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The Ethiopian People's Revolutionary Democratic Front (EPRDF) elects prime minister Hailemariam Desalegn (2012- present) as party chairman. The EPRDF congress sees the return of EPRDF leaders ousted in 2013 and unprecedented criticism of the Tigray People's Liberation Front. Getachew Assefa, head of the National Intelligence and Security Services (NISS), joins the EPRDF executive committee. State-owned China Development Bank (CDB) signs \$1.4 billion worth of loan agreements. Drought hits eastern and southern Ethiopia with aid agencies warning of funding shortfalls.

EPRDF elects prime minister Hailemariam Desalegn as party chairman

Despite speculation that the ruling **Ethiopian People's Revolutionary Democratic Front (EPRDF)** might look to oust prime minister **Hailemariam Desalegn** (2012- present) at its party congress, he secured sufficient votes to remain party chairman.¹ Hailemariam will remain prime minister due to the unwritten rule that the EPRDF chairman also heads the government. While parliament needs to ratify the appointment with a vote scheduled for 28 September, the vote is a formality, as is the formal approval of the EPRDF political bureau in October.²

The EPRDF congress in **Mekelle (Tigray Regional State)** ended on 31 August. The location of Tigray was significant. Hailemariam, who is from the **South Ethiopian Peoples' Democratic Movement (SEPPDM)**, is the first non-Tigrayan member to lead the EPRDF. The **Tigray People's Liberation Front (TPLF)** remains the politically and economically dominant faction of the EPRDF (see below) but was subject to unexpected criticism at the EPRDF congress.

Hailemariam's position at the head of the EPRDF appeared increasingly vulnerable ahead of the May general election.

"Members of the EPRDF political bureau subjected Hailemariam to a fire of criticism for approximately 15 hours on 11 May. This took place barely two weeks before the election."³

The political bureau accused Hailemariam of failing to adequately manage political opposition ahead of the election (see *ARC Briefing Ethiopia May 2015*).

"While the ruling coalition was sure of a landslide victory with no surprises, it feared that the rise of discontent among the population could derail its plans for national development. This has led to strong criticism of the prime minister to the point of casting doubt on his political future."⁴

The EPRDF congress marked the return of a former generation of EPRDF leaders, despite speculation that it would herald the introduction of a younger generation of leaders. The congress gave voting rights to founding EPRDF members who had resigned in 2013 as part of the EPRDF's *Metekakat* generational transitional plan. Former late prime minister **Meles Zenawi** (1995-2012) introduced the *Metekakat* plan, which set the 2010, 2012 and 2014 EPRDF congresses as the key dates for the incremental appointments of younger officials in the party. Meles' death in 2012 disrupted the plan.

¹ Addis Fortune, 31 Aug 2015.

² Source, journalist, Addis Ababa

³ Source, journalist, Addis Ababa

⁴ Source, journalist, Addis Ababa

Despite the officials having resigned from the EPRDF, there is speculation that they were “forced out”,⁵ making their return a surprise. The returning veterans include **Arkebe Oqubay** (prime ministerial adviser), **Sebhat Nega** (director of the **Ethiopian International Institute for Peace and Development**), **Seyoum Mesfin** (ambassador to **China**) and **Berhane Gebrekristos** (foreign affairs state minister). The return of the older generation was popular: EPRDF delegates greeted their appearance with applause.⁶

The retirement of seven veteran members from the TPLF was another surprise. These included **Abay Tsehaye**, **Abadi Zemu**, **Tedros Hagos** and **Tsegaye Berhe**. The congress voted in favour of keeping Abay Tsehaye in the central committee but the veteran leader refused, insisting that the party should remain committed to the succession of the party leadership.

In the new EPRDF executive committee, there are three new members representing the TPLF. Although new to the executive committee, all took part in the armed struggle against the military regime of the **Derg** and were members of the TPLF central committee. The most notable inclusion is **Getachew Assefa**, head of the **National Intelligence and Security Services (NISS)**. Getachew, who rarely makes public appearances, set the tone of the EPRDF congress. He presented a report that criticised the performance of the Tigray regional administration. When the congress elected the central committee members, Getachew garnered the fourth largest vote. Getachew replaced **Kinfe Gebremedhin** as head of NISS after the latter’s assassination in 2001.

