Repercussions of Unbridled Government-guaranteed Debts
Abdulmenan Mohammed, A Financial Management Expert.

"New Investments in the Cement Industry."
Simegn Degu, Director at (CIIDI)

ETHIOPIAN BUSINESS REVIEW

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MOHAMMED NURI'S (MD) UNORTHODOX PATH TO A DREAM

Contents


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Sync Principles, Practices in Allocation of Foreign Currency!

Ethiopia's foreign currency problem is a constant in an otherwise inconsistent socio-economic and political conditions of the past three years. Although various administrations devised different mechanisms to alleviate the foreign currency problem, a lasting solution still eludes. Therefore, the measures taken have proved to be short term remedies that only put a stop to further escalations of the problem. Under such conditions of ever-present foreign currency problem, managing the meager foreign currency resources at hand should be of utmost priority. Sector and policy based prioritization of activities to allocate foreign currency to should be pursued actively. It is common knowledge that petroleum and pharmaceuticals imports are said to be prioritized in allocating foreign currency because of the social and economic impacts the products could muster.

As stated in our main interview, however, actors in the pharmaceuticals industry complain that these claims are groundless as they normally wait for over a year to access foreign currency. Major actors are shouting foul on the allocation of foreign currency as there is a big gap between the practice and claims of prioritizing pharmaceuticals in accessing foreign currency. Therefore, the priority areas should be identified clearly with strict adherence to these priorities.

In addition to the prioritization of sectors, policy issues should also be used in prioritizing allocation of foreign currency. EBR strongly recommends prioritizing import substitution efforts rather than import of finished products. Inputs for import substitution provide job opportunity for Ethiopians and can potentially raise foreign currency as the products can be exported. On the other hand, import of finished products equate to consumption of highly scarce resources.

Data, however, show that banks allocate an overwhelming section of their foreign currency on the import of finished products than promoting manufacturing and import substitution. The data for 11 months of import in the metal sub-sector indicate that USD1.2 billion worth of finished products were imported while the figure for inputs in manufacturing stood only at USD471.6 million.

The decisions to allocate foreign currency seem to be based on factors other than sector and policy priority. However, the management of as scarce a resource as foreign currency should be taken seriously by commercial banks and the central bank. As stated in our story on the cement conundrum, cement factories asked for foreign currency to maintain their huge machines. However, they were allowed to access USD85 million eight months after they asked for the funds. During that time, the condition of numerous machines deteriorates and they have halted operation. The spare parts problem is stated as one of the main problems for the current national cement conundrum. The government could only avail the foreign currency they needed to purchase the spare parts once the machines in the major producers of cement in the country halted operation. Therefore, it is only when the issue goes out of hand and the crisis assumes national proportions that the required foreign currency is allocated to a key sector in the country's development drive.

Corruption plays a major part in the allocation of foreign currency from banks. Those who make the decision receive a fixed amount of ETB for every USD they authorize for businesses. Despite widespread knowledge of such practices, no substantive measure has been taken by commercial banks and the central bank. The National Bank of Ethiopia and the government seem to allow corrupt practices that squander scarce foreign currency resources while sectors and businesses that should be prioritized come to a grinding halt after being denied access.

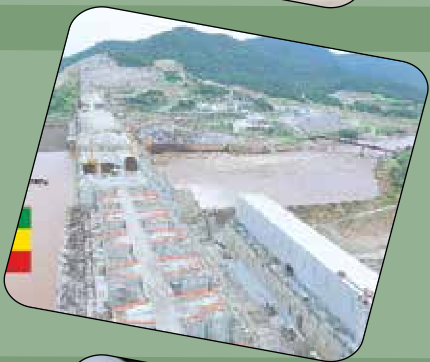
Despite vowing to address the rampant corruption under the previous Tigray People's Liberation Front led Ethiopian People's Revolutionary Democratic Front, Abiy Ahmed's (PhD) administration seems to have a hard time tackling corruption as recent developments indicate. It needs to buckle up and manage foreign currency allocation based on principles rather than corrupt relations.EBR

Recap

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.

Central Bank Amends the Purchasing Price of Gold

The National Bank of Ethiopia (NBE) increased the purchasing price of gold by 25Pct. The bank bought gold from miners for a 5Pct increase on the international gold price. The illegal gold market, which stretches from Africa to Dubai and India, offers over 25Pct higher than the NBE. This dis-incentivized miners to sell to the central bank, opting for the black market instead. As a result, Ethiopia's gold export dwindled from USD465 million in 2014/5 to USD27 million in 2018/9. After the price adjustment, the volume of gold sold to the central bank skyrocketed, exporting USD72 million in July 2020 alone.



Cost of GERD Forecasted to Double

The total cost of constructing the Grand Ethiopian Renaissance Dam (GERD) is calculated to reach ETB160 billion up from its initial projected cost of ETB78.3 billion, announced the project manager, Kifle Horro. The project has taken up ETB120 billion so far. The first phase filling of the dam took place in July, with 4.9 billion cubic meters held in the reservoir. Total project completion reached 75Pct, with electromechanical work at 46.5Pct and civil work at 88.8Pct.

Government to Quit Oil Supply on Credit

The Ethiopian Petroleum Supply Enterprise (EPSE) is preparing a new directive that prohibits distributors from accessing oil products on credit. EPSE imports oil and sales it for distributors and fuel stations owners. Fuel distributors used to take the oil products on credit, and pay after selling the oil to end users. However, the practice led the enterprise to often take distributors that default on their credit to court. The directive is, thus, intended to put a stop to the practice.

Nation Crafts First Automotive Policy

The Metal Industry Development Institute (MIDI) and the Ethiopian Investment Commission (EIC) are preparing the first automotive industry policy in Ethiopia. The policy focuses on import substitution and making Ethiopia a manufacturing hub by 2030. The policy will address incentive schemes, competitiveness, manufacturing of mass transport buses, and raw material supply. The policy also aspires to establish a separate industrial park for production and value chain of spare parts. Ethiopia spent USD53 billion on the import of metal and metal products over the last ten years, of which close to half is for machinery, vehicles and spare parts.

The amount of money the Ministry of Trade and Industry plans to earn from the export sector in the current fiscal year 2020/21.

USD 3.91 billion

Software to Filter Forgery

The Higher Education Relevance and Quality Agency (HERQA) launched a new software that identifies forged documents. It took a year to develop the software at the Ministry of Innovation and technology. The software also allows the Agency the control universities and higher education institutions online, apart from providing online services. The software, which allows only authorized people to use the online platform, is said to have effective security against cyber-attacks.

State Telecom Eyes ETB55 Billion Revenue

Ethio telecom, the Ethiopian telecom monopoly gearing up for competition, planned to increase its revenue from ETB47.7 billion in 2019/20 to ETB55 billion by the end of this fiscal year. The telecom giant is also undertaking expansions in its business support system, which will enable it host 80 million customers, 15Pct up from the existing capacity. The firm plans to increase the number of its clients from 46.2million to 52.12 million, mobile users from 44.5 million to 49.7 million, data and internet users from 23.58 million to 27.47 million, landline users from 980,000 to 1.08 million, and broadband internet users from 212,000 to 669,400.

Ethiopia Nominated for Subsidized COVID-19 Vaccine

The board of GAVI Alliance (formerly the Global Alliance for Vaccines and Immunization) and the Bill and Melinda Gates Foundation, selected Ethiopia to be one of the 92 low and middle income countries listed to receive the COVID-19 vaccine expected to be produced by 2021. These countries will access the vaccine at a price that is lower than USD3 per vaccine. The organizations entered agreement with Serum Institute of India to produce 1 million vaccines.

University Vies to Re-invent Itself

The Civil Service University finalized penning a draft proclamation envisaging to re-establish itself. Major changes will see changing the university from a-state-cadre-machine to meeting standard University requirements that detach it from accepting only politically inclined students. "The University did not serve as a free and independent institution," lamented Fikre Desalegn (PhD), President of the University. The University will also start accepting students directly from 12th grade, like other Universities.

€ 89 billion

Worth of the economic stimulus package France has unveiled to help repair the economic damage caused by the Coronavirus.

Top 10

Least peaceful African countries

	Country	Rank
1	South Sudan	160
2	Somalia	158
3	Libya	157
4	DRC	155
5	Central African Republic	155
6	Sudan	153
7	Nigeria	147
8	Mali	144
9	Cameroon	141
10	Niger	138

[illegible] Institute for Economics and Peace

The world is 3.76Pct less peaceful than ten years ago, according to the Global Peace Index (GPI). The latest rankings were released in June 2020. The Middle East and North Africa (MENA) remain the world's least peaceful regions for the sixth consecutive year.

In the 2020 GPI, Iceland leads with 1.078 score, while Afghanistan is at the tail with 3.644. Ethiopia ranked 133rd, up from 131st in 2019. Since the index was launched in 2008, Ethiopia's rank resonated between 119 and 146, the least being in 2015 and highest in 2013. EBR

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1
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The following are a few of the biggest news stories that took place in Africa in the last month. The stories are sourced from the Bloomberg and Reuters.

Adesina

Re-elected President of the African Development Bank

African Development Bank President Akinwumi Adesina was re-elected for another five-year term following a tumultuous three months that divided shareholders. Before the election, the AfDB survived a governance test when whistleblowers accused Adesina of helping friends and relatives get jobs and contracts from the bank.

An internal investigation cleared him, but the U.S. wanted an independent probe, a position supported by the U.K., the Netherlands, Switzerland and Sweden. It was vehemently opposed by Nigeria, while Equatorial Guinea and Sierra Leone expressed their support for Adesina.

An external review headed by former Irish President Mary Robinson last month cleared him. The 60-year-old Nigerian was the sole candidate to head the continent's biggest multilateral lender, in a virtual vote as a result of the coronavirus, at the end of its two-day annual meetings.

Libya

NOC Chairman Mustafa Sanalla met Italy's Foreign Minister Luigi Di Maio in Tripoli as they discussed the blockade of oil facilities in Libya, NOC said. NOC said Di Maio "affirmed his full support for the initiative proposed by the corporation to resume production and export of oil, and freeze its revenues in the corporation's account in the Libyan Foreign Bank."

Mali

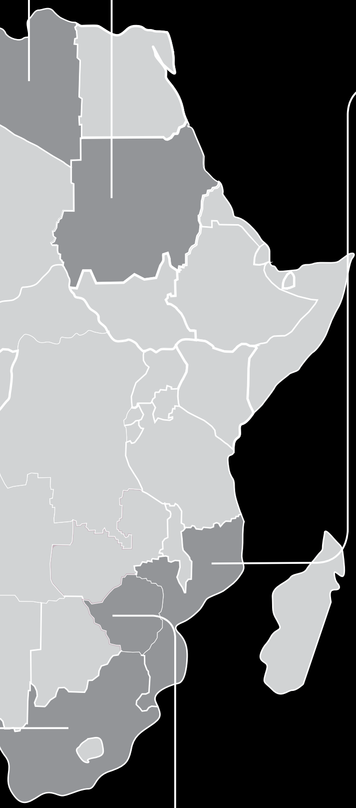
AngloGold Ashanti (ANGJ.J) and Barrick Gold (ABX.TO) will sell their effective 80Pct stake in the Morila Gold Mine in Mali, the miners said, as political crisis grips the West African nation after soldiers seized power in a coup.

Ivory coast and Ghana

The world's two largest Cocoa producers, Ivory Coast and Ghana, have created The Ivory Coast-Ghana Cocoa Initiative (ICCIG), a joint body to improve coordination in research, price setting and the fight against child labor, the Ivorian government said.

South Africa

Standard Chartered (STAN.L) is suing South Africa's Land Bank to recover debts, Land Bank said, after the state-owned agricultural lender defaulted on repayments for debt worth 50 billion rand (USD2.97 billion) in April. South Africa's Treasury said in June it would inject 3 billion rand into The Land and Agricultural Bank of South Africa.



Sudan

Sudan's Prime Minister Abdalla Hamdok told U.S. Secretary of State Mike Pompeo on August 25, 2020 that the country's transitional government was not mandated to normalize ties with Israel, its cabinet spokesman said. Hamdok reaffirmed the importance of separating normalization of ties from a U.S. decision on removing Sudan's designation as a state sponsor of terrorism.

Mozambique

French oil major Total has signed a security pact with the Mozambique government to protect a USD20 billion natural gas (LNG) project being developed in the southern African country, the company said. Total's project includes the development of the Golfinho and Atum natural gas fields in the Offshore Area 1 concession, containing more than 60 trillion cubic feet (Tcf) of gas, and the construction of a liquefaction plant with a capacity of 13.1 million tons per annum.

Mauritius

Scientists fear lasting 'Massive poisonous shock' impact from oil spill from a wrecked Japanese tanker nearby. The full impact of the toxic spill is still unfolding, scientists say. Satellite images also show the 1,000 tons of spilled oil spreading northward along the coastline from the spill site in the turquoise waters of Blue Bay Marine Park.

Zimbabwe

Zimbabwe says foreign white farmers can apply to get back seized land. Foreign white farmers settled in Zimbabwe whose land was seized under Robert Mugabe can apply to get it back and will be offered land elsewhere if restitution proves impractical, the government said.

AngloGold Ashanti to sell Morilla Gold

AngloGold Ashanti (ANGJ.J) and Barrick Gold (ABX.TO) will sell their effective 80Pct stake in the Morila Gold Mine in Mali, the miners said, as political crisis grips the West African nation after soldiers seized power in a coup.

Australian company Mali Lithium (MLL.AX) will buy the firm that holds the two miners' stakes in the mine - the other 20Pct of which is owned by the government of Mali - for a fee estimated at between USD22 million and USD27 million, Barrick Gold and AngloGold Ashanti said.

Both miners said the deal would allow them to focus their capital or attention elsewhere, would extend the life of the mine and "benefit in-country stakeholders". Neither mentioned the political situation in Mali.

Mali's President Ibrahim Boubacar Keita resigned and dissolved parliament earlier in August, hours after soldiers held him at gunpoint and seized power in a coup.

Five Major Criticisms of the Ten-Year Perspective Plan

Ten-year plans are not that common in the national planning endeavors of modern Ethiopia. Five-year plans, on the other hand, spell the standard for the governments that have administered the country since the 1950s. Breaking that tradition, the incumbent has formulated a Ten-Year Perspective Plan (TYPP). EBR's Ashenafi Endale looks into the five major criticisms scholars raise against the plan.

July was an eventful month for the National Planning and Development Commission (NPDC) as it was busy presenting afresh the Ten-Year Perspective Plan (TYPP) dubbed "Ethiopia: Beacon of African Prosperity". The roadmap came in the middle of the implementation of the three years Homegrown Economic Reform Program, a medium-term plan launched in September 2019.

Odd enough, the roadmap also came while the world was throwing every stone at hand on the short-term goal of averting the impacts of COVID-19. In fact, opposition political parties argued that the long-term plans are rather the ruling Prosperity Party's strategy to extend its grip on power by going beyond its transitional role. Regardless of the political party that implements it, the roadmap can be considered as a recovery plan from COVID-19.

