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Anti-government protests in the Oromia and Amhara Regional States target international owned commercial farms and disrupt business activity. Domestic companies face commercial pressures as ethnic groups boycott companies based in rival states. The parliamentary finance committee proposes a new procurement bill partially opening state-owned enterprise tenders in strategic sectors. The European Investment Bank (EIB) extends \$200m to develop two industrial parks that are expected to employ more than 30,000 refugees.

Oromia and Amhara protests disrupt business activity

Anti-government protests in the **Oromia** and **Amhara Regional States** are increasingly disrupting business activity. Protesters will continue to target large-scale international or **Tigrayan** owned commercial farms that they perceive as indicative of the government disregarding local communities.

“Angry protesters are now burning, looting and boycotting companies and businesses, both local and foreign, that they deem have links with the government.”¹

United States (US)-based flower grower and exporter **Esmeralda Farms Inc** withdrew from **Ethiopia** on 20 September after anti-government protesters attacked its farm.² Esmeralda claimed that the attack on its farm operations to the south of **Bahir Dar** city (Amhara) resulted in €10m (\$11.2m) worth of damage.³ Protesters set fire to the 160-acre farm’s facilities and damaged a borehole, making the farm commercially inoperable.⁴ The government has responded to the ongoing protests about the disproportionate Tigrayan influence within the ruling **Ethiopian People’s Revolutionary Democratic Front (EPRDF)** through additional military deployments to the region (see *ARC Briefing Ethiopia September 2016*). However, security forces reportedly failed to intervene to stop the protesters accessing Esmeralda’s farm. Esmeralda employed 550 Ethiopians growing flowers for export to the **European Union (EU)** and **Russia** via a **Netherlands**-based subsidiary.⁵ The protests, which occurred between 29 and 30 August, targeted nine foreign-owned commercial farms. Anti-government protesters attacked the farm of Netherlands-based **FloraHolland BV** near Bahir Dar.⁶ In a company statement dated 5 September, FloraHolland said it was undertaking an audit of the damage caused to nurseries, equipment and irrigation systems but that it does not expect any long-term disruption of the supply.

Attacks against international investors continue. Protesters on 3 October set fire to **Africa Juice** in **Adama**, capital of Oromia. Protesters also set fire to four heavy vehicles belonging to **Dangote Cement** on 4 October in **Mugher** near the location of the company’s primary factory.⁷ There is speculation that business rivals may be looking to take advantage of the violence for commercial gain.

*“There are worries that some business rivals of **Aliko Dangote** who has one of the biggest cement factories [see above] here might be trying to target him using the protests as an opportunity. Many foreign companies that are operating in Ethiopia or were planning to set foot*

¹ Source, journalist, Ethiopia

² AFP, 20 Sept 2016.

³ AFP, 20 Sept 2016.

⁴ AFP, 20 Sept 2016.

⁵ AFP, 20 Sept 2016.

⁶ Company statement, 5 Sept 2016.

⁷ Source, journalist, Ethiopia

here are now considering their next move in light of the protests and news of some others being targeted.”⁸

Political pressures are also proving detrimental to the commercial activities of domestic companies. Opposition parties and activists involved in the protests have encouraged their supporters to boycott businesses based in rival ethnic areas.⁹ Ethiopian-based alcohol brewer and distribution companies **Dashen Beer** and **Raya Beer** are indicative of the commercial pressure the protests are causing.

“Dashen Beer, which is located in the Amhara region, is not being sold anymore in Tigray region and this is already affecting its business. Same way, the new entrant Raya Beer (located in Tigray region) is not being transported to the Amhara region as part of the boycott.”¹⁰

The government has continued its heavy-handed response to the protests. On 2 October, at least 55 people died in a stampede at a religious festival in **Bishoftu** town sparked by security forces attempting to curb demonstrations.¹¹

“I myself was present during this horrible stampede and witnessed it. It does not look like soldiers were directly shooting at protesters but an ensuing stampede that was caused by tear gas and bullets seemed to have triggered it. The deaths, which were caused by a stampede after government forces fired tear gas and bullets to disperse angry protesters during the Irrecha celebration, have also sparked renewed protests in many towns across Oromia beginning Sunday evening [2 October]. The government said 55 have died but online activists and opposition groups based outside of Ethiopia provided a much higher figure.”¹²

