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Addis deals: reckoning with the informal governance of urban structural transformation

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Abstract: African cities are increasingly seen as key to unlocking national structural transformation and inclusive growth, as they tend to host the majority of the non-productive and informal labour force; attract the lion's share of domestic investment in non-productive sectors; and host different political-economic relations and power configurations to those observed at the national scale. While a growing body of literature is therefore calling for the study of structural transformation at the city level in Africa, this scholarship has neglected the political economy and, more importantly, the informal governance of urban structural transformation. Building on the Deals and Development framework's approach to the problem of inclusive growth and structural transformation in fragile states, this research interrogates the implications of urban political settlements for the prospects of urban structural transformation in a rapidly growing African city, Addis Ababa. Through the thematic analysis of qualitative interviews with key actors in the domain of structural transformation in Addis Ababa, I investigate the evolution of the city's deals spaces following the recent regime change in Ethiopia. I find that the emerging political settlement has further closed and disordered deals spaces for the city's workhorse and magician firms, inhibiting their survival, growth, and productivity, while opening up new deals spaces and expanding rents for the city's power brokers. The paper concludes that the nature of the evolution of Addis Ababa's deals spaces has negative implications not only for structural transformation at city and national scales but also for the stability and longevity of the current national political unsettlement. The paper advances debates on the role of informal economic governance in African cities for city- and national-level economic growth, structural transformation, and political order.

Key words: urban structural transformation, informal economic governance, urban political settlements, deals spaces, African cities

JEL classification: L14, L16

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1 Introduction

Firms that manage to survive, profit, and even thrive in African cities do so in hostile business environments that, according to the World Bank's Ease of Doing Business index, should render them uncompetitive. How do they do it? This conundrum lurks behind one of the key questions of the study of African cities in the twenty-first century—whether rapid urbanization processes stand to enable economic growth that will create opportunities for the majority of their fast-expanding urban populations (Beall et al. 2010; Turok and McGranahan 2013). The connection lies in the fact that the survival, productivity, and growth of firms directly affects any chances of overcoming the structural change challenge (Rodrik et al. 2016), i.e., the challenge of transforming, in this case urban, economic structures in ways that move resources from low-productivity activities to more productive and higher-value-adding industries that create more and better-paying jobs (Chenery 1986; Kuznets 1955; Lewis 1954).

One recent response to the enigma of how firms actually manage to 'do business' in Africa has been that *deals*—informal, personalized, firm-specific arrangements between firms and those in power—enable firms to bypass the serious bureaucratic hurdles and costly, time-consuming processes created by the prevalence of strict formal rules and weak governance systems (Hallward-Driemeier and Pritchett 2015). The Deals and Development (D&D) framework was developed by Pritchett et al. (2018) to link the microeconomic phenomenon of deals with macroeconomic challenges of national structural transformation and inclusive growth. For the most part, growth episodes in African countries have not been accompanied by the type of structural transformation required to make economic development equitable and inclusive (Pritchett et al. 2018; UNCTAD 2022). Studies on the political economy of growth, including Pritchett et al.'s (2018) work on D&D, have yielded explanations for why and how political distortions lie behind these evolutions into undesirable economic structures (Acemoglu and Robinson 2008, 2012; North 1990). However, as structural transformation has traditionally been studied at the national scale, these explanations for its absence have also tended to be at the national scale. Urban structural transformation warrants examination in its own right, not only because it unfolds within the unique economic and political dynamics of the large, densely populated, and heterogeneous social environments that are urban agglomerations but also because, as a result, urban environments can act as self-contained entrepreneurial ecosystems that determine the productivity of entrepreneurship (Audretsch et al. 2021).

While there is some evidence that urbanization in Africa has thus far contributed to better economic outcomes and higher standards of living (OECD et al. 2022), economic and political constraints continue to inhibit inclusive growth and structural transformation in African cities (Dinh et al. 2010; Hickey 2013; Madden and Gutman 2020). African urban structural change processes take place within ethnically diverse, majority-low-paid communities engaged in low-productivity, informal enterprises that operate in environments dominated by various forms of political informality (Goodfellow 2020; Mitlin 2014; Stark and Teppo 2008). In spite of this, the niche body of scholarship that has sought to explain the lack of structural transformation in African cities (Collier 2017; Duranton 2015; Gollin et.al. 2016; UNECA 2017) has neglected political economy and informal governance factors and has instead tended to focus solely on economic factors of production such as connectivity, urban form, infrastructural systems, and land rights. At the same time, the literature on the politics of uneven development in African cities has been dominated by the partial and granular analysis of particular forms of clientelism and its distributional implications for cities, resulting in the stretching of political economy concepts such as clientelism in the study of urban politics (Collord et al. 2021). Nevertheless, political constraints and informality remain ubiquitous in the economic governance of African cities and must be reckoned with in any attempt to analyse the realities of urban economic change.

