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Abstract

Ethiopia adopted the ‘developmental state model’ in early 2000. This strategy was in force until 2018, successfully registering high GDP growth and infrastructural development. This success was accompanied by several adverse developments that included high indebtedness, monetization of fiscal deficit, inflation, shortage of foreign exchange, and significant depreciation that opened opportunities for cronyism. It didn’t bring structural transformation and significant poverty reduction either. This study aims to understand the general pattern of cronyism through its various manifestations by categorizing all firms in the country into six categories and mapping the crony relation they established with the government. The analysis reveals the pervasive nature of cronyism and the vital role of the developmental state model in cronyism. These features, combined with the ethnic form the regime took, made the development strategy unsustainability as the political system inherently leads to more conflict among the political elites that are contesting for power and resource control. The latter led to political instability that culminated in the devastating war in the Tigray region between 2020-222, as the regime was undemocratic, a beneficiary of the system and a minority group to build a peaceful power-sharing system for all political elites of the country, as that will undermine its power.

JEL Classification : O11, O12, O43, O55, P10, P50

Keywords: cronyism, capitalist development, developmental state model, Ethiopia, Africa

ملخص

اعتمدت إثيوبيا «نموذج الدولة الإنمائية» في أوائل عام 2000. كانت هذه الاستراتيجية سارية المفعول حتى عام 2018، وسجلت بنجاح نمو الناتج المحلي الإجمالي المرتفع وتطوير البنية التحتية. رافق هذا النجاح العديد من التطورات السلبية التي تضمنت ارتفاع المديونية، وتحويل العجز المالي إلى نقود، والتضخم، ونقص النقد الأجنبي، والانخفاض الكبير الذي فتح فرصًا للمحسوبية. لم يجلب التحول الهيكلي والحد من الفقر بشكل كبير أيضًا. تهدف هذه الدراسة إلى فهم النمط العام للمحسوبية من خلال مظاهرها المختلفة من خلال تصنيف جميع الشركات في البلاد إلى ست فئات ورسم خريطة لعلاقة المحسوبية التي أقامتها مع الحكومة. يكشف التحليل عن الطبيعة المنتشرة للمحسوبية والدور الحيوي لنموذج الدولة التنموية في المحسوبية. هذه السمات، إلى جانب الشكل العرقي الذي اتخذه النظام، جعلت استراتيجية التنمية غير مستدامة لأن النظام السياسي يؤدي بطبيعته إلى مزيد من الصراع بين النخب السياسية التي تتنافس على السلطة والسيطرة على الموارد. أدى هذا الأخير إلى عدم الاستقرار السياسي الذي بلغ ذروته في الحرب المدمرة في منطقة تيغراي بين 2020-222، حيث كان النظام غير ديمقراطي، ومستفيد من النظام وجماعة أقلية لبناء نظام سلمي لتقاسم السلطة لجميع النخب السياسية في البلاد، لأن ذلك سيقوض سلطتها.

1. Introduction and Background

1.1. Introduction

Ethiopia adopted the ‘developmental state model’ of the East Asian type in early 2000 that was running till 2018, with some success in registering high GDP growth and infrastructural development. Yet, this strategy, among other things, was characterized by a significant level of cronyism. This study aims to understand the general pattern of this cronyism through its various manifestations. There are three major issues that comprehensive research about crony capitalism in Ethiopia’s “developmental state” model may need to be covered. The first is to explore the available analytical frameworks and examine how adequate they explain the cronyism in Ethiopia's ‘developmental state model’. Having identified that (or coming up with an innovative approach), the next task is the identification of politically connected firms and the mechanisms through which they are connected with the state. This, hopefully, should be guided by the theory identified – as theory is central “to pose the interesting question” or provide “ideas rapped as hypothesis” that will be investigated with data (Wuyts, 1991; Alemayehu, 2018). The third and perhaps the last part should relate to the implications of the cronyism identified for the economic growth, development as well as the political stability of the country.

After briefly reflecting on the analytical issues in section two, the primary focus of this paper is on the second aspect – the identification of the manifestation of cronyism during the period under analysis. This choice is justified on two grounds. First, the full development of the relevant analytical framework requires a dialogue between theory and data, forming the second and third parts of such a comprehensive study. Once such data is gathered, we may “infer to the best explanation”(Liption, 1992; Wuyts, 1992; Alemayehu, 2018). Second, part three of such a comprehensive study – the impact study – requires systematically collecting both micro and macro data and a framework for evaluation, which is beyond this study's scope and an agenda for future research.

1.2. Background to the Study

Ethiopia’s history as a political entity stretches back to antiquity, and almost uniquely within Sub-Saharan Africa, it has never been colonized. Yet, with its 3000 years of written history, Ethiopia is one of the poorest countries in the world. A good part of the explanation for this backwardness remains in the conflict among the political elite and the lack of inclusive (democratic) politics and inclusive economic growth (Alemayehu and Befekadu, 2005; Alemayehu, 2008, 2021). Ethiopia’s modern history reflects the institutional legacy of centuries of internal conflict and external threat. Internally, religion, regional location, political ideology, and ethnolinguistic groupings have each, at various times and in varying combinations, served as focal points in the contest for power and control over economic resources by the country's political elites (Alemayehu, 2008). For instance, control over land (the country’s highly prized and contested resource) remains an economically critical and politically contested resource in the country’s history and remains so until today. It also remained the most important manifestation of crony capitalism of the regimes under study, as discussed in detail in this study below (Addis 1975; Gebru 1995; Alemayehu, 2008).

Externally, although the country was never colonized, hostile and powerful colonial forces encircled it from the last quarter of the 19th century and rendered its independence a besieged one (Bahru 2001; Pankhurst 1963b; Alemayehu, 2008). In its recent history and during the cold war, it was a battle ground between the USSR and the USA due to its strategic geopolitical location. This is fast changing in the 21st century to be the battle ground for economic and political influence between the USA and Western Europe on the one hand and China (as well as Turkey and Russia) on the other. As a result, Ethiopia developed as a militaristic state with an economy dependent on exporting primary commodities and importing manufacturers, including weapons. Historically, the acquisition of firearms (and or aid) from nearby European powers by Ethiopia's regional lords (kings) also shaped the pattern of internal conflict and the regional balance of power – unfortunately, so is today, as can be read from the recent conflict in Northern part of the country (2020-2022).

The institutional legacies of such conflict and militarization of the country could generally be identified as significant constraints on growth and development in Ethiopia. Most importantly, these internal and external factors have created a militaristic state with accompanying institutional set-up. The latter is detrimental to sustained development and democracy and might inform the country's current socio-political set-up and feeble private sector, as discussed below (Alemayehu 2002a,2004, 2008; Gebre-Hiwot 1924; Pankhurst 1963a, 1963b). Thus, economic development in Ethiopia is correlated with conflict and the political processes accompanying it.

With such a history and political-economy context, the period from 1960 to 2018 breaks down readily into the Imperial (1900-1974), *Derg (a* military regime, 1974-1991) and the TPLF-led (Tigray People Liberation Front -led) Ethiopian People's Revolutionary Democratic Party (EPRDF) regimes (1991-2018), reflecting the divergent policy regimes concerning state-private sector relation implemented by a succession of ruling cliques. Two of the regimes (the first and the last) were relatively friendly to the private sector, while the military regime – that declared "socialism" - was openly against the private sector (see Alemayehu, 2008).

With this background, the focus of this study is on the third regime – the TPLF-led EPRDF (the TPLF/EPRDF, hence forth) regime during which time the "developmental state" model (DS model, hence forth) is implemented between 2000-2018. The strategy has relied on state-led development or "state capitalism" using four five-year development plans (named PASDEP, SDPRP, GTP-I & GTP-II since 2002, see below). These plans also relied on significant external financing from China and Western countries /International Financial Institutions (IFIs).

The DS model has brought about positive growth and infrastructure development results. Based on the official data, the economy's growth was quite impressive, with an average growth of about 9 percent per annum since 2000 (9.2% between 2013-2019). If the abnormal first three years are left out, the average annual growth rate since 2003 was about 11 percent per annum for over a decade and a half. It also registered positive results on social and infrastructure development (health, education, power, road, and rail.) (Table 1). (Note, however, that the growth figure may not be as high as officially reported. Alemayehu and Addis (2017) contested this figure and estimated it to be about 6 percent per annum during this period instead.).

Table 1. Major Recent Macroeconomic Development in Ethiopia (Ethiopian Fiscal year, July-June)

Macro Indicator (2020/21=2013 Eth Calendar)	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21
Real GDP Growth Rate (%) *	10.3	10.4	7.6	10.1	7.7	9.0	6.1^	6.3
Inflation rate (CPI, % Change, y-on-y)	8.1	10.4	7.5	8.8	16.8	15.3	21.5	24.5
Food Inflation (CPI, % Change, y-on-y)	10.3	12.5	7.2	11.2	14.1	19.8	23	29
End of period Exchange rate Br/$	19.6	20.6	21.8	23.1	27.4	28.9	36	43.9
Reserve (Month of Imports)	2.3	2.5	2.6	2.4	2.1	2.4	1.7	1,5
Gross Domestic Saving (%GDP) *	22.5	21.9	22.4	22.5	24.3	22.3	20.8	19
Gross Domestic Investment (% of GDP)	40.3	39.4	38.5	38.4	34.1	35.2	30.6	28
Overall Budget Deficit including grants/Primary Deficit (% GDP)	-2.6	-2.5	-1.9	-3.28	-3.03	-2.5	-2.5	-2.8
Current Acct Deficit, including official transfer (%GDP)	-7.7	-11.4	-10.4	-8.0	-6.3	-5.2	-4.1	-2.8
Trade Balance (X-M) % of GDP	-18.7	-20.8	-19.1	-16.0	-14.7	-13.0	-10.1	-9.6
External Debt (billions of US$)	14.0	19.09	21.74	23.3	25.8	27.0	28.9	29.5
External Debt (% GDP)	25.6	29.5	28.6	29.4	32	28.2	26.8	26,5
Domestic Debt (% GDP)	28.6	31.8	31.3	34.4	35.7	35.7	35,3	34,1
Total Debt (% GDP)	53.2	61.4	62.2	64.3.	67.5	64.8	55.6	60.6
Money Supply Growth (M2, in %)	26.6	24.7	28.8	29.2	29	19.7	25.9	30

Source: NBE, Annual Report (Various Years, till 2022); MOFED (2016-2019).
*See Alemayehu and Addis (2016) for a critical review of this growth & saving figures. ^The WB estimated this growth rate in COVID year to be 4%, while IMF 3.2 percent in June 2020. My estimation is about 2.5% and closer to that of the IFIs' forecast (Alemayehu Geda, 2021).

The success in growth, however, was accompanied by several adverse developments in the macro economy that included significant indebtedness, monetization of fiscal deficit and inflation, and shortage of foreign exchange and a currency depreciation (Table 1) that opened an opportunity for cronyism and left the achievements unsustainable. The regime was also politically repressive and corrupt. As these problems reached their peak level, the government was ousted from power in 2018 through a popular uprising and an internal fight with its coalition members. (see also Alemayehu, 2021a). Second, the growth was not inclusive as poverty remained pervasive (at $3.20 PPP, about 70 percent of the population is still poor; multidimensional poverty indicators also show a poverty rate of over 80 percent in 2022). This is partly related to the lack of structural transformation of the economy, high inequality, corruption, and limited private sector growth (Alemayehu and Addis, 2017).

The period also shows significant crony traits of capitalist development that emerged strongly since 2000, leading to grand corruption and, by implication, to high inequality, especially among the political elite. This has resulted in the creation of a few wealthy elites with a connection to the ruling TPLF regime on the one hand and a significant number of poor as well as several political elite groups not benefiting from the system as much as those with a tie with the TPLF regime. The latter has ensued a competition for power among the political elites within the TPLF/EPRDF (these were elites organized by the TPLF regime, the *de facto* power holder, as a coalition of ethnolinguistic parties). This intensified conflict was witnessed in the final three years of the regime before the regime's last days in 2018 – with an adverse effect on the DS model, the national economy and the country's political stability.

