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The Ethiopian People's Revolutionary Democracy Front (EPRDF) wins the 24 May general election, controlling all seats in the house of people's representatives. The opposition alleges violence against its candidates, but has little recourse, amid muted international criticism of the election's conduct. The election strengthens the hand of prime minister Hailemariam Desalegn (2012- present) ahead of the EPRDF congress in October. The government introduces its 223.3 billion birr (\$11 billion) national budget for the 2015/2016 financial year. The China Civil Engineering Construction Corp (CCECC) lays the last section of track of the 756 km Ethiopia-Djibouti Railway. Trains are scheduled to begin running on the line in October.

EPRDF controls all parliamentary seats following election

The incumbent **Ethiopian People's Revolutionary Democracy Front (EPRDF)** dominated the 24 May general election, controlling all 546 announced seats in the house of people's representatives. With the result a "foregone conclusion long before the first ballot was cast",¹ the more significant election will take place in October when the EPRDF convenes to select its chairman. The EPRDF won 500 seats, while affiliated parties won the other 46. The **National Election Board of Ethiopia (NEBE)** is yet to announce the **Ginbo-Gewta** results due to election-related violence and alleged discrepancies in voting procedures. The EPRDF notably won every seat in **Addis Ababa**. The results for the affiliated parties are:

- The **Somali Peoples' Democratic Party**: 24 seats;
- The **Benishangul Gumuz People's Democratic Party**: nine seats;
- The **Afar National Democratic Party**: eight seats;
- The **Gambella Peoples' Unity Democratic Movement**: three seats;
- The **Harari National League**: one seat;
- The **Argoba People Democratic Organization**: one seat.

There is popular and political disdain for the election results.

*"At the moment, one can find post after post on social media ridiculing the results. Now that the single opposition MP and another single independent MP are out of parliament, many in the opposition camp say it is unprecedented even by **Africa's** [historical] political standards."²*

The election itself proceeded in a broadly calm and peaceful manner with **African Union (AU)** observers noting no significant irregularities. The AU noted numerous relatively minor irregularities. These include polling stations where staff did not follow correct procedures including a failure to show that the ballot box was empty before voting began. AU observers also noted campaigning inside polling stations. However, the EPRDF had ensured their victory in the months before the election with a crackdown on opposition leaders and media (see previous ARC Ethiopia briefings). There were also

¹ Source, East Africa election specialist, Nairobi

² Source, journalist, Addis Ababa

localised incidents of electoral violence. The opposition alleges that “*half a dozen*”³ opposition activists and candidates died in the days following the election.⁴ **Blue Party** candidate **Samuel Awoke** died in uncertain circumstances after contesting a seat in the **Amhara Regional State**.⁵ Blue Party chairman **Yilikal Getnet** told an ARC researcher that he believes Awoke’s death to be politically motivated, claiming unidentified individuals beat him up a week before the election and that he was the recipient of death threats.⁶ Yilikal told the researcher that he fears for his own safety.⁷

“The government has done nothing to apprehend the perpetrators who tried to kill him before the election. And now they have killed him.”⁸

The Amhara Regional government denies the allegations and claims authorities have detained a suspect for the killing and that preliminary investigations suggest it was the result of personal dispute.⁹

Most opposition parties have rejected the results but have little recourse amid muted international condemnation of EPRDF electioneering. **Ethiopian Democratic Party** president **Chanie Kebede** told an ARC researcher,

“the whole election process has been a sham. Most of our observers were stripped of their observer cards and they were chased away from polling sites. We don’t believe the votes will be counted properly in this manner. We will find it difficult to accept the election’s results.”¹⁰

The Blue Party has privately suggested that it may look to merge with the **Medrek** coalition or form other coalitions or alliances.

The election strengthened the hand of prime minister **Hailemariam Desalegn** (2012- present) who now has a personal mandate to govern, having entered office following the death of his predecessor **Meles Zenawi** (1995-2012) in 2012. While Hailemariam is expected to become more assertive following the EPRDF’s election win, opposition to radical reform on the EPRDF executive committee and the dominance of the **Tigrayan** faction – of which Hailemariam is not a member – will continue to constrain him at least until the EPRDF congress in October. The only possible sources of challenges to Hailemariam’s chairmanship are from within the politically and economically influential **Tigray People’s Liberation Front (TPLF)** and from EPRDF officials with close links to the **Ethiopian National Defense Force (ENDF)**. Hailemariam – the first Ethiopian leader without a military background – does not have as close ties to the military as his predecessors.

Government introduces \$11 billion budget

Finance minister **Sufian Ahmed Beker** on 10 June introduced a 223.3 billion birr (\$11 billion) national budget for the 2015/2016 financial year. The size of the proposed budget suggests that the government remains committed to its state-led economic model as it develops the **Growth and Transformation Plan II**. The council of ministers approved the budget on 9 June with the house of peoples’ representatives yet to vote on it.