In this paper, I build on the D&D framework to study urban structural transformation. In so doing, I broaden out the central concept of the framework—'deals'—to the umbrella concept of 'informal governance' (IG) in order to address the gap in urban-economy-wide analysis while avoiding the trap of conceptual stretching. I define the informal governance of urban structural transformation as *the ways in which power is informally exercised over economic activities in cities to determine desirable/undesirable sectoral distribution of firms and the growth/decline of their productivity*. The concept of informal governance, extensively applied in the politics literature (Christiansen and Neuhold 2012), is used to denote the cumulative deals environments that are created by the different types of 'mutual understandings, accommodations, tacit agreements' (Ibid). The concept therefore allows for an analysis that at once confronts and encompasses the myriad ways in which African urban economies are informally governed. These various *modes of informal economic governance* include the *multilevel structures*—i.e., the vertical and horizontal power relations—that make up urban political settlements; the *hierarchies* of different types of patrimonial/clientelist relations and their distributional outcomes; the trust *networks* built along ethnic, religious, and ideological divides; and the *market mechanisms* that manifest as deals spaces in African economies. Through the analysis, I demonstrate that these interrelated and overlapping concepts can be usefully applied alongside each other to better address the totality of the informal economic governance sphere in African cities while allowing for conceptual precision.

The arguments in this paper are based on qualitative study of the Addis Ababa (AA) deals environment, conducted as part of the work of the African Cities Research Consortium (ACRC) on structural transformation in African cities conducted in collaboration with UNU-WIDER. A total of 35 interviews (22 semi-structured key informant interviews with a range of urban development actors including bureaucrats, business member organization representatives, civil society, multilateral agencies, and researchers; and 13 structured interviews with enterprise owners of micro, small, and medium-sized firms) were conducted between March and July 2023. In addition, the study includes analysis of secondary data—policy documents, research, media reports, data from the Addis Ababa Labor, Enterprise and Industrial Development Bureau's (AALEID's) 'Enterprise Survey', and the (Central Statistical Agency's) (CSA's) 'Urban Employment and Unemployment Survey' (UEUS). The following section provides context on structural transformation and informal governance in AA. This is followed by an analysis of AA's deals spaces and a discussion of their implications for urban and national structural transformation and political order.

2 Addis Ababa's governance and structural transformation

While informal governance pervades all aspects of the environments in which African cities do business, governments continue to focus their efforts to improve formal business environments through rules reform that aspires to improve their standing in the World Bank's Ease of Doing Business indicators (Kar et al. 2022). These reforms have also become increasingly important to national and local governments, as good ratings signal better business environments to foreign direct investment. However, at both national and city levels, efforts at the neutral blanket application of impersonal rules reforms inadvertently fail to address the hyper-specific, personalized, and therefore variegated deals environments that *actually* determine outcomes for firms in Africa.

Ethiopia serves as an excellent case of this mismatch between aggressive rules reform and the prevalence of deals. At the national level, Ethiopia's business environment has steadily worsened since 2016 despite a strong commitment to improving the country' Ease of Doing Business rating. The country's score dropped from 56.31 out of 100 in 2015 to 49.73 in 2016 and has shown minor fluctuations since. In 2020, the score further dropped to 48, ranking Ethiopia 159th out of 190 countries. Rule of law has also significantly declined in Ethiopia since 2016. The country was ranked 129th out of 142 countries globally and 30th out of 34 countries in the Sub-Saharan region in the 2023 World Justice Project's Rule of Law Index: down from a ranking of 107th out of 113 countries globally and 16th out of 18 Sub-Saharan countries in 2016 (WJP 2023). This decline in rule of law has created fertile ground for the proliferations of deals.

This state of the business environment is best observed in the country's hub of economic activity, its capital city, AA. The city also serves as an excellent case of lack of urban structural transformation under rapid economic growth. The city's GDP share of national economy has remained at 10–11 per cent since 2003, exceeding that of peer African cities during this period (World Bank 2021). However, for most of the period this growth has been accompanied by a growth in services sector employment and a decline in manufacturing employment and in productivity in both sectors. According to the Ethiopian UEUS, between 2006 and 2018 the share of services in employment increased from 70 per cent to about 76 per cent while the share of manufacturing in employment declined from about 22 per cent to about 15 per cent. The construction sector employed about 8.5 per cent while the share of agriculture remained less than 1 per cent through the period under consideration. The productivity, i.e., gross value added, of construction and services declined between 2014 and 2018, from 12 per cent to 10 per cent and 55 per cent to 47 per cent respectively.