The current roadmap is the second of its kind in Ethiopia's modern history following the Dergue regime's "Ten-year Perspective Economic

Plan," of 1985 to 1994. The Dergue's ten-year plan is regarded by scholars as the best long-term plan, by far. Ethiopia's first five-year economic plan was formulated during the imperial regime and it covered the five years between 1957 to 1961. Since 2004, EPRDF introduced three five-year plans: PASDEP and two GTPs. However, all of them have a low implementation rate.

Some countries craft long-term roadmaps that span 50 to 100 years to earmark a clear direction into the future, embody new potentials, devise new approaches and visualize new growth territory.

The overlapping span of the Homegrown Economic Reform Program and TYPP confuses implementing institutions and financiers. The Homegrown program targets remedying macroeconomic distortions inherited from the past administration. It envisages solving the distortions at macro, structural and real economic sector levels. Under it, the government is pursuing reforms ranging from improving ease of doing business to privatization.

The TYPP aims at growth, in which everything doubles. At the end of its implementation period, per capita income doubles from now and reaches USD2,248 by 2030, growing at 8.2Pct annually. GDP is projected to grow at 10.2Pct annually for the next ten years. The number of people living under the poverty line is expected to be slashed from the current figure of 19Pct to 7pct by 2030.

The TYPP has the ambitious plan of making Ethiopia a middle-income country by 2030. The GTPs sought to achieve the same target by 2025, but the feat proved too much. The TYPP lays out ambitious plans that require huge financial resources dwarfing those of the GTPs.

In a meeting held on July 24, 2020

featuring high government officials including the governor of the National Bank of Ethiopia (NBE), the Minister of Finance, Ahmed Shide remarked: "The TYPP requires sustainable funds through availing massive state financing."

"The macroeconomic imbalance we face today is a result of the wrong financing model and policies we had. Structural solutions are needed to solve structural problems," lamented the NBE Governor, Yinager Dessie (PhD).

The TYPP seeks huge financing in all sectors. For instance, the power sector requires ETB80 billion annually for the next ten years, according to a document presented by Sileshi Bekele (Eng), Minister of Water, Energy and Irrigation. At the end of the plan period, power production will increase from the current 4.2GW to 21GW. "This seems ambitious but it is critical to ensure that Ethiopia is ready for industrialization. We must achieve quality growth that entails maintaining stable macro economy and ensures people actually benefit from the growth as it would create decent jobs. These are our lessons from the past," stressed Fitsum Asefa, Commissioner of the National Planning and Development Commission (NPDC).

The homegrown program has come earlier but it is part of and the launching pad for TYPP. Similarly, GTP I was designed to pave way for industrialization during GTP II. Despite the tough economic, political and social current state of affairs in Ethiopia, economic growth seems to have persisted on the top end of the international community with the figures still within SDGs limits.

According to the World Economic Situation and Prospects 2020 recently launched by the World Bank, only the GDPs of Bangladesh, Benin, Cambodia, Ethiopia, Rwanda, Senegal and South Sudan are growing at above 7Pct per annum. Other LDCs remain far from achieving the "at least 7Pct annual GDP growth," required to fulfill the SDGs. 'In Ethiopia, economic growth is forecast to exceed 7pct in 2020 and 2021, driven by rising private investment, robust public investment and growing business confidence as a result of economic reforms; nevertheless, it is essential that Ethiopia addresses macroeconomic fragilities, including low levels of foreign reserves and currency shortages, high levels of debt, and an elevated current account deficit,' states the WB document.

"As growth continues trending with commodity price cycles, the need for a systematic diversification of the productive structure is clear. Industrialization lies at the heart of this transformation. However, other than in Egypt and South Africa, economic diversification across the continent remains low, though recent improvements are evident in a few countries, including Ethiopia, Morocco and Rwanda, as a result of proactive industrial policies. Also, global value chains tend to bypass the continent, as most African countries still export mostly raw or minimally processed goods," underscored the report.

The overlapping span of the Homegrown Economic Reform Program and TYPP confuses implementing institutions and financiers.

Critics on the TYPP

The TYPP is criticized for five major reasons.

The first criticism is associated with the government's failure to instate a new team of experts to craft the document. Experts drawn from the planning departments of all ministries and public institutions prepared the TYPP in piecemeal. These experts and institutions were part and parcel of past failures and current economic distortions. Planning and implementation cannot succeed without human capital. As Einstein pointed out: "We can't solve problems by using the same kind of thinking we used when we created them."

The National Planning and Development Commission (NPDC) has not prepared a compiled document like that of the GTP. The discussions among officials through July are also confusing as it was difficult to determine whether the government was gathering inputs for the draft or advertising a finalized economic plan.

Countries like South Korea prepare long term economic roadmaps by establishing a pool of experts from universities, public institutions, opposition parties, independent experts and even foreign experts. They either prepare a special capacity of local experts or hire from abroad. For the experts, they devise a new incentive structure that is higher than that of civil servants. Ethiopia's first ever five-year development plan that came into implementation in 1957 was crafted by the National Economic Council, established in 1955. The council consisted of a planning board and secretariat that are tasked with drawing plans. The executive committee of the board was chaired by the Prime Minister and consisted of all other Ministers. The second five-year plan of 1962-67 was also prepared under the same arrangement.

The Office of the National Committee for Central Planning (ONCCP), established in 1984, had 14 departments representing economic sectors, with regional planning offices in the then 30 administrative regions of the country.

In the current case, however, independent experts and university scholars say their input was intentionally sidelined. A leading economics professor in the country who lectures at Addis Ababa University and the London School of Economics, Professor Alemayehu Geda stated: "I am neither consulted nor given the draft document to comment on. They do not want to engage independent experts because the government knows that we are critical for real. They are afraid of critics."

The absence of baseline is the second criticism. Although the second GTP just ended in June 2020, the government has not bothered to evaluate the detailed performance during the specified period, identify reasons for failure and instate a new way of thinking. Alemayehu (PhD) noted that the government did not evaluate past performance and considered population survey to come up with a baseline. He added: 'it is difficult to plan without population survey.'

"We took our achievements over the last ten-years as a baseline. The second baseline is our vision of making Ethiopia an African beacon of prosperity by 2030. Local and regional reforms, international agreements, the African Free Trade Area (AfCFTA), regional bilateral agreements and international trends are taken as indicators. The Homegrown Economic Reform is part of the TYPP and it is the baseline towards a comprehensive growth," said Ahmed Shide.

Yohannes Ayalew (PhD), macroeconomic policy director at the Ethiopian Development Research Institute (EDRI), pointed out that GTP II is taken as a baseline. He further pointed out that population trend is known as it is possible to project population for 40 to 50 years using previous survey.

"

They do not want to engage independent experts because the government knows that we are critical for real"

Alemayehu Geda,
A professor of economics at Addis Ababa University.

The third criticism is that the TYPP has no official growth model. Yohannes Ayalew (PhD) affirmed that the TYPP does not have an officially adopted model used in its preparation. Alemayehu stated: 'the government did not use any model to prepare the TYPP. Thus, TYPP did not capture even existing problems, let alone the future. It also contradicts and overlaps with the Homegrown Reform program. The three years homegrown reform program is more realistic because it has no ambition for growth and it focuses on resolving existing problems. It would have been better if the government had gone only with medium term plan.'

"Adopting an economic model is not mandatory unless we look for a label. In fact, the tenets of developmental state are still in place in the TYPP. Active governmental role in the economy, dictating financial flow and crowding out the private sector are still in place. Practically TYPP will be implemented by a developmental state, although the government does not use the term due to political issues. The government announced it will liberalize exchange rate regime, bank interest and some SOEs in the years ahead. However, these are not enough to change it from developmental to liberal," said a micro-economic expert at the world bank who spoke to EBR on the condition of anonymity.

The fourth criticism is that real sector targets are not realistic. Agriculture's share to GDP is set to be slashed from its current 34Pct to between 22Pct and 25Pct in ten years. Manufacturing is expected to shoot up from 5.7Pct to between 17Pct and 18Pct, while the share of industry is expected to surge from 25Pct to 35Pct. Construction's share would be set back from 20Pct to 18pct. The share of the service sector is forecasted to stay almost constant with the current 40Pct share to stay between 40 to 45Pct. Agriculture is expected to grow at 6pct while the figure for industry is 13pct, of which manufacturing would take up 20.6pct. The service sector is expected to grow at 10.6pct.

The cost of abandoning agriculture is the failure to realize structural transformation, as witnessed in the GTPs over the last decade. The draft document devised by the Ministry of Agriculture, as an input to the new TYPP, offers no insight other than keeping up with the status quo. The only new development in the agricultural sector is the low land large scale farming recently kicked off. No modality is envisioned to relocate capital towards agriculture, transform the sector, and sufficiently address food security, input supply to industrialization and export.

The main reason behind the NPDC's projected reduction of agricultural share to GDP is the international standard of less than 25Pct share of agriculture to GDP to be categorized as a middle-income country. For a country like Ethiopia to really achieve this status, manufacturing must grow dramatically and fill the void left by the shrinking agriculture. Under current conditions in Ethiopia, the miracle needed to rocket manufacturing into a new stratum in ten years is not visible yet.

In defense of the establishment,

Fitsum pointed out: "we have built big infrastructures and industrial parks. They can be a huge source of growth, if we can make them productive." For the time being though, that is only a wishful thinking as their performance is rightfully depicted by her comrade Yinager as being in shambles. He remarked: "industrial parks performed way below our expectations. They are not even paying their debts, since they are not operating at full capacity."

However, the experienced micro-economist at the world bank who spoke to EBR on condition of anonymity argues there are avenues to boost manufacturing. "Ethiopia can use the opportunities in the international system. The big opportunity is that labor intensive industries are moving from advancing economies to developing countries, especially in Africa. Ethiopia's manufacturing started to takeoff only after manufacturing industries in China, Vietnam, Thailand, Bangladesh and other countries started to move to Africa looking for cheap labor. Especially light manufacturing industries, which first moved from the West to Asia, are currently moving from Asia to Africa. These countries are focusing on high end industries and the wage is hiking. Small industries cannot afford high wage; so, they move to low wage countries. African countries fit that bill ideally. Manufacturing took off in Ethiopia when the country was ready for FDI. That is still the hope. Only Myanmar exceeds Ethiopia in attracting FDI to low wage countries. Ethiopia was in the top five FDI destination in Africa," explained the microeconomist.

The tenets of developmental state are still in place in the TYPP.

The biggest opportunity in this endeavor, according to the microeconomist, is that the light industries do not move alone, when they move to low wage countries. "Their suppliers and buyers also move with them. When PVH, H&M and other global industry brands moved to Ethiopia, they also brought their input suppliers and customers. This bridges the supply gap in Ethiopia. Cheap labor and surging supplies of electricity still have a huge potential to attract FDI and boost manufacturing in Ethiopia. FDI was growing fast until three years ago when the political unrest started. Currently, most industries in coastal China and in many Asian countries are looking at which African country to move their factories to. Peace and stability determine their destination," he added.

"The TYPP plan will be amazing, if it can increase manufacturing to 18Pct and reduce agriculture to 25pct. this is the real sector mix of middle-income countries. What worries many is that the share of agriculture might diminish, but the service sector will balloon again repressing manufacturing. Manufacturing can replace agriculture by hiring more people, increasing value addition and supply side improvement. The right kind of service sector has not emerged in Ethiopia. There are capital consuming and petty trading services. The middle way type of service sector, which hires many people, did not emerge. Such sectors like IT contributed a lot to India's growth, also absorbing huge human capital. The TYPP is a good plan but I worry a lot about whether it would work out. It might succeed if all the constructed industry parks produced in full swing. The TYPP is hanging by many 'ifs.' It is good to make the plans ambitious, but the government also needs backup plans," added the World Bank expert.

"If manufacturing grows fast, the share of agriculture to GDP will diminish. Manufacturing can grow faster in the next decade, if efficiency can be achieved," remarked Yohannes. The TYPP also overlooked the importance of launching economic backbones such as iron ore industry, pulp and chemical industries, which are prerequisites for import substitution.

The fifth criticism is the marginal status given to the private sector. Due to absence of a well-defined model, the developmental role still rests on government shoulders and its development enterprises (SOEs).

The imbalance between demand and supply is Ethiopia's main problem. This is caused by the failure to make the huge public investments made in the past two decades productive and boost the supply side. The financing model in use prioritizes state hands rather than financing the right private sector. Financial resources are directed to public projects and SOEs, at the expense of private investors. The practice leads to the starting point of a vicious circle that includes printing and supplying fresh money to SOEs, ballooning broad money supply especially since the ambitious GTP was launched in 2009/10. Re-inventing real private sector is also critical and equal to overhauling public sector reforms.

The private sector is still given low attention. The financing mechanism has seen no reform. Although the Minister and Governor admitted the GTPs failed due to our financing model which prioritized inefficient SOEs, the government has not changed the status quo. The government's ambitious resource mobilization followed by public investment through SOEs indicates that it has not detached from the past. The private sector does not grow because the government privatized some SOEs. The huge debt SOEs bear would be transferred to the Ministry of Finance (MoF), so they can take more loans and start new projects. The TYPP has all the attributes of a developmental state. The difference is that 20Pct of public investment will be covered by the private sector now, under PPP.

In general, experts agree that the government should focus on short and medium-term plans, until it undertakes full-fledged reform. With such sharp criticisms directed at the TYPP, the government needs to bend a bit from the usual trend of things and engage scholars and other relevant stakeholders. Afterall, more reviews and constructive criticisms would only help bridge the perceived gaps in the planning document..EBR

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CEMENT CONUNDRUM

Shortage of cement is one of the identifying characteristics of the Ethiopian economy over the past fifteen years. Despite the success made in substituting cement imports by local production, the dynamics of Ethiopia's cement market have drastically changed since 2018. Cement shortage has become very normal, while unexplained price hikes have shaken the construction industry. Even though the government has taken different administrative measures going as far as price caps, the problem is far from over. EBR's Ashenafi Endale investigates.

Birhan Kassa, founder of BK General Contractor, nearly came up with a pioneering idea in the housing market after attaining patents for a new prefabricated product. The innovative product, which can complete a 20m2 house for ETB40,000 in less than a month, eliminates the use of concrete blocks, rebars, and columns, relying on cement as the main input. The company decided to introduce its new business as a strategy to get the construction industry out of a slowdown.

However, the glimmer of hope subsided when cement prices skyrocketed by as much as three-fold, especially over the last eight months. This has doubled the expenses of construction companies. "It is easier to find mercury than cement. When we find it, usually from brokers in the black market, they double the price but give you a receipt as if they sold it to you at the original price. We pay half the price from our pockets and cannot include it in our financial statements," said Birhan.

Contractors usually purchase cement from retailers rather than directly from cement plants. "Cement factories and distributing brokers affiliated with cement factories take money in advance but do not deliver the cement quickly," he added. "This ties up our money. We get money when it is released from clients; so, we must use it on other urgent issues like paying for labor. So, we prefer to buy directly from retailers who sell cement informally."

