LABOUR MARKET ASSESSMENT

IN THE CROSS-BORDER AREA BETWEEN KENYA, ETHIOPIA AND SOMALIA

EXECUTIVE SUMMARY

BORESHA

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AN EXECUTIVE SUMMARY

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INTRODUCTION

This executive summary summarizes the findings of a labour market assessment (LMA) in the cross border area between Kenya, Ethiopia and Somalia and was commissioned by the Building Opportunities for Resilience in the Horn of Africa (BORESHA) project with funding support from the European Union Trust Fund for Africa. The overall objective of the BORESHA project is to promote economic development and greater resilience, particularly among vulnerable groups. The BORESHA project targets communities in Mandera County in Kenya, Dolo Ado region in Ethiopia, and Gedo region in Somalia.

The LMA was carried out between May and June 2018 in a cross border region between Kenya, Ethiopia and Somalia. It was carried out by William J. House of International Labour Market Assessment, supported by Josephine Mugambi of SPARD AFRICA.

The study focussed on towns that are within a radius of 50 kilometres from the borders and have the potential to create jobs. Based on these criteria, the following busy border towns with very vibrant cross-border trading activities were selected as sites for data collection:

Kenya – Mandera town from Mandera East and Rhamu from Mandera North
Ethiopia – Suftu and Dolo Ado
Somalia - Bulahawa and Dolow

Most of these towns are the main corridors through which goods flow from one country to another. For instance, Suftu in Ethiopia and Mandera town in Kenya are separated only by the River Daua; Mandera town and Bulahawa in Somalia are within walking distance from each other; and Dolow in Somalia and Dolo Ado in Ethiopia are separated only by the River Juba Bridge. There is, therefore, a lot of similarity in the economic activities and business operations in these urban areas.

Given the absence of enabling business environments in the Kenya-Somalia-Ethiopia border region, there is need to foster employment opportunities and diversify incomes for communities. The LMA was conducted to:

- Identify economic sectors that have growth potential and offer opportunities for self-employment and paid employment;
- Understand mechanisms and strategies to encourage greater participation of vulnerable groups such as women, youth and the displaced in the labour market;
- Identify feasible business ideas that have potential for employment creation;
- Identify potential providers of market driven technical skills training to enable participation in identified economic opportunities.

The methodology included data coll
ection from labour market participants and key informants through structured questionnaires and focus group discussions. The study team analysed the livelihood options in the Cross Border Triangle in particular those that relate to pastoral, agro-pastoral and urban activities. The pastoral and agro-pastoral sectors provide food to the urban sector, while the urban economy provides employment to the pastoral and agro-pastoral populations. Trade, small-scale manufacturing, construction and utilities were key sectors for the Kenya-Ethiopia-Somalia cross-border urban economies.

The study recommended, among others, technical and vocational education and training (TVET) for the manufacturing and service industries, and the agro-pastoral sector value chains; financial and business management training, and apprenticeship and mentoring for small-scale entrepreneurs; and support for youth associations to pool resources for self-employment.

Background to the Labour Market Assessment

The Kenya-Somalia-Ethiopia border has long been prone to fragility, recurrent external shocks and humanitarian disasters, poor economic conditions, chronic underdevelopment and the aggravation of extreme poverty. The region is characterized as highly complex with a constantly changing political, social, economic and security landscape. Yet, the economic and social potential of the cross-border lands is immense and can be harnessed through rich and abundant agricultural and livestock resources and cross-border trade, taking advantage of the close social and cultural ties and common heritage between communities in the tri-border area. However, there remains an urgent need to reduce vulnerabilities and build resilience among the cross-border communities through better navigation of peace and the forging of greater formal economic and trade ties across borders. Through its Trust Fund for Africa, the European Union (EU) is funding the 'Building Opportunities for Resilience in the Horn of Africa (BORESHA) Project to address vulnerabilities and foster the resilience of communities residing in the Kenya-Somalia-Ethiopia border. The overall objective of BORESHA is to promote economic development and greater resilience, particularly among vulnerable groups in the tri-border area. BORESHA is implemented by a consortium of partners which includes WYG, Danish Refugee Council, Care International and World Vision.

