



Learn or Stagnate? Lesson from Ethiopia

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Executive summary

- Human capital development increased real GDP and the outputs of non-agriculture sectors noticeably.
- The performances of export, fixed investment, import and net indirect tax improved following an increased human capital development.
- Human capital accumulation is essential to stimulate the economy

Context and importance of the problem

With a decreasing agricultural land per holder, the potential of the agricultural sector to support the youth is not promising. If not proactively managed, the youth would not find employment opportunities, and jobless youth could be unused potential and a source of social unrest. With the right policy, however, the youthful population could be an asset. The Incheon Declaration has underpinned that spending on education is important, for implementing SDG4 and it is recommended to spend 4 to 6 percent of GDP or 15 to 20 percent of total government expenditure on education. Ethiopia improved its expenditure on education and reached 24 percent of total government expenditure in 2018 up from 14 percent in 1994 although decreased in recent years. It's been spending about 4 percent of GDP on Education since 2005. As a result, access to education has improved although anecdotal evidence suggests the impact on development has fallen short of expectation.

Generally human capital is essential for economic growth and poverty reduction. However, Ethiopia has a shortage of skilled and semi-skilled labor. This is due to a number of factors, including low school enrollment rates and high dropout rates due to low education budget.

Results and implications

Summary of evidences

Investment in human capital has positive and significant effect on the entire economic growth in the long run. It has improved the growth of agricultural and industry outputs where as it does have weak effect on services. However, in the short run education investment effects the economy is negatively as it scrambles resources and it takes time for education to bring about labor productivity improvements consistent to the learning by doing hypothesis. The performances of export, fixed investment, import, net indirect tax and total government revenue are significantly improved by investing on human capital developments. These imply that taking appropriate policy measure on developing human capital accumulation is essential to stimulate the economy and better allocate the available resources to sustain economic growth.

Critique of policy options

Despite the commendable gains in growth of the number of students, there are questions regarding the quality of the education where a large portion of those in primary education would not make it to secondary education. Moreover, there are

also disparities among the different regions of the country in terms of access. Students failed to complete secondary education and it means that they are less likely to benefit through gaining employment and improve productivity. Although the government of Ethiopia recognized education as critical tool to prepare the youth play a positive role in the economy and transform from agrarian to modern society, it is essential to examine the effect of recent decline of education expenditure on development and investigate how the economy responses to the skilled biased labor supply shock in Ethiopia.

Policy recommendations

Policies aimed at sustaining growth with the optimal allocation of abundant resources such as labor in developing countries should be evaluated in light of not just their immediate growth impact but also for the future evolution. Thus, it is essential to make employment and education policies to be alighted to the demand of the economy to effectively exploit the abundant resource and monitor the effectiveness of these policies timely. Accordingly, the Ethiopian government should:

- Increase the budget for education and training.
- Focus on improving the quality of education, especially in rural areas.
- Make education more accessible to all youth, regardless of their location or socioeconomic status.
- Implement policies to match skill trainings with labor market demand.
- Monitor the effectiveness of employment and education policies to ensure that they are aligned with the needs of the economy.

Conclusion

Investing in human capital is one of the best investments that the Ethiopian government can make. It will lead to a number of benefits, including increased economic growth, reduced poverty, and social cohesion.

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