monthly updates on the

ETHIOPIAN ECONOMY

DECEMBER 2020

UNITED NATIONS ETHIOPIA

Published January 2021

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1. 10 Years' Perspective Development Plan approved

On December 11, 2020, the Council of Ministers of Ethiopia approved the much awaited 10 Years Perspective Development Plan officially entitled, "Ethiopia 2030: The Pathway to Prosperity Ten Years Perspective Development Plan (2021 – 2030). It is to be noted that the Plan had been in the works for more than a year and half under the leadership of the National Planning and Development Commission and a draft version of the document was presented by the Commission to the UN Country Team (UNCT) on the 24 June 2020. The document underwent serious revisions following extensive consultations with various groups of stakeholders.

According to the Prime Minister's official announcement of the approval of the plan[1], the Plan "will enable the country's high growth trajectory and position Ethiopia as an African beacon of prosperity."[2] While a detailed analysis and commentary on the plan document shall await the official publication of the document, we will highlight some of its key features and make some observations below based on available documentation.

One of the notable positive aspects of the preparation process of the Plan is its genuine involvement and participation of stakeholders at various stages in the sense that, the planning team took on board the feedback, comments and suggestions provided by stakeholders and made series of revisions by addressing. Some of the departures of the plan (compared to previous national plans) include emphasis on quality of economic growth, properly taking into account regional and spatial dimensions of development (including though preparation of national development corridors based on development potentials). The document also takes on board the principles of leaving no one behind (LNOB). In addition, whereas previous national plans of the Ethiopian Government focused on job creation without consideration for quality of the jobs created. In contrast, this plan puts an explicit focus on creating 'decent jobs'.

The Plan emphasizes the importance of peace, stability and security for economic development, without however thoroughly analyzing the impact of the lack thereof on the economy over the past few years. Likewise, it does not take into consideration the impact of ongoing insecurity in various parts of the country, including on the growth and development of the national economy as well as livelihoods and living standards of the population over the short and medium terms.

One of the laudable analytical aspects of the Plan is that it correctly associates many of the major macroeconomic challenges facing the country - such as chronic trade deficits, hard currency shortages, high unemployment, etc. - with the past failure of meaningful structural transformation in the economy away from low-productivity, low-technology, low-skill economic activities towards technology and skill-intensive ones. Therefore, it boldly puts "structural economic transformation through improved productivity, product quality and competitiveness" as one of its key objectives to be achieved over the course of implementing the Plan.

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[1] https://www.ena.et/en/?p=19518
[2] https://www.fanabc.com/english/council-of-ministers-endorses-ethiopias-10-year-perspective-plan/

Furthermore, given the fact that, historically the manufacturing sector has played the key role in terms of enabling nations to achieve structural transformation and economic development, the Plan emphasizes the importance of rapid and sustainable development of the manufacturing sector. This is presented as one of the key focus areas of the plan and as part of the emphasis on economic diversification.[3] In addition, the plan underlines the importance of the sector due to its potential for generating large number of decent and productive jobs (compared to all other sectors); its strong linkages with many other sectors; and for its potential to be center of productivity growth, innovation and technological upgrading of the overall economy. It will be important that this emphasis in the Perspective Plan will be adequately fleshed out and translated into effective strategies, policies and concrete and realistic action plans not least through the industrial development policy and strategy document which is currently being developed under the leadership of the Ministry of Trade and Industry.[4]

In terms of organization, the plan is framed under ten pillars. The pillars include economic productivity and competitiveness; building technological capacity and digital economy; quality economic growth and shared prosperity; and ensuring the leadership role of the private sector in the economy. Under the pillar of ensuring private sector's leadership in the economy, one of the priorities is building strong and market-led public-private partnerships (PPPs.) If properly designed and effectively managed and monitored, PPPs could play significant roles particularly in helping the public and private sectors to complement each other to achieve mutually beneficial outcomes. Developing countries such as Ethiopia, however, need to approach PPPs with caution. For instance, if they are not designed and managed well, and if they are not transparently and effectively monitored, PPPs tend to 'socialize risks and privatize benefits': the benefits disproportionately go to the private sector while the costs and risks are disproportionately born by the public sector. In addition, there are risks associated with PPPs whereby their outcomes may conflict with principles of equity and LNOB. An example in this respect could be a situation where a public utility like electricity service provision is done through a profit-oriented PPP, which could conflict with subsidized access to electricity for rural residents.

