

AFRICA RISK CONSULTING

Country briefing – Ethiopia

March 2013

Summary

Council of EPRDF re-elects Hailemariam Desalegn as chairman of the coalition in show of solidarity with his leadership and reforms. Parties begin to usher out old guard at conventions in March suggesting succession plans are beginning in run up to 2015 elections. Mining companies in Ethiopia respond positively to government attempts to improve investment environment, but questions remain about the capacity of mines ministry to effectively award licenses and regulate the sector, and the international mining sector as a whole. Al Qaeda militant encourages al Shabaab leaders to begin targeting “US and other Western actors in the Horn of Africa region”.

Political transition following death of Meles Zenawi is completed as EPRDF begins to usher out the old guard

Following the death of prime minister **Meles Zenawi** in August 2012, there was some uncertainty about whether his successor, **Hailemariam Desalegn**, would have the authority to ensure a smooth transition. The **Ethiopian Peoples' Revolutionary Democratic Front (EPRDF)** held their regular congress in **Bahir Dar** in March, seemingly drawing to a successful close the period of transition. The coalition's council voted in favour of Hailemariam's retaining the chairmanship of the coalition and there was no indication of major rifts within the party.¹ The position of the EPRDF in the lead up to the 2015 elections appears as strong as ever, with only one parliamentary seat held by the fractured and insolvent opposition. The council's vote also appears to be a measure of support for Hailemariam's rebalancing of power within the EPRDF, with signs emerging that Meles' system of highly centralised rule is giving way to a more dispersed power base. In November 2012, Hailemariam appointed two new deputy premiers to ensure greater representation across the EPRDF.²

Meles introduced a policy by which the entire senior leadership of the ruling would be replaced by 2015. During the last few months of his rule this triggered political jockeying for future positions amongst the **EPRDF Youth League**, raising the threat of increased tensions between young

¹ Reuters, 26 March 2013

² Source: Western diplomat, Addis Ababa.

modernisers and the old political guard. The member parties seem to have heeded Meles' call for young blood.

The four members of the EPRDF - the **Tigrean People's Liberation Front (TPLF)**, the **Amhara National Democratic Movement (ANDM)**, the **Oromo People's Democratic Organization (OPDO)** and the **Southern Ethiopia Peoples' Democratic Movement (SEPDM)** - met to elect their central and executive committees. A number of senior party stalwarts departed, suggesting that succession plans are beginning to take effect in the build-up to the 2015 elections:

- Long standing TPLF officials including former foreign minister **Seyoum Mesfin**, current deputy foreign minister **Birhane Gebrekirstos** and former mayor of **Addis Ababa, Arkebe Equbay**;
- Former defence minister **Kuma Demeksa**, ambassador to the **United States, Girma Birru** and speaker of the parliament **Abadula Gemede** departed the OPDO executive committee;
- In the ANDM justice minister, **Berhan Hailu**, and **Kassa Tekleberhan**, speaker of the House of Federation, resigned.

Promising signs in mining sector but there are reasons for caution both in Ethiopia and further afield.

In an attempt to diversify the economy away from a dependence on agriculture, the Ethiopian government has actively encouraged the participation of the private sector in its mining sector. International mining firms have responded positively to the government's overtures of tax breaks and provisions for cost recovery. In the 2011-2012 financial year mining contributed \$654m to the economy (of which \$602.4m came from the nascent gold mining industry), up 32% from the previous year.³ A 2012 survey estimated that investments in the sector could mean a tenfold increase in gold production in the next five years from four tonnes a year in 2011.⁴ The challenges facing the international mining sector as a whole, however, may hinder the sector's development.

Ethiopia is unquestionably resource rich with significant gold and tantalum deposits, the latter of particular interest to **Chinese** firms involved in the manufacture of telecommunications goods. The government is planning to build a tantalum concentrator and a value adding plant by 2015.⁵ Ethiopia's position in the **Horn of Africa** means that it is strategically located for investment from **Europe, Asia and Australia**. A mining code revised in 2010 and a stable political environment also adds to its lure. The 2010 **Mining Operations Proclamation** broadened the number of mining licences available and more recent amendments have exempted mining equipment from customs duty and taxes, codified the right to sell minerals locally or abroad and made available dispute resolution

³ Access Capital

⁴ Source: Journalist, Addis Ababa

⁵ ibid

procedures including arbitration. The government requests 5% free equity shares with every mining company, as well as 35% income tax and 8% royalties. The royalties are higher than regional comparisons but companies hope that this will be reformed in the medium term.⁶

Nyota Minerals, a UK registered company, is expected to become the first foreign enterprise involved in mining rather than exploration once it receives licensing for its **Tulu Kapi** mine in **West Oromia**. Having completed a definitive feasibility study, Nyota said the project was both technically feasible and economically robust (*though see below*) with net cash flow estimated at \$421m.⁷ **Centamin** bought into two explorers with assets in northern **Tigray** in 2011, and **AngloGold Ashanti** funds potash exploration with a stake in projects operated by **Stratex International PLC**.