Following the stampede, there are reports of protesters targeting hotels, government institutions, private and state-owned farms and factories in Oromia’s main towns including **Ambo**, **Guder**, and **Bule Hora**.¹³ Security forces have responded with increased deployments and road blocks. However, the deployment of additional security forces has not eased insecurity in Amhara. At least 700 prisoners escaped from the central prison in **Debra Tabor** in **Gondar Zone** on 30 August after protesters set fire to it.¹⁴ The government has detained suspected leaders of the anti-government protests in response. On 12 September, the opposition **Agaw Democratic Party** said that the government had held incommunicado leader **Andualem Tilahun** and senior party official **Beyilu Teshale** for several weeks.¹⁵ The **Agaw** ethnic group, concentrated in northern Amhara, has for the most part remained removed from the anti-government protests.

Parliamentary finance committee opens up tenders to competition

The parliamentary finance committee on 6 September proposed a new procurement bill partially opening state-owned enterprise tenders in strategic sectors.¹⁶ However, even if the procurement bill is enacted, international companies will still be at risk of losing out on the most commercially attractive tenders to EPRDF-owned endowment companies. The government plans to introduce the procurement bill imminently to the **House of Peoples' Representatives**, which resumed sitting in October.¹⁷ Government procurement in Ethiopia is particularly significant due to its state-led economic model. According to **Ethiopian Procurement and Property Administration Agency (EPPAA)** data, over 60% of government ministry, department and agency (MDA) and state-owned enterprise expenditure is channeled into procurement.¹⁸ Despite the majority of public procurement

⁸ Source, business consultant, Ethiopia

⁹ Source, journalist, Ethiopia

¹⁰ Source, journalist, Ethiopia

¹¹ Reuters, 2 Oct 2016.

¹² Source, journalist, Ethiopia

¹³ Source, journalist, Ethiopia

¹⁴ www.ecadforum.com

¹⁵ AFP, 12 Sept 2016.

¹⁶ Addis Fortune, 7 Sept 2016.

¹⁷ Addis Fortune, 7 Sept 2016.

¹⁸ www.ppa.gov.et

following competitive procedures, private sector participants have complained about the cancellation of government tenders, a perception of favouritism towards vendors that offer concessional financing, and a general lack of transparency in the procurement system.¹⁹

The proposed legislation gives greater authority to the EPPAA, which is an autonomous state agency accountable to the finance ministry. If the bill is passed, the EPPAA will regulate procurement for Ethiopia's five largest state-owned enterprises:²⁰ **Commercial Bank of Ethiopia, Ethiopian Airlines; Ethiopian Electric Power, Ethiopian Insurance Corp and Ethiopia Telecom.**

The procurement bill relaxes local preference requirements in sectors that the government considers strategic in order to increase the participation of foreign investors.²¹ Joint ventures between foreign and local companies will gain a 25% price advantage if they are able to prove that the joint venture provides a 20% greater value to the local partners compared to the current 35% threshold.²² The bill is part of broader reform of the procurement process, which started with the establishment of the EPPAA in 2005.²³ The reform also involved amendments in 2009 that improved information disclosure and bid requirements and strengthened the uniform application of standard bidding documents.²⁴ However, despite these reform initiatives, the government has resisted relaxing local preference requirements that favour local manufacturers and suppliers. The government has prioritised efforts to shore up foreign reserves due to low exports.²⁵ International financial institutions have previously complained that this discourages a genuinely competitive market and encourages monopoly practices and price fixing.²⁶ However, relaxing local preference requirements is contentious with local companies reportedly petitioning the office of prime minister **Hailemariam Desalegn** (2012- present) to block it.²⁷

The procurement bill additionally increases the price ceiling for tenders by an average of 200% across all sectors.²⁸

Sector	International bid (birr)		Restricted bid (birr)	
	Current	Proposed	Current	Proposed
Goods	50m (\$2.3m)	150m (\$6.8m)	2m (\$90,200)	6m (\$270,650)
Construction	10m (\$450,000)	50m (\$2.3m)	500,000 (\$22,600)	1.5m (\$68,000)
Consulting	2.5m (\$112,800)	7.5m (\$338,000)	300,000 (\$13,500)	900,000 (\$40,600)
General	7m (\$315,800)	21m (\$947,000)	400,000 (\$18,000)	1.2m (\$54,130)

This will allow greater flexibility for price inflation throughout the duration of a tender thereby reducing the risk of profit loss to contractors in larger-scale infrastructure projects.²⁹ Despite this,

¹⁹ www.state.gov

²⁰ Addis Fortune, 7 Sept 2016.

