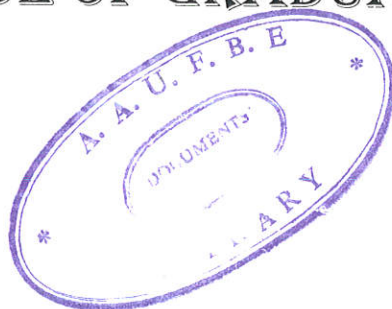


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ADDIS ABABA UNIVERSITY
SCHOOL OF GRADUATE STUDIES



UNEMPLOYMENT AND THE ROLE OF
EMPLOYMENT SERVICES

*AN ECONOMIC VALUATION OF EMPLOYMENT
SERVICE*

TEWODROS YILMA
MAY, 2000

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SCHOOL OF GRADUATE STUDIES

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BY: TEWODROS YILMA

A THESIS SUBMITTED TO THE SCHOOL OF GRADUATE STUDIES, ADDIS
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**ADDIS ABABA UNIVERSITY
SCHOOL OF GRADUATE STUDIES**

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EMPLOYMENT SERVICES:
AN ECONOMIC VALUATION OF EMPLOYMENT
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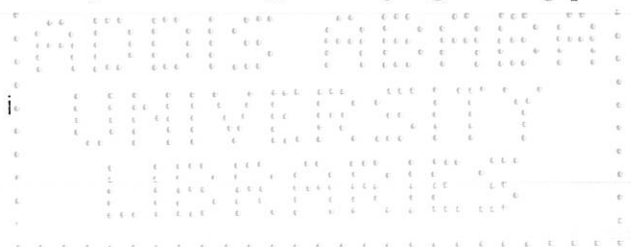
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ABSTRACT

The issue of unemployment and the operation of the labour market is a very central issue to the modern economy, both in the developed and the developing world. The operation of this market is a fascinating and complicated process. Workers differ in their abilities, attitudes, and tastes. Productivity depends not only on abilities but also on how well a worker is matched to a job. The question of unemployment is tied to the social, political and economic atmosphere in every country. It is an issue to the individual, to the firms and to the government as well. As a result studies on the causes, effect and remedies to unemployment problems have captured the attention of all these agents.

The main cause of unemployment according to most studies is the high rate of population growth coupled with low level of economic growth which is manifested by the slow pace of job creation by the economy. The educational system as a major supplier of the labour force is also an important area related with the problems of unemployment. The existing educational system not only supplies the economy a labour force that far exceeds in number the available jobs but also a labour force which invariably does not fit the existing jobs and vacancies.

The problem of unemployment is also related to the functioning of the labor market, which in large part is the concern of this paper. The existence of an adequately functioning labor market which sends the relevant signals to help adjust the mismatch between existing skills and the skills needed by the economy, and highlights the gap



Available evidence indicates that many vacancies remain unfilled despite the existence of a large unemployed labor force. Information found from MoLSA showed that over 23% of vacancies remained unfilled. The existence of the considerable unfilled vacancies in the midst of a large unemployed labor force depicts the failure of the labor market.

The present study which examines the willingness of job seekers to pay for such services, will contribute in drawing attention of the policy makers and the public at large and facilitate the realization of the potential roles of employment service to play their part in addressing unemployment problems. It also contribute for the elucidation

of economic grounds on the ongoing dialogue related to how and by whom employment service should be provided.

In the present study an attempt has been made to economically value the role of employment services. The study has confirmed that the job seekers attach considerable value to employment services and are willing to pay for a placement service rendered by employment agencies. The study has shown that in Addis Ababa Administrative region alone the placement services of employment agencies has an economic value worth over 18 million Birr per annum. This estimate considers only the value attached by unemployed job seekers to placement services alone and represents a very small portion of the service, that employment agencies are expected to be perform.

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CHAPTER ONE: INTRODUCTION

1.1 Background

The issue of unemployment and the operation of the labour market are a very central issue to the modern economy, both in the developed and the developing world. The operation of this market is a fascinating and complicated process. Workers differ in their abilities, attitudes, and tastes. Productivity depends not only on abilities but also on how well a worker is matched to a job. The question of unemployment is tied to the social, political and economic atmosphere in every country. It is an issue to the individual, to the firms and to the government as well. As a result studies on the causes, effect and remedies to unemployment problems have captured the attention of all these agents.

Unemployment can be a major causal factor predisposing people to social exclusion. The exclusion applies not only to economic opportunities, such as job-related insurance, pension and medical entitlements, but also to social activities such as participation in the life of the community which may be quite problematic for jobless people. Just as people “Learn by doing”, they also “unlearn by not doing”. So unemployment results in depreciation of skill and loss of cognitive abilities due to lack of confidence and sense of control.

Unemployment can play havoc with the lives of the jobless and cause intense suffering and mental agony. Studies by Solow (1995) have shown that there is a

strong link between psychological suffering and motivational impairment. Youth unemployment can take a particular high toll, leading to long run loss of self-esteem among young workers and would be workers such as school leavers. Unemployment can also lead to clinically identifiable illness and higher rates of mortality. This can be due to loss of income and material means, but the connection also works through dejection and a lack of self respect and a collapse of motivation generated by persistent unemployment.

The discouragement that is induced by unemployment can lead to a weakening of motivation and in the long term make the unemployed more resigned and passive. This general issue also relates to the composition and variation of what counts as the “labour force”. The impact of prolonged unemployment can be severe in weakening the distinction for people of working age between being “in the labor force but unemployed and being “out of the labor force.” The empirical relevance of the distinction between these states and transitions between the two can be important for the future of the economy as well as the predicaments

In a less developed country like Ethiopia, which is characterized by severe unemployment problems, an issue related with unemployment deserves due attention and calls for concerted efforts by all concerned bodies. In this regard, employment agencies are at least theoretically; considered among one of the various bodies that helps to address the problem of unemployment and its multifaceted consequences, to some degree, by enhancing the functioning and efficiency of the labor market.

The important role played by employment service agencies to enhance the functioning of the labor market has been recognized throughout history of mankind right up to the modern age. A study made by ILO (1994) traced Employment agencies in the form of temporary work agencies to ancient Egypt to the time of Ramses II when seasonal agricultural workers were first used .The practice continued through Middle Ages and during the period of the industrial revolution to present time.

Throughout the twentieth century employment agencies have been one of the debatable issues in the national, regional and international fora. This prompted ILO to consider the important role of employment service to the functioning of the labor market as far back as 1919, just a few months after it's inception. Since this time ILO has initiated and adopted a number of international recommendations and conventions to institutionalize the service of employment organizations. Some of these are, Unemployment Convention 34/1919, Employment Agency Recommendation 42/1919, Recommendation Concerning the Organization of the Employment Service 83/1948 Convention Concerning the Organization of the Employment Service 88/1948, Convention Concerning Fee-Charging Employment Agencies (revised), 96/1949, and Employment Agencies Convention 181/1997 just to mention a few.

According to the above conventions the main objectives of the employment exchange office is to assist workers to find suitable employment and assist employers to find

suitable workers in an efficient and effective way. In line with these ILO conventions, Ethiopia set up a public employment agency organized as a department under the Ministry of Labor and Social Affairs and provides the service free of charge from both sides of its users namely the employer and job seeker. Until very recently, this public employment agency has been the only known legally established employment agency. The agency has been performing some of the stated activities in the ILO convention 48/1949.

In Ethiopia the public sector has been the major employer for a number of years as the country had been under a command economy. Following the change of the economic situation, the private sector is becoming an important employer of the labor force. This new development in the labor market inevitably calls for the participation of private employment agencies as continuing provision of the employment service by the public employment service agency alone brings some difficulty.

Ethiopia has recently issued a Private Employment Agency Proclamation 104/1998 to facilitate the legal and formal participation of private employment agencies. In the proclamation, the agencies are restricted from charging any fee from the job seekers. This provision is presumed to be in line with the ILO principle of conditions of working of employment agencies that was meant to protect job seekers from potential exploitation and abuse by the agencies.

As has been said in the previous section unemployment has an enormous negative effect both at macro and micro level. This includes low income, loss of current output, loss of freedom and social exclusion, skill loss and long run damage, psychological harm, health and morality, motivational loss and future work, loss of human relation and family life, loss of social values and responsibility.

Based on the 1994 census in Ethiopia there were 770,842 unemployed people, which represents about 2.91% of the then economically active population. The unemployed population in urban Ethiopia alone stands at 605,814 representing around 79 percent of the country's total unemployed force. Among the urban unemployed population 55% were male and 45% were female.

According to the 1999 National Labor Force Survey the size of unemployed has increased almost three fold and reached to about 2.2 million. The urban unemployment increased over 1.6 times while rural unemployment grew seven folds. The share of Addis Ababa in the country's urban unemployed labour force is quite significant. In 1994 and 1999 the share of Addis Ababa in urban unemployed labour force was 51.6 and 45 percent respectively.

The rate of unemployment i.e. share of unemployed relative to the economically active population, at national level grew from 2.91% in 1994 to 8.06 percent in 1999 while for urban area it grew from 22% to 25.7 percent. The rate of unemployment in Addis Ababa region in 1999 was in the tune of 38.08 percent. This depicts the existence of high rate of unemployment and hence the associated problem in the urban areas in general and in Addis Ababa in particular.

On the other hand despite the existence of a large unemployed labor force a number of vacancies have remained unfilled. According to a recent report by the Ministry of Labour and Social Affairs (MoLSA), over the period 1993 to 1998 out of 21,472 job vacancies announced only 16,545 vacancies were filled. The remaining or about 23% of vacancies remained unfilled despite the existence of a large number of unemployed force across all age groups and educational levels. This sizeable mismatch between vacancies and filled vacancies is very significant and calls for concerted efforts and due attention.

The co-existence of a mismatch of vacancies and job seekers in the midst of a large unemployed labor force can either be due to skill gap or information gap. Skill gap refers to gap between the demand and supply in the labor market for certain types of skills which are required by the economy and more or less related to the educational system of the country and absence of adequate career counseling. Information gap is the inaccessibility of the relevant information related to vacancies and job seekers to the right agents, employers or job seekers, at the appropriate time. Available data

does not allow for an examination of the relative share of these problems to facilitate separate analysis. Nevertheless it is conceivable to consider that the two problems would exist simultaneously and compounds the problem of unemployment.

To alleviate the problem of unemployment many prescriptions have been offered among which enabling the labor market to function properly by facilitating employment information is one. Employment service can play a crucial role to address the information gap problems. As they are centres for collection, compilations and dissemination of labor market information they could be the focal point for optimising the labor market.

The ILO convention listed many important activities to be performed by these agencies which are really demanding. Undertaking the anticipated activities on the required level and quality needs well organized offices and qualified staff. Unfortunately most of the employment agencies are not adequately staffed and the necessary equipment are often scarce. This has made the service not to cope with the changing nature of labor market and also led to further deterioration of their operation and seriously undermined the anticipated role of the employment service to the society in general and to the labor markets in particular. Most of the existing employment service agencies hardly provide the expected level and quality of services.

Their activity is rather limited to announce vacancies and short list candidates to the employers at best and even in such cases they operate in various imperfections as a result of poor policy environment, legal framework and economic incentives. Given the vital role the employment service agencies are expected to render in the functioning of the labor market their inefficiency would imply inefficient and malfunctioning labor market thus, compounding the problem of unemployment.

In view of the principle that employment service should be provided freely at least to the job seekers, their resource constraint is further compounded. This principle is basically designed to protect the job seekers from potential abuses by these agencies. It is based more on moral and ethical grounds and not on economic reasoning. However, should such service be sustainable and efficiently operational, the economic reasoning deserves more examination. There might be a need to challenge the principle that prohibits charging fee from job seekers on such economic grounds. The present exercise in this study which is to examine the willingness of a job seekers to pay will contribute to elucidating some of the economic grounds in this dialogue.

In fact this paper argues that the role of employment agencies is not adequately understood at least in the Ethiopian case. This has impeded their growth by denying them a conducive policy, legal and economic environment. Economic valuation of their services will redirect the required attention to their role and strengthen these agencies.

Therefore, the envisaged study will attempt to elaborate the problem of unemployment and the role of employment agencies in addressing the problem. It particularly tries to economically value the role of employment agencies by estimating the willingness of job seekers to pay for the employment service as provided by the agencies using a contingent valuation method (CVM).

1.3 Objectives

The objectives of this study are to elaborate the state of unemployment in Ethiopia and the role of employment service in helping to address unemployment problem. In elaborating the state of unemployment, the study first examines the state of unemployment in Ethiopia based mainly on the Statistical Report of the 1999 National Labour Force Survey and the Ethiopian National Population and Housing Census of 1994 of the Central Statistics Authority (CSA). By doing so the study tries to examine the structure of unemployment in terms of age, gender, education, region etc. in 1999 and compare it with that of 1994 with a view to establish the trend and the size of the unemployment problem.

In elaborating the role of employment service, the study attempts to give a detailed exposition on the historical development of employment services and the major components of the service and some of the activities carried out in recent years by the Ethiopian public employment services. More importantly, to help appreciate the role of employment agencies in financial terms, the study undertakes an economic

valuation of employment services using a Contingent Valuation Method (CVM). The study particularly attempts, among others things, to:

- Examine the value attached by job seekers to employment service by estimating their willingness to pay for the services as provided by employment agencies
- To examine the possibility of extending the application of CVM beyond its conventional application in valuing employment exchange services .
- To study and examine which socio-economic factors influence the willingness of job seekers to pay for such service and characterize the behaviour of the unemployed job seekers with reference to these factors.
- To contribute to the ongoing national and international dialogue on the issue as to who should provide the service, the public or the private or both, and on the issue of how such service should be provided to a potential job seeker i.e. with or without fee
- To draw the attention of the public and policy makers to the need to strive in creating an enabling environment for the development and proper functioning of the employment services.

1.4 Scope and Limitation of the Research.

The tasks of employment agencies consist of three major components namely matching of job seekers and vacancies, collecting, compiling and providing labor market information and career counselling. Several activities are performed under each category. These include among others, registration and compilation of relevant information about job seekers, interviewing them for employment and evaluating if necessary, their physical and vocational capacity.

They also assist job seekers by giving career guidance for a relevant training or re-training and facilitate their occupational and geographical mobility. Such services are rendered to both employed and unemployed job seekers as job seekers may not be necessarily unemployed. The agencies give services also to employers by gathering precise information on vacancies and the requirements and identifying a job seeker with suitable skills and physical capacity.

All the above tasks performed by employment agencies obviously have their own values. The total valuation of such service requires the valuation of all these range of activities performed by employment service providers. However, undertaking such an overall valuation requires a sizeable resource in terms of time, human labor and finance. Therefore the present valuation is confined to estimate the value of employment services only from the point of view of a job seeker and is limited to reflect a small portion of the value of employment services.

The original intention was to examine the willingness to pay by both employed and unemployed job seekers. However, due to time constraint realized in due course the survey has been scaled down to include only the unemployed job seekers. As a result only unemployed job seekers with and without employment experience have been considered for the survey. The research attempted to elicit the willingness to pay to an employment agency only by the unemployed job seeker upon getting a job through the agency.

Moreover provision of employment service definitely entails cost and a more meaningful analysis of the role of employment service would require the estimation of benefits of the service net of its cost. This has not been attempted in the present study and could be regarded as one of its limitations.

CHAPTER TWO: METHODOLOGY

2.1 Methods of Valuation

The ILO conventions related to employment service stipulates the provision of such services freely by the public organizations. For instance, the ILO convention 48/1949 in its first article requests each member state to ensure the maintenance of free public employment services. This convention was revised as convention 49 dealing specifically with charging of fees. This convention urges countries that presently charge fees for the employment services to gradually ablate such charges.

ILO in Article 7.1 of its most recent convention of Private Employment Agencies Convention, No 181/1997 reiterated that private employment agencies shall not charge directly or indirectly, in whole and in part, any fees or cost from workers. This has been relaxed, however, in the subsequent sub article of article seven of the same convention. This sub article of the convention allows exception to certain categories of workers in the interest of the workers concerned as well as to specified types of services provided by private employment agencies.

Considering the Ethiopian case, employment services used to be formally provided by the public organization alone and it was free, although there were informal private providers of the service. The Labor Proclamation 42/1993 in its Article 176

stated that no person or entity shall perform employment exchange activities for considerations and strictly prohibit any types of fee from any party for an employment service rendered. In March 1998 a new proclamation entitled Private Employment Agency Proclamation 104/1998 was issued.

The issuance of this proclamation for the first time allowed individuals and private entities to participate in employment service provision formally and legally. Moreover this proclamation in its article 20 amended article 176 of labor proclamation 42/1993 which states that “no person or entity shall perform employment exchange activities for considerations” to “no person or entity shall perform employment exchange activities for considerations from a worker”. This amendment allowed the private employment service provider to charge fees from employers and retains the no fee principle from workers.

The prohibition of employment agency to charge fee from job seekers still makes such service not to have any market value as far as the job seeker is concerned. Moreover the provision of such service by the public organizations seems to continue free of any charge as this amendment is only related to the private providers. This makes the service to have no market value as far as the public provider of such service is concerned.

