

# WDA Position Paper

*On Demographic Challenges*

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## “Unlocking a Demographic Dividend in Ethiopia”

How Entrepreneurship Can Help Drive Job Creation

*Hans Groth, Vincent Barras and Ziqian Feng*



# Unlocking a Demographic Dividend in Ethiopia: How Entrepreneurship Can Help Drive Job Creation

By Hans Groth, Vincent Barras und Ziqian Feng

*Ethiopia, Africa's second largest country by population, currently has an economy that produces new jobs for only 50% of its incremental working age population each year. The diagnostic is clear: for job creation to follow pace with the country's annual population growth of 2.5%, it needs to be able to rely on entrepreneurs as well.*

*The key finding of this position paper is that while there is a general consensus on the need for a multi-stakeholder approach to push forward Ethiopia's entrepreneurial agenda, there appear to be differences of understanding among professional groups as to what exact factors need to be improved, how to improve them and what to prioritize.*

*To fill the job gap, an enabling environment with high-growth start-ups is needed. Micro-financing approaches for self-employment ("solopreneurs") will not suffice. For Ethiopia to become a start-up nation with high-potential companies emerging as major job creators, "born" entrepreneurs will need to be supplemented with "made" ones as well. To drive this change, entrepreneurs are facing the difficult task of being not only business leaders, but also cultural leaders.*

*A challenging mission for which they need all the support possible.*

On 30 May 2019, the Jobs Creation Commission of the Federal Democratic Republic of Ethiopia (JCC)<sup>1</sup> and the Swiss-based World Demographic & Ageing Forum (WDA)<sup>2</sup> organized a joint summit on "Entrepreneurship in Ethiopia: A Powerful Tool to Unlock the Demographic Potential" in Addis Ababa. The summit's purpose was to explore the Ethiopian demographic dynamics and the power of entrepreneurship to unleash the economic potential thereof. It also aimed at contributing to the knowledge exchange and networking among Ethiopian and international experts, public institutions, entrepreneurs and development partners committed to the entrepreneurship agenda in Ethiopia, of which 60 were in attendance at the summit.

**Ethiopia's evolving population age structure may enable it to experience a demographic dividend:** Ethiopia is currently the second largest African country in terms of population, with almost 115 million inhabitants. It also has one of the fastest growing populations with a 2.5% annual growth rate that could make the population double in size by 2060. Despite its overall population growth, the country has been experiencing a decreasing fertility rate. If the number of children per women continues to decrease as it has in the last 20 years (from 6.8 to 4.3), a favorable ratio of working age population to dependents may enable the country to experience a demographic dividend.<sup>1</sup> This sought-after jump in economic and social development, however, requires that the working age population be absorbed by the job market and contribute to the country's productivity increase and economic growth<sup>3</sup>.

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<sup>1</sup> The JCC was established under the Office of the Prime Minister to advance the government's goals around employment and job creation. It leads and coordinates the jobs creation agenda in Ethiopia. The JCC is committed to guiding the investment of the government, the private sector and development partners towards high-growth sectors through policy analysis and innovation, and to align skills development with market needs.

<sup>2</sup> The WDA aims to address demographic challenges and their impact on social, economic and political environments in an international context, with the vision of enhancing future welfare and prosperity. The WDA aims to shape the social dialogue about demographic change.

<sup>3</sup> 80% of economic activity in Ethiopia is linked to agriculture, with relatively low productivity levels.

There is no question about it: for job creation to follow pace (it currently does not<sup>4</sup>), the country also needs to be able to rely on entrepreneurs.

**Ethiopia is taking measures to tap into its unexplored entrepreneurial potential:** According to the Global Entrepreneurship Monitor (GEM) 2012 survey results, while 53% of Ethiopian adults were aware of entrepreneurial opportunities and believed that they themselves were equipped with sufficient entrepreneurial capabilities to seize them, only 22% intended to actually start a business in the coming three years, which was much lower than the sub-Saharan Africa average of 53%.<sup>ii</sup> The Ethiopian government is conscious of its untapped entrepreneurial potential and, over the last decade, has started to put in place mechanisms and tools to support entrepreneurs across multiple areas, including human capital development, access to finance, market linkages and network building. The summit on entrepreneurship is an example of the latter.

