

Ethiopia Productivity Report

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Executive summary

Basic information about this Report

- Scope—economy-wide productivity & manufacturing productivity
- Featured—labor productivity & total factor productivity (TFP)
- Methods—(i) analysis over time, (ii) international comparison, and (iii) survey of garment firms
- Two data decompositions—(i) decomposition of labor productivity into capital deepening and TFP, and (ii) shift-share analysis of labor productivity
- Data sources—(i) PDC's national data, (ii) CSA's Large and Medium Scale Manufacturing Industries (LMSMI) Survey, 1996-2016 (cleaned for gaps & outliers), (iii) WB's WDI database; (iv) ILO, (v) UNIDO

Ten key findings—to be explained by Dr. Kidanemariam; please also read! (9 pages).

1. Introduction

- **History of Ethiopia's economic policy up to GTP II**
- **Motivation: productivity is still low despite high growth**
- Basic information about this Report (same as Exec. Sum.)
- Preview of chapters

2. Productivity: concept, measurement and significance

- Definition: $\text{Productivity} = \text{Output} / \text{Input}$
 - Output can be gross or value-added
 - Input can be partial (labor, capital, land...) or total (TFP)
- Enterprise, national, international levels
- Basic decomposition:
 $\text{Labor productivity} = \text{Capital deepening} + \text{TFP}$
- Productivity is important because of its close link with real economic growth
- Labor productivity is often featured due to (i) human focus, (ii) ready calculation, and (iii) international comparability
- Caveats are its partial nature & data quality.

3. Economy-wide labor productivity in Ethiopia

- Overall productivity: trend since 2000 and growth record
- Trends in major sectors: agriculture, industry & services
- **Comparison with peer groups:** Sub-Saharan Africa, low-income, lower middle income, upper middle income
- **Decomposition results**
Labor productivity = Capital deepening + TFP
- **Shift-share analysis**
Labor productivity = Within effect + Shift effect
+ Interaction effect
- Discussion of “perils of premature de-industrialization”

4. Zooming in on the manufacturing sector

- Review of past policy tools—benchmarking, twinning, kaizen, small business support scheme
- CSA's manufacturing firm database (LMSMI) 1996-2016—coverage, definitions, gaps & problems, and how they were overcome by authors
- General information about manufacturing & its 15 subsectors
- **Manufacturing labor productivity**: level & growth
- **Manufacturing TFP**: level & growth
- Labor productivity & TFP **by subsector and firm size**
- **International comparison**: manufacturing & its subsectors
- **Wage-productivity nexus**—manufacturing labor productivity vs. labor cost (measured in Birr, USD or ULC); international comparison

5. Labor productivity challenges in the emerging Ethiopian apparel industry: survey results

- Basic information—18 apparel firms in Hawassa, Bole Lemi & Mekelle; firm profiles; interview method
- Hypothesis: productivity is determined by (i) labor mindset, quality & working conditions, (ii) management, and (iii) policy & external factors
- **Findings about labor**—mindset, skills, trainability, incentives & working conditions
- **Findings about management**—management approaches & styles, worker promotion method, foreigners vs. local culture, problems of Ethiopian managers
- **Findings about other factors**—inadequate laws, logistics, customs, power, etc. seriously affect productivity

6. Policy measures toward enhanced productivity

Regarding policy framework

1. Establish a policy organization and an operational organization
2. Improve data collection and publication
3. Set medium-term targets

Regarding policy actions

4. Adjust investment policy for proper pace & more private projects
5. Speed up structural transformation
6. Maintain wage competitiveness
7. Deepen and broaden Kaizen into National Productivity Movement
8. Construct an effective enterprise support system (esp. for SMEs)
9. Simultaneous pursuit of productivity and ethical standards
10. Transform the mindset of workers and management