



## Work Creation for the Rural Youth - WIDE Discussion Brief No.3 of 5<sup>1</sup>

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### Key messages from the WIDE evidence

- Improvements in infrastructure have led to some gains in rural labour markets by improving access to inputs and helping to expand the job market for the rural youth and the product market for rural micro and small enterprises.
- Locally, commuting for work increasingly played an important role for youth to seek farm and non-farm job opportunities outside of their communities. In a number of communities the increasing demand for daily labour, e.g. linked to irrigation expansion, offered opportunities too.
- Migration is an important coping mechanism for un(der)-employed youth to seek better work opportunities outside of their communities.
- Rural youth are increasingly involved in trade and other non-farm activities.
- Yet these job opportunities remain inadequate to serve the growing number of young and landless inhabitants of these communities.
- The structure of rural employment is yet to change and small and medium scale rural industries are yet to widely emerge. To overcome the limits imposed by the labour absorptive capacity of the agricultural sector, the sustained growth of the non-farm sector is important.
- Unlike for urban youth, the implementation of government policies promoting job creation for the rural youth appears to lack focus, breadth and continuity.
- There is a nascent frequently informal micro-enterprise sector. Yet business formalization requirements and taxes might be stifling youth start-up businesses in some of the communities. This suggests that we should be cautious not to tax too quickly or too much. More important is to devise a strategy to identify growth-oriented entrepreneurs both in the formal and informal sectors and to help them overcome the major constraints they face to grow and create jobs.
- There are some anecdotes of the use of credit to start small rural businesses. Yet rationing appears to be all too common, and in some communities low take-up is a problem. Returns on credit and personal investment can improve with complementary productivity-enhancing interventions, such as basic production and management skills training.

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<sup>1</sup> WIDE is an independent longitudinal study of 20 rural communities in Ethiopia over 20 years. A map is provided at the end of the brief. The brief is using WIDE3 evidence to bring policy and implementation questions and possible implications to the attention of policymakers, with the aim of contributing to current debates on key issues through discussions with government, donors, and other stakeholders. Acknowledgement should be made of (1) the time and dedication of the research officers and supervisors who over the years made the data on which the brief draws, (2) the various funders who financed the research phases, and (3) the time and interest of senior Government officials, with whom the brief was discussed at a High Level Discussion Forum in March 2014, convened by the Ethiopian Development Research Institute (EDRI). The brief does not represent the views of EDRI, the Government of Ethiopia, or the financing Development Partners. The other Discussion Briefs and other research products are available at <http://ethiopiawide.net/>.

## Introduction

Sustained and gainful employment constitutes the most important factor that links economic growth and poverty alleviation. In many low income economies the success of strategies and programs that are committed to tackle poverty are often evaluated on the basis of their effectiveness in improving local labour market outcomes for the poor and vulnerable. As such policy makers regularly favour employment-intensive growth strategies, not just because of the direct economic implications, but also due to their recognized importance for enhancing social cohesion and stability. For example, the issue of urban youth unemployment is long recognized to be a source of continual anxiety for politicians and policy makers. Particularly with the onset of the recent violent upheavals and protests around the world, most noticeably in the 'Arab Spring', the importance of creating jobs for the urban youth became a centrepiece of many governments' social and economic policies. In contrast, however, the issue of jobs and work creation in rural areas has not engendered similar concerns and has largely remained within the confines of much broader national development strategies for enhancing farm and non-farm income.