The international mining sector as a whole is, however, in the doldrums, with operating capital scarce. One mining executive estimated that only one third of companies on the **Toronto Stock Exchange** had operating capital of more than \$250,000.⁸ This may call into question Ethiopia's assumptions about the growth of its own sector. According to one senior mining executive in **Addis Ababa**,

*"A frontier country like Ethiopia is going to struggle to attract the sort of investment that the ministry espouses when the market for smaller companies is as it is."*⁹

In January, despite their project in Ethiopia receiving an investment of \$1.97m from **International Finance Corporation** in 2012, Nyoto Minerals suspended all drilling operations until end of March due to a capital shortfall.¹⁰ Nyoto was, however, able to raise \$6.1m in a share offer in March. A shortage of capital sees mining companies being more conservative in their investment strategies, with frontier theatres like Ethiopia proving perhaps a little too uncertain.¹¹

Many of the challenges to the mining sector in Ethiopia are similar to those affecting all other sectors. Being landlocked is a major economic obstacle for Ethiopia. To overcome this, the government is investing heavily in road and rail connections with **Djibouti** (*see February briefing*). Other operational challenges, however, remain. The government's investment in infrastructure raises the spectre of inflation and reduces the credit available to the private sector while limits on foreign exchange accounts still hinder international companies.¹² Privileged access to government is still a requirement to conduct business effectively.¹³ Security of isolated operations must be taken into consideration as the commercial assets and individuals of extractive industries are potential targets for militant

⁶ Source: Mining executive, London

⁷ Mining Weekly, 6 December 2012

⁸ Source: mining executive, Cape Town

⁹ Source: Senior mining executive, Addis Ababa

¹⁰ Mining Weekly, 21 January 2013

¹¹ Source: Senior mining executive, Addis Ababa

¹² Source: Mining executive, London

¹³ *ibid*

groups.¹⁴ The mines ministry has also been hollowed out by senior professionals seeking higher wages in the private sector.¹⁵ In 2011, the ministry suspended the issuing of exploration licences as it did not have the capacity to deal with a backlog of applications that had built up.¹⁶ A lack of capacity at ministerial and local level may mean that Ethiopia struggles to respond in a timely and appropriate manner to changing dynamics in the international mining sector.

“Capacity at both local and federal level is a major concern. The government is making every effort to respond to the needs of investors in the mining sector and direct foreign investors in general but it is not clear whether this will be adequate or timely enough to meet the targets they have set - or the cyclical nature of the sector.”¹⁷

Security forces detain militants planning to kidnap foreigners in Somali region

Ethiopian military intervention in **Somalia** has encouraged the prospect of attacks within its borders by Islamist militants. An al Qaeda-linked jihadist on 16 March published a message on the **Ansar al Mujahideen English Language Forum (AMEF)** website urging al Shabaab leaders to begin targeting “US and other Western actors in the Horn of Africa region”.¹⁸ Ethiopia’s **National Security and Intelligence Agency (NISS)** announced on 15 March that security forces captured four suspected al Shabaab members close to the border with Somalia. On 25 March the NISS announced a further four al Shabaab militants had subsequently been arrested in connection with the same kidnap plot. The suspects are accused of planning a terror attack in Ethiopia’s **Somali/Ogaden** region. Media reports carried NISS statements indicating the militants were planning to target **United Nations** staff.¹⁹ An Addis Ababa source said there was no indication at this stage that the militants had planned to target foreigners involved in oil and gas or other commercial operations in the Somali region.

Implications

The EPRDF will continue to dominate Ethiopia’s political landscape. The ushering out of the old guard suggests that the EPRDF understands the need to introduce young blood into the party in a measured and controlled manner in the lead up to the 2015 elections and companies should expect political stability up to and beyond the next polls. For mining companies, the capacity of the mines ministry may lead to further delays in the development of the sector, though it should be in a position to start issuing mining licences in six months.²⁰ The expectation is that there will be rewards for those companies that show perseverance and patience in the short term. The threat of attacks on western assets and infrastructure remains considerable and all remote operations should continually monitor

¹⁴ Source: East African security analyst

¹⁵ Source: Senior oil executive, London

¹⁶ The Reporter, 22 December 2012

¹⁷ Source: Senior mining executive, Addis Ababa

¹⁸ Source: Western monitoring of Anwar al Mujahideen English Language Forum (AMEF).

¹⁹ Reuters, 15 March

²⁰ Source: Oil executive, London



intelligence regarding militant operations in Ethiopia, and review and update relevant vulnerability scenarios and security protocols as appropriate.