In terms of governance, AA is at once a self-administered city accountable to the federal government and the capital of the Oromia regional state that surrounds it. While the cities of AA and Dire Dawa are federal districts, they do not have the autonomy of other federal districts, ethnic regional states, afforded by the ethno-federal constitution. This has led to ongoing controversy over Oromia's administrative role in the governance of AA, which has been further aggravated by the ambiguous, constitutionally enshrined 'special interest' of Oromia over AA. This ambiguity has opened up informal spaces for Oromia's involvement in the capital's governance.

At the national level, the federal government is currently led by the Prosperity Party (PP), which was formed by the merger of three of the four ethnic parties that formerly constituted the EPRDF: the ODP, the ADP, and the SEPDM.[1] While the formation of the PP was part of Prime Minister (PM) Abiy Ahmed's efforts to dismantle the previous political settlement, dominated by the Tigray People's Liberation Front (TPLF), through formally de-ethnicizing the party structure, the PP continues to be informally organized under ethnic alliances, with little internal cohesion outside ethnic lines. Furthermore, this dismantling came at the cost of the deterioration of national security and the emergence of the dominance of the ODP within the PP. Overall, the post-2018 Ethiopian political landscape has been characterized as being in a state of 'political unsettlement', defined by Sarkar and De Waal (2023) as one of 'political governance of unresolved radical disagreement'. Two years of violent civil war with the TPLF in Tigray (2020–22); widespread ethnic-based nationwide cross-border conflict; the two-year-long offensive against the Oromo Liberation Army (OLA) armed terrorist group in Oromia (2021–present); the six-month-long offensive against the Fano resistance in the Amhara region; and the ongoing negotiation of the PP with all of these

[1] ODP: Oromo Democratic Party, based in Oromia Region (formerly known as the OPDO); ADP: Amhara Democratic Party, based in Amhara Region (formerly known as the ANDM); SEPDM: Southern Ethiopian People's Democratic Movement, based in what was the Southern Nations, Nationalities, and Peoples' Region.

armed groups all suggest that power is dispersed and that the new political arrangement is still under negotiation.

At the city level, however, the absence of strong opposition groups in AA has left power concentrated in the ODP-dominated PP. While the city is formally governed by a city council made up of elected officials who elect the mayor from among the council's members, because the federal government has the legislative power to appoint deputy mayors the city has been consecutively governed by Oromo political appointee deputy mayors Takele Uma and Adanech Abiebie, both former ODP members. In their study of AA's current political settlement, Pellerin and Ashenafi (2023) point out that the city's residents feel marginalized by a perceived 'unfair favouritism of the political leadership towards the Oromo ethnic group'. Similar findings are discussed in their earlier paper (Pellerin and Ashenafi 2022). They further note that the current city Mayor, Adanech Abiebie, 'faces resistance from non-Oromos in the council who see the mayor as facilitating the takeover of the city by the Oromos'.

Among other ongoing occurrences, the perception of the takeover of the city is fuelled by the perceived threat of demographic engineering amid the growing numbers of Qeerroo[2] in the capital; reports of Qeerroo being involved in widespread land grabbing and being given preferential access to resources;[3] the encircling of the city by the creation of Sheger City and its administration by the Oromia regional government (EBR 2023); and the demolition of thousands of homes and businesses of other ethnic groups as a result of this development.[4] This perceived takeover is also felt in the informal governance of the economic sphere. Research participants stressed that deals spaces for firms trying to be competitive in productive sectors were closing, with ethnic favouritism defining relationships to those in power, leaving less scope for action for non-affiliated firms to influence outcomes amid extensive and rapid formal reform processes. This is discussed in more detail in Section 3.

The PP's current formal policy framework for AA's structural transformation can be found in three key policy instruments: the AA Development Plan (2021–25), the ten-year sectoral strategic plan. and the AA City Structure and Strategic Plan (2017–2027). Among these, the AA Development Plan, the city-level development plan coming out of the national Ten-Year Prospective Plan (TYPP), most extensively addresses the structural transformation domain. The 'Competitive City' component of the AA Development Plan proposes a range of interventions aimed at improving the city's business environment, including reducing regulatory barriers by revising laws relating to tax revenue administration, business licencing, and construction permits; improving access to finance for medium-sized and small enterprises (MSEs) and facilitating market linkages between MSEs and higher value chains and foreign investors/buyers; fostering growth in high-value-added industry clusters by increasing access to services and production sheds for MSE cluster development; improving access to services (transportation, ICT, reliability of electricity and water and environmental facilities) and land for the private sector and industrial parks (IPs); and promoting private sector development by developing a subnational public–private partnership legal framework and strengthening support services for the private sector. The nationwide Ease of Doing Business reform process has been the main agenda driving the implementation of most of these proposed policy measures (World Bank 2021).

