Fiscal incentives for youth unemployment and informal business in Ethiopia

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- With 70% of its population under 30 years of age, and 20 million people currently unemployed, a policy priority for Ethiopia is to address the challenges of youth employment and informal business transition to higher productivity employment.
- We use employment and tax data to develop guidance for the authorities on trade-offs as they face challenges related to fiscal consolidation and employment creation.
- This policy brief identifies efficient public services that should be expanded to facilitate the transition of informal enterprises to providing more productive jobs, along with associated fiscal implications.

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Overview of the research

Addressing the challenges of youth employment and informal business transition to higher productivity employment will be critical for sustainable economic growth in Ethiopia. It is therefore one of the priority research policy areas of the Ethiopia Jobs Commission as it defines a set of fiscal incentives to firms to promote youth employment and the transition of informal businesses.

Government is looking for ways to improve the allocation of resources in the economy along several dimensions: First, it seeks to transition unemployed youth from non-productive to more productive activities. Second, it seeks to redirect fiscal resources from less to more efficient programmes. And third, it seeks to pursue the transition of relatively low productivity informal firms providing low quality jobs to more formal and thus more productive ones that could provide more high-quality jobs.

We use employment and tax data that come from two surveys by the Central Statistical Agency (CSA): Small Scale Manufacturing Survey, and Large and Medium Manufacturing Industry Survey. Details of incentives offered by the government come from various government policies and proclamations. Based on that evidence, we attempt to develop guidance to the authorities on the trade-offs as they face the dual challenges of fiscal consolidation and employment creation. The brief will attempt to identify certain efficient public services which should be expanded to facilitate the transition of informal enterprises to providing more productive jobs, along with associated fiscal implications.

Policy motivation for research

The informal sector in Ethiopia

Understanding the nature, current condition, and significance of Ethiopia's informal sector is necessary for designing policy approaches to address the problem of youth unemployment and informality. The following section provides brief overview of the informal sector pertinent to youth unemployment in Ethiopia with some global perspective.

In 2002 CSA conducted nationally representative survey of informal firms in Ethiopia. There is no simple definition of informality, and many businesses and activities fall under informal sector. In this study, we agree that informality reflects various types of market and government failure. Even so, we attempt to devise and propose a strategy for using the sector as transition towards higher productivity and formality by making it more vibrant and responsive to the unemployment problem discussed in the previous section.

Given the absence of recent data on informality in Ethiopia and given the fact that the sector has not changed much over the last many years, we will refer to CSA's 2002 Informal Employment survey data to describe the composition and nature of employment in Ethiopia. The survey covered almost one million informal businesses in Ethiopia that provides the general overview of the sector.

According to the findings of the survey, informal businesses in Ethiopia are overwhelmingly owned and operated under sole proprietorship arrangement. From the covered almost one million businesses more than 99% account sole proprietors. Since there is no registration, any binding legal document, and the very nature of informality, it is reasonable not to have any other forms of business arrangement, except sole ownership.

The CSA survey data also captures important information regarding sectoral composition of employment in informal sector. The data reveal that manufacturing, trade, and service sectors are the major employers. When disaggregated by occupational group, we observe that informality is dominant in crafts and related trades, service workers, and elementary occupations. Using recent data, Desta (2018) highlighted that informal business employment has increased significantly. Yet there is no systematically collected data that captures the actual status of informal employment in the country.

Some countries impose strict regulation to avoid informality. South Africa, for instance, adopts strict rules and procedures and hence has relatively low informality. But this comes at a high cost of unemployment in cities and towns. Hence, governments need to prioritise, which part of the market failure to address first instead of putting strict regulation or disincentive mechanisms to discourage informality. If the objective of the government is to reduce unemployment, it has to give more room for informal business to flourish and use it as a transition towards formality.

Youth unemployment

Unemployment is a major development problem across the world. In Ethiopia, however, significant attention has not been given to unemployment and the mechanisms to address it. In the Ethiopian context, unemployment is mainly an urban issue as the rural agricultural population is assumed to be fully employed. Urban unemployment is increasing at an alarming rate because of a number of drivers. In this study, we will use the urban employment-unemployment survey to dig deeper to see the nature of youth unemployment and its link with informality and design of appropriate fiscal incentives.