Thus, it is imperative to characterize and analyse this pattern of capitalist development to learn its effect on the growth, development, and political stability of the country – a country that is the second most populous country in the continent, with about 120 million people. With this background, the analysis in this study is, guided by the following two working hypotheses (research questions) of the study[2]:

i. *Working Hypothesis 1*: the cronyism in Ethiopia is not identical to the rest of the world, where the private sector captures the state. In Ethiopia, it is the reverse owing to the specificity of its political history: the state power is first captured by an ethnic elite group, and this elite engaged in cronyism through the creation and control of a myriad of firms characterized by different ownership structures. Moreover, the regime's hold on economic and political power has conditioned the nature of private sector development (both foreign and domestic) with a crony link to the government that was perceived to offer a resemblance of stability and security of property.
ii. *Working Hypothesis 2*: Since the DS model requires a hegemonic ideology, it has strengthened the regime's authoritarianism. This coincides with the interest of the ruling elite that wanted to grip dominance on the economy thorough cronyism and stay in power indefinitely. Moreover, this DS narrative was essential since the regime was not accountable for the population.

These working hypotheses will guide me in identifying the nature of crony capitalism in Ethiopia during the period under analysis. With this objective, the rest of the study is organized as follows. In section two, different analytical approaches deployed to understand crony-

[2] Related interesting hypotheses which are not examined in this paper but could be interesting future study so that we can have a comprehensive understanding of the crony capitalism in Ethiopia include:(i) the impact of the DS model-based cronyism on growth/development and also its impact on political stability, and hence, the sustainability of such model. The DS model of Ethiopian type may have a potential to bring growth but since it will be overwhelmed by cronyism it could lead to authoritarianism and makes such sectarian group (ethnic elite) a distributional regime, and thus not politically sustainable. One may, instead, needs a democratic DS and a technocratic government for success – another alternative hypothesis worth examining. The second researchable hypothesis is whether the existing theoretical approaches on cronyism could explain the DS model of the Ethiopian type (including its external dimension as it is also dependent on aid/finance that it gets from outside for fast growth, its survival and, hence, the political influence of the financers from geopolitical perspective); or, alternatively, can we come up with another systemic/theoretical explanation that explains the phenomenon examined in this study.

capitalism are reviewed (details given in Appendix D) to help us understand the condition in Ethiopia. This is followed by section three, where an attempt to show how crony-capitalism has emerged through the “developmental state” model is discussed. Section four will focus on identifying the various manifestations of cronyism in the country by examining in detail all the available information. Finally, section five concludes the study by highlighting some of the implications of the study.

2. The Analytical Framework in Brief[3]

Crony-capitalism is generally defined as “how politically connected actors manage to extract economic advantage for their firms and the consequences of these privileges on economic growth and job creation” (Malik et al., 2019). Often, “the analytical boundaries between cronyism, clientelism, and corruption are blurred” (Malik et al., 2019). Zawickei (2008) also noted “crony capitalism” refers to a political economy system that resembles traditional political “corporatism” - a system in which government, big business, and other powerful interest groups work together to further their joint interests (Zywicki, 2008).

There are various approaches that attempt to explain crony-capitalism analytically. One dominant approach in the literature is the neoclassical economics view of cronyism as a ‘rent-seeking” behaviour of economic agents[4]. This approach is also related to institutional economics, where the “rent-seeking” behaviour is related to institutional failure (Haber, 2002; cited in Malik et al, 2019, Acemoglu and Robinson,2013; Rodrik and Subramanian, 2003. North, 1981, 1990; Kruger, 1974).

An early and influential application of the neoclassical rent-seeking approach in the African case was a study by Bates (Mkandawire, 2015; Bates, 1981; Aligica and Tarko, 2015). Still, in African political literature, some authors examined cronyism in the context of “neopatrimonialism” (Makdaware, 2015). The latter is expressed in various forms, including corruption and state capture. These are a manifestation of state failure, which in turn is related to the failure of institutions in the institutional economics approach to African development that includes the impact of the colonial legacy on institutions (Acemoglu et al., 2001). Though this later argument has some merits, it is not an entirely accurate reading of the economic history of Africa. It is not the first such analysis either. This aspect, conceptualized in a broader and somewhat deeper manner, has been shown before Acemoglu et al. (2001) type of studies by African researchers who argue that the Acemoglu et al.’s (2001) ‘developmental’ institutions conception in Africa is wrong as it were minority-based power controlling institutions, instead. (see Amin, 1972, Nzula et al, 1979, Mamdani, 1996; Alemayehu, 1998, 2002; Mkandawire, 2001; 2010; Appendix D).

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[3] To save space, the theoretical discussion in this section is very brief. An extended detail discussion of the various theoretical approaches is given in Appendix D.

[4] The “rent-seeking” approach is sometimes referred to as the public choice theoretical view of rent-seeking (Mkandawire, 2015).

Another widely used theoretical perspective on underhand cronyism is Khan's (1995) perspective of "political settlement", which also emerged as a critique of the institutional economics perspective. This approach is also widely used in African literature on cronyism (see Behuria et al., 2017; Khan, 2010). Like the earlier African literature noted, the Khan (1995) approach attempts to understand the emergence and relative effectiveness of institutions to which the rent-seeking literature is related. However, it goes beyond the institutions themselves and looks at the socio-political context in which they were located (Khan, 199; 2010). It thus argues both "rent-seeking" analysis and the subsequent "transaction cost" models have failed to take the "net effects of an institution depends not just on the institution and the production technologies it coordinates, but also and critically on the balance of power between the classes and groups affected by that institution, that is, on the inherited balance of power -the *political settlement*" (|Khan, 1995; 2010). Thus, for Khan, an institutional and political system that has characteristics that are reproducible over time (i.e., that have some degree of stability or social order) has a *political settlement*. At a deeper level, a political settlement implies an institutional structure that benefits different classes and groups in line with their relative political power (Khan, 1995; 2010). Summarizing this, he defined a *political settlement* "as an interdependent combination of a structure of power and institutions at the level of a society that is mutually 'compatible' and 'sustainable' in terms of economic and political viability". (Khan, 2010).

A theoretical framework hardly used in the African literature is the Kaleckian (Kalecki, 1964; 2006) approach of "intermediate regimes" in developing countries. In this approach, cronyism is featured among interest groups within a nation in question and with the alignment of domestic groups with *international powers*. The approach also features how financing growth in developing countries through 'state-capitalism' has a political dimension that ranges from inflation to land tenure systems and the political contest among various interest groups for state control.

Finally, looking at the Ethiopian literature on crony capitalism, we learn that studies conducted theoretically and empirically rigorously are limited. For example, in some academic studies, the widely used analytical approach is referred to as the "neopatrimonialism" approach. Yet, the Ethiopian researchers are not critical of the approach as Mkandawire (2015) was (see Paulos, 2007, Berhanu, 2011; Asnake, 2005? Seid, 2019 for instance; and Appendix D for detail).

Notwithstanding that, we learn from these Ethiopian studies how cronyism has a multifaceted feature during the TPLF/EPRDF regime. For instance, Berhanu (2011), by focusing on party-owned enterprises (POEs), have attempted to characterize the state, although his empirical basis for that is weak. Paulos (2007), focusing on the federal structure organized along ethnolinguistic lines, described the TPLF-led government's (1991-2018) relation with other ethnic parties that govern the regions as a clientelist relationship. Asnake's study and findings are also similar to that of Paulos. Seid (2019) is critical of conceptualising cronyism in Ethiopia as simple corruption. He noted such conceptions are wrong, yet has informed anti-corruption policies and institutions in Ethiopia. He argues about the inevitable failure of these policies because of this faulty conceptualization. For Seid, corruption in Ethiopia is rather systemic, and the concept of “state capture” is the most relevant one to conceptualize it. He noted the Ethiopia situation shows the TPLF-led government is explained by a group that “clandestinely creates” a ‘state within a state’ (Pesic 2007; Wedel 2001, 2003), a ‘shadow state’ (Bayart, Ellis, and Hibou 1999), or a ‘parallel state’ (Briscoe 2008) (all cited in Seid, 2019).

The common denominator in all these Ethiopian studies is to underscore the existence of ‘state capture’ that characterizes crony-capitalism in Ethiopia. However, in the Ethiopian situation, it is not the private sector that captures the state as is usually referred to in the “capture” literature. It is instead a minority-based “ethnic-based party” that captured the state political power first and deployed that power to create a verity of firms to capture the economy by the top TPLF officials, their families and friends, as well as some nonconsequential collaborators from other ethnolinguistic groups within the EPRDF coalition. The “developmental state” model narrative is successfully deployed for this purpose.

In sum, though there is a vast literature on crony capitalism, no theoretical framework is adequate to explain what form it takes in a poor African country that aspires for rapid economic growth using a “developmental state” (DS) model. Although all the analytical approaches briefly discussed above help explain the various aspects of crony capitalism in Ethiopia during the period under analysis, I will heavily draw on the Kaleckian analytical framework and Khan’s notion of ‘political settlement’ (when needed) in this study. The primary focus on Kaleckian approach is because, guided by “inference to the best explanation” (Lipton, 1991; Alemayehu, 2018), this approach seems to explain the Ethiopian condition theoretically better for the following reasons. First, given the geo-political position of Ethiopia, and hence the importance of external forces in shaping conflict and the nature of government in Ethiopian history that persisted to date (see Alemayehu, 2008), an approach that features this aspect is relevant for Ethiopia. This aspect doesn’t feature in the other approaches discussed above. Second, economic policy in Ethiopia is strictly linked with politics. Historically, the latter is informed by the contest for power among the Ethiopian political elite using various ideologies such as religion, regionalism, variants of socialism, and ethnicism (Alemayehu, 2008; Gebre-Hiwot, 1924). Since the Kaleckian approach is anchored on this contest for power and resources among political elites and the implication of that for the relationship among different population strata, it is an essential analytical framework to understand the Ethiopian condition. Third, the nature of financing growth/development and the implication of that for economic growth and development, political stability and the nature of private and non-private sector actors that includes cronyism is uniquely dealt with in this approach. During the TPLF/EPRDF regime, this financing aspect and the land “market” were central to understanding the evolution of the Ethiopian macro economy and growth , the nature of the state, and its alignment with external forces and crony capitalist development (Alemayehu, 2021a).

Despite these exciting features of the Kaleckian approach, its attempt to understand the major economic agents seems ahistorical. However, these political and economic agents and the attendant institutions are invariably historically formed with enduring effects on the economy's current political, institutional and economic configuration/structure (Alemayehu, 2008, 2021a). Thus, any analysis that attempts to understand the country's political economy today needs to take that unique historical and institutional legacy on board, as also noted by Mkandawire (2015) and Khan (1995). Therefore, in the next section, I will attempt to trace the TPLF/PRDF regime's historical origin. Once this is done, using this Kaleckian framework, I will attempt to characterize the Ethiopian firms and map their relation to the TPLF/EPRDR regime in section four to identify the manifestation of crony-capitalism in Ethiopia [5].

3. Crony-Capitalism through the "Developmental State" Model: The TPLF/EPRDF Regime (1991- 2018)

In this section, an attempt to understand how the country's political history has led to a state capture by an ethnic elite (the TPLF regime), as hypothesized in section one, is made. Once it captured and consolidated political power, the regime adopted the DS model explicitly in the early 2000s. The latter has cemented the authoritarianism stance and created a fertile ground for cronyism through the regime's attempt to dominate the economic sphere. This is carried out by creating unique firms and establishing a myriad of relationships with existing and new firms, which is discussed in section four.

3.1. Political background to Power-gripping by the TL-EPRDF regime

As the introduction describes, economic development in Ethiopia has been generally challenged by conflict for centuries. The major causes of this conflict are grounded in the country's political economy, underscored by competition for power and resources among the political elite, as noted in section one (Addis 1975; Gebru 1995; Alemayehu, 2e008).

As described in section one, the TPLF regime held political power in 1991 by toppling the socialist military regime (the *Derg*); after 17 years of protracted guerrilla warfare and with solid support from the USA and the Eritrean People Liberation Front (EPLF) – the current Eritrean government. The TPLF is organized along ethnic lines, claiming to represent all Tigrigna speakers in the Northern part of the country, accounting for about 5 percent of the Ethiopian population. A few years before holding power, it set up the EPRDF. The EPRDF was a coalition of three major ethnic-based parties that claimed to represent three ethnic groups that account for about two-third of the population (Amhara, Oromo, Tigre) and a collection of over 70 ethnic groups from the Southern and South-Western part of the country – called "South". However, the *de facto* political power was held by TPLF, leaving the *de jure* political power to the EPRDF. The TPLF regime has also neglected other significant ethnic groups in the Eastern part of the country (the Afar and Somalis – which exceed in number from the population in Tigray) in its coalition party structure. This structure remained unchanged until

[5] Although I will draw from the Kaleckian perspective to inform this study, it is imperative to re-visit the various theoretical approaches noted in this section to question their relevance and come up with a better one if they are inadequate. This, however, need to be done after a detailed macro and micro level study about crony-capitalism in Ethiopia in future (see footnote 1 above).