[2] Oromo youth who led the widespread protests against the EPRDF from 2016 to 2018 which brought PM Abiy Ahmed to power.

[3] Key informant interviews G, H, and S.

[4] Key informant interview U.

Whereas these positive policy measures promise gains in improving the city's formal business environment, I argue that their implications and outcomes have to be understood in light of informal economic governance mechanisms already in place and embedded in the city's emerging political settlement. This argument is supported by an application of the D&D framework to an urban context—the D&D framework holds that 'Economic growth and the degree to which growth is characterized by structural transformation is an outcome of the nature of the deals offered to economic actors, which is in turn a function of the political settlement and the rents space (business interests of different market segments)' (Pritchett et al. 2018: 28). In the next section, an analysis of the evolution of AA's deals environment is used to illustrate this relationship between urban political settlements and firms—i.e., how distinctly urban deals offered to different types of firms determine their ability to grow, survive, and thrive in (non-)productive sectors, and how this deals environment is impacted by ongoing, extensive, and rapid formal reform processes.

3 Addis Ababa's deals spaces

Prior to engaging in the analysis of AA's deals spaces, this subsection discusses how this paper builds on Pritchett et al.'s (2018) D&D framework in its study of urban structural transformation. The D&D framework focuses on the political economy of business–state relations and the interactions of political and business interests that drive government actions, which in turn create business environments that either support or constrain structural transformation and sustained growth. I expand three of the five key components of the D&D framework: political settlements, rents space, and deals space.

'Political settlements', i.e. 'the balance of power between contending social groups and classes on which any state is based' (Di John and Putzel 2009: 4), represents the political interests in economic governance in the D&D framework. Within the wider category of informal governance used in this paper, political settlement signifies one of the ways that power is understood to be distributed in the city, so the analysis incorporates other types of political economy relations, such as crony relations.

'Rents space' represents the business interests in the D&D framework. The private sector is understood to be made up of four types of businesses that have different interests, make different demands on the state, and consequently have very different types of relations with the state that result in different government actions over time. Pritchett et al. (2018) divide the private sector into four quadrants along two dimensions. The first dimension distinguishes between export-oriented and domestic-market-oriented firms. The second dimension, which is particularly important to our study of urban structural transformation, distinguishes how a business makes its profits. On one side are businesses that make their profits through market competition, i.e. providing better goods and services than other businesses and being competitive in the marketplace. Such business are drivers of structural transformation because they rely on improving productivity or adding value to make profit. To achieve this, these businesses require skilled workers, which makes them agents of job creation, value addition, and skills building and therefore makes demands on the state for better rules, common infrastructure, and investments in people's education. These businesses consist of *workhorses* (domestic market) and *magicians* (export market) firms. Conversely, businesses on the other side of the quadrant make their profits through discretionary government actions that lead to regulatory rents such as allowing a monopoly to occur. Such businesses deter structural transformation because their profit making depends on the creation of a detrimental business environment with barriers to entry that will allow them to take advantage of their unique relationships with those in power. These businesses, which comprise rentier (export market) and *power broker* (domestic market) firms, do not require more effective inputs for profitability. They are therefore likely to be agents of distorted and inequitable growth, as they advocate for policies that will not lead to inclusive growth. In this study of AA, rentiers, i.e., high-rent firms that sell their products abroad such as those in the mining sector, are omitted, as they primarily carry out their operations outside of AA, while power brokers are viewed as the most powerful market category.

'Deals space' represents the business/investment environment that is created by the interaction between the rents space and the political settlements. Deals are defined as firm- or investment-specific arrangements that constitute the selectively enforced business environment. Pritchett et al. (2018) differentiate between four types of 'deals spaces' along two dimensions. The first dimension distinguishes between ordered and disordered deals spaces, where ordered deals spaces represent business environments where deals are likely to be honoured once they are made and disordered deals spaces are those where the deal will stay in place only so long as the business and political interests stay in place. The second dimension distinguishes between closed and open deals, where closed deals are available only to those that are closely aligned with the regime and open deals are open to anyone who can pay. In this study of AA, the geography of deal making is interrogated by the introduction of the concept of *urban deals*, i.e. deals made around rents that are created because of the urban location. This includes deals made to capture urban land value, urban renewal construction contracts, etc.