Contractors and individual builders of houses pay upfront and wait for seven months after ordering cement directly from factories. However, the industry and the market are not delivering. Regional trade bureau heads are especially the first to complain to the Ministry of Trade and Industry (MoTI), pushing for an intervention in the market. The heads in the Southern Nations, Nationalities, and Peoples' Region (SNNPR), Oromia, and Amhara regions complained that it takes between three to 15 months to get cement after putting in an order.

"We do not know the cement

distributors. They are all in Addis Ababa, around Ashewa Meda. When Oromia region orders cement, it does not come directly from the plants. It goes first to Addis Ababa and bringing it back is very difficult," said Worku Chala, Head of Oromia Trade Bureau. This is despite the fact that two-thirds of the factories in the country are located in Oromia regional state.

The price of a quintal of cement stood in the range of ETB382 and ETB600 in SNNPR, ETB470 to ETB500 in Oromia and between ETB500 and ETB670 in Amhara, according to regional heads. "Demand has increased in our region, while supply side problems have worsened. It takes a minimum of three months and a maximum of fifteen months to get cement, after putting in an order. This is because the market is controlled by layers of brokers," Worku complained.

Why is Ethiopia facing a cement shortage?

With the addition of Derba, Dangote, and Habesha to the industry, and the expansion project of National Cement five years ago, Ethiopia was able to fully stop cement imports, which stood at 1.4 million tons in 2014. They boosted the installed local capacity to 17.2 million tons per year. With demand around 10 -11 million tons, sector players have been producing close to the actual demand—churning out 8 million tons on average.

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The production capacity of Dangote, Messebo, Derba, and Mugher alone totaled 10 million tons per annum. These big players each produce around 70,000 quintals on any given good day. Government even banned new investments in the industry, concluding that enough potential has been reached. Shortages and price hikes in the cement market were unheard of until two years ago.

Currently, only 14 cement factories are active though 21 have been licensed. The active ones produced 8.4 million tons in 2019/20 and 8.24 million tons in 2018/19. The reduction in number of the active cement factories from 21 to 14 brought down the total installed capacity from 17.2 million tons per year to 13.8 million tons. The new entrant, Abay, is now under construction and progress has reached 60Pct. Owned by Abay Industrial Development SC, the factory is located in Amhara regional state and has an annual production capacity of 2.1 million tons.

The cement industry has faced layers upon layers of difficulty over the past two years, with this accumulation reaching a boiling point around May 2020, triggering frequent talks between government and industry players. The current scarcity and inflation are at their highest in eight years.

One major reason is power interruptions. Although cement factories have dedicated power lines and special agreements with Ethiopian Electric Utility (EEU), reduced rainfall forces hydropower dams to produce less power and national power shortages occur. Power to the industry was reduced by a whopping 50Pct and they could only operate for 15 days a month. This power rationing and halving of production continued for six months.

"Automatically, cement production declined and the prices skyrocketed. Cement orders from clients accumulated as the industry was unable to deliver," remembers Haile Assegide, CEO of Derba Cement and President of the Cement Industries Association. Accumulated orders have a harmful impact. For example, after a three-month hiatus for maintenance, Derba resumed production in May 2020. At this point, its accumulated cement orders reached over 1.2 million quintals, according to Haile.

A large majority of electric power in Ethiopia is generated by damming water systems; and other means of power generation are limited in capacity. This situation has contributed to power outages. Hydroelectric power generation declines following a reduction in rainfall. "Energy source diversification and engaging the private sector in energy production is a new trend we are working towards now—allowing private power investors under public-private partnership (PPP) arrangements. Privatizing Ethiopian Electric Power (EEP) is another possible plan that the government is currently working on," stated Moges Mekonen, Communication Director of EEP.

Shortage of foreign currency to import spare parts also contributes to cement shortages. Almost all plants have been struggling with failed machinery. Derba, Dangote, Habesha, and Mugher, big industry players, stopped production for at least two months in 2019 alone. Ethiopia annually spends between USD180 million and USD230 million to import spare parts for the cement industry.

"Government says it is supplying foreign currency. But that is false. We were availed access eight months after requesting. At Derba, one of our dynamos, which crushes a third of our daily 70,000 quintal production, failed and stopped for eight months," recalls Haile. The maintenance took Derba much longer than the usual three weeks. Cement factories usually perform full maintenance works during the rainy season, when production stops.

Another reason for the supply gap is logistical hurdles. Cement is commonly transported by trucks owned by the manufacturer, private transport companies, or the end buyer. Cement factories have a total of 1,800 trucks. Derba, Dangote, and Habesha are just 70KM from Addis Ababa but their transport costs are currently ETB80 per quintal—up from ETB25—due to the shortage of trucks.

Private companies move the majority of cement. However, every year in May, government deploys these trucks to transport fertilizer for the agricultural season. They also transport imported basic commodities accumulated at Djibouti port. During this time, cement mobility drops. Due to this shortage of trucks, cement transportation tariffs increased almost three-fold, even when the factory is near major markets. This tariff increment and its knock-down and multiplying effect was key in inflating cement prices.

Shortage of foreign currency to import spare parts also contributes to cement shortages.

"We recently requested government to allocate 60 trucks for Derba. We are currently back to producing but we need more trucks to transport faster," added Haile.

A further problem is that the government's initiative to replace coal imports for cement producers with locally mined coal brought about inconsistencies in supply and quality. Government is forcing the sector use 80Pct local coal. The big factories are achieving this ratio and local enterprises have started mining coal in Kamashi/ Benishangul, Jimma, Chilga/ Gonder, Debre Birhan, and in some areas of SNNPR. Yet, some are complaining that local coal is of inferior quality, with more ash content. The heat value of local coal is between 2,800 calories to 4,500 calories, which is almost half of the heat value for imported coal. The price of local coals stands at ETB4,975 while that of the imported coal is between ETB7,000-ETB7,500. Ethiopia annually spends USD220 million to import coal, with the Ethiopian Petroleum Supply Enterprise the largest importer. NOC, one of the largest oil suppliers in Ethiopia, also imports coal from South Africa. Additionally, the sector is also susceptible to political unrest and illegal settlements on quarry sites.

Going further down the cement marketing line, some say the contribution of distributors, wholesalers, and retailers to the shortage is more to blame. Some insiders conclude that cement factories and big distributors made a secret deal with officials of the former ruling government, aimed at creating an artificial shortage and price inflation, i.e., economic sabotage, as a revolt against the new ruling party and officials. The insiders explain that distributors have huge cash at hand, enough to buy entire production lots and sell it only in the black market on their own terms. Sources also claim distributors are effectively twisting the hands of factory CEOs, transporters, and even government officials.

"Distributors, wholesalers, and retailers

abused the problems facing the industry to their benefit by holding product and inducing inflation. They moved the cement market from the formal to the black arena," said Simegn Degu, Director of Cement Industry Research and Technology Development.

The way forward

The government's first action to arrest the pricing hike and supply shortage was setting a price cap after failing to find logical reasons for the occurrence. "Power supply to industries was significantly reduced last year but it has improved this year as the rains were better and our dams are holding high water volumes," said Melaku Alebel, Minister of Trade and Industry.

Since June 2020, the government has begun to determine the retail price of cement throughout the country. It has also ordered five publicly owned and party affiliated enterprises to exclusively engage in PPC cement trading. For Ordinary Portland cement, 50Pct of production must go to the enterprises with the balance permitted through regular marketing chains.

However, the measure has hardly had a favorable outcome. Cement is still accessed from the black market at inflated prices. This is mainly because the five chosen enterprises are lacking in skill and experience in the cement trade and are rather outsourcing their responsibilities to the same existing distributors, wholesalers, and retailers.

"The government's latest decision can be a solution in the short term, if these publicly-owned enterprises deploy their transport trucks. However, a lasting and long-term solution is to improve production efficiency and modernize the market chain. The secondary market in Ethiopia involves many layers. Informal distributors have vast resources and capacity even in manipulating policy makers—not only manufacturers and the market," said Fitsum Nigussie, CEO of East African Trading House, sister company and sole distributor of National Cement SC (NCSC).

Fitsum says Ethiopia's cement problem can be addressed if existing industries utilize 90Pct of their installed capacities. Currently, only NCSC is close to that figure at 94Pct utilization; the industry average is below 50Pct. NCSC produces 4,000 tons daily and 1.2 million tons annually.

"NCSC is currently the top producer," explains Fitsum, further adding that "logistics is the main problem for us as our plant is far from the central market, in contrast with most of our competitors. Our factory in Dire Dawa is far from the central market but near export routes. NCSC exported to the tune of USD17 million in 2018/19. So, we have preferable accessibility to foreign currency. But we pay a considerable amount for our expatriates. Every cement industry in Ethiopia has 25 to 30 expatriates, including NCSC, usually from China and India. Chemical and Construction Input Industry Development Institute (CCIDI) must work on producing local experts and professionals to replace expats. On the other hand, for the last year-and-a-half, we have reduced our import bill by substituting 80Pct of our coal consumption. On another note, our quarry sites are being occupied by illegal settlers. Government must work on maintaining the rule of law."

Fitsum stresses government should properly regulate the cement industry and straighten the market chain. "Government left the sector to operate in a free market but a free market cannot operate by itself, not in this economy." Currently, brokers are profiting more than any other actor in the cement market. They do not have licenses, trucks, warehouses, or issue receipts. Brokers take in ETB100 per quintal, while the factory only profits ETB10. Government still has not decided to whom specifically factories should supply their cement.

Additionally, if distributors in Addis Ababa quit supplying cement, access of all other regions to the product will be negatively affected. Every distributor, wholesaler, or agent prefers to sell in Addis Ababa. "The regional problem cannot be solved without solving the problem in Addis Ababa. However, the high price in the regions can quickly drop if government avails additional trucks," says Haile of Derba. "We are ready to supply, if the public enterprises bring their trucks."

"Government must find other options to transport fertilizer and other basic

"Informal distributors have vast resources and capacity even in manipulating policy makers,"

Fitsum Nigussie,
CEO of East African Trading House, sister company and sole distributor of National Cement SC (NCSC)

commodities from ports. If factories continuously produce at full capacity, the role of brokers will diminish. We can even export then. So, public development enterprises can engage in distribution but they must bring their own trucks," added Haile.

The struggles of Ethiopia's cement industry are painful even for Kassim Bromana, CEO of Habesha Cement since joining in February 2020. He has 30 buyers of experience in the industry in 17 countries, mostly outside Africa. "Growth of the cement industry is critical for Ethiopia's sustainable growth. Unfortunately, I have seen a shortsighted sector, though I have not been here for long. The market is eyeing only short-term profits and factories rely on external support to run factories," said Kassim. Habesha cement is far from this ratio target. In 2019, Habesha utilized only 30Pct of its installed capacity. "There are many reasons for this. Our factory selling price is currently ETB250, per quintal and our production cost is also ETB250. We are selling at a loss. I am not asking for a price increment but how to boost efficiency, with government support," he added.

Kassim stresses Ethiopian cement manufacturers cannot achieve a 30Pct Earning before Taxation and Interest (EBTI) ratio, within the existing situation. "My turnaround plan for Habesha is improving efficiency. We sell only to the Addis Ababa market because our close to 40 trucks are not enough to transport to regional markets. Transport is not a big problem. If it allows me to grow my EBTI, I can deploy a transparent transport system and control the supply from the factory," he said.

Factories pay around ETB0.25 to transport sub-contractors per quintal. A quintal of cement reaches the market at ETB270, adding on the ETB235 factory cost. Retailers have around ETB30 margin. "Reducing the factory price does not favor the cement industry unless we straighten what is happening in the market. Either I must be able to directly sell the cement at ETB420 to the end consumer, or the end user must be able to access cement at the ETB235 factory price," is Kassim's view.

Haile stresses that the sector substantially requires government incentives and support. "Coal prices increased from ETB3,200 per ton to ETB4,975 per ton in just 16 months. Power jumped from ETB0.40 to ETB0.80, per MW. We used to pay ETB10 million to ETB15 million per month, for power. Now that has increased by ETB4 million. Had the power supply been continuous, the impact on the sector could have been less. If government incentivized the sector by providing foreign currency for spare parts, other factories would have been more confident in using local coal," he added.

One major reason for the cement conundrum is power interruptions.

The absence of local cement professionals inflicts further harm upon the industry in Ethiopia. Factories hire up to 40 expatriates from China, India, Pakistan amongst others, paying a monthly average of USD2,000 per head. "The Ethiopian cement industry needs to develop its own experts and professionals. Nobody is spending a penny on local human capital. Every industry is running to bring Chinese experts to run their plants. Habesha Cement has 40 Chinese experts in its factory. We pay an average of USD2,000 per head monthly. There is also a translator for each. Yet, the performance is very lousy. This cannot be sustainable," said Kassim.

Meanwhile, Melaku stated that the government has allocated USD85 million to import spare parts for cement factories. If the spare part problem of big cement factories such as Derba, Dangote, Mugher and others is solved, the actual capacity utilization of the cement industry will improve to 63pct, up from around 45pct since May 2018 when the problem first appeared following a governmental move to cut electric supply for industries by 50pct. Capacity utilization plummeted to as low as 20pct in the last few months. The country's cement problem would be locally addressed, if the industries utilized 85pct of their capacity. The macro-economic committee decided that the factories need to be done with maintenance and achieve this rate of utilization by the end of October. The 14 active cement industries are expected to produce 345,000 quintals of cement daily; however, they are currently producing between 100,000 and 200,000 quintals.

On August 25, 2020, Minister of trade and industry, Melaku Alebel briefed media on lifting the price cap on cement. The Ministry also allowed cement import five years after Ethiopia totally substituted cement import with local production. The government plans to import 3 million tons of cement over the next three months in order to bridge the local supply-demand gap. The Ministry has now lifted the price ban it put in place two months ago after assessing that it has not served the cement conundrum. The Minister attributed the declining local cement supply to lack of spare parts in the factories, power fluctuation, input shortage, skill gap, instability around quarry, and other problems in the market chain.

Although the country has over 17 million tons of annual installed production capacity, actual production stands at 8 million tons. The demand for cement by the construction industry stands at around 11 million tons annually. The planned import of 3 million tons can bridge the demand and supply gap, although import cannot be a lasting solution due to the shortage of foreign currency.

Other administrative measures targeted at solving the cement shortage will be implemented, according to the Ministry of Trade and Industry. But whether such actions would be a panacea to the nationwide problem is yet to be seen. EBR

“Regulation Banning New Investments in the Cement Industry under Amendment”

Simegn Degu is the Director for Cement Industry Research and Technology Development at the Chemical and Construction Input Industry Development Institute (CIIDI). He has been leading several research projects that seek to solve bottlenecks in the cement industry and pave the way for the sector’s development. Simegn believes several factors, including artificial shortages and corporate management problems have contributed to the recent spike in the price of the commodity. He believes the recent administrative measures taken by the government are not going to give a long-term solution to the problem. EBR’s Ashenafi Endale sat down with him to understand what went wrong in the market, especially over the last six months.

What are the reasons behind the shortage in the supply of cement?

