

Maximizing employment from Investment and Economic Growth in Tigray

An Outline Proposal and Discussion Paper by Makonnen Tesfaye; London, UK

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1 - Introduction and Context

Employment, in particular youth unemployment, is increasingly becoming the key economic, social and political issue facing the Country, the Regional States and Tigray; and as such has been the fundamental driver of the current challenges of social unrest and political instability. The aim of the outline paper is to stimulate discussion and point out the direction of potential research and economic policy-making further towards the imperative of developing policies, strategies and programmes that focus on job creation in Tigray but equally relevant to the other Regions.

Ethiopia and the Regions, including Tigray, have achieved high, sustained and broadly inclusive economic growth during the last fifteen years, resulting in major infrastructure development, the provision of pro-poor social services and improved education and health outcomes. Major achievements include the significant reduction in poverty and improvement in life-expectancy. These, though, are facing strong headwinds in recent years due to the prevailing social unrest and political instability as well as strategically misaligned Government policies, such as the lack of adequate focus on developmental priorities. Therefore, it is crucially important to re-focus on the imperative of addressing the problems of unemployment and underemployment in Tigray in particular and Ethiopia in general.

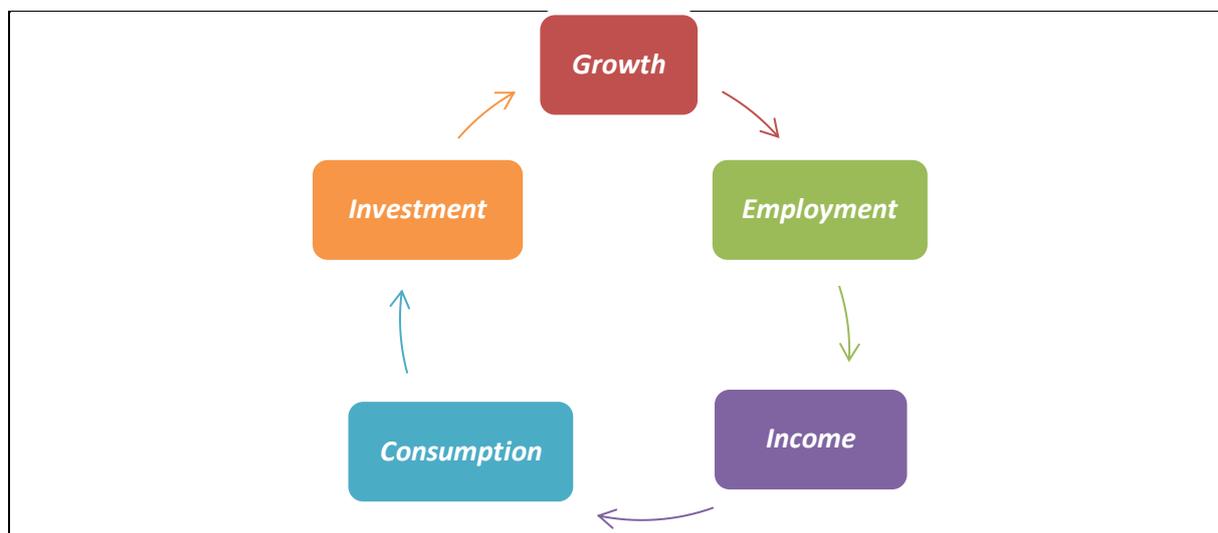
The democratic developmental state model of the EPRDF's economic development strategy is expressed by the **Growth and Transformation Plans (GTP)**. The overarching aim of GTP II is to secure broad-based, accelerated and sustainable economic growth and transformation by promoting an **agriculture-based, manufacturing-led and export-focused development strategy**. The GTP II set the objectives to:

- consolidate and further develop infrastructure development, in particular public sector led projects;
- focus on agricultural development as the basis of economic growth emphasising on the need to increase agricultural investment, productivity and non-farm rural activities;
- promote the industrial sector as the leading sector and stress the need to develop dynamic and private-sector led manufacturing industries; and
- increase exports of manufacturing goods with a goal of doubling exports in five years.