3.1 Workhorses

Workhorses, firms in the competitive industries that serve the domestic market in AA, are primarily micro and small enterprises, wholesale and retail traders, and the informal sector. Government actions aimed at this sector have been focused largely on the integrated and comprehensive support provided through the MSE Development Program, which includes working spaces, micro-credit-based loans, market linkages, and business development support to micro enterprises. This has therefore been the primary deal offered to firms in the sector, as political support for the ruling party has been an informal criterion that may come in the form of a membership request (Geda 2023) or public support for the party's activities. Beneficiaries of this programme[5] have been likely to avoid graduating in order to continue to benefit from the low rent of working spaces and other support services, including market linkages and government contracts, but accessing credit is a lengthy, difficult process that few have managed. Research participants described beneficiaries of the MSE Development Program as 'dependents'[6] and 'pensioners'[7] of the EPRDF's party-state, while some scholars have conceptualized the programme as a tool of party patronage (Di Nunzio 2015) and co-optation (Gebremariam 2020). While there has been a continuity of the MSE Development Program, the regime shift to the PP has come with a range of rules reforms that have created uncertainty and insecurity for MSEs, including MSE Development Program beneficiaries. Some examples of this include the demolition of enterprise sheds in the city as part of the city's beautification programmes in early 2023 (Solomon 2023; Addis Insight 2023). which caused the displacement of many enterprises from workspaces that had formerly been allocated by the state; reform around the modality of housing development shifting to public–private structures, which has also created uncertainty for firms that had

[5] Enterprise interviews 1 and 5.

[6] Key informant interview A.

[7] Key informant interview D.

previously been dependent on public housing construction contracts;[8] and recent property tax reform, which has also led to increases in rent for enterprises.[9]

Beyond the MSE Development Program, deals spaces in this market segment under the current regime are largely open and semi-ordered, with bribery being the main deal available to firms. Although there are no barriers to entry to the sector, the unpredictability of tax estimation and collection deters businesses from formally registering or growing and is the main domain of corruption. Over half of interviewed enterprise owners[10] stated that they had to pay bribes to keep their tax rates low or to ensure their businesses ran smoothly. Enterprise owners identified woreda-level revenue authority officials as being the most powerful actors, because they determine the taxation rate and thus the profit of firms. Two interviewees described the bribes as 'paracetamol', in that the bribes provided only temporary relief and they were liable to be targeted by different officials at different times and had no guarantees that the bribes they paid would be sufficient. The rise of corruption at lower levels, particularly at woreda level, where most service provision is accessed by firms, has made this deals space less ordered, with different officials approaching firms at different times. While the option to pay bribes is open to all, speaking Afan Oromo can be an added advantage when dealing with all levels of city, sub-city, and woreda administration, as 'a disproportionate percentage of top positions and new recruits are of Oromo origins' (Pellerin and Ashenafi 2023). This has led to businesses hiring Afan Oromo speakers (primarily from the Aggaro area in Jimma[11]) as fixers—whom interviewees referred to as 'guday gedays' or *issue killers*,[12]—to handle their dealings with the state.

Workhorse firms has been hardest hit by the high rates of inflation, rising rent and unpredictable tax regimes over the past 5 years causing many formal and informal businesses to close. Rising rent was the biggest challenge cited by all the firms interviewed. The working spaces of multiple firms[13] interviewed had been demolished as part of city-wide beautification or redevelopment programmes or the development of Sheger City. Small and micro manufacturing enterprises cited the problem of rising prices of raw materials aggravated by inflation and the hoarding practices of larger firms. The complex and difficult tax clearance processes associated with closing has resulted in some firms paying bribes to close-down their businesses, others selling their machines to pay taxes or simply leaving the business without officially closing but continuing to 'exist on paper'.[14]

3.2 Magicians

Magicians – firms in the competitive export sector in AA – comprised exporters of primary commodities such as coffee and oily seeds; foreign direct investment (FDI) manufacturers based in special economic zones (SEZs); local exporting firms in large and medium-sized manufacturing industries (LMMIs); and a small number of small to medium-sized exporting manufacturers, making up 5 per cent of MSEs in AA. Exporting firms of all types are concentrated in AA because the national bank, the only bank that can process export permits, is located only in AA and Dire

[8] Enterprise interview 5.

[9] Enterprise interviews 8 and 9.