Ethiopia has substituted import of the product and there has been no cement shortage for five years. However, cement shortage occurred beginning May, 2018. At this time, the main reason was the power rationing in place for cement industries due to power shortages following the dry rainy season of 2016. The power supply of industries was reduced by 50Pct with the factories only getting power for 15 days a month for six months starting from May, 2018. Only after deliberations with the Ethiopian Electric Utility (EEU) did fulltime power supply resume in September, 2018.

Between September and January 2019, all manufacturers were back in operation and prices stabilized. But again, the price of cement began to soar since February 2019 with the situation worsening over the last few months. This time, the cause can be attributed to Addis Ababa City Administration’s ad-hoc policy that banned non-emergency heavy trucks from the city’s limits during the day with the aim of reducing the capital’s traffic congestion.

Over 70Pct of cement industries are within 100 kms of Addis Ababa and their trucks must cross the city to transport inputs and products. The ban on truck mobility seriously affected production until we talked to the city administration and had the law relaxed. The ban was lifted in September, 2020.

Surprisingly, cement production increased slightly during 2019/20 relative to previous years with total production reaching 8.4 million tons, up from 8.24 million tons in 2018/9. We receive production reports every month from factories. Despite the increase in production, market supply decreased. Many opportunistic cement distributors and wholesalers started hoarding the product, speculating upon another drop in cement production.

There was some truth to the speculation because some cement factories were facing machinery failure and lacked foreign currency to import spare parts in time. Scarcity of transport trucks further pushed up the price. Every year beginning May, all trucks in the country are customarily shifted to transport fertilizer and other basic commodities from Djibouti port. This is an annual schedule.

Therefore, in June 2020, the government intervened in the cement industry because the price almost doubled and projects and regional states were unable to sufficiently access cement for a long time. Government allowed five public enterprises to engage in cement transport and distribution with tagged prices. Industries are mandated to allocate 50Pct of their cement production to these public enterprises while directly selling the rest through their own channels. The intervention was meant as a short-term solution. The long-term solution includes ensuring a continuous supply of power and foreign currency to the cement sector for an efficient and continuous production and supply.

Cement industries have dedicated power lines. Why did the government change to rationing?

There was a national power problem. But the rationing stopped within six months and the power problem was solved once the summer rains filled the hydropower dams. The power issue was solved in 2019. There is no rationing now. Though most of the cement factories have dedicated lines, they are not immune to national power shortages. Some industries like Mugher share their power lines with households.

After the power issue has been solved, industries have still been unable to produce sufficiently as they are preoccupied by failed spare parts. Why did spare parts become a big issue throughout 2019 in the cement industry?

All cement plants have spare part problems. Despite daily capabilities of producing 5,000 tons, for instance, Mugher only produces around 3,000 tons per day. The rest is lost because plants are unable to run without replacing overrun or broken parts. The issue of spare parts did not occur overnight. It has accumulated over the years as sector players have been by-passing mandatory annual maintenance procedures and operating with depreciating spare parts year after year. Such adaptiveness gradually decreases their output and forces a total shutdown down the road. Some factories such as Mugher are facing a failure of the kiln while others are tackling more severe wearing down of bigger machines in their plants.

The power supply of industries was reduced by 50Pct with the factories only getting power for 15 days a month for six months starting from May, 2018.

Derba is currently finding solutions but one of its machines was out of service for months as they could not import spare parts. Dangote is also facing a spare parts problem. This is because Dangote was not undertaking regular annual maintenance work since it became operational five years ago. Cement industries operate the whole year and stop during the rainy season to undertake full maintenance runs. It is recommended that factories totally shut down during the two rainy months (July and August) and undertake full-fledged repair works. This enables them operate the whole year efficiently.

Most cement industries are new and have opened within the last ten years or less. How did they wear out so quickly?

True! The big industries including Dangote, Derba, National, and Habesha are less than ten years old. A cement factory must operate sustainably for the first ten years at least based on international standards. But in the case of Ethiopia, the cement factories have been operating the machines year after year with minimum servicing, ignoring mandatory annual full-scale maintenance works. Their machineries have reached the point of maximum weariness this year. The production for 2019/20 increased because we pressured the sector to operate with maximum effort and address overdue orders and waiting lists.

Most industries are located in the Oromia region. But prices have doubled to ETB600 in this region and accessing cement is difficult. Transport is mentioned as one of the main reasons. How could transport be a reason for Oromia, if most of the industries are in this region?

Transport price increased in this region, illogically. For instance, the price variance between Dangote's factory in Mugher and Addis Ababa was ETB25. But it climbed to ETB80 in less than two years' time. This has a significant implication on the cement end user. Mugher is 90km from Addis Ababa but the price nevertheless increased to ETB450. The price hike increases further away from the capital. We are currently negotiating with stakeholders to bring transport rates back to previous levels.

Most industries are in Addis Ababa or in its surrounding vicinities. But Oromia region is large with up to 600 kilometers to the East and West of the capital. The problem reflects the typical nature of the informal market chain in Ethiopia. Distributors just send their trucks to plants, load cement, and take it to wherever they want and sell it for whatever price they want or even hoard it.

How many trucks are in the industry?

Close to 1,800 trucks, which are owned by cement industries. They supply to their clients and big projects such as the Grand Ethiopian Renaissance Dam (GERD). Other trucks are owned by private distributors, transport service providers, and big clients who transport for themselves. The number of trucks is not enough.

How do you evaluate the progress in stabilizing the cement price after government intervened in June and determined retail prices?

The government has the responsibility of protecting society from irrational inflation. The price stabilization measure taken by the national committee cannot be a long-term solution. Short, medium, and long-term plans are required to effectively solve the problems of power supply, inputs, spare parts, foreign currency access, and logistics. We started working towards this end. But the price needed immediate action. Public enterprises are selling in line with prices fixed by the government. But there are loopholes where large portions of production are going to the black market.

Each cement industry brings up to 30 expatriates with their salaries in foreign currency. What is CIIDI doing to produce cement professionals locally?

Cement value chain and production technology is highly complicated. It needs highly skilled professionals and operators. We have introduced a very good cement strategy in 2015. The industry needs 20Pct high-quality professionals, and 80Pct technician-level professionals. A strategic study is needed to determine which one should enjoy emphasis. We decided to work on the 80Pct.

We agreed with Technical and Vocational Education and Training (TVET) colleges to launch cement technology departments. It has already begun in Mekelle, in cooperation with Messebo Cement. We worked hard to introduce cement curricula and operational standards, which Ethiopia previously did not have. We hired foreign experts and trainers. Now we are working on enabling each factory produce their own middle level operators and experts, alongside TVETs. Local professionals will replace the expatriates soon, at least at the middle level.

How many cement plants are there? Are there new plants in the pipeline?

There are ten plants producing both clinker and cement. There are three more that receive clinker form others and produce cement only. In total there are 13 factories. New investments in the cement industry were banned by an investment regulation introduced a few years back. The restriction was in place since the total installed capacity in Ethiopia reached 17 million tons per year back then and this was deemed sufficient. But in the coming years, the demand from the construction industry is forecasted to increase, especially in light of the recently launched Ten Years Perspective Plan (TYPP).

It takes a minimum of five years for an investment in the cement sector to become operational. Therefore, we have to invest today, to have a new cement factory in five years. Dangote and Derba have already asked for an expansion investment planning to extend new production lines onto existing plants. They will be given the green light first. Next, investment licenses will be given to new cement investors.

So, is investment allowed in cement industry?

The investment regulation must be revised. The amendment is already underway and the Ethiopian Investment Commission (EIC) and the Ministry of Trade and Industry (MoTI) are working on it. Ethiopia's investment proclamation was recently amended and its regulations have already been finalized by the Council of Ministers. One of the amendments in the draft investment regulation permits investment in the cement sector. Government has approved the idea. Once the regulation is ratified, Dangote and Derba can start their expansions. New investments will also resume. Potential investors will be invited.

A large research document has been presented to the investment commissioner and MoTI officials. There are positive signs on the amendment but it is still in the pipeline. Currently, there already is one cement factory in the pipeline, in the Amhara regional state—Abay Cement by Abay Industrial SC. The main solution for existing problems is addressing all issues immediately and enabling existing industries produce in full capacity. This will be attained in three months' time.

The cement factories have been operating the machines year after year with minimum servicing, ignoring mandatory annual full-scale maintenance works.

How do you evaluate the impacts of the cement supply gap on the construction industry?

It has a significant impact. Especially as the government has been pressing construction projects to be finalized on schedule, cement shortage should not be an issue to linger. The governmental measure not to delay construction projects is meant to avoid any labor layoffs during the COVID-19 pandemic. The main contribution of cement factories and the construction sector is their immense employment potential besides development. But the construction sector is severely affected and can come to a standstill due to cement shortages and unjustified increases in other expenses. EBR


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MOHAMMED NURI'S (MD) UNORTHODOX PATH TO A DREAM

It only took little Mohammed Nuri three years to complete the six grades in elementary school. These were early signs of him being an extra-ordinary student. He lived up to those early expectations when he passed the Ethiopian School Leaving Certificate Examination (ESLCE) with flying colors and joined Jimma Medical School at the tender age of sixteen. A kid from a poor family of not well-educated parents who came to Addis Ababa from a village in rural Ethiopia, Mohammed always sought to one day change their lives. The prime motivator behind Mohammed's decision to join medical school was the relatively higher pay it offered. Medical doctors received a salary of ETB835 back then as opposed to about ETB600 for B.A holders in some other fields. When he was just a freshman, however, his mother passed away after the medication she needed could not be found following a surgical procedure. That moment of grief dawned on him the importance of raising the availability of pharmaceuticals in the country. By the time he graduated, Dr. Mohammed realized that it would be difficult to change things around with that salary. He declined an offer to teach at Jimma University and went into business instead. He now owns Ethiopian Pharmaceuticals Manufacturing Sh Co. (EPHARM), MedTech Ethiopia and is the Ethiopian shareholder in Julphar Ethiopia (the Ethiopian chapter of the UAE pharmaceuticals company). Besides these huge pharmaceuticals manufacturing and importing companies, Dr. Mohammed has a stake in Zenbaba General Hospital. He also owns Enat Engineering, MedTech real estate and Konjo water. EBR's Tewedaj Sintayehu spoke to the medical doctor turned businessman. Excerpts:


COLD GOLD


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EBR: How did you go into business after graduation?

Ever since I lost my mom because of the unavailability of pharmaceuticals, I developed the conviction to change pharmaceuticals supply in the country. I felt that sticking to treating patients only was limiting myself. I graduated with that line of thought. Therefore, I declined an offer to teach at Jimma University and the alternative course of being assigned at a hospital in a remote part of the country. I wanted to stay in Addis Ababa because it is the economic hub with numerous opportunities. Therefore, I decided to work part-time at a clinic in Addis Ababa. By doing that, I took the biggest risk in my life. It was a shifting point in my life.

Parallel with my part-time work at a clinic, I joined a group of businessmen. The group mainly comprised of old friends who had already been in business. That is how my business career started.

> **"I felt that sticking to treating patients only was limiting myself."**

Does that mean you agree with people who claim education does not pay?

No. Certainly not. Honestly speaking, graduating as a medical doctor has helped me a lot in my line of business. I wholeheartedly believe education is the base for everything, especially in this rapidly changing digital world.

How was your start in business?

It was really challenging. Before shifting into business, I had to convince myself first. Despite my family and friends incessantly pressurizing me and claiming I was crazy for shifting at that moment, I believed in myself to live my dreams. My strong belief in myself is probably one of the crucial elements that pushed me along this path. I remember saying back then that I had to set up a company that imports important pharmaceuticals ignored by others. I envisioned the MedTech I have now twenty years back. That is why MedTech was the first company in Ethiopia to import anti-HIV drugs. We now provide 20 medicines with low prescription rates and thus could not easily be found in the country. These medicines include those of cancer and dialysis.

When I started up in business, I joined a group of friends who went to Dubai to import some items they could sell here. So, I started out with a simple trading activity of importing non-pharmaceuticals products. When I went to Dubai accompanying my friends with help from my brother to study the items I could import, I met the company that produced 'Fine' tissue paper. I ended up being the first person to introduce that tissue paper in Ethiopia. I made some money off it and a year after I graduated, I opened a small pharmacy called 'Royal' near black lion hospital on the way to Teklehaimanot. I used to stand at the counter and sale pharmaceuticals in that pharmacy. The pharmacy grew rather fast as people started to appreciate the medical advice I gave them and preferred to buy from me. The medical profession also helped me identify which products to look procure.

After starting up a business, another challenge people find difficult is sustaining and expanding it. How did you manage that?

You see, you don't have to use that word 'difficult.' The moment you think it is difficult, it becomes just that. That is an important point. For most of us, the problem starts from ourselves. We paralyze ourselves with simple thought. When we don't have the courage to try new things, we say that thing is impossible. But anything new we have to learn faces us with difficulties. Having the mental stamina to face up to the difficulties is like getting through half of the actual job.

To come to your question, Royal pharmacy was a retail business. I bought imported pharmaceuticals and sold them with a bit of profit. After building up my financial capacity, I sought to import medicine myself. Then, I checked the regulatory bodies for the criteria I have to fulfil.

I travelled to Dubai quite a number of times by then and my new plan required that I go to the Far East. I organized a tour of nine countries; including: China, Hong Kong, South Korea, Malaysia, Indonesia and Singapore. The purpose of my one-month tour was to find companies that produced products fit for the Ethiopian market and that could accept me as their agent. I made a number of deals in that business tour although I did not start MedTech by then. Once I got in contact with all those companies and collected a huge data, I got back and started MedTech on a 75m2 plot of land in my father's house with five stuff members with a registered capital of ETB500,000.

Once MedTech was established, we used the data and deals I had from my trip to import pharmaceuticals for Royal pharmacy and for others as well. I later opened another pharmacy. A year after that, I established Zenbaba General Hospital in collaboration with my friends.

Therefore, expansion of businesses requires that we first raise our financial capacity, know the next level of service or production we can venture into, find out about the regulatory demands, identify partners, forge working relations with them and invest in the expansion.

With the expansion of your businesses mature now, you have MedTech Ethiopia, Julphar Ethiopia, EPHARM, Enat Engineering, MedTech real estate and Konjo water. Managing a single company is daunting enough on its own; how do you live up to the challenge of managing all these companies?

You don't manage all your companies on your own. You have to let others manage your company. Under such conditions, you don't hire people to manage them; you hire them to manage your companies. We have a modern system in place and we have professionals to run the system.

Professionals with the educational skill and personal attitude can work miracles in a modern system. With all these things in place, it is not as complicated as you think it is.

In a country like our where professionals are scarce, it is quite a challenge to put in place a system that optimizes your work. High level professionals, especially in the pharmaceuticals field, are very scarce in Ethiopia. Under such conditions, allotting due attention for your work and head hunting the right people to manage your company are very important. Once you get that person, you have to empower and motivate them to feel that they are managing their own company. I think that is one of my strong traits. I don't treat people as employees but as part of my family. The rewards you give should not always follow the benefit schemes in one's contract. The things you do for your family are not limited; therefore, going beyond the legal limit stated in the contract helps create a special relationship.

Do your engagements negatively affect your family life?

