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Rethinking business and politics in Ethiopia

The role of EFFORT, the Endowment Fund for the Rehabilitation of Tigray

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Rethinking business and politics in Ethiopia:

The role of EFFORT, the Endowment Fund for the Rehabilitation of Tigray

Sarah Vaughan and Mesfin Gebremichael*

This report forms part of a study of the role of private enterprise in Ethiopia's economic development, focusing specifically on the so-called endowment-owned companies under EFFORT, the Endowment Fund for the Rehabilitation of Tigray. EFFORT was established in the mid-1990s with resources accumulated and donated by the Tigray People's Liberation Front, and its corporate policy is still led by senior members of the TPLF. It now owns 16 companies operating in the industrial, mining, construction, agro-processing, trade and service sectors. Research under the Africa Power and Politics Programme has re-examined the relationships between business and politics that are most likely to foster growth. This research emphasises the importance of stable, effective and long-horizon policy and regulatory environments, and the centralisation and selective promotion of growth-enhancing rents, in achieving what APPP has termed successful 'developmental patrimonialism'. The paper considers the case of Ethiopia and the EFFORT companies in this light.

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Note on the research

This paper draws on 35 formal interviews and a further dozen informal conversations with senior Ethiopian government officials and policy makers, politicians, business people, journalists and economists; and a range of press articles, internet-based sources, reports and studies of the Ethiopian private sector, most of which are listed in the bibliography. Sarah Vaughan and Mesfin Gebremichael conducted interviews in the UK, Addis Ababa and Mekelle over a period of roughly 15 days in December 2010. Taylor Brown conducted a further series of telephone conversations with representatives of the international community, and Taylor and Aoife MacCullough supported elements of the research and analysis. We are grateful to Taylor, Aoife and Terry Green, all of *theidlgroup*, to Tim Kelsall, and to Abadi Zemo and Getaneh Kassa of EFFORT for useful comments on earlier drafts. The paper was written by Sarah Vaughan in close communication with Mesfin Gebremichael. The analysis remains the responsibility of the authors, who retain copyright.

Glossary/acronyms

AACCSA	Addis Ababa Chamber of Commerce & Sectoral Associations
AAU	Addis Ababa University
ADA	Amhara Development Association
AGOA	African Growth and Opportunity Act
AISE	Agricultural Inputs Supply Enterprise
APPP	Africa Power and Politics Programme
BRIC	Brazil, Russia, India, China
CBE	Commercial Bank of Ethiopia
CBU	commercial business unit
CPA	Sudanese central peace agreement
DBE	Development Bank of Ethiopia
Dergue	'committee', a term used for the 1975-1991 regime
DESCI	*Dedebit* Savings and Credit Institution
EC	Ethiopian Calendar (7/8 years behind the Gregorian)
ECCSA	Ethiopian Chamber of Commerce & Sectoral Associations
ECX	Ethiopian Commodity Exchange
EFFORT	Endowment Fund for the Rehabilitation of Tigray
EIIPD	Ethiopian International Institute for Peace and Development
ENA	Ethiopian News Agency
Endeavour ('*Tiret*')	Endowment Fund for the Rehabilitation of Amhara
ETB	Ethiopian Birr (US$1=16.6ETB; UK£1=26.9ETB, February 2011)
FDI	foreign direct investment
FDRE	Federal Democratic Republic of Ethiopia
FY	financial year
IBRD	International Bank for Reconstruction and Development
ICT	Information and Communication Technology
IMF	International Monetary Fund
ION	Indian Ocean Newsletter
MIDROC	Mohammed International Development Research & Organisation Companies
MIE	Mesfin Industrial Engineering
NGO	non-governmental organisation
NPLs	non-performing loans
ODI	Overseas Development Institute
ORDA	Organisation for the Relief and Development of Amhara
REST	Relief Society of Tigray

SME	small and medium enterprise
SNNPRS	Southern Nations Nationalities and Peoples' Regional State
SOE	State-owned enterprise
TESCO	TransEthiopia Share Company
TDA	Tigray Development Association
'*Tiret*'	(lit. 'endeavour' in Amharic) used for the Amhara Endowment Fund
TGE	Transitional Government of Ethiopia (1991-1995)
TPLF	Tigray People's Liberation Front
'*Tumsa*'	Endowment Fund for the Development of Oromia
TVFA	Tigray Veteran Fighters' Association
'*Wendo*'	Endowment Fund for the Development of SNNPRS
WIC	Walta Information Centre

Contents

1 Introduction

This research report presents part of what we hope will be a wider study of economic development and private enterprise in Ethiopia. It explores the role of the so-called 'endowment-owned companies' in order to learn lessons about the nature and potential of the relationship between business and politics in Ethiopia. These endowments were originally established with resources donated on behalf of the various fronts of the incoming Ethiopian ruling party, and a number of senior EPRDF politicians are still closely involved in their corporate policy-making.

Since the 1990s, Ethiopia has seen the emergence of four such endowment conglomerates, each in one of its federated states and associated with one of the ruling Fronts: the Endowment Fund for the Rehabilitation of Tigray (EFFORT) in Tigray Region; *Tiret* or Endeavour in Amhara; *Tumsa* in Oromia; and *Wendo* in the Southern Nations, Nationalities and Peoples' Regional State (SNNPRS). As seems often the case when business conglomerates across the world are known to have connections with powerful politicians, the activities, role and impact of these four groups of businesses have been the subject of much speculation and gossip. Even where there are strongly established local or international consensuses about the Ethiopian endowment-owned companies, these often turn out to be based on relatively limited empirical evidence, and to be driven by neoliberal economic assumptions.

This paper focuses on EFFORT, and attempts to document, review and extend the main elements of what is known about its operations and impact. The study is a contribution to the Africa Power and Politics Programme (APPP), of which one research stream re-examines and re-assesses the relationship between business and politics in Africa. We therefore situate our analysis in relation to APPP's emerging concept of 'developmental (neo)patrimonialism' (see Kelsall and Booth *et al.*, 2010; Booth and Golooba-Mutebi, 2011; Kelsall, 2011).

The remainder of this introductory section summarises this conceptual framework for rethinking the relationship between business and politics in Africa; it introduces our major conclusions in relation to Ethiopia; and offers some caveats on limitations and terminology. The following section elaborates the historical, socio-economic and ideological context for business and economic development in Ethiopia, and the conceptual framework provided by the 'developmental state'. We then examine the endowment-owned companies, and EFFORT in particular. A discussion of the rationale, processes, capital, objectives and organisational structures on which EFFORT was established introduces a detailed account of the market position, activities, linkages and objectives of each of the companies in its portfolio. The section concludes with an account of the chronological trajectory of EFFORT's evolution, and a discussion of emerging themes related to synergies, competition, management and development. For the sake of completeness, but without going into analytical detail, the report includes some very brief comments situating the three other regional endowment-owned business conglomerates, and other EPRDF-associated companies at national level, before concluding.

1.1 Rethinking business and politics in Africa: 'developmental patrimonialism'

Strong and sustained economic growth is a foundation for poverty reduction in Africa. In recent years, therefore, a great deal of analysis has been devoted to understanding the preconditions and policies supportive of economic growth, particularly on means to improve the investment climate. Nevertheless, the policy advice to African governments has remained unchanged: growth and investment should result from policies promoting sound economic management, transparency, clear and secure property rights, judicial independence and the rule of law, democratic elections, a light-touch investment facilitation, formally constituted business associations – and, crucially, the maintenance of distance between businesses and politicians.

Recent work by the APPP develops arguments for a rethink of this universalised approach and the policies and programmes it entails (Kelsall, 2009, 2010a, 2010b). It argues that if growth is to be stimulated and sustained, greater attention needs to be paid to the diverse economic, sociological and political circumstances of African countries. In forging this critique the APPP has drawn on research that reviews the experience of Asia's rapid economic growth, noting the roles of the state, of clientelism and of informal institutions in kick-starting and maintaining growth in countries such as Indonesia and Malaysia (Kelsall, 2010b).

Another vein of analysis has been to explore episodes (past or current) during which African countries have shown relatively sustained growth, and to disentangle the factors that have contributed to this. By looking at a range of African countries and their economic performance, Kelsall and Booth have developed a framework for exploring regime types and growth in Africa (Kelsall and Booth *et al.,* 2010; Kelsall, 2010a). The framework focuses on how patron-client networks and economic rents function, stressing that 'the degree to which patrimonialism and clientelism are economically damaging is at least in part a function of the way they are politically organized' (Kelsall, 2009: 2).[1] The framework categorises existing regimes along two different dimensions: (i) the degree of centralisation in the control and allocation of rents and (ii) the length of time-horizon for economic policy-making (see Figure 1). The degree of centralisation of rents captures the extent to which those individuals or groups at the apex of the state can determine and distribute 'rents.'[2] The time horizon captures the security of tenure and the far sightedness of leaders: the extent to which they are able and willing to maximise and utilise rent collection over the longer term (Kelsall and Booth *et al.,* 2010: 8).

Using this typology, four broad regime types have been identified:

- A free-for-all in which rent 'centralisation is low and leadership has little interest in disciplining the rent process for the long term'. In this situation, economic growth is likely to be well below potential and extreme short-termism predominates (upper left).
- A non-developmental kleptocracy in which the leadership has succeeded in centralising the rent process, but takes a short-term view often because they are insecure in their position (upper right).
- A situation in which the leadership may want to take a long-term view but because the state lacks the machinery to centralise rents, they are unable to (lower left).
- Lastly, a situation in which rents are centralised and leaders take a long-term approach to rent maximisation. The state may retain patrimonial characteristics, but is more likely to be broadly developmental (lower right).

[1] The approach is notably influenced by the extensive work of Mushtaq Khan (see bibliography), and by Chris Allen's seminal typology of African politics (1996).

[2] The use of the terms 'rent' and 'rent-seeking' is further discussed below.

Figure 1: Definition of long-horizon, centralised rent utilisation

		Centralisation	
		Low	*High*
Time horizon	*Short*	Free-for-all	Non-developmental kleptocracy
	Long	Losing battle against corruption	Developmental rent utilisation

The analysis hypothesises that the last of these regime types (developmental rent utilisation, or developmental patrimonialism) provides the most likely conditions for strong and sustained growth in an African context. Regimes with centralised authority and longer time-horizons may be neo-patrimonial and clientelist in character and corruption may be endemic and at a high level. However, these regimes, it is argued, are more likely to foster conditions for longer-term investment and the use of rents for growth-generating activities. Clientelism has its costs, but in these circumstances, it may also generate public goods that work to facilitate economic growth, not the least among which is political stability.[3] A range of historical and current regimes in African partially fit this regime type including: Côte d'Ivoire (1960-75), Malawi (1964-78), Ghana (1981-92) and contemporary Rwanda (Kelsall, 2011).

Interestingly, all of these regimes had single or dominant party systems,[4] and this seems to be emerging as something of a *sine qua non.* Nevertheless, it is equally clear that not all such political systems have been growth-promoters. Kelsall concludes:

> '[although] centralized patronage may be a necessary condition for sound economic performance a[n additional] conclusion is that such performance is impossible with vigorous, as opposed to deliberately constrained, multi-party competition. During democratic periods economic rationality appears to get overwhelmed by short-run political considerations. A [second] conclusion is that while it might be necessary, centralized political patronage is not a sufficient condition for economic development.' (Kelsall, 2010a: 29)

Other factors are also important, and this paper stresses in particular that strong bureaucratic integrity, and regulatory *and political* institutions, are also required to render high growth rates sustainable in these contexts.

An important component of many developmental patrimonial regimes in Asia as well as Africa is the close relationship between the ruling party leadership and the business sector. In a range of East and South East Asian countries (e.g. Malaysia, China, Vietnam), ruling parties and their allies have played a central role in business. In these countries, these enterprises have served not only as sources of growth, but also of political party finance. Rwanda

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3 Cf. Mushtaq Khan's argument that exclusive focus on the costs of rent-seeking has often obscured its growth-enhancing outcomes (Khan, 2000a; 2000b).

4 Or, as in the case of Rawlings' Ghana, a military regime.

provides a contemporary African example of this dynamic. In Rwanda, APPP research suggests that the ruling party holding company fulfils a number of functions in the political economic system (Booth and Golooba-Mutebi, 2011). It steers resources to promising but undeveloped economic sectors and it provides a source of funding for ruling party election campaigns. The RPF's holding company thus appears to work as a coordinating mechanism that both encourages growth and helps ensure political continuity and stability. Because it also contributes to election funds, it permits the leadership to take a tough line on corruption, prohibiting opportunism and freelancing. It also provides funds for investment in public goods and other goods with positive externalities, which should strengthen the development process overall.

1.2 Business and politics in Ethiopia

In several ways, the larger and more complex and diverse economy of contemporary Ethiopia offers a story with similarities to that of Rwanda, but there are also some significant divergences. As with Rwanda, the characterisation of the political economy of contemporary Ethiopia is highly controversial and opinions are polarised. In this respect the authors share the research commitment articulated in parallel APPP work:

> 'All of the regimes that appear to us to exemplify the more developmental form of neo-patrimonialism pose ethically difficult questions about tradeoffs between liberal freedoms and human rights on the one hand and development outcomes and thus (other) human rights on the other. These issues merit discussion but we firmly believe that such discussions are only fruitful when they are grounded in a good understanding not just of all the relevant facts but also of systems and linkages. [In Ethiopia, as elsewhere] judgments precede understanding so often and so blatantly, we are committed to reversing the sequence and beginning with a sustained effort to explain.' (Booth and Golooba-Mutebi, 2011: 4)

In relation to the analytical model of 'developmental patrimonialism' sketched above, the key features of our tentative analysis of the Ethiopian situation can be summarised in the following points, many of which are further developed and illustrated in subsequent sections of the paper.

- The Ethiopian leadership that has been in power since 1991 has explicitly taken a long-term view of economic policy-making, growth and development, and has shown significant (albeit not uniform) commitment to disciplining the system of rent-management over the long term. Its official pronouncements envisage a managed economic transition from pre-capitalism to a 'sustainable' and 'inclusive' form of capitalism led by a 'developmental state'. The government's perspective is informed by some of the same economic thinking that has fed the APPP 'developmental patrimonialism' concept.

- Following the ruling party's comprehensive reconsolidation of its power in the wake of the strong electoral challenge it faced in 2005, its political longevity and relative stability once again seem assured, over at least several further electoral cycles. Multi-party politics is unarguably 'constrained' (cf. Kelsall, 2010b cited above), the Prime Minister himself describing it in August 2010 as a dominant party system. This fact offers a predictable basis from which the state is able to pursue an aggressive and sustained programme of economic expansion, other less stable features of the national, regional and international context notwithstanding.

- Ethiopia has shown increasingly impressive economic growth since 1991, with a particular escalation in the period since 2003, and continuing high annual growth rates throughout the period of the global downturn from 2008. The IMF records Ethiopia's real average annual growth over the last decade as 8.4% (2001-2010), which is comparable with the rates achieved by BRIC countries. The Ethiopian Government's commitment to 'grow the pot' is beyond question (cf. Booth and Golooba-Mutebi 2011).

- The EPRDF government has achieved a high degree of centralisation of rent management and allocation, retaining control of a large proportion of available sources of rents and economic levers. These include the large state-owned enterprise (SOE) sector, endowment-owned businesses, and substantial regional development organisations; as well as tight regulation of financial institutions, including for micro-credit, and expansion of the tax base. The approach is much wider and more systematic than is the case in many comparable countries. Thus for instance, whilst party-associated companies in Rwanda seem to form a central key to long-horizon rent centralisation, Ethiopia's endowment-owned businesses constitute only one strand of the government's strategy to bolster its scope for action in the economic sphere.

- EFFORT companies and the other endowment-owned businesses play a role in financing or facilitating investment in areas of weak private involvement, and by small or new businesses, including emergent youth co-operatives. There have, however, been instances of aggressive competition with other private businesses, many of which resent the endowment funds. Most other Ethiopian private businessmen and members of the international community in Ethiopia think (often erroneously) that all endowment-owned companies, in common with SOEs, enjoy uniformly privileged access to credit, land, information and contracts as a result of political connections. Whilst it is true that there have been significant problems in some parts of the country and some sectors, this widespread assumption is driven less by systematic patterns of evidence, than by anecdote and extrapolation, not least from the much less competitive situation prevailing a decade ago.

- EFFORT spokespersons, meanwhile, report that – like any other businesses – they fail in many of the tender processes in which they participate, and experience great difficulties, particularly in securing access to land and credit. On the one hand the senior politicians who lead EFFORT clearly enjoy a privileged access to and understanding of the government's vision for growth, which is likely to enhance their commercial planning. Meanwhile, EFFORT managers complain vociferously about the bureaucratic difficulties they face, some even attributing this to EFFORT's strict company policy of refusing to pay bribes. The fact that influential members of the political elite experience at first hand the difficulties of doing business in Ethiopia is not, in itself, without potential utility in the policy process.

- Previously widespread allegations about the monopolistic business strategies of the endowment-owned sector have become less easy to sustain as the economy has expanded, especially since 2003. Hitherto relatively concentrated markets (notably cement and printing) have faced pronounced under-capacity, and high scarcity prices, to the benefit of those who did invest early (notably EFFORT's Mesebo Building Materials). These attractive rents have now drawn in large numbers of prospective new manufacturers, high investment thresholds for cement production notwithstanding, de-concentrating this and other markets.

- The Ethiopian Government tends to be perceived as critical and suspicious of the political and commercial motivation of private entrepreneurs, many of whom it expects to be ‘naturally rent-seeking’ rather than productive if left to their own devices. Although the picture is mixed, in general the Ethiopian Government is less well disposed to (parts of) the private sector than, for instance, the current Rwandan regime. As a result public-private sector relations have often been fractious, and the government’s response to market problems has tended to be abruptly punitive rather than engaging, applying sticks rather than offering carrots.

- There are good reasons for government frustration with the private sector. Weak information flows, risk aversion, and a poor environment for investment protection and contract enforcement in Ethiopia combine to foster entrepreneurial conservatism. The result is personalised business relations, exceptionally low productivity, and the pursuit of opportunistic rents in often dysfunctional markets. These factors have allowed efficient and inefficient businesses to continue to coexist, leaving domestic business vulnerable to international competition as sectors are opened.

- The private sector has operated in a context of deeply qualified government support over the last two decades, and government has arguably neglected issues of market development and integration, at least until its establishment of the Ethiopian Commodity Exchange in 2007. However, there is, at least, good reason to wonder whether market function in the private sector would have improved in developmentally sustainable ways even if state facilitation had been more generous and more consistent.

- The effectiveness of overall rent centralisation in Ethiopia is perhaps compromised by a number of factors of which the most important is the relative weakness of what (following Kelsall and Booth) we have called ‘technocratic integrity’.[5] Although a detailed assessment of the situation lies beyond the scope of this paper, it is arguable that limitations on the capacity, status and autonomy of the Ethiopian civil service have contributed to undermining the quality and independence of bureaucratic regulation and management, as well as the vigour and potential of the fight against corruption.

- Whilst corruption in Ethiopia is considered less extensive than continental and developing-country norms, both the civil service institutional capacity and the political commitment to fight corruption fall short of, for instance, the Rwandan zero-tolerance approach, which regularly exposes and shames politically senior wrongdoers. In common with other business people, EFFORT leadership is highly critical of the increasing corruption level in the country, describing it as having reached serious proportions. Government attention to the problems of corruption, increasingly seen as interrelated with ‘rent seeking,’ seems to have increased since mid-2010.

- Meanwhile, the relatively inexpert and occasionally erratic implementation and enforcement of government regulation tend to undermine the predictability and stability of the business and investment climate that should otherwise be significant advantages of regime continuity. This is perhaps particularly true in relation to the administration of land (which is state-owned) and customs levies, although abrupt

[5] This terminology is discussed below.

changes of policy on price controls in the context of inflation have also caused recent controversy.