TPLF was ousted from power by a popular protest and the breakup of the EPRDF coalition in 2018.

This minority status of the TPLF, in a political space characterized by ethnic politics, and the fact that it has come to power through the barrel of a gun were the major factors for the regime's authoritarian stance and its effort o dominate almost all institutions – especially institutions of violence (the military and the security apparatus). A 2020 report of the new PM that came after TPLF (PM Abyi Ahmed) to the parliament about the ethnic composition of the top commanding position in the national defence force is revealing in this regard. According to this report, ethnic Tigryans that account for less than 5 percent of the population accounted for 60 percent of full-star Generals of the country, 50 percent of Let Generals, 45 percent of Maj Generals, 40 percent of Ber. General, 58 percent of Colonels, 66 percent of Let. Colonels and 53 percent of Majors – thus, on average, 55 percent of the top commanding positions of the national army were controlled by the TPLF. This control gets more potent at the lower echelons of power in the military[6]. The story was similar at the national security authority and Federal Policy Force. Thus, from institutional-cum-political perspective, political power was controlled by the TPLF (1991-2018). In addition, other public institutions were also used to empower the ruling elite's grip on power (and resources). Such abuse of institutions to serve the interest of the ruling elite was an enduring feature of the country for centuries and became worst during the TPLF regime. This pattern dashed the hope of instituting a peaceful power-sharing mechanism for power protagonists in the country, leading invariably to conflict. The result was cycles of violence and risk which thwarted the potential development of the country, and it's political stability to date.

Empirically, the regime's authoritative nature can be read in Table 3.1. As Table 3.1 shows, in all standard indicators (notwithstanding Mkandawire's (2015) and Khan's (1995) theoretical critique of using such ranking), except in "control of corruption" and to some degree in "rule of low", Ethiopia scored the lowest in global ranking as well as in comparison to its peers in Eastern Africa region. Even the improved picture in 'control of corruption' is a recent phenomenon (2015-2019) - this is because this rank was 38 in 2000, deteriorating to 23 and 28 in 2005 and 2010, respectively. The corruption indicator also fails to capture the systemic nature of corruption in Ethiopia (and hence the importance of Mkandawire's and Khan's critique of such indicators noted), discussed in detail below.

Among the indicators in Table 3.1, the regime's performance is worst in terms of "political stability and absence of violence", conforming to the authoritative and conflict-prone nature of the government. The political stability rank was 19 in 2000. This has deteriorated over the regime's "developmental state" policy phase, going down to 5.8, and 8.1 and getting a little

[6] Details examples of the nearly 100 percent dominance of military leaders by TPLF at the lower echelons of the military command are given in a new Amharic book authored by the member of the Federal Defense Force who survived the October 2020 TPLF attack on Northern Command of the Federal Defense Force that triggered the war between the TPLF and the Federal Government in the last two years ago (Gashaye Tenaw, 2022, The Betrayed Northern Command/የተከዳዉ የሰሜን ዕዝ, Addis Abeba).

better to 10.9 in 2005, 2010 and 2015, respectively). The lack of voice and accountability, with a rank of 19.7 (2019) after the TPLF regime's end, shown in Table 3.1 is a significant improvement from the condition during the TPLF regime, where this indicator had a rank of just 11.7 between 2001-2018. These indicators show how easy it was to patronization citizens and the private sector by the TPLF government.

Table 3.1. Political and Governance Indicators in Ethiopia and Comparator Countries in 2019

(For the year 2019)	Kenya		Ethiopia		Tanzania		Uganda	
(Rank form -2.5 lowest to 2.5 highest)	2019 Estimate	2019 Rank	2019 Estimate	2019 Rank	2019 Estimate	2019 Rank	2019 Estimate	2019 Rank
Voice and Accountability	-0.29	36.45	-1.05	19.70	-0.50	32.02	-0.62	30.05
Political Stability and Absence of Violence	-1.12	12.38	-1.28	10.95	-0.36	32.86	-0.65	22.86
Government Effectiveness	-0.38	25.00	-0.63	28.37	-0.88	17.31	-0.59	31.25
Regulatory Quality	-0.28	41.35	-0.89	16.83	-0.64	27.88	-0.37	37.98
Rule of Law	-0.45	35.58	-0.47	34.62	-0.58	29.33	-0.31	43.75
Control of Corruption	-0.78	24.52	-0.41	39.90	-0.39	40.87	-1.17	11.54

Source: Based on World Governance Indicators, 2021updates at www.govindicators.org
Note: For all indicators, the estimated scored ranges from -2.5 (weak) to 2.5 (strong). Rank shows the percentile rank among all countries (ranges from 0 (lowest) to 100 (highest)).

Having such an authoritative stance, the regime adopted various economic reform measures under the typical IFIs (International Financial Institutions - the World Bank and IMF) sponsored Structural Adjustment Program (SAP) since 1992. Following this reform, the private sector which was banned during the Derge regime, was allowed to operate freely again. The reform, accompanied by excellent whether out turn and significant inflow of capital from IFIs and Western countries first and China later, brought about a high economic growth which was better than the two previous regimes (see Alemayehu, 2008; 2005; Alemayehu and Addis, 2017; Table 1).

Despite the regime's acceptance of the market-oriented reform of the IFIs[7], given the Marxist background of TPLF, there was a strong belief among this political elite that political dominance requires economic dominance – the Marxist "base" and "super-structure" analysis of power. This is evident in the TPLF's various internal manifestos and its political ideology termed "Revolutionary Democracy". This belief is not surprising because until it held federal power in 1991, the TPLF was led by a Marxist party called the Marxist-Leninist League of Tigray (MALLT) whose chairman was the TPLF leader, the late PM Melesse Zenawi. Thus, controlling the economy directly through state-owned enterprises (SOEs) or party-owned Enterprises (POEs) – referred to as "endowment" firms in the TPLF's political language and discussed below, was the core strategy of the TPLF to cement the control on political power

[7] Readers interested in the evaluation of the TPLF/EPRDF early economic reform policy and its effect using the before-after approach may referee to Alemayehu (2005) and an evaluation of the macroeconomic and poverty performance between 2000-2015 is given in Alemayehu and Addis (2017).

through control of the economy. In addition, making the private sector subservient to the government is also taken as political expediency by the regime, which is discussed in detail below (see Alemayehu, 2021a). This state control was held firmly during the "Developmental State" policy phase of the regime (2000-2018).

In sum, from the above brief political history, we note that the TPLF has managed to capture political power through violence and the resulting patron-client 'political settlement" followed. This was the pre-condition to capturing existing firms and creating new firms, as articulated in the first working hypothesis of the study. This strategy was further strengthened by adopting the "developmental state" model, discussed next.

3.2. Crony Capitalism through the Developmental State Model

Until the early 2000s, there was no explicit reference to the "developmental state" model as a development strategy by the TPLF/EPRDF regime. However, this officially appeared in the early 2000s and became the ruling party's ideology, particularly after the 2005 democratic but failed election[8]. This election is a watershed that led to the change in the development financing modality of the government, too (see Alemayehu and Addis, 2023). It also perhaps informed the regime's strategic shift towards the "developmental state" model (Alemayehu and Addis, 2023). This is because the Western countries and the IFIs under their control, who had been financing the government's ambitious growth plans, protested against the 2005 government violence by threatening to stop their financing. As part of this protest, they also changed their financing modality from direct budget support towards directly financing basic goods and services – called "provision of basic services" (PBS). This is one of the major factors for a shift in seeking financing from emerging economies in general and China and towards significant monetization fiscal deficit (Alemayehu and Addis, 2023). It perhaps also explains the increasing rhetoric about this "developmental state" strategy in official media after this period.

The flows of resources in the last decade also corroborate this view. The external finance data shows the increasing importance of China as the financer of development from this period on. Thus, the latest debt stock data (which is an accumulation of past external inflows) shows, in the five years between 2016/17 and 2020/21, the share of Western bilateral donors (the Paris Club) in the country's total debt stock was just 2.8 percent. The percentage share of China being about 30 percent (MoF, 2021; Alemayehu and Addis, 2023). Chinese firms were also engaged in all the country's major infrastructural projects and industrial parks. IFIs also returned to financing after three years of the failed election year. Kalecki's (1964; [2006]) insight about how intermediate regimes' such as TPLF's existence, is linked to external capital

[8] The ruling TPLF/EPRDF government and its chair the later PM Melesse Zenawi killed over 800 unarmed youth in the capital in one day simply because they protested against the rigging of the election result, according to Judge Frehiwot, the chair of the government "investigation committee" who himself flee to US in a dramatic manner that looks like a thriller movie, fearing for his own life (this figure is much higher than the official figure of about 200 youth - which itself is huge). The regime also imprisoned thousands of youths (estimated at a time about 50,000) in inhospitable parts of the country. It also imprisoned the leaders of the winner opposition party for 2 years.

inflow and how they can change political alliance, fearing that foreign capital (source countries) may align with domestic opposition, is an insightful explanation for this process.

In sum, in the political history of the country, TPLF's minority ethnic status and the interest of its ethnic elite to indefinitely remain in power have made the regime an authoritarian one. To strengthen this status, the government has also engaged to economically empower its party and its members, which inevitably took an ethnic form. This is implemented through controlling state-owned enterprises, creating a myriad of its own firms and creating a crony-relationship with existing private firms. The DS model is used to justify this heavy hand of the state. By showing the fertile ground made for cronyism during this regime, I will examine the major manifestation of crony capitalism during this regime, using a taxonomy of firms in the country in the next section.

4. Identification of Crony Capitalism During the TPLF-led Regime

4.1. The Fertile Ground for Cronyism: Some Empirical Manifestations

Table 4.1 and Figure 4.1 show Ethiopia's performance in the World Banks' "ease of doing business" indicators. Its rank is among the lowest in the world, with a rank of 159 among 190 countries. It is also the weakest among its peers in the East African region (especially when compared to best performers, Rwanda and Mauritius).

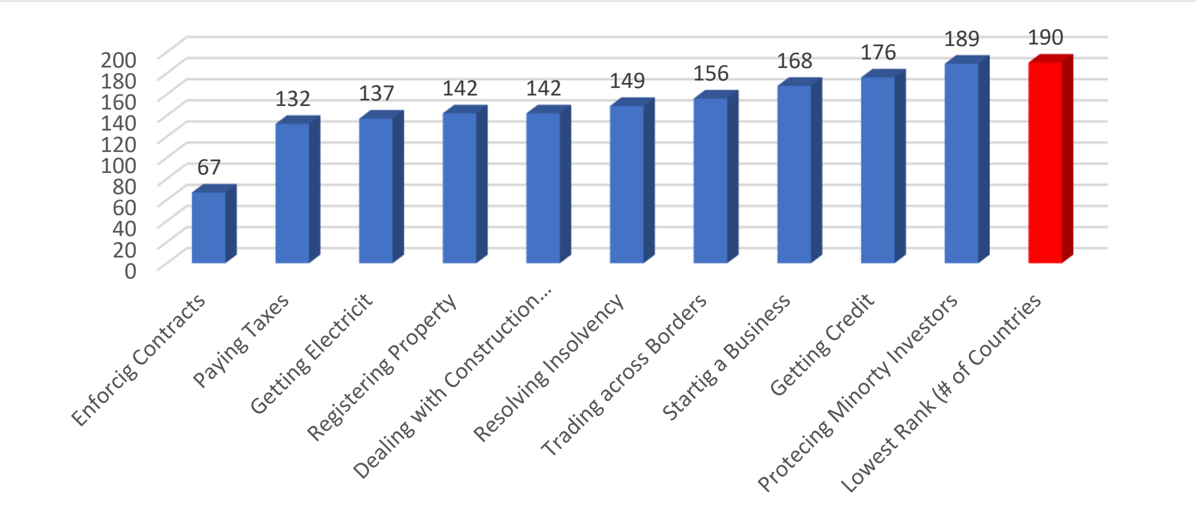
Table 4.1. Ease of Doing Business Ranking 2020 for Rwanda and Comparator Countries

Countries: Doing Business Ranking	Rank (Out of 190 Countries	Score in % (2020)	Profit tax (% of commercial profits, 2019)
Ethiopia	159	48%	30
Switzerland	1	86.8	7.8
Mauritius	13	81.5	10.3
Rwanda	38	76.5	25.7
Kenya	56	73.2	30.1
Botswana	87	66.2	21.5
Uganda	116	60	22.3
Tanzania	141	54.5	20.8
Malawi	109	60.9	20.4

Source: Author's Compiled from the "Doing Business Report 2020" & WDI, the World Bank.