Ethiopia has achieved a remarkable economic growth that appears to have put the country on sustained high growth trajectory since 2003/04. As in many developing countries, however, improvements in labour market opportunities for youth appear to lag behind economic growth. To reduce urban unemployment, a variety of policies and strategies favouring employment-intensive growth processes have been used. Accumulating evidence indicates that these policies have been largely effective in producing substantial gains in employment in urban areas. In contrast, however, there appears to be relatively limited understanding of strategies adopted to promote job creation in rural areas and the nature of jobs available for youth in these communities. Recent studies, for example, suggest that growing land fragmentation and landlessness as the result of rapid population growth has steadily constrained the involvement of youth in farming and related activities. In response to shrinking local opportunities in the agricultural sector, the rural youth appears to be increasingly moving towards wage and self-employment activities within or outside of their communities. More often than not, such types of employment opportunities are likely to constitute household-based activities in the informal economy with serious under-employment implications. To what extent youth are participating and benefiting from new opportunities in the non-farm sector in rural communities thus largely remains an empirical question.

The WIDE 3 project carefully documented and studied the socio-economic conditions of 20 rural communities in different parts of Ethiopia and included a strong focus on conditions faced by youth in these communities. It is worthwhile to note that these communities epitomize basic characteristics and patterns of major agricultural livelihood systems in the country. We believe that these studies greatly contribute to our understanding of the interactions between the dynamics brought about by the recent spurt of economic growth and the state of non-farm employment in rural communities.

Based on a number of WIDE 3 community level and synthesis reports, this discussion brief on job creation for youth in rural communities presents lessons drawn from the WIDE 3 research but avoids the temptation of recommending policy options. The brief focuses on male youth (referred to as youth from here on). The issues for rural female youth are both the same (e.g. lack of job opportunities) and different (e.g. weight of attitudes confining women to the domestic sphere, changing at variable pace across the WIDE 3 communities). Moreover, the WIDE 3 reports show that

the implementation of youth polices in rural communities rarely recognizes female youth as a separate category from women in general. There was not the time and space to address these in detail in this brief. A separate thorough analysis is required to better understand the challenges and prospects of female youth in the face of rapidly changing social and economic circumstances in their surroundings.

We further note that this brief is entirely based on the results from WIDE 3 studies, and hence, has a relatively limited scope in that it will not contrast findings from WIDE 3 studies with findings from other similar studies.

### *Nature of Work in Rural Communities*

Not surprisingly agriculture, farming and livestock rearing are the mainstays of the rural communities studied in the WIDE 3 project, and the non-farm sector is yet to widely emerge. Under the prevailing circumstances, the scope of rural youth employment has thus been largely dictated by the absorptive capacity of the agricultural sector, which is highly dependent on the availability of cultivable land and the latitude for intensification. Growing population pressure and landlessness frequently overwhelm this capacity and have swelled the ranks of rural unemployed and underemployed. Consistent with this, the WIDE 3 report notes repeated incidence of inter-generational tensions for resources within these communities, which often culminates in the deprivation of access to farm land for youth. Competition for resources is also observed among siblings within households across communities.

For these reasons, the WIDE 3 research identifies youth as a distinct group whose needs remain largely unmet by the existing socioeconomic conditions and resources.

Non-farm jobs could be critical sources of income that provide alternative livelihoods for young and landless individuals in rural communities. The non-farm economy covers a range of activities spanning from one-man operated retail kiosks to medium sized enterprises employing several workers. While obviously an important source of alternative livelihood in rural areas, the non-farm sector could also supply much needed implements (inputs and tools) to the agricultural sector. To the extent that rising income produces increased demand and improved purchasing power, non-farm jobs could also complement the agricultural sector by creating markets for agricultural produces. However, the emergence of such synergies between the farming and the non-farming sectors does not appear to be commonly observed in the WIDE 3 communities. This is largely due to the widespread lack of local non-farm work opportunities that could mitigate growing landlessness and population pressure in these communities.

Unemployment affects not only the physical wellbeing of youth but also their aspirations and sense of fulfilment. Rural communities are often endowed with robust social networks that provide informal community- and family-based protection services to young and unemployed individuals, though it is widely recognized that these are weakening with modernity. Social protection schemes, however, cannot replicate the sense of accomplishment one would have from hard-earned fruits of labour. Many young people studied in the WIDE 3 communities felt that they were burdens on their families and communities. The WIDE 3 result suggests that, as the result, they became more apathetic towards the political and economic lives of their respective communities. In connection with this, some communities perceived a rise in “social evils”, such as theft, substance abuse, and violent behaviours among youth, presumably in response to limited local opportunities.