- In Tigray State, many EFFORT-owned businesses have become profitable only relatively recently. Nevertheless, they collectively constitute a very important employer and are a significant patron of public goods and humanitarian causes. Most importantly, the endowment-owned enterprises are by far the largest regional taxpayer to the Government, currently providing 60% of its regionally-generated revenues. This is a situation that both promotes stability, and mitigates political competition in the region. Its effect on regional business competition is moot.

- Although in 2010 the ruling party raised significant funds for its election campaign from sympathetic businessmen, endowment-owned businesses were reportedly not amongst the donors, and are formally prohibited from making contributions directly to the party. The payment of dividends to individuals is prohibited, and board members are reportedly not paid any formal fee for their role. This distinguishes the Ethiopian situation from the Rwandan case. Whilst the endowments initially provided employment to a wide range of former fighters of the TPLF and EPRDF, and three very senior political appointees remain responsible for the management of EFFORT at corporate level, most recruitment (at least in EFFORT) is now made on a commercial basis, and only one of its companies is managed by a former fighter.

- The endowment-owned companies are able to exploit strong synergies between the various businesses that operate under their umbrella. These represent only a fraction of the wider pattern of synergies between agencies closely influenced by government and ruling party policy-making and political leadership, which include federal and regional government bodies, SOEs, regional development entities, mass associations, co-operatives, and major media outlets.

In sum, the analysis suggests that contemporary Ethiopia shows key features consonant with the concept of 'developmental patrimonialism', which under certain circumstances has been conducive to transformational economic growth in other parts of the world.

A number of caveats need to be entered regarding sustainability and the developmental effects of growth. They relate to concerns about aspects of the weakness of market dynamics and of 'technocratic integrity' in the Ethiopian context. They are particularly relevant given the unusually broad scope of state and/or ruling party economic influence, and the pivotal role of the Prime Minister. As has been observed of the RPF in Rwanda, and despite much talk of a generation shift in the Ethiopian ruling party, EPRDF has not yet demonstrated full institutionalisation of the developmental, political and economic commitments of its founding leadership. Even in its own terms, let alone in the view of its critics, the organisation has not yet incorporated all 'significant national elites' in its transformative project (cf. Booth and Golooba-Mutebi, 2011: 22).

1.3 Caveats: constraints, gaps and terminology

A comprehensive overview or analysis of Ethiopia's economic or private sector development lie beyond the scope of the paper, which has importantly been produced not by economists but by a team of political and social scientists. Political economy and sociological studies of business and economic growth in Ethiopia are few and far between, and as the economy expands and foreign direct investment escalates, this is becoming a more and more significant research lacuna. In relation to the current project, these absences are problematic:

they leave holes in our understanding of the pattern of rent generation, allocation, utilisation and centralisation. Despite what we think are important advances in this study, our overall understanding remains schematic. As indicated above, the endowment-owned companies, including EFFORT, form only one set of actors[6] in a much wider centralised and ideologically driven strategy of managed economic development pursued by the ruling party.

This strategy is assertively led by the state, and also encompasses the activities of SOEs, public and private banks and micro-credit institutions, FDI, co-operatives, farmers' and youth associations, and regional developmental bodies. The endowment-owned businesses constitute an important series of actors designed to 'promote by example' the government and ruling party's agenda for economic transformation, 'safeguarding the system' from within the private sector, which (arguably until recently) had played a relatively limited role in the process. But there are a number of other aspects of the contemporary Ethiopian situation that would need much more qualitative study if we were to have a fuller picture of the extent of Ethiopian centralisation of rents, and of the contours of its developmental patrimonialism. Specific areas and issues requiring additional sociological and political attention would include:

- ❑ The role, operation and regulation of public enterprises including:
  - Financial institutions (banks and insurance: issues of access to and distribution of credit, regulation, reporting, transparency);
  - Infrastructure-related bodies (electricity, roads, telecoms, defence engineering and construction) some of which increasingly operate like private enterprises, even perhaps in the interests of particular constituencies;
  - Other strategically important public businesses, including for sugar production, printing, agricultural inputs, etc.; and
  - Enterprise land lease policies and their implementation.

- ❑ The creation and incorporation of new national elites, and issues of rent generation and allocation associated with, for instance:
  - Rural youth and farmer co-operatives;
  - Urban enterprise co-operatives and SMEs;
  - Elite private business conglomerates and individuals.

- ❑ Business information flows, reporting requirements and standards, with particular respect to:
  - Business invoicing, accounting and reporting requirements and standards;
  - Inland Revenue tax calculations and implementation; and
  - Customs charging and collection.

The current paper, then, explores the role of EFFORT-owned businesses in a wider economic and institutional context that remains admittedly impressionistic. We hope that additional resources will allow us to continue and expand the scope of the work we have started under the wider project on economic development and private enterprise in Ethiopia. At present, the conclusions reached here are partial and tentative.

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6 It is not clear, even, that they are a particularly homogeneous group, or that some of the conclusions reached here in relation to EFFORT should be extended to the others. It seems more than likely that the core patterns of management capacity, commercial and developmental strategy, and rent centralisation examined in relation to EFFORT differ in significant ways across the other 'sister' conglomerates.

A note on ‘rents’

Over the last few years the label ‘rent seeker’ has become the Ethiopian Government’s most common condemnatory political insult. ‘Rent seeker’ has come to denote an individual or group that is simultaneously ‘anti-democratic’ and determined to stand in the way of national plans (currently the 2010-15 Growth and Transformation Plan) designed to lift the population out of poverty and make Ethiopia a middle-income country (Ministry of Finance and Economic Development, 2010). Rent-seekers, benefiting illegally or immorally from the public resource, are contrasted with the ‘developmental capitalists’ who will promote sustainable growth. Invective has, in a number of recent instances, been followed by punishment of business people, politicians and civil servants: arrests and financial penalties or prosecution on charges associated with alleged corruption or anti-competitive practice in the telecoms sector, in the transfer of land leases, in under-invoicing and non-payment of VAT, and in the sale of food commodities at prices above caps newly-introduced in early 2011.

Given polarised opinions, and in view of our central premises that some rents can be growth-enhancing, and that their effective centralisation (as in the Ethiopian case) can often be a developmentally positive factor, it is important to clarify the less polemical and broader technical way in which we are using the terms ‘rent’ and ‘rent-seeker’ in this study. ‘‘Economic rent’ is used to describe returns to a factor of production over and above what is required to retain that factor in current use’ (Cooksey and Kelsall, 2011: 3). Rents thus constitute ‘excess incomes’, or

> ‘incomes that individuals can earn that are higher than what they can earn in their next-best opportunity, so rents exist if those in the next-best activities are prevented from acquiring access to particular resources or opportunities. This could be because of protected rights over information, monopoly rights to supply particular markets, rights over subsidies, or even rights over a valuable natural resource’ (Khan, 2004).

It has been a common assumption of the liberal market consensus that markets when they work efficiently are ‘rent free’, and something of this thinking seems to drive contemporary Ethiopian rhetoric, which treats rents and rent-seeking as aberrant and undesirable *per se*. A substantial body of work, meanwhile, has established the limited real world purchase of the perfect market, arguing that ‘rents are ubiquitous and economies have to learn to live with them’ (Khan, 2000a); and indeed that rents are essential for the proper functioning of market economies (Stiglitz, 1996; Khan, 2000a). Distinguishing between growth-enhancing and growth-reducing rents, meanwhile, is often a question of context: of distinguishing between the kinds of *institutions,* which ‘advance development in the presence of rent-seeking’ as against those which promote ‘damaging rent-seeking’ (Khan, 2000b). Thus, ‘“good” rents are often only effective under well-defined conditions and can become “bad” rents if these conditions change’ (Khan, 2000a).

Analysis of whether or not specific rents are growth-enhancing or growth-reducing will depend upon a range of contextual factors including the organisation of political power and patronage networks, and the degree of centralisation of rents. Drawing on Khan’s seminal analysis (Khan, 2000a), APPP work on Tanzania has explored the character of a range of rents, including:

- ❑ monopoly rents (generally regarded as inefficient and growth retarding);
- ❑ natural resource rents (offering counter incentives which can be efficient in precluding ‘tragedy of the commons’ scenarios);

- transfer-based rents (transfers of assets or rights through the political system that may be either positive or negative according to context);
- Schumpeterian rents (incentivising and accruing to innovation);
- learning rents (policies designed to protect or boost infant industry);
- management rents (incentivising economic efficiency where management is good, but also subject to failure) (Cooksey and Kelsall, 2011).

Ethiopian official rhetoric is focused on various forms of monopoly rent accruing from non-value-adding or illegal activities in non-competitive or fragmented markets, and where no productive investment or innovation takes place. ‘Rent-seekers’ thus defined make profits in three ways: through connections with officials; as importers/agents of a foreign company; or by hoarding consumer goods (EPRDF, 2001). None of these activities involves the generation of significant extra tax revenues, the creation of new infrastructure, or the addition of manufacturing or enterprise capacity; rather they exploit the existing relationships and scarcities in the market for enrichment – and are, in the view of the Government, to be curbed and avoided.[7]

> This [form of rent seeking] will be the line of quickest enrichment for private entrepreneurs in a situation of pre-capitalism such as Ethiopia, thus Revolutionary Democracy has explicitly to make rent seeking difficult, whilst facilitating developmental capitalism. (EPRDF, 2001) (unofficial translation of Amharic original)

This use of the term in this way neglects the many forms of transfer-based and informational rents accruing from government policy-making as well as activities of private enterprise, which play important roles in boosting as well as curbing growth, precisely in ‘developmental capitalism’. In this analysis, we treat these potentially more productive or beneficial forms of rents as falling equally under the wider alternative definition of ‘rents’ provided above.

Thus, for instance, incentives or tax breaks provided to manufacturers of import-substituting products create learning rents; the provision of credit by state-owned banks, and the lease of land to private businesses, farmers and SOEs create rents associated with the transfer of assets and rights by the state; so too does the establishment of economic rights and privileges for co-operatives, NGOs or development associations; even the payment of salaries to civil servants responsible for monitoring economic development can be considered to create management rents. ‘Rent’, then, is used here in a broad technical sense that does not necessarily carry the pejorative connotations it has accumulated in contemporary Ethiopia. Evaluating whether a specific instance of ‘rent’ or ‘rent seeking’ is developmentally good or bad requires a nuanced analysis of the political economy of its context.

A note on ‘technocratic integrity’

> ‘Market failures that affect accumulation or productivity change are costly [and] difficult to identify. There is no alternative to improving the processes of decision-making such that discretion leads to better outcomes.’ (Rodrik, 2006: 976)

In order to be feasible, long-horizon rent-centralisation requires the imposition of ‘the necessary disciplines, first within the political elite itself and then within the key elements of

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[7] It is apparently on the basis of a widespread government perception of their inherently non-productive role in the economy, that some in the aid industry including NGOs who are involved in relief or charity (rather than development promotion) have occasionally also been referred to in the Ethiopian context as ‘rent-seeking’.

the techno-bureaucracy' (Booth and Golooba-Mutebi, 2011: 2). Whilst 'igniting economic growth is not such a terribly difficult thing to achieve' (Rodrik, 2004), advocates of the developmental state model agree that sustaining it under a centralised system is much more problematic and requires a 'dynamic' and responsive state (Khan, 2004). China's 'experimental mindset' seems to have been a key to the success of its reform programme (Rodrik, 2008); and Khan sees the state's 'ex post flexibility' (2004: 183) in exiting from unsuccessful enforcement or policy initiatives as essential in the transition to capitalism:

> 'rapid growth requires a more demanding set of institutions with the regulatory capacity to distinguish between different kinds of rents and with the political capacity to create, destroy, or manage rents to generate growth and rapid transformation' (Khan, 2004: 180).

This means that success places very high demands on the bureaucracy, requiring of it both a high degree of vertical discipline, and also a high degree of 'technocratic integrity', that is 'the ability and willingness to say "no" when political leaders wish to embark on impractical or otherwise ill-advised schemes' (Booth and Golooba-Mutebi, 2011: 16). This precise combination of professional competence and independence is often in question in Ethiopia. Civil service morale and willingness to 'speak truth unto power' were both dented in the wake of post-election controversy in 2005. The broad scope and regular recycling of political appointments across all levels of government service, combined with long-standing hierarchical patterns of Abyssinian socio-political culture that do not encourage dissent,[8] to challenge the strength of Ethiopian technocratic integrity. In the words of one ruling party interlocutor, 'without key improvements in the practice of politicians and bureaucrats in this area we won't be able to get beyond the point of no return.'

[8] On highland Ethiopian political culture see Hoben (1970); Levine (1965), and Vaughan & Tronvoll (2003).

2 The Ethiopian political economy and private enterprise

2.1 The historical context: A poisoned inheritance

The private sector during the imperial period

Ethiopia's private sector began to grow during the post-World War II period, and in particular from 1960, in the context of government policies designed to attract foreign investment. With annual growth averaging 4% between 1960 and 1974 (Alemayehu Geda, 2005: 6),[9] this is a period still considered a 'golden age' by many of the influential Ethiopian private entrepreneurs whose personal or family businesses were established at the time. In 1954/55 Haile Selassie established the National Economic Council designed to boost agro-industrial productivity and living standards. This period also saw the first instance of 'national development programmes', with three five-year development plans (1957-61; 1962-67; 1968-1973) focused mainly on the development of the private sector (Mulatu Wubneh, 1991). Alongside five state-owned banks, a range of foreign banks and insurance companies were active, including the Addis Ababa Bank, the Banco di Napoli and the Banco di Roma.

Investment focused on commercial agriculture, especially cotton and sugar plantations in the Awash Valley, construction, and a small manufacturing sector concentrated in Addis Ababa, Dire Dawa and Asmara. Large foreign investors, including the Dutch sugar giant HVA, and the British automotive firm Mitchell Cotts, were lured in with tax incentives, import-export privileges and finance. Mixed-origin communities (particularly Ethio-Italian, Ethio-Greek, and Ethio-Armenian) also played important roles in the economy. In 1963 the government Investment Committee was established as an independent decision-making body, and legislation extended concessions to domestic investors, who were emerging from the regional aristocracies, mostly in highland Amhara-Tigray, but also including the family of the Afar Sultanate of Aussa, prominent in the Awash plantation areas.

> 'The main characteristics of the manufacturing sector inherited by the revolution included a predominance of foreign ownership and foreign managerial, professional, and technical staffing; heavy emphasis on light industries; inward orientation and relatively high tariffs; capital-intensiveness; underutilized capacity; minimal linkage among the different sectors; and excessive geographical concentration of industries in Addis Ababa.' (Mulatu Wubneh, 1991)

During the imperial period, economic rents seem to have accrued disproportionately to the international and multinational sectors, and to social sectors with close connections to the 'traditional' imperial pattern of powerful families. A laissez-faire approach to international investment generated significant rents to foreign companies and banks, with little attempt to tie these to the learning or development costs associated with domestic market or sector expansion. Little attempt seems to have been made by the government to centralise rents, and government policy that extended a series of privileges to domestic investors came relatively late.

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[9] Falling to 1.5% per capita growth, given high population growth. Mulatu Wubneh (1991) has a figure of 4.4% per annum for the period 1960-1970.

Nationalisation during the socialist period

The situation changed abruptly with the overthrow of the Emperor and his replacement by the military Dergue government in the so-called ‘creeping coup’ of 1974. Sweeping socialist reform brought an exodus of foreign business people and banks; the nationalisation of land, industries and property; and the reconstitution of many firms as SOEs. The public sector expanded dramatically, such that by 1989 75% of those in formal sector work were employed by the state (Krishnan, 1996: 169). Private direct investment, meanwhile, declined from 65 million birr in 1974 to 12 million in 1977 (Mulatu Wubneh, 1991).

The Dergue period from 1974 to 1991 saw four phases of slow economic growth or stagnation. During the first phase (1974-1978) uncertainty, instability and the war in the Ogaden brought growth to a halt, and the annual GDP increase down to 0.4%. With the reopening of nationalised plants and good rains, annual GDP growth rose to 5.7% during 1978-1980, only to collapse again as manufacturing took a downturn and agriculture went into crisis under the pressures of war, drought and a yawning fiscal deficit during 1980-85. Finally, the period 1985-1991 saw further stagnation, shortages of foreign currency and an escalating debt-service ratio (Mulatu Wubneh, 1991). Overall, during the period 1974 to 1990, Ethiopian growth is estimated to have decelerated to an average of 2.3%, equivalent to –0.4% per capita growth, when population increase is factored in (Alemayehu Geda, 2005: 7).

Centralised planning had expanded exponentially, and the period also saw the dramatic formal centralisation of rural rents under the control of the government: peasant producers were widely villagised in order to establish peasant associations and co-operatives which sold agricultural produce to a government agency at fixed prices. Whilst the government taxed all exports at a minimum of 2%, increasingly high import taxes and service fees were applied to consumer goods, particularly luxury goods which attracted a flat tariff of 200%, a policy that encouraged a flourishing underground economy of decentralised rents from smuggling and contraband. Increasingly militarised attempts at centralisation of resource control under the state had the opposite effect on rents, as populations in ever-larger parts of the country sought exit strategies.

Investment in land and production were low under a nationalised agricultural marketing system with fixed prices, which incorporated a heavy transfer of advantage from rural to urban populations, and to the military. Agricultural produce and other resources began to be diverted to the informal sector, or to the increasing number of ethno-nationalist regional movements fighting the government, and its system of ‘garrison socialism’ (Markakis, 1987). A small number of traders benefited from monopoly rents supplying goods and services to the state in a dysfunctional or ‘non-market’ context. Others made extravagant profits from ‘cross-border’ supply into non-government-held areas. Meanwhile, a hostile western international community supplied all but emergency aid through the international NGO sector, further decentralising control of associated rents.

Towards the end of the Dergue period, formal steps were taken to attempt to reintroduce private capital into the moribund economy. Joint venture legislation was revised in 1989 to allow majority foreign ownership in a few sectors and remove restrictions on profit repatriation.

> ‘President Mengistu’s March 1990 speech to the Central Committee of the WPE was a turning point in Ethiopia’s recent economic history. Acknowledging that socialism had failed, Mengistu proposed implementing a mixed economy. Under the new system, the private sector would be able to participate in all parts of the economy with

> no limit on capital investment (Ethiopia had a US$250,000 ceiling on private investment).' (Mulatu Wubneh, 1991)

The proposed changes came too late to take effect, and in May 1991 the government was militarily overthrown. Spending on agriculture, education and health over the Dergue period averaged 2%, 14% and 4% of government funds respectively, whilst defence spending, reckoned to have peaked at 60% during the Ogaden war, remained between 40% and 50% of government funds throughout the life of the government. 'In 1990 Ethiopia had a gross national product of US$6 billion and a per capita income of about US$120, one of the lowest of any country in the world' (Mulatu Wubneh, 1991).

2.2 The economy since 1991: strong growth and 'structural' weaknesses

Transiting from a command to a liberal economy

The incoming EPRDF-led Transitional Government of Ethiopia (TGE) embarked on a range of reform measures in three areas: democratisation, decentralisation and economic liberalisation. Constitutional reform introduced a system of multi-party elections, and the state was redrawn as a federation of nine regional units along the lines of the country's major language groups, and two federal cities.