The project sites in Mandera County in Kenya, Dolo Ado region in Ethiopia, and Gedo region in Somalia form a triangular area where the borders of Kenya, Ethiopia, and Somalia meet. In Kenya, the devolved governance system has been a major driver of economic development in Mandera County as devolved funds have increased business opportunities and turnover, especially in urban areas, contributing to rural-to-urban migration. Somalia is gradually becoming more peaceful and the greatest factor may have been the establishment of the Federal Government and the activities of the African Union Mission to Somalia (AMISON) and the Kenya Defence Forces (KDF) fighting Al Shabaab. Also, many pastoralists have moved to towns to seek alternative livelihoods after losing livestock as a result of droughts. In Ethiopia, the government in the recent past has opened up space for the urban private sector.

The cross-border economy

The Mandera/Beledhawo/Dollow borders form an integrated, cross-border economy and play a critical role for commerce and livestock sales for the entire region. Owing to the relatively more developed infrastructure in Kenya's Mandera County, neighbouring people tend to move to the Kenyan side to access markets, hospitals and schools.

Communities on both sides of the border not only engage in cross-border trade, but also make use of each other's economic and social services, including livestock markets, schools, health posts and airstrips. Over the past 15 years, some aid programmes have encouraged the sharing of cross-border facilities as part of an effort to strengthen local commitments to peace in border zones. Cross-border trade, including lucrative smuggling, takes place in the Triangle and involves consumer goods imported through Mogadishu into Kenya; cattle trade from southern Somalia into Kenya; cross -border camel trade, which includes movement of camels from northern Kenya into Somalia and Ethiopia, often for export to the Gulf states; and the overland trade of khat from Kenya and Ethiopia into Somalia.

This form of cross-border trade has now been discouraged by the authorities. Although the Kenya -Somalia border is now officially closed, commodities continue to find their way into the market. Foodstuff, household items and motor vehicles arrive in Mandera from Somalia, while wheat, beans, natural herbs and cement arrive in Mandera from Ethiopia. The town of Mandera is also a transit zone for goods destined for Ethiopia from Somalia, such as tea leaves, sugar, and processed products like biscuits, juice and cooking oil. Goods sent from Mandera to Somalia include construction materials such as timber, metallic items, steel, iron sheets, paints, etc.

These commercial sectors are major pillars of this regional economy and typically involve cross-border business partnerships that are usually resilient to conflict, as they have a vested interest in maintaining peaceful and secure trade arteries.

Study Methodology

The methodology comprised of data collection through structured questionnaires and focus goup discussions from labour market participants and key informants who reside in the Kenyan, Ethiopian and Somali parts of the triangular area. The study team selected small samples of operating businesses in the various parts of the cross-border area between Kenya, Ethiopia and Somalia. The team was guided by local officials of the public and private sectors to portray a fair representation of the sexes, industrial sectors and size classes of employment, occupational groups and geographical locations.

Employing the random walk technique, the field staff administered the survey instrument to randomly chosen establishments from the three parts of the Triangle. This tool was used to collect information on vocational skills currently and prospectively in demand by potential employers.

Focus group discussions (FGDs) were held with a cross-section of current employees, private sector employers, job seekers, public sector officials and non-governmental organization (NGO) administrators. The FGDs method was aimed at eliciting the participants' perceptions on current skill gaps, and opportunities and challenges for sectoral economic growth that could result in enhanced near-term gains in employment levels.

A total of 1,007 business owners and managers were interviewed through questionnaires and an additional number of individuals through the FGDs. Of these, I,316 entrepreneurs were interviewed in Ethiopia, 348 in Kenya and 343 in Somalia.

