Keeping the Faith

Daryl Wilson, CEO, EABSC, Bottler of Coca Cola

Remodeling Ethiopia's Economy

Yohannes Ayalew (PhD), Director, EDRI

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Why is it Circulating Outside the Banking System?

Contents

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Telecom Privatization, Liberalization Should Give Priority to Domestic Investors

Ethiopia is currently undertaking a partial privatization of ethio telecom. The plan of the government is to maintain 55Pct of the stake while selling 40Pct of the company to a global telecom operator. It aims to sell the remaining 5Pct to the general public. The government has also expressed its intention to license two private telecom operators. Accordingly, 12 foreign multinational telecom operators have expressed interest for both opportunities.

While the decision to create a competitive telecom market is very timely and its positive spillover effect will boost businesses, create market efficiency, streamline government services and empower citizens by improving access to information, the fact that the process has sidelined domestic investors is worrisome.

Ethiopia has one of the least telecom penetrations in the world. Even in comparison with its sub-Saharan peers, the country lags far behind in mobile subscribers and internet penetration. The country is also among many in the continent where telecom service is both unreliable and fairly not affordable to the vast majority of the population. In fact, this has been one of the several factors that have dragged the country's competitiveness in the eyes of investors. Many attribute the low service quality and the relative high cost of telecom service to the 124 years old monopoly by a state-owned and state-run telecom service provider. The sheer absence of competition in the sector has indeed led to late acquisition of technologies and also very bureaucratic and expensive service provision. That's why the decision by the government to open up the sector and even partially privatize the age-old ethio telecom was taken very positively.

However, the fact that the privatization process has sidelined domestic private investors poses an alarm. It's true that there is no domestic company with the experience, technological, managerial and financial readiness to enter the telecom market at the moment. This is because the sector has been closed for private operators. However, if the government had expressed its intention of providing license to domestic operators, we could have seen local entrepreneurs taking advantage of the situation and rushing to form telecom companies, raise capital and acquire license as the telecom sector is very profitable. However, they need to operate under the protection of the government from large, highly capitalized and experienced multinational telecom operators until such time that they have built capacity. The government should have waited until its regulatory capacity is built. Had the government promised to close the market from foreign competition for some years, we would have witnessed the flourishing of multiple domestic telecom operators.

26 years ago, the government did the same with the partial liberalization of the financial sector. It allowed domestic investment in the sector in 1994. 25 years later, Ethiopia has 17 private banks, 17 insurance companies and hundreds of microfinance institutions. To date, the banks have a combined capital of over 40 billion birr and have created employment opportunities for over 50 thousand Ethiopians. The private banks have also opened more than 3,000 branches throughout the country, twice the number of branches the 78 years old state-owned Commercial Bank of Ethiopia has opened. The top three private banks have also been ranked among 100 top banks in Africa. What's more, 18 new commercial, mortgage and investment banks are under formation, taking the total capital of the private banks to over seventy billion birr.

The country should be proud of its success of creating fast growing financial companies. The same should be repeated in the telecom sector. 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.

Ermias Amelga Plans to Establish Investment Bank

Ermias Amelga, the renowned Ethiopian entrepreneur, announced his decision to establish an investment bank in Ethiopia. Ermias is about to start organizing a team to begin selling shares to investors interested in the banking industry. Ermias was founder and board chairperson of Zemen Bank. He is also the mastermind behind the establishment of Access Real Estate, Access Capital and Highland Water, among others. Ermias was pardoned and released from prison recently after he was charged in connection with the sale of Imperial Hotel to Metec.

DBE Posts Outstanding Profit

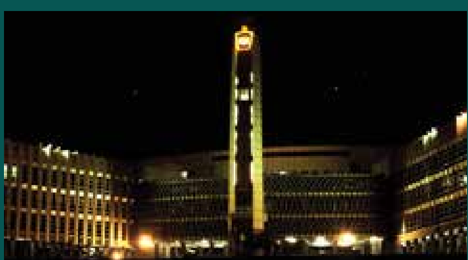
The policy bank, Development Bank of Ethiopia (DBE), rebounds from the loss it registered last year. DBE grossed ETB540 million until the end of the third quarter of the existing fiscal year. This is a huge improvement from ETB -768 million losses that the company reported during the 2018/19 financial year. Unable to collect repayable loans due to the Coronavirus, the Bank has reported that it has lost almost a quarter of a million in revenues since March 2020.

Birr Depreciates by 5.8Pct against the Dollar within 3 Months

The value of Birr depreciates by 5.8Pct against the dollar since March 2020, a data obtained from the National Bank of Ethiopia shows. The measure is targeted at loosening the overvaluation of Birr against major basket of foreign currencies. This is believed to have adversely impacted the competitiveness of the country, discouraged exporters and raised imports of the country. However, previous experience indicates that devaluation and depreciation of Birr neither increased export nor reduced imports.

New Commercial Code Gives Recognition to Holding Group

Holding companies are, for the first time in history, recognized in the newly amended commercial code of the country. Ethiopia is home to several holding companies including MIDROC and East African Holdings, although they were not recognized in the existing commercial code. The council of Ministers approved the new draft code, which has not been amended for the last half a century, last month. It is expected to be approved by the Parliament in the coming weeks.



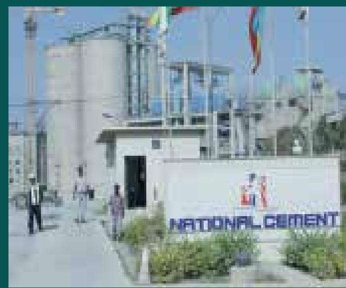
The council of Addis Ababa City Administration approved ETB61 billion for the upcoming financial year.

ETB 61 billion

Twelve Telecom Operators Want to Acquire Telecom Licences

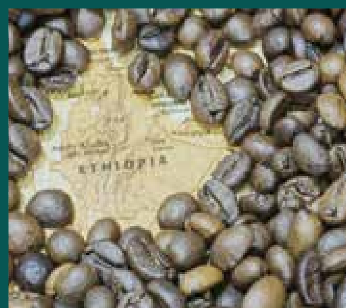
Ethiopia's Communications Authority (ECA) announced that 12 telecom operators expressed their interests to acquire telecom licenses in Ethiopia. Global partnership for Ethiopia, a consortium of Vodafone, Vodacom and Safaricom, is amongst the bidders showing an interest to acquire of one of the two telecom licenses up for auction. Etisalat, Axian, MTN, Orange, Saudi Telecom and Telekom SA were also amongst the 12 bidders. ECA plans to announce the winners of the bidders by the end of September 2020.

Price Ceiling set on Cement Producers



Addis Ababa Trade & Industry Bureau puts ceiling on wholesale and retail price of cement, which has been ballooning over the last four months. It is to be recalled that the Ministry of Trade & Industry instructed cement producers to stop selling cement to wholesalers and retailers last month. Since then, they were obliged to supply their products to only state-owned enterprises. Afterwards, regional trade bureaus were told to set price ceiling on cement.

A Kilo of Coffee Sold at ETB13,837 in Ethiopia



A farmer from Sidama Region, Nigussie Gemeda, sells a kilo of coffee for a staggering price of ETB13,837 during a cup of excellence auction held in Ethiopia. This is the highest price ever recorded for an Ethiopian Coffee. Of 168 registered bidders from 33 countries, the top-scoring coffee was sold to Maruyama Coffee Co. Ltd from Japan. A company based in the US, Coffee at Intelligentsia, bought the second highest coffee that belongs to Rumudamo Coffee Plc.

Price of Onion Skyrockets Throughout Ethiopia

Retail price of onion skyrockets to as much ETB40 a kilogram, the highest in decades. While this is twice the price registered before the advent of the Coronavirus in Ethiopia during March 2020, the upsurge occurred due to shortage of supply. The fall in the number of farmers that grow onion in major producing areas, due to violence, contributed to the supply shortage. Additionally, the drastic fall in onion imports from Sudan contributed to the dearth in supply.

50%

Development Bank of Ethiopia requires foreign borrowers to show up with 50% in equity contribution to get project financing loan.

Top 10

Foreign Investment Inflows: Top 10 Host Economies, 2019

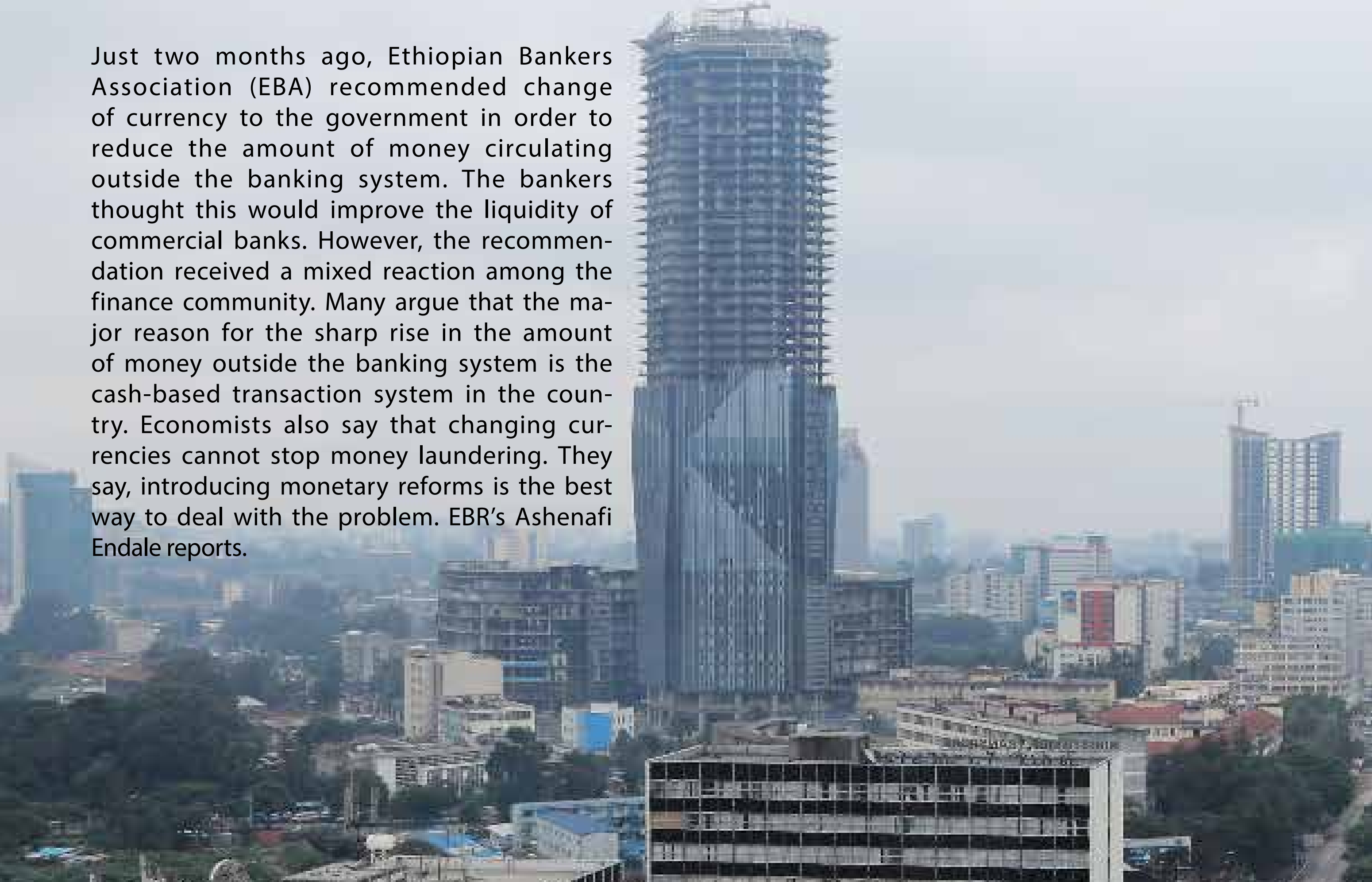
Rank	Country	Foreign Direct Investment (in billions of Dollar)
1	United States	251
2	China	140
3	Singapore	110
4	Brazil	75
5	United Kingdom	61
6	Hong Kong	55
7	France	52
8	India	49
9	Canada	47
10	Germany	40

Source: UNCTAD, 2020

Foreign Direct Investment (FDI) flow to developed economies shrank by six percent to an estimated USD643 billion from their revised USD683 billion in 2018, according to UNCTAD. FDI remained at a historically low-level, at half of their peak in 2007. During 2019, a number of EU countries experienced strong volatility in FDI flow compared to the previous year. FDI inflow to the Netherlands fell by 98Pct (from USD114 billion to USD1.9 billion). In contrast, flows to Ireland rose to USD37 billion from USD28 billion in 2018, mainly due to the largest cross-border deal recorded in 2019 (Takeda Pharmaceutical Co Ltd of Japan acquired the share capital of Shire PLC for USD61 billion). EBR

ETB113 Billion

WHY IS IT OUTSIDE THE BANKING SYSTEM?



Just two months ago, Ethiopian Bankers Association (EBA) recommended change of currency to the government in order to reduce the amount of money circulating outside the banking system. The bankers thought this would improve the liquidity of commercial banks. However, the recommendation received a mixed reaction among the finance community. Many argue that the major reason for the sharp rise in the amount of money outside the banking system is the cash-based transaction system in the country. Economists also say that changing currencies cannot stop money laundering. They say, introducing monetary reforms is the best way to deal with the problem. EBR's Ashenafi Endale reports.

In November 1998, just a few months before the bloody Ethio-Eritrea war broke out, the business community was in total surprise when the government suddenly announced the replacement of the birr note. The Birr notes were replaced back then because half of the currency in circulation was allegedly in the hands of the government of the then new state of Eritrea. The Ethiopian government then accused the Eritrean government of abusing this opportunity by accumulating huge amount of Ethiopia's currency and illegally taking out foreign currency.

According to IMF data (1995), the Eritrean People's Liberation Front (EPLF) acquired ETB1.3 billion between 1991 and 1993 alone, through its cash acquisitions and deliveries from the Ethiopian government. EPLF also took assets and cash from the vaults of the branches of the Development Bank of Ethiopia (DBE) and the Commercial Bank of Ethiopia (CBE) in Eritrea. It then changed the bank to Commercial Bank of Eritrea (CBEr).

The more money flow and transaction on Eritrean side but less on Ethiopian side created liquidity crunch in Ethiopia. Secondly, EPLF was buying and foreign currency from the parallel markets in Ethiopia with the local currency it acquired over the years. Eritrea, a country with no coffee plantations, also emerged as a notable exporter of the commodity in the global coffee exporters list by exporting Ethiopian coffee, for which it pays in Ethiopian birr. Although replacing the notes enabled Ethiopia cut the economic advantages Eritrea was taking over and enabled the government to be in command of the money circulating in the economy, , the move later become one of the contributing factors for the Ethio-Eritrean war.

Two decades later, Ethiopia is facing a similar problem with billions of Birr outside the banking system. The cash is reportedly in the hands of individuals, potentially feeding the shadow economy. "The huge cash accruing at the hands of individuals is financing crimes including purchase of weaponry. Putting in place a cap on the amount of money that can be withdrawn from banks at a time

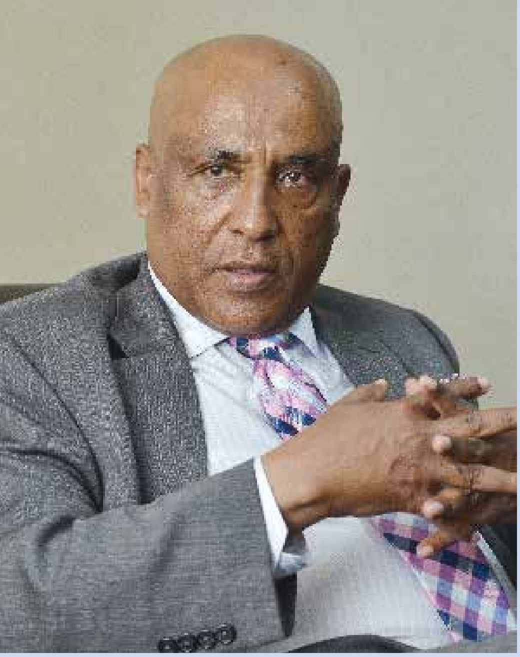
will have no impact on transactions but contributes to e-banking and also reduces fraud withdrawals, which are increasing," said Yinager Dessie (PhD), Governor of the National Bank of Ethiopia.

Although there are reports that money currently circulating outside of the network of banks has reached at ETB113 billion as of June 2020, an NBE report which was issued a year before makes the figure ETB92 billion. This figure represents half of the total currency currently in circulation. The figure was ETB66.6 billion in 2015/16. It increased by 10.8Pct in 2016/17, by 16.9Pct in 2017/18 and 6.5Pct in 2018/19. The data clearly show that a large chunk of the currency went outside of banks when the political turmoil in Ethiopia was at its peak in 2017/18.

A number of factors contributed to the huge currency outflow from the network of banks. The first is the highly increasing demand for credit. In 2018/19, the credit disbursement of banks increased by ETB49 billion to a total of ETB164.5 billion. Outstanding credit jumped by ETB107.9 billion to almost half a trillion birr during the same period. On the other hand, the resource mobilized by banks increased only by ETB10.1 billion and stood at ETB308.2 billion. Loan collection by banks grew by ETB20 billion to ETB131.8 billion.

The second factor is the dramatic increment in broad money supply, which increased by 19.7Pct annually and stood at ETB886.8 in June 2019. This attributed to the 22.8Pct offset in domestic credit and 63.2Pct drop in banks net foreign asset (NFA). 'Currency outside banks increased driven by improvements in money demand for transaction purposes and reflecting the growth in economic activities,' states the NBE report.