[10] Enterprise interviews 3, 4, 5, 7, 9, and 12.

[11] Key informant interview S.

[12] Key informant interview D.

[13] Enterprise interviews 6 and 12.

[14] Enterprise interview 5.

Dawa. I conducted three interviews with small and medium-sized manufacturing exporting enterprises[15] and a large coffee-exporting[16] company based in AA.

Exporters in SEZs and IPs have been at the centre of the government's plan for increasing the export of manufactured goods in cities over the past decade, through the Ethiopian Growth and Transformation Plans GTP1 and GTP II. The attraction of FDI was facilitated through the public and private development of industrial estates. AA hosted the first of the country's public IPs, Bole Lemi I textile and garment IP, and is currently home to two more: Bole Lemi II textile and garments IP and Kilinto Pharmaceutical IP. Private industrial estates, dubbed SEZs, have also been developed by Chinese investors in AA, including the Huaijan SEZ, George Shoe SEZ, and Eastern SEZ. As of 2021, IPs and SEZs in AA (Bole Lemi I, Eastern IP, Huijian IP, and George Shoe) accounted for 41 per cent of exports of IPs in the country, amounting to US$67,104,621 (Cepheus 2019) in 2019. However, the low wages of IP workers have also meant that the parks are not seen as viable employment opportunities for AA residents but instead tend to draw in migrant labour. The parks are also not well integrated into local value chains, as they import most of their inputs. Finally, the impact of COVID-19 and the ban on the US African Growth and Opportunity Act (AGOA) trade agreement following the civil war in 2020 have affected the exports of IP-based firms, their hiring capacity, and external funding for the IP development programme, particularly from the World Bank.

Despite these challenges, the deals space for FDI exporters in the SEZs and IPs is open and ordered. As a key industrial policy priority for the EPRDF, manufacturing exporters in IPs have been provided with a range of incentives including tax exemptions, plug-and-play infrastructural development, and streamlined and expedited procedures for licencing, taxation, and other government services. Moreover, through a special governance mechanism, the investment board, and the Ethiopian Investment Commission (EIC), investors have had direct access to the prime minister's office and high-level bureaucrats and politicians to negotiate any special requirements and what bureaucrats refer to as 'hand holding' throughout the process. This support has carried through to the new regime, which, while taking off the focus on the development of new parks, has continued to support firms, optimizing existing IPs.

Domestic exporting firms, and domestic firms more generally, face a very different business and regulatory environment to that experienced by FDI exporters, where public sector inefficiencies and the unpredictability of accessing foreign exchange are prevalent. Of all the market segments, domestic/diaspora magicians have the fewest options for deals. This can be observed in the fact that according to World Bank (2014), only 5 per cent of domestic firms receiving an investment licence in AA are able to convert from the preoperational to the operational phase, whereas conversion rates for foreign investors in AA are 60 per cent (Gebrehiwot et al. 2014: 4). While foreign firms receive the support of EIC and the Industrial Parks Development Corporation (IPDC), domestic and diaspora firms are under the jurisdiction of the city administration. This has created a range of regulatory constraints in access to finance and land and in customs and trade regulations. Among these constraints, the foreign exchange shortage and corresponding foreign exchange policies have made profit making from exports alone very challenging.

> The private sector wants to import machinery, it can't. It wants to import inputs, it can't. They've been in line for foreign exchange for two years. So, they would not [import machinery] … And then they see that people who are importing cars

[15] Enterprises interviews 4 and 10.

[16] Enterprise interview 13.

> are benefiting here. Why would you keep your money in manufacturing? You will just dissolve your manufacturing, sell out all your assets if you can. Take your money and go into trade. Businesses are reinvesting money in 'safe investments'—short-term high return schemes like real estate.[17]

Domestic manufacturing firms are also the most affected by the restricted supply of land in the city. The unaffordable land prices in the tender and purchase land markets, created by the speculative activities of power brokers (discussed in the next section), threaten to eat up the starting capital of domestic magicians. The resulting inability to purchase land in turn affects their ability to access financing for working and investment capital. The manufacturing sector is generally regarded as a high-risk sector, so loans from commercial banks are limited. As a policy lending bank, the Development Bank of Ethiopia (DBE) provides project-based financing on the condition that the firm provides 25 per cent equity and land or a guarantee of permanent working premises, which most preoperational-stage magician firms cannot do. Domestic/diaspora firms find it hard to meet these requirements: 'You get out of manufacturing because you realize that instead of manufacturing, trade is where you can actually make profits.'[18]