The proposed budget is approximately 20% higher than the current budget.¹¹ Approximately 84.3 billion birr (\$4.1 billion) of the total budget is capital expenditure, and 50.2 billion birr (\$2.4 billion) recurrent expenditure.¹² The government plans to increase social spending including increasing

3 Source, journalist, Addis Ababa

4 Source, journalist, Addis Ababa

5 Source, journalist, Addis Ababa

6 Source, ARC researcher, Addis Ababa

7 Source, ARC researcher, Addis Ababa

8 Source, Yilikal Getnet, Addis Ababa

9 Source, ARC researcher, Addis Ababa

10 Source, Chanie Kebede, Addis Ababa

11 Addis Fortune, 10 Jun 2015.

12 Addis Fortune, 10 Jun 2015.

spending on education from 24.5 billion (\$1.2 billion) to 32.9 billion birr (\$1.6 billion), and health from 5.1 billion (\$247m) to 6.3 billion birr (\$305m).¹³

The government aims to meet \$9.6 billion of the budget through domestic revenue and concessional lending and loans.¹⁴ Sufian noted that the **Ethiopian Customs and Revenue Authority (ECRA)** collected \$4.7 billion during the first ten months of the financial year and is on target to meet its \$5.6 billion target in the remaining two months.¹⁵ The budget states that tax income will increase 20% in the next financial year. The ERCA's revenue collection is increasingly effective. According to the most recent **World Bank** figures, tax revenue as a percentage of GDP increased from 8.2% in 2010 to 9.2% in 2011.¹⁶ The ERCA estimates that tax revenue currently accounts for 12.6% of revenue, compared to the **sub-Saharan Africa** average of 18%.¹⁷ However, problems persist including a lack of ERCA capacity at branch level, tax fraud, a reliance on bank statements to determine income and limited use of cash register machines.¹⁸ An economist critical of the government economic strategy states that the revenue targets are untenable as long as government policies limit the tax base.

*"There is no free market in Ethiopia (in the normal sense of the word). It is literally a command economy. The interference of the government in the economy (market) is more pronounced in the import-export sector of the economy and the exchange rate. The exchange rate is a managed fixed exchange rate system. Believe it or not, a good portion of those who are involved in the parallel (black) market are members of the EPRDF. As a result, I have a hard time believing that even the country's parallel (black) market represents what economists assume to be the case. The untaxable economy is larger than assumed, and the government has little incentive to address it."*¹⁹

Domestic borrowing will meet the financing gap, at the expense of credit availability for the private sector. This will take the form of the sale of the treasury bills and **National Bank of Ethiopia (NBE)** loans. According to a March 2011 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.²⁰ The **International Monetary Fund** in June repeated long-standing calls for the government to open up economic space for the private sector.²¹ In an effort to encourage foreign investment, the government plans to start an equities and secondary debt market.²²

Sufian stated that as well as continued investment in mega infrastructure projects, the government would focus on addressing economic bottlenecks including improving the export sector and encouraging domestic saving. The World Bank has forecast that Ethiopia will grow 10.5% in 2015-2016 on the back of its agriculture and service sectors and state-led investment in infrastructure projects. The government also aims to improve the business environment, notably increasing the budget of the **Ethiopian Roads Authority** from 29 billion (\$1.45 billion) to 33.1 billion birr (\$1.6 billion). It will also provide 12 billion birr (\$581) to regional states for manufacturing parks.

¹³ Addis Fortune, 10 Jun 2015.

¹⁴ Addis Fortune, 10 Jun 2015.

¹⁵ Addis Fortune, 10 Jun 2015.

¹⁶ World Bank figures

¹⁷ Addis Fortune, 3 Feb 2015.

¹⁸ Addis Fortune, 26 Oct 2014.

¹⁹ Source, senior economist, Ethiopia

²⁰ Addis Fortune, 10 Nov 2013.

²¹ IMF Press Release, 22 Jun 2015.

²² Source, business consultant, Addis Ababa

Governments mark key Ethiopia- Djibouti Railway milestone

The **China Civil Engineering Construction Corp (CCECC)** laid the last section of track of the 756 km **Ethiopia-Djibouti Railway** on 15 June.²³ Ethiopia is dependent on **Djibouti** for access to its only major export-import terminal and access to international shipping lanes. The railway is key to reducing logistical bottlenecks. Both Hailemariam and Djiboutian president **Ismail Omar Guelleh** (1999- present) attended the ceremony to mark the laying of the last section of track. The railway links **Djibouti City** and Addis Ababa with the first train expected to run in October. The railway will reduce the journey time between the two cities from two days to approximately eight hours.²⁴ **China** provided the financing with the **Export Import Bank of China (China Exim)** supplying loans for the Ethiopia-Djibouti Railway as part of a 2013 \$3 billion finance package.²⁵ The Ethiopian government is investing in railway infrastructure as it looks to attract investors concerned over long lead-times and high costs. The **Djibouti Port Authority** forecasts that the number of trucks using the road between Djibouti and Ethiopia will increase from 1,500 to 8,000 within five years. Another major railway under construction will link the **Afar** region to Djibouti to provide an export point for the region's potash mines.

Implications

International criticism of the electioneering prior to the election and the alleged violence against opposition candidates and activists will be muted due to Ethiopia's strategic role as a bulwark against Islamist militancy. Hailemariam now has a greater mandate to rule, but is likely to continue his collaborative style of governance. Hailemariam will likely use the October congress to usher in a new generation of EPRDF leaders. The absence of a meaningful political challenge to the EPRDF increases Ethiopia's risk profile as it increases the possibility of the eventual transfer of power being tumultuous.

State-owned enterprises are likely to implement the public investment projects that the increased budget provides for. The increased level of government spending will therefore continue to curb credit access to the private sector. Continued high levels of growth and increased levels of foreign investment will mean that Ethiopia's debt levels remain relatively low and manageable.

Improved infrastructure ties will help to ease the cost and length of time it takes to import and export goods between Ethiopia and Djibouti. Political relations may deteriorate as Djibouti moves towards its 2016 election. Guelleh is personally driving political, economic and infrastructure links with Ethiopia, with his opponents keen to portray him as an Ethiopian 'puppet'.

²³ Capital, 15 Jun 2015.

²⁴ Capital, 15 Jun 2015.

²⁵ www.china.aiddata.org.

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