

AFRICA RISK CONSULTING

Country briefing – Ethiopia

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Summary

Dispute flares – then subsides – with Egypt over Ethiopia’s plans for Nile waters. Thousands march in rare anti-government protest. Ethiopia could be on track for middle income status by 2025. Government brings in incentives to encourage the diaspora to come home with business projects. M-banking arrives – better late than never.

War over water?

The announcement in late May that **Ethiopia** had diverted the waters of the **Blue Nile** during the construction of the **Grand Ethiopian Renaissance Dam** triggered fury in Egypt in the following days. Politicians in Cairo threatened to use their intelligence agents to destroy the hydropower project that **Addis Ababa** sees as key to its future economic development.¹ The dam is located in the **Benishangul-Gumuz** region of Ethiopia close to the border with **Sudan**.

The timing of Cairo’s response had as much to do with domestic politics in Egypt as it did with Egyptian concerns over the Nile waters themselves. The announcement crystallised fears over what is a very sensitive subject in Egypt. Politicians were quick to tap into this fear to distract the electorate from a series of domestic issues.

“As to why Egypt’s response came when it did, I think it’s a combination of factors. The first is the internal political dynamic in Egypt. There are a lot of political and socio-economic problems facing the government. Another factor is that although the construction of dams – and in particular the Grand Ethiopian Renaissance Dam – has been underway for some time, and although 20% of the dam has been completed, the latest development in the process was the diversion of the Blue Nile that took place on 28 May ... It was in the international media and

¹ Reuters, 5 June 2013

attracted a lot of attention in Egypt, triggering a public outcry. There has been a great deal of anxiety and perhaps paranoia about this development.

*It was this realisation that the construction of the dam may indeed come to fruition that triggered the outcry and it was in attempting to manage the outcry that the government of **Mohamed Morsi** responded the way it did, tapping into public anger and the importance attached to the Nile in Egypt and using it to galvanise support and deflect attention from other issues.”²*

Following the announcement, Egyptian Foreign Minister **Kamel Amr** visited Ethiopia for talks with his counterpart **Tedros Adhanom**³. The two parties agreed to meet again and to resolve their dispute through dialogue. Kamel Amr said that previous statements about the dam had been made “*in the heat of the moment*”⁴ and that Egypt and Ethiopia were “*embarking on a period of mutual cooperation*”.⁵

*“Egypt doesn't seem to have any concrete plans on how to cooperate with other riparian countries on the development of the Nile waters. The only plan it has is to cling to the status quo that dates from the last century, a status quo that has eroded in particular over the course of the past decade with the socio-economic development of the Nile and the negotiation process relating to the **Nile Basin Initiative**. All these developments have eroded the status quo that was established in the last century and that was exclusively in favour of Egypt.”⁶*

Both countries rely on the waters of the **Nile** and are experiencing rapid population growth. Even with efficient water management, this reliance will increase, raising significant concerns over future supply. Egypt is worried that the dam will reduce the water supply vital for its 84 million people and have an adverse effect on irrigation for agriculture. Ethiopia insists the dam will not hurt countries downstream.

A tripartite team (Ethiopia, Sudan and Egypt) has carried out a study on the impact of the Grand Renaissance Dam on the countries of the region. The study is now complete but has not been published. “Ethiopia and Sudan were of the view the findings should be made public, but the government of Ethiopia requests the report remain unpublished.”⁷

Nationalist feeling over the dam is running very high in Ethiopia, with the feeling being that Egypt has had a quasi monopoly over the waters of the Nile for too long.⁸ Ethiopia's parliament ratified a controversial treaty earlier this month to replace colonial-era agreements that gave Egypt and Sudan

² Source, political analyst, Addis Ababa

³ Agence France Presse, 18 June 2013

⁴ Agence France Presse, 18 June 2013

⁵ Bloomberg, 18 June 2013

⁶ Source, political analyst, Addis Ababa

⁷ Source, analyst, UK

⁸ Source, political analyst, Addis Ababa

the biggest share of the Nile's water.⁹ Five other Nile-basin countries – **Rwanda, Tanzania, Uganda, Kenya and Burundi**, had already signed the treaty; the **Democratic Republic of Congo and South Sudan** are also expected to sign. It is intended to replace the 1929 treaty written by **Britain** that awarded Egypt veto power over any project involving the Nile by upstream countries. The signing of the new treaty by the other Nile-basin countries indicates that if Egypt were to decide to go to war over the dam it would probably find itself isolated, with other nations in the region backing Ethiopia. Ethiopia is engaged in an ambitious hydropower programme with the aim of generating enough power to drive its economic transformation. One fifth of the construction work on the 6000 MW dam has already been completed. The **Gilgel Gibe** hydropower projects on the **Omo River** have also been controversial, but mainly with activists and anthropologists.

Thousands in rare anti-government protest march

About 10,000 people staged an anti-government march on 2 June in the first large-scale protest since a disputed 2005 election ended in street violence that killed 200 people.¹⁰ The demonstrators marched through Addis Ababa's northern **Arat Kilo** and **Piazza** districts before gathering at **Churchill Avenue**. The authorities had granted permission for the march to go ahead.

The **Semayawi (Blue Party)**, who organized the march, said that they were protesting against politically motivated arrests and government meddling in religious affairs. They also called for action to tackle unemployment, inflation and corruption. The party threatened to organise future protests if the government did not respond to its demands within three months. Opposition parties often accuse the government of harassment; the 547-seat legislature has only one opposition member.

