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Prime minister Hailemariam Desalegn (2012- present) introduces a state of emergency to curb anti-government violence in Oromia and Amhara Regional States. The state of emergency improves security and increases stability. Hailemariam pledges to introduce political and electoral reform. Investors complain of the difficulty of operating under the state of emergency, and violence will damage investor sentiments towards Ethiopia. Fitch Ratings agency warns that any increase in anti-government protests may jeopardise Ethiopia's sovereign credit rating and external position.

Government enforces state of emergency

Prime minister **Hailemariam Desalegn** (2012- present) declared **Ethiopia's** first national state of emergency on 8 October.¹ Hailemariam cited the damage caused to infrastructure projects, state-owned businesses and government buildings, while also saying he acted due to threats to "citizens' safety".² Under the six-month state of emergency, the government can impose "far-reaching restrictions"³ on sharing information, proscribe assemblies and demonstrations without government permission, detain individuals without a court order, close down media houses, and ban the possession of arms.⁴ It also permits "rehabilitation", a euphemism for short-term detention often involving physical punishment.⁵ However, the state of emergency will not mitigate the long-term threat of violent anti-government protest in the **Oromia** and **Amhara Regional States**.

*"Many of these restrictions are country-wide and not limited to the two of Ethiopia's nine regions where most of the unrest took place."*⁶

The government on 16 October provided additional restrictions on both the political opposition and international diplomats.⁷ It is unclear how broadly the government defines "international diplomats", with one interpretation being that the regulations pertain to all foreigners in Ethiopia.⁸ The most recent restrictions additionally refer to a state of emergency committee to oversee its implementation. The membership of the committee is unclear but state media used images of Hailemariam, defence minister **Siraj Shereffa Fegessa** and attorney general **Getachew Ambaye**.⁹ The new articles include prohibitions on:¹⁰

- International diplomats travelling outside a 40km radius of **Addis Ababa**;
- Carrying weapons inside "red zones", which include all major roads leading to regional cities and borders, except to **Mekele** in **Tigray Regional State**, and all areas within 50km of Ethiopia's borders;
- Operations at both private and state-owned enterprises during a curfew between 18.00 and 06.00;

¹ EBC, 9 Oct 2016.

² EBC, 9 Oct 2016.

³ Source, journalist, Addis Ababa

⁴ EBC, 9 Oct 2016.

⁵ Source, journalist, Addis Ababa

⁶ Source, journalist, Addis Ababa

⁷ www.ethiopianpress.blogspot.com

⁸ www.ethiopianpress.blogspot.com

⁹ EBC, 16 Oct 2016.

¹⁰ www.ethsat.com

- Political parties, including the ruling **Ethiopian People's Revolutionary Democratic Front (EPRDF)**, from issuing inflammatory press releases;
- Watching or listening to diaspora-based Ethiopian media outlets including **Ethiopian Satellite Television**;
- Using social media to communicate with unspecified groups outside Ethiopia;
- Security forces seeking annual leave during the state of emergency;
- Shutting down businesses or rescinding services;
- Demonstrating within educational institutions;
- Religious leaders from discussing publically political issues.

The state of emergency has resulted in an increase in detention of suspected opposition activists and supporters. According to government figures released on 30 October, security forces have arrested and released at least 2,000 people since the beginning of the state of emergency.¹¹ The government did not provide details about detainees who remain in military camps.¹²

"A number of opposition party leaders are saying that their members are being arrested in broad daylight for no offenses and the state of emergency has become a way for security forces to take revenge against their members."¹³

It is unclear how effective the state of emergency will prove. While the government did not introduce a state of emergency following the disputed May 2005 elections, increased security deployments failed to prevent large protests in Addis Ababa. The immediate impact appears effective:

"The state of emergency seems to have succeeded in quelling the protests in many of parts of the restive Amhara and Oromia regional states. My sources in many areas across the country told me that life is returning to normal and businesses are opening up their doors."¹⁴

However, the state of emergency risks escalating tensions. It will likely include the deployment of additional **Ethiopian National Defense Force (ENDF)** forces to Oromia and Amhara. This may, however, exacerbate tensions as the **Tigray People's Liberation Front (TPLF)** dominates senior ranks within the military and other senior forces. It is notable that state media is emphasising the involvement of defence minister Siraj, a non-Tigrayan, and executive committee member of the **Southern Ethiopian People's Democratic Movement (SEPDM)** party.¹⁵ Regardless, a heavy-handed response with civilian casualties will increase the risk of additional protests. Amhara pastoralists have long-resisted government disarmament exercises, and are likely to respond with violence to ENDF attempts to seize weapons.

Hailemariam on 11 October also pledged to introduce political reforms prior to the next elections in 2020 to address longer-term political grievances.¹⁶ As a first step, Hailemariam is likely to reshuffle his cabinet.¹⁷ There is speculation that he may place non-EPRDF officials in charge of government ministries, departments and agencies.¹⁸ However, it is unlikely that any reforms will be significant or undermine the electoral dominance of EPRDF constituent members. The EPRDF is unlikely to meet long-standing opposition demands, including the release of political prisoners and return of political exiles, reform of the 2009 **Anti-Terrorism Proclamation**, and liberalisation of the state media. TPLF vice president and deputy prime minister **Debretsion Gebremichael** will frustrate any attempt to loosen the TPLF's control over EPRDF international decision making, or its dominant economic and security position.

¹¹ Source, journalist, Addis Ababa

¹² Source, journalist, Addis Ababa

¹³ Source, journalist, Addis Ababa

¹⁴ Source, journalist, Addis Ababa

¹⁵ Source, former army officer, outside Ethiopia

¹⁶ EBC, 11 Oct 2016.