The value of employment exchange service perhaps can be assessed based on the cost incurred by the job seekers who did not use the service of the employment

service or if there were no employment service at all. These costs may be in the form of queuing time, travel cost, job application and processing costs etc. A number of empirical studies have attempted to identify determinants of job search costs, to analyze and estimate how they affect the search cost. However most of the studies only determined the direct cost of the job seeker as related with travel cost, news paper acquisition and preparing and sending applications and support documents. They also didn't identify whether the job seekers conducted the job search through employment exchange office or directly. The highlight of some of these empirical studies are presented in the literature survey.

In view of the absence of market value one possibility of estimating the economic value is using a contingent valuation method (CVM techniques). These techniques involve estimating of the willingness of users to pay for such service, by directly asking the user. In a number of goods or services for which a market value is difficult to estimate directly or indirectly the value of such services is estimated by contingent valuation method.

2.2 Nature and Source of Data

The study used data from both primary and secondary sources. The secondary data mainly based on the Central Statistics Authority Survey Reports of the 1994 Population Census and the 1999 Labour Force Survey. The primary data used in the study is a cross sectional data obtained through a survey conducted by the researcher.

In the survey, information about the major socio-economic variables that includes the general background information of the respondent and the specific information related to his employment/ unemployment status was gathered. The respondents were initially anticipated to be job seekers during the survey period and need not necessarily be unemployed. This was believed to capture the issue of under employment, under remuneration, job insecurity or any other reason for job preferences as mentioned by the employed job seeker. However due to constraints encountered in the course of the survey, information was gathered only about the unemployed job seekers. Therefore, only unemployed job seekers with and without previous experience were interviewed.

2.3 Data Analysis

The relevant information related to unemployment issue as obtained from the secondary sources was summarised using tables. A number of useful ratios were computed and important relationships among different factors were analysed using a cross tabulation technique. The structure of unemployment was analysed for 1994 and 1999 and a comparison and trend analysis was carried out between these two periods.

Similarly the surveyed data was summarized, tabulated and appraised employing a descriptive statistical method. The information on willingness to pay (WTP) is categorised in appropriate ranges and frequency distribution table developed for each

category. The sample and total willingness to pay for each category of willingness to pay and the total and the maximum willingness to pay for all categories were estimated.

An OLS regression was run to estimate a function that relates willingness to pay with the different socio-economic factors of the respondent and the specific information related to his employment/unemployment status. This involved the use of various regression methods iteratively with the view to establish a robust model that explains determinants of willingness to pay for the service under question. Besides some of the recent statistical and regression software were employed for carrying out the analysis. A LIMDEP regression software was employed mainly in the final regression analysis for its advantage of giving an output corrected for a potential heteroscedasticity.

2.4 Model Specification

Although no established theory predicts the determinants of willingness to pay for employment service, it is conceivable that factors which affect, willingness to pay for any other types of goods and services was also affect WTP for employment services. It is also plausible to assert that factors determining job search costs will have an influence on the potential willingness to pay of job seekers. It is logical to assume that an individual job seeker's willingness to pay for service he is provided by an

employment exchange office should not be more than the cost he or she incurs if he/she is performing those services by himself/herself.

Thus, given that all other things remain the same, an individual will not be willing to pay any price for a certain service if it is going to cost him/her over and above relative to what he/she would have incurred if he/she did it himself/herself. Having this general proposition, the willingness to pay is presumed to be determined by a number of variables, among others;

- Employment status of an individual (ES) i.e. whether a currently unemployed individual has some sort of earlier employment experience or not
- Age (AGE),
- Sex (SEX),
- Educational level (EDU)
- Household Size (HHS)
- Duration of Unemployment (UDUR)
- Reservation Wage (RWAGE)
- Income (HHTI)
- Payment Method (PMETD)

Based on the above, the following possible functional relationship is anticipated:

$$WTP = F(ES, AGE, SEX, EDU, HHS, UDUR, RWAGE, HHTI, PMETD)$$

Willingness to pay relates to the income of the individual which is captured by household income as a proxy to income of unemployed job seeker. Theoretically income is positively related to WTP. WTP is expected to relate negatively with the HH Size since for a given HH total income the income per capita declines as HH size increases.

The WTP is expected to be high for a job seeker with a previous experience as a job seeker with previous job experience is likely to attach more value to the employment. Theoretically WTP is positively related to the utility or benefit derived from the consumption of the goods and/or the services consumed. In this particular model reservation wage represent the quantitative version of the benefit and hence reservation wage is expected to be positively related to WTP.

The unemployment duration is expected to be positively related with WTP for the employment service as it indicates that low probability of getting a job. Educational level might increase the probability of getting employment and reduce unemployment duration and hence negatively related to WTP as per the preceding analogy.

The relationship of WTP with sex doesn't seem to be straight but it can be argued to be high for a female job seeker. The justification for this prediction is that unemployed females have higher opportunity cost than males, as females tend to have tasks to be performed in and around home.

The method of payment employed also affects the WTP of an individual. Generally WTP is expected to be lower for lump sum payment relative to payment by instalments. The theoretical justification is mainly related to the time value of money.

2.5 Questionnaire Development

Originally the questionnaire was drafted by adopting the format of the questionnaire used by department of Economics in Ethiopian socio-economic survey. The contents of the questionnaire did not include question on asset acquisition, income and expenditure and were designed for three categories of respondents, namely, currently employed respondents, currently unemployed with an employment track record and never employed respondents

Based on the needs identified during consultations with the advisor and the exercise work, the questionnaire was repeatedly modified. The final questionnaire had forty seven questions in total and it asks information on the household's general background, income and expenditure of selected utilities, asset acquisition, employment situation, and information on job and willingness to pay (WTP).

The format has also been modified and the final questionnaire has a separate answer sheet and the questions and answers code in the same document. Only one questionnaire and a hundred answer sheets were given to each enumerator. Overall

the final version of the questionnaire was found to be more convenient in handling and filling the answers and economical for duplication.

2.6 Sampling technique

In view of the resource limitations, the survey was conducted on 300 respondents.

To make the selection of Kebele's more random, the six zones of Addis Ababa Administrative region were divided in to odd and even numbered zones. Even numbered kebeles were selected from odd numbered zones and odd numbered kebeles were selected from even numbered zones. As a result, odd numbered Kebles in Zone two and four and even numbered kebeles in zone one, three and five were considered. Both odd and even numbered Kebeles were taken from Zone six on the grounds that Zone six has fewer Kebeles.

Although a simple random sampling technique could have been used, the present seemingly systematic sampling has been used owing to possible advantage of including different groups in relation to education, age, sex, family income and expenditure without possible loss of randomness.

2.7 Survey Activities

The survey was divided in to three phases namely test survey, pilot survey and master survey. During the test survey, interview was conducted with three unemployed job

seekers that were selected randomly from the list of job seekers who were looking for jobs through the Africa Host Professionals (AHP) employment agency. The main purpose of the test survey was to examine possible problems, which may arise while conducting the actual survey.

Moreover, the test survey also helped to determine the number of enumerators to be recruited by determining the time required for interviewing. Accordingly, three enumerators with relevant skills of surveying and an assistant researcher were recruited through AHP which is one of the private employment agencies, following a formal recruitment procedure.

Detailed orientation and intensive training was given to the enumerators in two sessions. In the first session exposition about the overall manners and work ethics of conducting a survey was made. This was followed with an orientation of the survey questionnaire with particular emphasis on the WTP type of questions. Then the draft questionnaire was given to the enumerators to take their time and familiarize themselves with the questionnaire.

In the second training session that was conducted two days after the first training, the enumerators were asked to express their view on their assessment of the questionnaire and discussions were conducted on the issues raised. By way of a rehearsal, the researcher and his assistant interviewed the enumerators and filled questionnaires. Following this, the researcher together with enumerators conducted a pilot survey on

fifteen respondents to determine the starting values and to further refine the questionnaire. In the pilot survey an open-ended type of WTP question was employed and the maximum, the median and the minimum values were identified as three starting values. The feedback obtained during rehearsals and the starting values obtained during the pilot survey were assessed and incorporated in the questionnaire used for the master survey.

The master survey was conducted all over Addis Ababa on 300 respondents. The survey was conducted in all the woredas of six Zones of the Addis Ababa Administrative region. Out of the total 289 Kebeles found in Addis Ababa Administrative region, the survey was conducted in 110 Kebeles. On average three respondents were taken from each Kebele. For each enumerator, two zones out of which one was odd numbered and one even numbered zone were assigned. To further minimize the sampling bias by the enumerators, all the respondents were identified through Kebele officials. The work schedule for the master survey was designed in consultation with the concerned bodies and lasted for ten weeks from 1st of February to 7th of April, 2000

To facilitate the survey, the enumerators were provided with all the relevant stationary material and equipment. Supporting letters obtained from the department of economics were provided to Ministry of Social & Labor Affairs, Addis Ababa Administrative Social & Labor Affairs Bureau, Employment Agency (Africa Host Professionals), Kebele offices and all concerned bodies.

CHAPTER THREE: LITERATURE SURVEY

The value of employment exchange service perhaps can be estimated based on the cost incurred by the job seekers who do not use the service of the employment service or if there were no employment services at all. These costs may be in the form of queuing time, travel cost, job application and processing costs etc. A number of empirical studies that have attempted to identify determinants of job search costs and to analyse how they affect the search cost have been conducted by a number of researchers.

Stephenson (1976) dealt with cost of search in relation to race and revealed that white youths had direct search expenditures which were \$7 per week more than black youths. He attributed this to differences in rates of car ownership, days spent searching and direct contacts with firms. Later, using the same data on Indianapolis youth, Stephenson (1981) dealt specifically with cost of labor market information and argued that the cost of acquiring information includes both direct and indirect costs. He gave the factors influencing direct search expenditures as method of acquiring labour market information, exact rate of travel cost, and skill training on human capital. Friednlander (1981), while commenting on Stephenson's (1981) study suggested that factors like marital status, family heads, number of dependants and parents incomes also affected direct expenditures on search.

Further, Stephenson (1981) argued that the value of time for job seeker may not be necessarily zero as there will be alternative activities to be performed by the job

seeker. The proxy for estimating of the indirect cost of acquiring labor market information was given as individual's reservation wage. He also maintained that an unemployed job searcher will only accept a job offer if it is at least greater than his reservation wage. Subsequently, if the job offer is less than the searchers reservation wage, it is rejected and he foregoes the opportunity to obtain earnings at that level in future periods.

Stigler (1962) explained the relationship between the cost of search and wage dispersion. He observed larger search activity at a given level of wage dispersion offered by employers. He further argued that whenever an employer chances of recruiting an individual are high, search costs are lowered. Gronau (1971) pointed out that an individual who is more skilled will spend more on employment agencies than one who has invested less in human capital. The more skilled individual will try to minimize cost of search by substituting his own time for market inputs.

Frehiwot (1999) also attempted to estimate a job search cost model. This study had anticipated the determinants of job search cost to be expected recall, sex, marital status, non wage income and education and only marital status was found to be a significant variable. This was considered to agree with the theoretical prediction that married individuals may be delegated to undertake other family matters.

However most of the studies only determined the direct cost of the job seeker as related with travel cost, newspaper acquisition and preparing and sending applications

and support documents. One possible way perhaps to overcome this limitation is to employ a Contingent Valuation Method. This method is preferred as a direct expression of value as plausible means for an employment service based on no fee principle. Contingent Valuation Method was originally proposed by Davis (1963) and was refined theoretically and empirically during the 1970's and 1980's before it got wide acceptance. CVM enables economic values to be estimated for a wide range of commodities (goods and services) not traded in markets and nowadays it has become very popular in valuing environmental amenities. Indeed, several studies conducted have employed CVM to estimate the economic value of a wide range of natural resources.

The theoretical basis for CVM relies on the economic value measured in the form of consumer surplus and compensating or equivalent variation in relation to utility functions through the concepts of willingness to pay (WTP) and willingness to accept (WTA) compensation. Consumer surplus is the benefit the consumer is getting by consuming a certain commodity as a result of difference between the amount actually paid when purchasing a commodity and the price a consumer would have been willing to pay.

Equivalent variations is the minimum amount of money that must be given that must to a consumer to make him as well off as he would have been after a rise in price. Alternatively it can be defined as the maximum amount of money that must be taken from a consumer to make him as well off as he would have been after a fall in price.

Compensating variation on the other hand is the maximum amount of money that can be taken from a consumer to make him as well off as he was before a fall in prices. Alternatively it can be defined as the minimum amount of money that must be given to a consumer to make him as well off as he was before a rise in prices.

The theoretical foundation of the above concepts is related to consumer welfare theory. According to this theory a consumer is assumed to have a rational behaviour with an objective of utility maximisation in making a choice of the most preferred set of goods and services from all available subject to his resource constraint. A thorough exposition of this theory has been presented in a number of textbooks such as Boadway and Bruce (1984), Johansson (1987), Nick and Clive (1993) and others.

CVM works by directly soliciting for a sample of consumers their WTP for an increase in welfare by consuming non marketable goods or services such as environmental goods and /or WTA compensation for a forgone welfare by not consuming the good, in a carefully structured hypothetical market.

To determine the maximum a respondent is willing to pay for an environmental good, the interviewer may simply ask what amount the respondent is willing to pay or whether or not the respondent is willing to pay a stated amount.

CVM exercise may involve six distinct stages namely setting up a hypothetical market, obtaining bids, estimating mean WTP and/or WTA, estimating bid curves, aggregating the data and evaluating the CVM exercise. Any contingent valuation study must incorporate a description of the commodity to be valued and a method by which payment is to be made and a method of eliciting values.

Within the CV methodology, information is very critical and hence a number of issues arise. How much information should be given to respondents in a survey? How will the results of CV survey be affected in the case of poorly informed respondents? What impact will the provision of information have on WTP or WTA? Bergstrom et al. (1990) found evidence that increasing the amount of information about good characteristics of a good increases the stated WTP. Hanley, Spash and Walker (1995) considered problems in valuing the benefits of biodiversity protection, with varying levels of information. Their findings also indicate that increasing the level of information increased WTP. NOAA panel (1993) recommended that CV researchers should give as much information as respondents can possibly take.

However, this is on condition that the information is accurate and unbiased. Cummings, Brookshire and Schulze, (1986) suggest that respondents should be well informed about the good to be valued and that they should have experience in trading in this good. While we agree that such information is important, there are some situations like in game reserves where respondents might not immediately understand

the benefits. Furthermore, in the current management of parks/reserves in most parts of the world, the respondents do not trade directly on the good.

There is general agreement that closed ended questions are easier for respondents to answer and therefore yield more reliable information than open ended questions, especially when the good valued is not traded in conventional markets. Asking an open ended question about a good that respondents have never been asked to value for example a reserve/park could yield a distribution of responses that have a large number of zero values and a few large ones. This reflects the fact that respondents have nothing on which to anchor their responses and are therefore unwilling to go through the reasoning necessary to discover the value they place on the good.

Although CVM is a widely accepted technique to value the total value, i.e. use and non use value, of non marketable goods or service, there is scepticism about it. One of the most serious criticism perhaps is that CVM questions are hypothetical – they represent claims rather than actual willingness to pay. How close hypothetical values are to actual ones depends on whether the commodity is public or private good, on the elicitation technique, WTP or WTA. Most experiments found no statistically significant difference between means of hypothetical and actual WTP (Dickie, Fisher and Gerking 1987; Bishop and Herberlein 1979, Bishop, Heberlein and Kealy 1983). Such is also the case when actual and hypothetical WTA are compared. Hypothetical and actual WTP have also been found to differ when the good valued is a public good (Kealy, Dovidio, Rockel 1987).

Other criticisms of the CVM as a technique are that it is potentially associated with biases and the issue of reliability and validity is a main concern of its application. Biases are said to exist in CVM responses if the responses systematically understate or overstate true value. A number of biases can be identified among others, strategic bias, design bias, mental account bias, hypothetical market error are very common.

These biases arise from a number of causes : (1) the possibility that individuals may behave strategically in answering questions – either overstating WTP if this increases the likelihood that an improvement is made or understating WTP if it reduces their share of the cost; (2) the fact that individuals may not be sufficiently familiar with the good to have well defined value for it and; (3) the fact that WTP for a good is often an order of magnitude less than WTA for the loss of the commodity.

The possibility that respondents behave strategically has also been studied. Studies by Bohm, (1972), Scherr and Emerson (1975) and Vernon (1977, 1979) suggest that strategic behavior is not a problem, possibly because of the effort that strategic behavior requires. If the commodity to be valued is not well understood, CVM responses are likely to be unreliable. Responses tend to exhibit wide variation, and respondents even prefer less of a good. One explanation of this result is that people really do not have values for the commodity in question. Do the respondents really know enough about the resource and environmental quality to place a value on the

commodity? This is particularly important in Kenya where the environment is viewed as a luxury.

The discrepancy between WTA and WTP is explained thus; that monetary losses from some reference point are valued more highly than monetary gains (Kahneman and Tversky 1979). It is also suggested that this disparity has nothing to do with flaws in CVM. Another explanation for the discrepancy between the WTA/WTP is offered by Coursey, Hollis and Schulze (1987) and Brookshire and Coursey (1987). The authors find that in experiments where individuals are allowed to submit bids or offers for the same commodity, WTA approached WTP after several rounds of transactions.

Empirical CVM studies have attempted to decompose total value components and measure them separately. Particularly important were existence, bequest and option values. The basis from which testable hypothesis were to be drawn did not actually exist. The theoretical and conceptual basis for estimating non-use values was totally lacking or ignored (see Sutherland and Walsh, 1985; Walsh, Loomis and Gilman, 1984). In the seminal paper on option value, Weisbrod(1964) argued that there are individuals who would like to see the park retained but do not use it or are infrequent users and would be willing to pay some amount to preserve it. This option value is use related.