Yet, although employment creation is an important objective in the GTP I and II, the disproportionately lower job growth (that is the low employment elasticity of economic growth) has in recent years become a critical economic policy concern, including politically and socially, in the Country, Regions and Tigray. Hence, the crucial importance of

enhancing current and developing new policies to promote economic growth that generates an adequate number of quality jobs by strengthening the investment-growth-employment nexus (**Figure 1**). This is with a view to enhancing the capacity of the economy to absorb the growing working-age population as well as to address currently high levels of unemployment and underemployment.

Figure 1: Investment-Growth-Employment Nexus



2- Statements of the Problems (at Macro, Mezzo and Micro Levels)

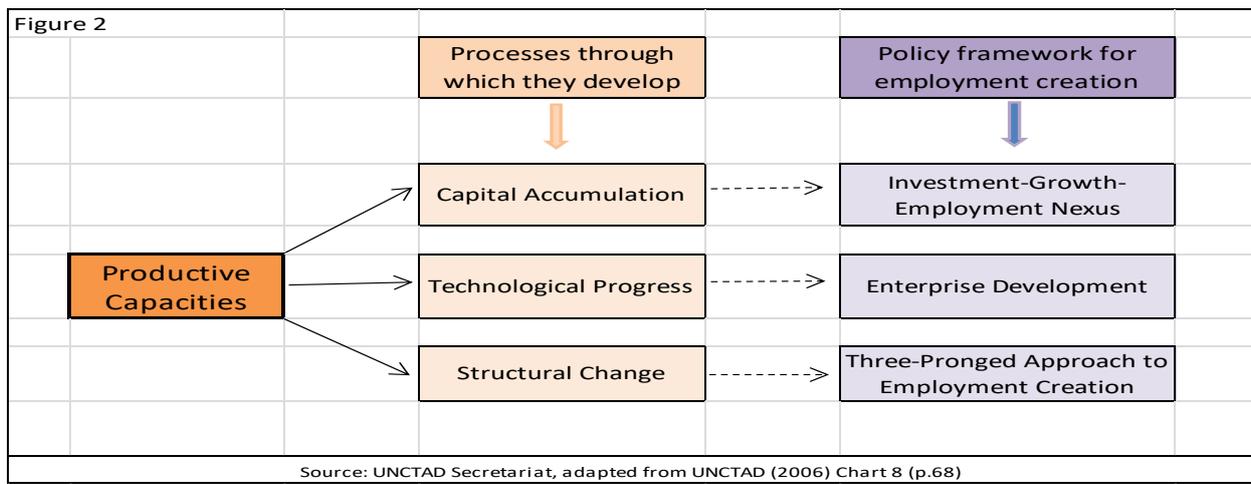
- i. The underdeveloped productive capacity of the economy in Ethiopia and Tigray; and the challenges of absorbing into the economy the annual entry into the labour market of over two million working age population in Ethiopia and over 200,000 in Tigray.
- ii. Challenging unemployment and employment indicators. Urban unemployment rates in Ethiopia and Tigray in 2018 were 19.1% and 21.5% respectively. Furthermore, challenging youth unemployment in urban areas, where 25.3% of young people aged 15-29 in Ethiopia and 27.8 % in Tigray were unemployed. Similarly, very challenging economic activity/labour force participation rates, employment rates and informal activity rates for Ethiopia and Tigray (**Appendix 1**).
- iii. The low volume and growth of employment generated in the industrial and manufacturing sectors.
- iv. Similarly, the relatively low volume of employment generated by micro and small enterprises (MSEs). For example, 144,107 jobs in Ethiopia and 31,556 in Tigray in 2017/18.
- v. Lack of structural transformation of the economy, including the phenomenon of urbanisation without industrialisation and an under-developed agricultural sector.
- vi. The underperformance of the export sector, and the shortage of vital foreign exchange.
- vii. Growing government debt burden.