A tough question to answer but of course they do. If you are busy, you are using the time you could have spent with your family. As the time you spend on your job increases, therefore, you are taking off some time from your quality time with your family. But in another way, spending a lot of time at work might have a silver lining as children would feel proud about the success of their parents. The fact that they see me on Tv or on some publications, makes them feel like my engagements have been worthwhile. So, there are also a lot of positives in family life that come out of being busy. In general, being busy can have both negative and positive effects on family life.

In my case, I spend time with my children every day and on weekends. I budget my time to make sure that I have quality time with them. But I have missed some family trips because of business engagements and they understand that.

Are all your companies profitable on their own or do you juggle resources from more profitable ones to keep some afloat?

In business you make profit some years while you lose in others. As MedTech is the conglomerate under which the rest of the companies fit in, its profitability is the cumulative effect of the performance of all companies. MedTech is profitable. However, profitability in terms of numbers is only one part of my understanding on profit. For me, contributing something positive to the public, discharging one's social responsibilities and creating job opportunity to citizens are also in the profit mix. Therefore, based on such parameters, all my companies are profitable. As we are living in a country that is one of the poorest by African standards and has an unemployment rate of above 20Pct, creating job opportunity for around 2,000 people who are my fellow citizens is a profit for me.

Appropriating resources from a profitable company to others that are not as profitable is one of the biggest problems a businessman needs to take caution of. Each company needs to be treated independently. If you take your gains from one company and dump it on another that is not profitable, the net effect will pull down the profitable company. We had that kind of experience but we have learned through time. Now, we run each of our companies independently.

What has been the role of your pharmaceuticals companies in fighting the Coronavirus pandemic?

A day after the first case of COVID-19 was discovered in Ethiopia, we started - not making - but selling sanitizers. For a company like EPHARM, the production of sanitizers is a very small-scale activity as it produces over 80 medicines. We also produce face masks. We provide 20pct of the sanitizers we produce for free while face masks are also given away for the needy.

> **I started out with a simple trading activity of importing non-pharmaceuticals products."**

Private local pharmaceutical companies have a very low performance rate in seeing out their contracts with the Ethiopian Pharmaceuticals Supply Agency (EPSA). The performance for most local pharmaceutical companies is below 50Pct. What is the reason behind the poor performance and what are you doing to change the situation?

In general, private local pharmaceuticals companies are not performing up to expectation. Local pharmaceuticals manufacturing companies produce almost 10pct of the pharmaceuticals demand in the country. 90pct of the country's demand is fulfilled through imports. One of the main reasons for this fact is that there are only about 10 pharmaceuticals manufacturing companies in the country. Just to put things in perspective, Kenya has more than a hundred pharmaceuticals manufacturing companies serving its 40-45 million population. With over two folds of that population, Ethiopia has only 10pct

We sometimes wait for over a year to access foreign currency. "

of the pharmaceutical manufacturers.

Another key problem is that Ethiopia has an acute shortage of foreign currency. In pharmaceuticals business, nearly 95pct of the raw materials have to be imported. It is a pity that we don't have a single pharmaceuticals raw material manufacturer in the country. Everything has to come from abroad.

On top of these fundamental problems, governmental expectations are illogically high. They expect the companies to cover 50pct of the local demand.

Pharmaceuticals along with Petroleum are the two priority import products in the country. It is common understanding that these products are prioritized in accessing foreign currency.

But the facts on the ground are different. I want to get the message across that we sometimes wait for over a year to access foreign currency. Although pharmaceuticals are among the priority list, the fact is that it is not treated along that line. We have a real problem of foreign currency. In the case of our company MedTech, we have been exporting non-pharmaceutical products such as live animals, cereals, lentils, Niger seed and others to secure some of our foreign currency demand. As only some portion of our foreign currency demand is fulfilled through such activities, we are not in a position to manufacture pharmaceuticals at an optimum level. That is one of the causes for EPSA's frustrations. Our combined contract of about a billion birr a year has gone down significantly this year as local pharmaceutical manufacturers are not willing to take additional orders in this year of pandemic in relation with capacity limitation issues. Therefore, the issue is set to continue unless the government provides us with a huge support in accessing foreign currency. As a way out, I suggest the government focus on availing Active Pharmaceuticals Ingredients (API) either to be manufactured locally or to be availed through special foreign currency provision mechanisms.

Countries such as India have changed their local pharmaceuticals manufacturing around by kicking out foreign companies and providing local manufacturers with the chance to grow. India has since gone on to become the third pharmaceuticals exporting country in the world. Do you see any scenario in which the situation could be the same in Ethiopia?

The case is also the same in Bangladesh as they have taken huge steps to support local manufacturers. They have also banned pharmaceuticals that are adequately manufactured locally from being imported. Such policies have allowed local manufacturers to flourish. I believe our government needs to look at such positive measures by countries like India and Bangladesh and adopt them. About seven years ago when we opened Julphar Ethiopia, three or four local pharmaceutical manufacturers closed down because they couldn't compete with imported pharmaceuticals from India and China. The governmental support was very poor and that spelled one of the worst times for pharmaceuticals manufacturers in Ethiopia. The fact that Julphar opened then raised the confidence in the sector and encouraged others to join the sector. The government later learned of the problems and decided to introduce some incentives. The business environment is not conducive these days as well; therefore, the government needs to provide incentives.

What recommendations do you make for the government to change things for the better?

As policy issues such as the prioritization of pharmaceuticals in accessing foreign policy are already there, I suggest they are implemented strictly. The pharmaceuticals roadmap formulated by the Ministry of Health is really good but there are implementation problems. Another point I want to raise here is that the government needs to find a way for Active Pharmaceuticals Ingredients (API) to be manufactured in the country. If it doesn't find better arrangements, the government should invest in it itself.

Experts claim that some pharmaceutical products such as thermometers are easy to manufacture. Do you have any plans to venture into the production of such medical items?

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Pandemic Defying Job Creation, Buy It Anyone?

The Ethiopian Job Creation Commission along with other research institutions predicted during the onset of the Coronavirus pandemic in Ethiopia that the health problem would end up slashing 1.5 million jobs in a few months. Fast forward a few months and the commission has announced that the governmental goal of creating three million jobs has been achieved. In fact the Commission reported that nearly 3.4 million jobs were created in the just ended year. Some experts and citizens interested in the matter have all be surprised by the report. Kiya Ali looks into the matter.

Like a sizeable number of Ethiopians running small businesses, Mubarek Sultan has immensely been affected by the impact of COVID-19 in Ethiopia. Breadwinner of his family, Mubarek is a father of two. With a lot of perseverance, he managed to become a small business owner two months prior to the advent of the Coronavirus pandemic in Ethiopia. Unfortunately, COVID-19 disrupted his business activities and derailed his plan. "I opened a hair salon for women with a startup capital of ETB150,000. So, in addition to becoming self-employed, I created job opportunities for three people. When the Coronavirus pandemic made a landfall in Ethiopia, however, almost all of our clients stopped coming to our hair salon in fear of contracting the virus," he remarked.

Until the end of June, Mubarak was struggling to survive and stay in the business. As an initial cost reduction strategy, he started paying his employees half their salary. "I did this with their consent and negotiation. Instead of shutting down the business, I decided it was better to continue to stay open by applying all possible protective measures. However, most people were afraid of going to beauty salons. So, we couldn't generate enough income to stay afloat. As a result, we were forced to shut down," Mubarak stated with visible signs of sadness on his face. The major reason behind Mubarak's decision to close down was the inability of the business to cover rental cost. "There were times that I skipped meals. That has now become more frequent. After closing down my business, I'm now trying to get another employment opportunity," he stated with despair.

Mubarak is not the only one who has lost his job in 2019/20. Following the outbreak of COVID-19 in Ethiopia, there has been a clear business slow down with people in the hospitality, tourism and entertainment sectors bearing the brunt of a dry spell both at national and international level. Hotels, night clubs, tour operators and theaters have all been practically out of business since March, 2020. As a result, a considerable number of people working in these lines of businesses couldn't

expansion of businesses and creating additional jobs were not the main concern.

make money for months. For these businesses and numerous others engaged in other sectors, staying afloat has been the major goal. Therefore, expansion of businesses and creating additional jobs were not the main concern.

As a result, announced the Ethiopian Job Creation Commission at the end of July, 330,000 jobs were lost during the past Ethiopian fiscal year. In its April, 2020 No. 85 edition, EBR reported that over 14,000 employees were furloughed from industries inside Hawassa Industrial Park alone as the global supply chain of textile crumbled with orders from all over the world suspended as a result of the pandemic. Cepheus Capital predicted back then that the pandemic could result in job losses of as much as 1.5 million workers. According to The Reporter, the commission also made the same projections as it stated that out of the seven million jobs created within the manufacturing, construction and services sectors, close to 1.5 million jobs could have been lost in just the first three months of the COVID-19 pandemic. With proper physical distancing measures in place, continued the report, both the manufacturing and construction sector alone could have seen a 1.1 million job losses.

The number of jobs the commission reported as had been lost during the entire fiscal are far lower than the projected number of jobs expected to be lost in the first three months of the pandemic. As if the disparities were not difficult enough to swallow, the Job Creation Commission went a step further away from our expectations and announced that the governmental plan to create 3 million jobs the past fiscal year has been achieved with 330,000 jobs created on top of the 3 million target. The commission reported that the pandemic claimed the 330,000 jobs that went beyond the projected number of 3 million. The gloomy projections the commission itself and other research institutions came up with seem to have made it difficult for some experts to easily internalize the 3 million plus jobs created narration, especially considering the long tradition of cooking numbers by Ethiopian governments.

One of these experts is Ayele Gelan (PhD), an economic researcher with more than two decades of experience. He insists the favorable condition to create jobs has been affected by COVID-19. "It is extremely unlikely that businesses retained existing jobs, let alone created new ones. The size of Ethiopia's labour force (employed plus unemployed) was around 54 million in 2019. Three million additional jobs translate to a 5.6pct increase in new jobs created. That is simply impossible. Nothing new; the authorities seem to have trouble with numbers as they utterly lack a sense of proportion. If Ethiopia's employment contracted only by 5.6pct, on the other hand, then that would mean a considerable achievement given the national and global economic environment," Ayele elaborated.

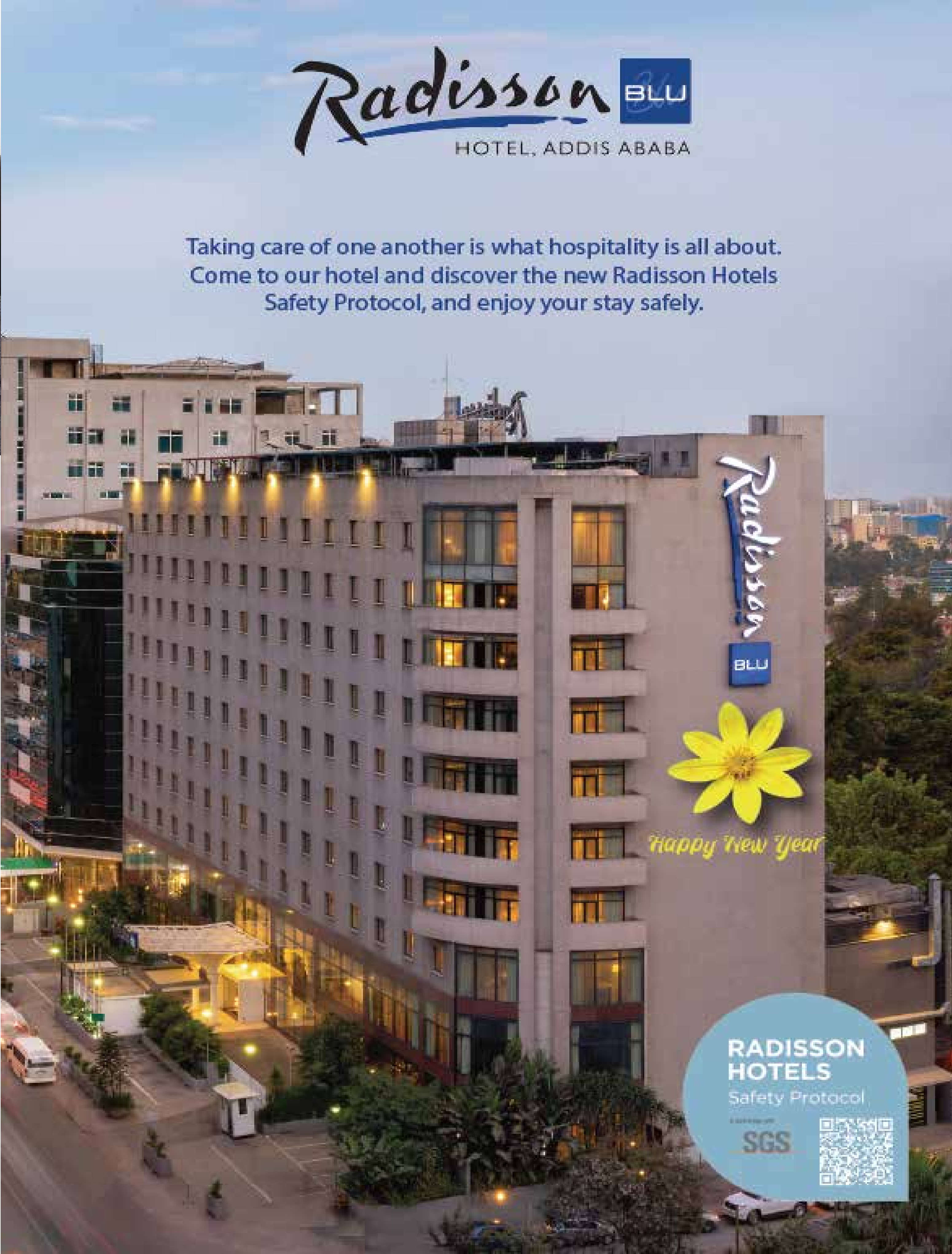
> **Three million additional jobs translate to a 5.6pct increase in new jobs created,"**
>
> Ayele Gelan (PhD),
> economic researcher

Abdulmenan Mohammed, London based financial expert, is another scholar who expressed his concern about the authenticity of the numbers. In a written response to questions forwarded to him by EBR, he pointed out that the numbers are 'mostly doubtful' although he chose not to delve into the matter.

Unemployment is one of the major macroeconomic problems around the globe. It is a problem for both developed and developing countries. However, it's impact and intensity differ between developing and developed countries. In developing countries like Ethiopia where there is high population growth and deep poverty, the impact of unemployment is significant. Unemployment affects household income, government revenue in the form of tax, education exposure of children, nutrition, dependency ratio, health, gender balance and the like. This will, in turn, affect economic growth and development of the country. Moreover, it causes a waste of economic resources such as the productive labor force and affects the long run growth potential of an economy. Unemployment also has a potential to give rise to private and social problems in the society such as increased crimes, suicides, poverty, alcoholism and prostitution, according a study conducted by Abebe Fikre.