According to Weisbrod, it is willingness of individuals who have never visited, hope to never visit, a hospital or to vote for bonds required to build or maintain a hospital. This argument that supports 'option value' should influence the decision of whether or not to close the reserve and turn it to alternative use. This however, does not get into the market as there is no mechanism to charge non-users for this option. From an operational point of view there exists the option value, but Weisbrod admits the impracticality of measuring such value.

Schulze et al (1983) studied values for improved visibility in a group of national parks. Two groups of respondents were interviewed in two different locations. The first location was the park site, while the second was the respondent home. Respondents interviewed at the first location (park site) were asked their total WTP for a change in visibility, using a daily entrance fee as the payment vehicle. The off site respondents, were asked their total WTP for the same changes in visibility at the parks, using monthly electricity bill as the payment vehicle. Schultze et al wished to measure the existence value, where upon a number of pit falls can be highlighted. First, we cannot readily establish the link or rationale for off-site and on-site procedures as they both lead to two different values. Secondly, the results show an astronomical existence value which cannot be supported by the data.

The so called total-value and use-value are not significantly different from one another, since the lowest difference was US\$3 while the largest was US\$5. Why then the disparity when annualized? Those studies sought to break new ground in CV by

targeting the various use and non use values. However, they are seriously lacking in providing credible evidence as to the need to isolate motive related values so as to capture total values. Both studies strongly suggest that the case for protection is not negotiable. This school of thought, however, totally disregards the fact that sound conservation must not compromise human welfare particularly in the poor countries.

Spash and Hanley (1994) conducted an open ended CV survey targeting the nature of preferences for diversity protection. The subjects were offered an opportunity to contribute to a fund to preserve biodiversity in Scotland. The findings revealed that (a) the respondents did not state positive willingness to pay and (b) the respondents argued that plants or animals had a right to be protected irrespective of costs to society. On the other hand, Stevens (1991), in a CVM study measuring the benefits of wildlife protection and in deciding whether benefits should be measured, found that 25% of his respondents protested the need for protection. The respondents felt it was a right that is not negotiable.

In recent years, a number of studies have applied various valuation methods adapted to local situation, to value sanctuaries and parks. Most of these studies show the use of different techniques in valuing different products like forests, services and functions of forests. Munasinghe (1993) in a World Bank study assessed the costs and benefits across different socioeconomic groups emanating from the creation of Mantadia National Park in Madagascar. The relevant issues in this case are pertinent to those in this study. A survey of 351 households within a 7.5 km radius of the park

boundary was conducted. At stake was the fact that Madagascar is very rich ecologically, but also one of the world's poorest in economic terms.

On the other hand, there was the cost imposed on local villagers by the creation of the park and the benefits received by foreign tourists. The opportunity cost approach, travel cost method and contingent valuation method were used to assess these values. The opportunity costs of park creation incurred by local residents included foregone benefits previously derived from the forest such as firewood, pasture, animals, fish and land for shifting agriculture.

To estimate the travel cost expenditure, a number of questions were raised with regard to costs, willingness to pay for the site, economic as well as sociodemographic characteristics. The travel cost study was administered to tourists visiting a nearby park. The CVM and travel cost studies yielded a net present value of tourism benefits totalling US\$2.2 million and 796,870 respectively. The other CVM survey established that on average a compensation of 108 kg of rice will make the villagers as well off without the park. It was also found that a one time compensation of US\$ 673,078 for use and non-use benefits derived from the park was all that was required.

The survey also found that most households engage in shifting cultivation and use forest products. Using market prices, the opportunity cost to villagers of losing access to Mantadia park was estimated at US\$ 91/household/year or US\$556,010 in present value terms for all households. We note that a number of issues emerge from

this valuation. The study did try to adapt to local situations especially in cases where the use of money is unheard of or is in limited use. However, a number of limitations also emerge. First, there should be a way of valuing that which we do not know, for instance, ecological residence and ecosystem functioning carbon sequestration etc., which are not properly understood. Even more important is data reliability and even the efficacy of the methodologies.

In Ethiopia there have been some studies conducted employing CVM for economic valuation of certain goods or services. One of the recent study conducted by Tegabrehan (1999), attempted to estimate WTP for an irrigation water in Tigray using CVM. The research employed an open ended elicitation method and categorized the continuous WTP data into four groups based on frequency distribution. For main irrigation period and for supplementary irrigation period, two separate sets of WTP were elucidated.

The annual average WTP for the main irrigation was Birr 369 and that of supplementary irrigation was 217 making the average annual WTP Birr 586. In all cases the averages are based on a quarter of a hectare of irrigable land. Each group encompassing a set of WTP values. The finding of the study suggested that peasants are aware of the benefits of irrigation and are willing to pay considerably for it if a fee is introduced for such service. The study justified that the benefits from irrigation are generated by its being available and not from being provided free of charge.

Another study by Girma (1998) is a research conducted to estimate the value Abiyata-Shalla Lakes National Parks using CVM. According to this study the annual economic loss of developing Abiyata-Shalla Lakes National Parks into other use was estimated to amount to US\$ 8 million. This value only captured the use value of the park. The factors affecting WTP such as income, years of acquaintance with the park, length of stay, environmental attributes, (park stocks, ease of access/cost) were found to be statistically significant throughout the regression analysis. The results also indicated that visitors willingness to pay for park conservation is directly related to their income level.

The literature reviewed above has dwelt largely on the various uses of the CV methodology, the problems encountered and some novel solutions to some of them. In the literature survey no study has been found to estimate the economic value of employment services which is the main focus of this study. This might pose some difficulty in using CVM as there is no exemplary previous work from which this study would benefit. Yet the extension of the application of CVM to value such type of services might ignite possible thinking in adjusting and improving CVM so as to be flexibly used in many situations and settings such as this study.

Like any developing country the problem of unemployment is one of the pertinent and persistent issues in Ethiopia. Of the total economically active population of the nation 14.7 million about 1.2 percent were unemployed in 1984, while about 2.9 percent of the work force of 26.5 million was unemployed in 1994. In 1999 the economically active population reached 27.3 million out of which about 2.2 million or 8.06 percent was unemployed. This depicts about 7 percent and 5 percent increase relative to 1984 and 1994 respectively.

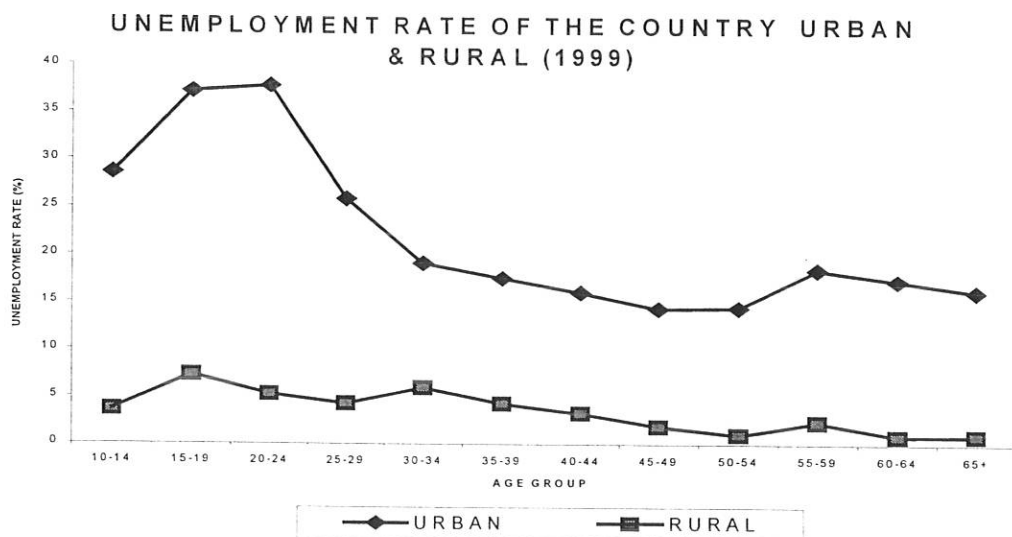
Comparing the growth rate of unemployment during the last five years (1994-1999) and earlier ten years (1984-1994) unemployment rate has grown more than double during the last five years (1994-1999).

4.1 Unemployment distribution by urban and rural sectors

The rate of unemployment has grown both in the urban and rural areas. In the rural areas unemployment grew from 0.7 percent to 5.14 percent which is more than seven fold. This indicates a significant unemployment growth rate particularly in rural unemployment which was almost non existent. The conventional factors cited as causes of unemployment does not seems to explain the high growth rate of unemployment in rural areas observed during the last five years. Therefore explaining the reason for the observed changes needs a full fledge study.

The urban unemployment rate grew from 22 percent to 25.7 percent about 4 percent increase over the last five years. Unemployment has increased both in relative and absolute terms between two censuses in 1994 and in 1999. The number of the unemployed population grew from 114 thousand in 1984 to 605 thousand in 1994 and 996 thousand in 1999. Although the rate of unemployment is expected to rise with the increase in population the present growth rate of unemployment is quite alarming.

Unemployment, particularly overt unemployment, used to be considered as an urban phenomenon alone fuelled by rural – urban migration, while underemployment is believed to be a characteristic feature of the rural area. However in view of the present rate of rural unemployment which exceeded 5 percent in 1999 census compared with a mere 0.7 percent in 1994, the unemployment issue needs to be regarded also as a rural phenomena.



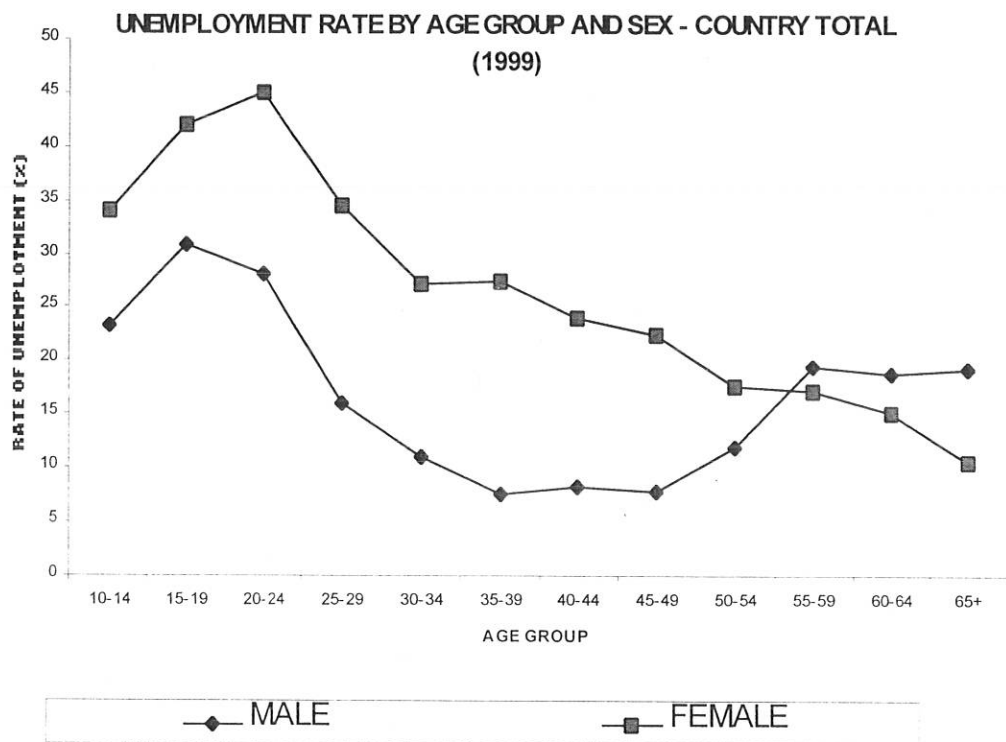
Unemployment rates are differentiated between rural and urban areas and as expected for each age group it is higher in the urban than in the rural area. The graph below elaborates this fact. The factors explaining these differences are many, the important ones being agricultural job opportunities in the rural areas and the migration of job seekers from rural to urban areas compounding the unemployment rate in the urban areas.

In the urban areas of the country, among the 1.5 million economically active people in 1984, about 8 percent were unemployed. In 1994 the unemployment rate increased to almost 22 percent among the 2.7 million economically active people. The rate however grew to 25.7 percent in 1999.

4.2 Unemployment distribution by sex

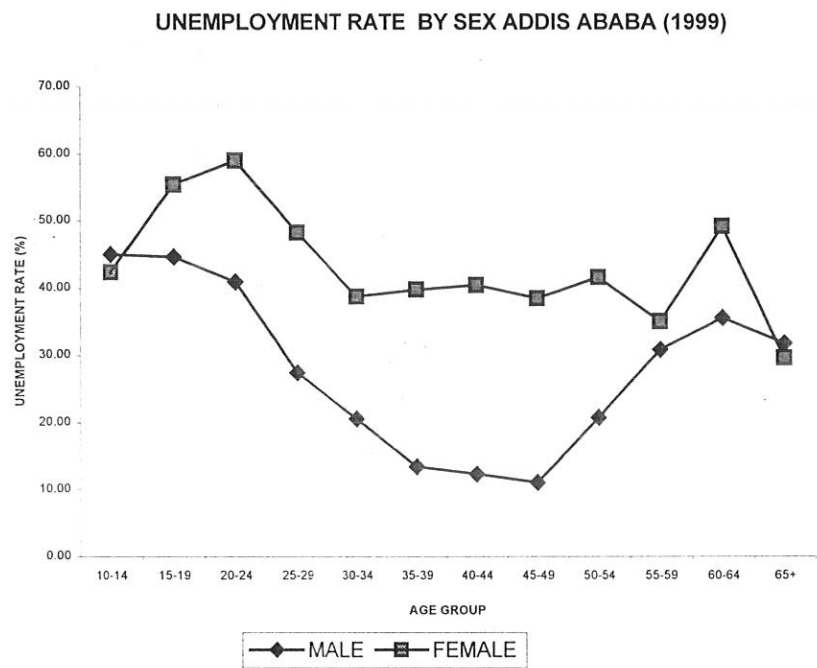
Unemployment rates are also differentiated across sex. The 1999 census result showed that for each age group, below 55 female unemployment rate is higher than male unemployment rate at country level. The urban male unemployment rate is higher than the rural male unemployment and it is also the same for females where urban female unemployment rate is higher than the rural female unemployment rate for all age groups.

As can be seen in the graph below the female unemployment rate is higher than the male unemployment rate for the age group 10 – 54 and lower for age group 55 and over. The highest unemployment rate is at the age group 15-19 for males which is 30.81 percent and for females the highest unemployment rate is shown at the age group 20-24 which is 45.05 percent.



The unemployment rate by age group and sex has been shown particularly for Addis Ababa Administrative Region in the graph below. The graph shows that except for the age group 10-14 and over 65 the female unemployment rate for Addis Ababa is higher than the male unemployed population. In the above age group, the male unemployment rate is higher than the female unemployment rate, perhaps this could be attributed to the fact that the females are family bound at this age than the males.

The highest unemployment rate for the total unemployed population is at the age group 15 – 19 which is 50.82 percent, while for both male and female the unemployment rate is high at the age group 20 – 24 representing 40.91 percent and 58.95 percent respectively. The least is observed at the age group 35 – 49 for male which is 13.4 percent and over 65 for female.



The proportion of female unemployed were lower than the males in all administrative regions during the year 1994. However this trend was completely reversed in 1999 and the proportion of female unemployed were monotonically higher in all regions than the male. The table below summarises this fact.

TABLE 1.