In contrast, in some other communities, the aspirations of youth do not match the existing local opportunities in the communities. More particularly, educated youth have higher aspirations than the local work opportunities, which are deemed menial and incompatible with their social status and skill levels, and hence choose either to remain without work or to out-migrate.

Notwithstanding occasional mismatches between aspirations and existing local conditions, some youth with relatively better education do succeed in getting public sector employment as teachers, extension service workers or health care professionals in or outside of their communities. However, unlike in urban areas, the public sector provides few such employment opportunities in rural areas. Due to the limited reach of State Owned Enterprises (SOEs) and the limited presence of formal private enterprises, large scale job opportunities in the manufacturing and service sectors are also not available in rural areas. While in some of the communities there is a notable expansion of formal trading businesses, the employment opportunities they have provided have remained negligible. Although micro and small businesses are present in WIDE 3 communities, their size and number is not sufficient to have a meaningful impact on rural employment. The few rural jobs that are available for youth tend to be low-paying, low-skilled, ephemeral, casual, seasonal and are subject to insecure work arrangements.

While the nature of work shares features among different communities, it is important to note the presence of considerable heterogeneities as well. In some of the WIDE 3 communities, for example, there are daily labour jobs, in other communities seasonal migrations are more common, and still in some other communities wage job opportunities on plantations and large scale farms are occasionally observed.

Local agricultural daily labour and commuting for work increasingly offer opportunities for youth to seek farm and non-farm job opportunities within and outside of their communities. In a number of communities there were improvements in employment opportunities for youth, in response to increased demand for agricultural labour due to the increasing commercialisation of agriculture for wealthier farmers and the use of irrigation.

Migration, regionally, nationally and internationally, appears to be one of the most important coping mechanisms to address limited local job opportunities. This was particularly noticeable in the WIDE 3 Stages 2 and 3 communities, studied later (late 2011 and 2013 while Stage 1 communities were studied in early 2010). There seems to be a strong link between landlessness and migration in the WIDE 3 communities.

Youth migrate to work in large scale commercial farms and gold mines within their region of origin, and migrate outside their region of origin to urban areas. International migration plays an increasing role as a survival strategy for youth in some communities despite sometimes being illegal and risky. There are a few documented cases where remittances were used to fund investments in WIDE 3 communities. On the other hand, the question of whether and how remittances improve local labor market opportunities of youth requires further study.

Notwithstanding the structural constraints on rural jobs found in the WIDE 3 communities, there is good news with signs of improving opportunities in the non-farm economy across communities. All the eight rural communities covered under the Stage 2 studies, for example, have demonstrably experienced improvements in non-farm business and employment opportunities for youth. These improvements are observed in the retail sector as seen by growing petty trading in wood, grass and

charcoal, in the small-scale manufacturing manifested the form of artisan wood- and metal-working, carpentry and pottery, in the service sector exemplified by greater participation of youth in the provision of transport services. This nascent improvement is even more evident in the Stage 3 communities. Such trends seen in context of continuing and sustained economic growth and improvements in agricultural productivity suggest that there is significant untapped potential for the expansion of the non-farm sector with its attendant consequences for rural job creation.

### *Current Policies on Rural Youth Job Creation*

In developing countries market failures ranging from credit constraints to imperfect contract enforcements and high transaction costs due to information asymmetry are ubiquitous, and Ethiopia is no exception. In rural areas poor physical and legal infrastructure and 'weak institutional environment' also contribute to high business costs and risks. In such circumstances, the state has an invaluable role to play in designing and implementing policies that nurture the rural non-farm economy. Some of these policies can be broad, such as infrastructure investment, and others could be more targeted, such as training to encourage rural entrepreneurship. A striking finding in all the three stages of the WIDE-3 studies is the significant improvement in infrastructure facilities across communities and over time. There are, however, marked differences among communities in the type of infrastructure investment committed by the government. Some communities have benefited from main road development projects, others from the development of feeder roads to main highways, and still others from canal and irrigation construction projects.