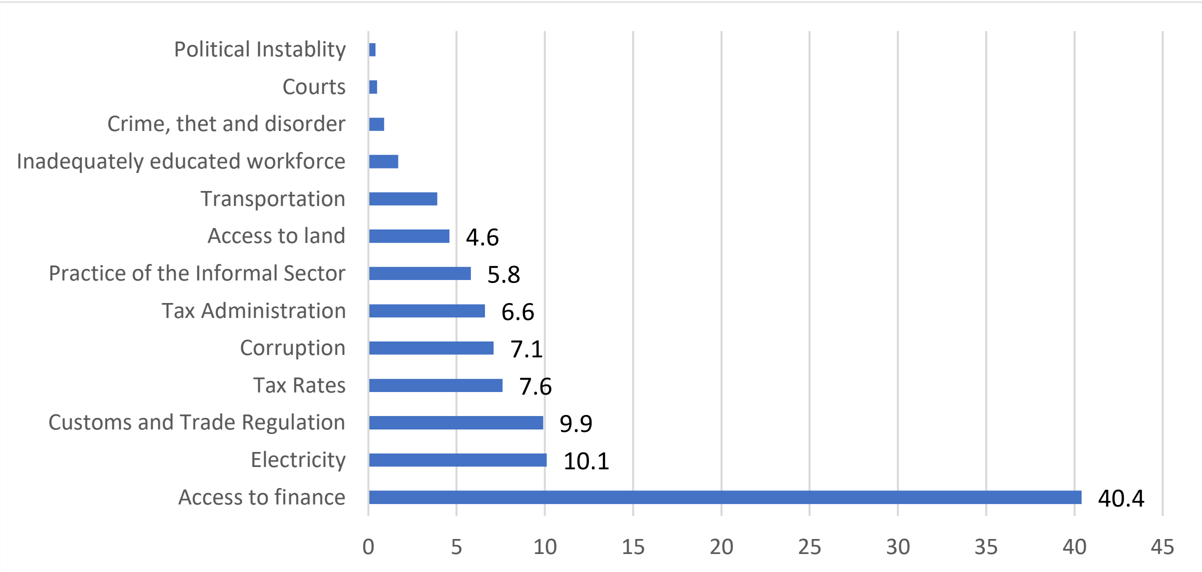
Figure 4.1 further shows this problem being severe in "protecting minority investment", followed by "getting credit" and "starting a business". The only area it performed better was in "enforcing contracts". Contract enforcement, however, is found as one of the major problems for foreign firms in our latest study on the issue. At the same time, the "protection of minority rights" is improved due to recent changes in the national investment law (Alemayehu and Guta, 2022). Generally, these indicators of the challenges of the private sector confirm the risk to the private sector that the political system poses, as discussed above. Such hurdlers are the fertile ground for cronyism in the private sector's attempt to overcome them. This, for instance, can be inferred from the major problem in the private sector – getting credit (Figure 4.2). This corresponds to cronyism that is related to financing development (and credit allocation) which is one manifestation of cronyism in Ethiopia. Access to electricity, which is the second biggest challenge (Figures 4.1 and 4.2), also created fertile ground for cronyism because there is only one state-owned electric power authority, which offers special treatment to firms related to and owned by TPLF through cronyism. Next, finance and access to electricity, customs and trading regulations and taxes are the other top challenges to the private sector, as shown by the latest enterprise survey data of the World Bank (2015) (Figure 4.2 and Table 4.2), which is another source of cronyism. These findings are not only in line with the "doing business survey" finding as given in Figure 4.1 but also further confirm the potential (the fertile ground) for crony capitalism in the regime.

Figure 4.1. Ethiopia: Doing Business Ranking in 2020 (among 190 countries)



Source: Author's Compiled from the "Doing Business Report 2020" the World Bank.

Figure 4.2. Top Major Obstacles to Enterprises (% of firms, 2015)



Source: Doing Busine Report 2020.

In addition to the "Doing Business Surveys", the 2014/15 service sector survey by the Central Statistical Authority (CSA) of Ethiopia, which is the latest available, puts access to land/space as one of the top problems (22%), next to inadequate capital (35%), for service sector firms. Similarly, for small-scale manufacturing enterprises (SSMEs), another CSA latest survey (2016/17) shows a lack of working space/access to land (for 38% of the firms) followed by the time to get a license (for 37% of firms) among their top problems. In addition, corruption is also found to be a major problem, especially for large firms (Table 4.2). Since the government owns the land, it provides land to firms based on its goodwill and its relations with such firms. These data confirm that "access to land" is one of the major sources of (fertile ground for) cronyism, as was historically the case for centuries and still so today (see Figure 4.4 too).

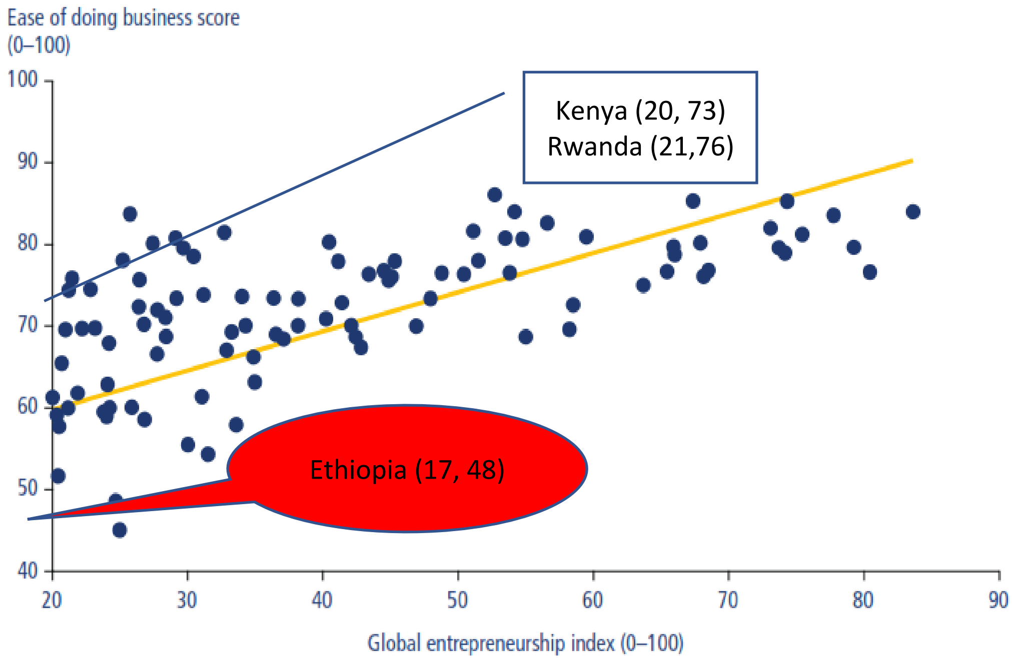
Table 4.2. Corruption in Ethiopia (WB, 2015 Manufacturing Survey)

	Ethiopia					
	Ethiopia (all)	Small Firms	Medium Firms	Large Firms	SSA	Low Income
Bribery incidence (percent of firms experiencing at least one bribe payment request)	26.8	28.3	17.5	44.1	25	31.6
Percent of firms expected to give gifts to get a construction permit	51.2	69.2	34.6	76.7	29.5	37.5
Percent of firms expected to give gifts to secure government contract	19.7	35.4	7.4	2.7	31.7	36.1
Percent of firms expected to give gifts in meetings with tax officials	17.4	26.2	2.4	7.1	18.1	25.2
Percent of firms identifying corruption as a major constraint	27.9				39.1	30.4*

* is for all countries. The Ethiopian data is based on data for manufacturing firms only.
Source: Author's computation based on WB (2015) Enterprise Survey.

The implication of such a poor enabling environment for private sector development could be the following. First, it leads to cronyism because it forces the private sector to approach the government to overcome these hurdles. Thus, firms with strong relations with the government and/or owned by it will not suffer from such binding constraints. Second, it discourages and damages genuine entrepreneurship, further strengthening the cronyism and government patronization of the private sector. The implications of this for entrepreneurship can be read in Figure 4.3, where entrepreneur development in Ethiopia is shallow. With an entrepreneurship index of 17 (out of 100) and a corresponding "doing business rank" of 48, Ethiopia's level is below its regional peers such as Rwanda and Kenya.

Figure 4.3. Ease of Doing Business and Entrepreneurship (2020 Doing Business Report)



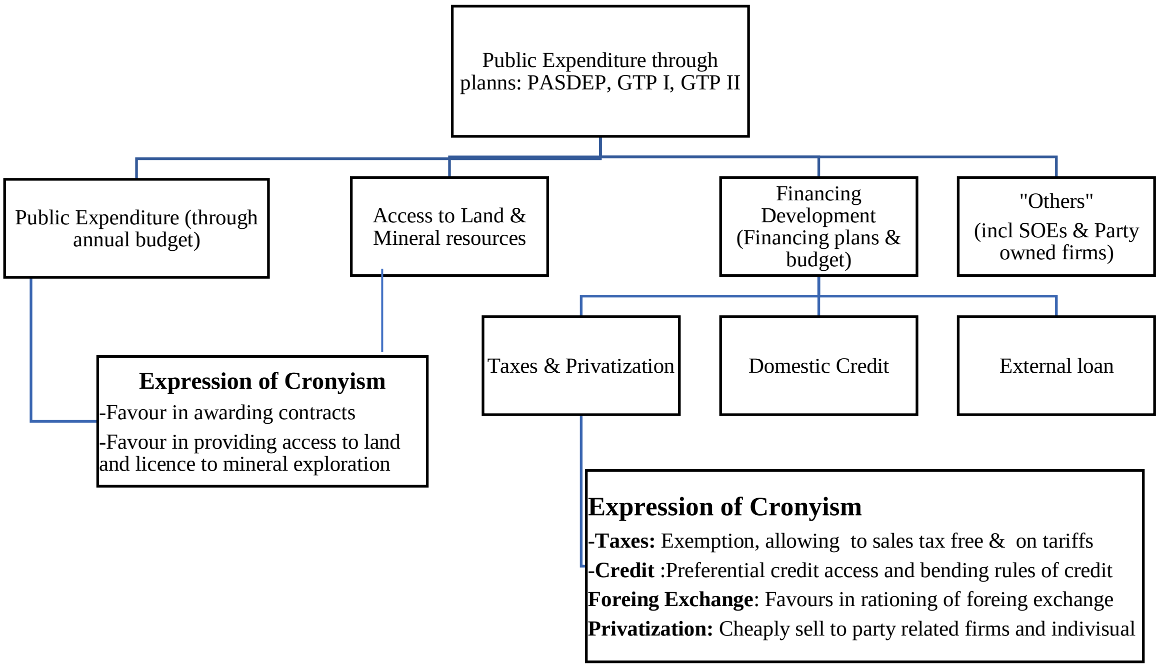
Source: WB doing business report 2020 and the global entrepreneurship index at http://thegedi.org

In sum, the data provided above show the existence of a fertile ground for cronyism or cronyism associated with such indicators that hinder genuine entrepreneurship. This is because such an environment is a stumbling block for private sector operators. At the same time offers the government the opportunity to patronize the private sector and establish crony relationships with firms. In addition, since the party-owned firms and firms with a strong tie with the government do not face these hurdles, they will be in a competitively advantageous position over the genuine firms that did not engage in cronyism. In the next section, I have examined how widespread cronyism is by using a taxonomy of firms in the country and their relationship with the government.