With such far reaching problems associated with the problem of unemployment, keeping the data as accurate as possible plays a key role in understanding the depth of the problem and designing plans that would carve a path past the troubles. Governmental offices need to work hard to dig up their credibility levels that are currently buried deep under a concrete topping.

With inflation rates going skywards, some experts argue that the unemploy-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Abdulmenan Mohammed, Financial management expert.

ment problem worsened by the Coronavirus pandemic could be exacerbated by efforts to control the inflation rate. According to the latest report by the UN, in the worst case scenario, the inflation could go as high as 40pct. But Ayele disagrees. He said inflation and unemployment tradeoffs are things of the past. “The world has gotten used to stagflation, a phenomenon of both occurring simultaneously and moving in the same direction starting from the 1970s oil crisis. That has made economic policies much complicated. The one bird, two stones logic does not apply any more. Government policy needs to target both separately,” he argued.

Abdulmenan saw the combined effect of the problems. He stated: ‘The 40pc is under the worst-case scenario. Even under the likely scenario, the inflation will be 30pc, which is still very concerning. Economic slowdown due to political instability and COVID-19 combined with high inflation will make the cost of living unbearable, especially for the lower rung of the society in urban areas.’ To keep the situation under control, he advised: ‘in the monetary policy sphere, tight monetary policy and halting the depreciation of the birr is essential. What is crucial is increasing the productive capacity in agriculture and consumer goods sectors. Furthermore, the government should bring political stability back so that the economy functions smoothly.’

To avert the looming danger associated with unemployment and other socio-economic problems that raise the desperation of citizens, the experts have recommended some measures to be taken. Creating new Small and Medium enterprises (SMEs) in rural as well as urban areas and providing them with support is one of the policy interventions that would promote entrepreneurship, according to Ayele. “There is a misconception that SMEs are urban. A wider definition is required for Ethiopia, and it should include rural business – both on and off farm business. Rural households are engaged in varieties of non-farming activities. These activities have a great potential to keep the rural youth with their families and ensure their employment,” Ayele remarked.

The commission reported that the pandemic claimed the 330,000 jobs that went beyond the projected number of 3 million.

For Samrawit Fikru, the founder and CEO of Hybrid Design - the company running Ethiopia’s most popular taxi hailing app ‘Ride’ - tackling the problem of unemployment is about creating favorable condition for entrepreneurs and supporting startups through their rugged path to becoming self-sustaining.

Abdulmenan’s approach to tackle unemployment involves encouraging labor-intensive manufacturing, activating the construction sector, and supporting self-employment in micro and small businesses. He accords special emphasis to small towns across the country where youth unemployment is increasing and leading to migration to the capital. He argues that the concentration of most investment activities in certain places, mainly the capital, should be evened out across the major cities in the country to create a balanced situation and reduce the pressure on the capital. Once again, he considers restoring political stability and boosting investors’ confidence as the most crucial moves.

The experts also have differing views in terms of prioritizing sectors to propel the employment capsule. Ayele recommends agriculture as the first policy intervention sector. ‘In the first instance, job creation in agriculture is vital. Then come light industries and finally large enterprises. Apparently, we have approached it from the wrong end, targeting to solve all problems by attracting FDI and large foreign firms. Everything has fallen on its head. We have to rethink, and start all over again,” he concludes.

Abdulmenan, on the other hand, thinks housing has a great potential in revamping employment. Considering the huge demand for housing across the country and the capacity to employ large number of people, the house building sector should be focused. This sector creates jobs for the skilled, the semi-skilled and the unskilled in large numbers. Engaging small investors, without compromising quality, across the country will create big number of jobs, he concludes. EBR


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The liberal free market economy Ethiopia adopted under the reign of the Ethiopian People's Revolutionary Democratic Party (EPRDF) has been a start of the growth of the private sector. Under such an economy, major public and private companies (especially those operating in finance) access the bulk of money pumped into the market. Then, this huge money trickles down under small pours to the society at large. As has been evident in cities that have made the transition to metropolitan status, the skyline of Addis has welcomed high rising buildings serving as the headquarters of the elite companies in the country.

Clearly marking the path of the monetary waterspout on the ground, some sections of the city are adorned with glass sealed architectural monuments symbolizing the highest regard we have come to accord money. The area adjacent the monetary waterspout is, however, left in shambles as remnants of an older city sneak in their corroded rooftops to an otherwise glittering skyline.

The sharp contrast is telling of the socio-economic gap that is unfolding before our eyes. The seemingly unnatural range between the squalid houses and the world of glitter nearby is a mirror reflection of the lives of Eyob Mengiste and Abel Tekalign – names changed upon request.

Eyob Mengiste is a 16 years old shoe shiner. He wakes up early in the morning on a daily basis and proceeds to his work spot in front of Bole Medhanealem. Despite being one of the top students in his class, Eyob was obliged to drop out of school three years ago when he was a fifth grader. "My father and mother divorced when I was a child; so, my mother had to raise me and my three sisters alone," he explains. Eyob's mother, Adanech Gizaw, makes a living out of selling potatoes, tomatoes, and other vegetables on the side of the road. As her income could not cover basic living expenses such as rent and food, Eyob had to start generating whatever little income he could make.

On the contrary, Abel Tekalign is a marketing director at one of the freight forwarding companies in Addis Ababa. His monthly income is ETB60,000. He owns a luxurious car, a G+1 house around Summit, and sends his 3 children to an expensive private school.

The juxtaposition is striking. One sees street children wandering about, sniffing glue to beat hunger and/or get high, sleeping on road sides come rain or shine with fancy and luxurious cars swiveling by their side on the city's asphalt roads. Metrosexual men go into five-star hotels to dine ignoring the plea for help from a mother who desperately tries to win the pity of passers-by to feed her children. Further on, one witnesses high rise buildings sharing a wall with mud houses. As notable indicators of a city in transition, Addis seems to have rolled up its sleeves to do away with these conflicting traits and spread the money waterspout to cover all its corners. For people who know Addis well, that would not be an impossible feat to achieve. After all, it is a unique city in which churches and mosques share a wall.EBR

in Transition

Telsem:

Resurrecting an Old Relic

The age old claim of Ethiopians that their country is the cradle of mankind has been scientifically proven right. Archaeology and carbon dating have provided evidence that early mankind hailed out of present day Ethiopia. Since then, we have heard a number of internationally recognized people from across the world site that fact to claim that everyone is Ethiopian after all.

As a pre-historic country with human interactions that surpass the development of mankind's intellect to record social engagements, Ethiopia is home to numerous artistic and cultural tenets that are yet to receive the proper study they deserve. Ethiopians have countless indigenous artistic and cultural assets; however, these bridges with the distant past have been covered up recently by imported infantile and materialistic views of the world. But every once in a while, a strong enough wind blows away the dust covering these old relics and present day Ethiopians stand face to face with the majesty of their glorious past.

Telsem is one of these relics of the past. The small number of Ethiopians who practice the art claim that it is as old as the creation of mankind himself. The art has been passed down through generations along traditional ways. However, the art had long been practices through confined circles as it is believed to be associated with the spiritual world in its quest to draw positive and negative energy. The art could not become mainstream because of that reason and it is stigmatized as a result.

As one of the few countries that adopted Christianity and Islam early on, Ethiopia has drawn different art forms from these religions. "Ethiopian medicine and talismanic art drew from Christian and Muslim traditions, including Arabic-language protective scrolls, examples of which can be found in the collection of the city Metropolitan Museum. Healing scrolls likely originated during the Aksumite empire, with several million in use by the nineteenth century. Despite their prevalence, the scrolls have drawn the ire of both political and religious leaders. In the fifteenth century, the emperor Zar'a Ya'eqob condemned the use of magical objects and diviners, harshly punishing those who relied upon them. While the Ethiopian Orthodox Church does not condone magical objects, scrolls are tolerated because they incorporate Christian texts. Healing scrolls served the same purpose that domestic icons fulfilled in other forms of Orthodox Christianity. The use of scrolls and other traditional Ethiopian medicines has declined since the 1970s," Kristen Windmuller-Luna writes.

Telsem has its own philosophy and characteristics that distinguish it from secular (modern) art. In fact, there are similarities and differences between secular art and Telsem. Their similarity is associated with the issue they explore, since both of them represent social and individual issues. In addition, both of them are visual art. Their basic difference, on the other hand, lies in the languages the artists use. In secular or modern art, the artist can use his own personal languages, philosophy, symbols and many more while in Telsem the symbols, letters, and the like are fixed.

"Telsem has multidimensional uses; but as a painting art, it's value surpasses the sheer pleasure, amusement or anger one draws from pictorial depictions. In the case of Telsem, the wisdom of the painter elevates the drawing one step above and gives it the power of healing, bringing good luck or the opposite. It has spiritual power," elaborates Robel Temesgen, painter and lecturer at Addis Ababa University Art School.

As an art form that can potentially be used for constructive or distractive purposes, stated Robel, there need to be values that can act as a leash on the ethical dispositions of the artist. Such a mechanism helps manage the artist. Robel underscored this fact as the major reason behind a select few studying the craft with the art most of the time passed from parents to children.

Telsem is an art that has many forms and shapes. These forms and shapes, artists claim, have spiritual characteristics and could be done to bring grace, influence, health, wealth, prosperity and the like. These things are represented in various symbols. "During their life on earth, human beings pass through a number of ups and downs. People could have various problems that are related to marriage, social life, family affairs, and the like. The journey and the solutions for such hardship can be represented in the form of Telsem by using visual arts," explains Henock Melkamzer, a painter and Telsem professional who has more than two decades of experience.

Henock claims to have learned at least four things from Telsem. These are painting, Telsem for medical treatment, farming, and war. "I'm focusing on the painting part," stated Henock. If someone wants to do Telsem, she/he needs to know numbers. One year has 367 days in Telsem and each of those days are represented by its own symbol. The days are stacked into 13 months, in line with the Ethiopian calendar. Letters (Fideloch), phrases (Haregoch), colors (Qelemoch) and appearance (Melk) make up important aspects of Telsem art. If a painting misses any one or multiple of these things, it can't be categorized as Telesem art.

Back in the days, professionals of Telsem used to collect various plants, stones, and animal skins to produce a paint that

would fit the idea they would like to represent by using Telsem painting. Nowadays, many types of paints with various colors are produced at industry level. The same is true for canvases. Therefore, it has become much easier to use these findings.

Henock argues that the knowledge found in Telsem has the potential to create a progressive generation, active citizen and it is helpful for the growth and development of the country. "Currently, we rely more on imported knowledge to lead us, instead of local wisdom and skills. If deep research was to be done on Telsem, I believe we could find a solution for most of Ethiopia's as well as Africa's problems," Henock remarked. Henock has a deep understanding of Ethiopian zodiac signs, Ethiopian astrology and the 13 months calendar from which he draws signs and uses them in his Telsem drawing.

Kristen believes that Telsem has the power of healing. "Ethiopian healing scrolls eliminate illness by purging evil spirits and demons from a sick person. Part of a larger healing ritual, the scrolls were commissioned by the illiterate to combat grave illnesses. While plant and animal medicines alleviate physical symptoms, the medicinal scrolls alleviate spiritual symptoms. A pan-religious phenomenon practiced among Jews, Christians, and Muslims in the northern regions of Amhara and Tigray, the scrolls restore health by utilizing written words and talismanic images imbued with magical protective powers," Kristen wrote.

Melkamzer Yehun, Henock's father, along with prominent Ethiopian painters Eskinder Bogosian, Worku Goshu and Zerihun Yetemgeta are among the prominent Telsem professionals in Ethiopia. Telsem is not production oriented. It is done on the personal request of individuals. Moreover, as it takes extended time than secular art to do it, mass production is not its objective. However, professionals such as Henock have recently exhibited their Telsem work at art galleries.

Just like other sectors, painting has its own challenges. "There is no government structure to promote the sector. The community doesn't have the habit of buying paintings and visiting art galleries. So, some artists do their work targeting tourists. When we come to Telsem, there are additional challenges. First, it's not included in the art education system and it's associated with tradition than modern art. It is not considered as a product that serves the modern world. There is also stigma towards Telsem, since it is believed to have spiritual association," Robel said. He also pointed out that the painting market is subjective and depends on the individual's good will. As with the rest of art work, the price of Telsem paintings ranges from ETB1,000 to millions.

"Telsem isn't institutionalized yet and there are no books that can be found at book stores or libraries that can reveal the wisdom. It has more of a traditional value. But as tradition is the spring board of science, if researches were to be done in the area, Telsem's area of application and value could be extended. Based on this belief, we are working to provide the lesson at academic level. Hope this will add value to the country and the generation can easily acquire the wisdom," Henock concludes.EBR

Carrying the Weight of COVID-19 into the ETHIOPIAN NEW YEAR

It has been nearly six months since the Coronavirus made its landmark in Ethiopia. As has been the case around the entire world, businesses have crumbled under the immense pressure the pandemic has exerted upon economic and social life. With the Ethiopian new year up on us, the pressure seems to have persisted as the sectors hit hard by the realities of a world under pandemic have not recovered enough. Kiya Ali looks into the business side of the social celebrations associated with the new year.

A song called 'Abebayehosh' that is performed by a group of Ethiopian girls is a harbinger of Ethiopian new year. Many people associate new year with hope, new beginnings, new plans and correcting past mistakes. With the dawn of a new year up on them, students prepare to start class after the winter (summer for most of the rest of the world) break; event organizers become busy preparing various concerts and exhibitions; beer companies scale up their production; the occupancy rate of hotels goes up as tourists pour in to visit new year and Meskel celebrations and artists rehearse day and night to adorn the celebrations with concerts.

The 2013 Ethiopian new year celebrations, however, would not feature these social events because these are simply not normal times. The number of people contracting the Coronavirus has shown a steep increase in recent weeks with over 1,500 people testing positive each day.

Hager Fikir Theatre, widely described as the oldest indigenous threatre in Africa established in 1935, is among the artistic platforms that have fallen silent because of the pandemic. The theatre house hosted numerous plays and music concerts since its inception. Especially during public holidays like the Ethiopian new year, musicians along with modern and traditional dancers used to start rehearsing for new year's live performance at least a month ago.

"Regular rehearsals are going on as they would any casual day; however, there will be no live performance for the new year," remarked Memehiru Chamo, planning and budgeting head of Hager Fikir theater. "Unlike the past 85 years, it has become impossible this year to present theatrical, musical and dance (both traditional and modern) performances to our audience because of COVID-19. However, we have plans to record the art work under rehearsal and release a VCD in the coming year. This will help artists reach out to a wider audience. There is also plan to release some of the work done via YouTube," he added.

Before the advent of COVID-19 in Ethiopia, Hager Fikir Theater used to hire temporary employees to make public holidays like the new year more colorful. During such holidays, more than 80 artists presented their work for more than a thousand people. In addition to generating income, the platform presented these employees with a chance to introduce themselves to a wider audience. "When I think of the past and compare it with the current situation, I feel so sick," Memehiru said with great disappointment.

Currently, Hager Fikir employs more than 141 people. The regular threatre shows from Tuesday to Sunday and the musical performance on public holidays have been disrupted by the Coronavirus pandemic. The plays have been halted since the government declared state of emergency and forbid assembly.

