2005.

⁴⁰ Interview with Mr. Urgessa Bedada, chair of Iddir X, 28 October 2005, Addis Ababa.

productive activities and for alleviating social risks. The social insurance component of Equb is particularly interesting for three main reasons: (i) a needy person can request neighbours and friends to set up an Equb; (ii) assistance provided may imply the request of a small amount of cash; (iii) a member who experiences a shock can obtain favorable treatment from Equb's members. Unlike participation in Iddirs, the absence of social sanctions for not participating in Equbs may explain the low participation level compared to Iddirs (about 13 per cent in 1999-2000). As indicated in table 3.7 above, the average annual contribution for Equbs is higher than that for Iddirs and average membership is only 43 persons but with large variations from region to region. Since Equb has both a social and an economic component, its characteristics differ considerably depending on the economic situation of a given region. As can be seen from table 3.9 below on three regions, the prevailing reasons for borrowing money from Equbs are buying food and clothes for the family.

Table 3.9. Use of money collected from Equb (%)

Use of money collected	Amhara	Oromia	SNNP	Total
Food for household	58.6	40.0	52.3	52.3
Clothes for household	10.3	30.0	25.6	21.3
Other household goods	3.4	10.0	2.3	4.0
Goods for equb members only			1.2	.6
Sheep/Goats	1.7	3.3		1.1
Cattle/Horse/Camel	3.4	6.7	3.5	4.0
Other Assets/Tools	1.7	3.3		1.1
Health expenditure	1.7			.6
Repay loans	8.6		2.3	4.0
Building materials	3.4		3.5	2.9
Down payment for input purchase	3.4			1.1
Tax payment		3.3		.6
Expansion of business	1.7		2.3	1.7
Others	1.7	3.3	7.0	4.6
Total	100.0	100.0	100.0	100.0

Source: Fifth Round Ethiopian Rural Households Survey, Department of Economics, Addis Ababa University (1999/00), contained in Tassew Woldehanna, Fantu Guta, Tadele Ferede.

Community-based schemes such as Iddirs and Equbs are particularly appreciated not only for the services they provide, but also for their flexibility in receiving contributions; it is possible to pay more during the harvesting season, when farmers have a higher income, and less during other periods of the year.

Disputes between Iddir or Equb members in rural Ethiopia are resolved by the “council of elders” of the community. According to traditional rules, individual claims must be submitted to this council before addressing them to the courts. Costs for a deliberation of the council of elders are negligible and non-compliance with its final decision implies ostracization of the deviant member.

Some other community-based insurance organizations exist in the country. Some mutual health insurance organizations are being established both in urban and in rural areas. They are used to extend health insurance to their members after individual contributions are made. There are also some community-based organizations which provide agricultural asset insurance to their members. In particular, crop insurance and cattle insurance schemes exist especially in rural areas.⁴¹

⁴¹ The information contained in this paragraph has been obtained at a meeting with Mr. Abayneh Girma, social security expert, and Mr. Gabre Assefa, expert specialized in health insurance in the informal economy. The meeting took place in Addis Ababa on 28 October 2005.

3.2.4. *Public works*

Public works can be very effective measures both for poverty alleviation and as a risk management mechanism for income security. If well designed, they provide alternative income for farmers (both in kind and in cash), create infrastructure for development, strengthen domestic demand through wages to workers which leads to employment creation, and promote employment through the production of local construction material. In Ethiopia, food for work programmes, cash for work programmes, employment generation schemes, and employment-based safety nets are the main types of public work initiatives which have been implemented especially in rural areas. Most public work programmes take place during the agricultural slack season, in particular food for work programmes. Although public work programmes are funded mainly by the international community, the Ethiopian Government has financed 32 per cent of public work schemes in the period 1999-2003, which corresponds to about 1 per cent of GDP during the same years.

Food in exchange for work is a mechanism which has been used in the country during the past 30 years to have individual farmers carry out different soil and water conservation activities, such as reforestation, terracing, etc. Food for work programmes are aimed at pursuing economic development through the creation of infrastructure. Some 80 per cent of the total food assistance to Ethiopia has been allocated to this type of public work programmes.

