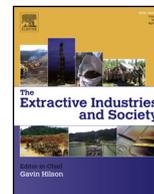




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Original article

Looking for oil, gas and mineral development in Ethiopia: Prospects and risks for the political settlement

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ABSTRACT

The narrative of Ethiopia's remarkable economic growth path under a developmental state model is that of a strong ruling coalition united behind the vision of the late Prime Minister Meles Zenawi. Although a combination of de jure federalism and de facto tight vertical control of power seemed to have contained ethnic fragmentation of the state, internal ethnic tensions that have recently escalated to bloody protests suggest otherwise. This paper explores whether extractive discoveries can lead to inclusive development and conflict transformation under Ethiopia's political settlement. It considers, in turn, the likely impact any significant new investment in minerals, oil or gas would have on the political settlement. The location of Ethiopia's mineral endowment and oil exploration is likely to further test the stability of the political settlement. A risk of informal power dynamics shaping the possibilities for extractives-led development exists as much, if not more than, the formal institutions of government. Comparative evidence from a literature review of empirical studies of resource-rich developing countries is used to understand the relationship between extractive industries, political settlements and conflict.

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1. Introduction

Ethiopia has been one of the five fastest growing economies in the world averaging over 10% per annum in the decade till 2014/15 (Wondifraw et al., 2016). This has had little to do with the global boom in extractive industries, which accelerated growth in other African countries during the same period. The 'developmental state' model envisioned by the late Prime Minister Meles Zenawi and continued by his party since 2012 has been largely credited for Ethiopia's economic transformation (Vaughan and Gebremichael, 2011).

If oil and gas exploration were to yield new discoveries akin to other East African finds, the narrative of the 'developmental state' would point towards a positive future. Infrastructure built as Ethiopia's core growth strategy could attract further investment in the extractives sector. Prospects for the minerals and petroleum sectors are reflected in the regulatory and policy review process launched by the Ethiopian Government in January/February 2016.

However, conflict within and beyond Ethiopia's borders is proving to be a significant threat to extractives sector development. The location of hydrocarbon exploration and mining activities within remote border regions and zones of conflict presents challenges for cohesion and stability of the multi-ethnic, federal political settlement.

This paper explores the prospects for harnessing extractive industries for inclusive development and conflict transformation under Ethiopia's existing political settlement. It considers, in turn, the likely impact any significant new investment in minerals, oil or gas would have on the political settlement and conflict dynamics. Evidence is drawn from a literature review of empirical studies of 20 resource-rich developing countries (RRDCs) to understand the relationship between extractive industries and political settlements.¹ Four most relevant aspects of the literature to the Ethiopian context are:

¹ This is the fourth in a series of four papers contributing to a research project titled: *Evidence synthesis of the impact of extractive industries on political settlements and conflict in East Africa*, commissioned by the DFID East Africa Research Hub in 2015. The first paper by Sturman, K. (forthcoming) provides a literature review of 20 resource-rich developing countries, synthesising evidence of the impact of extractive industries on political settlements and conflict. The second and third papers in the series are case studies of Rwanda and Kenya.

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- The possibilities of ‘developmental patrimonialism’ fostering economic growth in the context of restrictive, one-party dominant politics;
- The challenges of ethnic, religious and gender inclusivity within a federal system of government;
- The impact of developing hydrocarbon or mineral resources on changing power dynamics between regional, national and subnational actors; and
- The significance of the timing of new extractive industries to development prospects and conflict risks, particularly in relation to global commodity price fluctuations.

2. Conceptual framework

The distorting effects of resource ‘rents’ on the economy and political governance of RRDCs have been researched and debated extensively since the late 1990s (Robinson et al., 2006; Collier, 2000; Karl, 1997; Le Billon, 2001). Consensus emerged during the resources boom of 2002–2012, that the way in which extractive industries are governed and the quality of institutions around them determine whether there are positive or negative impacts (Mehlum et al., 2006). The notion of Institutional quality within the resource wealth context largely refers to how political institutions as well as others such as economic institutions are designed and perform to influence both political stability and economic progress. Institutions matter if, according to Collier and Goderis (2007) and Mehlum, they result in a rule of law and good governance and are insulated from behavioural distortions including rent seeking as a result of resource boom.