4.2. Manifestations of Crony Capitalism in Ethiopia

There were three major and a collection of many ‘other’ (labelled as “others” and a fourth category) preferential benefits that selected firms with a strong tie with the regime were getting from the government that could be taken as manifestations of crony-capitalism during the TPLF-led regime. These are: (i) access to land, (ii) access to finance and foreign exchange, and (iii) awarding of major public projects during the execution of the development plans of the regime. In addition (iv), there were also “other” various policy favours (such as tax exemption, ease of licensing, provision of preferential treatment during privatization, provision of public business rental premises at a giveaway price and market opportunity in the public sector). These various manifestations of cronyism are summarized in Figure 4.4.

Figure 4.4. The Manifestation of Crony-Capitalism in Ethiopia



As shown in Figure 4.1, public expenditure through the various plans described is one of the channels of cronyism. Through this channel, government favours some firms closer to it by awarding contracts, providing policy favours, priority in licensing, the opportunity to buy privatized firms at give-away prices etc. Figure 4.1 also shows cronyism through bending tax rules, especially duty-free imports, to firms with a strong link with the government. Domestic and external credit priority are the other channels through which cronyism is exercised during the regime. The latter is done through two public banks (the commercial and development banks of Ethiopia) whose board is chaired and controlled by the ruling party, TPLF.

Similarly, since the country's plans have a significant problem of aligning with the foreign exchange generating capacity of the country, the government has a structural trade-deficit, where imports were five times higher than exports in the last decade (Table 1). This has created a significant foreign exchange shortage and rationing by the government. Thus, getting a priority in this foreign exchange rationing is the other channel for cronyism. There was also a collection of manifestations of cronyism that I categorized as the "others" and described above.

Among the various channels for cronyism depicted in Figure 4.1, access to land is crucial. As the empirical evidence in the previous section shows, it is also one of the major constraints for the private sector operators in Ethiopia.

The TPLF/EPRDF regime liberalized most of the product and factor markets. Still, state ownership of land remained the same and is explicitly incorporated in the TPLF/EPRDF's constitution - thus, the policy of the Derg has continued to date[9]. The provision of land, at times by evicting slum dwellers in prime areas, to different private sector operators with strong ties with TPLF (both domestic and foreign) through shady deals in the name of "developmental investors" (see Desalegn, 2011; Teshome, 2021; Ezana, 2020) was the sin-qua-none of crony capitalism during the TPLF-led regime and remained to date during the PM Abyi regime. Once agents with strong ties with the government have acquired the land, they automatically qualify to get significant credit from banks because they can use the land as collateral. The state ownership of land and monopoly supply of agricultural inputs (such as fertilizers& high-yielding seeds) by the state and party owned firms was also used to patronize the peasantry in rural areas and make them subservient to the interest of the ruling party (Desalegn, 2008). Since rural households represent more than 80 percent of the country's population, this is tantamount to the control of the whole country.

In Ethiopia, there is no state capture by the private sector, for there is no organized and robust private sector (see section 4.3). What we have instead is capturing political power by an ethnic elite which used that state power to capture the private sector and set up its firms – and installing crony-capitalism through the channels described above and summarized in Figure 4.1. Thus, exercising cronyism is conditional on gripping political power. I have examined how this cronyism is exercised across different types of firms in the final section (section 4.3) after briefly providing the relative size of the private sectors next.

4.3 How big is the Private Sector in Ethiopia

It is instructive to know the size and hence, the relative significance of the private sector to understand the developmental impact of its relationship, crony or otherwise, with the government and the public sector. The official statistics do not have actual data disaggregated by the public and private sectors. Table 4.1 is constructed using national accounts data and various sector-specific survey data to estimate the relative size of the private sector from the production side. The starting point for this exercise is to divide the economy into rural and urban or equivalent into agriculture and non-agriculture (industrial and service sectors). The total population of Ethiopia, according to the CSA projection and its 2021 labour force survey (LFS) is estimated at about 103 million (CSA, 2021; CSA LFS, 2021). However, UN and the World Bank estimate this at 118 million in the same year (2021). About 65 percent of the economically active are engaged in subsistence small-holder-based agriculture. Unfortunately, the latter produces only 33 percent of the GDP (CSA, 2021). These agriculturalists are involved in crop and animal farming with a share of 65 and 26 percent, respectively (CSA, 2021; NBE, 2019/2020). More importantly, the entire rural GDP is produced by the "private sector" (assuming reasonably that smallholder peasants are private sector operators, Table 4.3).

The private sector accounts for 64 percent of output in non-agriculture (the industrial and service sectors), leaving the rest, 36 percent, for the public sector. In the industrial and service

[9] Notwithstanding this official policy, the last two periods witnessed an emergence of a parallel market for land with differential implication for efficiency (see Alemayehu, 2008 for detail).

sectors, the private sector accounts for about 58 and 70 percent of the industrial and service sectors GDP, respectively.

Table 4.3. Total Output (GDP) by Private and Public Sectors (2015/16 -2019/20)

Sectors/Sub-sectors (Sub-sector shares are within the sector and Sectoral shares are share in national GDP)	Ave. Annual Share in GDP % (2015/16-2019/20)	Private Sector	Public Sector
Industry (% GDP)	**26.7**	**15.4**	**11.35**
[Public/Private share in Industry]		**[56%]**	**[44%]**
Mining and Quarrying (share in industry)	1.0	1.0	
Manufacturing (1*)	24.5	20.2	4.3
Electricity & Water	2.6	0	2.6
Construction (2*)	72.6	36.3	36.3
Services (% GDP)	**38.3**	**26.3**	**12.0**
[Public/Private share in Services]		**[70]**	**[30]**
Wholesale &Retail Trade (3*, share in service)	35.6	35.6	0
Hotels &Restaurants	6.7	6.7	0
Transport &Communication	13.1	8.4	4.7*
Real Estate, Renting and Business activities	11.1	11.1	0
Public Administration and Defense	11.1	0	11.1
Others***	33.5	7**	26.5
Non-Agriculture Private Sector		**41.7**	**23.4**
[Public/Private share in Non.Agr]		**[64%]**	**[36%]**
Agriculture (% GDP)	**35**	**35**	**0**
Private Sector Share, National		**[76.6]**	**[23.5]**
Ave. Annual Real GDP (Br, in Biln)	**1,662.1**		

Notes: *In 2019/20, Ethio Telecom had a value-added of about Br. 30 billion out of the value added of the sub-sector, which was about Br. 80 billion. This assumes that labour is half the expense and that the value added in Telecom is the sum of labour and profit.
** Financial intermediation sub-sectors' share in GDP was 2.84% in the last five years. Of which the share of CBE is about 65%. So, the private banks' share in GDP is about 1% (i.e.,35% of 2.84); Education accounts for about 3% and health for about 1%; private household activities, 1.2%; community-related sectors1.1%
(1*) Based on the Medium and Large-scale firms survey of 2016/17, the latest available, the public sector VA is about 22%; and about 0.5% in terms of paid-up capital. The annual VA of small-scale firms is 22bln, and Medium and Large-Scale Firms (MLSFs) is 80bln. The public MLSFs VA is 18bln. Assuming small-scale manufacturing firms are privately owned, which is realistic, the public share in VA will be 17.6%.
(2*) between 2005-2010 the share of the public and private sector in construction value added was 50% each (in a MSc thesis at AAU). I have used that.
(3*) Based on 2013/14 wholesale and retail trade sectors survey, the government-owned enterprises accounted for less than 1% (i.e., 0.24%); hence this activity is assumed private.
*** others include financial intermediation, education, health and social work, a private household with employed prisons, community, social and personal services.

The public sector's share is generally minimal within the industrial sector. For instance, the public sector's share in manufacturing is just 17.5%. Even its relatively higher share in the non-agricultural sector, which is 36 percent, primarily comes from the government's engagement in the service sector: education, health and public administration and defence. In the last five years, the construction sector began contributing about 20 percent to the national GDP, of which about half is contributed by the public sector (Table 4.3). Thus, the public sector's share in the industrial sector would have been much lower had it not been for its significant engagement in the construction sector through investment and infrastructure provision.

In sum, as I have argued above, if we take the small holder agriculturalists as private sector operators, the private sector's contribution to the national economy will be 77 percent, leaving the public sector share at 23 percent. Moreover, this share declines only to 65 percent, even if the agricultural sector is excluded. Thus, IFIs and the media narrative about "the dominance of the state in the economy" is empirically unfounded and largely is a myth, and perhaps is politically motivated by proponents of privatization such as IFIs.

This dominant role of the private sector in the economy could also be further, and more dramatically, corroborated by looking at the details of employment data from the 2021 labour force survey. In this survey, out of the 70 million economically active population of age 10 years and above, 41.6 million (60%) are employed. Of the employed population, 50 percent are self-employed and about 37% are unpaid family workers – thus, the two alone add up to 87 percent. The share of government employees is just 6 percent at the national level, while formal private organizations employ only 4 percent of the employed persons (CSA, LFS, 2021; Alemayehu, 2021b).

This finding about the size of the private sector is crucial because it demystifies the IFIs' (World Bank and IMF) stance in Ethiopia when they deal with the government. The IFIs assert that the public sector dominates the economy and stifling private sector development. With that view, they made their assistance conditional on privatization and liberalization. Ethiopian researchers and the media strengthened this narrative without an empirical basis (Berhanu, 2011, for instance). However, the reality is that the private sector dominated the economy, as Table 4.1 shows. This is true, even if we exclude the agriculture sector. Thus, the private sector is dominant but very weak. This also underscores the importance of seeking other factors that explain the underdevelopment of the private sector rather than the standard crowding-out hypothesis by the public sector. One crucial area could be government–private sector relationship – which I am hypothesising here to be characterized by crony capitalism (discussed next, section 4.4). This might also have to do with (or cronyism might have also led to) the very low productivity level of the private sector itself, which may need further research.

4.4. Taxonomy of Ethiopian Firms and Crony Capitalism

Informed by the study's analytical framework, the nature of cronyism as summarized by Figure 4.4 and the recognition of the relative size of the private sector as estimated above (Table 4.1), I have categorized the Ethiopian firms into the following seven groups. The categorization is needed to understand the relationship of these firms with the TPLF-led government along the

Kaleckian (1964) line. All these firms have had some crony relationship with the ruling elite in the last three decades.

1) The first group of firms are **Civilian *State-Owned Enterprises/firms (SOEs)*** that operate in many sectors. In principle, these firms have management autonomy and are expected to work mainly at commercially independent firms. However, the influence of the state through assigning board and executive directors is decisive. They are also given priority in handling government-related businesses. If we measure the size of these SOEs by the number of employees, they employ about 2 percent of the employed people in the country and hence are not that important (see also Table 4.3).
2) The second categories of state-owned enterprises are ***Military-Affiliated State-Owned Enterprises*** (MA-SOEs). These are huge companies run under the Army and are engaged in producing military and civilian goods and services. Military generals ran them as their CEOs.
3) The third influential firm type is ***Party-Owned Enterprises (POFs)***, run by the top political elite governing the country as board chairs and CEOs. Most of these firms are owned by the dominant ruling party – TPLF. Although insignificant, a few firms are also owned by the other EPRDF coalition member ethnic parties. The government calls them "endowment fund" firms. They are in every sector of the economy and get explicit favour from the government along all the lines depicted in Figure 4.4.
4) In the fourth category are a group of firms owned by one of the most influential private sector operators, Sheki Mohammed Alamudi – **the *MIDROC-Ethiopia Industrial Group*** *(Mohamed International Development Research and Organization Companies)*. He is the wealthiest person in Africa, next to Dangote. His firms operate globally, and its Ethiopian group is engaged in many sectors. He is the biggest employer next to the government. He has worked closely with the regime, with expected reciprocity.
5) The fifth firm category is ***Large and Medium Size Enterprises/Firms (LMSEs)***. Most such firms are privately owned (about 84% of the gross value added of such firms in 2016/17 comes from the private sector). Some of these firms could be genuine, but others, especially the large ones in the construction sub-sector, have strong ties with politicians and benefit from access to finance, land and lucrative contracts – with a clear sign of cronyism.
6) Several Small and Micro Size Enterprise/firms (SMEs) are related to the above type of firms, some of which border the informal sector. Some of these firms are also given small credit and, in urban areas, sheds as trade posts by the government. In return, the government generally expects them to be members of the ruling party or support it.
7) Finally, there are several foreign-owned firms, in particular by China, Turkey and India, as well as some Western countries. Most came to Ethiopia using the FDI and Privatization Avenue. They are also dominant in the construction sector and industrial parks. Such firms also have relations with the government and their external financers, such as export-import banks in their respective source counties and the IFIs who support them.

