Unpacking Ethiopia’s Homegrown Economic Reform

1. Background:

Ethiopia in the past decade has shown impressive economic growth. Most of this growth came from a large government spending on infrastructure and huge investment on state-owned projects including the Grand Ethiopian Renaissance Dam (GERD). In 2010 the Ethiopian government adopted The Growth and Transformation Plan as a guiding policy document to gear the economy and achieve substantial economic growth. The Growth and Transformation Plan’s (GTP I and II) main goal was for Ethiopia to become a lower-middle-income country by 2025 through average annual real growth of 10-11 percent. The government had taken the greater role as the engine of the economy in the implementation of the transformation plan. It embarked on huge projects such as the renaissance dam, the industrial parks, the sugar plants in addition to spending on basic infrastructure such as roads and communications. During the first GTP Ethiopia achieved multiple positive changes in different sectors within the economy: achieving decline in poverty; notable progress in access to health and education; and improvement in access to major public infrastructures such as electricity, water, road and communication. The fruitful results Ethiopia achieved in different sectors by accomplishing the objectives of the first Growth and Transformation Plan (GTP-I) contributed as a springboard to the implementation of GTP-II.

Nonetheless, the double-digit growth Ethiopia achieved during the implementation of GTP-I and GTP-II came with its own challenges and downturns. The extensive spending from the government on the big projects resulted in increased inflation and huge macroeconomic imbalance. The economy suffered from shortage of foreign currency and foreign exchange deficit resulted from an underperforming export sector, and the government was struggling with accumulated external debt because most of the projects were not completed on time.

To make matters worse, two years ago before the completion of GTP-II, the country faced a major political turmoil with the change in the government. The country and its citizens suffered from continuous ethnic-based conflict and violence. The uncertainty that developed with the conflict had created its own challenge on the economy in addition to the already existing problems it was suffering from. In order to ensure the continuity of the economic growth and respond to the existing challenges it was evident that the new government needed to produce a different economic policy. It was with this intention the government drafted the Homegrown
Economic Reform agenda. The reform’s aim is creating an industrialized Ethiopia with a lower-middle income by 2030, developing from the agrarian, low-income nation.

2. The Homegrown Economic Reform – An Overview:

The home grown economic reform was formulated with an objective to attain a high quality sustainable economic growth and vast job creation by leveraging on the achievements of the past decade while overcoming the existing macroeconomic challenges through comprehensive and well synchronized measures. The reform agenda aims to adopt multiple macroeconomic, structural and sectorial reforms.

Macroeconomic reforms are to be implemented to correct imbalances and to safeguard macro-financial stability while the structural reforms are adopted to create conducive environment for investments and businesses to operate. The macroeconomic reform has addressed five key strategic areas of focus. These areas include:

- Strengthening public sector financing: by completing the ongoing public projects, improving efficiency and transparency of State Owned Enterprises (SOEs) and mainly privatization of some pioneer government organizations
- Correcting foreign exchange (FX) imbalance: by implementing comprehensive remittance strategy, mobilizing the diaspora with better incentive and easing control of FX sale to private sector importers
- Controlling inflation: by reducing direct advances on budgets and introducing effective monetary policies and improving efficiency of the supply chain and the domestic commodity market
- Safeguarding financial stability: by modernizing government-owned banks and upgrading the NBE’s financial regulatory framework
- Improving financial access: by developing a strong financial and capital market the structural reform that supplements the macroeconomic reform pointed to several key improvement areas and strategies that will create an enabling environment for investors and improve ease of doing business. Some of the structural reforms identified include improvement in power access and reliability, enhancement of the logistics efficiency, improvement in corporate governance and public institution bureaucracy.

The reform also adopted sector specific policies and strategies to address sector based challenges and develop each identified sector’s capacity. Agriculture, manufacturing, mining and tourism are the four specific sectors identified in the reform agenda that show potential in
driving the economy positively. Improvement in ICT and the digital industry are to play a major role in increasing productivity and job creation and the overall achievement of the reform.