Sprawled on a 6,856 square meter of land, Hager Fikir Theatre has two theatre halls. The smaller hall, which has 400 seats, is used for rehearsals and other events. The larger hall, which opened during the reign of Haile Selassie, has been used to present various events and performances to close to 800 people. The pandemic has kept the larger hall out of use; however, the small hall is being used for rehearsals with social distancing principles followed strictly.

Hager Fikir Theater requested an annual budget of ETB31 million for the Ethiopian fiscal year that kicked off in July 2020 and got close to ETB20 million, according to Memehiru. The budget

allocated by the city administration to Hager Fikir for the previous fiscal year was ETB13 million.

The name 'Enkutatash' given for the Ethiopian new year is arguably associated with King Solomon and Queen of Sheba. "The Ethiopian new year Enkutatash means the 'gift of jewels'. Legend has it that King Solomon of Jerusalem gave the Queen of Sheba jewels during her famous visit to Jerusalem some 3,000 years ago. Her return to Ethiopia after receiving the gift coincided with the New Year celebration in September, and hence the name Enkutatash came to be," Serkalem Tafesse states in her article "How to celebrate the Ethiopian New Year". Enkutatash is one of the biggest holidays in Ethiopia celebrated colorfully as it marks the transfer from the Ethiopian winter to spring.

As customary all across the world, people tend to feast with drinks, holiday cuisine and the impending dance a full belly and a tipsy mind recommend to the body during holidays. There is generally a heightened sense of consumption during the holidays and service providers such as hotels and beer companies get their profitable spells at times like these. Although things have gone considerably loose over the past five months as people realize that they have to live with the reality of the Coronavirus, the cautionary approaches are still going to be around for quite some time before things get back to normal once again.

In fact, an industry insider stated on condition of anonymity, things have not been ideal for beer companies since the amendment of excise tax during the previous fiscal year. "When the amended excise tax came into effect, it increased production cost and in thus the cost of the final product. This has adversely affected business. On top this, bars and restaurants have been ordered since March to close very early at night following the advent of the Coronavirus pandemic in Ethiopia. People also avoided bars for fear of contracting the virus. These factors stacked up to bring down the demand for beer," he explained.

Moreover, the resultant economic slowdown put many people out of work or at risk of unemployment. The industry insider pointed out that "this leads people to give priority for other things than drinking beer. The situation hasn't changed radically; so, there will be reduced demand for beer. I don't think the market will automatically improve the coming year. It will take time to get back to its previous status."

The hospitality sector in general has been one of the sectors hit hard by the sudden halt of international interactions following the rise of COVID-19 to the status of pandemic. The Addis Ababa Hotel Owners' Association reported in April that the occupancy rate of hotels in Addis Ababa went down to 2Pct at some point.

Although the international situation is steadily improving with countries opening up their borders and allowing people to move in and out, the Association Chairman, Beniam Bisrat argues that it would take a lot more measures before the occupancy rate bounces back. He stated that the travel conditions that allow business travelers move around are still not there in the international system. He noted that some days of quarantine or a minimum of 5 to 7 days of staying in a country apply to business travelers depending on whether they have COVID-19 test results when they arrive here. For a business traveler who wants to have a quick stop and sort something within a day or two, staying all those days without business engagements would be highly discouraging.

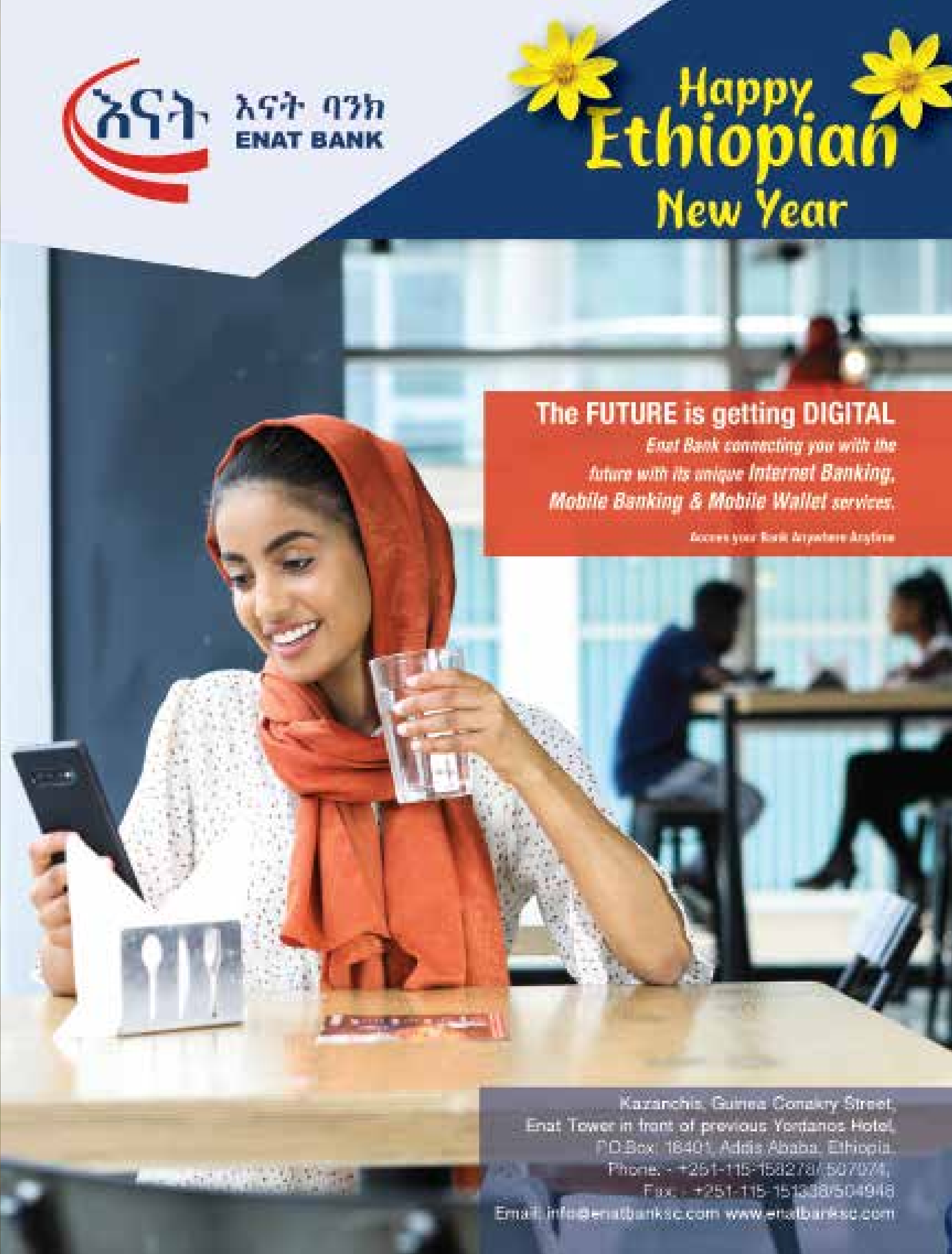
Beniam also explained that Meetings, Incentives, Conferencing and Exhibitions (MICE) tourism has also not recovered as the major international conference halls, such as that of the ECA, are still closed. He further stated that leisure travelers, another important section of the tourism sector, are yet to make moves towards reassuming their former roles as the harsh economic realities of the pandemic, the risks involved in travel and the additional conditions introduced both at home and in destination countries prove to be significant hurdles.

The combined effect of all these contributing factors has made it difficult for hotels in Addis Ababa to bounce back just yet, stated Beniam. Considering the fact that the absence of leisure travelers, for instance, also bears negatively on tour operators, it is easy to understand that the whole hospitality industry is still under immense pressure from the pandemic.

Melaku Berihun, owner of Melak Ethiopia tour company, affirms these claims. Melaku started his own tour company two years ago with four cars and he has created job opportunities for 3 drivers. The company uses freelance tour guides; therefore, there are additional employees all the time. Melaku remarked that they have not served a single tourist since March. "At the beginning of the current Ethiopian year, the company received booking from different international tourists. For instance, we had received a booking from 11 tourists who were planning to come to Ethiopia from Germany in September 2020. But they have cancelled their booking," explained Melaku. The company is still struggling to survive and continue paying the drivers half of their salary, ETB1,250. Considering the changes both nationally and internationally, Melaku expects business to revive between six months and a year after September. "I hope the coming year will be better than the current one," he remarked.

Businesses that primarily rely on foreigners coming to Ethiopia seem to be having a harsh time while the situation seems to have improved a bit for those that rely on local consumers. An employee of Jupiter hotel stated that the number of local customers has improved recently although that is not enough to alter the financial woes of the company. Michael Bayu is an electronics shop owner at Merkato, the biggest market in the country. He says that business almost came to a grinding halt during the first months of the advent of the Coronavirus in Ethiopia. However, he stated, things have gone back to their previous state recently. He pointed out that it is not just the electronics business but others such as construction material and carpet shops that have bounced back.

With the pandemic yet to rich its peak in Ethiopia, its negative impacts are still felt in most sectors. With businesses struggling and others only coming out of the harshest spells they have known for a long time, the Ethiopian New Year would certainly not be at its former warmth. However, the situation would most probably be better than the Easter celebrations over three months ago.EBR



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The principles of international water laws and the realities surrounding the GERD

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Despite academic recommendations of integrated water management and sustainable development among countries sharing trans boundary rivers to achieve social equity, economic growth, environmental and ecological protection, there is always misunderstanding and sometimes conflict among upper and lower riparian countries. There have been such problems in the Nile basin in Africa, Tigris and Euphrates in the Middle East, Aral Sea basin in Central Asia, Parana basin in South America and Ganges basin in Asia. The fact remains that a uniform mechanism/convention to manage trans boundary water resources does not exist. Some water related customary and general principles of international law have, however, become the basis of major international conventions, treaties and agreements for trans boundary water resources cooperative management.

The longest river in the world, Nile, is a politico legal and economic interest for the 11 countries in its basin. Among these, the river has been a point of critical interest for Ethiopia, Sudan and Egypt. Egypt has been pushing for an exclusive use of the Nile waters along with Sudan citing colonial treaties and its perceived 'historic rights.'

Therefore, it considers the Grand Ethiopian Renaissance Dam (GERD) as a threat to these perceived rights. As the dam steadily approached the period when the reservoir would be filled by water, the issues gained intensity. International water law related with the issues of colonial treaty, the principle of equitable use and no substantial harm became issues of discussion for lawyers, diplomats and media professionals on top of raising the concerns of citizens. Water law has never been accorded this much attention in Ethiopia's political economic discourse both as an intellectual exercise and issue of public discussion.

The internal political dynamics since the ascendance of Prime Minister Abiy Ahmed (PhD) to the apex of political power in Ethiopia is unlocking the secrets of political conspiracies lingering behind the GERD. The Ethiopian government has successfully depicted Egypt as the main financier of the dramatic political events in Ethiopia along with its local partners; brought to light its irrational claim unfounded by international water laws and publicized Egypt's resourceful underground water. On the other hand, the government invoked our miserable poverty profile compared with the Egyptians and demonstrated its serious and unreserved political commitment to reverse the course of Nile water politics. The combined effect of both approaches changed the age-old rhetoric on both sides and consolidated Ethiopia's national interests and public awareness on Ethiopia's right to use its water resources.

As part of international law, the specialized field of study on international Trans Boundary Rivers (TBR) has developed the principles on which upper and lower riparian states can fairly use TBR. The absence of knowledge on these water laws has held Ethiopia back from getting the best out of diplomatic works, media campaigns, public mobilizations and lobbying against the irrational claims and interests of Egypt. So much work on these issues is very important to further enhance Ethiopia's effort for sustainable development based on using its water resources through irrigation and hydro power projects.

International water law related to transboundary water resources management is basically based on the theory of absolute territorial sovereignty, the theory of absolute territorial integrity and the theory of limited territorial sovereignty. A paper by Muhammad Mizanur Rahaman from Helsinki University of Technology presents the theory of absolute territorial sovereignty as stating that every nation can utilise the waters of an international river flowing on its territory, as it likes, regardless of the consequences in other countries and without the duty to consult. The paper further indicates that the theory is also known as "the Harmon Doctrine, after the US Attorney General, Mr. Judson Harmon, who declared the absolute right of the USA to divert the

Rio-Grande in 1895." The country's recent stunts to side with the Egyptians stands in stark contrast to its previous decisions in the same matters pertaining to itself.

The paper further indicates that the theory of absolute territorial integrity is "based on the assertion that the lower riparian of an international river has the right to a full flow of water of natural quality and interference with the natural flow by the upstream state require the consent of the downstream riparian." In this case, the lower riparian is given absolute right to claim the continued and uninterrupted flow of water from the territory of the upper riparian. Therefore, this theory goes in line with Egyptian interests. It is important to note here that the water self-interests of Egypt and the US are conflicting, although they stood together on the issue of the Nile River.

The theory of limited territorial sovereignty, the paper explains, is "based on the assertion that every state is free to use shared rivers flowing on its territory as long as such utilisation does not prejudice the rights and interests of the co-riparians." This theory calls for the equitable utilisation of shared rivers through a modality that bestows upon riparian certain duties and rights at the same time. Such a scenario would enable states utilize water resources flowing through their territories without jeopardizing the interests of other riparian states. Despite being an upper riparian country contributing over 85Pct of the Nile waters, Ethiopia has been calling for the equitable use of the Nile as Egypt and Sudan have been the sole beneficiaries of the longest river in the world.

From these theories have evolved various conventions and treaties, international customary laws, the principles of important customary laws, general principles of international law accepted globally and incorporated in modern international conventions, agreements and treaties applicable to transboundary water resources management. Accordingly, the Principle of equitable and reasonable utilization, the principle of obligation not to cause significant harm, the principles of notification, consultation and negotiation, the Principles of cooperation and information exchange and the Peaceful settlement of disputes are the cardinal principles. These principles have developed following the various strides in the general development of international law and international water law.

Ethiopia has generally been a country that abides by international law. It never acted against the principles of international law and violated international conventions, treaties and agreements. One major hiccup in its perfect record could be the initial hesitation by the EPRDF government to accept the international tribunal's decision on the disputed town of Bademe on the border with Eritrea. On the Nile issue, Ethiopia has been countering the irrational claims of Egypt and Sudan based on the principle of equitable and reasonable utilization and the principle of obligation not to cause significant harm. When the reservoir of the GERD was being filled with the Nile water, the normal flow of the river was maintained not to cause substantial harm to Egypt and Sudan. Ethiopia's utmost care to act in consideration of the water interests of Sudan and Egypt paid off as the filling ended without causing any problem whatsoever, as was corroborated by the lower riparian countries themselves.

For all the outcry, diplomatic and political maneuvering, political conspiring and animosity Egypt immersed itself in to stop the realization of the GERD, the end of the first-round filling was the triumph of good over evil. Ethiopia achieved its rightful goal by strictly following the principle of equitable and reasonable utilization while Egypt went to great lengths with its malicious acts against Ethiopia.