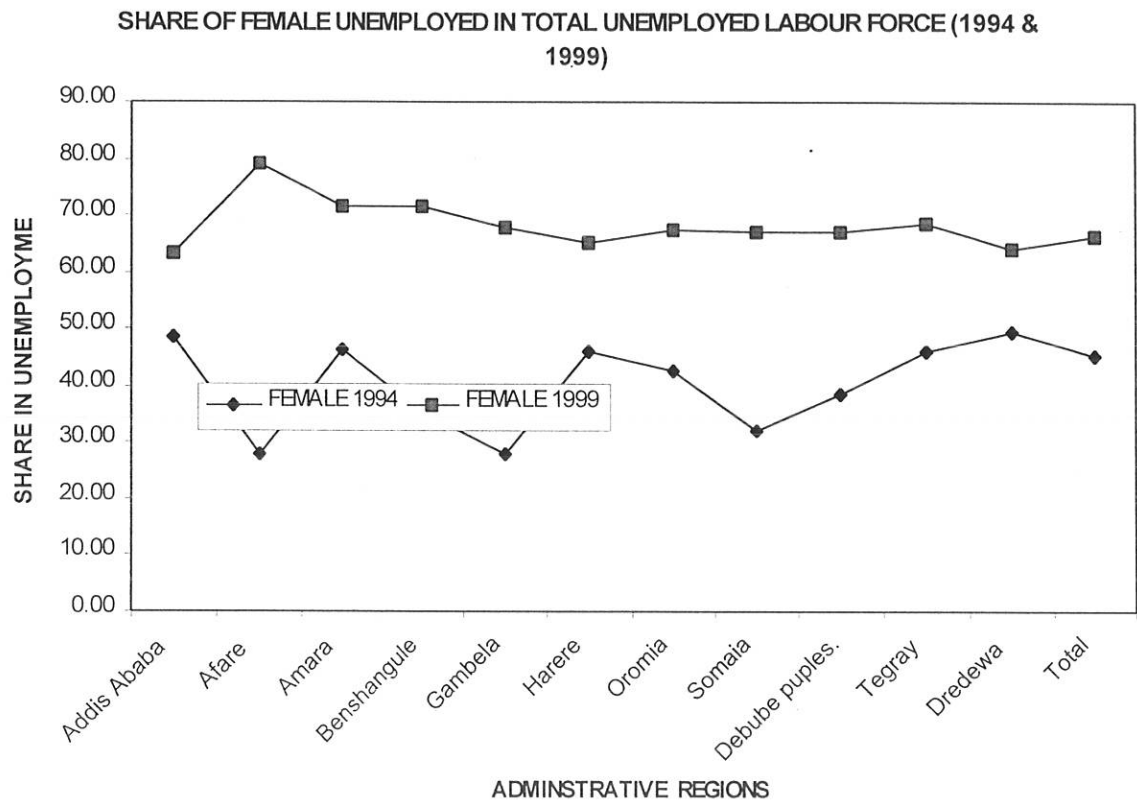
**SHARE OF UNEMPLOYED MALE AND FEMALE IN URBAN
UNEMPLOYED POPULATION IN 1994 & 1999**

	1994		1999	
A. Regions	Male	Female	Male	Female
Addis Ababa	51.44	48.56	36.65	63.35
Afar	72.23	27.77	21.03	78.97
Amahara	53.63	46.37	28.48	71.52
Benshangule	64.73	35.27	28.64	71.36
Gambela	72.23	27.77	51.51	67.87
Harere	54.00	46.00	34.91	65.09
Oromia	57.39	42.61	32.55	67.45
Somalia	67.92	32.08	32.85	67.15
SNNP	61.48	38.52	32.79	67.22
Tegray	53.95	46.05	31.64	68.36
Dredewa	50.58	49.42	36.04	63.96
Total	54.78	45.22	33.96	66.11

**SOURCE: CSA Labour Force Survey, March 1999 and Population
Census 1994**

The above table compares the proportion of female and male unemployed labour force in urban Ethiopia. According to this table in 1994 the share of unemployed was 45.22 per cent while the share grew considerably to 66.11 percent in 1999. The highest proportion of female unemployment was about 49.4 percent and 79 percent in 1994 and 1999 respectively. In 1999 the Afar region had the highest proportion of

unemployed female while Deredawa region was observed to have the lowest about 64 percent share of unemployed female.



The graph above shows the existence of a remarkable growth of share of female unemployment at national level and in all regions. This suggests that the interventions of bringing females aboard together with their counterpart male has not achieved its objective and has even led to a worse situation. The observance of this trend in the midst of several gender focused programmes which the country claimed

to have undertaken during the last five years is paradoxical and needs a thorough study.

4.3 Unemployment by age group

The age group with the highest rate of unemployment in 1984 was 15-19 age group with a 2.5 percent rate. In 1994 the highest unemployment rate was observed for the age group 20-24 which is 6.6 percent with refer to urban areas in 1984 the age group 15-19 had the highest unemployment rate (19.2 percent) followed by the 20-24 age group which was 14.6 percent. In 1994, the highest unemployment in urban areas was seen among the age group 20-24 which was 38.5 percent followed by the age group 15-19 which was 37.5. In the younger age groups there were higher proportions of unemployed females than males. However, among the older groups, the proportion of unemployed males was much higher.

4.4 Unemployment distribution by education

As the survey of 1999 results shows at the country level 53.47 percent of unemployed people were illiterate and 46.53 percent literate of which 17.26 percent completed primary school. At country level, 34.74 per cent of unemployed male are illiterate whereas 65.24 percent are literate while 61.29 percent of unemployed female are illiterate and 38.71 percent are literate.

Out of the total urban unemployed population, 21.48 percent are illiterate whereas 78.50 percent are literate. In urban areas 10.6 percent of unemployed male and 27.06 percent of unemployed female are illiterate.

For the case of Addis Ababa Administrative Region, of the total unemployed population about 12 percent are illiterate whereas about 88 percent are literate. 4.84 percent of the male unemployed and about 16.23 percent of female unemployed of Addis Ababa are illiterate while about 95 percent and 83.7 percent respectively are literate. On educational classification, the highest two unemployed clusters are the illiterate and those who completed grade 12. During the period 1994 to 1999 the unemployed illiterate increased three fold while those who completed grade 12 increased seven fold.

4.5 Unemployment and training

Different types of training have been considered to correlate it with unemployment. As the survey of 1999 indicate (in the table below) there are 112,849 trained unemployed people in the country representing over 5% of unemployment population.



TABLE 2.

**UNEMPLOYMENT BY TYPES OF TRAINING, COUNTRY AND URBAN
TOTAL (1999)**

	Country Total				Country urban					
	Total		Male	Female	Total		Male		Female	
Total	2198788		648058	1550730	996193		337628		658565	
No Training	2083524		598366	1485158	886388		291459		594929	
Trained	112849	100.00	49006	63843	107390	100.00	45483	100.00	61907	100.00
Typing	23954	21.23	156	23798	23801	22.16	156	0.34	23645	38.19
Tailoring	13020	11.54	534	12486	12641	11.77	155	0.34	12486	20.17
Driving	10023	8.88	9756	267	9174	8.54	8907	19.58	267	0.43
Business & economics	7,577	6.71	2561	5016	7577	7.06	2561	5.63	5016	8.10
Mechanic	7120	6.31	6381	739	7103	6.61	6364	13.99	739	1.19
Home economics	6971	6.18	2322	4649	6291	5.86	1642	3.61	4649	7.51
Military & police	5682	5.04	5176	506	5219	4.86	4941	10.86	278	0.45
Building construction	4640	4.11	3608	1032	4240	3.95	3208	7.05	1032	1.67
Computer Science & application	4364	3.87	632	3732	4364	4.06	632	1.39	3732	6.03
Wood work	3755	3.33	2855	2827	2645	2.46	2201	4.84	444	0.72
Electric City	3601	3.19	1780	1821	3601	3.35	1780	3.91	1821	2.94
Engineering	2398	2.12	2261	137	2150	2.00	2013	4.43	137	0.22
Metal work	2182	1.93	1734	448	2182	2.03	1734	3.81	448	0.72
Others	17562	15.56	9250	6385	16402	15.27	9189	20.20	7213	11.65

**SOURCE: CSA Labour Force Survey, March 1999 And Population
Census 1994**

About 21.23 percent of trained unemployed labor force were trained in typing while about 11.54 percent were trained in tailoring. With regard to the urban areas, about 22.16 percent of the trained unemployed people were trained in typing followed by 11.77 percent in tailoring. A similar order is observed for Addis Ababa trained unemployed force where 20.61 percent trained in typing and 10.9 percent tailoring. Only females were trained in typing and tailoring and they account for about 53 percent the trained unemployed population of Addis Ababa. Around 10 percent of trained unemployed females were trained in Business and Economics.

About 32 percent of trained unemployed male in Addis Ababa were trained in mechanics and had driving licenses; and about 7 percent trained in Business and Economics. There are considerable numbers of unemployed trained in Engineering, Health and others areas in Addis Ababa and the country at large.

TABLE 3.

UNEMPLOYED BY TRAINING TYPE AND SEX (ADDIS ABABA)

(1999)

	Total		Male		Female	
Total	449051		164478		284573	
No Training	379056		135922		243134	
Trained	68493	100.00	28202	100.00	40291	100.00
Typing	14115	20.61	0	0.00	14115	35.03
Tailoring	7467	10.90	0	0.00	7467	18.53
Driving	4760	6.95	4540	16.10	220	0.55
Business & economics	6143	8.97	1958	6.94	4185	10.39
Mechanic	5247	7.66	4562	16.18	685	1.70
Home economics	3974	5.80	795	2.82	3179	7.89
Military & police	2289	3.34	2149	7.62	140	0.35
Building construction	2235	3.26	1632	5.79	603	1.50
Computer Science & application	3752	5.48	522	1.85	3230	8.02
Wood work	1668	2.44	1376	4.88	292	0.72
Electric City	2663	3.89	1291	4.58	1372	3.41
Engineering	1765	2.58	1765	6.26	0	0.00
Metal work	1376	2.01	1038	3.68	338	0.84
Others	11039	16.12	6574	23.31	4465	11.08

SOURCE: CSA Labour Force Survey, March 1999

4.6 Causes of unemployment

One of the major factors attributed to high unemployment in Ethiopia is the rapid growth of population. The Ethiopian population has grown at an average rate of 3% per annum (1999). Ethiopia is the second most densely populated country in Sub-Saharan Africa. According to the report of Labour Force Survey of March 1999 the population of the country was about 54.9 million of which about 27.1 million were male and 27.8 million were female.

The size of rural population is about 47.1 million representing 86 percent of the total population of the country while the urban population is in the tune of 7.8 million representing 14 percent of the population. Over 47 percent of the total population is dominated by young people of age below fifteen. About 43 percent of the population lies between age 15 and 49 years and the remaining 10 percent are 50 and above. The population of Ethiopia as has been projected by the UNDP Human Development Report (1998) will exceed 100 million in less than a quarter of a century.

The other factors contributing to the unemployment problem is related to economic policies at all levels. Some of the macroeconomic policies have intensified the unemployment problem through encouraging high capital intensity, which has depressed employment to low levels. Over valued exchange rates and subsidised



credit arrangements have created fertile grounds for enterprises to engage in capital-intensive production.

Industrial incentive legislation, fiscal policies, duty-free import of capital goods, spares and materials for industry and other sectors, accelerated depreciation and investment allowances provisions are policies that have encouraged capital intensity. High capital intensity accelerates industrial labour productivity. Artificially cheap capital imports raise GDP growth, but substantially checking direct employment in industry.

Following the restructuring of the economy, a number of government employees have been retrenched to ensure efficiency and “leaning” of the bureaucracy. The divestiture and privatisation of State Enterprises has also led to job insecurity among employees. Privatisation does not seem to create additional employment, but uses existing labour as productively and as profitably as possible. Moreover the privatisation process has resulted in accumulation and concentration of capital in a few companies. The argument that accumulation of capital in relatively few hands is likely to favour savings and investment is of doubtful validity.

The orthodox free market policy has also discouraged the development of local industries by inviting foreign companies to invade the domestic market either through trading or dumping. It is observed that goods bought by a considerable number of consumers tended to be imported, resulting not only in foreign exchange drain, but

also in less market for local manufactures. This situation however is currently under reconsideration following the fall of foreign exchange reserves.

The private owner is free to hire and fire workers to achieve the objective of profit maximisation. Labour Proclamation 42/85 gives liberty to enterprise management to engage workers freely in productive employment without due regard to collective agreements. The same proclamation, however, does not extend to cover the toiling masses of workers in the informal sector enterprises. This has got an implication to job security and hence to unemployment.

The third factor affecting employment in the country is low performance of private investment. The role of private sector in the economic development of the country has been considered in the new economic policy which claimed to encourage the private sector by limiting the government involvement in economic activities. The issuance of the investment proclamation in this regard is one of the positive developments. As a result of this proclamation between 1993 to 1999 a total of 4381 investment projects with a total capital of birr 36.5 billion were licensed to be established. If these projects materialised they would have created a total job opportunity for 661,329 unemployed job seekers of which about 223,338 would be permanent and 437,991 temporary employees

The unemployment problem could have been reduced considerably if all the licensed investment projects had taken off. However most of the licensed investment projects

are not being implemented and so far only 1167 out of the 4381 licensed investment projects representing about 26.6 percent have reached the implementation stage. The poor facilitation of investment endeavours in the country attributes to this state of affairs.

Investors complain in every forum about the poor treatment they get at various levels of the bureaucracy. They have also expressed their views on the exorbitant costs of land-leases, and the monopolistic land market, with the government as the sole supplier of land. These tend to limit the potential for expansion of employment.

Moreover, immobility of labour due to language and other related barriers between and within regions bar job seekers from productive employment. Different regions are at different levels of economic development, some are lagging behind others for historical reasons. Such imbalances, weak inter-regional economic integration and different levels of infrastructure development among regions, tend to hamper investment.

It is suggested that the investment policy should annex annually a detailed program of investment. Action plans should indicate investment sites by Region, Zone, Woreda and Kebele with expected date of commencement and commissioning of actual business. Appropriate measures should be taken to change the current low rate of implementation of investment projects if the unemployment problem in the country has to be addressed in the long term. It is only expanded additional investment that creates new employment opportunities for new entrants into the labour force. Action

must be taken to restore the confidence of investors who are on the verge of frustration and win new ones.

In addition to the existing macroeconomic policies, investment may be encouraged through efficient public service delivery and through development of social and economic infrastructure. These infrastructures have a dual purpose: creating direct employment opportunities through building of public works schemes, and serving investors who create employment opportunities. The public works schemes may not constitute a burden to the government, if the revenue generated through the sale of state enterprises is diverted to such schemes.

Migration is another important factor which aggravates unemployment and particularly urban unemployment. Migration is the movement of people in space, often involving a change in the usual place of residence. The internal migration, the focus here is such movement within the national borders. The typology of migration includes rural - rural, rural - urban, urban - rural and urban - urban. Rural - urban migration in Ethiopia is another significant type of movement for spatial distribution of population. The attraction to the urban areas, mostly to Addis Ababa is largely economic and due to rural - urban income and quality of life differentials.

The size of migrants by origin and destination for 1984, 1994 and 1999 is shown in the table below. According to the table, migration has increased considerably between the three census. Comparing the 1999 migration with 1984 and 1994 the

number of migrants increased over 21 fold and three fold respectively. In all the three years rural to urban migration was very significant.

TABLE 4.

**PERCENTAGE DISTRIBUTION OF MIGRANTS BY ORIGIN AND
DESTINATION**

Form of Migration	Percentage Distribution of Migrants						Growth	
	1984		1994		1999		99/84	99/94
Rural – Rural	41405	36.7	337533	48.8	867862	36.38	20.96	2.57
Urban – Rural	2821	2.5	50492	7.3	372467	15.61	132.06	7.38
Rural – Urban	45128	40	171533	24.8	563268	23.61	12.48	3.28
Urban – Urban	23467	20.8	130725	18.9	582167	24.40	24.81	4.45
No. of Migrants	112820	100	690282	99.8	2385764	100.00	21.15	3.46

**SOURCE: CSA Labour Force Survey, March 1999 and Population
Census 1984 and 1994**

In 1984, rural - urban migrants constituted 40 per cent of the total migrant population. The corresponding figures for 1994 and 1999 was 24.8 and 23.6 respectively. Although there is a decline in the proportion of rural urban migrants between 1984, 1994 and 1999, the actual number of such migrants increased nearly 4 folds between 1984 and over 3 folds between 1994 and 1999. The 1994 census shows that among the residents of Addis Ababa, 46.4 per cent were migrants. The highest proportion of these migrants (58 per cent) came from rural areas while 42 per cent came from urban

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areas. Females constituted 52 percent of all migrants to Addis Ababa, of which 59 percent originated from rural areas.

The magnitude of rural – urban migration has greatly exceeded the capacity of the modern industrial sector to absorb the urban unemployed. In spite of the high level of urban unemployment the rate of rural – urban migration shows no sign of deceleration.

There are two principal economic factors involved in the decision to migrate. The first is the existing rural-urban wage differential that prevails for different categories of workers. This is a crucial element in the decision to migrate. The increasing divergence between rural and urban income has intensified migration.

The second factor that influences rural – urban migration is the degree of probability that a migrant can secure a productive urban job. In urban Ethiopia where unemployment problem is on the rise a typical migrant may not expect to secure a high paying urban – job immediately. Upon entering the urban area a migrant will either become totally unemployed or will seek casual employment in the urban traditional sector, the informal sector or in the labour intensive construction sector.

➤ Like most developing countries, Ethiopia's urban population is concentrated in one city that is Addis Ababa, whose population grew from 1.4 million in 1984 to 2.2 million in 1999 and, representing 29.8 and 28.4 percent, respectively, of the urban

population of the country. Although the proportion of the urban population residing in Addis Ababa is decreasing, the city still comprises over 24 percent of the total urban population, and growing at average annual rate of 3.6 percent. But like the total urban population, the Addis Ababa population is increasing at a decreasing rate. The city's population is expected to grow to 2.5 million in year 2000, to 2.9 million in 2005 and to 3.3 million by year 2010. These figures would represent 26.3, 24.7 and 23.2 percent of the total urban population in the country.

4.7 Consequences of unemployment

It is clear that work is the bases for human life and to fulfil the basic requirements of human needs one has to work. Work is also a source of knowledge and wealth, which as a result require man to work. Those persons that have no access to both formal and informal sectors of the economy engage in a parasitic way of life. They find themselves in absolute poverty – a condition of life degraded by disease, illiteracy, malnutrition, and squalor-denying the victims basic human necessities. The society is filled with beggars, prostitutes, thieves, and hooligans. There is no need here to delve into such obvious, but negative socio-economic impacts of unemployment.

Therefore unemployment has many problems at an individual and societal level. An unemployed person consumes as much as an employed person which makes the unemployed to share the resources and products. The sharing of resources and

products will lead to the diminishing of the resources and products thus affecting the savings of the nation and is reflected in the per capita income of the individual.

