

AFRICA RISK CONSULTING**Country briefing – Ethiopia****10 Sept 2014****1 Summary**

Defections from the Ethiopian People Revolutionary Democratic Front (EPRDF) may increase as prime minister Hailemariam Desalegn (2012 – present) seeks to reduce the dominance of the Tigrayan People’s Liberation Front (TPLF). Ethiopia moves up nine places on the World Economic Forum’s (WEF) annual 2014 – 2015 Global Competitiveness Index (GCI) but the WEF warns of structural problems around property rights and corruption. Egypt, Ethiopia and Sudan reach agreement over the Grand Ethiopian Renaissance Dam (GERD).

1.1 Defections from the EPRDF may increase as the 2015 election approaches

Defections from within the ruling **Ethiopian People Revolutionary Democratic Front (EPRDF)** may increase in the run-up to the 2015 election as prime minister **Hailemariam Desalegn** (2012 – present) seeks to assert his authority on the ruling coalition.¹ Hailemariam has abandoned the highly centralised decision making style of predecessor **Meles Zenawi** (1995 – 2012). However, this has not reduced the dominance of the **Tigrayan People’s Liberation Front (TPLF)** in the EPRDF.² Zenawi was a member of the TPLF, and Tigray officials dominate the higher echelons of the EPRDF, while Tigrayan officers linked to the capture of **Addis Ababa** in 1991 are disproportionately represented in the military and intelligence services. Hailemariam’s failure to break down Tigray cliques reduces his ability to impose his decisions on the EPRDF.³ Any increased tensions in the EPRDF may lead to defections abroad. These have been a relatively regular phenomenon in recent years as critical officials see little opportunity in domestic opposition politics to challenge the EPRDF (see *ARC Ethiopia August 2014 Briefing*).

Hailemariam will continue Meles’ policy of allowing critical officials to defect abroad in exchange for their silence. Negotiated settlements between dissenting officials and the EPRDF typically precede defections.⁴ The pact of silence allows the EPRDF to portray the dissident as fleeing for personal

1 Source, journalist, Addis Ababa

2 Source, journalist, Addis Ababa

3 Source, journalist, Addis Ababa

4 Source, journalist, Addis Ababa

rather than political reasons. A senior government official, for example, claims that defections are not related to either tensions within the ruling EPRDF or officials escaping legal prosecution (see below) as no recent defector has vocally complained after they left Ethiopia.⁵

“None of them have so far complained about the way the party is functioning and left the country. Most of them leave the country after a government reshuffle or for family reasons. Some of them even may not want to work in a lower position than [one] that they were previously working [in]. While some of them have become consultants, professors or businesspeople, the rest are pursuing their own personal interests. But note must be taken here that these are a handful of individuals out of the hundreds of the ruling party’s leadership members.”⁶

Defections under Hailemariam are a fairly regular occurrence. A notable example is **Getachew Belay**, who was the former deputy CEO of **The Endowment Fund for the Rehabilitation of Tigray** which represents the business interests of the senior party officials of the TPLF. He defected to the **United States (US)** in October 2012 where he remains resident. In the same month, **Kefyalew Azeze**, the former deputy mayor of Addis Ababa and also adviser to then mayor **Kuma Demeksa**, defected with his family to the US. **Omot Obang**, the former president of the **Gambella Regional State**, fled to the US in March 2014 in order to escape judicial proceedings. Omot left Ethiopia as judicial authorities started to put corruption charges against him. In April 2013, Hailemariam dismissed Omot as part of a government reshuffle but then appointed him as the federal affairs state minister. The defections from the EPRDF started under Meles, including both **Almaz Meko**, then speaker of the house of federation, in 2001, and former communication affairs state minister, **Ermias Legesse** in 2009.

1.2 Ethiopia rises up the Global Competitiveness Index

Despite Ethiopia moving up nine places on the **World Economic Forum’s (WEF) annual 2014 – 2015 Global Competitiveness Index (GCI)** to 118 out of 144 countries, the report highlighted a number of structural issues facing Ethiopia. The GCI is based on an analysis of 12 pillars of competitiveness.⁷ Compared to its neighbours in the **East African Community**, Ethiopia came behind **Rwanda (62)** and **Kenya (90)** but higher than **Tanzania (121)**, **Uganda (122)** and **Burundi (139)**. There is little correlation between Ethiopia’s GCI ranking and its rapid economic growth over the duration of its **Growth and Transformation Plan**.

⁵ Source, senior government official, Addis Ababa

⁶ Source, senior government official, Addis Ababa

⁷ Institutions, infrastructure, macroeconomic environment; health and primary education; higher education and training, goods market efficiency, financial market development, technological readiness, market size, business sophistication and innovation.