On the other hand, non-manufacturing exporters of key primary commodities such as coffee and oil seeds make up a large share of exporting enterprises and are more competitive than manufacturing exporters, as they do not require inputs such as machinery and raw materials and are therefore not subject to the long waiting times that manufacturing exporting firms are exposed to.[19] At the same time, preferential access to foreign exchange and credit provided to non-manufacturing exporters—primary commodities firms—encourages export/import trade, as the country's foreign exchange policy excludes firms from utilizing their foreign exchange earnings unless they import a list of goods specified by the government.[20] The credit facility also given to firms with an export licence has increasingly been subject to abuse by firms that take the loans based on exporting status and then reinvest the money in real estate development. This has led to the suspension of the credit facility since January 2023.[21] While this deals space is largely open to non-manufacturing exporters, ethnic favouritism in gaining access to credit for exporting firms is observed in the lending practices of various ethnic banks.[22] While access to credit and working capital is not reserved for a specific ethnic group, it is, however, organized largely along ethnic lines. Ethnic networks were also found to be an advantage in sourcing commodities in some export sectors such as coffee.[23]

3.3 Power brokers

Power brokers, firms that profit from anti-competitive practices and firm-specific discretionary government action in AA, are found in a wide range of business sectors. As one key informant put it, 'size is a better indicator than firm type because above a certain size, most firms are involved in

[17] Key informant interview B (senior economist).

[18] Enterprise interview 6.

[19] Enterprise interview 13 (coffee-exporting firm).

[20] Enterprise interview 13 (coffee-exporting firm).

[21] Enterprise interview 13 (coffee-exporting firm).

[22] Enterprise interview 13 (coffee-exporting firm).

[23] Enterprise interview 13 (coffee-exporting firm).

informal arrangements with those in power'.[24] However, the primary power brokers in AA were found to be quasi-public enterprises that blur party–state–business distinctions (Abegaz 2013; Geda 2023; Seid 2019). The EPRDF maintained state dominance over the economy through state monopolies, which controlled strategic sectors such as energy, telecoms, the postal service, water supply, railways, and airways, which it created through state-owned, party-owned and military-owned enterprise (Gebregziabher 2019). State-owned enterprises continue to monopolize the manufacturing, transport, finance, and trade sectors in AA and maintain control over the supply of key goods and services in the market. At the same time, the state is the single largest purchaser of goods and services in AA (Addis Chamber 2021).

The EPRDF offered a range of deals for the high-rent-seeking power brokers in AA. Crony relationships between key party leaders leading quasi-public enterprises and prominent members of the business elite took the form of various anti-competitive practices (Geda 2023; Seid 2019) that remain prevalent under the new regime. According to the Addis Chamber's 2021 study, price fixing, hoarding of consumer goods, collusion bidding/bid rigging, a refusal to deal, diverting goods from being sold in regular channels of trade, and resale price maintenance are all highly prevalent anti-competitive practices in the trade and services sector in AA. These informal economic governance practices create barriers to entry for non-affiliated businesses, as they are built on information asymmetries and corruption, and they have therefore contributed to distorted, inequitable growth and stagnating structural transformation.

Most of the biggest deals in AA, however, have been urban deals revolving around urban infrastructural development, urban land value capture, and urban redevelopment/beautification. The EPRDF's and PP's debt-financed public investment in the infrastructural development of roads, railways, IPs, and housing has been channelled through state-owned enterprises, and has allowed for lucrative deals in the construction sector. The sector is dominated by collusion bidding and anti-competitive procedures for procurement by tendering for government contracts. Multiple interviewees stressed the prevalence of illegal procurement practices, where either bids were rigged or contracts were secured without any bid process at all. 'It all started with Abiy giving projects to people directly in his AA beautification projects', one interview stressed: 'Now this has taken over procurement practices in the city'.[25] Similar procurement practices followed in the renovation of various government offices in the capital. Crony relationships in the sector can most clearly be observed in the shift from ubiquitous Tigrayan ownership to Oromo ownership of the largest high-grade construction firms, which are granted the largest government projects and contracts, along with the regime change.[26] This was facilitated by the confiscation and resale of Tigrayan-owned businesses and construction licences during the civil war with Tigray.

In terms of urban land value capture, land was viewed by the majority of key informants to be the main domain of corruption in AA (EBR 2020; Sahlu 2023). Research participants[27] described ethnic land value chains which involve claim making, leasing, selling, and reselling of land organized around different ethnic groups specialized in different segments of the land value chain. The first and most profitable step involved various types of land grabbing and hereditary claim

[24] Key informant interview B.

[25] Key informant interview S.