- viii. Creeping inflationary trends.
- ix. High level of rent-seeking economic activities, economic injustice and corruption.
- x. Impediments arising from the regulatory and bureaucratic environment.
- xi. The prospects of the slowing down of the economy, social unrest and political instability in recent years and their adverse impact on the economy, in particular on unemployment and economic activity rates in the Country and the Regions, including Tigray.

3 - Policy Framework for Linking Employment and Development of Productive Capacities

Without adequate and decent jobs, economic growth is unsustainable; and job creation without the development of productive capacities is equally unsustainable. **“Productive capacities are the productive resources, entrepreneurial and technological capabilities and production linkages which together determine a country’s capacity to produce goods and services and enable it to grow and develop”** (UNCTAD 2013). The process through which productive capacity is developed and its links to employment creation is depicted in **Figure 2**.

The Link between Productive Capacities Development and Job Creation



4 - Policies for Employment-Rich Growth: A Three-Pronged Approach to Job Creation

(i) Macroeconomic Policies (Federally and Regionally)

- Fiscal policy to stimulate the development of productive capacities through financing public investment in physical and human capital. Hence, the importance of mobilising and diversifying domestic and foreign resources through appropriate and targeted incentive schemes. The partial privatisation of the **“Effort”** companies in Tigray should be commended, and it would mobilise and leverage additional private investment for the Region. It should

be done in a transparent, economically and financially well-structured (e.g. without misappropriation of the public sector by private investors) and socially fair way so that equity is distributed amongst a broad class of investors.

- Harnessing Tigrayan diaspora capital and remittances, and mobilising knowledge networks to build productive capacities in Tigray. Mapping out the Tigrayan Diaspora including the setting up of an inventory of global Tigrayan knowledge networks, which builds on and complements the Global Society of Tigrayan Scholars(GSTS) by including professionals, managers, entrepreneurs, artists, sports people and community, social and faith leaders.
- Expanding the fiscal space, in particular widening the tax base and improving revenue collection.
- Monetary policy for non-inflationary economic environment, but importantly optimal credit policy to enable the growth of micro, small and medium-sized enterprises. Promoting microfinance institutions.
- Optimising foreign exchange policy, including the management of scarce foreign exchange.
- Enhancing the regulatory environment and promoting level-field competition.
- Improving business infrastructure and logistics.
- Tackling rent-seeking activities and promoting good governance.

(ii) Enterprise Development, Industrial and Technology Policies

- Promoting the private sector as the engine of growth and job creation. Optimised and targeted incentive regimes. The importance of supporting and developing MSEs, including medium-sized businesses.
- Industrial policy designed to steer the economy towards structural transformation, by moving to higher-productivity and value added activities.
- Promoting backward and forward linkages in production, in particular between agriculture and manufacturing.
- Focusing on labour-intensive industries, including agribusiness, textiles and clothing.
- Using “appropriate” technologies; enhancing technology absorption capabilities; and technological upgrading of the export sector. Developing science, technology and innovation centres; promoting research and development; and improving business-government-university partnerships.
- Identifying and building on the comparative advantages of Tigray, including the tourism, leisure, cultural and mining sectors as well as the production of “cash” crops (e.g. Sesame and Oilseeds) for export. Supporting and developing the service sector, which is labour intensive.
- Maximising the benefits of Industrial Parks as a tool for developing manufacturing and generating jobs. Mobilising domestic as well as foreign investors into the Industrial Parks (**Appendix 2**).
- Integrated rural development policy and programmes. Enhancing agricultural productivities, developing irrigation and promoting non-farming economic activities to generate rural jobs. Ensuring food sufficiency in the medium to the long-terms.

(iii) Public Sector-led Job Creation

The importance of the Federal Government and the Tigray Regional Government playing the role of job creator either directly or indirectly, including:

- Public investment in infrastructure using labour-intensive techniques. Public infrastructure spending can be more directly employment-generating, including indirectly through higher multiplier effects within the economy.
- Promoting the construction and housing sector, which are labour intensive.
- Provision of public goods and services, and promoting the non-tradable sector, such as education and health services, which also generate employment.
- Labour-intensive Public Work Programmes (PWP) that are well designed, resourced/financed and managed.