In his statement to donor agencies and supporting countries, Prime Minister Abiy Ahmed (Ph.D) called The Homegrown Economic Reform agenda as “our bridge to prosperity.” The reform agenda has been applauded for its ambitious goals, its critical assessment of existing challenges and its comprehensive approach to curb these challenges and achieve inclusive sustainable economic growth. The economic reform is unique from the past economic policies in its emphasis to the development of the private sector. Unlike previous policies and reforms the homegrown economic reform puts the private sector as the engine and main force of the economy through private investment. The privatization of major public enterprises such as Ethio Telecom was a significant move that showed the government’s commitment to galvanizing the private sector. It has also taken a great leap in opening up the economy to foreign investors, relaxing the restrictions on some sectors. This action by the administration has been cheered by international agencies such as the International Monetary Fund (IMF) as a positive step towards building a liberal global economy. Even though the economic reform is appreciated by many and shows multiple positive prospects, it wasn’t free from critics, challenges and doubts from some local and international scholars and policy makers.

3. Reform Drawbacks:

Evidently, the economic reform has not been championed by all. The process the reform has been drafted and adopted is the first point of critics it received. Many scholars argue that the administration didn’t include all the stakeholders including private investors, scholars, independent policy makers, etc., in the development process. The lack of public participation in formulation of the reform is another drawback that many point out. Stern critics have been identifying the similarities of the IMF neo-liberal policies around the world to the reform. Neoliberalism is a contemporary term for different social and economic ideas characterized by free market trade, deregulation of financial markets, individualisation and overriding social and public policies especially through privatization and austerity.

Economic reforms of any magnitude require a deeper background analysis and diagnosis of the health of the economy as well as identifying structural bottlenecks and macro-sectorial imbalances. Thorough analysis from experts and different institutions conducted through public participation should have been sought after and compiled as supplement in a series of non-technical policy papers, or white papers, that policymakers would use as an evidence base to design a suitable economic reform program. This process requires the engagement of local scholars and policy makers which the Homegrown Economic Reform came short of. Even
though the reform pinpointed the challenges and problems the economy is facing, it didn’t present the study or the document to support these facts.

To respond to the protest on lack of transparency and public engagement the government had put together a consultation process, yet it seemed irrelevant and more of an afterthought without any fruitful outcomes.

A reform as an economic policy should be a well-documented full-fledged report with details on implementation, major indicators to measure progress, set of timeline, indicated priorities and follow ups. The reform didn’t yet provide such a document except a power point presentation which according to scholars leaves room for different interpretations and misguidance.

Furthermore, the privatization and selling of Ethio Telecom and Ethiopian Airlines—public enterprises—to foreign investors is a source of dissent for many. Opening up the economy sectors to foreign investors has long been scrutinized and not well received. Local investors and policy makers are concerned that if the protection and barriers are lifted now that local businesses will evidently be swamped by foreign investors that will bring huge finance, technology and experience, setting a stage for an unfair competition.

4. Reform status: Where Are We?

Being officially launched in September 2019, the reform has had only six months of operation before the impact of the worldwide COVID-19 pandemic put a hamper towards its progress. As a result, it would be prudent to address the current status of the reform pre and post COVID.

In the pre-Covid-19 environment, a comprehensive headway was achieved in addressing all three macroeconomic, structural and sectorial elements of the reform. At the macroeconomic level, the focus was on identifying the strategies to mitigate unemployment, inflation, the foreign exchange and the debt problem. The debt issue was addressed by optimizing the debt obligation that exists with the government’s Chinese partners and colleagues that gave a great momentum to start different bilateral discussions with other foreign lenders as well. Domestically, they also looked at restructuring the domestic debt profile sitting with the policy banks pertaining to the state-owned enterprises.

To curb the inflation rate, where recent history has shown double-digits, the government has shown valiant effort to bring it down to single-digits but with no avail. They were, however, with circumstances beyond their control like logistics and market speculation, able to moderately pull back inflation.
Addressing the unemployment issue, the Job Creation Commission (JCC) tasked with leading the job-creation efforts of the Federal and regional public institutions, private sector and development partners has made significant headway in achieving their goal to create 3 million jobs between 2019 and 2020 through various initiatives such as the industrial parks, and creating space for innovation and fostering entrepreneurial paths.

On the other hand, to mitigate access to foreign currency, the strategy adapted includes working on promoting tourism and different export activities in the country whilst securing funds from various developmental partners such as the IMF to inject foreign currency into the system to subdue the balance of payment deficit.