Both projects proved controversial, with a number of groups leaving the government to oppose the ruling party, either through elections or returning to armed struggle. In the economic sphere, policies were designed to move the highly centralised and state-dominated Ethiopian economy in a more liberal direction, and international observers were keen to see how far the EPRDF, with its hitherto Marxist-Leninist record, would go. Key economic steps taken during this period included the following:

- the removal of price controls;[10]
- the liberalisation of commodity distribution, particularly agricultural produce;
- gradual devaluation of the Ethiopian Birr;
- the introduction of a regular Foreign Exchange Auction;
- the reduction of tariffs on imported goods to encourage imports;
- reform of tax policy, and gradual computerisation of tax administration;
- revision of labour and employment law, notably the previous regime's guarantee of government employment for graduates;
- gradual sale of a limited number of public enterprises under a wider, and still ongoing, programme of privatisation;
- the introduction of treasury bill options;
- the introduction of legislation allowing the establishment of privately owned banks and insurance companies; and
- the introduction of a land-lease system, designed to be more 'market oriented' and foster commercial investment, whilst retaining land in public ownership. (Anonymous, n.d.: 7-8)

Controversies and debates of the transitional period

A range of economic controversies emerged during the early 1990s, with criticism coming both from the international community and from the private sector business community.

[10] Price controls on a basket of food commodities were controversially re-introduced in January 2011, for the first time since the early 1990s TGE period.

Doubts persisted about the commitment of EPRDF to the transition to a liberal economy (see section 5 below) when progress on a number of the points listed above (notably exchange rates, privatisation and tariffs) was more limited or slower than liberal critics had hoped. The privatisation programme in particular was criticised as slow and lacklustre, and exclusive of important sectors (notably banks, telecoms, power and water distribution and air transport).

In retrospect, the EPRDF seems to have paid rather careful attention to some of the ways in which its predecessors lost control of rent centralisation, and attempted to learn from and counter these experiences. Thus since 1991, the Ethiopian government has been slow or unwilling to divest in strategic sectors, and cautious about rents accruing internationally, particularly from finance and infrastructure. Its experience of running a parallel administration in Tigray in the 1980s taught it valuable lessons (which were apparently re-learned during the period after 2005): about the economic roots needed to anchor peasant political compliance; and about the perils of allowing alternative systems of patronage to emerge.

Meanwhile during the TGE, economic critique became entangled with political objection, notably in relation to the introduction of the federal system, which many urban, educated and diaspora Ethiopians did not support. Thus, for instance, a prominent Ethiopian economist describes 'ethnic federalism' *per se* as an economic 'risk factor […] likely to limit labor and capital mobility across the ethnic enclaves, and ensue [*sic*] investor's insecurity when an entrepreneur invests away from his/her 'ethnic home region'' (Alemayehu Geda, 2005: 26).

The four regional endowment fund conglomerates offered a particular focus of controversy, both because of their evident ruling party associations, and because of what was considered to be their 'ethnic' profile, each dedicated to the interests of a particular federated state.[11] The polarisation of Ethiopian politics through the 1990s saw most in the private sector ranged alongside the more liberal opposition groupings which supported privatisation of land and SOEs, fuller free-market competition, and (in some cases) a change of the federal arrangement. Contrasting attitudes towards rent centralisation can be seen to be at the root of these differences.

Resource and policy constraints

Despite dramatic recent growth rates (see below), the Ethiopian economy remains small and under-developed in relation to its population of more than 74 million.[12] Its GDP of around US$30 billion is slightly smaller than that of Ghana – US$31 billion with a population of only 24 million (EIU, April 2010). The economy remains vulnerable to periodic droughts and a number of resource and other constraints may limit future growth. Ethiopian government thinking since 2002/3 stresses the overwhelming constraint posed by the absence of capital in the country. Whilst PASDEP (Plan for Accelerated and Sustained Development to End Poverty) documents note that Ethiopia has ample resources of 'underutilised' land (at least in certain lowland areas) and of cheap labour, nevertheless land is in short supply in some more central/northern areas, and labour suffers from poor skill and mobility (Ministry of Agriculture and Rural Development, 2002).

Constraints on the economic growth of Ethiopia may be summarised as follows:

- *Labour*: lack of skilled and semi-skilled labour, lack of labour mobility, rigid labour market regulation;

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[11] For a more recent example of this kind of critique, see Genet Mersha (2010).
[12] The 2007 census gave a figure just under 74 million: most other estimates are higher.

- *Land*: tenure insecurity, limited or bureaucratic access to land for investment (until the last few years, when commercial land-leasing in lowland areas became easier, provoking complaints that it may now be too open), land degradation and low soil fertility;
- *Capital*: difficulty faced by individuals and firms in securing investment capital (lack of entry and competition in the financial system, weak financial institutions, periodic lending caps designed to curb inflation);
- *Information and communications technology (ICT)*: landline, mobile and internet coverage which is limited, unreliable and expensive;
- *Infrastructure and transport*: limited access to electricity, limited road infrastructure at the local and regional level, inadequate transport services, and high transport costs;
- *Regulatory framework*: relatively onerous and bureaucratic rules and regulations and their enforcement arguably leading to limited competition and market inefficiencies in key sectors; and
- *Macro-economic policy:* a somewhat overvalued domestic currency up to September 2010; shortage of foreign currency; the imbalance of foreign trade; recent high inflationary pressures, which have extended constraints on access to credit.

Private sector actors perceive the relative importance of these and other constraints differently in different parts of the country, according to the 2006 Investment Climate Assessment Survey (Ethiopian Development Research Institute, 2006). Thus, for instance, access to finance is seen as a major problem in the SNNPRS; whereas competition from the informal sector tops perceived obstacles in Harar and Dire Dawa, where contraband trade is at a peak. In Amhara region, access to land is seen by almost 70% of respondents to the survey as the most serious problem they face (World Bank, 2009: 62ff.).

Growth figures and projections

What none of these controversies or constraints overshadow, however, is the high rates of economic growth which Ethiopia has seen in recent years. In January 2011 Standard Chartered Research recorded that 'Ethiopia is one of Africa's fastest growing economies, with seven years of double-digit growth' (2011). Ethiopia's growth has been much higher than most of the rest of Africa: in January 2011 the UN World Economic Situation and Prospects (WESP) Report recorded Ethiopian growth for 2010 as 12.7%, as compared with a continental average of 4.7% (Capital Newspaper, 2011a).

According to the IMF, meanwhile, growth in Ethiopia slowed to around 8% in 2009/10, as the economy felt the impact of the global economic crisis but still showed much above-average resilience (Oxford Analytica, 2011). The IMF records Ethiopia's real average growth over the previous decade as 8.4% per annum (2001-2010) (The Economist, 2011), with an average figure of 10.8% per annum for the period from 2005/06 to 2009/10: the government's average figure for annual real growth over the same period is 11% (Oxford Analytica, 2011).[13] The IMF predicts that it will average 8.1% over the period 2011-2012 (The Economist, 2011), whilst WESP projects it to reach 9.4% and 9.2% in 2011 and 2012 respectively.

[13] Questions have been raised about government economic figures over the last two years, criticisms the government rejects as 'politically motivated'. The controversy does not undermine the consensus that the country has seen strong growth throughout the period of the economic downturn.

It is clear that whilst Ethiopian growth had begun to strengthen during the 1990s,[14] it picked up very strongly from 2003. Very high food inflation has caused a range of social and political pressures in the last 2-3 years, although the rapid expansion of FDI in the same period seems to have meant that the economy has weathered the global downturn comparatively well. Indications are that, barring significant disruptions, high growth is likely to continue, albeit with a degree of debate over the precise rates, and potentially dogged by problems of inflation. The causes of inflationary pressure have become increasingly controversial in recent months, with some observers, including the IMF, expressing concern over the inflationary impact of high rates of broad money growth and strong spending on infrastructure over and above the global drivers (Addis Fortune Newspaper, 2011d).

Ethiopia's economy is primarily rural, with agriculture contributing about 48% of GDP, and industry only about 13%. Recent growth has been broad-based, building on improvements to infrastructure and the overall policy environment.[15] Agricultural production and exports, construction, manufacturing and services have all contributed, and since 2010 the government has stressed the importance of manufacturing industry, seeking to boost its hitherto stagnant share of the economy (Ministry of Finance and Economic Development, 2010).

2.3 The sociology of doing business in Ethiopia

Whilst the impact of the list of binding constraints listed above is obvious and significant, these factors alone do not adequately explain the nature – and in particular the problems – associated with the business environment in Ethiopia. There is a range of sociological issues associated with information flows, cultures of collaboration and co-operation, market fragmentation, state-society relations, corruption and the prevalence of the informal sector, which shape the enterprise landscape in important ways.

Information, isolation and trade

Ethiopia's dislocation from international commercial networks is a further component of its socialist inheritance, and continues to affect its economic development (World Bank, 2009: 31). A number of factors have helped to perpetuate isolation in the post-1991 period. One is the regional trade environment. There is significant unofficial cross-border trade of livestock and the mild narcotic *khat* into Somali areas and towards the coast.[16] Nevertheless, official cross-border trade has been limited by insecurity and instability in key neighbouring states (Somalia since 1991, Eritrea since 1998, South Sudan especially up to the CPA in 2005), and 'thick regional borders' emerge as an important constraint on formal exports (Ciuriak, 2010).

Following the independence of South Sudan, the pattern of official trade is likely to change, and steps have also been taken to formalise trade on the border with Somaliland. High levels of perceived risk of doing business in the Horn of Africa have meant that FDI flows until 2008/9 remained exceptionally low.[17] This has only changed relatively recently and in specific sectors, notably commercial agriculture – although indicative statistics suggest that the

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[14] Real and per capita growth averaged 3.7% and 0.7% per annum for the period 1990-1999, figures which rose to 5.7% and 2.6% respectively, excluding the 'abnormal years of 1991-92' (Alemayehu Geda, 2005: 9).

[15] World Bank, 2007: paragraph 3.68

[16] See Peter Little (2004), amongst others, on the scale of informal cross-border trade particularly across Ethiopia's borders with Somalia.

[17] It is arguable that Ethiopia won less European investment than other African countries where colonial linkages encouraged inflows of FDI.

change is happening very fast with the expansion of Indian, Chinese, Turkish, Saudi, and Brazilian interest in the Ethiopian economy. Questions have been raised about the internationalisation of rent accrual in this sector, with the global growth of speculative markets relating to agricultural land and food commodities.

In a context of relative isolation, good information flows become more than ever important, and there are a number of factors that constrain the flow of information in the Ethiopian context, over and above the issue of poor IT and communications infrastructure. Business people are poorly networked, internationally and domestically, and the Chambers of Commerce which represent them are weak. Despite a degree of deregulation, media outlets continue to be overwhelmingly dominated by state and ruling party channels and papers: in effect the three English-language newspapers, Capital, Addis Fortune, and Ethiopian Reporter, constitute the only non-governmental sources of economic information and analysis. There is currently no system of public record that makes companies' accounts easily available, comparable to that of the UK's Companies House.[18]

All of these factors both reflect and further contribute to a culture of not sharing information, which is damaging to the promotion of business. The importance of good market information is sharply demonstrated in recent analysis of the advantages enjoyed by import-export companies which acquire data about potential market niches (Sutton and Kellow, 2010). The bright spot in this pattern is perhaps the emergence of the Ethiopian Commodity Exchange (ECX), which is expanding the market information available to producers throughout the country on a basket of commodities. Poor consumer information about market choice, meanwhile, is also associated with one of the most crippling features of the Ethiopian economy, namely low productivity.

Exceptionally poor productivity: the importance of who and what you know

There are two significant features of the profile of Ethiopian productivity: it is extremely low; and it is very broadly distributed 'indicating that more productive firms do not appear to gain market share' (World Bank, 2009: ii): nor do unproductive ones go to the wall. The sociology of doing business in Ethiopia is fundamental to explaining why this is the case. Patterns of inter-firm contracting show a heavy reliance on long-term personalised relationships, which help overcome 'weaknesses in the information and contracting environment' (ibid: i, 46).

> 'The trading environment in Ethiopia seems to be characterized by a significant degree of risk aversion, and a heavy dependence on repeat transactions as a hedge against commitment failure which is high. There is very limited use of institutions such as court systems, formal settlement systems, credit bureaux or ISO certification to reduce risk of commitment failure.' (ibid: iii)

The perceived security and modest efficacy of well-established social, ethnic and family business networks in this context explain why businesses persist in uncompetitive and unproductive behaviour, preferring to do relatively non-productive business with those they know, rather than moving towards 'more efficient' depersonalised transactions they perceive as risky. Equally important in sustaining this situation, is the non-market oriented behaviour of consumers who do not punish uncompetitive producers by shopping around for better deals.

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[18] The quality of reporting standards and requirements for private companies is a matter raised by a number of interlocutors, with reports that government is scheduled to introduce tighter legislation to govern this area.

This is an important historico-culturally rooted point, which is rarely reflected in economic analysis, and which changes the landscape of economic rents in Ethiopia, opening up possibilities for opportunistic rents which would not be available in a better integrated market.[19] The persistence of personalised and localised interaction patterns in business also feeds the degree of suspicion or hostility with which actors who are outside one's own network of contacts are perceived. This has implications for the degree of suspicion with which endowment-owned companies are regarded by others who do not deal with them: it almost certainly fuels an exaggerated perception of the universal government favouritism accorded to endowment-owned enterprises (and SOEs), when in fact the picture seems to be much more mixed.

Recent debates about food prices, meanwhile, have illuminated the depths of government frustration at the persistence of what it sees as a non-competitive, moribund and oligopolistic market, based on exceptionally low levels of productivity, and regularly delivering high levels of opportunistic rents.[20] Infuriated by what they see as artificially inflated food costs, the authorities moved in January 2011 to control the prices of a basket of foodstuffs (Desalegn Sisay, 2011), even threatening to open domestic markets to foreign competitors if 'market disorder' which 'stifled competition' and 'abused consumers' did not improve. 'Disorder' here seems to mean a combination of inefficiencies and lack of transparency, which has encouraged the emergence of niche monopolies and *de facto* cartels. If so, as some critics have noted, these are long-standing problems in this 'shrewish market', which might have been tackled in a more sustainable and gradual way over the last two decades (Addis Fortune Newspaper, 2011c). Poor information has a detrimental effect also on government policy and decision-making, potentially shrinking the evidence base for policy making, with possible negative consequences for policy validity, integrity and independence.

Regulation and control: a Kafkaesque state

It is often commented that, unlike much of the rest of Africa, Ethiopia suffers from too much government not too little. At least in the central agricultural highlands (much less so in the pastoralist periphery), the state is well entrenched, down to the highly deconcentrated local level of the *kebele* (local administration). Unlike other African countries, Ethiopia has long traditions of public service, and a functioning bureaucracy and this has both advantages and disadvantages.[21] The situation inherited in the early 1990s was one of extreme bureaucratic inertia and inefficiency, focused on control rather than service provision – all aspects which the establishment of multi-level governance, civil service reform and capacity building have struggled to change over the subsequent two decades.

Ethiopia has a poor showing on most of the international 'doing business' indices, currently ranking 104th out of 198 (IBRD and World Bank, 2011). This is widely seen as the result of regulation and bureaucracy that continue to be unwieldy and overbearing.[22] Ethiopia scores particularly poorly on (in order) trading across borders (157th), getting credit (128th), registering property (120th), and protection of investors (109th) (ibid). By contrast the country

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[19] A number of the points made here were importantly developed by the current CEO of the ECX, then at IFPRI, in a presentation to the Africa Task Force in Manchester, 4 August 2006 (Eleni Gabre-Madhin 2006).

[20] Food import and distribution is a relatively un-concentrated sector in which a relatively large number of private sector actors are involved.

[21] This is another way in which Ethiopia contrasts with Rwanda, where the RPF government has been able to work with a clean slate to establish its civil service.

[22] Contemporary Rwanda (ranked 58th) has shown much faster positive change over the last five years (IBRC and World Bank, 2011).

ranks somewhat higher on some other indicators associated with regulation, including payment of taxes (47th) and (perhaps surprisingly) the enforcement of contracts (57th).

Regulation of the financial sector (banks and insurance) is carried out by the National Bank of Ethiopia (NBE). This is considered by interlocutors to be effective, even tight, comparing favourably with other areas where regulation is less strong or consistent and seen as restrictive rather than constructive. The reportedly inconsistent standards of audited accounts returned in the absence of standardised requirements for auditors, offers the Federal Inland Revenue a reason to recalculate business taxes payable rather than accepting audit statements submitted. This practice tends to make businesses wary of the non-predictability of the regulatory regime; it also increases the scope for discretion in an area of the bureaucracy considered globally to be vulnerable to corruption.

High predictability and stability of the policy and regulatory environment should be one of the benefits of an established dominant party system. However, it is arguable that its impact has been compromised, less because of inconsistency of the policy framework, which is reasonably stable, than because of the shifting pattern of its implementation and application. Recent instances of this cited by those interviewed include: confusion over real estate and transfer of land leasing regulations, particularly in Addis Ababa; abrupt devaluation of the Birr in 2010, and associated windfall taxes; the decision to restrict the availability of credit from state and private banks in 2008 to curb inflation; and the reintroduction of food price controls in early 2011. A number of interlocutors also complained of the negative impact that retrospective application of new legislation has on private-sector confidence, although specific examples of this were unclear, and policymakers reject the problem. One factor here seems to be the calibre and frequent recycling of civil servants responsible for the management of decision-making and (in principle) for advice to Ministers.

The period since the May 2010 national elections has been marked by government moves to tighten up on tax returns and a range of other business preoccupations. In late 2010, for instance, it was reported that

> 'Leading businessmen and women in Addis Ababa are nervous; federal agencies working in areas of tax, land, and corruption are the most feared entities these days. There is hardly a businessperson who is in the mood for expanding and spending more on businesses […] The authorities at the mid-rank level of the political structure and owners of big businesses in town appear to be in a quiet struggle of flexing muscles.' (Addis Fortune Newspaper, 2010c)

The shape of the private sector

The private sector is usually categorised into three major groupings reflecting ownership: the various MIDROC companies and conglomerates, owned by Sheikh Mohammed Al Amoudi;[23] the endowment-owned companies, including those of EFFORT, which are closely allied with ruling party perspectives; and the rest. These three categories are commonly seen as also correlating with different kinds of relationships with – and treatment from – the political class. This is not necessarily the best way to understand the complexities of the private sector, and

[23] Sheikh Mohammed Al Amoudi, born in Dessie in 1946 of mixed Saudi and Ethiopian parentage was ranked the world's 64th most wealthy man in 2010, with a net worth of US$10 billion. A Saudi national, Al Amoudi is the largest foreign investor in Ethiopia (and in Sweden, where he has significant oil interests). MIDROC Ethiopia, including MIDROC Technology Group, is a holding company under which more than 30 businesses are arrayed, and the Sheikh claims to be investing more than US$3 billion in Ethiopian agriculture and industry (Forbes Magazine, 2010).

an interesting recent 'enterprise map' of Ethiopia takes an alternative sectoral approach, which perhaps offers more neutral nuance (Sutton and Kellow, 2010). Around half the leading firms in Ethiopia have emerged from the import/export trading sector: their detailed knowledge of the possibilities offered by international and local markets became a competitive advantage to them as would-be manufacturers. Many others among Ethiopia's most important industrial companies emerged from collaboration with foreign firms, with very few developing from domestic SMEs, a conclusion which highlights the importance of the rapidly developing profile of FDI (Sutton and Kellow, 2010).

The Ethiopian private sector remains relatively small, and economic expansion has been driven to a great extent by government spending on infrastructure and service delivery, often within the large SOE sector. Mutual hostility between the private sector and what it saw as a 'business unfriendly' government was the predominant sentiment through the period up to 2005. The EPRDF has had a problematic relationship with the urban Ethiopian middle class and entrepreneurs, expressing a preferential commitment to its rural constituency as recently as 2001. In 2005, many private sector business people rallied behind what was seen as a 'business friendly' opposition, alienated by ruling party policies that had barely begun to have an impact on urban constituencies. After the 2005 poll, attempts were made to win over the business community, but ideologically, neither the middle classes nor the private sector are seen as the natural ally of government, and antipathy lingers. Rhetorically, as we have seen, individual members of the business class have been singled out as 'rent seekers' rather than 'value creators'.

