

AFRICA RISK CONSULTING

Country briefing – Ethiopia

11 June 2013

1 Summary

Federal Ethics and Anti-Corruption Commission of Ethiopia completes two year investigation with arrest of 24 individuals including Melaku Fenta, director general of the revenue and customs authority (ERCA). Arrests were prime minister Hailemariam Desalegn's response to Ethiopian People's Revolutionary Democratic Front (EPRDF) testing his permissiveness over their business interests. They also reveal that National Intelligence and Security Services is involved in monitoring of business sector. Ethiopia's state-led fiscal model is expected to remain unchanged in the medium term. *Hailemariam reiterates that Ethiopia is to begin extracting troops from neighbouring Somalia but no sudden withdrawal is expected. Prime minister Hailemariam and Somaliland president Ahmed Mahmud Silanyo confirm existing security and trade ties in boost to oil and gas sector in the Ogaden.*

2 Business dynamics

2.1 Prime minister Hailemariam Desalegn authorises rare anti-corruption arrests

The **Federal Ethics and Anti-Corruption Commission (FEACC)** has arrested and detained 24 individuals including senior officials at the **Ethiopian Revenue and Customs Authority (ERCA)** and prominent businessmen in a drive against corruption. The arrests were the country's most significant since the 2001 arrest of former defence minister, **Siye Abraha**, who had already left office. Those detained include **Melaku Fenta**, director general of the ERCA, and **Semachew Kebede**, owner of **Addis Ababa's Intercontinental Hotel**¹. The federal high court heard that the case apparently relates to the ERCA decision to drop investigations into tax fraud, and allowing illegal imports of concrete and steel. After a court had issued search and seizure warrants, police apparently discovered large sums of money including foreign currency. Other notable suspects detained include,

- **Gebrewahid Woldegiorgis**, Melaku's deputy and head of the investigative unit at the ERCA, and various members of his family;

¹ Sudan Tribune, 12 May 2013

- **Mammo Abdi**, advisor to Melaku and former finance minister;
- **Keteme Kebede** owner of **KK Trading PLC**;
- **Netsanet Gebregziabher**, owner of **Netsa PLC**;
- **Markiehe Alemayehu**, prosecutor in a series of major tax evasion and fraud cases.

The FEACC operation came as a shock in a country where business, political and legal interests fuse together to form a small, reclusive and unaccountable group of ruling **Ethiopian People's Revolutionary Democratic Front (EPRDF)** elite. For those on the outside, it is impossible to determine the roles that corruption and patronage play in these higher echelons. Popular opinion, nevertheless, suggests that all major public and private sector projects in Ethiopia must benefit members of the EPRDF elite in some way. **Transparency International** ranked Ethiopia at 113 out of 176 nations in its 2012 corruption index, where 1 is considered least corrupt. A **Global Financial Integrity** report in 2012 estimated that the country had lost \$11.7 billion in outflows of illegal funds in the past decade². At lower levels, however, stringent bureaucratic oversight means that corruption in Ethiopia is actually quite subdued – at least in comparison to most other sub-Saharan African countries.

Since the death of **Meles Zenawi** who kept a firm hand on their business activities, EPRDF officials have been testing the permissiveness of prime minister **Hailemariam Desalegn**. The arrests, covered prominently by state media, are Hailemariam's way of pushing back against this. The timing of the arrests is notable, coming a few weeks after the EPRDF conference in **Bahir Dar** where Hailemariam promised to crack down on graft with the help of the public. Hailemariam himself apparently authorised the arrests³.

"EPRDF officials have a lot of business interests all knitted together. Since the death of Meles, the elite have been getting ambitious, seeing what they can get away with. These arrests are a grand spectacular to show that there is only so much you can get away with, and the message will have been heard loud and clear"⁴.