5 – Discussion Topics and Points

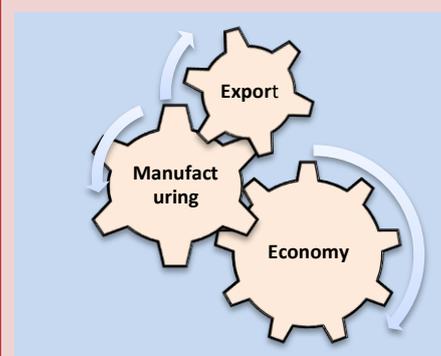
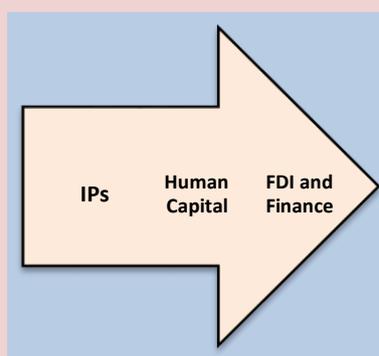
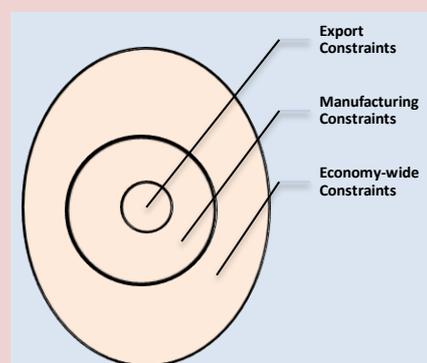
- Has employment been at the front-row of the Tigray Regional and Federal Government's economic development strategy, or has it been subsumed under the investment, trade and economic growth strategies/imperatives? Is there a critical need for developing a holistic employment strategy that is also coherently integrated with the overarching economic development and transformation strategy?
- Even under the best scenarios of double or high-single digit economic growth, can the current set of policies and strategies alone (i.e. manufacture-led and export focused development strategy and the associated tool of Industrial Parks; the development of micro and small enterprises etc.) adequately address the needs of the number of people joining the labour market as well as the current very high level of unemployment and underemployment in urban and rural areas in Tigray and Ethiopia?
- Do we have contingency employment policies and programmes on hand if the current state of the Ethiopian/Tigray economy further deteriorates resulting in more mass unemployment?
- What are the economic, social and political implications of very high youth unemployment in urban and rural areas? What needs to be done that is above and over of current set of economic policies, programmes and projects?
- What are the enhanced roles of the Tigray Regional/Federal Governments as creators of employment through public sector investment? Do we have a blue print? What are the resource mobilisation and financing implications? What are the prospects of being innovative in job creation schemes, programmes and strategies?
- What can Tigray and Ethiopia learn from other countries that successfully managed to maximise job creation from their economic growth and transformation?