Employment generation schemes and employment-based safety nets are relief programmes of a temporary nature. They are implemented in emergency situations and in particular in the Northern regions which are the poorest and where people are most exposed to droughts and famine, and to income shocks. The remaining 20 per cent of food assistance has been used in these schemes. Employment generation schemes and employment-based safety nets engage people in development activities such as soil conservation, rural roads, afforestation, etc., only for a short period of time, during drought, flood, or even war. Although they provide income security during periods of adverse conditions, these schemes are often not well planned or coordinated with local development objectives. In addition, they provide infrastructure of poor quality and which cannot be maintained on a regular basis. Employment generation schemes were first launched in 1997 and involved the distribution of food in return for work. Some training for local agricultural labourers was also provided. Beneficiaries amounted to 700,000 as of March 2003.

In general, public work programmes can be divided into two categories: relief schemes and development initiatives. The former is labour-intensive and is used as a safety net, whereas the latter is geared towards road construction and can be either labour or equipment-based, depending on the type of construction work. Efforts to make public work programmes labour-based have been minimal until recently when the concerned regional authorities have started to show real efforts to adopt an employment-intensive approach. As a matter of fact, during the past few years the Ethiopian Road Authority has started to recruit the local labour force for road maintenance. When capital-intensive technologies are applied, the main reason given as justification for choosing such an approach is because of having tight deadlines for project implementation.

Nowadays, many construction works in Ethiopia are carried out by international companies, especially Chinese ones. Regulation 17/97 contains norms on the bidding process for government procurement. Two principles are clearly spelt out in the regulation: public money must be spent in order to obtain the best value; and goods that are produced in Ethiopia are to be given preference to goods produced abroad when quality and price are equal and when the time of delivery is either similar or shorter. Proclamation No. 430/2005 requires that government procurement be done in a competitive manner, with the exclusion of any special measure in support of SMEs. However, it seems that a regulation which will give a certain level of priority to SMEs in public works which do not imply large capital is being prepared.

3.2.5. Training

Training has a dual function in that it enhances security and at the same time increases flexibility. As for security, training provides or upgrades skills which are essential for employment; it increases flexibility because better employability allows easier shifts from one job to another, and even from a sector requiring certain skills to another where different qualifications are needed. In order to improve labour market flexibility, training must provide not only several types of skills, but also technological knowledge such as theory of technology, as well as foundation skills applicable to any job in different industries or sectors (computer skills) and which allow an individual to quickly learn new skills.

In Ethiopia, in 1999 about three-quarters of the labour force was illiterate and only 2.3 per cent of the total population aged 10 and above had received some training. A large proportion of the non-trained population resided in rural areas where only 27 per cent of the labour force had been trained.⁴² The share of women trained was smaller than that of men both in rural and in urban areas with a sharper gap in the latter case. Most of the trained labour force was concentrated in Addis Ababa, Oromiya, South Nations, Nationalities and Peoples regional state and Amhara, whereas Afar, Benishangul-Gumuz and Gambella registered the lowest shares. As table 3.10 shows, driving, military skills and teaching were the most common skills in 1999, while training in predominant economic sectors such as agriculture, construction, hotels and tourism, and in technical areas like computer applications were rather neglected. The Government has recently launched a large training programme aimed at training young students in agriculture in order to help farmers transform subsistence agriculture into a market-based one.

Considering notified vacancies between 1999 and 2001, demand for occupations such as professional and related workers, skilled production and related workers and unskilled workers increased. A large share of the unemployed consists of illiterate people. Studies reveal that in Ethiopia there is a positive correlation between the use of modern inputs such as fertilizers and education. In addition, trained farmers have higher incomes and/or more income security than illiterate ones.

No precise information is available on on-the-job training for employed people. Nonetheless, a survey reveals that about 37 per cent of interviewed waged workers had received on-the-job training.⁴³ In addition, evening students registered in public schools and universities are rather numerous. For example, in 2001-2002, students working during the day and attending night study programmes were 5,076 compared to 8,585 persons attending regular daily programmes. The number of night students is so high most probably because some non-governmental organizations, such as Catholic Relief Service and Action Aid, cover the costs related to their employees' night school.⁴⁴

⁴² According to the 1999 Labour Force Survey, a person is considered as trained if she/he has passed through any short or long-term skill/ability development-training programme given in or outside classroom in theory or in practice or both, and that resulted in the award of a certificate in respect of the training.

⁴³ This information is contained in Tassew Woldehanna, Fantu Guta, Tadele Ferede, 2005.