The investment in infrastructure affects job creation for the rural youth in the WIDE 3 communities in three important ways. Firstly, local non-agricultural job opportunities are created through the direct participation of youth in the construction projects. Secondly, improvements in road and transport infrastructure have made commuting for work to other areas easier for youth in some of the rural communities. Thirdly, improved access to main and feeder roads in the WIDE 3 rural communities has encouraged the establishment of micro and small businesses, albeit with limited scale. Roads have enhanced access to inputs, markets and economic information, and improvements in electricity infrastructure have introduced power for production. These three sets of factors had the combined effect of creating additional employment and earning opportunities for the rural youth in the WIDE 3 communities.

Yet all these effects on the rural labour market can be considered as an 'externality' of the wider push to introduce and modernize infrastructure facilities, as opposed to direct and intended efforts to improve rural labour market conditions for youth. In contrast, as a tool to combat urban unemployment the government set up the Micro and Small Enterprises (MSE) Development Strategy in 1998 and revised it in 2011. Efforts to specifically target rural youth have been less apparent and successful. The Youth Development Package, which was designed to expand the employment and earning opportunities of youth with the intensive use of existing local resources, particularly land, was supposed to be rolled out in 2006/2007. The plan involved the participation of youth in the development of non-agricultural land, such as hillside land, as part of local efforts to protect the environment. Such environmental protection initiatives are presumed to provide work opportunities for youth, for example, in agro-forestry activities. In the WIDE 3 communities, however, there were only traces of attempts to implement the Youth Development Package in some of the Stage 1 communities.

More recently, and therefore found only in the Stage 3 communities, is the “Rural Youth Opportunities Creation” initiative. This is aimed at organizing youth in small groups/cooperatives and setting up credit-lines at wereda-level managed by local branches of regional Micro-Finance Institutions (MFIs) to co-finance their start-up capital to help these youth groups launch micro and small businesses. There is evidence of the presence of this scheme in some Stage 3 communities although it is in an early stage and therefore not yet robustly implemented. Hence, more time is required for the impact of this new initiative to be fully revealed.

Micro and small enterprises could be important in creating jobs and offering livelihood for unskilled rural youth with limited non-farm options. However three main problem areas were observed in the WIDE 3 communities. Firstly, the number and relative size of micro and small enterprises in the rural communities is so small that they can hardly cope with rising unemployment among the rural youth. Secondly, these are mostly survival-type enterprises that need to be transformed into dynamic enterprises to create rural jobs on a large scale. Without adequate state support and strategy, it is not clear how such dynamism can be stimulated in the MSEs sector. Thirdly, both individual-initiated and group-based start-ups often face difficulties to get their business off the ground. For example, in some communities problems related with access to roadside or urban land precluded youth from setting up new businesses. There also appears to be a strong resistance among adult men in many communities against allocating land in general, and communal grazing land in particular, for youth cooperatives interested in launching new non-farm businesses.

For all intents and purposes, the National Employment Policy and Strategy (2009) recognizes the importance of promoting the non-farm economy as a means to generate alternative livelihood in rural communities. The WIDE 3 reports, however, clearly indicate that state support for the development of non-agricultural livelihood options in rural areas is highly limited. In some communities, wereda administrations urged youth to be job-creators rather than job-seekers. While such imperatives may be useful to change attitudes with respect to self-employment, if not backed up by practical support, the intended transformation of youth may not materialize. In relation to this, in both Stages 1 and 2 communities, the WIDE 3 studies find that most successful youth businesses were established independently with limited support from weredas and those who received support were less likely to operate successful businesses. This could be because of the classical selection-effect whereby more promising entrepreneurs choose to start their own business, and less promising ones require an external nudge, from the state in this case. More worryingly, this consequence could also arise when the existing support schemes are not of the right type and/or, are inadequate in quality and depth.