Let's look at the overall drivers of unemployment from the national labour force survey to capture both the stock and the flows aspects of unemployment. If we look at the stock of unemployment, Ethiopia expected to deal with only 3.6 million unemployed people who are in the labour force. But that is quite misleading and a huge understatement. In addition to the 3.6 million, there are 16 million “Time-related underemployed” and 24 million who are inactive but are still in the labour force. Moreover, the 13 million in school/training, and those who are homemaker and pregnant population from the 24 million are joining the unemployed bucket unless there is a clear plan put in place to address the impending danger. Close to 20 million will be actively looking for job in the next few years. Government planning must put into consideration the upcoming massive inflow of people into the labour force. Otherwise, a significant part of the youth will be unemployed.

The current stock of unemployed people in the economy from a total of 70 million working age population, is close to 19 million to 22 million (additional 3 million from other sub-components).

The majority of the population in the labour force is young. The national statistics indicate that about 70 percent of the population is under 30 years of age. The magnitude in the labour force is similar. The UEUS indicates that the unemployment rate for youth is slightly more than 25 percent; female unemployment rate is close to 30 percent.

Because of the facts stated above and other important economic, social and political justifications, one can argue that the Ethiopian government needs to place priority on dealing with youth unemployment over altering the nature of informality. Rather, maintaining a vibrant informal sector can be used as a transition to deal with youth unemployment while preparing the ground for a shift towards formalisation.

Results for UEUS indicate that youth seeking the option of starting their own business are mainly constrained. As noted elsewhere, this largely reflects their lack of income, inexperience in business and lack of resources to ensure their capacity to repay loans.

Fiscal incentives

The Federal Government of Ethiopia introduced clearly defined line items as part of the 2014 E.C budget year recurrent expenditure. In total the government allocated about 560 billion Ethiopian birr for the fiscal year 2014. Recurrent expenditure for the period is about 162 billion birr. From more than 2000-line items, which are disaggregated by programme and activities, 15 line items are directly related to informal business and tackling unemployment. Close to 33 million birr (27.3mil plus 5.7mil) is allocated to create job for the unemployed. The remaining 13 line items within the budget are allocated for MSEs and are related to providing incentives to the informal sector or creating job opportunities. The total annual budget that is directly allocated to job creation or supporting informal sector is only 123 million birr, which is about $2.5 million converted using Dec 2021 official exchange rate. The fiscal incentive that is allocated for the sector by any standard is so insignificant to the challenges that unemployment or informal sector imposes on the economy.

Table 1: Federal government of Ethiopia: 2014 budget year recurrent expenditure

Activity	Description	Total
	Federal	**162,172,658,868**
02	Federal SMEs - Providing Support to Export Led Production	2,600,000
01	Federal SMEs - Adopting and Improving Productive Instruments	15,830,000
02	Federal SMEs - Preparing Sales and Production Cluster Design and Giving Training	2,400,000
03	Federal SMEs - Supplying Materials and Credits to Industries	1,745,000
01	***Providing Support to Create Job Opportunity for the Unemployed***	***5,731,084***
02	Providing One Window Service	4,906,394
03	Providing Support to Create Market Opportunity for Enterprises	7,540,861
04	Supporting Enterprises' Development	5,095,211
05	Supporting Enterprises to Transform from Micro to Small	4,708,732
06	Information and Database	8,516,102
01	Urban Productive Safety Net	3,137,599
02	Citizens Engagement & Support	2,431,300
Pr03	Trainee's Carrier Development and Institutions Capacity Building	20,967,000
01	Preparing Employment Statistics	10,759,000
02	***Supporting Citizens to have Jobs***	***27,300,700***
	Total Fiscal incentives to the sector	123,668,983.00
	Share from the total federal budget	0.08

If one looks at the size of the unemployment problem from the previous section, a substantial amount of resources could be injected to reducing unemployment or incentivising the informal sector to create more jobs.

Current fiscal support probably has not been catalogued at the local government level.

Key findings

What does the government want to achieve?

The Job Creation Commission has drafted a report providing a strategic review of the Government's micro and small enterprise development strategy. The strategy provides much support for the formal private sector but proposes reducing the informal sector. In contrast, Government should consider policy options proposed here below, while benefiting from research on their track records.

Lessons and policy interventions in practice

The key to increasing the capacity to provide good jobs is through raising the productivity of informal firms. Abundant research has shown that simply providing incentives to informal firms to register or in other pro forma ways to technically 'formalise' does little to raise their productivity to the level of formal firms. (Jayachandran, 2021; Mbaye and Benjamin, 2015).

