Losing the Fight for Survival

Haile Gebreselassie, A Business Magnate

The Plight of Startups During COVID-19

Samrawit Fekiru, Founder & CEO, RIDE

ETHIOPIAN BUSINESS REVIEW

9th Year • Jun.16 - July.15 2020 • No. 87

Ethiopia ETB: 40.00

Special Edition

EYOB TEKALIGN
State Minister of Finance

on COVID-19, Economic Reforms

ሕብረት ኢንሹራንስ አማ
THE UNITED INSURANCE COMPANY SC
Tomorrow's Company Today!

Life

ሕብረት ኢንሹራንስ አማ
THE UNITED INSURANCE COMPANY SC

Liability

Property

For All Your Insurance Needs

+251 111 26 3434 united.insurance@unic-ethiopia.com www.unicportal.com.et

Contents

ETHIOPIAN BUSINESS REVIEW

Ethiopian Business Review is published by Champion Communications. It is registered by Ethiopian Broadcasting Authority. Registration No 227/04

CHAMPION COMMUNICATIONS

CHAMPiON Communications is registered by Ministry of Trade Business Licence No 14/670/76602/2004

9th Year Jun. 16 - July. 15 2020 . No 87

Executive Editor
Tewedaj Sintayehu

Deputy Executive Editor
Samson Hailu

Editor-in-Chief
Samson Berhane
Akaki Kality Subcity, Wereda 04 H.No: Q12

Assistant Editor
Ashenafi Endale
Ermias Mulugeta

Staff Writer
Kiya Ali

Adjunct Staff Writers
Abiy Wendifraw

Regular Contributors
Abebe Asamere
Alemayehu Geda (PhD)
Dawit Arega

Creative Art Director
Eyob Tefera

Photographer
Samuel Habtab

Operations Manager
Tamirat Astatkie

Sales & Marketing Manager
Mulugeta Tessema

Finance & Administration Manager
Abdulhadi Beyan

Digital Technology Officer
Buzuayehu Tekesete

Distribution
Henok Engdawork
Naol Legesse
Yonas Shenkut

Custemer Service Officer
Tefesehi Getiye

ISSN 2312-5403
Ethiopian Business Review

Editorial Address
Kirkos Subcity, Wereda 08 House No, 228 Jomo Kenyatta St. Tsehay Messay Building 4th Floor P.O.Box: 54605: Addis Ababa, Ethiopia
ethiopianbusinessreview.net

Editorial
editor@ethiopianbusinessreview.net

Subscription & Advertising
marketing@championethiopia.com | +251 961 41 41 41

This edition is printed at Master Printing Press
Arada Subcity, Wereda 06, House No. 122
Addis Ababa, Ethiopia.

The Afforestation Campaign Needs to be Commercialized!

Ethiopia plans to plant five billion trees in the next two months as part of an effort to build a green economy. This year's tree planting campaign marks the second year of the initiative started by the reformist Prime Minister Abiy Ahmed (PhD). Last year's campaign saw Ethiopians break the world record for planting trees by planting 356 million of them in just a day.

Of course, this is a good initiative considering the country's forest coverage of arguably 15Pct needs to grow considerably just to reclaim the forest cover lost over the past half a century. It is also a step in the right direction in order to build a climate resilient economy and eventually substitute timber imports, which cost the country an aggregate of over USD200 million over the last decade.

Nonetheless, the government's afforestation policy still needs to be revisited and redesigned to make the initiative sustainable. Although the government claims that 84Pct of the four billion trees planted last year have grown, quite a number of people are sceptical about the figure. Considering the billions of birr allocated to this project and the radical change its successful completion would bring to the immense challenge of environmental degradation and food security in Ethiopia, proper care and growth of the trees should be a priority. As has been the case with some nurseries, propagating seedlings has been outsourced to numerous organized youth around the county. That has created a sizeable number of jobs for the young who have been in desperate need of employment.

That effort could, however, go a step further and involve the youth and the private sector in caring for the treelings planted. This commercialization of the tree planting scheme could draw a large number of people to care for the plants and thus, ensure their growth.

The afforestation campaign should also be in sync with an integrated land use plan, which helps the country allocate land for each economic activity, including forestry. Of course, there was a previous attempt by the government, in coordination with USAID, to develop a land use policy and prepare a road map on the implementation of a national integrated land use plan, but this has not been materialized so far. Thus, there is still no system in place to regulate land use across the country. This requires the attention of policymakers.

Understanding the economic benefits of planting trees, the government needs to incentivise individuals and businesses to engage in the forestry sector. The incentive needs to include nurseries as well as big companies that want to value add and consume wood to produce other items, including paper. If left unchecked, 90 thousand km2 (56Pct of the total forest area) might be deforested between 2010 and 2030. During the same period, annual fuel wood consumption could rise by 65Pct. To fill this gap, it is imperative to promote afforestation, reforestation and improved forest management activities to increase carbon sequestration in forests and woodlands.

No one is in a better position than farmers to carry out the job; their involvement is vital as it could also help them raise better profit than crop production. Cognizant of the facts, extension programs need to be adopted to encourage farmers engage in the forestry sector and incentivise them to get involved in the production of forest derived products.**EBR**

The following were some of the news stories in Ethiopia last month. They were sourced from Addis Maleda, a weekly Amharic Newspaper and sister publication of EBR.

Ethiopia Earns USD2.4 billion from Export

Ethiopia exported 2.4 billion dollars worth of goods in the last 10 months, the Ministry of Trade & Industry announced. While this is lower than the three billion dollars target set to be achieved during the reported period, it is 12.6Pct higher compared to the same period last year. Coffee, Khat and flower are items that showed strong growth, whereas leather and live animals exhibited the lowest.

Banks Disburse ETB221 billion Loan in 10 Months

Commercial banks disbursed ETB221 billion fresh loans until the end of April 2020, according to the National Bank of Ethiopia. The banks collected ETB138 billion loan during the same period while the non-performing loan of private banks reached 3.4Pct. The NPL of the Commercial Bank of Ethiopia has reached two percent as of the end of last month.

Ethiopia Procures ETB3.2 billion Worth of Edible Oil in Response to COVID-19

The federal government announced that ETB3.2 billion worth of edible oil has been procured in response to the Coronavirus pandemic. Last month, the government also signed an agreement with the Australian government to procure USD120 million worth of wheat. The payment for the wheat will be made a year after being supplied.

Leather Factories Cry foul over Lack of Attention

Leather factories complained that they are on the verge of closure due to the slowdown of business activities following the Coronavirus pandemic. While many of them are not able to pay salaries to their employees, five factories have already suspended operations. Especially with the growing market share of foreign companies, local tanneries and leather factories are in a precarious situation, Addis Maleda confirmed.

ETB 476 billion

The amount of budget approved by the council of Ministers for the next financial year.

CBE Demands ETB90 billion to Boost its Liquidity

Commercial Bank of Ethiopia (CBE) requested the provision of ETB90 billion from the Ministry of Finance to satisfy the credit demand of its customers, Addis Fortune reported. CBE has been struggling for the last three quarters due to liquidity shortage, which arose from the unmatched growth of deposits and loans. The Bank so far received ETB33 billion from the Central Bank in an effort to boost its liquidity.

Liquor Factory Witnesses Surge in Income

National Liquor Factory earned ETB723 million in revenues until the end of the third quarter of the existing financial year. While this is 103Pct of its target, the amount is 97Pct higher compared to the same period last year. An increase in demand for sanitizers due to the Coronavirus pandemic and a surge in the sales of alcohols helped the factory register better income this fiscal year.

Australian Firm Wins a Contract in Tigray

Lotus Energy Cooperative wins a contract to construct a complex that combines solar, battery storage and waste-to-energy capacity. With at least 500 MW of solar parks, the complex situated in the State of Tigray will power operations of the Ethiopian conglomerate EFFORT Group under a 30-year deal. Construction is expected to begin as early as September. The project would create the largest micro grid globally, according to CEO of Lotus, Anthony Vippond.

ECX Trades More Commodity Despite the Coronavirus Crisis

Despite the adverse impacts of the Coronavirus pandemic on trade activities, Ethiopia Commodity Exchange traded ETB30.4 billion worth of agricultural commodities until the end of the third quarter of the existing financial year. While this is 21Pct higher compared to the same period last year, it is six percent higher than that of the target set. Coffee, sesame and soya bean are some of the items that exhibited high growth during the reported period.

800 Kg

The amount of gold purchased by the National Bank of Ethiopia in the three quarters of the existing financial year.

Top 10

Ethiopia's 10 Biggest Export Items (July 2019 - March 2020)

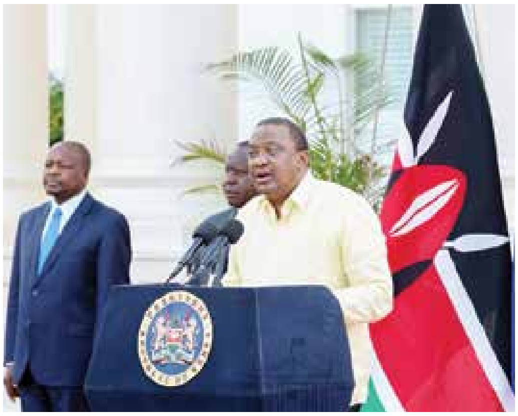
	Items	Export Proceeds in million USD
1	Coffee	562.8
2	Flower	338.5
3	Khat	256.0
4	Oil Seeds	235.9
5	Pulses	164.2
6	Textile & Textile Products	141.9
7	Fruits & Vegetables	67.8
8	Leather and Leather Products	63.8
9	Meat & Meat Products	52.9
10	Electricity	43.0

Source: Ministry of Trade & Industry.

Ethiopia's exports of goods and services witnessed a moderate growth this financial year. The country shipped two billion dollars of goods until the end of the third quarter of the existing fiscal year, showing a 10Pct growth compared to the same period last year. Although this is lower than the growth seen in the first two quarters, Coffee, flower and Khat witnessed better growth, generating above a quarter of a billion dollars in just nine months. These three items showed growth even after the Coronavirus. Flower exports exhibited a higher growth, showing a 99Pct rise compared to the same period last year. **EBR**


SCEPTO
IMPORT
1 Year
Warranty
and
after sales service
impo
Bole Road, Cape Verde St.
7750 / + 251 944 444 466 / +251 939 101 010
info@scepto.net, www.scepto.net

The following are a few of the biggest news stories that took place in Africa in the past month. The stories are sourced from Bloomberg and Reuters.



Kenya Tops Angola as Sub-Saharan Africa's No. 3 Economy

Kenya surpassed Angola as sub-Saharan Africa's third-largest economy in dollar terms, according to International Monetary Fund estimates. The estimates indicate that Kenya only trails Nigeria and South Africa. Angola's economy has contracted every year since 2016 as oil output declined, and the kwanza was devalued in 2019 while Kenya's shilling held steady. The Coronavirus pandemic and restrictions to limit its spread will probably see Angola's gross domestic product contract 1.4Pct in 2020, while Kenya's is projected to grow by one percent, according to the IMF.

According to the international financial institution, oil dependent Angola recently had its national assembly approve a package of revenue and expenditure measures to fight the COVID-19 outbreak in the country and minimize its negative economic impacts. Kenya has earmarked Sh40 billion (0.4 percent of GDP) in funds for additional health expenditure and funds for expediting payments of existing obligations to maintain cash flow for businesses during the crisis, among other tax relief incentives.

Tunisia

Tunisia will open its sea, land and air borders on June 27, 2020, authorities said, in hopes of rescuing its tourism industry as the coronavirus pandemic comes under control. The government also said it will allow movement between cities again. Tunisia's important tourism sector could lose USD1.4 billion and 400,000 jobs this year due to the pandemic.

Nigeria

Nigeria is wooing local companies to boost manufacturing and food production in the West African country, the central bank said, after the Coronavirus disrupted imports and created large financing needs. The Coronavirus outbreak and an oil price plunge have intensified headwinds for Nigeria, which relies on imports for consumption, triggering a historic decline in growth and large financing needs.

Angola

Angola has joined Zambia, which is seeking to restructure as much as $11.2 billion of debt, in edging closer to a failure to honor its repayments after years of mismanagement and lackluster economic performance. Angola produces more oil than any other country in Africa except Nigeria, but its economy is expected to contract for a fifth successive year.

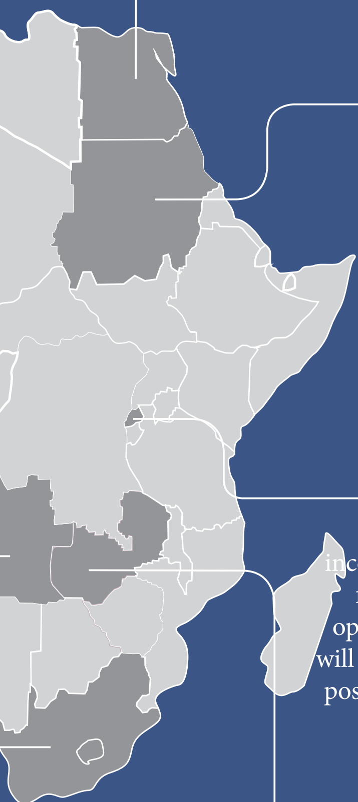
South Africa

The administrators running South Africa's embattled national airline proposed the government provide a 21 billion rand (USD1.2 billion) bailout to help repay debt and resume operations after the lifting of Covid-19 travel bans. The plan includes about 17 billion rand that will go toward repaying South African Airways creditors, the bulk of which was allocated by the National Treasury earlier this year.

Africa's Junk Bonds among Hottest Investments with Big Yields

Africa's sovereign bonds -- all of them rated junk -- have been among the biggest beneficiaries of the risk-on mood that's sweeping global markets as economies reopen from Coronavirus lockdowns. Seven of the 12 top-performing emerging-markets this quarter are in Africa. Angola, which is in discussions to reorganize some of its loans, leads the pack with a return of 74Pct, compared with the 9.5Pct average for the 74-member Bloomberg Barclays Emerging Markets Sovereign Index. Zambia, which is restructuring its debt, isn't far behind at 40Pct.

Investors flush with cash and in need of yield following unprecedented policy easing by the world's central banks, appear to be blind to the array of risks: the Coronavirus pandemic that's still spreading in most African countries, economies hard-hit by the disease and U.S.-China tensions that may revive the debilitating trade war. Gabon and Nigeria posted returns of more than 30% this quarter, while Ghana, South Africa and Egypt are deep into double digits.



Egypt

Egyptian hotels operating with a new reduced occupancy rate of 25% to contain the spread of the Coronavirus have almost reached full capacity. Although airports remain closed to all but domestic and repatriation flights, hotels were recently allowed to reopen at a quarter of their usual capacity if they met strict health and safety protocols. Around 78 hotels are currently operating with an occupancy rate of 20Pct-22Pct.

Sudan

Sudan has confiscated assets valued at four billion dollars from former President Omar al-Bashir, his family members and associates, the country's anti-corruption body said. Bashir was overthrown by his army a year ago amid mass protests against his three-decades of rule and was jailed in December after being found guilty of illicitly possessing millions in foreign currencies.

Rwanda

Rwanda's biggest bank, BK Group Plc, expects net income to decline more than 10% this year as the fallout from measures to curb the Coronavirus knock the operations of Rwanda's largest bank. All of its divisions will probably be hit. While the lender is in a strong capital position, BK Group is in talks with development finance institutions such as African Development Bank.

Zambia

Zambia's corn production expanded by about 70Pct this year after good rains followed a historic drought in the previous season, making agriculture the one economic sector that might grow in 2020. Production of the staple crop probably rose to 3.4 million metric tons in the 2019-2020 season from 2 million tons the previous year.

AFRICAN FREE TRADE AGREEMENT

CAN IT HELP AFRICANS RECOVER QUICKLY?

Africa accounts for 20Pct of the world population but only makes up three percent of the world GDP, at USD2.6 trillion. The implementation of the African Continental Free Trade Area (AfCFTA) would, however, set in motion the largest regional free trade area in the world. Signed by all African countries, except for neighboring Eritrea, the agreement was supposed to be put into practice next month. However, the Coronavirus pandemic rushed in to steal its light as it did to a number of other plans around the world. Against all odds, some argue that now is the best time to launch the agreement across the continent as global supply chains are disrupted and being reconsidered by countries across the world. Even some go far as to claim AfCFTA would help African countries quickly recover from the impacts of the pandemic. Nonetheless, many say this may not hold true for Ethiopia as a few export commodities mark its comparative advantage. Haimanot Ashenafi, in her special report to EBR, explores.

With the formation of the Organization of African Unity (OAU) in May 1963, Africa declared itself liberated. It has been liberated ever since, but it has remained fragmented and isolated while the rest of the world was experimenting with globalization. July 1, 2020 was slated to end fragmentation by implementing the hugely hyped African Continental Free Trade Area (AfCFTA), which envisioned creating a single African market with a trade value of over USD1.2 trillion. Comprising of economies with a combined GDP of USD2.6 trillion and a population size of 1.3 billion, it will be the second largest market after the WTO, which comprises of 164 countries despite trailing AfCFTA in terms of population size.

Ethiopia, among first signatories of the agreement, integrated AfCFTA's targets in its newly launched ten years Homegrown Economic plan. The homegrown economic plan has taken into consideration the free trade area's perks to boost exports, create jobs and boost cross-border industrial value chains.

Nonetheless, the historic day is postponed due to the Coronavirus. "It is obviously not possible to commence trade as we had intended on 1 July under the current circumstances. It would be unreasonable for any government to direct resources to meet the deadline when public health is so gravely at stake," said Wamkele Mene, first Secretary-General of AfCFTA.

"The matter of postponement of AfCFTA's launch of trading and the date of the Extra-ordinary summit on the AfCFTA is being considered by the AU Assembly of Heads of States. For now, July 1st still remains the scheduled trading date until we get an announcement from the Heads of States. Of course, the Assembly of Heads of States will take into account the current conditions on the ground, such as the closure of borders during the time of Covid-19," said Mene, in his email response to EBR.

It was expected that at this point the tariff negotiations and the rules of origin negotiations would be concluded, enabling trading to start next month. However, due to Covid-19, these negotiations could not be concluded. Remote negotiations through webinars were impossible not only because of connectivity problems but also the need to translate everything into the continent's four official languages. Second, across Africa, 42 countries are either in full lockdown or in partial lockdown. This means that the closure of borders prohibits the transit of goods, having an adverse impact on the intended trading date.

The latest WTO forecast estimates world trade to fall by 13Pct to 32Pct in 2020 due to COVID-19. Global exports and imports of African countries are projected to drop by at least 35Pct from the level reached in 2019 with a loss in value estimated at around USD270 billion. According to the World Bank, Sub-Saharan economic growth is forecasted to contract by -5.1Pct in 2020.