Challenges during the Study

The following were the major challenges experienced during the data collection:

Insecurity: The cross border area between Kenya, Ethiopia and Somalia is an insecure zone, largely because of the Al Shabaab militia movement, and this resulted in the teams of enumerators having to be extra vigilant. In Ethiopia, data collection had to be suspended for some days because of violent demonstrations in Dolo Ado. In Kenya, soon after the start of Ramadan, there were cases of Al Shabaab attacking some mosques, as well as threats of violence along the Kenya/Somalia border.

Sensitivity: Some of the respondents considered the questions, especially those relating to incomes and expenditures, too personal and were not willing to respond to them. There was also a general fear among the informal, and even the formal sector entrepreneurs, of being reported to the tax authorities. However, the enumerators took time to explain why they were undertaking the study. In cases where the respondents refused to participate, the enumerators were required to replace them using the same sampling methodology. In some cases, such rejections made it impossible to follow the sampling protocol, as the enumerators had to interview only those who were willing to participate.

Fatigue: The data collection teams suffered fatigue as they participated during the month of Ramadan. This meant that the enumerators, as well as the respondents, had to work intensively, especially in the morning, before their energy levels fell later in the day.

Apathy: Respondent apathy, and their expectation of compensation for their time, was a problem. In some of the towns, the respondents indicated that they had had experiences of being interviewed but being left with nothing material in return. The enumerators addressed this issue by explaining to them how the findings of the study would inform the design of appropriate interventions for the betterment of their communities.

MAIN FINDINGS AND RECOMMENDATIONS

The main findings of the study are presented in the following section which gives an overvew of the business environment from a sample of businesses across the region, highlighting their labour market operations, the constraints they face in their operations, and opportunities for growth and development. Some of the findings are illustrated by graphics. Recommendations for strategic interventions are given towards the end of this section.

The local economy: Focussing on the urban economies, the survey results showed the dominance of the sectors of wholesale and retail trade, manufacturing, mining and construction, repairs and various services (including accommodation, food, administration, finance and insurance) across all three countries.

Figure 1 illustrates the overwhelming importance of the trade sector, which includes the trading of cattle. The second most important sector is mining, manufacturing and construction, dominated by construction.

