



A STUDY BY THE BRIDGES PROGRAM

**The Three Moving Parts in Youth Jobs:
Employability, Employers, and
Educational Institutions**

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This is a report of a study on the interaction of youth, employers, and educational institutions in the labor market in Ethiopia. The study surveyed a total of over 200 fresh or recent graduates across five major cities (Addis Ababa, Dire Dawa, Hawassa, Bahir Dar, and Adama), over 30 hiring and recruiting institutions, and at least 5 higher education institutes. The assessment also conducted a desk review, closely examining relevant practices within the context of Ethiopia, and taking lessons from other programs to better understand existing and future challenges in the labor market, information asymmetry, and mismatch between youth aspirations and market demands. The assessment was carried out to help gain insights for the design of a program for young professionals to drive talent and aspiration and produce empowered, motivated, and well-trained mid- to senior-level professionals.

Background

Ethiopia has a window of opportunity to achieve its demographic dividend if concerted efforts are directed at increasing human capital investments to improve the skill level, composition, and distribution of the labor force². The demographic trends in Ethiopia suggest that the working-age (10+)¹ population is expected to grow to 94.2 million by 2025², which can drive economic growth if deliberate and strategic measures are created to build human capital.

One area directly impacting Ethiopia's ability to achieve a demographic dividend is creating an enabling skills ecosystem for the labor force. The lack of a systemic approach to address the unmet skills demands of the labor market is a barrier for Ethiopia to meet its economic trajectory. As the industry skill demands continue to grow, Ethiopia's ambitious economic growth faces substantial skill challenges from the widening gap between the skill supply and demand³.

The world of work is changing rapidly. The massive changes around technologies, innovation, and creativity have accelerated the types and levels of skills requirements across all economic sectors, necessitating urgent and targeted actions. As a result, sectors are experiencing unprecedented dynamism and expectations around skills and jobs. To cultivate a self-sustaining skills ecosystem, Ethiopia must take concrete steps to define institutional setups, build collaborative ties, and establish accountability roles. Employers in the public and private sectors can play a critical role in achieving this.

¹ CSA definition of working-age population

² Source: The World Bank population estimates and projection

³ World Bank (2021) More, better, and more inclusive industrial jobs in Ethiopia.

Market Trends and Job Opportunities

Insufficient labor market statistics are more pronounced in sub-Saharan Africa. Data availability often dates back more than five years, making it difficult to obtain current information on the labor market transition of the youth⁴.

One of the barriers to employment is the low capacity to absorb labor market entrants. This is due to a number of factors, including:

- The rapid growth of the youth population. The youth population in sub-Saharan Africa is growing rapidly, which is putting a strain on the labor market.
- The lack of economic opportunities. There are not enough jobs available in sub-Saharan Africa to meet the demand from the growing youth population.
- The mismatch between skills and jobs. The skills that young people have are often not the skills that are needed in the labor market.

Another barrier to employment is inadequate education and training. Many young people do not have access to quality education and training, which makes them less competitive in the labor market. Limited work experience is also a barrier to employment making them less attractive to employers.

Inequality in wages between men and women is observed across Sub Saharan Africa. On average, male workers earn 12% higher than female workers⁵. This is due to a number of factors, including:

- Gender discrimination in the labor market. Women are often paid less than men for doing the same work.
- The lack of opportunities for women in certain sectors. Women are often concentrated in low-paying sectors, such as agriculture and domestic work.
- The lack of education and training opportunities for women. Women are less likely than men to have access to quality education and training, which makes them less competitive in the labor market.

On average, young people aged 25-29 are three times more likely to complete their transition into stable employment than those aged 15-19⁶. This is because older young people have more education and training, and they are more likely to have work experience.

Those with a graduate degree are four times more likely to attain stable employment. This is because they have more education and training, and they are more likely to be hired by employers.

The Education Commission, in its 2016 Learning Generation report, alerts that economic growth will be stunted if the education system continues to fail to produce young persons with the skills demanded by the market⁷. The report calls for global transformation of the education system to:

- Improve performance to deliver results
- Invest in innovation
- Increase financial investment
- Include youth at risk of not learning

In Ethiopia, the growing skill gaps and lack of preparedness to transition to work is highlighted as a major concern in the Education and Training Development Roadmap⁸. The roadmap calls for measures to be taken to address these challenges, such as:

- Upgrading the curriculum to ensure that it is aligned with the needs of the labor market.
 - Providing more vocational and technical training to give young people the skills they need to find jobs.
 - Creating more opportunities for young people to gain work experience through internships and apprenticeships.
- Providing financial support to young people who are unemployed so that they can continue their education or training.