A related school of development thinking focuses on the importance of political settlements in enabling or hindering inclusive growth (Kelsall, 2013; Khan, 2010; Leftwich, 2000). In this literature, the way in which natural resources are governed certainly matters, but the emphasis is on the design of political settlements to understand the political constraints and opportunities for development (Khan, 2012). North et al. (2013:10) further explains the varying degrees of impact on political and developmental stability by differentiating between the “fragile, basic and mature” state of institutions within the ‘Limited Access Orders (LAOs)’ spectrum; whereby in a mature LAOs the dominant coalition supports a wider range of elite organisations enabling it to maintain stability. Within this analytical framework, Levy (2014) emphasises the importance of local context rather than globally standardised institutional prescription in undertaking institutional reform conducive for sustained stability.

DFID defines political settlements as the ‘expression of a common understanding, usually forged between elites, about how power should be organised and exercised’ (Barnes, 2009:8). They are the outcome of bargaining and negotiation between elites (Di John and Putzel, 2009), and oftentimes, the outcome of peace processes in war-to-peace transitions. The conceptual framework for this study draws on the theory and typology of political settlements (Khan, 2010); the theory of how political settlements change (Parks and Cole, 2010); and the spatial and temporal dimensions of how political settlements interact with the extractive industries (Bebbington, 2015).

Khan (2010) points out that informal dynamics are as important as the formal structures of government and law in configuring power and distribution of resources within developing countries. For example, patron-client relations may be necessary for the stability of ruling coalitions in developing countries and are not necessarily inimical to development. While stressing that each context is different, the political settlements approach suggests that stable and inclusive political settlements are more likely to have developmental outcomes than insecure ruling coalitions that

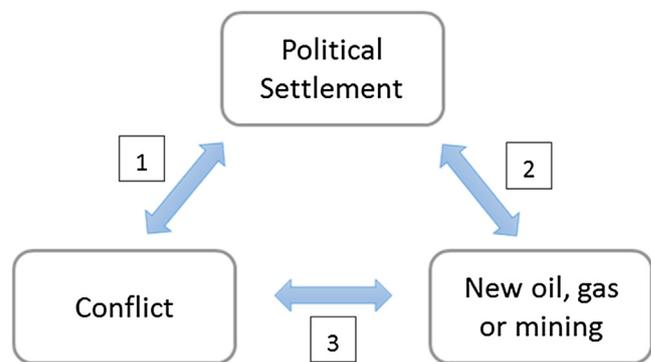


Fig. 1. Extractive industries' relationships with political settlement and conflict.

need to distribute economic opportunities and benefits to ensure stability in the short-term. Stability is determined by both the horizontal inclusion of powerful elites and vertical relations between strong elites and relatively weak (or acquiescent) constituencies.

Khan has developed a typology of political settlements in developing countries along the inclusive/exclusive and stable/volatile axes (2010: 65). Parks and Cole (2010) build on Khan's typology to develop a theory of the dynamic nature of political settlements. This theory may be applied to understanding extractive industries' relationship with politics and conflict as follows (see Fig. 1):

- 1) Conflict can be a pathway to a new political settlement and many political settlements are the outcome of formal or informal peace negotiations arriving at a coalition of elite interests. The more inclusive the political settlement and the weaker the actors excluded from the settlement (either horizontally at the elite level or vertically between elites and lower ranks), the more stable and enduring peace is likely (Khan, 2010). Conversely, the more exclusive the political settlement and the stronger the excluded actors, the more likely it is that conflict continues or reignites.
- 2) The nature of an existing political settlement determines the way in which new oil or minerals sectors are developed. The political settlement in turn is changed by the emergence of new elite actors, interests and ideas from the development of extractive industries (Bebbington, 2015). This could be due to changing power dynamics, such as between the ruling elite and new business elite, or between those in control of the central government and subnational actors in the resource-rich region/s.
- 3) The development of new oil, gas or mining projects can cause conflict or exacerbate existing conflict. Alternatively, it can provide incentives and opportunities to end or reduce conflict (Bebbington et al., 2008).

Method

This paper presents a qualitative case study of the inclusive development prospects and conflict risks of Ethiopia's extractives sector from a political settlements approach, based on a literature review of studies of political settlements in RRDCs. The case study draws on secondary sources analysing Ethiopia's political settlement, political economy and post-conflict context, international relations (particularly within the Horn of Africa conflict nexus) as well as specific studies of the minerals, oil and gas sectors. Four databases (Scopus, JSTOR, Google Scholar and GreyNet

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