Political Economy Analysis of Youth Employment in Ethiopia

Evidence, insights, and pathways to unlock dignified and fulfilling work opportunities for Ethiopia's young people



Photo: UNIDO

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WHY THE STUDY?

Ethiopia faces a profound youth employment crisis centered on job quality rather than job quantity. With approximately 53.9 million young people aged 15–35 (38% of the population) and 2.0 million new entrants entering the labor market annually, the economy absorbs most youth into low-productivity, insecure work. In 2021, 83.9% of employed youth were in informal/vulnerable work, 49.2% were underemployed, and nearly one in five was NEET. Despite an extensive policy architecture, fragmented institutional authority, weak inter-agency coordination, and lack of accountability prevent commitments at the center from delivering measurable outcomes at local levels. This study was undertaken to identify how Ethiopia's policy frameworks and institutions can be activated to deliver dignified work for young people.

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WHAT WE DID

- **Desk Review:** In-depth review of national development plans, youth, employment, TVET, digital, and industrial strategies.
- **Secondary Quantitative Analysis:** Analysis of two nationally representative datasets (ESS National Labour Force Surveys 2013 and 2021) using logit, Mincer earnings, and education-occupation mismatch models to trace labor market dynamics over time.
- **Political Economy Analysis (PEA) Framework:** Examined how political power, institutional incentives, formal/informal rules, resource flows, and actor interests shape policy choices and outcomes.
- **Primary Fieldwork:** 61 Key Informant Interviews (KIIs) and 9 Focus Group Discussions (FGDs) with 68 young people across six regions (Addis Ababa, Amhara, Oromia, Tigray, Afar, Sidama) plus an online national youth FGD.
- **Stakeholder Groups Consulted:** Government/policy actors, private-sector employers, civil society, youth-led organisations, development partners, and academic/research institutions.
- **Disaggregated Stakeholder Analysis:** Consulted key institutional constituencies separately to test for convergence on systemic diagnoses and entry points.

03 WHAT WE FOUND

- **Skills Not the Binding Constraint; Weak Demand Is:** Credentials expand faster than the economy creates skilled jobs. Secondary-educated youth had the lowest employment rate (49.9%), while tertiary-educated youth faced 16.8% unemployment. Realised education-occupation mismatch stands at 49.8% over education.
- **Informality as the Default:** Informal work is nearly universal among rural youth (92.1% male, 95.7% female). Punitive formalisation pushes small enterprises into insecurity; productivity upgrading and tangible support are required.
- **Growth with Weak Employment Intensity:** Shift from farms has moved youth into low-productivity urban trade and personal services rather than industrial jobs; manufacturing absorbs only 3.4% of youth.
- **Trade and Industrialisation Without Job Absorption:** Export manufacturing models remain vulnerable to single-market trade shocks (e.g., AGOA suspension caused 11,500+ job losses at Hawassa Industrial Park).
- **Digital Economy Opportunity and New Precarity:** Core ICT jobs absorb under 0.3% of youth, while platform-proxy work is 90.9% informal and concentrated among educated urban youth.
- **Layered Exclusion:** Female youth employment fell from 73.5% (2013) to 54.1% (2021), with female NEET reaching 29.4%. Youth with disabilities face a 36.4% NEET rate.

04 A CALL TO ACTION

1. **Measure Outcomes, Not Activities, and Anchor a Shared Compact:** Adopt measurable targets for job quality, formality, earnings, and retention embedded in ministerial performance frameworks.
2. **Build a Demand-Led Skills-to-Work System:** Tie training finance and accreditation to verified employer demand, mandatory work-based learning, and graduate tracer studies.
3. **Make Informal Work Productive and Protected:** Upgrade informal livelihoods by bundling voluntary registration with non-collateral finance, workspaces, market linkages, and portable social protection.
4. **Create Jobs in Productive Sectors:** Embed explicit youth employment targets in sector budgets, prioritizing agro-processing, light manufacturing, construction, mining, and logistics.
5. **Make Trade and Industrialisation Work for Employment:** Condition industrial incentives on verified job creation using an employment-impact scorecard and connect youth firms to AfCFTA/COMESA markets.
6. **Make Digital Growth Inclusive and Protect Platform Workers:** Subsidise connectivity/devices, enact a digital labor framework guaranteeing fair pay and social protection, and support tech startups.
7. **Close Gaps in Access by Gender, Disability, Region, and Conflict:** Fund targeted interventions including childcare, safe transport, disability windows, and conflict-sensitive programming.
8. **Strengthen Implementation, Coordination, and Trust:** Reduce institutional silos through a single high-level coordinating instrument, open merit-based recruitment, and fully funded LMIS infrastructure.

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