In the rest of this section, I will attempt to analyse the operation of each of these major categories of firms and their relationship with the TPLF-led regime using available and accessible information. This aims at identifying the nature and mechanisms of crony state-business relationships.

4.4.1. State-Owned Enterprises (SOEs): Civilian and Military

Broadly the SOEs could be divided into two major categories from a cronyism perspective: "Civilian SOEs" and "Military-Affiliated" SOEs.

4.4.1. (a): Civilian State-Owned Enterprises (SOEs)

These are some iconic and big public firms that dominate their sub-sector. This list includes the Ethiopian Airlines which is the most efficient, profitable and biggest Airline in Africa. It is wholly state-owned since its inception. It is currently running over 131 modern aircraft in 100 international and 21 domestic destinations with its maintenance centre and training academy for technicians, pilots and hostesses (and recently added a luxury hotel to its portfolio). Its annual profit was about USD 300 million in 2017 and remained around that for a long time. This profit, however, reached US1 billion with US $5 billion in revenue in 2022. Similarly, Ethio Telecom is the only and publicly owned telecom service provider until 2022, with 68 million subscribers at the beginning of 2023, gross profit of US$730 million (2019/20), US$600 million growth profit in 2021/22 and total assets of US$1.75 billion in 2019/20. It also employs about 30,000 workers. In 2022, it was joined for the first time by Safaricom Kenya.

The third dominant SOE is the Commercial bank of Ethiopia (CBE) which has about 60 to 65 percent share in total lending and deposit of the banking sector and 50 percent of the banking sector asset in 2019/20. There is also the Development Bank of Ethiopia (DBE), which could be described as the most crucial bank through which the government exercise its crony-lending. Private firms, with a strong tie with the ruling party, and party-owned firms are beneficiaries of the DBE loans (see Alemayehu, Addison and Getenet, 2018). The fourth and most important firm is the Ethiopian Electric Light and Power Authority (ELPA), the only producer and distributor of electric power in the nation. The fifth is the Ethiopian Shipping Line, which has its own ships and primarily engages in the country's import and export businesses.

Generally, such civilian SOEs are not the dominant form of ownership of firms in Ethiopia, as the public sectors share in the value-added on the non-agriculture sector is about 36%, as noted before. SOEs are also absent in the agriculture sector (Table 4.3). In addition, if we attempt to measure their size by the size of employment, the share of government employees in the total (national) employed population in 2021 was just 6 percent (CSA, LFS, 2021). Of the latter, those who work for the civilian SOEs listed above, are about 778,000 (about 1.8%) in 2020 (CSA, UEUS, 2020).

Cronyism in SOEs is primarily executed by holding board and management position of these firms and direct pressured by top party officials. (for example, close to 40% of the top management of Ethio Telecom was held by TPLF members, which claims to represent about 5% of the total population, according to a study by the then opposition party (Genbot-7, 2009)).

The board chair of CBE was also a top TPLF official. Even efficient firms such the Ethiopian Airlines (EAL) are not immune from cronyism as the employment of workers for EAL and the provision of sales outlet at the airport was dominated by the TPLF party members and party-owned firms (see below and Ermeias, 2016). Public banks (CBE and DBE) provide credit to selected firms through political pressure (see below). Access to infrastructure (such as power) is prioritized for firms with stroung tie with the government. Lucrative SOEs' projects contracts are offered for firms with ties with the government. Thus, apart from operating as SOEs, these SOEs are also used as an instrument to benefit individuals and firms that have strong ties with the regime.

4.4.1. (b): Military-Affiliated State-Owned Enterprises (MA-SOEs)

Although the dominant military-affiliated state-owned Enterprises (MA-SOEs) was established in 2010, their foundation is laid on military enterprises such as the Gafat Engineering that were established by the previous military regimes (the Derg) in the late 1970s. The infamous military-affiliated business conglomerate that the TPLF generals of the Army run is referred to as the Metals and Engineering Corporation (MetEC, henceforth). MetEC was established in 2010 with an initial capital of 10 billion Birr (about USD 400 million). It is set to lead the country's industrialisation under the government's DS strategy. Thus, it was mandated to build the technological capabilities of the country's defence forces; the design, building and commissioning of manufacturing industries; the manufacturing of industrial machinery; the enhancement of engineering and technological capabilities; the manufacturing, maintaining, overhauling and upgrading of weapons, equipment and parts for the military; and the sale of weapons.

There is no official information about the number of firms under MetEC. Various authors in the literature use Reuters' report that states the "conglomerate has 98 companies. Two of them manufacture military equipment. Dozens of others make civilian products, including TVs, solar panels, trucks, construction machinery, plastic products and other goods". Although this description is generally correct, the number of firms is contested. Military-related manufacturing firms are four, not two, either. The most reliable information seems an MSc thesis at Addis Abeba University (Zemen, 2017) and the recent English Weekly "Addis Fortune" interview with the current CEO of MetEC about MetEC's restructuring in 2018. According to both sources, MetEC has 15 semi-autonomous and integrated military and civilian manufacturing companies operating in more than nine different sectors (with at least 75 firms under them). It had 16,500 permanent employees, excluding the 3000 workers recently forced to leave following the corruption scandal within MetEC and the canceling of many of its contracts. Among these, four are engaged in military-related products and recently returned to the ownership of the ministry of defence. According to the new board chair's report to the English Weekly, Addis Fortune (*Aug 08, 2020*), the company carries a total of 74.2 billion Birr in debt, equal to its assets.

MetEC was run by high-ranking military generals, as noted – including its founding CEO, Maj General Kinfe Dagnew (now in prison). From 29 top and middle-level management positions, 70 percent of leaders are from the ruling party, the TPLF. All top posts of MetEC firms are held by TPLF generals, leaving out only four positions to the rest of the country's ethnolinguistic communities that account for at least 95 percent of the population.

MetEC is allowed by the regime to take mega public projects worth billions of Birr without a bid – from installing a fertilizer manufacturing plant and assembling various trucks and locomotives for light rails to building dams and installing sugar factories. It, however, generally began to subcontract these jobs to others because it had no in-house capacity.

Using the military establishment for industrialization and technological innovation and development is a sensible approach with proven success in many countries. A glaring example of that is found, for instance, in the US industrial and technological innovation history, where the state acted as an entrepreneur state (Mazzucato, 2019). In Ethiopia, however, its conception and practice were not only half-baked, to say the least, but also primarily politically motivated. It appears political expediency (including keeping the party generals busy and corrupt) is more important than the actual industrialization and innovation task. The blatant proof for this is that MetEC was led and staffed by military generals from the ruling TPLF party who are high school graduates at best with no idea about technological development, innovation, planning and industrialization. This is true in middle-level management too. Generally, the conglomerate did not have well-trained engineers and innovators staff who could handle the huge government projects it took. Thus, MetEC failed to do mega public projects that it took without bidding.

Thus, MetEC began to sub-contract most projects which it has acquired from the government to foreign companies (when it is a complex project) and to POEs[10]and private companies of their relatives (or their own firms set up in the name of their relatives) when the task is more straightforward All these subcontracting tasks are done through shady deals that led to grand corruption (see Appendix A for court cases of MetEC). Thus, effectivity, the Military generals of TPLF became unnecessary brokers that dived into grand corruption to benefit themselves and their party-owned firms through sub-contracting.

Over time, this corruption began to take a grand form that destroyed MetEC and became one of the major factors for the regime's downfall in 2018. The most visible of these grand corruptions is the task of installation of several sugar factories worth millions of dollars. Despite given the contract without bid, the MetEC generals were unable to do the job. Yet, the generals forcefully took almost all the budget allotted for the task (the sugar corporation authorities reported this incident in an openly televised session of the parliament). They also failed to honour the contract to undertake the electro-mechanical task for the Grand

[10] For instance, out of the 70 billion Birr contract they have got from the government without bidding, which they failed to do but took all the money as noted, it has sub-contracted about 5 billion Birr worth task to Mesfin Industrial (the TPLF party owned firms) for boiling house work, without bid.

Renaissance dam, a contract they were given without bidding, costing the country millions of dollars by delaying and eventually being unable to do it. In 2018, 29 high-ranking military officials involved in running MetEC, including the founding CEO, were imprisoned by the new government on corruption charges, and their cases are being handled in court. The nature of cronyism at MetEC is illustrated in Appendix A that is based on the police report presented to the court.

In 2018 when theTPLF is ousted from the Federal government, the new government of Prime Minister Abiy Ahmed cancelled MetEC's major contracts. Following this, the industries that have been manufacturing military equipment are transferred to the Ministry of Defense. The rest of the firms are re-organized to manufacture civilian and commercial products under new management and new name – the National Metal Engineering Corporation (NMEC).

4.4.2. Party-Owned Firms (POFs)

The coalition of three ethnic-based parties (OPDO, ANDM and TPLF) and one multi-ethnic regional party (SNNPP) that formed the EPRDF had firms operating under their party's respective ownership. Top party officials lead these firms. However, like the political power among the coalition member, the number, size, sophistication and benefit derived from the government by TPLF-owned firms is very extensive and incomparable to the profile of firms owned by the rest of the coalition member parties. Thus, it is better to talk about TPLF-owned firms than EPRDF-owned firms. For instance, the OPDO which claims to represent the Afan-Oromo speaking community, the ANDM which claims to represent the Amharic speaking community and the "Southern region" claims to represent over 70 ethnic groups – and, hence, the three combined, claiming to represent over 90 percent of the Ethiopian population, owned only 7, 5 and 1 firms, respectively. Similarly, the combined initial capital of firms under each of these party's was only 152, 391 and 12 million Birr, respectively (Bogale, 2013). Comparing these figures with similar figures of the TPLF-owned firms, given in Table 4.2 below, shows how minuscule the share of the three parties is – a clear reflection of the political power balance in the coalition.

On the other hand, the TPLF owns several firms with significant capital and influence in every sector of the economy (Table 4.2, Appendix B). Most TPLF owned firms were set up in the first half of 1990s, following TPLF's hold of power in 1991 – showing that capturing state power was a precondition for creating and capturing firms. Though they are legally established today as private limited companies, they are owned by "The Endowment Fund for Rehabilitation of Tigray" (EFFORT), which belongs to the TPLF. The initial seed finance for these firms came through converting aid money into cash in a cruel manner, robbing of banks as well as private and public property during the civil war days – as reported by the then Chairman of the TPLF, now an opposition leader. TPLF also collected contributions from ethnic Tigray Ethiopians supporters of the party. As shown below, a significant part of their initial capital (about 322% of their initial capital from DBE and 65 % from CBE for the sample of major firms) came from public banks through cronyism. The latter is done once TPLF captures political power (see Ermias, 2016; Hassan, 2019; Berhanu, 2015; Table 4.4[11]).

A previous study by Bogale (2003) put the number of TPLF firms at 56, with a combined initial capital of 3.8 billion Birr. At the 2003 exchange rate, this comes to about US$200 million in 2003 US dollars. This number of firms has grown to 66 in Ginbot-7's (an opposition party) survey that offered the list of all firms in 2009 (Ginbot-7, 2009). The number reached 90 firms in the 2016 book by Ermias Legesse (2016). TPLF-owned companies are organised into five clusters, each led by a senior TPLF politburo or central committee member who is a high-ranking government authority: Engineering and Construction; Manufacturing; Service; Agro-Processing and Mining (the profile of some of the big and major firms from each cluster are given in Appendix B).

A summary of my estimate about the size of capital, turnover and direct employment of TPLF-owned firms, which is based on the sample of prominent firms, is given in Table 4.4. Table 4.4 shows the total capital of the top 8 big firms (out of the possible 90) could be about 52 billion Birr in 2018, at the 2018 price. If we add to these eight firms the other five that are not covered in Table 4.2 and given in Ermias (2016) and update their capital to the year 2018, we will have an additional 26.4 billion, which makes the total 78 billion Birr in 2018 prices. Assuming the national survey of large and medium size manufacturing firms (LMSEs) by CSA (Central Statistical Authority) included these TPLF-owned firms, the TPLF firms' capital estimated in Table 4.4 could account for at least 40 percent of the total capital of the 3,529 LMSEs in the country (see Tables 4.4 and 4.5)[12].