⁴⁴ This specific piece of information has been obtained at a meeting with Mr. Abayneh Girma, social security expert, and Mr. Gabre Assefa, expert specialized in health insurance in the informal economy. The meeting took place in Addis Ababa on 28 October 2005.

Table 3.10. Population aged ten years and over by type of training received (%), 1999

Type of training	Urban			Rural			Country		
	M	F	T	M	F	T	M	F	T
Pottery	0.1	0.1	0.1	0.1	3.7	0.7	0.1	0.6	0.2
Weaving	0.4	0.6	0.5	2.6	0.1	2.2	1.2	0.5	1.0
Carpentry	3.3	0.5	2.3	5.0	1.2	4.4	3.9	0.6	2.9
Electricity	3.4	1.6	2.8	0.8	0.0	0.7	2.5	1.4	2.2
Metal work	2.0	0.4	1.4	3.1	0.0	2.6	2.4	0.3	1.8
Mechanics	8.1	0.9	5.5	2.1	0.0	1.8	6.1	0.8	4.5
Building construction	2.5	1.0	1.9	0.9	0.0	0.7	1.9	0.8	1.6
Typing	0.7	26.8	10.1	0.4	4.0	1.0	0.6	23.4	7.5
Tailoring	0.8	13.8	5.5	1.8	2.6	1.9	1.1	12.2	4.5
Driving	17.3	0.6	11.3	5.3	0.0	4.5	13.2	0.5	9.4
Development agents	0.7	0.4	0.6	1.1	2.1	1.3	0.8	0.7	0.8
Traditional birth attendants	0.0	1.5	0.6	0.5	14.7	2.7	0.2	3.5	1.2
Physician	5.0	4.0	4.6	3.8	1.9	3.5	4.6	3.7	4.3
Veterinary	0.9	0.3	0.7	0.9	1.7	1.0	0.9	0.5	0.8
Engineering	3.5	0.6	2.4	0.6	0.1	0.5	2.5	0.5	1.9
Computer science	0.4	0.6	0.5	0.0	0.0	0.0	0.3	0.5	0.3
Computer application	0.4	3.9	1.7	0.0	0.0	0.0	0.3	3.3	1.2
Social science	2.1	0.6	1.6	0.2	0.0	0.2	1.5	0.5	1.2
Natural science	1.1	0.5	0.9	0.0	0.0	0.0	0.7	0.4	0.6
Business economics	7.5	13.5	9.7	0.7	0.3	0.7	5.1	11.6	7.1
Agricultural science	2.6	0.3	1.8	2.1	0.0	1.7	2.4	0.3	1.8
Low-level agricul. training	1.1	0.5	0.9	9.7	1.0	8.4	4.1	0.5	3.0
Hotel and tourism	0.6	1.6	0.9	0.2	0.0	0.1	0.4	1.4	0.7
Law	1.5	0.1	0.9	0.3	0.0	0.3	1.1	0.0	0.8
Police	4.6	0.6	3.2	1.5	0.7	1.4	3.5	0.6	2.7
Military	5.6	0.3	3.7	26.2	0.6	22.2	12.6	0.3	8.9
Teaching	12.3	9.0	11.1	9.6	17.8	10.9	11.4	10.3	11.0
Home economics	4.0	6.2	4.8	7.3	9.3	7.6	5.1	6.7	5.6
Others	5.7	4.8	5.4	6.5	4.7	6.2	6.0	4.8	5.6
Not stated	2.0	4.5	2.9	6.6	33.5	10.8	3.6	8.7	5.1
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: CSA, 1999.

About 90 per cent of training institutions are run by the Government. Private training centres are a recent phenomenon and are present only in large cities. Short-term training programmes exist and are run by different national and international entities, but precise information is hard to obtain.

Box 3.6: Towards youth employment

In Addis Ababa, some young graduates have organized themselves into an association whose main purpose is to lobby for access to employment for the youth. This association comprises young vocational training graduates and tries to obtain access to credit, land and other employment sources.

Source: Interview with Mr. Urgessa Bedada, ILO programme officer, Addis Ababa, 28 October 2005.