Output is expected to contract by 1.6Pct in 2020. This will be

the first recession in the region over 25 years. To make it worse, Global Trade Alert and WB said that trade restrictions imposed by developed countries would make it harder for African countries to secure essential goods during this crisis. Problems of debt burden, a fall-off in revenues and limited foreign exchange availability are additional challenges the countries have to endure.

This is why some argue that now is the opportune time for AfCFTA to save Africa from the plummeting global trade. People with this opinion insist AfCFTA should be implemented sooner to ensure accessibility of medical equipment, food and labor mobility as the way out of the COVID-19 induced economic crisis in Africa. Contrarily, others argue that opening borders during the time of COVID-19 will fuel the spread of the pandemic across Africa.

"Operationalizing AfCFTA at this time will not fuel the spread of COVID-19. Trade is already ongoing with the rest of the world. We, for instance, are importing from China and it is not inflating the spread. AfCFTA is already overdue and it must be kicked off as soon as possible," said Abebe Abebayehu, Commissioner of Ethiopian Investment Commission.

According to the UNECA, reducing tariff-barriers alone will spur trade by 53Pct within Africa, while elimination of non-tariff barriers would double intra-African trade from the current 18Pct. Intra-continental trade stands at 70Pct in Europe, 30Pct in Asia and 50Pct in North America. The free movement of goods, services, people and investments will finally culminate in customs union and currency union.

A recent World Bank study shows the positive economic and distributional impacts of the AfCFTA. It shows that African women will greatly benefit as they constitute the majority of those engaged in intra-African trade; 68 million Africans will also be lifted out of poverty; and, real income gains from full implementation of the AfCFTA Agreement could increase by seven percent or nearly USD450 billion.

"The need for AfCFTA is more even under COVID-19. It will reduce the cost of trading with the outside world. The road to one currency, one economy and one foreign policy by 2063 should start now," said Hailemelekot Asfaw, Director for East Africa Regional Office of the Center for International Private Enterprise.

Unfortunately, however, the infrastructural connectivity in Africa is an obstacle. Export items go from North Africa to West Africa through Europe. ICT and online transactions can boost continental transactions but more railway and highway networks are required. "Restrictions increased and mobility declined under COVID-19, but the pandemic also brought opportunities because people can transact from home, using ecommerce," added Hailemelekot.

However, Director of Bilateral and Regional Integration, Trade Relation and Negotiation at the Ministry of Trade and Industry, Fikru Tadesse argues "AfCFTA must not be implemented under COVID-19. The pandemic damaged developed countries and Africa is relatively safe so far. But if borders are opened and free trade is launched under AfCFTA, the next tragedy will be in Africa," he warned.

Mene disagrees. "Implementing the AfCFTA will not increase the pandemic. On the contrary, it will help address the pandemic and aid in the post-pandemic economic recovery process," says Mene.

Due to the fact that Africa does the bulk of its trade with the outside world and exports are heavily concentrated on primary commodities, the continent has been particularly vulnerable to external shocks, slowdown in global economic activities and protectionist trade policies.

According to the UN Economic Commission for Africa (UNECA), this is evident from the COVID crisis which, although not of the making of African countries, has had adverse impact on the continent's economic and trade performance. "Once again, the major lesson to be drawn from the systemic shocks in the global economy is the need for Africa to promote intra-regional trade. The AfCFTA is one of the instruments that the African countries can leverage to overcome some of the ravaging effects of the Coronavirus and possible future pandemics," noted Batanai Chikwene, Programme Management Officer at the Economic Commission for Africa (ECA).

Who Runs Faster in AfCFTA?

Many argue Africa has little to trade to each other as the majority of countries produce similar agricultural commodities.

Manufacturing constitutes 42Pct of the 18Pct intra-Africa trade. But that is only the half-truth as harmonizing regulations and continental joint venture would also contribute to make AfCFTA a game changer and new growth engine for Africa.

"Indeed, many African countries produce similar agricultural products but we spent over USD60 billion on food imports, largely from outside the continent. So, there is room for business. I see AfCFTA as a catalyst for growth for the private sector. Governments have to rush to overcome the existing challenges and diversify to manufacturing," said kebour Ghenna, Executive Director of Pan African Chamber of Commerce and Industry.

AfCFTA is already overdue and it must be kicked off as soon as possible."

Abebe Abebayehu
Commissioner, Ethiopian Investment Commission

Currently, Intra-African trade accounts for only 13Pct of the continent's total trade. Reliance on intra-African imports is comparatively higher for beer, at 44Pct, and soft drinks at 39Pct. Likewise, the automotive industry in Africa remains extremely outward-oriented, especially in relation to passenger cars, where the regional market accounted for less than 10Pct of exports and two percent of imports.

"Some African commodities are exported to Europe and re-exported to the continent simply because Africans could not trade among each other directly. AfCFTA will solve this problem apart from diversifying Africa's export towards manufacturing, which is highly critical for Africa to employ its rising youth segment," said Girma Wake, former CEO and current Board Member of Ethiopian Airlines.

Ethiopia's export to Africa declined from a record high USD590 million in 2014 to USD507 million in 2018. The average share of African exports to the total export stood at 20Pct over the last decade. Ethiopia's import from African countries jumped from USD341 million in 2013 to USD942 million in 2017 and down to USD654 million in 2018. The patterns depict that Ethiopia imports more from African countries at times of internal economic shock, and export more to Africa when the domestic politics as well as economy is performing well.

Ethiopia has stronger trade with IGAD and CENSAD. Trade with these regional blocs constitutes two third of Ethiopia's intra-Africa trade. Ethiopia's trade with COMESA and other Regional Economic Communities (REC) is almost insignificant, according to data from MoTI. "Too many economic communities and too much politicking made the blocs weak and progress irregular. ECOWAS and SADC seem to be doing well; the others are struggling with conflicts or weak institutions. In short, I will say the results remain rather mixed," said Kebour.

For Fikru, on the other hand, Ethiopia did not benefit much from the economic communities because it liberalized tariff only on 10Pct goods and services. "We would not have ratified AfCFTA, had we not believed in its role to boost trade and industrialization." Tea (largely by Kenya), Portland cement, copper ores and concentrates and tobacco are the most traded in COMESA, while Ethiopia largely exports Khat to Somalia and import oil from Sudan.

"The regional economic communities are building blocks towards achieving full African trade integration. A lot of work has been done already in establishing systems to eliminate non-tariff barriers, customs harmonization, develop border posts and border markets and infrastructure interconnectivity to enhance trade performance. This will complement the efforts of the AfCFTA implementations process," added Mene.

In fact, regional trade blocs came into being mainly because the AU failed, since its establishment, to discharge its duties of launching a continental economy. For instance, IGAD was created to integrate the East African economy but ended up as a conflict resolution and peace and security organization. If AU implements AfCFTA, introduces one currency, one passport and customs union, the importance of regional blocs is expected to wane. This is why experts argue that regional blocs were created to facilitate AfCFTA but not to replace its role.

The African Integration Index (ARII) gives Ethiopia a rank of 'average' for macroeconomic, infrastructural and trade integrations, while it denotes 'very low' ranking for productive integration and free movement of people. Kenya, Rwanda, Zambia, Egypt and Djibouti are the high performers in COMESA. Ethiopia is an average performer in IGAD, while Uganda, Kenya, and Djibouti are high performers.

"Ethiopian officials do not consult the business community before signing major agreements under AfCFTA negotiations. The private sector, the supposed primary owners of the issue, do not know about AfCFTA at all. The Ethiopian private sector needs to be aware, engaged, prepared and know the advantages and impacts of AfCFTA," said Hailemelekot.

Ethiopia, Lesotho, Egypt and Nigeria are aiming to use the textile and apparel sectors to boost their economies when AfCFTA goes into practice. "Ethiopia has better competitive edge in textile, leather and leather products. If the agriculture and livestock sector could ensure quality and surplus input supply, there is already built huge capacity in factories, including industrial parks," said Kiflu Gedefe (PhD), Coordinator of Trade policy Research center at the Policy Studies Institute (PSI). "Ethiopia has better prospect because

it has been pursuing comprehensive industrialization policy. If Ethiopia's import shifts from the rest of the world to Africa under zero tariffs, customs revenue will decline, but it will definitely boost industrialization and import substitution," he argued.

However, sources at the Ministry of Trade & Industry indicate, Ethiopia will lose over ETB900 million in customs revenue due to 10Pct tariff liberalization each year. "The trade flow and structure determine which countries will benefit most. Ethiopia has been generating significant custom tax from import. Now that will decline under free tariff," said a senior official at the National Bank of Ethiopia who spoke to EBR on condition of anonymity. "In order to benefit, Ethiopia must be able to produce more and generate more profit. In fact, countries with small output will benefit from the competition and cheaper price under AfCFTA, but they will have to capacitate themselves to produce more."

Few African countries like South Africa have competitive advantage in the manufacturing sector. Before exporting cars overseas, for example, large automobile manufacturers in South Africa source inputs, including leather for seats from Botswana and fabrics from Lesotho, under SACU. "International car makers have factory lines in South Africa. They can simply conquer the growing car market in Africa," stated Tilahun Abay, Planning Director at Metals Industry Development Institute (MIDI).

Ethiopia's recent ban on import of used cars creates an ideal opportunity for African car makers, for instance, shifting from the old cars industry in the Middle East. "These factories in South Africa or elsewhere in Africa can also outsource components for manufacturers across Africa. Ethiopia would also get big opportunity to import raw materials such as iron ore from West Africa or even Eritrea," said Tilahun Abay.

Tilahun's major concern is the logistics cost across Africa. "For an Ethiopian company, it is cheaper to import car from Rwanda than Europe or China; due to logistic hurdles though, the reverse is true. For instance, the price of a car increases by USD400 due to the logistics cost between South Africa and Rwanda," he remarked.

Most of the existing infrastructure in Africa was either configured by colonizers to take raw material out of Africa, or built by states to facilitate trade with countries outside Africa. According to the first report launched in February 2020 on the progress of Agenda 2063, progress on African high-speed rail network stood at eight percent, progress on opening African skies was at 16Pct and progress on trans-African highway missing link was at 29Pct. ICT and mobile penetration in Africa is improving faster.

Of the total USD130 billion to USD170 billion required to finance Africa's infrastructure, USD52 billion to USD92 billion is still not met. Once AfCFTA is launched, public private partnerships will be launched to develop infrastructural network. Additional commitment on funding infrastructure is also expected from States.

"The single African air transport market envisaged under AfCFTA is ideal to solve this dysconnectivity. National flag carriers could not fulfill the transport demand in Africa so far because they are protected," said Girma. He went on to stat: "Some national flag carriers have few planes; hence, hiking the price of air transport. Opening up the air transport market will increase competition and reduce price for customers."

The internationally recognized aviation guru, Girma, believes Ethiopian Airlines is in better position to connect Africa. He noted, however, ET should not be involved in short distance flights under AfCFTA. He remarked: "This market should be left for smaller aviation companies in Africa. ET should focus on global competition with British, Qatar and other big airways." He noted that once small aviation companies collect from small tributary markets and accumulate passengers and cargo in major airports, ET can transport that to the next long distance.

E-commerce has a big potential under COVID-19. Continental Infrastructures like the highway from Cairo to Johannesburg, and from Senegal to Djibouti, are delayed because not all countries are committed equally. However, this can be compensated by creating a reliable telecom sector in Africa, which also needs huge investment.

"AfCFTA will send a strong signal to the international investor community that Africa is open for business based on a single rule-book for trade and investment. The key to moving away from the export of primary commodities to exporting value added goods is to upscale Africa's industrial development," added Mene.

The Fist of Regionalization and Globalization

Under a seismic shift, the share of developing countries in global trade jumped to 39Pct in 2018, up from 20Pct in 1992. Africa's share in global trade, however, dwindled to 2.3Pct in 2018, down from 4Pct in 1980 and 8Pct in 1948. Before COVID-19, Africa's marginalization was mainly due to inability to transition from extractives and primary commodities to manufacturing products.

According to the China-Africa Research Initiative at Johns Hopkins University, China's export to Africa skyrocketed from USD10 billion in 2003 to its peak USD155 billion in 2015, before it declined to USD104 billion in 2018. The west, who waged a global trade war with China under the trump administration, want to keep China away from African markets.

Some experts argue that the launching of AfCFTA can raise concerns among the west. For instance, USA has been providing African countries with a tariff free quota of exports under the African Growth and Opportunity Act (AGOA) to encourage African exporters. The performance remained meagre because

Ethiopia will lose over ETB900 million in customs revenue due to 10Pct tariff liberalization each year.


KADISCO
asianpaints
DECORA BUDGET EMULSION
EMULSIONS WHICH YOUR WALLS DESERVE AND YOU CAN AFFORD
APCOLITE MICA EMUSLION
FOR THOSE WHO WANT THEIR WALLS TO HAVE A PREMIUM LOOK
KADISCO SUPER EMULSION
PROVIDES A SMOOTH MATTE FINISH TO THE WALLS
SMART EMULSION
VALUE EMULSION FOR INTERIOR WALLS.
KADISCO PAINT AND ADHESIVE INDUSTRY S.C.
Tel. +251-11-439-1038/40 Fax. +251-11-439-1965 P.O.Box 120919 Addis Ababa, Ethiopia
Email: kadisco-info@kadiscopaint.com Website: https//:www.kadiscoasianpaints.com

African manufacturers failed to meet the standards and produce in bulk.

If AfCFTA becomes operational, African Products will be diverted to huge domestic markets than being exported to other continents. The reliance on

African governments do not have the firepower to launch the same type of economic stimulus packages Westerners are putting forward."

Wamkele Mene
Secretary-General of AfCFTA

this huge domestic market would spell less Western policy influence over Africa. Africa's bargaining power in the unfair globalization driven by western multinational corporations will also rise. Some experts argue that the possibility of such changes are the reason behind the desire of developed countries to delay AfCFTA. "Africa will have more negotiation power with big global economies like the USA and china, which are currently twisting the hands of African countries through debt. Individually, no African country is able to negotiate with the superpowers," said an expert.

Mene and Cyril Ramaphosa, both South Africans whose country currently holds the AU rotating Presidency, will therefore be tested. With a lot more yet to be done, putting the agreement into practice does not seem to be happening this year, let alone a month later.

"The postponement of the launching date of AfCFTA is understandable as it is due to the disruption caused by the pandemic. But much work remains; for example, ratification is not yet complete, technical issues like rules of origin, tariff concessions and services commitments are still pending; the same is true for issues of investment, intellectual property, and competition," said Kebour.

Vera Songwe, Executive Secretary of the UNECA, is less worried about the launching time of AfCFTA. "Kenya selling to Uganda, we're doing that already to some extent. What we need is for Kenya to sell to the DRC with no borders," she noted. "That still needs some time. There is still a lot of work that needs to be done for AfCFTA to succeed."

Muse Mindaye, Multilateral Trade Relation and Negotiation Director at MoTI, agrees. "Under COVID-19, states are focusing on self-sufficiency in all aspects. Although regionalism is Africa's only tool to tackle the pressure of globalization, it is not the time. Both globalization and regionalism are less effective under COVID-19. Launching AfCFTA under COVID-19 will have insignificant impact," he argued.

Songwe also said AfCFTA does not mean the most industrialized countries would necessarily reap all the benefits. "When you look at Europe, probably the biggest two beneficiaries of the EU agreement are the Netherlands and Ireland. They are not big countries," she argued. "They are small countries that were able to take advantage because they fixed their 'doing business' environment."

Kiflu argued that the success of AfCFTA depends on a bottom up approach in participating SMES, household producers, small scale farmers and small businesses to access markets, finance and technology. "Whether AfCFTA is launched now or next year, it will take over ten years to fully liberalize the sensitive and non-sensitive items. Let us take advantage of the idle time under COVID-19 as an opportunity to re-configure our production systems and how to reduce dependence on import from other continents," he remarked.

"The next launching date will be decided at the AU summit on industrialization in November," said Ambassador Albert Muchanga, commissioner of Trade and Industry at the AUC. For Muchanga, who skillfully oversaw the formation of the African single market, everybody is a winner in AfCFTA.

If a vaccine for the Coronavirus is not discovered and AfCFTA has to be launched under the presence of COVID-19, African countries can use "trade corridors" or "green lanes" to expedite and ensure the free flow of essential commodities. Experts also note that such a scheme can be used as a quarantine area to mitigate the impact of the pandemic.

Nonetheless, for Kebour, the contribution of AfCFTA to the Ethiopian economy is going to be insignificant in the short term. "It will surely lead to numerous policy reforms. For the mid-to-long term period, a politically stable Ethiopia will be able to have access to newer markets and can attract investors interested in expanding their exports to countries such as Kenya, Sudan, Tanzania and West Africa, with whom it does very little trade," Kebour said.

Mene, however, is very confident AfCFTA would still go forward. "The political commitment remains to integrate Africa's market and implement the agreement as was intended," he said. He stressed as African governments do not have the firepower to launch the same type of economic stimulus packages that the United States and Europe are putting forward to mitigate the economic damage from COVID-19, intra-African trade could serve the same purpose. "That's our stimulus package. That's how we're going to get back on track as Africa. Implementing AfCFTA promises to re-inject growth and dynamism in African economies. In the medium to long term, implementation of AfCFTA should be Africa's recovery plan for the post Covid-19 period," Mene stressed.

Chikwene from UNCEA agrees. "Through the AfCFTA and other supplementary policies, the continent can begin the process of building supply chains to minimise the impact of future pandemics on supply chains," he noted. **EBR**

“The Fate of the Global Economy has not Yet been Known”

MUSE MINDAYE, ETHIOPIA’S TOP EXPERT AND NEGOTIATOR IN AFCFTA

Muse Mindaye has been Ethiopia’s top expert and negotiator in the African Continent Free Trade Agreement negotiation forum since the beginning of the effort to create a single African market. He is also director of Multilateral Trade Relation and Negotiation at the Ethiopian Ministry of Trade and Industry. A lawyer in profession, Muse predicts the hour of Africa’s economic redemption against globalization is at the door, only clouded by COVID-19. EBR spoke to him to further understand what Ethiopia would benefit from AfCFTA and how the future will look with the implementation of the agreement.

At what stage was AfCFTA when COVID-19 struck?

AfCFTA is launched on July 7, 2019, at the AU assembly after the 22nd country deposited its ratification tool in May, 2019. 28 countries have ratified and 54 countries have signed the agreement, except Eritrea. The next step sees ratifying countries submit the goods and services they want to trade tariff free. According to the agreement, 90Pct of goods and services will be tariff free in ten years' time for Least Developing Countries (LDCs).

Negotiations are still pending for most items. There is disagreement on textile items, sugar, vehicles and oil. For instance, some countries are saying textile and garment must be 100Pct African produced. But other countries that import cotton and produce garment locally say the amount should be adjusted. Those countries who gave the 90Pct so far have either less dependency on those products or have competitive edges. But Ethiopia will offer the 90Pct only after the rules of origin for argumentative items is finalized. Currently, we are identifying which items Ethiopia should liberalize under the 90Pct tariff free agreement, or place in sensitive and exclusion categories.