**Surveyed experts point out key areas for further research and policy development on how best to support entrepreneurship in Ethiopia:** During the summit, a survey was conducted with the participants on how best to support entrepreneurship and job creation for the growing Ethiopian population. The sample of 30 respondents was composed of 77% Ethiopians, 20% Europeans and one American. It comprised 30% participants from the private sector (mostly entrepreneurs, but also investors and consultants), 27% government officials, 23% NGO representatives, 13% experts from international organizations and 7% researchers from academia. This position paper aims at exploring the expert opinions captured in the survey results and juxtaposing them with the existing literature. This enables the identification of common themes and potential discrepancies, thereby pointing out key areas for further research and policy development.

### *Survey results and comparison to the existing literature*

#### ***Q1: What role does entrepreneurship play in creating jobs and opportunities for young people?***

Overall the survey responses to the first question resonate with the literature, in which one important aspect has been the employment potential - entrepreneurs can transform job seekers into job providers.<sup>iii</sup> Another recurring theme is entrepreneurship's role in national economic growth, both directly by contributing to the GDP and indirectly as a development platform. Other effects of entrepreneurship include societal transformation via changed ways of thinking, balanced development and creative problem solving via innovation – all have found endorsement in both this survey and the literature. Interestingly, the theme of sustainable livelihoods, i.e. an entrepreneur's ability to provide for themselves in a manner that is viable in the long term, which is present in the field of development and environment studies,<sup>iv</sup> did not receive any direct mentions from the respondents.

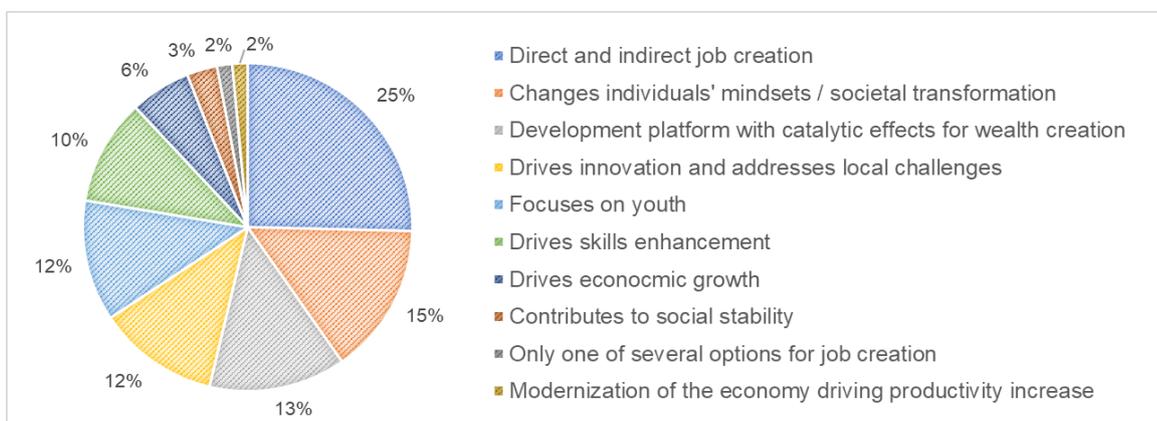


Fig. 1: Open answers, % account for the number of times a theme was mentioned in relation to all mentions

<sup>4</sup> Two million Ethiopians currently enter the job market each year, whereas only one million new jobs are created annually.