3.3. How existing social security and risk management mechanisms contribute to a decent balance between labour market flexibility and employment and income security

It is clear that existing social security schemes are insufficient to assure a decent level of security to the Ethiopian labour force. The coverage of existing schemes is very limited and offers better treatment to public sector employees as compared to private sector ones, which definitely discourages the development of the formal private sector and provides good reasons for job seekers to prefer public sector employment. In addition, besides its limited coverage in the formal economy, the current social security system has not shown any effort in establishing linkages with the informal sector, thus leaving informal operators totally unprotected.

For industrialized countries, statistical analysis shows that there is a strong correlation between social expenditure per capita of the population and labour productivity measured as GDP per hour worked. The same correlation seems to hold true also for other countries, although it is weaker. In particular, health expenditure has been found to have the most direct impact on maintaining workers' productivity.⁴⁵ This is why in a country like Ethiopia where productivity levels are low, efforts aimed at enhancing the national social security system should be encouraged.

As for alternative mechanisms which could provide a certain level of security out of the scope of existing formal social security schemes, much could be done to improve the effectiveness of savings as a risk management mechanism. The culture of saving seems to be missing and enormous amounts of resources are used for funeral ceremonies and weddings rather than for productive activities or for the purchase of various forms of assets. Clearly, the present land tenure system does not allow savings through the purchase of land, but many other savings options are available and could be better utilized. Equbs and in particular Iddirs are very successful schemes for resources mobilization and their role and function could be geared towards a more effective use of savings.

Savings is an issue also for the positive impact on security of other savings and credit institutions, such as MFIs and cooperatives. Although it has been observed that it could be improved, the 1996 legal framework for MFIs seems to be a reasonably good basis for the development of the microfinance industry in Ethiopia. As a matter of fact, the outreach of MFIs has been constantly and remarkably increasing during the past few years. Weak domestic savings are once more perceived as a factor largely contributing to the poor performance of MFIs in the country.

A positive feature of microfinance in Ethiopia is that it reaches the poor and farmers in rural areas and is more easily accessible than services from cooperatives and banks. The fact that moneylenders, relatives and friends are still the main source for credit is quite meaningful in making it clear that existing institutions, including Iddirs and Equbs, are weak and/or lacking. If Equb's and especially Iddir's purpose is different from that of simply savings and credit organizations, other institutions could improve their effectiveness. For instance, the strength of the cooperative movement in Ethiopia should not be lost and, despite the crisis the movement faced in the early 1990s, there is scope for its action to become more effective, especially in rural areas where savings and credit services are badly needed, in particular by the poor.

⁴⁵ GB.294/ESP/4, ILO Governing Body, 294th Session, Geneva, November 2005.

As for social insurance, interestingly the success of Iddirs in rural areas indicates that the risk of death is perceived as the most important one. However, what really matters is not the lack of income which follows the death of a family member, but rather the assurance of a proper funeral ceremony. Such an expensive event unfortunately does not provide any employment and income security as meant in this paper. Hence, there is scope for shifting the success of Iddirs towards the coverage of other types of risk, such as health and income, which remain otherwise totally uncovered.

The efforts made in Ethiopia to assure an income to the poor through public works can be appreciated for their fairly long history, especially in the area of development-oriented food for work schemes. The impact of public works on employment and income security can certainly be enhanced by improving the quality of relief schemes and in general by making public work programmes more labour intensive – although concrete improvements in the attitude of the Ethiopian Road Authority have recently been observed in this regard. A discouraging factor is the assignment of projects' execution to large international companies rather than to small local ones which employ more national labour force.

An area where more efforts are particularly needed is training. The current situation could be easily improved starting from basic education, since the share of the illiterate labour force is very high, particularly in rural areas. Although data shows that the proportion of labour force participation has decreased during the past few years, also as a result of more time spent in school, the labour force in general needs better skills and a higher level of employability. Skills provided should match the needs of the labour market in order to assure more labour mobility and increase employment and income security on the one hand, and labour market flexibility on the other.

4. Conclusions and recommendations on how to reach a decent balance between labour market flexibility and employment and income security

4.1. General conclusions

The information presented in Chapter 1 indicates that the labour market in Ethiopia is numerically highly flexible and insecure. Two main issues emerge:

- the need to enhance productive employment and income security;⁴⁶
- the need to target rural development to limit migration flows to urban areas and to improve living standards for the rural population.

