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The government-organised demonstration against the Islamic State turns violent. The government uses the violence as an opportunity to detain opposition Blue Party leaders ahead of the 24 May general election. Control over state security functions will allow the Ethiopian People's Revolutionary Democratic Front (EPRDF) to dominate the election. The Islamic State killings may raise sectarian tensions in Ethiopia. Turkish state-owned Ziraat Bank applies to open Ethiopia's first foreign owned bank.

Anti- Islamic State demonstration turns violent

A security crackdown following a government-organised demonstration has increased political tensions ahead of the 24 May general election. The 22 April demonstration condemned the **Islamic State** militant group who on 19 April released a video showing the killing of 30 Ethiopian Christians in two separate incidents in **Libya**.¹ The demonstration was the largest since the 2005 general election that led to the arrest of many opposition figures and the deaths of approximately 200 people.

*"Though most of the demonstrators that numbered more than a hundred thousand were expressing their anger peacefully, a good number of them used the opportunity to vent their anger and started chanting anti-government slogans and attacking police by throwing stones."*²

The violence led to the arrest of more than 100 protesters, with the majority from the opposition **Blue Party**. The government issued a statement later on 22 April on state television, accusing the Blue Party of responsibility for the violence. In the days following the protest, the state broadcaster ran a series of programmes alleging that the Blue Party's members tried to hijack the anti- Islamic State demonstration for partisan reasons.

The Islamic State killings also resulted in non-government sponsored demonstrations. On 21 April, thousands of demonstrators gathered in the **Ckerkos District** in **Addis Ababa**, home to two of the murdered Ethiopian Christians. The city administration quickly deployed both city police and federal forces in and around the area preventing demonstrators from marching towards the headquarters of the **African Union** and the national palace, located in opposite directions. The demonstration lasted approximately four hours. Demonstrators chanted anti-government slogans, among others: "*where is our government*", "*justice for the dead*", "*sovereignty is the safety of citizens everywhere in the world*", and "*don't tell us they are not ours*". The last was in response to an earlier government statement saying it was not clear if the Islamic State victims were Ethiopians.

The government is unlikely to release the Blue Party members before the elections but a wider crackdown is improbable as the government does not want to raise tensions further.

*"By the look of it, and from former experiences, the government looks set to detain leading members of the Blue Party once the election is over and the dust settles. Observers say the mere reason the government didn't resort to mass incarceration of the opposition is to appease the situation until the election comes and passes."*³

¹ Reuters, 19 Apr 2015.

² Source, journalist, Addis Ababa

³ Source, journalist, Addis Ababa

The opposition continues to allege government harassment. The Blue Party, for instance, claimed on 9 May that the government prohibited it from holding a mass rally on 10 May at the **Meskel Square** in Addis Ababa.

“The city administration says the square is already congested and filled with public activities so we couldn’t hold a rally. But this is just another pretext by the government to hold us down.”⁴

Despite the obstacles, the political opposition approaches the elections with confidence. The **Oromo Federalist Congress (OFC)**, which is a member of the opposition **Medrek** coalition, is privately confident that it will win the upcoming election in the **Oromia Region** (the largest regional state in Ethiopia) unless the government resorts to vote rigging.

“We have already conducted massive rallies across the Oromia Region and we have gathered a lot of support. In each rally, more than 60,000 people have come out supporting us. We will start our massive campaign in Addis Ababa soon. We hope to perform better in Oromia than 2005. We have presented candidates for 155 counties so far. So, we are confident that we will defeat the ruling party in the region if it doesn’t rig the votes.”⁵

This is overly optimistic. Though the opposition may improve on its 2010 showing when it won only a single seat in the lower chamber, the **Ethiopian People’s Revolutionary Democratic Front (EPRDF)** will maintain its parliamentary majority due to its control over state functions.

Turkish state-owned bank to seek licence

Turkish finance minister **Nihat Zeybekci** has confirmed that state-owned **Ziraat Bank** has applied to open Ethiopia’s first foreign owned bank. The government guards its banking sector closely and is resistant to any move towards liberalisation, nevertheless Ziraat Bank’s application signals that companies are preparing to benefit from a first mover advantage. Zeybekci said on 27 April that Ziraat Bank will initially open a representative office in Ethiopia before applying for a banking licence before the end of the year.⁶

Germany-based **Commerzbank AG** and **Togo**- based **Ecobank Transnational Inc** have already established representative offices that are unable to offer commercial banking services. This is a similar strategy to telecommunications companies with **MTN Group** and **Vodacom Group** opening representative offices to move quickly if Ethiopia offers voice service licences. Ethiopia’s domestic consumer base and its growth potential mean that banks and telecommunication companies are willing to overcome its regulatory challenges.⁷