In the domain of 'active labour market programmes,' Blattman, Dercon and Franklin (2019) study two interventions for underemployed youth across five Ethiopian sites: a $300 grant to spur self-employment, and a job offer to an industrial firm. Despite significant impacts on occupational choice, income, and health in the first year, after five years they see nearly complete convergence across all groups and outcomes. Short run increases in productivity and earnings from the grant dissipate as recipients exit their micro-enterprises. These results suggest that one-time and one-dimensional interventions may struggle to overcome barriers to wage- or self-employment.

A March 2020 government report, "Enhancement of Employment and Income Opportunities for Rural Youth in Ethiopia: A Review of Four Large Youth Employment Initiatives" summarizes the main government interventions to enhance youth employment since 2000.

Among others, the report found that the following factors limited the success of these programmes: Youth who started businesses in rural areas faced challenges due to poor market linkages and limited complementary infrastructural developments such as electricity access and motorable roads to market centres. Entrepreneurs running micro and small enterprises noted that lack of adequate working premises, lack of access to credit and shortage of electricity supply were the top three constraints impeding smooth daily operation and growth of enterprises.

In view of these lessons, the following could be taken as proposals to make the informal sector more vibrant and absorb excess unemployment and under-employment in the economy:

1. Direct spending on infrastructure access or business improvements

One policy option would be for the government to provide working space, shades, shops with all public services being included. Having a physical space is an initial inroad into formality, a critical opportunity to be encouraged and supported.

One programme in Morocco has shown promise in improving the functioning of informal firms by supporting their activities and increasing their access to infrastructure and essential services. It also makes strategic use of public social protection plans, in particular for health, unemployment and pensions. (See Mbaye, Zogning and Gueye, 2020). A key feature of the programme is a distinct set of reforms for the larger and more sophisticated informal firms, with a separate approach for informal micro-enterprises.

For the larger informal firms, the programme creates a special legal category (as OHADA has also proposed) that ensures registration of participating firms, and payment of a reduced tax, while offering several public benefits in exchange. These include publicly financed health and pension benefits for all workers – who must also be registered – and amnesty on past taxes. While the Government takes on added liabilities for social protection payments, it gains information on informal workers, which will be useful as more firms join this legal category and some workers are formalised.

For the smaller micro-enterprises, the Government finances a variety of investments designed to improve health and safety standards for both firms and their clients. These apply especially to street vendors and roadside stalls and include upgrade investments in production facilities, modernising of stalls, and equipment to improve food health and safety. Again, registration is required for eligibility, which is useful information for Government, but it is the investments that have the potential to raise productivity and job creation, not the registration.

The programme in Morocco is not yet fully realised, and in particular, many proposed reforms to the investment climate have yet to be accomplished. But this mainly serves to remind that substantial improvement in the investment climate is needed in order for firms to adopt the more productive behaviors that require such an environment.

2. Forgiving taxes or utility bills

Governments in developing countries know that the informal sector is a large share of the economy both in terms of employment and the contribution to the GDP, and thus the implicit government interest to tax informal business.

However, research shows that such firms have no meaningful tax revenues to provide to government. (Mbaye and Benjamin, 2015; McKenzie, 2017). Thus, the Government needs to restrain the temptation to tax the informal businesses at their infant stage.

Below are two major costs of informal business that hinders them to flourish and grow in countries like Ethiopia. First, since informal businesses tend not follow standard accounting principle, the government introduced a very controversial tax system that is based on an estimated annual income- based on normal day operation of daily income. There have been tons of complaints on the linear estimate on incomes and expected shockingly high tax payment to the government. The government in most instances does not provide any standard public services to expect payment from informal business. Informal businesses are not entitled to formal low interest credit, they do not have working space, they do not get any sort of training or protection from government, and yet the government considers them to be hot cake to collect tax and even further expand their tax base. On average informal business face 15 to 20 percent tax from their income.

Figure 1: Business income tax rates

The business income tax rate applicable to a body is 30%.

0–7 200	0%	0	
7 201–19 800	10%	720.00	BIT = I x 10% - 720
19 801–38 400	15%	1 710.00	BIT = I x 15% - 1,710
38 401–63 000	20%	3 630.00	BIT = I x 20% - 3,630
63 001–93 600	25%	6 780.00	BIT = I x 25% - 6,780
93 601–130 800	30%	11 460.00	BIT = I x 30% - 11,460
More than 130 800	35%	18 000	BIT = I x 35% - 18,000

The second major cost for business is the tax they pay in the form of public utilities, an important part of participating in the formal services market. Government can provide rebates, coupons, or some sort of annualised assistance to the youth to engage in some form of informal business. The government can design a coupon that can be used by registered informal business owners, and such businesses can effectively be excluded from paying any type of public utility bills. The social gains for such kind of policy can be compared with free safety net programmes.