Unemployment leads to the underutilisation of the human resource. Since most of the unemployed have completed senior secondary school it leads to wastage of resources invested to create the human capital. Long term unemployment affects the morale of a person and invariably leads him/her to take action, which can cause damage to the individual or the society. Since the unemployed gives up hope in life and his/her morale is affected he/she tends turn to burglary, theft, pick pockets, whores etc. Such activities which are contrary to the rule of law spoil the peaceful life of the individual and endangers the wellbeing of the society at large.

CHAPTER FIVE: ROLE OF EMPLOYMENT SERVICE

5.1 Historical perspective of employment agencies

Employment Agencies are theoretically considered among one of the various actors that help to address the problem of unemployment and its multifaceted consequences by creating a better functioning labor market to some degree. The important role played by employment service to enhance the functioning of labor market was recognized long ago.

Throughout the history of mankind right up to the modern age, human beings have been traded in the same way as material goods and therefore in principle the difference between middle men who tried to satisfy a demand for goods and those who supplied laborers to those who needed them, differs so little to speak. In agricultural sector one can find people willing to act as middle men between seasonal upsurge in demand for labor and impoverished day laborers ready to lend their labor power. Employment agencies in the form of temporary work agencies can be traced to ancient Egypt to the time of Ramses II when seasonal agricultural workers were first used. The practice continued in the Middle Ages to the nineteenth century.

Balazac refers to temporary work employment agency in the nineteenth century, when people were engaged for extra work administration. Executive search type employment agencies which is an established practice in today's modern societies,

first began in Europe at the beginning of the nineteenth century when Baron Carl Otto Morner persuaded Napoleon I to appoint one of his marshals, Jean-Baptiste Bernadotte, as heir to the Swedish throne. In 1908 Percy Coutts, a member of the British middle classes and a successful businessman in Victorian England, took it upon himself to help officers returning from colonies to find employment thus involved in what would much later be identified as outplacement type of employment agency.

During the industrial revolution many individuals helped channeling labor force away from rural areas where there was an oversupply of labor into urban areas where they could be readily employed. This elementary ways of bringing workers and employers together which still exists in many less developed countries, formed the basis for what was later to be known as labor market. The development of employment agencies as we know them today has been and is still haunted by this disreputable past although it has very little in common with this primitive matching of labor supply and demand.

Initially employment service agencies were private organizations. Private employment agencies could be defined as service enterprises under private law which undertake, under contract and in exchange for financial compensation (a fee or subsidy), operations on behalf of individual clients or client enterprises with the aim of earning or speeding up access to employment or career progression or filling a vacancy (ILO: 1994). This definition includes agencies which undertake to carry out a specific

assignment or task for a client enterprise by recruiting appropriate personnel, and companies which, as an alternative to unemployment, employ and train workers in order to make it easier for them to find a job later on.

Subsequently the idea emerged that capitalism is exploitative of human labor. Towards mid-nineteenth century, employers and employment agencies who recruited and acted as middlemen were considered too exploitative. In an attempt to counteract and prevent individuals from profiting from their activity as employment middlemen, trade unions set up their first free labor exchange services where anyone looking for employment could find information on vacancies.

However, soon the public authorities considered that such activity should be their responsibility as the concern for potential abuse that may occur when private employment agencies and trade unions labor exchanges carry out the employment services, grows. This led ILO to establish what is commonly known as the principle of monopoly on placement and persuaded member states to support it. The principle of monopoly on placement was based on the assertion that labor is not a commodity and placement of workers cannot be a commercial transaction.

Furthermore equality demands that the same procedures should be followed to inform job seekers about vacancies. Therefore provision of such services should be the responsibility of the public and that private firms should not be allowed to profit financially from these types of service. This is primarily an ethical and ideological

consideration. Reflecting on these principles, ILO in 1919, just a few months after its inception, adopted a convention that prohibited the establishment of employment agencies which charge fees or carry out the services for profit.

This principle was reaffirmed in successive ILO standards. In 1933 ILO adopted the Fee-charging Employment Agencies Convention, 34/1933 and Employment Agencies Recommendations 42/1933 which to some degree tempered the provision on the abolition of these agencies. The recommendation recognized the difficulties in abolition of private agencies in some countries that for certain occupations the public employment offices were not in a position to completely take the place of private agencies. Thus a three years allowance was given before the agencies were abolished until the public service had been established offering the same services.

In 1949 ILO turned to the issue for the third time, adopting an amended Fee-charging Employment Agencies Convention 96/1949 which relaxed the previous provision to allow ratifying States to choose either progressive abolishing of private agencies or simply to supervise them. Nevertheless, since the beginning of the century some countries have questioned a dogmatic attitude towards profit making private employment agencies and allow agencies to operate while keeping them under some degree of supervision.

In the 1970's employment service began to gain ground, constituting a new kind of fee-charging employment agencies, totally different from those covered in Convention

No. 96. In 1980's staff leasing employment agencies were set up, which were a kind of temporary agency with their own particular slot in the labor market. During the last two decades the type and the number of employment agencies has been diversified and expanded. One study conducted by ILO (1994) attempted to classify and categorise these employment agencies into five types.

According to this classification the first category covers agencies whose main role is that of intermediary between job supply and demand including fee charging employment agencies, overseas employment agencies and agencies for the recruitment and placement of foreign workers. The second category covers agencies in a triangular contractual relationship with workers on the one hand, under a regular employment contract and with client enterprises on the other, under an assignment or enterprise contract; these include temporary worker agencies, contract labor agencies and staff leasing agencies.

In the third category, we find agencies with a contractual relationship in the form of performance of a service other than placement in the strict sense of the term; executive search agencies, outplacement agencies, job search consultants. The fourth category includes agencies that originally engaged in activities other than the provision of employment and gradually branched out in to employment in response to labor market needs. This refers to training and placement institutions, job shops or co-operatives, agencies managing employment advertising space and those who manage

computerised job data bases. The final category covers two types of agencies, career management agencies and employment enterprises or intermediary enterprises.

The ILO Convention Concerning the Organization of the Employment Services (Convention 88) indicated that the purpose or task of employment offices was to ensure effective recruitment and placement by assisting workers to find suitable employment and assist employers to find suitable workers. In order to accomplish this task employment service shall carryout, among others,

- Register applicants for employment, take note of their occupational qualifications, experience and possibly interview them for employment and evaluate, if necessary, their physical and vocational capacity and assist them where appropriate to obtain vocational guidance for vocational training or re-training.
- Obtain from employers precise information on vacancies notified by them to the service and the requirements to be met by the workers whom they are seeking and refer to available employment applicants with suitable skills and physical capacity.
- Take appropriate measures to facilitate occupational and geographical mobility of workers from one organization to another, or /and from one location to another inter and intra nations.

- Collect and analyze in co-operation, when appropriate, with other authorities and with management and trade unions the fullest available information on the situation of the employment market.

5.2 Emergence and development of employment service in Ethiopia

The employment service in Ethiopia was started in 1962 in order to help job-seekers and find employment according to their capabilities and interest and provide employers with workers in accordance with their requirements. At the outset it consisted of a central employment office and two other branch offices whose number gradually grew to forty-five. The central employment office was responsible for determining the distribution of functions of provincial and local offices as well as the geographical areas of their jurisdiction, and organizing, directing and supervising their work. Responsibility for preparing and presenting proposals concerning the budget of the public employment administration to the ministry was also vested in this office. Recruitment of the staff of the branch offices was undertaken at the centre.

In the wake of the establishment of the Socialist Principle and Policy in the country, a labor proclamation No. 64/1976 was promulgated in December 1976 to set up a socialist labor administration system. Under this proclamation the voluntary basis of employment services ceased to exist, while employers were obliged to report their vacancies and persons desiring to obtain employment had to register at the nearest

public employment office. There was also an obligation where employers had to employ only through public employment office which obstructed them from freely engaging workers who they thought were most suitable for the job opening they offered.

The labor proclamation No. 42/1993 was later promulgated in the context of a new economic policy proclaimed by the government of Ethiopia, which advocated a free market oriented system. The new economic policy is in favor of privatizing the economy, which has been dominated by public ownership and centrally planned system, and at the same time granting employers the right to exercise the utmost freedom in managing their business. The legislation gives prerogative to hire and fire with the least interference by the government. This has, therefore, called for persuasion rather than compulsion in order to make employers recruit through the public employment offices.

The above labor proclamation No.42/1993 (article 172) stipulated the tasks of the employment services to include:

- Assist persons who are able and willing to work to obtain employment and assist employers in the recruitment of suitable workers for their work.

- Determine the manner in which Ethiopian nationals are employed outside of Ethiopia and the manner in which foreign nationals are employed in the country.
- Assisting concerned offices and organizations in the preparation of training programs and undertake studies concerning the employed and the unemployed manpower of the country.

In addition to this the proclamation on article 173 stated that employment exchange activity shall include the registration of job seekers (who are fourteen years old and above) and vacancies with the view to select among the registered job-seekers who fulfil the requirements to compete for the positions notified by employers. The above mentioned proclamation totally prohibits the establishment of private employment exchange offices.

In 1998 the Ethiopian government issued a new proclamation cited as Private Employment Agency Proclamation 104/1998. The proclamation in its preamble stated the need for the participation of individual and private entities in employment service and the need to protect the right, safety and dignity of Ethiopians employed and sent abroad. By doing so the proclamation calls for a new type of employment service in the country, which allows the private sector to participate parallel to the public employment service.

As a result, the proclamation formally and legally recognized the role of private employment service, although the service had existed way back prior to the issuance of this proclamation . The proclamation obliged private employment agencies to legally register and secure the relevant license.

The main motive of Private Employment Agency Proclamation 104/1998 seems to protect Ethiopians sent abroad whose security is at stake. Since the past many years several Ethiopians have been going abroad for various reasons and to work for a living. Ethiopian females, especially, for reasons of proximity and wide employment opportunities, albeit menial, have been going to the Middle East countries. Most of these women got their way to the middle east through brokers and agents who were operating informally as far as employment services is concerned

These agents were not having the relevant institutional and legal capacity and responsibility to look after the wellbeing and safety of the job seekers whom they sent abroad. As a result the security of these Ethiopians has been vulnerable to all sorts of abuses including death and they have remained unprotected. In this regard several reports about the heavy casualties has been aired and publicized through several media. It was quiet common to listen to several forms of abuses and women who are victims of the abuses have been interviewed and witnessed the nature and degree of the problems.

The issue provoked discussions by the public at large and has become a national concern. This seems to be what prompted the government to issue the above proclamation as a legal means and a way to intervene and alleviate the problem. This motive of the proclamation is clearly manifested in its article 14 which outlined the compulsory deposits requirement of money in cash or its equivalent in a confirmed irrevocable bond from a recognized financial institution as guarantee. The size of the deposit ranges from USD 30,000 to 50,000 depending on the scale of operations of the employment service agent which sends workers abroad.

Obviously these very stringent requirements discourage the participation of the private sector in provision of employment services particularly those who would like to provide services of hiring and sending workers abroad. As a result currently all the eight private employment agencies who are established and licensed in line with the proclamation provide employment services for the local labor market only.

Moreover the scope of application of the proclamation 104/1998 asserted that, unless the MoLSA permits direct recruitment by an employer, any Ethiopian is allowed to go and work abroad only through a private employment agency. In view of the above requirement and the absence of any private employment agency licensed to recruit workers who are willing to work going abroad, Ethiopian job seekers will find it very difficult to get access to jobs available abroad. This may lead to a considerable loss of employment opportunities to several unemployed Ethiopians, compounding further the unemployment problem in the country.

5.3 Functions of employment agencies

The tasks of employment agencies consist of three major components namely matching of job seekers and vacancies, collecting and compiling labor market information and career counselling.

5.3.1 Placement service

Information on job-opportunities and supply of labor combined with placement is a typical service to be provided by private employment agencies. On the one hand, the agencies submit to the employer the job seekers most suitable for the vacancies he notified having regard to their industrial and commercial qualifications and experience. On the other hand the role of the agencies to the workers is to give any employment information and advice he may seek and if he registers for employment to submit him the most suitable job which can be found for him without delay. The main advantages to be gained from these agencies is greater and better mobility of labor from district to district and from trade to trade. This brings about improvement in labor market efficiency and reduction of unemployment.

In discharging the placement service, agencies need to obtain information on vacancies from employers side and display it to be seen by the potential job seekers. In this regard an effective vacancy display is of paramount importance as it encourages job seekers and employers to use the employment service. It shows the job seekers that

the service has jobs to be offered and indicates to employers that their vacancies are given publicity. Vacancies can be displayed or advertised in different ways. Newspapers and display boards are commonly used. In displaying vacancies suitable sites where vacancies can be seen by passers by, for example, shopping centers, busy street corners etc. should be selected. The displayed vacancies must consist of specific information about qualification-required, wage, place of work, type of employment and other features. If the vacancies are published in a newspaper it is advisable to publish in a newspaper which is widely read by the public.

Processing and submission of applicants is a crucial task of an employment agency. The sole test in recruitment should be that of competence or suitability for the advertised post. Suitability of a candidate has to be judged in relation to requirements specified by individual employers. It is to be determined on the basis of such factors as educational and/or vocational qualification, experience, personal qualities etc... depending on the nature of the work. Recruitment process can be done using different methods by different organizations, such as by interviewing, exam, testing etc. In selecting applicants no preference should be made on the basis of race, color, sex, religion, political opinion or social origin.

In order to strengthen and to create smooth relationships with the employer, suitable candidates must be made available to the employer within the time limit prescribed. If the employment service is unable to submit a candidate within the limited time, it is necessary to explain to the employer that an extension of time is required or to forward

a reply stating the unavailability of the required type of manpower. In case the recruitment is successful, follow up action must be taken through telephone or making a personal visit to the employer to find out if the selected person is working efficiently or not and at the same time to find out if more vacancies are available.

In practice the public employment services report their activities monthly, and quarterly to their respective regional bureaus. At the same time after compiling the data obtained from zonal offices the regions report to the federal government or to the Ministry of Labor and Social Affairs. Similarly, the private employment agency report their activities to the concerned organization as per article 15:6 of implementation directive. The report includes detailed information of the registered job seekers, registered vacancies, placement effected, by industry, by age, by sex and by education. Based on this report the ministry prepares an annual employment exchange information.

5.3.2 Compiling labor market information

The second major function of private employment agencies is the collection, compilation, analysis and dissemination of labor market information. Labor market is one of the important tools for the promotion of social and economic development programs, formulating educational plans, devising and operating social security schemes, and formulating employment policies and plans, etc.

Labor market information is defined as any information concerning the labor force in a given area, i.e. the size of labor available in the area, its composition and characteristics, as well as, its present and future supply and demand. It may supply information regarding the employment situation of labor, its income level and training as well as its opportunities and problems that are facing it.

In performing the labor market information services there are standard procedures adopted in different regions. The Ethiopian Classification of Occupation (ECO) for instance is designed to cover the civilian work force. The structure consists of four levels, which enable categorization of occupations according to similarity of the work performed. In this system occupations are aggregated in to major (first level), minor groups (second level) and unit groups (the third level) and the specific occupations represent the fourth level. Each occupation has five digit code numbers, a title and definition which describes the functions and principal tasks of the workers classified under that particular title. The ECO comprise of seven major groups, seventy three minor groups, 215 unit groups and 1228 occupations.

Such occupational information helps to: classify job-seekers who register, classify vacancies notified, matching suitable candidates and vacancies, assess qualification and skill of workers, record data regarding registration of job -seekers, vacancies and placement, report employment service operational data and classify manpower in order to devise systems effective utility.

The industrial classification system used by the employment offices and statistical offices is the one which is prepared by the UN, known as the International standard Industrial Classification (ISIC) of all the economic activities. The manuals have devised code numbers for each industrial group in the digit system. So the employment services can easily use this code numbers to the notified vacancies and the placement, from this they can easily classify vacancies and place persons industrially.

Labor market information is used in labor market signaling such as, in understanding the likely increase or decrease of unemployment. It is also used to show the trends or the future developments of labor disputes, work accidents, etc...

Several Government and private institutions are involved in the production of LMI. The main producers among government institutions are the Ministry of Labour and Social Affairs (MoLSA) and the Central Statistical Authority (CSA). The Ministry of Economic Development and Cooperation (MEDaC) is also a major recipient and supplier of LMI because it gathers information from various institutions. The Ministry of Education (MoE); The Federal Civil Service Commission (FCSC); and the Ministry of Trade and Industry (MoTaI) are also suppliers of LMI in their respective domain.

Information gathered by MEDaC provides manpower information, which include mainly the level of demand for permanent workers, as well as the level of temporary workers required, and classified by occupation. It also includes information about the

number of available vacancies classified by type of occupation and establishment, and the training requirement of various government institutions in the country.

MoLSA being one of the major producers of manpower and employment information in the country, provides the size of the unemployed; the number of registered job seekers; vacancies and placements through its employment reports. The reports are compiled from the labour information of the employment exchange offices of the Labor and Social Affairs Bureau (LSABs) through out the country. MoLSA provides its labor information through the annual publication of 'labor statistics bulletin', which comprises data on the number of registered trade unions and their members by region and industry; the number and type of trade disputes; issues concerning collective agreements; work accidents classified by occupation and industry; and the number of work permits and renewals to foreign nationals as well as the number of Ethiopians working abroad.