With respect to sectoral priorities, the plan identifies nine focus area with three subdivisions: productive sectors (agriculture, manufacturing and mining); service sector (tourism); and enabling sectors (energy and transport, sustainable finance, innovation and technology, urban development, irrigation, human capital development). There are two preliminary observations on what is included in the planned activities under the priority focus areas. The first observation relates to the continued emphasis on micro and small enterprises to reduce unemployment. The nature of microenterprises in developing countries such as Ethiopia is that they are usually the last resort for those who cannot find well-paying, decent jobs and are generally 'survival oriented' (not growth-oriented). Therefore, even if the government should not discourage people from trying to scrap a living from operating

[3] The document notes that the manufacturing sector has never contributed more than 7 percent to the national GDP and 13 percent to export earnings of the country.
[4] https://addisfortune.news/ministry-revamps-two-decade-old-industrial-policy/

microenterprises, its priority needs to be on nurturing and promoting businesses that have greater potential for growth, transformation and creation of decent jobs.

The second observation relates to the plan to implement an urban land registration/cadaster system and modern property valuation system during the Plan period. Such systems are more or less non-existent in the country at the moment. This is a very important though challenging initiative for many reasons. Firstly, such a system could create a transparent, efficient and effective information system to manage urban land and the real estate sector. Since urban land is one of a key area of corruption in the country, efficient and transparent information management system would greatly assist efforts to reduce corruption. Such a system could also be used for regulating and managing incentive and disincentive mechanisms to reduce speculation and unproductive investments in urban land and real estate, and to encourage flow of capital into other more productive sectors (e.g. manufacturing and commercial agriculture).[5]

Finally, some of the major macroeconomic targets of the Plan are very ambitious given the current context and performance over the recent past. For instance, the Plan's GDP growth target is to achieve 10.2 percent average growth per year. This is very ambitious over the short and medium term given the significant and negative economic impacts of COVID-19 and the security and political situations in the country.[6] The plan also sets an ambitious target of reducing the percentage of people living below the poverty line from an estimated 19 percent in 2020 to 7 percent in 2030. It also targets to raise per capita income from US $850 in 2019 (World Bank estimate[7]) to US$2,220 by 2030.

[5] For instance, the country does not have property and estate taxes, and it is impossible to properly levy and collect such taxes without reliable and transparent land and property cadaster system.
[6] For example, that the Global Economic Outlook 2020 published in October by IMF projects that the Ethiopian economy will go through very sharp decline in growth rates: 1.9% in 2020 and 0% in 2021. This projection only took into account the impact of COVID-19 and not on going security situations in various parts of the county.
[7] https://www.worldbank.org/en/country/ethiopia/overview.

2. State of public debt in Ethiopia and recent developments

It is to be recalled that the Home-Grown Economic Reform (HGER) identified heavy and rapidly growing public debt burden as one of the main macroeconomic imbalances or challenges facing the Ethiopian economy. It stated that rapid increases in external debt in the context of poor project execution and export performance led to high risk of debt distress. At the time, both the World Bank and IMF rated Ethiopia's external debt burden as a high risk of distress. Therefore, ensuring debt sustainability was proposed as one of the key elements of the reform plan. Meanwhile, in December 2020, the Ministry of Finance and Economic Cooperation published *Public Sector Debt Statistical Bulletin* that covers the fiscal years from 2016/17 - 2019/20 and the first quarter of the current fiscal year (July 1, 2020 – September 30,2020). The publication offers opportunities to look in detail at the current situation of public debt in the country and developments since 2018 when the current administration came to power in Ethiopia.

According to the *Bulletin*, total Public Sector Debt stock as at September 30, 2020 stood at USD 54.7 billion out of which US$ 29 billion is foreign currency denominated and public debt denominated in local currency amounted to US$ 25.7 billion. A very important point that needs to be raised here relates to the difference between foreign currency and local currency denominated debts. Technically speaking, a state that issues its own fiat currency (like the Ethiopian Birr) can always pay back or service any amount of debt that is denominated in its own currency because it has the authority to create or issue the currency. In other words, theoretically there is no risk of default or inability to service debt denominated in its own currency though there are other risks such as inflation, loss of confidence in the currency's value and so on. On the other hand, public debt denominated in foreign currencies has the potential to create many challenges to an economy if and when an economy is not able to generate sufficient amounts of hard currency earnings through, for example, exports of goods and services. Given the fact that the Ethiopian economy has a chronic shortage of hard currencies, any increase in public debt denominated in foreign currencies entails serious macroeconomic risks for the country.