Table 2: Lower and upper bound cost estimates on public goods of a given informal business owner

	Lower bound			*Upper bound*		
Public goods	***Daily***	***Monthly***	***Annual***	***Daily***	***Monthly***	***Annual***
Electricity	5.0	150	1800	10.0	300	3600
Mobile - Tele	3.3	100	1200	6.7	200	2400
Water	0.2	5	60	0.3	10	120
Transport	10.0	300	3600	20.0	600	7200
Hospital	0.8	25	300	1.7	50	600
School	0.8	25	300	1.7	50	600
Rent	33.3	1000	12000	66.7	2000	24000
Gas	1.7	50	600	3.3	100	1200
Social and others	1.0	30	360	2.0	60	720
Total	**56.2**	**1685**	**20220**	**112.3**	**3370**	**40440**

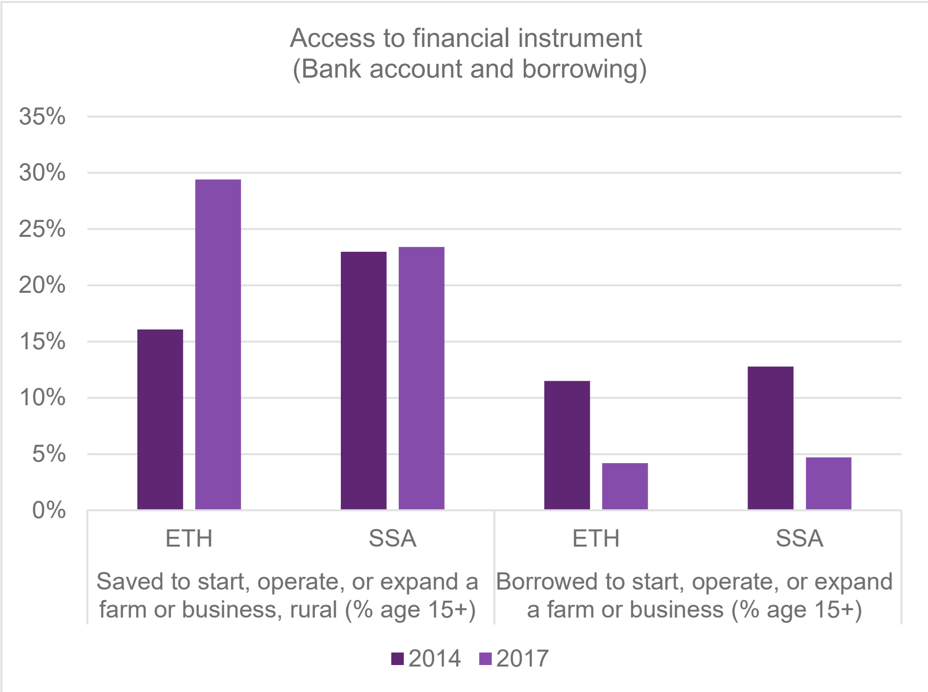
Source: Author's own rough estimate - the numbers can be updated with actual cost estimate of sample interview

3. Financial intermediation

Access to finance has continued to be a major challenge for many countries in sub-Saharan Africa (SSA). Lack of access to financial instruments further complicates the challenge for smooth operation of informal businesses in SSA in general and Ethiopia in particular. From indicators from the Global Financial Statistics (GFS) data base, only about 35% of the population have a bank account and even fewer have access to formal credit. These figures partly reveal the existing financial system and the way the credit expansion is not tailored to the needs of the unemployed youth to start a farm or business. The major implication of having such a dwarf financial and credit system is the need for a better design/redesigning of existing as well as upcoming credit or financial packages.

Among the programmes discussed in the March 2020 report is **The Youth Revolving Fund (YRF 2017):** The proclamation creating the fund dictated that the federal government should allot 10 billion ETB (427 million USD) for regional governments and for the fund to serve as a permanent source of finance to assist youth to employ their capabilities in creating job opportunities. The target beneficiaries of the fund are youth in both urban and rural areas organised under micro and small enterprises. In addition to land and finance, the implementation strategy of the Fund dictated that technology and human resource development were critical inputs that should be supplied to youth. Unfortunately, this programme suffered a large amount of financial leakage and many failed businesses.