Nevertheless, there is now more variation in private sector attitudes and relationships to government. Most private businesses supported the opposition during the hotly contested 2005 election, with the notable exception of Mohammed Al Amoudi of MIDROC. By mid-2008, in a more closely controlled political environment, businesses were requested to contribute funds for the construction of a new ruling party headquarters (Addis Fortune Newspaper, 2008). In the context of the 2010 national election a small group of private entrepreneurs emerged to lead fundraising for the ruling party's campaign, reportedly raising significantly more than the 20 million Ethiopian Birr the EPRDF had suggested, mostly from 30-35 core businesses (Capital Newspaper, 2010).[24] Ruling party congresses in September 2010 saw invitations extended to private business people to attend and observe, in a marked departure from previous practice.

The politics of doing business in Ethiopia: unfair competition?

In the past the two large conglomerates of the endowment-owned companies and the MIDROC group of Sheikh Mohammed Al Amoudi were the primary focus of private sector frustration and allegations of 'unfair competition'. Criticism has shifted: possibly because of a perception that the two large conglomerates may have been less profitable than originally thought; or because of unwillingness to criticise them in the current climate; or indeed as pro-government sources claim because the understanding between the ruling party and the business community has improved. The shift may also reflect the fact that the private sector has itself grown over recent years relative to these large trading blocks. According to the 2006 Investment Climate Survey, many private sector interlocutors interviewed now see themselves as squeezed between SOEs and the informal sector, each of which is thought to

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[24] Ethiopian electoral law does not require publication of the names of donors to political parties, only that accounts are audited and submitted to National Election Board (NEB). Capital Newspaper reports Yirga Haile of Enay/3F, and Getu Gelete of Getu Commercial as the two biggest individual donors (Capital Newspaper, 2010).

enjoy advantages it doesn't share (World Bank, 2009: 49). As the government expands the scope of its collection of taxes from the formal sector, interviews confirmed that 'unfair competition' from the rapidly growing informal sector has become more of a concern (World Bank, 2009: 21).[25]

Many of those interviewed, meanwhile, focused instead on the prominence of public enterprises as competitors to the private sector, especially given the dominant role played by the state in purchasing goods and services. There is a widespread assumption, denied by government, that public enterprises are given precedence in winning bids. Recent analysis of the 2006 Investment Climate Survey has bracketed together public and endowment-owned businesses, reaching the following conclusion, which (whether or not it is an accurate reflection of reality, and again both government and EFFORT sources deny it) certainly reflects private-sector sentiment:

> 'Endowment- and state-owned firms confront an investment climate that is substantially different from that faced by private enterprises, which may partially explain the fact that they appear to have greater access to policymakers, government as a market, and the state-owned part of the financial sector.' (World Bank, 2009: 58)

This assessment seems to be closely connected with the doubts about Ethiopian technocratic integrity discussed above. A hierarchical political culture, and a widespread civil service desire not to be seen to 'stick one's neck out', undoubtedly shape Ethiopian technocratic interactions with actors known to be politically powerful, or to have powerful connections. This situation is exacerbated by poor institutionalisation of procedures: it seems likely that EFFORT companies experience many aspects of the day-to-day micro-sociology of dealing with Kafkaesque regulation as easier to negotiate than most. Whether this translates into tangible benefits over and above the intangible head start offered by *realpolitik* is less clear. EFFORT companies probably don't experience the extremes of difficulty of access to land for commercial purposes which dog the efforts of some competitors; however the fact that some endowment companies have a diversified strategy under which they have sought finance from private banks, meanwhile, suggests that access to government credit is not always straightforward.

The government has in recent years given much increased encouragement to FDI in some sectors of the economy (e.g. construction, flora- and horticulture), and domestic investment is also beginning to take off (notably in commercial agriculture). As we have seen, throughout the 1990s the EPRDF had an ambivalent relationship with the Ethiopian urban middle classes and entrepreneurialism more broadly, explicitly prioritising its commitment to the rural majority. Whilst ruling party ideology and policy changed in 2002, it remains the case that the private sector is not always seen as the natural ally of 'revolutionary democracy', at least under current circumstances.

There is an irony here. Ruling party interlocutors insist the private sector is key to the 'transition to capitalism' which they seek to achieve, and that entrepreneurs rather than politicians should lead the process, firstly because (being rich) they are less likely to be corrupted than politicians, and secondly because they have a literal investment in the success of the transformation. Meanwhile, however, politicians are clearly in the driving seat and the transition is still very much in the future. The institutionalisation of trusting co-operation

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[25] 'The informal sector is the fastest growing segment of the private sector, in large part due to the significant flows of labor from rural to urban Ethiopia and the absence of alternative ways to absorb the labor.' (World Bank, 2009: iii)

between Ethiopian entrepreneurs and the 'developmental state' in pursuit of commonly conceived goals remains very much a work in progress. Rhetoric that characterises many business people as 'rent seeking' rather than 'value creating' is symptomatic of this.

Competitive variation across market sectors

Private entrepreneurs also see different sectors as having different degrees of market competitiveness. Private sector perceptions of market concentration tend to correlate strongly with the extent of SOE and/or endowment-owned involvement in each of these sectors. They may be summarised as follows.

1) Markets for sugar, fertiliser and micro-finance are widely regarded as very highly concentrated, with a dominant role of state- and/or endowment-owned businesses; here most observers consider that there is very little competition, with a number of *de facto* actual or near-monopolies in operation. Although EFFORT was controversially involved in the delivery and distribution of fertiliser in the 1990s, it has not had any role in the sugar sector, and is now involved only marginally in micro-finance.

2) Markets for financial services and for cement have, until recently, been fairly highly concentrated sectors, with a strong but declining state- and/or endowment-owned presence: in these areas what has been a strong concentration is now being gradually eroded by other private businesses. EFFORT played a leading role in these two sectors, coincident with the move of the private sector into each of them.

3) Highly concentrated sectors, where large private companies are dominant (reducing and concentrating but not entirely eliminating competition), include the markets for manufactured consumer goods, including beer, soft drinks and mineral water. EFFORT's sister endowment in Amhara owns a brewery, but EFFORT is not involved here.

4) Finally, those areas which are seen to have relatively low or moderately concentrated markets, with a strong role for the private sector, include the markets in cereals, edible oil and flour, for textiles and garments, and for road transport services. It is noteworthy that, although many private entrepreneurs consider that competition works relatively more effectively in these areas, they include the food sector where the government intervened in January 2011 to cap prices, citing speculative, anti-competitive, and rent-seeking practices amongst private traders and importers exploiting the weakness of market competition. EFFORT and the other endowment companies have a range of areas of involvement in these markets.

Perceptions of the relative degree of concentration and competition of different markets and market actors are, as with many other issues, polarised according to political perspective. It seems clear, however, that EFFORT has been involved across the range of sectors including those widely regarded as more and those generally seen as less concentrated. Four main types of alleged anti-competitive practices are commonly discussed in Ethiopia, namely:

- ❑ price fixing: a controversial alleged example was the simultaneous beer price hike in 2009;
- ❑ hoarding and price gouging, as frequently alleged of agricultural products and basic food stuffs;
- ❑ predatory behaviour, such as enforcing exclusive distribution deals (refusing to supply those who stock competitors' products);

- preferential dealing with related parties, as a number of interviewees allege is sometimes practiced by purchasers of government services perceived as likely to favour state- or endowment-owned suppliers.

Although in principle, each of these practices would be expected to be more prevalent in more concentrated markets, in fact the underlying patterns of market weakness discussed above mean that they seem to have persisted in a range of much less concentrated sectors.

Levels of corruption?

Ethiopia is generally regarded as cleaner than the African continental norm in terms of corruption, but most commentators agree that the situation has deteriorated since the socialist period when the pinnacle of aspiration for politicians was for a 'villa, video and Volvo'. Before that, as one interviewee put it, 'most Ethiopians used to believe that they would go to hell if they took bribes'. Perceptions have changed radically since then, but perhaps reflect this historical baseline: whilst Ethiopians tend to see corruption in the country as very high, outsiders tend to be more sanguine about it. Recent research found that 'corrupt practice in the delivery of basic services (primary health, basic education, rural water supply and justice) is comparatively limited' whilst corruption risks in the 'old investment sectors' (notably construction, roads, land and mining) were 'more […] but still not at the levels seen in other contexts':

> 'The types and levels of corruption identified were often specific to the Ethiopian context and to flashpoints of change and opportunity. […] In the 'new' investment sectors [including …] for instance telecommunications, HIV/Aids and pharmaceuticals […] the research identified significant levels of corruption at the most vulnerable parts of the value chain, raising concerns that new levels of corruption could take hold in the Ethiopian context'. (Plummer, 2011)

Transparency International in 2009 rated Ethiopia 120th out of 180 countries surveyed, based on a score of 2.7 on its Corruption Perception Index. Meanwhile a recent UNDP study suggests that illicit financial flows out of Ethiopia (primarily as a result of smuggling, mispricing, and tax avoidance) are relatively high, ostensibly placing it 5th of 42 least developed countries surveyed (UNDP, 2011). Anecdotal evidence suggests that petty bureaucratic corruption has escalated in the last 5-10 years, with demands for bribes now the norm. There are lurid rumours, but no hard evidence, of large-scale high-level corruption. In March 2010 Ethiopia enacted an Assets and Property Registration Law, which requires that government officials and their relatives register their assets and properties, and is aimed at reducing the prevalence of corruption.

Senior sources in the leadership of EFFORT confirm their view that corruption has reached serious proportions, suggesting that, so far from being an advantage to the endowment funds, weak technocratic integrity of the public sector is deleterious to their ability to do business as well. There are three specific areas where EFFORT interlocutors see escalating problems of corrupt practice. These are: the acquisition of land on lease; the (non)payment of tax; and government procurement. The issue of land has been singled out in recent research that found that 'corruption risks in Ethiopia are increasing due to a weak policy and regulatory framework surrounding the allocation, titling, and management of lands' (Plummer, 2011). This sector has also been a focus of regulatory and judicial attention since late 2010, with a series of arrests. The EFFORT perspective also tallies closely with an international October 2010 assessment of the four key areas where there is a 'risk of corruption' in Ethiopia:

'Practices of corruption are increasingly taking the form of private-to-private corruption whereby private companies yield procurement contracts to other private companies in return for bribes.

Land distribution and administration is continuously reported to be a sector where corruption is institutionalised. Corrupt practices involve facilitation payments as well as bribes in order to be allowed to keep land that is leased from the state.

Public procurement is another area riddled with corruption. For instance, it is not uncommon for government tenders to be discontinued after bids are received, re-released several times without being filled, or awarded to bidders with strong links to the government and ruling party with little to no transparency in these processes.

The customs administration lacks qualified staff, and customs laws are usually enforced arbitrarily, with some privileged groups, most notably companies owned by the ruling party and government officials, consistently evading customs and excise laws. In turn, this engenders ample possibilities for corruption in interactions with customs officials.' (Business Anti-Corruption Portal, 2010)

The same source also notes a number of positive steps to control corruption, with perceptions that the problem may have reduced in the last few years. Ethiopia has a strong and comprehensive legislative framework to deal with the problem. Since 2001/2, the country has seen a loud public campaign against corruption, with prominent TV and radio advertising, and anti-corruption posters ubiquitous in government offices. The efficacy of the campaign has been blunted by two factors. The establishment of the Federal Anti-Corruption Commission and prosecution of political dissidents in the wake of a split within the TPLF central committee in 2001 contributed to the entrenchment of a public perception that corruption charges are politically selective, a view that persists. Perhaps even more importantly, however, the campaign has not been backed up with effective institutional enforcement, reform and resources, another instance where the Ethiopian approach contrasts unfavourably with that of contemporary Rwanda.

There is anecdotal evidence that politicians involved in excessive enrichment are sometimes (if at all) quietly disciplined:[26] few political figures who have not otherwise fallen foul of government have been prosecuted and publicly shamed, although a number of technocrats have been, and the number of relatively senior political appointees detained in some parts of the country has increased recently. Meanwhile, a certain level of enrichment is widely regarded as 'acceptable'.

The semi-official system of transfer rents accruing to government officials who build and lease lavish private homes on valuable plots of land whilst continuing to live in subsidised government residences, for instance, is well institutionalised.[27] As elsewhere, the military and its leadership have been particularly well provided for in this and other ways. Senior EPRDF members, that is central committee members, are, according to official party policy, reportedly not allowed to own shares in any share companies, be they endowment-owned, or any other commercial enterprises. Although many doubt the degree of adherence to this rule, interlocutors are adamant that it is strictly adhered to at least within the TPLF, with regular debates regarding the legitimacy of share-holdings by close relatives. Thus those who were

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[26] Two senior members were rumoured in February 2009 to have been required to hand over to the state personal assets whose accumulation could not be accounted for (Indian Ocean Newsletter, 2009).

[27] The large government-owned housing stock is a throwback to the socialist period, and has offered the government an increasingly valuable source of centralized patronage with which to buffer political appointees against the escalating discrepancy between government salaries and Addis Ababa property costs. Its continued control by the public sector is an instance of centralisation of a classic transfer rent.

nominal early shareholders of the first TPLF-associated companies during the transitional period of the 1990s reportedly simply donated their holdings back to EFFORT when the endowment was established and companies were amalgamated under its umbrella.

2.4 The 'revolutionary democratic' economic rationale

> 'We in Ethiopia have embarked on a reform programme that is based, not on the neo-liberal paradigm, but on an alternative paradigm of the establishment of a developmental state […] that we have called 'democratic developmentalism'. […] The key task is to transform our political economy from one of pervasive rent-seeking to one that is conducive to value-creation.' (Meles Zenawi, 2006)

The role of the state and the ruling party in the Ethiopian economy

The ruling EPRDF party and its approach to politics are ideologically rooted in Marxism-Leninism, its military history, its rural origins, and its experience of mass mobilisation in opposition to the previous *Dergue* regime. While much of its Marxist rhetoric dissipated after 1991, the central leadership of the party and the country continues to see itself as the vanguard for the economic and social transformation of Ethiopia. The party leadership and the Prime Minister remain convinced of the central role of the developmental state and the ruling party in directing development, strongly endorsing the view that 'the central lesson of Asia's industrialization is that there is no alternative to the state' (Stein, 2006: 22).[28] Thus the government pursues a centrally directed strategy toward economic growth and development, rather than simply creating a broader enabling environment for private sector growth.

Although the Ethiopian economy has opened up significantly since 1991, key political actors continue to distrust the market's ability to allocate resources fairly and efficiently, particularly in what they characterise as a pre-capitalist context, with only an embryonic middle class. Thus land is retained in public hands, in order to preclude either the diversion of scarce domestic capital into land accumulation, or the spread of share-cropping, regarded as the 'quintessential rent collecting system' (Meles Zenawi, 2006). The state retains a strong presence in strategic sectors in the supply of key inputs (seeds, fertiliser and cement) and key services (telecommunications, and distribution of power and water).

From this perspective, the aim of government is not always to create an accessible playing field for maximum competition, but to play an active role in most sectors and spheres of economic activity, as part of a managed transition from a pre-capitalist economy to a 'sustainable' form of capitalism, which will have what it defines as a 'positive developmental impact'. The Ethiopian government's centrally directed state-led approach is partly modelled on the developmental states of East Asia and elsewhere, where the state has played a crucial role in stimulating and sustaining growth and markets have been managed rather than fully liberalised. The state envisaged in the official pronouncements of the current Ethiopian leadership is conceived very much along the lines of the 'social transformation state' advocated by Mushtaq Khan in contrast with the much less interventionist 'service delivery state' of the liberal consensus (Khan, 2004).[29] The Ethiopian state is assertive both in shaping and regulating the business and investment climates, and also as a participant entrepreneur.

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[28] This paper, originally drafted in 1995, was shared at the first meeting of the Initiative on Policy Dialogue Africa Task Force, Manchester, August 2006, at which Prime Minister Meles Zenawi, PMO Economic Advisor Neway Gebre Ab and Howard Stein were participants.

[29] Like that of Howard Stein, above, the document cited here was also shared at the 2006 Africa Task Force meeting, at which Mushtaq Khan also participated.

In this context, SOEs and endowment-owned enterprises and businesses play key roles as, despite privatisation, the volume and value of the public enterprise sector is thought to have grown since 1991.

The ruling party's rhetoric stresses that the rise of an entrepreneurial middle class is important not only in boosting the economy, but in securing an eventual transition to competitive 'liberal' democracy. EPRDF's position is that economic development will not be sustainable and in the interests of the majority without 'genuine,' i.e. revolutionary, democracy led by the vanguard party. The corollary is that liberal democracy will not be either sustainable, inclusive, or in the interests of the poor majority unless and until such a system can be supported and protected by an educated middle class (one that is not only strong but broadly based and representative) capable of protecting its economic interests and assets and motivated to do so. According to the party, this class does not yet exist in 'pre-capitalist Ethiopia', so that the unregulated introduction of competitive politics would be open to abuse and exploitation of the impoverished mass by wealthy elites. Thus (in its view) revolutionary democracy, under the leadership of the vanguard party and developmental state is the only 'genuinely democratic' option.

Whether or not one agrees with this analysis, APPP research tends to endorse aspects of it. The introduction of unrestrained *economic* competition and decentralisation of rents in a context where the overwhelming proportion of the population is uneducated and impoverished, has often not improved the welfare of this majority. Unrestrained *political* competition in such circumstances also does not often contribute to the conditions for growth. What is surprising in this context is how little attention has been paid by Ethiopia's development partners to understanding processes of (what the ruling party sees as) 'class formation' in the country, and to the milestones and criteria that might mark a transition from revolutionary to liberal democracy.

The contribution of the endowment-owned companies

There has been much speculation and argument as to the reasons for the establishment of the endowment-owned companies. In the mid-1990s a report purporting to be a translation of an Amharic document produced by the EPRDF, summarised a much-cited rationale for the establishment of the endowment-owned companies, seen here as a complement to state and SOE bodies in the process of centralisation of rents. Ruling party interlocutors insist that the document is not genuine, and there are good reasons for doubt.[30] The three objectives it proposes for the establishment of the endowment conglomerates are perhaps nevertheless worth citing here, if only because they are so widely believed.

a) 'Supplementing and/or carrying out the role of the state: in areas where due to financial and administrative constraints or external economic factors, the state is unable to play the role of directly regulating the economy, […] in those economic sectors which have no direct state influence.
b) Regulating and influencing the activities of private capitalists: in addition to the state's role in this regard, […] act as a powerful private investor which will demonstrate modern business practices to small businessmen while putting pressure on the bigger ones so as to strengthen the State's leadership role.
c) Serving as revolutionary democracy's source of income: in order to fulfil its mission, our Revolutionary Democracy needs great financial resources, and supplying these

[30] An original is not available, and the publisher is a vigorous diaspora critic of the ruling party.

> resources and building its strength is a role which these forces should play.' (Ethiopian Register, 1996)

Interestingly, the validity of aspects of the first two points (a) and (b) is borne out by research and interviews, whilst that of the third (c) is not.

The comprehensive nature of the contemporary Ethiopian approach to state-led 'developmental capitalism' has already been discussed: whilst endowment companies clearly do not formally 'regulate' either individual businesses or particular sectors of the economy, the activities of the endowment fund companies *do* complement the other economic levers available to the state in the pursuit of its long term economic goals. Meanwhile, there is much stress in the official rhetoric associated with EFFORT on the importance of the fund and the companies it owns playing an 'exemplary' role in terms of business probity and payment of taxes, specifically in order to influence the behaviour of other business actors (interviews). It is noteworthy for instance that a high proportion of EFFORT companies are ISO certificated, as compared with very low national rates of such compliance. EFFORT interlocutors stress that whilst an ideological agenda was more visible in the early years of EFFORT's establishment, commercial objectives and decision-making now guide activities that are designed to generate profit and drive expansion, albeit within an avowedly 'developmental' framework, as specified in its formal objectives (see below).