In terms of growth of debt stock, between 2017/18-2019/20 fiscal years, external debt of the country increased by about US$ 3 billion or 12% - almost all of which is owed by the central government. In other words, while external borrowing by state owned enterprises has stopped since the coming to power of the current administration, external debt denominated in hard currencies has continued to grow. The total cost of annual external debt service which stood at around US$1.6 billion in July 2018 increased to about US$2 billion in 2019/20 fiscal year (or by 25%). Export earnings of the country were around US$ 3 billion during the 2019/20 fiscal year[8]. This means that debt service commitments of the country amount to two-third of the total export earnings of the country.

Of the total external debt of the country, official creditors (multilateral and bilateral creditors) accounted for 73.73 percent in 2017/18; but this increased to 77.3 percent in 2019/20. Within this category of creditors, multilateral lenders accounted for 40.67 percent of the total external debt in 2017/18 and this proportion increased to 50 percent by September 2020. This is mainly because while the government put a moratorium on external

[8] https://www.fanabc.com/english/ethiopia-export-earnings-increased-by-13-percent/

commercial borrowing and China – the most important bilateral lender to Ethiopia – has halted new lending over the same period, stock of external debt from multilateral sources such as the World Bank (IDA) has increased substantially. Specifically, total stock of external debt of Ethiopia from World Bank (IDA) increased from US$ 7.75 billion at the end of 2017/18 to US$10.15 billion in 2019/20 or from constituting 30 percent of the national external debt to 35 percent.

According to the *Bulletin*, there have also been some major developments with respect to public debt from domestic sources (i.e. in local currency). For instance, debt "owed" by the public sector by the central government to the National Bank of Ethiopia stood at Birr 160.13 billion by the end of 2017/18; however, it stood at Birr 230.24 billion at the end of 2019/20 – an increase of 44 percent. It is to note that any lending or direct advance by the central bank to the government is not really debt in the normal sense of the term (since one arm of the government is lending to another arm of the same government) but a form of injecting new and additional money into the economy ("monetization of budget deficits"). The risk posed by this form of public debt relates to its impact on inflation in the economy rather than debt burden. As a matter of fact, this is thought to be one of the major factors behind high levels inflation observed over the past few years.

Another problematic public debt denominated in the local currency is huge amounts of debts owed by a few large state-owned enterprises to the Commercial Bank of Ethiopia (CBE) (itself a state-owned enterprise) and guaranteed by the Ministry of Finance and Economic Cooperation. CBE has outstanding loans of Birr 400 billion Br to Ethiopian Electric Power (EEP), Birr 120 billion to Ethiopian Railways Corporation, Birr 70 billion to the Sugar Corporation, and an additional Birr 70 billion to the Metals & Engineering Corporation (MetEC).[9] The total amount these state-owned enterprises owe CBE is said to equal two years of the country's federal budget. The administration has been trying to find ways to manage this huge public debt including by forming a new entity to absorb the debt (and remove it from the balance sheets of the state-owned enterprises).[10]

Given the fact that both the lender and the borrowers are state-owned enterprises, the most important challenges posed by these debts are not so much about servicing it or paying it down. Rather, one of the most important issues is the financial and economic health of both the borrowers and the lender. In addition, the fact that the borrowers are highly challenged to service the debts raises the issue of the quality of project management in the state-owned enterprises. For instance, the Sugar Corporation borrowed billions to construct and operate 10 new sugar factories (and sugarcane plantations) and failed miserably to do so. The money that was borrowed by state-owned enterprises (but not efficiently and productively used) is also money that could have been lent to more efficient and productive private enterprises – hence an opportunity cost to the economy. Moreover, the fact that the money was injected into the economy but not productively used (e.g. to expand the productive capacity of the economy) has added inflationary fuel into the economy thereby eroding the purchasing power of the incomes of the population.

[9] https://addisfortune.news/commercial-bank-to-request-17b-br-liquidity-injection/?utm_source=rss&utm_medium=rss&utm_campaign=commercial-bank-to-request-17b-br-liquidity-injection
[10] https://addisfortune.news/ministry-to-form-new-entity-to-absorb-residual-debts/