At the structural level, it has been more of a legislative exercise where the main focus was lobbying for policy changes to ease the degree of doing business by addressing bottlenecks, improving investment climate, tax policy, rules and regulations.

The government, at the sectorial level via the Ministry of Finance, is working on policy instruments for each priority sector to incentivize the market to ensure private sector involvement improves and have efficiencies attained.

Milestones include:
- One of the key pillar government policies is trying to reform state owned enterprises, mainly focused on the partial privatization and liberalization process of these enterprises. Most recently, Ethio Telecom is one of the first SOEs to go through this reform where expression of interest has been announced to award for two new telecom licenses with an offer of 40% stake to the private sector.
- The first initiative of Public-Private Partnership, a solar project that secured a lower per kilowatt hour price, is the lowest price in all of Africa and Latin America to generate power and sell to the national grid.

Currently, the Homegrown Economic Reform is serving as a launchpad for the 10-year economic plan. This 10-year plan is forward looking and more comprehensive in nature while the reform is addressing the necessary ground work to ensure its success.

5. Reform Challenges & Gaps
Designing and implementing any type of reform in a culture and environment that is not conducive to change is in and of itself a challenge. However, in spite of the drawbacks and
challenges, this reform addresses major pain points and sets forth ambitious goals that promise the customary double-digit economic growth that the country has seen for the past decade.

The time frame set to implement this reform is three years. The six-months operation has identified a few gaps including:

- Underestimating the groundwork needed to reach end goals, prolonging the process to completion
- Lack of transparency and communication with key stakeholders; lack of sufficient engagement with the public to share progress reports and manage expectations; lack of information that led to public debates based on assumptions and misconception of the reform and its overall intent
- Lack of platforms to facilitate engagement with the private sector as the driving force of the economy, negating the core idea of the reform

6. The Impact of Covid-19 on the Reform

The outbreak of the pandemic worldwide has disrupted the political, social, economic, religious and financial structures of the whole world. World’s topmost economies such as the US, China, UK, Germany, France, Italy, Japan and many others are at the verge of collapse. It is assumed the economic recovery from this fatal disease may last until 2021 because of its severe impacts globally. Most of the nations are going through a recession and collapse of their economic structure that point out the staggering conditions for them. In this regard almost 80 countries have already approached the IMF requesting financial help.

Ethiopia, being part of the global economy, faces the same economic and social challenges with the Covid-19 pandemic. The government declared a State of Emergency limiting movement and large gatherings, yet Ethiopia didn’t go into full lockdown as most countries worldwide. The administration hoped to control some of the negative economic impacts by keeping the country partially open as complete lockdown means no food on the table for many families that live on subsistence income they get on a daily basis. Major impact is anticipated towards the debt imbalance, increase in unemployment and economic slowdown for priority sectors, anticipating decline in GDP by 3%.

The pandemic’s silver lining includes some of the reform agendas were rolled out faster than originally planned to help adapt to the new reality such as the digital economy. Technology-driven strategies are taking center stage where in the past they were put off for further
discussions and evaluations. A key example is the recent digital (mobile) payment directive that is now on the fast-track to be implemented to facilitate and jump start the economy.

Our current reality is unprecedented and as such with what little but promising progress that has been accomplished in the last six months, the way forward for implementing the reform has to adapt to a new paradigm shift that meets the new normal. This includes recalibrating the current strategy at the macroeconomic, structural and sectorial levels.

Final Word

Ethiopia is one of Africa’s fastest-growing economies, but more needs to be done to reach her potential. The excitement around high GDP the past few years has been fuelled by state spending. The hope for this new reform is to stimulate private sector growth. The plan is to tackle unemployment, inflation, shortage of foreign exchange, and current account deficits. It is believed this reform will take $10 billion in external financing to implement it. With the full engagement of the private sector and open, public debate, the new reform will flourish. The engineer of this plan, Prime Mister Abiy Ahmed (Ph.D), expressed the Homegrown Economic Reform agenda as, “Our bridge to prosperity.” However, any economic policy that does not include human development—improving quality of education, providing basic infrastructure, promoting gender equality, improving food security, instituting good governance—will surely fail. We have faith in this plan and people behind it to lead Ethiopia to lasting prosperity that embraces all her citizens.

The AWiB Team

June 2020