Broad money supply grew from ETB22.17 billion in 1999/00 to ETB104.4 billion in 2009/10. It took ten years to grow 4.7 folds. However, it galloped 8.5 times just between 2010 and 2019. This clearly shows that the government printed and injected substantial volume of money since the first GTP was launched in 2009/10, in



maintain inflation at single digit, inflation almost reached 20Pct. “Five years ago, an individual needed ETB100 in his pocket on average for weekly expenditure. Today, that has jumped to ETB1,000. The price of every item is doubling faster in Ethiopia. If we divide the ETB113 billion in the pockets of individuals to the total population of 110 million people, ETB1,027 will be left in every Ethiopians’ pocket. This is almost equal to what every average person spends weekly under the escalated inflation,” said Tekie Alemu (PhD), associate professor of economics at Addis Ababa University.

Events that took place in 2017/18 have highly contributed to the current shortage of cash circulating in the formal banking system. A large amount of cash was withdrawn that year. The government devalued the birr by 15Pct in 2017. In fact, the NBE continued to devaluate the birr at 0.4Pct on a weekly basis in the same year. Headline inflation also rose to 14.6Pct in the year. The three years political crisis that reached boiling point in 2017/18 was the immediate reason, although the galloping broad money supply was also at the background.

“Currency replacement will reduce money circulating outside the banking system; however, digitizing transactions will be the lasting solution.”

Addisu Haba
Former President of Ethiopian Bankers Association

order to finance the ambitious goals set in the plan. Share of broad money supply to GDP increased from 42.7Pct in 2002/3 to 56.7pct in 2006/7 and 44.3pct in 2018/19.

The developmental state model the government championed, which deployed the approach of creating demand to arouse supply, also created phony money in the economy. Cash is required to guarantee GDP growth but it can also fuel inflation unless it goes proportionally with that growth. Fast growing budget, budget deficit and public expenditure in infrastructure also contributed to this end. The rate of growth in public expenditure was higher than the rate of growth of government revenue. The monetary policy sanctioned filling fiscal gaps by printing more money. “Large money entered circulation because the government printed and supplied money for budget deficits, government credits and expenditures, besides increasing private credit demand,” said Addisu Haba, Former President of the EBA.

The third factor that shifted cash from banks to pockets is inflation and devaluation. Despite the governmental effort to

Zafu Eyesuswork, a veteran banker, cites four major reasons for the liquidity shortage and the impending increase in cash circulating outside the banking system. “The GDP growth over the last two decades is achieved through public expenditure on infrastructure, which increased money supply not backed with production. Secondly, people tend to depend on cash due to the increasing insecurity in the country. Nobody knows what will happen next week; so, everybody keeps cash on hand to survive. Thirdly, the Ethiopian government could not detach itself from its Marxian mentality of overtaxing businesses in the tax net to expand the tax base. Fourthly, a large section of the country’s population does not have a convenient access to financial service due to the underdeveloped banking services,” Zafu noted.

In a bold move, the Ethiopian Bankers Association (EBA) recommended currency replacement and raising the birr denominators. The Association publicly forwarded the recommendation during a press conference on May 20, 2020, although it has been pushing in that direction since the new PM and governor came to power two years ago. The press conference was held a day after Yinager Dessie (PhD), governor of the National of Bank of Ethiopia, held another conference to launch a new directive that placed cash withdrawal limits.

“The NBE introduced the directive because the EBA asked. We are even late. The Association has been calling for cash withdrawal limits and raising denominators for the last five years,” said Addisu Haba. “But the recommendation to replace currency notes is new and it is triggered by the rise in money laundering. Higher denominators make currency note easily manageable for banks and reduce money laundering.”

The probability of the government implementing EBA recommendations is high because the current NBE management and the government are more attentive to industry recommendations. However, insiders point out, the NBE has neither accepted nor declined the currency replacement recommendation as it has already ordered printing of existing notes to the UK based de La Rue Plc and French Charles Oberthur Fiduciare. The cost of printing money exceeded ETB700 million three years ago. In 2014, the NBE floated a tender to establish a local currency printing wing that would end the large foreign currency expense the country incurs annually to print birr overseas. The state-owned Berhanena Selam Printing Enterprise was considered to undertake the printing of the local currency. However, the decision later dropped.

Governments take swift measures to replace existing currency notes, especially to cutout illegal economic pockets. India’s Narendra Modi disclosed on November 11, 2016, that his government was replacing the currency the next morning. The move targeted unraveling the large unaccounted money in the economy and included the

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it into foreign currency or look for other options," said a consultant at World Bank who spoke to EBR on terms of anonymity. A huge section of the Ethiopian economy is run by the "Mercato Mentality", i.e., without recording of transactions, totally cash based and gradually transforming into economic crimes, he remarked.

Money multiplies outside of the banking realm. Ethiopia's economic structure enables such practices. Exporters, importers as well, buy commodities for highly inflated price from the domestic market. They export it for a loss at the international market. Then they use the foreign currency for import business. Finally, they sell the imported items for super inflated prices, in order to compensate their previous loss. This system is transferring huge money into the pockets of business people, fueling inflation. "Importers and exporters make exaggerated profits. But they cannot keep the money in banks, as it is largely made out of mispricing, a practice of under-invoicing and over-invoicing cost and sales to avoid tax. They open letter of credits (LC) for USD5,000 but end up importing items worth of over USD100,000. The sector has been totally unregulated and has now turned into a hide and seek economy," said the expert.

As the economy is characterized by such woes, raising denominators will also lead to counterfeit, the expert said. "Nobody makes counterfeit ETB1 note; but ETB50 notes and above would be more susceptible to counterfeit. Increasing denominators would also fuel inflation. Making slight security changes to the existing ETB50 and ETB100 notes works. Higher denomination has no impact on improving circulation. Denomination should be minimized even further, since people do not want to carry a large number of notes. That could make people shift to electronic transaction than carrying a large number of notes with small value. If it is necessary, higher denominators can be printed as a special note or bond. That would reduce the cost of printing," added the World Bank expert.

Banks have also contributed to the cash shortage, according to the expert. They have been giving huge chunks of credit, in cash, for their supposedly big clients. People borrow a large amount of money from a bank with nine per cent lending interest. Then they deposit the same money at another bank at 15Pct saving interest. The illiquid bank, which has loyal customers waiting for credit lends the money for up to 18Pct loan interest. "Replacing currency cannot be a lasting solution to bring cash back to the banks. The only lasting solution is incentivizing people to use banks and use electronic transactions. If the government facilitates the use of point of sale (POS) terminals, mobile money applications or any digital transaction mechanism for shops, fuel stations, supermarkets and all trade points and offers discounts for consumers who transact digitally, people will start using digital transaction," the expert added.

Eyob Tesfaye (PhD), a macroeconomist, agrees that Ethiopia's problem is the absence of electronic payment system. "Replacing currency will even worsen the liquidity problem. People will take the new currency from banks at once, since they need it for transaction. Banks will soon supply the new notes to their clients through huge loans. Replacing currency cannot be the solution. Eyob argues that the government used the double digit GDP expansion as a pretext to print and supply money in large quantities. "The NBE needs to undertake stringent liquidity management system in its policies and in all commercial banks, besides tightening its money printing policy. Digital banking and financial literacy cannot be achieved immediately; it may take years. The NBE has a gray area in the financial sector. It, for instance, has been pushing banks to expand their branches aggressively, by about 25Pct yearly since 2010. On the other hand, it hasn't been calling for a similar effort to expand digital financial infrastructures. It is, however, waking up lately," added Eyob.

Mesenbet Shenkute, President of Addis Ababa Chamber of Commerce and former

> **It is not possible to modernize the financial system with traditional solutions."**
>
> Mesenbet Shenkute
> President of Addis Ababa Chamber of Commerce, former President of Abay Bank

introduction of 500 and 1,000 rupee notes, which account for 45Pct of transactions. Banks were told to replace a few thousands but question those who turn up with hundreds of thousands and above.

Modern economies in the West, on the other hand, reduced cash money substantially relying more on e-commerce. Sweden is predicted to be the first country to be cashless by 2023. Transacting with cash is expensive in Sweden, which started online transactions short after the introduction of the internet. Share of currency in circulation to GDP dropped to less than 3Pct in 2007 due to increasing use of cards.

Experts advice that Ethiopia must work on digital transactions besides controlling broad money supply, money print, inflation, devaluation, banks credit and liquidity management. Cash is taken out of the economy slowly through burning of old currencies.

"Currency replacement could have been effective in Ethiopia a year ago, not now. If it is going to be replaced, the government should never talk about it. Currency replacement must be a surprise and an overnight operation. But now, the outlaws that have amassed the money can change

national accounts. This leads to a rise in the stock of money outside the banking system. The government is unable to regulate the underground economy and cross-border trades as well. Plus, broad money supply is outweighing real GDP expansion. She explains.

Mesenbet also pointed out that Ethiopia needs a separate agency mandated to remittance management. "Nobody is asking for remittance declaration papers. The NBE should outsource the tedious activities like bank supervision and controlling of the money circulation to an independent body of experts. It should rather focus on developing its capacity to regulate digital economy and ensure cyber security in the financial sector. Ethiopian banks are so exposed, that's why many people still prefer private safe boxes."

> **The problem is the absence of electronic payment system."**
>
> Eyob Tesfaye (PhD)
> Macroeconomist

President of Abay bank, agrees. "Bankers' Association targeted at solving the liquidity problem of banks by replacing currency. At the same time, the NBE targeted at reducing money-laundering practice in the country. But replacing currency cannot help achieve both. The only solution is electronic payment system. It is not possible to modernize the financial system with traditional solutions."

She argues that Ethiopia won't achieve departure from the vicious circle, unless notes are replaced with digital money. "For instance, the NBE limited cash withdrawal from banks at ETB300,000. People will take ETB299,000 from many banks if they still want more money. The NBE needs [fresh minds] who really believe in digital money and financial technologies. Printing more money and replacing currency in circulation incurs significant cost, deploying huge human resource, logistics and other facilities. " She added.

She also stressed that commercial banks need technical capacity to trace and control the increase in non-performing loans and loan rescheduling. Banks are unable to capture informal remittance that is increasing every year. These informal inflows are not properly recorded in the

Addisu recommends that the NBE should make account to account transfers and cheque services mandatory. "If cheque can be used in real time, raising denominators is unnecessary. But cash must be supplied to rural areas where 90Pct of the transaction in the agricultural sector is cash-based.

"Currency replacement will definitely reduce the [money circulating outside the banking system]. However, digitizing transactions will offer a lasting solution. The operation would also be difficult under COVID-19. The current liquidity problem of banks is short term and manageable. It needs other liquidity management tools than currency replacement. If the network of banks increase and mobile banking takes root, then the rural population would start saving in banks. But this needs reliable power and Internet infrastructure across the country," added Addisu.

Tekie argues neither replacing notes nor cash withdrawal limits can serve as a remedy to the excess money outside banks. "One can withdraw the maximum amount from different banks. It is difficult to trace this because many companies operate in various sectors. In some sectors like construction, employees take wages only in cash."

Tekie argues that there are two methods to encourage people to keep money in the banks. The first solution is improving the network in banks and giving depth to digital transaction. "Even in most supermarkets in Addis Ababa, debit cards and POS machines do not work. Other countries introduced credit cards a long time ago. Credit card is highly used in developed countries because there is surplus production that outstrips the demand of buyers. In Ethiopia, there is no production that matches the growing demand."

He said the government must modernize the market system first to modernize the finance system. "Unless wholesalers, retailers and consumers have access to electronic transaction or account to account transfer of payments, no one can force them. The finance and market system does not change because the government changes currency notes."

The second solution is focusing on improving the real economy than changing the local currency. "The governor said people are using cash for illegal transactions like buying firearms. This can be stopped only by tracing and stopping such transactions, not by replacing currency or raising denominators," Tekie notes. "Money laundering can be addressed by stringent financial intelligence operations. Besides, if people engaged in illegal economic activities know that the government is going to change the local currency, then they will change their money into gold, foreign currency and physical assets."

Tekie notes one striking fact that is currently a reality of many banks. He argues that several banks distribute loans to their shareholders. And while the loans are not recovered, the interests have been recorded as incomes making their profits inflated. But the truth is, Tekie explains, the loan itself is not paid back to the banks. "Banks have been accounting over ten years of receivables as profit and have already paid them as dividends. This is how dividend per share is flying above 25Pct in Ethiopia. The banks are paying unearned income as profit. If the loan taker fails to service the loans, the bank loses."EBR

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KEEPING THE FAITH

EABSC Gazes at the Sunshine Across from the Discomfort of the Eye of the Storm

Daryl Wilson, CEO of East African Bottling Share Company (EABSC), arrived in Ethiopia just last year. Originally from south Africa, he was Managing Director of Nairobi Bottlers of Kenya for nine years before coming to Ethiopia. With 27 years in the business, Daryl Wilson has seen the troughs and the picks of the industry even before the turn of the century. He is already overseeing construction of two epic factories in Hawassa and Sebeta with an outlay of a staggering USD300 million. The two factories will triple the volume of coke products in Ethiopia, besides launching new products. He says Ethiopia is the fastest growing beverage consumer market in Africa. Nonetheless, the humorous CEO is not all that excited. The company already lost over 15Pct of its sales revenue due to the new Ethiopian excise tax regime and COVID-19. EBR's Ashenafi Endale spoke to the CEO on various issues.

EBR: How do you evaluate the impact of COVID-19 so far, in terms of production and sales?

Daryl Wilson: COVID-19 is disrupting everything globally and Ethiopia is not an exception. The number of cases is exponentially increasing. The economic impacts will take long time to heal. But from business perspective, our company took the initiative very early. We are protecting our employees as best as we can. We are also supporting the public at large. We supply sanitizers we produce, masks and other equipment for our staff and community continuously especially around where our factories operate - Bahir Dar, Dire Dawa and Addis Ababa.

As a responsible manufacturing company, we have been doing what we can for Ethiopia's population. The impact of COVID-19 is severe and most of the 110 million people are suffering. We are supplying consumption items like flour, pasta, our products and household support for free, especially for the community significantly affected by COVID-19.

Consumer behavior is also shifting from eating and drinking since most of the restaurants, hotels and bars are closed. More than 50Pct of our sales volume goes through eating and drinking outlets. So, we have been forced to find a way to stay in touch with our customers at home. This is really a very tough time and environment. But we are also highly optimistic. The last couple of weeks were good for us, although the hiking number of COVID-19 cases remain a worry.

From the economic perspective, the country is going to take long to revive from the impacts of COVID-19. Even if COVID-19 was to disappear tomorrow, its economic impact would be around for long. But we are striving to make the company adaptive, flexible, and agile. We are trying to do what it takes to find the consumers and provide them with what they want for the right price. We are trying to keep on working, safely.

A lot of people stay home due to COVID-19. Individual revenues also might be affected. Is beverage consumption increasing or declining under COVID-19? How is the consumer landscape changing?

Consumption has definitely dropped. People are not generating more income and outlets like cafes, restaurants and bars are also closed. Just before COVID-19 came, the government introduced the new excise tax. The introduction of the new tax regime increased excise tax from 14Pct of revenue to 25Pct of revenue. It significantly increased the cost of our products. We could not absorb the price increments.

We are the highest tax payer in all sub-Saharan African countries we operate in. Inflation in Ethiopia is way above 25pct and COVID-19 came on top of that. The demand is dropping and we are not at the right level we want yet. We would have been way better, had it not been for the excise tax and COVID-19. The Excise tax reform put us in a perfect storm. Our profit has been plummeting drastically lately, especially after the introduction of the new excise tax in Ethiopia.

How badly has the excise tax directive affected your revenue?

Very badly. The projection we submitted to the Ministry of Finance estimated revenue drops of 15Pct due to the new excise tax. But now it has dropped by way more than that. For example, the amended excise tax as a percentage of revenue makes Ethiopia the market with the highest excise tax across the countries where Coca-Cola Beverages Africa operates (13 African markets in total). For example, it is eight percent in Kenya and 11Pct in Uganda. Ethiopia's Excise tax is now 25%, up from 14% before the tax revision.

Prior to the new excise tax framework that was adopted in February this year, the excise tax in Ethiopia was based on 30Pct of cost of production (which translated to 14Pct of revenue). If the company does take a price increase commensurate with an attempt to mitigate the increase in tax, we anticipate a volume loss of at least 15Pct in the first year.

We do not welcome the risk of a 15Pct volume loss since the impact on our business would force us to restructure the organization with possible direct permanent job losses and additional indirect job losses in our value chain. While the excise tax reduction on sugar does cushion the impact slightly, the net impact is still of great concern.

> **The amended excise tax as a percentage of revenue makes Ethiopia the country with the highest excise tax across the countries CCBA operates in."**

The price of soft drinks almost doubled in Ethiopia over the last decade. Is it because of the inflation in Ethiopia or just part of an international trend?

The price of raw materials and a lot of commodities in the international market showed a dramatic increase. Coupled with foreign currency shortage, these trends resulted in a spike in local price. The cost of foreign currency in Ethiopia and especially the depreciation over the last six months has contributed a lot.

So, we were supposed to find a way to absorb as much of the price spiking effects of inflation, devaluation and tax raises as we could just not to transfer the price increase to consumers. We have been taking in price increases over the years but we do not usually choose to adjust price due to inflation. But so far, our price adjustment is insignificant compared to the price we have absorbed. We believe the beverage industry has a potential. There is great prospect and opportunity and we are very happy to have this opportunity. The people and the market are both growing, while the economy has big future and reforms are coming through. We are doing great expansion investments.

How big is East African Bottling Share Company (EABSC) in terms of revenues, profit and employment opportunities?

We have been here for 60 years. Currently, we employ 2,040 directly and around 50,000 people indirectly. We have factories in Bahir Dar, Dire Dawa, Sebeta and Addis Ababa. New factories are underway in Sebeta and Hawassa. There is another sister company in Ambo, Ambo mineral water factory.