Ethiopia's consistent commitment for cooperative engagement, consultation and negotiation on any issues of the Nile and peaceful settlement of any misunderstanding doesn't seem to be accepted by Egypt. In addition to lobbying America to cut its development and humanitarian aid to Ethiopia, Egypt has been actively engaged in mobilizing a military insurgence through Somalia following the failure of its attempts to destabilize the country through Ethiopian co-conspirators. These and other various incapacitating efforts for decades including organizing and supporting anti nationalist and extremist forces along with other unprincipled acts of Egypt stand in stark contrast with the principles of managing trans boundary rivers.

As if Ethiopian politics is not complicated on its own, the incessant poking it receives from Egypt and its Ethiopian co-conspirators is always there to make matters worse. Ethiopia's struggle for development is confronted by Egypt's cravings for more control over the Nile and its blatant disregard for the development needs of Ethiopia. The recent international and national political rockus surrounding the first round of the filling of the GERD is a reminder that we need to be alert, mobilized and together more than ever against any form of conspiracy against our country.

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The Unfinished Agenda of Financing Africa's COVID-19 Response

Brahima Coulibaly is Vice President and Director of the Global Economy and Development Program at the Brookings Institution.

Ngozi Okonjo-Iweala, a former managing director at the World Bank and former finance minister of Nigeria, is Board Chair of Gavi, the Vaccine Alliance and African Union Special Envoy on COVID-19.

Vera Songwe is United Nations Under-Secretary-General and Executive Secretary of the UN Economic Commission for Africa.

The continent's pandemic-response funding gap is likely to amount to some USD100 billion annually over the next three years. The international community – especially the G7, the G20, and multilateral development banks – must take bold, innovative, and expeditious action to close it.

While cases remain under control in Cambodia, Denmark, Mauritius, and Morocco, they are on the rise in Ethiopia and parts of the United States. Infections have risen so sharply in France, Kenya, and Spain that new lockdowns may be imminent. In Brazil and South Africa, the peak may be yet to come.

Few countries are prepared for the menacing autumn that lies ahead. This is particularly true in Africa, where the public-health and economic response has not come anywhere near matching the scale of the COVID-19 crisis.

So far, Africa has reported more than 1.2 million COVID-19 infections and over 30,000 deaths. Yet only 12 of Africa's 54 countries have tested more than 10Pct of their population. And while community transmission increases, contact-tracing efforts remain tentative. Yet lockdowns cost the continent over USD65 billion per month. The International Monetary Fund now expects economic activity in Sub-Saharan Africa to contract by 3.2Pct this year.

While the COVID-19 crisis has spared no country, only some have been able to implement large-scale support schemes. The US quickly passed a USD2 trillion stimulus package, including direct payments to households, enhanced unemployment benefits, and financial support for ailing businesses. The United Kingdom's USD400 billion support package has helped to keep businesses afloat and unemployment in check, such as by paying a large share of furloughed employees' wages.

France has also spent heavily to prop up its economy, including by bailing out its flagship airline and automobile industry. And this is to say nothing of the USD889 billion recovery fund it recently agreed with its European Union partners. Japan's economic stimulus package amounted to nearly USD1 trillion.

What all of these efforts have in common is a national or regional focus, which has been the prevailing approach to COVID-19. A welcome exception is the G20's Debt Service Suspension Initiative. If fully implemented, the DSSI is supposed to provide more than USD12 billion in additional liquidity to the 76 least-developed countries in 2020, and an additional USD14 billion in 2021.

Yet, so far, the DSSI has fallen short of expectations, releasing only USD4 billion to participating countries. Creditor and debtor countries have not fully participated in the initiative, owing to factors like target countries' lack of understanding of the process or their fear of a ratings downgrade.

All of these hurdles can and must be overcome. The Paris Club and the G20 secretariat are already working to address uncertainty. Ratings agencies must also be convinced to remove the specter of downgrades for DSSI countries, and debtor and creditor countries should be encouraged to participate.

But even if the DSSI is fully implemented, it

Ian Langsdon/AFP via Getty Images

will not be enough to close Africa's pandemic-response funding gap, which is likely to amount to some USD100 billion annually over the next three years. To help cover the shortfall, multilateral lenders should step up.

So far, the African Development Bank, the IMF, and the World Bank have disbursed about USD60 billion to Africa. But, in order to frontload support for developing economies over the next two years, they will need to expand their capital base significantly. That is why we are calling for a new replenishment round for the World Bank's International Development Association, and additional resources for other multilateral development banks and the IMF.

Moreover, the IMF should consider a new allocation of its reserve asset, Special Drawing Rights. The IMF issued SDRs in the wake of the 2008 financial crisis, and the current crisis is even deeper and broader.

But a new allocation will take time. In the interim, the G20 countries should make available the USD129.7 billion in unused SDRs they already hold, in the form of loans to developing and emerging economies. The IMF should be responsible for devising how to allocate these existing SDRs to vulnerable countries.

The G20 itself can also do more. Capital markets remain an important source of funds for fiscally strained governments. Until recently, access to these markets enabled emerging and developing countries with robust macroeconomic fundamentals to boost investment in growth-enhancing sectors. But the COVID-19 crisis has made this much harder.

To support these countries, the G20 should support the establishment of a liquidity and sustainability facility, which can lower borrowing costs and help governments secure bridge financing and manage their liabilities. In fact, similar facilities in key OECD countries have helped to limit the pandemic's financial and economic impact, including by preventing major liquidity crises.

As for countries whose fundamentals were weak even before the crisis, they will need to pursue debt restructuring. Argentina is already on that path, and more are sure to follow. An updated framework will be needed to help them work through the process.

The simple fact is that some countries are far better equipped to respond to the COVID-19 pandemic than others, and in a deeply interconnected global economy, no one can escape this crisis alone. The international community – especially the G7 and the G20 – must take bold, innovative, and expeditious action to support those in need. The solutions are known. But implementing them will demand global leadership.

This commentary is co-signed by the following African Union Special Envoys on COVID-19: Tidjane Thiam, Member, Global Board of Advisers, Council on Foreign Relations; Donald Kaberuka, Board Chair, Global Fund; Trevor Manuel, Adviser to the President of South Africa and former South African finance minister; Abderrahmane Benkhalfa, former Algerian finance minister; and Strive Masiyiwa, Founder and Executive Chairman, Econet Wireless International.

Repercussions of unbridled government-guaranteed debts

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The massive borrowing, both domestic and external, taken by state-owned enterprises (SOEs) and other agencies is causing financial stress on the government. What has made the matter very worse is that the sheer size of the debts is so gigantic that neither they can be settled by federal government budget nor are they within the financial capacity of the enterprises to repay the loans.

In a bid to tackle the problem, a new entity is under formation to takeover the government-guaranteed debts of the state-owned enterprises (SOEs) taken from the commercial bank of Ethiopia and external lenders. What is puzzling is how did we get where we are now?

The state-led economic development Ethiopia has pursued for more than a decade forced the government to step in economic spheres where the private sector is presumed to be unwilling to engage including power generation, sugar and fertilizer factories, railway, military and industrial complexes and so on. These investments burdened the government with debts of extraordinary proportions. Waste, inefficiency, and project delays combined with inflation induced escalating costs have socked the borrowers in increasing debts with little hopes of redeeming.

One of the major lenders of these SOEs is the Commercial Bank of Ethiopia (CBE). Excluding credits given for housing development, regional governments and cooperatives, between June 2005 and December 2019 the loans taken by SOEs from the CBE soared to ETB443.8 billion from ETB3.2 billion. These debts of SOEs went up from 11Pct to 49Pct of the banking industry credits. More than half of these debts were given to the state-owned Ethiopian Electric Power (EEP). Such massive loans in the form of corporate bond with medium or long-term feature have been taken from a bank that relies on demand and short-term saving accounts.

The mind-boggling puzzle to solve is how on earth was a loan amount that is several times the capital of the CBE given to a single borrower while the National Bank of Ethiopia (NBE) had rules regarding single borrower limit. The trick falls on "government guarantee". The NBE rule (Directive No. SBB/29/2002) excepted loans that are guaranteed by the federal government. And the government exploited this exception beyond the limit, resulting in the concentration of debts of larger size in a handful of SOEs. Under autonomous financial supervisory regime, such exception would have been closely monitored and a reasonable limit would have been set. Unfortunately, the body with a supervisory responsibility, the National Bank of Ethiopia (NBE) failed to do its job as it was crippled by a proclamation that brought it under the executive branch of the government.

Guaranteeing debts is one of the blunders made by the government over the past decade. It encouraged excessive borrowing by SOEs, undermined accountability, and exposed the Commercial Bank of Ethiopia (CBE) to extraordinary credit risks and maturity mismatches.

If there was a need for government guarantee, there should have been clear limit to it - a limit which could have been handled within the financial capacity of the federal government even under the worst-case scenario. Guaranteeing massive amount of debts on the assumption that the state would not default is a breath-taking responsibility. The state's financial resource is limited; so is its guaranteeing capacity.

Global experiences of the past few decades show that the state could default. During the Latin American debt crisis in the 1980s several countries defaulted, resulting in a lost decade of economic growth. The crisis in the 1980s was caused by the debt binge of the 1970s that resulted enormous accumulation of debts taken from international lenders. During the recent financial crisis, many countries were on the verge of defaulting. With the bail out package of the international financial institutions, they survived financial havoc that would come with defaulting. However, the conditions of the bail out made them pay considerable prices.

The guaranteed debts in Ethiopia stuck the government between a rock and a hard place. The size of the debts is neither within the capacity of the federal government budget nor is repayment by the borrowers in sight. Moreover, these debts are tainting the financial picture of the SOEs. This makes not only borrowing, especially from abroad, difficult but it also calls the financial viability of the entities into question.

To come out of this quagmire, the government has come up with a scheme - the guaranteed debts will be taken over by a new SOE, Asset & Liability Management Company (ALMCo). The new entity will become either a shareholder or a lender (most probably a long-term), or both, in lieu of assuming their debts. This measure will make the financial position of the SOEs, whose debts are taken off, look sound.

The new entity with more than half a trillion ETB debt will manage the investment activities of the SOEs, and several sources of funding are earmarked for it including privatization proceeds. What is very doubtful is the final goal of the enterprise -securitization of itself in foreign currency. In simple terms, the issue becomes issuing a foreign currency-denominated security against its stake in the SOEs.

With the significant part played by debt packaging and securitization in the recent financial crisis not far from our memory, aiming to issue a foreign-currency denominated security against stakes of ailing SEOs is too good to be true. If the ALMCo manages to get buyers, the security will most probably be discounted massively to reflect both firm specific as well as country risks, resulting in huge losses.

It would be better keeping aside realistic sources of income like the privatization proceeds to pay off the debts over a reasonable time span. What is more important is taking a lesson from these government-guaranteed debts fiasco. A lesson that will ensure that the financial affairs of the SOEs are properly monitored; their projects are well executed, limit to government guarantee is set, lending rules applicable to private banks are also extended to work for state banks, the supervisory regime of the NBE strengthened, and finally accountability is established.

from P. 35

We just started the production of not thermometers but other medical equipment and supplies. At MedTech, we also import laboratory reagents, hospital furniture, hospital supplies, medical equipment, x-ray and ultra sound machines. I always felt that some of the equipment are mechanical and can easily be made locally. For instance, hospital beds, delivery couches, IV stands, screens and the like can be easily made in Ethiopia. One of our sister companies, Enat Engineering, is designed to manufacture the long list of such products locally. We will have our products in the market in a month's time. Through the process, we would be substituting our imports and saving our limited foreign currency for products we cannot manufacture locally.

The National Bank of Ethiopia (NBE) is preparing to launch a stock market in two years. Do you see your companies being enlisted on the stock exchange?

Yes. We are unlucky that we don't have a stock market in Ethiopia. I hoped that stock market would be started by now. Stock market has got a lot of benefits to the business community in particular and the country at large. I took a training in stock market exchange which was organized by Lincoln University and hosted by Addis Ababa University. I'm one of the business people in Ethiopia who are eagerly waiting for a stock market to be launched. EPHARM and MedTech would surely be enlisted once it gets operational.

Have you laid off some work force after acquiring EPHARM through privatization? Has it been more profitable since you have acquired it?

We tripled EPHARM's turnover in the first year of acquisition without laying off any employees. On the contrary, we raised the benefit packages of employees a minimum of 60pct and maximum of 150pct. Up on acquisition, we decided to keep all the workers and invest in new machinery. The change in technology was vital towards raising productivity and thus organizational turnover.

What is in stock for you pharmaceutical companies going ahead?

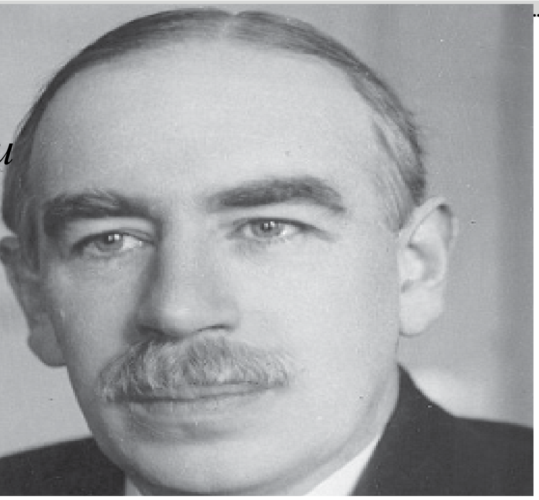
EPHARM's vision is to become among the top three pharmaceuticals manufacturers in East Africa in the next ten years. That is an ambitious goal to set. Therefore, we are carrying out half a billion birr worth of expansion work that can potentially double our production capacity. We have hired an international consultant to make sure that we become a GMP approved company. GMP approval is vital in acquiring international recognition and our company is going to achieve that once the expansion work is completed. We want to start new production lines as well. We are also working on research and development to bring new products to the market and to EPHARM as well.

Finally, what do you think are the vital ingredients of success?

For me, the first thing is a strong belief in oneself. Then comes knowledge of the type of business to delve into. Being passionate about your job and commitment are also very important. One should also not be afraid to fail. EBR

Quote

"If you owe your bank a hundred pounds, you have a problem. But if you owe a million, it has."



John Maynard Keynes, a British economist

He was an English economist, journalist, and financier, best known for his economic theories (Keynesian economics) on the causes of prolonged unemployment.

From the Horse's Mouth

"Time is the biggest challenge."

Habtamu Tegegn (Eng.),

Director General of the Addis Ababa City Roads Authority (AACRA). He made the remark while explaining how Prime Minister Abiy is testing the efficiency of the construction industry by allotting a deadline of few months for big public projects that are mushrooming in the capital.

"Addis Ababa is not only Ethiopia's capital, but the capital and pride of Africa as well."

Adanech Abebe

Newly appointed mayor of Addis Ababa, made the statement during her inaugural speech at the city council in which she vowed to throw-in every effort to upgrade services to metropolitan status.

The Number

USD 23.57 BILLION

Amount of money needed to secure metal raw materials for projects and industries in the course of the next ten years, according to the ten years metal sub sector plan made by the Metal Industry Development Institute (MIDI).

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