LEGATUM INSTITUTE

GLOBAL INDEX OF ECONOMIC OPENNESS

Pathway to Prosperity

Ethiopia Case Study

2021

ABOUT THE LEGATUM INSTITUTE

The Legatum Institute is a London-based think-tank with a bold vision to create a global movement of people committed to creating the pathways from poverty to prosperity and the transformation of society.

We seek to do this by raising up leaders of character, restoring an ethical vitality to all sectors of society, and developing the practical solutions and data tools that will help build inclusive and peaceful societies with open economies and empowered people.

- Our **Centre for Metrics** creates indexes and datasets to measure and explain how poverty and prosperity are changing.
- Our **Research Programmes** analyse the many complex drivers of poverty and prosperity at the local, national and global level.
- Our **Practical Programmes** identify the actions required to enable transformational change.

ABOUT THE AUTHORS

Dr. Stephen Brien is Director of Policy at the Legatum Institute.

Preksha Dugar is a Research Analyst at the Legatum Institute.

Shaun Flanagan is Director of Impact and Partnerships at the Legatum Institute.

Carlos Montes is a Fellow at the Legatum Institute.

ACKNOWLEDGEMENTS

Abel Abate (Chatham House), Samuel Admasie (African Studies Centre, Leiden University) Tekie Alemu (Ethiopian Development Research Institute), Mesele Araya (Young Lives in Ethiopia), Paul Brenton (The World Bank Group), Nic Cheeseman (International Development Department, University of Birmingham), Steven Farji Weiss (The World Bank Group), Tadele Ferede (EfD center in Ethiopia, School of Economics of Addis Ababa University), Jan Fransen (Institute for Housing and Urban Development Studies (IHS), Erasmus University Rotterdam), Susan Kayonde (The World Bank Group), Terrence Lyons (School of Conflict Analysis and Resolution, George Mason University), Daniel Mains (University of Oklahoma), Gifawosen Markos (University of Kassel), Carlos Oya (School of Oriental and African Studies (SOAS)), Mesfin Tafesse (Mesfin Tafesse and Associates Law Office), Aaron Tesfaye (William Paterson University), Yohannes Woldemariam (University of Colorado)

TEMPLETON WORLD CHARITY FOUNDATION

This publication was made possible through the support of a grant from Templeton World Charity Foundation, Inc. The opinions expressed in this publication are those of the authors and do not necessarily reflect the views of Templeton World Charity Foundation, Inc.

The Legatum Institute would like to thank the Legatum Foundation for their sponsorship. Learn more about the Legatum Foundation at www.legatum.org..

Cover image: Shutterstock.com

LEGATUM FOUNDATION

CONTENTS

FOREWORD

Stephen Brien
Director of Policy,
Legatum Institute

Our mission at the Legatum Institute is to create the pathways to prosperity by fostering open economies, inclusive societies, and empowered people. Our work is focussed on understanding how prosperity is created and sustained. Prosperity is more than material wealth; it encompasses security, wellbeing, freedom, and opportunity. Without an open, competitive economy, it is challenging to create lasting social and economic wellbeing where individuals, communities, and businesses are empowered to reach their full potential.

While policymakers generally focus on fiscal and macroeconomic policy tools, the microeconomic and institutional factors are often overlooked, and their potential to drive growth is underestimated. With the generous support of the Templeton World Charitable Foundation, we have measured over 150 countries' openness to commerce, assessing the environment that enables or hinders their ability to trade both domestically and internationally and the quality of the governance system underpinning it.

As part of this programme, we are undertaking in-depth studies of the Economic Openness of different countries, including this report on Ethiopia in which we analyse key characteristics of governance, openness to trade, investment, ideas, competition, and talent.

Research suggests that economically open countries are more productive. In contrast, in an uncompetitive market, or one that is not designed to enhance the engagement and wellbeing of all, growth stagnates, protected industries become entrenched, and crony capitalism thrives.

The pathway to prosperity progresses over decades, and the goal of this report on Ethiopia is to provide a structural baseline for long-term development planning. Hence, it focusses on the consequences of key governance and economic and business policies prevalent over the 27 years of EPRDF and TPLF rule. The report is not yet in a position to assess the impact of more recent policies introduced by the new administration of Prime Minister Abiy.

The ongoing challenges of the pandemic, the conflict in Tigray and in other areas of the country and the severe locust infestation, may result in a greater call for state intervention. Nonetheless, this report suggests that prosperity can be fostered by supporting the productivity of small farmers and the independent (informal) sector.

The elections of June 2021, which resulted in a majority for the Prosperity Party, and the policies of the new government will determine the path to prosperity in Ethiopia. We are hopeful that the new Ethiopian government is able to find a national consensus that will lay the foundation for prosperity.

EXECUTIVE SUMMARY

Ethiopia has the potential to become a prosperous country. However, as has been recognised by Prime Minister Abiy Ahmed, this is likely to require changes in the way Ethiopian governments have operated. This includes reforming how they traditionally gained and exercised power, i.e., away from 'winner-takes-all' political contests and ruling in an authoritarian manner, with limited checks and balances. It will require the adoption of more open and competitive markets, away from a heavily state-led and controlled economy, to address the macroeconomic, foreign exchange and investment constraints in the economy.

To date, large public investments in infrastructure have changed the face of the country and contributed to GDP. However, they have not been accompanied by a sustained increase in private investment (particularly local), partly because of the state-led and controlled economy. In contrast, the nation's future prosperity can be built upon a more open economy that harnesses all the ideas and talents in society to create sustainable pathways out of poverty. Specifically, this will involve a state that acts as an effective enabler of economic growth and ultimate guarantor of the rights of citizens and investors and provider of effective public services, and a dynamic and investment-friendly country open for international business.

With a more open economy and a stable political settlement, over the coming decades, sustainable economic growth can take Ethiopia on a path to a solid upper middle-income status.

This report on Ethiopia is part of a series of case studies examining the links between a nation's economic openness and prosperity. Its goal is to provide an initial assessment of economic and governance structures in Ethiopia. The report identifies the constraints to future economic development and the type of actions needed to put Ethiopia on the road to prosperity, with the ambition of achieving global median prosperity by 2050.

The topics discussed in this report on economic openness describe the extent to which elements of Infrastructure and Market Access, Investment Environment, Enterprise Conditions and Governance contribute to prosperity.

- **Infrastructure and Market Access:** Assessing the extent to which high-quality infrastructure and open markets support trade and commerce.
- **Investment Environment:** Evaluating the ways property rights are protected and domestic and foreign sources of finance are widely available, so investment can flow.
- **Enterprise Conditions:** Considering the ways business regulation ensures markets are contestable and free from burdensome regulation, to enable entrepreneurship and innovation.
- **Governance:** Analysing the extent to which governing institutions act with integrity, are accountable to citizens, are subject to the rule of law, and operate effectively.

Ethiopia ranks 155th globally for Infrastructure and Market Access, 151st for Investment Environment, 140th for Enterprise Conditions, and 125th for Governance.

The key findings on each of these pillars are as follows:

Infrastructure and Market Access (155th)

Good quality infrastructure is an essential component of a successful economy. The potential for a prosperous Ethiopia is to have enhanced infrastructure that serves urban and rural populations alike in terms of mobile communications, electricity, water and transport. In addition, the country has the potential for a more open trade policy with smoother border facilitation leading to agriculture and manufacturing exports with greater value-added.

Ethiopia ranks 155th in Infrastructure and Market Access. This is despite one of the highest rates of public investment in the world. These public investments have extended the road network, railways and air transport. Ethiopia has invested $2 billion of public funding in roads, railways, and airports (Bole is now the largest airport in Africa) over the past five years, as part of the Growth and Transformation Plan II (GTP II), which builds upon significant previous investment by Government.[1] However, 'last mile' connections and infrastructure maintenance have been relatively weak. Similarly, poor logistics (because of yet insufficient competition) is one of the key factors holding back international competitiveness. These large and expensive investments have not yet been matched by a sufficient improvement in the business environment and the relaxation of foreign exchange constraints. Private sector investment remains constrained.[2]

Public investment in electricity has been high; as a result, Ethiopia now has the second-largest electricity capacity in Africa. This will be further increased by the completion of the GERD project. Demand from the private sector will largely determine how profitable these investments in electricity turn out to be.

On water resources, public-private partnerships could help deliver additional needed irrigation projects.

Ethiopia ranks 153rd globally in Communications. While there have been improvements in internet bandwidth and mobile coverage, the country has slipped in the rankings, as others have improved at a faster rate. Notwithstanding the significant public investment in communications, barriers to entry, the lack of an independent regulator and reliance on a monopolistic state-owned provider have resulted in one of the lowest levels of mobile and internet access in the region. The new Government has a plan for reforms that could lead to the opening of this sector. This is important because the use of mobile phones in neighbouring countries has resulted in substantial gains for those living in rural areas.

Through the introduction of its Electronic Single Window, Ethiopia has taken steps to address the process barriers and procedural burdens that result in high costs and long periods to import and export, and this is beginning to show positive results - Ethiopia ranks 109th in Border Administration.

Ethiopia ranks 129th for Open Market Scale. It has benefitted from increased international access for goods and services, securing preferential market access to the European Union, China, United States, India, and other major markets. However, Ethiopia has not been able to benefit from these open markets, given the constraints faced by the private sector. The percentage of goods subject to tariffs and the high tariffs applied result in Ethiopia ranking 159th for Import Tariff Barriers.

Investment Environment (151st)

Effective and broad-based allocation of capital is critical to unlocking the country's economic opportunities. The potential for a prosperous Ethiopia can be enhanced by property rights that are administered efficiently and in an open and transparent manner. Prosperity could also be supported by a robust and competitive financial sector, with domestic and international participants, providing access to competitive services for all sectors of the private sector and individuals.

Ethiopia's Investment Environment has not kept pace with international developments over the past decade, resulting in a fall of 23 places in the global rankings to 151st.

Property rights have weakened in Ethiopia over the past decade because of the increased risk of land expropriation. Weak property rights are partly the result of a political system characterised by limited constraints on the powers of the executive, a poorly applied legal and regulatory framework implemented by a politicised judiciary, widespread corruption and insufficient administrative capacity.

Investor protections have weakened in the last decade, and Ethiopia now ranks 143rd in the world. Bankruptcy legislation has become outdated, with the insolvency recovery rate falling by 15% over the last decade, with a focus on liquidation rather than restructuring.[3] Experts report a deterioration in the quality of auditing and reporting standards and corporate governance. There is also a lack of independence and transparency surrounding state-owned enterprises.

On the positive side, a reduction in the time it takes to resolve commercial disputes and an improvement in alternative dispute mechanisms have led Ethiopia to improve 25 places in the rankings for Contract Enforcement, to 89th. The recent ratification of a new Investment Law and upcoming reforms to the Commercial Code may bring about further reforms to the financial sector.

Ethiopia ranks 143rd in the world for Financing Ecosystems. The Government has followed a policy of using state-controlled commercial banks to finance public sector infrastructure investments and state-owned enterprises (and endowment companies), rather than relying on credit from the private sector as a key engine of economic growth. Credit to the private sector in Ethiopia (and SMEs in particular) is among the lowest in East Africa and declined in the previous 10 years. Poor commercial independence and transparency in state-owned enterprises further constrains the health of the financial sector.

Ethiopia is one of the most underbanked countries in the world, providing limited services to the wider public, which particularly affects the rural population. Ethiopia is an outlier in relation to digital finance services; mobile money and digital finance remain limited. The new Government has introduced important financial reforms, but more is needed (including lowering barriers to entry) to leverage the financial sector to improve the lives of the poorest.

Ethiopia is ranked fourth from the bottom, out of 167 nations, for Restrictions on International Investment. This is particularly because of restrictions on foreign ownership of companies, the restrictive environment created by investment proclamations, especially in services, and capital and foreign exchange controls. In the past, only some types of FDI have benefitted from special incentives.

Through targeted deals, Ethiopia has had impressive success in attracting some large global manufacturing brands to the country. This is not an easy accomplishment, and it is essential that is preserved by understanding the key needs of these investments. These include improved coordination of policies and industrial park management between the federal and regional levels and sustained improvement in transport logistics.

The new Government has introduced positive reforms such as the 'one-stop-shop' Ethiopian Investment Commission, the provision of industrial parks and the 2020 Proclamation on investment regulation.

Enterprise Conditions (140th)

Putting the private sector in the driving seat requires creating the environment where it can flourish. Government can support prosperity in Ethiopia by enabling a competitive business environment, reducing barriers to entry, discouraging restrictive practices, and regulating monopolies that are contrary to the public interest. Government can also support prosperity by simplifying the procedures and costs associated with starting and operating a business and supporting the linkages between the formal sector and the informal (independent) sector of the economy.

Overall, Enterprise Conditions in Ethiopia showed a small improvement over the past decade. Ethiopia ranks 139th for Domestic Market Contestability. State-owned enterprises and politically-linked companies (endowment companies and companies linked to politicians) continue to dominate the economy and often receive preferential treatment (including in regulations, licenses, foreign exchange, and procurement), resulting in weak competition and the absence of a level playing field. The Government has signalled its intent to open more sectors (telecom, energy, banking, shipping, etc) to the private sector.

The Government has committed to a privatisation process. However, this must be carried out when the judiciary and the rule of law systems in the country have been strengthened, to avoid the risks of corruption in these processes, as experienced in other countries.

Ethiopia ranks 144th for Environment for Business Creation. There are many business licenses and procedural steps that are necessary to start and grow a business. Compliance costs with licensing requirements are still high in Ethiopia, with more than 95% of the regulatory costs for businesses resulting from cumbersome documentation and other time-consuming procedures.[4] The new Government has placed strong importance on improving the business climate, to increase the productivity and competitiveness of Ethiopia's private sector.[5] However, progress is difficult to achieve. In addition, there is a significant gap in the skillset of the newly joined workforce relative to the structure of labour demand.

The Burden of Regulation in Ethiopia has significantly increased over the past decade, particularly with respect to the time taken for businesses to comply with regulations. As a result, the country has fallen 72 places in the rankings to 124th globally. While several reforms have been introduced to reduce regulatory burdens and ease business operations, limited progress has been achieved. Taxpayers report that the process of complying with taxation can be even more significant than the amount of tax itself. This business and regulatory environment is particularly burdensome for the large, so-called 'informal' or independent sector which needs all possible support (including access to finance) to increase its productivity.

Ethiopia ranks 153rd for Labour Market Flexibility. Over the past decade, employers have reported a deterioration in the flexibility of wage determination and worker contracts, and in labour-employer relations. High turnover of staff, lack of a skilled workforce and low wages in Ethiopia have resulted in a deterioration of the labour market. A large percentage of the labour force is in the so called 'informal' or independent sector. Interviews with Ethiopian labour market experts highlighted prominent cases of abuse of labour rights that have not been challenged by Government.[6] Although there have been some recent reforms to modernise labour practices in Ethiopia, including a 2019 Labour Code, these reforms have yet to have a signficant impact.

Governance (125th)

A politically stable, capable, and trustworthy state is one of the central components of economic development. A prosperous Ethiopia is one where power is shared between different stakeholders for the public good, there are meaningful checks and balances on how power can be exercised in the political, institutional, and economic spheres, and the military is separate from party politics. A competent and independent judiciary would guarantee that everyone, including the state, is subject to the rule of law, without political interference in judicial processes. This environment would also help ensure the Government delivers public services with integrity and competence.

The legacy of authoritarian rule enforced by successive governments in Ethiopia has undermined strong governance. Its global ranking for Governance is 125th.

In Ethiopia, narrow-based elites have traditionally enjoyed a monopoly of power and have exercised it with few constraints imposed by the legislature or the judiciary. The exercise of authoritarian power and the resistance to transfer of this power has been driven by the nature of the political system. Given Ethiopia's political and ethnic polarisation, a key objective of the winning side in political conflicts has been to be able to maintain power at all costs. This has resulted in the political settlement being structured as 'winner-takes-all' with an authoritarian government, as the dangers of losing power have been too high to contemplate.

Consequently, the political system in Ethiopia has been a one-group/one-dominant party system that controls all key institutions within Ethiopian society, including the state, the military, the judiciary, and key sectors of the economy. The security forces have been intertwined with the ruling party and protected its political dominance. The legislature and judiciary have always been under the effective control of the ruling party, allowing the executive to govern without checks and balances. The institution of ethnic federalism by the 1995 Constitution could have constrained the powers of the executive, but in practice, financial resources and political power continued to be concentrated at the centre.

Ethiopia ranks 131st in Political Accountability. In Ethiopia, elites have historically gained power by dynastic tradition or violent confrontation, rather than by a peaceful and democratic transfer of power. Under the 'revolutionary democracy' of the EPRDF/TPLF the issue of political accountability did not arise, as it was assumed that the Government did what the people needed without requiring any formal mechanism of accountability. Elections under the EPRDF/TPLF were generally not carried out freely and fairly. The way ethnic federalism was implemented (with financial resources controlled in the centre) has contributed to ethnic polarisation and division in many areas of the country.

Opposition parties, civil society organisations, and the media have been controlled through legislation that curtailed civil liberties. At local (Kebele) level, clientelism has traditionally been used to co-opt opposition and ensure votes for the ruling party, relying both on the distribution of services and, when needed, on police intimidation.

Prime Minister Abiy has rejected this view of political accountability and has committed to respect traditional democratic accountability. The June 2021 elections took place in a difficult context, and were boycotted by the main opposition parties in Oromia. They were run by an independent electoral board in six of the 10 regions, but the president of the electoral board noted that in two of the regions electoral observers were not allowed.[7]

Ethiopia ranks 79th in the world for the Rule of Law. The 1995 Constitution provided for an independent judiciary, however, Freedom House has summarised its judgment on the rule of law in Ethiopia as "the judiciary is officially independent, but in practice it is subject to political interference, and judgments rarely deviate from government policy. Due process rights are generally not respected."[8] Corruption within the legal system has further weakened its integrity.

Ethiopia ranks 105th in terms of Government Integrity. Transparency International have noted that "corruption poses a serious and multifaceted problem to the overall wellbeing of the population and its economy."[9] The high level of corruption is explained by the fact that for decades the ruling party has governed without checks and balances and without direct accountability to citizens, civil society, and the free press. Given the ruling party has been focussed on consolidating its power, this has meant diverting resources for the party or party members. Higher-ranking civil servants are generally appointed not by merit but because of loyalty to the party or ethnic factors, weakening civil service leadership.

Opportunities for corruption have been widespread. These have included managing large state-owned enterprises and endowment companies, allocating land and mining resources, developing large infrastructure investments funded by debt, intervening in and controlling financial markets and foreign exchange, and devising restrictive and complex rules and regulations.

In the main, many prosecutions for corruption in Ethiopia have been seen as politically motivated, given the lack of autonomy of the institutions to fight corruption and the judiciary.

Improving the integrity of Government in Ethiopia is intertwined with improving political accountability, a competent and honest judiciary and making the state citizen-centred and responsive to public demands.

The global ranking for Government Effectiveness is 109th. Ethiopia made the most progress in government effectiveness in the early 2000s.[10] International donors, including the US, UK, EU, and the World Bank provided financial support to the EPRDF/TPLF Government without sufficient regard for the capacity of the civil service in Ethiopia. While several civil service reform programmes have been implemented in the last 20 years, limited progress in government effectiveness has been achieved.

The 'developmental state' approach of the EPRDF/TPLF Government, controlling key aspects of the economy through infrastructure investments, required high state capacity. However, the ruling party did not devote the necessary financial resources (the civil service is poorly remunerated and has a relatively low social status), or provide the civil service with sufficient autonomy, to establish the highly competent and effective civil service that the developmental state needed. The political priority was to strengthen the ruling party rather than to strengthen the capacity of the state, with senior appointments made based on loyalty and ethnicity rather than competence.[11]

Francis Fukuyama notes in relation to Ethiopia and Rwanda trying to follow the 'developmental state' model, that they "have embarked in a process of 'party development' in the name of national development…the imperfect implementation of the China model and the lack of bureaucratic accountability, turnover, and capacity in these countries has created vulnerabilities within the regimes that could catalyse domestic resistance."[12]

There has been a mismatch between the ambitions of the 'developmental state' model and the civil service that the ruling party was able to provide given the political economy constraints and limited resources.

The hope is that a process of dialogue and peace and reconciliation in Ethiopia could facilitate a difficult transition away from the historically entrenched 'winner-takes-all' and authoritarian political settlement into a democratic settlement and an independent and competent judiciary. In this new political context, the emergence of a civil service that can put Ethiopian citizens at the centre of its activities, has strong capabilities and high integrity, is well remunerated, and has a high status in society becomes possible.

The reforms required to open the economy, attract foreign investment and the human and financial resources of the Ethiopian diaspora, support the productivity of small farmers and the so-called 'informal' or independent sector and provide high-quality social services, require a strong civil service.

Endnotes

1 "Country Private Sector Diagnostic: Creating Markets in Ethiopia," The International Finance Corporation, 2019, p. 29.

2 Ibid.

3 "Resolving Insolvency," World Bank Doing Business, May 2020.

4 "The Cost of Business Registration and Licensing in Ethiopia and Options for Reform," The World Bank Group, March 2016, p. 4.

5 "Growth and Transformation Plan II (GTP II) (2015/16-2019/20) Volume I: Main Text," Federal Democratic Republic of Ethiopia, National Planning Commission, May 2016, p. ix.

6 Expert interview.

7 Ayenat Mersie, "Ethiopians vote as opposition alleges some irregularities," Reuters, June 2021.

8 "Freedom in the World: Ethiopia 2020," Freedom House, 2020.

9 Kaunaim Rahman, "Overview of Corruption and Anti-corruption in Ethiopia," Transparency International, October 2018.

10 Elsa Araya, "Moving Further on Civil Service Reforms in Ethiopia: Findings and Implications from a Civil Service Survey and Qualitative Analysis," The World Bank Group, January 2019.

11 Francis Fukuyama and Hilary Matfess, "The March Is Not Linear: Big Party Politics and the Decline of Democracy Worldwide," Center for Complex Operations, Institute for National Strategic Studies, National Defense University, In book: "Beyond Convergence: World Without Order," Edited by Hilary Matfess and Michael Miklaucic, 2016.

12 Ibid.

Credit (Shutterstock.com)

INTRODUCTION

This case study on Ethiopia is part of a series of studies examining the links between a nation's Economic Openness and prosperity, comparing the performance of over 150 countries.
The purpose of this report is to provide a systematic assessment of the policy environment underpinning the Ethiopian economy and, in so doing, help to identify specific actions that would improve Economic Openness in Ethiopia.

The report analyses the underlying structural aspects of Ethiopia's economy to assess what changes are needed to enable the ambition of becoming a low middle-income country, as the next milestone on its pathway from poverty to prosperity.

The analysis of Ethiopia's performance in this report focusses on key drivers of economic wellbeing across the world. These are organised around four pillars:

Infrastructure and Market Access measures the quality of the infrastructure that enables trade (including communications, transport and resources), and the inhibitors on the flow of goods and services to and from a country's trading partners. Where markets have sufficient infrastructure, few barriers to trade, and smooth border clearance, commerce can flourish. Such trade leads to more competitive and efficient markets, enabling new products and ideas to be tested, funded and commercialised, and ultimately benefitting consumers through a greater variety of goods at more competitive prices.

Investment Environment measures the extent to which investments are protected adequately through the existence of property rights, investor protections and contract enforcement, and the extent to which domestic and international capital (both debt and equity) are available for investment. The more a legal system protects investments, for example through property rights, the more that investment can drive economic growth.

Enterprise Conditions measures how easy it is for businesses to start, compete, and expand. Contestable markets with low barriers to entry are important for businesses to innovate and develop new ideas. This is essential for a dynamic and enterprising economy, where regulation enables business and responds to the changing needs of society.

Governance measures the extent to which checks and restraints on power exist and whether governments operate effectively and without corruption. The nature of a country's governance has a material impact on its prosperity. The rule of law, strong institutions, and regulatory quality contribute significantly to economic growth, as do competent governments that enact policy efficiently and design regulations that deliver policy objectives without being overly burdensome.

Table 1: Pillars and Elements of Economic Openness

INFRASTRUCTURE AND MARKET ACCESS	INVESTMENT ENVIRONMENT	ENTERPRISE CONDITIONS	GOVERNANCE
• Communications • Resources • Transport • Border Administration • Open Market Scale • Import Tariff Barriers • Market Distortions	• Property Rights • Investor Protection • Contract Enforcement • Financing Ecosystem • Restrictions on International Investment	• Domestic Market Contestability • Price Distortions • Environment for Business Creation • Burden of Regulation • Labour Market Flexibility	• Executive Constraints • Political Accountability • Rule of Law • Government Integrity • Government Effectiveness • Regulatory Quality

Our analysis indicates a clear link between the extent to which a country's economy exhibits these characteristics and its productive capacity.[1] This link is supported by a long history of academic literature and can be seen in the economic histories of those countries that have achieved a high level of economic wellbeing.

As part of our analysis, we have chosen a set of regional and global comparator countries that are at a similar level of development, or because they provide an aspirational benchmark: Botswana (82nd), Burundi (157th), Ghana (100th), Kenya (113th), Malawi (132nd), Mauritius (44th), Morocco (96th), Mozambique (142nd), Namibia (88th), Rwanda (104th), South Africa (87th), Tanzania (117th), Zambia (123rd) and Zimbabwe (143rd).

In carrying out this assessment we have relied on three major sources of information. The first is the Legatum Prosperity Index, which uses global datasets from sources such as the World Bank, World Economic Forum, and International Monetary Fund. (For a complete list of data sources see the appendix.) We use this to benchmark Ethiopia's performance on a wide range of indicators. The second source is a wide-ranging literature review, in which we reviewed academic articles, reports, and news articles to provide a solid evidence base for this report. Thirdly, we interviewed over 20 experts, based in Ethiopia and around the world. This group consisted of researchers, economists, academics, journalists, lawyers, NGO representatives and others. These varied sources of information gave us a broad and rich perspective on the challenges facing Ethiopia and some of the opportunities for reform.

The next chapter provides the economic context, and subsequent chapters examine in detail Ethiopia's performance across the four pillars and discrete elements that constitute our measure of Economic Openness. We examine past performance and present conditions and identify how the government might strengthen opportunities and neutralise potential threats moving forward.

ECONOMIC CONTEXT

From 1991 to 2018, Ethiopia's governing party, EPRDF/TPLF, mostly adopted a 'developmental state' model, by which the state controlled many aspects of Ethiopian society and the economy.

The appointment of Abiy Ahmed as Ethiopia's Prime Minister in April 2018 marked the end of the long-standing dominance of the Tigray People's Liberation Front (TPLF),[2] which had been the dominant force within the Ethiopian People's Revolutionary Democratic Front (EPRDF) and Ethiopia since 1991. Prime Minister Abiy formed the country's first gender-balanced cabinet.

In December 2019, Prime Minister Abiy established the Prosperity Party as the successor of the EPRDF, as a pan-Ethiopian, non-ethnic political party. The TPLF did not join the new party.

Macroeconomic developments

There has been strong and sustained GDP growth in Ethiopia, averaging around 10% a year over the last decade – representing one of the fastest-growing economies in the world, and considerably higher than the regional average of 5.4% annually. Despite the COIVD-19 pandemic, Ethiopia's economy expanded by 6.1% in 2020, which was lower than the 8.4% growth seen in 2019,[3] but a significant achievement against the backdrop of a 5% contraction in the global economy. As the Government acknowledges in its recently published 2021-2030 plan, most of this growth was largely the result of "the expansion of government-funded large-scale infrastructure developments."[4] Between 2010 and 2020, the construction industry grew by 22.5% per annum, whereas agriculture and the service sector registered average annual growth rates of 5.3% and 9.7% respectively. [5]

Inflation has been rising since 2016, however, and the Consumer Price Index had risen 22% in the twelve months to June 2021.[6]

A decade of infrastructure projects has contributed to improving the lives of many Ethiopians. Through expansion of the electricity and water network, 45% of the population now has access to electricity, up from 32% a decade previously; and 41% of Ethiopians have access to basic water services, up from 29%. In addition, 50% more households have access to basic sanitation services. National poverty rates have fallen from 29.6% in 2009/10 to 24% in 2016/17, with the rate reducing from 30.4% to 25.6% in rural areas and urban poverty rates declining from 25.7% to 14.8% over the same period.

Fiscal sustainability

To help finance infrastructure projects, the Ethiopian Government leveraged significant support from the international community, including the IMF, the World Bank, and the European Union. Ethiopia secured FDI to finance these projects, with China being the most significant player. China invested an estimated $13.7 billion between 2000 and 2018[7] and accounted for about 60% of FDI into the country in 2019.[8]

As a result of increased borrowing to finance these projects, public sector debt has risen from $10 billion in 2010 to $53 billion in 2019, or 60% of GDP.[9] To make loan repayments, Ethiopia needed to restructure some of this debt. In 2018, it restructured payments on the $4 billion loan provided by China to finance the rail line from Addis Ababa to Djibouti's Doraleh Port, extending the loan period from 15 to 30 years. Furthermore, the Government announced in March 2021 that a restructuring of its sovereign debt is planned under a new common framework of the G20 group of major economies, designed to help with the financial pressures of COVID-19.[10] Rising external debt repayments, together with persistent current account deficits and low foreign exchange reserves, present risks to external debt sustainability,[11] with foreign exchange reserves covering less than two months of prospective imports.[12]

Productivity and competitiveness

Exports have been falling in recent years, from nearly 17% of GDP in 2011 to around 8% per year for 2016-2018.[13] At the same time, imports have increased on average by 12.5% per year during the past 10 years, which has resulted in a growing trade deficit, from $6 billion in 2011 to $14 billion in 2015, although it has narrowed slightly over the past few years to stand at $12 billion in 2019. The weakening export market has been further exacerbated by the pandemic – with an estimated 20–25% drop in exports of goods and services during 2020. Around 150,000 jobs are at risk in the flower business, as companies are exporting only 5% of normal volumes as demand in Europe and the Middle East drops dramatically.[14]

In 2018, output per worker in Ethiopia was less than $5,000 per worker, half of that for sub-Saharan Africa.[15] Productivity varies considerably by sector, however, with productivity in industry three times greater than in agriculture; in the service sector it was nearly four times greater.[16]

The economy in Ethiopia has diversified somewhat over the past decade. Although agriculture continues to play an important role, it has become less dominant. In 2010, agriculture accounted for 41.4% of GDP, whereas in 2019 it accounted for 33.4%. The contribution of the industrial sector to GDP grew from 9.4% to 24.8%[17]over the same period, due primarily to the large infrastructure projects. Manufacturing in Ethiopia contributed 5.6% of GDP in 2019. The contribution of the service sector to the Ethiopian economy has remained broadly consistent over the past decade, accounting for around 37% of GDP. Around two-thirds of the workforce are employed in agriculture, down from around three quarters a decade previously.[18]

A low rate of entrepreneurial activity in Ethiopia means that while new business density (number of new businesses per working age population) is nearly three times what it was a decade previously, it was still less than half of that for sub-Saharan Africa in 2020. However, the rate of patent applications in the country is now higher than that for sub-Saharan Africa.

Labour force

With a median age of 19.5 years, a projected two million workers will join the labour market each year over the coming decade. By 2025, the number of young workers (aged 15 to 29) will increase by 8.5 million.[19] This growing work force provides readily available and inexpensive labour to enhance the output of the agriculture and manufacturing sectors. According to official figures, Ethiopia has a labour force participation rate of 82% (76% for females), compared to 68% (63% for females) for sub-Saharan Africa, and an unemployment rate of 2.1% compared to 6.6% for sub-Saharan Africa, although the urban unemployment rate stood at nearly 19% in 2019/20, with a rate of 12.2% for men and 26.1% for women.[20] Only 16% of workers in Ethiopia are waged and salaried, one of the lowest rates in Africa and across the globe.

The Government's ten-year development plan lays out a long-term vision of making Ethiopia an "African Beacon of Prosperity". Given the lack of waged and salaried roles, a common route into work is through joining the large independent (also called informal) economy. Although official reporting of workers in the informal economy stood at 23% in 2013, experts view the reported drop from 51% in 1999 as a statistical redefinition of the sector and believe the current figure is much higher than the reported 23%.[21]

Considerable challenges exist for businesses to find employees with the right skillset — Ethiopia currently ranks 140th out of 167 nations on the WEF measure of availability of skilled workers.[22] Industrial park workers, for example, lack sufficient training, which creates problems as many workers coming from rural areas are not familiar with working in an industrial environment.[23] Significant other barriers impede starting a business in Ethiopia.

COVID-19 and looking ahead

The reported health impact of COVID-19 on Ethiopians is so far considerably less severe than on people in other countries. However, the impact of the pandemic on an already fragile economy is likely to be quite severe. The Government has put in place various support packages, including loans, tax payment deferrals and tax reductions to help businesses. It has secured international support to help with its debt payment. However, it will be some time before the full impact of COVID-19 on the Ethiopian economy is known.

To address the challenges mentioned above and throughout this report, the Government completed its homegrown economic reform (HGER) plan in April 2021, with the central objectives of sustaining rapid economic growth, maintaining a stable macroeconomic environment by reducing debt vulnerabilities and creating adequate and sustainable job opportunities.