In terms of service schedule, four countries have offered 90Pct so far: Egypt, South Africa, DRC and Zambia. Ethiopia will also offer on service but we need time. Sometimes, items given as goods are related to service. After Kigali, we had seven meetings of chief negotiators; that brings the total negotiation forums to 17 while five more have taken place at Ministerial level.

The plan was to finalize the rules of origin negotiation in March and April, 2020. Then, countries offer their 90Pct. In May, 2020, there was a plan to hold the AU extraordinary assembly in Johannesburg. Then, trading under AfCFTA was planned to kick off in July 2020. Unfortunately, COVID-19 happened. Assembly meetings are so confidential; thus, conducting it through webinar or zoom is impossible. But the negotiations will continue through zoom to be finalized in June, 2020.

Many countries fear being a dumping site and are cautious of loss of tax revenue after making 90Pct of their goods and services tariff free. Which countries will benefit most under AfCFTA?

Countries excelling in manufacturing industry, such as: Egypt, South Africa and Morocco will have better export diversification. They can be advantageous in the short term. But in the long term, all African countries would benefit by improving their output, attracting more FDI and boosting domestic investment. Manufacturing industries will boom in Africa short after AfCFTA is launched because every country will have access to the whole continental market. Global investment would also be interested to claim a stake in this huge market. Domestic investment will also boom to take advantage of the huge demand.

Ethiopia's manufacturing industry must become competitive. No doubt AfCFTA will slash customs revenue. Of course, Ethiopia's trade with Africa is insignificant. Ethiopia's export to African countries has been low. Ethiopia's import from Africa also stands at 4.6Pct of the total import, which is around USD16 billion. Half of what Ethiopia imports from Africa (the 4.6Pct) is fertilizer from Morocco, oil and onion from Sudan and sugar. The tariff for these items is already zero. Therefore, we will not lose big customs revenue.

According to our study, Ethiopia has been losing ETB920 million customs duty revenue per year due to tariff free trades with African countries. Ethiopia gave 10Pct tariff free under COMESA. But we expect the loss will be compensated through trade diversions. Informal cross border business will be legalized when tariff becomes zero. Under the zero customs duty, trade will shift from Asia and the West to Africa.

We are putting our items with relatively better production in the sensitive and exclusion categories. We will liberalize them in the long term because they are our competitive edge. Goods and services upon which Ethiopia enjoys a comparative advantage in exports will be protected. Items that affect food security are also protected. We cannot rely on import by liberalizing such sectors. Sectors and items which are the source of livelihood for our citizens, such as agriculture, will also be protected.

At this time, we are done with the first draft of which goods, services and sectors to protect under the 10Pct sensitive and exclusion categories. We are talking to chambers, industries and associations especially about textile, leather, garment and sugar products. We tell them which sectors we are liberalizing and keeping.

> "We expect AfCFTA to kick off in January, 2021."

What criteria do you use to determine whether an item should be in exclusion, sensitive or the 90Pct tariff free categories?

Items with export competitive advantage for Ethiopia will be protected under sensitive or exclusion category. Emerging and promising sectors, livelihoods like agriculture and sectors with higher share to GDP will be protected. Tax revenue level, trade diversion, food security, and especially social impact are also put into consideration.

Which of Ethiopia's manufacturing sub-sectors will be more competitive under AfCFTA?

These issues are confidential. For instance, we have competitive advantage over other African countries in leather and leather products. The demand for our footwear, coffee and sesame is higher in other African markets. For instance, Sudan does not produce coffee but it consumes it. So, we must keep those advantages. The government approaches the issue from the job creation and GDP expansion sides while the private sector considers profit maximization. Further discussions are required before offering tariff free items.

What exactly happens on the first day of AfCFTA's launch?

Tax will decline immediately because tariff is slashed at least by 10Pct in the first year. If the customs duty of product X imported to Ethiopia is 35Pct at normal time, it will be 32Pct in the first year AfCFTA is launched. It decreases 10Pct every year until it reaches 90Pct and zero tariff on the tenth year. The service sector will also be liberalized bit by bit. More foreign new service providers engage in business and this will have big impact on the economy, market and business activities.

"Every trade deal Africa makes with the rest of the world will be negotiated and signed as a single Africa."

Africa's import and export activities with the rest of the world have plummeted due to COVID-19. Africa needs to rely on its own markets in terms of the free movement of food items, medical equipment and other goods and services. Many argue that AfCFTA can fill the gap created due to the decline in global trade. On the other hand, others argue launching AfCFTA under COVID-19 would fuel the spread of the pandemic. What is your take?

There is also logic that Africa has not been affected that much by COVID-19. It proposes the time for intra-Africa trade is now. But latest developments show the spread is hiking in Africa. We do not know if Africa is going to be the next stage of tragedy after developed countries revive from the pandemic. At the AU, the second logic holds more water. AU believes safety and health should be the first concern; it still believes Africa should benefit from globalization.

For instance, most of our imports are from Asia, specifically China. Whenever there is global crisis in these areas, it reflects on Africa. Our industries cannot operate without raw materials from china. Compared to even other African countries, Ethiopia is less integrated with the rest of the world. Global crises have direct or indirect impact on Africa.

Therefore, production and trade in Africa cannot be active until the economies of countries like china revive. Launching AfCFTA will have no impact under the circumstances, unless the global economy revives. Most of our industries depend on imports from outside continents such as Asia. The prospect of AfCFTA and Africa will be determined by the revival time of the global economy. Plus, there will be no demand and buyer under COVID-19.

Where the global economy is heading has not been identified yet. It is not even clear to the WTO. Every country is replacing imports by reviving local production. Almost all countries are keeping stock, because even if global trade resumes, the logistics and shipment queue will be longer. For instance, Ethiopia's agricultural export is increasing under COVID-19. So, there is no single conclusion on the future direction of the world economy.

Most countries have decided to become self-sufficient in all sectors. They are installing factories or shifting production lines. WTO reported 800 goods and services have been globally restricted since COVID-19. Restricting import and export is possible even under WTO, when it comes to people's safety. This provision is also copy pasted into AfCFTA.

Is nationalism weighing on globalism and regionalism?

Definitely, yes. But global and regional trade instruments such as the WTO or other regional blocs will not be closed because there must be a platform to trace and centralize trade. Not only Africa but even developed countries need an institution to handle trade.

When it comes to centralizing Africa's trade in terms of globalization, different stakeholders have varying perspectives, including the AU. It is difficult to judge but African countries are still committed to AfCFTA.

We have communications through different internet platforms. All countries are active and remain committed. The dimension might shift, if the spread of the pandemic worsens in Africa.

Does that mean AfCFTA will not go operational, if COVID-19 continues?

Currently, we expect AfCFTA to kick off in January, 2021. That is a tentative launch date after the original schedule for July was postponed. The AU extraordinary meeting is also postponed from May to November.

There is no doubt Africa must industrialize. The Industrialization can be done either by domestic or foreign manufacturing companies. If a US or Chinese company opens in Africa legally, it is a juridical person that is producing in Africa for Africa. It is an African company. AfCFTA attracts global FDI to Africa. A Chinese company that has come to Ethiopia targeting 100 million of Ethiopia's population can now access a market of 1.3 billion people.

As an African country, we need to boost employment and industrialization to retain raw material export. Developed countries, including the West and China, that buy raw material from Africa might not be happy with such an ambitious plan. The European Union has positive support for AfCFTA. The rest of the world can come, invest in Africa and benefit from AfCFTA's privileges. In the future, every trade deal Africa makes with the rest of the world will be negotiated and signed as a single Africa in a way that benefits all African countries. We deal with EU, USA, china or others as a continent.

Outsourcing production to African countries increased especially since the 2008 financial crisis. But now, this export from Africa to developed countries will be redirected back to the African market under the AfCFTA incentives. What will be AfCFTA's impact in the global market?

The global demand will rise for some sectors and fall for others. Demand for raw materials needed by textile industries in Ethiopia will increase. Some final goods we used to import from other continents will decline, either because we will become self-sufficient or the import will be from African countries under the duty-free privileges. So the relation between Africa and globalization will depend on the types of items produced in Africa and not.

Infrastructure is another expected obstacle to AfCFTA. How much of an opportunity would AfCFTA be for Ethiopian airlines?

AfCFTA will be the biggest advantage for Ethiopian airlines. The problem is that air cargo is more expensive than shipment. Africans who produce perishable products might use air cargo but not all Africans will afford it.

Infrastructure is a big limitation for Africa. It is simpler to send goods from Ethiopia to Beijing than to Dakar. Developing railways and highways crisscrossing the African continent is the second flagship project of the AU, next to AfCFTA. Single air transport market is also part of this. African aviation companies will not pay for flying over the African continent. Currently, Ethiopian airlines pays for crossing over Sudan's air territory. But it will be liberalized for all African aviation service providers under the single African air market, which many countries signed. But the charges will apply to Lufthansa or any other non-African aviation company. Short after the launch of AfCFTA, the infrastructural impact will be felt more. Intra-Africa trade may not surge instantly due to the infrastructural limitations. But the impact will be solved in the long term. The trade itself will fuel investment in infrastructure.

How does the Ethiopian private sector view AfCFTA?

Ethiopia's private sector was represented in all the AfCFTA negotiations we undertook through the chamber and sectoral association. The technical committee for AfCFTA negotiation has 36 members and almost all Ethiopian institutions are represented. The steering committee comprises all Ministers and commissioners in Ethiopia, including the NBE. We have traveled to every regional state in Ethiopia, raising AfCFTA awareness.

The Ethiopian private sector is dormant. We repeatedly asked them to tell us which sector they want to be liberalized or protected. But they are not responsive. The government plans only from the perspectives of employment and GDP growth. But the private sector knows every detail of each sector. Nonetheless, they are not responding to us. The only factor the Ethiopian private sector actively follows up and responds to is changes in the price of fuel. They expect a simple automatic economic fluctuation than in-depth and fundamental shifts in market systems. We are still trying.

Did Ethiopia integrate AfCFTA targets in the recently launched Homegrown Economic Reform?

The homegrown economic reform does not yet have a detailed, numerical and compiled document. The GTP document is more detailed. But the government is acting on some sectors based on the homegrown direction. The homegrown economic reform considers WTO and AfCFTA as external anchors. Home-grown economic reform is a domestic strategy. So, it capitalizes on the domestic sectors. It perceives AfCFTA and WTO only as external supportive agreements for the domestic reform. We have already prepared AfCFTA implementation strategy for economic advisors of the PM. The strategy outlays how to implement AfCFTA in Ethiopia and what kind of institutions we have to establish. **EBR**

EYOB TEKALIGN
State Minister of Finance

on COVID-19, Economic Reforms

With a PhD in Political Economy, and Masters in International Policy earned from the University of Maryland and the George Washington University in Washington D.C, in the United States, respectively, Eyob Tekalign is currently serving Ethiopia as a state minister of Finance. Since graduation from Mekele University with a BA in Economics in 2000, he has been actively engaged in public service leadership in Ethiopia and overseas. He was a minister counselor at the Ethiopian Embassy in Washington D.C., advisor to the Ethiopian governors of the IMF and World Bank Group, and government and public affairs consultant to Dow Chemical, a Fortune 500 multinational. Eyob had previously worked for intergovernmental organizations such as the United Nations Economic Commission for Africa, the Common Market for Eastern and Southern Africa, and the United Nations Conference on Trade and Development. He had also worked for the International Finance Corporation (IFC), World Bank's private sector financing arm.

While working at the then Ministry of Trade and Industry (MoTI), he collaborated for the signing of a Memorandum of Understanding between the Ministry and the Ethiopian Chamber of Commerce to establish the Ethiopian Public Private Consultative Forum (EPPCF), the major platform for policy deliberation between the government and the private sector. Eyob led the forum agenda from the government side. Known for his bold remarks and spelling out problems courageously, Eyob Tekalign (PhD) has always been an outspoken critic of some of the economic decisions of the Tigray People's Liberation Front (TPLF) dominated Ethiopian Peoples' Revolutionary Democratic Front (EPRDF) regime in Ethiopia.

Eyob is one of the few young high ranking government officials who enjoy positive remarks in Ethiopia's polarized political atmosphere. EBR's Tewedaj Sintayehu spoke to the State Minister on recent economic changes in the country and the impacts of COVID-19 in global economic activities.

Do you think the pandemic would lead to a paradigm shift away from neo-liberalism, globalization, export promotion and opening up the market?

I don't think so. I think the approaches would be more balanced than a shift. On one hand, states would re-evaluate their self-sufficiency in some critical sectors. However, that should have been an important economic strategy even before the pandemic. For instance, in its bid to become food self-sufficient, a country like Ethiopia should think ahead of time not to repeat the adverse effects of delayed wheat imports because of logistics problems. In our context, we would forge ahead strongly with our ongoing reform on structural deficiencies. Globally, I think it (the pandemic) conveys two messages. On the one hand, it shows how interdependent we are. It has demonstrated that a problem created somewhere is a danger for all as it does not necessarily get contained within its original confines. States are in a state of panic. They have focused on saving lives and are generally looking inward. When this pandemic is over, however, hopefully countries get together to discuss ways of working collectively with better solidarity to ensure that the next pandemic would not be this damaging. No matter how inward looking you get, you cannot shut yourself down from the rest of the world. The international economy is very interconnected and interdependent. This reality cannot change with time. I think the legacy of the pandemic would be a more humane international system with strong solidarity among states and less self-centred approaches to prosperity.

The pandemic seems to have put a strong case against neo-liberal thoughts, for instance, as it has underscored the big role of governments in fighting such huge societal problems. It has demonstrated that governments have huge roles that go beyond contract administration and moderating business disputes. It has also laid bare the presence of issues that the market cannot answer on its own without the interference of government. Do you think such paradigms are going to suffer as a result of the pandemic?

If you are talking about the role of governments in the economy, in practice, the history of economic development of states clearly shows the meaningful roles governments have played in achieving development. Whether you go to the West or the East, the big role of governments in development is not questionable. I strongly believe that government should play a strong coordination and leadership role in the economy. I share this belief with our government. International experience also indicates the same thing. Of course, on the face of it, some attach a night watch role to government. However, in practice, governments have had strong roles in the development of states. The pandemic

> **The pandemic would reduce the rhetoric of governments with a night watch role."**

would reduce the rhetoric of governments with a night watch role. Toning down the rhetoric came after the 2008 economic crisis. The role of governments in stabilizing economies was there for all to see. It also demonstrated that states need strong governments. However, this does not mean that the organization of the forces of production would change to state ownership.

Is there any chance, though, that a retreat to the centre from the liberal right sided status quo could happen? Some argue that the U.S government had to acquire shares for the subsidies it provided to the multi-national companies in trouble during the 2008 economic crisis. That could have drawn the system to the centre as the government would partly own those companies.

Yes. For instance, the French are stating that they would take every measure to make sure that they do not lose ownership of key strategic assets; even if that means nationalizing them. That kind of rhetoric is bound to rise. I think governments are going to ensure national ownership of key strategic sectors. That is the effect of the pandemic.

The point people repeatedly misrepresent and I wanted to underscore was that the depiction of the role of government in the economy as a new phenomenon is inaccurate. The role of government in economy was huge and it will continue that way. There is no question about that. If you consider the Ethiopian government, it is playing a strong coordination role. We are talking about development projects and building special economic zones. This doesn't, however, mean that these measures warrant the effective thriving of the private sector. All it means is that the government would play an effective coordination role while the way the economy is organized promotes the effective thriving of the private sector.

With the COVID-19 pandemic expected to set in motion an even bigger international economic crisis than the 2008 crisis, the sovereignty of states could be at risk as they could default to their creditors. Are the coronavirus induced economic problems a threat for Ethiopian sovereignty?

This is also a serious threat. It won't be surprising if countries with big debt burdens and those that have not managed their economies properly were confronted with this problem. Had it not gone through a reform, Ethiopia would inevitably have the same fate. Fortunately, the macro-economic reforms we have undertaken over the past couple of years have helped us afford a fiscal breathing space and restructure our debt burden. Therefore, Ethiopia is definitely not faced with a threat to sovereignty that stems from economic problems. The reality is that Ethiopia has gone beyond its own problems to coordinate the efforts of African countries to minimize the effect of the pandemic on their economies. As to Ethiopia specifically, there is no threat whatsoever to its sovereignty. In fact, we are in a really better bargaining position nowadays. We use this as a rude awakening to invest more in critical areas.

Couldn't the adoption of a very flexible exchange rate during the latest IMF Article IV conversation be considered as an instance of the threat to Ethiopia's sovereignty?

Our stance is that one time big devaluation is not right. Our fact statement indicates that one time big devaluations, like the one that took place a few months before the change, are not effective. Devaluation alone cannot solve the problems of the country. We should look at general structural problems. Unless we carry out a reform that resolves the structural deficiencies in the economy, pricing alone cannot have a comprehensive effect. Without a significant increase in production and productivity, adjustments in exchange rate cannot improve exports. Productivity is a major pillar of our reform. Parallel with those efforts, the way we manage our foreign exchange needs to be overhauled. The administrative gap needs to be bridged along with demand and supply side problems.

"Ethiopia is definitely not faced with a threat to its sovereignty that stems from economic problems."

We have set out to overhaul our macro-economy; that means we need to modernize our monetary policy and we need more prudent fiscal policy. However, the focus of these moves should be mainly on productivity. With the path we have pursued, significant increases in agricultural productivity would widen the export basket as new agricultural products would be up for export. For instance, Avocado is set to overtake coffee as the bigger export product in the coming two years or so. Import products such as edible oil are set to be fully substituted in a year's time. It is through such measures that the macro-economic problem will be tackled and not through mere devaluation. Therefore, let alone support it, we strongly reject the notion of devaluation as the way out.

Countries have resorted to amend their policies in response to the pandemic. With international financial organizations such as the IMF and the World Bank influencing policies through their policy recommendations, states were under pressure to adopt certain types of policies. Could this sense of independence go a long way for them to mark their own territories in the future?

In Ethiopia's context, to be honest, the role of the IMF and the WB is overrated. It all depends on the strength of countries. If you can identify your priorities, articulate them and have the capacity and readiness to defend them, the pressure is very miniscule. That means the pressure depends on your internal strength. In our case, for instance, the detailed inspection of our economy and the bold identification of policy ideas has enabled us defend it at any level. We would, therefore, reject any different ideas from any organization.

Of course, these organizations have been involved in helping us achieve our own policies. They are in no way undermining our efforts. For instance, the quick response from the IMF to our Coronavirus mitigation efforts is admirable. The way they went on to address issues of money and economic resilience is unheard of. That might be a result of the leadership change in the organization but it shows that the organizations are involved in mitigating the problems. The thing we have noticed is that if you know your priorities and you can defend them, everyone will line up behind you.