The Ministry of Labor and Social Affairs undertakes manpower and employment surveys in both the public and private sectors throughout the country. The 1980 employment survey gathered information regarding the number of public and private sector establishments, classified by occupation, industry and sex. The Ministry also conducted manpower survey in 1983, which enabled it to collect information regarding skilled manpower requirements, especially the managerial and highly skilled manpower in the country. In 1995 it conducted a survey of establishments employing 10 or more workers. The survey provided information about the number of employees,

the amount of capital used by the establishment, as well as the type of major economic activities by various categories.

Another supplier of labor information is the Federal Civil Service Commission (FCSC), which provides information regarding placements, and administrative activities of government employees. The commission, through its supervisory role over the ministries, commissions and authorities provides useful information concerning the recruitment of workers, promotion, wage increase, retirement, as well as, information regarding the disciplinary measures taken against employees.

The Ministry of Education (MoE) is another supplier of data, which consists of educational statistics. It shows the trend data, on schools, such as student enrollment; classified by age, sex, grade, etc...as well as, grade promotion and repetition ratio. The 'Basic Educational Statistics' which is an annual publication, also provides information on higher education statistics by type of training institution, sex, and by field of study.

5.3.3 Career Counseling

The aim of career counseling is to serve the individual as well as society. For an individual, its objectives are to prevent the unfortunate consequences arising from mal adjustment to his or her occupation and to contribute to his or her well being and happiness through adjustment to the job. For the society and the nation, career guidance aims at effective use of manpower and greater efficiency and economy in the

execution of work in industry, business and government offices. Therefore its main aim is to minimize inefficiency and the consequent financial losses by guiding individuals to occupations where they can work and produce at a high level of efficiency.

Based on its objective the ILO Vocational Guidance Convention No: 87 NR (1994) defines career guidance as *assistance given to an individual in solving problems related to occupational choice and progress and with due regard for the individual characteristics and their relation to occupational opportunities.*

UNESCO describes what is covered by vocational guidance as follows: *It includes individual assessment through standardized testing and test interpretation, the provision of information on education, training and work opportunities and related placement and follow-up activities. Specialized programs in vocational guidance may be operated in schools vocational training centers and undertakings.*

Dealing with information education, training, work and career or profession, on the one hand, and with the assistance and counseling to concerned youth, individuals or groups in order to enable them benefit from the information is the main scope of career guidance. Therefore, career counseling is any information or advice given to any person with regard to choosing an occupation, entering into an occupation, progressing in an occupation, adjusting to a changing occupation and changing an occupation and the like. Labor market information, occupational information

pamphlets, career pamphlets, training facilities handbooks and school reports are tools for career guidance and counseling

5.4 Employment service rendered in Ethiopia

During the year 1993 to 1998 the public employment service, the only agency formally and legally operating then, carried employment service mainly by registering and issuing unemployment card and placement services for a number of unemployed job seekers of different age groups and educational background.

TABLE 5.

REGISTERED AND PLACED JOB-SEEKERS (1993-1998)

Year	Registered	Placed	Vacancy
1993	65,085	2,439	3,179
1994	78,737	2,075	2,820
1995	71,545	3,185	3,878
1996	29,491	2,432	3,714
1997	34,544	4,777	5,534
1998	29,494	1,636	2,347
Total	308,892	16,545	21,472

SOURCE: MoLSA, 1998

According to the report of MoLSA shown in the above table, during the period under consideration a total of 308,892 unemployed job seekers were registered and secured

unemployment cards. About 21472 vacancies were announced through the same offices. A total of 16,545 unemployed people representing only 5 percent of the registered population got employed through the labor office. Comparing the employed people with the announced vacancies it was only 77 percent suggesting the existence of considerable gap between available, and filled vacancies.

With regard to educational level of registered job seekers it included almost all levels ranging from illiterate to university levels as can be seen in the table below

TABLE 6.

**REGISTERED AND EMPLOYED JOB SEEKERS IN EDUCATIONAL LEVEL
(1988-1997)**

S.NO	Educational level	Registered	Employed	%
1	Illiterate	24507	864	3.5
2	Basic Education	756	844	110.3
3	Primary school(1-6)	105185	26567	25.6
4	Junior Secondary sch. (7-8)	54437	3014	5.5
5	Senior Second school(9-12)	2609334	11688	4.5
6	Technical & vocational	27466	4091	14.9
7	University incomplete	3863	324	8.4
8	University graduate	2933	200	6.8
9	Unknown		(117)	
	Total	480081	47709	9.9

SOURCE: National Labor Placement Policy Report 1991 E.C

In examining the gap between available and filled vacancies by educational category the lowest rate of filling vacancies was observed in administrative and management category. In this category only 91 vacancies out of 640 were filled which is just a mere 14 percent of the available vacancies. The highest rate of filling of available vacancies achieved was about 82 to 83 percent for sales and agricultural workers. The professional and technical workers filled about 52 percent of the available vacancies in their category.

TABLE 7.**ANNOUNCED VACANCIES AND EMPLOYMENT EFFECTED (1988-1997)**

S.No	Educational level	Registered	Vacancy	Employed	%
1	Professional & technical workers	9923	2568	1334	51.95
2	Administration & Management.	1152	640	91	14.20
3	Government Authorities & secretariat	307034	11086	9048	81.60
4	Sales workers	1143	345	286	82.90
5	Support service workers	12078	10205	6563	64.30
6	Agricultural workers	6902	1472	1211	82.30
7	Manufacturing & transport machinery operators				
	7.1 Skilled	36901	14953	8669	57.97
	7.2 Unskilled	104948	29632	20442	68.99
8	Unknown			65	
	Total	480081	70896	47644	67.00

SOURCE: National Labor Placement Policy Report 1991 E.C

The age distribution of unemployed job seekers was dominated by the age group between 20 to 29 followed by age group 15-19 representing 50.4 and 34.5 percent of the total registered job seekers respectively. The job seekers in the age group 50 to 56 represents only .1 percent of the total registered job seekers. However they

represent the highest number of job seekers who got employed relative to the job seekers registered in the same age bracket followed by the age group 20 –29.

TABLE 8.

**REGISTERED AND EMPLOYED JOB SEEKERS BY AGE GROUP
(1988-1997)**

Age group	Registered	%	Employed	%
15-19	166862	34.7	7855	4.7
20-29	241772	50.4	33100	13.7
30-39	64290	13.4	6199	9.6
40-49	6774	1.4	414	6.1
50-59	383	0.1	76	19.8
Total	480081	100	47644	9.9

SOURCE: National Labor Placement Policy Report 1991 E.C.

CHAPTER SIX EMPIRICAL ANALYSIS

6.1 Descriptive analysis of the survey data

The survey was conducted on 300 respondents residing in 110 kebeles of Addis Ababa Administrative region. The questioner had forty-seven question and each respondent was asked at least forty of the questions. The descriptive result was summarised employing SPSS software. However, only the descriptive analysis of some of the factors which are considered very relevant is presented here.

Education is one of the factors anticipated to influence the WTP of an individual job seeker as has been discussed in the methodological part. Therefore the educational background of the job seeker is one of the information which was gathered during the survey. In the survey 68% of the unemployed completed senior secondary school while 9.3% of the unemployed graduated from technical and vocational schools. 11% of the unemployed did not complete senior secondary school while 6% attended junior secondary school and 1.7% attended primary school. The educational distribution of respondents is presented in the table below.

TABLE 9.**EDUCATIONAL LEVEL BY SEX**

Edu Level	Male	Female	Total
College Edu.	5.66	2.13	3.79
Vocational	11.95	6.38	9.00
Secondary Compl.	67.92	68.09	68.01
Secondary Incompl.	10.69	11.35	11.04
J. Secondary	3.77	8.51	6.28
Primary	0.00	3.55	1.88
	100.00	100.00	100.00

SOURCE: CSA Labour Force Survey, March 1999 and Population Census 1994

With regard to higher education 2.7% of the unemployed joined a college institution for a diploma program and 1.3% joined university for undergraduate studies but did not complete their first degree. In the survey there is no unemployed person encountered who obtained a first degree and above.

TABLE 10.**SPECIAL SKILL BY SEX**

Skill	Male	Female	Total
Driving	11.08	0.50	5.47
Computer	7.79	6.59	7.15
Art & Music	5.03	2.13	3.49
Sport	6.29	0.71	3.33
Others	11.32	17.02	14.34
None	58.49	73.05	66.21
	100	100	100

SOURCE: CSA Labour Force Survey, March 1999 and Population Census 1994

The other factor considered related to education is whether the unemployed job seeker has other training or skills. It is generally conceivable that the possibility of getting a job will be likely to be higher for a person with any additional skill or training relative to a person without additional skill or training. In the survey only 33.79% had special skills of different sorts while the bulk, about 66.21% of the respondents had no special skills. The highest proportion, about 7.15% of skills of respondents had computer skills followed by 5.47% of driving skill.

TABLE 11.

EMPLOYMENT STATUS BY SEX

Employment STATUS	Male	Female	Total
Never Employed	67.30	78.78	72.67
Currently Unemployed	31.45	20.57	26.33
Unpaid Family worker	1.25	0.75	1.00
	100.00	100.00	100.00

The above table shows the majority of the respondents (i.e. 72.7%) had never been employed. 26.3% of the respondents had previously been employed while 1.0% the respondents were unpaid family workers.

Regarding the gender composition of the total unemployed people 53% were male and 47% were female. Of all the respondents 85% of the respondents were dependent household members, whereas 9.3% of the unemployed were household heads and 5.3% were independent household members.

With regard to status in the household, 85.7% of the unemployed population are dependants and 9% are household heads, 3.3% relative, 1.3% non-relative and 0.7%

spouse. With regard to marital status 92.3% of the unemployed are single, 7% are married and 0.7% are divorced.

The study tried to see the relationship between household, ownership, the types of the house owned and tenancy type. 58.3% of the household don't own houses while 41.7% the respondent have their own house. Of the houses 21.7% are made of wood and mud, 13.3% are made of stone and mud and 2% are made of wood. With regard to tenancy type, apart from the 41.3% house owners, 50% rented from Kebele, 6.3% rented from private persons and 2.3% rented from government housing administration agency.

In the survey respondents were asked whether they own an automobile, refrigerator, television and video deck. The ownership of such type of material goods may indicate the living standard of the respondent and the living standard of the household. It is also plausible to deduce that the higher the living standard, the lower the probability of being unemployed. As the survey result indicated only 5% of the household own automobile while 95% don't own an automobile. Only 9.7% own a refrigerator while 90.3% don't own a refrigerator. Only 26.7% have television while 73.3% do not have television and only 10.7% own video deck while 89.3% do not own video deck. It is only 0.3% of the household who have deposit money as other types of asset ownership while 99.7% do not have any other type of asset ownership.

With regard to the search method the most frequent used job search method was looking for a job through advertised vacancies, which is being used by 57.7% of the job seekers. The next largest proportion 19.7% look for jobs through the government employment agency, followed by 13.7% who look for jobs through friends and relatives. It was noted that some job seekers had organisational preferences. The survey showed that 85.3% of the respondents are ready to accept jobs in any organisation while 5.7% are not ready to work in private organisations, 3% are not ready to accept civil services jobs, 2.3% will not to work in public enterprise and 2.3% will not accept jobs in religious organisations.

In examining the distribution of reservation wages in the table below, over 22 percent of respondents were having a reservation wage below birr 150 and about 68 percent below birr 450 and 88 percent below birr 600. Comparing the distribution of reservation wages between female and male about 95 percent of female had a reservation wage of 450 and below while a lesser proportion of male about 82 percent had a similar reservation wage. Generally a higher proportion of female compared to male had a lower reservation wage. High unemployment rate and low educational achievement of unemployed female relative to male is presumed to attribute to such a state of distribution.

TABLE 12.

RESERVATION WAGE INTERVAL BY SEX

RW interval	% MALE	% FEMALE	Total
0-150	13.21	30.50	22.37
151-300	42.77	48.23	45.66
301-450	25.79	15.60	20.39
451-600	13.84	5.67	9.51
601-750	3.14	0.00	1.48
751-900	0.63	0.00	0.30
901-1050	0.63	0.00	0.30
>1050	0.00	0.00	0.00

Another interesting factor to be discussed is WTP. In looking at the distribution of willingness to pay, two thirds of the respondents were willing to pay birr 600 and below for employment services. As is the case in reservation wages a higher proportion of female respondents than male were having their WTP in the lower brackets. This is thought to be a reflection of a strong relationship expected to exist between a reservation wage and WTP.

TABLE 13.**WTP INTERVAL BY SEX**

WTP interval	% Male	% Female	Total
0-150	5.66	12.77	9.00
151-300	21.38	23.40	22.33
301-450	11.95	12.77	12.33
451-600	18.87	19.15	19.00
601-750	9.43	7.80	8.67
751-900	8.18	10.64	9.33
901-1050	8.81	6.38	7.67
>1050	15.72	7.09	11.67
	100.00	100.00	100.00

6.2 Descriptive analysis of the survey data on WTP

In this survey the benefits to a job seeker of employment services can be viewed in two perspectives. The first one is a qualitative view where the benefit is just being employed and is regarded as equal to all unemployed job seekers. The other perspective is a quantitative view that regards the benefit as the annual income as computed from the reservation wage. It is considered as the benefit and unlike the benefit, in the former case and in most conventional goods, to be valued using CVM.

This benefit rather differs from individual to individual depending on one's reservation wage.

The starting point was expressed as a percent based on the reservation wage of an individual job seeker, which was determined in the same interview. Five starting points namely, 5%, 10%, 15%, 20% & 25% have been selected based on the pilot survey carried out earlier. For the purpose of employing the starting points randomly the samples were divided in to five subsamples each subsample using a different starting point. Two methods of payment vehicle were employed. The first method asked what amount of money an individual was willing to pay if he was asked to pay a lumpsum upon receiving the envisaged employment service. The second one asked what amount an individual would be willing to pay if he was asked to pay in twelve months equal instalments payment being deducted from the would be monthly salary.

The WTP questions were asked in the form of iterative type combined with open ended. First the respondent was asked whether or not he or she was willing to pay if an Employment Agency finds him or her a job based on the job need he identified in the earlier questions in the same interview. If he or she was found to be willing then he was asked whether he was willing to pay a specified amount of money computed by the enumerator based on his or her reservation wage and the assigned starting point expressed in percentage. If the respondent expressed a willingness to pay the requested amount, a higher amount of money would subsequently be quoted until he was found

to be unwilling. Finally he was asked an open type question to determine what amount he will be willing to pay.

In this descriptive analysis of the willingness to pay three scenarios were considered in line with the method of payments employed. The first approach considers the lumpsum method of payment while the second approach is based on the twelve month payment in equal instalments. The third one was to estimate the WTP aggregately regardless of the two different payment methods. A frequency distribution table was elaborated based on this approach.

As can be seen in the table below in all the three approaches the highest proportion of respondents were willing to pay between birr 151 to 300. The next highest proportion of respondents were willing to pay a fee of birr 451 to 600 for both categories. However the third highest proportion of respondents in the first approach are willing to pay birr1,051 and over while the respondents in the second category are willing to pay birr 601 to 750.

TABLE 14

**FREQUENCY DISTRIBUTION OF
RESPONSES TO THE WTP QUESTIONS**

INTERVALS FOR WTP	FREQUENCY (SAMPLE)*			RELATIVE) FREQUENCY(%)		
	Method**			Method		
	1	2	3	1	2	3
36-150	12	15	27	8.00	10.00	9.00
151-300	35	32	67	23.33	21.33	22.33
301-450	13	24	37	8.67	16.00	12.33
451-600	27	30	57	18.00	20.00	19.00
601-750	10	16	26	6.67	10.67	8.67
751-900	16	12	28	10.67	8.00	9.33
901-1050	18	6	23	12.00	4.00	7.67
>1050	19	15	35	12.67	10.00	11.67
	150	150	300	100.00	100.00	100

*SAMPLE ASSUMED TO BE 1%OF TOTAL POPULATION

** Method 1 – lumpsum payment, 2 – 12 months equal payment and 3 – Combined.

6.3 Estimation of revenue

In estimating the expected revenue generated from an employment service at the population level there is a need to estimate how many job seekers can get a job within

a specific period . In getting a job an individual job seeker employs different types of job search techniques or methods such as application to a labor office, reply to advertisements in newspaper or radio, checking on notice boards, looking for jobs through friends and relatives and checking at work sites.

Estimating the number of job seekers getting an employment therefore requires the knowledge of the number of job seekers who get employed using each type of the available job search techniques. However information in this regard is not readily available and hence it may be very difficult to know how many job seekers get jobs annually using the different techniques.

Perhaps the only readily available data is the one compiled by MoLSA. According to this source during the period between 1993 to 1998 in the country about 308892 job seekers were registered out of which only 16,545 got employed through the labour offices. A total of 21,472 vacancies were advertised through the labour offices. This suggests that on average over 2500 job seekers get jobs through MoLSA labour offices annually.

A recent study conducted by Frehiwot (1999) on the job search it was estimated that only 4.1 percent job seekers get their job through labour offices. Using this information in conjunction with the information compiled by MoLSA it may be possible to reasonably estimate the average number of jobs seekers getting a job in a given year.