Figure 2: Share of population (age 15 and above) who have access to bank account and who managed to borrow money to start business or a farm.

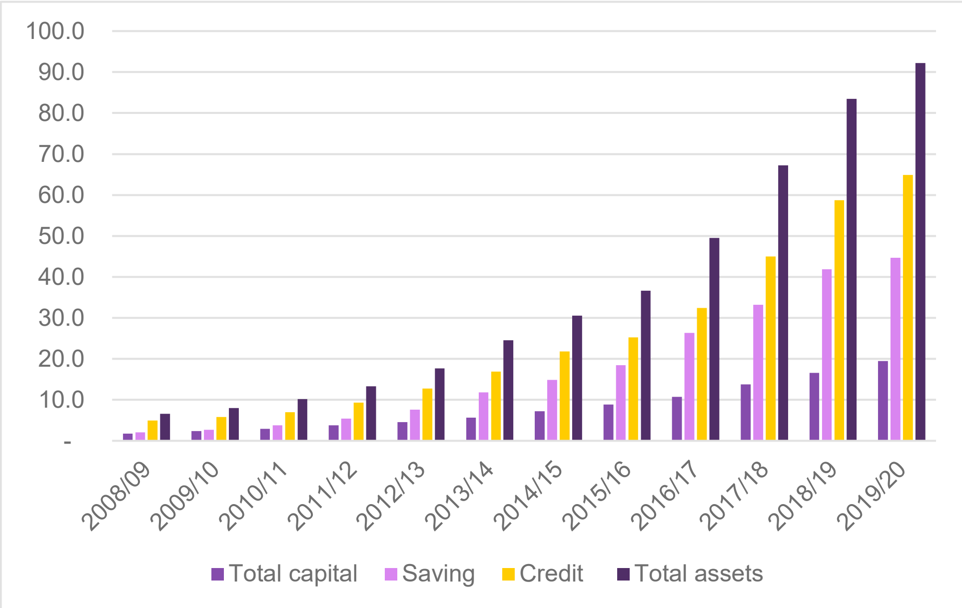


Source: Global Financial Index data base.

Ethiopia has a **National Financial Inclusion Strategy**. It largely addresses ways of improving the service of formal credit to formal businesses. However, it also includes a component to ensure the supply of an adequate range of suitable financial products and services and access points. Nevertheless, the report on the Strategy employs the common definition that lack of formal credit is the same as lack of financial inclusion. They do not take account of other sources of financing for informal businesses. Informal or more personal sources of credit may appear to have more expensive terms for borrowing, but in fact they may be more suited to the risky activities that are typical of informal businesses, including high default risk. It is difficult to judge assessments of low financial inclusion without more information on how informal firms without formal credit are financing their businesses. Such information would also provide insight on what the most suitable financial products are for small informal firms.

According to the National Bank of Ethiopia, as of 2019/2020 Ethiopian fiscal year, there were 41 microfinance institutions in Ethiopia— with 11 public, 13 private and 17 owned by non-governmental organisations (NGOs). Overall, total capital, saving and credit have been increasing over the years (2009-2020), but for a population of more than 100 million, there were only 6,511 bank branches in Ethiopia with bank to population ratio standing at 1 to 15,702 people in 2020. Microfinance coverage is also low with main branch to population of 1:58,655.

Figure 3: Performance of microfinance institutions in Ethiopia (2009-2020)—Billions of ETB



Source: Extracted from the Annual Reports of the National Bank of Ethiopia.

Since the existing financial system is not perfectly geared towards creating informal business and jobs, it leaves us with a big question as to whether the government still needs to follow traditional policies of injecting resources through credit or rather to subsidise other types of business inputs. Because of lack of strong evidence on credit availability being the major constraint to create jobs or informal business, it leaves us with a dilemma on credit. What is certain is it calls for better design of the existing or upcoming credit schemes and for such initiatives to be tied with job creation and supporting informal business.

Financial dilemma

Most attempts to expand financial inclusion work toward trying to make informal firms more suited to formal credit, rather than making credit more suited to the informal. Two studies make broad examination of cases of extending credit to micro and informal firms: Beck (2015) and Jayachandran (2021). Both find that there is little to no evidence that these credit programmes do much good – in terms of profits, growth, capital formation -- for the borrowing firms.