The Ethiopian government's decision to adopt a flexible exchange regime during this year's IMF Article IV conversation is considered by experts as surrendering to the international financial organizations. How do you rationalize the move?

The reason I think the move is feasible is that the economy has to keep on growing. For that to happen, its shortcomings have to be addressed. Its main shortcoming is the macro-economic imbalance. That problem needs to be addressed no matter who recommends it because leaving the issue as it is could lead to financial or even economic crisis. So we analysed the issue and decided to address it. Secondly, we are talking about sustainable economic growth and identification of new sources of economic growth. This is not IMF's language. We are saying that the source of growth should widen. The source of growth hanged on a sector. Now, we are talking about digital economy, fresh approach for the tourism sector and revamping agriculture. We are rooting for more productivity in the agricultural sector and integrating it with the manufacturing sector. In a couple of months, we will launch an edible oil belt in Gojjam with the capacity to produce more oil than Ethiopia demands. Edible oil for export is in the pipeline. So, we are talking about import substitution and new sources of growth. These things have never been in IMF's vocabulary.

However, getting the international financial organizations to stand on our side and support this comprehensive reform focusing on sectors, incorporating macro reform and seeking to resolve structural problems is an indication of the strength of our policy. That is how I see it. We didn't buy into the floating exchange you raised earlier. We are saying that overnight devaluation or floating is not the answer; we don't need it under the current context. In fact, it shows that we have a leadership that is capable of rejecting IMF policy recommendations. The economic distortion, including the forex shortage problem, should, however, be resolved. The adverse effects of these problems are there for all to see. Everyone can see the damage the inflation, caused by the economic distortion, is doing to the poor. Correcting these problems is our duty but it should be in our own way. Focusing on productivity and bolstering our exports, the reform has to be comprehensive.

"The role of the IMF and the WB is overrated. It all depends on the strength of countries."

Prior attempts to devaluate the exchange rate overnight did not work. In fact, it was back then that the recommendations of the IMF were adopted; but they did not work. Our approach rejects that approach as it is comprehensive and gradual. If one cannot see the home grown aspect of these approaches, they have not read the economic fundamentals. I can tell you that ours is the most sensible approach. The medicine for one sector should not have an adverse effect on others; the comprehensiveness of our approach ensures that.

But the IMF granted the government three billion dollars in three years because it agreed to adopt a flexible exchange rate. Doesn't Ethiopia's acceptance of a flexible exchange rate need to be implemented within a definite period of time?

That is not the case. You mixed up some facts about the home grown reform with that of efforts to finance it. In formulating our reform, we drafted structural and sectoral reforms in a comprehensive manner. These reforms have to be financed. To do that, we pitched it to local and international partners. The partners started responding and we raised USD10 billion. The three billion dollars you raised was only a component gained from the IMF. We managed to raise the full amount of the finance needed to implement the reform. When we designed the program, we attached a time frame and cost to it. The partners considered the ideas we pitched and agreed to finance it.

Professor Alemayehu Geda, in his recent article on the impacts of COVID-19 on the Ethiopian economy, noted that debt servicing needs to rescheduled or cancelled. If not, our debt would surge from 26Pct to 38Pct of the export of goods and services, forcing the country to default to its creditors. What changes are there with regard to debt servicing?

Regarding debt servicing, the Ethiopian government has mobilized African countries to put pressure on creditor countries to cancel debt. Our Prime Minister has assumed the forefront position as the voice of Africa. As we raised earlier, the issue poses a threat to sovereignty; therefore, we are going to push forth with ongoing efforts to realize our interests as well as those of the rest of Africa. Even through difficult times, Ethiopia has never had problems of servicing its debt. We are principled about servicing of our debts. Through our reform, we are working to change our status from the current high debt stress situation to medium debt stress in the next two years. Our decision not to take commercial loans is one of the components of this effort. We are focusing on concessional loans. The second component has to do with bolstering our export capacity. When you talk about debt servicing, the biggest variable that is in trouble in our country is export. We intend to revamp export because that allows us lower the percentage of debt servicing to the volume of exports. So, I agree with the analysis that Ethiopia needs to focus on lowering its percentage of debt servicing to exports. We don't concur with the argument that Ethiopia's sovereignty would be threatened, however, if debt cancellation cannot be realized today. Debt servicing can prove to be challenging and it might be constraining. It is also morally wrong to pay for debt payment when there are critical and emergency matters that need urgent attention. The Paris club has, for instance, decided on a debt standstill for the coming nine months. Although that is a measure in the right direction, it is not enough. That is how we see it.

You earlier stated about import products being substituted by local products. Such a trend has become part of the international response for the COVID-19 pandemic. Does that mean Ethiopia's

export promotion policy is set to be replaced by import substitution?

No at all. It shouldn't be changed and it won't be changed. One major point most people miss is that a dollar you get from export and a dollar you pay for imports is of equal amount. A major problem of our policy was the problem with the identification of which products to substitute and what others to export. What we are doing now is clarifying this mix up. We are identifying the sectors to prepare for import substitution and those for export promotion. In Ethiopian context, importing wheat is no way justifiable. With all this arable land and productive population, the practice should not be allowed to go on. Export is also very important though. Therefore, we need to balance them as we forge ahead into the future. That sharpens our industrial policy.

> **I honestly see that we are going to be a breakthrough country."**

So, which sectors are identified for import substitution and which are left for export promotion?

In agriculture, for instance, horticulture, floriculture and coffee are important export commodities. On the other hand, critical food items including edible oil and processed foods such as juice don't need to be imported. We are establishing big agro-industrial processing zones. That allows agriculture and industry to forge a bond. There are, however, sectors that need competition. For instance, the leather industry in general should be export focused. The previous policy, however, literally killed the sector. We will expose the leather industry to competition and make it ready for export. Secondly, value addition was not properly encouraged in the agricultural sector. Instead of exporting sesame, exporting a small amount of its processed version captures more value. We are trying to do that. The list goes on.

The bureaucratic machine seems to have become more efficient in its response to the pandemic as there are better efforts in coordination among the offices and social mobilization. That aspect mimics a war economy. Do you think this revamped activity can be a launching pad for a post COVID-19 strong economic performance?

The question has two sections within it. The first one inquires if this is war. This is war; no war gets worse than this. As we have seen in other countries, the pandemic is a severe war that deprives people not only of their lives but also of the dignity of a proper burial. It is a pandemic with as much negative impacts on the economy as its adverse effects on public health. In our context, we have to be careful not to lose the reform gains we worked so hard to realize. In that sense, our activities are mobilized and coordinated as if we were at war.

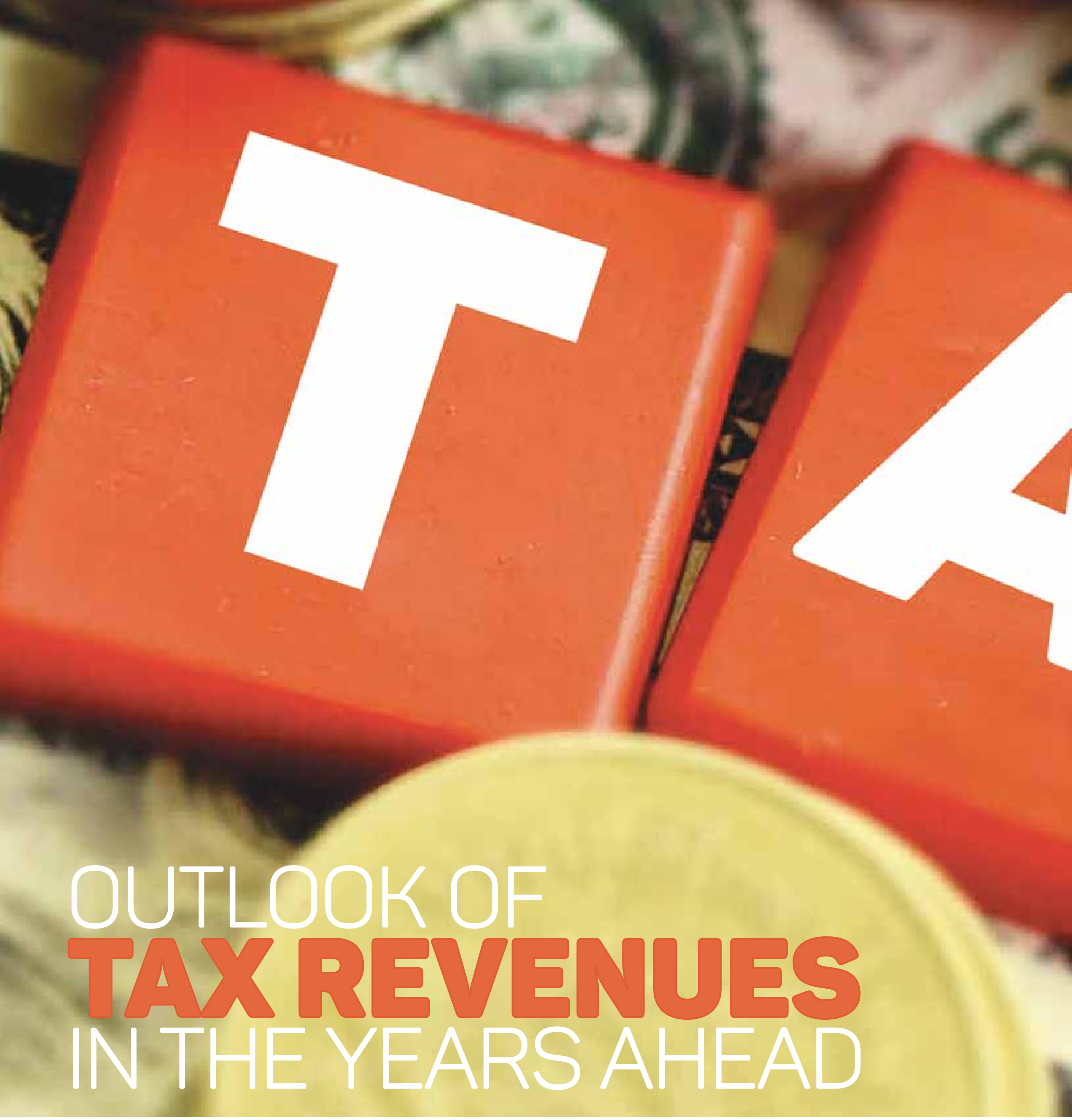
The other aspect of the question has to do with the silver linings. The pandemic's silver lining is that it has given us back our sense of humanity. I think it has made the rich who dine on five course meals to be concerned about their neighbours who don't have a meal on their tables. That sense of solidarity and community has a huge value. It has also demonstrated how strong we are when we stand together. So, going forward, we need to strengthen the trend.

After the reform, there were instances of such solidarity even before the pandemic. For instance, Ethiopians in all directions went out to plant four billion seedlings last year. That is difficult to forget. That showed our mobilization capacity. Development is a collective enterprise; therefore, sustaining and strengthening such efforts goes a long way towards ensuring growth in our country.

Last remarks?

I honestly see that we are going to be a breakthrough country. If we can manage to mobilize the people and push forth with these reforms, I see a major breakthrough coming up. Ten thousand farmers in Oromia region received investment licenses recently. Farmers in Amhara region follow that trend. This shows that there has been an economic revolution taking place. An economic growth that doesn't benefit and engage the people is pointless. Currently, we are on a very promising economic trajectory that takes into account Ethiopia's potential. Watching the people reap the benefits already and ensuring they are engaged is a great promise for what lies ahead. So, I just want to call up on all stakeholders to see this. We have the opportunity to make this country an economic breakthrough. Let's work to make that a reality. **EBR**


ሐበሻ
habesha
COLD GOLD
21+
አልኮልን ተገቢ ባልሆነ መንገድ መጠቀም የጤና ችግር ሊያስከትል ይችላል!



OUTLOOK OF **TAX REVENUES** IN THE YEARS AHEAD

States across the world are experiencing a drastic fall in government revenue and unmatched growth of expenditure due to COVID-19. Ethiopia is no different. So far, the government has approved over ETB50 billion as a response to the COVID-19 crisis. USD1.6 billion is also required to further boost the country's potential to overcome the crisis. Meanwhile, businesses are struggling to pay their taxes, a situation which is likely to result in a fall in government revenues from taxes. This is expected to widen the budget deficit, presenting yet another macroeconomic woe for the government that is already challenged by inflationary pressure and unemployment. EBR's Kiya Ali explores.

Last fiscal year, the exclusive importer of Toyota cars in Ethiopia, the Motor and Engineering Company (MOENCO) was recognized by the Ministry of Revenues for fulfilling its tax duties. MOENCO was the second highest taxpayer, just next to the state giant Commercial Bank of Ethiopia. The two companies sat at the forefront of 160 companies awarded by Prime Minister Abiy Ahmed (PhD) for being loyal taxpayers.

Encouraged by the award it received, the car importer with 1,500 staff was planning to repeat its success this financial year. Attaining its plan, however, has not been possible for MOENCO due to the adverse impacts of COVID-19 on business activities. Based on information EBR received from the company's marketing department, "the virus killed its business." MOENCO's earnings first plummeted, now they are almost getting no income while incurring expenses every day as vehicles are considered a luxury item during the outbreak. The information further indicates that the company is not going to meet the targets it set to achieve this year.

Such stories spell bad news for the government that plans to collect ETB270 billion during the current financial year, 68.75Pct higher than that of last year. The Coronavirus recession is upon everyone. Unemployment is ballooning alarmingly, incomes are plummeting and spending on non-essential products is dwindling faster.

Many people are sick and many more are facing hardships, including hunger. Governments are also feeling the pinch across the world. It is no different in Ethiopia. The unexpected bulge of costs to respond to the pandemic have put a huge strain on the finances of both the federal and regional governments. Funds allocated to different projects have been diverted to fight the outbreak and mitigate the impacts of the economic slowdown it has brought. As the economic recession worsens, it strangle holds the main source of government revenue - taxes. That would complicate the tasks of policymakers for years to come.

Several financial augmentations were made by the government even before the country reported its first case of the virus, with the first being the ETB300 million financial package allotted to bolster the capacity of health facilities during early March, 2020. Two weeks later, additional five billion Birr was allocated for the same reason. On top of this, ETB15 billion was injected to the private banking industry, while an aggregate of ETB33 billion was injected to boost the liquidity of Commercial Bank of Ethiopia.

Even more, ETB48 billion supplementary budget was approved by the end of last month. The ETB28 billion additional budget during mid-2020 increased the total amount of budget approved this year to ETB463 billion. This has also put policymakers between a rock and a hard place as the already fragile situation worsened by a fall in tax revenues since last month.

So far, the government has focused on alleviating problems faced by the private sector. For instance, in an effort to stimulate the economy, the government introduced tax waivers that are expected to benefit 80Pct of the businesses severely affected by the virus. "The stimulus package aims at easing the burden businesses shoulder and it is like a cost sharing measure," said Eyob Tekalign (PhD), State Minister of Finance.

Another measure taken by the government is the cancellation of overdue tax that was unpaid between 2005 and 2015. Taxes that have been audited but unpaid between 2016 and 2019 are also exempted from interest and penalties, though 25pct of the overdue principal should be paid over a month while the remaining 75Pct could be settled within a year. Lake Ayalew, the Minister of Revenue, stated that businesses will get a 10Pct reduction of payment as an incentive, if they settle 100Pct of their overdue tax within a month.

The decision made by the Council of Ministers also includes a 50Pct waiver on income tax. "If the private sector doesn't survive this trying time, the government will lose its backbone. Hence, the tax reduction will help the private sector mitigate the detrimental impact of the pandemic and assist their effort for recovery. So this is the right decision and it is the obligation of the government to do so," said Wasihun Belay, an Economist. Despite optimism over the action of the government, this specific measure would cost the government at least ETB78 billion collectable taxes, further widening budget deficit due to ballooning government expenditure.

There are two types of government revenues: tax and non-tax. While the former includes direct and indirect taxes, the latter comprises dividends from state-owned enterprises, earnings made from provision of different services and others. In Ethiopia, income and profit taxes account for 97.4Pct of direct taxes, which account for 43Pct of the total tax revenue. The remaining direct tax is collected from lease of rural and urban land.

Revenue from indirect taxes, on the other hand, accounts for 57Pct of tax revenues. About half of the indirect tax revenues come from import duties, whereas the rest is domestic taxes. Non-tax receipts account for 13.7Pct of government revenues. Of the total non-tax revenues, 37Pct is government investment income while the rest is collected from sales of goods and services, charges and fees, among others.

Until the end of the third quarter of the existing fiscal year, tax revenues exhibited a positive growth. Record-breaking collection rates were evident in the first nine months of the fiscal year. Tax receipts reached ETB183 billion in the nine months of this fiscal year, which came to an end in March 2020, 29Pct up compared to the same period last year. Taxes on domestic activity portrayed a modest rise of just 13Pct, while trade taxes showed a 45Pct rise. Despite the increase, however, Ceipheus Capital predicts keeping up the momentum would be difficult in the last quarter of the fiscal year. "The budget deficit was expected to be ETB85bn pre-corona, but is now projected to reach ETB134 billion (2.6Pct of GDP) because of extra corona related spending and foregone/lower revenue," a Quarterly Macroeconomic Review of Ceipheus published last month read.

Experts also argue that the possible shrinking of the economy will have a negative impact on both tax and non-tax revenues. An assessment by Alemayehu Geda (PhD), Professor of Economics at Addis Ababa University, entitled Macroeconomic Impacts of COVID-19 on Ethiopia's economy indicates this will reduce the total government

The government introduced tax waivers that are expected to benefit 80Pct of the businesses severely affected by the virus.

revenue, including grants by 16 percent (this is assuming grants will remain at their historical level). According to the Professor's assessment, the rise in public expenditure, along with a fall in revenues, would result in the widening of government deficit by at least ETB117.1 billion.

Keeping the share of each government receipt into account, Alemayehu says taxes and non-tax revenues would decline by 18.8Pct and 7.7Pct, respectively. IMF, on the other hand, projected that tax revenues would drop by nearly one percent of GDP relative to 2018/19 due to the severity of the shock. The international institution predicted that the drop would offset the revenue over performance in the first half of the fiscal year and concluded that higher spending and lower tax revenues are projected to result in a fiscal financing gap of 1.4 percent of GDP.

Iain Steel and David Phillips, in an analysis published in April 2020 under the title 'How Tax Officials in Lower-Income Countries Can Respond to the Coronavirus Pandemic', suggested that understanding and quantifying impacts now can help lower-income countries to prioritize fiscal policy responses to Coronavirus and manage their cash and debt operations. They warned that broad-based tax cuts could risk losing valuable revenue and would be less effective than usual given that social distancing measures prevent people from working and spending normally, and businesses are likely to be particularly risk-averse.