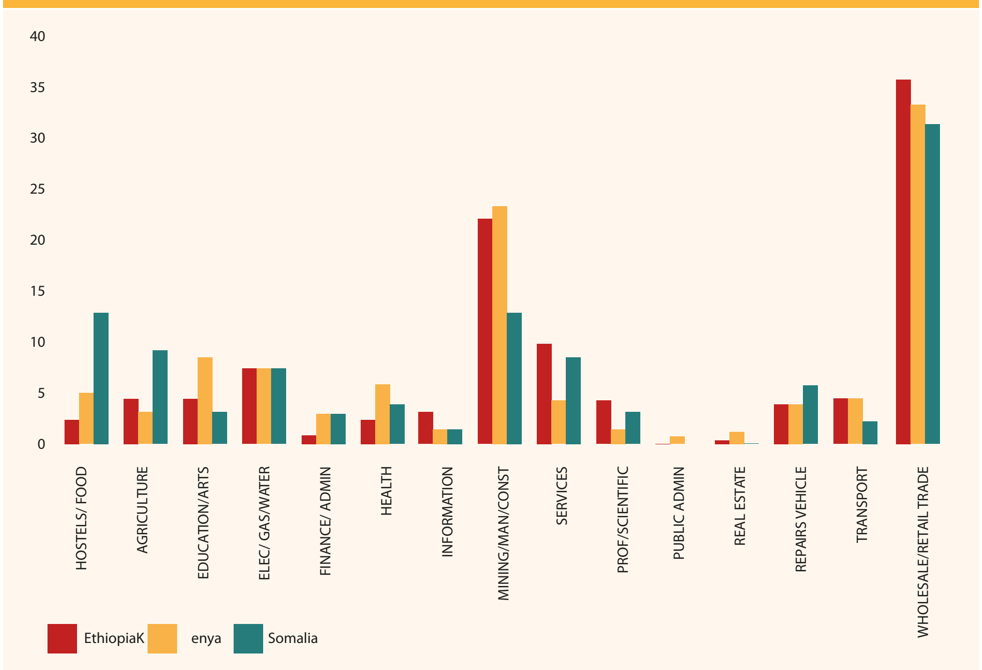

Figure 1. Distribution of Respondents (%) in the Sample, by Sector and Country

Sector of Enterprise		COUNTRY			Total
		ETHIOPIA	KENYA	SOMALIA	
Accommodation and food service activities	Count	6	18	43	67
	% within COUNTRY	1.9	5.2	12.5	6.7
Administrative and support service activities	Count	2	0	8	10
	%	0.6	0.0	2.3	1.0
Agriculture, forestry, fishing	Count	9	8	29	46
	%	2.8	2.3	8.5	4.6
Arts, entertainment	Count	6	13	2	21
	%	1.9	3.7	0.6	2.1
Construction	Count	5	25	13	43
	%	1.6	7.2	3.8	4.3
Education	Count	5	15	6	26
	%	1.6	4.3	1.7	2.6
Electricity/gas	Count	16	17	12	45
	%	5.1	4.9	3.5	4.5
Financial and insurance activities	Count	1	11	3	15
	%	0.3	3.2	0.9	1.5
Human health and social work	Count	9	21	13	43
	%	2.8	6.0	3.8	4.3
Information and communication	Count	10	4	3	17
	%	3.2	1.1	0.9	1.7
Manufacturing (Jua Kali)	Count	60	45	21	126
	%	19.0	12.9	6.1	12.5
Mining	Count	2	1	3	6
	%	0.6	0.3	0.9	0.6
Other service activities	Count	31	14	28	73
	%	9.8	4.0	8.2	7.2
Professional, scientific and technical activities	Count	10	2	7	19
	%	3.2	0.6	2.0	1.9
Public administration and defence	Count	0	4	0	4
	%	0.0	1.1	0.0	0.4
Real estate activities	Count	0	1	5	6
	%	0.0	0.3	1.5	0.6
Repair of motor vehicles	Count	12	14	21	47
	%	3.8	4.0	6.1	4.7
Transportation and storage	Count	12	13	8	33
	%	3.8	3.7	2.3%	3.3
Water supply/sewerage	Count	5	8	9	22
	%	1.6	2.3	2.6	2.2
Wholesale and retail trade	Count	115	114	109	338
	%	36.4	32.8	31.8	33.6
	Count	316	348	343	1007
	100.0	100.0	100.0	100.0	

Level of employment: In the sampled establishments, the level of employment was the highest in wholesale and retail trade for all three cross border lands: Kenya (870 labourers), Somalia (768 labourers) and Ethiopia (1,123 labourers) among those surveyed. The informal manufacturing sector had the second highest employment numbers, with Kenya leading (756 employed) and Somalia and Ethiopia having 693 and 222 people employed, respectively. Accommodation and food service activities ranked as the third highest sectors in terms of employment, followed by professional services, construction, and repair of motor vehicles in that order (see Table 2).

Table 2: Level of employment and number of sampled establishments, in parentheses, by sector and country

Sector	Ethiopia	Kenya	Somalia
Accommodation and food service activities	39 (6)	156 (18)	305 (43)
Administrative and support service activities	136 (1)	-	36 (8)
Agriculture, Forestry, Fishing	102 (9)	70 (8)	298 (29)
Arts, entertainment	19 (6)	127 (13)	6 (2)
Construction	107 (5)	444 (25)	168 (13)
Education	118 (5)	239 (14)	89 (6)
Electricity/gas	573 (16)	230 (17)	143 (12)
Financial and insurance activities	69 (1)	49 (11)	39 (3)
Human health and social work	123 (9)	297 (21)	97 (13)
Information and communication	376 (10)	24 (4)	27 (3)
Manufacturing (*Jua Kali*)	693 (60)	756 (45)	222 (21)
Mining	172 (2)	2 (1)	18 (3)
Other service activities	96 (31)	87 (14)	273 (28)
Professional, scientific and technical activities	409 (10)	9 (2)	60 (7)
Public administration	-	70 (4)	-
Real estate	-	13 (1)	62 (5)
Repair of motor vehicles	511 (12)	284 (14)	227 (21)
Transportation and storage	164 (12)	54 (13)	76 (8)
Water supply/sewerage	353 (5)	109 (8)	108 (9)
Wholesale and retail trade	1,123 (114)	870 (114)	768 (108)
Total including self-employed	5,183 (314)	3,990 (347)	3,022 (342)