The 10-Year Development Plan

The 2021-2030 development plan sets a long-term vision of making Ethiopia an "African Beacon of Prosperity", which will be brought about through the following objectives:

1. Building a prosperous country by creating a pragmatic market-based economic system and enhancing the role and participation of the private sectors.
2. Maintaining macroeconomic stability, ensuring rapid and sustainable economic growth, and creating decent jobs.
3. Ensuring structural economic transformation by promoting overall productivity and competitiveness.
4. Creating an enabling environment where every citizen will become an owner and beneficiary of the development endeavour by ensuring the quality and accessibility of basic social services and the provision of infrastructure.
5. Ensuring competent, independent and quality civil service system by building the capacity of the Government and establishing good governance.
6. Building strong and inclusive institutions to ensure a peaceful society, access to justice and upholding the rule of law and human rights.

In delivering upon these objectives, the Government hopes to achieve the following development outcomes:

1. Improvement in income levels and wealth accumulation so that every citizen can satisfy their basic needs and aspirations.
2. Basic economic and social services such as food, clean water, shelter, health and education will be accessible to every citizen regardless of their economic status.
3. Creation of an enabling and just environment where citizens can utilise their potentials and resources to lead quality lives.
4. Improvement in social dignity, equality, and freedom where citizens can freely participate in all social, economic, and political affairs of their country regardless of their social background.

Endnotes

1 See “Global Index of Economic Openness”, Legatum Institute, May 2019.

2 In January 2021, the National Election Board of Ethiopia terminated TPLF’s registration, citing acts of violence and rebellion committed by the party’s leadership against the Federal government in 2020 and a lack of representation.

3 “Ethiopia Economic Outlook,” African Development Bank Group, May 2021.

4 “Ethiopia 2030: The Pathway to Prosperity Ten Years Perspective Development Plan (2021 – 2030),” The Planning and Development Commission, May 2021, p. 8.

5 Ibid.

6 Trading Economics (retrieved 21st July, 2021)

7 John Aglionby and Emily Feng, “China scales back investment in Ethiopia,” Financial Times, June 2018.

8 China remains to be top foreign investment source of Ethiopia in 2019: UN report,” Xinhuanet, January 2020.

9 “Ethiopia National Debt,” Country Economy, May 2020; “IMF Country Report No. 20/29, The Federal Democratic Republic of Ethiopia,” International Monetary Fund, January 2020, p. 5.

10 Duncan Miriri, “Impact of Ethiopia’s debt plan on private creditors not yet clear, says adviser,” Reuters, February 2021.

11 “Fitch Downgrades Ethiopia to ‘CCC’,” Fitch Ratings, February 2021.

12 “IMF Country Report No. 20/29, The Federal Democratic Republic of Ethiopia,” International Monetary Fund, January 2020, p. 4.

13 Ibid.

14 Marthe van der Wolf, “East African Flower Industry Wilts as Sales to Europe Dry Up,” VOA News, April 2020.

15 “Ethiopia Productivity Report,” Policy Studies Institute, January 2020, p. 24.

16 Ibid.

17 Arkebe Oqubay, “The Structure and Performance of the Ethiopian Manufacturing Sector,” The African Development Bank Group, Working Paper Series N° 299, May 2018, p. 3.

18 Amy Copley, “Figures of the week: The nexus of manufacturing and services sectors in Ethiopia,” Brookings, May 2018.

19 “Country Private Sector Diagnostic: Creating Markets in Ethiopia,” The International Finance Corporation, 2019, p. 29.

20 “Ethiopia 2030: The Pathway to Prosperity Ten Years Perspective Development Plan (2021 – 2030),” The Planning and Development Commission, May 2021, p. 4.

21 “2020 Investment Climate Statement: Ethiopia,” U.S. Department of State, 2020.

22 “Nexus skills-jobs assessment Ethiopia,” Ministry of Foreign Affairs, the Netherlands, February 2020, p. 7.

23 Marjorie van Elven, “Ethiopian garment workers paid the lowest wages in the apparel industry,” The Fashion United, May 2019.

Credit (Shutterstock.com)

INFRASTRUCTURE AND MARKET ACCESS (ETHIOPIA RANK: 155TH)

Good quality infrastructure is an essential component of a successful economy. An environment supportive of trade and commerce allows new products and ideas to be tested, funded, commercialised, and delivered easily to customers. Trade empowers individuals and encourages competition. Offering choices to consumers and businesses about which products, services, and ideas they can buy domestically and internationally is at the core of free trade.

Equally important is the role that trade provides in communicating new ideas and raising productivity.[1] Competition from international trade ensures that even when a business does not export, it is forced to respond to new ideas from the increased competition in domestic markets.

The potential for a prosperous Ethiopia is to have enhanced infrastructure that serves urban and rural populations alike in terms of mobile communications, electricity, water and transport. In addition, the country has the potential for a more open trade policy with smoother border facilitation leading to agriculture and manufacturing exports with greater value-added.

Ethiopia ranks 155th in Infrastructure and Market Access. It ranks below 150th on four of the seven elements within the pillar. Public investment through state-owned enterprises over the past decade has extended the transport network and expanded electricity and water infrastructure, leading to greater connectivity across the country. 'Last mile' connections have not been made, particularly in relation to rural areas, and maintenance of existing infrastructure has been neglected. Ethiopia ranks 127th for Transport, 153rd for Communications and 153rd for Electricity and Water Resources. Internal conflict, particularly in the Tigray region, has damaged infrastructure.[2]

Non-tariff measures are a burden to many Ethiopian exporters and importers, reflected in a ranking of 158th for Market Distortions. The percentage of goods subject to tariffs and the relatively high tariffs applied result in Ethiopia ranking 159th for Import Tariff Barriers. Through the introduction of its Electronic Single Window, Ethiopia has taken steps to address the process barriers and procedural burdens that result in high costs and long periods of time to import and export, and this is beginning to show positive results: Ethiopia ranks 109th in Border Administration.

Elements of Infrastructure and Market Access

***Transport** – the ease and efficiency with which people and goods travel between and within countries. This is a measure of the quality, diversity, and penetration of all forms of transport: air travel, shipping and seaport services, and road and rail infrastructure.*

***Communications** – the means of communication and how widespread access to communication is. Infrastructure for communications must necessarily be in place for strong communications within a nation and the actual take-up and use of communications by the population.*

***Resources** – the quality, reliability, and affordability of the energy network within a country, and the access to, and use of, water resources.*

***Border Administration** – the time and administrative cost of a country's customs procedures, alongside the efficiency of this process.*

***Open Market Scale** – the size of the market to which providers of goods and services have privileged access.*

***Import Tariff Barriers** – the fees associated with trading products and services across borders, raising an income for government and making foreign goods more expensive.*

***Market Distortions** – how competitive markets are disrupted by non-tariff barriers to trade and the extent of market liberalisation of foreign trade.*

TRANSPORT (ETHIOPIA RANK: 127TH)

Transport underpins the ability for products and people to move efficiently, easily, and reliably. An interconnected freight transportation network contributes to economic growth by supporting resource development and expanding interstate commerce. We review both the quality of physical infrastructure, including road, rail, ports, and air, and logistical performance, which measures the efficiency of shipping products in and out of a country.

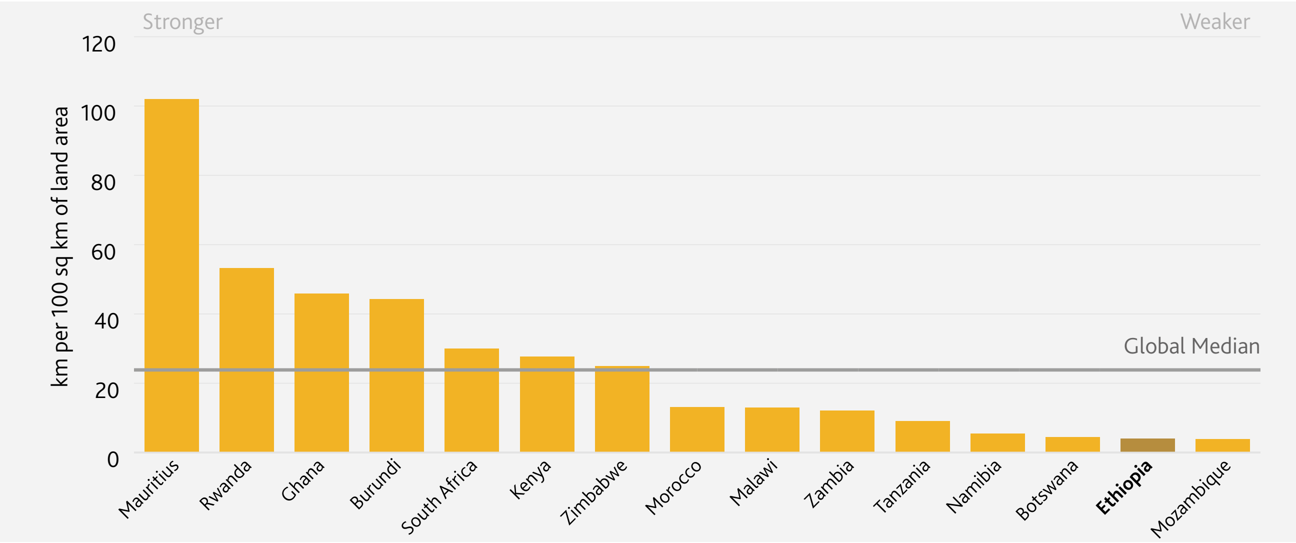
Ethiopia has a global ranking of 127th for Transport, with improvements over the past decade driven principally by airport capacity expansion.

Ethiopia has prioritised transport investment, with $2 billion of public funding of roads, railways, and airports over the past five years as part of the Growth and Transformation Plan II (GTP II), which builds upon significant previous government investment.[3] However, like other 'backbone' services in the country, private sector investment remains heavily restricted.[4]

Roads

In the past 15 years, through the Road Sector Development Programmes (RSDP), the Government has given considerable focus to extending the road network throughout Ethiopia. Between 2014 and 2019, the total road length in the country increased from 99,500km to 144,900km.[5] Nonetheless, the country's road density remains sparse (see Figure 1).

Figure 1: Road density



Source: Food and Agriculture Organisation 2019

Improvements have been made to the interurban network, including the country's busiest road corridor to Djibouti, and to the network that links industrial parks to the main transport corridors within Ethiopia.[6] The Addis to Djibouti road corridor accounts for 90% of Ethiopia's external trade,[7] but this journey takes three days by truck,[8] resulting in Ethiopia's trade logistics being expensive (see below).

The Government is focussing on connecting all Kebeles with all-weather roads, providing year-round access through its Universal Rural Road Access Programme (URRAP). The proportion of the population that are within two miles of an all-seasons road has increased from 50% in 2014 to 69% in 2019.[9] URRAP road development has been associated with increasing household consumption by up to 28% between 2012 and 2016.[10] Despite this considerable investment, rural accessibility remains low, constraining the development of markets for nonfarm activity.

A lack of maintenance is affecting the quality of low volume rural roads, which is primarily a result of insufficient resources being made available.[11] A study from the OECD in Peru found that a continued lack of maintenance can be up to three times more costly in the long run.[12] According to surveys carried out by the World Economic Forum and by Gallup, the quality of roads in Ethiopia is judged to have deteriorated, with less than 40% of the public expressing satisfaction with the roads and highways where they live, compared to over 50% a decade previously.[13]

Recommendations

- The Government should consider building more rural all-weather roads that are connected to the main network and ensure that weaknesses of previous programmes have been addressed.
- The Government should ensure that resources are allocated and executed to conduct regular maintenance of the rural road network, to avoid the need for much more costly replacement, which should include both community-driven (labour-intensive) maintenance and more traditional contractual approaches.

Railways

Ethiopia invested substantially in railways over the past decade, with three railway lines totalling 1,339km recently being constructed as part of a 5,000km expansion programme. This includes a new rail line linking Addis Ababa to Djibouti and a light railway system in Addis.[14]

The rail line from Addis to Djibouti has the potential to reduce the transportation time from up to 50 hours to 10 hours.[15] The new line can handle 30% of all Ethiopian imports but carries only around 5% of them.[16] As of June 2021, export and import goods have increased, along with their service delivery, by 25 to 30% annually, which is a promising sign.[17] However, conversations with experts report that the 'last mile' railway works to connect Modjo Dry Port and Djibouti port to the main rail line have not yet been completed. Currently, this journey is carried out by truck, leading to inefficiency and adding to cost.

Recommendations

- The Government should renew efforts to complete 'last mile' rail works between the mainline railway and Modjo Dry Port and between the mainline railway and Djibouti port, to improve efficiency and reduce costs.
- The Government should explore the opportunity for using Assab and Massawa ports to export goods and reduce overreliance on Djibouti.

Airports

The aviation sector has seen strong expansion in recent years, with a fourfold increase in airport connectivity, resulting in Ethiopia rising from 106th to 90th in the World Economic Forum's rankings from 2010 to 2020.

In a landmark development, Bole International, Ethiopia's largest airport, has recently overtaken Dubai International as the leading gateway to the region.[18] It completed the work on a new terminal in mid-2020, which has doubled its annual passenger capacity to 21 million. The Ethiopian Airports Enterprise, a subsidiary of Ethiopian Airlines (state-owned and the biggest airline in Africa) plans to build a major airport outside of Addis Ababa with a capacity of 80 million passengers per year at a cost of $4 billion,[19] although the future of this plan is uncertain given the impact of COVID-19 on the aviation industry.

Air connectivity continues to be a challenge for the African aviation industry, with 22% of Africans travelling between two cities on the continent doing so via non-African hubs (often Europe or the Middle East).[20] Ethiopia and Kenya, the two best-performing countries in Africa in terms of intra-continental connectivity, still have direct connections with only 29 other countries across the continent.[21] In an attempt to capitalise on opportunities available, Ethiopia became a signatory to the African Union's Single African Air Transport Market (SAATM) when it launched in January 2018. SAATM aims to open Africa's aviation sector and improve intra-African air connectivity,[22] with 34 countries signing up so far, representing over 80% of the existing aviation market in Africa.[23]

Ethiopian Airlines began operating a new air cargo terminal in 2019, with capacity to handle 600,000 tonnes of fresh food and dry goods.[24] This is the largest air cargo terminal in Africa and lays a foundation for key infrastructure to improve competitiveness. It has the potential to become not only a key freight hub for the African continent, but also an international cargo hub.[25] Ethiopian Cargo & Logistics Services won 'Best Cargo Airline – Africa' Award at the Air Cargo News Awards 2020.[26]

The Government plans to increase the number of airports in the country from 20 to 25. The economic case for these airports is unclear. Except for Bole International Airport, most of the existing regional airports are underutilised and depend on government subsidies.[27]

Recommendations

- Given that Ethiopia is a land-locked country, it is logical to build upon the success of the aviation sector and further develop and innovate it for both passengers and cargo.
- The Government should consider increasing passenger and cargo volume by establishing new networks with African countries, under the SAATM Framework and with other nations.
- The Government should consider exporting more goods by air, making use of cold storage facilities at Bole International Airport.
- The Government should consider decentralising the existing regional airports, to improve performance and reduce subsidies, through public and private partnership agreements and by the private sector providing key airport services such as handling, storage, and catering.

Logistics

Despite some competition in freight forwarding, the only provider of multimodal transport services in Ethiopia is the Ethiopian Shipping and Logistics Services Enterprise (ESLSE), a state-owned enterprise. This has contributed to an ineffective and inefficient sector, which results in delays and high costs to entrepreneurs.

Poor logistics is one of the key factors undermining the nation's international competitiveness, thus constraining growth.[28] The Government is demonstrating its commitment to opening the logistics sector by gradually allowing competition in value added services, followed by freight transport and management of the ports. However, this is yet to be enacted by law.

Investments have been made to increase the capacity for handling goods within the country. For example, Modjo Dry Port is currently undergoing a transformation to become the biggest logistics hub in the country, funded through a $150 million loan from the World Bank.[29] In late 2020, the Government established the National Logistics Transformation Council as an autonomous entity that will operate under the Office of the Prime Minister, to resolve the significant challenges faced by the logistics sector.[30] The lack of cold-chain storage facilities along the main transport routes within the country has hindered Ethiopia from capitalising upon its strong agriculture sector. Under a pilot project in late 2020, the first export of avocados by train, from the Modjo Dry Port to Europe, was carried out as part of the National Cool Logistics Network.

Alongside the Council, the Government has drafted a 10-year national logistics document, comprising six strategies, 22 sub-strategies and 98 interventions. This is an ambitious strategy, and the Government has stated that it is consulting its policies in a participatory manner. For example, logistics experts were consulted recently on the draft regulations that include allowing domestic players to participate in the sector.

There are challenges around the capacity within and coordination across the various government agencies in relation to logistics. For example, experts say that while agency staff are reasonably competent in discharging their duties, inadequate training is provided for them to carry out their interventions effectively.

Recommendations

- The Government should consider allowing private multimodal operators, including foreign operatives, to improve service and reduce costs.
- The Government should open ESLSE up to competition.
- The Government should improve ESLSE performance by adopting best practice from the Ethiopian Cargo & Logistics Services and other countries with a strong capacity government.

COMMUNICATIONS (ETHIOPIA RANK: 151ST)

The free exchange of information, underpinned by good communications infrastructure, is a vital component of Economic Openness. Moreover, the advent of communications technology as an end-product has created economic opportunity for innovative companies and countries. Whole societies have been transformed by this evolution in communications technology. Our measure looks at a wide range of forms and measures of communication, from fixed line and mobile telecoms to broadband speeds and penetration rates.

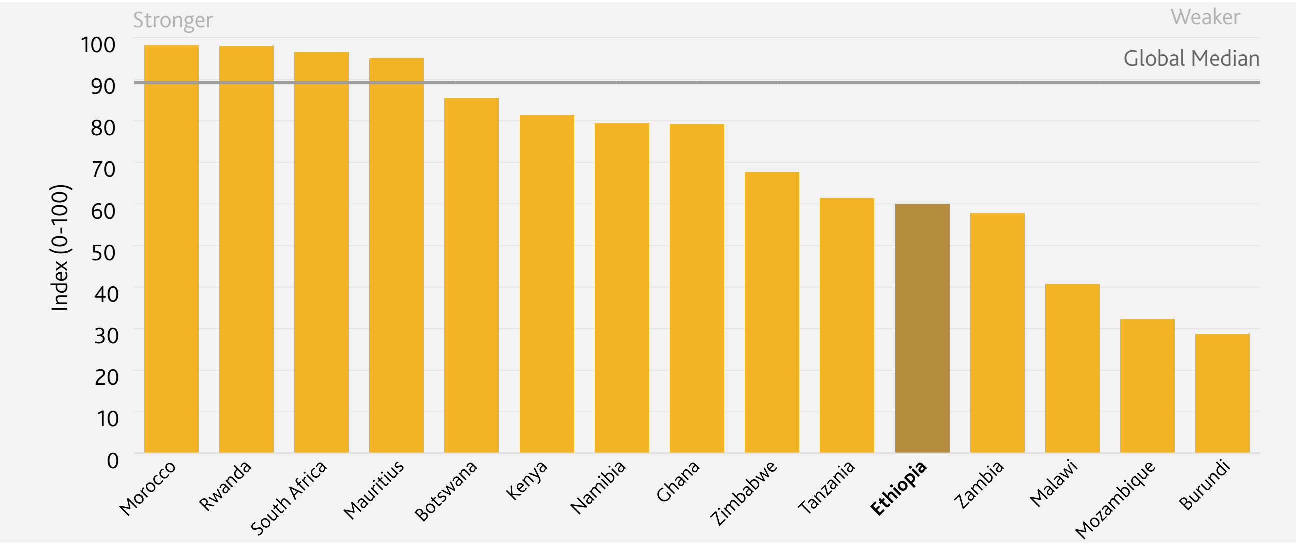
Ethiopia has committed significant investment to improving communications over the past decade, although progress has been slower than in other countries because of the barriers to entry in the telecoms market. As a result, Ethiopia has slipped 11 places in the global rankings, to 151st, for the Communications element.

Access

Over the past decade, the state-owned enterprise Ethio telecom has invested $3.1 billion in telecom infrastructure and service expansion projects,[31] which has supported improved connectivity and accessibility. Despite these investments, the country still lags far behind comparator countries on many communication measures:

- Internet penetration remains low, with only 19% of the population having access to the internet, compared to 85% in Kenya, 39% in Uganda and 46% for Africa as a whole.[32]
- Only 42% of Ethiopians have a mobile phone, and only 14% have mobile broadband, which is low compared with other countries of a comparable size within the region, including Sudan, Tanzania, Kenya, and Uganda.[33]
- Subscription to fixed broadband is still less than half of that for sub-Saharan Africa, at a rate of 0.55 per 100 people in 2017, compared with 1.3 for sub-Saharan Africa.[34]
- While 99% of the population has access to 2G coverage, 4G coverage is restricted to the capital city of Addis Ababa and only two-thirds of the population can access 3G networks.[35,36]

Figure 2: 2G, 3G and 4G network coverage



Source: Groupe Spéciale Mobile Association 2018.

Service quality

Inadequate telecommunications quality is cited as a serious problem for dynamic firms that rely on fast, steady telephone and broadband service provision.[37] Internet bandwidth is poor, with a rate of 0.5 Mbit/s per 1,000 people in 2017, compared with 10 Mbit/s in Kenya.[38]

Reliability is a concern in Ethiopia, with government-decreed shutdowns of the internet. Since 2016, the internet has been shut down at least six times, sometimes for weeks at a time. In 2019 alone, Ethiopia experienced three major internet disruptions across the country. In addition to the considerable disruption to individuals and businesses, it is estimated that a two-week blackout in 2019 cost the country nearly $70 million.[39]

Digital financial services

Ethiopia is an outlier in relation to digital finance services. Less than 0.05% of the adult population accessed banking services through mobile accounts in 2017, compared with 73% in Kenya, 51% in Uganda and 39% in Tanzania. The undeveloped telecoms sector contributes to a poor offering of digital services.

Industry reform

Ethiopia is one of only three countries that still have a state monopoly on communications,[40] and this protected market has resulted in an underdeveloped telecoms market which has not allowed competition and is a key constraint on growth.[41]

Prime Minister Abiy Ahmed signalled the liberalisation of the telecommunications industry in 2018, but a number of delays have taken place. Other countries that have liberalised the telecoms sector have seen significant improvements. Myanmar, for example, liberalised its telecoms sector in 2013, which resulted in mobile penetration increasing from 10% to 99% and mobile broadband penetration from 3% to 67%, within only 4 years.[42]

At the end of 2020, Government announced the sale of a 45% share of Ethio telecom.[43] Subsequently, in May 2021, the Ethiopian Government awarded a telecom service license to the Global Partnership for Ethiopia, a consortium of telecom companies. This consortium includes Vodafone, Vodacom, Safaricom, Sumitomo Corporation, and the CDC Group. Government statements mentioned that the move will create jobs for 1.5 million citizens and activate over $8 billion in domestic investment.[44] This amount is the single largest foreign direct investment into Ethiopia to date.[45]

Regulatory structure

Crucial to a successful mobile liberalisation is ensuring a level playing field for all participants. In the past, the independent regulator, Ethiopian Communications Authority (ECA), has often protected the interests of the state monopoly Ethio telecom. It is important that internet services are open to all providers and that they do not have onerous requirements.[46]

Recommendations

- The Government should continue with the opening of the telecom market.
- The ECA should plan to finalise the partial privatisation of Ethio telecom in 2021.
- The ECA should encourage (not mandate) facilitation of infrastructure sharing (which avoids unnecessary duplication of infrastructure).
- The ECA should treat all providers equally.
- The Government should strengthen ECA, to ensure its independence and professional capacity.
- The Government should provide catalytic investment to develop mobile services in rural areas and increase digital literacy.

RESOURCES (ETHIOPIA RANK: 153RD)

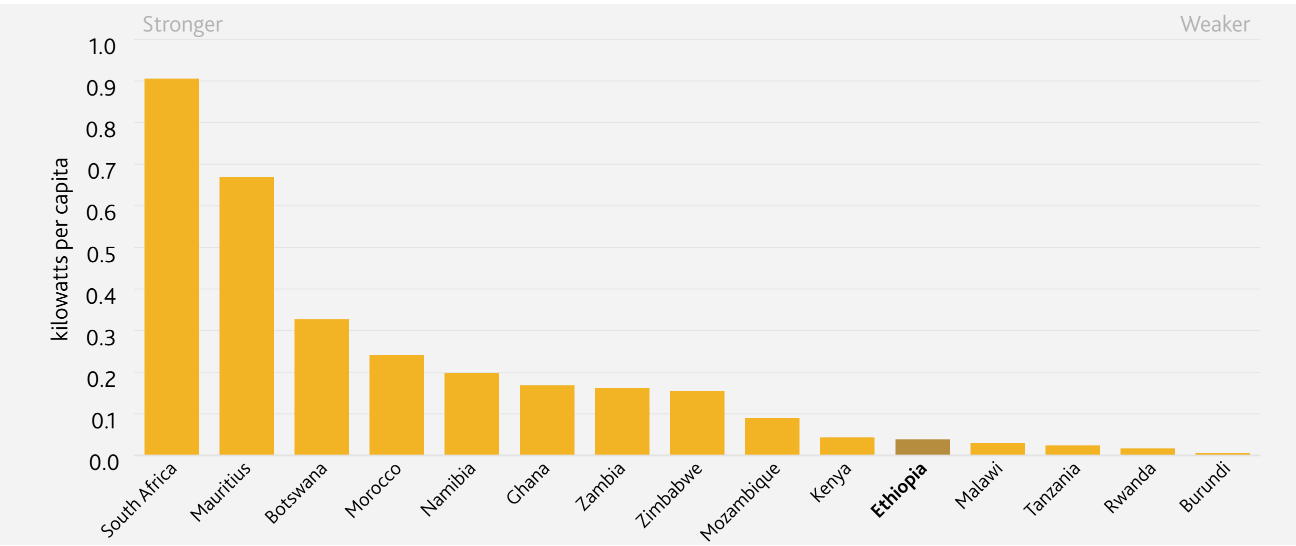
Access to reliable and affordable resources, including water and energy, is crucial for a well-functioning economy. An unreliable energy supply can limit the growth of a potential business and act as an obstacle to effective trade. Our measure of resources aims to capture the quality, reliability, and affordability of a country's energy network, and the access to and use of water resources.

Electricity capacity

As a result of over $10 billion of public investment over the past decade, Ethiopia now has the second-largest electricity capacity in Africa.[47] However, on a per capita basis, generation capacity ranks 143rd globally. Over half the population is without electricity, and the additional demand from businesses and population growth is increasing by around 15% per year.

To help meet the currently unmet and new demand for electricity, Ethiopia's electricity generation capacity will be bolstered when the recently completed GERD plant starts generating electricity in the next few years, although issues remain with Egypt and South Sudan over the rate of filling of the dam. Ethiopia's strong focus on hydroelectric generation capitalises on the abundance of its water availability. However, the area is prone to drought, as has been experienced in recent years, and this leaves Ethiopia exposed to power shortages. Ethiopia has a reserve of 300 million tonnes of coal and 253 million tonnes of oil shale that could be exploited.[48]

Figure 3: Installed electric capacity



Source: United Nations Energy Statistics Database.

Electricity network

In the recent past, investment priority has been given to electricity generation rather than transmission. Despite some network expansion, the progress on 'last mile' connections has been slow, particularly to the nearly four in five households living in rural areas. The rural electrification rate in Ethiopia is 32%, which is an improvement on 22% in 2010, but over the same period the rural electrification rate in Kenya increased from 7% to 72%.[49] The electrification rate in urban areas in Ethiopia is higher at 92%, up from 85% in 2010.

In its National Electrification Program (NEP), published in 2017, the Government set a target of 100% connection by 2025, with 35% being connected off-grid and 65% connected on-grid.[50] This is ambitious, given the current rate is under 50% and that increasing on-grid access remains the responsibility of the state through the Ethiopian Electric Utility (EEU). Off-grid projects have been opened to the private sector and are attracting strong interest, which should help achieve the 35% target. For example, Lotus Energy are to provide 500MW of solar in the Tigray region,[51] although this may be delayed due to the current conflict in the region.

The challenge in urban areas is the reliability of supply. Only a fifth of households have 24/7 supply.[52] Electricity reliability is cited as the main operational constraint for small firms. Frequent power outages, both for manufacturing industries and the services sector, force firms to use costly generators and lower production capacity, leading to a loss of customers and market share.[53] In its focus on increasing electricity capacity, the Government has not given sufficient attention to the maintenance, including upgrading, of existing infrastructure.

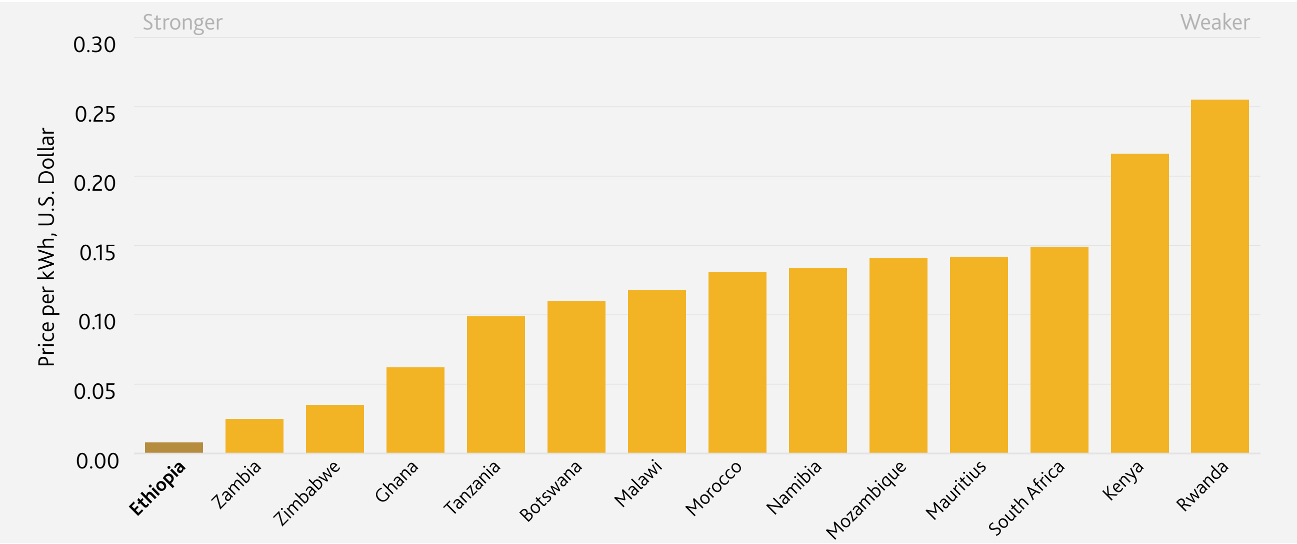
Electricity prices

Electricity prices in Ethiopia are subsidised, resulting in one of the lowest tariffs in sub-Saharan Africa. Even without subsidies, electricity tariffs would still be low. According to the Ethiopian Electric Utility (EEU), the current costs for electric power generation, transmission, and distribution are, on average, \$0.09 per kilowatt-hour (kWh), while existing tariffs lie between \$0.04 and \$0.06 per kWh.[54]

Ethiopia's electricity sector faces issues similar to other African power markets, including low electricity prices that do not reflect the real cost of electricity. The Ethiopian Government is revising the existing tariff rate structure to achieve cost recovery, and to incentivise private sector participation in the power market, which is nascent.[55] The tariff reform involves minor price increases for the first 12 months, followed by higher increases for the following 36 months. Customers consuming fewer than 50 kWh of electricity per month will witness no change in electricity prices. Households or firms that consume more electricity will experience higher costs per kWh.[56]

Like many other 'backbone' services in Ethiopia, certain electricity services remain firmly in the hands of the public sector.

Figure 4: Price per kWh, U.S. Dollar



Source: Global Petrol Prices 2020.

Recommendations

Opening the sector to more private sector involvement and reforming electricity pricing structures will help address some of the challenges within the sector, but these reforms represent a significant step change for the sector, which necessitates a strong independent regulator.

- The Government should continue its negotiated approach to resolve issues with Egypt and South Sudan over water access from the Blue Nile.
- The Government should consider developing a 2040 strategy that sets out a timetable for reviewing opportunities for electricity generation, with a roadmap towards greater electricity diversification.
- The Government should strengthen the regulatory capacities of Ethiopian Energy Authority across the whole electricity network, to ensure its independence and professional capacity.
- The Ethiopian Energy Authority should consider issuing licences for on-grid distribution and transmission services, to accelerate the electrification programme.
- The Government should try to secure more private sector participation in off-grid projects, including solar and geo-thermal.
- The Government should undertake ‘keep the lights on’ maintenance of existing transmission and distribution assets, to ensure improved electricity reliability.