The initial capital of the eight major TPLF firms in my sample has increased on average about 60-fold (and nearly seven times adjusting for Birr inflation). These sample firms, on average, had an annual turnover of about 39 billion Birr in 2017/18 and provided permanent employment to about 17,000 persons. Although on the downside because of its coverage, this estimate clearly shows the dominant position of TPLF-owned firms in the national economy. It is imperative to note that the flourishing of this business empire has happened despite the explicit prohibition to own and run business firms by political parties in Proclamation No. 46/1985/article 31 of the party organization proclamation of the country.

[11] Regarding data about party owned firms, they are very secretive about it and it is impossible to get official data about each firm's operation. The information contained in Ermias' book is thus important because Ermias was a state minister in the TPLF/EPRDF regime and had firsthand access to data and information about activity of the POEs. He also had the motive and opportunity to release the information as a decedent residing in US. Written in Amharic (the Federal language) it has also a lot of supporting documents such as letters written by authorities of the regime in relation to the activity of POEs which is provided in the Annex to the book. I have also tried to use and triangulate the data based on some thesis papers written for MA/MBA degree in local colleges.

[12] If all firms that belong to EFFORT are not included in the CSA data, this share would be 61 percent. However, according to my inquiry about this to some experts at CSA, the TPLF firms are included in CSA data. Since my estimate here is made based only on 13 out of the possible 90 TPLF firms, the 40% share found here could still understates the actual share.

Table 4.4. Summary Profile of the Top 6 TPLF Firms (in Birr, for 2017/18, Annex B for details)

Dominant TPLF Firms	Initial Capital (Birr)	Initial capital at current Birr (2021) value^	Loans from DBE as % initial capital, 2009#	Estimated Current Capital (Birr)**	Estimated Annual Sales/turnover (Birr, 2017/18)	Estimated Current Employment
1. Guna Trading	10 million	90 million		7.8 billion	10 billion	500 (+2000)
2. Almeda Textile*	180 million	1.6 billion	380% [64%]	9.4 billion	700 -900 million	5,278
3 Sur Construction	108 million	1.13 billion	245%	6 billion	15 billion	1700 (15000)
4 Messebo Building/ Cement	240 million	2.2 billion	406% [63%]	9.3 billion	7 billion	1800 (291)
5. Mesfin Industrial*	10 million	90 million		7.8 billion	2.14 billion	600 (1000)
6. Addis Pharmaceutical	169 million	1.5 billion	257% [68%]	2.6 billon	800 million	720 (200)
7 Trans Ethiopia	102 million	918 million		3.5 billion	7.5 billion	1700
8. Wegagan Bank	60 million	540 million		3.8 billion ^^	3.1 billion^^	4,907
Total	879 million	8.1 billion		51.7 billion	39 billion	
Including additional 5 Firms not included above that worth 26.4 billion in 2017/18##				78.1 billion		

##If we include 5 firms which are given in Ermias (2016) and update the data to 2017/18, these firms have additional capital of Birr 26.4 billion (Mega Net corporate grew from Br 4 million (initial capital) to 26 billion; Hiwot Farm mechanization from Br 25 million to 1.2 billion; Ezana mining from Br 89 million to 4.7 billion; Bruk Chemical from Br 20 million to 7.6 billion; Dedebit bank from Br 20 million to 10. Billion

Source: Appendix B (see details about growth, functions and national spread of these firms in Appendix B)
Note: * Air-bombed by the Federal Air force suspected of producing war-related materials during the war between the Fed and TPLF n 2022. ** Ermias' 2016 figure is extrapolated by the historical growth rate for one year. ^^Br 5.1 billion in 2019/20 & revenue of Br 4.4 billion in 2019/20. Wegagan Bank's share is also held by other EPRDF parties, though they have a minority share (see Appendix D for detail)
^ the current value is computed assuming the dollar value didn't change and using $1=5 Birr before 1995 and the Birr to dollar rate in 2017/18. When a dollar estimate exists, the current value of that estimate is used.
# is based on 2009 DBE report given in Ermias (2016, p190) & initial capital in column 1. Ermias (2016) also reported that for a sample of 3 firms (Messebo, Almeda and Addis Pharmaceutical) the loan from CBE (the other public bank) amounts to about 65% of their initial capital. These figures are given in the square bracket in this column [ ].

In line with the objective of this study, it is imperative to ask, "how do these POEs manage to get this dominant position?" – the short answer is through cronyism. The cronyism observed took various forms, including (i) financing of these firms (credit) by public banks without collateral. Some of the firms sometimes were not paying back the debt. This debt is then converted to bad debt and transferred from the commercial bank of Ethiopia (CBE) who provided the loan to the Development Bank of Ethiopia (DBE) by direct order of the government, PM Melesse Zenawi (Ermias, 2016, The Reporter, 2013); (ii) through privatization of SOEs offered at a giving away prices to POEs, (iii) through offering market opportunities without bid in the public sector by political order, (iv) through getting significant discount/subsidy from public and private firms by putting political pressure on them; (v) through failing to pay due taxes and tariffs (especially for imports); and (vi) through putting political pressure on SOEs and some big major private firms not to compete with POEs or by putting them in disadvantageous position in the market through the board chairs (which are the party officials) of the competing SOEs (and firing of CEOs if they refuse the order – an illustrative example of this is the SOE, Muger Cement factor which was competing with the POEs Messebo Cement of the TPLF). Samples of evidence on these various forms of cronyism are offered at the end of appendix B2 and details can be found in Ermias (2016) and the Amharic Weekly, "The Reporter" (which is an insider News Paper), especially those published between October to December 2013.

4.4.3. Private Foreign Investment: FDI and The Influential MIDROC Industrial Group

MIDROC (Mohamed International Development Research and Organization Companies) Ethiopia's group of companies is the biggest privately owned conglomerate in Ethiopia. Sheikh Mohammed Hussien Ali Al-Amoudi, of Saudi citizen of Ethiopian origin, owns it. About 80 companies and subsidiaries (according to its website, News Media Sources and Abel, 2012) under MIDROC are currently re-grouped in 4 clusters and led by 4 chief executive officers (CEOs). These are manufacturing (15 firms), mining (4 firms) engaged in precious metal and gold extraction (4 firms) and technology solutions for architecture and construction. It has also Agriculture and Agro-processing (12 firms, including firms in exportable goods such as coffee and tea) and "Commercial" (4 companies engaged in the wholesale and retail business and aviation) firms. Details about this group of firms are provided in Appendix C. It is estimated that MIDROC employs about 65,000 workers (Fortune, July 31, 2021), making it the top employer next to the government.

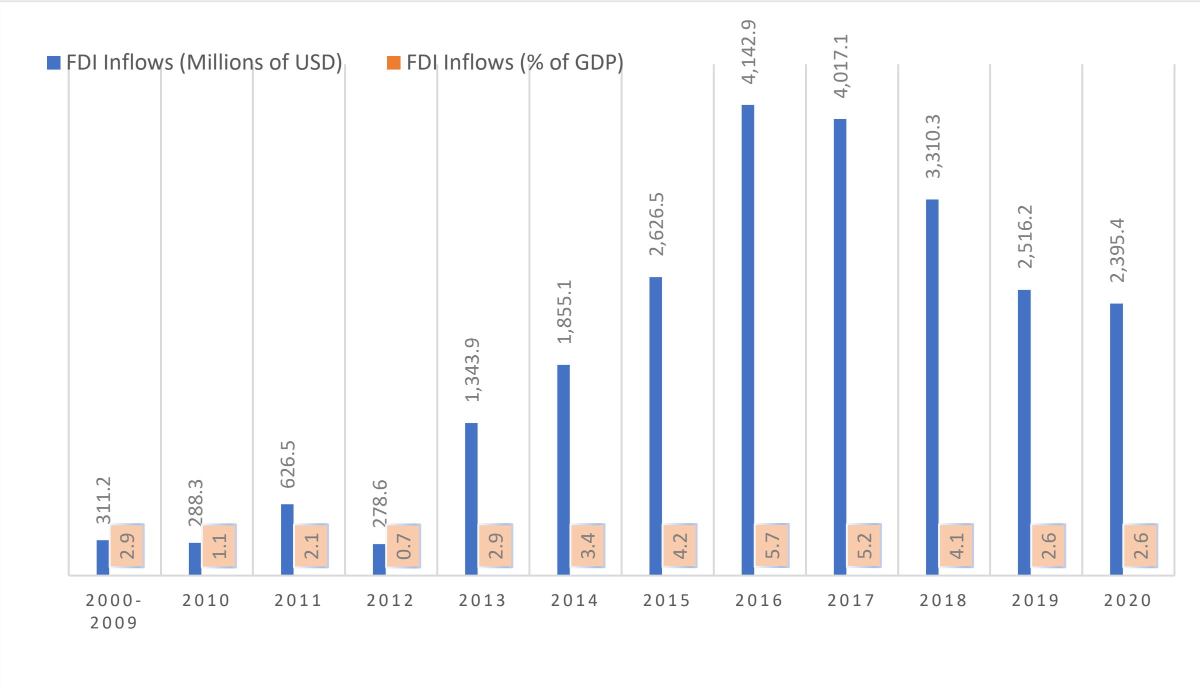
There are several indicators that some of these firms and its owner have a strong relationship with the government. Some of the indicators: include its winning one of the lucrative gold mining contract; its occupation of tracts of land across the country without development for years (which is illegal for other firms); provision of its luxury collections of cars, the service of the luxury Sheraton hotel and the city's most enormous hall owned by him (the Millennium Hall) for government functions. The open campaign of the chairman of MIDROC, Shaik Mohammed, for the ruling TPLF/EPRDF in the 2005 election, though a clever and understandable move as an entrepreneur, if TPLF was to remain in power (which turned out to be the case), is also another indicator that he has strong ties with the ruling elite, with apparent implications for cronyism[13]. This doesn't mean he is always favoured, however. He held, at best, a second position when compared to POEs such as the TPLF-owned Messebo Cement company vis-à-vis his Cement factory. At times, he was even forced to increase cement prices by direct order of TPLF officials (when he was attempting to reduce the cement price) so that it doesn't undersell the TPLF-owned Cement factory.

Although MIDROC firms are strictly foreign-owned firms, they can also be considered local firms, given the owner's background and his strong link with the government and his country of birth (Ethiopia), as noted.

[13] There are also many indicators of this in local media and local-language based books. For instance, it is alleged that the group benefited from privatization (e.g., The Ethio-Libya Mining Co which is sold to MIDROC at Br 25 million, while other firms offered up to 200 million according to Ermias (2016) as well as the awarding of gold mining concession to MIDROC (Hassan, 2019) being cases in point).

In addition to MIDROC, other strictly foreign-owned firms came through the FDI channel and engaged in many sectors. FDI has dramatically increased since 2013. This can be read in Figure 4.2 (see Alemayehu and Guta, 2022, for detail). FDI grew significantly during the DS model period, from just US 300 million in the first decade of the 2000s to the pick of US$4.1 billion in 2016, before declining to US$2.5 billion in 2020/21. Major source countries are emerging economies, particularly China, India and Turkey, as well as Western Europe and North America. The dominant Chinese and Turkish firms were engaged in the construction and manufacturing sectors, especially in flourishing industrial parks. It is difficult to get information about the cronyism of these foreign firms, including the dominant Chinese firms. However, since big firms from emerging economies such as China also came with finance for most government mega projects, they also undertook the project as part of the condition for the finance provided. From this perspective, such firms' direct and special benefit is explicit. In addition, the relationship such firms from emerging economies (as well as their government) established with the regime must have also provided a degree of security to engage in investment[14].

Figure 4.2. Recent Trends of FDI in Ethiopia



Source: Author’s compilation based on UNCTAD data.