The precise interpretation of (c), meanwhile, remains moot. Despite strong rumours to the contrary, and no doubt with the usual scattered exceptions, this research tends to suggest that as a 'source of income', the bulk of rents associated with EFFORT do not go directly to the ruling party or its members. In our analysis, whilst they do feed the ideologically defined and long-horizon social, economic and political interests perceived by the political organisation, there is little credible evidence that they serve the short-term decentralised individual or commercial interests of its members. Commercial profits and rents accruing seem to serve long-term economic purposes, and they do this to a lesser degree by means of formal taxation but primarily as a result of the creation of positive externalities. This analysis is, of course, controversial.

In relation to this conclusion, it is worth adding one further note, on the nature and ideology of processes of decision-making within EPRDF/TPLF. The notion of 'democratic centralism' has long coloured the expectations of individual loyalty to collective party decisions, once reached. The organisation has had a notoriously low tolerance of internal factionalism, pressure groups or lobbying, although the impact of personal allegiances and social, sub-regional, and family-based networking is visible. Several of the individuals who constitute the top leadership of EFFORT are represented in the 5-person Executive Committee of the TPLF, alongside the leader of the government. Thus any serious difference of view between the Office of the Prime Minister and the EFFORT Board, for instance, would strike at the heart of party cohesion. Most sources interviewed consider that, whatever formal legal differentiation there may be between EFFORT and the ruling party, politically unsanctioned commercial strategy on the part of the endowment-owned companies would be unthinkable. This is a good instance of strong rent centralisation.

In 2001 the public eruption of division within the TPLF central committee, which had both party-state and federal-regional overtones, saw the rapid marginalisation of a group of 'dissident' politicians who included the then-Chairman of the EFFORT Board. The primary impact on the EFFORT-owned companies, meanwhile, was a reflection of the overall paralysis of economic leadership during the period of the Ethio-Eritrean war, further discussed below. Although for a while EFFORT threatened to become something of a political football between the factions, the situation was not allowed to escalate. At least within Ethiopian jurisdiction, the integrity of endowment-owned resources was not in question. If tight political cohesion at the top potentially enhances developmentally constructive rent centralisation, the absence of transparency that is its corollary makes this difficult to analyse. Lack of transparency also builds significant risk into the system, making probity a matter of internal evaluation, rather than external examination, and thus subject to political influence.

3 EFFORT and the EFFORT-owned companies

3.1 EPRDF-associated share companies before the endowments

Within months of EPRDF coming to power and establishing the TGE in mid-1991, a series of share companies began to be established by individual shareholders who were prominent members of the TPLF (and in some rare instances other EPRDF parties), using resources amassed by the TPLF/EPRDF during its war against the *Dergue*. The speed with which these companies were established indicates a strategy that had been planned and prepared well before the change of regime in May 1991. Guna Trading House, Meskerem Investment, Saba Dimensional Stones and Sur Construction were quickly established in 1991 and 1992, and others were added in 1993 and 1994: Almeda Textile, Beruh Chemical, Experience Ethiopia Travel, Hiwot Mechanised Agriculture, Mega Communications, Mesfin Industrial Engineering, Sheba Tannery, Tesfa Livestock, and TransEthiopia Share Company (also often referred to as TESCO). Also established in the early 1990s were Addis Engineering and the Africa Insurance Company in Addis Ababa, and Senay Trading Company, later Tower Trading Company, in London. A number of these organisations have been later wound up, or transferred to other ownership. Mega Communications, meanwhile, was always outside the purview of the endowment funds.

At the time, pressure from the international community was for the liberalisation of the economy, and there was widespread anxiety that the EPRDF would not introduce a fundamental shift in the policy of strict nationalisation that had been pursued by the *Dergue*. As a result, most international observers were initially pleased to see private companies being established, and the complex implications of their close party links only began to be questioned a little later.

A good example of this was the formation of TESCO/TransEthiopia, which was initially established with the fleet of aid delivery trucks which had been donated to the Relief Society of Tigray (REST) for the cross-border relief operation during the 1980s by international NGOs, largely channelling back donor government funding.[31] In 1991/2, REST's donors were keen to see its transport operation privatised and initially welcomed and endorsed the formation of TransEthiopia on a commercial basis. Doubts only began to surface when legislation later outlawed the *franco valuta*[32] operation of NGO transport fleets (such as the then Joint Transport Operation of Oxfam UK and Save the Children Fund UK), leaving TransEthiopia in an exceptionally strong market position, vis-à-vis lucrative long-haul contracts for the transport of relief grain from the ports.

3.2 Emergence and development of EFFORT

The questionable and *ad hoc* arrangements whereby senior individual members of the ruling Front became major shareholders of businesses using funds and capital the organisation had accumulated during the war, soon came under fire. They offered little or no legal protection against personal enrichment or the siphoning off of resources many critics believed should have been returned to the state. After several years the government moved to regularise the relation between political and commercial activities, and in 1994 legislation explicitly prohibited political organisations from running businesses. Interviews suggest that individuals originally named as shareholders, who subsequently transferred their holdings to EFFORT,

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31 REST and its links with the TPLF/EPRDF are briefly discussed below.
32 Vehicles and equipment imported using duty free and hard currency permissions.

were not compensated in any way: they were regarded by the TPLF/EPRDF as having been doing their duty as members of the political organisation, and their involvement was not seen as generating any form of individual commercial right or dividend entitlement. This transfer of individually held shareholdings took place at a time when the TPLF was evolving from an armed ethno-nationalist ‘liberation movement’ into a ruling political party. The organisation’s ability to re-centralise resources in this way perhaps reflects a strongly evolved collective sense both of emotional ethno-national commitment to the organisation and its region, and of joint sacrifice ‘for the struggle’ and its ‘martyrs’. If the TPLF had been the shared vehicle for an armed campaign against the previous regime, EFFORT was presented to its members as a vehicle for the ‘next phase’ of that same struggle.

Establishment of EFFORT

In mid-1995, after several years of deliberation, the various companies set up with resources donated by the TPLF were transferred under the newly-established Endowment Fund for the Rehabilitation of Tigray, EFFORT,[33] in a move widely seen as respecting the letter rather than the spirit of the new law. Individual shareholdings in the existing share companies were ‘irrevocably donated’ to EFFORT, which was constituted as a not-for-profit non-governmental endowment fund, reportedly provided for under the Ethiopian Civil Code of 1960. Under new Charities and Societies legislation which came into force in early 2009, endowment funds such as EFFORT represent one of four types of Charities recognised by Ethiopian law: charitable endowments, charitable institutions, charitable trusts, and charitable societies:

> ‘A charitable endowment is an organization through which certain property is perpetually and irrevocably designated by donation or will or the order of the agency for a purpose that is solely charitable. (Article 16 of the Charities and Societies Proclamation).’ (International Centre for Not-For-Profit Law, 2011)

EFFORT was established by 25 so-called founder members, each of whom contributed a nominal ETB 2,000 start up capital (equivalent to approximately US$ 320 on the exchange rate applying at the time). They included 16 central committee members of the TPLF’s senior leadership, and nine other non-fighters, peasants and mass association members from different parts of Tigray. As with the original pre-EFFORT company shareholders, their nomination and involvement reflected responsibilities they assumed as members of the political organisation and do not seem to have conveyed any particular individual commercial, developmental or charitable advantage.

Whether benefits accrue to members of the ruling party in Ethiopia by virtue of their membership *per se* is a highly controversial question that has attracted much speculation and little empirical evidence over the last two decades. In relation to rents associated with the EFFORT companies, this research has come across no credible evidence that individual party members have been enriched. As indicated above, the allocation and use of profits, dividends, benefits and rents seems rather to be conceived and managed strategically to resource the wider socio-economic and political objectives of ‘revolutionary democracy’ in shaping and enhancing the outcomes of the ‘developmental state’.

Aims, capital and organisational structure

EFFORT’s objectives as set out in its Articles of Association include the following:

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[33] In Tigrigna *Tekal Egri Metkal Tegaru* or *Te’emt*.

- ‘To use the resources ‘of the people of Tigray’ held by the TPLF, for the economic, social and cultural development of the region;
- To generate income for the families of the martyrs and other victims of the war in Tigray, as well as other vulnerable citizens including orphans, the elderly, HIV victims, etc.;
- To act as an instrument to promote the industrialization of Tigray, given that most investors prefer the service sector;
- To open up new sectors into which private sector businesses could follow, once infrastructure and a precedent have been established;
- To contribute to the development of human resources in Tigray, especially to the establishment of research and training institutions.’

EFFORT companies currently report around ETB2.7billion in capital (approx. US$160million), and ETB6 billion in assets (approx US$360million) (interview, 2010). According to EFFORT’s articles of association, the sources of its capital are three:

- irrevocably committed contributions from supporters of EFFORT in Tigray and internationally;
- money and material accumulated during the armed struggle by the TPLF, including by military means, also committed or endowed irrevocably;
- profits from EFFORT’s own investments, through share companies and other activities.

The overwhelming bulk of the resources that made up the initial investment came from the (non-military) money and material accumulated by the front during its military campaign against the Dergue. Against this, a total of ETB100million was paid out in 1991-2 to the families of fighters killed during the war, at the rate of ETB 3,000 per family.[34] A decision was made that the rest should be ‘developmentally and productively invested’, initially in the companies that pre-dated EFFORT, and finally in the EFFORT-owned portfolio (interview).

The decision was controversial. Many opponents and critics in Addis Ababa and other parts of the country felt that the resource had been ‘stolen’, and should have been repaid to the state. The TPLF’s constituents in Tigray, meanwhile, expected to see a rapid return on the sacrifices they felt many had made. More recent controversy has focused on the proportion of resources accruing from the humanitarian assistance given for non-government-held areas of Tigray during the 1980s, although there is little evidence to substantiate claims of fungibility. The only humanitarian resources that all sides agree found their way into the EFFORT investment are the vehicles and garage facilities transferred from REST to establish TransEthiopia, already mentioned above.

EFFORT is formally governed by a Council of 55-75 members, made up of representatives appointed from the regional government, local governments, and other associations. The Council is required to meet at least annually (between September and December), and at other times as necessary. Overall strategic management of EFFORT, however, is controlled by a Board of between nine and 12 members, which may include up to 25% from amongst management representatives. The board is required to meet quarterly, and is elected by the Council for three years. Although it is not a formal constitutional requirement,[35] in practice all previous and current Board members are senior TPLF members and leaders. As already noted, interviewees insist that no fees are paid to EFFORT board members for their activities,

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[34] Equivalent to US$ 1,450 before devaluation in October 1992, and US$ 600 thereafter.
[35] And could not be under Ethiopian law.

and this would be in line with the preference for an ideological rather than a commercial framing of objectives.[36] The current Board Chairman is a former sector manager of EFFORT, and head of the political office of the TPLF in Tigray. EFFORT's current CEO is a former regional vice-President. Both are long-standing members of the TPLF socio-economic committee, current TPLF politburo members, and former Chairmen of REST.

EFFORT's corporate centre has two wings: its investment centre, and its humanitarian directorate. EFFORT's investment centre nominally provides a number of services to its businesses, including internal auditing, HRD, legal services, marketing, research and evaluation, etc. A number of those interviewed expressed a degree of dissatisfaction with the technical capacity and efficacy of some of these services. Whilst many EFFORT companies are now managed by professionals with significant private sector experience and good business training this seems to be less true of some of the technical divisions at the corporate level. A degree of cultural tension has often been visible in institutions where EPRDF former-fighters and professional 'civilians' have sought to work together, and EFFORT is not immune to this problem. Loyalty and competence provide competitive criteria for staff selection and recruitment.

Although this is a matter of extrapolation, if not speculation, it seems to be the case that any divergence between commercial decision-making and the demands of the wider political rationale is played out between the (more ideological) EFFORT board and corporate centre on the one hand, and the (more professional) management of the companies on the other, rather than between the government or ruling party and EFFORT *per se*. Unsurprisingly, research suggested that a degree of frustration and friction between these two levels of the corporate structure is not unheard of. This coexists with significant pride on both sides in the achievements of the endowment fund and commitment to its leadership.

EFFORT-owned companies were organised into 5 clusters when the fund was established each led by a senior TPLF politburo or central committee member. The original sectoral grouping through the 1990s was around Industry, Mining, Finance & Trade, Construction & Transport, and Agriculture. This constellation was reorganised during the period of party 'renewal' after the 2001 split in the TPLF central committee into the following 'commercial business units' or CBUs:

- ❑ CBU-1 Engineering and Construction
- ❑ CBU-2 Manufacturing
- ❑ CBU-3 Service
- ❑ CBU-4 Agroprocessing
- ❑ CBU-5 Mining.

The following sections discuss each of the EFFORT companies, dealing with each CBU in turn. A table detailing the recent tax returns of each of the enterprises is to be found as Annex 1 of the report.

Up to 2008, EFFORT owned 12 companies:

- ❑ Mesebo Building Materials (Mesebo Cement)

[36] This apparently contrasts with the fact that fees that *are* commonly payable in Ethiopia to board members of SOEs, and constitute expedient transfer rents for senior politicians. It is alleged that on the one occasion when an EFFORT board member did charge the organisation a fee for his activities, he was later requested to return the sum.

- Ezana Mining
- Almeda Textiles & Garmenting
- Addis Pharmaceuticals
- Mesfin Industrial Engineering
- TransEthiopia
- Saba Stones
- Sheba Tannery
- Hiwot Agricultural Mechanisation
- Sur Construction
- Guna Trading and
- Express Transit Services (subsequently integrated with Trans).

On 1 April 2009 EFFORT incorporated the Dejenna Endowment, a similar umbrella grouping of much smaller-scale companies, also established to promote economic development in Tigray. Little is known about the Dejenna Endowment, but EFFORT reportedly already had stakes in a number of its companies, and the merger seems to have taken place without loss of staff. As a result, EFFORT took over a further 11 relatively small companies which the other endowment had established in Tigray in the early 2000s, namely:

- Abergelle Livestock Development
- Alage Forest Development & Utilisation (subsequently divested)
- Bruh Tesfa Plastic Products
- Dimma Beekeeping and Honey Processing (subsequently divested)
- National Geo-textile Technologies (also Wukro Gabion Factory)
- Plant Tissue Culture Laboratory (subsequently donated to Mekelle Institute of Technology)
- Maichew Particleboard Factory
- Romanat Flexible Packaging
- Golgol Raya Agro Processing (subsequently donated to the zone administration)
- Selam Flowers (subsequently divested)
- Abergelle Export Slaughterhouse Factory (subsequently integrated with Abergelle Llivestock Development).

With the sale of Dimma Honey, and a number of other smaller operations, the full portfolio of EFFORT companies has now been rationalised into the 16 enterprises that are discussed in the following sections[37]. Significantly the most important of these (in terms of the scale of investment and/or profits generated) are Mesebo Cement, Guna Trading House, Almeda Textiles & Garmenting, TransEthiopia Transport & Logistics, and Mesfin Industrial Engineering, along with Sur Construction and Addis Pharmaceuticals.

3.3 Engineering and construction

Mesebo Building Materials

The cement industry is crucially important to Ethiopia's industrial sector, and demand has far outstripped supply in recent years as construction, real estate and public works investment have ballooned. The domestic market is thought to be in the region of 4.5 million tons per

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[37] A total of 19 companies are included in this discussion: Tower Trading in London has subsequently ceased to trade; Mekelle Plant Tissue Laboratory has been donated to the Mekelle Institute of Technology, and EFFORT seems to have recently divested from one other enterprise discussed below, probably Alage Forest Development.

annum, and is expected to rise to at least 6 million, whilst domestic production was between 1.7 and 2 million tons in 2010. The opening of Derba MIDROC's new plant (capacity 2-2.5 million tons) is expected to double national capacity, with *Tiret* and North Holdings' Dejjen plants also under construction in Amhara region, and Habesha Cement reportedly planning a 1.2 million ton plant in Holeta (Addis Fortune Newspaper 2010a). In 2010 there were apparently more than 24 potential new entrants to this booming sector (Sutton and Kellow, 2010: 140), and what has been a heavily concentrated market, frequently reliant on controlled international imports, will expand and diversity radically over the coming couple of years. EFFORT's Mesebo plant just north of Mekelle the regional capital of Tigray was the first new addition to domestic cement production since the establishment of the SOE Mugher in 1984,[38] and in the 1990s was seen by some as an excessive investment. It has a capacity of around 670,000 tons per annum (before current expansion) and a market share of around 30%,[39] alongside Mugher (800-900,000 tons), the privatized National Cement (200-250,000 tons) and the private Abyssinia (45,000 tons).

Mesebo Building Materials Production, which was established in August 1995, took a long time to become profitable. The cement factory construction, which began in 1997, is reported to have cost in the region of ETB1.2 billion (now equivalent to US$70million, but more at the time of expenditure), and production started in April 2000.[40] An initial Chinese management contract was terminated in 2002, and in 2003, with the plant running heavy losses and talk of foreclosure, managers were brought in from Pakistan. By 2008 after several years of soaring domestic prices,[41] Mesebo had returned to strong profitability, and in 2009 began an expansion programme with Chinese contractor Hanfie at a reported cost of ETB3billion (just under US$180million), including a further loan from the DBE of ETB141.6million (US$8.4million). This expansion is expected to boost production from 2,000+ tons per day to around 6,000 tons per day. Since 2005, Mesebo produces Portland Limestone/Pozzolana Cement (for finishing) as well as Ordinary Portland Cement. In 2009-10 Mesebo replaced the Sudanese imported furnace oil it had been using with 10% Delbi coal (mined in Jimma in Oromia) and 90% petcoke (a byproduct of oil, imported from Sudan), thus reducing costs (Aggregates Research, 2010).[42] Mesebo has been an initially large but arguably not dominant player in this crucial market, spearheading its expansion. The company envisages selling its products to Sudan and Djibouti, although it is likely to be some time before Mesebo (or any of the other domestic cement manufacturers) is producing at internationally competitive prices.

The regional and national distribution and transport of Mesebo's cement seems to have sustained a series of semi-monopolistic or transfer rents in the context of recent high prices and scarcity. EFFORT's TransEthiopia and Guna have enjoyed exclusive national distribution and supply arrangements with Mesebo, reportedly allowing TransEthiopia to charge ETB80 per quintal for transport to Addis Ababa, as compared with a market rate closer to ETB50-60. Mesebo has also entered into a series of controversial wholesale deals for cement distribution within Tigray, allowing youth co-operatives and mass associations to benefit from local monopolies as cement retailers. Whilst the policy is defended as designed to kickstart SMEs

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[38] Established during the Dergue period with support from the then-East German Government, Ethiopian Treasury and the DBE.

[39] The Company Profile indicates 40%, and a total capacity of 'more than 900,000 tons per annum' before expansion (EFFORT, n.d.[2010a]: 9).

[40] The factory reportedly suffered minor damage in an Eritrean attack in 1999 during the Ethio-Eritrean war.

[41] The cement price in Ethiopia peaked at US$24 per quintal during the 2008/2009 financial year. This is equivalent to US$ 240 per tonne, well above international prices (Sutton & Kellow cite a comparable retail price in Pakistan of US$ 64), and importers were allowed to import a million tons in an attempt to stabilize prices (Sutton & Kellow, 2010: 141-2).

[42] Note that the ratio noted by Aggregates Research (60:40 coal:petcoke) is reported to be incorrect.

and tackle youth unemployment in the region, private and construction sector critics complain that it has driven up prices. It is one of a number of instances of EFFORT companies shaping the allocation of rents in favour of specific social sectors, which would not otherwise be likely to benefit from the market.[43] Whilst there may be short-term advantages in this, careful monitoring will need to assess the medium and longer-term impact of sustained subsidy, which could be less desirable.