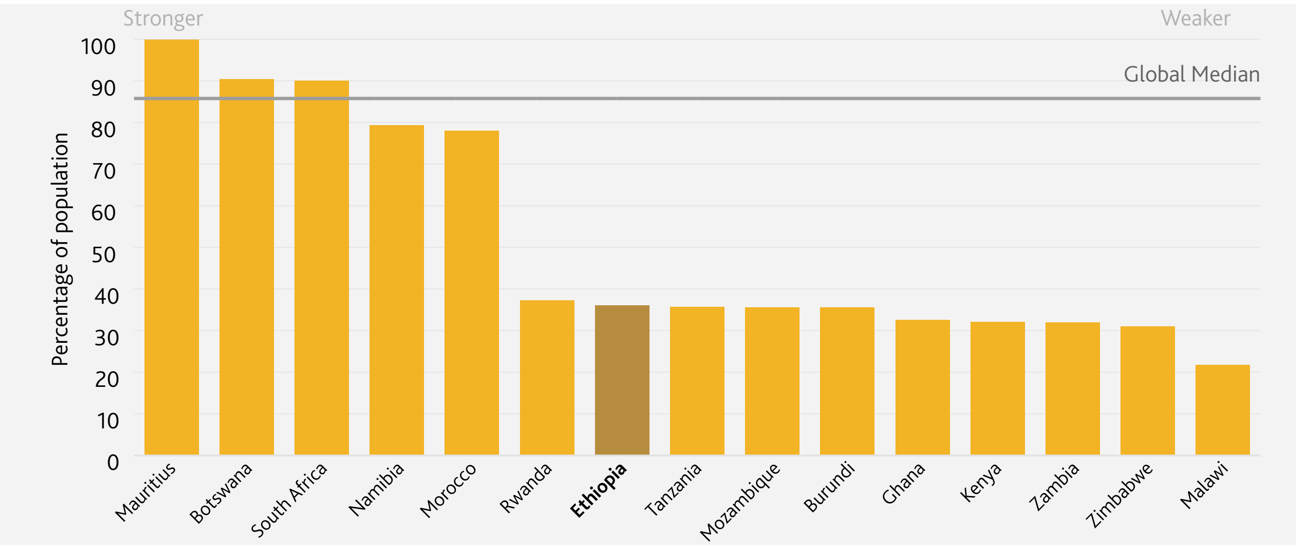
Water management

The Federal Constitution provides that the water resources of the country are publicly owned and that the federal Government has the overall mandate to determine the "management, administration and utilisation of the waters that are inter-regional and trans-boundary in nature, while Regional States have the mandate to administer the water resources within their respective States in accordance with federal laws."[57] Therefore, the federal Government has a primary role in determining the manner in which the country's water resources will be managed and utilised for various development purposes.[58] Reforms since 2005 have given town water supply services greater autonomy.[59] National policies for water supply and sanitation are set by the Ministry of Water, Irrigation and Energy (MoWIE). Regional Water Bureaus and Woreda Water Desks oversee investment planning, monitoring and technical assistance to water service providers. In rural areas, community water and sanitation committees operate water systems and promote sanitation. Private sector involvement in the water and sanitation sector is limited and mainly based in Addis Ababa.[60,61]

Groundwater resources

Known as the 'water tower of Africa', Ethiopia has considerable surface and groundwater resources from its 12 river basins, which supply 80% of the water in the Blue Nile. Despite the abundant provision of natural water, only 36% of the population has access to a clean water supply and of these only 7% has access to adequate sanitation services, with access in rural areas even lower.[62]

Figure 5: Access to piped water



Source: WHO/UNICEF Joint Monitoring Programme for Water Supply and Sanitation 2017.

Investment in water

As part of its planning under GTPII, Government identified $1.6 billion for new water and sanitation projects for the period 2015/16-2019/20. About 49% was planned to be provided by the Government and 31% by donors,[63] although in practice Government was not able to mobilise those resources.

Focussed attention has been given to extending water access in the country, possibly due to pressure to achieve SDG 6 – to "ensure the availability and sustainable management of water and sanitation for all". As a result of this pressure, there has been less attention paid to the essential need to maintain the existing system.[64]

The decentralisation of the water sector has led to nearly 1,500 local water services across the country, resulting in a highly fragmented service provision framework.[65] A lack of coordination between the various water agencies at federal, regional, and local levels has led to poor management information, slow-moving supply chains and a lack of adequate funding at the local level, resulting in poor identification and repair of water-point failure.[66]

Irrigation

Only 5% of land in Ethiopia is irrigated, although this is a substantial increase since 2002.[67] The Government has focussed on increasing irrigated arable land area, including dedicating over $7.5 billion to this activity through the 2010-2020 National Agriculture Investment Plan.[68]

There are strong economic arguments for increasing the amount of irrigated land in Ethiopia, with estimated rates of return of 7-12% for large- and small-scale irrigation development.[69] Even at a household level, those that use irrigation have over twice the average income of households that do not.[70]

Countries that have been most successful in expanding irrigation are those that have engaged the private sector. For example, Morocco has made extensive use of public-private partnerships which encourage greater private sector involvement in the irrigation sector and now has over 20% of irrigated land. This programme offers long-term leases on land for private investors to develop new agricultural projects.[71]

Recommendations

- The Government should consider expanding water supply infrastructure and increasing access to sanitation services, through greater involvement of the private sector.
- The Government should ensure it can maintain existing infrastructure, ensuring a coordinated approach across federal, regional, and local agencies.
- The Government should accelerate land irrigation, through public/private sector style partnerships, e.g. as in the case of Morocco.

BORDER ADMINISTRATION (ETHIOPIA RANK: 109TH)

Inefficient and slow bureaucratic trade barriers limit the effectiveness, efficiency, and dynamism of economies, with greater barriers often connected to corruption and cronyism. Our measure of Border Administration considers the time and cost of a country's customs procedures.

The amount of time and cost it takes to comply with customs-related regulations and procedures are both high in Ethiopia, resulting in a global ranking of 109th for Border Administration.

Multiple documents are required for export (on average eight documents are required to export from Ethiopia, compared with fewer than five for Bangladesh). Smaller Ethiopian firms face burdensome delays in arranging trade-related payments, due to problems in obtaining foreign exchange.[72] A lack of clarity around government rules and anti-competitive practices exists in shipping and transport, all of which add to the shipping and export costs of Ethiopian goods.[73] The Ethiopian Revenue and Customs Authority (ECRA), now the Ministry of Revenue, has been identified as the weakest-performing agency by firms because of its lengthy bureaucratic processes.[74]

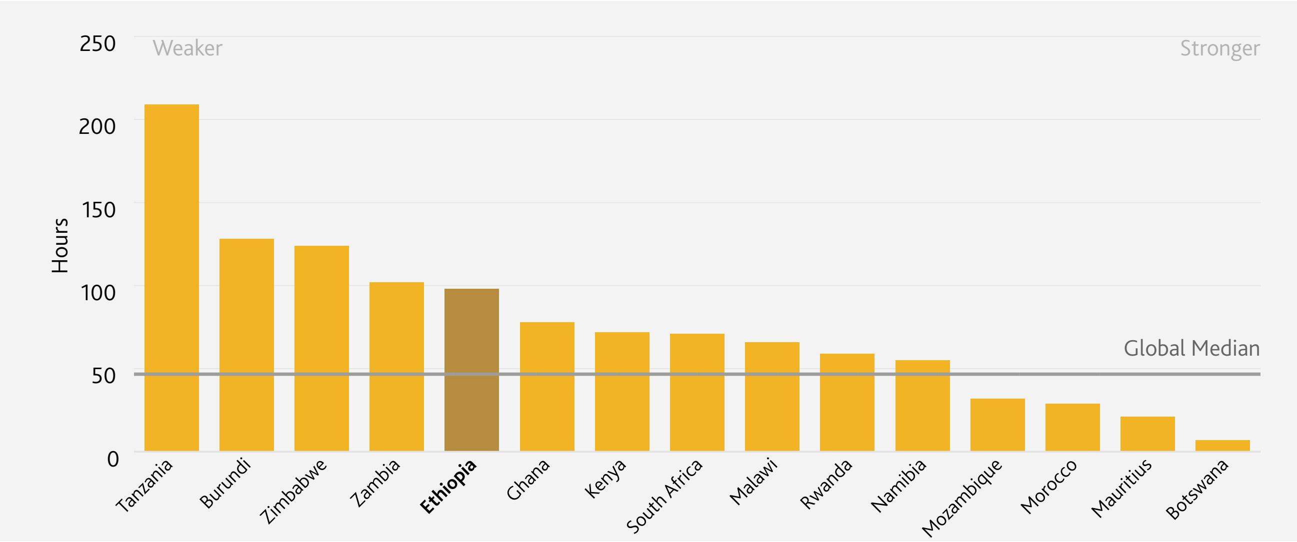
In a 2016 survey, nearly a third of cases (31%) reported as burdensome were due to compliance with Ethiopian national regulations on exports: export clearance, licences, subsidies, price controls and other export-related procedures.[75] Many cases cited delays in export clearance inspections conducted by the Ministry of Revenue (formerly ERCA) due to long queues to access inspection sites, problems with network connections used by the Ministry of Revenue and delays in confirming the similarity between samples taken for analysis and the shipment itself.

Nearly one in two importers reported that burdens were due to pre-shipment inspections.

> "Ethiopian importers often refer to clearance delays of their products due to officials' lack of technical expertise, the numerous 'windows' to visit for procedures, changes in rules that are not properly disseminated, the inexistence of electronic means to facilitate clearance, such as electronic signature, and issues related to coordination with other agencies in charge of conformity assessments. Importers refer to limited facilities in some customs offices and dry ports."[76] In addition, "One in every five importers complained of the compulsory use of the Ethiopian Shipping and Logistics Services Enterprise (ESLSE) and said that the lack of ships and trucks from this service provider creates import bottlenecks."[77]

Formerly, at least 75% of additional costs and delays in shipping had been "due to administrative hurdles - multiple customs procedures, tax procedures, clearances and cargo inspections."[78] To streamline processes and digitise procedures, the Ethiopian Customs Commission launched the Electronic Single Window (eSW) on 1 January 2020. The eSW system connects the 16 major cross-border regulatory agencies and enables traders to submit documents and receive electronic permits for import and export through a single window.

Figure 6: Time to comply with border regulations and procedures



Source: World Bank Doing Business Index 2019.

There were some teething problems: there was an internet shutdown around the time of the launch and there were queues at the Ministry to obtain login details. Nonetheless, the Ethiopian eSW Service Program Office announced that during its first six months, around 4,000 traders had started using the system, which they estimate to have resulted in efficiency savings of $0.41 million and more than 400,000 working hours. A total of 150,000 traders are expected to join the system.[79,80] According to the World Bank, the eSW system has helped eliminate the need to apply for and obtain permits face-to-face from the Ministry of Trade for each export shipment, saving time and reducing transport costs.[81]

A second phase of the project will connect more regulatory agencies, including the Ethiopian Shipping & Logistics Services Enterprise, to the eSW, which is expected further to reduce trade times from 13 to just three days.[82]

As part of the Modjo Dry Port expansion, the World Bank has supported the development and implementation of a modern record keeping, planning, and monitoring system. This is a positive step in helping to reduce time to export and import.

Recommendations

- The Government should continue the process of rolling out the Electronic Single Window (eSW) to all traders and across agencies.
- The Government should consider steps to improve coordination between various agencies and to streamline and remove duplicate processes.
- The Government should consider upskilling agencies involved in import/export (the Ministry of Revenue, The Ethiopian Conformity Assessment Enterprise, the Ministry of Agriculture and Natural Resources, and the Ethiopian Food and Drug Administration) to have a client-focussed mindset and capability, especially to carry out inspections.

OPEN MARKET SCALE (ETHIOPIA RANK: 129TH)

The size of the economic opportunity for producers is constrained by the scale of the domestic and international markets that are open to them. Tariffs on goods faced by exporters in many countries can prevent those firms from selling goods, inhibiting their ability to compete in the global market. We measure the extent to which producers have access to domestic and international markets unhindered by tariffs, and the tariffs faced in destination markets.

Ethiopia ranks 129th for Open Market Scale. It has benefitted from increased international access for goods and services, securing preferential market access to the European Union, China, United States, India, and other major markets. The African Continental Free Trade Area (AfCFTA) established a free trade area across Africa beginning in January 2021 (see box). It has seen a reduction in tariffs applied to exports in destination markets. However, businesses cite compliance with regulations and technical requirements, imposed by domestic authorities and those in destination markets, acting as barriers to exporting.[83] For exporters, 69% of cases reported as burdensome involved demonstrating that products comply with regulations (43%) or private standards (26%) in destination markets.

African Continental Free Trade Area

The African Continental Free Trade Area (AfCFTA) is a free trade area established in 2018, with free trade becoming operational as of 1 January 2021. It was created by the African Continental Free Trade Agreement, brokered by the African Union. It is the first part of Agenda 2063, a strategic plan for transforming Africa into the global powerhouse of the future. The Agreement initially requires members to remove tariffs from 90% of goods, allowing free access to commodities, goods, and services across the continent among 54 of the 55 African Union nations; Eritrea is not part of the Agreement.

The general objectives of the agreement are to:

- create a single market, deepening the economic integration of the continent.
- establish a liberalised market through multiple rounds of negotiations aiding the movement of capital and people and facilitating investment.
- move towards the establishment of a future continental customs union.
- achieve sustainable and inclusive socioeconomic development, gender equality and structural transformations within member states.
- enhance competitiveness of member states within Africa and in the global market.
- encourage industrial development through diversification and regional value chain development, agricultural development, and food security.
- resolve challenges of multiple and overlapping memberships.

Ethiopia and 34 other countries are currently trading under the Agreement, which will open new opportunities for Ethiopia's goods and services exports. Ethiopia has also recently signed the framework agreement of the African Continental Free Trade Area, under COMESA - Common Market for Eastern and Southern Africa, which provides preferential access to 21 African countries. The future of COMESA is unclear, however, given AfCFTA essentially supersedes it.

For a country of Ethiopia's size and level of development, exports would typically account for around a quarter of total GDP,[84] whereas they accounted for around a third of that in 2016. Ethiopia is dependent on a narrow set of export goods – coffee, vegetables, sesame seeds, kidney beans, and fresh-cut roses make up 68% of exports.[85] This reliance on a few primary commodities leaves Ethiopia vulnerable to price volatility and potential impact on trade.[86] While the Government has prescribed various export and import incentives to diversify the types of goods exported, research shows that the enabling environment, such as the specialist infrastructure, skilled labour and local production capacity, is weak, restricting diversification.[87]

The Government has enforced several export bans to protect domestic grain supplies. However, there has been ambiguity from the Ministry of Trade and Agriculture around which bans are still in place.[88] Although the general export ban on cereals is no longer applied in practice, it appears that it has not been revoked formally.[89] Export bans create uncertainty for producers and makes Ethiopia a less attractive destination for foreign investment.[90]

Recommendations

- The Government should increase exports by making more of preferential access to markets (including AfCFTA).
- The Government should promote export diversification.
- The Government should establish a stronger dialogue with businesses to develop a more client-focussed approach to exporting and identify and remove regulations that prevent businesses from exporting.

IMPORT TARIFF BARRIERS (ETHIOPIA RANK: 159TH)

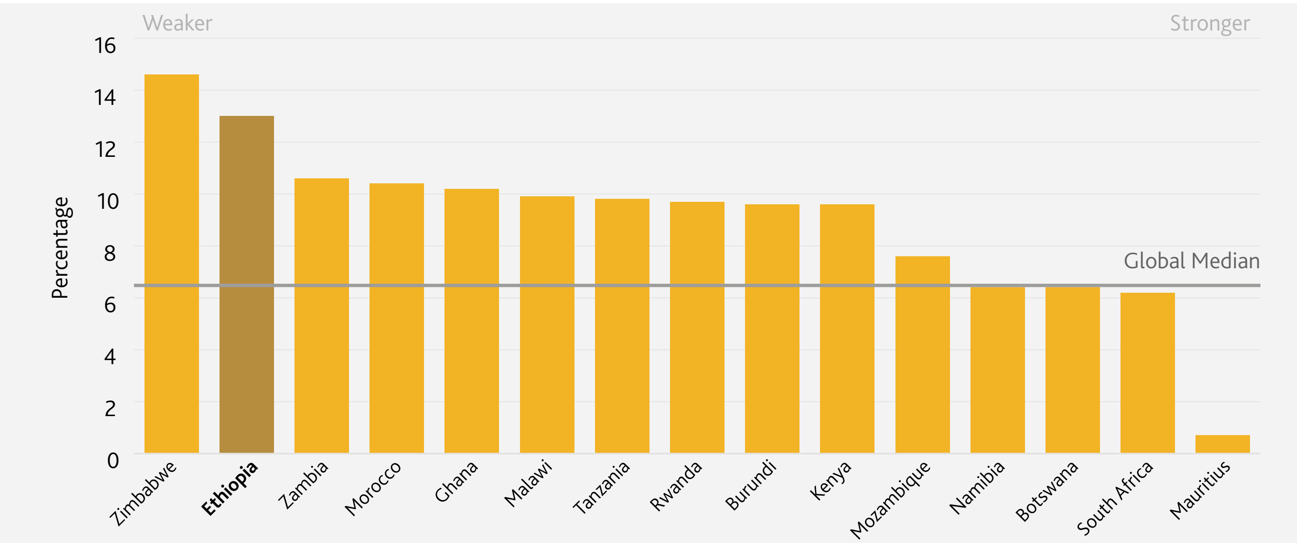
Typically, tariffs to trade raise the price of products and reduce the volume of trade, creating barriers between people and the true market value of goods. We analyse the average applied tariff rate, the complexity of tariffs, and the share of imports free of tariff duties.

High tariffs may offer some protection to domestic producers; they also reduce competition and restrict innovation, resulting in higher prices for consumers. Tariffs push up prices in the value chain, making final products and services more expensive to consumers in both domestic and international markets.

Ethiopia ranks 159th for Import Tariff Barriers. Its burdensome tariff regime results in a high proportion of goods and services (87%) being subject to import tariffs, with one of the world's highest average applied rates (13%). Certain goods attract a higher tariff.[91] For example, textiles and processed foods attract an average tariff rate of 18% and 30% respectively. Even higher tariffs of around 200% are applied to second-hand cars.[92] Ethiopia's high tariffs raise substantial income for the Government.[93,94]

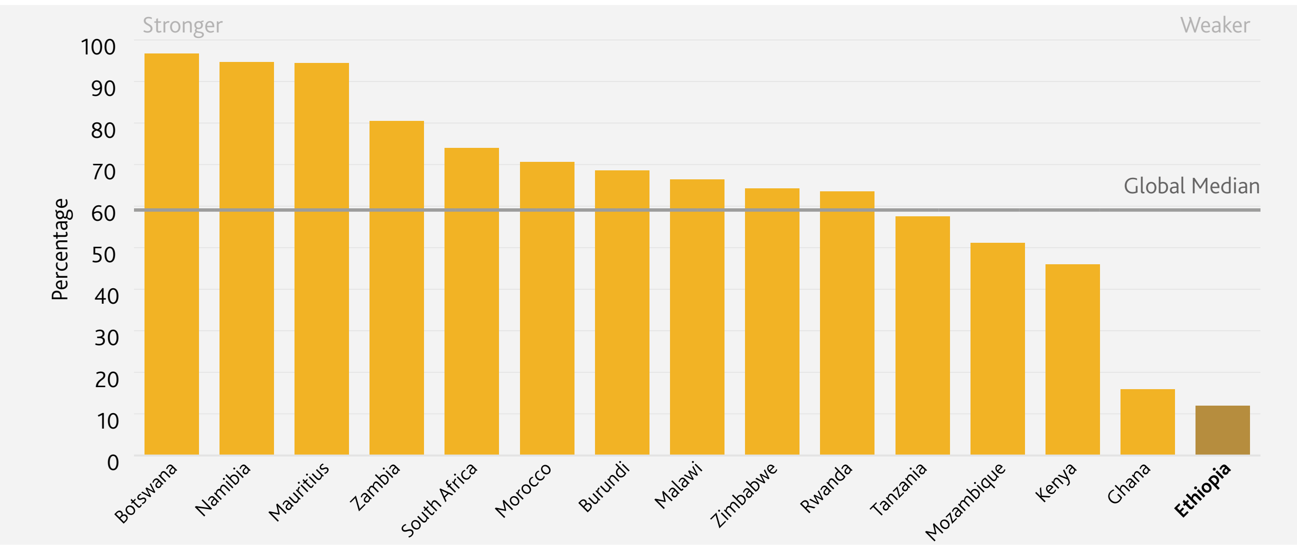
Under the Free Trade Agreement (FTA) of the Common Market for Eastern and Southern Africa (COMESA), members are granted a 0 to 10% tariff preference (depending on the goods). Ethiopia plans to become a full COMESA FTA member by 2021, reducing tariffs on imported goods and services from the 20 other African nations in COMESA. From 1 January 2021, AfCFTA requires its 35 members, including Ethiopia, to remove tariffs from 90% of goods.[95]

Figure 7: Average applied tariff rate



Source: World Economic Forum Global Competitiveness Index 2019.

Figure 8: Share of imports free from tariff duties



Source: World Economic Forum Global Competitiveness Index 2019.

In recent years, Ethiopia has reduced customs duties on certain imports, including the removal of tariffs on agricultural equipment, which will help the agricultural sector.

In addition to the prevalence of high tariffs, importers must jump through multiple hoops before they can bring goods into the country. Importers are presented with a nine-step process,[96] which includes an in-person visit to the Ministry of Trade to obtain an import license, obtaining a pre-import permit for certain goods and a two-stage payment process at the bank, with several stages requiring extensive documentation. Importers face difficulties in obtaining foreign exchange, due to the strict foreign currency regulatory regime applied by the National Bank of Ethiopia.[97]

Recommendation

- The Government should revise the tariff schedule to assess opportunities for reducing some tariffs and review import tariffs with a view to reducing them gradually.

Credit (Shutterstock.com)

Endnotes

1 Sebastian Edwards, “Openness, productivity and growth: What do we really know?” The Economic Journal, Volume 108, No. 447, 1998, p. 383-398.

2 Alex de Waal, “The World Bank should not fund Ethiopia’s war in Tigray,” Financial Times, April 2021.

3 “Country Private Sector Diagnostic: Creating Markets in Ethiopia,” The International Finance Corporation, 2019, p. 29.

4 Ibid.

5 “ReCAP Impact Case study on Ethiopia,” Foreign, Commonwealth and Development Office, June 2019.

6 “Country Private Sector Diagnostic: Creating Markets in Ethiopia,” The International Finance Corporation, 2019, p. 6.

7 Ibid.

8 Ibid.

9 “Rural Access Index (RAI),” The Future of Transport, February 2020.

10 “ReCAP Impact Case study on Ethiopia,” Foreign, Commonwealth and Development Office, June 2019.

11 Ibid.

12 “Multi-dimension review of Peru, Volume 2,” OECD Development Pathways, October 2016.

13 World Economic Forum and Gallup.

14 “Ethiopia-Djibouti Railway Line Modernisation,” Railway Technology, June 2021.

15 “Addis Ababa – Djibouti Railway,” Global Infrastructure Hub, November 2020.

16 “Country Private Sector Diagnostic: Creating Markets in Ethiopia,” The International Finance Corporation, 2019, p. 49.

17 Tsegaye Tilahun, “Company Transports Over 3.4 Mln. Tons of Imports, Exports,” The Ethiopian Herald, June 2021.

18 “Africa Aviation Outlook 2019: Change may be in the air – at last,” Centre for Aviation, February 2019.

19 “Ethiopia: Aviation,” Privacy Shield Framework, March 2021.

20 “Experts urge Africa to explore “huge” aviation industry potential to spur connectivity,” Xinhua, March 2020.

21 David Casey, “Africa needs to 'get serious' over SAATM implementation,” Routes Online, 8 December 2019.

22 Ibid.

23 “The Single African Air Transport Market (SAATM),” IATA, March 2021.

24 “Case Study: Ethiopia challenges Dubai with Africa’s largest air cargo terminal,” Logistics Middle East, April 2019.

25 Ibid.

26 “Ethiopian Cargo & Logistics services wins Best Cargo Airline – Africa award,” African Aerospace, November 2020.

27 “Country Private Sector Diagnostic: Creating Markets in Ethiopia,” The International Finance Corporation, 2019, p. 48-49.

28 Yonas Bekele, “Ethiopia’s Transport Service Sector: Measuring its Value Chains and Exploiting its Potential,” June 2019.

29 “Ethiopia to build US$150M logistics hub,” Further Africa, January 2020.

30 Fasika Tadesse, “Bill afoot to establish National Logistics Council,” Addis Fortune, March 2020.

31 “Ethiopia Digital Foundations Project,” The World Bank Group, p. 7.

32 “Internet penetration in Africa 2020, Q1 March,” Internet World Stats, 2020.

33 Johann Adjovi, “The liberalisation of the telecoms market in Ethiopia presents a new opportunity to operators worldwide,” Analysys Mason, June 2019.

34 “Country Private Sector Diagnostic: Creating Markets in Ethiopia,” The International Finance Corporation, 2019, p. 36.

35 Johann Adjovi, “The liberalisation of the telecoms market in Ethiopia presents a new opportunity to operators worldwide,” Analysys Mason, July 2019, p. 4.

36 “Network Coverage (minimum 3G) rankings,” Inclusive Internet Index, 2020.

37 “Country Private Sector Diagnostic: Creating Markets in Ethiopia,” The International Finance Corporation, 2019, p. 26.

38 Johann Adjovi, “The liberalisation of the telecoms market in Ethiopia presents a new opportunity to operators worldwide,” Analysys Mason, July 2019, p. 5.

39 Yohannes Eneyew Ayalew, “Internet shutdowns have disrupted millions of lives in Ethiopia,” Quartz Africa, April 2020.

40 Roku Fukui, “In Ethiopia, digital development just took a major leap forward,” World Bank Blogs, June 2019.

41 Tenzin Norbhu, "Myanmar's telecom sector takes off," The World Bank Group, December 2015.
42 Johann Adjovi, "The liberalisation of the telecoms market in Ethiopia presents a new opportunity to operators worldwide," Analysys Mason, July 2019, p. 5.
43 "Ethiopia plans to sell 45% of telecoms monopoly Ethio," Reuters, November 2020.
44 Addis Getachew, "Global consortium wins Ethiopia's telecom license for $850M," AA, May 2021.
45 Fasika Tadesse and Samuel Gebre, "Ethiopia Awards New Telecoms License to Vodafone Consortium," Bloomberg, May 2021.
46 Alan Burkitt-Gray, "Ethiopia drops rule that new telcos must use Ethio Telecom infrastructure," Capacity Media, May 2021.
47 "Developing Ethiopia: First-mover Investment Opportunities," Deloitte, May 2016, p. 4.
48 Mesfin Tafesse, Mekdes Mezgebu and Efliel Wabi, "Electricity regulation in Ethiopia: overview," Mesfin Tafesse & Associates Law Office, October 2020.
49 "Access to electricity, urban (% of urban population) - Ethiopia, Kenya," World Bank, Sustainable Energy for All, The World Bank Group, March 2021.
50 "National Electrification Program 2.0 Integrated Planning for Universal Access," Ministry of Water, Irrigation, and Energy, and Ethiopian Electric Utility, 2019, p. XV.
51 "Lotus signs world's largest renewable energy contract," Lotus Energy, November 2020.
52 "Ethiopia: Energy Access Diagnostic Report Based on the Multi-Tier Framework," The World Bank Group, January 2018, p. x.
53 "Country Private Sector Diagnostic: Creating Markets in Ethiopia," The International Finance Corporation, 2019, p. 26.
54 Abebe Damte Beyene, "Impacts and drivers of policies for electricity access," Energy and Economic Growth, June 2021.
55 Ibid.
56 Ibid.
57 Imeru Tamrat, "Policy and Legal Framework for Water Resources Management in Ethiopia," Forum of Federations, 2008.
58 Ibid.
59 "Tapping into the private sector?" WaterAid Ethiopia, December 2005.
60 Eyob Defere, "Private Sector Landscape for WASH in Ethiopia Bottlenecks and opportunities," IRC: The Hague, One WASH Plus Programme Report, December 2015.
61 Ibid.
62 Rebecca Shore, "Water in Crisis: Ethiopia," the Water Project, March 2021.
63 "Finance Assessment of the Water Sector in Ethiopia," IRC, May 2019.
64 Florence Pichon, "Rural water supply in Ethiopia, A political economy analysis," Overseas Development Institute, July 2019, p. 1.
65 "Finance Assessment of the Water Sector in Ethiopia," IRC, May 2019, p. 7.
66 Florence Pichon, "Rural water supply in Ethiopia: A political economy analysis," Overseas Development Institute, December 2019, p. 7.
67 "WATER-WISE, Smart Irrigation Strategies for Africa," The Malabo Montpellier Panel Report, 2018, p. 30.
68 Ibid.
69 Ibid.
70 Ibid.
71 Ibid.
72 "Trade barriers," Ethiopia Country Commercial Guide, International Trade Administration, October 2020.
73 Tilahun Esmael Kassahun, "Trade Facilitation in Ethiopia: The Role of WTO Accession in Domestic Reform," Mizan Law Review, Vol. 8, No. 1, September 2014, p. 146.
74 Abdi Yuya Ahmad and Moges Tufa Adinew, "Evaluating the impact of export promotion policy incentives in the Ethiopian manufacturing sector," Competitive Industries and Innovation Program, June 2018, p. 21.
75 Ethiopia: Company Perspectives. An ITC Series on Non-Tariff Measures," International Trade Centre, September 2018, p. vii.
76 Ibid.
77 Ibid.
78 Dan Ciuriak, "Supply and Demand Side Constraints As Barriers For Ethiopian Exports - Policy Options," BKP Development Research and Consulting, Trade and Development Discussion Paper No. 2, March 2010, p. 12.

79 Hizkel Hailu, "Esw Service Cuts 18 Million Birr, 400 Thousand Working Hours in 6 Months," All Africa, July 2020.

80 Gelila Samuel, "Commission Obliges Import-Export Permit Issuance via E-Service," Addis Fortune, July 2020.

81 In Ethiopia, Electronic Single Window Cuts Costs and Time to Trade," The World Bank Group, April 2020.

82 Ibid.

83 "Ethiopia: Company Perspectives. An ITC Series on Non-Tariff Measures," International Trade Centre, September 2018.

84 "Country Private Sector Diagnostic: Creating Markets in Ethiopia," The International Finance Corporation, 2019, p. 10.

85 "Ethiopia: Company Perspectives. An ITC Series on Non-Tariff Measures," International Trade Centre, September 2018, p. 5.

86 Ibid.

87 Abdi Yuya Ahmad and Moges Tufa Adinew, "Evaluating the impact of export promotion policy incentives in the Ethiopian manufacturing sector," Competitive Industries and Innovation Program, June 2018, p. 3.

88 "Cereals Export Restrictions in Ethiopia: A Review of Practice, Economic Costs and Benefits," Ethiopian Agricultural Transformation Agency, November 2019, p. 4.

89 Ibid.

90 Ibid.

91 "Ethiopia, Import Tariffs," Ethiopia Country Commercial Guide, International Trade Administration, October 2020.

92 Immanuel Igunza, "Why are cars so expensive in Ethiopia?" BBC News, January 2017.

93 "Ethiopia, Import Tariffs," Ethiopia Country Commercial Guide, International Trade Administration, October 2020.

94 Chad P. Brown and Douglas A. Irwin, "Mainly Poor Countries Use Tariffs as a Major Source of Government Revenue," Peterson Institute for International Economics, July 2019.

95 Kingsley Ighobor, "Africa readying for free trade come January 2021," Africa Renewal, November 2020.

96 "Import Profile Report 2020: Ethiopia," Trade and Investment Section, Embassy of Pakistan, Addis Ababa, March 2020.

97 "Ethiopia, Import Tariffs," Ethiopia Country Commercial Guide, International Trade Administration, October 2020.

Credit (iStock.com)

Credit (Shutterstock.com)

INVESTMENT ENVIRONMENT (ETHIOPIA RANK: 151ST)

Ideas and businesses need investment to develop and grow effectively. Long-established businesses and new entrepreneurs alike need investment, and investors need the protection and confidence to back them. If investors do not have secure property rights, investment becomes scarce.

Effective and broad-based allocation of capital is critical to unlocking the country's economic opportunities. A good investment environment will ensure that domestic and foreign financing is available for commercial ventures, allowing microenterprises to grow into large companies.

The potential for a prosperous Ethiopia could be enhanced by property rights that are administered efficiently and in an open and transparent manner. Prosperity could also be supported by a robust and competitive financial sector, with domestic and international participants, providing access to competitive services for all sectors of the private sector and individuals.

Ethiopia's Investment Environment has not kept pace over the past decade, resulting in a fall of 23 places in the global rankings to 151st.

Weak property rights exist in Ethiopia, particularly in relation to land expropriation. Outdated bankruptcy legislation does not reflect a modern business environment, resulting in weak investor protection. On the positive side, a reduction in the time it takes to resolve commercial disputes and an improvement in alternative dispute mechanisms has led Ethiopia to rise 25 places in the rankings for Contract Enforcement, to 89th. The recent ratification of the new Investment Law and upcoming reforms to the Commercial Code may bring about further reforms of the financial sector. The heavily state-controlled banking system is focussed on supporting state-owned enterprises rather than the private sector. It does not put the private sector at the centre of the economic growth model. Poor commercial independence and transparency in state-owned enterprises further constrains the investment environment.