Tax stimulus could even be counter-productive if it reduces the effectiveness of efforts to control the spread of Coronavirus, according to the two scholars who said some lower-income countries will face tighter constraints on their options, such as more limited fiscal space, larger informal sectors outside of the tax net and lower administrative capacity. These constraints will make it even more important to design well-targeted policies to maximize impacts and minimize costs, while policy support outside the tax system might be more effective, Steel and Philips argued.

On the other hand, although external finance from international institutions and development partners can help plug financing gaps, it is difficult to access enough finance as many countries are facing the same problem simultaneously. In addition, access to capital markets to fund deficits may become limited.

As the government is likely to face the problem and its derivatives for the next two or three years, therefore, it must review the projects it has planned to implement in the years ahead. "The government must reprioritize its project plans," Gutu Tesso (Phd), an Economist with more than 15 years of experience, argues. "Currently, 31 million Ethiopians live below the poverty line and are being supported under safety net programs. Yet, the government is pursuing projects like 'Beautifying Sheger', instead of prioritizing initiatives that will reduce unemployment. Unemployment and inflation are the two main problems affecting the majority of Ethiopians," Gutu suggests. He went on to state: "So, the government should give priory to labor intensive projects to reduce the level of unemployment. Furthermore, projects with over 70Pct implementation rate that would contribute a lot to GDP must get priority."

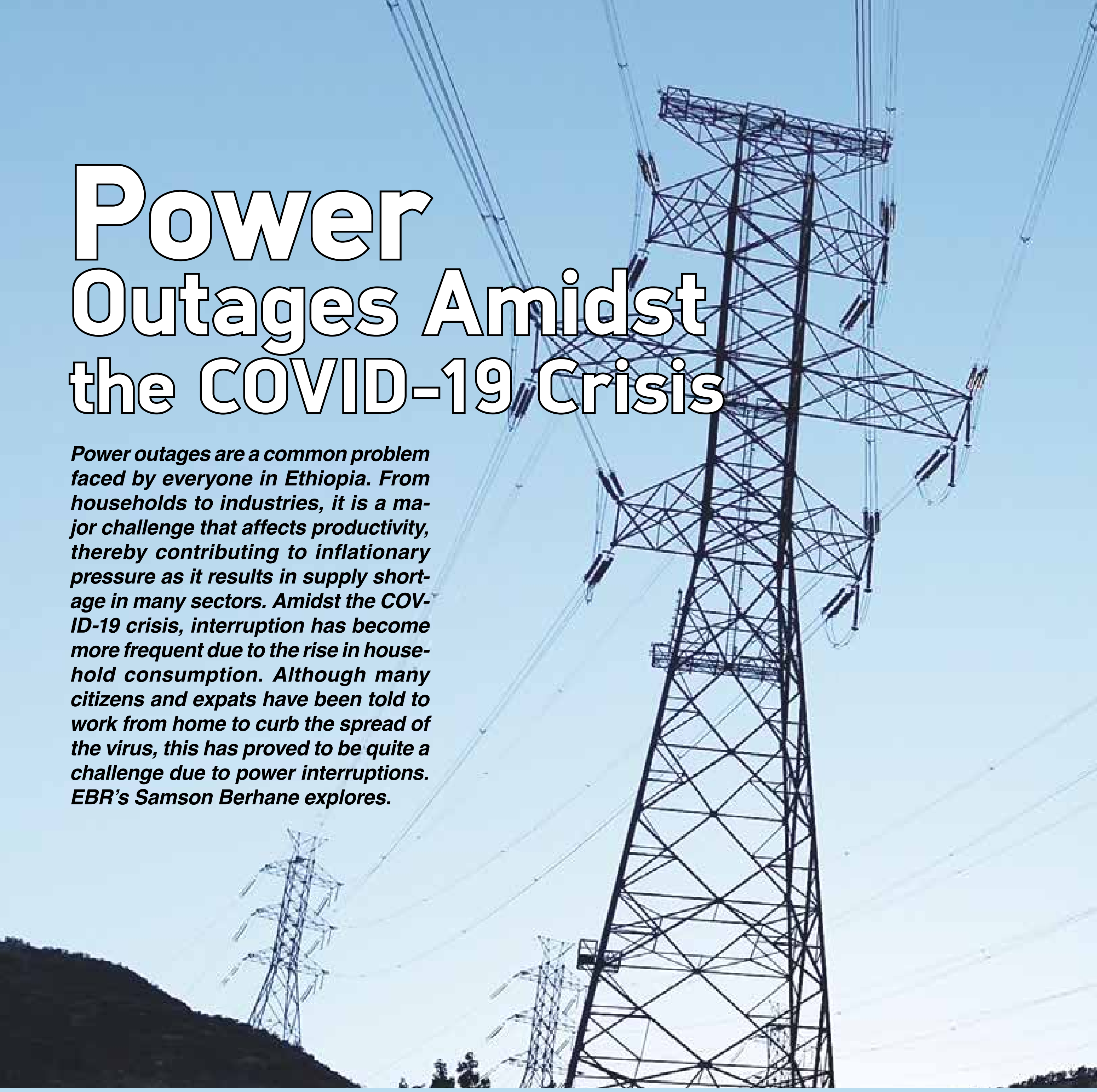
Tadesse Lencho, an Assistant Professor of tax law at Addis Ababa University, recommends emphasis on the agricultural sector. "The effect of COVID-19 on the economy is expected to continue for the next three to five years. If the country extensively works on its comparative advantages like agriculture, in the long run, it will boost its export earnings and stimulate the economy. Then when the economy recovers and gets stimulated, the government could generate more revenue," he said.

Washihun agrees. He remarked: "Equal attention should be given to urban agriculture; those engaged in urban farming must receive incentives." Gutu, for his part, argues measures should be taken to alter consumer spending behavior. "Households are experiencing a fall in disposable income due to business slowdown and rise in permanent or temporary layoffs. This, together with restrictive measures taken by the government, substantially reduces consumer spending, making buying behaviors more erratic especially on non-essential products and services," Gutu explains. "Such an outcome is discouraging producers and reducing production. To avert this, boosting consumer spending by increasing their disposable income and reducing income tax in the coming years are very important," Gutu remarks.

Record-breaking tax collection rates were evident in the first nine months of the current fiscal year.

But for Yonas Birmeta, Assistant Professor at Addis Ababa University, in order to motivate tax payers and facilitate the process of tax collection, the Ministry of Revenue should give additional focus on ease of doing business. He pointed out that businesses with surging sales should be given more incentive and others should also be encouraged to change their lines of business by taking current demand into consideration. "Encouraging small and medium enterprises with innovative ideas is also equally important to save the economy and increase government revenues," remarked Yonas.

Meanwhile, the government approved ETB470 billion annual budget for the next financial year, hoping to collect ETB270 billion in taxes. Whether the government would be successful to make its plan a reality is yet to be seen, although experts fear that achieving this is no different from sucking blood from a stone. **EBR**



Power Outages Amidst the COVID-19 Crisis

Power outages are a common problem faced by everyone in Ethiopia. From households to industries, it is a major challenge that affects productivity, thereby contributing to inflationary pressure as it results in supply shortage in many sectors. Amidst the COVID-19 crisis, interruption has become more frequent due to the rise in household consumption. Although many citizens and expats have been told to work from home to curb the spread of the virus, this has proved to be quite a challenge due to power interruptions. EBR's Samson Berhane explores.

Soon after the first Coronavirus case was confirmed in Ethiopia in March 2020, a graphic designer working for an international organization in Addis Ababa, Tewodros Alemu was amongst few Ethiopians to quickly comply with the government's stay at home advisory. His boss did not hesitate to allow him work from home.

However, doing so has not been easy. With frequent power interruption, meeting deadlines and delivering assignments given by his supervisors on time became impossible. "There was a time when there was no power for five consecutive days. It left me speechless," said Tewodros. When Tewodros reported the case to Ethiopian Electric Utility, he was told to contact a project office that built an electric line and installed transformers in their vicinity. The project office then told him to go back and ask officials of the Utility to fix the problem. "The authorities were literally accusing one another; one of them even insinuated that we deserved the predicament we were in, by asking why we let the other take the transformer. It is government accusing government, an insensible situation that left us in the dark for nearly a week," said Tewodros. He went on to remark that once again his latest experience showed him that in Ethiopia, working from home is not as simple as it may seem.

Power outage is a common feature of life in Ethiopia. It is a rich experience that every household with access to electricity in both urban and rural areas has amassed. Some towns may stay in the dark for over a week due to power outages, although the frequency is much lower in Addis Ababa - the seat of the African Union and the third largest seat of UN offices next to Geneva and New York.

In February 2020, the country was in a total blackout after a circuit breaker faltered at Gibe III, the largest hydroelectric dam in the country with a generating capacity of 1870MW. That makes up a third of the country's total installed capacity. "The rise in the installed capacity remains just a number, if we don't get proper electricity to do our work and live a normal life," said Tewodros.

Bribing maintenance workers to repair damaged electrical lines and install a new transformer has also become very normal in the capital. A case in point is the situation in a residential village constructed by Hacomal Construction, which is located near Salite Mihret Church. "We have not had light in our house for over a month due to a dispute between our real estate developer and Ethiopian Electric Utility, which is not willing to install a transformer to bring back the power. We are now paying ETB300 per week for a generator," said a resident, married and a mother of one. "I am using charcoal and kerosene to cook for my family. I'm not sure if my refrigerator still works as I have not used it for a while due to the power cut."

Getting maintenance service promptly is still unthinkable in Ethiopia. Officials are not usually responsive when told to repair damaged electrical lines; there are long procedures to get service and pay bills despite the attempt to digitize payment system. The situation has not changed despite the importance of electricity in the era of COVID-19. "Due to lack of access to electricity, I am not even following new developments in this critical moment. Staying on top of current information is one of the recipes for protecting oneself from the virus," the resident said.

Even though the government repeatedly announced that sustainable transmission and distribution of power is very crucial at a time when the country is hit hard by Coronavirus outbreak, the reality on the ground shows that the issue is not being properly addressed. Since the first case of Coronavirus was confirmed in Ethiopia, household consumption grew from 371.2 KWH in February to 379kWH in March, while it exhibited a 27Pct fall to 379KWH in case of industries, while consumption of commercial customers declined by 40Pct to 707KWH.

"Averaged around 100MW since covid-19, there is no significant reduction in power supply. However, household demand has increased as a large population is at home utilizing energy the whole day. The situation increased the frequency of power interruption," said Hizkyas Dufera, Senior Advisor to the Minister of Water, Irrigation and Energy (MoWIE). Despite the rise, however, the rate of power interruption remains unchanged, if not increased. “After COVID-19, electricity consumption is always at its peak largely due to the stay at home advice in place to fight the spread of the virus.”

In the face of the rise in residential consumption, there is a fall in electricity utilization in manufacturing industries. Power interruption is becoming more common, forcing the producers of essential products work way below their production capacity and resulting in a bulge in inflationary pressure.

“Coupled with shortage of forex and shortage of raw material, we are producing way below our production capacity because of Power outage. Had it been solved, we could have produced in surplus and sold more fast moving consumer goods (FMCG) at affordable price,” says Chief of Staff at East African Holdings Group, Fitsum Demissie.

He is not alone. Although not a new phenomenon, almost all companies producing essential goods or non-essential goods at the time of the COVID-19 crisis in Ethiopia are operating way below their production capacity, even as low as 30Pct, partly due to power outage. In fact, the IMF Working Paper published in 2018 indicated that power supply disruptions led to productivity losses of about four percent to 10Pct in the manufacturing sector. The study found out that while firms with low electricity intensity adopt costly coping mechanisms to a lesser degree and are hit harder by disruptions. Firms with high power intensity do invest in adaptation measures, but are also most affected by the high costs of self-generation, incurring greater losses. Currently, insufficient power transmission is also affecting industrial production by discouraging the creation of new jobs and leading to an inflationary pressure that is washing away the earnings of households.

Households make up a lion’s share of energy consumption in Ethiopia. Of 40,000 GWH energy consumed every year, 92Pct is consumed by domestic appliances, four percent by the transport sector and three percent by industries. Most of the energy demand is satisfied by bioenergy, which usually stems from unsustainable sources in the case of domestic use.

Of the 9,000 GWH of electricity generated by hydro energy (96Pct) followed by wind energy (four percent), 11Pct is exported while the rest is consumed locally. Energy demand is also growing at an astonishing rate. As industries expand and population grows fast reaching 112 million last year, energy demand is also expected to rise by an average of 12Pct annually in the next decade. Plus, a one percent rise in urbanization would result in 0.22Pct increase in residential electricity consumption.

To boost coverage of electricity, the government has constructed several hydroelectric power dams, wind farms and other projects over the last 15 years. By doing so, it managed to increase the country’s electricity generation from 380 Mega Watts (MW) in 1991 to over 4,514 MW. That marks the second-highest installed available capacity for electricity generation in Sub-Saharan Africa.

Even more, 80Pct of Ethiopia’s population lives in proximity of medium-voltage transmission lines with abundant sources of renewable energy nearby. Ethiopia is one of the few countries in the world where the electric grid is almost 100Pct supplied by renewable sources. When it comes to practical usage though, the facts are not so rosy. An estimated three million consumers have formal connections with 3.8 million consumers in need of regularization. About 96Pct of urban households are connected to the grid (99.9Pct in Addis Ababa) while only 27Pct of rural households have access to electricity services, according to the Ministry of Irrigation and Electricity.

A report published by the World Bank last year showed only 24Pct of primary schools and 30Pct of health clinics have access to electricity due to lack of power. To buck this trend, the government unveiled a national electrification program since last year focusing on integrated—grid and off-grid electricity access. The program provides an implementation framework for the achievement of 35 percent of off-grid access by 2025.

This comes after the end of implementation of Ethiopia’s First National Electrification Program (NEP) in 2017, which helped the government achieve significant milestones in connecting 33Pct of its population with on-grid electrification and 11Pct with off-grid pre-electrification, thereby achieving a 44Pct electricity access. The new program aims to add 8.2 million new grid connections, while six million beneficiaries will have access to off-grid solutions through stand-alone solar solutions and mini-grid technologies.

Though six billion dollars is earmarked for direct investments and technical Assistance for on-grid and off-grid electrification, experts say the policy adopted by the government still fails to account for the problems in the ground and failed to come up with real possibilities to raise access to electricity. A case in point are the damaged existing electricity infrastructures that are not being properly upgraded. “The distribution infrastructure, which is old and aged, is very poor. Transmission lines and substations, for instance, have not been upgraded based on the growth in demand. Though some upgrading projects have been put into effect recently, they are still not enough considering the extent of the problem,” stated Tigabu Atalo, an Expert in Energy.

Industries are raising their concerns over electricity shortage, which forced them produce way below their production capacity.

Hizkyas agrees. “Basically, power shortage and fluctuation remain bottlenecks not only because of shortage of generated electricity, but also due to maintenance problems. Old transmission lines are unable to carry higher energy, while higher numbers of clients are connected to limited lines and substations. Voltage drop and lack of capital for operational expenses worsens the problem," he said.

Over the last 15 years, construction and upgrading of 58 substations and construction of 1,395km of 132kv and 522km of 230kv transmission lines have been completed. The government plans to rehabilitate and upgrade existing distribution networks in a bid to improve electric supply reliability, electric power loss reduction and boost the existing network capacity to further connect more new businesses and households. "Currently, we are upgrading distribution systems in six major cities including Addis Ababa, Adama, and Hawassa," said Hizkyas.

Nonetheless, with the current pace, it is obvious that the government is not in a position to correct things any time soon. "There is lack of finance and skills gap to improve transmission and distribution infrastructure. Transformers, besides the burden of longevity in service, are not being properly installed as per the growth in the number of consumers," said Tigabu. "Though a little has been achieved so far, transformers are being manufactured locally. The procurement process to buy transformers from abroad is also very centralized and long."

Melaku Taye, Communications Head of Ethiopian Electric Utility, also admits that there is a lot to go in terms of reinvigorating distribution lines. "Although there has been a significant increase in terms of electricity generation, we have not done much in upgrading distribution lines, said Melaku. Cognizant of the matter, he went on to state, we are upgrading electricity networks and refurbishing transmission lines in seven cities. We have embarked on the same project this year in other six cities.

Moreover, Melaku says EEU has installed a technological system called Enterprise Resource Planning in order to centralize and closely follow its activities across the country. "This allows us follow and identify areas where there is power interruption; that, in turn, helps us save the time and cost incurred to do the job manually," he said. "Our toll free line (905) has also started to operate independently as it doesnot use ethio telecom's server anymore. It allows us serve 80 customers once, four times as much capacity as we had last year."

Yet for Moges Mekonnen, Communications Head of Ethiopian Electric Power (EEP), the problem won't be gone anytime soon. "Replacing maintenance equipment and spare parts locally remains difficult, while power equipment and spare parts are produced only by a few companies around the world. This means we cannot import the same equipment from another manufacturer and we cannot manufacture it locally," noted Moges. "But our hope is that technology would be transferred to local experts as they get involved from the beginning until the end of the project; that is the path we are following now," he added.

almost all companies are operating way below their production capacity at the time of the COVID-19 crisis in Ethiopia.

Meanwhile, industries are raising their concerns over electricity shortage, which has forced them produce way below their production capacity. In particular, one of the biggest consumers of electricity in Ethiopia, cement producers expressed their concern over power shortage and interruption in a meeting held last month. "Power shortage, along with shortage of forex, has affected our production. That has led to cement shortages and spike in price," said Haile Asegide, CEO of Derba Cement and President of the Cement Producers Association. He complained: "The cost of electricity has increased drastically. Even under such conditions, its impact on the final price of cement could have been lower, had we got uninterrupted electricity."

In response to the growing demand of electricity among industries, the government designed short term and long term plans. In the short run, it is attempting to boost the country's generating capacity by completing pending projects, including the Grand Ethiopian Renaissance Dam, which is expected to generate 5150MW once it is completed within three years. "EEP will not start new power projects from now on. We will only focus on finalizing the GERD, which stands at 73Pct project implementation, Koysha at 35Pct and Aysha wind farm at 46Pct. Once we finalize these three projects, we will focus only on upgrading and modernizing the distribution system and substations," Moges said. "We are already talking to EEU on scaling up distribution infrastructure."

Developing new projects and producing additional power will be left for the private sector. Introduced two years ago, the Public Private Partnership scheme is now being implemented. So far, the government has an agreement with a Saudi company to construct Gaad and Dicheto solar projects in Afar and Somali regions under the PPP arrangement. "The company offered the cheapest price in Africa so far, while solar power investment is viable especially because it does not involve maintenance expenses once it is finalized. Unlike solar technology, hydroelectric projects require regular maintenance," Moges explained.

Yet Tigabu fears that if the government fails to revise electricity tariff, private companies may not be interested to engage in the energy sector in Ethiopia. He went to add: "It is imperative that electric tariffs are increased in order to attract more investment in the sector; even allowing private entities generate and sell electricity directly to consumers would help, especially to alleviate the power shortage problem faced by industries."