One such support provided to MSEs start-ups is credit, recognizing that access to finance is one of the major constraints that are faced by micro and small enterprises in rural communities. Indeed, if the enterprise is initiated or operated out of personal savings, the speed of their growth would be naturally limited. Credit support is available in some of the WIDE 3 communities for non-farm activities. However, the unfortunate history of youth defaulting on loans and using them for purposes other than intended has called into question the credit-worthiness of youth groups in general in some communities.

Disbursement of credit is also largely dictated by the will of adult men. As a result, in some communities youth have difficulty in accessing credit to start-up businesses. In some other communities, however, youth are reluctant to take up credit because they either judged it

insufficient or are not interested in taking up local economic opportunities due to the mismatch between these opportunities and their expectations, as noted earlier. In other communities, the WIDE 3 project identifies considerable potential for the utilization of credit services for large-scale expansion of the non-farm sector. This is particularly true in communities which have the advantages of being located close to major urban towns and of enjoying themselves an increasing pace of urbanization.

Credit is certainly important but it is worth noting state support for cheap credit is not the only prerequisite for success in the micro, small and medium enterprise sector, and in fact by itself can cause problems. Particularly at the early stage of industrial development where underdevelopment spawns small firms, there is always the danger of over-subsidizing loans to non-innovative and non-promising enterprises in rural areas. While conceptually one can argue that credit policies can and should differentiate between promising and non-promising enterprises, it is very difficult to practically implement such policies and this can be fertile grounds for non-value adding rent. It is thus important to assist enterprises in the acquisition of basic skills, such as Business Development Service (BDS) or management skills that naturally increase the return from personal investments as well as cheap credit. In the WIDE 3 communities, lack of basic production and management skills and of relevant training to provide these skills have significantly curtailed the expansion of non-farm business.

As the result of lack of adequate formal jobs and the difficulties associated with formalizing start-ups, young people often choose informal self-employment as a way to generate income. Indeed, in some of the rural communities several micro businesses operated outside of the purview of local authorities. There have been some attempts to formalize these businesses by making them apply for business licences and pay income tax. This, however, has had the unintended effects of pushing these businesses out of the market and reversing modest income-earning gains that came about from youth experimenting with start-ups. While tax generation is without a doubt imperative for the state to function and provide public services, tax enforcement agencies should not be heavy handed in pursuing the compliance of micro and small enterprises. This has a stifling effect and is detrimental to the rapid growth of micro and small enterprises (MSEs). Strategies that better incubate MSEs are important not just because MSEs are sources of non-farm employment, but also because they can yield large tax returns in the future as growing MSEs would have limited incentive to stay informal. Informality should thus be viewed in a long-term perspective as an important stage whereby young and involuntarily unemployed people, who otherwise would not be productively engaged in the rural economy, experiment with self-employment. The first task from a policy point of view would thus be identifying growth-oriented entrepreneurs both in the formal and informal sectors, and the major constraints they face to grow and create more jobs.

### Concluding Remarks

Jobs and small enterprises are important as they are one of the main instruments whereby the fruits of economic growth are translated into poverty reduction in developing countries. Increasing population pressure and growing landlessness translates directly into the growth of rural unemployment, even with increasing and sustained economic growth in still largely agrarian economies such as Ethiopia. Based on several community-based reports in the WIDE 3 communities, this brief highlights the nature of jobs, the policy environment and the constraints youth face in rural communities. We find that improvement in infrastructure has led to some gains in rural labour

markets. More precisely, in addition to improving access to inputs, improvement in infrastructure has helped expand the job market for the rural youth and the product market for rural micro and small enterprises beyond the immediate locality. However, complementary productivity-enhancing interventions, such as basic production and management skills training that can greatly improve the competitiveness of small-scale production are not widespread.