Ethiopia’s banking sector is shallow, with limits on foreign investment and a high level of government capital and control. State-owned banks dominate Ethiopia’s banking sector – the **Commercial Bank of Ethiopia (CBE)** accounted for 63% of total assets in 2013.⁸ According to a March 2011 **National Bank of Ethiopia (NBE)** directive, private banks must set aside 27% of their lending portfolios to purchasing government bonds. The directive forces commercial banks to buy bonds from the state-owned **Development Bank of Ethiopia** to channel national savings into financing state-owned long-term infrastructure projects.⁹ This increases pressure on domestic credit, limiting private sector loans and raising investor concerns about the hard currency required for the repatriation of profits. Loan penetration is low, with a loan to GDP ratio of approximately 18% compared to 41% in **Kenya**.¹⁰ Banking penetration is also low, with 9% of Ethiopians depositing with commercial banks compared to 50% of Kenyans.¹¹ There is no provision for interbank transactions, meaning that businesses wanting to accept card payments require separate point of sale terminals for each bank. The dominance of a few large banks – the top five banks

⁴ Source, Blue Party official, Addis Ababa

⁵ Source, OFC specialist

⁶ Hurriyet Daily News, 27 Apr 2015.

⁷ Source, business consultant, Nairobi

⁸ www.moody’s.com

⁹ Addis Fortune, 10 Nov 2013.

¹⁰ Ecobank research, Dec 2014

¹¹ Ecobank research, Dec 2014

collectively account for 82% of outstanding credit¹² – means Ethiopia has an overly concentrated banking sector. This increases the risk that a crisis in a large bank would prove contagious for the rest of the sector.

The banking sector is improving. The CBE is relatively well run and professional.¹³ The deposit base of the banking sector grew by a six year compound annual growth rate of 27.3% to 252.1 billion Ethiopian birr (\$13.0 billion) on the back of new local banks entering the market and an aggressive branch expansion drive.¹⁴ Starting from a low base, the total assets of the banking system have also increased rapidly. Total assets increased from Birr 153 billion (\$14.68 billion) in 2008-2009 to 400.9 billion (\$21.9 billion) in 2012-2013.¹⁵ Commercial banks held 46.9% of the total capital in the banking sector in 2012.¹⁶ While banking penetration remains low, the government is encouraging mobile banking as a way to increase access to financial services. In December 2014, the CBE approved **M-BIRR**, Ethiopia's first mobile money transfer service, following a successful pilot.

Ziraat Bank's schedule to open an office before the end of the year also coincides with the **World Trade Organization (WTO)** ministerial conference in **Nairobi (Kenya)** from 15-18 December when Ethiopia may accelerate the completion of its application for WTO membership.¹⁷ Ethiopia's reluctance to liberalise its financial services and telecommunications sectors have repeatedly delayed the WTO accession process that Ethiopia started in 2003 and hoped would be complete by 2015. The trade ministry enjoys the support of a **United States**-funded team of trade law specialists to support its efforts but progress has been haphazard and piecemeal.¹⁸

Islamic State killings may result in sectarian tensions

The Islamic State killings may raise sectarian tensions in Ethiopia, although there is no information to suggest that Islamic State has a presence in the country. The Ethiopian government has said that some of the Ethiopians killed in Libya were migrants trying to seek a route across the **Mediterranean to Europe**.¹⁹

Relations between the Ethiopian government and Muslim communities are tense. Protests in Ethiopia's Muslim community have been fairly regular over the past few years but have quietened in recent months. Protests are more about religious policy than politics. There are longstanding grievances within Ethiopia's Muslim community about alleged government interference in religious matters. In early 2013, there were a series of protests after Muslim leaders accused the government of manipulating elections to appoint majlis ('councillors') to the **Supreme Council of Islamic Affairs** as part of the **Al Ahabash** campaign to control Ethiopia's dominant brand of Islam.²⁰

Implications

Despite opposition confidence, the ruling EPRDF is likely to easily win the election due to its control of the electoral apparatus. Ethiopia's weak and fractured opposition poses little electoral threat to the EPRDF which is willing to mobilise state resources to ensure its continued political dominance. Turnout may be low amid increasing political apathy. There is a risk of electoral violence should the opposition demonstrate against state harassment or allegations of electoral fraud. Continued EPRDF dominance is detrimental to Ethiopia's longer-term political risk profile.

State control of the financial sector, keeping out international companies, will continue to limit the sector's potential. It will constrain capital injection, foreign exchange access and banking skills. Partial liberalisation

¹² Ecobank research, Dec 2014

¹³ Source, business consultant, Nairobi

¹⁴ Ecobank research, Dec 2014

¹⁵ ODI, Dec 2014.

¹⁶ ODI, Dec 2014.

¹⁷ Source, business consultant, Nairobi

¹⁸ Source, business consultant, Nairobi

¹⁹ Reuters, 19 Apr 2015.

²⁰ Source, journalist, Addis Ababa

will limit private capital, hampering productivity and export revenue, and result in further delays to WTO accession.

The Islamic State killings may raise sectarian tensions. Sporadic protests by Muslim groups have been occurring for approximately two years now. Ordinary Muslims continue to feel harassed by government attempts to crack down on their community leaders rather than addressing their religious and political grievances. Localised protests will continue.