Hizkyas, from the Ministry of Irrigation, also understands that now is the time to swallow the bitter pill. "It is paradoxical because if we improve power tariff at once, we discourage FDI and domestic investments in the economy because of higher energy price, especially in manufacturing," he argued. Hizkyas noted that power tariff must stay cheap in order to maintain stable industry. He insists that the country is left with no option but to adjust the tariff in a way that attracts investors who would like to engage in the sector and still proves affordable for consumers. **EBR**

YARED MOLA,
CEO OF NYALA INSURANCE ON PANDEMIC INSURANCE

Yared Molla has been in the insurance industry for over 27 years. Before joining NyalaInsurance seven years ago, he worked for Ethiopian Insurance Corporation. After assuming the role of CEO at Nyala Insurance, he has stirred the company to the forefront of the insurance business as it became the most profitable insurer in the country for almost half a decade. Under his leadership, Nyala grossed a profit of ETB184 million in 2019/20, which is a record-high in the private insurance industry and ETB15.5Pct higher compared to the preceding financial year. Its gross written premium also reached almost half a billion birr, while having an asset of over ETB2.1 billion. Enthralled by his performances, African Insurance Organization (AIO) bestowed up on Yared the prestigious 'CEO of the Year' award for his unparalleled leadership capability and outstanding contributions to the insurance industry. EBR sat down with him to clear the recent confusion over the coverage of pandemics under life insurance policy and his career in the insurance industry.

Pandemic insurance is usually not covered by most insurers in the world as it may expose them to pay huge amount of claims. What is the situation in Ethiopia?

When we see where the insurance policies and insurance related laws stand in the current COVID-19 pandemic, we identify two major areas. The first one is business interruption insurance (BI). This is an extension of insurance coverage of protected property against financial losses incurred as a result of interruption or disruption of normal business. Business interruption claims are being entertained worldwide as a result of the COVID-19 pandemic, in policies where it is not explicitly excluded. I have not come across businesses in Ethiopia insured for business interruption, except one customer of Nyala Insurance.

The second one is life & Health Insurance coverage. Most insurance policies, international and domestic, cover life and health insurance risk against COVID-19. However, a few countries with previous Ebola pandemic experience excluded pandemics in their policy; hence, they are not entertaining COVID-19 claims. So far, we have no claim for both business interruption and life & health insurance policies.

Do you think it should be covered?

We are seeing every day that the challenge from this insidious virus is daunting. We are also heartened by the acts of courage and humanity extended from all corners. All professions should also contribute to this and insurance is not an exception. Yes, as much as possible it should be covered.

Some insurance companies EBR spoke to said that they are not obliged to cover pandemic insurance as their agreements with clients do not oblige them to do so. Do you think Ethiopian insurance companies should cover the pandemic?

Whenever we question whether a particular risk is covered or not, we need to look into two aspects. The first is the insurance policy terms, conditions, exceptions and exclusions sold for the customer. The second is the treaty agreement the insurance company entered with its reinsurer. I do not think pandemic is an excluded peril in most of the life insurance policies sold in Ethiopia. However, with regard to its reinsurance coverage, I am unable to comment as the reinsurance treaty & agreement varies from company to company.

Is there a consensus amongst insurance companies to cover Coronavirus?

No. Not yet. Should there be? In fact, there should not necessary be an agreement amongst insurance companies. It is solely based on the risk appetite and risk management philosophy of each company.

> **“I have not come across businesses in Ethiopia insured for business interruption, except one customer of Nyala Insurance.”**

How is the response of reinsurance companies to the decision of some insurance companies, including yours, to cover pandemics, particularly the Coronavirus?

To entertain your claim, what all reinsurers simply do is refer to the articles of treaty they sold you. If pandemic is not excluded, they will cover the claim as per the agreement. In our case, both our life insurance policy and reinsurance treaty do not exclude claims caused by pandemics like COVID-19. Hence, all our existing and new life insurance customers are automatically covered against COVID-19.

Reinsurers are also currently paying huge claims worldwide. For instance, Lloyd’s revealed on May 15, 2020 that it expects to payout in the range of three billion dollars to USD4.3 billion to its global customers as a result of the COVID-19 Pandemic. According to Willis, (Willis Tower Watson Global Brokers) so far, reinsurers have booked four billion dollars to COVID-19 related losses.

But the aggregate loss is estimated between USD30-100 billions. This includes large scale event cancellation, trade credit & surety. It also includes general liability coverage stemming from lawsuits alleging companies for transmission & infection & workers’ compensation.

Don’t you think your decision of covering the pandemic won’t expose your firm to more claims and adversely impact underwriting surplus and operation income?

When an insurer decides to cover a risk, it should first do risk modeling and analyze the claim history. Over the past century, the world has seen only three or four pandemics with very little known impact on insurance companies. Another way is to track the loss pattern and ratio. When we look into today’s number (April 22), the total cases Vs the total tests, the world ratio is 7.81Pct and it is six percent for Africa, while it is 0.59Pct for Ethiopia.

You can compare this against motor insurance where loss ratio is over 70Pct and the market is still fighting tooth and nail for it. Hence, to provide life insurance, the risk pattern observed so far does not expose any firm. In this critical time, we need to think beyond focusing on profitable business only. This is something that gives us huge satisfaction and sense of corporate citizenship when we are professionally standing with our customers.

So, does your decision to give insurance coverage for Coronavirus apply to other pandemics?

As I said it earlier, so far, the world has seen very few pandemics (three to four). The COVID-19 pandemic is the defining global health crisis of our time. It is the greatest challenge we have faced and we have been totally unprepared for it. I am so confident, with the help of God, we can get over it.

However, I don't think our world will ever be the same again. The world will not be surprised by such a pandemic again. Once the world recovers from this pandemic, every country and every corner of the world will be carefully assessed inch by inch. Trillions of budgets will be set aside for research and science to foresee such catastrophes. Then, the risk management & insurance for any other pandemic will be easily dealt with.

If someone wants to have a life insurance and get coverage for Coronavirus, how much would it cost?

It is very cheap. It varies with the options and coverage packages you select. Let me put it this way. If you are willing to spend the same amount you want to pay for a cup of coffee per day, you can have life insurance coverage.

Why do you think life insurance policy is not given proper attention and has a very insignificant share from total industry premium production?

A lot of studies emphasize the strong relationship between life insurance growth and the economic growth of a country. But when you come to Ethiopia, it is paradoxical to see low level of life insurance penetration despite the growing economy. In addition to the booming economy, we also have two ideal ingredients for the growth of life insurance market: large population size & growing middle class. Having these facts on the ground, the answer to your question is simple and vivid. Very little has been done so far. All our energy and resources are consumed by short term (property) insurance.

What policy changes do you recommend to increase the share of life insurance? What reforms in the insurance industry do you expect in line with the home grown economic reform agenda?

To accelerate the development of the life insurance business, a lot of tasks need to be accomplished. One of such tasks is deregulation. Deregulation, particularly easing the life insurance aspects of the regulatory frame work, is vital. This can go up to an immediate opening of the life insurance market to foreign investors. The government should also encourage national saving by availing tax incentive for life insurance. The pension fund should come to insurance. These were observed to be ideal tools to boost life insurance in other markets.

Most insurance companies are selling un-attractive & traditional life insurance products. Innovative and new products that can attract the middle class and millennials should be availed. Very little has also been done on life insurance awareness & consumer education. We need a consolidated effort from policy makers, regulators, insurers and other stakeholders.

Tell us your journey in the insurance industry. To be more specific, when did you join the insurance industry? How long have you been in Nyala Insurance?

The Mileage in my insurance journey now reads over 27 years. The ride was both pleasant and bumpy. My lifelong endeavor so far is accounted as nothing but risk management and insurance. I am able to see seven financial statements since becoming a CEO. However, my accomplishments are short of my to-do list.

> **"If you are willing to spend the same amount you want to pay for a cup of coffee per day, you can have life insurance coverage."**

What is the thing that you have not achieved during your tenure as CEO of Nyala so far?

There are many well-prepared business plans that still keep pending in my table. Our industry is full of hurdles to quickly interpret your visions. With the new economic reform plan and measures to ease the tight regulation, I have strong belief that we will be able to avail an innovative breakthrough contribution for both our company and our economy.

What is your management style?

I believe a good manager should be flexible, adaptive and appropriate for a given circumstance. I always try to make sure these traits are with me. I also like and often wear De Bono's "six thinking hats". It is simple but effective in critical decision-making process.

What is the reason behind the success of Nyala Insurance, even during hard times?

The primary value we built in Nyala is we are easy to do business with. We have a clear strategy and business philosophy where everyone at Nyala Insurance is aware of. We are not just insurance policy sellers. We call ourselves risk management advisors and provide not merely policy but solutions to our customers. With this, we have managed to win the confidence and trust of our customers.

If you want to thrive in insurance business, your relationship with your global partners is also critical. Our continued endeavors have helped build very strong international relationship with industry giants. This has immensely helped boost our business. The other important aspect is our continued effort for change and innovation. We don't think outside the box, we prefer to think there is no box.

What are the characteristics that Most CEOs lack in Ethiopia?

It is very difficult to diagnose and comment what most CEOs lack in Ethiopia, but let me share you my observation. To withstand the pressure from shareholders and the media, it is undeniable that a lot of CEOs now focus on "short-termism". It is a dangerous trade-off between short term result and sustainable long-term growth of a company.

Short term performance pressure leads to an excessive focus on yearly profit making, while little attention is paid to long term value creation and strategy. You can simply ascertain this by looking into the financial news coverage about last year's performance. Every story was about the growth or decline of income statement items like earnings per share (EPS).

We learned very little or nothing about balance sheet items like the assets or liabilities of a company. The remarkable achievements of a company's long-term investment like human capital development, introduction of new technology or innovative breakthroughs are often disregarded.

I would be happy if we all CEOs in Ethiopia consider that we are being paid to relieve ourselves from daily routine and focus on the big picture. Envision, map and work on our strategy where our companies reach five to 10 years from now. **EBR**

"I do not think pandemic is an excluded peril in most of the life insurance policies sold in Ethiopia."

Hospitality Industry: Losing the Fight for Survival

Haile Gebreselassie's take on business after COVID-19

Haile Gebreselassie is a legendary Ethiopian Athlete turned businessman. His companies are engaged in agriculture, real estate, authomotive, art and hospitality. He is also widely known as a founding shareholder of several banks.

Covid-19 is the ultimate test to evaluate ourselves individually, our systems nationally and as a global society. Economically, I understand covid-19 from two perspectives; the damage and opportunities it might hold. The hotel and tourism industry in Ethiopia is the most affected since our entire tourist clients were from Italy, France, Holland, German, USA and Asia, countries seriously affected by the pandemic.

With the number of jobless people in the USA going well over 30 million and others experiencing severe economic malaise, I do not think they would be planning vacation. The number and frequency of international and domestic meetings, exhibitions and conferences has plummeted. After covid-19, our businesses went from positive to deep negative. My six hotels are idle but we are paying six million Birr each month for our 3,000 employees and running expenses. Zero would have been nice. Our debt is piling because we have no income; we just incur expenses.

There is no rich and poor, giver and taker, at this time. Investors are now burdened with a huge debt. I lost ETB200 million from Marathon Motors. The price of the specialty coffee we export dropped at international market, but the government is not willing to allow us sell it in domestic market. At least that way we could have covered the hotel expenses.

The inauguration of the seventh Haile resort was supposed to be held in Adama in early May 2020, but it could not be realized because the furniture we ordered from china could not arrive due to the pandemic. Four more hotels were also in the pipeline in Addis Ababa, Sodo, Konso and Debrebirhan.

Any hotel in Addis Ababa that currently rents two of its 100 beds must be lucky. In fact, the hotel business in Ethiopia was already declining before covid-19 due to waves of political unrest in the country. For instance, it was declining in southern cities due to the Sidama conflict. Then the instability surged during consecutive political conflicts across the country. However, the decline during the political instability is by far better than covid-19. Many factories and hotels were set on fire due to the political unrest and the economy was disrupted.

The priorities every tourist considers before leaving for a country are peace, stability and safety. They want to be sure their family can spend the night outdoors. Based on our survey of our customers, most tourists feel unsafe in Ethiopia and have security concerns. For instance, during the political turmoil in Egypt, the tourist flow dropped from 20 million to two million, but the tourism destinations were still there.

The other critical problems in Ethiopia are absence of affordable rooms near the destinations and lack of infrastructure. We supply water for most of our hotels from wells we dug ourselves. We deploy two generators for each of our hotels because power outages last for a week in regions. A lot of international athletes who stayed at Yaya Village for training complained of absence of internet and power. They compare it with Sanloren, a modern village in Switzerland, equipped with power and technologies 24 hour.

The tourist evaluates the destination finally, next to security, safety and their expenditure capacity.

The problem in Ethiopia's tourism is not absence of promotion or marketing the destinations to international tourists. There are a lot of natural, cultural and historical destinations known globally. Even the country's natural and most balanced weather can be heaven for tourists.

It is difficult to exit the industry, once you invest in hotels. When I first invested in the hotel in Hawassa, I went through all the difficulties you can imagine and finally the revenue was very disappointing after all that investment. I was angry that I opened the second in Shashemene. Many people asked me I must have got good profit from Hawassa. I said yes. I continued expanding with loss. Finally I learned a business is headache but eleven businesses is profit. Some businesses compensate the others and cancel out the headache.

Government policy and strategy for the tourism sector, including the implementing Ethiopian tourism organization (ETO), targets marketing Ethiopia's tourism destinations to the international tourist. This is profoundly wrong. The objective should be developing infrastructure around the destinations, increasing hotel numbers and quality, and training manpower for the hospitality sector, which is also one of the major problems we face.

Although Ethiopians are accounted as a hospitable society, it only works at homes as they are also proud people outdoor. When I see Ethiopian waiters not being attentive enough to customers, I am reminded of the near-worship service of Philippinoes. If the government worked on these issues, we could increase our tourist flow three times more than that of Egypt's 20 million visitors. Currently the flow to Ethiopia is a mere 1 million.

There are Ethiopian embassies all over the world with expenses covered by public tax. They should be the ones who brand and sell Ethiopian coffee, not Haile. I have welcomed countless foreign diplomats and investors in this small office of mine. All of them bring business ideas that benefit their countries. I doubt whether Ethiopian diplomats in other countries are working to that extent.

The Way Out of the COVID-19 Trap

The simplest option for hotels to relieve themselves off the pressures of the pandemic is closing down. It is possible to save a lot of things by closing, but it also affects a lot of employees and families. We calculated closing is the only option for my hotels. I would not close. The situation would improve if the government controlled migrants crossing borders illegally to Ethiopia, especially from Djibouti, Kenya and Somalia. This increases the spread of the pandemic.

Basically I do not think corona is a big issue. Coronavirus can be avoided simply by following the health instructions. It also does not restrict anybody from going out alone and cultivating their farms or working in a factory. And eventually it will disappear through time or the use of vaccine. It will, however, leave a big scar on already declining economies like Ethiopia. It will take us longer to recover. The whole media is telling us to stay home and sit down; I cannot let them lose their jobs and die of hunger. An economist would never advise this. I would not sit home and see my wife and children die of hunger.

Ethiopia is not rich enough to place food in front of citizens' doors like in Europe and the USA, who are also paying their workers to stay home. Every CEO is unprepared and non-privileged under covid-19. So they look for available venues to survive. Likewise, our plans to change the damage to an opportunity would only be realized when everybody discharges their duties. Blaming the private sector, the government and individual employees will not save anyone. The three must act in coordination.

I propose that the government postpone debts and cut interests. At the same time, providing soft loans would help. We are not asking the government to do what European governments are doing. For instance, my friend who is an investor in Holland told me the government is paying salary for their employees. But here I am paying my employees from my own pocket. But I cannot do this after three months unless the government intervenes or covid-19 goes away. So many businesses in the hospitality sector are faced with the same predicament.

The government must thus ensure stability and financial institutions must inject finance. For instance, the decision to skip income tax is commendable as it has enabled employers keep employees on the payroll. Something is better than nothing. However, income tax can be retained, if the employer has the ability to pay salary in the first place.

The government must look at what other governments are doing in Kenya, Rwanda or Uganda. We are in treatment time, which means we must look for the cure that can go up to surgery. Skipping income tax is one medicine. But we must look for another, since it is not enough. The national bank must look into the ways of creating the medicines. It is of course problematic that some businesses have already taken huge loans that do not match what they are doing. Such issues make it difficult for the government and I cannot blame them. For instance, the Development Bank of Ethiopia (DBE) wasted huge amount of capital and resource.

On the other hand, there are many opportunists out there that look for loopholes to manipulate the system during such critical times. For instance, during the conflict in Sebeta, some companies like Ayka Addis lodged for compensation. As soon as they got the lump of loans, they fled the country without even paying the initial capital loans. Again, such unstable times under covid-19 open the gate for parasites. At the end of the day, it is the poor taxpayer who pays the country's debt.

On the other hand, there are three opportunities for Ethiopia. The 7.1 billion global population needs food, which cannot be replaced by any technology. This food can be produced in Ethiopia. We can make Ethiopia a global leading bread basket. It is important to see what happened to the fuel industry. Currently, the price of oil is less than the price of the barrel. America is selling oil at loss. One can take oil almost free, if they can return the barrel. But in Ethiopia, everything can be cultivated, and it is assured businesses will never lose because the demand always rises. This can be achieved if everyone acts together.

The second opportunity is for Ethiopian Airlines. I believe it is time for Ethiopian Airlines to outshine globally. Most of the strong airlines in the world are currently crumbling. Strong airlines like virgin air, united and many top airlines are weakening. There is no active airline in Africa. Most of the global airlines are currently frustrated because they will lose value in the stock markets. This is a big opportunity for ET. We must react faster. This is the time for strong prospects to overtake the top.

Once covid-19 is gone, the world will be in a ruthless competition to revive faster and compensate the damages. Hotels must get prepared for that. We cannot benefit from that competition unless we get improve in folds. Our hotels and service providers must be competitive in price, quality and everything. We must work hard so the first wave of tourists in post covid-19 will come to Ethiopia.

Luckily, Ethiopia does not have a huge number of covid-19 cases so far, which is the third advantage. Most industries are closing now. They must, at once, produce supplies that are enough for five months. Factory workers are in for a 16 hours work day. Unless we increase productivity and start accumulating supply from now, we cannot be competitive when the market reopens. We also need to reduce unnecessary expenses individually, as business, and country.

We cannot solve the current problems with existing expertise. We need the best crisis management experts. Otherwise, the process will be longer and we miss the targets. In fact, it is all about protecting our health but it is also about maintaining productivity at the same time. It requires capable and bright people to show the way forward.

We need many think tanks and expert groups at this time. Education, agriculture, industry and the service sectors need specialized mechanisms. For instance, currently it is crop cultivation season ahead and desert locust is spreading across the country, besides covid-19. Averting this requires working tirelessly day and night.