Beck (2015) conducted an extensive survey of many different micro credit programmes, all designed to expand inclusion in the financial markets, and he examines their impact on the intended clients. In sum, Beck finds that by varying credit programme parameters, lenders can generate some small advantage to themselves by 'selling' more credit, but there is no clear evidence that they generate any advantage for the firms they lend to. Beck's final conclusion is that the supply of credit is not the binding constraint for firms observed to be under-represented in the credit markets. Diao et al., in their study of Ethiopia and Tanzania, also cast doubt on the idea that financing constraints prevent small firms from growing into large firms that would employ more workers.

This conclusion is especially pertinent in view of survey results from West Africa showing an overwhelming predominance of personal or family sources of financing. Blattman and Ralston (2015) have found no positive impact in conflict zones – as regards firm growth or conflict reduction -- from training or from micro-finance programmes; rather, they find the most constructive results come from business grants, either in liquid form or in kind. Similarly, Blattman, Fiala, and Martinez (2018) find a more constructive role for grants in building capital in informal businesses and reducing poverty in a post-conflict setting (Uganda), as compared to other programmes. AFD has had success in the Sahel with zero-interest loans, still requiring repayment of principal. However, such loans, depending on terms and macro-economic assumptions could have grant elements of 40 to 50 percent.

Beck (2015) does find a binding constraint on instruments for saving. Indeed, given the reliance of informal businesses on own savings, the lack of instruments for informal saving is quite significant.

And while much creative effort has gone into expanding what small informal firms can collateralise, it is not clear that small informal entrepreneurs are looking for more collateral. Rather, the West Africa informal firm survey responses indicate that firm owners have a solid sense of how much debt they can carry, and that they avoid creating any new debts they fear they will not be able to service. In other words, they voluntarily exclude themselves from greater participation in the formal financial markets.

If, as Beck concludes, the supply of credit is not the binding constraint for small informal firms, why do they claim on World Bank Enterprise Surveys that lack of access to credit is a major constraint? The West Africa informal firm surveys indicate that the bigger problem is lack of demand for their goods and services, i.e., the firms wish they had sufficient business income to justify taking on more debt, but do not. Even if they spot new business opportunities available only if they take on new investments, they are not confident they can repay as needed to protect their capital.

Surveys cited in Ethiopia's National Financial Inclusion Strategy report that 78 percent of those without formal loans think they do not have enough income to take on a loan, and this lack of income is overwhelmingly the most common reason for not taking on a formal loan. This indicates, not that people think they do not have enough income to qualify for dealing with a formal lender, rather, that they do not have the income to carry any more debt, especially on formal terms.

4. Grants to businesses

The National Financial Inclusion Strategy assumes that any business that does not have a formal loan or line of credit does not have access to credit. Therefore, the way to financial inclusion is to expand this access, e.g., send credit agents farther afield and expand financial education. They do not consider the possibility that firms are voluntarily refusing to take formal credit as a matter of choice, nor why they might do that. Understanding these choices will be critical going forward.

For the poorest or fragile states in Africa, a programme of select business grants may be the most successful approach to expand business and economic opportunities. For the African countries approaching middle income, attention needs to focus on the many reforms identified by entrepreneurs required to improve the business climate and thereby business income, and not on programmes aimed at signing informal firms up to pay taxes or to indebt them further.

While research has shown (Blattman, Jayachandran) that grants to micro enterprises generate far better outcomes than loans, research also shows (Mbaye and Benjamin, 2015 and Woldehanna, 2017) that productivity in small informal businesses is positively correlated with the age, education and experience of the business owner. Thus, it is not surprising that the programme to provide business grants to Ethiopian youth led to a lot of leakage and unsuccessful businesses. A better strategy would involve providing business grants to more experienced business owners who can then provide jobs to inexperienced youth.

If the Government is concerned about lack of accountability for grants on the part of the informal sector, it should consider in-kind assistance such as creating a conducive environment for enterprise development, improving production and sales space, improving supply and quality of business services, improving quality and access to infrastructure, improving skills and technology access and encouraging innovation, and increasing market access. If investments are made to increase the quality and access to infrastructure and government services, the leakage would be limited.

Designing fiscal interventions

Giving versus forgiving

One direct way of supporting the informal sector to improve youth unemployment is allocating a significant share of the national budget to the sector because of two major reasons- unemployment is major problem in any economy – the economy cannot afford to carry significant share of the population being unemployed. The return from this investment by engaging the youth in informal business with carefully planned policy will be higher- given the fact that youth are already trained – already significant resource is invested from elementary school to TVET or collage. Second reason is there will be the significant multiplier effect.

The gains for the economy would be to have a large pool of entrepreneurs rather than a rising need for social safety net payments.