Mesfin Industrial Engineering

Mesfin Industrial Engineering (MIE) was established in Mekelle in 1992 with ETB7million capital, and 30 employees; the company currently reports capital of ETB300million (US$17.9million), as well as ETB800million in assets (US$47.6million),[44] and employs 650 permanent and 350 casual/contract staff. MIE began by manufacturing cargo bodies and trailers, with around 85-90% of national requirements reportedly produced by the company (over 3,000 units). It retains around 80% of the national cargo body business. It has produced a series of large (5-10 million litre) storage tanks for petrol products in different parts of the country, as well as tanker cargo bodies for liquid distribution (over 1,000 units). All of these had previously been imported. The company has been involved in the various stages of electro-mechanical factory commissioning for its sister enterprises, including erection and installation of Mesebo's coal firing plant, and design, supply, erection and commissioning of plant for Almeda Garmenting and Textiles, and Sheba Tannery, and erection of storage tanks for Dashen Brewery (owned by *Tiret* in Amhara).

MIE's early involvement in cargo body manufacture extended to vehicle assembly, with a plant to assemble Russian Kamaz trucks inaugurated in May 2000, and since 2006 an assembly plant for tractors from India's Mittal-owned Sonalika International. Its vehicle-related business is widely thought to have been boosted during the period of the Ethio-Eritrean war (1998-2000), by a series of military contracts. Like a number of other EFFORT companies, MIE had the advantage of relative proximity to the northern battlefronts, and given its dominance of the sector, seems to have been the only domestic company with the capacity to take on this work. Observers have also noted that it also enjoyed a close connection with key figures in military procurement, when the then-Board Chairman of EFFORT and former Minister of Defence became a member of the 7-man national military Central Command.

Since the early years of this century, however, the company has diversified in a number of directions. MIE is the only domestic manufacturer of penstock intake (or sluice gate) units for hydropower plants, and has been involved in a number of the country's large hydroelectric developments, notably Tis Abbay near Bahr Dar. It worked on Addis Ababa Airport in the 1990s, and is now also involved in the design, erection and commissioning of several of Ethiopia's eight new sugar factories, part of a major SOE expansion strategy now led by a former TPLF politburo member. In 2008 MIE was subcontracted by the Italian firm Costa to rehabilitate a bridge on the Ethio-Djibouti railway as part of a €50million EU-funded programme, and is looking to expand its involvement in the sector, as a prospective 5,000km national rail expansion programme begins to come on line. The company reports struggling to

[43] It could be argued that the distribution and supply arrangements between Mesebo, Guna and TransEthiopia constitute 'transfer pricing', although this seems unclear. The arrangement between Mesebo and the youth co-operatives and associations certainly establishes a transfer rent, and one that is potentially progressive.

[44] Although note that last year's Company Profile records 'net assets of over ETB230million' (EFFORT, n.d.[2010a]).

match strong Chinese competitors in the electro-mechanical engineering sector, where domestic capacity has had relatively little emphasis.

Since 2010 MIE expressed interest in increasing its sub-contracting arrangements with local SMEs in Mekelle, to boost local technology transfer and capacity. Production valued at around ETB10-15million has reportedly been outsourced to date, and a further ETB20million of sub-contracting planned for 2010/11. A number of those interviewed expressed a degree of scepticism regarding the balance of economic and non-economic considerations in play. EFFORT interlocutors insist on the primacy of an economic rationale, noting that sub-contracting regularly reduces production costs by 10%, and improves delivery times.

Sur Construction

Sur Construction was established as a share company in January 1992 with an initial capital of ETB180million, and is based in Addis Ababa. Brought under EFFORT in 1995, and reorganized as a PLC in 2003, it now has assets valued at around ETB1billion (US$60million), and capital of ETB200million (US$12million). Its annual turnover is more than ETB690million (US$41million), with a recently estimated cumulative project value of more than ETB3.5billion (EFFORT, n.d.[2010a]). The company estimates its market share of the construction sector at around 10%. The company has almost 1,000 pieces of construction machinery and plant, and employs more than 1,500 permanent and contract staff, and 6,000 daily labourers (EFFORT, n.d.[2010a]). Sur's construction activities are focused on four sectors:

- Hydroelectric power projects: so far at Tis Abbay (Amhara) and Tekezze (western Tigray), in collaboration with Serbian and Chinese contractors;
- Airports: at Lalibella (in Amhara) and Humera (in western Tigray);
- Buildings: including Mekelle and Axum universities in Tigray; Almeda Textile and Garmenting Factories; the TPLF monument complex in Mekelle; a sporting complex near Imperial Hotel in Addis Ababa;
- Roads: asphalt roads including Gondar-Dansha (138km) in the north-west of the country; Arba Minch–Jinka (112km) in the south-west; Holeta-Mugher (57km) in the centre of the country; and Wereta-Gogob (49km) in the north.

Sur has also sub-contracted to local SMEs a series of smaller road projects with a value of ETB10million (for instance at Dedebit in western Tigray, and Fincha in western Oromia), as well as building work valued at ETB20million. The company reports that it faces difficulties both in winning bids and in securing credit, because of what it claims is its 'exemplary' commitment to legal and ethical business standards. Examples of unsuccessful bids in 2008, for instance, reportedly include those for road construction on Arerti-Gobensa (Mojo-Metahara in Oromia), Yalo-Chercher-Mehoni (in Tigray/Afar), Endaselassie-Dedebit (in Tigray), and Sanja-Keraker (in Amhara, to the Sudan border), all of which were awarded to competitors. A loan of ETB100million secured from the CBE in 2008/9 represents 10% of Sur's assets, and reportedly took 6 months to secure. Sur represents a key component of the strong integration that characterises the EFFORT group of companies, as well as other closely associated organizations in Tigray. Sur construction built a building for the Tigray Veteran Fighters Association, with funds made available by EFFORT; as well as HQ buildings for REST and TDA in Mekelle (it is notable that the Mega-NET corporation building in Addis Ababa's Bole, which houses the EFFORT office in Addis, was built by the long-established Ethiopian-Italian contractor Varnero).

Romanat

Romanat Flexible Packaging was commissioned in January 2009, and began production in July of that year. Its production of polypropylene bags for agroprocessing and manufacturing further enhances EFFORT's vertical integration. It lists Mesebo, Sheba, TransEthiopia and Guna as its customers, along with a number of flour factories. Romanat has 260 employees.

3.4 Manufacturing

Addis Pharmaceuticals

The Ethiopian pharmaceuticals sector remains relatively small, with 10 firms producing pharmaceutical products, and three others making medical supplies. The largest of these are MIDROC's Pharmacure, the SOE EPHARM established in 1972 (currently 50 products and 570 employees), and EFFORT's Addis Pharmaceuticals. Ethiopian production satisfies only 20% of the domestic market: pharmaceuticals imports were valued at US$190million in 2008, and more than a hundred importers and wholesalers are registered in the country. Although the sector is regarded as a priority for development and import substitution, tight regulation constitutes a barrier to entry, as does the Ethiopian industry's import of more than 90% of raw materials, accounting for 40% of costs (Sutton and Kellow, 2010 165ff). A number of medium-sized enterprises were reported to be in trouble in the middle years of the decade.

Addis Pharmaceuticals was established in 1992 in a joint venture between two businessmen, one of whom transferred his controlling stake to EFFORT in 1995. Controversy attaches to the eventual purchase by EFFORT in 2005 of the shares of the remaining partner, after relations apparently soured (see below, on Tower Trading Company). Addis Pharmaceuticals' factory in Adigrat, north-east Tigray, has recently increased its products to around 130 from 10 product lines, and is one of the largest pharmaceuticals plants in Ethiopia (a sector into which the Chinese also moved with the opening of Sino Ethiop in 2001). No statistics for its market share are available.

Although it commenced production in 1997, Addis Pharmaceuticals reportedly operated for its first decade at only 30% of capacity. 'Capacity utilization has now reached 77% due to improvement of internal production capability, strict control of substandard imported products by the regulatory authorities and improvements in government support for the sector' (Sutton and Kellow, 2010: 171). Addis Pharmaceuticals also hopes to move into regional export markets, and its horizontal integration was improved by the acquisition of the newly established but insolvent Lifeline IV fluid manufacturer. Ninety-eight per cent of the company's raw materials are imported, mainly from China, and 70% of its products are sold to the state-owned Pharmaceutical Fund Supply Agency on open-tenders (Sutton and Kellow, 2010).

Almeda Textile and Garmenting

In 2009, 47 large companies (more than 50 employees) accounted for 90% of Ethiopia's textiles and garments production, with a further 20-30 medium enterprises and 4,000 smaller operations accounting for the remainder, in a sector which is not highly concentrated. Exports were valued at US$14.6million in 2007/08 (Sutton and Kellow, 2010: 109). EFFORT's Almeda has the country's only fully integrated textile and garmenting factory near Adua in central Tigray, incorporating spinning, weaving and dyeing as well as garmenting. It is a market leader in the production of cotton fabric. SOEs continue to dominate the relatively capital-intensive area of textile production, despite a number of attempts at privatisation or leasing to foreign management. It is estimated that domestic producers account for only a third of garmenting production (where capital entry barriers are lower than for textiles), with a number of large Chinese and Turkish investors moving into the sector in recent years.

The industry is reckoned to be one of the largest employers in Ethiopian manufacturing: the national workforce in the textile and garmenting sector is reported to number 38,000, with up to a further half a million people involved in the informal traditional hand-loom sector. The government has ambitious plans to boost finished exports over coming years, building on significant increases under AGOA from 2007 and 2008. In October 2010 it banned the export of raw cotton in response to anticipated domestic demand (Addis Fortune Newspaper, 2010b). Soaring international cotton prices, now feeding into the domestic market, are expected to reshape the sector, benefiting cotton growers whilst squeezing small traditional garment producers. Reflecting the high government priority placed on boosting this sector, credit is reported to have been relatively easily available, to state, private, and foreign investors alike.

Almeda's plant cost more than US$94million. Since its foundation the company has struggled for profitability in a context of management and skills weaknesses, low global cotton prices, and cutthroat import competition. Located close to the Eritrean border, it was hit particularly hard during the Ethio-Eritrean war, a few years after which it was rumoured that the banks would foreclose on the company's heavy loans. Management problems saw the involvement of a Chinese management company, later a Pakistani company (Moonlight) and most recently from 2006 a second Pakistani management company (Tradesman). Almeda was reportedly the only one of EFFORT's companies still not turning a profit at the end of 2010 (interview). Ethiopian textiles and garments have struggled to compete with low-priced Chinese imports, but increasing global prices and demand (not least from China itself) look set to change this pattern, and long-horizon planning now seems likely to pay off in this sector, potentially generating substantial operating profits whilst producing internationally competitively priced exports. The EFFORT portfolio has strong integration in this area, boosted by Hiwot's involvement in the production and ginning of raw cotton from western Tigray, and its support for the development of mechanised farming in the area, not least that begun by demobilised former TPLF fighters. Almeda currently employs more than 3,600 workers.

Sheba Leathers

Leather and leather products are long-standing industries in Ethiopia. There are reportedly 22 tanneries in Ethiopia (mostly in Addis Ababa, Oromia and Amhara), and a further 18 enterprises making leather products, employing a total of 8,000 people (Sutton and Kellow, 2010: 97). EFFORT's Sheba Leathers, the only tannery in Tigray, started production in 2004, with a reported investment of ETB94million, and by 2006 had a skins processing capacity of around 4-5% of the national total, although this has apparently risen significantly since. An ETB300million expansion programme is ongoing, and the company aims to produce branded footwear and gloves with 70% going to the international market by 2020. Finished leather products currently account for only 15% of Ethiopia's export earnings from the sector, and the government has put a series of taxes to discourage the export of unfinished hides and skins (Sutton and Kellow, 2010: 99). The company based in Wukro, north of Mekelle, employs 410 people.

3.5 Service

TransEthiopia

TransEthiopia was established in April 1993, with a paid up capital of ETB102.5million as well as the vehicles and garage facilities established under the transport operation of the Relief Society of Tigray (REST). It is one of the major players in a competitive transport industry, carrying both dry and liquid cargo. It has the largest dry cargo lifting capacity in the country (18,000 tons plus 10,000 litres), with a fleet of 458 truck-trailers and semi-trailers, and 23 liquid truck-trailers. It has two main operational branches: one in Mekelle in Tigray, and the other in Adama (Nazreth) in Oromia on the road between the port of Djibouti and Addis Ababa; as well as an office in Addis Ababa, an operational unit in Djibouti port, and one of several fuel distribution units at Mille, on the northern route from the port to Tigray and the north. The company acts as import agent for Pirelli tyres and Japan Star Batteries, and is emerging in the logistics market, in forwarding, transit, clearance, packing, shipping, warehousing and chartering services.[45] It employs 1,248 people.

TransEthiopia operates alongside a series of public[46] and private transport companies, and around 90 cooperative-style transport associations, of which 20 operate fleets of between 100 and 400 vehicles, in a market where transport unit costs have been declining. The total national transport capacity in 2006 was estimated at over 43,000 vehicles, of which two thirds were available for commercial hire: 35,600 for dry cargo, and 1,800 for liquid cargo. TransEthiopia is reported regularly to subcontract 30-40% of its business to a number of transport associations, significantly leveraging its market share. It also subcontracts ‘gomista’ (tyre repair), and loading/unloading services to small associations in Mekelle, Adama and Mille. Whilst the dry cargo sector shows little concentration at the national level (regional markets may be different), the transport of liquid cargo is more concentrated, with the top 8 operators (of which TransEthiopia is one) having 67% of lifting capacity, according to Transport Authority figures.

TransEthiopia has long been considered one of the most profitable arms of EFFORT, and claims an exemplary record in timely, even early, repayment of credit (including loans of ETB100million and ETB35million from Dashen Bank, and ETB150million from the CBE, equivalent to US$5.9million, US$2million, and US$8.9million respectively). Its position in the transport sector in the 1990s was considered to be controversially dominant, particularly in relation to the lucrative long-haul transport of relief grain from the ports to Northern Ethiopia. TransEthiopia’s commercial incorporation of several hundred Mercedes and IVECO truck-trailers donated on a humanitarian basis to REST during the 1980s, and its ongoing role moving large quantities of humanitarian cargo for the organization, gave it an early competitive advantage. Competitors complained that high prices paid for food distribution to remote rural centres in Tigray and Amhara allowed TransEthiopia to offer unmatchable long-haul rates. EFFORT and REST responded to critics by insisting that market forces alone would provide inadequate protection to the high transport capacity to remote areas in the north of the country needed in times of food insecurity. TransEthiopia’s involvement in the transport of fertilizer throughout the country during the 1990s is also thought to have been highly profitable, and it is clear that the business has well established ongoing client relations both with its EFFORT sister companies, and in the sugar, fertiliser, imported cement, and humanitarian cargo sectors.

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[45] The EFFORT-associated company Express Transit Services was integrated with TransEthiopia in the last couple of years.

[46] The four SOEs are Comet, Bekelcha, Shebelle and Wyira.

Guna Trading House

Consistently the most profitable of EFFORT's companies since its establishment in 1992 has been Guna Trading House: indeed its mission statement specifies the determination 'to boost EFFORT's equity' (EFFORT, n.d.[2010]: 33). Guna's import-export business is run from its headquarters in Gerji in Addis Ababa. In its early years Guna focused on the export of sesame and import of fertilizer. It now exports oil seeds (sesame, niger, rape, soya), gums (olibanum and Arabic), coffee (washed, semi-washed and sun-dried), pulses, and spices. It imports construction materials (including reinforcement bars and metal parts, glass, timber, and bitumen), tyres (as agent for India's Sun), and paper products. Annual turnover increased from ETB170million in 2005/6 to ETB796million in 2008/9, and is now thought to be around ETB1billion (US$60million). Although Guna is not EFFORT's largest taxpayer,[47] its cumulative foreign exchange earnings in the period up to the 2008/9 financial year were just over US$180million, i.e. more than double those of the next EFFORT company, TransEthiopia (just under US$80million). It is Ethiopia's largest exporter of oilseeds, primarily to Saudi Arabia and Turkey.

Coffee is Ethiopia's most valuable export commodity, accounting for 35% of foreign exchange earnings, and 25% of GDP (Sutton and Kellow, 2010: 33). Oilseeds and pulses constitute Ethiopia's second largest export commodity after coffee, and in 2008/9 export revenue reached US$445million (Sutton and Kellow, 2010: 45). Guna is the largest of 36 firms involved in the export of oilseeds and pulses, and a smaller player amongst more than 60 large coffee exporters. Both sets of commodities are now traded under the Ethiopian Commodities Exchange (ECX), established in 2008, in order to improve the efficiency of trading of a range of agricultural products.

ECX has had a significant impact on the way in which import-export companies interact with producers, improving market information for producers, but also introducing an intermediate mechanism. Teething problems with the establishment of ECX's storage and transport logistics in the Humera/Shire area are projected to have a significant impact on Guna's flagship export of sesame during the current financial year. The intervention of ECX in the oilseeds sector has driven significant changes in the relationships between producers, including the EFFORT sister company Hiwot Mechanised Agriculture, and buyers including Guna.

Guna, along with its sister endowment-owned companies in other parts of the country (Ambassel, Dinsho, and Wendo), was criticised for an aggressively competitive approach to the fertiliser import market during the 1990s. Private operators were first allowed to enter the state-controlled fertiliser market in 1993, and price controls and subsidies were lifted in 1996. Nevertheless, the government was determined to ensure that fertiliser prices for peasant farmers were kept low, and introduced a credit guarantee scheme funded by the regional governments, which allowed the delivery of fertiliser on credit at below-market rates. The involvement of endowment-owned suppliers and distributors facilitated the fulfilment of the government's non-commercial objectives in the fertiliser sector. Large private operators, including Ethiopia Amalgamated and Fertiline, which had won significant market share in the middle of the decade, gradually withdrew or were forced out, complaining of unfair practices in relation to the size of import lots, access to foreign exchange, distribution arrangements, etc.

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[47] Mesebo Cement's cumulative tax of ETB663million up to the 2008/9 financial year is more than double Guna's ETB285million, and represents 43% of EFFORT's total tax payment.

It seems clear that the links between organisations with strong connections to EPRDF and the government in the supply and distribution of fertiliser in the 1990s went well beyond a normal pattern of commercial synergies. Fertiliser in Tigray, for instance, was for some time imported and distributed by Guna, transported by TransEthiopia, on roads constructed by Sur, under an extension programme organised by REST, on credit provided by the Dedebit Savings and Credit Institution (DESCI), through Farmers' Associations and Co-operatives, with a payment guarantee from REST and/or the regional government. Since the beginning of the century, the SOE Agricultural Inputs Supply Enterprise (AISE) has once again increased its market share, and since 2005, co-operatives have become involved in fertiliser supply, greatly reducing the involvement of endowment-owned companies, particularly Guna. Nevertheless, EFFORT sources insist, 'without TransEthiopia and EFFORT, we would never have been able to get fertiliser to the rural areas in Tigray in the 1990s' (interviews 1997, 2010). The strategy has avoided some of the pitfalls of other contexts, in which a dearth of forward and backward linkages between firms undermined economic stability.

