



IGC Ethiopia: Compendium of recent projects

PROJECT SUMMARIES

The International Growth Centre (IGC), jointly run by the London School of Economics and Political Science and the University of Oxford, supports economic growth policy through demand-led, pathbreaking research. The IGC operates in over 10 developing countries, focusing on four thematic areas: firm performance, cities and infrastructure, state effectiveness, and energy and environment. In Ethiopia, the IGC has engaged since 2011, commissioning research projects across the four thematic areas supporting growth policies in partnership with the Ministry of Finance, the Ministry of Planning and Development, the Ministry of Labour and Skills, the Ministry of Mines, the Ministry of Innovation and Technology, the National Bank of Ethiopia, and the Investment Commission. Notable areas of research support include understanding the workings of labour markets in Ethiopia, supporting macroeconomic policies on price and exchange rate stability, informing urban policies of housing development, and energy efficiency.

This compendium highlights recent IGC-funded projects, their policy messages, and more recently commissioned research and potential impact in the four thematic areas.

1. Firms and trade

Under this thematic area, research clusters have been developed to inform labour and employment policies, trade policies, and other firm performance-related issues.

a) Jobs and labour markets

This cluster of research projects has covered various issues related to the supply of, demand for, and market for labour. Some findings of this cluster include:

- **Application incentives** – Addressing skills information frictions through application support and incentives results in better matching when compared to increases in wages and salaries.
- **Social network-based recruitment** – Recruitment based on job referrals influenced by social networks doesn't necessarily result in better matching.
- **Retention bonus** – In blue-collar jobs, typically manufacturing, where turnover is high, retention bonuses result in lower turnover and better efficiency and productivity.
- **Internship and apprenticeship programs** – Dual apprenticeship programs with adequate incentives for host firms and institutionalising results in effective programs.
- **Fiscal incentives for youth employment and informal sector** – Targeted incentives, as opposed to broader ones, result in better employment outcomes.
- **Skills mismatch** – There is a significant gap between the skills firms demand and the supply in terms of soft skills and occupation. Jobseekers in Ethiopia are largely overqualified but inexperienced for the demand.
- **Wage information** – Revealing wage information in vacancies results in a better pool of job applicants, especially for jobs paying above-average wages. Wage information improves labour market matching.
- **Getting online for jobs** – Low-skilled women apply to more jobs and receive more offers; this effect goes along with a decrease in activities linked to subsistence entrepreneurship and an increase in wage employment, driven by public sector employment.
- **Understanding the microstructure of labour demand by firms (ongoing)** – Aims to provide explorative evidence on the microstructure of labour demand on firms in urban Ethiopia.
- **Matching on additionality (forthcoming)** – To inform active labour market policies, this paper will examine whether displacement effects can be reduced by directing treated jobseekers toward vacancies that are less likely to be filled, a strategy we call "matching on additionality."

- **Industrial park jobs and network formation (forthcoming)** – Aims to measure the formation and persistence of new network links between rural and urban workers, and their effects on both workers' performance within IP and future labour market and migration outcomes.

b) Trade and productivity

Under this sub-thematic area, several issues, including trade tariffs, managerial practices and other firm productivity-related ones, are focused on.

- **Trade liberalisation and firm productivity** – Tariff reduction doesn't result in firm exit in Ethiopian manufacturing firms, but rather increases average firm productivity.
- **Transport cost and variety in consumer goods** – Falling transport costs, larger market size, and higher inequality significantly raise the variety of domestic brands.
- **Trade liberalisation, infrastructure and firm performance** – A reduction in input tariffs has a strong positive effect on productivity in firms located in towns with better road infrastructure.
- **Spatial integration, agricultural productivity and development** – Calibrating spatial agricultural production on varying road infrastructure assumptions indicates that productivity gains are substantial when road infrastructure is in place.
- **Managerial practices in Ethiopian manufacturing firms** – In Ethiopia, older and larger firms engaged in trade are better managed and better-managed firms are more productive.
- **Impact of ICT sector on growth and productivity** – While some growth contributions will be direct, most will be indirect by enabling growth in other sectors.
- **Enhancing ICT survey data** – Input into the design of ICT modules will facilitate analysis of dynamics in ICT contribution.
- **Quality standards and firm behaviour (ongoing)** – To inform policy on firm technology upgrading.
- **Structural transformation via services or manufacturing? Review of Ethiopia (forthcoming)** – Summary of the global debate on alternative routes to structural transformation and presents Ethiopian empirical evidence to highlight choices for Ethiopia.
- **Local multiplier of industrial jobs (forthcoming)** – Examines how promoting formal sector investment can indirectly create jobs in the informal sector and services.
- **Formalisation of informal firms: The role of information, inspection and relationship with formal firms (forthcoming)** – Aims to provide a deeper understanding of the transition of informal firms to formality in Ethiopia.

c) Shocks

- **Shocks and jobs (ongoing)** – To identify jobs that are more resilient to conflict and climate shocks.
- **Extreme weather events and manufacturing (ongoing)** – Explores the impact of extreme events like droughts on the productivity of manufacturing firms in Ethiopia, an area overlooked in current research.

d) Banking sector

- **The organisational economics of banking: Evidence from Ethiopia** – Conducts a census of bank branches to study management practices of bank branches and their allocation of loans.
- **Firm credit and financial development: Evidence from the management practices** – Finds that branches with strong practices operate over longer geographic distances and supply more local credit. We also observe that loan characteristics correlate with good branch management through longer maturities, lower collateral requirements and reduced default rates.