Elements of Investment Environment

Property Rights *– how well property rights over land, assets and intellectual property are protected. In addition to the protection of these rights, there must be lawful, efficient, and effective systems in place to register and regulate property.*

Investor Protection *– the degree of investor protection, including the quality of corporate governance, minority shareholder rights, and strength of insolvency regimes.*

Contract Enforcement *– the efficacy and efficiency of a country's system to enforce the rights of a contract holder. In addition, alternative dispute resolution mechanisms must be accessible and efficient.*

Financing Ecosystem *– the availability of money for investment from sources such as banking and bank debt to corporate debt and more sophisticated financial markets.*

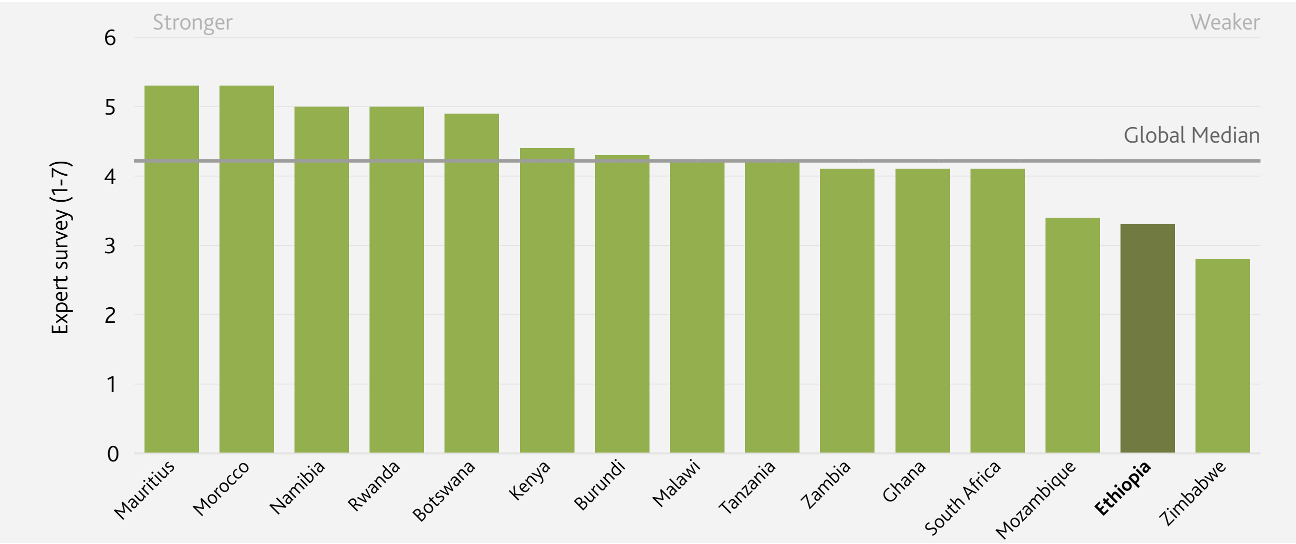
Restrictions on International Investment *– the impact of policies that enhance or deter the volume and quality or type of international investment into a country.*

PROPERTY RIGHTS (ETHIOPIA RANK: 156TH)

Property rights are a key institution that makes it possible to accumulate wealth and effectively participate in commerce. Where property rights are weak, people avoid taking risks, and this has a substantial impact on investment and the levels of effective entrepreneurial activity and wealth accumulation. The risks to property rights range from expropriation to limits on repatriations of profits and restrictions on the sale or transfer of assets. Our measure of Property Rights captures how well rights over land, assets, and intellectual property are protected.

Property Rights have weakened in Ethiopia over the past decade because of the increased risk of expropriation, now ranking 156th globally. Weak property rights are partly the result of a political system where the executive has not been constrained in their exercise of power, a poorly applied legal and regulatory framework by a politicised judiciary, and an overall system characterised by vulnerability to corruption and weak administrative capacity.[1]

Figure 9: Protection of property rights



Source: World Economic Forum Global Competitiveness Index.

One of the findings from the comprehensive review of property rights commissioned by the Chamber of Commerce in 2013 stated that "there are ambiguities, inconsistencies, gaps and outdated features in the legislative protection of some property rights in Ethiopia."[2] Others have observed that the exercise of any legal property right in Ethiopia is not truly effective, because the constitutionally guaranteed right to private property can easily be abused and violated.[3]

Land law

Land ownership in Ethiopia resides with the state, as set out in the 1995 Constitution. The Government allows leasing, sharecropping and inheritance (see box). "Private property is not protected by law and the state, which leads to a further estrangement between state and society."[4] Given the importance of land to the Ethiopian economy, particularly for agriculture and manufacturing, this lack of protection results in uncertainty for businesses and foreign investors.

Evolution of Land Law in Ethiopia

The 1975 Derg land reform entitled each household to an amount of land, conditional on self-cultivation and permanent presence on the location. Peasant associations were created at Kebele (community) level to administer these rules and redistribute land to improve efficiency.

The EPRDF/TPLF 1995 Constitution sets out the legal framework that governs the land and its use and provides for additional legislation at federal and regional levels.[5] Land proclamations in 2005 allow for urban land to be divided into private holding (peasants, semi-pastoralists, pastoralists), communal holding and state holdings, and that all land in urban areas will be transferred to the leaseholds system.

In 1997, the Government allowed for the leasing and sharecropping of land and inheritance of land usage rights, introducing a national programme for the certification of land, starting in Tigray in 1998 and in the Amhara region in 2001. The Amhara region has one of the most liberal land regimes, with a clear process for leasing or bequeathing of land to family or to other farmers.[6]

Land expropriation

Land issues are among the most controversial issues in Ethiopia.[7] Land and any property on the land can be expropriated by Government for undefined 'public purpose.' Public purpose includes leasing the land for private investment for commercial farms, industrial parks, or infrastructure. In the last 5-6 years, over 3.6 million hectares of land have been allocated to foreign investors, with thousands of local farmers losing access to land.[8] In 2014, up to 70,000 people were forced to move from the western Gambella region.[9]

Some regional governments have developed regulations for expropriation and compensation. However, wide discretion is given to multiple administrative authorities without judicial scrutiny, which leads to discretionary and arbitrary administrative decisions and inconsistent court rulings, thereby undermining the protection of property rights.[10]

Most of the issues related to the expropriation of rural land apply also to urban land lease-holding, including the risks of administrative discretion in applying the definition of 'public purposes' and weak processes for compensation and complaint procedures.[11]

The definitional deficiency in legislation results in judicial protection being marginalised, but there are also challenges to judicial independence and competence.[12] Judiciary judgments discourage the expansion of family businesses and rental markets, disregard the use value of land to which an individual or legal person is entitled and allow administrative authorities to confer and revoke landholding titles at will.[13]

The uncertainty over land in Ethiopia is a concern. For example, the most recent World Bank partnership strategy, concludes that land is a key constraint to business development (in both rural and urban settings) and that it is important to address the risk of social unrest because of resettlement disputes and land issues.[14]

Conflicts due to land expropriation led the US State Department in 2020 to advise US investors to conduct thorough due diligence on land titles at both regional and federal levels and conduct consultations with local communities regarding the proposed use of the land before investing. They also advised researching the attitudes of local communities to an investor's use of that land, particularly in the region of Oromia, where conflict between international investors and local communities has occurred.[15] The US State Department acknowledged that although the Government claims to allocate only sparsely settled or empty land to investors, some people have been resettled. Traditional grazing land has often been defined as empty and expropriated, leading to resentment, protests and, in some cases, conflict.

Land administration and use

Multiple institutions, coordinating weakly and responsible for administering land rights, operate at federal, regional, and local levels, leading to ambiguity in responsibilities.[16] The responsibility for implementing land legislation and regulations resides with the Ministry of Agriculture (rural land use and tenure) and the Ministry of Urban Development and Construction (urban land). In addition, the Agriculture Investment Land Administration Agency (set up in 2013) is responsible for large-scale agricultural investments. The Rural Land Administration & Use Directorate (RLAUD), under the state minister for natural resources development, conservation, and utilisation, is responsible for overseeing land use and land tenure of rural lands outside large-scale agricultural investment lands.

Regional states have also formulated their own land policies and land laws, including regulations and directives that relate to local levels.

Urban land management and administration is made more difficult by a complex institutional environment with fragmented institutions. Urban land administration services are provided at city level by regional governments under federal supervision.[17] There is some evidence that this situation has negatively affected the registration pilots of urban land.[18] The lack of a comprehensive urban land cadastre limits urban development plans and the enforcement of regulations and makes it more difficult to achieve more efficient use of land.

The absence of a comprehensive national land use policy is impacting the effectiveness of rural land use regulations in Ethiopia.

Land certification

There has been considerable progress on land certification in Ethiopia, which is considered an effective way to reduce land disputes and enhance tenure security among landholders and users.[19] Land use rights have been registered in most populated areas. There are also some success stories in rural land administration in Ethiopia, specifically in first-level registration and certification. Out of 11.5 million rural households, 9.4 million have received first-level holding certificates. The certification programme has resulted in some positive benefits – it has led to reduced conflict and improved investment, and to some improvements of women's control of land, but the quality of record updating varies across regions.[20]

Land certification in the Amhara region was one of the largest programmes across the country and has been rolled out gradually. Reviews suggest that its administration seems to be well structured and supports the approach of strengthening good governance in land administration at local/village level.[21]

To help address some of the challenges around land and provide some certainty to foreign investors, other nations including the United States and the United Kingdom have been active in supporting land certification programmes in Ethiopia, with the US providing support for land registration since 2005. A recent impact evaluation found relatively small impacts of the US's latest approach to certification,[22] although it does appear to have improved women's land rights, as traditional law (supported by the Constitution) often limits women's right to inheritance.

Despite the extensive land certification programme, registration and certification of rural land holdings is conducted without formally enacted registration and cadastral laws, which potentially raises challenges when it comes to relying on this certification when administering land.[23]

Recommendations

- The Government should consider introducing legislation that protects property rights of citizens and supports a fair system of compensation.
- The Government should consider developing a comprehensive national land use policy that is consistent and reflects the approach followed in different regions. It should encourage collaboration between federal and regional agencies and between neighbouring areas.
- The Government should conduct a full consultation with local communities before expropriating land, which minimises involuntary displacement and gives fair compensation when deemed necessary.
- The Government should strengthen judiciary capability (including training through a new supervisory body) to ensure the full protection of property rights with integrity.

INVESTOR PROTECTION (ETHIOPIA RANK: 143RD)

Investor Protection is important for any country wishing to enjoy sustained economic growth, as they are a necessary enabler of the flow of capital to ventures.[24] Our measure of Investor Protection covers a range of indicators that gauge investor protection, from expropriation risk to minority shareholder rights.

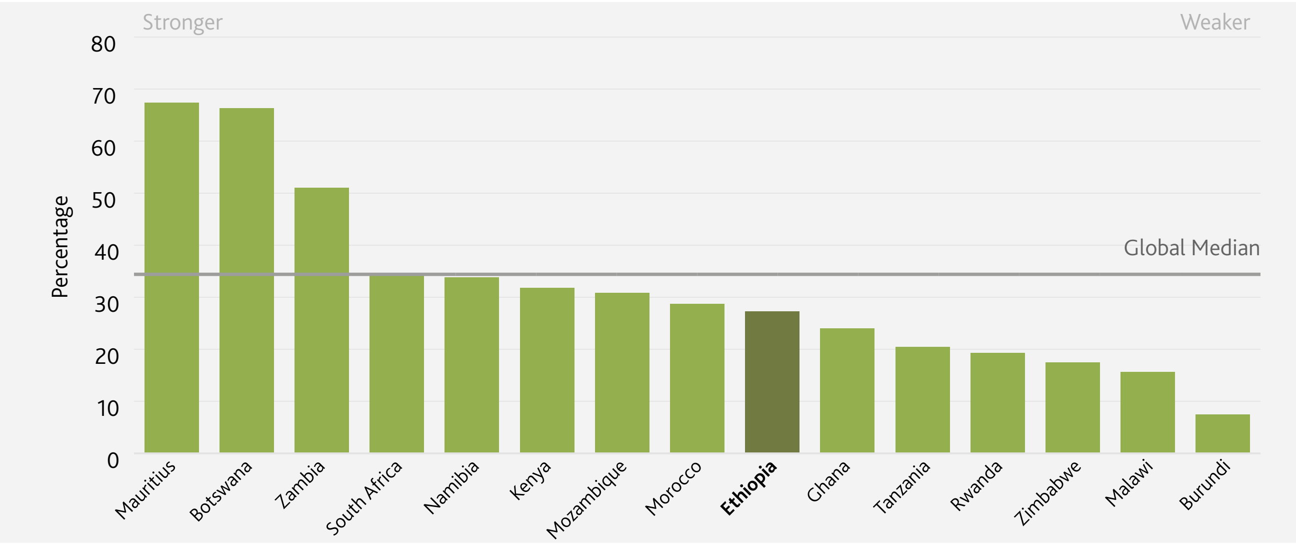
Investor protections have weakened in the last decade, and Ethiopia now ranks 143rd in the world. Bankruptcy legislation has become outdated, with the insolvency recovery rate deteriorating by 15% over the last decade.[25] Experts report a deterioration in the quality of auditing and reporting standards in the country and a lack of independence and transparency surrounding state-owned enterprises.

Bankruptcy

The Ethiopian Commercial Code (Book V), which sets out the provisions around bankruptcy proceedings, was created over 60 years ago. While progressive and forward-looking when it was published in 1958, the legislation is no longer adequate to regulate a business environment that has seen considerable developments over the past 60 years. Furthermore, in drafting it, Ethiopia borrowed provisions from the legal frameworks in Italy and France, which represented a different socio-political context and consequently led to limited contextualisation within the legislation.[26]

Reflecting the views of bankruptcy at the time of its enactment, the legislation primarily supports liquidation rather than restructure or reorganisation, which saw bankruptcy as a "moral failure".[27] This is evidenced in the low insolvency recovery rate, which stands at 27%, well below the sub-Saharan Africa average, and below even comparator countries such as Kenya and Mozambique. This is compounded by the practice of foreclosure laws, which act against restructuring or reorganisation.[28] Consequently, Ethiopia ranks 135th for the overall strength of its insolvency framework.[29]

Figure 10: Insolvency recovery rate



Source: World Bank Doing Business Index.

The out-of-date nature of the legislation is reflected in the fact that application of bankruptcy procedures is limited in Ethiopia, and cases might not even make it to court.[30] When it is applied, it is often done so in a way that better reflects the current commercial environment, which tends to view bankruptcy procedures as "debtor protection" and "economic failure", rather than the idea of "moral failure" and "debtor repression."[31]

Auditing and reporting

Ethiopia's Commodity Exchange signalled a change in accounting standards in 2009, stating that all companies would be required to adhere to full IFRS standards and IFRS for small and medium sized enterprises (SMEs) by 2021.[32] However, with fewer than 500 professional accountants in Ethiopia, an accountancy knowledge gap presents a challenge if the country is to achieve full compliance by 2021[33] and improve its current global ranking of 136th for auditing and reporting standards.

Corporate governance

Ethiopia has fallen behind its peers to rank 117th on shareholder governance. Unlike the other countries, it has not improved its weak corporate governance, according to corporate and securities lawyers.

A particular area of weakness for corporate governance has been the lack of independence around the structure and composition of state-owned enterprise (SOE) boards of directors, which have sometimes comprised senior government officials and politically affiliated individuals.[34] Furthermore, until recently there was no requirement for the SOEs to publish their financial data, which results in a lack of transparency.[35] Following an IMF review, in an effort to enhance SOE governance and transparency, the SOE authorities provided IMF staff with individual financial statements for the majority of the companies, including previously unavailable time series of SOE debt broken down by company.[36] This undermines the creation of a level playing field, limiting competition between the public and private sector. EFFORT's top officials, for example, included government and party officials and it has not been audited, with little transparency over its governance and corporate management structures.

In 2019, the Government established the Public Enterprises Holding and Administration Agency, whose role includes developing modern corporate governance in public enterprises and supervising the governance and management of these enterprises.

As Ethiopia embarks on its programme of privatisation reform of its largest enterprises, commencing with Ethio telecom in 2021, many of these institutions have not adhered to international guidelines on corporate governance.

Recommendations

- The Government should consider amending Bankruptcy and Foreclosure Laws to facilitate a move to a culture that promotes business recovery.
- The Government should consider granting an independent body responsibility for overseeing corporate governance of state-owned enterprises, ensuring they publish audited accounts and improve transparency.
- The Government should consider requesting government educational institutions to introduce training and courses to teach international accounting standards.

CONTRACT ENFORCEMENT (ETHIOPIA RANK: 89TH)

Contract Enforcement is a critical proxy for trust, allowing economies of scale to grow beyond one's immediate circle of associates and family. Delays and costs in resolving contract disputes benefit neither party. Our measure captures both the efficacy and efficiency of a country's system to enforce the rights of a contract holder.

Contract enforcement has improved, resulting in Ethiopia now ranking 89th. It takes less time to resolve commercial disputes and practices within the court system have been improving. The ratification of the new Investment Law in January 2020 offers alternatives for the resolution of disputes.

Dispute resolution

The reform of Ethiopia's Commercial Code should bring it in line with international best practice. Unlike countries such as Rwanda and Kenya, Ethiopia at present has no specialised courts for dealing with commercial cases, although, the federal and state courts do contain specialised branches.[37] The revised code will enable the creation of a commercial court under the regular court system.[38]

Another area of reform is in arbitration, where in April 2021 Ethiopia enacted its new arbitration law, the Arbitration and Conciliation Working Procedure. It applies to commercial domestic arbitrations and international arbitrations whose seat is in Ethiopia. While it generally aligns with the best practices in international arbitration, except for a few provisions, the success of the law will be determined in its application by the Ethiopian courts.[39] At present arbitration is regulated by the Civil Procedure Code.

Alternative Dispute Resolution (ADR) mechanisms can be an effective option, as they can significantly improve court efficiency by reducing case backlogs and bottlenecks.[40] Alternative dispute mechanisms are currently weak in Ethiopia, a ranking of 140th on the measure by the World Justice Project. Ethiopia took a significant first step towards addressing this weakness when, in August 2020, the Government ratified the New York Arbitration Convention, becoming the 33rd African state to do so.[41] This enables a foreign arbitral awards to be enforced in Ethiopia, marking an improvement in the business environment for foreign companies.[42]

Recommendations

- The Government should consider instituting a legal supervisory body to train judges to adjudicate effectively on commercial matters (as happened in Rwanda's successful reforms).
- The Government should ensure new arbitration law complies with international best practice, including giving consideration to adopting the UNCITRAL Model Law.

FINANCING ECOSYSTEM (ETHIOPIA RANK: 143RD)

A sound financial system underpins prosperity, as it can efficiently flow funds toward their most productive uses, helping generate jobs and improve productivity. It also helps governments raise investment capital, maintain financial safety nets and speed payments securely across borders. It gives people confidence to invest and save money. Capital markets help finance infrastructure and manage unforeseeable risk.

"Good access to finance enables people to thrive and better manage their needs, expand their opportunities, and improve their living standards. When people are financially included, it is easier to manage consumption, payments and savings, access better housing, healthcare, and education, start a small business, and use insurance products to protect themselves from shocks."[43]

Ethiopia ranks 143rd in the world for financing ecosystems. However, the finance sector remains shallow, underdeveloped and focussed on state-owned enterprises, which results in generally low rankings across the board.[44] SME access to finance is limited, and the quality and soundness of the banking system and the performance of capital markets is weak. Ethiopia is one of the most underbanked countries in the world, providing limited services to the wider public, which particularly affects the rural population.

Credit to the private sector

Credit to the private sector in Ethiopia is among the lowest in East Africa and declined in the prior 10 years to about 12% of GDP in 2016.[45] In contrast, credit for state-owned enterprises trebled over the same period, reaching 54% of GDP in 2016.[46] Although state-owned enterprises have benefitted from receiving credit from state-owned banks at negative real interest rates, the performance of these loans is uncertain given the limited transparency of financial reporting by state-owned enterprises.[47]

Moreover, investment is largely closed off to foreign firms, further constraining the development of the financial sector.[48]

Credit (iStock.com)

Ethiopia's Financial Sector

The National Bank of Ethiopia (NBE) started its operations as a central bank in 1964. It issues banking licenses and supervises banks in Ethiopia.

The two state-owned banks (The Commercial Bank of Ethiopia and The Development Bank of Ethiopia) dominate the financial sector, accounting for two-thirds of total deposits, and about 70% of total banking sector assets.[49]

The Commercial Bank of Ethiopia mobilises more than 60% of total bank deposits, bank loans, and foreign exchange, directs a large share of its lending to state-owned enterprises and has used its retail deposits to purchase bonds in public enterprises.[50] The Development Bank of Ethiopia provides loans to investors in priority sectors but has a large portfolio of non-performing loans. The 16 private commercial banks are relatively small.

Of the 35 microfinance institutions, the five largest are owned by regional governments, with almost 2,000 branches. Some microfinance institutions are relatively large; for example, the Amhara Credit and Saving Institution is larger than most banks.

There are 17 insurance companies but an absence of private insurance markets outside the main cities.

Finance policy

The Government has followed a policy of using state-controlled commercial banks to finance public sector infrastructure investments and state-owned enterprises (including endowment companies), rather than focussing on the credit needs of the private sector and serving customers. Banking experts cite that the mindset, which has been present since the 1950s and 1960s, is for the banking system to ensure that the Government's business plans are achieved, rather than creating a thriving competitive banking system that underpins a modern capitalist economy.[51] This has contributed to low private sector investments and limited structural transformation.

The focus is less on efficienct allocation of financial resources than on ensuring the strength of Ethiopian banks. The National Bank of Ethiopia has regulated the financial sector so that subsidised resources are directed to 'preferred' companies or to the state. The Governor of the National Bank of Ethiopia has recently stated that "we have not [got fully operating] international banks here; they are not allowed here because we want to make our local banks strong". These policies have had an impact on the financial sector and limited liquidity and access to credit in the private sector.

For example, banks were required to allocate 60% of credit issued to long-term lending mostly to public sector-driven infrastructure.[52] The Development Bank of Ethiopia has lent to 'priority' sectors with a capped interest rate and has accumulated substantial non-performing loans.[53] Banks were also required to invest 27% of loans disbursed in bills issued by the National Bank of Ethiopia at below both inflation and deposit rates.[54] Furthermore, pension funds were required to invest in government bonds at negative rates of return, putting them at risk in terms of meeting future pension obligations.

In recent years, the Ethiopian Government has turned to international markets as a source of finance, relieving some of the financial repression domestically. Access to the Eurobond market in 2014 with a $1 billion bond was an important step in supporting the financial infrastructure in the country and facilitating foreign direct investment by pricing the country risk. However, the recent announcement of possible default in the context of G20 debt restructuring ran the risk of reversing important gains.

Recently, the new Government has introduced important financial reforms (see box below) that, if sustained, have the potential to improve the sector. However, the COVID-19 crisis postponed some reforms to make room for a large COVID-19 financing package in March 2020. The IMF has also recommended close monitoring of bank deposits and liquidity and preparation for intervention in the financial sector with emergency lending and liquidity if necessary.[55]

Recent Financial Reforms

- **Treasury-bill auctions with market pricing**. In December 2019, the National Bank of Ethiopia began offering 28-day and 91-day Treasury bills at market-determined interest rates. This expands its monetary policy tools and allows for financing the Government in a more sustainable way. It should also allow for increases in interest rates and the development of a government securities market.
- **Elimination of the "27 percent rule**," a requirement of private banks to purchase 5-year NBE bonds equivalent to 27% of gross credit extended (measure adopted in November 2019).
- **Introducing overnight liquidity lending**, but terms of access need to be reviewed and an interbank-money market prepared.[56]
- **Ceiling on domestic borrowing by state-owned enterprises** and requirement for publication of audited accounts.
- **Phasing out IMF financing of The Development Bank of Ethiopia agreed**.
- **Granting representation offices to foreign-owned banks** — such as Kenya's Equity Bank and KCB.
- **Updated regulatory and supervisory standards** and strengthened financial reporting and disclosure, adhering to Basel II.
- **Creating a credit reference bureau** – but this covers only a small part of the population and is not integrated with microfinance institutions and leasing.
- **Removal of Ethiopia from Financial Action Task Force grey area** because of improvements in the Anti-Money Laundering/Combatting the Financing of Terrorism framework. This will help Ethiopian banks maintain corresponding banking relations.
- **Establishment of the Ethiopian stock market.** Legislation is currently with Parliament for approval.

Financial inclusion

The restricted financial system results in Ethiopia having one of the most underbanked populations in the world. Ethiopians tend to use informal savings cooperatives rather than formal financial institutions.[57] Credit is also provided by international organisations and informal institutions – cooperatives of saving and credit or Iqqub, money lenders and friends.

The bank branch to population ratio, at 1 in 25,000, is less than half the global median.[58] Only 35% of the overall population has access to a bank account, compared to 82% in Kenya and 50% in Rwanda. Banking services are largely confined to cities and larger towns, with over one-third of bank branches in Addis Ababa.[59] Only 1% of the rural population have access to banking.[60] Most of the 2,000 microfinance branches are concentrated in cities and small towns. Consequently, rural Ethiopians save in cash, which tends to be eroded by high inflation.

Ethiopia is an outlier in relation to digital finance services. Mobile money and digital finance remain limited, with few people using digital banking services, including payments of bills (see table below).[61] This low usage is also a factor of poor internet infrastructure and low levels of digital literacy. The recent reforms allowing non-financial Ethiopian firms to participate in mobile money activities should help increase access.

Digital Financial Services: Ethiopia as an outlier

	ETHIOPIA	KENYA	RWANDA	SSA AVERAGE
Mobile money accounts (%, age 15+)	0.3	73	31	21
Debit card ownership (%, age 15+)	4	38	5	18
Made or received digital payments in the past year (%)	12	79	39	34
Paid utility bills using a mobile phone (% of adults who paid utility bills)	0	82	44	23
Paid utility bills using an account (% of adults who paid utility bills)	0.2	85	48	31
Received wages into an account (% of adults who received wages)	17	68	33	45
Received payments for agricultural products into an account (% of adults who received agricultural payments)	1	46	14	-
Used a mobile phone or the internet to access a financial institution account in the past year (% of adults aged 15+ with a financial institution account)	1	57	13	24

Source: Global Findex database. Financial inclusion in Ethiopia: 10 takeaways from the latest Findex, Mengistu Bessir, June 2018. World Bank Blog.

Benefits of liberalising financial sector

According to modelling by the World Bank, doubling the supply of funds to the private sector – from one third to two-thirds of total credit – and allowing real deposit rates to be closer to market interest rates – from 1% to 2.5% – could lead to a 15% increase in output and an almost twofold increase in private investment. (These reforms could have unintended consequences by increasing poverty and inequality, so other measures would need to be implemented to assist those impacted).[62]

Recommendations

- The Government should consider further diversification of the financial sector, including allowing foreign banks to enter the market.
- The Government should consider the removal of requirements for banks to lend to state-owned enterprises, to allow more credit to the private sector, particularly in agriculture.
- The Government should consider ways to allow quick development of mobile banking services, particularly in rural areas.
- The Government should provide incentives to allow banks to expand affordable banking services to marginalised rural producers by reducing costs of micro-credits, insurance, and the transfer of diaspora funds.
- Banks should simplify requirements and reduce the time taken to open bank accounts, to support financial inclusion.
- Banks should open bank and microfinance branches closer to where people live.
- The Government should support the establishment of a vibrant insurance market, including a digital market, to support households and businesses vulnerable to income shocks—for example, through weather-related insurance.

RESTRICTIONS ON INTERNATIONAL INVESTMENT (ETHIOPIA RANK: 163RD)

International investment shows a positive overall effect on economic growth. The benefit of foreign direct investment (FDI) is not only the inflow of capital, but also the infusion of managerial skills that accompany such investment. FDI brings competition in the form of product and service innovation, new working practices and increases in productivity.

Out of 167 nations, Ethiopia is ranked 4th from the bottom for Restrictions on International Investment, with a deteriorating performance over the last decade. The most significant constraints have included restrictions on foreign ownership of companies, a restrictive environment due to investment proclamations, particularly in services, and capital and foreign exchange controls.

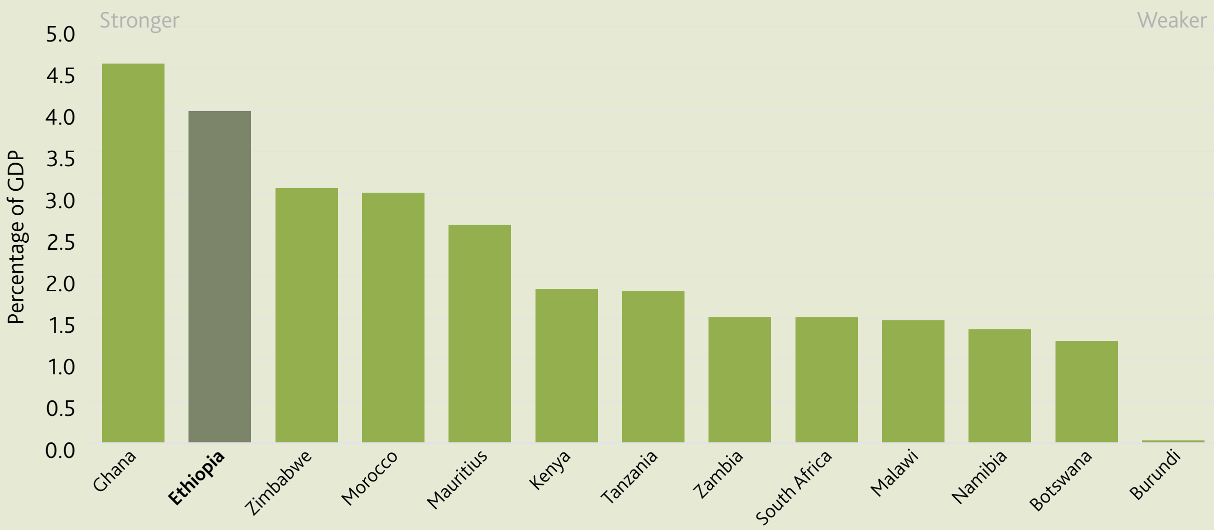
The Ethiopian Government has, nonetheless, supported some FDI. With their support, some international investors have been able to make important investments, but the wider policy environment has not been accommodating. However, in recent years some steps have been taken to open other sectors to foreign investment.

Evolution of FDI in Ethiopia

Ethiopia is the largest recipient of FDI in East Africa. FDI flows into Ethiopia increased significantly, particularly during 2012-2016, from $280 million to $4.1 billion, falling back to $2.5 billion in 2019.[63] FDI is a particularly important contributor to investment in Ethiopia, amounting to 56% of total capital of all licensed investment projects in 2017.[64] About two-thirds of FDI flows to Ethiopia in 2019 correspond to greenfield investments (new operational facilities).[65]

There have been significant investments in petroleum refining, mineral extraction, real estate, manufacturing, and renewable energy. FDI flows also go to agriculture (especially horticulture), leasing of agricultural land and manufacturing leather goods.[66] Ethiopia has achieved great success in Africa by being able to attract some of the largest world brands.

Figure 11: FDI inflows



Source: World Bank Doing Business Index 2018.

China is the dominant investor in Ethiopia, particularly in manufacturing and services, accounting for 60% of newly approved FDI projects. Other large investors include Saudi Arabia, the United States, India, and Turkey.

Attracting foreign investment

Notwithstanding a restrictive policy environment, Ethiopia has had some successes in attracting foreign investment due to its fast-growing economy, a large domestic market, industrial park opportunities (see box below), large infrastructure investments and tax incentives in high-priority sectors. Stable political leadership in the last 30 years has also been a key component of the success in attracting FDI. This is an important success to maintain.

As part of its reforms, the Ethiopian Investment Commission (EIC) has sought to establish itself as a 'one-stop-shop' for foreign investors, consolidating investor services provided by other ministries and agencies, adopting customer manager systems, and providing post-investment assistance to investors. Despite initial progress, US investors report that the EIC has little influence at regional and local levels, which limits its effectiveness.[67]

Licensing of some investments has also been delegated to the Ethiopian Civil Aviation Authority, the Ethiopian Energy Authority, and the Ethiopian Communications Authority.

The EPRDF/TPLF initially relied on investments from politically friendly foreign investors, for example Sheik Mohammed Al-Amoudi (a joint Ethiopian and Saudi citizen who owns the MIDROC business empire, which owns many agricultural investments in Ethiopia).[68] Al-Amoudi also invested in cement and gold in Oromia and the Sheraton Hotel in Addis. His firm, Saudi Star Agricultural Development, cultivates a large amount of agricultural products; however, its leases were revoked in October 2018 because the land had not been developed. In 2018, he was named as one of the largest private sector employers in Ethiopia.[69]

As part of its support for foreign investors, the Government allocates land for greenfield sites. The Government retains the right to expropriate land for the "common good," which it defines to include "expropriation for commercial farms, industrial zones, and infrastructure development."[70] This process has often been controversial. For example, in the Oromia Region, the US Investment Climate Report notes that there have been several isolated incidents affecting investors in the name of "returning the land" to the "rightful owners" or "creating job opportunities" for the youth.[71] (See Property Rights for further discussion.)

Ethiopia is also a member of the Multilateral Investment Guarantee Agency, which issues guarantees against non-commercial risks. Ethiopia has concluded more than 30 bilateral investment promotion and protection agreements, with 11 EU Member States, China, India, Russia, and South Africa and in the region (Egypt, Israel, and Sudan, to name a few).[72] Ethiopia has recently ratified the New York Convention on Arbitration.[73] These measures should lead to an increase in investor confidence.

Ethiopia is in a region with high levels of conflict, and within the country high levels of ethnic conflicts often arise over the use of resources and land disputes.[74] This hampers investor confidence and impetus to invest in the region.

Industrial Parks in Ethiopia

Industrial parks have provided investment incentives in relation to tax and infrastructure investment. Since 2014, the Ethiopian Industrial Park Development Corporation has been entrusted with the development and management of industrial parks. In 2015, the China Civil Engineering Construction Corporation started to construct the largest of these parks in the city of Hawassa.