Guna's decision to move into coffee exports in 1999 was also controversial, denoting its willingness to compete with its sister endowment-owned companies to trade a commodity grown in Oromia and the SNNPRS. Guna's more recent move into construction materials, particularly re-bars, reflects the demands of the construction boom of the period from 2004. Our findings accord with John Sutton and Nebil Kellow's conclusions about Guna, many of which also apply to the other EFFORT companies:

> 'The firm has operational autonomy, where the general manager makes higher-level decisions. For major capital investments, adding or dropping product lines and other strategic issues, decisions are made at board level in the presence of the CEO of EFFORT. Since the firm is owned by the endowment fund, it has significant corporate accountability, resulting in formal and lengthy decision-making procedures regarding capital investment. This is particularly relevant in the export business, where fast decision-making, based on the latest market information, is sometimes needed.' (Sutton and Kellow, 2010 52)

Whilst the endowment structure seems to offer significant advantages in terms of strategic planning, and the establishment of forward and backward linkages, it may be that it will increasingly need a degree of review or revision in sectors where international and domestic competition increases, and flexibility becomes paramount. It is not clear whether it might place a constraint on expansion, but – as has already happened – it is likely to encourage divestment from smaller enterprises.

Tower Trading Company

Tower Trading Company (called Senay Trading up to 1995) was incorporated in London in September 1993 with a share capital of UK£300,000. Trading in the company ceased several years ago, it does not appear in the EFFORT Company Profile (n.d.[2010a]), and steps were taken to close it down. The company is included here because documentation available from UK Companies House describes its shareholders as 'the trustees of EFFORT'. Former directors have included at least two diplomats at the Ethiopian Embassy in London. Latest accounts posted show annual profits of UK£125,000 in 2006, and UK£102,000 in 2007, on an annual turnover of between UK£1million and UK£1.2million. These figures would accord with the view that the company was not of great importance in the overall scheme of EFFORT operation, but provided useful facilitation of import/export activities. No annual returns have been submitted since 2008, and in March 2010 the company was removed from the UK Companies Register. The High Court in London reversed this decision in July 2010, in response to the petition of lawyers acting for Mulugeta Guade Mengiste and Addis International Trading, described by the court as 'creditors of Tower Trading Company.'[48] There is no evidence that EFFORT owns other companies outside Ethiopia, and interlocutors report that at present it does not. The prospect that it might do so in future, meanwhile, is explicitly not ruled out.

3.6 Agroprocessing

Hiwot Mechanised Agriculture

Hiwot Mechanised Agriculture was established in 1992 with a capital of ETB25million, and has cultivated over 14,000 hectares of rain-fed sesame, cotton and sorghum in the Humera and Tsegede areas of western Tigray. The company has 100 tractors and 10 combine harvesters. It also runs a ginning factory, processing 2,100 tons of cotton per annum, both its own production and that of out-growers. It is in the process of developing irrigated agriculture, with a 20-hectare irrigation scheme on the Kasa River, also in western Tigray, and the prospect of a further 6,000 hectares to be developed over 3 years. Hiwot was instrumental in supporting the establishment of commercial farming by demobilised fighters of the TPLF, who were granted land in the Humera area as part of a state programme of demobilisation, thus providing economic facilitation for a wider policy imperative of socio-political change. The company has 300 permanent employees, and employs more than 10,000 casual workers on a seasonal basis.

Abergelle International Livestock Development

Abergelle International Livestock Development was established in 2004 with an initial capital of ETB10million, which was recently raised to ETB27million. The company runs an export-quality slaughterhouse in Mekelle, feed processing and forage development in Mehoni and Alamata (south-east Tigray), and three livestock fattening stations in Alamata, Agbe and Shire. The company has over 80 employees, and is in the process of expanding. It aims to supply processed meat to markets in the Middle East and North Africa.

Bruh Tesfa (Bright Hope) Irrigation & Water Technology

Bruh Tesfa was established in Mekelle in 2004, and produces polyethylene pipes for pressurized irrigation systems, as well as being Ethiopian agent for a number of international suppliers of irrigation technology. Given the dramatic expansion of irrigation and commercial agriculture, often in connection with the development of hydropower across the country, this is expected to be an increasingly important industrial niche. The company also provides design and installation consultancy services.

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[48] The businessman Mulugeta Guade established Addis Pharmaceuticals Share Company with a partner in 1992, as discussed above. Reported disagreements over the price at which EFFORT would purchase his 49% stake in the company coincided with a number of legal disputes between EFFORT and Mulugeta and his business interests (including Addis International Trading and Addis Transport), before the shares were finally sold to EFFORT in February 2005. Mulugeta was also a founder shareholder of Wegagen Bank in 1997, and it was reported that the removal of the Bank's second Chairman in 2006 was connected with the issue of a letter of credit in his favour.

Maichew Particleboard Factory

The Maichew Particleboard Factory, in Maichew town in southern Tigray, employs 400 workers, producing particleboard for use in construction and furniture from eucalyptus wood grown in the area.

Mekelle Plant Tissue Culture Propagation Laboratory

The laboratory was established in 2006 'to transform agricultural production systems and attain food security through the production of high value planting materials' (EFFORT, n.d.[2010a]: 53). It plans to increase production from 3 million to 5 million seedlings per annum. Species produced include banana, sweet potato, vines, apple, citrus, eucalyptus, sugarcane, pineapple, and cassava, as well as root stock for rose production. This company was relatively recently donated by EFFORT to Mekelle Institute of Technology.

National Geotextile Technologies (Wukro Gabion Factory)

The Wukro Gabion[49] Factory of National Geotextile Technologies was established in November 2004, and began production a year later. Initial capital of ETB10million has now been increased to ETB17million. The company sells to regional government bureaux, local administrations, NGOs, and private construction companies across Ethiopia, and has 120 employees, and twice that number of contract workers. As with a number of the smaller and relatively low-tech enterprises originally under Dejenna Endowment and recently incorporated under EFFORT, competitors consider that this kind of enterprise might have been left to private entrepreneurs, and that EFFORT's involvement adds relatively little value but squeezes local SME competition.

Alage Forest Development & Utilisation

Alage was established in Mekelle in 2005 under Dejenna Endowment, and aims to develop plantation forest industries including lumber, and essential oil and briquette production from eucalyptus. It is experimenting with the plantation of jatropha, aloe, and sisal, and is the main supplier of eucalyptus to Maichew Particleboard. It has increased local capacity for developing and exploiting the potential of economic synergies, in a remote rural context where FDI has not been forthcoming. As the local economy in this part of Tigray expands, this is the sort of venture from which EFFORT is expected to divest.

3.7 Mining

Ezana Mining Development

Ezana was established in 1993 with a capital of ETB14million. It provides services in minerals exploration, groundwater assessment and drilling, and foundation investigation for construction sites (dams, roads, tunnels, high-rise buildings, airports, etc.), with its own laboratory for analysis. After engaging in geological mapping and exploration in Tigray in 1994-1996, Ezana formed a joint-venture for gold exploration with Ghana's Ashanti in 1996. In 2007 it formed joint ventures with Egyptian and Chinese companies to develop a number of

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[49] Gabions (from the Italian gabbione 'large cage') are used in stabilising terraces and escarpments for landscaping or during soil and water conservation and road construction.

sites. Amongst other exploration licences, Ezana owns one for coal at Delbi in Jimma, the source of the bulk of Mesebo's fuel.

Saba Dimensional Stones

Established in Adua in central Tigray in 1992 with a capital of ETB75million (US$4.5million), Saba extracts and processes marble, limestone and granite for domestic and international markets, from deposits identified in Tigray. Although the company has undertaken some small exports to Saudia Arabia and Italy in the past, its primary lines of supply are of marble to the domestic construction market, with agents in Addis Ababa, Bahr Dar and Gondar.

3.8 Timeline of major developments and recovering profitability

1995-1998: expansion

The initial period of dramatic expansion of the new portfolio of EFFORT-owned companies was from 1995 to 1998. An additional series of new and little known companies was established, including Dessalegn Veterinary Supplies, Ethio-Rental, Express Transit and Hi-Tech Park. During this period EFFORT companies obtained significant loans from the CBE to finance their expansion. Although investment and development seem to have been steady, both were on a large scale and moved slowly, so that many of the new companies were not profitable. One of the exceptions, Guna Trading House, moved into coffee trading in the SNNPRS and Oromia, in competition with Dinsho and Wendo. Meanwhile, in Addis Ababa the four endowment funds established Wegagen Bank (see below).

1998-2000: the Ethio-Eritrean war hits management and loan-repayment

The situation of slow but steady consolidation changed abruptly in May 1998 with the sudden outbreak of the Ethio-Eritrean war. Almost overnight, key politicians were reassigned to support an urgent mobilisation, nationally and on the frontlines in Tigray and Afar. The war created a range of problems for the Tigray-based businesses many of which remained heavily indebted at this point. Massawa port, by far the closest exit to the sea for many Tigray businesses, and the main port at Assab were no longer accessible; significant import and export commodities in transit in the ports were lost, and locations in Tigray, including MIE, were bombed. As devastating as any other setback for businesses in a delicate stage of high expansion, was the fact that the management of their industrial and commercial initiatives went into suspension as the TPLF leadership switched its attention to the war. The then-Chairman of the EFFORT Board, for instance, returned to previous duties with the military.

EFFORT companies seem to have won a number of military contracts for uniforms, supplies, and transport in the north, which kept some of them in profit. This focus also left other trading and transport sectors and opportunities in the rest of the country open to others in the private sector. Soon after the outbreak of the war, reports began to circulate that EFFORT companies were defaulting on the loans they had taken from the CBE, significantly increasing the proportion of NPLs on its books.[50] In 1999 Chinese management was brought in for Mesebo Cement and Almeda Textile but was relatively short-lived because of reported 'cultural difficulties.'

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[50] There are unconfirmed reports that since the CBE's proportion of NPLs had risen above thresholds regarded by the IMF as 'acceptable' EFFORT's loans were transferred to the DBE, whose portfolio is not incorporated in these indices.

2000-2003: pressures escalate as the leadership splits

The culmination and end of the active phase of the war in May-June 2000 meant an improvement in the prospects for EFFORT company fortunes in principle towards the end of the year, although a new 'cold war' phase and management problems continued to hamper activities. At the beginning of March 2001, a bitter split in the TPLF central committee became public, dividing the hitherto tight-knit group of EFFORT's bosses and board members. Fighting, managing and recovering from the political division absorbed all available political resources, perpetuating the commercial and managerial paralysis that had set in internally as division had emerged. In 2002 Pakistani management was brought in to Almeda amidst reports of EFFORT companies being in trouble: again the international management arrangement was short-lived.

By now, corruption allegations had begun to be levelled at members of the group of 'dissident' politicians. Whilst a number of them had been involved with EFFORT, none of the allegations related to endowment-owned funds or assets, and interlocutors stress that the conglomerate was not involved. Whilst there was a moment when it looked as though the companies might be embroiled in court cases, this did not transpire. Few (either commentators or insiders) have suggested that the EFFORT companies and their resources represented significant bones of contention that either triggered or exacerbated the causes or trajectories of political infighting. The temptation to blame poor performance of some of the companies on the dissidents subsequently proved irresistible.

It has recently been recorded that by 2001/2 EFFORT had lost ETB340 million, or around 40% of its original cash investment (which would indicate an initial cash injection of ETB850million). This is described by EFFORT as primarily a result of 'leadership problems' – namely leadership neglect in the face of the more pressing military and political challenges presented by the Ethio-Eritrean war – than as a direct consequence of factional division in 2001 (in which EFFORT does not seem to have become directly involved). As a result the public banks began to take steps to sell Almeda Textiles, Addis Pharmaceuticals and Mesebo Cement (EFFORT, 2010b). Overall, aggregate EFFORT losses seem to have continued until 2003, and possibly longer, and individual companies' losses clearly persisted into the recent period.

2003-2007: reform and the return to profitability

Internal management reforms, conducted in the wake of the 'renewal' process as the ruling party consolidated itself in the wake of the split, began from as early as 2002-3. In relation to EFFORT they seem to have been extensive, and official sources report that they involved:

- improving the sense of institutional ownership and effectiveness (clarifying institutional procedures, and responsibilities, increasing transparency, introducing an audit system [sic], and a series of operational manuals and procedures);
- increasing productivity (with a particular focus on Mesebo, Almeda and MIE which account for three quarters of EFFORT's investment);
- expanding investment capacity (with a particular focus on Mesebo, Almeda and Addis Pharmaceuticals), apparently financed by a return to profitability and new borrowing; and
- creating and exploiting synergies between the companies (EFFORT, 2010b).

Meanwhile, private sector and opposition groups began to lobby for the dissolution of EFFORT companies as part of the party 'renewal' process: their calls were ignored as the programme of internal reform continued, albeit largely invisible at the time. Private media criticism of the endowment-owned companies became remarkably vocal in the run up to the 2005 national elections: in their wake the opposition CUD circulated a list of endowment-owned companies, and called for a public boycott.

By 2006 company documentation indicates that EFFORT as a group was consistently breaking even. Another series of senior personnel changes was made, amidst some reports of frictions amongst board members. Between 2006 and 2008, a further period of consolidation and amalgamation of the businesses took place, including some divestment from smaller enterprises (honey production, etc). By 2007 all of EFFORT's companies with the exception of Almeda were reported to have begun to turn a profit, with overall EFFORT profit for the year at ETB360 million.

2008 onwards: reinvestment and expansion

By 2010 EFFORT was reporting that it had expanded by reinvesting ETB3 billion during the five-year period following its return to profitability in 2005. Mesebo was expected to begin full production of 36,000 quintals of cement per day in September 2010 (EFFORT, 2010b). In January 2011 it was announced that the DBE would loan Mesebo another ETB316 million during this financial year for its further expansion programme to develop a second factory (Addis Fortune Newspaper, 2011a). Almeda Textiles was reportedly expanded by ETB250 million in the period up to April 2010, allowing it to create an additional 4,000 jobs; Sheba leather upgraded its facilities to produce finished leather and leather products; and Abergelle Livestock expanded its slaughterhouse capacity to 240 cattle and 960 shoats a day with an investment of ETB150 million. Sur Construction and Addis Pharmaceutical also reportedly received additional investment worth tens of millions of Birr (EFFORT, 2010b). Whilst some of this represents a reinvestment of profits, additional credit has also been obtained.

EFFORT's vision for the future

EFFORT has ambitious plans for its future. EFFORT's expansion strategy envisages it becoming competitive in the world market, helping to lift Ethiopia to middle-income status, and turning an annual profit of more than ETB3 billion (currently approximately US$178million) within 15-20 years by increasing its production and investment capacities, creating partnerships with other businesses, and focusing on human resource development (EFFORT, 2010b). This does not mean that EFFORT's vision of itself is as 'just another company'. EFFORT's leadership, all still senior members of the leadership of the Ethiopian ruling party, continue to see themselves as playing a key role in contributing to Ethiopia's economic transition, not least in helping alternately to boost, inspire, rein in, discipline, and control an entrepreneurial sector regarded as weak, conservative, mercurial and politically unreliable. As such EFFORT and the companies it owns are increasingly integrated into the wider fabric of economic, political, social and developmental actors involved in promoting the economic agenda of 'revolutionary democracy'. This is an idea and a strategy with long-horizon resilience.

3.9 Other economic actors in Tigray

EFFORT and its companies form part of a network of organisations active in the regional economy of Tigray, many of which also have close links to the ruling party. Some of them also emerged during the TPLF's military campaign against the previous government. Of these, EFFORT companies enjoy co-operative or collaborative relations with each of:

- The Relief Society of Tigray (REST);
- The Tigray Development Association (TDA);
- The Tigray Veterans' Association;
- Farmers', Womens' and Youth Associations;
- Co-operatives;
- Dedebit Credit and Savings Institution Share Company (DECSI).

Whilst discussion of the economic role and activities of these organisations lies beyond the scope of this study, it is important to note both that they have emerged from the same political seedbed as that which produced EFFORT and the companies it owns, and also that urbanisation and the diversification of economic and developmental actors in the region means that that they now represent only a proportion of relevant relationships. There are however important linkages and synergies between these organisations, with various members of the same relatively small leadership group of senior TPLF politicians, some of whom are also regional government officials, involved in either the boards, management, policy or decision-making processes of all of them. Examples of synergies between EFFORT and a number of these bodies are further discussed in the following section.

3.10 Themes: synergy, competition, management and development

Perhaps the most striking feature of our analysis of EFFORT's portfolio of companies is the economically strategic nature of its interventions, together with the high degree of vertical and horizontal integration of its companies, which offer a multitude of opportunities to exploit business synergies. EFFORT-owned strengths in transport, logistics, engineering, construction and import-export have effectively served the needs of a number of its other companies, as well as of other actors in Tigray, including the regional government and REST. Some companies (Hiwet, Alage, Guna) have stimulated the production or import of raw materials (cotton, sesame, lumber, re-bars, bitumen) important to its other enterprises. A number of business interlocutors, including those critical of EFFORT, affirmed its value suggesting that 'Tigray without EFFORT would have been a disaster'. The political leadership, meanwhile, sees EFFORT in a wider perspective, objecting that 'Tigray without rural credit and agricultural extension would have been a disaster: the primary issue is growing individual household assets not just growing EFFORT.'

EFFORT's size as the largest regional taxpayer[51] and non-state employer certainly bears out its importance; but it is the scale of investment in new manufacturing plant and capacity in the region, beyond the likely involvement of commercially motivated private investors, which sets it apart as having 'created something tangibly new' in Tigray. EFFORT companies have invested and risked high levels of capital, and from what one can tell have yet to see anything like the kind of return most private sector entrepreneurs would have required by now. In this respect, and similarly to Tristar/Crystal Ventures in Rwanda, EFFORT has the ability to make socially useful and venture capital type investments that the private sector would normally eschew. Although they have taken time to mature, and some are still not matured, overall economic indicators suggest that their impact on the economy is not unduly growth-retarding, in fact the reverse may be the case.

[51] Approximately 8-9% of EFFORT's total tax payments (see Annex 1) seem to be paid to the Tigray regional government, with all income taxes payable to regional governments (except for those of Guna and Sur which have head offices in Addis Ababa rather than Mekelle and make income tax returns to Addis Ababa city municipality); VAT and profit tax, meanwhile, are paid to the federal government regardless of the location of the business.

Significantly, EFFORT companies stand poised to engage in most of the rapidly expanding sectors of Ethiopia's import substitution, export expansion, and infrastructure development: hydropower, railways, and irrigated agriculture; pharmaceuticals, leather, and garments; oilseeds, coffee and minerals. Whilst Mesebo clearly led the expansion of domestic cement production in the 1990s, it is difficult to argue that EFFORT companies are always at the forefront of opening new sectors for private enterprise. Many of the areas in which it is active are ones where there are many existing and potential entrants. The establishment of a large, profitable and influential business conglomerate is apparently also an objective in its own right, financing selected initiatives in Tigray.

There is a series of particularly interesting instances where the business strategies adopted by EFFORT-owned companies have explicitly facilitated economic objectives other than that of enhancing market competition: in contributing to the non-marketisation of the fertiliser sector in the 1990s; and in prioritising youth co-operatives as exclusive agents for cement distribution, amongst other examples. In both of these instances, critics have complained about monopolistic practice. Whilst both cases have shaped the generation and allocation of strategic rents (arguably in favour of profiting co-operatives, the state, and peasant farmers) in centralised and socio-politically valuable ways, in neither case has the mid- to long-term maximisation of profits accruing to EFFORT-owned companies provided the rationale.

Other strategies, meanwhile (particularly on the parts of Guna and TransEthiopia), have shown a more single-minded concern for profit, with which it has been possible to subsidise the losses of sister enterprises. A number of these decisions have shown that commercial synergies operate to advantage in times of bad business, as well as good, as when TransEthiopia transported Mesebo cement at cost when market prices were too low to make a profit.