Our revenue has been a success. That is why we have been in Ethiopia for 60 years and are currently investing USD300 million in Ethiopia. Since 2010, Coca Cola Beverages Africa (CCBA) has invested an estimated USD150 million in Ethiopia. The business contributes an estimated USD217 million to the economy annually in salaries, taxes, manufacturing, distribution and local shareholder profits. Ethiopia is a great country with growing market; so, we will keep investing and expanding. Our market share in Ethiopia is also high, compared to others like Pepsi. We are maintaining that by introducing new products like the sugar free products we recently launched.

Talking of sugar free products, did you introduce them because of the shortage of sugar supply in the country?

No. The amount of sugar we are getting from the sugar corporation is small and declining. Importing sugar is also very expensive. But that is not the reason for producing sugar free brands. A lot of Ethiopians who frequently use our soft drinks want sugar free products. It is due to the demand from consumers.

The beer industries in Ethiopia are linked to barley farmers, in a direct value chain. Currently, the Ethiopian government is privatizing sugar factories. So do you have plans to buy one of the factories and get yourself directly involved in the supply chain?

We would be really happy to invest in one of them and we are waiting for the government to come back to us. We know sugar is a critical ingredient and we want to add value to our products by engaging in the backward value chain. Good quality local sugar is what we want.

We spend in excess of USD10 million annually for marketing and advertising.

Did you propose to the government that your company is willing to participate in the acquisition?

Yes. We expressed our interest to the government and we are waiting until the government goes through the due diligence and finalizes the next steps of the privatization process. We will get the government's feedback at the end of this month.

Has EABSC merged with Ambo mineral water?

When we formed Coca Cola Beverages Africa, three companies came together. The first one was the Coca Cola Company, which has big interest. The second is South African Beverages (SAB), which engages in non-alcoholic beverages. The third is Gutsche's Family investment (GFI). SAB owned ambo mineral water. So when the parents merged, the companies became members of Coca Cola Beverages Africa (CCBA), the current company. So, Ambo Mineral Water is a sister company of EABSC. We are working on designing a way to synchronize the sister factories and organizations of EABSC and Ambo Mineral Water in the future. CCBA owns and operates EABSC and Ambo Mineral Water in Ethiopia.

There were individual shareholders in EABSC. Who are the current shareholders?

CCBA is the major shareholder in EABSC. The chairman has small shares but EABSC is fully owned by CCBA. CCBA group was formed three and half years ago. We now have 40pct market share in the African beverage market. We have presence in 13 countries. We employ 16,000 people. We lead the Ethiopian market with an overall market share of over 60pct, although the market share varies from region to region.

What are your management and marketing philosophies?

We work hard to reach our customers through below the line and above the line strategies. We advertise products to the market we serve, which is growing fast-

> The issue of tax is sensitive in Ethiopia because this is a highly taxed country.

er in Ethiopia. Our strategies capitalize on the ways that help us get closer to our consumer whether it is for the sugar free, sugar containing or Ambo products. We connect to customers across the ages and other differences.

How do you see the market dynamism in Ethiopia?

It is an immature market in terms of availability. There is market competition; but there are not enough brands and products in the market. There are only 15 types of products in Ethiopia's market, lower than other markets like Kenya. It is a virgin market with a dynamic and growing demand. While consumption of soft drinks is comparatively low, demand is growing as middle class broadens and spending rises. We invest a lot and launch more products to tap into the market.

Our marketing strategy depends on the regions and what the consumer needs. We usually use below the line marketing strategies to connect more with the consumer. Our marketing strategies vary from Dire Dawa to Bahir Dar. We strive to satisfy the needs. We spend in excess of USD10 million annually for marketing and advertising.

We hear branch and marketing managers of the company are paid high salary and benefits. Is it related to performance or just the organizational scale?

First, we always invest a lot of money in educating our staff. We pay them good money and make sure they are happy. We maintain the best trained professionals in order to stay competitive in the market and satisfy the customer. Incentivizing employees is the major mechanism towards that end. Investing in people is the secret behind our success.

People are always behind the success of any organization. Despite doing the right thing, many companies fail because they are unable to find the right people. The success of our organization is based on our ability to make our employees stay motivated. Even under the current situation, when many companies are facing challenges, we are making sure our employees are getting better salary and benefit packages. Employees must have benefit packages that match their efforts.

The beer and bottled water markets have been growing in recent years. Especially the beer companies work aggressively on marketing strategies that include providing furnished bars and restaurants and refrigerators for bars and restaurant owners to sell their products. Do you think the consumer is fundamentally shifting away from coke and soft drinks?

We also provide cafés, bars and restaurants with tables, refrigerators and many other equipment, including providing fully furnished premises with our brands. So, we are doing exactly what those companies are doing. They are growing; we are also growing. That is why we are investing USD300 million at a time.

In fact, the number of consumers slightly declined in relation with the price increment that followed the excise tax increase. But a new kind of consumer segment is also emerging. That is why we introduced a number of new products including the sugar free products.

Defective products are often found in the market. Are there substantiated defective products at the company or are those claims part of the market competition from the sector? How do you evaluate the competition?

We welcome competition because competition makes us vigilant to technological changes such as digital machinery. However, avoiding defective products in the market is impossible.

But there is also frequent occurrence of outdated Coca Cola products, especially in the regional towns. How do you inspect expiry dates?

Expiry date is very important for us and we manage it very effectively. We are better compared to many other countries. Consumers and sellers keep expired products at home and we collect it from the market.

EABSC is also engaged in the bottled water business through the Dasani bottled water. But the number of bottled water companies in the country tripled in a short time and the market is already crowded. Do you think Dasani is a viable investment?

We want to avail what the consumer wants and we will keep expanding the bottled water business. The bottled water market is highly competitive and we want to provide high quality water at a good price. We will invest more in the expansion of our bottled water business to give the consumer more options. We will definitely have new products in the coming couple of months in this sector.

Are there currently other new products and brands in the pipeline?

Definitely. Once the Sebeta plant is finalized, it will give us more production lines and more options of products for the consumer. New brands and brand extensions will be launched from the new Sebeta factory.

At what stage are the expansion projects? Has COVID-19 affected expansion plans?

Sebeta will be operational at the start of next year. It will be operational by September. It is 60pct complete. Currently, we are trying to meet the Ethiopian demand with existing factories. It might be delayed by two months. But we have not changed our expansion plans for Ethiopia, even under COVID-19.

How much do the Sebeta and Hawassa new plants cost?

Both plants cost USD300 million. Our factory in Hawasa is big. But Sebeta will also have six production lines apart from the plastic recycling factory. Sebeta will be the biggest in the group. When the two are finalized, our total production in Ethiopia will be tripled.

How do you evaluate the support of the Ethiopian government in terms of incentivizing the expansion projects?

We are undertaking big expansion projects, including the new factories worth USD300 million. This is a big investment and that is why we are concerned about the excise tax. It significantly affects us and our new investments. But we are also hopeful because we are getting good support from regional governments where we have new operations like in Bahir Dar, Sebeta and Hawassa.

We are so happy with their support and we are making sure the community gets what they want. The community is also happy with the schools, clean water and other support we provide. We are the biggest company in the sector and I am sure there are many opportunities we can explore with the Ethiopian government. We are investing heavily despite the market being uncertain at times. But we have governmental support in various aspects.

How do you evaluate the investment climate in Ethiopia?

We are a very big and responsible company and we have many options to invest in any other country we want. Ethiopia is the best place to invest. We believe in the country, in the future, in the opportunities and in the reforms. We are currently investing USD300 million; we would not make such a decision lightly. It is a big country, a lot of opportunities; the middle class is increasing, with great reforms coming through. So we are very happy to continue investing in Ethiopia.

In fact, the Coca-Cola Company and CCBA have clearly demonstrated our commitment to investment in Ethiopia as well as our confidence in the growth of the Ethiopian economy. However, the quantum of our investment commitments was decided based on our projected returns under very different circumstances prior to the new Excise tax that stands at 25Pct of revenue.

Policy certainty as well as tax regimes are critical for businesses to calculate investment opportunities with the degree of accuracy required by shareholders in terms of reasonable returns on investments. Government assurance, in this regard, would be highly valued.

What are the challenges you face frequently in Ethiopia?

The single biggest challenge is the shortage of foreign currency. It is difficult to operate without importing some ingre-

dients and equipment. Accessing foreign currency became the most difficult thing in Ethiopia, especially since the last six years. Foreign currency shortage has become worse, especially under COVID-19.

The second problem is the Excise tax regime in Ethiopia. We are very keen to support the reform and very willing to pay tax as a responsible company. The issue of tax is sensitive in Ethiopia because this is a highly taxed country. We are also the most taxed company in the 13 African countries where CCBA operates.

How about power outage? I know that your company had a plan to become power-self-sufficient. Did you achieve that?

Power remains a big challenge throughout the country. We usually rely on generators. It is an expensive way of producing but we have no option. But currently, we are working on solar energy for our factories in Sebeta and Hawassa. We are also looking into replenishing water usage. We are very sensitive to water efficiency. We recycle and replace the water we use for every bottle.

What is your back up plan to compensate the market fluctuations due to COVID-19?

Under COVID-19, the biggest challenge is getting to the consumer. To P. 28

Corona Induced Ideological Shifts

The world has been in a state of shock since January 2020. Every corner of the globe is struggling to survive the health and economic impacts of the Coronavirus. Ethiopia is already experiencing the brunt of the virus as it reports a fall in economic growth and bankruptcy of several private companies. The most powerful states in the world that were perceived to have economic prowess, developed health system and educated society were apparently not ready for a challenge like the Coronavirus. Supply gaps in essential medical equipment showed their neglect of the most basic products; their health systems were simply overwhelmed by the large amount of cases coming in and their educated population proved to be undisciplined and not so smart after all. They even proved to be self-obsessed during times of trouble and could not help each other out. All these things reflect negatively on the Liberal Capitalist ideology they push down on everyone's throat. The grave errors in the West's response to the pandemic and the relatively more effective and efficient response by the East have pushed policymakers to further analyze their position on liberalism. As countries shift their stance, the issue is already becoming a source of debate among Ethiopian scholars and politicians. EBR's Ashenafi Endale explores.

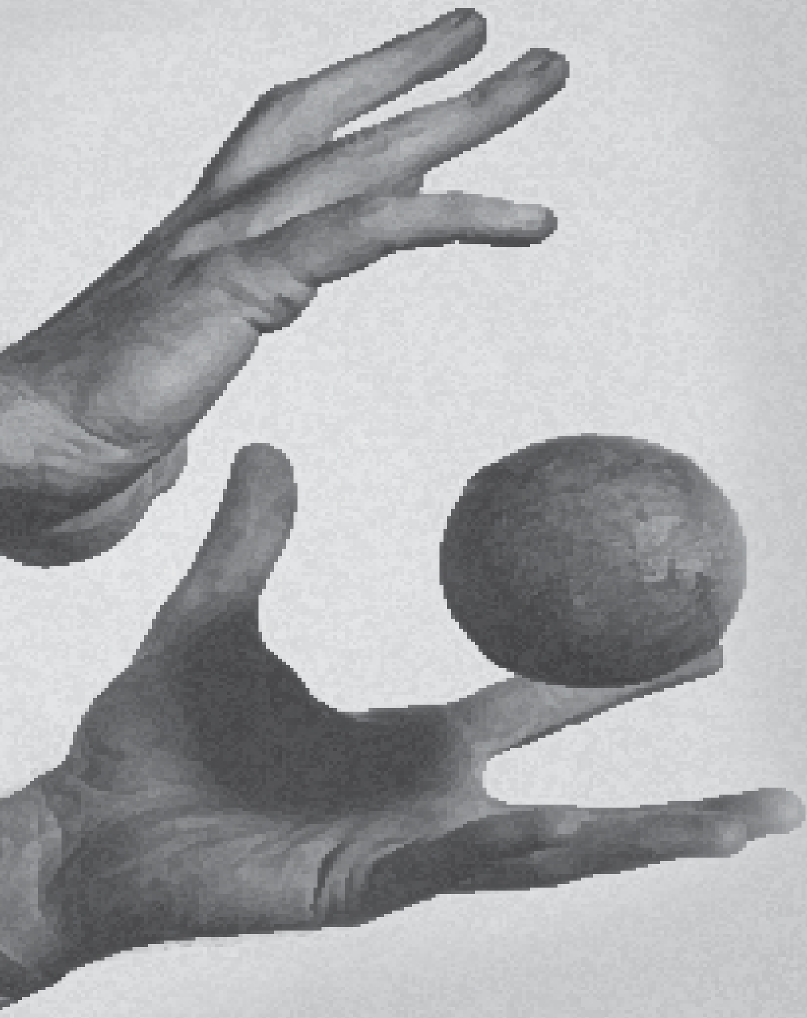
On May 13, 2020, the World Health Organization Emergency Department declared 'Coronavirus may never go away', adding 'HIV has not gone away but we have come to terms with the virus.' That day Coronavirus cases reached 4.3 million worldwide with 300,000 deaths. The figures have now more than doubled. The little hope in finding a vaccine placed a tough burden on governments to control the epidemic and bail out economies.

However, barely any government was ready for the doomsday-eske global shock. Despite all types of conspiracies, no country was prepared when COVID-19 appeared under Wuhan's horizon. However, there are some countries with the system in place to respond quickly to the epidemic more than others. The pre-established procedures such countries have in place to respond to such viral outbreaks have made a huge difference. These countries have better social security, resilient economy and efficient central government with fast maneuvering capacity. Bottom-line, ideologies, governmental model and economic structure have determined the approach each country takes towards controlling the pandemic. This, in turn, resulted in a difference in the level and effectiveness of state responses to the spread. Simply, COVID-19 served as a test of which countries have strong systems and ideology that best serve public interest and the economy.

The USA, a global superpower and icon of neoliberalism, has been unable to tackle the wild spread with a resurgence of new cases taking the total to nearly 3 million out of over 11 million cases worldwide. It also makes up over 125,000 of the 500,000 deaths globally. The powerful Western countries that together hold the beacon of liberal economic and political thought are in the top ten most affected countries by the Corona pandemic. On the other hand, the centrist Scandinavian countries, the Asian tigers and China have performed far better than the ardent liberal Western countries in controlling the spread of the virus. These countries are either social democrats or socialists. The strong and centralized nature of their governments and economic structure seems to have enabled them enforce laws strictly and command the economy for public interest. For instance, the Chinese government immediately placed Wuhan and other major cities under complete lockdown and successfully managed to control the spread in relative ease.

The Republic of Korea is also the best model for other countries battling COVID-19, as noted by the WHO. Korea managed to decrease daily new cases from above 900 in late February to around 100 by mid-March. Korea conducts 18,000 tests a day and it also exports affordable test kits and drive-through testing facilities. In sharp contrast, the governor of New York State had to force private industries to manufacture medical equipment; while President Donald Trump was busy explaining COVID-19 is a Chinese virus. The governor even threatened the industries would, otherwise, be nationalized.

The uncoordinated and ineffective response in major neoliberal economies is not mere inaction but a derivative of the fundamental characteristics of free market economies – weak governments that



are at the mercy of the private sector. In fact, the US government later availed two trillion dollars in a bid to bailout the economy that already created over 36 million unemployed people after COVID-19.

The economic damages of COVID-19 are expected to be more severe than the 1930s great depression and the 2008 economic crisis. According to the IMF, the global economy is projected to contract by 3pct in 2020 due to COVID-19, ‘worse than during the 2008/9 financial crisis.’ Almost everywhere, we hear shocking stories about the economy. The COVID-19 pandemic is expected to result in the worst economic recession in the history of capitalism.

Long supply chains that were previously thought to be the modern way to organise production have been disrupted; borders have been closed; international trade has come to a standstill and international travel has come to a grinding halt. In a matter of days, tens of millions of workers became unemployed and millions of businesses lost their employees, customers, suppliers and credit lines. In the UK, one of the most powerful liberal countries, banks, railways, airliners, airports, the tourism sector, charities, the entertainment sector and universities are on the verge of closure.

Alfredo Saad-Filho, a Marxist economist, noted that the pandemic hit after four decades of neoliberalism had depleted state capacities in the name of the ‘superior efficiency’ of the market, fostered deindustrialisation through the ‘globalisation’ of production, and built fragile financial structures secured only by the state, all in the name of short-term profitability. “The disintegration of the global economy left the most uncompromisingly neoliberal economies, especially the UK and the USA, exposed as being unable to produce enough face masks and personal protective equipment for their health personnel, not to speak of ventilators to keep their hospitalised population alive,” Saad-Filho remarked.

The poor are the most affected segment in any global shocks, including COVID-19. The sharp drops in per capita incomes are also feared to cause political instability in fragile countries. Although the output of developing countries will contract only by one percent, the highest number of people falling into extreme poverty will be in these countries since a large section of their population is close to the international poverty line. Sub-Saharan Africa will be the hardest hit by extreme poverty under COVID-19, according to the World Bank. Of the total 49 million people expected to fall into extreme poverty as a result of the pandemic, 23 million will be in sub-Saharan Africa while 16 million will be in south Asia.

Unless governments lift themselves up to the challenge and control the pandemic, the world will be barely recognizable in the near future. In fact, it is not the first time the world is embarking on uncharted territory.According to Endalkachew Sime, Deputy Commissioner of National Planning and Development Commission of Ethiopia, close to two million self-employed people in Ethiopia will lose their jobs in three months - mainly in the informal sector. He pointed out: “Our GDP growth will decline by 2.8Pct to 3.8Pct. This means we will lose ETB60 billion to ETB70 billion due to COVID-19. As the government is extending loans, mobilizing funds and granting tax breaks and cuts for the private sector to keep its head above water and retain employees, tax revenue is expected to fall for next year.”

As of the end of last month, the government, through the National Bank of Ethiopia injected ETB17 billion to private banks while CBE received a financial package of ETB31 billion.

