



**International
Growth Centre**

IGC Ethiopia
Ethiopian Development Research Institute
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Papers that will be Presented at the IGC's Session at the EEA Conference

Addis Ababa, Ethiopia

July 20-22, 2017

1. “How Should Rural Financial Cooperatives Be Best Organized? Evidence from Ethiopia” by Kibrom A. Abay, Bethelhem Koru, Gashaw Tadesse Abate and Guush Berhane

What is the optimal size and composition of Rural Financial Cooperatives (RFCs)? With this broad question in mind, we characterize alternative formation of RFCs and their implications in improving rural households' access to financial services, including savings, credit and insurance services. We find that some features of RFCs have varying implications for delivering various financial services (savings, credit and insurance). We find that the size of RFCs has nonlinear relationship with the various financial services RFCs provide. We also show that compositional heterogeneity among members (including diversity in wealth) is associated with higher access to credit services, while this has little implication on households' savings behaviour. Similarly, social cohesion among members is strongly associated with higher access to financial services. These empirical descriptions suggest that the optimal size and composition of RFCs may vary across the domains of financial services they are designed to facilitate. These pieces of evidence provide some suggestive insights on how to ensure financial inclusion among smallholders, a pressing agenda and priority of policy makers in developing countries, including Ethiopia. The results also provide some insights into rural microfinance operations which are striving to satisfy members' demand for financial services.

2. Trade Liberalization, Productivity, and Exit, in Ethiopian Manufacturing Firms by Dawit Zenebe and Jeremy Foltz

This paper studies the effect of tariff changes on firm level productivity, firm exit, and industry resource reallocation in Ethiopian manufacturing firms. It uses a new estimation method for production functions to obtain unbiased and efficient estimates of parameters and total factor productivity compared to the “input proxy” approaches, which are common in the empirical trade and productivity literature. We find evidence for increased productivity after liberalization and resource reallocation in several industries as expected from the theoretical literature. However, there are heterogeneous impacts across sectors. We find no evidence for firm exit after tariff reductions due to direct competition effects from lower cost imports but the tariff reductions affect firm decisions to exit via their effect on productivity. Tariff reductions also increase average industry productivity through its influence on market share reallocations from low to high productive firms.

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3. “Application Incentives and the Allocation of Talent: Experimental Evidence” by Simon Quinn, Antonio Stefano Caria, Girum Abebe

Do high participation costs in formal labour markets prevent high quality workers from allocating their talent most productively? In a field experiment in Addis Ababa, Ethiopia we incentivise applications for a clerical job with a small monetary transfer. We find that the incentive increases the number of applicants for the position and improves the quality of the applicant pool. In particular, cognitive ability is higher, at all points of the distribution. Further, the proportion of top applicants who are predicted to have low labour market participation on the basis of baseline covariates increases. These results suggest that, surprisingly, participation costs and cognitive ability are positively related in this market. We estimate a structural model of endogenous application decisions to quantify this correlation and its implications for the efficient allocation of talent.

4. "Job referrals and strategic network formation - Experimental evidence from urban neighbourhoods in Ethiopia” by Simon Quinn and Marc Witte

This paper tests what influences the linking decisions between individuals through job referrals, and whether these social job networks are formed strategically. I randomly generate job opportunities for young job seekers from dense urban neighbourhoods in Addis Ababa, Ethiopia. Some participants are enabled to refer individuals from their neighbourhood to the same job, and I repeat this experiment for several rounds. I find that individuals use their job referrals strategically within their local networks: On average, more central individuals are invited to jobs, especially when the referral takes place openly. In addition, most referrals are characterised by a large degree of homophily. In treatments where the referral process is anonymous, more peripheral individuals are invited to the job, suggesting that inequality aversion takes place. The findings suggest that pre-existing social network structures can reinforce labour market inequality. Public hiring policies should take this into account.

5. “The Effects of Electrification on Firms: Preliminary Results from Ethiopia” by Niclas Moneke

This work studies the very recent electrification of manufacturing firms in Ethiopia. Tracking the electricity network expansion spatially, we analyse firms' responses over time to switches from alternative forms of power to the electric grid. Preliminary results indicate moves towards

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labour-saving technology usage. Future work will also study the corresponding firm entry/exit margin.

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