For those doing business with senior officials in Ethiopia, the arrests may not necessarily mark a change from the previous culture of *"doing a favour here, doing a favour there... If you are big business, you will still need those government contacts to get by"*⁵. These arrests should, in fact, be seen as a shot across the bows of EPRDF officials. They are unlikely to be followed by further arrests or new anti-corruption legislation. A further point to note is the apparent involvement of the government's **National Intelligence and Security Services (NISS)** in gathering evidence in the case⁶. The Ethiopian government has long insisted that the mandate of the NISS is

² <http://www.gfintegrity.org/content/view/482/70/>

³ Addis Fortune, 14 May 2013

⁴ Source, analyst, Addis Ababa

⁵ Source, analyst, Addis Ababa

⁶ Source, analyst, Addis Ababa

limited to anti-terrorism. Its role in the two year long investigation suggests, however, that the government may be monitoring those doing business in Ethiopia more closely than previously imagined.

The arrests will be a blow to the ERCA which had in recent years met impressive revenue collection targets. The **United Kingdom's (UK) Department for International Development** signed a contract to begin a major capacity building programme with the ERCA the week before the arrests. The corruption charges may have been Hailemariam's way of proving to the UK that he is serious about transparent and effective revenue collection.

International Monetary Fund warns of fiscal troubles ahead, as Hailemariam refuses to change course

Jan Mikkelsen, the **International Monetary Fund's (IMF)** country representative revealed that the country's economic growth is likely to slow from 8.5% in 2011- 2012 to 6.5% in this fiscal year⁷. Mikkelsen's words are unlikely to influence the country's business policies. Hailemariam, out of step with trends across the continent, ruled out relaxing state control over the country's telecoms, retail and banking sectors. The prime minister claimed that these sectors are too weak to withstand external competition⁸. His commitment to state led democracy is indicative of the length of his predecessor **Meles Zenawi's** ideological shadow. Hailemariam apparently accepts that Ethiopia could earn \$3 billion from selling telecoms licences, but says that the annual \$430 million generated by the state telecoms operator allows it to construct railways⁹.

"[The telecoms sector] is a cash cow, that's why the private sector wants to get in there, and they're trying to tell us all kinds of stories... we want to use that money for infrastructure development."

Mikkelsen repeated previous IMF warnings that volatile inflation, a stifled private sector and balance of payments pressures mean that the country's growth is unsustainable. To attract foreign investors, Mikkelsen advised that the government should increase access to financial services, improve trade logistics and increasingly embrace the private sector. The IMF's next annual review for Ethiopia is due to be published in June, but is likely to be broadly along these lines.

3 Political Dynamics

3.1 Despite Hailemariam's threats, Ethiopia unlikely to withdraw from Somalia

Hailemariam Desalegn has reiterated that his country is to begin withdrawing troops from neighbouring **Somalia**. He voiced his frustration in May at what Ethiopia perceives as delaying tactics on the part of Somali

⁷ VOA, 23 May 2013

⁸ Financial Times, 27 May 2013

⁹ ibid

government forces and **African Union Mission in Somalia (AMISOM)** troops. AMISOM and Somali troops have agreed to take over areas under Ethiopian control but have so far only managed to do so in a couple of places. Ethiopia ousted the militant group **al Shabaab** from key areas in Somalia and has remained in place. Ethiopia is unlikely to precipitate a crisis in Somalia by pulling out all its troops unexpectedly. The recent unannounced withdrawal of Ethiopians from the town of **Hudur** caused panic in the town with thousands of civilians fleeing ahead of al Shabaab's temporary reoccupation.