Both needs are addressed in more detail in Chapter 3, where clear employment and income security gaps are identified and where measures which are relevant for the promotion of rural development are analysed. In general, the information presented in Chapter 3 reveals that the national social security system does not even provide adequate protection and coverage to formal sector employees. The high level of employment and income insecurity of informal sector operators and of farmers can somehow be mitigated through alternative channels or risk management mechanisms, such as savings, credit, social insurance, public works and training. These mechanisms are crucial also for the development of rural areas and can be effective anti-poverty measures. There is scope for improving the effects of each one of those mechanisms on employment and income security and specific recommendations will be spelt out in the next sub-section.

Chapter 2 examines the legal and institutional framework of the Ethiopian labour market and raises three major issues:

⁴⁶ This would allow keeping in line with ILO Convention No. 122 on Employment Policies and para. 47 of the 2005 World Summit Outcome.

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- the need to establish linkages between the formal sector and the informal economy;
 - the need to increase the efficiency of some existing institutions;
 - the need to improve some parts of the regulatory framework.

Sub-section 4.2 will provide precise recommendations on how to tackle these issues. The scope of this paper is limited to an analysis of flexibility and security in the Ethiopian labour market and the measures listed in the following sub-section focus particularly on labour. Such recommendations should be fully integrated into a broader and comprehensive national employment policy, together with additional measures focusing on the demand side of the labour market.⁴⁷

4.2. Final recommendations

The following recommendations on how to reach a decent balance between labour market flexibility and employment and income security in Ethiopia are listed in random order. It is only through social dialogue and general consensus among the main national stakeholders that priorities can be established.

1. Establishing linkages between formal institutions and informal organizations: As shown in sub-section 2.1.4, the informal economy and agriculture do have some forms of organizational arrangements. State institutions and the social partners should make more efforts to establish linkages with those informal entities. This could be done for example by creating local committees with representatives of local government institutions, local workers' and employers' associations and informal organizations. The committee's actions should have a limited scope and target relevant labour market related issues specific to the local context. The federal structure of Ethiopia and existing decentralization should constitute elements creating a conducive environment in this regard. Another way to establish linkages with the informal sector is through the social partners. Trade unions and employers' associations should extend their membership to informal sector operators. In addition, they should try to forge alliances with existing informal sector organizations.

2. Enhancing the labour market information system: In order to have a better and more precise picture of the labour market, new surveys should be launched. Moreover, they should be conducted more regularly and more frequently. In addition, new indicators should be taken into account, such as working conditions, workers' absenteeism, workers' turnover, etc.⁴⁸ Solid labour market data would allow the adoption of more effective measures in line with ILO Convention no. 122 on employment Policies which could hence be promoted.

3. Expanding social security coverage: All formal sector employees should receive the same level of social security, regardless of whether they are employed in the public or in the private sector. The fact that public sector employment offers better wages and better working conditions does not help strengthen the development of the private sector. Different options are being discussed on a national level on how to increase social security coverage. One option is to extend the social security system which is currently applied to civil servants and police and military forces to private sector employees; another one is to set up a social security system for private sector workers with similar characteristics as the one

⁴⁷ On the demand side of the labour market, see, for example, Mulat Demeke, Fantu Guta, Tadele Ferede, 2003; Growth, employment, poverty and policies in Ethiopia: An empirical investigation; Working paper 12, ILO, Geneva. By the same authors, see also Towards a more employment-intensive and pro-poor economic growth in Ethiopia: Issues and policies, 2005, forthcoming ILO working paper.

⁴⁸ This recommendation has been suggested by EEF representatives. (See meeting with EEF representatives, Mr. Yohannes Beshah, executive director, and Mr. Alem Seged, national coordinator of an ILO ACT-EMP child labour project on 26 October 2005 in Addis Ababa.)

currently available for public sector employees. A decision on the extension of social security coverage in formal sector employment is urgently needed. Special attention should be given to the extension of social security to informal sector operators. Specific social security schemes for particular categories of both formal and informal sector workers (farmers, construction workers, the self-employed, etc.) could be established as has happened in other developing countries. It would also be possible to open an existing contributory social security scheme to informal sector operators as other countries such as Ghana are trying to do.