Modelling the interlinkage between informal sector, youth unemployment and fiscal space

The combined effects of government and/or market failure leads many developing countries with all three types of structural problems- youth unemployment, significantly large share of informal business in the economy and narrow/limited fiscal space for the government -- to finance public projects, creating jobs to all citizens or creating enabling environment to start new business in the formal sector. All of these three have complex interaction- youth unemployment due to fast population growth or pursued policies in the education or other sectors leaves youth to join informal business for survival. Since the government has a narrow formal sector base in the economy, the fiscal space cannot keep up with the pace of youth coming to the labour market.

Policy recommendations

1. Youth unemployment is a serious problem facing Ethiopia, especially given the youth bulge in the population in or about to join the labour force. **Ensuring an active place for young people in the economy is more important than trying to shrink the informal sector.**

2. **The informal sector is essential for avoiding unacceptably high levels of youth unemployment**. Indeed, informal businesses need a variety of support from Government to make it possible for them to modernise, formalise, increase employment and raise the productivity of their workers.

3. Evidence from programmes in many countries documents that targeted business grants are far more successful in promoting growth and capital accumulation in micro-enterprises than is extending micro-credit. At the same time, evidence also indicates that productivity across firms increases

with the age, education, and experience of the business owner. Therefore, grant programme leakages and failed businesses are not surprising outcomes among youth entrepreneurs. **Hence, the advantage of targeting grants to the more experienced entrepreneurs who could, in turn, hire more youthful workers**.

4. In addition to targeting business grants, it will also be advantageous for Government to provide in-kind assistance to micro-enterprises in various forms, including **greater quality and access to infrastructure, to government services, and greater public subsidies to business utility expenses.** Leakages will also be lower with most types of in-kind assistance.

5. Fiscal expenditures on employment programmes are quite limited, but perhaps not surprisingly so given that active labour market programmes focused on reducing unemployment have largely proved unsuccessful (McKenzie, 2017). The fiscal costs of ineffective employment programmes need not be estimated unless special interests are pushing for such programmes, seeking a narrow advantage for themselves. The fiscal costs (and benefits) of more in-kind assistance can be estimated by looking into public investments. However, much **more information is needed on infrastructure and services access, as well as on the levels and kinds of taxes and fees, both formal and informal, that informal businesses pay, to better understand the incentives and business environment they face**.

6. Needs for further study also include gathering information on where informal firms get their financing, both for start-up and for operating costs, and why they prefer those sources over more formal sources or more organised forms of micro-credit. **New surveys of informal firms should be conducted locally (by Ethiopians) over a broadly representative sample of informal firms**.

7. **Another useful category of information to collect includes the business relations between informal and formal firms**. Such information can be collected when the question is included in surveys of informal and formal firms. (See Mbaye and Benjamin, 2017)

8. One major question would be, if the government is expected to provide support to the informal sector without taxing them, from where can the government generate the resources? One possible source is to look at the national budget. Given the relevance of youth unemployment, resources could be allocated to the JCC to support informal business. Unemployed youth in the informal sector need to be supported only for a while. D**uring graduation to semi formal business structure, government can**

introduce a reasonable tax rate. Some portion of aid and loans could also be allocated to make the informal sector more vibrant and attractive for young college graduates to start businesses.

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Annex

Fiscal incentives directly or indirectly related to job creation. [Source: MOF Ethiopia]