Year	Ranking	Economic Growth
2013 - 2014	127 (out of 148)	9.73%
2012 - 2013	121 (out of 144)	8.54%
2011 - 2012	106 (out of 142)	11.39%
2010 - 2011	119 (out of 139)	10.57%

The CGI is especially critical of the functioning of Ethiopia’s institutions, notably property rights, and corruption. All land in Ethiopia is under state ownership. Although land legislation is the responsibility of the federal government, it has delegated key powers to regional states. However, not all states have passed the corresponding laws or regulations on how to implement government policies (which are sometimes unwritten), leading to confusion and a high level of informality in the sector. There are two systems of property management in Ethiopia: a permit system, under which landholders pay generally low annual rents, and a separate 2002 land lease system that covers a range of practices from negotiated land payments to leases allocated by auction. City and municipalities often have overlapping responsibility for land parcels and maintain property records using poor and complex systems. This uncertainty has fostered corruption. The **Federal Ethics and Anti-Corruption Commission (FEACC)** has launched a number of investigations into the land sector. In its 2007-2008 annual report, the FEACC said that 28 of the 63 cases it investigated during the year were in land administration. This corruption takes place at various levels. At low level bureaucracy it occurs in the auctioning process. It also occurs in the seizure of land for political purposes. Auctions are particularly lucrative targets for corruption given the level of capital in auctions. In February 2014, real estate development firm **WAM Property Development** bid a record \$1,590 per square metre for a plot of land in Addis Ababa.⁸ There is little transparency in the pricing or allocation of land during the auctions and prices fluctuate with little explanation.

Corruption is not limited to the property sector, as demonstrated during the ongoing case against the **Ethiopian Revenues and Customs Authority (ERCA)** officials (see *ARC Ethiopia September 2013 Briefing*). In Ethiopia business, political and legal interests fuse together to form a small, reclusive and unaccountable group of ruling EPRDF elite. For those on the outside, it is impossible to determine the role that corruption and patronage play in these higher echelons. Popular opinion nevertheless

⁸ Addis Fortune, 27 Feb 2014.

suggests that all major public and private sector projects in Ethiopia must benefit members of the EPRDF elite in some way.

The GCI also surveys those conducting business in Ethiopia about the hurdles of operating in the country. The largest obstacles are inefficient government bureaucracy (14.1%), foreign currency regulations (13.8%), and access to financing (12.5%). The government is actively trying to improve its bureaucratic processes for registration, logistics, and tax. The **Ethiopian Investment Agency (EIA)** is establishing a ‘one-stop shop’ but is hampered by a lack of capacity.⁹

“For businesses, the result of Ethiopia’s tightly-controlled economy is a heavy bureaucratic workload and this red tape will not ease soon.”¹⁰

The **National Bank of Ethiopia (NBE)** must approve all foreign currency transactions and the birr is not freely convertible. According to the NBE, Ethiopia’s foreign exchange reserves covered only 1.7 months at the end of 2013.¹¹ State-owned enterprises (SOE) finance large infrastructure investments through domestic bank credit, though the scale of this financing limits private sector access to credit, with SOE debt amounting to 25% of GDP in June 2013.

1.3 Tripartite talks result in Grand Ethiopian Renaissance Dam agreement

Relations between Ethiopia and **Egypt** over the **Grand Ethiopian Renaissance Dam (GERD)** have improved after the resumption of tripartite talks with **Sudan** (see *ARC Ethiopia April 2014 Briefing*). During a fourth round of tripartite talks in **Khartoum**, the three riparian states agreed to complete further studies within six months (by February 2015) on the impact of the GERD. A 26 August statement at the end of the two-day meeting in Khartoum said that the water ministers of the three states had agreed on implementing the recommendations of the international panel of experts (IPOE). The IPOE reported in May 2013 and called for additional studies into the impact of the GERD. A “tripartite national committee” of four experts from each of the riparian nations will investigate the hydrological, social and environmental impacts of the GERD. International experts or consultants will establish a timetable for the studies and provide technical support to resolve any disputes. Egyptian state media quoted water minister **Hossam El-Din Moghazy** as saying Egypt’s acceptance of the GERD will depend on the results of the study, which are binding for all the parties.¹² The unpublished

⁹ Source, business analyst, Addis Ababa

¹⁰ Source, business analyst, Addis Ababa

¹¹ www.EthiopiaInvestor.com

¹² MENA, 27 Aug 2014.

IPOE report is thought to show that the \$4.7 billion GERD will not have a detrimental impact on Egypt and Sudan, but highlights deficiencies in the dam's structure and stability. According to the Ethiopian government, construction of the GERD is approximately 35% complete and on schedule to finish during the second quarter of 2017.¹³

2 Implications

Defections do not undermine the authority of the EPRDF, which portrays them as personal not political. The defections, in fact, highlight the dominant position of the EPRDF and the absence of a credible political opposition. Hailemariam will continue to usher out the EPRDF old guard and try to reduce the dominance of Tigrayan officials within the coalition. This will take time, with Hailemariam not wanting to disturb the stability of the EPRDF.

The GCI did not contain any surprises for investors. State control of the property market and corruption will continue to deter risk-averse investors. Bolder investors are taking a medium term view and are preparing to move quickly to secure first mover advantage should the government liberalise the state dominated telecoms and financial sectors. The government has announced that it will set new benchmark prices for land leases in Addis Ababa during the first few weeks of the Ethiopian New Year that started on 11 September.¹⁴ There is unlikely to be any significant change in rates.

The tripartite agreement will reduce tension between Ethiopia and Egypt over the development of the GERD. The regional benefits of the project in terms of energy export increases the probability of a full agreement before the dam comes fully online in 2017. In the meantime, Ethiopia and Egypt will continue to cooperate pragmatically over the Nile.

¹³ Anadolu Agency, 8 Aug 2014.

¹⁴ Capital, 2 Sept 2014.