In countries like Ethiopia, where labor is deeply segmented, many young workers struggle to find jobs and, as a result, fail to gain their share from the economic growth due to asymmetry of labor market information and distortion of equitable distribution of information⁹. Job-seekers are typically anonymous to potential employers, have little if any, first work experience and lack effective ways to signal their abilities to employers. Weak social insurance and limited access to capital in many urban cities also increasingly lead to labor market frictions for young workers.

A study conducted at the ISA Institute of Labor Economics (2017) examined spatial (distance) and informational (anonymity) constraints as the leading causes of unemployment in African cities.

Consistent with a report that suggested that traditional active labor market programs have had at the most modest impact on employment for an average job-seeker, meaning that the labor market in urban cities works well when it comes to finding casual and temporary work¹⁰. This highlights that even though stable formal work is highly desired, it is largely unattainable, resulting in precarious employment security for many job-seekers.

Arguing that active labor market programs can help address labor market segmentation problems, particularly for otherwise excluded groups, a study focused on the heterogeneity of job seekers and the labor market was conducted. The study looked at two treatments - transport subsidies and job application workshops - to understand the effects on finding stable and formal jobs for different groups of job-seekers.

⁴ Labor market transition of young women and men in sub-Saharan Africa, ILO 2014

⁵ Labor market transition of young women and men in sub-Saharan Africa, ILO 2014

⁶ Labor market transition of young women and men in sub-Saharan Africa, ILO 2014

⁷ The International Commission on financing Global Education Opportunity (The Education Commission) is a global initiative working to reinvigorate the case for investing in education and to chart a pathway for increased investment to develop the potential of all of the world's young people.

⁸ The Education and Training Development Roadmap. Ministry of Education, 2018.

⁹ Anonymity or Distance? Job search and labour market exclusion in a growing African city. IZA Institute of Labor Economic, 2017.

In terms of job quality, the experiment had a positive effect among groups who typically find it hard to find high-quality employment. It helped job-seekers access permanent employment in a segmented labor market and mainly assisted those with low labor market attachment.

Another experiment was conducted to test if direct contact between firms and workers related to job matching through improved market access such as job-fairs and matching workers' skills information to jobs, showed little impact on obtaining employment¹¹. This could potentially explain constraints on employers' side in identifying the best candidate¹².

Market Failure Presence

Market failures occur when the labor market and market for skills provision are not aligned to yield economically efficient employment outcomes. The source of these failures can stem from underinvestment in training, due to the fear of employee turnover or the need for help deciphering what kinds of training would be most useful. Also from lack of knowledge about the quality of specific training providers, which can inhibit investment in training¹³ for both employers and workers.

Another source of market failure is imperfect information on applicants' skills or providing generic job description posting, which hinders efficient matching of workers to jobs. In this case, qualifications are limited to diplomas or schooling attainment, which makes hiring riskier. Employers minimize risk by using alternative mechanisms to measure the actual and specific skills of potential candidates. Coordination failures are also another source of market failure. For example, innovation in certain sectors requires a workforce with high-level technical skills. However, individuals seeking these training are only motivated if enough innovative firms provide demands. Conversely, firms will not become innovators unless there is already a skills supply in the market¹⁴.

Governments typically introduce Active Labor Market Programs (ALMPs) to bridge the gaps between the skills that workers have and the skills that employers need. However, a range of factors constrain the private sector's participation in these initiatives, including costs in terms of time and financial resources, externalities, such as the benefits of training that accrue to society as a whole, but not to the individual firm and lack of information about ALMPs, particularly for smaller firms¹⁵.

¹⁰ How effective are active labor market policies in developing countries? McKenzie, D. J., 2017.

¹¹ Anonymity or Distance? Job search and labour market exclusion in a growing African city. IZA Institute of Labor Economic, 2017.

¹² Permanent employment refers to not having an end date.

¹³ Formal employment refers to having a written contract.

¹⁴ Job fairs: Matching firms and workers in a field experiment in Ethiopia. World Bank, 2017.

¹⁵ Testing the importance of search fractions and matching rough a randomized experiment in Jordan. Groh et al. 2015; Do job fairs matter? Experimental evidence on the impact of job-fair attendance. Beam, E. A., 2016.