Industrial parks in operation include:

- Bole Lemil, operational since 2014 (about 13,000 jobs)
- Hawassa, operational since 2017 (about 60,000 jobs)
- Mekelle, operational since 2017
- Kombolcha, operational since early 2017

Other industrial parks in operation include Adama, Addis Industrial Village, Bahir Dar, Debre Birhan, Dire Dawa, ICT Parks Addis and Jimma.

Industrial parks have been successful in attracting substantial foreign investment, offering several advantages. Surveys with FDI entrepreneurs in industrial parks suggest that key factors in securing FDI investors have been infrastructure (particularly the quality of the Chinese-built industrial parks and the reliability of electricity they provide), the incentive of cheap labour and political stability.[75] However, foreign investment has been affected by high labour turnover. Industrial parks are also beginning to suffer from strikes and other conflicts.[76]

Coordination between regional and federal levels required for the efficient administration of parks is often weak.

Policy evolution

In 2012, the Government introduced provisions for the creation of state-run and private industrial parks. While the 2012 investment Proclamation focussed on attracting FDI to agriculture and establishing Ethiopia as a manufacturing hub, it also placed restrictions on investing in many other sectors, including communications, the financial sector and transport.[77,78]

The Ethiopian Government has recently introduced reforms to remove some of these restrictions. In early 2018, it approved legislation to facilitate public-private partnerships; in June 2018, it allowed foreign investors to be minority shareholders in state-owned enterprises. More recently, in 2020 it issued a Proclamation and Investment Regulation that enabled foreign investment into other sectors, particularly railways, cable car transport, cold-chain transport, and freight transport. Other transport sectors have been partially liberalised for joint investments with domestic partners. Restrictions in cement manufacturing, education, management consultancy and other services have also been removed under the new regulation. Foreign investors are now allowed to engage in retail trade carried out via electronic commerce. In addition, under the Proclamation, the Ethiopian Investment Commission has been given powers to change these restrictions/reservations.[79] While a positive step, the Proclamation lists 33 areas that are reserved for Ethiopian companies, including the distribution of electrical energy through an integrated national grid system.[80]

Foreign exchange controls

Historically, Ethiopia has faced an underdeveloped capital market, prone to foreign currency shortages. In addition to the restrictive nature of the investment code, foreign exchange scarcity and tight controls also create uncertainties that inhibit further investment.

Twenty years of an economic growth model driven by public investment have led to a build-up of debt and external vulnerabilities, including significant exchange rate overvaluation. In this context, foreign exchange is scarce, despite substantial foreign exchange rationing and recent attempts to liberalise the market.

The EIC has recently attempted to address this issue by giving foreign investors the right to make remittances out of Ethiopia in convertible foreign currency at the prevailing rate of exchange. In practice, however, companies have experienced delays of up to two years in the repatriation of larger volumes of profits, due to foreign exchange shortages.[81]

Opportunity

Evidence suggests that sub-Saharan African countries that have managed to attract foreign investors have done so by liberalising their economy and investment environment.[82] Regional comparators such as Ghana are evidence of the fact that business-friendly policies and investment reforms have the potential to attract foreign investment.[83]

The achievement to date in attracting large and credible foreign investors is something that is critical to maintain. However, it needs to become a more organic part of the economic process so foreign investors can engage more freely and see the system as being accommodating, rather than having to secure special concessions.

Recommendations

- The Government should continue its efforts to liberalise the foreign exchange market.
- The Government should build on the success of attracting large international brands by ensuring effective coordination between federal and regional agencies, particularly in relation to the management of industrial parks (for example to address labour turnover issues) and in relation to the work of the Ethiopian Investment Centre.
- The Government should consider opening the logistics sector to ensure that it works efficiently, for example to ensure smooth operation of the new Addis-Djibouti rail transport.
- The Government should reassure foreign investors in relation to regional and internal stability, partly due to ethnic conflicts.

Endnotes

1 "BTI 2020 Country Report – Ethiopia," Bertelsmann Stiftung, 2020.

2 Muradu Abdo, "Legislative protection of property rights in Ethiopia: an overview," Mizan Law Review, Vol. 7, No. 2, St. Mary's University. See also: Property rights protection and private sector development in Ethiopia. Research team for the Ethiopian Chamber of Commerce with financial support from Swedish Agency of International Cooperation, December 2013.

3 "BTI 2020 Country Report – Ethiopia," Bertelsmann Stiftung, 2020.

4 Ibid.

5 "Federal Democratic Republic of Ethiopia Rural Land Administration and Land Use Proclamation (No. 456/2005)", July 2005, and "Expropriation of Landholdings for Public Purposes and Payment of Compensation Proclamation No. 455/200." July 2005.

6 Heather Congdon Fors, Kenneth Houngbedji, Annika Lindskog, "Land certification and schooling in rural Ethiopia," World Development, Volume 115, 2019.

7 "BTI 2020 Country Report – Ethiopia," Bertelsmann Stiftung, 2020.

8 Klaus Deininger and Derek Byerlee with Jonathan Lindsay, Andrew Norton, Harris Selod, and Mercedes Stickler, "Rising Global Interest in Farmland: Can it yield sustainable and equitable benefits?", The World Bank Group, November 2011, p. 62.

9 Mark Tran, "Thousands 'forcibly relocated' in Ethiopia, says HRW report," The Guardian, January 2012.

10 Muradu Abdo, "Legislative protection of property rights in Ethiopia: an overview," Mizan Law Review, Vol. 7, No. 2, St. Mary's University. See also: Property rights protection and private sector development in Ethiopia. Research team for the Ethiopian Chamber of Commerce with financial support from Swedish Agency of International Cooperation, December 2013.

11 Misganaw Gashaw Beza, "Corruption in the Post-1991 Urban Land Governance of Ethiopia: Tracing Major Drivers in the Law," African Land Policy Centre, Bahir Dar University School of Law, November 2019.

12 "Property rights protection and private sector development in Ethiopia," the Ethiopian Chamber of Commerce, December 2013.

13 Ibid.

14 "World Bank Country Strategy Partnership, for Ethiopia 2018-2022," May 2017.

15 "2020 Investment Climate Reports: Ethiopia," U.S. Department of State, 2020.

16 "Land Governance Assessment Framework Implementation in Ethiopia," The World Bank Group, January 2016.

17 "Fit-for-purpose land administration: lessons from urban and rural Ethiopia," Survey Review 48(346), January 2016.

18 Fairlie, K., Burns, T., Zhang, Y., Adlington, G., Tamrat, I., Shibeshi, G., McDowell, A., Kebede, S., Zelul, A, "Establishing a Legal Cadastre for Good Governance in Ethiopia: Identifying Bottlenecks and Steps Towards Scale-up," Annual World Bank Land and Poverty Conference, 2017.

19 "Land Governance Assessment Framework Implementation in Ethiopia," The World Bank Group, January 2016.

20 Logan Cochrane and Sebsib Hadis, "Functionality of the Land Certification Program in Ethiopia: Exploratory Evaluation of the Processes of Updating Certificates," Land, October 2019.

21 Achamyeleh Gashu Adam, Tadesse Amsalu Birhanu, "Decentralised rural land administration in Ethiopia," Journal of Land and Rural Studies, Volume 6, 2018.

22 "Ethiopia Strengthening Land Tenure Administration Programme Endline Report," USAID, 2016; "Fit-for-purpose land administration: lessons from urban and rural Ethiopia," Survey Review 48(346), January 2016.

23 "Land Governance Assessment Framework Implementation in Ethiopia," The World Bank Group, January 2016, p. 59.

24 Rachisan, Paula Ramona, Cristina Bota-Avram, and Adrian Grosanu, "Investor protection and country-level governance: Cross country empirical panel data evidence," Economic Research | Ekonomska Istraživanja Volume 30, No. 1, 2017.

25 "Resolving Insolvency," World Bank Doing Business, May 2020.

26 Tewodros Meheret, "An appraisal of the Ethiopian bankruptcy regime," De Jure Law Journal, Vol. 50, No. 1, 2017.

27 Ibid.

28 Kegnu Mulu Ankoro, "Major problems in practical applicability of bankruptcy law in Ethiopia: prospect for possible application in future," International Journal of Law, Volume 6; Issue 6; November 2020, p. 46.

29 "Doing Business, 2020: Ethiopia," The World Bank Group, 2020.

30 Taddese Lencho, "Ethiopian Bankruptcy Law: A Commentary (Part I)," Journal of Ethiopian Law, Vol. XXII, No. 2, December 2008, p. 58.

31 Ibid.

32 Teferi Deyuu Alemi and J.S. Pasricha, "IFRS Adoption Progress in Ethiopia," Research Journal of Finance and Accounting, Vol. 7, No. 1, 2016, p. 79.

33 ACCA Global, November 2017.

34 Ibid.

35 Ibid.

36 IMF Country Report No. 20/29, The Federal Democratic Republic of Ethiopia," International Monetary Fund, January 2020, p. 4.

37 "2020 Investment Climate Statements: Ethiopia," U.S. Department of State, 2020.

38 Ibid.

39 Elizabeth Oger-Gross and Tolu Obamuroh, "Ethiopia Modernizes Arbitration Framework," White and Case, May 2021.

40 "Enforcing Contracts, Doing Business 2020," The World Bank Group, 2020.

41 "Ethiopia Ratifies the New York Convention," DLA Piper, March 2020.

42 "Africa Arbitration Review," DLA Piper, March 2020, p. 4.

43 "Financial Sector," the World Bank Group, 2021.

44 Zins, Alexandra, and Laurent Weill, "The determinants of financial inclusion in Africa," Review of Development Finance, Volume 6, 2016.

45 "Country Private Sector Diagnostic: Creating Markets in Ethiopia," the World Bank Group, 2019. Data for June 2017.

46 Ibid.

47 Strategic assessment of selected public enterprises is planned to be carried out in 2021, as part of the work of the new Public Enterprise Holding and Administration Agency.

48 "2020 Investment Climate Reports: Ethiopia," U.S. Department of State, 2020.

49 "Country Private Sector Diagnostic: Creating Markets in Ethiopia," the World Bank Group, 2019. Data for June 2017.

50 "2020 Investment Climate Reports: Ethiopia," U.S. Department of State, 2020.

51 "Ethiopia takes small steps towards bank liberalisation," Financial Times, Special Report African Banking and Finance, November 3, 2020.

52 "Country Private Sector Diagnostic: Creating Markets in Ethiopia," The World Bank Group, 2019. Data for June 2017.

53 "2020 IMF Article IV Consultation Ethiopia," International Monetary Fund, January 2020.

54 This measure was removed in November 2019.

55 "IMF Reaches a Staff-Level Agreement for the First Review of the Extended Credit Facility: Extended Fund Facility for Ethiopia," International Monetary Fund, August 21, 2020.

56 "2020 IMF Article IV Consultation Ethiopia," International Monetary Fund, January 2020.

57 Tekeste Berhanu Lakew and Hossein Azadi, "Financial Inclusion In Ethiopia: Is it in the Right Track?" International Journal of Financial Studies, May 2020.

58 "Country Private Sector Diagnostic: Creating Markets in Ethiopia," the World Bank Group, 2019. Data for June 2017.

59 Tirngo Dinku, "Financial inclusion in Ethiopia: Using core set of financial inclusion indicators," Journal of Research and Opinion, 2019.

60 Tekeste Berhanu Lakew and Hossein Azadi, "Financial Inclusion In Ethiopia: Is it in the Right Track?" International Journal of Financial Studies, May 2020.

61 Tirngo Dinku, "Financial inclusion in Ethiopia: Using core set of financial inclusion indicators," Journal of Research and Opinion, 2019.

62 World Bank simulations in report: "Country Private Sector Diagnostic: Creating Markets in Ethiopia," The World Bank Group, 2019. Data for June 2017.

63 "World Investment Report 2020," UNCTAD, November 2020.

64 "Country Private Sector Diagnostic: Creating Markets in Ethiopia," The World Bank Group, 2019. Data for June 2017.

65 "World Investment Report," UNCTAD, June 2020.

66 "Ethiopia Foreign Investment," Santander Trade Portal, February 2020.

67 "2020 Investment Climate Reports: Ethiopia," U.S. Department of State, 2020.

68 Tom Lavers, "The role of foreign investment in Ethiopia's smallholder focussed agricultural development strategy," Land Deals Politics Initiatives, 2011.

69 “He Owns Much of Ethiopia. The Saudis Won’t Say Where They Are Hiding Him,” New York Times, March 2018.

70 “2020 Investment Climate Reports: Ethiopia,” U.S. Department of State, 2020.

71 Ibid.

72 Ethiopia Investment Commission Website, Feb 2021.

73 “2020 Investment Climate Reports: Ethiopia,” U.S. Department of State, 2020.

74 “Ethiopia Foreign Investment,” Santander Trade Portal, February 2020.

75 Expert interview.

76 Gifawosen Marko, “Labor rights, working conditions and workers’ power in the emerging textile and apparel industries in Ethiopia: The Case of Hawassa Industrial Park,” New Research in Global Political Economy, Working paper, January 2019.

77 Al Emid, “An Early Opportunity, With Pros And Cons For Ethiopia,” Global Finance, August 2016.

78 “Country Private Sector Diagnostic: Creating Markets in Ethiopia,” the World Bank Group, 2019. Data for June 2017.

79 “Adoption of New Liberalisation Measures,” UNCTAD Investment Policy Hub, 7 September 2020.

80 “Ethiopia’s new Investment Framework – the regulation,” Clifford Chance, January 2021.

81 “2020 Investment Climate Statements: Ethiopia,” U.S. Department of State, 2020.

82 Ludger Odenthal, “FDI in sub-Saharan Africa,” OECD Development Centre, Working Paper No. 173, March 2001, p. 16.

83 Payce Madden, “Figure of the week: Foreign direct investment in Africa,” Brookings, October 2019.

Credit (iStock.com)

Credit (Shutterstock.com)

ENTERPRISE CONDITIONS (ETHIOPIA RANK: 140TH)

Entrepreneurial activity is one of the key drivers of long-term prosperity, and its importance will only grow as the pace of technological change increases. Putting the private sector in the driving seat requires creating the environment where it can flourish. A healthy economy is a dynamic and competitive one, where regulation supports business, allowing and encouraging it to respond to the changing priorities of society. In contrast, an economy focussed on protecting incumbents is likely to produce lacklustre growth and job creation.

Government can support prosperity in Ethiopia by enabling a competitive business environment, reducing barriers to entry, discouraging restrictive practices, and regulating monopolies that are contrary to the public interest. Government can also support prosperity by simplifying the procedures and costs associated with starting and operating a business and supporting the linkages between the formal sector and the informal (independent) sector of the economy.

Overall, Enterprise Conditions in Ethiopia have slightly improved over the past decade. Other countries, however, have experienced greater progress during this time, and Ethiopia has fallen 10 places in the global rankings, to 140th. Furthermore, Ethiopia's overall improvement masks significant deteriorations. While there have been some modest improvements in reducing the barriers that businesses face, considerable business constraints remain, including burdensome compliance with regulations.

The dominant presence of state-owned enterprises in many sectors of the economy creates challenges for the private sector. They experience preferential treatment from Government, often sidestepping the regulatory compliance that exists for the private sector. The private sector also includes political party-owned companies and other politically connected companies.

The Government has taken steps to remove some subsidies, although price distortions remain, particularly in agriculture and electricity. These policies distort the market and create an uneven playing field restricting competition.

The high turnover of staff, lack of a skilled workforce and low wages in Ethiopia have resulted in considerable deterioration in the flexibility of the labour market. However, redundancy costs have been reduced.

__Elements of Enterprise Conditions__

Domestic Market Contestability *– how open the market is to new participants, versus protection of the incumbents. Market based competition and prevention mechanisms for monopolies are essential to true contestability in any domestic market, and this market cannot be dominated by just a few business groups.*

Price Distortions *– the extent to which regulatory restrictions, subsidies, and taxes distort market prices, which cause resources to be inefficiently managed and diverted from activities that can deliver much greater benefits to society*

Environment for Business Creation *– the legislative and policy-driven factors that encourage entrepreneurialism. The skill of the labour force is essential to the business creation environment, as is cluster development and protections for, and ease of, starting new businesses.*

Burden of Regulation *– how much effort and time are required to comply with regulations, including tax regulations. Regulation can become burdensome due to the volume of regulations that businesses must comply with and their complexity.*

Labour Market Flexibility *– how dynamic and flexible the workplace is for both employer and employee in terms of the flexibility of employment contracts, including redundancy costs.*

DOMESTIC MARKET CONTESTABILITY (ETHIOPIA RANK: 139TH)

Open, fair, and competitive markets contribute to prosperity. One of the most useful things that governments can do is to ensure competition, both domestic and international, and a strong and effective anti-monopoly policy. A fair and effectively enforced competitive market benefits all by helping to stimulate improvements in efficiency and innovation. Our measure of Domestic Market Contestability captures how open the market is to new participants, versus protection of the incumbents.

Ethiopia ranks 139th for Domestic Market Contestability. State-owned companies continue to play a significant role within the Ethiopian economy and dominate many of the key sectors of the economy. These organisations often receive preferential treatment, resulting in the absence of a level playing field. The Government has signalled its intent to open these sectors to the private sector.

Market dominance

The state continues to dominate certain strategic sectors of the economy in Ethiopia, resulting in weak competition. Notably, of the small number of countries with telecommunication monopolies, until recently, Ethiopia was one of only three with a state-owned monopoly[1]. This will start to change with the process of partial privatisation of Ethio telecom.[2] There is a state monopoly or state dominance in energy, banking, insurance, air transport, shipping, railway, industrial parks, and petroleum importing.[3,4]

The private sector has noted how state-owned enterprises and endowment companies receive preferential treatment and have benefitted from the privatisation process, as government and party officials are on the boards of many of these enterprises.[5] Two of the main commercial conglomerates that benefitted from the preferential treatment under the EPRDF/TPLF Goverment were EFFORT (the Endowment Fund for Rehabilitation of the Tigray), controlled by the TPLF, and MIDROC Ethiopia Investment Group, controlled by Sheikh Mohammed Hussein Ali Al-Amoudi.[6]

Competition law

The Ethiopian Government introduced its first competition law to promote contestability in the domestic market in 2003.[7] The Trade Competition and Consumer Protection Authority (TCCPA) was established in 2014 as an autonomous federal government body.[8] Its major objective is to secure a fair and competitive process, ensuring "the prevention and elimination of anti-competitive and unfair trade practices" while "safeguarding the interests of consumers, through the prevention and elimination of any restraints on the efficient supply and distribution of goods and services."[9]

Competition laws are not equally enforced, given the close relationship between the state and some monopolistic companies. The existing regulatory frameworks designed to combat these monopolistic and cartelistic structures are not comprehensive, with rules often unenforced by government agencies.[10]

This is evidenced by comments made by the World Bank Group, at the time of the opening of the telecoms sector, noting the motivations of vested interests and preferential treatment in many policy announcements, while pointing out the importance of a fair, competitive, level playing field.[11] While the Competition Directive published by the Ethiopian Communications Authority[12] stresses the importance of adhering to competitive practices, and how to deal with any violations, it is not yet clear how this will be applied in practice.

Procurement

State-owned enterprises and endowment companies are more likely to have access to public procurement and finance than the private sector, weakening government credibility to deliver private sector-based reforms.

The lack of commitment to a level playing field is further evidenced in the preferential treatment with respect to licenses, foreign exchange, and defence contracts.[13] While the Government recognises the important role foreign companies play in industrialisation of the economy, there is nevertheless a "heavy concentration of market power in the hands of party-affiliated companies and public enterprises."[14]

Results from a recent study show that institutionalised corruption is still high, as the systems used do not define responsibilities of each contracting party clearly.[15] To enhance the accountability, credibility and improvement of procurement processes, Ethiopia has established, among others, the Public Procurement Complaint Handling Board (in 2012), the Ethics and Anti-Corruption Commission (in 2001) and the Public Procurement and Property Administration Agency (in 2009).

Liberalisation

In the past two decades, Ethiopia has privatised 371 enterprises.[16] In July 2018, the Government of Ethiopia presented a privatisation programme that included the privatisation (with minority shares) of Ethiopian Airlines, Ethio telecom, Ethiopian Shipping and Logistics Service Enterprise, and power generation projects. It also announced the full privatisation of sugar projects, railways, and industrial parks. To broaden the role and participation of the private sector in the economy, a new privatisation law was passed by parliament in 2020.[17] As of October 2020, privatisation had generated a revenue of 300 billion ETB ($7.59 billion).[18]

In its 10-year plan, the Government has committed itself to "Expediting the privatization of large state-owned enterprises and liberalization of priority sectors opportunities."[19] The plan is to implement the privatisation programme through public tenders open to local and foreign investors. It will also allow greenfield firms to enter the market. Plans include the partial privatisation of Ethio telecom in 2021, which has begun, and the opening of the telecoms sector to the private market, with the Ethiopian Communications Authority (ECA) issuing one license to the Global Partnership for Ethiopia in May 2021.

Recommendations

- The Government should require and enforce higher levels of transparency and accountability of state-owned enterprises by establishing good governance practices, including publishing annual audited accounts.
- The Government should ensure that banks provide a level playing field.

PRICE DISTORTIONS (ETHIOPIA RANK: 102ND)

Price distortions can arise from both regulatory restrictions and subsidies, which lead to inefficient use of state resources. Our measure of Price Distortions captures how competitive markets are disrupted by subsidies and taxes.

Ethiopia ranks 102nd for Price Distortions. While the Government has taken some positive steps by removing its fuel subsidy, other price distortions remain, particularly in agriculture and electricity.

Fuel and energy subsidies

In 2008, the Government removed all fossil-fuel subsidies, amounting to more than $600 million a year.[20] Since this reform, Ethiopia has seen a decline in kerosene imports and an increase in the use of biofuels and electricity.[21] Ethiopia's remaining energy subsidies are now in line with the global median level, and ahead of several comparator countries.

Ethiopia has electricity subsidies, but they disproportionately benefit more affluent households and do not encourage energy efficiency. Although the average household in Addis Ababa received a subsidy of US$17.1 per month (which is about 4.8% of household income) in 2015-16, due to the increasing block tariff (IBT) nature of pricing, the wealthiest 20% of households received 37% of the subsidies, whereas the poorest 20% received only 7% of the subsidies.[22,23]

Agriculture and food subsidies

The Government removed subsidies for fertilizers in the 1990s, relieving the Agricultural Input Supply Enterprise (AISE), the Government parastatal, of its monopolistic role. These actions, however, did not lead to a competitive fertilizer market due to the Government's continued intervention.[24]

The Government gave favourable treatment to regional holding companies, which included the allocation of foreign exchange for the import and distribution of fertilizer through government-provided credit to farmers. The credit provided by the state could not be used to purchase fertilizer from the private sector. In the Amhara Regional State, Ambassel is the regional holding company and the sole agent of AISE.[25]

As a result of these trading practices, the private sector was not able to compete and exited the fertilizer market by 2000[26] and AISE became the default distributor of fertilizer imports. Economies of scale due to bulk purchasing and foreign currency savings were the rationale for its renewed monopolistic status.[27]

While a number of cooperatives were formed to carry out the functions of fertilizer marketing, there has been a lack of private distributors and importers.[28] Ethiopia's nitrogen, potassium, and phosphorus fertilizer imports have experienced significant fluctuations, with imports of fertilizers increasing in the period 2008–2018 from 1,078 tonnes to 3,271 tonnes.[29] The fluctuations of imports are attributed to budget constraints, government intervention, changes in import and distribution policies, and supply chain inefficiencies.[30] This weak fertilizer system has contributed to the low productivity of the subsistence-oriented agricultural sector.[31]

The assessment of fertilizer regulatory bodies reveals that Ethiopia's fertilizer import, distribution, trade, and marketing sector is regulated by multiple institutions, with little coordination between them.[32]

Ethiopia witnessed an increase in food prices from 2004, resulting in all-time high food prices in 2008. To ease spiralling food prices, the Government decided to subsidise grains.[33] The fuel subsidy savings of $600 million were reassigned to stabilise food prices and eliminate value-added taxes on grains.[34]

Taxation

The tax revenue is collected from a narrow tax base.[35] The Ethiopian Government relies on international trade taxes, and over the past decade these taxes have contributed 40% of its tax revenue.[36]

The Proclamation (No. 983/2016) provided a common administrative set of rules for all taxes except customs duties, abrogating the previously dispersed rules around administration.[37]

In Ethiopia, employment income and business income of individuals are subject to tax at progressive rates ranging from 10% to 35%.[38] Corporations are taxed at a flat rate of 30%, which is slightly less than Sudan, Zambia, and Congo at 35%, but higher than Egypt at 22.5% and Zimbabwe and Ivory Coast at 25%.[39]

Recommendations

- The Government should consider simplifying the regulatory instruments on fertilizer import, distribution, trade, and marketing, to ensure more effective coordination between the different regulatory authorities.
- The Government should review and refine the IBT electricity structure, to incentivise the economically and efficient use of electricity and remove the disproportionate benefit going to wealthier households.

ENVIRONMENT FOR BUSINESS CREATION (ETHIOPIA RANK: 144TH)

In an entrepreneurial society, ideas are constantly being created, developed, and tested. The process of turning ideas into success must be as easy and accessible as possible. Society can benefit by providing a supportive environment that appreciates and values the contribution that entrepreneurs make towards achieving prosperity.

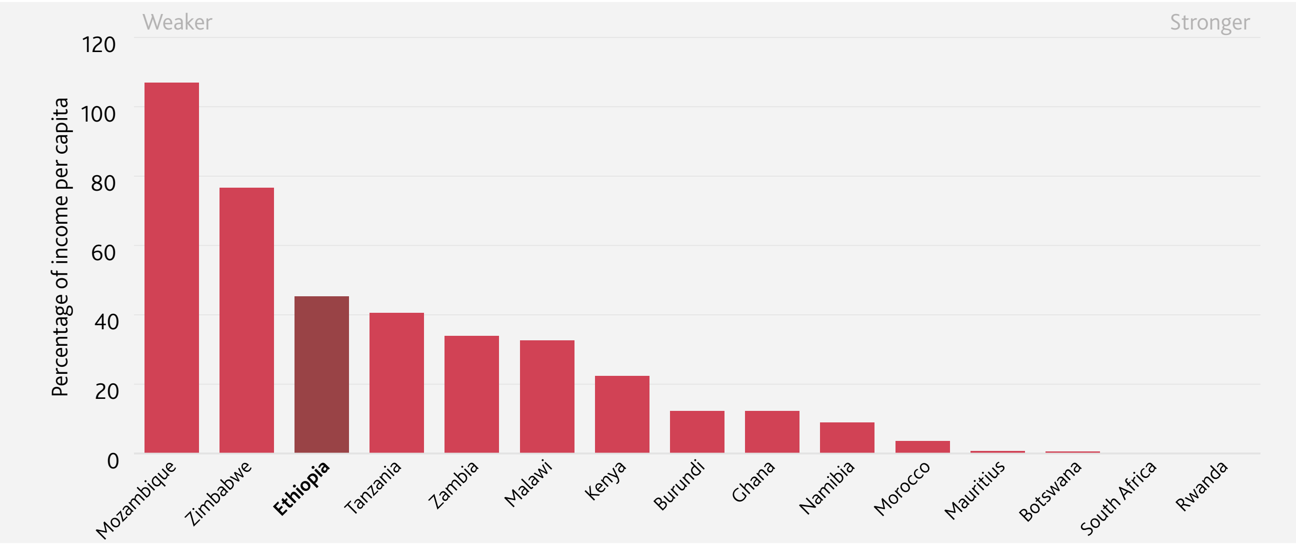
Ethiopia ranks 144th for Environment for Business Creation. The new Government has placed strong importance on improving the business climate, to increase the productivity and competitiveness of Ethiopia's private sector as part of its plan to achieve middle-income status by 2025.[40] Compliance costs with licensing requirements are still high in Ethiopia, with more than 95% of the costs for businesses resulting from cumbersome documentation and other time-consuming procedures.[41] There is a significant gap in the skillset of the newly joined workforce relative to the structure of labour demand.

License and procedural constraints

A significant constraint on the business community is the large number of business licenses and procedural steps that are necessary to start and grow a business.[42] Starting a business in Ethiopia requires 11 procedures taking 32 days, on average, with costs amounting to 45% of average income per capita. This compares to the sub-Saharan African average of seven procedures and 22 days, costing 36% of average income per capita.[43]

Ethiopia's new Investment Law established the Ethiopian Investment Commission (EIC), along with regional state investment authorities as 'one-stop-shops', to ensure better coordination of agencies that support investors.[44] In practice, however, investors still need to communicate with multiple authorities and institutions, which leads to high transaction costs.[45]

Figure 12: Cost of starting a business



Source: World Bank Doing Business Index 2019 .

Economic Hubs

In 2015, the Government introduced a National Development Spatial Plan, which seeks to promote a more “polycentric system of cities” within a system of urban clusters and reduce overreliance on Addis Ababa as the main economic hub.[46]

Other policies have led to the creation of growth corridors and “clusters”, such as industrial parks and export processing zones, where the Government is prioritising export-oriented manufacturing to increase the manufacturing contribution to GDP.[47]

The Small and Medium Manufacturing Industry Cluster Development Corporation (SMMIDC) has been tasked with furthering the industrial parks agenda, where SMEs can cluster, with the instruction to prioritise high-tech manufacturing industry by the provision of land.[48]

Limited skilled labour

As the economy shifts from agriculture[49] to having larger industrial and service-related sectors, it places new demands and expectations on the labour force. The lack of required skills in the labour market is a constraint on business generation and growth.[50] Although more than two million young people join the workforce each year, businesses face challenges in finding employees with the right skills.[51]

Ethiopia has given priority to improving education — primary school enrolment has reached 94% in the country.[52] The Government has been pursuing a rapid expansion of the university system over the last 20 years. The number of private education institutions has increased from 3 to 49,[53] with some experts identifying closer to 100 such institutions.[54] However, this increase in education has not resulted in workers with high skills that match labour market needs.[55]

In 2002, the Government introduced the Training and Vocational Education Training (TVET) strategy, which was complemented by a non-formal TVET strategy to provide short-term technical training.[56] However, the strategy is led by different government agencies with little coordination, leading to duplication and fragmentation of efforts.[57] Lack of financing is also a problem, with expenditure on TVET halving between 2009-10 and 2016-17.[58] While expenditure on the expansion and construction of new TVET institutes increased, TVET students account for only around 1% of all students enrolled in training and education,[59] and access to TVET is lacking in the administrative regions and rural areas. Finally, negative societal attitudes towards TVET result in students not choosing it as a preferred option. Experts interviewed as part of this study report a problem of practical skilling in on-the-job training programmes.

Recommendations

Further streamlining of the processes and procedures for business creation is necessary, as is ensuring that good businesses can access credit.

- The Government should streamline the procedures that businesses need to undertake to start operations, including reducing the number of licenses required.
- The Ethiopian Investment Commission (EIC) should improve coordination with regional bodies and other agencies, so they become fully integrated as a 'one-stop-shop'.[60]
- The Government should improve coordination between the various TVET authorities, to ensure better efficacy of the skills programme.
- The Government should integrate TVET programmes with on-the-ground training, to make those leaving education more equipped and desirable for the labour market, including investing in school-to-work transition programmes.

BURDEN OF REGULATION (ETHIOPIA RANK: 124TH)

A large administrative burden results in companies focussing resources on complying with these regulations, rather than innovating and creating. In particular, the process of complying with tax regulations should be uncomplicated and quick. While the possibility of taxation having a detrimental effect on business is well understood, so too is the method of tax collection and the complexity of taxes being levied. Our measure captures how much effort and time are required to comply with such regulations.

The burden of regulation in Ethiopia has significantly increased over the past decade, particularly with respect to the time taken for businesses to comply with regulations. As a result, the country has fallen 72 places in the rankings, to 124th globally. While several reforms have been introduced to reduce regulatory burdens and ease business operations, limited progress has been achieved.

Regulatory environment

In a survey conducted for SMEs in the West Arzi Zone in Ethiopia, 77% of respondents said that the time and cost of complying with extensive regulation created heavy burdens for their enterprises and obstacles to business performance.[61] The percentage of time businesses in Ethiopia spend complying with various government regulations has increased from 4% to 12%, and is considerably higher than in Morocco, Djibouti, Burundi, Sudan, and Tanzania (5%).