Federal Government of Ethiopia					
2014 Budget Year Recurrent Expenditure					
Programme	Activity	Description	Source Of Finance		Total
			Treasury	Retained Revenue	
		Federal	159,732,276,019	2,440,382,849	162,172,658,868
		Administration and General	45,779,326,604	289,969,272	46,069,295,876
		Organ of State	2,018,187,858	12,143,000	2,030,330,858
		General Service	11,322,202,989	78,740,000	11,400,942,989
		Job Opportunity Creation Commission	48,972,997	-	48,972,997
01		Management and Administration	20,999,605	-	20,999,605
	01	Providing Support and Services	20,999,605	-	20,999,605
02		Jobs Creation Monitoring & Capacity Building	4,818,270	-	4,818,270
	01	Building Job Creation Capacities in Regions	4,818,270	-	4,818,270
03		Integrated Data Analysis & Studies	14,599,271	-	14,599,271
	01	Implementation of Market Data Analytic for Jobs	9,422,907	-	9,422,907
	02	Studies on Policies & Strategies	5,176,364	-	5,176,364
04		Partnership & Resource Mobilization	8,555,851	-	8,555,851
	01	Identifying Resources for Job Creation Projects	4,477,531	-	4,477,531
	02	Preparing Project Proposal for Jobs Creation	4,078,320	-	4,078,320
		Economy	6,598,558,438	660,754,673	7,259,313,111
		Agricultural and Rural Development	2,887,767,660	159,935,968	3,047,703,628
05		Agricultural Technical and Vocational Education and Training	380,955,851	135,874,678	516,830,529
		Trade and Industry	1,234,378,470	1,320,000	1,235,698,470
		Ministry of Trade and Industry	350,512,933	-	350,512,933
		Federal Small and Medium Manufacturing Industry Development Agency	83,526,000	-	83,526,000
02		Development of Manufacturing Industry	13,966,000	-	13,966,000
	01	Providing Technical Profile for Munfacturing Sector	11,366,000	-	11,366,000
	02	Providing Support to Export Led Production	2,600,000	-	2,600,000
03		Facilitation and Transformation of Manufacturing	24,980,000	-	24,980,000
	01	Adopting and Improving Productive Instruments	15,830,000	-	15,830,000
	02	Preparing Sales and Production Cluster Design and Giving Training	2,400,000	-	2,400,000
	03	Supplying Materials and Credits to Industries	1,745,000	-	1,745,000
	04	Preparing Bazar and Exhibition at National and International Level	2,605,000	-	2,605,000
	05	Strengthening Awareness on Manufacturing	2,400,000	-	2,400,000
04		Capacity Building of Manufacturing	16,065,000	-	16,065,000

	01	Preparing Manuals and Giving Support	12,080,000	-	12,080,000
	02	Developing Information Techenology	2,600,000	-	2,600,000
	03	Developing Human Resource	1,385,000	-	1,385,000
		Urban Development and Construction	1,366,537,134	-	1,366,537,134
		Federal Urban Job Creation and Food Security Agency	78,117,996	-	78,117,996
01		Management and Administration	28,881,660	-	28,881,660
	01	Providing Support and Service	28,881,660	-	28,881,660
02		Job Creation and Enterprises' Development	36,498,384	-	36,498,384
	01	Providing Support to Create Job Opportunity for the Unemployed	5,731,084	-	5,731,084
	02	Providing One Window Service	4,906,394	-	4,906,394
	03	Providing Support to Create Market Opportunity for Enterprises	7,540,861	-	7,540,861
	04	Supporting Enterprises' Development	5,095,211	-	5,095,211
	05	Supporting Enterprises to Transform from Micro to Small	4,708,732	-	4,708,732
	06	Information and Database	8,516,102	-	8,516,102
03		Urban Food Security & Productive Safety net	7,802,499	-	7,802,499
	01	Urban Productive Safety Net	3,137,599	-	3,137,599
	02	Citizens Engagement & Support	2,431,300	-	2,431,300
		Social	50,374,009,059	1,489,658,904	51,863,667,963
		Education	36,689,862,510	1,234,525,990	37,924,388,500
		Federal Technical Vocational Education and Training Agency	120,850,000	-	120,850,000
01		Management and Administration	62,364,790	-	62,364,790
	01	Providing Support and Service	62,364,790	-	62,364,790
02		TVET Professional Qaulification Evaluation Status	20,952,960	-	20,952,960
	01	Conducting Evaluation of TVET Professional Qualification	20,952,960	-	20,952,960
03		Trainee's Carrier Development and Institutions Capacity Building	20,967,000	-	20,967,000
	01	Capacity Building of TVET	20,967,000	-	20,967,000
04		Industrial Extension and Technology Transfer	16,565,250	-	16,565,250
	01	Transferring of Industrial Technology Products	16,565,250	-	16,565,250
		Labour and Social Affairs	233,298,735	-	233,298,735
		Ministry of Labour and Social Affairs	125,055,100	-	125,055,100
03		Employment Service Promotion	41,938,500	-	41,938,500
	01	Preparing Employment Statistics	10,759,000	-	10,759,000
	02	Supporting Citizens to have Jobs	27,300,700	-	27,300,700
		Ministry of Women, Children and Youth Affairs	108,243,635	-	108,243,635
06		Youth Development	28,236,000	-	28,236,000
	01	Supporting and Monitoring Youth Organization	7,379,000	-	7,379,000
	02	Mainstreaming Youth's Issues in All Organizations	14,029,000	-	14,029,000
	03	Youth Personality Development	6,828,000	-	6,828,000

Figures- alternatives