¹⁶ The private sector and youth skills and employment programs in low and middle countries. (S4YE), World Bank

The private sector involvement through public-private partnership (PPP) models and inter sectoral partnerships in implementing ALMPs may help to incentivize firms to become more involved in youth employment programs. Firms may be motivated to participate in ALMPs in order to improve their reputation and be seen as responsible corporate citizens (CSR) or reduce the cost of training. Evaluations of ALMPs have shown that a comprehensive approach is most effective in achieving positive outcomes. Partnerships of this type may also lead to the development of qualification frameworks as well as providing clear signals for job-seekers¹⁶.

It is important to recognize that the private sector and the public sector goals will not always be perfectly aligned. Evidence from successful best practices shows that providing a range of individualized career counseling services is a cost-effective way to match job seekers to employers¹⁷. Close and active engagement with employers in specific sectors can help to address market failures. Skills training programs that incorporate substantial engagement from employers and their input in the design and operation of programs are essential. The public sector should collaborate with the private sector to extend certification for skills training that employers provide based on the sector's specifications. Employers highly rank cognitive skills (analytical and complex reasoning) training as the most important transferable skills¹⁸.

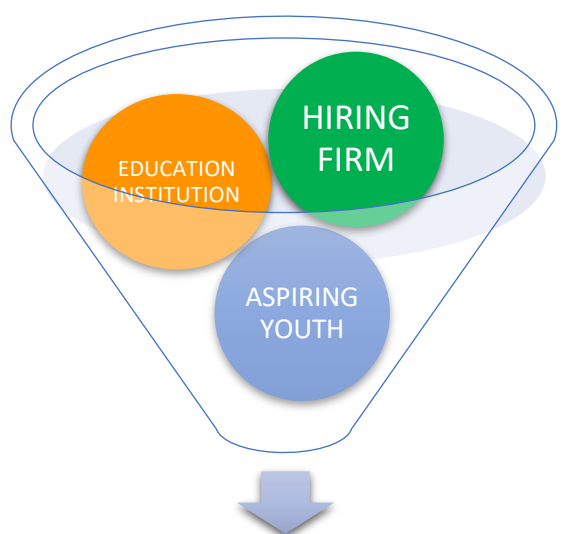
Youth aspirations and labor market dynamics assessment

The scope of the assessment includes a survey of over 200 fresh or recent graduates across Ethiopia, particularly in five major cities (Addis Ababa, Dire Dawa, Hawassa, Bahir Dar, and Adama), over 30 hiring and recruiting institutions, and at least 5 higher education institutes. The assessment also involved conducting a desk review, closely examining relevant practices within the context of Ethiopia, and taking lessons from other programs to better understand existing and future challenges in the labor market, information asymmetry, and mismatch between youth aspirations and market demands.

¹⁷ The private sector and youth skills and employment programs in low and middle countries. Solutions for Youth Employment (S4YE), World Bank.

¹⁸ The private sector and youth skills and employment programs in low and middle countries. Solutions for Youth Employment (S4YE), World Bank.

Identification of Challenges: The Three Moving Parts



Problem → Persisting mismatch between the skill supply and market demand

Goal → A pool of well trained, skilled professionals

Youth: A growing number of graduates face employment dilemmas because they have **little or no work experience** and **no practical way of signaling their abilities**. This can make it difficult for them to find a job, as employers are often looking for candidates with experience.

Employers: Semi-skilled or skilled and productive new entrants are constantly overwhelmed by the number of applicants claiming to be a good fit. They are baffled by what they consider to be **low-quality applicants**, which leads them to take chances or, unwilling to take risks, resort to their networks to find a better candidate.

Educational Institutions: Many universities have **departmentalized** career development, industry linkage, and entrepreneurial centers in hopes of addressing the mismatch between the skill supply and demand sides. However, these challenges persist.

Therefore, assessing the three moving parts—the youth, hiring institutions, and education and training institutions—is critical for understanding the job market dynamics, helping young professionals think and act quickly to changing market demands, and bridging the recruitment and talent development opportunities for new entrants. The figure above illustrates this.

To this effect, the survey tools designed for this assessment capture youth aspirations, motivation, and employability skills; employers' ability to identify skills and capacity to take new entrants under their wings; and whether education and training institutions have moved away from a supply-driven approach to achieve their demand-driven objectives.