Distribution of businesses by year: Figure 2 below illustrates distribution of businesses by years of opening. Business longevity was found to be relatively short as a result of several factors. These were the lack of security in the survey area, the relatively low level of start-up capital and technology required, the lack of major barriers to entry and the intense competition resulting from the nature of the undifferentiated products and services on offer in many sub-sectors. Indeed, 52% of businesses in Ethiopia, 44% in Kenya and 46% in Somalia, began operations in 2013. As illustrated in Figure 2, in Kenya only 9% of the sampled establishments began operations prior to the year 2000; in Ethiopia (3%) and Somalia (6%). Kenyan respondents appear much more established, with 89% open for 11-12 months a year and only 1% operating for less than six months. Corresponding data for Ethiopia and Somalia are 84% and 80% respectively for being open 11-12 months, and 14% for both Ethiopia and Somalia for less than six months.

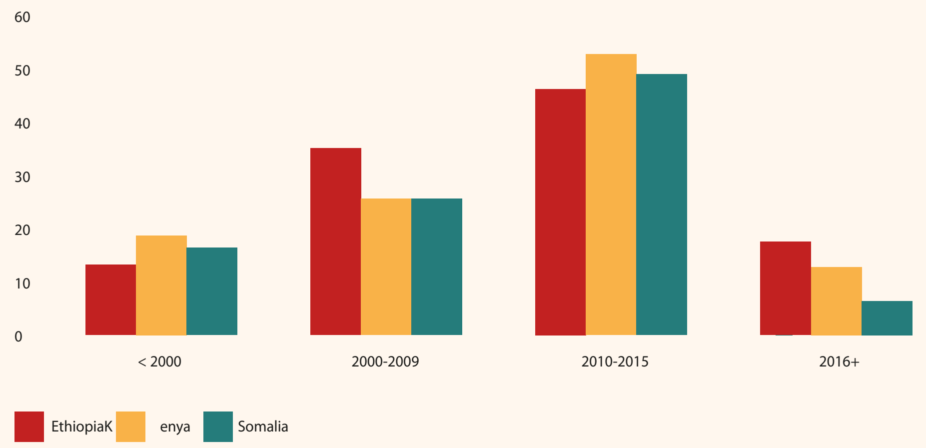

Figure 2: Percentage distribution of businesses by years of opening by country

Gender differences: Sole male ownership of the sampled businesses is dominant across all three countries at 76%, 74% and 66% in Ethiopia, Kenya and Somalia respectively. However, Somali women do better than women in the other countries in both sole and joint ownership. Employment status is much more likely to be part-time, casual or apprentice for both sexes in Ethiopia, than in Kenya and Somalia. This might explain why the size of establishment, in terms of the number of workers per plant, is much higher in Ethiopia.

Education: More managers in Kenya have attained higher education than in the other two countries. Given the universally documented relationship between education and earnings, business success, as measured by profitability, is therefore greater in Kenya than in Ethiopia and Somalia.

Training: A much higher proportion of employees in Kenya are being trained: one-third are receiving training at a training institution and two-thirds on-the-job. In contrast, only one-quarter of employees are being trained in Ethiopia and Somalia, most of whom on-the-job.

Vocational training: There was a paucity of trained skilled labour in the cross-border area between Kenya, Ethiopia and Somalia. The number of establishments that claimed to have workers who had attended a vocational training institution was 42 (13%) in Ethiopia, 102 (29%) in Kenya, and only 22 (6%) in Somalia. The numbers of current workers having attended such institutions were estimated to be only 97 in Ethiopia, 424 in Kenya and 64 in Somalia.