4.4.4. Other Large and Medium Size Firms

Following the privatization of several public firms over the last three decades, the government’s engagement in the manufacturing and service sector has been significantly

[14] Although I haven’t examined the impact of such firms on growth and local private sector development in this study, it is interesting research are worth examining in future (see Alemayehu and Atnafu, 2009; and Alemayehu, 2019 for such analysis in the Africa context).

reduced. For example, in the country's Large and Medium Size Manufacturing Enterprises (LMSMEs), the share of the public sector in the total number of firms is about 3.6 percent (Table 4.5). The public firms' share in the paid-up capital and gross value added of such firms is about 5 and 22 percent, respectively (Table 4.5). In addition, 95 percent of the wholesale, retail and motor vehicle sub-sectors firms in the service sector are owned by private sector operators. Similarly, the small-scale manufacturing enterprises/firms (SSMEs) are also fully privately owned (see also Table 4.5). Thus, LMSMEs, SSMEs, as well as the bulk of the services sector firms are generally privately owned (Table 4.5). If the private sector decisively owns such firms, how is cronyism expressed concerning these firms?

Table 4.5. Large, Medium and Small Size Private Firms

	Number of Firms	Permanent Employees *	Total Asset (Billions Birr)	Ownership (Share of Public)
Large and Medium Size Manufacturing Firms (LMSME)	3,529	293,058	-Fixed Assed 145 bln -Paid up Capital 205 bln	3.6% of firms 5% paid-up capital. 22% Value Added
Small Scale Manufacturing Firms (SSMEs)	154,162	849,549 [2.14 million]		None
Distribution Services Sector firms (DSS)				
Wholesale trade	51,994	216,887 [644,000]	32 billion	1.2% firms
Retail trade	511,219	691,144 [1.58 million]	24 billion	2% firms
Motor vehicles	13,786	67,011 [122,000]	68 billion	None

Source Author's computation based on CSA Survey (2016/17 for SSMEs & LMSE and 201/14 for DSS,
Note: values in *[ ] include non-permanent and seasonal employees.

Among the LMSMEs, three categories of privately owned firms strongly related to the TPLF-led government and benefited from this. Some of these firms are owned by individuals with a strong link with the ruling elite (the TPLF-led government). These are (a) big construction firms (especially grade one construction firms) that were getting lucrative business contracts from the government, (b) several medium-size firms engaged in the distribution of goods such as construction materials, especially metals, iron bars (including those who claim to build big five-star hotels and allowed non-tariff imports of materials such as iron bars which are invariability sold in the market) and (c) several private firms in the real-estate sector who get access to land in a prime location at a ridiculous price (in 2009/10 out of the total number of real estate firms that received land for dwelling houses in Addis Abeba, 50 percent of them were ethnic Tigrayans with a strong link with the TPLF (Yohannes, 2013). This number is significant since this ethnic group accounts for only 5 percent of the Ethiopian population (and less so in Addis Abeba), and the data doesn't include land for business building, which is as much, if not more (Yohannes, 2013)[15]. Some of these firms also benefited from the privatization of public enterprise by getting them at a give-away price – a typical example of this being the over 100 years old first hotel of the country (Empress Taitu Hotel) in the center of Addis with big tract of land "bought" by members of the ruling TPLF families at a ridiculous

[15] Yohannes, the Addis Ababa Land Authority director, fled to Germany fearing prosecution. He is the source of this information in a book published in 2013. He also provides the land's size and the owners' name.

price. Likely, some of the politicians also have a share in these businesses. Party-owned firms are also among the beneficiaries of the privatization of SOEs at giveaway prices - the privatization of Kuraz Publishing and its transformation as MEGA Plc, which TPLF owns, is one case. They were also getting lucrative business –various public project contracts given to “Sur Construction Co” that TPLF owns (especially from the Ethiopian Road Construction Authority, see Appendix B) being cases in point.

Finally, cronyism in small and micro enterprises/firms takes a different form. It is generally carried out through the provision of microcredit-based loans by the government, invariably to organized groups. The government also provides sheds as trading posts for some private sector operators in urban areas. This was used to be practised by the TPLF-led EPRDF government until 2018 and has continued in the current PM Abyi government’s party. The officially stated objective is “job creation” for the youth. However, political support for the ruling party (including a membership request) is an important criterion. Therefore, it is less likely to get these benefits unless one is somewhat related to the ruling party in this manner. For instance, providing microcredit to such firms in the three years between 2017/18-2019/20 averaged about US$320 million per annum, about 3 percent of the total loan disbursement by the banking sector (at $1=Birr 24.6 rate). This amount was provided, on average, for about 122,000 new micro firms each year. These firms officially claimed to create, on average, 880,000 jobs each year in the same period (NBE, 2019/20).

5. Conclusion and Implications

In this study, an attempt to identify the manifestation of crony capitalism in Ethiopia is made. Focusing on the period when the country pursued a “developmental state” based development strategy, it attempted to show the development of crony capitalism and its salient features from a political-economy perspective. It also demonstrated the fertile ground created for cronyism in the context of this strategy using available empirical data and information. The study then attempted to examine crony capitalism in detail by characterizing and categorizing firms operating in the country into seven major categories, each having differentiated crony relationship with the TPLF-led government.

The analysis generally shows that the state-led capitalism (the DS model) that Ethiopia was experimenting with in the last two decades was ridden by crony capitalism. This was characterized by significant corruption through establishing a business-government relationship using a myriad of firms that party-owned firms dominated. Corruption, in turn, is primarily executed through “state capture” by a minority ethnic political elite, which wants to remain in power by controlling the economic sphere. The grand corruption, the overzeal to control all facets of the economy by the ruling TPLF regime, and the implications of that for horizontal inequality (both political and economic) among the political elite groups must have been one of the significant factors that led to the end of the TPLF-led regime in 2018. The latter led to political instability that followed and remained to date.

The manifestations of cronyism during this regime, which is examined in detail in this study, have implications on what to do about it and how to bring about sustainable development and political stability through genuine private sector development in the country. The growth of the various types of firms with a strong tie with the government described in the study had both positive and negative aspects. On the positive side, they have contributed to the country's growth in the last two decades. On the negative side, they have contributed a lot to the lack of inclusive economic and political development with implications for corruption and the stifling of genuine business development and political instability that led to the end of the TPLF regime. However, evaluating such multifaceted implications of cronyism in Ethiopia is beyond this study's scope and needs detailed micro and macro-level future research. From this study, I have indicated some directions for future research on cronyism in Ethiopia by way of conclusion. Given the dominance of party-owned enterprises (POEs) in systemic cronyism, the focus is also related to them.

First, through the practice of cronyism described in this study, which is executed through state capture by the "ethnic elite" and the POEs' policy of creating synergy among themselves, these firms began to have a monopoly position. They engaged in unfair competition with other firms. This must have led to inefficiency and stifling of private sector development, which needs to be researched further. This is also relevant for other big firms with strong ties with the government but not owned by the ruling party as described in this study.

Second, because the leaders of the POEs are not accountable to anyone (except for their narrow circle in the party), corruption becomes a major problem. Corruption was rampant both within these firms as well as in the entire state structure. Within the TPLF-owned firms (POEs), corruption was alleged to be carried out by the political elite (see Appendix B2). There is also indirect evidence of significant capital flight during this regime, and the capital flight is empirically explained, among other things, by corruption (see Alemayehu and Addis, 2017). In addition to such indirect evidence, TPLF/EFFORT's report indicated that by 2001/2 EFFORT had lost ETB 340 million, or around 40% of its original cash investment. This is described by EFFORT to be primarily because of 'leadership problems' (Vaugha and G/Michael 2012). Decedent TPLF top officials noted this has to do with corruption by top officials (Gebru, 2015; Seye, 2004). These issues and their political and developmental implications are worth studying with detailed documentation in future.

Third, a World Bank study (Plummer, 2012) also noted that many stakeholders are concerned about the risk of downstream corruption (at the national level) through collusive alliances. This is introduced whenever planning, budgeting, and project preparation procedures deviate from using a rational, objective basis for prioritizing and packaging project contracts benefiting POEs and MA-SOEs and some Chinese firms when the finance comes from China. Thus, Plummer (2012) noted that lack of transparency in planning some design-build contracts and off-budget engineering, procurement, and construction contracts in almost all value chains shows the prevalence of high corruption. Such cronyism is likely to undermine the growth of a genuine private sector based on fair competition and a free market-based economic system which is worth researching further.

Fourth, through the synergy policy of these POEs and MA-SOEs, these firms became an enclave sector acting like a country within a country that undermined the integrated national economy and the growth of the rest of the private firms in the country. The cronyism they are involved in through this policy is also sure to distort the proper business model for genuine entrepreneurs. Thus, to be successful, the resources and energy of the private sector operators must have been spent in establishing crony relationships with authorises. As a result, shortcuts to success instead of hard work and free and fair competition-based growth permeate the system. This process also has begun to destroy society's moral values in many aspects of life (see Tena (2015) about the changing moral value of the community.). This is also an area worth studying in detail for its policy implications.

Fifth, we may also ask how the regime executed this cronyism at this scale and whether it was a politically sustainable strategy – which again is an attractive further research area. Berhanu (2011) attempted to explain this (while examining the flourishing of POEs in Ethiopia) based on (i) the existence of a state that is characterised by insecurity about its political base, (ii) the organizational capacity, (iii) ideological predisposition to do that, and (iv) inherited a country with a high degree of state centralization. These could be some of the essential factors. The form it took in Ethiopia has also to do with: (a) the ability of the TPLF, through insurgency and with the help of external forces, to capture political power and (b) the myopic (ethnic, not national, focused) view of the TPLF leaders to remain in power through authoritarian rule, instead of a democratic election. It may also relate to the low level of the general education of the society (of which 80 percent live in rural areas) that was unable to organize and question the system and bring about a democratic system. These are some issues that need to be researched in the future. This research should also include how to establish peaceful power-sharing mechanisms among the political elite and ensure political stability in the country.

Sixth, another way to look at this cronyism is state-capitalist development through industrialization and to consider this cronyism as primitive accumulation that may lead to a nascent capitalist development. Such primitive accumulation is cruel but worked historically, for instance, as that of the British primitive accumulation documented in detail, among others, in Marx's "Capital" (chapters 26 to 33). Or, to ask, could these regime's actions have been a response to market and government failure for industrialization in a developing country like Ethiopia – perhaps yes, but this only seems to work in a national (not ethnic) context, however. In addition, it also needs an informed government and able technocratic bureaucracy like that of East Asia, including China. It also, perhaps, needs a democratic system with accountability as that of Botswana and Mauritius in Africa to lmit the cronyism (Alemayehu, 2019). In Ethiopia, the fact that an ethnic party leads the DS model-based strategy has given this minority-based ethnic party unprecedented political and economic power over the majority ethnic groups/parties, which was resented by all. The latter made it an unsustainable accumulation strategy – a hypothesis worth studying further. The preliminary evidence for the latter is that this cronyism has led to horizontal inequality, especially among the political elite (both real and perceived) and did not bring inclusive growth either. This led to conflict among these political elites (as well as between TPLF and the population at large). This led to the country's political instability that followed soon (ending with ousting of the TPLF from state power in 2018).

Related to the above point but at the firm level, the phenomena described in this study may also show the unsustainability of such a business model (crony capitalism through POEs and MA-SOEs) despite their possible positive contribution to national economic growth. This is because the existence, success and competitive position of such firms in business is predicated upon whether the party that owns them has the political power to support them. The TPLF, following its being ousted from Federal power, relocated itself to its ethnic-enclave homeland in the Northern part of the country. A two-years war took place between TPLF and the Federal government, triggered by TPLF’s attempt to comeback to power (2020-2022). Two of the biggest POEs firms discussed in this study, “Mesfin Industrial” and “Almeda Textile” were air-bombed by the federal government, suspected of producing army-related materials for the TPLF – a visual indicator of the unsustainability of this business model. Even if there was peace following the ousting of TPLF from power, the POEs might not survive without the cronyism-based support they used to enjoy and without selling their goods and services in the rest of the Ethiopian market (95 percent of the population). Again, this is an interesting hypothesis worth studying in future.

Finally, theoretically, from the Kaleckian analytical perspective, the alignment of the interest group that was running the POEs and MA-SOEs with foreign capital (that was financing the country’s growth) on the one hand, and the exclusion of the rest of the political elite from this on the other, has shaped the recent war. Moreover, politics and the country's political economy were also tied to the region's geopolitics in the last three decades and during the recent war (2020-2022). Thus, external forces (IFIs, USA and the West, China, Russia, Turkey, UAE, Sudan and Egypt, among others) in shaping domestic politics and economic development is a compelling hypothesis worth examining in detail.

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