Summary of assessment findings

- The lack of a systemic approach to address the unmet skills demands of the labor market is a barrier for Ethiopia to meet its economic objectives.
- There are coordination failures between employers and educational institutions, employees/ job-seekers and educational institutions, and employees and employers. This amplifies the need to build partnerships.
- The labour market failure is due to a supply-driven education system and fragmented market demand, which is caused by unresolved coordination and a missing bridging structure and framework to systematically link skills supply to the market.
- Employers are not in the business of providing skills development training, nor do they have the expertise to do so. However, they are entangled in the skills training business out of necessity to increase their productivity and capital.

- Informality of the labor market leads employers to hire within their networks. Firms heavily rely on informal markets to fill vacancies, using their networks to improve their selection process.
- The segmented labor market hinders job-seekers to find jobs due to the asymmetry of labor market information and the distortion of equitable distribution of information.
- Youths are enthusiastic and positive about their preparedness to enter the workforce.
 - 47% rated themselves as extremely ready (10) on a scale of 1 to 10.
 - 36% said they were extremely ready (10) to accept a job that is not in their area of study.
 - 31% responded they would be very willing to accept a job that is not paying the expected amount.
- There is a disconnect between the types of jobs and flexibility of work that young people aspire to have and what is available.
- Imperfect information or generic job descriptions make it difficult to match workers to jobs.
- Qualifications are limited to diplomas or schooling attainment, which does not always give a clear indication of a candidate's skills. This makes hiring riskier for employers, as they may not be sure if a candidate has the skills they need.
- Job-seekers often fail to signal their talents and abilities to employers. Their CVs are often too generic, making it difficult for employers to identify their skills and experience. This makes the recruitment process more time-consuming and costly for employers, and it also increases the risk of making hiring decisions based on subjective factors.
- There is a fragmentation between academic work and career development and many students are not able to visualize a clear career path.
- Smaller firms often have limited resources and high costs when it comes to investing in human capital. This can make it difficult for them to attract and retain qualified employees. It can also make it difficult for them to provide their employees with the training and development they need to be successful.
- Employers often underinvest in human capital because they are afraid of employee turnover or because they do not know what types of training would be most useful. On the flip side, when employers invest in human capital, the programs are often generic and do not match the specific skill needs of the company or the employees. Both employers and employees may lack knowledge about the quality of particular training programs, and this uncertainty can inhibit investment in training.
- There is a need to influence employers to recognize and understand the value of having transferable skills and acquiring relevant work-based skills through internships/ apprenticeships.
- Employers are willing to create a supportive work ecosystem and build facilitative and rehabilitative relationships with employees to increase productivity and capital.
- The demand for talent development firms is rising as they can help to reduce the skills supply and demand gap by defining the required talent, developing training programs, and retaining talent through continuous reskilling and upskilling opportunities based on sector-specific skill needs and current market demand.
- The necessity to simplify the job-matching ecosystem for job-seekers and employers to find flexible, easy-to-access, cost-effective platforms.

Conclusion

Even though interest in conducting this assessment arose from attempts to support recent graduates in becoming well-trained, skilled professionals qualified to serve mid- to high-level positions, the challenges of scaling up to support the growing number of graduates and the shrinking number of job opportunities were apparent. The assessment highlighted challenges such as the ever-increasing number of inactive graduates, poor school-to-work transition, inadequate resources for human capital development, the lack of work-based training opportunities, and growing skill gaps in meeting labor market demands. These challenges cannot be resolved in isolation, requiring systemic changes and the implementation of effective programs.

Prioritizing human capital development had taken a back seat due to its intangible nature, despite its value addition to increased productivity and measured growth. However, interest in investing in human capital development has come to the forefront as employers are increasingly losing confidence in finding workers with relevant skills who can hit the ground running with the right skill sets.

As the world of work is continuously changing, employers and micro- and small enterprises are experiencing unprecedented dynamism and expectations around market-demanded skills. Returns on human capital investment are becoming more evident to improve the pool of skilled professionals, and increased productivity and growth are driving interest in developing market-relevant skills.

Recommendations

- Facilitate partnerships to expand work-based and foundational cross-cutting skills (including work-readiness education incorporating employability skills training) through internship, apprenticeship, fellowship, mentorship, shadowing, volunteering, and externship programs for educators and training providers.
- Designing, delivering, and evaluating work-based training programs, including foundational cross-cutting skills (work-readiness education incorporating employability skills training), applying frameworks and standards, and visualizing career pathing for students and recent graduates.
- Addressing the disconnect between the types of available jobs and young people's career aspirations through the creation of flexible, easy-to-access, cost-effective, tech-based platforms.