Ideologies and public interest during shocks

Although the ideological tensions and competitions since WWII have been engulfed by globalization since the 1990s, the actions of states in response to the current global shock is based on their established national ideological patterns.

The measures taken to tackle COVID-19 include providing health equipment, supporting economically impacted segments and enforcing social distancing, which might be against individual rights. Producing equipment, financing and bailing out the private sector, state of emergencies, supporting the poor, the role of governments and many related issues in the fight against COVID-19 are significantly influenced by ideologies.Although all governments have similar duties when it comes to saving lives, some experts argue that the response is drawn out of ideologies when it comes to saving lives and the economy simultaneously.

But for Fikru Woldetinsae, consultant at WB, ideology and economic structures have little impact on the effort to control COVID-19. He stated: "It is more about the level of consciousness in the society, discipline and fluent production methods. In fact, the state cannot enforce COVID-19 measurements, if its power is shrunk. Obviously strong governments are advantageous at this point. Scandinavian countries are better positioned in all aspects. Both the loose governments of the West and draconian authoritarian governments of the East are not recommended."

He also argued that in the USA, the role of SMEs is higher than big corporate companies in employment. He remarked: "The corporate represents big capital and value. Wal-Mart employs only around 300,000. However, the self-employed cannot afford different health insurance packages. So they need state provisions."

However, every state has a duty to protect citizens since the public has a social contract with the government and not with big corporations. In socialism, the state ensures public interest is fulfilled. For libertarians, the market does. Yet there are situations that allow government to command the private sector, even under neoliberalism. For instance, during state of emergencies (SoEs), state can order private companies to produce or serve essential items needed for common goals.

Although experts insist that having clear ideological grounds is very important in designing policies and running a stable macro economy, the issue is not given proper attention by the current administration whose officials openly downplayed the importance of adhering to a specific ideology.

Alemayehu Geda (PhD), Professor of Macroeconomics, argues ideology and state structure have had an impact on controlling COVID-19. "Countries that have strong states and social policies are controlling the pandemic. Nordic countries are even better than China. Democrat countries have weak and slow responses because they have to accommodate many voices and interests. Their central government is not influential."

Alemayehu stated: "the poor and black people in America are the most affected at times of shocks, making up over 70pct of the COVID-19 cases. The government, which is controlled by a few rich and far right people, does not care about the poor majority. The poor have less access to the expensive health care. Over 70pct of the population affected by COVID-19 is black and poor."

For Alemayehu, COVID-19 is the biggest global crisis surpassing the 1930s great depression and the 2008 economic crisis; thus, it may lead to a shift in ideology. "When free market started in the USA, the great depression happened. Unemployment skyrocketed and then Keynesian theory was introduced. The government stimulated the private sector up until 1970 but the market was again deregulated in the West. Then the 2008 economic crisis happened. Again the government had to give away USD700 billion to save the private sector. If it is a free market, why does the government have to bail out corporations? Neoliberalism works only when the market is good," he concluded.

The economic damages of COVID-19 are expected to be more severe than the 1930s great depression and the 2008 economic crisis.

Teshome Tafesse (PhD), state Minister for Public Private Partnership (PPP) at the Ministry of Finance (MoF), agrees with Alemayehu. "Free market and democracy works only at normal times. Government must be involved when the market and the whole system is dysfunctional. Government involvement is crucial where there is a gap. At such times, the nature of states assumes the traditional shape of power that places survival as a priority and democracy as secondary," he argued.

For Teshome, the private sector is primarily preferred because it navigates through demands and can address huge gaps with wide market coverage in a way that government cannot. He stressed that states lost their sovereignty to globalization following the shift in the international system from bipolar to multi-polar. The rise of terrorism, technology, and ideological tensions also contributed. The increasing neglect of state sovereignty gave the USA a de-facto power to intervene in developing countries like those of Africa.

"Physical borders became very porous under globalization. But now, everybody is tightening their borders, building national self-sufficiency, focusing on national policies, claiming sovereignty, defending nationalism and falling back to the traditional mode of power shape. This will continue even in the post COVID-19 era," he added.

For Kassahun Berhanu (PhD), Professor of Political Science at the AAU, the difference between neo-liberalism and socialism in protecting public interest is obvious. "China is a unitary state with provinces in it. However, China has more resources and power than countries that claim to be federal states, like Ethiopia. China's public is highly 'unionized' over the last 70 years. Government commitment enabled China to harness economic capability, finance and technique," Kassahun said.

On the other hand, Kassahun raised, the USA has a weaker and 'disorganized' government and leadership. He went on to explain: "in fact, since the 1980s, the USA led neoliberalism has been losing its momentum across the World. Although it enabled the US increase private sector participation and contribution, wealth remained in the hands of few. They criticize socialism as the philosophy of distributing poverty and as a backward mode of production."

He further noted that China, on the other hand, advocated socialism and later increased the role of the private sector, mixing it with state capitalism under a controlled situation. He stated: "China has become the best example that economic prosperity can be achieved using socialism with all its shortcomings. Although many countries like Somalia abused it, China improved socialism innovatively. "

Still for Kassahun, however, capitalism has been just as damaging as communism. "Capitalism also brought many damages around the globe but they usually pick only the good examples. Colonialism and world wars are waged in the name of accumulating wealth. For instance, the government is powerless in the West but it is the government that bailed out the private sector

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The consumption trend is shifting because a lot of people are staying at home. So we have to find a way to reach the consumer at home. We have installed a call center to directly contact the consumer. This would help us find the consumer at home. We are also making sure that our products are available at any place and time across the country.

We make sure that we are supplying the right product for the right price. Staying at home, people are not eating and drinking at cafés and restaurants; but this will change. The economy is also opening up from the first COVID-19 hit, but I believe the economy will revive soon. But we will continue our effort to find the consumer at home.

Do you have plans to partner with franchises in the fast food business?

We have plans along that line, if we can get good partnership and good agreement.

The Ethiopian government is planning to launch stock market in three years time.

Do you think your company will be listed?

Should the need arise, we will take any opportunity. We will consider any option in this regard. We are an African based global company. We will definitely be listed.

How do find Ethiopia's policy in profit repatriation?

It is challenging. We are unable to take out dividends for a number of years because of the foreign currency shortage in Ethiopia. We are reinvesting it because we are not able to send out any dividend to shareholders. We hope the situation will change as the economic reforms succeed and tackle the foreign currency problem. Once more foreign currency is available, the policy will also change.

What are your recommendations for big companies in Ethiopia, particularly in terms of Corporate Social Responsibility (CSR)? Do you think the community is benefiting?

Definitely. We are providing clean water, schools, job opportunities and many more. We provide as much as we can and the community recognize that. That is why communities most welcome

us everywhere our factories are planted. We allocate millions for the communities, every year.

We also donate for the Red Cross organization. We are also supplying food and drink donations for communities where our factories are operating; these places are: Dire Dawa, Bahir Dar and Addis Ababa. We gave away more than ETB11 million, particularly over the last two months since the onset of COVID-19 in Ethiopia.

A lot of companies discharge CSR only when it is convenient for them. Why don't you allocate a certain fixed percentage of your revenue or profit to continuously and constantly reach beneficiaries through an institution?

We do not reap the benefits and go away but we are giving back to the community, as a responsible company. We are supporting the community and giving special attention to key initiatives throughout our operation. For instance, we understand the importance of youth education.

We have built two state-of-the-art school blocks at Shimbit Elementary School in Bahir Dar, benefitting 1,600 students at a total cost of USD220, 000. We have almost completed constructing a similar school at our new factory in Sebeta at a total cost of USD236,000 following consultations with the Sebeta community to understand the community's needs. We have invested USD31, 000 in a bursary programme for outstanding university students from low income families and run a Graduate in Training (GIT) programme for the past 11 years, benefitting 275 employees to date.

We are undertaking various projects that address the community's problems. For instance, we just set up new factories that recycle plastics. Plastic is a great package but it also degrades the environment. We established the plastic recycling company PETCO (PET Recycling Community Organization) as an NGO subsidiary. We have set up around 70 plastic collecting centers across Ethiopia, to make it easier particularly for women plastic collectors.

The plastic recycling company was established four months ago. The Poly Ethylene Terephthalate (PET) factory took USD160, 000 injection from the Coca Cola Company. We will subsidize the collection and recycling operations. In Ethiopia, we have facilitated the collection of more than 6,000 tons of PET from the environment. Moreover, we want to support the waste management objectives of local governments by making recycling more accessible; and as CCBA, we are confident that we will reach the 100Pct PET collection and recycling target well ahead of the 2030 target. EBR

Desert

HUNGER HOVERING BY

A swarm of locusts is pushing millions in East Africa to the brink of food insecurity. In Ethiopia alone, over a million people have so far become food insecure and in need of urgent assistance. About 3.5 million quintals of crop has been destroyed by the locust that damaged state and private farms. With predictions the locust attack may increase 400 times in the times ahead, disastrous damages are expected unless preventive measures are taken in time. EBR's Ashenafi Endale explores.

People of Wochale and Teltele woredas in Borena zone, Southern Oromia Regional State, did not see rain for three years and desert locust for decades. When both appeared simultaneously last year, farmers and pastoralists superstitiously believed the hopper brought them rain. Therefore, they even refused to inform the authorities until it forced them out of their houses.

Getu Gemechu, the Deputy Head of the Oromia Bureau of Agricultural and Natural resources, remarked that over 38 hectares of Maize farm had already been damaged in a kebele of Wochale alone when the chemical spraying aircrafts finally arrived in the area. The desert locust infestation was discovered in Ethiopia after the FAO Desert Locust Information Service issued an early warning in May 2018, exactly when Cyclone Mekunu hit the East coast of Africa on May 25, 2018.

By April 2020, over a million households were affected by the locust. The swarm covered 1.35 million hectares of pastures and 197,163 hectares of cropland, causing a loss of 3.5 million quintals of cereal across Ethiopia up to March, 2020. Moreover, the Ministry of Agriculture (MoA) forecasted that the desert locust will decrease agricultural output in 2020/21 by eight percent, which is close to 26.8 million quintals. That amount could feed 12 million people for one year.

"Considering the huge size of the swarms in the country and their devastating impact on large plant cover, we expected 80 to 100pct damage on the crop. But we are lucky to have received the early warning and started preparation to fight it off crop farms," said Zebdewos Salato, Plant Health director at MoA.

Locust

The desert locust currently spans ten countries from Pakistan to Uganda and Tanzania, including Yemen, Somalia (declared national emergency), Saudi Arabia, Kenya, Djibouti, Eritrea, and Ethiopia. FAO reported that over 13 million people in Djibouti, Eritrea, Ethiopia, Kenya, and Somalia are experiencing 'severe acute food insecurity,' while another 20 million are on the brink of extreme famine. These figures are on top of over 22.8m people in the horn, who were already in need of urgent assistance as a result of consecutive weather-related shocks.

Drought, flash floods, unreliable rain and conflict have cut people's ability to access food and left them very vulnerable to future shocks. The UN has warned that a food crisis could be looming in East Africa, if the outbreak is not brought under control. The worst of the outbreak may be yet to come. WFP requires USD153 million to control the desert locust, up from USD76 million in March. That figure can go up to one billion dollar, if left unchecked, remarked David Beasley, WFP Executive Director.

Desert locust not only increased the number of food insecure people but also resulted in a spike in food inflation and animal feed price. Consuming seed, selling breeder animals, household assets and houses, migration, borrowing money, begging and other coping strategies are implemented by farmers and pastoralists in locust swarmed areas. Six regions are affected in Ethiopia, with those in the Western part spared. The highest loss in crop was reported in Oromia, at 1.2 million quintals. It is followed by Somali (one million quintals), Tigray (843,241 quintals) and Afar (202,882 quintals).

Locusts are still rampant, stated Getu, despite successful efforts to protect farms. "We established a regional locust control committee and the federal government supplied us resources and equipment. We drove out swarms from Harar, Bale, Arsi and other numerous crop areas. Had we not managed to do that, it could have resulted in total agricultural loss. However, it remained firm in Borena as farmers and pastoralists kept the presence of the locust a secret believing it brought them rain," he remarked. "If a third wave comes, it will inflict significant loss as most parts of Ethiopia are going into the crop cultivation period for the main farm season," he added.

This is the largest desert locust infestation in Ethiopia in more than 25 years while the time span rises up to 70 years in the case of Kenya. The size of the locust reached over 300 groups, swarming the Eastern and Southern parts of the country. According to David Phiri, FAO East Africa Coordinator, the locust will increase by 400pct by June 2020, if left unchecked. The coordinator claims that such a situation would cause famine in the horn.

Past Experience

Basically, desert locust stay quiet or in recession, confined in 16 million square kilometer belt of desert extending from Mauritania through the Sahara desert to Northern Africa across the Arabian Peninsula and into North West India. Some generations change to swarms during favorable ecological and climate conditions, invading up to 32 million square kilometers across 60 countries that cover Tanzania, Nigeria,


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Historical accounts show desert locust repeatedly attacked particularly Algeria since 1724 when there was no aircraft spraying. International support for Africa to fight locust started only after 1905 by the International Institute of Agriculture. Numerous science researches undertaken since the 1930s recommend killing the locust with pesticide at its breeding area, before it grows to adult.

The largest and most costly desert locust plague in the world hit Ethiopia and Somalia from 1986 to 1989. The worst plague started from the red sea coast of Eritrea and Sudan, an area arguably thought to be one of the top desert locust breeding areas. The 30 years war between Eritrea and Ethiopia that was raging at the time prevented timely intervention, giving ample time for the locust to spread to 23 African and Asian countries in four years. The international community provided USD310 million. However, the desert locust eventually declined mainly because of climatic factors. Another locust invasion in West Africa 15 years ago damaged agricultural produce worth USD2.5 billion.

Desert locust eats two kilograms and flies 150km a day. In a moment, a group of locust can damage food that can feed 2,500 people for a year. It lives three to five months; so, it has four generations a year. The female lays hundreds of eggs in soil of right temperature and proximity. A single swarm has 40 million to 80 million locusts on a square kilometer. Currently, there are tens of billions of locusts in Ethiopia. That number has proved to be dense enough to force Ethiopian aircraft land in Dire Dawa.

The locust spread pattern in Ethiopia is also strongly related to the rainy season and the climatic condition of different places. The breeding time of desert locust is synchronized to the rainy season and three cultivation seasons. Its movement across borders to and from neighboring countries also depends on the rain pattern and cultivation seasons. Furthermore, climate change and increasing cyclones means longer periods of moist sand and vegetation in the desert region, which allows the number of locusts to increase exponentially.

Although the horn of Africa was repeatedly hit by Desert Locust in the past, there is no institutional capacity built in the region to track and control the Desert Locust and rehabilitate affected areas.

By April 2020, over a million households were affected by the locust.

The Way Out

The Plant Protection directorate at the MoA is mandated to lead the pest management support service in the country including desert locust. Information exchange mechanisms have been created with regional agriculture heads and clan elders. However, delays in renting spray aircrafts, purchasing chemicals and coordinating regional manpower in 2018, State of Emergency (SoE), and now covid-19 have slowed the locust control effort.

"We are undertaking daily surveillance in addition to soliciting information from local DAs, officials, clan leaders and informants. The burden is on Ethiopia because neighboring countries have lesser capacity. We are also asking IGAD for coordinated surveillance and control in all East African countries," said Zebdewos.

According to a Locust Response Project document disclosed by the MoA in April 2020, USD63 million is required to fight the desert locust, of which USD43 million is for desert monitoring and control while the rest would be for livelihood protection and restoration.

The MoA deployed six airplanes, three of them rented, for surveillance and spraying chemicals. 41 vehicles are also deployed each day in the swarmed fields. People working in those fields also need allowance and per diem. The Ethiopian government just allocated an additional ETB166 million for locust monitoring and control on top of the ETB120 million utilized so far. The amount covers the cost of aircraft fuel, chemicals, fuel for 41 field vehicles and per diem for field workers. Since December 2018, the MoA has been providing trainings to over 600 focal persons in regional states.

"The money allocated from the government is insignificant compared to the lump fund from the international community, which includes planes, chemicals and even fuel. The total cost of fighting the desert locust is, on the other hand, insignificant compared to the huge fund that could have been required to directly supply food for the affected people, had the locust totally damaged the crops," added Zebdewos.

FAO recently provided three surveillance and spray aircrafts, in addition to the two it availed earlier. FAO also covers fuel and chemical expenses in some of the cases. COVID-19 impacted efforts to control the spread of the locust. Ethiopia's effort to import aircraft from South Africa has been delayed because of COVID-19.

Getu also stated that the cost of controlling operations is soaring. "Many experts, officials, vehicles, aircrafts and resources are dedicated only to the locust. This resource and manpower could have done a lot in other developmental endeavors. Farmers also spend time fighting off locust," he noted. "All in all, the cost we are incurring is high but we are saving our crops. Both the locust and COVID-19 can pose food insecurity. There is coordination inside Ethiopia but the same cannot be said about coordination between neighboring countries," Getu analyzed.

In Ethiopia, the current effort to reduce the impact of the locust focuses on fighting off the locust from crop areas. Efforts to find breeding areas, known as recession areas, and destroying the locust before it hatches are weak. Plus, the pesticide sprayed on farm areas kills only 50Pct of the locust because strong pesticide could affect crop and people.

There are a number of preventive and controlling mechanisms in eradicating locusts. The reaction method involves protecting crops on an emergency basis amidst a plague, but without going as far as the breeding areas to destroy the locust. Ethiopia is currently employing reaction method; it also used the method during the 1986-1989 plague. Pro-action relies on early detection of bands and swarms, preferably at breeding areas and strategic prepositioning of resources. Prevention mechanism involves destroying the locust as it amasses in its recession. Once it leaves the breading area, it spreads over larger confines and becomes more difficult to control.