The WIDE 3 reports have also noted that youth involvement in trade and other non-farm activities increased over time from 2010 to 2013 in the three stages of the WIDE 3 community studies. In some communities agricultural diversification has also stimulated the creation of daily labour opportunities, for example, in the construction of irrigation systems. Yet these job opportunities remain inadequate to serve the growing number of young and landless inhabitants of these communities.

The implementation of government policies promoting work creation for the rural youth, such as those providing credit to youth groups, appears to lack breadth and continuity. Regarding credit, for example, take-up itself is a problem in some communities and in others credit supply falls short of what youth demand, due to rationing. Sufficient complementary support such as skills development training is also lacking.

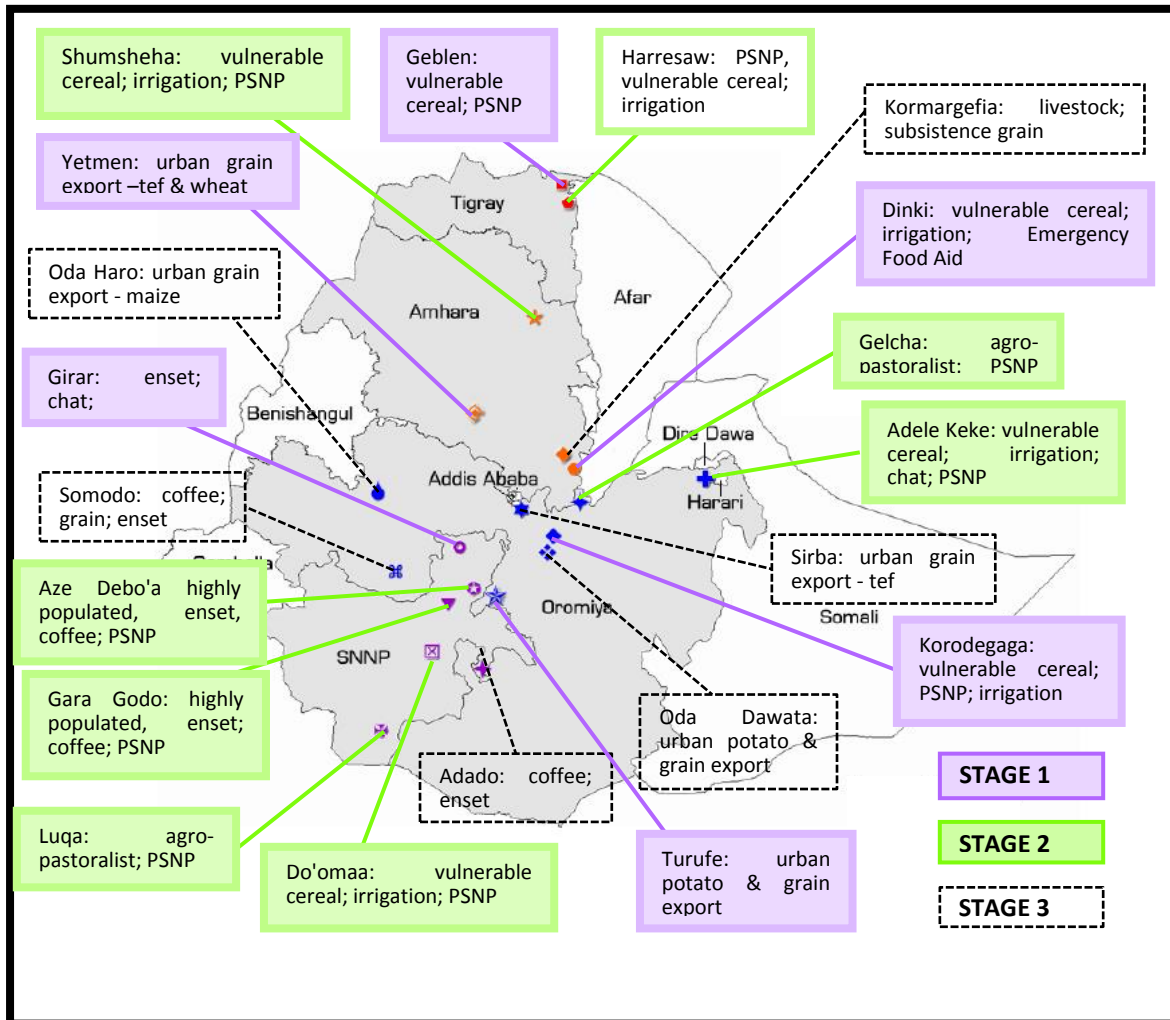
While the expansion of the non-farm sector is important to absorb growing number of unemployed youth in rural areas, we also feel that there still remains enormous unexploited potential for work creation in the agricultural sector. There were some attempts to organize the youth in cooperatives to encourage their participation in activities within the agricultural domains. There, however, remains a lot of untapped potential in the sector in the WIDE 3 communities, for example in dairy, poultry, beekeeping and honey processing. Given a rising demand for such types of produces in urban areas, strategies and interventions that promote and facilitate the involvement of the youth in rearing backyard animals and bees will greatly complement the nascent non-farm sector.