The congress also elected deputy prime minister **Demeke Mekonen** as EPRDF deputy chairman.⁷ There is little public information about Demeke, leader of the **Amhara National Democratic Movement**. Prior to his appointment as education minister in 2010, Demeke was **Amhara Regional State** commissioner of the **Ethics & Anti-Corruption Commission** and head of the Amhara administrative and security affairs bureau.

China commits to further investment in Ethiopia

Hailemariam on 4 September addressed a **China Development Bank (CDB)** conference in **Beijing** and reaffirmed China’s significant role in Ethiopia’s economic development.⁸ At the conference, the state-owned CDB signed \$1.4 billion worth of loan agreements including letters of guarantee and buyer credit loan agreements for the **Ethiopia-Djibouti Railway**, power supply projects and a **Petroleum Pipeline Agreement**.⁹ Hailemariam in his address to the CDB noted that the government is committed to both harnessing the private sector and to encouraging foreign direct investment in order to maintain Ethiopia’s level of growth in the medium term.¹⁰ This is likely an indicator of the general direction of the government’s second five-year **Growth and Transformation Plan II** (2015-2020) expected later this year. Ethiopia looks to China as an economic, as well as a political, model. China and Ethiopia share state-led economic models with decision making concentrated in the hands of a few officials, making the two countries “*natural economic bed fellows*”.¹¹ This similarity may become increasingly significant. Chinese state-owned enterprises and financial institutions are becoming increasingly risk averse amid economic uncertainty in China and may prioritise economic systems they are conversant with.

Despite Ethiopian efforts to diversify foreign direct investment inflows, China remains a key economic partner. China has invested \$5.8 billion in Ethiopia since 1999.¹² Trade between the two countries increased 55% to \$3.4 billion in 2014.¹³ Investment and trade have further accelerated since Chinese

⁵ Source, journalist, Addis Ababa

⁶ Source, journalist, Addis Ababa

⁷ Addis Fortune, 31 Aug 2015.

⁸ Ethiopian government statement, 5 Sep 2015.

⁹ Ethiopian government statement, 5 Sep 2015.

¹⁰ Ethiopian government statement, 5 Sep 2015.

¹¹ Source, business consultant, East Africa

¹² Source, journalist, Addis Ababa

¹³ Xinhua, 4 Sept 2015.

premier **Li Keqiang** (2013- present) led a commercial delegation to Addis Ababa in May 2014 (see *ARC Briefing Ethiopia May 2014*).¹⁴ CDB president **Zheng Zhijie** said at the conference that the bank would prioritise the financing of Chinese investment in the steel, cement and shipbuilding, coffee, renewable energy, and oil and gas sectors.¹⁵

Chinese investment is key to Ethiopia's twin economic priorities of infrastructure and manufacturing development. In the infrastructure sector, the **Export Import Bank of China (China Exim)** has supplied loans for the Ethiopia-Djibouti Railway as part of a 2013 \$3 billion finance package.¹⁶ The **Industrial and Commercial Bank of China** provided \$500m to the **Gibe III** hydroelectric project, and China Exim \$1 billion for the **Grand Ethiopian Renaissance Dam** transmission lines. There is concern about the level of skill sharing and technology transfers between Chinese engineering companies and their Ethiopian counterparts in these infrastructure projects.

*"There is little effort to build bridges. There is certainly no effort to speak the language. At the airport, you see groups of Chinese engineers silently hand over to Ethiopian visa officials on which they have all their employment and company details printed. Once approved, they all go through the airport together. The entire process involves no meaningful interaction with Ethiopians. This is symptomatic of the experience of China in Ethiopia."*¹⁷

Chinese, as well as **Taiwanese**, manufacturing companies have in 2015 accelerated the development of large production plants. Chinese companies are developing special economic zones in **Kombolcha**, **Hawassa**, **Dire Dawa**, and Addis Ababa. These zones are central to the government's \$10 billion plans to develop industrial plants and low-cost manufacturing parks.¹⁸ Additional Chinese investment in light manufacturing and production distribution is expected. Hailemariam highlighted Ethiopia's macroeconomic stability and intolerance of corruption as making the country particularly favourable for Chinese investment. Chinese manufacturers in Ethiopia, while welcoming its cheap labour and electricity, share the same complaints as all international investors, notably high transportation and logistics costs.¹⁹

There is criticism of labour practices at Chinese owned manufacturing plants.