Wage levels: Mean monthly wages for males are significantly higher in Ethiopia while females do relatively better in Kenya. Wages are lowest for both sexes in Somalia. The wages paid by employers may well reflect their perceived profitability of the enterprise. When asked for the owner's rating of the business performance last month, owners' ratings were highest in Ethiopia.

Formality: The Government of Ethiopia has greater control of both private and public sectors than the governments of Kenya and Somalia. Business formalization may be more elaborate in Ethiopia but has costs which businesses try to avoid. Registration of a business is a clear indicator of the formality of business operations and is identified with being part of the formal sector of the economy. In Kenya, this is no longer complicated. The overwhelming share, 97%, of businesses in Kenya report being registered, compared with 72% in Ethiopia and 80% in Somalia, while across all three countries, most registrations take place with the Central Government (see Table 3).

Table 3: Percentage of businesses registered and the nature of their registration

	Somalia	Ethiopia	Kenya
Not registered	28	3	20
Registered	72	97	80
% registered with:			
Local authority	2	10	0
Central Government	88	69	92
Both	10	21	8
Total	100	100	100

Business location: More respondents (73%) in Kenya are operating from commercial premises with fixed structures, compared to only 23% in both Ethiopia and Somalia. By contrast, only 13% of Kenyan respondents operate from a market stall, from a ***Jua Kali*** shed or from open ground, compared with 58% in Ethiopia and 61% in Somalia (see Figure 3).

Figure 3: Location of businesses by country

Infrastructure: Access to basic infrastructure, such as roads, water, electricity and markets, is more widespread on the Kenya side of the border than in Ethiopia and Somalia.

Capital: The main source of initial start-up funds in the Triangle was overwhelmingly from family and own savings, ranging from 90% of respondents in Ethiopia, 79% in Kenya to 87% in Somalia. Access to a government loan was mentioned by 8% of respondents in Kenya, but by none this in Ethiopia and only one respondent in Somalia. Other sources mentioned included money lenders, non-bank credit associations, informal cooperatives and NGOs, but all were cited by very few respondents. Similarly, the same sources were mentioned by respondents when asked to name the institutions from where subsequent additional funds for investments were acquired.

Finance: There is a documented lack of finance for small entrepreneurs to operate and expand their businesses. For example, when asked to name the greatest risks to their business, 49% of respondents in Ethiopia, 32% in Kenya and 73% in Somalia cited 'lack of funds'. The underdeveloped state of the capital market is apparent as very few respondents had applied for a formal sector loan in the last two years. There were only four applicants in Ethiopia, 15 in Kenya and seven in Somalia. Of these, three were successful in Ethiopia, 10 in Kenya and six in Somalia – which is in fact a fairly high success rate.

Business information: Access to aspects of business information and advice seem equally underdeveloped in the Triangle, with very few respondents being able to cite any advice received relating to marketing, accounting, legal issues and business planning.

Business plans: The great majority of business owners in Ethiopia (67%), Kenya (90%) and Somalia (80%) plan to expand their businesses in the coming six months. The owners are quite ambitious in anticipating a business expansion, by investing in new equipment and hiring more skilled workers.

Equipment: Respondents operating in Kenya (91%) have much greater access to energy-driven machinery than those in Ethiopia (60%) and Somalia (64%). Most machinery is powered by electricity. In Ethiopia and Kenya 60% and 77%, respectively, of the machines being used in the sampled businesses have been imported, compared with only 21% in Somalia. Most of the remainder in Ethiopia and Somalia was inherited from the previous business owner or purchased from another business in-country. Almost one-quarter of respondents in Somalia, compared with 17% in Ethiopia and 10% in Kenya, claimed that the electrically-operated machines are a drain on their business operations because of their high maintenance and running costs.