All problems rolled down over the last decade must be solved immediately. Inputs and finance must be supplied for agriculture. The land policy issue also needs solution. Federal and regional governments must be on the same page. We cannot pass the difficult time ahead with our slow-motion pace. We also need to be cautious that the stay at home will not breed a culture of laziness. Active people who used to wake up and work at 5am sleep late now. But this should be over as soon as the outbreak is under control.

metropolitanaddis.com

METROPOLITAN
REAL ESTATE PLC

WESTVIEW
STANDARD APARTMENTS
by metropolitan

Project Highlight

- 2KM away from Bisrate Gabriel
  ከብስራተ ገብርኤል 2ኪ.ሜ. ርቀት ላይ የሚገኝ
- Additional storage areas
  ተጨማሪ መጋዘን (ስቶር) ያለው
- 1 Bed room, 2 Bed room and 4 Bed room Apartments
  ባለ1 ፣ ባለ2 እና ባለ4 መኝታ ቤት አፓርታማዎች
- An area Comfortable for living in the west
  በስተ ምዕራብ ፣ ለኑሮ ምቹ የሆነ ቦታ
- Any custom size apartment available by combining multiple spaces free of charge!
  በደንበኞች ፍላጎት ላይ የተመረኮዘ ቦታዎችን ከክፍያ ነፃ በመቀላቀል የሚገኙ የአፓርታማ አይነት አማራጮችም አሉን!

...and fastest return on Investment!

... ወጪዎን በአጭር ጊዜ የሚመልስ

Living Room

Kitchen

Bedroom

አዲስ አበባ ቦሌ ከፍሬንድሺፕ ሆቴልወረድ ብሎ ከዩክሬን ኤምባሲ አጠገብ

info@metropolitanaddis.com

+251 97 40 40 40
+251 73 30 30 30

www.metropolitanaddis.com

SCAN QR CODE FOR ALL DETAILS

Pro-poor GMOs, Anyone?

Shimelis Araya (@Shimecon) did his PhD in Agricultural Economics from the Justus Liebig University of Giessen, Germany. His researches focus on seed systems and breeding innovations adoption in Ethiopia. He was a lecturer at Hawassa University. He can be reached at araya.gedam@gmail.com

Coronavirus disrupted the lives of billions across the world. From the superpowers with a huge economic hegemony to countries with less economic interaction with the rest of the world have been hit hard by the deadly virus. Both developed and least developed countries are likely to witness their worst economic recession in more than a decade. Big corporations and SMEs are reporting losses and cutting millions of jobs, exacerbating poverty and unemployment.

With businesses across different sectors crumbling, the only hope left seems to be the farming sector as it is in a relatively better shape. It is also imperative to consider this as an opportunity and boost food production, which is unattainable without reforming the farming sector. Fears also exist in Ethiopia that the number of people living in poverty would surge due to the outbreak. Especially at a time like this when the number of people in need of urgent assistance grows alarmingly, raising food production is indispensable.

Moreover, various sources indicate that population and urbanization are expanding rapidly in Ethiopia. More food is needed to feed the growing population. Booming population and expanding urbanization have conspired to decrease land for agricultural cultivation. Unless managed very cautiously, the projection implies where the future hotspot for food shortage would be. The growing number of youth could also potentially become a 'demographic bomb' that further fuels social and political instability in the country. The government should emphasize long-term economic prospects, instead of mobilizing the youth for short-term political support.

Faced with a similar challenge, the global community witnessed an extraordinary growth of food production in the era of Green Revolution mainly in the Asian continent. Success in raising productivity and feeding the growing population left the dire predictions of the Malthusian theory, which stated that food demand outpaced actual production, in question.

That success was not achieved through land expansion. Instead, extensive application of innovations in smallholder agriculture was behind the indisputable development. Specifically, the development and use of new varieties that could mature more quickly lay at the heart of the yield improvement along with the sound policy environment that was in place. Access to better quality seeds for food crops has several desirable attributes, while improved genetic potential reduces vulnerability to production risks.

Our seed sector, however, is one of the weakest in providing latest technologies to farmers compared to neighboring countries, including Kenya. Despite its necessity, no specific time when the 'seed issue' became the center of discussion pops up to mind in the discourse for agricultural development in Ethiopia. Accordingly, many asked 'why seeds', wanted to learn more about innovations along that line and the institutional challenges in the seed sector.

First of all, the claim that "the introduction of GM crops to Ethiopia is the first of its kind in the African continent" is totally wrong. Second, there is lack of consistency on GMO skeptics. Tewolde G. Egziabher (PhD), the key negotiator on bio-safety conventions, said the "amendment has no problem as it is meant only for research purposes" when the parliament amended the GMO law in 2015. However, in his open letter addressed to Prime Minister Abiy Ahmed last month, he explained his worry about the government's decision to allow the cultivation of GMO technologies.

We have also honest and genuine plant breeders and seed sector specialists. Let's have a favorable playing ground for competing ideas to spar and for the public to judge. As we all know, we still have people who are dying from hunger and malnutrition. If we are working for the sake of Ethiopia, we have to reverse this bad history.

I am afraid some might be guided by self-interest.

As Oliver Williamson, the Nobel Prize Winning Institutional Economist, said "opportunists are self-interest seekers with guile." He was implying that businesses and individuals will sometimes seek to exploit a situation to their own advantage. To respond to dishonest and illogical arguments that lead the public to oppose everything related to biotech breeding is our moral obligation. Some with little or no knowledge of the science and seed sector in the country are misinforming the public about GM crops being a cause for health problems. Current oppositional and combative debate against GM crops is exaggerated and should be replaced with collaborative and professional dialogue. For me, blindly rejecting any technology with suspicion is unscientific. Most of the arguments are bogus and mythical. The sensational reporting seems to deliberately arouse public fear and hysteria.

There are several countries in the African continent that approved the commercial use of GM crops and Ethiopia should not be an island. Instead, it is imperative it emulates the best practices from the front runners to take lesson on the adaptation of the new technology and integrate it with the existing approach. Similarly, the Ethiopian Biotechnology Institute (EBTi) issued a statement clarifying the need to consider biotech products due to current challenges. The statement read: "integrating biotech products with the existing conventional breeding approach is needed more than ever to meet the growing demand for food and exports in line with the country's bio-safety laws and other related guidelines." Realization of this scheme requires conducting cost benefit analysis to approve the use of GMO crops as well as its location for long-run consequences.

All in all, the utilization of innovations in agriculture should meet the criteria of sustainability. We cannot sustain life on earth without performing economic activities. Any economic activity (whether production or consumption) has adverse environmental effects. Therefore, striking the balance between economy, environment and society is crucial. To be economically sustainable, breeding innovations must increase food production, income and jobs.

For societal sustainability, innovative tools must be pro-poor and benefit vulnerable communities in reducing hunger and malnutrition. For instance, bio-fortified rice a.k.a "Golden Rice" that comprises Vitamin A has been released in Asia, and its shortage is a public health concern for millions of poor people located in the developing world. To be environmentally sustainable, breeding innovations should safeguard water, soil and air quality as well as protect biodiversity.

Breeding innovations in our agriculture

Although seed innovations are crucial to boost productivity, farmers' take-up rates of these innovations have been very low in Ethiopia. Findings of a nationally representative survey conducted in 2016 on 7,500 farmers in the high potential areas indicate that only 19Pct of the surveyed farmers used new crop varieties. This implies that the majority of farmers rely on genetically inferior old crop varieties and they benefit very little from breeding improvements. Researchers have documented various bottlenecks that weigh down on farmers' decision to use the latest seed innovations.

Integrating the technology also requires a supportive policy environment. The government should intervene in markets to make sure that farmers receive adequate price each year for their produce, proving the technologies profitable. There is also a need to educate farmers about innovations, rapidly expand input delivery, and credit systems. Access to finance is crucial for resource constrained small farmers to invest in new technologies.

According to a survey, the capital requirement to purchase improved cultivars is very large because improved varieties cost farmers twice the price of seeds that are accessed in local grain markets. Lack of credit access, hence, poses a significant challenge to invest in improved seed varieties.

Farmers in developed countries like Germany receive attractive subsidies, let alone credit services, from their governments annually. Then, the highly productive one percent of Germans who rely on farming feed the entire population and the surplus is exported. This is a reminder that unless the capacity of farmers is built to muster purchasing power, availability of better seeds is not sufficient on its own. Farmers need to readily start using the seeds.

In addition, the existing approach delivers genetically uniform varieties to all farmers irrespective of their heterogeneities. However, farmers require a range of breeding outputs that meet their varying demands. Another one of the bottlenecks has to do with the endowment effect. While innovations simplify complex real-life situations, people generally do not comply with innovations; instead they irrationally overvalue the benefit of what they owned. Such a "status quo bias" is visible on our "experts" who are opposing GM crops.

In the supply side, liberalization of agricultural markets was the governing policy in sub-Saharan Africa (SSA) in the 1980s. One of the major assumptions was that an increased supply of improved varieties can be achieved if a favorable environment is in place for the private sector. Guided by this neoclassical economic assumption, national seed enterprises have been privatized across several African countries.

The government of Ethiopia has sought a similar path to liberalize the agricultural sector since the adoption of the Agricultural-Development-Led-Industrialization (ADLI) strategy in 1993. Any measures by the current government to adopt a completely different path ditching this long process of liberalization would be more concerning than the issue of GMOs. To date, public seed organizations dominate the breeding, seed production and distribution activities across the entire seed value chain in Ethiopia.

Despite the lucrative market potential in Ethiopia, several obstacles pose challenges for the private sector to operate in the seed market. The lack of strong plant variety protection law is one of the major obstacles. This factor emerges from the conflict between seed companies' motive to invest in breeding and farmers' desire to replant farm-saved seeds for several seasons. With the absence of strong protection law, farmers can utilize the gains from breeding progress without paying for the use of the seeds in successive seasons. With a strong protection law, firms can force millions of farmers to pay for their breeding effort. With the absence of protection rights, the limited number of private seed companies operating in the country target to supply only hybrid maize varieties to secure sustainable revenue due to the nature of the seed. This is because farmers should pay annually for suppliers to access their seeds.

Domestic private seed enterprises, which rely on public bred varieties, are expanding. Yet only two foreign seed corporations (Pioneer Hi-Bred and SeedCo) are operating in Ethiopia with their own breeding materials. In 2019, however, Corteva Agriscience (one of the biggest global agribusiness companies) has already opened its office in Ethiopia following the footsteps of its subsidiary (Pioneer Hi-Bred).

Controversies with "giant" agribusiness companies

Jack Kloppenberg, Wisconsin University Professor, is a renowned scholar who strongly criticizes the "evils" of the capitalist system in global agribusiness. In his influential book The Political Economy of Plant Biotechnologies, Kloppenberg argued that as long as open pollinated varieties (OPVs) remain the dominant technology (OPVs are reproducible in comparison with hybrid seeds), farmers retain a handful of farm saved seeds from their own harvest to replant in the next season.

In this case, control over the means of production is completely in the hands of the direct producers, who are farmers, and rent-seeking firms have no incentive to exploit them. In the expanding capitalist system, however, farming is converted from a self-sufficient production process into one in which purchased inputs account for the bulk of the resources employed.

The introduction of hybrid technology and the move to protect intellectual property rights on crop varieties provide incentives for capitalists to expand. Once they control the market, the capitalists have the power to decide "what to produce" and "what not to produce". The development of hybrid seeds dispossessed farmers of control over the means of production by preventing them from autonomously reproducing their own seeds. This process affected not only the seed industry, but the entire agri-food system.

With seed at the core of agricultural production, it is difficult to imagine any form of "food sovereignty" that does not include a necessary and concomitant dimension of "seed sovereignty." Corporate appropriation of plant genetic resources and the global imposition of intellectual property rights are currently serious constraints on the development of new cultivars by public breeders to make available for their small farmers. The "big four" – Corteva Agriscience, Bayer, BASF, and ChemChina – currently dominate more than 60Pct of the global seed market.

In economics, a monopolized market eliminates competition and leads to exploitation of buyers through improper conduct. These giant biotech corporations have been continuously expanding through merger and take-over of smaller companies in the developing world to further dominate the market. There is also claim that they file legal cases against farmers whose farms are unknowingly contaminated with patented seeds due to "genetic drift" through the process of pollination.

As a solution, Ethiopia may follow a strategy to approve the use of the technology on selected crops (e.g. BT cotton) to serve the high demand for agro-processing given the fact that cotton is cultivated in mechanized agriculture in remote locations. Interestingly, survey information indicates that Ethiopian maize farmers in high potential areas (e.g. Sidama Zone) are highly inclined to buy hybrid varieties from private suppliers even at a higher price for preferred attributes. Such inclination was evidenced with the availability of substitutes from the public enterprises at a relatively lower cost.

More importantly, the seed sector in Ethiopia is underdeveloped and dominated by public organizations across the seed chain. Breeding, together with seed access, can transform the lives of smallholders and help them build a robust seed distribution system. Given the concern of bureaucracy and inefficiency in the public sector, there is still room for the private sector to operate in the market and build a vibrant seed sector.

To my knowledge, there are no agro-dealers in Ethiopia that provide pertinent information and desirable innovations to small farmers and serve as a substitute to the public extension system. The government devoted huge amount of budget to disseminate technologies using the extension agents. However, studies show that the government has a strong desire to use the extension system as a political control mechanism. Public extension workers were hugely involved in non-extension activities. To this end, supporting private dealers to operate at grass-root level is crucial to serve small farmers effectively.

Studies also inform that substantial amount of yield advantage is achieved using conventional breeding. However, the level of productivity is below expectation given the expanding population number. In this case, it is crucial to capacitate public breeding institutes and breeders to release new varieties that are compatible with the diverse agricultural systems through a bottom up planning to set breeding priorities. Participatory varietal selection (PVS) brings a wealth of local experience and knowledge by creating opportunities for farmers in the breeding process to evaluate and choose their preferred crop varieties.

Additionally, farmers should be capacitated financially in the form of credit services to enhance their purchasing power to invest in innovative tools, motivating breeders (royalty fees) in releasing varieties with farmers' preferred traits continuously. Developing seed supply chains to improve access to and availability of quality seeds is essential; while seeds should be climate-smart, nutritionally enriched, and higher yielding. That would make them more reliable and sustainable in the long-term. Then, innovative breeding institutes would produce resilient and productive cultivars adapted to a multiplicity of agro-ecosystems.

Managing the COVID-19 Crisis in the Banking Industry

Abdulmenan Mohammed ,is a financial management expert. He holds an MSc in Financial Management from Edinburgh Business School, Scotland. He can be reached at abham2010@yahoo.co.uk

Following the spread of COVID-19, the Ethiopian government has taken a large number of prevention and containment measures since mid-March 2020. The economic impacts of these measures are considerable. According to the International Monetary Fund (IMF), Ethiopia's GDP growth will decline to 3.2Pct from a previously projected 6.2Pct.

The impacts on air transport, hospitality, tourism, export, remittance, and foreign direct investment (FDI) are glaringly visible. The overall balance of payments is predicted to widen, resulting in an additional financing gap of USD 1.7 billion. The government is implementing several packages to contain the adverse health, economic and social impacts of the pandemic: a 300-million-birr scheme to support the healthcare system; tax exemptions and deferrals, priority access to forex for imports of items that will be used for prevention and containment of COVID-19 and a multi-sector emergency package of USD 1.6 billion are the major ones.

The banking industry, which has not recovered from the liquidity problem since November 2019, is facing the economic maladies from the outbreak. There has never been as tough a time as this year for Ethiopian banks as they have to deal with the brunt of a major economic problem which could have calamitous effects. In spite of the fact that a serious threat is posed to the financial sector, the way the NBE is dealing with the problems lacks coherence and foresight. Addressing the current problem requires extraordinary wisdom, foresight, attention to every development, communication and coordinated actions.

The banking industry is facing a systematic risk that does not spare a single bank. The major risk is the deterioration of loan quality, liquidity crunch and reduction of revenues from international banking operation. The worsening economic situation drives a large number of borrowers particularly in the sectors that are hit hard by the economic impacts of COVID-19 into financial trouble. Borrowers in a dire financial situation will not be able to service their loan repayments.

The building up of arrears affects the cash flows of banks, lowers the quality of loans and escalates the probability of default. Decreased loan quality forces banks to maintain higher provision for loans impairment, resulting in lower profits. The deteriorating economic situation will have lasting impact on borrowers. Apart from the economic havoc their businesses have to endure, their loan repayment history will be tainted. That, in turn, makes borrowing difficult in the future as their credit records are maintained with the NBE.

The National Bank of Ethiopia (NBE), as a lender of last resort, stepped in as a pre-emptive measure to keep the financial sector afloat. It advanced ETB15 billion to private banks for 15 months and ETB16 billion to the Commercial Bank of Ethiopia (CBE) for three years at eight percent interest rate per annum. Moreover, the NBE decided to use its discount window for expanding working capital credits to sectors largely affected by COVID-19, particularly hotels and tourism, at an interest rate of five percent per annum. DBE's capital has also been beefed up to ETB28.5 billion from ETB7.5 billion.

Injecting liquidity has its own costs that go along with its benefits. Injecting liquidity into the banking system keeps banks afloat even though borrowers do not pay their debts according to the terms of the loans. However, the injection of more money to maintain the stability of the financial sector will expand reserve money, which will result in higher than expected inflation if additional liquidity is used for expanding loans and advances. It is essential to make sure that funds are used for maintaining the liquidity of the financial system, and plans should be in place to withdraw the money injected.

There is absurdity with regard to the money injected to the CBE. It was loaned at eight percent per annum, repayable in three years while private banks obtained the fund for 15 months at a competitive rate of 13Pct. This measure is not only unfair but also does not seem to address the short-term liquidity problem of the CBE. It seems implicitly supporting of the state bank solvency as the CBE has structural problems due to over exposure to few SOEs and high loan to deposits ratio.

As things began to unfold, the CBE demanded additional ETB17 billion from the Ministry of Finance as it has been drained by over exposure to few SOEs. This reveals that the economic impacts of Covid-19 seem harsher on CBE due to the mix of its loan portfolio, maturity mismatch (long-term loans financed by short term savings) and over lending. The trouble is that the shaky financial standing of the state bank has pernicious spill over effect on the entire banking system as it is very big. Tackling the problems of the CBE requires a serious financial restructuring rather than fire fighting. This can include increasing its capital, reducing its exposure to few enterprises, designing means to increase long-term deposits and expanding short-term loans.

The NBE suspended certain provisions related to assets classifications of banks, foreclosures, and credit records of borrowers to help both the banks and the borrowers. This means the rules for computation of non-performing loans (NPLs) and provision for assets impairment are not applicable for a while so that the financial performance and position would be presented in a better light. Such measures would only work provided that the borrowers survive the economic havoc caused by the pandemic.