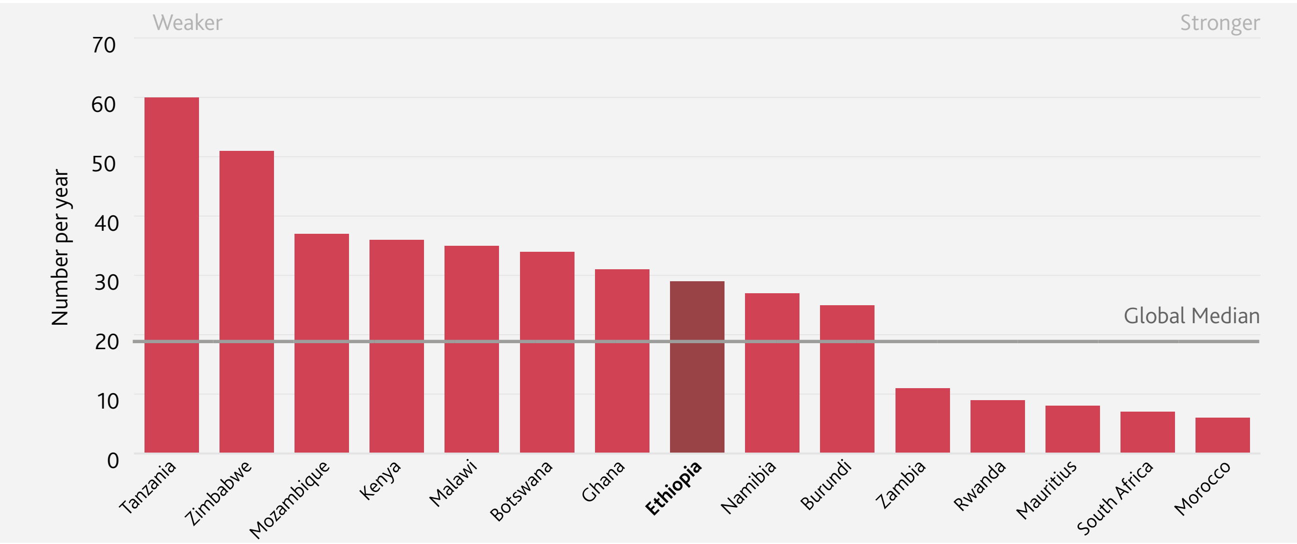
In addition, there are concerns in relation to the inconsistent and discretionary application of policies and rules in favour of state-owned enterprises.[62] Investors report having to spend considerable amounts of time building relationships with government officials to progress their projects. This poor enabling business and regulatory environment is seen as limiting the Ethiopian private sector, contributing to poor capacity for market discovery, product innovation and process innovation in the country.[63]

Tax system

Taxpayers in Ethiopia report that the process of complying with taxation is even more burdensome than the amount of tax itself. [64] Tax regulations see the most frequent changes.[65]

Although the average number of tax payments made per year in Ethiopia has remained the same at 29, above Zambia and Rwanda, the average amount of time spent dealing with making tax payments has increased, from 198 hours per year in 2010 to 300 hours per year in 2020.[66] According to the International Centre for Tax and Development (ICTD), the Ethiopian Revenue and Customs Authority (ECRA) (now the Ministry of Revenue) lacks sufficiently skilled staff in areas of tax administration to undertake all tasks effectively, including the e-filing system, leading to a knock-on effect on how well officials can communicate the tax system to taxpayers, increasing the cost and time of compliance.[67]

Figure 13: Number of tax payments



Source: World Bank Doing Business Index 2019.

ERCA launched its online tax filing system in 2012. In the fiscal year for 2016-2017, only 5% of clients used the online tax submission platform.[68] This was because of the poor capacity in Ethiopia's communications infrastructure, and poor internet connectivity meant that the e-filing system either could not be accessed or only operated slowly. As a result, taxpayers were compelled to file taxes manually, leading to long queues at tax offices.[69] Secondly, the usage of the e-filing system is not governed by any legal or regulatory framework, so users are not encouraged or cannot be compelled to use it. Coupled with concerns over data security, this has resulted in a low adoption rate.[70] Pilots for e-payments of taxes through the system have been tested for 11 companies, but are still not operational.[71] The e-payments have been tested with the Commercial Bank of Ethiopia and Ethio telecom, but despite the Ministry of Revenue announcing in 2019 that e-payments systems would soon be implemented nationwide,[72] the Revenue authority are still working towards including receipt collection in the digital system.[73]

Recommendations

- The Government should reduce the regulatory burden on businesses and ensure consistency in their application, especially in relation to favourable treatment of state-owned enterprises.[74]
- The Ministry of Revenue should upskill tax officials on the e-system, so they can communicate more effectively about the system with taxpayers.
- The Ministry of Revenue should prioritise effective rollout and uptake of e-payment for taxes nationwide, to reduce compliance times.

Credit (iStock.com)

LABOUR MARKET FLEXIBILITY (ETHIOPIA RANK: 153RD)

Labour Market Flexibility helps to facilitate the availability of jobs and the protection of workers. Without a well-functioning labour market, jobs are likely to be scarce, and available jobs may well be not attractive, with little redress available for those who find themselves in a bad employment situation. Our measure captures how dynamic and flexible the workplace is for both employer and employee.

Labour Market Flexibility has significantly weakened in Ethiopia over the past decade, indicated by employers reporting a deterioration in the flexibility of both wage determination and worker contracts, and in labour-employer relations. Interviews with Ethiopian labour market experts as part of this study highlighted several prominent cases of abuse of labour rights, which have not been challenged by Government.[75] Although there have been some recent reforms to modernise labour practices in Ethiopia, these reforms are yet to have a signficant impact. As a result, Ethiopia dropped from 71st in the global rankings to 153rd.

Labour market regulations

Ethiopia has ratified all eight core International Labour Organisation (ILO) conventions.[76] In 2019, it adopted the Labour Proclamation (1156/201952) that governs employment relations in the private sector, replacing the previous law that has been in place for the last 16 years (see box for changes). The new code intends to be employer-friendly, reflecting a shift in business environment.[77] The code improves certain protections and rights for employees.[78]

The new Employer Action Code took effect on September 5, 2019. Notable changes include:

Minimum wage: The code provides for the establishment of a Wage Board, which is empowered to set and revise the minimum wage of employees and will be comprised of the Government, employees, trade unions and other stakeholders.

Leave: Employees are entitled to 16 days of paid annual leave after one year of service, up from 14 previously, and an additional day per two additional years (no limit). Employer-paid maternity leave increased to 120 calendar days, up from 90 days. New fathers are now entitled to three calendar days of employer-paid paternity leave.

Overtime: The statutory workday remains eight hours a day (48 hours per week). Overtime limitations have been simplified to four hours a day and 12 hours a week. Compensation increased to 150% of normal pay for overtime between 6:00 a.m. and 10:00 p.m., and to 175% between 10:00 p.m. and 6:00 a.m.

Other matters: The maximum probationary period increased from 45 calendar days to 60 working days. In the event of a reduction in workforce, disabled staff are now subject to the same staff selection criteria as other employees.

Redundancy

Ethiopia has a high worker turnover rate, at 42% according to a study by the International Growth Centre.[79] High turnover in the labour market incurs considerable disruption for employers and considerable cost in relation to redundancy payments. Ethiopia has significantly reduced these types of costs to businesses over the past decade, reducing redundancy costs from 40 weeks of salary to 19 weeks, comparable to Morocco and Botswana.

Labour Conditions in Industrial Parks

Ethiopian wages have recently received renewed attention in the wake of a report from the NYU Stern Center, reporting that garment workers in Ethiopia's industrial parks are the lowest paid in the world.[80] Low wages can be partly attributed to Ethiopia being able to establish itself as a low-cost manufacturing hub to attract foreign investment, and global companies such as H&M, Gap and Tommy Hilfiger are manufacturing clothes in Ethiopia.[81] However, this has come at a cost: a high turnover of workers (with an overall attrition rate of 100% in 2017-18), and low productivity, with factories replacing their workers every 12 months and running at 15% efficiency.[82]

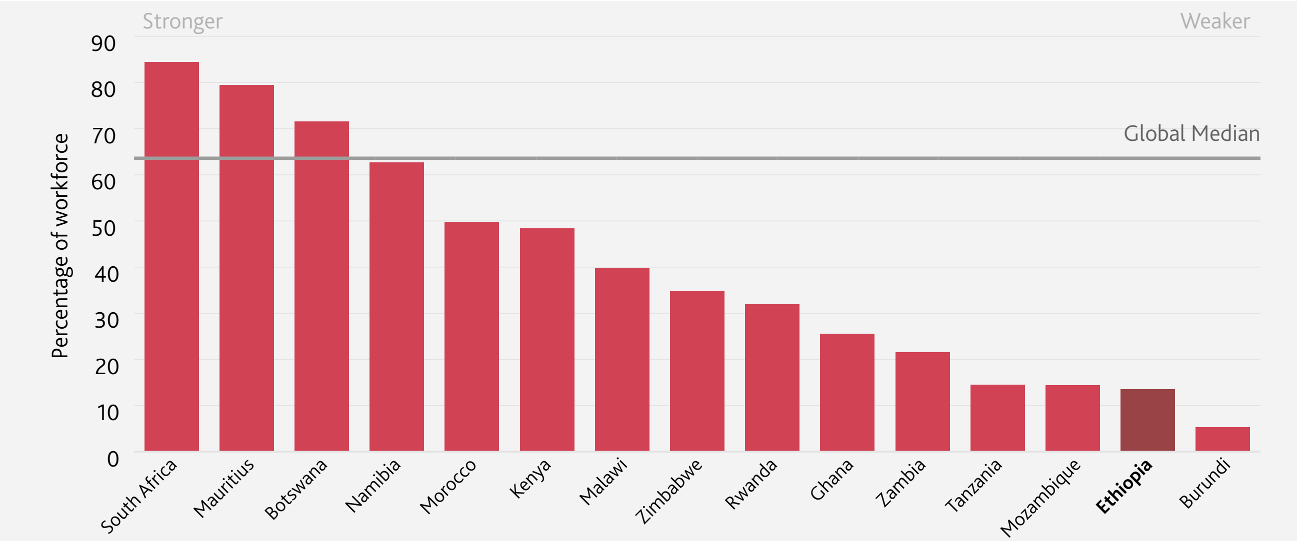
Industrial park workers also lack sufficient training (sometimes as little as two weeks), which keeps costs low but creates problems as many workers coming from rural areas are not familiar with working in an industrial environment.[83] These issues are compounded by a lack of coordination between urban and regional councils around employment regulations and training.

Minimum wage

The minimum wage for public sector workers is low.[84] There is currently no minimum wage for the private sector, resulting in low wages for certain workers. Wages are traditionally set by the employer, negotiated by a collective agreement, or fixed by the employee's contract. Labour legislation does recognise collective bargaining at the industry level, a common feature of many African countries.

The ILO estimates that only 16% of workers in Ethiopia are waged and salaried, one of the lowest percentages in Africa, and over half of these are in the public sector, including state-owned enterprises.[85] The percentage of Ethiopia's labour force operating in the independent (or informal) sector is officially reported to have fallen from 51% in 1999 to 23% in 2013,[86] although experts attribute this drop to a statistical redefinition of the sector, which does not concur with the ILO estimate.[87]

Figure 14: Waged and salaried workers



Source: ILO.

Unionisation

The right of workers to join trade unions is recognised by the Ethiopian Constitution, with more than 500,000 organised under the Confederation of Ethiopian Trade Unions (CETU).[88] Ethiopia experiences a low unionisation rate. At the minimum wage incident occurring at Ethiopia's Hawassa industrial park (see box), employees were prevented from unionising.[89] Clear cases of abuse occur, such as the sacking of 65 workers in 2015 at the Sheraton Hotel in Addis Ababa during negotiations renewing the collective agreement.[90] There has not been a large strike since 1993. However, according to Freedom House, this can be attributed to the CETU refraining from challenging the Government openly.

Recommendation

- Employment councils should work with foreign manufacturers and brands to provide skills training for garment workers to ensure high productivity, low turnover and overall development of the supply chain. (see Tanger-Med Zone in Morocco[91])

Endnotes

1 Roku Fukui, "In Ethiopia, digital development just took a major leap forward," World Bank Blogs, June 2019.

2 "Ethiopia to complete privatisation of its telecom sector next year," Bloomberg, July 2021.

3 "Ethiopia: The Market," Import-Export Solutions, October 2020.

4 "2020 Investment Climate Reports: Ethiopia," U.S. Department of State, 2020.

5 Gebremedhine Birega, "Preliminary country paper of Ethiopia on competition regime: capacity building on competition policy in select countries of Eastern and Southern Africa," AHa Ethiopian Consumer Protection Association, September 2004.

6 Zenobia Ismail, "Privatisation of State-Owned Enterprises in Ethiopia since 1991," K4D Helpdesk Report, Birmingham UK: University of Birmingham, June 26, 2018, p. 11.

7 "A review of competition policy in Ethiopia," UNCTAD, March 2018, p. viii.

8 Ibid..

9 "BTI 2020 Country Report – Ethiopia," Bertelsmann Stiftung, 2020.

10 Ibid.

11 "Why Ethiopia needs to open its telecom market," World Bank Blogs, February 11, 2021.

12 "Competition Directive: Draft for Stakeholder Consultation," Ethiopian Communications Agency, August 2020, p. 6.

13 "Ethiopia Toward the Competitive Frontier Strategies for Improving Ethiopia's Investment Climate," The World Bank Group, June 2009, p. 12.

14 "BTI 2020 Country Report – Ethiopia," Bertelsmann Stiftung, 2020.

15 Baynesagn Asfaw Ambaw and Jan Telgen, "PBC as a Solution for Public Procurement Problems: Some Ethiopian Evidence," European Journal of Business and Management, Vol. 9, No. 34, 2017, p. 103.

16 "Privatisation in Ethiopia," Simmons and Simmons, April 7, 2016.

17 "2020 Investment Climate Reports: Ethiopia," U.S. Department of State, 2020.

18 Birhanu Firkade, "SoE revenue falls short of target," The Reporter Ethiopia, October 3, 2020.

19 Ethiopia 2030: The Pathway to Prosperity Ten Years Perspective Development Plan (2021 – 2030)," The Planning and Development Commission, May 2021, p. 12.

20 "Learning from Leaders Nordic and International Best Practice with Fossil Fuel Subsidy Reform," Nordic Council of Ministers, 2016, p. 35.

21 "Ethiopia – Regional Cities," ARUP, 2016, p. 46.

22 Ibid.

23 "Magnitude and Distribution of Electricity and Water Subsidies for Households in Addis Ababa, Ethiopia," The World Bank Group, September 2019, p. 31.

24 Zewdie Habte Shikur, "Agricultural policies, agricultural production and rural households' welfare in Ethiopia," Economic Structures, Volume 9, No. 50, August 2020, p. 4.

25 Shahidur Rashid, Nigussie Tefera, Nicholas Minot, and Gezahengn Ayele, "Fertilizer in Ethiopia An Assessment of Policies, Value Chain, and Profitability," IFPRI, Discussion Paper 01304, December 2013, p. 2.

26 "Agribusiness Indicators: Ethiopia," The World Bank Group, April 2012, p. 24.

27 Johanes Agbahey, "Fertilizer supply chain in Ethiopia: structure, performance and policy analysis," Afrika Focus, Volume 28, No. 1, 2015, p. 82.

28 "Agribusiness Indicators: Ethiopia," The World Bank Group, April 2012, p. 52.

29 "Ethiopia - NPK fertilizers - import quantity," Knoema, 2020.

30 "Agribusiness Indicators: Ethiopia," The World Bank Group, April 2012, p. 24.

31 Urgessa Tilahun Bekab, "Review of Challenges and Prospects of Agricultural Production and Productivity in Ethiopia," Journal of Natural Sciences Research, Vol. 4, No. 18, May 2014, p. 70.

32 "A Review of National Fertilizer Regulatory Authorities in Ethiopia," The African Fertilizer and Agribusiness Partnership, July 2017, p. 16.

33 Getachew Abebe Woldie and Khalid Siddig, "Do subsidies matter in food price stabilization? Evidences from Ethiopia in a computable general equilibrium framework," Justus Liebig University of Giessen, MPRA Paper No. 29117, March 2011, p. 3.

34 "Ethiopia ends fuel subsidy, increases pump prices," Reuters, October 4, 2008.

35 "Performance and Prospects of Tax Collection in Ethiopia," UNDP, August 2016.

36 "Information Technology and Fiscal Capacity in a Developing Country: Evidence from Ethiopia," Centre for Tax and Development, January 2015, p. 8.

37 "Doing business in Ethiopia: overview," Tadesse Kiros Law Office, June 2020.

38 "Ethiopia Fiscal Guide 2019," KPMG, March 2020, p. 4.

39 "List of Countries by Corporate Tax Rate: Africa," Trading Economics, December 2020.

40 "Growth and Transformation Plan II (GTP II) (2015/16-2019/20) Volume I: Main Text," Federal Democratic Republic of Ethiopia, National Planning Commission, May 2016, p. ix.

41 "The Cost of Business Registration and Licensing in Ethiopia and Options for Reform," The World Bank Group, March 2016, p. 4.

42 "Country Private Sector Diagnostic: Creating Markets in Ethiopia," The International Finance Corporation, 2019, p. 23.

43 "Doing Business 2020 – Ethiopia," The World Bank Group, 2020.

44 "Ethiopia's New Investment Framework – The Regulation," Clifford Chance, January 2021, p. 6.

45 Ibid.

46 "Enhancing Economic Development and Job Creation in Addis Ababa: The Role of the City Administration," The World Bank Group, May 2018, p. 14.

47 "Developing Ethiopia: First-mover Investment Opportunities," Deloitte, 2016, p. 6.

48 Ibid.

49 Agriculture still accounted for 66% of employment in 2018 down from 79% in 2008. "Nexus skills-jobs assessment Ethiopia," Ministry of Foreign Affairs, the Netherlands, February 2020, p. 7.

50 Hamed M. S. Ahmed and Yimer Ayalew Ahmed, "Constraints of youth entrepreneurs in Ethiopia," Journal of Global Entrepreneurship Research, May 2021.

51 "Generation Unlimited launches in Ethiopia," Generation Unlimited, April 2021.

52 "School enrolment, primary (% net) – Ethiopia," UNESCO Institute for Statistics, February 2020.

53 "2020 Investment Climate Statements: Ethiopia," U.S. Department of State, 2020.

54 Expert interview.

55 "Nexus skills-jobs assessment Ethiopia," Ministry of Foreign Affairs, the Netherlands, February 2020, p. 7.

56 "Stage of skills: Ethiopia," International Labour Organisation, 2018, p. 23.

57 Ibid.

58 Ibid.

59 Ministry of Education, Federal Republic of Ethiopia, 2017.

60 Consider Senegal, which established a Business Creation Support Office that reduced the time required to register a business from two months, dealing with six different government agencies, to 48 hours.

61 Ofgaha Alemu Dire and Wegene Bekele Bekelcha, "Perception towards Regulatory Burden on Small and Medium Enterprises Performance: A Case Study in Shashemene Town, West Arsi Zone, Ethiopia," Business and Economic Research, Vol. 10, No. 1, March 2020, p. 309.

62 "Creating Markets for Ethiopia: Country Private Sector Diagnostic," International Finance Corporation, 2019, p. 21.

63 Zuzana Brixiova and Mthuli Ncube, "Entrepreneurship and the Business Environment in Africa: An Application to Ethiopia," Institute for the Study of Labor (IZA), IZA Discussion Papers, No. 7553, August 2013, p. 5.

64 "Tax Compliance Cost Burden and Tax Perceptions Survey in Ethiopia," The World Bank Group, May 2015, p. x.

65 "Creating Markets for Ethiopia: Country Private Sector Diagnostic," International Finance Corporation, 2019, p. 21.

66 "Ease of Doing Business Report 2020 – Ethiopia, Paying Taxes," World Bank Doing Business, 2020.

67 "Perceptions of Value Added Tax Filing and Invoicing Compliance in Ethiopia: The Case of Three Federal Branch Offices in Addis Ababa," International Centre for Tax and Development, African Tax Administration Paper 11, June 2019, p. 13.

68 Ethiopian Revenues and Customs Authority (ERCA), 2017.

69 Ronald Waiswa, Sebsbie Fekade and Asnakech Lake, "Practices, Challenges and Prospects for Public Sector Taxation in Ethiopia," International Centre for Tax and Development, African Tax Administration Paper 10, June 2019.

70 "Abera Mechal, "Factors affecting the adoption of electronic tax filing in Ethiopia: perception of taxpayers'," Addis Ababa University, June 2018, p. 62.

71 "Ethiopia Introduces Electronic Tax Payment System," Ministry of Revenues, Ethiopia.

72 "Ethiopia introduced electronic tax payment system," New Business Ethiopia, February 26, 2019.

73 "Digitalising the tax payment system," BDO Global, January 2021.

74 "Study on Business Environment Problems of Ethiopia: The Case of Addis Ababa," All Answers Ltd., December 2019.

75 Expert interview.

76 “2020 Investment Climate Statement: Ethiopia,” U.S. Department of State, 2020.

77 “Ethiopia: New labor code to attract foreign investment,” Willis Towers Watson, February 2020.

78 Ibid.

79 “Worker turnover and job flows in the formal private sector of Ethiopia,” International Growth Centre, February 2020.

80 Paul M. Barrett and Dorotheé Baumann-Pauly, “Made in Ethiopia: Challenges in the garment industry’s new frontier,” NYU Stern Center for Business and Human Rights, May 2019, p. 1.

81 Elizabeth Cline, “Will Ethiopia Flourish or Suffer Under Fast Fashion?” Sourcing Journal, October 2014.

82 James Purtill, “$26 a month: Ethiopians are being paid world’s lowest wages to make your Calvin Kleins,” ABC, May 2019.

83 Marjorie van Elven, “Ethiopian garment workers paid the lowest wages in the apparel industry,” The Fashion United, May 2019.

84 2020 Investment Climate Statement: Ethiopia,” U.S. Department of State, 2020.

85 “Stage of skills: Ethiopia,” International Labour Organisation, 2018, p. 26.

86 Chalachew Getahun Desta, “The Urban Informal Economy in Ethiopia: Theory and Empirical Evidence,” Eastern Africa Social Science Research Review, Vol. XXXIV, No. 1, January 2018, p. 45.

87 Consultation with experts.

88 “Freedom in the World: Ethiopia 2020,” Freedom House, 2020.

89 Ibid.

90 “Shame on Sheraton!,” The International Union of Food, Agricultural, Hotel, Restaurant, Catering, Tobacco and Allied Workers’ Associations (IUF), February 2015.

91 “Special Economic Zones: Accelerator for Industrialisation in Africa,” Africa Free Zones Organisation, Event Summary Report, November 2019, p. 29.

Credit (iStock.com)

Credit (iStock.com)

GOVERNANCE (ETHIOPIA RANK: 125TH)

The importance of good governance to long-term economic growth cannot be overstated.[1] A politically stable, capable, and trustworthy state is one of the central components of economic development. Even when controlling for extraneous factors such as culture, there is evidence that economic institutions are one of the key determinants of differences in prosperity across countries.[2] Governance underpins economic activity; unless and until good governance is established, attracting investment and enterprise is difficult. Investment and prosperity require the rule of law, which itself is dependent upon trust in effective and accountable state institutions.[3,4] Good governance is most robust when it has been established over time and is a codification of cultural expectations and behaviours.[5]

A prosperous Ethiopia is one where power is shared between different stakeholders for the public good, there are meaningful checks and balances on how power can be exercised in the political, institutional, and economic spheres, and the military is separate from party politics. A competent and independent judiciary would guarantee that everyone, including the state, is subject to the rule of law, without political interference in judicial processes. This environment would also help ensure the Government delivers public services with integrity and competence.

The legacy of authoritarian rule by successive governments in Ethiopia has undermined strong governance. Its global ranking for Governance is 125th. Historically, the ruling party governed with few constraints and limited accountability, which maximised its control of political power, resulting in Ethiopia ranking 133rd for Executive Constraints and 131st for Political Accountability. While the Constitution provided for an independent judiciary, it has historically been subject to political control, and it has been subordinate to the Government and the ruling party. Ethiopia's ranking for the Rule of Law is 79th. The level of corruption in Ethiopia, both in the political system and across government, is high. Ethiopia has a ranking of 105th for Government Integrity. The traditional political system in Ethiopia requires control of the civil service by the ruling party, as a result of which the civil service is highly politicised. The civil service is also poorly remunerated and has a relatively low social status, which weakens motivation. The global ranking for Government Effectiveness is 109th. The conflict in Tigray and tensions in other regions further risk weakening the governance environment in the country.

Elements of Governance

Executive Constraints *– the level of checks and balances, and separation of powers – especially with respect to the executive. For effective executive constraints to be in place, a government must not only have checks and balances and separation of powers, but also be free from military involvement, and effective sanctions must be in place for misconduct within office.*

Political Accountability *– the degree to which the public can hold public institutions accountable, capturing the degree of political pluralism and other mechanisms of accountability.*

Rule of Law *– the fairness, independence, and effectiveness of the judiciary (in applying both civil and criminal law), along with the degree to which every citizen is subject to the law.*

Government Integrity *– the integrity of a government, encompassing both the absence of corruption and the degree to which government fosters citizen participation and engagement through open information and transparent practices.*

Government Effectiveness *– a combination of the quality of public service provision, the quality of the bureaucracy, and the competence of officials.*

Regulatory Quality *– all aspects of the running of the regulatory state – whether it is burdensome and impedes private sector development, and whether it is smoothly and efficiently run.*

EXECUTIVE CONSTRAINTS (ETHIOPIA RANK: 133RD)

A well-functioning government relies on clearly defined, separated powers and an appropriate level of external checks and balances on the executive, from bodies such as the judiciary, media, and civil society. Appropriate action also needs to be taken when officials violate their power. This measure accounts for the extent of institutionalised constraints on the decision-making powers of the executive, such as through the separation of powers into different bodies, and the degree to which there are checks and balances in practice.

Ethiopia ranks 133rd globally for Executive Constraints, showing a ranking improvement over the past decade. In Ethiopia, narrow-based groups have enjoyed a quasi-monopoly of power and have exercised it with few constraints imposed by the legislature or the judiciary (see box). The "Parliament and the judiciary are not independent institutions that can use their constitutional authority to hold the executive accountable."[6]

The exercise of authoritarian power and the resistance to transfer of this power has been driven by the nature of the political system. Given Ethiopia's political and ethnic polarisation, a key objective of the winning side in political conflicts has been to maintain power. This has resulted in a political settlement of 'winner-takes-all' with a legacy of authoritarian government, where the dangers of losing power have been too high to contemplate. The political system has been of a one-group/one-dominant party system that controls all key institutions within Ethiopian society, including the state, the military, the judiciary, and key sectors of the economy.

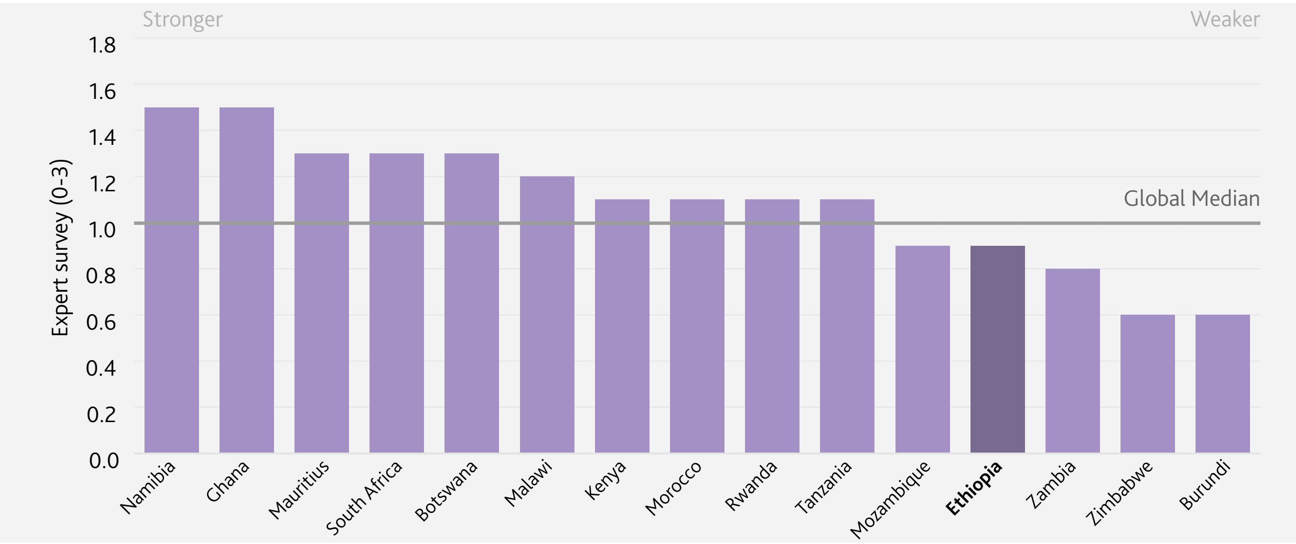
The protection of the security forces and the large financial support of the international community allowed the EPRDF/TPLF to create something bigger than an authoritarian one-party state. A 2019 assessment stated "Ethiopia is more than a party-state. [It] is a party-business-non-government-organization-military-mass organization state, where the lines among all of these different facets of the EPRDF overlap and are blurred by design."[7]

In 2018, recently appointed Prime Minister Abiy committed to the democratic opening of Ethiopia, including free and fair elections. Whether the Prime Minister and the new Prosperity Party can successfully change a political system that has existed for so long in a polarised country is still an open question.

The Constitution

The 1995 Constitution provided for a nominal separation of powers, including a legislative function, free election of representatives, protection of civil and political liberties and human rights, and a federal structure based on ethnically-based regional states (common culture, common customs, common intelligible language, etc.). However, the Constitution allowed the 'claw back' of many of these executive constraints. The Constitution gives the House of the Federation a key role in interpreting the Constitution (Article 62(1)).

Figure 15: Executive powers are effectively limited by the judiciary and legislature



Source: World Justice Project (Rule of Law Index) 2020.

Military

In Ethiopia, the historic transition of power between groups has generally taken place in the context of violence and armed conflicts. The authority of government has been established by winning these conflicts, with the victors' ideology being imposed on the population, i.e., the Communist ideology of the Derg or the 'revolutionary democracy' ideology of the EPRDF/TPLF. These ideologies were authoritarian and required centralised power, without the presence of executive constraint.

The security forces have been intertwined with the EPRDF/TPLF party and protected its political dominance for 27 years. The military has played a key role in determining government authority. Top-level commanders were top leaders in the party and controlled the economy through state-owned enterprises and through the operation of the Metals and Engineering Corporation, initially a Derg defence conglomerate.

In a context where government authority was linked to the control of the military, Prime Minister Abiy consolidated his authority by the removal of TPLF loyalists from the Ethiopian security forces. He responded with force to the actions of the TPLF-led regional government in Tigray in November 2020.

Political History

The Derg was the military junta that ruled Ethiopia from 1974 to 1987, having overthrown the Government of the Ethiopian Empire and Emperor Haile Selassie. From 1987-1991, Ethiopia was a Communist People's Democratic Republic.

The long period of armed conflict between 1974 and 1991 ultimately resulted in The Tigray People's Liberation Front (TPLF) winning power in 1991.

The Ethiopian People's Revolutionary Democratic Front (EPRDF) was formed by the union of the TPLF and the Ethiopian People's Democratic Movement (EPDM) in early 1989 (these were later joined by other parties), with the TPLF leading the coalition.

In December 2019, the new Prime Minister, Abiy Ahmed, established the Prosperity Party as a successor of the EPRDF by bringing together ethnic-based parties, minus the TPLF, into a multi-ethnic party.

The legislature

As the legislature has always been under the control of the ruling party, this has allowed the executive to govern unconstrained by any substantive checks and balances. The legislature also has the power to constrain the autonomy of the courts.[8]

Since 1995, the EPRDF/TPLF engineered large parliamentary majorities with minimal opposition representation, except in 2005. In the view of the ruling party, there was little need of political opposition, as the 'revolutionary democracy' ideology required everyone to work to deliver the developmental state. The domination of parliament by the ruling party resulted in parliament rubber stamping its decisions.[9] It is not yet clear the extent to which this dynamic will change following the June 2021 elections.

The judiciary

The judiciary is subordinate to the ruling party; according to Bertelsmann, "The judiciary has also failed to check that the executive is acting within the framework of the law."[10]

The "Ethiopian legal system prohibits the judiciary from reviewing sensitive matters related to the Constitution, this task is assigned to political bodies such as the House of the Federation."[11] This limits the capacity of the judiciary to provide a constraint on the executive. In addition, the judiciary is subject to political interference and corruption. Judges are appointed by the government, and a 2017 review stated, "judicial impartiality particularly in political cases is almost non-existent."[12]

Ethnic federalism

Federalism is another way in which the powers of the executive can be constrained. However, in Ethiopia, the implementation of federalism with a strong ethnic component contributed initially to the capacity of the ruling party to control the entire country for almost 30 years, as it was able to co-opt the regions.

This federal system was able to provide ethnic, linguistic, and cultural self-expression with a strong focus on ethnicity. However, financial resources and political power were concentrated at the federal level. In this context, some academics argued that for the EPRDF, this central power was strong, in fact "the actual power and interference of the federal government in regional and local affairs has become stronger than under any previous regime."[13] It has been argued that political cadres of the EPRDF had more power than Regional Presidents, and the interests of regional states were subordinated to the interests of the elites in the centre, particularly from the coalition political parties of the EPRDF.[14]

However, recently, federalism based on ethnicity appears to be creating more tensions. Ethnic and regional demands have been growing and regional protests contributed to the TPLF losing its grip on power in 2018. Today, The TPLF is no longer part of the ruling party, now the Prosperity Party, and the Prosperity Party is no longer a coalition of political parties with a strong ethnic basis.

Recommendations

Consider the separation of the military and the ruling party.

- The military should leave party politics and the running of the state.
- The military should continue to have full autonomy on security issues, including promotions in the military.
- A substantial security budget settlement should be guaranteed, with a potential dividend from economic growth.

POLITICAL ACCOUNTABILITY (ETHIOPIA RANK: 131ST)

Political Accountability supports democracy and promotes prosperity. It provides a means to monitor government conduct and prevent both the concentration of power and collusion between the state and big businesses. Our measure of Political Accountability captures the degree to which the public can hold public institutions to account, which covers a range of mechanisms of accountability, such as periodic elections and the degree of political pluralism.