For either preventive or proactive control, direct access to breeding areas is essential so that conventional, short-residual pesticides can be applied. According to Alan T. Showler, the major challenges to applying these methods are armed conflict, lack of funding, training, weak regional coordination, remoteness and rugged terrain in breeding areas.

Only a small section of the affected area in ten countries, 240,000 hectares of land, was treated with chemicals until April, 2020. Chemical pesticides, using vehicles, aircrafts and fixed sprinklers, remain the main control agents. Chemicals that can disrupt or manipulate locust behavior can also be used.

Hand-held GPS tools have become critical in accurately tracing, marking and controlling locust with fast moving teams that spray pesticides. Currently, Ethiopia uses information from control centers on the ground to guide pilots. FAO's Desert Locust Control Guidelines advise more sophisticated approaches: "However, this is not effective. It needs to be replaced with GPS, real time satellite imagery, high frequency radio tools (e-Locust), radar aircraft and drones. Designing other remote sensing mechanisms is critical for physical detection modalities. These tools and operational strategies should be designed to sync with rain and cultivation seasons, which determine the movement of locusts. "

UNDP and FAO commissioned development of locust data management system and research tool called SWARMS (Schistocerca Warning and Management System) to replace the manual mapping and analysis techniques. SWARMS uses GIS applications. "This can reduce the fuel cost of surveillance aircrafts deployed every day. Finding and destroying the locust at its breeding area also reduces the cost and time it takes to control it once it is on the move." Real time data and avoiding breakdown in pesticide supply are critical recommendations of the UN. Otherwise, warns FAO, the volume of locust and infestation can grow 400 times by June 2020.

Ethiopia's preparation for the biggest cultivation season in April and May coincided with the third wave of new generation locusts since 2018.

Zebdewos stressed both COVID-19 and the locust deserve equal attention, locally and internationally. "COVID-19, of course, needs urgent response. But hunger also kills people. Mobilizing resources and manpower, facilitating logistics, controlling locust and re-habilitating affected people need urgent action. The government must start receiving frequent reports both on COVID-19 and desert locust," he underscored. "A fast SMS platform is also required in surveillance. Especially, regional governments are not active enough in dealing with locusts. Only limited officials and experts at the federal level are in a dedicated active response," Zebdewos noted.

However, Getu has a different perspective. "As per Malthus theory, food scarcity reduces population. However, I believe the current food insecurity is our opportunity to boost creativity and invention in agriculture," he argued. He stated that they started providing digital agricultural extension education using television and internet because experts in the extension program cannot go and teach farmers physically under COVID-19. The Oromia agricultural bureau that Getu serves as Deputy Head set out to increase agricultural production in the regional state by 36 million quintals to 198 million quintals for the next harvest season, up from 162 million quintals this year. This year's output is 48pct of the national output which was 335 million quintals. "We have provided inputs and fertilizer for most of the farmers in the region. We must increase productivity per hectare, since farm area can decline under locust and COVID-19," remarked Getu.

In Ethiopia, the current effort to reduce the impact of the locust focuses on fighting off the locust from crop areas.

The region also restarted providing agricultural loans for farmers after it was halted ten years ago. Under the Agricultural Commercialization Cluster (ACC), over two million hectares of small plots are planned to be commercialized during the current cultivation season. Getu stated that they established agri-business departments in all levels of local government ranging from the lowest structure of Kebele to the regional bureau. He pointed out that the move is the first of its kind in the country.

Getu also underscored that land policy remains a bottleneck in all of this. "Most of the agricultural land in the country is owned by elders who are less productive. The youth, which is the productive force, has no means to access land," he noted. "The existing land modalities need revision to boost agricultural productivity," Getu concludes. EBR

THE FEW DOORS COVID-19 OPENED WIDE

Coronavirus disrupted everything. It has altered the way people work, communicate and get basic services. It has also killed businesses, leading to loss of thousands of jobs. However, not everyone lost. Some, in fact, are capitalizing on the new realities under the pandemic. Taxi hailing companies, delivery service providers, producers of sanitizers, mobile money operators and mobile retailers are among a few of the businesses that cater to the changing demands of customers. EBR's Kiya Ali explores.

Sanitizer Production at YERO SMALL INDUSTRY

Since the World Health Organization (WHO) declared COVID-19 outbreak a pandemic in March 2020, businesses have been facing up to a crisis that may affect their operations for years to come. Demand for many manufactured items plummeted while the service sector came to a grinding halt all across the globe following lock downs and termination of domestic and international travel. In Ethiopia, a number of companies are at crossroads to either close down or shift operation to other lines of business following the harsh business conditions brought about by the pandemic.

"The service sector is now dead; it might probably take over a year to recover," remarked Beniam Bisrat, Chairman of the Association of Hotel Owners. He, however, noted that this does not mean everyone should sit back and wait until the outbreak is over. "Every business has now reached at a point where it should start looking for opportunities amid the pandemic, which has killed most productive sectors. For instance, hotels have immediately started delivery service as mitigation mechanism to offset

part of their losses," he stated.

Although COVID-19 has created a gloomy atmosphere for many business owners, the decision made by hotels and restaurants to start delivery service has heralded a new lease of life for delivery business. Demand for transportation and delivery service workers appears to be strong. A case in point is the experience of Zay Ride, a company that is involved in taxi hailing and delivery business. While the pandemic has fundamentally been bad for most players involved in the service sector, it has brought the winds of opportunity for Zay Ride as its revenues from delivery business are mounting.

"Before the pandemic, the maximum delivery we used to make a day was just to 50 customers. But after the pandemic, we deliver goods to as high as 1,000 customers. With the demand going well above the reach of its regular employees, Zay Ride has hired additional 2,000 taxi and motorbike drivers. "The demand for delivery service has changed dramatically from almost non-existent to a highly sought out one," Habtamu Tadesse, CEO

Habtamu Tadesse, CEO of Zay Ride.

of Zay Ride, told EBR.

While being part of the solution to prevent the spread of the virus by helping people stay at home and minimize their movement, delivery businesses are boosting their profit. “Problems always present opportunities. Instead of obsessing about the problem, coming up with innovative solutions would reduce the impact of the problem. While some businesses are struggling to survive and others are laying off employees, we are expanding our business and creating job opportunity for thousands of people. This will somehow reduce the adverse impact of the Pandemic on the labor market,” Habtamu remarked.

Deliver Addis also has a similar experience with Zay Ride. After the COVID-19 pandemic, the delivery service provider has expanded its business to include the delivery of essentials like groceries ranging from vegetables, bread, canned food and cleaning materials among others. “To help make our services accessible to more people and support our hospitality and retail partners, we have reduced our delivery price significantly and added further capacity to our fleet to make sure that we are able to provide service for as many people as possible,” said Feleg Tsegaye, CEO of Delivery Addis. Delivery Addis’ previous price was ETB70 for 0 to 3 kilometers, ETB85 for 3 to 6 kilometers and ETB100 for 6 to 9 kilometers; but now the price has gone down to ETB50, 70 and 90, correspondingly.

Moreover, the company has launched mobile payment options with banks, including: Commercial Bank of Ethiopia, Dashen Bank, Nib Bank and Zemen Bank. “We hope this will help reduce the amount of contact needed to perform deliveries and serve to help keep customers as well as drivers safer,” Feleg states.

Delivery Addis has also been using its own restaurants to serve additional lower-cost meals to help staff out during these hard times. “It’s difficult to consider a pandemic an opportunity. However, it has pushed us to find new ways to help our partners and provide additional services to individual customers. While we expect the business to grow, our primary focus, is addressing the needs of as many people as possible. We’re hoping that through our efforts, small businesses will be able to stay afloat and remain open during these trying moments,” Feleg added.

Another business that is benefiting from the new realities of the pandemic is the production of sanitizers. Hand sanitizers, which were previously considered a luxury and used only by a few people, have been given a new lease of life by the Coronavirus outbreak. To halt the spread of Coronavirus and address the growing demand for the items, the Ministry of Trade and Industry announced, around 40 firms have begun to produce hand sanitizers and medical face masks. These firms produced and distributed more than 200,000 litters of hand sanitizers by the end of March, 2020.

The government has temporarily lifted the 60Pct excise tax that was imposed on alcohol, the major input in the production of sanitizers, to promote the production of hand sanitizers. The government has distributed over 2.5 million liters of alcohol collected from sugar factories to hand sanitizer producers. The move has motivated companies that were producing detergents and pharmaceutical products to shift their manufacturing line into hand sanitizer production.

Yero Small Industry, a company that was producing soaps, is one of those companies. Yero Small Industry was established by five individuals nine months ago with a startup capital of ETB60,000 as a Small and Medium Enterprise (SME). Before the advent of the pandemic, the company produced soaps and strived to expand its business by attracting more clients. Little did the company know that an unprecedented surge in the demand for hygienic products like soap and hand sanitizer was just around the corner. The demand for these products shot up so high

The government has temporarily lifted the 60pct excise tax that was imposed on alcohol, the major input in the production of sanitizers

that the combined production capacity of all manufacturers dwarfed before it. Albeit the reinvigorated production, there was still shortage in the market. "When we observed the growing demand for hand sanitizers set off by COVID-19 fears, we immediately shifted our line of production from soap to hand sanitizers," said Frezewd Alemu, production manager of the company.

Aiming to capitalize on the business opportunity, Yero Small Industry increased its production capacity by injecting additional capital. "During these trying times, manufacturing hand sanitizers and other detergents has a dual benefit. On the one hand, it helps society prevent itself from the Coronavirus. On the other hand, by increasing our sales, we will develop our potential to create more job opportunities for the youth in the near future," Frezewd explained. Currently, the total capital of Yero Small Industry has reached ETB1.5 million.

Olinga Soap Manufacturing Enterprise is also among the companies that saw an uptick in demand for hand sanitizers. The company, which has 37 employees, was able to get three folds of its previous monthly profit within a week. "The company was able to generate one million birr per month. Following the Coronavirus outbreak, however, it was able to make as high as four million birr per week," remarked Demeke Mamo, the company's Marketing Expert.

However, the company's benefit was short-lived. Demeke pointed out that Olinga Soap Manufacturing Enterprise was forced to temporarily halt its production. "Initially, government directives stipulated hand sanitizer manufacturing firms produce sanitizers with a minimum alcohol content of 60Pct. After we produced and distributed the products into the market based on the governmental guideline, we were told that the alcohol should be increased. As our products were already in the market, we were then accused of producing counterfeit products," complained Demeke. Corruption and involvement of different governmental bodies in the process are among the challenges raised by Demeke. "It is not clear which organization is the right one to speak to," he added.

Shortage of packaging materials is another challenge faced by producers of such items. Despite the challenges, however, Yero has pushed forth with efforts to capitalize on the business opportunity by working towards the production of disinfectants. "We are discussing with the government to import the equipment from India," Frezewd said.

The need to apply physical distancing and minimize exposure to the virus have made Tikur Anbessa Hospital provide Telemedicine service.

Yet another flourishing business in the midst of the pandemic is the mobile market. As people isolate themselves and students begin to follow their lessons from their homes, most communication is taking place via the internet. This has increased the demand for smart phones. For instance, the price of Samsung A10 increased from ETB5,500 to ETB8,500 within a few months. "The demand for mobile phones has risen by about 70Pct after the first case of Coronavirus was reported in Ethiopia," a Tecno mobile shop sales person told EBR.

Telehealth, which was struggling to get wide acceptance, has also been flourishing since the advent of the pandemic in Ethiopia. Dawit Wondimagegn (MD), Chief Executive Director of the College of Health Sciences and Tikur Anbessa Hospital of the Addis Ababa University, stated that the absence of database and an ICT system that integrates doctors, laboratory service providers and pharmacies were hindering the growth of Telehealth. The timely need to apply physical distancing and minimize chances of exposure to the virus have made it imperative for Tikur Anbessa Hospital to provide Telemedicine service. "Currently, we are serving close to 80Pct of our clients using Telehealth service," Dr. Dawit noted.

In general, although a number of businesses are hugely affected by the Coronavirus pandemic, a handful have been presented with an opportunity to blossom. "A business person should always scan the environment and come up with a solution for a problem that is affecting the society. By so doing, they will satisfy the demand while raising their profits," remarked Mekonen Hailu, Communications Head of the Ethiopian Investment Commission. EBR

RUMOURS OF CURRENCY CHANGE BOOMS HOUSING MARKET,

ACQUISITION OF FIXED ASSETS

Buying houses from real estate developers incur 15Pct Value Added Tax and six percent title deed transfer fee of an actual price tag. Additionally, real estate developers take more time to deliver housing units which further escalate cost of construction that ultimately push price tag further.

This makes houses built by real estate companies more expensive for the vast majority of Addis Ababans. As a result, house buyers have been looking for affordable options.

Villas developed by unlicensed individuals have become one of the options. The unlicensed individual developers have lesser tax obligations and deliver houses for less at a shorter span of time. As a result, they are becoming more active in the housing market.

As their number increases, there is a fear that the market would become informal and out of the watchful eyes of the government. A simmering rumour about a possible change of the local currency note is further boosting the housing market as many people who fears keeping their money in the banks take property acquisition as a shield from loosing cash at hand. EBR Explores.

When Simeneh Asfaw, 54, returned to Ethiopia in July 2019 after living for almost 12 years in the United States, he had to rent a house because he did not own one. Although he had wired ETB1.4 million eight years ago to a local real estate developer to buy his own apartment, he failed to recover his investment because the company failed to deliver on the apartment despite collecting money from hundreds of house seekers.

To add on to the disappointment, Simeneh discovered that the price of villas developed by real estate companies ranged from a minimum of ETB27,000 a square meter to a maximum of ETB65,000 for the same square meter. Prior to July, 2019, the price had been between ETB22,000 to ETB50,000. "Now I have to buy another finished house, but real estate units are so expensive," says Simeneh, who is seeking cheaper villa houses built by individuals who are engaged in the housing sector without having the proper license.

The housing demand and supply gap has been dramatically widening in the capital particularly for the last decade, during which

over a million people remained in the condominium housing schemes' waiting list, which could not deliver more than 176,000 housing units. The housing sector can be categorized in to four. Under the first category, lies condos developed by the government, which are further categorized into 10/90, 20/80 and 40/60 schemes. The price of a three bed-room 20/80 condos ranges from ETB1.8 million at Summit to as much as three million in Arat Kilo and Lideta condominiums.

Those in the second category are apartments built by real estates. Prices for real estate apartments, which match with the 40/60 condos, range between two million and five million Birr. The third category includes villa houses built by real estate developers, which currently cost between eight million Birr to ETB20 million based on the location, floors, quality and financier.

The fourth and the emerging segment of the housing sector, on the other hand, is run by individual builders and smart-mouthed brokers. Both of them engaged in the housing sector without having a proper license from the government. Currently, one can find villas built in the outskirt of the city for as low as ETB2 million.

Houses developed by individuals are becoming a new trend accustomed by some business people and engineers who really saw opportunities while at the same time bridging the demand of house buyers who cannot otherwise buy the expensive villas and apartments developed by real estate companies.

The emergence of such a housing segment is due to the gap in land supply and also the lack of financial resources for the private housing sector. While real estate companies get land through a lease arrangement from the city government, these unlicensed individual developers usually buy land from people who have plots of land but are also in short supply of finance. The usual trend is land owners lay the foundation of a villa house before they sell the plot to the individual developers. This is because they cannot directly sell a vacant plot because land is the property of the state as per the constitution of the country. The buyers then finish the construction and sell it for a higher price.

"Currently, the number of people who want to sell their land is rising. These people leased the land from government to develop it by themselves, inheritance or any other means, but they fail to access the finance to build a house on it," says an engineer, who bought land plots with up to ETB1.2 million to four million Birr using such arrangements. "We finalize it within three to five months using chemicals and modern construction technologies. As soon as the house is finalized, the price of the houses appreciates. One can then sell it for double the buying cost."

The engineer says other similar builders, who build apartments or shopping malls, offer some floors to the land owners, in addition to money. "Many constructions, which are undergoing in different parts of Addis Ababa, are started under such arrangements. But the villa business is currently hot in Legatafo, Nifas Silk, Kaliti, Ferensai Legasion, Sebeta and Gelan as well as other surrounding parts of the capital," he says. Construction costs for private developers is currently between ETB25,000 and ETB35,000 per square meter, while their selling price is between ETB45,000 and ETB70,000 per square meter, according to the engineer.

Houses developed by unlicensed individuals are becoming a new trend while helping to satisfy the demand of house buyers who cannot buy the expensive villas and apartments.

Besides engineers, others are also using the opportunity by acquiring land from individuals and selling it after constructing a house unit by hiring professional engineers. This includes those who have learnt that they can earn more than the interest rate paid by the commercial banks. "People have started to understand the benefit of reinvesting their money on land and housing development rather than putting what they earned in commercial banks," says Tamrat Girma, a well-recognized and self-promoted broker on social media.

Individuals, who are involved in illegal activities and cannot save their money at banks in fear of a government crackdown and confiscation, are also amongst those who are developing houses by hiring engineers who may not have a license. In fact such individuals are at the moment investing considerable amount of money in such schemes as rumours about government's plan of changing the local currency note simmers across the city. Perhaps it could be attributable to the rising transaction of houses and plots of lands across the metropolis, that the Documents Authentication and Registration Office (DARO), a government agency responsible to document, authenticate and legalise transaction of houses, cars and other private properties, suspended its services of processing such transactions two weeks ago. The decision of DARO is also attributable to the rampant grabbing of public plots of land in the outskirts of the city and suspicious transfer of condominium houses in recent weeks.

Meanwhile, real estate developers, who have had an opportunity to lease land from the government are losing their reputation gradually because they fail to deliver on time. In fact, insiders say the real estate sector has shifted more to land trading than to the housing market.