Finally, the WIDE 3 reports show that the retail and trading sector is increasingly expanding in these communities creating more self-employment opportunities for the rural youth. In the long run, however, an expansion of the manufacturing sector in rural areas would create increased and more rewarding employment opportunities, as opposed to the service sector in general and retail trading in particular that perpetuate low-paying and low-value adding jobs that offer limited scope for skills diversification and improvement



Reference map: The 20 WIDE communities

The 20 WIDE communities are examples of the major types of agro-ecological systems found in the four central regions of the country.



**Research and Publication Information:**

**Research:**

WIDE is a longitudinal study of 20 rural communities in Ethiopia over 20 years. WIDE1 produced 15 village profiles from 15 communities, selected by Addis Ababa University Economics Department and the International Food Policy Research Institute in the early 1990s, representing different agro-ecological types. (See: the Centre for the Study of African Economies, 1994: [www.csaee.ox.ac.uk/evstudies](http://www.csaee.ox.ac.uk/evstudies) ).

Three cash crop communities were added and in 2003 WIDE2 added two pastoralist sites during the Wellbeing in Developing Countries/University of Bath study ([www.welldev.org.uk](http://www.welldev.org.uk)).

WIDE3 returned to the 20 communities in three stages. Stage 1 in 2010 involved six communities that had been studied in-depth in WIDE2; stage 2 in 2011-12 included eight drought prone communities; stage 3 in 2013 studied the remaining six growth potential sites.

Community situation reports have been produced for all 20 sites over three research stages. Rapid briefing notes have been shared with an electronic work net of interested organisations and individuals. Key findings have been presented to key government stakeholders through the support of the Ethiopian Development Research Institute (EDRI) at workshops and through meetings with ministers, as well as to donors and international organisations.

**Publication Information:**

This is one of five briefs produced based on the WIDE3 data and commissioned by the World Bank. This brief has been written by Girum Abebe and Eden Teklay, Ethiopian Development Research Institute (EDRI) and Economic Policy Analysis Unit (EPAU Addis Ababa, Ethiopia, P.O.BOX 2479).

Three of these briefs have been produced by the Economic Policy Analysis Unit (EPAU) of the Ethiopian Development Research Institute (EDRI) on:

- Unlocking agricultural growth
- Farming and value chains
- Job creation for the rural youth

Two briefs have been produced by independent consultants on:

- Equitable service delivery
- Models and realities of transformation.

**Disclaimer:**

These five briefs, drawing on the WIDE 3 evidence, have been produced to bring policy and implementation questions and possible implications to the attention of policymakers, with the aim of contributing to current debates on the key issues addressed through engaging in discussions with government and the donors. They do not necessarily represent the views of the World Bank, the financing donors or the WIDE research team.

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