**Q2: From your point of view, how is entrepreneurship most likely to help address the needs of a growing population in Ethiopia?** The question was multiple choice allowing only one answer, so the results reflect priority instead of entirety. Although the survey responses generally resonate with the literature, two themes appear to be missing: social condition improvement and the national economic transition. The former includes more equal wealth distribution, improved living standards and female empowerment, which in turn can contribute to the reduction of social problems in general.<sup>v</sup> The latter comprises increasing competitiveness and amelioration of the overall business environment through diversification of the economic sectors and transition to modern means of production.<sup>vi</sup>

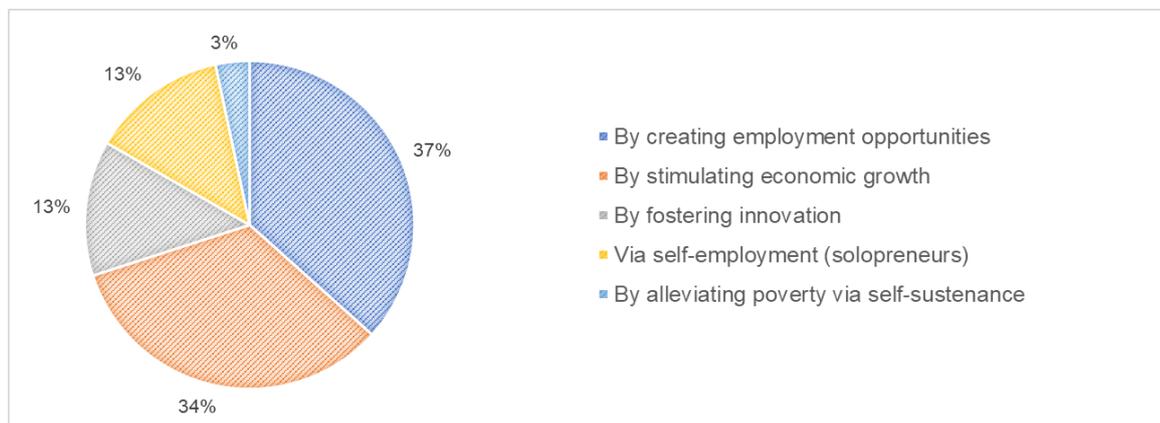


Fig. 2: Multiple choice, one answer per participant, the option “other” with the open answer field was not used

**Q3: From your point of view, what factors have been key to enabling successful entrepreneurs in Ethiopia so far?** Interestingly, there has been more literature on the challenges than the success factors for entrepreneurs in Ethiopia. The most commonly cited challenges typically revolve around financing, material resources, human capital and skills. It therefore makes sense that an improvement in these fields would be mentioned by the surveyed experts as key success factors. Personal and professional networks are another key success factor for entrepreneurs which can be repeatedly found in the literature. While networks are not explicitly mentioned in the survey responses,<sup>vii</sup> related themes such as the personal drive of entrepreneurs<sup>viii</sup> and enabling platforms and coaching are.<sup>ix</sup>

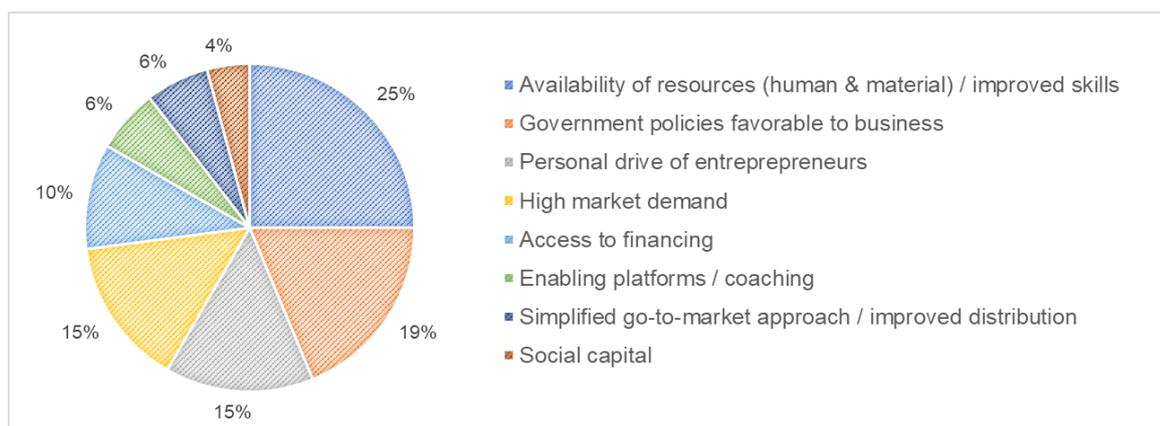


Fig. 3: Open answers, % account for the number of times a theme was mentioned in relation to all mentions