Critics complain that too many of these strategic decisions have had a deleterious effect on the emergence of sustainable competitors in the private sector: other producers and transporters unable to compete with the 'advantages' of EFFORT's superior integration, or its access to the kind of information about credit, contracts, and policy directions which circulates in powerful circles. There are also instances, however, where the government has been willing to act to pursue interests or policies that curb the profits of EFFORT-owned companies. The return of SOEs and co-operatives to the fertiliser sector, for instance, is not the result only of market forces, and can only have been driven by state decision-making that has had the effect of removing a space in which Guna and other endowment-owned businesses had been able to turn a tidy profit. Meanwhile, the establishment of the ECX in a number of sectors has clearly disrupted lucrative synergies between endowment-owned companies, at least in the short-term. The relatively very few purchases by either endowment funds or endowment-owned companies of SOEs under the privatisation process are also remarkable: Kuraz publishing (bought by Mega for ETB13million) two pharmacies and one or two hotels seem to be almost the only exceptions.

The rationale for this is reportedly that it is in line with EPRDF's preference for extending new productive capacity rather than exploiting existing resources, which has driven a strict policy of endowment-owned companies not participating in the auction of public assets. If this is the reason for the strategy, it contrasts markedly with continental norms.

Meanwhile EFFORT-owned companies have made a number of humanitarian and social contributions from their profits.[52] Together with the employment and training opportunities

[52] The following information is taken from EFFORT (2010b).

they provide, these have made them very valuable amongst certain social strata, particularly in Tigray itself. EFFORT commitment to the Tigray Veteran Fighters' Association (TVFA) is very significant: it contributed ETB100million to the parents of fighters who had been killed during the war against the Dergue, and recently paid more than ETB50million for the construction by Sur of a multi-storey building from which TVFA generates income. EFFORT also contributes ETB10million a year to the Mekelle Institute of Technology, and has paid for the construction of 3 primary schools by TDA. Mesebo Cement, meanwhile, contributed ETB20million for the construction of a high school in Mekelle. Each of the other companies makes smaller contributions to local 'good causes', and many finance sporting clubs for athletics, cycling and football: a google search for 'TransEthiopia' for instance, throws up details of the footballing prowess of its eponymous team.

Perhaps the most controversial speculation currently attaching to the EFFORT-owned companies concerns the scale and provenance of the credit to which they have access, and particularly the notion that the extent of the loans to EFFORT companies from the DBE may be unsustainably large. In the period since 2008, when the government capped credit to curb inflationary pressures, others in the private sector have complained of the difficulties they face, and of the advantages they think endowment-owned enterprises enjoy. It is true that this has also been a period of significant expansion for key EFFORT companies, but some sectors (cement and pharmaceuticals) win credit more easily than others. As EFFORT interlocutors note, it is easier to win credit if an enterprise is working in one of the areas accorded priority by the government. A number of EFFORT managers also complain of difficulties and delays of access to credit, noting for instance that financing for Abergelle Livestock took more than 18 months, because of the processes required by the bank. Similarly materials required to establish Romanat Packaging were delayed in a container for more than a year, because of difficulties with customs clearance. EFFORT companies have sought and obtained credit from a range of public and private banks, not only from the state-owned banks or Wegagen Bank, in which they have shares. Financial sector linkages are not only in-house: Guna Trading is a shareholder in United Insurance, whose CEO is a trenchant critic of business policy.

4 Other endowments and endowment-linked companies

Whilst this study does not explore in detail the three other regional endowment funds which own businesses in Amhara (The Amhara National Regional Rehabilitation and Development Fund, known as Endeavour or *Tiret*), Oromia (*Tumsa* Endowment Foundation for the Development of Oromia) and the SNNPRS (*Wendo*),[53] they operate along similar organisational lines to EFFORT, albeit (with the exception of *Tumsa*'s very large trade and export activities) on a significantly smaller scale. *Tiret* and its companies, for instance, employ only 2,800 staff (interview), as compared with the more than 14,000 permanent employees or 34,000 contract staff of EFFORT and its companies. Although all three run a number of lucrative trading and transport businesses, none of them plays as important a relative economic or social role in their respective region as EFFORT does in Tigray, and only *Tiret* seems to have significant investment in manufacturing plant.

4.1 Tiret in Amhara

Established in 1995, *Tiret* incorporated a number of pre-existing companies (Ambasel Trading (1993, registered 1995), Blue Nile Transport (1992), and Dashen Brewery (registered 1995 but operating earlier), and has a particular focus on agro-processing through Zeleke Agricultural Mechanisation (established 1996). Zeleke's activities – mechanised agriculture and a meat processing plant – all seek to add value to regional farmers' products, but have often struggled for profitability in comparison with the other more lucrative businesses. Other companies include Sheba Industries (sesame processing, *tahina* and *halwa*) and Highland Coffee, both reportedly established in 2003.

In 1998, *Tiret* went into partnership with French-based BGI to build the Dashen Brewery in Gondar,[54] and its 2009 decision to build the country's second malt factory, on an investment of ETB396million, will increase the company's vertical integration and market leverage (Ethiopian News Agency 2010). Tana Communications is in the process of moving into the IT sector, under a joint venture with a company established by Ethiopian expatriates, to establish a mobile phone assembly plant in Bahr Dar,[55] before planning to move into TV and computer assembly, and finally micro-processor chip production. *Tiret* is also involved in the supply of building materials, and has apparently sought to broaden local investment in the US-based North Holding Investments' construction of a second cement factory at Dejen, north of the Abbaye Gorge, due for completion in 2012 (Capital Newspaper, 2011b).

Like EFFORT (and *Tumsa* and *Wendo*) *Tiret* has shares in Wegagen Bank, and Walta Information Centre, and its regional credit and savings organisation. It makes contributions to the work of the Amhara Development Association (ADA) and the Organisation for Relief and Development in Amhara (ORDA).

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[53] It is not clear whether the SNNPRS business activities are formally organised under an endowment fund umbrella, as would seem likely, or whether *Wendo* Trading is the only legal entity.

[54] BGI Ethiopia which produces St George (Addis Ababa), Castel and Bati (Kombolcha) beers, subsequently withdrew from the venture, reportedly in disagreement over expansion plans.

[55] Chinese telecoms giant ZTE Corporation won the bid for the design and build of the plant in Bahr Dar, sought in September 2009 (Ethiopian Herald, 2009). In February 2011 *Tiret* secured at 56.7 million ETB loan from the DBE for the project (Addis Fortune Newspaper, 2011b).

4.2 Tumsa in Oromia

After its establishment in mid-2001 *Tumsa* Endowment Fund took over the ownership of *Dinsho* Enterprises (established in early 1992), which included Dinsho Agro-Industry plc, *Dinsho* Transport Service, *Dinsho* Trading, and *Dinsho-Biftu* Trading. *Dinsho* Trading had been heavily involved in the supply of fertilizer through the 1990s. *Dinsho-Biftu* plc, established in December 1993, focused primarily on exports, including sesame and coffee, and moved rapidly to control the lucrative trade in the mild narcotic leaf *khat* from a substantial operational base in Dire Dawa. It exports *khat* throughout the region, and since 2005 is reported to be a major shareholder in the *khat*-exporting company established by East Hararghe zone's producer co-operatives. Dinsho also invested in the establishment of the Oromia Coffee Farmers' Co-operative Union in 1999, and has offices to facilitate export in the UK and Germany (Forbes Magazine, 1999).

Dinsho's CEO, former Governor of the National Bank of Ethiopia (NBE) Dubale Jale, noted in an interview in 1999 that the companies' annual turnover was ETB900million (Forbes Magazine, 1999). In 2000, after moving into floriculture (Ethiopian Highland Roses plc), it was described as the 'second largest private sector firm in Ethiopia, behind MIDROC', suggesting a larger turnover than EFFORT (Indian Ocean Newsletter, 2000). Further research would be required to assess the accuracy of this claim, and the relative value of EFFORT and *Tumsa* in terms of turnover and profits. It seems unlikely that the *Tumsa* group, with its stronger focus on export trade, has assets or investments on the scale of EFFORT. Criticism of the group has focused on its involvement in well-established trade sectors where there are many other business actors.

4.3 Wendo in SNNPRS

Wendo Trading was established in Awassa in 1994, with capital of ETB6million, widely understood to have been provided by other EPRDF sources.[56] Its trade and export activities focus on fertiliser, coffee and *khat*.

4.4 Joint endowment-linked companies: the real money-spinners?

It is important to note that this study has not covered the series of important national companies in which EFFORT is jointly involved with its three other sister regional endowment funds. These are Wegagen Bank and Africa Insurance in the financial sector, and Mega Publishing, Walta Information Centre (a news agency), and Fana Radio in the areas of publishing and broadcasting.

EFFORT in common with its other three sister regional endowment funds held a 15% founding share in Wegagen Bank when it was established in June 1997. After Ethiopian legislation introduced a 5% cap on bank shareholding from a single investor, EFFORT and the other endowments each reduced their stake, and EFFORT now owns around 4% of Wegagen. In November 2010 Wegagen reported a profit of ETB223.3million after tax during the 2009/10 FY, an increase of more than 23%. Wegagen's paid up capital of ETB633million is the highest of the country's private banks. The bank has deposits of ETB3.8billion, and in early 2011 was concerned about excess liquidity in the context of ongoing government caps on lending, which have subsequently been partially, but not entirely, relaxed.

[56] Whilst not formally verified, interviews effectively confirmed that ANDM and TPLF had agreed to make capital available to the parallel structure in the SNNPRS.

Meanwhile, a second financial sector company, Africa Insurance, reported ETB19million net profit for the 2009/10 FY, with total assets of ETB291million. Africa Insurance has 15 branches throughout the country, and is a shareholder of Wegagen Bank, to the value of ETB40million.

Mega Enterprises has reportedly recently divested from the various advertising and entertainment sectors in which it was active, focusing on publishing and printing, and its news agency and radio. Mega publishing and printing has a number of substantial contracts from the Federal Ministry of Education for the preparation of schoolbooks. Ethiopian publishing and printing capacity is still well below national requirements, with the education sector reportedly remaining heavily reliant on Indian contractors. In this context it is difficult to argue that Mega's market dominance is monopolistic.

Previously Walta News Agency, Walta Information Centre (WIC) was reorganised as part of Mega in 1996. The only domestic competitor to the national Ethiopian News Agency (ENA), WIC sells news to the government media, and operates a network of reporters across the country. It was established as a share company jointly owned by EFFORT, *Tiret*, Dinsho, and Wendo.

Fana Radio was not originally formally a privately owned company: it was the radio of the EPRDF during the Dergue period, which was allowed to continue operating like all 'previously established media', a loophole established by the press law passed during the period of the TGE in the early 1990s. Fana Radio therefore operated initially as the party radio station of the EPRDF, but seems more recently to have been re-established on a commercial private basis, alongside a range of other private radio stations which were established under new legislation. Fana makes programmes under contract with Somali, Oromia and Afar National Regional States, a business widely thought to be lucrative. In January 2011 it was reported that the newly established Fana Broadcasting Corporation aims to launch Ethiopia's first private TV station within two years.

5 Conclusion

A recent paper on Industrial Policy in Ethiopia concludes that

> 'Business and politics are still strongly entwined in Ethiopia. State-owned enterprises still dominate many manufacturing industries and service sectors, and party-affiliated endowments have taken many of the business opportunities left for private engagement'. (Altenburg, 2010; 2)

Commentary on Ethiopia often conflates distinct ideas on the basis of a widespread consensus: on the one hand the fact of the business-politics intertwining; on the other the assumption that it is a bad thing that should change. On the basis of this consensus, much international assistance to the country wrestles with the challenge of trying to move Ethiopia's economy in a more plural liberal direction. Thus, for instance, a recent funder study concluded that

> '[…] as the private sector grows and is in a position to contest all business areas operated by endowments, the early rationale for endowment-owned businesses has eroded.' (World Bank, 2009: 54)

The research presented here undoubtedly supports the general perception that business and politics are closely linked in Ethiopia, and has examined one specific instance of ideologically driven engagement by politicians in the commercial arena. However, it also prompts a series of critically important caveats as to our understanding and re-interpretation of the potential growth-enhancing value of aspects of the *current* situation in Ethiopia. We conclude that the dominance in Ethiopia of economic actors and regulators that are part of (or closely related to) the state and the ruling party is not a situation that should be dismissed as a momentary aberration. Neither should the international community seek usefully to engage with it simply by trying to wish it away. If aspects of APPP's concept of developmental patrimonialism do seem to apply here, this would suggest that, in purely economic terms at least, the situation is not perhaps even one that should be treated as unfortunate or inadequate *per se*.

Our analysis suggests that it is unlikely that the endowment-owned companies in Ethiopia will be short-lived, however little they accord with international funder preference. The role that EFFORT-owned companies play in Ethiopia shows some important differences with similar commercial ventures in other countries. They do not seem to provide direct financial subsidies to the ruling party and political elite as is the case in Rwanda. Nevertheless they provide indirect resources and public goods that feed wider social, political and developmental processes. They have played a role in financing and facilitating investment in areas of weak private involvement, and by small and new business start-ups, including youth co-operatives. A degree of divestment from the SME sector, in combination with outsourcing business to new actors in the last year or two may contribute to the emergence of a small-scale entrepreneurial class. Although benefits in terms of profitability have been relatively slow to accrue to some of the companies, EFFORT now makes important contributions to the slender commercial tax-base of Tigray Region, to job creation, and to manufacturing capacity.

The question of economic 'crowding out' which is also raised by Altenburg is a matter of significant controversy in Ethiopia. The dynamics and salience of the issue continue to shift as the economy, and specific sub-sectors of it, have grown. If current rates of economic growth are maintained, business opportunities will also expand, and the current dominance of individual suppliers is less likely to be a problem going forward than emerging under-supply. If the concern is to boost the stable diversification of national supply, the specifics of what is meant by ‘taking business opportunities’ (Altenburg above) are important here: providing an exemplary and supportive role model in otherwise difficult terrain is one thing; anti-competitive practices based on the exploitation of strong synergies in lucrative established sectors is another. Poor transparency on this issue goes to the heart of controversy associated with the endowment-owned companies: our analysis suggests that there is evidence of both approaches at different times and in different sectors and parts of the country.

We have argued that current economic arrangements in Ethiopia are the result of deliberate and long-horizon planning by government and ruling party for a carefully managed transition from pre-capitalism to middle income status, which is expected to last (at least) several decades. In our analysis Ethiopia seems broadly to fit within the typology of long-horizon, centralised rent utilisation as set out in APPP work on developmental patrimonialism (Kelsall and Booth *et al.,* 2010: 8): indeed there are indications that Ethiopia’s policy makers are influenced by economic thinking in the same vein. On the one hand, the Ethiopian leadership is relatively secure in its position and is extremely ambitious and far-sighted in its economic and developmental objectives. On the other hand, a high proportion of Ethiopia’s economic rents also seem, on the face of it, to be increasingly centrally managed: those at the heart of government and the ruling party sit at the apex of an assertive ‘developmental state’ which seeks an apparently unusual degree of influence or control both over where, when, and how rents are created, and over their distribution and use.

To achieve what it sees as a sustainable transition to developmental capitalism, the Ethiopian government’s policy is designed to sustain its influence over a panoply of key economic and business levers *throughout* the transition, i.e. through the medium term. It seeks to establish and maintain: close economic regulation by government, particularly in the financial sector; a strong SOE profile, particularly in a range of strategic infrastructure-related sectors; a high degree of state control of the provision and availability of credit to strategic sectors, both at the macro (CBE, DBE) and micro levels (multiple MFIs including DESCI and others); increasing involvement of co-operatives and mass associations in economic activity at local levels in line with its national vision; and, as we have discussed here, influential allies amongst the endowment-owned companies (and increasingly some others) in the private sector.

Much more research on the degree of centralisation and the nature of rents generated and allocated in all of these areas would be desirable. The economic impact on a range of constituencies (including newly emerging national elites) of public and private spending and production in different parts of the country is an important component of the overall picture. So too are the contribution of regional development associations, peasant and mass organisations, and media outlets.

For developmental patrimonialism to be successful, it needs not only to grow the pot, but also to ensure reasonably equitable and sustainable access to it. In a transition economy of low productivity, poorly co-ordinated markets and opportunistic rents, unregulated entrepreneurialism has frequently led to non-developmental kleptocracy. It is not surprising that in just such a transitional context, the Ethiopian government is reluctant to rely on a private sector, some elements of which it sees as rent-seeking, law-breaking and uncooperative. Working instead with immediate political colleagues who are not only trusted, but who are ‘on the inside’ as far as the inner workings of the state are concerned, undoubtedly carries an alternative set of risks, not least the political capture of resources which are not then used to serve economically productive or sustainable developmental ends.

Perfect market competition or effective liberal constitutional checks and balances might appear to offer ideal solutions. In their absence, however, the institutionalising of the strong technocratic integrity to bolster systems that have the ability to distinguish and steer a path between productive and unproductive rent utilisation is probably more important. Another risk is the tendency for developmental patrimonialism to degenerate into less economically productive forms in cases where regimes with strong leadership continuity experience succession crises. This is potentially a further set of challenges that Ethiopia and its ruling party have yet to demonstrate they will be able to transcend.

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Annex 1: Tax payments in and up to EC financial year 2001 (2009/10) and foreign exchange earnings/substitution in selected periods

Name of the company	Income tax	Profit tax	VAT	Withholding	Other tax	Total 2001EC	Total up to 2001EC	Foreign Exchange	Period EC
Mesebo Cement/Building	7,997,590		152,248,477	1,800,208		162,046,275	663,063,565	$4,351,281	96-98
Mesfin Engineering	2,939,704	4,523,103	9,959,989	-	-	17,422,796	104,766,680		
Sur Construction	9,213,226		26,239,196	6,126,416	-	41,578,838	150,340,428		
Romanat Packaging	245,204	-	-	-	70,144	315,349	315,348		
Almeda Textile/Garment	4,433,815	-	150,229	348,266	6,141,168	11,073,478	66,721,494	ETB 107,548,575	97-01
Addis Pharmaceuticals	601,141	-	-	10,169	26,724	638,035	1,852,695		
Sheba Leather	1,163,434		3,019,616	-	-	4,183,051	8,847,149	ETB 221,328,395	97-01
TransEthiopia	4,944,342	25,428,810	20,819,480	417,920	-	51,664,551	138,209,502	$ 79,575,533	93-01
Guna Trading	1,154,762	4,530,532	91,600,485	-	-	97,285,779	285,496,989	$ 180,821,829	84-01
Selam Horticulture*	-	-	-	-	-	-		ETB 249,083	89-01?
National Geotextile/Gabion	329,445	6,285,000	12,616,373	194,535		19,425,354	25,905,321		
Abergelle Livestock	270,820	-	34,000	-	-	304,820	692,802		
Raya Field Agroprocessing	162,331	-	-	17,223	-	179,554	179,554		
Bruh Tesfa Irrigation	573,199	-	3,290,404	116,534	-	3,980,136	5,596,751		
Maichew Particleboard	442,038	-	1,293,711	-	152,378	1,888,127	10,758,108		
Hiwot Agriculture	587,548	1,413,898	3,415,739	269,436	960,000	6,646,621	38,997,889	$ 4,332,859	95-01
Dimma Honey Processing*	-	-	-	-	-	4,274	365,417	ETB 481,016	98-01
Tissue Culture Laboratory	85,651	-	91,406	1,764	-	178,786	276,662		
Ezana Mining	326,822	-	284,788	15,705	-	627,315	2,539,274		
Saba Stones	888,908	365,183	4,417,331	118,749	3,268	5,793,439	19,759,058		
Alage forestry	296,866	-	66,999	-	-	363,864	1,584,915		
TOTAL						413,748,316	1,526,269,597		

Source: EFFORT (2010b): data as presented in that report.

Notes: All figures are in Ethiopian Birr, except those in the final column which are US$ and ETB as indicated.

* Selam Horticulture, Dimma Honey, and Raya Field Agroprocessing are no longer listed as EFFORT-owned companies.