2. Cities and infrastructure

Under this thematic area, the major focus has been on housing, transport and migration in Ethiopia, with a more recent focus on urban resilience.

a) Housing

- **Low-cost housing in Ethiopia** – People living in the slums of developing country cities could be made significantly better off if more formal housing were made available.
- **Neighbourhood of opportunity** – Formal housing can be successfully supplied at scale by city governments. Still, careful consideration must be given to where the housing is built and how much is provided. A key to their success appears to lie in giving households the choice to live in this housing if it suits them or, if it does not, rent it out to households that do want to live there.
- **Rental markets in industrialising cities** – A study that focused on Hawassa city after the establishment of the industrial parks suggested that industrialisation increases the demand for housing, which is supplied by private landlords. Rental prices increased by 26% mostly in line with consumer price inflation.

b) Transport

- **Gendered differences in mobility and transport** – Access to high-quality, safe, affordable transport can help close the gender gap in mobility, providing better employment, job search, and social and economic opportunities for women.
- **Effect of incentive structures on driver behaviour and urban road safety (forthcoming)** – Through testing possible interventions among informal minibus drivers in Addis, aims to change drivers' incentives and lead to safer road behaviour.

c) Migration

- **Returns to international migration (ongoing)** – To inform support to international migrants.
- **Effects of refugee work permits (ongoing)** – To inform impact on migrants and host communities.
- **Heterogeneous effect of migration on labour supply response of left behind (forthcoming)** – Aims to identify the effects in migrant households on those left behind, including gendered impacts.

d) Urban resilience

- **Solid waste management (forthcoming)** – To inform improvements in household waste segregation.

3. State effectiveness

This thematic area focuses on macroeconomic management, bureaucratic capacity and social protection.

a) Microeconomic foundations for macroeconomic policies

Macroeconomic imbalances in Ethiopia have been a major focus of policy in Ethiopia. The commissioned projects under this thematic area include:

- **Macro drivers of inflation**
- **Supply-side drivers of inflation in Ethiopia** – Yield variability and international price arbitrage drive food inflation, while monetary factors anchor non-food inflation. Supply-side analysis in food markets indicates that the marketable surplus in major food items has not been growing as needed, and political events disrupt supply, resulting in higher food inflation.
- **Exchange rate unification in Ethiopia (2020)** – Over the medium term, the transition towards a more flexible exchange rate regime needs to be

carefully calibrated to the structural characteristics of the Ethiopian economy, and in particular, the speed and breadth of institutional reforms in the financial sector.

- **Ethiopian securities exchange and financial inclusion (ongoing)** – Laying groundwork for evaluating securities exchange, and organisational economics of banking.

b) Beurocratic capacity

- **Civil service reform in Ethiopia** – While recruitment is merit-based in the Civil Service, low level of salaries pose a challenge in terms of attracting, motivating and retaining well-trained staff. Capacity and skills are key constraints in the civil service.
- **State as an enabler of private sector development** – In a study of bureaucratic capacity in the tax and financial sector, findings suggest effective coordination of policy across different stakeholders. To avoid adverse unintended consequences of policy changes, better simulation mechanisms need to be designed.
- **Bureaucrat-firm relationships and the success of labour market policy (forthcoming)** – To assess whether increasing direct interactions between bureaucrats and firms enhances the efficiency and outcomes of labour market programs.

c) Fiscal space – taxation, social protection

- **Taxing the agricultural sector** – Institutional development of existing land taxes by building better land registration systems, building regional capacity, and enhancing progressivity by adjusting the rate can improve agricultural tax collection.
- **Job displacement insurance** – Job displacement insurance closes half the expenditure gap between displaced and non-displaced workers, resulting in significant welfare gain.
- **Rebuilding trust in local governance: Can community-based cash transfers and deliberation rebuild trust in local leadership in conflict-affected settings** – To inform the rehabilitation and reconciliation efforts started by Ethiopian government and development partners in post conflict settings.

4. Energy and environment

This thematic area focuses on energy efficiency, access, and sustainable agriculture.

a) Energy

- **Electrification and Africa's growth** – Rural electrification leads to substantial structural transformation of village economies and slows rural-urban migration as a result.
- **Electrification effects on firm productivity** – This project has highlighted how manufacturing firms respond to greater availability of energy (via grid electrification) by re-organising their production processes in a labour-saving fashion.
- **Smart meters impact on efficiency and stability (ongoing)** – To inform roll-out of smart meters among firms.
- **Households' Energy Conservation Behaviour, Tariff Reform, and Energy Poverty in Addis Ababa** – Informs electricity tariff reform to boost revenue while minimising impact on low-income groups.

b) Sustainable agriculture

- **Climate services and farmer resilience** – Access to well-channelled climate services could boost agricultural productivity. Further general equilibrium effects show that climate information services result in higher agricultural productivity, better labour demand and higher household consumption.
- **Impact of sustainability standards on smallholder coffee** – Certification enhances yields, prices and income. However, compliance costs will need to be reduced for greater adoption and returns.
- **Institutions, markets, and product quality in coffee (ongoing)** – To inform policy to enhance coffee contribution to growth.
- **EU deforestation regulation and Ethiopian smallholder coffee farmers: Awareness, compliance capacity and potential impacts (forthcoming)** – Evaluates smallholder farmers' awareness of the EUDR, its potential impacts, their level of compliance, and the role of voluntary sustainability standards (VSS) in improving these aspects.