Effective government measures have also been applauded by both the media and some of the respondents. A 2014 BBC report<sup>x</sup> documented a shared positive sentiment from a local entrepreneur and the UNDP’s country director in Ethiopia towards the government’s protective measures for local businesses as well as measures against foreign competitors. The survey results concur by highlighting the important role played by the government. Against this backdrop, however, one of our respondents also voiced that “I do not believe the environment in Ethiopia motivates entrepreneurs. I think those that made it are there out of sheer luck.” Various sources in the literature have also called out the

government for not doing enough to fight corruption, make administrative processes more efficient and develop more attractive tax schemes.<sup>xi</sup>

**Q4: From your point of view, what factors require improvement to enable successful entrepreneurs in Ethiopia going forward?** The survey results as a whole, when compared to the literature, appear to be giving too little weight to the concerns around the lack of access to appropriate premises and the lack of access to capital (to both start and grow a business), which have been voiced by almost all sources, but only received 18% priority in the survey. Both are ongoing problems that have persisted since the 2000s, if not earlier. Furthermore, the need to improve infrastructure was rarely mentioned in the survey.

Remarkably, when taking a closer look at the data, one can notice that none of the NGO representatives surveyed mentioned “financing opportunities”, only one of four international organization representatives surveyed mentioned “soft and hard skills, incl. shift of individuals’ mindset”, all government members surveyed mentioned “incentive system”, but tax issues were only voiced by non-government respondents.

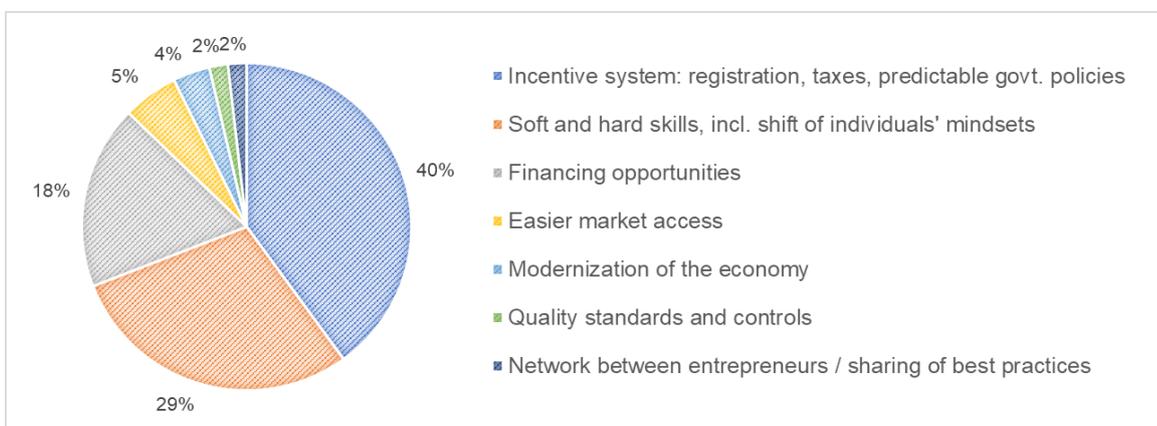


Fig. 4: Open answers, % account for the number of times a theme was mentioned in relation to all mentions

### Conclusions and recommendations

**For a multi-stakeholder approach to be effective, stakeholders need to be aligned on the priorities:** The literature calls for a bundle of different actions to be taken, or improvements to be made, by different stakeholders, in order to push forward Ethiopia’s entrepreneurial agenda. In light of the called-for multi-stakeholder approach, the survey results from Question 4 signal the possibility of marked differences in understanding between different professional groups as to what exact factors need to be improved, how to improve them and what the priorities are. While a bigger sample size may be needed to confirm such differences, the findings from this survey are evidence of the need for a review of such issues and for reinforced dialogue and collaboration across professional groups to ensure an efficient and effective development of entrepreneurship in Ethiopia.