According to a report presented two years ago to the Addis Ababa City Council by Takele Uma, Deputy Mayor of Addis Ababa, the city administration reclaimed 41 hectares of land illegally possessed by real estate developers. The city administration also nullified 46 hectares of land acquired by a business man who proposed to develop a bogus agro industry plant in joint venture with the farmers recently. The land has been given back to the peasants. The measure is part of an ongoing land audit launched by the City Land Management and Development Bureau more than a year ago. The audit included 139 real estate developers who leased land since 2005 but failed to deliver on the houses. The audit also found out that 1,743 housing units built by four real estate developers and transferred to buyers have no title deeds. "Houses are not being transferred to buyers timely, mainly because of the absence of proper regulation and the greediness of developers," said the deputy mayor, while

addressing members of the council back then.

Despite the presence of such problems, the real estate sector has been performing better, growing by 14Pct over the past decade. There are now 630 real estate companies with a registered investment of ETB3.5 billion capital. But there is fear that the growth momentum will be reversed as people are choosing unlicensed developers over the licensed real estate developers.

> **“Houses are not being transferred to buyers timely, mainly because of the absence of proper regulation and the greediness of developers.”**
>
> Takele Uma,
> Deputy Mayor of Addis Ababa

“Getting bank credit is one of the competitive edges for real estate developers. After all the difficulties in acquiring it, the developers fail to sell the houses because the price is highly inflated as they have a higher quality,” says a senior manager at the Real Estate wing of JH Simex, the sister company of Intercontinental Hotel. “Over 95Pct of the real estate companies in the capital are engaged in building apartments. Beside real estate companies, individual developers also build villas.”

One of the benefits house buyers get from unlicensed developers is significant cuts in tax and title deed transfer costs. Brokers facilitate the agreement between the developers and the buyers so that the duo agrees to understate the amount of the transaction. In doing so, the seller will be saved from the 15Pct value added tax, whereas the buyer pays less in the form of title deed transfer fee, which is normally six per cent of the total price tag. The broker, on the other hand, earns a lump sum for his job, which is normally two per cent of the transaction. “This is no surprise considering the impassable high cost incurred by real estate companies. Every input and operational cost at real estate companies is under the close watch of the government, while saving costs incurred for tax and title deed is a big incentive for house buyers preferring individual developers,” argues the manager at JH Simex.

Engineers, on other hand, say most of the villas built by individual developers are of poor quality. “The houses are beautiful and attractive from the outset. However, the strength and quality of the houses are very poor, including their structure as the developers use adhesives and chemicals because they focus on finishing the project in a couple of months,” an engineer with decades of experience explains. “They are usually built by people who have the money rather than formal engineers and supervisors.”

Tamrat, the broker, says house buyers are currently being badly exploited. “The government is losing revenues but the house buyer is the one losing the most,” says Tamrat, who recommends that the government needs to establish a system that can efficiently maintain housing standards and give approval. “House buyers need protection against sub-standard houses.”

“We are aware of all the problems but the government has been patient because it is adopting a free market system. Most of the land the city administration is providing for housing purposes now belongs to individual traders and developers for profit,” says senior official at Land Bank and Transferring Office of the Addis Ababa city administration.

Shimelis Eshete, a senior expert at the Ministry of Urban Development and Construction, says private developers would be beneficial in averting the housing crisis in urban cities like Addis Ababa. “Private developers provide affordable and quick villas for buyers. Private developers also have a huge potential and can significantly contribute in solving the housing problem, but this happens only if the regional and zonal administrations capitalize on them and places a stringent regulation, monitoring and quality control system.” EBR

PUSHED BY COVID-19 into Child Marriage

Just a month after Ethiopia reported its first case of Coronavirus, schools were closed and students were told to stay at home. The intention was clear. It was implemented to protect them from the deadly virus. Unfortunately, some of the students were confronted with other major challenges at home. Some girls have been forced to get married, while a considerable numbers were raped and a lot were sexually abused. An unfortunate few also got pregnant after being raped by family members. EBR's Kiya Ali reports.

When the government closed schools in a bid to curb the spread of the Coronavirus two months ago, a grade six student in Amhara State, Wedalat Manabo thought she would only stay at home for a few months. However, her prolonged stay in the house prompted her family to push her towards marriage at the tender age of 14. Although she declined to accept their proposal hoping to realize her dream of becoming a lawyer, her parents gradually became more serious about the issue.

Wedalat, since her childhood, always longed to defeat the century's long human rights violation, injustice and harmful traditional practices in her locality. Crushing those dreams, her family forced her to get married to a man who is 17 years older than her. There are a lot of such stories in Ethiopia. Early marriage is part of the everyday life of Ethiopian girls, especially those in rural areas. Alarmingly, the number of girls who are being forced to get married at an early age has soared of late as schools have been closed on account of the spread of the Coronavirus. "Over the past two months alone, Amhara Regional State Women, Children and Youth Affairs office identified 1,117 attempts of child marriage, of which 234 were already married before our assessment. This is higher than the number of girls who got married in the last nine months before the shutdown of schools," said Selamawit Alemayehu, Deputy Head of Amhara Children and Youth Affairs Office.

Ethiopia decreed child marriage an illegal act and categorized it as a violation of human rights. The family

law of the federal and regional governments set 18 years as the minimum legal age of marriage with a procedurally tight arrangement of an exception, allowing individuals to marry at 16. In fact, this is clearly put on Article 34 of the FDRE constitution that states 'marriage shall be entered into only with the free and full consent of the intending spouses.' This is further cemented in Article 648 of the Criminal code of Ethiopia under 'Early Marriage.'

Studies conducted by governmental and non-governmental organizations indicate that despite the legal limits, nearly half of Ethiopian women are married before the age of 18. The most recent one is the Ethiopian Demographic and Health Survey (EDHS) of 2016. The nationwide study discovered that 40.3Pct of women aged between 20 and 24 got married before the legal age of 18; whereas, 14.1Pct of them were married before the age of 15.

The World Economic Forum indicated that Coronavirus could put four million girls at risk of child marriage without major efforts in place. The forum identified Ethiopia among the top five countries likely to have higher prevalence of child marriage now. Risks of child marriage are exacerbated by the fact that schools are closed; hence, structures close to female students including teachers and organizations working on combating child marriage are no longer accessible.

At the root of child marriage is poverty and hetro-patriarchal gender norms that treat women as inferior beings. "The worth of a woman is attached to her ability to reproduce; hence, delaying that social function is seen as a waste of potential. In light of this, sending girls to school is not considered as a desirable investment in our society and keeping them at home is seen as a major financial burden," says Helina Birhanu, a Gender and Legal Expert.

If more efforts are not going to be exerted to end child marriage, 150 million girls are expected to get married before turning 18 in 2030, according to UNICEF. In Ethiopia, UNICEF further stated, progress would need to be six times faster to eliminate child marriage by 2030, and 10 times faster for elimination by 2025.

"The increase in the number of child brides following school closures shows that there is lack of awareness on the danger and detrimental effects of child marriage among the society," Selamawit noted.

One of the negative consequences of child marriage is teen pregnancy. Approximately 12 million girls aged between 15 and 19 years and at least 777,000 girls of less than 15 years give birth each year around the world. Furthermore, noted the World Health organization, at least 10 million unintended pregnancies occur each year among adolescent girls aged between 15 to 19 years in the developing world.

Wedalat has already joined these group girls as she is now pregnant. "We find it hard to interfere and break all child marriages occurring in different parts of the country since some of the girls become pregnant by the time the federal as well as regional offices find out their cases," explained Communications Director of the Ministry of Women, Children and Youth Affairs, Adenew Abera,.

Shouldering the responsibility of raising a child despite being children themselves, complications during pregnancy and child birth are the leading causes of death for 15 to 19 year old girls. If health centers are not available nearby, compounded by their physical immaturity, prolonged labor may lead to obstetrics fistula.

"Although the immediate cause of obstetric fistula is prolonged labor due to absence of health centers nearby, which is very common in rural parts of Ethiopia, there are improvements. The physical immaturity of girls under the age of 18 will exacerbate the situation and make them more vulnerable to obstetric fistula," said Teshome Tafesse (PhD), Information and Communication Manager of Hamlin Fistula Ethiopia. "Eclampsia, puerperal endometritis and systematic infections are additional health problems that are caused by child marriage," he further explained.

Various researches also show that the chance of contracting sexually transmitted diseases is very high among child brides. The psychological pressures of being a child bride can be linked to short or long-term health risk behaviors. Reactions can range from concerns about pregnancy to anxiety, post traumatic stress disorder (PTSD) and depression.

In addition, adolescent pregnancy and child bearing often force girls to leave school and deprive them of the right to access education. As a result, child marriage systematically disempowers women by jeopardizing their independence and future employment opportunity, taking away their agency and making them vulnerable to domestic violence.

Child marriage also has a detrimental effect on economic growth and development of the country since it stops girls from contributing to social and economic development and support the health and productivity of their families and communities as a whole.

Ethiopia decreed child marriage an illegal act and categorized it as a violation of human rights.

For instance, ending child marriage in Ethiopia would boost the economy by at least 1.5Pct. If every Ethiopian girl completed secondary school, it would add up USD646 million to the economy every year. In addition, if a girl delayed pregnancy until she became an adult, the Ethiopian economy would gain 15Pct GDP over her lifetime. In Ethiopia, the value of the additional wages that women would have earned in 2015, if they had not married early is estimated at USD1.6 billion in purchasing power parity, according to the World Bank.

As cited in the National Roadmap to End Child Marriage and FGM/C, the World Bank study also shows that Ethiopia's population would have shrank by one percent, if child marriage and early childbirths were eliminated by 2019. This would have significant impacted national budgets and welfare. If child marriage and early childbearing had ended in 2014, the estimated annual benefit in the subsequent year (2015) would have been equivalent to USD117 million, increasing to USD4.9 billion by 2030. So to make this reality, experts say the legal punishment for child marriage should be rigorous than ever.

Currently, a person who marries a girl between 13 and 18 is punished with a maximum of three years imprisonment. If she is below 13, the maximum years of imprisonment will be 7 years. Plus, the enforcement of the law is not satisfactory. In Amhara region, for instance, among the reported 1,117 cases of child marriage since the outbreak of the Coronavirus, 534 were interrupted and only 104 are held accountable.

The factors that lead to child marriage could be poverty, insecurity as marriage is seen as a source of respect and protection for women, underestimating the importance of sending girls to school and societal pressure.

Helina recommends that regional governments put a strong informal social chain involving stakeholders at grassroots level and parallel formal legal machineries to work. "Schools can also play a big role in creating a follow up mechanism and providing incentives to households that report any early marriage. Equally important for the government is to track down cases and remain transparent," Helina concludes.EBR

Correction

In our 9th year May 16 - Jun 15, 2020 edition, in which we profiled Awash Insurance Company's former CEO, we erroneously typed his name as Tsegaye Kemtsti. The correct spelling of the Executive is TSEGAYE KEMSI. We sincerely apologize to Mr. Tsegaye Kemsi, our esteemed readers and Awash Insurance for the mistake.

Editor's Note:

Mistakes could happen at various stages of our editorial process. It is our policy to correct them when we come across them or they are brought to our attention.


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Abraham Gezahegn

Abraham Gezahegn is a prominent Ethiopian film maker. In addition to the immense popularity he enjoys domestically, Abraham has won various international film awards. With strong script writing and directing skills, he represents a rare quality in Ethiopia's weak film sector. Ethiopian films have been attracting a very small amount of viewers over the past few years. Distribution, screening and copy-right related issues have also weighed down on Ethiopia's already struggling craft. Abraham seems to have found a way around the problem by venturing outside of the country. Kiya Ali profiles the talented film maker.

Anteneh, a well-known author who used the pen name Ezera Ejigu, is surrounded by a number of problems. Although he used to be a cheerful guy before his wife passed away a year ago, he has now become a worrier as he has a number of issues to think about. Financial problems are at the top of his problems. He could not pay the school fee for his child; neither could he settle the rent. He is having a hard time making ends meet. But he keeps pretending and looks happy in front of his only child - Leul. What makes the situation more difficult for him is the injustice around him. The distributor of his book has not been willing to pay him, despite the sales success the book has proved to be. Despite his high scores that would merit a scholarship, Leul's school expelled him because the tuition fee was not settled in time. The bigger problems were still ahead as a speedy driver hit Leul on his birthday during the night and disappeared instead of helping him out. As a result, Ezera's child died. Then Ezera vowed to avenge his son's death, though he had no clue who the culprit was. So begins 'Yegir Esat', a drama series broadcasted on EBS television channel every Wednesday.

Yegir Esat is one of the works of script writer and director Abraham Gezahegn. In Yegir Esat, Abraham criticizes the injustice in society. "I believe there are numerous accounts of injustice in our community that can be seen in our day to day activities. They can range from minor things to the most difficult ones," remarked Abraham. He pointed out that talking behind someone, condemning instead of trying to understand people, cheating, denying the truth out of fear and self-gain, belated sympathy and generosity, using people as stepping stones and taking justice up on oneself through revenge are some of the manifestations of injustice in the society. Abraham uses movies and Television drama to denounce these manifestations.

Growing up around Bole, Abraham attended his primary and secondary education at Bole community primary school and Bole high school respectively. Upon completing his high school education, he went to Addis Ababa University Sidist kilo campus and studied theatrical arts. Although Abraham's childhood dream was to become a politician, he ended up being a script writer and director.

Abraham started reading books since his childhood. He says that Steve covey's book, the seven habits of highly effective people, has helped him set his life goals, purposes and his true passion. "As an adult, the seven habits of highly effective people may not be among my favorite types of books. However, being exposed to such a book at an early age has helped me figure out what I really wanted to be. That is why I dropped the idea of becoming a politician and decided to join the theatrical arts department at the university," he explained. Abraham got the inspiration to write a movie script from a movie called 'Athletu' (the Athlete), a story about the internationally renowned Ethiopian Athlete Abebe Bikila.

Lomi Shita is Abraham's first movie. Lomi Shita is an adaptation of Adam Reta's book of the same title. The story is about a lawyer who witnessed at young age the injustice committed by the society on his mother. The movie went on to win more than 10 awards in local and international film festivals including Guma, Ethiopian Film Festival and the East African film festival. The number of people who watched it while it was on screen was, however, very few. "By the time Lomi Shita was on screen, cinema owners prioritized comedy films. As a result, it was difficult to find cinemas to show it. This was one of the factors that contributed to the reduced number of viewers," Abraham stated.

One of the main obstacles that hinder the growth of the Ethiopian film industry is the unnecessary involvement of cinema owners. Abraham noted that the fact that they share half of the income generated from showing films discourages producers. "Such action discourages producers from investing more on their movie and forces them focus on minimizing cost. 20 to 30pct should be enough and it would help the sector flourish. When the film industry grows, they can grow by expanding their business," stated Abraham. As a result of the focus of cinema owners on comedy, producers who focus on other genres are either forced to refrain from producing a movie or reduce their frequency of production. The short sighted focus on one genre has come around to bite cinema owners as viewers got fed up and decided not to go to the movies; some cinema owners have gone out of business as a result.

Tax is another challenge Abraham raised. "Producers are obliged to pay 25pct of their income to the government in the form of tax. This is hurting the film industry as a whole and those who are involved in the sector in particular. If the government gives tax incentives instead of levying higher taxes on producers, it can collect more tax as many people will join the sector and start to produce

more movies," he said. Despite the tremendous challenges in the Ethiopian film sector, Abraham managed to produce his second movie called Yenegen Alweldem. Just like his first film Lomi Shita, the idea and story was adapted from a book called Sport and politics. The movie featured the famous Ethiopian journalist Birhanu Degafe in an acting role. "Abraham is the one who created me as an actor. He has the ability to instill new skills and strengthen existing ones in actors and actresses," Birhanu gave his testimony. Abraham disagrees. "Directors can only help actors and actresses perform in the best way possible and strength their skills. That is what I did for Birhanu. If he didn't have the skills in the first place, where could I have brought them from?" Abraham inquired. In addition to Yenegen Alweldem, Birhanu participated in Yegir Esat as a leading actor and earned positive feedback from the audience.

"On Wednesdays and Sundays, I'm overwhelmed with calls and texts from Yegir Esat viewers. It has been widely accepted," he proudly stated. The success of Yegir Esat is related with Abraham's analysis before broadcasting the drama. "Before I started writing the script, I collected data and conducted a research on my target audience. This has helped me know the interest of my target audience and convey my messages accordingly," he said.

Currently Abraham is working on another project that will be financed by foreigners and filmed in another country. "As the Ethiopian film industry is not attractive, it is an obligation to look for other alternatives to survive. If more artists are discouraged and start looking for work abroad, Ethiopia will cost a lot since all the income goes to other countries though the script is done by Ethiopians. To prevent such a problem from happening, the government and all other stakeholders should promote the Ethiopian film industry, provide incentives for various professionals involved in the sector; the artists themselves should also be creative and bring innovative solutions for the problems they face," Abraham concludes.EBR

Industrialisation in Ethiopia:

The Fundamental, Missing Issues in the Debate

Tsegaye Tegenu (PhD) is senior lecturer of social and economic geography at Uppsala University, Sweden. He can be reached at tsegaye.tegenu@epmc.se.

Industrialisation is the process of building up a country's capacity to convert raw materials into new products. It involves a growing complexity of production systems, reliance on primary or secondary economic activities and an increase in output.

Some of today's advanced countries planned their industrialisation policies earlier to ensure a well-planned development trajectory. In the case of Ethiopia, while the awareness about the need for industrialisation is traced back to the early 1960s, the design of a comprehensive industrial strategy with structural transformation in mind has come with the 2004 declaration of the Ethiopian Industrial Development Strategy Document. Though a favourable policy package to introduce and develop a modern economy was in place during the imperial regime, there was not any deliberately outlined and explicitly specified industrial policy to accelerate industrialisation. The 2004 Document was therefore better in that it put in place an articulated industrial development strategy for the first time.