If Ethiopia were to make a precipitate withdrawal, the **Somali National Army** and AMISOM would at present be unable to provide adequate troops to fill the gap. This would give al Shabaab control over a number of key routes and locations, particularly in **Galgudud, Gedo** and **Hiiraan**. This would undermine Ethiopia's own war aims of destroying al Shabaab and securing its porous borders against the free movement of the **Ogaden National Liberation Front (ONLF)** rebels. Without the backing of Ethiopia's military, the country's main ally in Somalia, the moderate **Sufist** militia group, **Ahlu Sunna Waljamaa (ASWJ)** would also be more likely to suffer military defeat by al Shabaab¹⁰. This would make the ASWJ less likely to continue to pass on to Ethiopian security officials vital intelligence on the movement of the ONLF. Security sources in both Addis Ababa and **Nairobi**, however, believe that Ethiopia was delivering a timely reminder that its patience is running out. Ethiopia never intended to remain as a long term occupying force, and is becoming ever more frustrated with what it perceives as the **African Union's** tardiness in presenting a plan to replace its forces with AMISOM troops. Hailemariam's comments were another reminder to the Somali government and AMISOM, before the London Somalia Conference.¹¹ Another regional source confirmed Ethiopia was unlikely to begin an immediate pullout or to change its security policy drastically¹². A planned withdrawal is more likely. A long term Ethiopia watcher confirms that they will also maintain stand-by forces ready to intervene against militants in Somalia should the need arise. In this scenario Ethiopian troops would make rapid incursions into any militant build-up areas deemed important to Ethiopian interests.

4 Operations

4.1 Ethiopia reaffirms security and commercial ties with Somaliland

Prime minister Hailemariam and **Somaliland** president **Ahmed Mahmud Silanyo** confirmed existing security and trade ties and agreed to enhance the existing alliance in a meeting in Addis Ababa in May. The motivation behind the meeting was partially Ethiopia's desire to press ahead with the development of the **Ogaden's** oil and gas potential. An Addis Ababa source said the meeting was a heads-of-state confirmation of agreements arrived at over many weeks of discussion at technical committee level¹³. Security and commercial committees had

¹⁰ Source, East African security analyst

¹¹ Source: Western diplomat, Addis Ababa

¹² Source: Western diplomat, Nairobi

¹³ Source: Western diplomat, Addis Ababa

already finalised items at an earlier meeting in Addis Ababa. A regular contact in Addis Ababa indicated the meeting was important in the context of regional political relations¹⁴. Given its de facto status, Somaliland needs Ethiopia's security muscle and political clout in order to further its quest for international recognition. Ethiopia wants to ensure it has an uncritical (democratically-elected) local ally with access to the **Gulf of Aden's** deep-water trade routes and links to global commercial markets. Djibouti is its only other major outlet/import terminal within reasonable proximity. Access to shipping trade routes has been a sensitive point since Eritrean independence in 1993 saw Ethiopia lose access to the sea. The port of **Assab** in **Eritrea** was built to link Addis Ababa with the Red Sea but has been unavailable to Ethiopia since the war with Eritrea in 1998-2000.

5 Implications

The anti-corruption arrests will serve as a warning to EPRDF officials that Hailemariam is no more permissive than his predecessor. They will, however, not change the business culture whereby close contact with government officials is necessary for big businesses to operate successfully in the country. Further rounds of arrests are not expected. Nevertheless, businesses should review their contacts and relationships with government officials, especially those in the revenue and customs authority to ensure transparency and accountability, if drawn into the investigation.

Ethiopia's state-led fiscal model is expected to remain unchanged in the medium term. For businesses, the result of Ethiopia's tightly-controlled economy is a heavy bureaucratic workload and this red tape will not ease soon. Despite concerns about central bank financing of large infrastructure projects being both inflationary and unsustainable, there is no indication that the government is going to reconsider its approach and scale back spending. The only departure from the Growth and Transformation Plan (2010-2015) could be if Ethiopia is forced to turn to the IMF. The IMF has encouraged Ethiopia to focus on disinflation and a more prudent level of public investment. Any borrowing from the IMF would include similar policy prescriptions.

The Ethiopian military will not begin any sudden withdrawal from Somalia. This is positive news for oil and mining companies operating in the Ogaden, as it will seriously hamper the ability of the ONLF to operate in cross border regions. The agreement with the government of Somaliland is further evidence of the emphasis that the Ethiopian government will continue to place on the development of the Ogaden's oil and gas potential.

¹⁴ Source: Western diplomat, Addis Ababa