Ethiopia ranks 131st in Political Accountability. In Ethiopia, elites have historically gained power by dynastic tradition or by violent confrontation rather than by a peaceful and democratic transfer of power. The EPRDF/TPLF implemented "revolutionary democracy", whereby it used its political cadres to train and guide the population to implement its developmental programmes. This ideology requires keeping political power by all means. The EPRDF/TPLF successfully implemented this ideology for 27 years.[15]

Under this framework, the issue of political accountability does not arise. It is assumed that the Government does what the people need without requiring formal mechanisms of accountability. The Government used political and developmental structures to ensure that its policies are implemented with little dissent, even at local (Kebele) level.

Prime Minister Abiy has rejected the "revolutionary democracy" view of political accountability and has committed to respect traditional political accountability mechanisms, including free, transparent, inclusive, and fair elections. However, given the polarisation in the country, only time will tell if these commitments can be fully met.

Elections

The elections conducted by the EPRDF/TPLF were not carried out by an independent electoral authority and did not generally provide an equal space for the opposition. Hence, they could not generally be classified as free and fair elections. This is understandable given the political system because the ruling party could not have contemplated an outcome that could have ended its political dominance and endanger the position of their main ethnic political base in Tigray. Freedom House has ranked Ethiopia as 'Not Free' since 2011, noting that the 2015 elections "were not held in accordance to democratic standards."[16]

The National Electoral Board of Ethiopia (NEBE) is charged with conducting "in an impartial manner, free and fair elections in Federal and State constituencies."[17] In practice, however, it has been controlled by the ruling party and has not had the autonomy or the power to ensure fair and free elections.

The Prosperity Party (successor of the EPRDF) has committed to respect traditional political accountability mechanisms, including elections. The June 2021 elections were run with an independent electoral board. However, the context of the elections was difficult, and the elections were boycotted by the main opposition parties in Oromia, who complained of harassment. The elections were run in six of the 10 regions (not in Tigray and in other areas of Amhara and the Somali region) and the president of the electoral board noted that in two of the regions electoral observers were not allowed.[18]

Electoral Politics in Ethiopia

A split in the TPLF, in relation to the war in Eritrea in 2001, resulted in a more competitive election in 2005. Although the opposition performed well, winning in Addis Ababa, the EPRDF maintained power. Subsequently, it introduced repressive laws to ensure that the success of the opposition would not be repeated.

In recent years, however, the EPRDF/TPLF control over society has weakened. The protests of Oromia youth over employment and land rights and the collective memory of oppression that started in 2015 resulted in the marginalisation of the TPLF and contributed to the resignation of Prime Minister Hailemariam in 2018.

In April 2018, the EPRDF selected Abiy Ahmed from the Oromo Democratic Party to be Prime Minister, ending 27 years of political dominance of the TPLF and the Tigrayan military. The new Prime Minister stated that he repudiated human rights abuses, corruption, and authoritarianism of the TPLF and offered democratic openings. He also facilitated the ending of the decade-long conflict with Eritrea, for which he was awarded the Nobel Peace Prize.

In December 2019, three ethnic EPRDF parties, but not the TPLF, merged to form the Prosperity Party.

Following the postponement of national elections in 2020, Tigray requested the conduct of regional elections, which was rejected by the centre. The centre proceeded with the elections, which was one of the catalysts for the ensuing conflict in Tigray between the TPLF and the Ethiopian National Defence Forces and the Eritrean army.

Ethnicity

Ethnicity has become a dominant and unpredictable political factor within Ethiopia. The federal system is based on ethnicity and provides a constitutional right to secede from the Ethiopian federation and from any regional state. "A political system of ethno-linguistic federation hardens tribal identities"[19] and can foster radical ethno-national movements. Ethnic tensions are intense in many areas of the country. While ethnic federalism initially facilitated the political control of the country by the ruling party, it eventually contributed to the undoing of that control.

Ethnic federalism has contributed to the resurgence of sub-national and ethnic identities focussed on the fight for resources allocated by the centre.[20] Ethnic groups stake claims to the territories of other groups. Land expropriations have also contributed to ethnic protests.

Ethnic Conflicts

A total of 2,060,000 people remained internally displaced by armed conflict and violence, as of the end of 2020. The main drivers of displacement were political violence, disputes over land and resources, inter-communal violence and armed conflict. In 2018, almost 2.9 million new conflict displacements were recorded, the largest figure ever for the country and the highest number globally for that year.

The number of new displacements fell significantly, to just over a million in 2019, as a result of a government plan to return internally displaced people to their places of origin.

IDMO reported 539,000 new displacements in Tigray, in addition to reports of human rights violations and abuses, including sexual violence, and food insecurity.[21] Violence also forced people from their homes in the Afar, Amhara, Beninshangul Gumuz and Southern Nations, Nationalities and People's (SNNP) regions, pushing the number of new displacements to nearly 1.7 million in the country as a whole, a 61% increase on the figure for 2019.[22]

Ethnic polarisation and division in the country is high. In the context of a collective memory of violence and coercion, narratives of dispossession have been powerful in reinforcing ethnic divisions, particularly between the Oromo and Amhara peoples. "The two main nations — Oromo and Amhara — are being pushed in the direction of strident ethno-nationalism."[23] "Collective memory of violence that certain groups suffered in this process has remained fresh in a number of cases, owing to the continued perception or experience of central political control and targeted use of coercion."[24] Groups in Oromia saw a continuity between Imperial Ethiopia, the Derg military regime and the EPRDF/TPLF in this regard.

In this polarised context, the challenge for the Prosperity Party is to avoid retaining the authoritarian political methods and repression structures the EPRDF used to remain in power.

A View of Federalism, Ethnic Homogeneity, and The City of Hawassa[25]

The city of Hawassa was promoted by the EPRDF/TPLF as demonstrating the success of ethnic federalism, as Hawassa became a diverse and dynamic city. However, the majority of people in Hawassa, particularly the young, do not define themselves in ethnic terms, and they come from different areas in the country. Hawassa is the capital of Sidama (which voted in November 2019 to become a new regional state), but it has never been a city with a majority of ethnic Sidama. However, as part of Sidama, there is a political incentive to provide institutions (universities), infrastructure (roads that link to Sidama) and services (in the Sidamo language) that favour ethnic Sidamas and to make the city more ethnically homogeneous. Similarly, the recruitment of the 60,000 employees of the Hawassa industrial park (the largest in Africa) excludes people from neighbouring Oromia. Hawassa has also become more ethnically homogeneous by the expansion of its urban boundaries. This ethnic homogeneity is partly a consequence of ethnic federalism and moves Hawassa away from the dynamic, ethnically diverse Hawassa of the past.

Press and civil society

The role of civil society as a mechanism of political accountability has been very limited in Ethiopia. The opposition parties, civil society organisations, and the media have been controlled through legislation such as the Anti-Corruption Law (2001), the Media Law (2008), the Charities and Proclamation Law (2009), and the Anti-Terrorism Law (2009), which negate much of the civil liberties protection included in the Constitution. While there has been relaxation of the regulations of civil society organisations, particularly charities, under the new Government, the instruments of control of media and civil society have been retained.

Social control was implemented successfully by the EPRDF/TPLF at all levels, including at the Kebele (local) level. Clientelism is used to co-opt opposition and ensure votes for the ruling party, relying both on the distribution of services and, when needed, police intimidation. The massive recruitment for the ruling party after the elections of 2005 ensured that control at local level has been effective. The mechanisms of social control also include the 'gimgema', public evaluations of party members. The system of social control and repressive legislation has been generally effective in delivering large majorities for the ruling party for 27 years, apart from 2005. In addition, the security forces have been ready to protect the political dominance of the ruling party when needed.

Recommendations

- The Government should work with other parties and civil society organisations to broker a dialogue between the nation's elite to determine by consensus a political settlement for Ethiopia that supports peace.
- The Government should explore political settlement that provides greater autonomy for regions, for example a federation like the one in Switzerland. The federal level should provide examples of the value of its functions to the regions.
- The Government should consider constitutional changes to ensure the protection of civil and political liberties for all citizens, freedom of the press, equal treatment under the law and progress towards inclusive and free and fair elections.
- The Government and the regions should consider eliminating their social control mechanisms at Kebele level.

RULE OF LAW (ETHIOPIA RANK: 79TH)

An independent, impartial, and effective judiciary is a cornerstone of democracy, as it ensures that the law, both civil and criminal, is being fairly and appropriately applied. An independent judiciary ensures that every citizen is protected from the powers of the state. There also needs to be a level playing field for both state agents and firms so that firms can thrive. Our measure of the Rule of Law captures these elements, along with the accountability of the public to the law.

Ethiopia ranks 79th in the world for the Rule of Law, with some improvement in the last 10 years.

The Constitution establishes an independent judiciary, with the Supreme Federal judicial authority vested in the Federal Supreme Court.[26] Judicial powers, at federal and state level, are vested in the courts, which adjudicate constitutional issues. However, the Ethiopian Constitution takes significant judicial powers from the judiciary because it vests certain powers, such as interpreting the Constitution and determining Constitutional disputes, in the House of the Federation.[27] This limits the powers of the judiciary.[28]

The judiciary has historically been part of the system to enforce the power of the authoritarian regime, with no separation from the Government. The Judiciary does not constrain the executive or protect citizens from the state. On the contrary, the Government uses the judiciary, 'rule by law,' to enforce its control of citizens.[29]

A recent UK review noted that the "courts and law enforcement were politicised and did not always act in connection with the constitution, but on ethnic lines."[30] Freedom House summarises its judgment on the rule of law in Ethiopia as "The judiciary is officially independent, but in practice it is subject to political interference, and judgments rarely deviate from government policy… Due process rights are generally not respected."[31]

The appointment of the lawyer and civil society leader Meaza Ashenafi as president of the Supreme Court in November 2018 was seen as a positive step, although no major improvements in the judiciary have taken place yet.

The politicisation of the judiciary has also played a central part in weakening political and social stability in Ethiopia and undermining human rights. It has not been able to protect opposition politicians or political parties, and there have been few prosecutions for human rights abuses. Freedom House notes that the "security forces frequently commit human rights violations including torture and extra-judicial killings with impunity."[32]

The independence of the judiciary has also affected conflicts about the allocation of land rights for foreign investors. "In conjunction with the authoritarian tendencies of the government and the absence of the rule of law, the constitutionally guaranteed right to private property can easily be abused and violated."[33]

Corruption is commonplace, at both federal and regional levels. "Corruption among judges is widespread, and judges not loyal to the government run the risk of being replaced by a 'more suitable' candidate."[34] The prosecution of corruption cases is also seen as extremely politicised, at least since the Anti-Corruption Law of 2001, and facilitated by the judiciary.

Recommendations

- The Government should consider amending the Constitution so the court system has the final say on constitutional issues,[35] to ensure protection of civil and political rights. This will need to ensure fair ethnic representation for all groups in the judiciary.
- The Government should consider creating an independent judiciary body to supervise the judiciary, as part of a political settlement between different parts of Ethiopian society.[36]
- The independent judiciary body should develop transparent mechanisms to ensure the independent appointment of impartial judges, based on professional qualifications and integrity.
- The Government should establish clear procedures to protect the independence of the judiciary, including length of the term of office, security of tenure during that term, remuneration and pension.
- The Government should ensure the integrity of the judiciary with clear processes for disqualification and removal from office and broader institutional conditions.

GOVERNMENT INTEGRITY (ETHIOPIA RANK: 105TH)

Corruption has a negative economic impact and reduces public trust and the legitimacy of the state. It contributes to inequality, discourages private sector development, and, by affecting government finances, it limits the ability of governments to invest in productivity-enhancing projects. Transparency supports public accountability and helps build trust in the Government, which in turn supports social stability and economic growth. Our measure considers corruption within each branch of government and public office, and it measures transparency, capturing the degree to which government fosters citizens' participation and engagement through open information and transparent practices.

Ethiopia ranks 105th in the world in terms of Government Integrity, with recent improvement from a low in 2016. Transparency International have noted that "corruption poses a serious and multifaceted problem to the overall wellbeing of the population and its economy."[37] The level of corruption in Ethiopia is partly explained by the fact that for decades the ruling party has governed without checks and balances and without direct accountability to citizens, civil society, and the free press. Given the ruling party has been focussed on consolidating its power, this has meant diverting resources to the party or to party members.

Evidence of corruption

Determining the extent of corruption is particularly difficult in countries such as Ethiopia.[38] However, given that the EPRDF/TPLF controlled much of the economy in Ethiopia, and given the limited checks and balances in the system, the potential for corruption in Ethiopia has always been large.

Transparency International highlight two distinct forms of corruption in Ethiopia: bureaucratic and political. In a 2018 report, it observed that bureaucratic corruption "seems to exist in every office. Officials from the traffic police, court, customs and trade licences office, land acquisition department, licensing, and tax collection, as well as government procurement, have faced allegations of bribery…"[39]

Political corruption "meant that members of the ruling party have enjoyed privileges with regard to access to credit, land lease contracts and jobs."[40] Political corruption has also contributed to the monopolisation of the country's economy.[41] "Corruption and nepotism meant that members of the ruling party have enjoyed unfair privileges regarding access to credit, land lease contracts and jobs. Rules governing markets and investment have been unreliable and subject to arbitrary and significant state intervention."[42]

In 2012, the World Bank diagnostic report on corruption concluded that it was particularly extensive in the acquisition of land on lease, non-payment of tax, and government procurement.[43] More recently, in November 2018, significant corruption was identified in the Metals and Engineering Corporation (METEC), a military enterprise. Its former Director-General was accused of a host of failures, mismanagement, and crimes, including making irregular procurements over six years, worth $1.3 billion, without competitive tenders.[44] In addition, between 2004 and 2013, Ethiopia lost $26 billion to illicit financial outflows, and is among the top 10 African countries by cumulative illicit financial flows (IFFs) related to trade mispricing.[45]

Corruption linked to the control of the state

Opportunities for corruption have been extended by the large role of the state as it followed a 'developmental state' model. Managing large state-owned enterprises and endowment companies, allocating land and mining resources, developing large infrastructure investments funded by debt, intervening in and controlling financial markets and foreign exchange and devising restrictive and complex rules and regulations have all provided opportunities for corruption.

Bureaucratic corruption is also the result of control of the state by the ruling party. For example, higher-ranking civil servants have generally not been appointed by merit but because of loyalty to the party or ethnic factors, weakening civil service leadership (see next section). Furthermore, as civil servants have been poorly paid, corruption is a way to bolster remuneration. The hierarchical culture in the Ethiopian civil service linked to the authoritarian nature of the Government results in a system where the corrupt behaviour of state officials is not questioned by junior civil servants or by the public.[46]

The weakening of the independent press, opposition politicians and civil society through repressive legislation has left these institutions with limited capacity to fight corruption.

Weak government institutions to fight corruption

The Federal Ethics and Anti-Corruption Commission of Ethiopia (FEACC) was established in 2001 and revised legislation was issued in 2005. Since 2016, the Attorney General has taken over the investigation and prosecution powers of the FEACC. Other institutions in the anti-corruption system include the Federal Auditor General, the Office of the Federal Attorney General and the Financial Intelligence Centre (anti-money laundering).

Although Ethical Liaison Units are present in government offices and public enterprises, a study of their role in countering corruption found that taking disciplinary measures and putting criminal sanctions on corrupt entities was beyond their capacity. Lack of human and material resources, the absence of anti-corruption commitment from leadership, and a lack of trust and confidence in people were major challenges in combatting corruption.[47]

There is limited trust in the integrity of anti-corruption institutions, including the FEACC, which "as an institution of truth-seeking and justice has been seriously compromised by the perception that high-ranking officials prosecuted were victims of a political witch hunt by the regime. Scrutiny and accountability have never reached the higher echelons of Ethiopian officialdom."[48] Given the strong politicisation of the courts, the suspicion that anti-corruption charges are politically selective persist. Ethiopia also lacks a comprehensive system of protection for whistle-blowers.

Anti-corruption prosecutions

In the main, many prosecutions for corruption in Ethiopia have been seen as politically motivated. There have been prosecutions against 'corrupt' political opponents, e.g., the Anti-Corruption Law (Federal Ethics and Anti-Corruption Commission, 2001) was used the day after its implementation to prosecute TPLF members who lost an internal party struggle.

Public dissatisfaction has also led to prosecutions. In 2017, dozens of government officials, including the state minister for finance, were arrested on suspicion of corruption. Officials from the Ministry of Finance and Economic Cooperation, the capital's housing development agency, the state-run Ethiopian Sugar Corporation and the Ethiopian Roads Authority were also arrested, on charges including embezzlement and the siphoning of billions of Birrs…"[49]

The office of the federal Attorney General has recently said that work is underway to recover over $400 million of stolen public funds, embezzled by government officials and affiliate investors and diverted to foreign countries.[50] The Attorney General ordered the arrest of 70 senior officials, including the former deputy chief of the National Intelligence and Security Service and a federal police commissioner, with several senior officials, mainly from the TPLF, being charged with corruption. The prosecution of TPLF loyalists took place when the TPLF was no longer in power.

International reports offer a note of caution, stating that "In the past, officeholders loyal to the government who break the law and engage in corruption have not been systematically or adequately prosecuted."[51] They add that "even though the new government pledged to fight corruption, so far, the executive maintains control over the judiciary and the legislature."[52]

Transparency and access to information

The right to information exists in the Constitution, but it is limited administratively. Information on Government plans and activities is often limited, even though the Constitution includes a clause on transparency and accountability. When the COVID-19 pandemic arrived in Ethiopia, the Government imposed a three-month internet shutdown in Oromia, restricting internet access for millions of people.[53] At the end of June 2020, Ethiopian authorities imposed another nationwide internet shutdown following the murder of Oromo singer and activist Hachalu Hundessa. According to Freedom House, "the Government has justified the internet shutdowns, which sometimes occurred in the context of political and ethnic violence, by citing the need to maintain security and public order."[54]

The Ethiopian Government's control over the country's telecommunications infrastructure, Ethio telecom, enables it to restrict information flows and access to internet and mobile phone services.[55]

Recommendations

Improving the integrity of government in Ethiopia is intertwined with improving political accountability, establishing a competent and honest judiciary, and making the civil service focussed on the needs of its citizens (a citizen-centred state) and responsive to public demands.

- The Government should strengthen anti-corruption measures. It should implement zero-tolerance for corruption, whereby Government works for the benefit of all Ethiopians, not for party or private gains. Each Minister should ensure that their departments have a clear strategy to be corruption-free within a short time.
- The Government should ensure that independent courts fully investigate corruption in Government and prosecute speedily with support from internal audits, the auditor general and the anti-corruption commission (included in the social contract). They should formalise clear procedural guidance on the Government's anti-corruption policies and introduce a whistle-blower law.
- The Government should strengthen the independence and capacity of enforcement agencies fully to investigate cases of corruption in government, e.g. internal audits, auditor general and FEACC.
- The Government should consider stopping the use of internet shutdowns as a way of controlling Ethiopians and restricting access to information.

Credit (Shutterstock.com)

GOVERNMENT EFFECTIVENESS (ETHIOPIA RANK: 109TH)

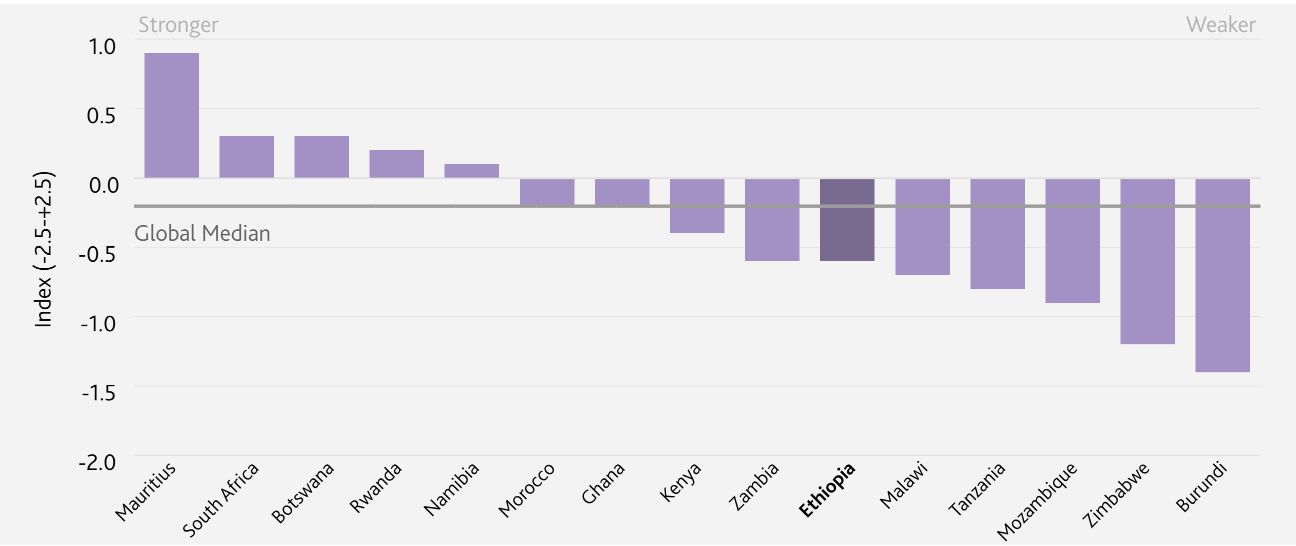
Government effectiveness includes, but extends beyond, the efficient use of resources and spending through effective government policy design and implementation to consider the ability of a government to enact its intended strategies. Our measure includes the quality of government officials and their independence from government pressures.

Ethiopia ranks 109th globally on Government Effectiveness. Ethiopia made the most progress in government effectiveness in the early 2000s.[56] However, while several civil service reform programmes have been implemented since then, limited progress in government effectiveness has been achieved.

The main constraint to Government effectiveness is the fact that the state and civil service have traditionally been subordinated to and intertwined with the Government or the ruling party. This has not allowed space for introducing merit-based recruitment in the civil service. The Ethiopian state has historically had low capacity, even though the 'developmental state' requires high capacities. EPRDF/TPLF did not provide the financial resources, incentives, merit-based recruitment or autonomy to make this high state capacity possible.

The civil service has been poorly remunerated; and surveys of the civil service show that it is often demotivated and lacks capability, with promotion based on party affiliation rather than merit.

Figure 16: Government quality and credibility



Source: Worldwide Governance Indicators 2018.

Development state

The EPRDF/TPLF approach since 2001 had been to follow the 'developmental state' models of East Asia, such as China (see box). This 'developmental state' approach of government, controlling key aspects of the economy with large infrastructure investments, requires high state capacity. However, the Government did not devote the necessary financial resources or ensure sufficient autonomy to establish the highly competent and effective civil service that the developmental state needed. Although a Ministry of Capacity Development was created in 2001 to build a strong and capable state, nothing substantial was achieved.[57] The priority was to strengthen the ruling party rather than to strengthen the capacity of the state, with senior appointments made based on loyalty and ethnicity rather than competence.[58]

This relatively weak state capacity has not been capable of effectively implementing the actions required by the 'developmental state' model.

China's Successful 'Developmental State' vs Ethiopia's 'Imperfect Implementation'

China has a history of being a unified country and a merit-based autonomous state for more than 2200 years. As Francis Fukuyama notes in relation to Ethiopia and Rwanda trying to follow the 'developmental state' model, they "have embarked in a process of 'party development' in the name of national development…the imperfect implementation of the China model and the lack of bureaucratic accountability, turnover, and capacity in these countries has created vulnerabilities within the regimes that could catalyse domestic resistance."[59]

China has been able to create a state that is dominated by the Communist party with effectiveness, because it developed a robust bureaucratic system to support the merit-based promotion of party members and strengthen party institutions. The system in China includes term limits, age limits, transparency and accountability. These party processes are absent in Ethiopia. This is critical because both in China and Ethiopia party members control the state. In Ethiopia, appointments above director level are political.

In this context, as Fukuyama notes, while both Ethiopia and Rwanda "reference the importance of a strong state, state policies generally bolstered the capacities of their parties. State power and capacity in both these countries are entirely dependent upon their respective ruling party, both of which have embarked on endeavours to incorporate all its citizens into their parties and to permeate the economic and social spheres through their political positions."[60]

Successful delivery of Government programmes has also been challenging due to the nature of the EPRDF, as a coalition of regional political, and mainly ethnic, parties. This has contributed to a fragmentation in policymaking and implementation, with different agencies and ministries often unable to work together to achieve common goals, even at federal level. The regional dimension adds an additional level of complexity to institutional coordination.

BTI reports that the politicisation of the civil service may be continuing under the new Government, as it refers to appointments of inexperienced people in the cabinet and points out that the "dismissals and new appointments of employees of the central government are clearly motivated by political considerations in favour of Oromo."[61]

Civil service competence

Political arrangements in Ethiopia have been traditionally based on the ruling party controlling the state and security forces. However, unlike China, Ethiopia has not established a merit-based autonomous state to ensure successful delivery. The Derg regime that started in 1974 replaced many career civil servants with political appointees.[62] Similarly, the EPRDF/TPLF regime started in 1991 by removing civil servants associated with the previous regime, to support "revolutionary democracy," — the subordination of citizens and society to the party.[63]

High civil service employment growth was needed to support the decentralisation process and service delivery. As a result, the number of civil service personnel grew 7% a year for several years, requiring more than 150,000 additional recruits.[64] While this growth was supported by an expansion in post-secondary education, the quality of this education has deteriorated, affecting the quality of civil service recruits.

A significant proportion of staff whose qualifications have been tested in service through competency assessments have failed to exhibit sufficient basic knowledge. Survey evidence indicates that the quality of the civil service has declined in recent years, and inadequate skills prevail. This is corroborated by capacity assessments and key informant interviews. State capacity at regional and local levels is generally weaker than at federal level, as fewer resources are available.[65]

The absence of a competent, merit-based approach in the Ethiopian senior civil service directly affects the quality of the leadership, particularly given that political appointments start in Ethiopia at a lower level than in other countries.

Appointments to important positions of power are often based on loyalty to the ruling party, "creating cronyism and patronage throughout the system"[66] and resulting in mismanagement and inefficiency, wasting considerable human and natural resources. Just over one in two promotions (56%) in Ethiopia are based on merit, considerably lower than in Ghana and Indonesia, at 87% and 89% respectively.[67]

A 2019 World Bank report on the civil service commented on the lack of merit-based promotion, reporting that "the practice of selecting decision-making staff as political appointees from the director level upwards, may play a role in this regard" and "when incentives are not fully aligned, managers may be oriented more towards their political roles and opportunities rather than viewing performance as a key criterion for further promotion."[68] This leads to a focus on political careers rather than on good civil service management. In addition, civil servant surveys indicate that political connections are one of the most important reasons for promotion and that factors that affect the treatment of civil servants include political and ethnic connections.[69]

Other reviews of the civil service confirm these findings:

> "…actual practices have juxtaposed the 'merit and patronage approaches…' Often, the former is practised in hiring individuals for lower positions. The higher the position, the greater the possibility for individuals to be recruited at best on a 'quasi-merit' basis and at worst on a pure patronage basis…The influence of politicians on their selection is quite high… Such results speak to how politicized the Ethiopian civil service is."[70]

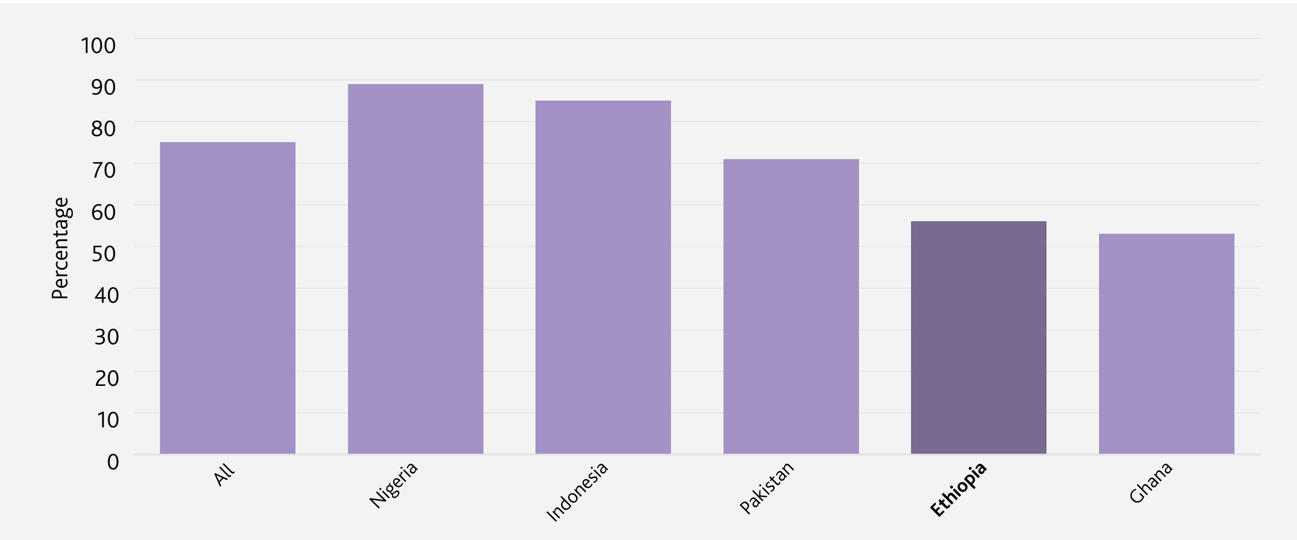
A further barrier to government effectiveness is the poor use of IT. The lack of technical knowledge at federal level has been corroborated in discussions with Public Wing members.[71]

Remuneration and satisfaction

Public and private sector wages in Ethiopia are among the lowest paid globally.[72] Civil servant surveys show that 70-80% of civil servants are dissatisfied with their salaries. Low salaries act as a constraint to attracting qualified staff to the civil service. Private sector pay has now surpassed public wages. While the Ethiopian wage bill is relatively low at 5% of GDP, available fiscal resources are also low. In addition, operational budget (including information technology) and maintenance have also been low, even more so at the Woreda and Kebele levels.

Low salaries are compounded with the low social status of the civil service in Ethiopia, which contrasts with the high prestige of civil servants in successful 'developmental state' countries in East Asia and China. The World Bank study shows that only 8% of federal civil servants see their work as prestigious.[73]

Figure 17: Job satisfaction : Civil servants



As a result of these factors, civil servants in Ethiopia, particularly at the federal level, are more demotivated than in other countries where similar surveys have been carried out.

30 Years of Civil Service Reforms

The reform of the civil service can be categorised into the following three phases, most of which did little to improve the civil service.[74]

(1) **1991-1996:** a retrenchment policy that helped to purge staff thought to be associated with the Derg, although increasing civil servants from 216,000 to almost 290,000.

(2) **1996-2003:** The Comprehensive Civil Service Reform Programme, aiming to implement new public management reform tools to improve performance.

(3) **2003 - 2018:** The Public Sector Capacity Building Support Programme, which introduced management by objectives, a balanced scorecard, and the civil service Change Army. This programme is backed by *gimgema* that is used as a means of 'political administrative evaluation.' Civil servants more than quadrupled during this phase.

After 2003, the EPRDF/TPLF carried out many top-down reform programmes with limited participation of civil servants. However, given that the political control of the state was not part of the reforms, the likelihood of success was limited. Other core issues such as salaries, low status and poor resources were not addressed.

Change Army reforms: Most of the reform initiatives, which were centrally planned and rolled out to the rest of the country, were not successful. The most successful was the Change Army approach adopted in 2014, a political initiative that was consistent with the high politicisation of the state. This initiative brings together the Party Wing, the State Wing, and the Public Wing and "assumes civil servants to behave as a stand-by military army who is ready to win a battle." The Change Army "mechanism tended to evaluate civil servants using subjective measures, such as whether they had an 'appropriate attitude' at work."[75]

The Change Army tool was piloted by mobilising communities in rural areas. It was then adopted in the civil service as a way of bringing together the party (the Party Wing), the civil service (the State Wing) and citizens (the Public Wing). The State Wing is led by the 'model civil servants', whom other civil servants are meant to follow. The 'model civil servants' also have the role of evaluating other civil servants. The Change Army facilitates the contacts between the Public Wing and the State Wing.

"In the military, heroes are always honoured. Similarly, after accomplishing some grand objectives there is a need to celebrate success to honour successful public servants (Civil Heroes)."[76] The Change Army focus is on attitudes rather than on constructive problem solving, and therefore it is seen as highly political.

Service delivery and economic growth

Ethiopia's economic growth and its delivery of basic services have been strong in the last 20 years, despite the low capacity of the state. The EPRDF/TPLF relied on the use of state-owned enterprises and endowment companies and the financial support of the international community (particularly for infrastructure investments) to achieve these strong results. World Bank civil service surveys show that the civil service performed best at monitoring and targeting, and worse on autonomy given to the staff, flexibility on ways of working and staff involvement in decisions. Use of management information systems is weak.[77]

Recommendations

A pre-requisite for meaningful improvement in government effectiveness will be to create a state separate from any political party and focussing on making the Government and the civil service centred on citizen's needs and responsive to their demands.

Professionalise civil service leadership.

- The Government should establish a merit-based process for appointing the most senior officials. Appointments should be based on proven integrity, focus on the public good and public service and professional experience and competence, not because of political affiliations.
- All high-level appointments should be carefully vetted. A strengthened Public Service Commission should monitor these appointments, proposing a temporary salary structure and recording experiences in different departments to identify and disseminate best practice. Departments should also establish a merit-based process for appointing civil servants.
- Departments should seek to attract the best talent by offering competitive salaries, decision-making autonomy, world class training and development opportunities, within and across departments.