Creation of Enabling Environment

The 2004 Document discusses the basic enabling environments to speed up industrialisation in Ethiopia. These are ensuring macroeconomic stability; the creation of a modern and development-friendly financial sector; availing reliable infrastructure services such as road, railway, air transport, telecommunication, electricity and water supply services; implement an effective human resource development agenda; building an efficient, transparent and accountable bureaucracy and system of governance; and the establishment of a sound, efficient judiciary system. Without ensuring these enabling environments, the private sector cannot be the main driver of industrialisation in the country.

Creating an enabling environment is important for the accumulation of capital and skill during the change in the productive structure. However, in the Ethiopian context, fundamental issues related to inward and outward orientation of the industrialisation policy and the appropriateness of the organisational structure of industrialisation are missing.

Policy orientation and organisation forms affect the modelling and performance of industrialisation. The inward or outward orientation of the policy affects resource allocation in manufacturing. For instance, should priority be given to the establishment of consumer goods industries or the development of capital goods? Organisational structure affects the division of tasks and responsibilities between the federal government and regional states in undertaking industrialisation. The federal government can take the responsibility of establishing heavy industries such chemicals and metallurgy, while regional governments are advised to engage in the task of establishing light industries such as food processing and consumer goods.

Industrial Policy Orientation

What is the relevant industrialisation policy orientation during the initial phase, when there is a resource to transform from agriculture to a mix of industry-service sectors? Should the Ethiopian government follow an inward-oriented industrialisation policy like Latin American countries or an outward-oriented policy like East Asian countries?

These two strategies are commonly known as Import Substitution Industrialisation and Export-Oriented Industrialisation, respectively. The underlying goal of Import Substitution Industrialisation is to reduce a country's dependence on the importing of manufactured goods. This is achieved through complex policy measures: giving protection to domestic industries; imposing high import tariffs; restriction of import licensing; subsidising import-substituting industries; and providing them cheap raw materials and energy, tax benefits and overvaluing exchange rates.

The Export-Oriented Industrialisation policy uses measures that are perhaps opposite to Import Substitution Industrialisation. It encourages the exporting of goods for which the country has a comparative advantage. For instance, the 2004 Industrialisation Strategy dictates that the meat, textile and leather processing sub-sectors, which the government considers to have a comparative advantage, should penetrate the international markets.

Export-Oriented Industrialisation opens domestic markets to foreign competition as well, reducing tariff barriers, and devaluating the national currency to encourage export.

Now the issue becomes which way should Ethiopia move forward, what are the contexts – and how does these relate to the country's current industrial policy choice?

Between 1958 and 1992, the governments of Ethiopia followed the Import Substitution Industrialisation policy. The three successive development plans (1958-1962, 1963-67 and 1969-74) of the imperial government emphasised a private sector-led import substitution policy, while the Ten Year Perspective Plan of the Dergue regime adopted state-led import substitution industrialisation. However, the country did not move substantially forward in its drive to industrialise.

The EPRDF's rule marked a shift in the country's policies. Initially it followed a neutral policy and since the early 2000s, it has opted for an Export-Oriented Industrial policy. This policy direction, though there are issues that need to be addressed, has led the country to double-digit industrial growth. In fact, the past five years of the Growth and Transformation Plan period have been a success, as the manufacturing sector grew at a rate higher than the growth of the overall economy. The growth rate has been significant because the country is at a low base of industrialisation. Therefore, whatever is achieved gives a leapfrog growth picture from the outset.

However, given the current dynamics of growth and development challenges in the country, the Import-Substitution Industrial policy would solve a considerable part of the development challenges the country encounters. I base my argument on the 1966 logic of cumulative causation and industrial evolution of Nicholas Kaldor and my own study on the effects of population pressure in Ethiopia.

Kaldor laid out a four-stage model of industrial development. The first stage is characterised by the emergence of a local consumer goods industry, which reduces dependence on imported consumer goods. The machinery and equipment needed to produce items of consumption are produced either in-house or imported. In the second stage, domestic production of consumer goods provides the basis for net exports of these goods. The third stage, which may occur simultaneously with the second, involves substitution of imported capital goods with locally made machinery and equipment. The fourth stage occurs when a country becomes a growing exporter of capital goods (heavy industries).

Ethiopia is currently at the first stage of the industrial evolution. In rural Ethiopia, population growth has increased the number of subsistence households and their consumption and input requirements. It has also increased the volume and growth rate of the labour force actively participating in rural labour market. Population pressure has created consumption and employment demand pressures in rural areas.

To create employment for the surplus labour and to supply the consumption requirements of the households, it is necessary to establish consumer goods industries. This means the country should replace manufactured products imported from other countries by products manufactured at home for reasons of balance of payment and sustained growth. There is a need for substantial protection of domestic manufacturing industries. In other words, at this stage the country should adopt an Import Substitution Industrialisation policy.

Spatial and Organisational Structure of Industrialisation

An appropriate organisational structure is a prerequisite for the proper management of industrialisation. Enabling environmental factors focus more on procedural reforms; they do not address organisational structure, which is also a relevant element in the success of industrialisation. An organisational structure refers to a system by which industrialisation tasks and responsibilities are formally allocated among the federal and regional governments. There are two approaches in the design of organisational structure: centralisation or decentralisation.

In Ethiopia, industrialisation has long been administered centrally. This type of administration is needed for the provision of a uniform policy throughout the country, to compensate for the lack of skill at lower levels of government, and to minimise corruption. However, industrial agglomeration and concentration may lead to a high concentration of industries in small urban areas. This could result in income disparity and poverty in many countries because economic opportunities will concentrate in the areas in which industries have agglomerated.

Ethiopia, which is now aspiring for rapid industrialisation, should learn from the experience of other countries to avoid the unintended consequences of industrialisation by following a decentralised industrial development approach.

Manufacturing industries have the capacity to absorb surplus labour in the rural areas, which increases due to population growth. Besides, as agriculture grows, it further releases labour. A decentralised industrialisation strategy would help to provide employment for the surplus labour before it migrates to urban areas and put unnecessary pressure in cities in the provision of social service facilities and utilities.

Both the Import Substitution Industrialisation policy and Industrial Decentralisation favour countries like Ethiopia, since they reduce the pressure they encounter on foreign currency, which at this time is in critically low supply – and spreads the benefits of growth to more people throughout the country.

The Ethiopian government should therefore ensure geographic balance in developing infrastructural facilities. In addition to this, it should attempt to lure investors to locate their industries on the peripheries of the country or rural areas, including moving their industries from the centre through tax incentives, secondary city or growth pole, and supporting the sub regional development.

It is through these strategies that dispersion of industries to rural areas, sectoral linkages and economic distribution can be achieved. Countries that have managed this have realised broad-based development.

Remodeling Ethiopia's Economy

Yohannes Ayalew (PhD), served as Chief Economist of the National Bank of Ethiopia for over two decades. Currently, he is the Director of the Ethiopian Development Research Institute.

Before reflecting on what kind of economic model Ethiopia needs, it is imperative to analyze what Ethiopia's economic potentials are. In order to achieve fast and sustainable growth, the model must prioritize three things. First, we must recognize that we are a low income economy or LDC. Second, we must recognize that we have huge untapped resources. There is huge underemployed and unemployed labor, land, and other resources. For instance, there is redundant labor in agriculture. The third is structural rigidity. There are many problems that hold us back from utilizing markets, infrastructure, resources and others. The model must remove the structural rigidities.

Let's see widely accepted economic models and what they could bring one's nation.

Social democracy is about redistribution of already produced economic gains and accumulated wealth. It is a European model. Europe has already reached its maximum productivity rate and most of the economy is controlled by a few corporate companies. Ethiopia's model must be incentive based and start from the base. Therefore, it does not take Ethiopia to growth.

Neoliberalism is to the contrary. It is survival of the fittest. If you are educated and competent, you can get a job. Otherwise, you can die and that is nobody's business. Living or dying is your business. The public sector role is limited to introducing policies. If you are unfit for the incentives, you die. Neoliberalism is a copy of Darwin's survival of the fittest. It is the economics version of natural science. It is also similar to Malthusian theory, which concludes hunger balances population. Basically, Darwin only improved Malthus's theory.

In neoliberalism, government leaves everything for the market except ensuring peace and security. Everything must be done by the private sector. This is impossible in Ethiopia. Neoliberalism, in fact, has failed even in America under COVID-19. In America, universal health coverage is not in place and the pandemic has forced government to intervene in the provision of health services. It has also failed the COVID-19 test, both in the USA and the UK. COVID-19 is the last test for neoliberalism. Social democrats did better.

Yet IMF and the WB were desperate to liberalize everything in Ethiopia. But the country resisted the pressure from the IMF on key reform areas. The Government of Ethiopia (GoE) was very cautiously following up. The first IMF recommendation we resisted was exchange rate liberalization. The second was capital account liberalization. They requested to liberalize the balance of payment. This means you can deposit the foreign currency you earn anywhere you want, in Ethiopia or outside of Ethiopia. You can open foreign account anywhere. The third was interest rate liberalization. These three priorities were core economic determinants for growth. There were many more IMF recommendations we rejected.

We decided to make phased adjustment on exchange rate, capital account and interest rate. But in other African countries, all these were forcefully implemented. We are able to improve export because we kept that decision for ourselves. Inflation was also reduced. So, our stabilization program was successful. We laid the fertile ground for growth. Between 1993 and 2003, average real GDP growth was 4.5pct. This enabled the growth in the second phase.

But we decoupled our relationship with the IMF after 2003. Had we followed their recommendations, everything could have destabilized and become out of control. So, we decided that the IMF needs to participate only under the article 4 consultation. Article 4 is not a program but a responsibility of any IMF member country. Under the Article, they come, see the economy and write reports. We explain and defend our policies. Usually they accept them because our arguments are strong. But they usually forecast economic growth at lower rates. They do not tell the actual figure. This is because they do not think growth can be achievable without the IMF model. They are only allowed to deal with us under the article 4 consultation. We are successful to have been able to do that.

In order to succeed with IMF, you must be decisive. That is what is happening with the new Ethiopian 'Homegrown Economic Reform' program. The scheme needs to reduce IMF's role, except financing and supporting the program. But the solutions should be local. But I don't want to comment on the details of the Home Grown policy. In many African countries like Uganda, IMF and the WB went as far as establishing their own departments in central banks. Unlike Ethiopia, those countries are not successful. Having said that, I must say that neoliberal, social democracy and similar ideologies cannot be viable options for Ethiopia.

On the other hand, our understandings of developmental state were crooked over the past couple of decades. The developmental state idea was over-stretched and expelled the private sector in our context. It considered the private sector as enemy. We want the growth of the private sector but we did not support it. It was as if only government could bring development. This was a huge gap in wisdom. It was also a big model and policy inconsistency.

Unfortunately, we had to go through such times. As someone who was part of the administration, I was aware of the problems and tried my best to change things around. All my effort was in vain, as it turned out.

That was a big misconception. Ethiopia should have diverted the capital from service sector to the needy manufacturing sector. Manufacturing should have been made more profitable through capital availability, less tax and more incentives. The financial sector should have been taxed more.

The only private sector Ethiopia has is the farmer and that group does not produce for profit. The private sector is better in the service sector, especially in finance and trade. But the service sector does not produce. The real strength of the private sector should be in manufacturing, construction and mining. We don't have a high value productive sector at all. We have low value sectors like textile and leather. Sustainable development is achieved only through the high value productive manufacturing sector. Manufacturing industries report bankruptcy, which is why export failed. Ethiopia's economy is not based on the productive sector, unlike other developing countries. Our products are not competing in other markets. However, there are policies to alter that.

Therefore, Ethiopia must focus on creating the private sector it wants. Whether through privatization, liberalization or rearranging, we must create real private sector. Our policies must be geared towards creating a vibrant productive sector that does excellent in export and manufacturing.

The private sector is the end user for governmental undertakings. Unless there is private sector, investment by the government in road and power is useless. The private sector should play its crucial part. But the private sector must be created in Ethiopia first. The private sector should profit the most and the government should not envy that. The government must be happy to let the private sector profit more.

The public sector must also find its true place. The public sector must decide whether it is complementary to or substitute for the private sector. If it is complementary, the private sector cannot survive without the public sector. If it is a substitute, they can live without each other. Only the private sector can be efficient and productive. So, the public sector is in the wrong place under such a scenario. Under the condition of complementarity, there is an issue of public goods. This public goods issue can be well achieved under PPP. The private sector builds, the public sector regulates. If the private sector does not have the capital, the public sector can build it and the private sector makes profit using the infrastructure. This is positive externality.

The third actor besides the private and public sectors is the financial sector, especially the central bank. The role of the central bank is balancing between the public and private sectors. It maintains macroeconomic stability and ensures growth. Ethiopia needs such a central bank. In developed countries, central banks are not growth oriented because the countries have already reached their full growth potential. They have reached their last actual productive possibility curve. They are also near their natural employment rate as the necessary unemployment rate is around 5pct. The role of central banks in such developed countries is only to maintain these rates, not aspiring for new growth. Growth, which is increasing productivity, is done only by the private sector.

All in all, Ethiopia's model must be kind of 'development-oriented.' Other countries, developed or developing, have less structural rigidities. Most countries achieved full employment and they have only cyclical unemployment. Therefore, we cannot copy anyone's model. Besides, Ethiopia's social and psychological make-up require unique model. The upbringing of an Ethiopian person is not similar to that of a Kenyan or Tanzanian. Our people are fast, obedient and trustworthy, if you trust them. So if the model trusts our people, they can work in the model. Religion also dictates. There is no 'survival of the fittest' mentality in Ethiopia. Ethiopians are generous. You can consider the active participation of the population and the private sector in efforts to control COVID-19. This creates social stability and good consumption culture. So the model must recognize such unique features.

Reinventing Developmental State Model

The idea of developmental state was highly misunderstood in Ethiopia. Ethiopia's shot at it was only developmental by name while it was far from it practically. Developmental state cannot succeed unless it creates effective private sector. Developmental state operates within the realm of capitalism. Developmental state is used in a bid to create capital. Capital is created only by the private sector. Private sector cannot exist unless policies allow profit. China's developmental state created capital. China is a top capitalist country today. The world's top five capital owning companies are from china. It is a system that created Huawei. China's private sector is investing all over the world.

In Ethiopia, there was only the idea of developmental state. It was not practiced on the ground. We have built some roads but developmental state model is more than that. It is linked to every macroeconomic string. The economic machine works only when every string is in place. When you invest in infrastructure, it must reduce private sector expense and boost its profit. Then the private sector pays more tax and the government invests more. Private sector profit and government budget grow proportionally. This creates competitiveness and more foreign currency. I doubt that we understood developmental state correctly.

Effective developmental states have surplus fiscal and balance of payment. They are even capital exporters like china, Korea, Taiwan and Singapore. They started from deficit and become capital exporters.

Much of Ethiopia's capital is tied up in the unproductive import sector. There are two models for import substitution; the old model and the new way. The old model was widely used in the 1970s and 1980s by many countries including Ethiopia. This is protection-based import substitution. Many countries in Latin America and even Ethiopia tried this and failed. Ethiopia levied up to 300pct tariff for protection purposes under such a scheme. There are still sectors that have up to 100pct tariff, adding up the taxes. But this is not helping import substitution.

According to a recent research, the textile and leather sectors have the highest protection in Ethiopia. Metal has the lowest protection. The old model made domestic industries lazy. Domestic industries received incentives but they sold the products in domestic market, rather than exporting them. They got used to living under protection.

Growth is achieved through value addition, not by protection. Value addition is achieved through exploiting new resource or increasing productivity. Since neither productivity nor resource expansion is achieved, there is no real growth in Ethiopia. Production cost per unit decreased as productivity increased in the Asian tigers. But in Ethiopia, hampered by the bulk import, efficiency and productivity went down. The thought that the government is protecting them is putting our industries to sleep and even death. Currently, our industries have reached the point where they cannot compete anymore.

The new way of import substitution is market, incentive and competition-based import substitution. East Asians are using this model. Every incentive is provided apart from making the exchange rate most suitable and internationally competitive. Bank interest rate is also subsidized until the industries become competitive. Government investment like road efficiency is also used to make the private sector competitive. Government protection, may be up to 30pct, is also necessary. Through time, the protection declines and the industries are exposed to competition. At this point, the government must make sure that they are profiting. East Asians used the new way.

Ethiopia is practicing the old model. But our mentality is in the new way. Practically, industries are sitting, protected. They are not selling domestically, neither are they exporting. I studied, identified this problem and presented it to the relevant party. Further studies are needed to design the incentive packages required to transform our policies to the 'new way', practically.

This is also required for agriculture, not just manufacturing. Government cannot do much to increase small-scale productivity, besides providing improved inputs. It is the farmer who decides how to produce. The government might march into danger zones, if it tries to increase productivity using other options like GMOs, which are not advisable.

But the government must study why the private sector is not investing in commercial farming while it actively invests in banking. Why would an investor go for a 5pct profit in commercial farms while they could reap 40pct profit in banks? This showcases the faulty approach in capital allocation. The commercial farmer operates in the absence of infrastructure, labor and services. They need more incentives and that calls for better capital allocation policy. The government cannot achieve profit maximization with a short-term campaign. Green revolution cannot be realized through a campaign.

During the industrial revolution of the eighteenth century, labor and capital flew from agriculture to the successful industrial sector. This created shortage of food and inflation. Then the industry became unable to buy agricultural inputs at inflated price. The green revolution took place in 1870 in Europe. They managed to increase agricultural productivity, reduce inflation and transform the industry. India, Pakistan and china also undertook green revolution in order to transform agriculture. Green revolution is critical for Ethiopia in order to increase productivity, transform agriculture and industry, reduce inflation and stabilize the macro-economy. This is achieved only through increasing productivity and profit, not by campaign or price caping.