Based on this approach, on the average about 60,000 job seekers get employed annually in the urban sector of the economy. Owing to the fact that Addis Ababa region shares about half of the unemployed labour force we can assume that it also shares 50 percent of the job seekers getting jobs annually in the country. Thus annually about 30,000 of the job seekers presumed to get employed in Addis Ababa who potentially can benefit from the envisaged employment service.

The response to the survey carried out to examine the WTP of unemployed job seekers in the present study revealed the fact that all unemployed job seekers are willing to pay for the employment service proposed to be provided for them. Therefore it is plausible to consider all the 30,000 job seekers as the total population in computing the expected revenue and the total WTP at a specified rate generated from such service.

For the purpose of computation and comparison of revenue generated under different payment methods and in line with the argument made in the earlier paragraph, the total population considered is the same i.e. 30,000 job seekers for the three approaches followed. Based on the above population, the expected revenue generated following the three approaches are shown in the table below.

According to the table the expected revenue generated in a given year based on method one was computed to be about Birr 18.6 million while in method two was 16.3 million. The share of respondents who are willing to pay birr 1450 was highest in the total revenue in all approaches considered. This is followed by respondents who are willing to pay birr 975 with a value of birr 3.5 million for method one while it was birr 525 for the second method of payment.

TABLE 15.

EXPECTED REVENUE

FROM EMPLOYMENT SERVICE AT DIFFERENT RATES

WTP MID POINTS	TOTAL WTP FOR EMPLOYMENT SERVICE		
	Method 1**	Method 2**	Method 3**
75	180000	225000	202,500.00
225	1575000	1440000	1,507,500.00
375	975000	1800000	1,387,500.00
525	2835000	3150000	2,992,500.00
675	1350000	2160000	1,755,000.00
825	2640000	1980000	2,310,000.00
975	3510000	1170000	2,242,500.00
1450	5510000	4350000	5,075,000.00
Total	18575000	16275000	17,472,500.00

** Method 1 – lumpsum payment, 2 – 12 months equal payment and 3 – Combined.

As can be seen in the table, the revenue generated using payment method one is higher than using method two. This seems to be contrary to common sense prediction as well as theoretical principles of time value of money. The proper comparison of the revenue generated in method one with method two requires the computation of the net present value of the revenue generated in method two. Expressing this amount in net present value based on the current market borrowing annual interest rate of 10.5 percent it will be around birr 15.6 million which is even smaller. This depicts a 3 million difference in value between the lumpsum payment method (method one) and the twelve months equal instalments payment method (method two).

The possible explanation for this unanticipated finding is related to the sources of the money that an individual job seeker has in the two cases of payment methods. Unemployed job seeker is likely to have no current income prior to getting a job and he or she will depend on the income of somebody else or the household for the purpose of any required payments. Considering the case of a lump sum payment at the commencement of the job, in the present study, unemployed is likely to depend on the household income or on somebody i.e. a relative or a friend's income. Therefore the money he or she is contemplating to pay is not from his own source.

If, however, he is going to pay in twelve month equal instalments being deducted from his salary the source of money for the fee will be him or herself. Hence unemployed job seeker attaches more value to the money he is paying if it is from his own source. Therefore the amount a job seeker would like to pay is substantially

determined or influenced more on the source of the money than the method of payment provided for him/her.

With regard to the total payment at a specified rate, the maximum revenue is generated at the rate birr 525 for the three approaches considered. Over 52.7 percent and 56 percent of the job seekers are willing to pay not less than 525 birr in method one and two respectively. The revenue generated at the fee rate of 525 which is the maximum in all methods is about 9.5 million for method one while it is 8.3 million for method two. The third method which is a consolidated method of the two earlier methods would generated about Birr 8.8 million which of course is the average of the two.

TABLE 16.

TOTAL REVENUE GENERATED FROM EMPLOYMENT SERVICE

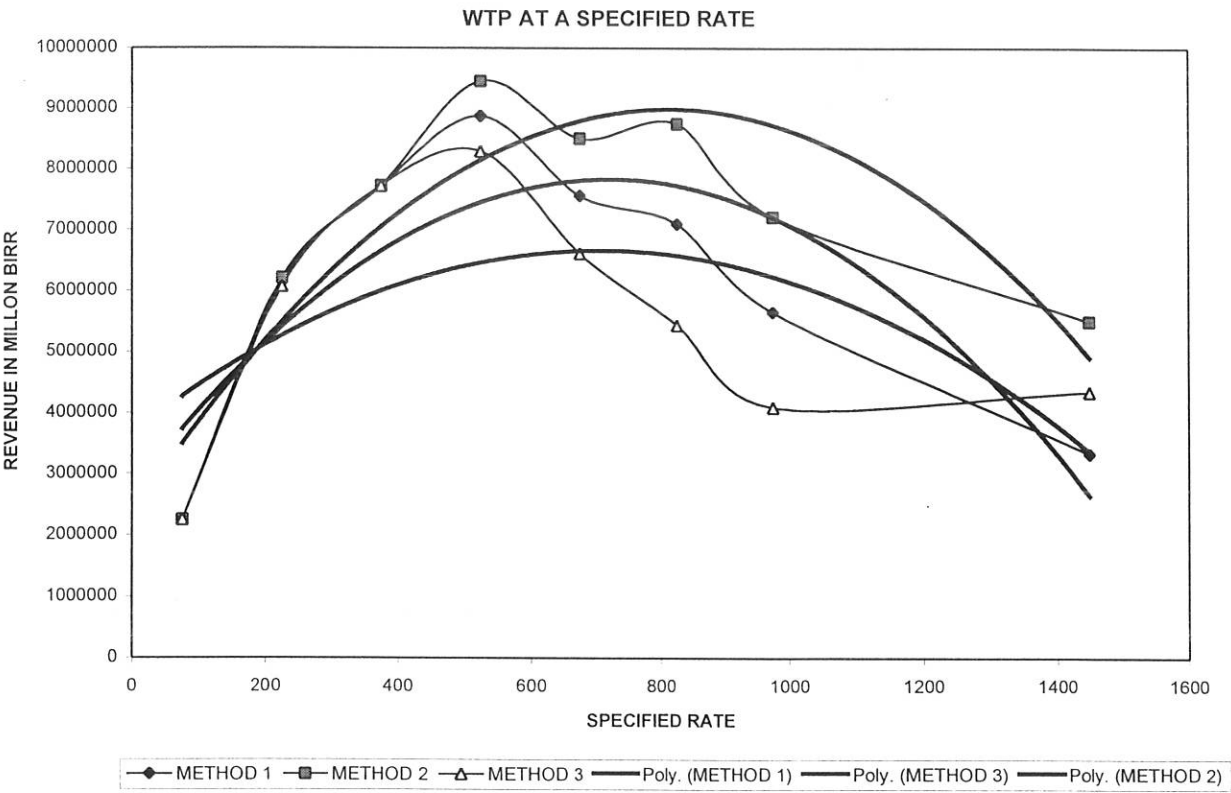
AT SPECIFIED RATE

% OF JOB SEEKER WTP			MID POINT	EXPECTED ANNUAL REVENUE		
Method**			WTP	Method**		
1	2	3		1	2	3
100.00	100.00	100.00	75	2250000	2250000	2250000
92.00	90.00	91.00	225	6210000	6075000	6142500
68.67	68.67	68.67	375	7725000	7725000	7725375
60.00	52.67	56.34	525	9450000	8295000	8873550
42.00	32.67	37.34	675	8505000	6615000	7561350
35.33	22.00	28.67	825	8745000	5445000	7095825
24.67	14.00	19.34	975	7215000	4095000	5656950
12.67	10.00	7.67	1450	5510000	4350000	3336450

** Method 1 – lumpsum payment, 2 – 12 months equal payment and 3 – Combined.

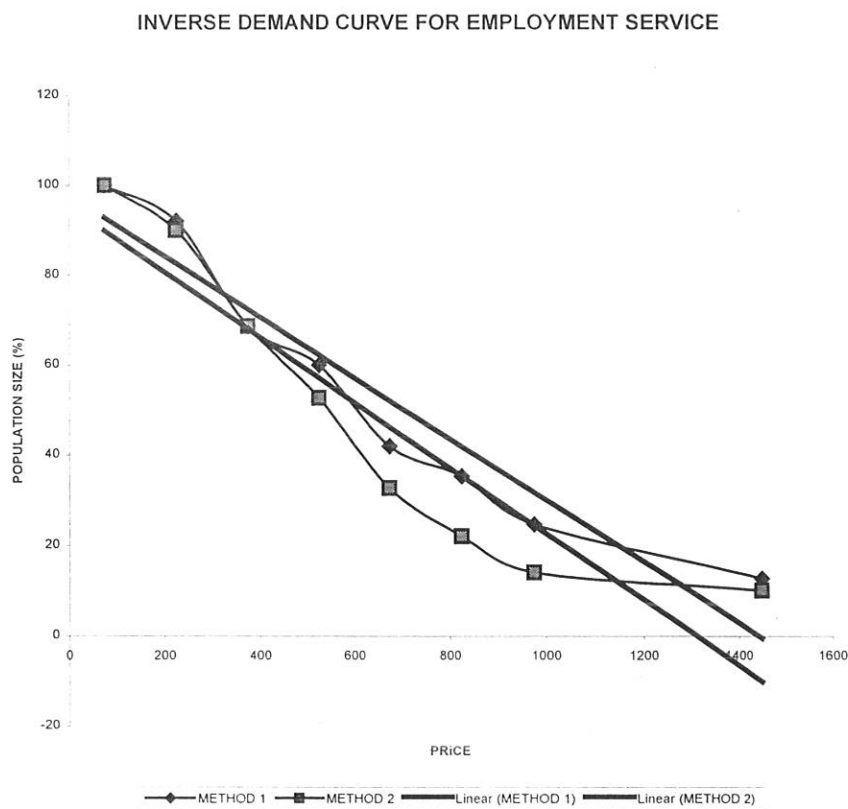
As the fee for the service increases the revenue generated from a given number of job seekers increases. On the other hand as the fee increases the number of job seekers demanding the service declines which implies a decline in total revenue. There seems to be a trade off between an increase in revenue generated due to increase in revenue from a given number of job seekers and a revenue loss due to decline of numbers of job seekers who are willing to pay at a given specified rate. The graph below elaborates the issue.

The graph depicts the existence of a certain fee that optimises the trade off to yield a maximum possible revenue. Such maximum fee is birr 525 and at this rate the



revenue generated by the employment services is about Birr 9.4 million. Any other rate above or below this rate would bring about a decline in the total revenue generated at a given specified rate .

Considering method one for instance if the fee is specified to be 675 then about 42 % of job seekers are willing to pay at this rate and the total revenue generated is only birr 8.5. Setting the fee to be 825 only about 35.33% of the job seekers are willing to pay generating a total revenue of birr 8.7 million annually.



A demand curve has been plotted using the information on the above table i.e. Table for total willingness to pay.

6.4 Econometric analysis of the survey data

As has been discussed in the methodological part, the factors determining willingness of a job seeker to pay for the envisaged employment services are hypothesised as sex, age, education, household income, (as a proxy for income of unemployed job seeker), unemployment duration, payment method, employment status, household size, and reservation wage. In the analysis education, sex, method of payment, were captured as dummy variables while the rest are continuous variables. During the interview no response case was encountered and all the respondents were willing to pay and quoted the amount they were willing to pay for the open question they were asked following the iterative questions. This facilitated the employment of OLS technique for the purposes of regression analysis. The regression was carried out using limdip regression software.

The OLS regression result obtained after a regressive exercise is presented in the table below. The result is corrected for potential hetroscedasticity.

TABLE 17.

REGRESSION RESULT

INDEPENDENT VARIABLES	LNWTP (DEPENDENT VARIABLE)	
	Coeff.	P-value
ONE	0.157965	0.850131
SEX DUMMY	-0.052925	0.439833
METHOD DUMMY	-0.0908722	0.171774
EDUS* DUMMY	0.353014	0.0117626
EDUV* DUMMY	0.401742	0.0398194
EDUC DUMMY	0.268057	0.208657
LNRWGE*	0.880467	0.00000
LNUDUR**	-0.0726419	0.104199
LNAGE	7248.59	0.941846
LNAGE2	-3624.22	0.941848
LNHHTI*	0.100192	0.0429547
ESTE DUMMY	0.130228	0.121645
LNHHS	-0.046263	0.604335
R-squared	.435506,	
Adjusted R-squared	.41190	
F- test [12, 287]	18.45	.00000

*Statistically significant at 95 per cent confidence interval

** Statistically significant at 90 per cent confidence interval

As the table shows factors such as reservation wage, household income, secondary level of education and vocational level of education were found to be significant.

Reservation wage was the most significant determinant of the willingness of unemployed job seeker to pay for placement services rendered by the employment agencies and it is positively related. The elasticity of the WTP with respect to reservation wage is .88 and is very high. This suggests that for a unit change in the rate of reservation wage there will be 88 percent rate of change in willingness to pay. This relationship observed between WTP and reservation wage is as expected since reservation wage captured the benefit quantitatively.

In the table not only the significant variables but also other variables which are not significant are reported as the direction of relationship gives some relevant clue.

The other significant factor determining WTP is the household income and it is positively related with WTP. The income elasticity of WTP was estimated to be about 10 percent. Education is also related with WTP positively and secondary and vocational level of education determines WTP significantly. Vocational level training corresponds to a higher level WTP followed by secondary level education relative to primary and junior secondary educational levels.

The effect of college level education was not found to affect WTP significantly but was positively related. The possible explanation for positive and significance of secondary and vocational level of education in determining WTP is that the existence of a large number of unemployed labour force with secondary and vocational level of

education relative to unemployed labour force with the other educational levels such as primary, junior secondary and college level.

Regarding sex it was not found significant. However the result indicated that females WTP is higher than their counterpart male. Since the proportion of female in an unemployed labour force is higher than the male in all age groups a similar explanation to that of educational level is expected to hold true in this case too.

$$\begin{aligned} \text{LnWTP} = & \beta_0 + \beta_1 \ln\text{RWGE} + \beta_2 \ln\text{UDUR} + \beta_3 \ln\text{AGE} + \beta_4 \text{LnHHTI} + \beta_5 \text{LnHHS} + \\ & \beta_6 \text{ESTe} + \beta_7 \text{EDUSD} + \beta_8 \text{EDUV} + \beta_9 \text{EDUC} + \beta_{10} \text{PMTH.} + \beta_{11} \text{SEX} + \epsilon \end{aligned}$$

The unemployment problem in Ethiopia is increasingly becoming serious despite the introduction of several new policies, which address directly, or indirectly the unemployment problem. The problem of unemployment has not only remained unsolved but it has also expanded and accelerated. The nature and magnitude of the problem is growing at an alarming rate in both urban and rural sectors, at all age groups, and in all educational levels except for college graduates, and both sexes. In the recent years the unemployment problem showed a marked structural departure in urban-rural rate of unemployment and in relation to gender.

One such noticeable structural departure in the normal unemployment trends is the emergence and growth of unemployment problem in rural areas. Rural unemployment problem is emerging and escalating despite the introduction and implementation of the rural centered development strategy, which is one of the policy measures taken by the government. During the last five years (1994 to 1999) rural unemployment grew over seven fold from 0.7 percent in 1994 to over 5 percent 1999. The growth for the urban sector was from 22 to 25.7 much lower than that for the rural sector. This observed growth is quite remarkable and calls for a new way of looking at the problem of unemployment in general and rural unemployment in particular. Thus the unemployment issue has to be extended from being only the concern in urban sector but also the concern in the rural sector where it is worsening further the living conditions of the rural population.

Another noticeable phenomenon of particular importance to the unemployment issue during the last five years is the remarkable growth of the proportion of female unemployment in general and particularly in urban sectors. The proportion of female unemployment has dramatically grown and witnessed a remarkable structural change both at the rural and urban sectors despite the introduction of several gender focused programs. The share of female unemployed labor force in the urban sector has grown from 45.22 percent in 1994 to 63.35 percent in 1999 while the share of male unemployed labor force declined from 54.78 in 1994 to 33.96 in 1999. The growth of the share of female unemployed force was observed for all age groups and across all the administrative regions. These new trends and structural variations observed during the last five years do not seem to be explained by the usual causes of unemployment and requires thorough investigations.

The main cause of unemployment according to most studies is the high rate of population growth. The Ethiopian population is projected by different authorities to continue to grow at an average rate of 2.7 to 3.4% per annum in the next decade. These would worsen the unemployment problem. There is a need to deepen and widen activities related to family planning by creating awareness and facilitating more access to contraceptive devices to address the problem of high growth rate of the population. This is a necessary condition in addressing the unemployment problem in the long term.

The other factor contributing to the problem of unemployment is the low level of economic growth which is manifested by the slow pace of job creation by the economy. During the year 1992 to 1998 the average annual growth rate of real GDP was 4.4 percent. This is higher when compared to the GDP growth rate during 1982 to 1991, which was a mere 2.01 percent. Nevertheless, it is still low in relation to the critical rate required to address the long accumulated and sustained unemployment problem in the country. There is a need to keep the growth rate of DGP well above and over the population growth rate .

The unemployment problem could have been reduced if all the licensed investment projects had taken off. However most of the investment projects are not being implemented and so far only 1167 out of the 4381 licensed investment projects representing about 26.6 percent have reached the implementation stage. The poor facilitation of investment endeavors in the country attributes to this state of affairs.