[26] Key informant interviews D and G.

[27] Key informant interviews S and G.

making carried out by Oromo Qeerroo youth or corrupt woredas, sub-cities,[28] and city administration (Ezega News 2020), where land ownership is secured free of cost. In a second step, the first round of buyers, primarily from the Silte ethnic group, buy the land in groups in rigged land auctions. In the final step, the third and consequent buyers are more established power brokers, members of the business elite from various ethnic groups who pay amounts in the hundreds of millions.[29]

Corruption in land administration has also created closed deals that have primarily benefited Oromo ethnic AA residents. 'Large scale distribution of land plots to individuals from Oromo origin has led to a rapid rise of high middle-income Oromo in the city. Many have sold their plots for large sums and made millions of Birr. Many of these plots lie in the city's outskirts and new neighbourhoods' (Pellerin and Ashenafi 2023: 24). However, these deals have been disordered, as seen in the various crackdowns on lower- and mid-level land administration officials and the reversals of property transfers that follow these corruption scandals.

In terms of urban beautification, PM Abiy's new personalized regime has opened up new deals spaces, in particular through fundraising initiatives that were not prevalent under the EPRDF regime. Interviewees characterized the support of these events and ventures as a way for business elites to gain access to resources and opportunities that provide them with an advantage over their competitors. The first series of fundraising events came under the 'Dine for Sheger' campaign, which consisted of a series of fundraising dinners that aimed to raise one billion dollars for the 'Beautifying Sheger' project. The dinners hosted on average 300 business elites, with tickets to the events running as high as US$175,000 per person (BBC 2019).

4 Discussion and conclusions

The analysis of AA's deals spaces reveals a range of informal economic governance mechanisms that are promoting undesirable sectoral distribution and the decline of productivity for workhorses and magicians. The discussion of the informal governance of structural change for competitive workhorse firms shows that while the main deals spaces have stayed in place, formal rules reform combined with rising corruption, inflation, and ethnic favouritism have made deals less open and ordered. For domestic manufacturing magicians, there are few deals available and greater barriers to entry, created by declining access to land and credit. For power brokers, on the other hand, rents under various deals spaces are expanding, and new deals spaces are also emerging with the regime change. In these ways, the informal governance of structural change that has been elaborated in the discussion of the evolution of deals spaces in AA is being reinforced by formal rules reform processes at city level and is contributing to structural stagnation.

As the contribution to the national economy of AA's growth and transformation will directly depend on the productivity of the city's workhorses and magicians and their ability to create opportunities for its growing population, the findings of this study suggest negative implications for national structural transformation. This is exacerbated by the state of national 'political unsettlement' that has left the terms of formal rules and informal deals in a state of flux. The analysis of the evolution of AA's deals spaces indicates that, as a result, the deals spaces that have

[28] The case of the Lemi Kora sub-city administration land grabbing was a particularly infamous case of sub-city level district-wide land grabbing.

[29] Key informant interview S.

survived the regime change offer investors fewer guarantees and shorter time horizons for realizing returns.

The political implications of these results pertain to the configuration of power at national and city levels; to legitimacy building; and to the PP regime's control of citizens. First, urban deals spaces have implications for the political settlement, where a growing share of the contingent loyal block feels increasingly excluded from the distribution of rent, and the likelihood that they may join the opposition block and resort to political violence increases, which may result in shifts in the prevailing power configuration. Second, in terms of political legitimacy, the rise in ethnicized corruption under the new regime has impacted state capacity and made almost every market segment less open. This puts further strain on the regime's legitimacy, which has declined since 2018 due to the consecutive conflicts with opposition groups at the national level. Finally, the evolution of AA's deals spaces may indicate a loosening of the regime's control of AA citizens as formal reform processes have diminished the MSE Development Program's ability to effectively channel rents to lower-income and unemployed youth.

This study of deals spaces in AA demonstrates the need for research that confronts the elephant in the room—the pervasive informal governance mechanism that interacts with formal rules reform to shape urban structural transformation outcomes across the continent. As the first and only study of AA's deals spaces, this paper opens up a field of inquiry into the implications of political informality for structural transformation in AA and other cities across the continent. The study demonstrates how multiple political economy concepts that denote various modes of informal governance can be usefully applied alongside each other to better address the totality of the informal economic governance sphere. In all of these ways, this study contributes to our understanding of urban structural transformation, a phenomenon that will determine whether African cities will reap the benefits of the 'urban dividend' (Lall et al. 2017; UN 2016; UNECA 2017) or risk becoming geographies of poverty and hardship (Buckley and Kallergis 2014).

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