Profit increases when the growth of productivity is higher than inflation. For instance, if productivity increase by 4pct and inflation by 2pct, profit increases by 2pct. Ethiopia could not achieve this mainly because the import substitution model was wrong. The policies are not competition based.

The main reason business people engage in exports from Ethiopia is because import is profitable. Our research has shown that to be the case. Those people are logical, not looters. They export so they can access foreign currency for their import business. It is wrong but the private sector cannot be blamed for this. The model needs to be revised. This is an area where the central bank fails to balance the government and the private sector. Government can increase productivity, only by maximizing the profit of the private sector. To this end, private sector salary must increase in order to maximize its efficiency. More

profitable private sector then pays more taxes. Therefore, there would not be a public servant who worries about what to eat, or how to loot and pay his children's tuition fee. Banks and Ethiopian airlines employees work hard because they are well-paid.

On the other hand, the public servant is underpaid, less incentivized and inefficient. The public sector must match the growth of the private sector. Private sector growth multiplies when the public servant grows. The growth of the private sector, in turn, generates more tax and finances the public servant. Instead of hiring 50 inefficient public servants, government can hire ten professionals for better salary. Government can increase public sector productivity without increasing its expense. The laid off public servant can find even better jobs in the growing service sector. In other countries, individuals have personal doctors, lawyers and others. As the economy grow, more job opportunities arise; so employment increases. Even the tax offices expand.

Ethiopia's existing model has created a fast growing private sector and a static public service sector. The public servant turned to looting. The public sector also taught the private sector how to loot. Then both got stuck in it. If the government increases public servant salary under the existing model, it will be inflationary because the model is detached from productivity. Salary increment is not an incentive in this model. There are ways to reform the private sector without causing inflation.

Devaluation and better exchange rate regime could also have made export more profitable. Higher exchange rate benefits exporters. Depreciation doubles an exporter's profit. Our policy measures failed to bring the dynamism that East Asian countries used. Market failure means wrong incentive or flow of capital to less necessary sectors. Both absence of incentives and wrong incentives result in market failure. Real developmental states provide everything the private sector lacks, besides bridging market gaps. All this is to maximize private sector profit.

Ethiopia's problem is not absence of incentives, but providing incentives to the wrong sector and providing them detached from productivity. After provision of incentives, the government needs to check whether that incentive led to more profits in the private sector.

There are effective and inefficient developmental states. Ethiopia has been an inefficient developmental state. That is the reason for our macroeconomic imbalance, wrong balance of payment and high external debt. We had policy inconsistency.

The public sector must be efficient for private sector to be profitable. Government must deploy efficient public servants. This can be achieved by employing professionals, creating the best public servant infrastructure and system. Four professionals can do what ten public servants are currently doing. Production must grow, for tax to grow. If tax grows, the government can hire high quality public servants without causing inflation. That could allow investors start operation in a month's time, instead of the years it is taking now.

It is the government structure that could not evolve from the communist mentality, not the population or the private sector. The private sector always looks for profit. This is why we see looting and corrupt practices in the private sector. If government always grips, controls and directs the private sector, it is practically a socialist government. It is detached from the private sector and the model. A government that does not increase public servant salary is socialist. All in all, there is a strong presence of state socialism in Ethiopia's government. That is why the effort to create developmental state model failed. Even our import substitution model, existing tax system and many policies are old socialist policies. I have doubts that we understood developmental state model exactly. Even our economists have grey areas. They say exchange rate has no role to improve export. But they cannot explain how.

Socialist thinking also dominated academics. That is why our gross thinking pattern is inconsistent. Socialism has such inconsistency. Socialism says 'for each as its demand.' This means human beings have programmed demand. It does not recognize the need for profit. Human nature is incentive based, not static. People send their kids to school so the kid becomes professional and generates income, not because they want him to serve his country. A family that adheres to the latter must be highly spiritual or considerably nationalist.

Ethiopia's public sector also failed after numerous reform efforts mainly because it is fundamentally socialist. You can deploy BPR, BSC or whatever public reforms we have around but people cannot change and become efficient without incentive. Socialism is a non-incentive ideology. Ethiopians love to work for their country. If that thinking was to be backed by incentives, there could be tremendous effort outflow. The incentive should also not make people materialists. Religious institutions could also contribute to efforts to decrease corruption. You can teach religious dogma day and night. But when they go home, people only see their hungry babies. But there are many potentials to change this.

Ethiopia is a secret, in economy as well as in all other aspects. If we can wisely use the potentials, it can exceed other countries. Otherwise, it turns out to be a failure. So, our model and approach determine a lot of things. Ethiopia needs its own model and that model needs all rounded researches to be conducted first. We cannot copy from any country because we have unique features in all aspects.

Narrowing the Finance Gap

Developing Capital Market in Ethiopia

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An article published on the February 2020 edition of Ethiopian Business Review investigated whether Ethiopia is ready to establish a stock market. The article incorporates views of several notable finance and investment advisers who are both for and against setting up a stock exchange. This article argues for establishing a stock market and highlights strategies for developing a successful stock market.

Ethiopia is the largest country in the world without a stock market. However, despite the absence of a formal stock market, private share companies have flourished in the past 15 years, issuing and selling shares under the unregulated market.

Should Ethiopia focus on banks or stock/debt markets?

What is capital market in the first place? Capital market is a market where debt and equity-backed securities are traded. Stock market and the bond market are the two most common capital markets, consisting of primary market where new securities are issued to be sold for the first time whereas the secondary market is a place where the existing securities are traded between investors.

Banks are lenders, providers of deposit and payment services; they tend to know their customer better and lending decision is based on customer relationship which helps increase credit availability. The information advantage that banks have over capital markets makes banks dominate the financial system in several countries, according to the IMF. On the other hand, capital market is better at promoting innovative and high growth firms.

In this case, SMEs in Ethiopia such as RIDE and SoleRebels could benefit from the introduction of stock market by going public; hence, raising large volume of capital to expand their businesses, which in turn helps boost employment opportunities for the young and growing workforce. On the other hand, as bank–based financial system is better in risk sharing mechanisms, capital markets help put pressure to replace incompetent managers and improve the overall corporate governance system.

Hence, banks and capital markets should not necessarily be considered as substitutes but instead as complementary institutions. Well-developed banking system is also important for capital market development as banks serve as investors, dealers and liquidity providers.

Yet the development of capital markets may hurt commercial bank profitability. Experiences show that the profitability of traditional lending activities has fallen over time, and banks have been obliged to have riskier loan portfolios in order to retain profits. However, the presence of capital market does not always mean that it competes with banks and reduces bank profitability. Stock market can be a new opportunity for banks to tap. Banks can become successful underwriters, primary dealers and liquidity providers in the securities market, a lucrative business. Banks can also raise additional capital from the market through issuing stocks. Overall, the presence of a stronger banking sector and capital market is helpful for more developed and efficient financial intermediation system.

Why capital markets

The private sector is inevitably the engine of economic growth and poverty reduction worldwide, but finance is central and key to the private sector development. Ethiopia's low and fragile private sector is critically hit by lack of sufficient access to finance. The Enterprise Survey conducted by the World Bank in 2015 shows that Ethiopian firms that use banks to finance working capital and investments accounted only 16Pct and 13Pct respectively. The United Nations Conference on Trade and Development (UNCTAD) estimates between 70Pct and 90Pct of SMEs in Ethiopia lack access to formal financial institutions.

On the public sector side, development financing continues to be a big challenge for developing countries that require huge financial resources to lift countries out of poverty. Some estimate that over USD200 billion a year is needed for energy, irrigation, roads, rail and other infrastructures in Africa. Ethiopia must meet its financing needs to achieve its goal of becoming a middle income country. Hence, access to capital markets could serve as alternative source of finance to fulfil the demands of both the private and public financing needs.

Building successful capital market is not an easy task

According to the IMF, successful capital market development requires the following preconditions that are going to be a big challenge for Ethiopia.

Sound macroeconomic conditions should be in place for well-functioning capital markets. Even though Ethiopia has registered fast economic growth over the past one and half decades, the economy has been struggling with double-digit inflation. This discourages investment in the securities market, particularly on securities with a longer maturity period. It also hurts the banking sector, making real interest rate negative.

Lack of adequate legal and institutional framework is another challenge affecting the development of a strong capital market in Ethiopia. Security market investors will not be attracted due to legacy issues of poor regulatory framework, weak property rights and creditor and shareholder rights as well as corruption and weak institutions. Ethiopia's regulatory enforcement, particularly contract enforcement and business dispute resolution remains low. Disclosure and information system in the country is also inadequate with weak accounting and reporting standards and practices.

The capital market can also be hindered by the small and relatively undeveloped banking sector. The size of the banking sector in Ethiopia measured by private credit to GDP is below 20 Pct. This is very low when compared to the East Asian emerging economies such as Vietnam which is over 110 Pct. Moreover, the cost of financial intermediation is also high in Ethiopia. The bank Net Interest Margin (NIM) of Ethiopia is 4.7Pct whereas it is 2.8Pct in Djibouti. As banks become inefficient, they tend to transfer the cost of inefficiency to clients, making cost of borrowing high for businesses. High interest spread and NIM have their own roles for aggravating inflation in the economy. Besides, institutional investors such as pension funds and insurance companies remain underdeveloped.

All these limitations, however, should not prevent us from developing capital market because we have seen that several emerging markets such as Vietnam, Malaysia and Indonesia have successfully developed their capital markets under a lot of challenges.

Strategies for developing successful stock market in Ethiopia

The macroeconomic and institutional framework is very crucial for any successful capital market development. So, we need sound macroeconomic and quality institutions. On top of this, the country should employ supply and demand side strategies for increasing firm listing and investments in the stock market.

Supply side interventions: the number of companies to be listed on the stock exchange becomes the life blood of the market. The market will be dormant if firms don't go public. When firms go public by selling their stock to the public, they can benefit by raising highly needed capital. But this also has its disadvantages. Companies become subject to greater scrutiny by the regulators, stringent accounting practices and loss of management control. It can also be costly to go public, particularly for small firms due to the underwriting and administration fees during the IPO process. Companies should pay these sacrifices to access large amounts of capital.

However, for some companies, the drawbacks outweigh the benefit; hence, their preference to stay private. These challenges, however, can be addressed through introducing incentives that encourage firms to go public such as tax incentives, subsidized initial listing costs and simplifying listing procedures. The government can also introduce B-shares (non-voting shares) that do not threaten the control of management. Moreover, it is advisable to start with the IPO of credible state-owned enterprises such as Ethiopian Airlines, Commercial Bank of Ethiopia (CBE) and Ethio- telecom to bolster stock market development, particularly during the initial stages.

Demand side interventions: Investors buy financial instruments in the security market. The investment needed comes mainly from long-term savings particularly from institutional investors such as pension funds, mutual funds, investment banks and insurance companies.

The government should promote long-term saving through easing regulation to allow institutional investors and fostering competition among financial institutions. Retail investors should also be encouraged through enhancing better cost-to-trade models and promoting financial literacy programs.

Lower transaction cost and financial literacy programs attract individuals towards investment and trading. Financial literacy also helps minimize negative public perception of stock markets as an act of gambling and wealth-destruction, which has happened in developing countries such as Egypt. Retail investors contribute positively to market liquidity, and diversify the investor base. Furthermore, having individuals involved in the stock market contributes to income equality and economic growth.

The strategies will help us build stronger capital markets unlike most of the Sub-Saharan African countries with dormant and illiquid stock exchanges. Evidences show that almost half of the stock exchanges established in the region since 1990 list fewer than 20 firms. Rwanda stock exchange, which was established in 2005, for instance, consists of only eight listed companies with total market capitalization of USD3.3 billion. On the other hand, several Southeast Asian countries have been successful in developing strong stock markets. In 19 years of stock market operation, Vietnam managed to list 749 companies with stock market capitalization of USD188 billion, which is equivalent to 72Pct of the country's GDP.

Ethiopian Commodity Exchange (ECX), was a new initiative for Ethiopia and the first of its kind in Africa. No one believed it was possible when it commenced in 2008. The exchange linked 2.4 million smallholder farmers to markets and traded commodities worth over ETB 35 billion in a year. Several African countries have set up exchanges, inspired by the success of the ECX. The success proves that it would be difficult to make progress if we only look at what we don't have and wait until everything is in place. Rome was not built in a day. Let's think big, start small and strive to scale it up. It would be difficult during the initial stages as the beginning is always the hardest.

from P. 27

during the 2008 global economic crisis. Capitalism needs revisions. This is privatizing profit and socializing loss, which is a political game in the name of ideology," he said.

This is why Kassahun advises African states to come up with their own ideology. "Developmental state can be a good tool, if utilized properly. Development can be led by the government, with enough room left for the private sector along good governance. However, African governments including that of Ethiopia usually use developmental state model to attack opposition parties. They cling only on to the motto of either capitalism or socialism. The rest is the enemy," he added. "Labeling must stop. Both communism and capitalism need to be watched from the perspective of public interest. It should also be understood that capitalism always goes for profit; so, it cannot answer public demands." This is an idea shared by Saad-Filho.

"Neoliberalism was quickly shown to have hollowed out, fragmented and part-privatised health systems in several countries. It also created a precarious and impoverished working class that is highly vulnerable both to disruptions in their earning capacity, and to health scares because of their lack of savings, poor housing, inadequate nutrition, and work patterns incompatible with healthy lives," Saad-Filho argued.

In fact, the feat of neoliberalism has widened inequality at such an unprecedented pace that Oxfam's 2018 report indicates the world's 26 wealthiest people own as much wealth as half the entire world population. It has given the chance for the largest transnational corporations in the world to emerge as the most influential actors in the international system, taking over the roles of states. Of the world's hundred largest economies, 69 of them are multi-national corporations (MNCs).

It is the US government that bailed out the private sector during the 2008 global economic crisis. This is privatizing profit and socializing loss.

Ethiopia- a right-camp candidate?

Ethiopia has just launched its ten years economic roadmap that set out to "bring equality based economic growth," according to Prime Minister Abiy Ahmed (PhD). One of the goals of the plan is to boost production and competitiveness while building a green and climate-resilient economy as well as bringing about institutional transformation. The country is also expected to witness an economic growth of 10.2Pct yearly during the course of the plan. Replacing the current five-year growth and transformation plan or GTP, the home grown economic policy is expected to be "women and youth" centered and guarantee private sector-led growth. It seems like the 'new homegrown' economic roadmap intends to create a fundamental shift of the economy towards market forces from the immense state grip of the developmental state model of the last two decades.

Under the new approach, giant state enterprises like ethio telecom, power generation and utility, sugar factories and even Ethiopian Airlines are slated for privatization. Under the previous ruling group of revolutionary democrats, Ethiopia targeted building state capitalism, improving the lives of the poor and joining middle income countries by 2025. Now, under the Prosperity Party, the state has adopted 'medemer' (Summation) as its guiding principle in place of a well-established ideology recognized globally.

"Under normal circumstances, the government must focus on ensuring stability, regulating markets and maximizing productivity of the private sector. At times of shock, the government, the private sector and the public must do their parts in coordination. The state must be strong and every business must benefit the public and the country," said Haile Gebreseliassie, the world renowned athlete who has become a business magnate paying six million Birr salary per month. He has successful investments in the hotel industry, car assembly and coffee plantation. He stated: "Currently I have 3,000 employees. I cannot let them lose their jobs and die of hunger. The government must ensure stability; financial institutions must inject finance. The public benefits through the private sector."

For Alemayehu, however, the private sector has no responsibility to the public except moral appeal or through governmental push. One can threaten not to buy from a company; they can also be denied of their jobs by a private company. He noted: "PM Abiy must be cautious in the ongoing privatization; he must stop assuming that private sector involvement would serve the interest of the public. Ethiopia has been rushing towards privatization over the last two years. The government is obviously misled by Western consultants. It is only the inertia of established state structure that is holding them back from privatizing faster."

Alemayehu believes contemporary Ethiopia is in a similar situation as Korea 50 years ago. "Just 50 years ago, Samsung was a noodles seller but then it became a giant corporation in a few decades. Ethiopia should do what was done by Korea, which created a national company out of small enterprises," he added. "The West usually serves corporate interest. That is easy to understand from their advice that involves liberalizing the forex market and privatizing key assets."

Kassahun also stressed that corporate interest does not represent public interest and the government cannot utilize corporate assets for public purpose. "Currently, Ethiopia is privatizing big public asset enterprises. This needs critical caution. So far, Ethiopia's market has been immensely impacted by contraband; now it will be under private corporate companies. Increasing the role of the private sector is essential but it should not done in a way that does not affect public interest."

Haile, for his part, recommends working on strengthening nationalism and citizenship for years ahead of embarking on democracy or development. "If you ask Koreans how they developed and democratized, they tell you that they worked hard on Korean citizenship, children and young minds in schools after the war in the 1950s. They agreed on nationalism and everybody started working for his country," he remarked.EBR

Quote

"You cannot negotiate with people who say what's mine is mine and what's yours is negotiable."

John F. Kennedy (1917 – 1963)

He was the president of the US for almost three years until being assassinated.

From the Horse's Mouth

"Egypt is left with no option but to cooperatively use the water resources of the Nile."

Yacob Arsano (PhD)

Yayob Arsano is associate professor of Political Science specializing in hydro-politics. He is a member of Ethiopia's negotiating team on the Grand Ethiopian Renaissance Dam. He made the remark during an interview with Addis Zemen Newspaper last month. He said Ethiopia has a legitimate and natural right to use the Nile and thinking otherwise is not different from opposing the sovereignty of the country.

"Arresting Jawar et.al cannot be the solution to the political crisis."

Merera Gudina (Prof,)

Merera Gudina is chairperson of the Oromo Federalist Congress (OFC). He was quoted by Addis Maleda Newspaper while reflecting on the arrests of his fellow party members Jawar Mohammed and Bekele Gerba, along with 35 others, following the death of Artist Hachalu Hundessa.

The Number

3

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