*"I visited a Chinese owned and run factory outside Addis Ababa. Each morning, the Ethiopian workers would gather outside the factory and stand at attention while patriotic Chinese music was piped through. There was also a system whereby each week the Chinese management would select one worker per team to report on which of his colleagues wasn't pulling their weight. This worker was then publicly berated in a weekly ceremony in front of all the workers. If the worker meant to report on his colleagues failed to do so, it was he that the management punished."*²⁰

Drought hits Ethiopia as aid agencies warn of funding shortfalls

Drought has resulted in food security concerns in eastern and southern Ethiopia.²¹ Agriculture minister **Mitiku Kasa** on 4 September criticised the lack of international response to increasing food insecurity.²² Since July, international non-governmental organisations (NGO) have warned that inadequate *belg* rains between February and May have resulted in water and pasture shortages, decreasing livestock production and productivity, and increasing food insecurity and rising

¹⁴ China Daily, 6 May 2014.

¹⁵ Ethiopian government statement, 5 Sep 2015.

¹⁶ www.china.aiddata.org

¹⁷ Source, oil sector executive, UK

¹⁸ Source, business consultant, Addis Ababa

¹⁹ Bloomberg, 22 Jul 2014.

²⁰ Source, journalist, Addis Ababa

²¹ The Reporter, 6 Sept 2015.

²² The Reporter, 6 Sept 2015.

malnutrition.²³ Poor *Diraac/Sugum* rains (July) and *Karan/Karma* rains (July to September) have exacerbated the situation.²⁴ The worst affected areas include **Afar Regional State** and **Sitti Zone** in the **Somali Regional State**.²⁵ Families are obtaining almost no food or income from their livestock, while the dry conditions are forcing up the price of cereals. Water resources are also low in the **Oromia, Tigray** and **Amhara Regional States**. The government extended a \$386m appeal to donors on 19 August.²⁶ It is estimated that 4.5m Ethiopians are in need of emergency food assistance, compared to 2.9m at the start of the year.²⁷

There is some credence to the government's claims of donor inaction.

*"United Nations (UN) humanitarian agencies are frankly broke, they've been running on empty for months. In East Africa, the UN has cut rations in Kenya's refugee camps, but funding shortfalls are affecting programmes globally. The number of high level emergencies is unprecedented, there are currently 12 severe humanitarian crises, the most severe category of emergency, of which Ethiopia isn't even one."*²⁸

The government response has taken the form of an emergency fund at federal, regional and zonal levels. It has also increased its purchases of food from both domestic and international markets.²⁹

Implications

Hailemariam emerges from the EPRDF congress in a strengthened position. While Hailemariam was expected to usher in a younger generation of EPRDF leaders, he turned instead to an older generation. This will boost his personal authority. Hailemariam is the first EPRDF chairman not to have fought in the armed fight against the Derg, but Hailemariam now has a cadre of supporters who were involved in the conflict. They are also entirely dependent on Hailemariam for their political return, suggesting their future loyalty. The TPLF will resist any attempts to curb its economic and political power, and there is a longer term risk that the EPRDF may fracture along ethnic lines.

The CDB loan agreements will increase Ethiopia's debt obligations to China. Ethiopia's limited hard currency earnings undermine its external debt servicing capacity. This is especially concerning as Ethiopia faces a period of debt redemptions between 2020 and 2027, to both development partners and private sector lenders alike that will leave it vulnerable to economic shocks.

Climate shocks are a frequent occurrence in Ethiopia. The drought is a reminder that malnutrition and stunting rates remain high in Ethiopia despite the country's economic growth. The start of the dry season in September and October will exacerbate the already dry conditions. The *El Niño* weather phenomenon is expected to increase rainfall between October and December, mitigating the impact of the drought. However, Ethiopia will require humanitarian assistance for the remainder of 2015 and into 2016. The dry conditions will increase the value of access to water and raise tensions amongst pastoralist communities, which will in turn increase banditry.

²³ OCHA humanitarian bulletin, 8 Jun 2015.

²⁴ OCHA humanitarian bulletin, 8 Jun 2015.

²⁵ OCHA humanitarian bulletin, 8 Jun 2015.

²⁶ The Reporter, 6 Sep 2015.

²⁷ OCHA humanitarian bulletin, 8 Jun 2015.

²⁸ Source, INGO official, East Africa

²⁹ The Reporter, 6 Sep 2015.

About Africa Risk Consulting:

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