Otherwise, the financial reports which do not take economic impacts of COVID-19 into account will window dress the problem. Window dressing cannot change the reality. It will rather postpone the day of reckoning as, at some point, borrowers will have to repay their debts and those that are severely hit by the economic catastrophe of COVID-19 will surely default. Hence, the banks will end up carrying massive bad loans that need a huge provision for losses. Even though the NBE rules pertaining to NPL and provisions for loan impairment are lifted, the banks should consider maintaining a realistic provision for prudential reason. This will serve them as a buffer against possible bad loans if borrowers struggle to repay their loans at some point.

Recent developments also show that the NBE has gone as far as setting a daily and monthly limit on the amount of money that can be withdrawn from banks based on a questionable claim of fighting unlawful transactions. The fact of the matter is protecting the banking system from money drain. This idea was suggested by private banks few months back when they were seriously hit by liquidity problem. The drawback of this action is that it slows down economic activities as the economy is predominantly cash based. The confusions and worries the measure causes is also very considerable. Lifting this requirement as early as possible is essential as the banking system functions based on trust and confidence.

The banking industry is cruising through a time of high economic uncertainty. A large number of borrowers are demanding interest waiver, rates reduction and repayment rescheduling. The industry can cope up with this tough time if it has enough liquidity and strong capital, and work with borrowers and the NBE. Interest rate reductions, penalties and fees waiver, and loan rescheduling are laudable moves. The banks need cutting loan disbursements, holding adequate capital, slowing down expansion, postponing dividend payments, and adequate communication with borrowers and depositors to survive the most difficult time in their history.

The COVID experience should give a lesson that the whole financial sector could face a serious risk. A new paradigm of financial sector regulation should be considered as several countries instituted macroprudential regulation in the aftermath of the last global financial crisis. We need a regulatory approach that incorporates both micro and macro regulations. The macroprudential regulations proactively identify risks and vulnerabilities and enable the financial sector to be resilient to systematic shocks, both endogenous and exogenous.

The Plight of Startups during COVID-19

Samrawit Fekiru's Account of the Difficulties

Samrawit Fekiru is the founder and CEO of Hybrid Design, the company running Ethiopia's most popular taxi hailing app 'Ride'.

The world has come to a grinding halt because of the coronavirus pandemic. Factories have stopped operation. Corporations that generated millions of dollars every day have ceased functioning. No one seems immune to the health, economic and social hazards of the ongoing crisis. With no end in sight yet, businesses are being forced to lay off their highly valued employees as their expenses surpass the revenues they generate.

The problem is severe on entrepreneurs and small & medium enterprises that have low capital to stay afloat for a long period of time. This does not only affect the owners; rather the spillover effect will also adversely impact their employees who lead a hand to mouth life and always struggle to cover their daily expenses.

The situation is no different in Ethiopia, where startups mushroomed for the last few years. These startups were fighting to achieve their final goals of making profit through services that solve societal problems. In fact, even during the best of times, startups found it difficult to stand on their own two feet and make their project a reality. The situation is even harder for tech startup companies. Let me explain this from my experience mainstreaming Ride.

I came up with the idea of providing a taxi hailing service, Ethiopia's version of Uber, after noticing the transport problem faced by the society and absence of convenient platforms to call a taxi. Once I set things in motion to realize my plan, I was not able to get support from various stakeholders. Although I sought support as a small and medium enterprise, they were not willing to accept my idea and help me grow.

I then tried to get financial access from banks. I even went to a bank that claims to support women entrepreneurs. However, the reality was far from the advertisement I heard. I also sought financial access from a bank that clams to finance ideas. But all of my efforts bore no fruit. This is the common trend for all startups. Almost every entrepreneur in Ethiopia is expected to pass through such challenges.

One thing that needs to be understood here is that the absence of financiers is not the biggest problem; rather the attitudinal problem that makes it difficult to pitch ideas and be listened to is the fundamental challenge. If those who claim to be supporters of startup businesses became candid and showed willingness to listen to innovative ideas, everything would be smoother.

The other problem that discourages startup businesses is lack of convenient laws and policies. First, government officials are not keen to follow new developments worldwide and draft legal frameworks before anyone tries to pursue fresh ideas. Second, as soon as new businesses become successful, there is a tendency to make their work complicated by introducing absurd laws and regulations that tend to discourage new entrants. Laws should not be barriers to innovative ideas that change people's lives for good.

As a developing country, we are living and dealing with many socio-economic problems. However, this can be taken as an opportunity for people who would like to capitalize on solving the problem. Unfortunately, the education system is not producing such graduates as most of them lack practical skills that could help them become self-employed and create job opportunities for many.

Another cumbersome activity is access to finance. Most startups with smart ideas are still struggling to make their ground breaking discoveries and outputs public as persuading banks to finance their ideas is like sucking blood from a stone. Even after they setup their business, most startups start making profit and experience positive cash flow after four or five years of operation. That is what my experience in setting up Ride shows.

Now all the above listed problems are complicated by the coronavirus and this should be addressed promptly. As the pandemic disrupts business activities in Ethiopia and beyond, startups and entrepreneurs have become the most vulnerable groups that have been directly affected by the crisis.

But their problem is overlooked and they are not being given equal attention as other sectors.

They are not also benefiting from incentives that are provided to small, medium and large businesses. To make things worse, such a situation forces them to be financially weak and fragile.

In these trying times, it should not be forgotten that even big companies find the economic shock hard to absorb. Investors who were keen to support startups are bearing the brunt of business slowdown. Yet it is only those who think outside the box that can drive the economy out of the crisis. It is thus imperative to support startups that can indicate the way out financially and through governmental support, which includes uninterrupted and very affordable internet services.

Way forward

Having short and long term strategies is vital in helping entrepreneurs and startups. As a short term strategy, making the bureaucracy smooth for entrepreneurs who want to start a new business will play a crucial role. This may go as far as letting new entrants sustain their businesses without being stressed about paying punitive taxes. Tax should not be a barrier for new entrants and it should be understood that today's startups have a potential to be a big corporation that could pay billions of Birr in taxes.

Be that as it may, policymakers should draft a new law, instead of making absence of proclamation or regulation an excuse to discourage or ban startup businesses. In this regard, it is very important to draft a very flexible policy that takes into account current problems and challenges faced by startups. Now is also the time to make tech businesses a priority.

To make this a reality, the government must give direction for banks to finance innovators with tech ideas by evaluating their business plans. This also requires amending existing loan policies adopted by commercial banks. It is understandable that some businesses may lack the expertise to administer their finance. But this can be avoided by providing training on how to run their businesses and stay afloat.

As Prime Minister Abiy Ahmed (PhD) has a background in tech-related matters, I hope techpreneurs would be given the necessary support. Taking its current importance to solve the COVID-19 crisis into account, this should be done now, rather than later. The government may start with channeling resources towards financing startups with innovative ideas.

Existing financing schemes (SMEs and Youth Fund) and priority areas should also be redesigned based on their importance to solve current problems faced by Ethiopians. In this case, identifying all problems and inviting entrepreneurs to come up with a solution and working in partnership with the government would minimize the catastrophic effects of the virus.

Providing tax relief to startup companies is another way to help entrepreneurs survive. Tax exempting startups for one or two years will allow them have positive cash flow and survive the pandemic.

In addition, after the outbreak is over, reforming the education system to make it more practical is very important. The other important point is that business owners should embrace what is currently happening and shift to businesses with better return in the time of COVID-19. A good example for this could be restaurants that have started delivery service. Instead of waiting for their customers to come through their doors, they embraced what is happening and acted accordingly. This is helping them survive the crisis. At the same time, they are creating business opportunity for delivery service providers. The same is true for detergent producers and garment factories. While distillers began producing hand sanitizer, garment factories started to produce protective materials like face mask. Working on import substitution is also necessary. Now that the world is either in partial or total lockdown, international trade is declining. This could be a good opportunity for local producers.

If they can produce quality products and build positive perception towards their brand, they can retain their customers even after the pandemic is over. This will have many benefits such as creating more job opportunities, reinvesting profits to expand the business and reducing the demand for foreign currency. On top of this, data mining is very important. Without having the right data, coming up with the right solution would be very hard to achieve.

Turning Crisis Into Opportunity

Ayele Gelan
is an Economist. He can be reached at augelana@gmail.com.

In a speech in 1959, J. F. Kennedy famously said "when written in Chinese, the word 'crisis' is composed of two characters - one represents danger and one represents opportunity. Maria Langan-Riekhof, Director of the Strategic Futures Group at the National Intelligence, and others have gone so far as saying "sometimes the world needs a crisis" to turn challenges into opportunities.

They illustrated this with recent and distant past events in world history when industry or country leaders turned crisis into opportunity and sought durable solutions. Future students of economic history may refer to the Coronavirus Pandemic as a crisis which offered an opportunity to the seriously troubled world because nations have overzealously committed themselves to globalization.

The symptoms have been manifested in a variety of ways, ranging from the occupy Wall Street anti-globalization movements to the rises of extremist political groups to the right of the political spectrum. After all, they are protest votes against globalization that gave leaders like Donald Trump and Jair Bolsonaro, President of Brazil, to this world.

The globalization puzzle has pre-occupied many great minds, for instance Joseph Stiglitz, the Novel Laureate, who articulated Globalization and its Discontents nearly two decades ago. Now COVID-19 has mainstreamed the globalization debate, moving it beyond activism or academic debates.

It has become a topic out there in streets and homes, being debated among ordinary citizens! It is no more an issue even the most avid globalization enthusiast business or political leader would dare to shun aside. In a nutshell, COVID-19 is a crisis that offered opportunities for countries to break out of the trap or illusion of excessive expectations of benefits from globalization. It is being predicted that the post pandemic economic governance will refocus emphasis on domestic economies.

The wider consensus at global level would simply present opportunities for national economies to fine tune their development strategies. However, the opportunities may not necessarily be recognized by all countries to same extent. The beneficiaries of newly emerging opportunities will be countries that quickly grab opportunities that present themselves.

So, what opportunity has COVID-19 thrown up for the Ethiopian authorities to grab?

Let us face it! Ethiopia is one of the most overzealously committed countries to globalization. COVID-19 has perhaps reminded the Ethiopian authorities that they would need to curb their over-enthusiasm and pay attention to strengthen linkages between different components of the country's domestic economy.

Ethiopia's entire development strategy has been geared towards boosting links to the world economy, specifically by promoting exports. In the name of enhancing exports, citizens have been evicted in their hundreds of thousands from their ancestral lands. The foreign direct investment attraction mantra means numerous global leathers & textiles giants were offered exceptionally generous incentives because it was thought they would quickly bring in foreign exchange earnings and relieve the nation from perennial current account deficits. Ironically, the more the country devoted every ounce of its energy to promote exports, the less export growth it materialized.

We can think of an economy as a locomotive that runs on two engines. One external and situated outside, far from the sight of the driver who can sense it only remotely (exports). The other located inside, right in front of the driver who can hear its noises and hence monitor its conditions (domestic demand).

This analogy illustrates the fallacy built into excessive reliance on export demand as engine of growth. One of the illusions with globalization lies in excessive reliance on unsustainable supply chains in input as well as output markets. If the authorities turn their attention to using domestic demand as engine of growth, then they deal with supply chains whose nodes they can manipulate using varieties of incentives.

After all, the actors in the chain (producers, distributors, consumers) are all resident in the domestic economy, and the authorities have a good idea as to what kinds of incentives to apply and influence their behaviour. The Ethiopian authorities have done everything in their capacity to run the country's economy by persistently trying to ignite the external engine, wasting a huge amount of energy.

In a way, COVID-19 was a wakeup call telling the authorities: "guys, you have been trying that rear engine for way too long without any success, you are not getting anywhere, you are stuck! It seems you've even forgotten to make use of the reliable and sound internal engine right under your feet!"

It would be wiser for the authorities to enable Ethiopian households and businesses to buy goods and services from each other, rather than pleading with foreigners to buy Ethiopia's products. Foreign supply chains have proved unreliable. Uncertainty is the root cause of risk and hence bankruptcy in economic decision-making at all levels, national or firm level.

Incidentally, the obsession with globalization was not Ethiopia specific, although Ethiopia might have overdone it. What makes Ethiopia so unique is the extent to which domestic demand (household consumption and business investment) as engine of economic growth has been neglected and gradually subjected to a slow and silent death.

For instance, Ethiopia has an exceptionally low wage not just for factory workers but across the board, at all levels, starting from a distinguished university professor all the way down to a labourer on a construction site. Percentages don't cut it for someone who wants to compare Ethiopia's average wage with that of any neighbouring country, say Kenya. One has to resort to factors, 5 or 10 times lower. Why and how Ethiopia ended up in this kind of bizarre situation is beyond me to comprehend, I leave it to economic historians to examine it.

The message I would like to convey here is simple and straightforward. If Ethiopian authorities ever contemplate to use domestic demand as engine of growth, then they must start by formulating an income policy, with a view of enhancing purchasing power of citizens.

Ethiopia is a big country with a geographical area about the same as Germany, France and the United Kingdom combined. Ethiopia's crude population density (persons per sq km) is much lower compared to those countries: 37Pct of UK's, 44Pct of Germany's, 88Pct of France's. Ethiopia's effective density (person per sq. km of arable land) is about the same as Germany's and about half of UK's. Yet we often hear lame excuses that Ethiopia has been overpopulated.

No, Ethiopia has everything: chunks of unutilized arable land and large population, which mean big market size and huge domestic market potential. Ethiopia's only constraint and limiting factor of production is public policy. The trapped potential of domestic demand as engine of economic growth can be released by simultaneously tackling three dimensions of inequalities in Ethiopia.

The first dimension is related to interpersonal income inequality and it is already discussed, Ethiopia needs to swiftly move to formulating an income or wage policy. The second dimension is inequality between places, regional disparities, particularly, the gap between Ethiopia's centre and periphery.

In pretty much same way as Ethiopia's low wage is peculiar, Ethiopia's centre periphery inequality is perhaps the most bizarre that it is the kind one can rarely find anywhere else in the world. Everything happens in and around Addis Ababa, the centre! It feels as if Addis Ababa is the only city in the country.

The relative size of Addis has grown to an amorphous size, over ten times the size of the second largest city, unheard of in world urbanization history! Addis Ababa symbolizes a vacuum cleaner, sucking everything towards itself from all directions. About 60Pct of the total electricity generated goes to Addis Ababa, whose residents are less than 5% of the country's population!

The centre is crowded, congested, and overheated; one mega project after another, nonstop for decades. Life is becoming unbearable and unaffordable for most citizens. The bustling is only for the haves who have amassed wealth one way or another. Affordability is never an issue for them. The periphery is frozen, ice cold; nothing is happening over there. No advancement in technology or any other form of modernization except for political cadres wearing polished suites and driving SUVs.

The gap between the centre and periphery is so much that it feels as if Ethiopia still has unexplored Wild West equivalents, except that the wilderness is in almost every direction: West, South and East! Utter recklessness with regional policies. Governments are supposed to work against agglomeration which get re-enforced with market forces. In Ethiopia, public policy works hand in hand with market forces, accelerating agglomeration and accentuating centre-periphery disparities.

The third dimension is about inequalities within businesses. It reminds me of Schumacher's, Small Is Beautiful: A Study of Economics as if People Mattered, in which the author promoted several progressive ideas on sustainability and economic development with a human face. Of relevance to this discussion is the role of small and medium sized enterprises. Consistent with their overenthusiastic commitment to globalization, Ethiopian authorities have taken the unsustainable path to industrialization, neglecting small and medium sized domestic industries, and excessively relying on large foreign firms.

For instance, Ethiopia used to have mushrooming small and medium sized textile & leather industries. The misguided industrialization policies meant those infant industries seem to have vanished. The authorities would need to reset the country's industrialization strategy, rebalancing the emphasis towards small and medium sized enterprises.

In this piece, I have attempted to illustrate opportunities available to the Ethiopian authorities by highlighting major areas requiring policy re-orientation in the aftermath of the Coronavirus Pandemic. However, if the authorities are ready to grab the opportunities that lie in the crisis, then this can be detected in the way they behave during the pandemic period itself, particularly the way they formulate disaster relief packages.

Offering a full assessment of their relief package is beyond the scope of this piece. Here it suffices to say that to my dismay, I do not see a signal that the authorities would reposition themselves to see opportunities in the ongoing crisis.

I would adduce two evidences: one from the design of the relief package and another from political developments. There is an element of relief package referred to as Urban Productive Safety Net Program (UPSNP), apparently an extension of PSNP which has been practised in drought-stricken rural areas.

Even at conceptual level, this thing does not make any sense whatsoever! To begin with, the safety net in rural areas was made to have "productive" in it, because there is "food for work" component: beneficiaries would engage in public works, e.g. roads, terracing, tree planting etc. So why muddle the issues by using the rural drought package analogy to urban areas? Besides, in rural areas, there are strict selection criteria whose equivalents can by no means apply to select beneficiaries of COVID-19 relief package.

There are established relief package distribution methods that other countries have adopted to provide subsistence to everyone who lost their jobs and have been forced to stay at home. The UPSNP seems to me a dishonest manoeuvring to avoid commitments to provide relief to everyone in need. This includes small and medium sized enterprises and informal businesses. In short, it seems the authorities are still working with the old mindset without realizing the depth of the crisis and they are not willing to reposition themselves to operate differently during and after COVID-19 periods.

Now about the deflating political developments!

I have talked about turning a crisis into opportunity. However, the authorities have already been busy turning COVID-19 crisis to generate yet another crisis, the on-going political and/or constitutional crisis. Before the constitutional crisis was blown up to full scale, I was toying with an idea that perhaps COVID-19 crisis would create incentives and motivations for change.

I thought the crisis would lead to new cooperative behaviours among the ruling party and the multitudes of opposition groups to create new ways of going about their political businesses, more cooperatively. During the crisis, I hoped they would take a break from cut-throat, unhealthy, distractive and divisive competitions. COVID-19 like crises are supposed to cause the collective adrenaline flowing, focusing minds to solve the problems and overcome challenges. What seems to have been happening is quite the opposite. Let us hope their minds will begin to refocus at some point and re-engage with the reality on the ground, even with some delay.

Quote

"Business opportunities are like buses, there's always another one coming."

Richard Branson (1950-Present)

He is a British business magnate, investor, author and former philanthropist.

From the Horse's Mouth

"The post COVID-19 world will be entirely different from the one that we have been used to."

Prime Minister Abiy Ahmed

Made this remark while responding to a question from Members of Parliament earlier this month. He went on to state: "The pandemic has tested global political, social and economic systems."

"I can assure you that no employee has been laid off so far."

Tewolde Gebremariam, CEO of Ethiopian Airlines,

Made the remark in his interview with the Reporter Amharic Newspaper while responding to the claim that his company laid off employees in response to the COVID-19 crisis. "We have 14,000 employees and this can be checked at our human resource department at any time."

The Number

ETB 78 BILLION

The amount of tax liability forgone to assist companies affected by the Coronavirus.