Empower and delegate responsibility.

- Ministers and senior officials and their teams should be given greater autonomy and accountability for achieving the Government's key priorities.
- Each Minister should be given the opportunity to appoint on a merit-basis 10-20 officials to support their departmental or agency delivery.
- Ministers should be responsible for regular reporting of their progress to the Cabinet and the public.

Provide citizen-centred services.

- Ministers and senior officials should give priority to understanding the key needs of citizens, particularly the most vulnerable, and to identifying ways to make the provision of services to vulnerable people more relevant, easier, accessible and corruption-free.
- The Government should implement effective Citizen's Charters and effective complaint mechanisms and rely on the use of surveys of public users to evaluate civil service performance.
- Leaders should be responsible for embedding and fostering a new civil service ethos that demonstrates a commitment to service, empathy, and transparency, to bring public services closer to all Ethiopians.

Digitise Government services.

- The Government should consider adopting the digitisation approaches taken in Estonia and India.

Endnotes

1 Douglass C. North. Institutions, institutional change, and economic performance. Cambridge: Cambridge University Press, 1990.

2 Acemoglu , Daron, and James Robinson. "The role of institutions in growth and development." Leadership and Growth 135 (2010).

3 Guillermo A. O'Donnell. "Why the rule of law matters." Journal of Democracy 15, no. 4 (2004): 32-46.

4 Stephan Haggard and Lydia Tiede. "The rule of law and economic growth: Where are we?" World Development 39, no. 5 (2011): 673-685.

5 Richard V. Adkisson and Randy McFerrin. "Culture and good governance: A brief empirical exercise." Journal of Economic Issues 48, no. 2 (2014): 441-450.

6 "BTI 2020 Country Report – Ethiopia," Bertelsmann Stiftung, 2020.

7 Terrence Lyons, "The Puzzle of Ethiopian Politics," July 2019.

8 "BTI 2020 Country Report – Ethiopia," Bertelsmann Stiftung, 2020.

9 Ibid.

10 Ibid.

11 Henok Gabisa, "The politics of the Ethiopian Justice Sector Reform Programme," Africa Law, May 2015.

12 Aaron Testafaye, "State and Economic Development in Africa, The Case of Ethiopia," July 2017.

13 Jon Abbink, "Ethnic-based federalism and ethnicity in Ethiopia: reassessing the experiment after 20 years," Journal of Eastern African Studies, Volume 5, No. 4, November 2011.

14 Webcast: Alemayehu Weldemariam, Dr Yohannes Gedamu, Dr Daniel Mains, "A Changing Ethiopia: What is the Legacy of Ethnic Federalism," United States Institute of Peace, July 2019.

15 Lovise Aalen, "The Revolutionary Democracy of Ethiopia: A Wartime Ideology Both Shaping and Shaped by Peacetime Policy Needs," Government and Opposition, Volume 55, No. 4, 2020; Jon Abbink, "Ethnic-based federalism and ethnicity in Ethiopia: reassessing the experiment after 20 years," Journal of Eastern African Studies, Volume 5, No. 4, 2011.

16 "Freedom in the World: Ethiopia 2020," Freedom House, 2020.

17 "Responsibility of national EMB," The Electoral Knowledge Network, June 2021.

18 Ayenat Mersie, "Ethiopians vote as opposition alleges some irregularities," Reuters, June 2021.

19 "BTI 2020 Country Report – Ethiopia," Bertelsmann Stiftung, 2020.

20 Legesse Mengie, "Ethnic Federalism and Conflict in Ethiopia: What Lessons Can Other Jurisdictions Draw?" African Journal of International and Comparative Law, Volume 23, 2015.

21 "Ethiopia: Tigray Region Humanitarian Update - Situation Report No. 1," ReliefWeb, November 2020.

22 "Tigray crisis: Why Sudan is a 'second home' to Ethiopian refugees," BBC News, March 2020.

23 "BTI 2020 Country Report – Ethiopia," Bertelsmann Stiftung, 2020.

24 Erwin van Veen, "Perpetuating Power. Ethiopia's Political Settlement and the organization of Security," Clingendael Institute, 2016.

25 Webcast: Alemayehu Weldemariam, Dr. Yohannes Gedamu, Dr. Daniel Mains, "A Changing Ethiopia: What is the Legacy of Ethnic Federalism," United States Institute of Peace, July 2019.

26 The 1995 Constitution of Ethiopia, Article 8, Article 78.

27 Justine Limpitlaw, "Media Law Handbook for Eastern Africa," Volume 1, p. 228.

28 Ibid.

29 Girmachew Alemu Aneme, "Introduction to the Ethiopian Legal System and Legal Research," February 2020; Assefa Fiseha, "Separation of powers and its implications for the judiciary in Ethiopia," Journal of Eastern African Studies, Volume 5, No. 4, 2011; Abebe, A. "Rule by law in Ethiopia: Rendering constitutional limits on government power nonsensical," University of Cambridge Centre of Governance and Human Rights, CGHR Working Paper 1, 2011.

30 "Country Policy and Information Note Ethiopia: Actors of protection," Home Office UK, September 2020.

31 "Freedom in the World: Ethiopia 2020," Freedom House, 2020.

32 Ibid.

33 "BTI 2020 Country Report – Ethiopia," Bertelsmann Stiftung, 2020.

34 Ibid.

35 Muluken Berhanu, "Independence of the Judiciary in Parliamentary Democracy: The Ethiopian Experience," St. Mary's University, Ethiopia, p. 75.

36 Ibid.

37 Kaunaim Rahman, "Overview of Corruption and Anti-corruption in Ethiopia," Transparency International, October

2018.

38 "Freedom in the World: Ethiopia 2020," Freedom House, 2020.

39 Kaunaim Rahman, "Overview of Corruption and Anti-corruption in Ethiopia," Transparency International, October 2018.

40 "BTI 2020 Country Report – Ethiopia," Bertelsmann Stiftung, 2020.

41 Gudeta Kebede, "Political corruption: political and economic state capture in Ethiopia," European Scientific Journal, ESJ, Volume 9, No. 35, 2013.

42 "BTI 2020 Country Report – Ethiopia," Bertelsmann Stiftung, 2020.

43 Janelle Plummer, "Diagnosing Corruption in Ethiopia Perceptions, Realities, and the Way Forward for Key Sectors," The World Bank Group, May 2012.

44 "BTI 2020 Country Report – Ethiopia," Bertelsmann Stiftung, 2020.

45 Kaunaim Rahman, "Overview of Corruption and Anti-corruption in Ethiopia," Transparency International, October 2018.

46 Daniel Rogger, "Who Serves the Poor? Surveying Civil Servants in the Developing World," The World Bank Group, May 2017, p. 14.

47 Minhaj Alam and Daniel Handino Onsamo, "Assessing the Effectiveness of Ethics Liaison Units in Combatting Corruption: The Case of Hadiya Zone, SNNPRS, Ethiopia," International Journal of Humanities and Social Science, Vol. 7, No. 1, January 2017.

48 "BTI 2020 Country Report – Ethiopia," Bertelsmann Stiftung, 2020.

49 Kaunaim Rahman, "Overview of Corruption and Anti-corruption in Ethiopia," Transparency International, October 2018.

50 "Ethiopia to Recover Over 130 Billion Birr Stolen Public Funds: Official," Ezega News, December 2019.

51 "BTI 2020 Country Report – Ethiopia," Bertelsmann Stiftung, 2020.

52 Ibid.

53 "Freedom in the World: Ethiopia 2020," Freedom House, 2020.

54 Ibid.

55 Ibid.

56 Elsa Araya, "Moving Further on Civil Service Reforms in Ethiopia: Findings and Implications from a Civil Service Survey and Qualitative Analysis," The World Bank Group, January 2019.

57 "Ethiopia- Public Sector Capacity Building Program Support Project," The World Bank Group, 2004.

58 Francis Fukuyama and Hilary Matfess, "The March Is Not Linear: Big Party Politics and the Decline of Democracy Worldwide," Center for Complex Operations, Institute for National Strategic Studies, National Defense University, In book: "Beyond Convergence: World Without Order," Edited by Hilary Matfess and Michael Miklaucic, 2016.

59 Ibid.

60 Ibid.

61 "BTI 2020 Country Report – Ethiopia," Bertelsmann Stiftung, 2020.

62 Adare Assefa Mitiku and Annie Hondeghem, "The Ethiopian Civil Service System in Perspective: Implications for Leadership Roles," From the book: "Public Administration in Ethiopia: Case Studies and Lessons for Sustainable Development," Bacha Kebede Debela, et. al., Leuven University Press, 2020.

63 Ibid.

64 Elsa Araya, "Moving Further on Civil Service Reforms in Ethiopia: Findings and Implications from a Civil Service Survey and Qualitative Analysis," The World Bank Group, May 2019, p. 9.

65 Ibid.

66 "BTI 2020 Country Report – Ethiopia," Bertelsmann Stiftung, 2020.

67 lsa Araya, "Moving Further on Civil Service Reforms in Ethiopia: Findings and Implications from a Civil Service Survey and Qualitative Analysis," the World Bank Group, 2019.

68 Ibid.

69 Ibid.

70 Information confirmed by a survey that the authors conducted. Adare Assefa Mitiku and Annie Hondeghem, "The Ethiopian Civil Service System in Perspective: Implications for Leadership Roles," From the book: "Public Administration in Ethiopia: Case Studies and Lessons for Sustainable Development," Bacha Kebede Debela, et. al., Leuven University Press, 2020.

71 Elsa Araya, "Moving Further on Civil Service Reforms in Ethiopia: Findings and Implications from a Civil Service Survey and Qualitative Analysis," the World Bank Group, 2019.

72 Ibid.

73 Ibid.

74 Adare Assefa Mitiku and Annie Hondeghem, "The Ethiopian Civil Service System in Perspective: Implications for Leadership Roles," From the book: "Public Administration in Ethiopia: Case Studies and Lessons for Sustainable Development," Bacha Kebede Debela, et. al., Leuven University Press, 2020.

75 Elsa Araya, "Moving Further on Civil Service Reforms in Ethiopia: Findings and Implications from a Civil Service Survey and Qualitative Analysis," the World Bank Group, 2019; Ermias Tasew Eyasu and Mulualem Tarekegn Ferede, "Challenges of Change Army Implementation: the case of Benishangul Gumuz Regional State," International Journal of Research in Social Sciences, Vol. 9, Issue 6, June 2019.

76 Gebre Miruts and Nigussie Daba, "Change Army: The New Face of Modernizing Civil Service in Ethiopia: The Case of Addis Ababa," July 2015.

77 Elsa Araya, "Moving Further on Civil Service Reforms in Ethiopia: Findings and Implications from a Civil Service Survey and Qualitative Analysis," the World Bank Group, 2019.

Credit (iStock.com)

Credit (Shutterstock.com)

CONCLUSIONS

Ethiopia is an important country in Africa, a country with a long, rich and proud history, with the second largest population in the continent and situated in the politically strategic Horn of Africa.

For 27 years, the EPRDF/TPLF, with the support of international donors (including the US, UK, EU, and the World Bank), was able to govern in a strongly authoritarian tradition, based on a narrow ethnic group and with a largely state-led and controlled economy while achieving high rates of economic growth ('Ethiopian miracle'). This was possible through large debt-financed public investments in infrastructure. Importantly, the country attracted some notable foreign investments, particularly from global brands in manufacturing and from China.

However, the political and economic limits of the EPRDF/TPLF 'developmental state' model (with weak state capacity) were reached in 2018, and a new leadership took control of the ruling party. The administration of Prime Minister Abiy faces strong challenges politically (with ethnic polarisation in the country and the armed conflict in Tigray), economically (the economic crisis brought on by debt-financed public investments that were not accompanied by an open economy and by weak productivity) and socially (the social impact of COVID-19 and internal conflicts).

History suggests that the traditional response for the Government would be to try to resolve these political conflicts by military means, and to look for the continuation of the 'winner-takes-all' and authoritarian political model, searching yet again for the support of international donors. If successful, the Government would then pursue a cautious and gradual opening of the economy.

Our analysis suggests that this traditional path also includes substantial risks. We believe that a negotiated reconciliation process that looks to break with the authoritarian 'winner-takes-all' tradition is worth considering. A more democratic political settlement, which may also involve the regions and the centre working together for common interests and objectives and more autonomy in the control of financial resources by the regions, will reduce the imperative of politically controlling the civil service, and will open the doors for the creation of a 'merit-based' civil service that focusses on the needs of the citizen ('citizen-centred') and a truly competent and independent judiciary.

The ability to govern competently is key to the ambitions of Ethiopia to achieve prosperity. High-quality leaders should not only be responsible for delivering on key priorities but should also ensure that in their day-to-day interactions they embed and foster a new civil service ethos, one that demonstrates a commitment to service and empathy and zero-tolerance for corruption, embraces transparency and brings public services closer to all Ethiopians, for example, through digitalisation. These changes can be reinforced by encouraging citizens to demand high standards from the Government, supported by initiatives such as Citizen Charters and user feedback.

The challenge of securing impetus on reform should not be underestimated. For nearly all dimensions of reform, including those that would benefit most of the population, there are powerful interest groups. For example – as in other countries – market liberalisation is opposed by incumbent enterprises that run the existing systems; liberalisation of foreign investment is resisted by dominant domestic firms; changes to public administration are viewed with suspicion by Government workers; and governance reform is opposed by those in positions of power.

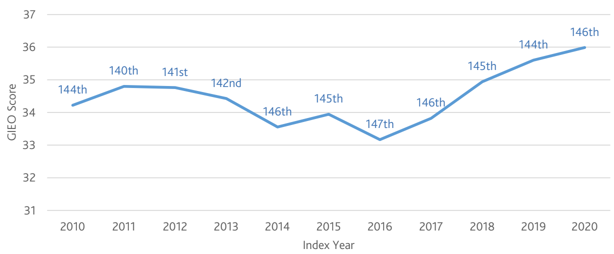
Nevertheless, a purposeful reconciliation process would support a road to prosperity which includes providing an enabling environment for the private sector (domestic and foreign) while using state resources to provide tools to improve the productivity of the most vulnerable (small farmers and the so-called 'informal' or independent sector); opening Ethiopia to the best technologies (including digital innovations for small farmers to provide extension services, support for climate resilience agriculture, mobile payments, banking, micro-lending, index-based micro-insurance, climate information, 'uberisation' of tractors, etc.), ideas and people in the world (including the resources from the diaspora).

APPENDIX

Credit (Shutterstock.com)

Ethiopia: GIEO Score 36.0 (146th)

Economic Openness over time



Pillar Performance

Pillar	Rank - Global (1 to 167) 2020	Score 2010	Score 10-year trend	Score 2020
Market Access and Infrastructure	155	24.3		29.0
Investment Environment	151	35.4		35.5
Enterprise Conditions	140	41.2		42.1
Governance	125	36.0		37.4

Breakdown of performance

	2010	Score 10-year trend	2020	Rank - Global (1 to 167) 2020	10-year rank change
Economic Openness	34.2		36.0	146	▼ 2
Market Access and Infrastructure	24.3		29.0	155	▲ 2
Communications	20.4		35.6	151	▼ 11
Resources	15.7		17.0	153	▼ 2
Transport	30.1		32.8	127	▲ 3
Border Administration	33.4		41.0	109	▲ 22
Open Market Scale	10.4		14.6	129	▲ 11
Import Tariff Barriers	33.9		32.5	159	▼ 8
Market Distortions	30.9		27.1	158	▼ 3
Investment Environment	35.4		35.5	151	▼ 9
Property Rights	39.3		34.7	156	▼ 23
Investor Protection	34.2		30.5	143	▼ 12
Contract Enforcement	39.2		47.1	89	▲ 25
Financing Ecosystem	32.0		40.0	143	▲ 11
Restrictions on International Investment	25.2		15.8	163	▲ 1
Enterprise Conditions	41.2		42.1	140	▼ 10
Domestic Market Contestability	30.7		32.9	139	▲ 2
Environment for Business Creation	33.4		49.8	144	▲ 10
Burden of Regulation	53.0		46.6	124	▼ 72
Labour Market Flexibility	49.7		33.3	153	▼ 82
Price Distortions	54.6		47.5	102	▼ 45
Governance	36.0		37.4	125	▲ 5
Executive Constraints	27.6		30.1	133	▲ 9
Political Accountability	35.8		39.0	131	▲ 7
Rule of Law	41.1		45.4	79	▲ 18
Government Integrity	41.6		38.2	105	▼ 9
Government Effectiveness	38.2		40.0	109	▲ 9
Regulatory Quality	28.9		30.8	133	▲ 4

Ethiopia: Market Access and Infrastructure (155th): Element and indicator scores

Italics: Indicator contains imputed values

Communications (151st)	Source	Unit	Weight	Value 2010	10-yr trend	Value 2020	Global Rank 2010	Global Rank 2020
			25%	20.4		35.6	140	151
International internet bandwidth	ITU	kilobits per second per capita	1.0	25.5		32.2	150	160
2G, 3G and 4G network coverage	GSMA	index, 0-100	2.0	35.8		60.0	133	146
Fixed broadband subscriptions	ITU	number /100 population	1.0	0.0		0.1	160	156
Internet usage	ITU	percentage	1.0	0.5		18.6	164	139

Resources (153rd)	Source	Unit	Weight	Value 2010	10-yr trend	Value 2020	Global Rank 2010	Global Rank 2020
			20%	15.7		17.0	151	153
Installed electric capacity	UNESD	kilowatts per capita	1.5	0.0		0.0	148	143
Ease of establishing an electricity connection	WB-DB	index, 0-100	1.0	57.3		60.1	106	118
Reliability of electricity supply	WB-DB	index, 0-7	1.0	0.0		0.0	142	149
Gross fixed water assets	IBNET	USD per population served	1.0	0.0		0.0	138	138
Water production	IBNET	litres per capita per day	0.5	35.2		35.2	158	158
Reliability of water supply	WEF	expert survey, 1-7	1.0	3.6		3.8	120	120

Transport (127th)	Source	Unit	Weight	Value 2010	10-yr trend	Value 2020	Global Rank 2010	Global Rank 2020
			25%	30.1		32.8	130	127
Logistics performance	WB-LPI	index, 1-5	1.5	2.4		2.3	121	143
Airport connectivity	WEF	index, 0-100	2.0	11,234.9		42,696.8	106	90
Efficiency of seaport services	WEF	expert survey, 1-7	2.0	2.8		2.8	140	139
Liner shipping connectivity	*UNCTAD*	*index, rebased to 100 in 2004*	*0.5*	*24.5*		*24.5*	*59*	*82*
Quality of roads	WEF	expert survey, 1-7	1.0	3.3		3.0	93	128
Road density	FAO	km per 100 sq km of land area	0.5	4.0		4.0	152	152
Rail density	UIC	km per sq km of land area	0.5	0.0		0.0	162	164

Border Administration (109th)	Source	Unit	Weight	Value 2010	10-yr trend	Value 2020	Global Rank 2010	Global Rank 2020
			5%	33.4		41.0	131	109
Efficiency of customs clearance process	WB-LPI	survey, 1-5	1.5	2.1		2.6	123	79
Time to comply with border regulations and procedures	WB-DB	hours	1.0	116.5		98.3	138	136
Cost to comply with border regulations and procedures	WB-DB	USD (current)	0.5	304.1		304.1	101	104

Open Market Scale (129th)	Source	Unit	Unit	Value 2010	10-yr trend	Value 2020	Global Rank 2010	Global Rank 2020
			5%	10.4		14.6	140	129
Domestic and international market access for goods	WTO	percentage of global GDP	1.5	1.0		1.1	121	130
Domestic and international market access for services	WTO	percentage of global GDP	2.0	0.1		0.2	127	122
Trade-weighted average tariff faced in destination markets	WEF	percentage	0.5	3.5		2.4	31	11
Margin of preference in destination markets	WEF	index, 1-100	0.5	22.7		25.6	128	127

Import Tariff Barriers (159th)	Source	Unit	Weight	Value 2010	10-yr trend	Value 2020	Global Rank 2010	Global Rank 2020
			5%	33.9		32.5	151	159
Share of imports free from tariff duties	WEF	percentage	1.5	13.4		12.0	148	154
Average applied tariff rate	WEF	percentage	2.0	12.7		13.0	150	151
Complexity of tariffs	WEF	index, 1-7	0.3	6.5		6.5	44	42

Market Distortions (158th)	Source	Unit	Unit	Value 2010	10-yr trend	Value 2020	Global Rank 2010	Global Rank 2020
			15%	30.9		27.1	155	158
Extent of liberalisation of foreign trade	BTI	expert survey, 1-10	1.0	4.0		4.0	150	145
Prevalence of non-tariff barriers	WEF	expert survey, 1-7	1.0	3.9		3.6	135	155
Non-tariff measures	UNCTAD	number	0.3	498.0		498.0	79	79

Italics: Indicator contains imputed values

Property Rights (156th)	Source	Unit	Weight	Value 2010	Value 10-yr trend	Value 2020	Global Rank 2010	Global Rank 2020
Property Rights (156th)			30%	39.3		34.7	133	156
Protection of property rights	WEF	expert survey, 1-7	1.0	4.3		3.3	84	154
Lawful process for expropriation	WJP	expert survey, 0-1	1.0	0.49		0.43	103	131
Intellectual property protection	WEF	expert survey, 1-7	2.0	3.3		3.1	102	152
Quality of land administration	WB-DB	index, 0-30	1.0	4.0		5.5	156	148
Procedures to register property	WB-DB	index, 0-100	1.0	49.6		50.9	132	133
Regulation of property possession and exchange	BTI	expert survey, 1-10	1.0	4.0		3.0	130	142

Investor Protection (143rd)	Source	Unit	Weight	Value 2010	Value 10-yr trend	Value 2020	Global Rank 2010	Global Rank 2020
Investor Protection (143rd)			20%	34.2		30.5	131	143
Strength of insolvency framework	WB-DB	index, 0-16	1.0	5.0		5.0	122	135
Insolvency recovery rate	WB-DB	percentage	1.5	32.2		27.3	75	109
Auditing and reporting standards	WEF	expert survey, 1-7	2.0	3.8		3.5	119	136
Extent of shareholder governance	WB-DB	index, 0-10	1.0	4.0		4.0	110	117
Conflict of interest regulation	WB-DB	index, 0-10	0.5	1.7		1.7	161	162

Contract Enforcement (89th)	Source	Unit	Weight	Value 2,010.0	Value 10-yr trend	Value 2,020.0	Global Rank 2010	Global Rank 2020
Contract Enforcement (89th)			20%	39.2		47.1	114	89
Quality of judicial administration	WB-DB	index, 0-18	1.5	5.5		7.0	122	109
Time to resolve commercial cases	WB-DB	days	1.0	206.7		176.7	103	75
Legal costs	WB-DB	percentage	0.5	5.1		5.1	17	13
Alternative dispute resolution mechanisms	WJP	expert survey, 0-1	1.0	0.53		0.59	144	122

Financing Ecosystem (143rd)	Source	Unit	Weight	Value 2,010.0	Value 10-yr trend	Value 2,020.0	Global Rank 2010	Global Rank 2020
Financing Ecosystem (143rd)			20%	32.0		40.0	154	143
Access to finance	WB-ES	percentage	1.0	44.2		20.3	138	84
Financing of SMEs	WEF	expert survey, 1-7	1.0	3.7		3.3	94	136
Venture capital availability	WEF	expert survey, 1-7	1.0	2.2		3.2	138	50
Quality of banking system and capital markets	BTI	expert survey, 1-10	1.0	4.0		4.0	140	143
Commercial bank branches	IMF-FAS	branches /100,000 adult population	1.0	1.2		2.9	160	148
Soundness of banks	WEF	expert survey, 1-7	1.0	4.2		3.7	137	145
Depth of credit information	WB-DB	index, 0-8	0.5	0.0		0.0	112	141

Restrictions on International Investment (163rd)	Source	Unit	Unit	Value 2,010.0	Value 10-yr trend	Value 2,020.0	Global Rank 2010	Global Rank 2020
Restrictions on International Investment (163rd)			10%	25.2		15.8	164	163
Business impact of rules on FDI	WEF	expert survey, 1-7	2.0	4.6		3.6	121	150
Capital controls	FI	percentage	1.0	15.4		0.0	109	154
Freedom to own foreign currency bank accounts	FI	index, 0-10	1.0	0.0		0.0	137	141
Restrictions on financial transactions	Chinn-Ito	index, 0-1	1.0	0.2		0.2	109	106
Prevalence of foreign ownership of companies	WEF	expert survey, 1-7	1.0	3.7		3.7	153	143
Freedom of foreigners to visit	FI	index, 0-10	1.0	0.2		0.2	138	160

Ethiopia: Enterprise Conditions (140th): Element and indicator scores

Italics: Indicator contains imputed values

Domestic Market Contestability (139th)	Source	Unit	Weight	Value 2010	Value 10-yr trend	Value 2020	Global Rank 2010	Global Rank 2020
			30%	30.7		32.9	141	139
Market-based competition	BTI	expert survey, 1-10	1.0	4.0		4.0	120	111
Anti-monopoly policy	BTI	expert survey, 1-10	1.0	3.0		4.0	141	121
Extent of market dominance	WEF	expert survey, 1-7	1.0	3.3		3.1	119	142

Environment for Business Creation (144th)	Source	Unit	Weight	Value 2010	Value 10-yr trend	Value 2020	Global Rank 2010	Global Rank 2020
			25%	33.4		49.8	154	144
Private companies are protected and permitted	BTI	expert survey, 1-10	1.0	5.0		4.0	124	139
Ease of starting a business	WB-DB	index, 0-100	1.0	30.4		71.7	161	147
State of cluster development	WEF	expert survey, 1-7	1.0	3.0		3.3	117	130
Labour skill a business constraint	WB-ES	percentage	0.5	23.0		3.4	95	6
Availability of skilled workers	WEF	expert survey, 1-7	0.5	3.7		3.6	128	140

Burden of Regulation (124th)	Source	Unit	Weight	Value 2,010.0	Value 10-yr trend	Value 2,020.0	Global Rank 2010	Global Rank 2020
			25%	53.0		46.6	52	124
Burden of government regulation	WEF	expert survey, 1-7	1.0	3.8		3.8	32	42
Time spent complying with regulations	WB-ES	percentage	1.0	3.8		11.9	31	125
Number of tax payments	WB-DB	number per year	1.0	29.0		29.0	76	104
Time spent filing taxes	WB-DB	hours per year	1.0	198.0		300.0	55	129
Burden of obtaining a building permit	WB-DB	index, 0-100	1.0	64.5		55.1	67	135
Building quality control index	WB-DB	index, 0-15	0.5	7.0		11.0	134	75

Labour Market Flexibility (153rd)	Source	Unit	Weight	Value 2,010.0	Value 10-yr trend	Value 2,020.0	Global Rank 2010	Global Rank 2020
			10%	49.7		33.3	71	153
Cooperation in labour-employer relations	WEF	expert survey, 1-7	1.0	3.9		3.4	143	163
Flexibility of hiring practices	WEF	expert survey, 1-7	0.5	3.7		3.5	86	129
Redundancy costs	WEF	weeks	0.5	40.0		19.2	106	100
Flexibility of employment contracts	WB-DB	index, 0-1	1.0	0.7		0.7	9	9
Flexibility of wage determination	WEF	expert survey, 1-7	1.0	5.1		3.2	84	162

Price Distortions (102nd)	Source	Unit	Unit	Value 2,010.0	Value 10-yr trend	Value 2,020.0	Global Rank 2010	Global Rank 2020
			10%	54.6		47.5	57	102
Distortive effect of taxes and subsidies	WEF	expert survey, 1-7	1.0	3.91		3.42	52	111
Energy subsidies	IMF	percentage of GDP	1.0	3.6		3.2	82	84

Ethiopia: Governance (125th): Element and indicator scores

Italics: Indicator contains imputed values

Executive Constraints (133rd)	Source	Unit	Weight	Value 2010	Value 10-yr trend	Value 2020	Global Rank 2010	Global Rank 2020
			15%	27.6		30.1	142	133
Executive powers are effectively limited by the judiciary and legislature	WJP	expert survey, 0-3	2.0	1.12		1.23	131	117
Government powers are subject to independent and non-governmental checks	WJP	expert survey, 0-3	1.0	1.09		1.11	140	131
Transition of power is subject to the law	WJP	expert survey, 0-1	1.0	0.26		0.32	162	150
Military involvement in rule of law and politics	FI	index, 0-10	0.5	1.7		1.7	150	155
Government officials are sanctioned for misconduct	WJP	expert survey, 0-1	1.0	0.44		0.42	88	85

Political Accountability (131st)	Source	Unit	Weight	Value 2010	Value 10-yr trend	Value 2020	Global Rank 2010	Global Rank 2020
			15%	35.8		39.0	138	131
Consensus on democracy and a market economy as a goal	BTI	expert survey, 1-10	1.0	4.0		4.0	138	129
Political participation and rights	FH	coding, 1-7	0.5	5.0		6.0	105	124
Democracy level	CSP	expert survey, -10-10	1.0	-3.0		1.0	130	121
Complaint mechanisms	WJP	expert survey, 0-1	1.0	0.40		0.40	136	144

Rule of Law (79th)	Source	Unit	Weight	Value 2,010.0	Value 10-yr trend	Value 2,020.0	Global Rank 2010	Global Rank 2020
			15%	41.1		45.4	97	79
Judicial independence	WEF	expert survey, 1-7	1.0	3.2		3.7	107	79
Civil justice	WJP	expert survey, 0-6	3.0	1.98		2.33	154	132
Integrity of the legal system	FI	index, 0-10	2.0	7.5		7.5	43	37
Efficiency of dispute settlement	WEF	expert survey, 1-7	0.5	3.7		3.5	59	88

Government Integrity (105th)	Source	Unit	Weight	Value 2,010.0	Value 10-yr trend	Value 2,020.0	Global Rank 2010	Global Rank 2020
			20%	41.6		38.2	96	105
Use of public office for private gain	WJP	expert survey, 0-4	2.0	1.31		1.32	95	89
Diversion of public funds	WEF	expert survey, 1-7	0.5	3.4		3.9	74	54
Right to information	WJP	expert survey, 0-1	0.5	0.45		0.37	102	124
Publicised laws and government data	WJP	expert survey, 0-1	1.0	0.4		0.2	91	127
Transparency of government policy	WEF	expert survey, 1-7	0.5	3.8		3.8	99	87
Budget transparency	*IBP*	*index, 0-100*	*0.5*	*34.8*		*34.8*	*105*	*116*

Government Effectiveness (109th)	Source	Unit	Unit	Value 2,010.0	Value 10-yr trend	Value 2,020.0	Global Rank 2010	Global Rank 2020
			20%	38.2		40.0	118	109
Government quality and credibility	WGI	index, -2.5 - +2.5	2.0	-0.4		-0.6	92	113
Prioritisation	BTI	expert survey, 1-10	1.0	5.0		5.0	86	85
Efficiency of government spending	WEF	expert survey, 1-7	0.5	3.7		3.6	48	49
Efficient use of assets	BTI	expert survey, 1-10	1.0	4.0		4.0	100	99
Implementation	BTI	expert survey, 1-10	1.0	4.0		5.0	115	82
Policy learning	BTI	expert survey, 1-10	1.0	4.0		5.0	117	81
Policy coordination	BTI	expert survey, 1-10	1.0	4.0		4.0	129	119

Regulatory Quality (133rd)	Source	Unit	Weight	Value 2,010.0	Value 10-yr trend	Value 2,020.0	Global Rank 2010	Global Rank 2020
			15%	28.9		30.8	137	133
Regulatory quality	WGI	index, -2.5 - +2.5	1.0	-0.9		-1.0	132	140
Enforcement of regulations	WJP	expert survey, 0-1	1.0	0.36		0.35	142	148
Efficiency of legal framework in challenging regulations	WEF	expert survey, 1-7	1.0	3.1		3.4	93	62
Delay in administrative proceedings	WJP	expert survey, 0-1	1.0	0.34		0.38	139	126

Credit (Shutterstock.com)

List of data sources and acronyms

Code	Organisation
BTI	Bertelsmann Stiftung Transformation Index
CII	Chinn-Ito Index
CSP	Center for Systemic Peace
FAO	Food and Agriculture Organisation
FH	Freedom House
FI	Fraser Institute
GSMA	Groupe Spéciale Mobile Association
IBNWS	International Benchmarking Network for Water and Sanitation Utilities
IBP	International Budget Partnership
IMF	International Monetary Fund
ITU	International Telecommunications Union
UNCTAD	United Nations Trade Data
UNESD	United Nations Energy Statistics Database
WBDB	World Bank Doing Business Index
WBDI	World Bank Development Indicators
WBES	World Bank Enterprise Surveys
WBLPI	World Bank Logistics Performance Index
WEF	World Economic Forum
WGI	Worldwide Governance Indicators
WJP	World Justice Project
WTO	World Trade Organisation

You can find the Global Index of Economic Openness report and methodology at https://li.com/research/open-economies/global-index-of-economic-openness/downloads/

LEGATUM INSTITUTE

LEGATUM INSTITUTE
11 Charles Street
London W1J 5DW
United Kingdom

t: +44 (0) 20 7148 5400

Twitter: @LegatumInst

www.li.com
www.prosperity.com

9 781911 125716

September 2021