Ethiopia is often criticised for using reasons of national security to clamp down on opposition and the media, a charge that the government denies.¹¹ A 2009 anti-terrorism law makes anyone caught publishing information that could cause readers to commit acts of terrorism liable to jail terms of 10 to 20 years. In 2012, twenty journalists, opposition figures and others were imprisoned for conspiring to topple the government.

Muslims, who make up about a third of the population, which is majority Christian, staged mosque sit-ins last year accusing the government of jailing their leaders.

⁹ BBC, 18 June 2013

¹⁰ Reuters, 2 June 2013

¹¹ Reuters, 2 June 2013

On track for middle-income status by 2025?

Ethiopia's economic growth has averaged 10.7% per year over the past decade, according to the **World Bank**.¹² Last year (FY 2011-2012) it was ranked as the 12th fastest growing economy in the world. Growth was 8.5%, buoyed by expansion of the services and agricultural sectors. Agriculture represents 48.7% of GDP. *"If the country can continue its historically impressive growth performance, it could potentially reach middle income status by 2025,"* said the Bank, noting that such a development might require allowing the private sector to make a gradually larger contribution to the economy, currently dominated by the state sector, to help drive growth.

The public-sector led investment that has driven growth so far has delivered *"impressive results"*, the Bank said. It brings with it the challenge of boosting domestic savings to finance what is one of the highest public investment rates in the world.

Repatriating diaspora cash, know-how

The government is seeking to encourage increasing numbers of diaspora Ethiopians to return home and invest in their country. Almost one in every 20 Ethiopians either lives outside the country or used to and has returned home recently. There are no official figures for the breakdown between those still outside the country and returnees. Most of those who left fled the Communist **DERG** regime that was in power from 1974 to 1987 and the majority went to the **US**.

Even without government incentives, diaspora Ethiopians have been returning home, attracted by business opportunities in a fast growing economy and by sentimental considerations about boosting development in their birth country. The economic downturn in the countries where the diaspora settled and the modernisation of Ethiopia has also increased the attraction of returning for those used to life in the west.

M-banking at last?

New regulations mean that Ethiopians will be able to access mobile banking services later this year.¹³ On 1 January 2013, the **National Bank of Ethiopia (NBE)** issued a long-awaited directive that allows transaction-based mobile banking. However, a relatively restrictive regulatory framework could limit growth.

Ethiopia is the last but one African country to embrace mobile banking. Neighbouring Kenya was the first, with leading cell phone company **Safaricom**, launching **M-PESA**, an SMS-based money transfer system in 2007. **M-SHWARI**, a savings and loan system, followed.

¹² Ethiopia Economic Update, June 2013

¹³ The Africa Report, 10 June 2013

Four major players – **Commercial Bank of Ethiopia**, M-BIRR, **BelCash** and **Zemen Bank's z-Birr** – are expected to begin operations later this year. *"It will be transformational for Ethiopia's economy in general and the financial services sector in particular,"* says **Zemedeneh Negatu**, managing partner at **Ernst & Young Ethiopia**.¹⁴ While up to 50 million people could benefit, that is dependent on increased mobile penetration: Ethiopia currently has 22 million subscribers, a figure that is expected to almost triple to 64 million by 2015.

The regulatory framework could limit m-banking's progress. The central bank has stipulated that paper receipts will be required for every transaction. This will require a printer and a consistent electricity supply, both of which may not be easily available in remote rural areas. Furthermore, the transfer limit is 6,000 birr (\$324) – other countries have a ceiling of \$1,000. Also, foreign-owned companies are disqualified from acting as agents.

Risk continues following anti-corruption arrests

A wave of arrests in May saw prominent political and business figures accused of tax fraud. Businesses should continue to review who they do business with and should double-check that their tax dealings are in order to avoid the risk of being caught up in any future anti-corruption swoops. In many sectors, doing business without an Ethiopian partner or contact increases this risk. The arrests *"were a very big development that people really appreciated because they targeted not only people in the lower ranks, but also people high up at the level of a minister."*¹⁵

Implications

The disagreement over the diversion of the Blue Nile is unlikely to result in military action. The absence of a common border would make a military attack by Egypt difficult and costly. While Ethiopia has waged war with **Eritrea** (1998-2000) over issues following the 30-year war of independence fought by Eritrea, it was not over resources. So while conflict is unlikely, the Nile dispute could result in a shift in regional alliances in the Horn or in a poisoning of regional relations.

Protesting opposition parties are unlikely to obtain any major changes in the near future. The government weathered the challenge that former president **Meles Zenawi's** death last year presented, which increased its political vulnerability at the time. It is therefore unlikely that it will give in to opposition demands a year on. Furthermore, western countries will be reluctant to apply pressure over opposition and media rights as long as Ethiopia remains a bulwark in the fight against Islamist extremists in the Horn.

¹⁴ The Africa Report, 10 June 2013

¹⁵ Source, analyst, Addis Ababa



While Ethiopia's state-led fiscal model is expected to remain unchanged in the medium term, in the longer term a strong and vibrant private sector will be required to sustain strong growth. This need will become paramount if Ethiopia does indeed attain middle-income status.

The government's attempt to get more of the diaspora to return home can be seen as a bid to harness foreign know-how using Ethiopian nationals (dual nationals or people of Ethiopian origin) rather than foreigners.

The introduction of m-banking can be expected to facilitate job creation, boost GDP and in turn lead to increased tax revenue. In Ethiopia's case however the impact will be limited by cumbersome bureaucracy and by a telecommunications network that is unreliable compared to that of many of its neighbours. It remains to be seen to what extent such factors will curb the growth of m-banking.