4. Enhancing security for women: As highlighted in box 8, and described throughout this entire report in different sections, women's security levels need to be increased. The social partners have shown special interest in this respect. In particular, CETU is willing to set up a department of women's affairs at its secretariat and is also planning to have women representatives in CETU's executive board. Initiatives of this type would certainly not solve the problem of women's employment and income insecurity, but would contribute to the improvement of their conditions. This is why such initiatives should be encouraged and replicated in other labour market institutions. For a continuation of this recommendation, see also the last paragraph of recommendation (12) below.

5. Strengthening employment services: The efficiency and effectiveness of employment services, in particular of public ones, should be improved through capacity building of staff. It is strongly recommended that social partners be more directly involved, for example through the creation of a tripartite committee, in the activities of public employment services.⁴⁹ In addition, the tasks of these institutions could be extended to at least placing job seekers in suitable existing training and employment programmes. This could be done only by improving collaboration and information exchange with other institutions which deal with such programmes. More efforts could be made also to include informal sector operators in employment services' activities, at least by placing them in training and employment programmes.

As pointed out in section 2.1.2, with decentralization public employment services have become very weak and are sometimes almost non-existent in some areas of the country. The gap left by public employment services on a regional level could be filled by private employment services. This would, on the one hand, promote private sector development and the active participation of the private sector to employment creation and, on the other, enhance labour market flexibility and security.⁵⁰ A positive feature of private employment agencies, especially those placing workers abroad, is that they do seem to provide services which go beyond pure placement and this aspect would need to be further strengthened. For example, remittance services are very important and training on how to make the best productive use of those savings could be provided.

6. Strengthening the social partners: Although the social partners have been involved in the adoption of recent labour legislation, their voice remains weak and their representational level is very low. They can grow stronger by taking advantage of any capacity-building activity aimed at improving their technical expertise, and by providing good quality services to their members. In a sense, these two aspects are strictly related to one another and play a very significant role in extending membership. As a matter of fact, good quality services – such as effective political lobbying on some relevant labour-related issues and the attainment of legal changes, or of the adoption of specific policy measures – would certainly attract more members, who would clearly see the benefits of being part of a workers' or employers' organization. Moreover, as already mentioned, the social partners need to extend their membership by including farmers and informal sector operators in their activities. The continuation of work on ILO

⁴⁹ Meeting with CETU representatives, Mr. Amare Alemayehu, President, Mr. Haile Kiros, head of the Social Affairs Department, and Mr. Tessema Heramo from the Workers' Training and Education Department, on 28 October 2005 in Addis Ababa.

⁵⁰ The idea of an active participation of the private sector in employment services was suggested by EEF. (Meeting with EEF's representatives, Mr. Yohannes Beshah, executive director, and Mr. Alem Seged, national coordinator of an ILO ACT-EMP child labour project on 26 October 2005 in Addis Ababa.)

Convention No. 144 on Tripartite Consultation on International Labour Standards would undoubtedly contribute to further strengthening the social partners and social dialogue in the country.

7. Strengthening labour inspection services: In order to prevent and avoid or detect abuses of workers' rights, labour inspection services could be strengthened at least by revisiting existing rules governing their functioning. Inspections of enterprises employing less than 1,000 workers should be allowed – and more regularly than only once every five years. As a matter of fact, most Ethiopian firms employ less than 1,000 workers. In addition, the organizational structure of inspection services on a regional level should be enhanced. This institution should also be allocated more resources (both human and financial) in order to perform the tasks it has been assigned.

8. Promoting the culture of savings: If savings are to be encouraged, specific measures should be adopted, such as awareness-raising campaigns, and the creation of a favourable institutional and legal environment. Local committees mentioned in recommendation (1) could establish contacts with Iddirs and Equbs and promote the culture of savings through them. Considerable resources are used for funerals and weddings for cultural reasons; such ceremonies could still be organized, but with lower expenses. Incentives for savings which are not used for big expensive ceremonies could be introduced. Some of Iddir's and Equb's members or leaders who are particularly respected in the community could try to introduce this cultural change. As described in Box 10, one of the two types of meetings that take place in Iddirs is particularly appreciated and highly attended by members. Those meetings could represent an opportunity for leaders to introduce innovative ideas. These organizations should be valued more for their potential in savings mobilization.

9. Promoting a productive use of land: The diversification of income sources in rural areas is strongly linked to the private use of land. In recent years, in some regional states new innovative practices have emerged, according to which tenure security certificates can be issued to allow individuals to rent out their plot of land. Such practices should be better studied and disseminated, because in the immediate future they seem to be the only option towards a commercial use of land.