Profitability and wages: At least half of all respondents claim that business is 'fairly profitable' or 'very profitable', with those from Ethiopia and Kenya being the most satisfied. Kenya and Ethiopia also have relatively higher male wages compared with Somalia.

Competition: The competitive nature of the markets is apparent in all three countries, with large numbers of respondents citing *too few customers* and *competition* as major risks to their businesses (see Table 4).

Table 4: Respondents identifying risks to their business (%)

Risks	Ethiopia	Kenya	Somalia
Too few customers	71	29	41
Too much competition	42	47	36
Lack of skilled workers	23	18	64
Lack of funds	49	32	73
Poor infrastructure	23	31	28
Lack of raw materials	10	18	20
Harassment by local Government officials	2	8	1

Cost of doing business: The cost of registration may be a deterrent to formalization for some businesses. In Kenya on average, starting a company requires seven procedures, takes 23 days and costs 22% of Kenya's income per capita. From October 2017, the on-line registration fee was set at KSh10, 650 (US$105).
Business registration in Kenya is quite efficient because of several factors. Registration of companies is regulated under the Companies Act of 2015. While the process is less efficient compared with the global *Doing Business 2016* average, it is faster and costs less than half of the regional average in Sub-Saharan Africa (World Bank, 2016; *Doing Business in Kenya*). Huduma Centres, which are spread all over the country, together with a new electronic database of company names, helps to speed up company name reservations across Kenya.

According to World Bank (*Doing Business in Ethiopia, 2018*), it takes 33 man days to register a business in Ethiopia with a cost of 57.7 of per capita income. Ethiopia is ranked 161 out of 190 economies compared to Kenya which is ranked 117 (*Doing Business in Kenya*, World Bank, 2018). The same assessment shows that Ethiopia is 47.77 away from the frontier, i.e. the best performance in doing business, which is lower than the sub- Saharan average of 50.43 and Kenya at 65.5.

In Ethiopia**,** analysis of the distribution of licence fees, compliance costs and the ratio between the two shows that most licence fees are modest — more than 70% cost ETB 254 (US$ 9) or less. However, more than 90% of licenses have total compliance costs of more than ETB 2,000 (US$ 74), and 32% more than ETB 8,030 (US$ 295), the national per capita income. Finally, for more than half of all licenses, the compliance costs are ten times or more than the application fee. Perhaps this helps to explain the lower level of registration than in Kenya, suggesting there may be a strong case to be made for reducing compliance costs by simplifying and streamlining the licensing regime in Ethiopia.

An extensive on-line search did not yield much data on impediments to the registration of small establishments in Somalia. However, according to the World Bank, *Doing Business 2018: Reforming to Create Jobs,* Somalia ranks last when compared to the 190 economies in 2018, on the ease of doing business. The report estimates that it takes 70 man days and costs 203.6 % of the income per capita to register a business in Somalia.

Constraints and Opportunities

Political and socio-economic situation: The current situation imposes severe constraints on employment opportunities available to youth in the cross border region. The effects of decades of instability are evident in the anaemic local economy and in the major vocational skills deficits among the local job seekers. An added impediment to a well-functioning local labour market is the critical role of personal connections in accessing jobs, a barrier which disadvantaged youths face when attempting to find productive employment. A major constraint to potential and current entrepreneurs' ability to generate employment opportunities includes the lack of, and access to, financial capital.

Despite these substantial challenges, opportunities exist to improve the relevance of TVET to the needs of the labour market. Greater engagement with the business community in the design of TVET programmes, as well as apprenticeships and mentorships, are methods through which TVET training could help the graduates achieve better employment outcomes. The economic viability of cooperatives can be improved by linking cooperatives to financial services.

BORESHA Consortium
Danish Refugee Council - East Africa and Great Lakes
Lower Kabete Road (Ngecha Junction)
P.O Box 14762 – 00800 Nairobi, Kenya
Office: +254 709867000
Email: KEN-Boresha@drc.ngo
Twitter: BORESHA_HoA
Website: www.boreshahoa.org

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