²¹ Addis Fortune, 7 Sept 2016.

²² Addis Fortune, 7 Sept 2016.

²³ www.constructiontransparency.org

²⁴ www.constructiontransparency.org

²⁵ Source, journalist, Addis Ababa

²⁶ World Bank, 24 Nov 2015.

²⁷ Source, lawyer, Addis Ababa

²⁸ Addis Fortune, 7 Sept 2016.

investors will still have concerns about the impact of foreign exchange controls throughout the investment cycle.

*“The problem is foreign debt financing. It is easy enough to register additional outside funds with the **National Bank of Ethiopia** (central bank). The difficulty comes when you need to repay debts and therefore need foreign currency. The NBE is especially uncomfortable if your profits are local currency.”³⁰*

European Investment Bank to provide \$200m for refugee programme

The **European Investment Bank (EIB)** said on 21 September that it will extend \$200m in concessional debt financing and grant support to Ethiopia to develop two industrial parks that are expected to employ more than 30,000 refugees.³¹ Ethiopia currently hosts 750,000 refugees and asylum seekers – the largest such population in **Africa** – many of whom use the country to attempt to reach the EU.³² The total cost of the two parks, associated infrastructure, training and housing is \$500m.³³ The **World Bank Group** and the **United Kingdom (UK)** have agreed to provide the remaining funding, with the EIB hoping that other EU governments will also extend financing.³⁴ The two parks will employ 100,000 people in total.³⁵ The EIB said the first completed park is located in **Hawassa (Southern Nations, Nationalities, and Peoples' Regional State)** and will employ 30,000 garment sector workers.³⁶ The EIB provided no information about the second park.

The project has the backing of the Ethiopian government and follows a meeting between EIB president **Werner Hoyer** and prime minister Hailemariam during the **United Nations Summit for Refugees and Migrants in New York (US)** on 19 September.³⁷ The project is linked to an Ethiopian government initiative to extend employment rights to refugees.³⁸ Currently refugees are not legally able to work outside the camps in which they reside.³⁹ As well as providing work permits to the refugees employed at the parks, the government will aid in the transition and relocation of the refugees.⁴⁰ The largest sources of refugees in Ethiopia are **South Sudan** (284,000), **Somalia** (250,000) and **Eritrea** (155,000).⁴¹

Implications

Violent protests in Amhara and Oromia will probably continue to target Tigrayan and international owned commercial projects. Commercial farms and industrial parks that involved the displacement of communities are most at risk. As well as those businesses directly targeted, protests will continue to disrupt business activities, especially the movement of people and cargo. Ethnic protests are likely to increase in frequency and scale as long as the EPRDF does not embark on meaningful internal reform to redistribute power more equally amongst its constituent members.

The EPRDF-dominance of parliament suggests the procurement bill should easily be passed, probably before the end of the year. Once enacted, it will further open up strategic sectors of the economy to international investors. However, they will struggle to win tenders against EPRDF-owned endowment companies – especially the TPLF-controlled **Endowment Fund for the Rehabilitation of Tigray**

²⁹ Addis Fortune, 7 Sept 2016.

³⁰ Source, lawyer, Addis Ababa

³¹ EIB press release, 21 Sept 2016.

³² Source, INGO official, East Africa

³³ EIB press release, 21 Sept 2016.

³⁴ EIB press release, 21 Sept 2016.

³⁵ Source, INGO official, East Africa

³⁶ EIB press release, 21 Sept 2016.

³⁷ EIB press release, 21 Sept 2016.

³⁸ Source, INGO official, East Africa

³⁹ Source, INGO official, East Africa

⁴⁰ Source, INGO official, East Africa

⁴¹ Source, INGO official, East Africa

(EFFORT). Risks related to corruption or becoming entangled in internal EPRDF politics will remain high for international contractors.

The EIB financial backing for the industrial parks is indicative of the strategic role that Ethiopia finds itself in as the EU looks to curb refugee flows before they reach the **Mediterranean**. Awarding work permits to refugees may become a politically sensitive issue if local communities view it as a precursor to full residency rights.

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