10. Covering social risks: As a continuation of recommendation (8), Iddirs and Equbs could be used also to promote the coverage of risks which are more closely related to income security than funerals and weddings. Once more, respected members and leaders could help introduce this cultural shift, also through incentives for savings used for purposes other than funerals and weddings, such as health care.

11. Promoting rural savings and credit cooperatives: As pointed out in section 3.3, the rather strong tradition of cooperatives in Ethiopia should be maintained. This objective could be at least partly achieved by making cooperatives the centre of important decisions on labour issues; for instance, cooperatives' representatives could be part of the local committees mentioned in recommendation (1).

12. Promoting microfinance institutions: It has sometimes been stated that the 1996 regulatory framework for MFIs is somewhat restrictive for the fast proliferation of the microfinance industry. Some national specialists suggest that MFIs be allowed to take organizational forms other than that of a share company,⁵¹ while others believe that no benefit would derive from the adoption of a different legal form.⁵² In addition, some have expressed the view that the regulatory framework should facilitate the graduation of some "mature" MFIs to the level of rural banks, which at present cannot easily happen.⁵³ Others do not see the need for such an institutional change, since the services provided by MFIs and rural banks are already quite similar.⁵⁴ It is rather unanimously agreed that reporting requirements for MFIs are sometimes too burdensome and excessively demanding, especially for MFIs in rural areas which need a considerable amount of time to collect data.⁵⁵ Microfinance institutions face increasing difficulties

⁵¹ See Yehene Tsegaye, 2005.

⁵² Meeting with the financial and monitoring officer of the Association of Ethiopian Microfinance Institutions, Mr. Tsegaye Anebo, on 28 October 2005 in Addis Ababa.

⁵³ See Yehene Tsegaye, 2005.

⁵⁴ Meeting with Tsegaye Anebo from the Association of Ethiopian Microfinance Institutions.

⁵⁵ This seems to be a common view, shared also by Mr. Tsegaye Anebo from the Association of Ethiopian Microfinance Institutions.

because of the proliferation of credit lines provided by NGOs and government programmes. Such entities are said not to respect national legislation which allows only institutions with a licence to operate in the microfinance sector. Due consideration should be given to finding a solution to these problems, perhaps by slightly modifying the regulatory framework at least in its reporting requirements.

In addition, the role of microfinance institutions in savings mobilization could be enhanced through the provision of a broader range of savings products meeting the specific needs of clients. Incentives on savings could be introduced to attract customers. For instance, returns on savings could be based on the size of deposits.

Although microfinance institutions usually serve women rather than men, the proportion of female customers in Ethiopia was only 42 per cent in 2001. Efforts could be made to increase the share of female clients. This would greatly contribute to the increase of women's employment and income security levels in the country. In addition, through access to and control over financial resources, women would be more economically and socially empowered.⁵⁶

13. Improving public works for development and income security: Despite some positive features of some public work programmes in Ethiopia, much more can be done to make development-oriented public work schemes more labour-intensive. In addition, the quality of relief-oriented programmes can be improved and made more compatible with developmental objectives. This could be obtained, for instance, by preparing plans for public work schemes in advance in areas which are particularly vulnerable and exposed to crisis situations. Moreover, special attention should be given to procurement legislation in order to put local SMEs which are more employment-generating in a position to compete with larger international firms which make greater use of capital than of labour. Public works could be organized into a series of small contracts rather than one big one, in order to enable local enterprises to undertake the work.

14. Promoting training: Many more efforts are required in the area of training in order to reach a good balance between labour market flexibility and employment and income security. In particular, training programmes should take into account the needs of informal sector operators by offering courses in literacy and numeracy as most operators cannot read and write. The high number of night students indicates that, indeed, training must be organized in a way which is compatible with daily work. Moreover, curricula should be carefully designed so as to offer skills matching the needs of emerging economic activities or economic activities where employment has been increasing in the past few years. The promotion of ILO Convention No. 142 on Human Resources Development would certainly facilitate the expansion of training programmes in the country.