**Regional customization and awareness promotion are key success factors and should not be forgotten:** These two points did not receive the full attention they deserve based on the literature review during the summit and hence are worth highlighting as well. For the entrepreneurship development policies to be effective, it is also important to recognize the regional differences, such as levels of development, local resources and competitive advantages, market access, varying needs and wants, etc.<sup>xii</sup> This is especially the case for highly diverse countries like Ethiopia. Further, in addition to creating helpful programs, providing enabling services and implementing needed reforms, outreach and awareness promotions are key: people can only utilize such resources once they are aware of their existence.<sup>xiii</sup>

**To fill the job gap, high-growth start-ups are needed. Micro-financing approaches for self-employment (“solopreneurs”) will not suffice:** The Ethiopian government has identified micro and small enterprises as important sources of employment and job creation.<sup>xiv</sup> They are generally perceived as promising drivers of development, especially as they “[use] the skill and talent of the people without requesting high-level training, much capital and sophisticated technology”.<sup>xv</sup> However, as has been observed over the last decades, without an enabling environment, small enterprises are having real difficulties in growing to the next level and making significant contributions to the national economy.<sup>xvi</sup> Micro-financing approaches for self-employment (“solopreneurs”) alone will hence not suffice.

**“Born” entrepreneurs alone will not be enough to meet the current needs, entrepreneurs must be “made” as well:** In order for Ethiopia to become a start-up nation with high-growth and high-potential companies emerging as major job creators, individuals need to develop the right mindset and society needs to support them with an enabling culture. Based on the group discussions held at the summit, the shift of mindsets from “state-help” to “self-help” is key. This is not an easy transition, in particular because the word “entrepreneur” in Amharic can be associated with negative characteristics. To enable this change, entrepreneurs are facing the difficult task of being not only business leaders, but cultural leaders as well. A challenging mission for which they need all the support possible.

#### *About the authors*

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## *Literature review*

The literature review process was led by various rounds of keyword searches. The resulting list of scholarship includes many different dimensions of academic output, covering both general and region-/gender-specific aspects of entrepreneurship in Ethiopia. As many of the articles cite extensively from previous studies, they shed light on not only the *current* state of the issue at hand, but also on the past.

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### ***Media coverage highlights***

- Gebremeden, Y. (2016, January 10). Ethiopia: Major Traits Behind Successful Home Based Entrepreneurs. *The Ethiopian Herald*. <https://allafrica.com/stories/201601111499.html>
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- i Data source: UN, World Population Prospects 2019.
- ii Global Entrepreneurship Monitor (GEM) 2012 survey results, used in Amha et al. (2015).
- iii See Shibrū (2017) and Singh & Belwal (2008).
- iv See Shibrū (2017).
- v See Sapovadia (2015) and Singh & Belwal (2008).
- vi Stephen & Wasiu (2013) and FDRE, MoTI (1997), both cited in Alemu (2017).
- vii See Getachew (2017, July 21) and Gebremeden (2016, January 10) for examples of media coverage of networking as a success factor.
- viii See Gebremeden (2016, January 10) for coverage in *The Ethiopian Herald*.
- ix See Hailou (2019, November 23) for coverage in *The Reporter (Addis Ababa)*.
- x See Jeffrey (2014, January 2).
- xi See *The Africa Competitiveness Report 2017*, Nunzio (2015), Singh & Belwal (2008) and Richardson, Howarth, & Finnegan (2004).
- xii See Gebreeyesus & Ambachew (2017, October 24) and Amha et al. (2015).
- xiii See Kebede (2015), Singh & Belwal (2008) and Stevenson & St-Onge (2005).
- xiv See Shibrū (2017).
- xv FDRE, MoTI (1997), cited in Alemu (2017).
- xvi Alemu (2017) and Wudneh (2005), cited in Singh & Belwal (2008).