Investors complain in every forum about the poor treatment they get at various levels of the bureaucracy, their inability to compete with cheap imports which is a consequence of orthodox free market policies. They have also expressed their views on the exorbitant costs of land-leases, and the monopolistic land market, with the government as the sole supplier of land. These tend to limit the potential for expansion of employment. These problems mentioned by the investors have to be sorted out to improve the investment climate. Therefore intensive efforts should be

exerted to promote and encourage domestic and foreign investments in order to effectively address the unemployment problem.

The educational system as a major supplier of the labour force is an important area related with the problems of unemployment. The existing educational system not only supplies the economy a labour force that far exceeds in number the available jobs but also a labour force which invariably does not fit the existing jobs and vacancies. Whether the ongoing educational systems reform brings any meaningful change or not is subject to future investigation. One topical issue which generates a lot of public debate in most fora is related more to who should finance education beyond grade 10 and not that of the issue of supplying the economy with unemployable labor force. This issue should not crowd out the issue of unemployable school leavers, which is the concern of this paper. Therefore there is a need to refocus on the real issue of educational system i.e. producing employable labour force, both at policy and strategy levels.

The problem of unemployment is also related to the functioning of the labor market, which in large part is the concern of this paper. The existence of an adequately functioning labor market which sends the relevant signals to help adjust the mismatch between existing skills and the skills needed by the economy, and highlights the gap between unfilled and filled vacancies is of paramount importance to the issue of unemployment.

Available evidence indicates that many vacancies remain unfilled despite the existence of a large unemployed labor force. Information found from MoLSA showed that over 23% of vacancies remained unfilled. The existence of the considerable unfilled vacancies in the midst of a large unemployed labor force depicts the failure of the labor market. Employment services can play a crucial role in addressing the problem. Employment agencies can play a significant role in addressing the information and skill gaps since they are centers for collection, compilation and dissemination of labor market information. They therefore perform tasks of matching of job seekers and vacancies, collecting and compiling labor market information and career counseling.

In Ethiopia the public sector has been the major employer for a number of years as the country had been under a command economy. Employment service was therefore only provided by a public employment service agency. During the year 1993 to 1998 this public agency provided employment service mainly by registering and issuing unemployment cards and placement services for a number of unemployed job seekers of different age groups and educational backgrounds. A recent study indicated that only up to 4% of the job seekers got placement through the employment agency.

Following the change of the economic policy in involving the private sector inevitably led to the participation of private employment agencies in provision of the employment services parallel to the public employment service agency.

To facilitate the legal and formal participation of private sector in employment service a Private Employment Agency Proclamation 104/1998 was issued. Since the issuance

of this proclamation about eight private employment agencies have been established legally and licensed. In evaluating the employment agencies, unfortunately most of them are not adequately staffed and the necessary equipment are often scarce. As a result of this coupled with a poor policy environment, legal framework and economic incentives most employment agencies are not in a position to provide a commendable service and hardly provide the expected level and quality of services. Their activity is rather limited to announcing vacancies and short listing of candidates to the employers at best and even in such cases they operate with various imperfections

There is a need to redesign ways and means to improve the environment in which they operate considering their potential role in addressing the unemployment problem. This could include the amendment of the various provisions in the current proclamation.

There are two important points, which need to be reconsidered in the proclamation. The first one is the provision restricting the charging of fees for services provided to a job seeker. This principle is basically designed to protect the job seekers from potential abuses by these agencies. It is based more on moral and ethical grounds and not on economic reasoning. Such principle not only deprive the employment service the necessary economic incentive for its sustainable operation but also compounds their resource constraint required for provision of dependable services. However, should such service be sustainable and efficiently operational the economic reasoning deserves more examination.

Moreover as it may be very difficult to enforce such provision, no one can be sure this provision serves its purpose.

The present study, which examines the willingness of job seekers to pay for such services, will contribute to the elucidation of some of the economic factors in this dialogue. This study has confirmed that all the job seekers attach considerable value to employment services and are willing to pay for a placement service rendered by employment agencies. The study has shown that in Addis Ababa Administrative region alone the placement services of employment agencies has an economic value worth over Birr 18 million per annum. This estimate considers only the value attached by unemployed job seekers to placement services alone and represents a very small portion of the service, which is expected to be performed by employment agencies. There might be a need to challenge the principle that prohibits charging fee from job seekers on such economic grounds.

The study also has attempted to examine factors determining WTP. Accordingly at 95% of confidence interval, reservation wage, HH income and secondary and vocational level of education were found to positively influence WTP of a job seeker for employment services.

The second provision requiring re-examination is article 14 of the proclamation. This provision stipulates that employment service providers deposit money in cash or its equivalent in a confirmed irrevocable bond from a recognized financial institution as guarantee. The size of the deposit ranges from USD 30,000 to 50,000 depending on the scale of operations of the employment service agent and whether it sends workers abroad.

Obviously these very stringent requirements discourage the participation of the private sector in provision of employment services particularly those who would like to provide services of hiring and sending workers abroad. As a result all the eight private employment agencies that are established and licensed in line with the proclamation currently provide employment services for the local labor market alone.

This provision deprives employment service agencies a sizeable capital which they can use to establish themselves for the provision of dependable services. Moreover tying up such an amount of capital makes the provision of the services costly and hence undermines the net benefit or welfare from such services.

What is even more worrying is that such a provision may not serve the purpose of providing safety and security for job seekers who are placed abroad. The means to provide safety and security for Ethiopians working abroad and, for that matter, any citizen living abroad is beyond the capacity of employment agencies in general and private agencies in particular. I believe it is and should be the responsibility of a

government body such as the Ministry of Foreign Affairs through Ethiopian Embassies and diplomatic missions.

Moreover the scope of application of the proclamation 104/1998 asserted that, unless the MoLSA permits the direct recruitment by an employer, any Ethiopian is allowed to go and work abroad only through a private employment agency. In view of the above requirement and the absence of any private employment agency licensed to recruit workers going abroad, Ethiopian job seekers will find it very difficult to get access legally to jobs available abroad. This may lead to considerable loss of employment opportunities for many unemployed Ethiopians, compounding further the unemployment problem in the country. Therefore there is a need to reconsider such deterrent and non-functioning provisions.

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**ADDIS ABABA UNIVERSITY SCHOOL OF GRADUATE
STUDIES DEPARTMENT OF ECONOMICS**

MSc. PROGRAM IN HUMAN RESOURCE ECONOMICS

**QUESTIONNAIRE FOR THE SURVEY ON
ECONOMIC VALUATION OF EMPLOYMENT AGENCIES**

ADVISOR: ALEMU MEKONEN (PH.D)

**TEWODROS YILMA
FEBRUARY, 2000
ADDIS ABABA**

QUESTIONNAIRE FOR THE SURVEY ON ECONOMIC VALUATION OF EMPLOYMENT AGENCIES

The enumerator is advised to read and understand the introduction part of the guide line and explain briefly the objectives of the survey in general and the need for general information relation to these objectives in particular.

PART I General Information

- | | | |
|----|---|----------|
| 1. | Sex | Code [a] |
| 2. | Age (in Years) | |
| 3. | HH Status | Code [b] |
| 4. | Relationship with HHH | Code [c] |
| 5. | Marital Status | Code [d] |
| 6. | Education (Highest grade attended) | Code [e] |
| 7. | If you have special skills apart from your educational qualification specify them in descending order of importance | Code [f] |

PART II Information on HH Income

8. Including yourself how many are the house hold members in total? _____
9. How many of the house hold members are employed? _____
10. How many of the HH members are getting income/revenue? _____
11. What is the total average monthly Income/revenue (from own business, employment, or remittance) of the HH (Please add all the monthly income of each and every member of the household)? _____
12. Apart from the above income what amount on the average monthly the HH receive income from any other sources? _____

Code [a]: Sex

- 1=Male
- 2=Female

Code [b]: HH Status

- 1=HH head
- 2=HH member (Live on own expense)
- 3=HH member (dependent)
- Other (Specify ...)
- 4=
- 5=

Code [c]: Relationship with the HH

- 1=Head
- 2=Spouse
- 3=Son/Daughter
- 4=Relative
- 5=Non Relative
- Other (Specify...)**
- 6=
- 7=
- 8=
- 9=

Code [d]: Marital Status

- 1=Single
- 2=Married
- 3=Divorced
- 4=Separated
- 5=Widowed/er
- Other (Specify...)**
- 6=
- 7=
- 8=

Code [e]: Education

- 1=Primary (Incomplete)
- 2=Primary (Complete)
- 3=Junior Sec. (Incomplete)
- 4=Junior Sec. (Complete)
- 5=Senior Sec. (Incomplete)
- 6=Senior Sec. (Complete)
- 7=Technical Vocational
- 8=College Diploma (Incomplete)
- 9=College Diploma (Complete)
- 10=First-degree at university (Incomplete)
- 11=First-degree at university (Complete)
- Other (Specify...)**
- 12=
- 13=
- 14=

Code [f]: Special Skill

- 1=Driving
- 2=Computer
- 3=Playing music and theatre
- 4=Painting
- 5=Playing football
- Other (Specify...)**
- 6=
- 7=
- 8=
- 9=

PART II B: Information on Household Expenditure

13. How much is the **Bill** paid last month for **Electric power** by the household? _____
14. How much is the **Bill** paid last month for **Telephone** by the HH? _____
15. How much is the **Bill** paid last month for pipe **Water** by the HH? _____
16. Does the house hold own House? 1=Yes 2=No
17. If **Yes** what type is it? **Code [g]**
18. If the household source of finance for building of the house is from the bank, how much on the average, the HH pays monthly to the bank? _____
19. If the house hold currently lives in a rented house, from whom does the HH rent it? **Code [h]**
20. How much the HH monthly pays as a rent for the house? _____

PART II C: Information on HH Asset Acquisition

21. Does the house hold own an **Automobile**? **1=Yes 2=No**
22. Does the household own **Refrigerator**? **1=Yes 2=No**
23. Does the household own **Television** (colored)? **1=Yes 2=No**
24. Does the household own Video Deck? **1=Yes 2=No**
25. Specify any other assets you think most relevant that the household owns?
[please state three of them in descending order of importance] **Code [I]**

Code [g]: Type of house

- 1=Bricks and cement Made
- 2=Hollow Blocks and cement Made
- 3=Stone and cement Made
- 4=Stone and mud made
- 5=Wood and cement made
- 6=Wood and mud made

Other (Specify...)

- 7=
- 8=
- 9=
- 10=

Code [h]: Type of tenancy

- 1=Owned
- 2=Rented from government
- 3=Rented from kebele
- 4=Rented from a private person
- 5=Provided free by employer
- 6=Provided by employer

Other (Specify ...)

- 7=
- 8=
- 9=
- 10=

Code [I]: Other Assets

- 1=None
- 2=
- 3=
- 4=
- 5=
- 6=
- 7=
- 8=
- 9=

PART III: Information on Employment Situation

26. Your employment status **Code [j]** If answer is 11 go to part V
27. For how many periods in **months** have you been unemployed? _____
28. Have you ever been searching for any job? **1=Yes 2=No**
29. For how many periods in **months** have you been searching for a job? _____
30. How have you been searching for a job? [Please state three most commonly used job searching methods in descending order of importance] **Code [k]**
31. What do you think are the problems with self-help search for job? [please state three problems in descending order of importance] **Code [l]**
32. Do you currently seek any job? **1=Yes ➡ 34 2=No ➡ 33**
33. If **NO** (i.e. you are not seeking a job currently) why? **Code [m]**

The enumerator is advised to read and understand the explanation about the role of employment service, in particular the service they are providing to a job seeker in the guide line and briefly present it to the respondent.

PART IV: Information on job and Willingness to Pay (WTP)

34. Given your specific situation such as educational and/or vocational qualification, experience, personal qualities etc. what type of occupation are you looking for? **Code [n]**
35. Given your specific situation such as educational and/or vocational qualification, experience, personal qualities etc. And the existing wage structure what is the minimum monthly salary/income offer would you accept for the job you are looking for? _____
36. Suppose, based on your need, you get a job in which of the following organization you will not accept the job offer? **Code [o]**

Code [j]: Employment Status**Business**

- 1=employer(private bus)
- 2=own account worker (Pr. R.)
- 3=family worker

Employee

- 4=civil servant
- 5=public sector enterprise employee
- 6=private organization employee
- 7=NGO or international employee
- 8=casual worker
- 9=pensioner

Unemployed and other

- 10=never employed
- 11=Currently unemployed but was previously employed
- 12=unpaid family worker
- 13=student at school

Other (Specify ...)

- 14=
- 15=-
- 16=
- 17=

Code [n]: Occupation

- 1=Professional/Technical
- 2=Administrative/managerial
- 3=Clerical
- 4=Sales worker
- 5=Supervisor/foreman
- 6=Technician
- 7=Equipment maintenance
- 8=Skilled production worker
- 9=Unskilled production worker
- 10=Other support service
- 11=Apprentice/Trainee/Office practice
- 12=Daily laborer
- 13=Carpenter/mansion/paint

Other (Specify ...)

- 14=
- 15=
- 16=

Code [k]: How looked for job

- 1=Through friendship/relatives
- 2=Government employment agencies
- 3=Private employment agencies
- 4=Community/Church/Ethnic origin
- 5=Advertisements
- 6=Asked prospective employers

Other (Specify ...)

- 7=
- 8=

**Code [o]: Type of Organization
that a Job Offer is not Accepted**

- 1=Civil Service
- 2=Public Enterprises
- 3=Private Enterprises
- 4=Local non Governmental
- 5=Foreign non Governmental
- 6=Inter Governmental

Other (Specify...)

- 7=None
- 8=
- 9=

37. Suppose you get a job in which of the following location you will not accept the job offer? **Code [p]**
38. Suppose an employment agency performs the job search activities on your behalf and find you a job and charge you a fee, are you willing to pay for the service?

1=Yes 2=No

39. If No what is your reason? **Code [q]**

The enumerator should understand the two types of payment vehicles and explain the particular type of payment to a particular respondent. Question 40(A) and 40 (B) should be asked alternatively and not answered by one and the same respondent.

- 40(A) If YES suppose you are requested to pay the total fee at a time when you commence your job, what maximum amount in Birr and in percentage are you willing to pay? (Please compute the annual expected gross salary from minimum monthly salary expected as expressed in **Q35** and compute the percentage based on this annual salary)? _____ **Code [r]** for **Yes** and **Code [s]** for **No**.

- 40(B) If **Yes** suppose you are requested to pay the total fee in twelve **months** equal payment, being deducted from your salary starting from the first month you commence your job, what maximum percent of your annual expected gross salary are you willing to pay? _____ **Code [r]** for **Yes** and **Code [s]** for **No**.

Code [p]: Location of Employment

- 1=Addis Ababa
- 2=Regional capital city
- 3=Zonal main town
- 4=Wereda town
- 5=Rural/village
- 6=Non

Other (Specify ...)

7=

8=

Code [q]: Reason for not paying

Employment Service Fee

1=

2=

3=

4=

5=

6=

Code [r]: WTP in percent

- 1=X% of the annual gross salary
- 2=X+1% of the annual gross salary
- 3=X+2 of the annual gross salary
- 4=X+3 of the annual gross salary
- 5=X+4 of the annual gross salary
- 6=_____

Code [s]: WTP in percent

- 1=X% of the annual gross salary
- 2=X-1% of the annual gross salary
- 3=X-2 of the annual gross salary
- 4=X-3 of the annual gross salary
- 5=X-4 of the annual gross salary
- 6=_____

PART V: Additional Questions for respondent with part employment experience

- i. For how long in months have you been unemployed since your last job?

- ii. Type of Organization of your last employment **Code [t]**
- iii. Occupation of last employment **Code [n]**
- iv. How much were you paid monthly at your last job? _____
- v. How long in months had you been employed at the previous job/jobs?

- vi. How did you find the previous job/jobs? **Code [k]**
- vii. Why did you quit your previous job? _____

Go back to question 27

The enumerator is requested to properly acknowledge and thank the respondent for extending his/her kind assistance by devoting his/her precious time and resource and giving the information to the best of his knowledge to this survey.

Code [k]: How looked for Job

- 1=Through friendship/relatives
- 2=Government Employment Agencies
- 3=Private Employment Agencies
- 4=Community/church/ethnic origin
- 5=Advertisements
- 6=Asked professional employers

Other (Specify ...)

7=

8=

Code [n]: Occupation

- 1=Professional/Technical
- 2=Administrative/managerial
- 3=Clerical
- 4=Sales worker
- 5=supervisor/foreman
- 6=Technician
- 7=Equipment maintenance
- 8=Skilled production worker
- 9=Unskilled production worker
- 10=Other support service
- 11=Apprentice/Trainee/Office practice
- 12=Daily laborer
- 13=Carpenter/mansion/paint

Other (Specify ...)

14=

15=

16=

Code [t]: Type of Organization of your previous job

- 1=Civil Service
- 2=Public Enterprises
- 3=Private Enterprises
- 4=Local Non Governmental
- 5=Foreign Non Governmental
- 6=Inter Governmental

Other (Specify ...)

7=

8=

9=

DECLARATION

I, the undersigned, declare that this thesis is my original work, and that all source of material used are dully acknowledged.

Name : Tewodros Yilma

Signature : 

Date : 21st June, 2000

Confirmed by the advisor:

Name : Dr. Alemu Mekonnen

Signature : 

Date : 21/6/2000