Appendix 1						
VITAL ECONOMIC STATISTICS						
	Ethiopia			Tigray		
Employment Indicators (2018)						
	Total	Male	Female	Total	Male	Female
Urban Unemployment Rate (%)	19.1	12.2	26.4	21.5	17.1	25.5
Urban Youth (aged 15-29) Unemployment Rate (%)	25.3	18.6	30.9	27.8	24.7	30.2
Labour Force Participation Rate/Economic Activity Rate (%)	62.0	70.2	55.2	62.3	70.2	56.4
Employment to Working-Age Population Ratio (%)	50.1	61.5	40.5	48.8	58.2	41.9
Proportion of Persons Who Work in the Informal Sector (%)	21.7	17.1	28.2	18.9	12.3	26.0
Macroeconomic Indicators (2017/18)						
Economic Growth Rate	7.7%					
- Industry Sector Growth Rate	12.2%					
- Service Sector Growth	8.8%					
- Agriculture Sector Growth	3.5%					
Inflation Rate	11.7%			6.5%		
Balance of Payments (in Million USD)	-201.6					
Balance of Trade (in Billion USD)	-12.4					
Private Remittances (in Billion USD)	5.12					
Exchange Rate (Birr/USD)	27.3					
Poverty Rate (2015/16)	23.5%			27%		
Operational Investment (Domestic, Public and Foreign in 2017/18)						
No. of Projects	1,550			66 (4.3% share)		
Capital (In Million Birr)	25,876.2			395.3 (1.5% share)		
Micro and Small Enterprises (MSEs) 2017/18						
No. of MSEs established	144,107			31,556 (21.9% share)		
Amount of Credit Extended (in Million Birr)	8,633.71			1,497.1 (17.3% share)		
No. of Employment Created	187,945			17,630 (9.4% share)		
Definitions:						
<ul style="list-style-type: none"> • Unemployment rate is the those in employment who are unemployed, ready and seeking employment in urban areas • Economic active population comprise employed and unemployed persons aged ten years and above • Economic activity rate or labour force participation rate is the percentage of economic active population to the total of economically active plus not active population • Employment to population ratio is calculated as the percentage of the total employed to the total working age population (those who are ten years old and above) 						
(Sources: The 2018 Urban Employment Unemployment Survey; Ethiopia Central Statistical Agency, Addis Ababa, Ethiopia, October 2018; National Bank of Ethiopia Annual Report 2017/18; Ethiopia's Progress Towards Eradicating Poverty: An Interim Report on 2015/16 Poverty Analysis Study, National Planning Commission 2015/16)						

(Compiled by Makonnen Tesfaye, 2019)

Appendix 2:

The Role of Industrial Parks (IPs) for Attracting Investment in Export-oriented Manufacturing



Export Constraints and Opportunities

- Comparative advantage, diversification and competitiveness
- Trade finance and credit
- Imported intermediate goods
- Market access, Tariff and Non-Tariff barriers (AGOA, EBA, PTA)
- GVCs and production networks integration
- Marketing intelligence
- Export-oriented FDI inflow and stock
- “Anti-export bias”

Manufacturing Constraints and Opportunities

- Factors productivity, technical efficiency,
- Abundance of labour and resources, and large market
- Entrepreneurial, managerial and workforce competencies
- Intermediate goods and supply chain
- Finance, credit and foreign exchange
- Utilities
- Industrial infrastructure
- Lower relative rate of return and higher risks (anti-manufacturing bias)

Economy-wide Constraints and Opportunities

- Undeveloped productive capacities (Managerial, entrepreneurial and technical)
- Low technology base and absorption capability
- Large population, human capital and resources development potential
- Institutional and regulatory reforms
- Transport and infrastructure development programmes

Industrial Parks Solutions

- On-site and off-site industrial facilities
- Reliable utilities, electricity, water and internet services
- Customs clearance
- One-stop-shop Business services
- Industrial upgrading and value addition
- Developing vertical and horizontal value chains
- FDI linkages, technology transfer and knowledge spill-overs
- Business clusters and agglomeration economies
- Business incubation and start ups
- Industrial and spatial policy experimentation

Additional and Complementary Policy Tools

- Productive capacities development
- Developing agriculture, manufacturing and service sectors’ backward and forward linkages
- SMEs and entrepreneurial development
- Training and human capital development
- Developing research, innovation and technology absorption capabilities
- Developing capital and intermediate goods markets
- Mobilising diaspora development finance, knowledge networks and utilising remittances for productive activities
- Developing import-substitution industries
- Improving foreign exchange and credit allocation
- Investment promotion and facilitation
- Trade facilitation and logistics
- Developing backbone services
- Developing sectoral and industry support intermediaries
- Infrastructural development
- Improving the macroeconomic, business and regulatory environment
- Policy and strategy coherence
- Improving effectiveness and efficiency of policy implementation

(Source: Makonnen Tesfaye, 2017)