15. Making apprenticeship contracts more accessible: Many unemployed people in Ethiopia are young first job seekers. Apprenticeship contracts can be a very useful way to train young persons and to facilitate their entry into the labour market. Abuses of this type of contract should certainly be avoided, and this could be done *inter alia* by strengthening labour inspection services; at the same time, however, the conclusion of apprenticeship contracts should not be discouraged if hindered by cumbersome procedures. At present, the 2003 labour proclamation states that MOLSA must attest such contracts to prevent abuses. Practice shows that MOLSA is usually not consulted, as envisaged by law, for the approval of this type of contract. It may be useful to consider whether MOLSA's intervention is really necessary, or if other forms of control could be more viable for the prevention of abuses of this type of contract. The social partners, for instance, could be better sensitized on the usefulness and proper use of apprenticeship contracts.

In developing countries, most training occurs through informal arrangements between an entrepreneur and the parents of a young trainee. MOLSA could intervene in this area, not with regulations, but by introducing employment incentives, such as specific benefits for those masters who employ their trainees after completing apprenticeship and obtaining a certificate.

⁵⁶ Meeting with Mr. Tsegaye Anebo from the Association of Ethiopian Microfinance Institutions on 28 October 2005 in Addis Ababa.

16. Introducing a non-discrimination clause for different types of labour contracts: As observed in section 2.2.2, workers employed with a fixed-term contract do not receive pension benefits. In many countries, a non-discrimination clause, or a clause on equal treatment,⁵⁷ guarantees equal employment terms and conditions in employment relationships based on labour contracts for an indefinite period and for a limited duration.

17. Assuring equal employment opportunities to persons with disabilities: Proclamation No. 101/1994 concerning employment of persons with disabilities makes it mandatory for employers to finance all necessary adaptations to make a job accessible to a disabled worker. This particular provision should be revisited, since it creates the undesired effect of imposing additional costs on employers who are, therefore, not likely to actively recruit disabled candidates for a position, nor to retain those who have experienced workplace accidents leading to disability. Alternative sources of funding should be sought. In addition, the employment of persons with disabilities should be promoted through incentives, such as tax rebates.

Last, but not least, the Proclamation requires the adoption of regulations and directives which are necessary for the effective implementation of its provisions. Such regulations and directives need to be adopted without further delay.

⁵⁷ An equal treatment clause implies a broader range of rights and benefits than a simple non-discrimination clause.

Annex

Table I. Counterfactual simulation of the effects of cash transfers to old-age citizens on aggregate poverty⁵⁸

Scenarios	Percentage change in head count index	Percentage change in depth of poverty index	Percentage change in severity of poverty index
Universal cash transfer of Birr 100 per month to citizens aged 60 years or over	-3.1	-7.2	-9.4
Universal cash transfer of Birr 100 to citizens aged 65 years or over	-2.0	-4.6	-6.0
Universal cash transfer of Birr 1075 per year to citizens aged 60 years or over	-2.6	-6.6	-8.8
Universal cash transfer of Birr 1075 per year to citizens aged 65 years or over	-1.8	-4.2%	-5.6
Cash transfer amounting to poverty gap measured in real adult equivalent per capita consumption expenditure	-16.6	-16.4	-16.3
Cash transfer amounting to poverty gap measured in real adult equivalent per capita consumption	-9.9	-9.8	-9.6

Source: Calculation by Tassew Woldehanna, Fantu Guta, Tadele Ferede based on welfare monitoring survey data, CSA (1999)

Table II. Budgetary implication of universal non-contributory pension schemes for the old-age population for various alternative scenarios

Scenarios	As % of tax revenue	As % of pension expenditure	As % of GDP
Universal cash transfer of Birr 100 per month to those aged 60 years and over	44.4	1175.5	6.7
Universal cash transfer of Birr 1075 per annum to those aged 60 years and over	39.8	1053.1	6.0
Universal cash transfer of Birr 100 per month to those aged 65 years and over	28.2	747.1	4.2
Universal cash transfer of Birr 1075 per annum to those aged 65 years and over	25.3	669.3	3.8
Universal cash transfer of Birr 1075 per annum to half of those aged 65 years and over	12.7	334.6	1.9
Universal cash transfer of Birr 1075 per annum to quarter of those aged 65 years and over	6.3	167.3	1.0

Source: Calculation by Tassew Woldehanna, Fantu Guta, Tadele Ferede based on population data from CSA.

⁵⁸ Official current exchange rate, 1US\$ = Birr 8.65.

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