¹⁷ Source, journalist, Addis Ababa

¹⁸ Source, journalist, Addis Ababa

State of emergency hinders investor operations and sentiment

The protests and the government's response will impact foreign investor operations. Hailemariam imposed the state of emergency after protesters continued to target internationally owned businesses in Oromia and Amhara (see *ARC Briefing Ethiopia October 2016*). The protesters are focusing on projects that have close links to the government, a prerequisite for the majority of significant investment projects in Ethiopia, or are linked to alleged land grabbing. There is increasing evidence that the protesters are adopting a coordinated approach when targeting commercial sites.¹⁹ In October,

- **The Netherlands-based FV SeleQt BV** reported the looting and destruction of its vegetable farm and warehouse in Oromia;
- The Netherlands-based **africaJUICE BV** reported the partial destruction of its factory in Oromia;
- **Turkey-based Saygin Dima Textile** reported that protesters burned down a third of its factory in Oromia and destroyed three vehicles;
- **Nigeria-based Dangote Cement** reported damage to its vehicles and machinery at its Oromia plant.
- Turkey-based **BMET Energy Telecom Industry and Trade LLC** reported damage to its Oromia factory.²⁰

In the immediate term, foreign investors are finding it harder to operate in Ethiopia.

*"We are definitely finding it harder to secure visas since the start of the month. Officials appear to be deliberately stalling the process. It hasn't affected travellers who already secured authorisation to get a visa prior to the state of the emergency, only those who were yet to start the process."*²¹

Mobile internet services remain blocked in Ethiopia under the state of emergency and this is expected to remain in place for several months.²² Visitors in Ethiopia have reported unproven suspicions that state agencies are monitoring their telecommunications, and adopted simple telephone codes to circumvent it.²³

There are also reports of government security forces limiting movement outside Addis Ababa.²⁴ Despite western investor concerns about the violence, many are sticking with pre-existing travel plans to Addis Ababa. The concentration of government security forces at key installations in the capital mitigates the risk of violent significant protests targeting government buildings or foreign-owned commercial projects.²⁵

*"I don't think the risk profile of Addis Ababa will change dramatically in the next four weeks or so. We are limiting colleagues to Addis Ababa but aren't introducing new security protocols within the city boundaries. At the moment, common sense alone should prove sufficient."*²⁶

Despite the death of a **United States (US)** national on 4 October, there is no evidence that protesters are specifically targeting foreigners.²⁷ **University of California (US)** postgraduate researcher **Sharon**

¹⁹ Financial Times, 6 Oct 2016.

²⁰ Reuters, 12 Oct 2016.

²¹ Source, security consultant, UK

²² Source, journalist, Addis Ababa

²³ Source, senior development official, Ethiopia

²⁴ Source, senior African Development Bank official, Africa

²⁵ Source, security consultant, East Africa

²⁶ Source, security consultant, UK

²⁷ Reuters, 4 Oct 2016.

Gray was killed on the outskirts of Addis Ababa by protesters throwing stones at her vehicle and other vehicles.²⁸

EPRDF concessions to the protesters may also impact doing business in Ethiopia. If the EPRDF is unwilling to embark on political reforms, it may prove more willing to revise business regulations to address popular grievances over international investment. This could include long-overdue reform of land ownership and administration to reduce perceptions about land grabbing. Other possible business reforms including labour laws to encourage local employment, or more stringent environmental regulations to mitigate the impact of large-scale intensive commercial farms.

The background of international companies is likely to influence whether or not the protests, the state of emergency and possible regulatory reform have impacted their longer-term sentiments towards Ethiopia. Western investors are reportedly deeply concerned about the political risk implications for the violence, with some reconsidering the timing and location of investments.²⁹

*"It's no exaggeration to say that everyone is panicking."*³⁰

Chinese investors, on the other hand, are more *"sanguine... they view these matters as cyclical and just a matter of time and patience."*³¹

Fitch warns of economic impact of protests

Ratings agency **Fitch Ratings** warned on 24 October that, should the state of emergency prove ineffective in reducing tensions, an increase in anti-government protests may jeopardise Ethiopia's sovereign credit rating and external position.³² Fitch warned that foreign direct investment (FDI) might decrease due to increased political risk, undermining the government's investment strategy, and increasing Ethiopia's reliance on external debt to finance the current account deficit.

Fitch, however, noted that the economy has proved increasingly resilient to shocks, including the 2015 drought. Fitch warned that donors' focus on poverty reduction, migration and regional security decrease the risk that donors will withhold support.³³ Nevertheless, Fitch warned about possible disruption to infrastructure projects. The government has in recent weeks increased its rhetoric blaming external actors including **Egypt** and **Eritrea** for instigating the violence. There is concern that this might undermine the compromise and cooperation with Egypt over the **Grand Ethiopian Renaissance Dam (GERD)**.

*"So far, the government hasn't openly accused Egyptian leaders of interfering in local affairs, but has hinted that 'some elements' within the Egyptian administration are supporting Ethiopian rebel groups."*³⁴

Fitch, however, said it has factored Ethiopia's weak governance indicators into its B/stable sovereign rating.³⁵ Fitch most recently updated Ethiopia's long-term foreign and local currency issuer default ratings on 8 October. Fitch forecasts growth of 6.5% in 2016, and 8% in 2017.³⁶ According to Fitch, Ethiopia's primary growth constraints are a structural shortage of foreign exchange and a narrow export base. Fitch said the budget deficit stands at 2.7% of gross domestic product (GDP) and government debt stable at a moderate 26.3% of GDP.³⁷ Fitch, however, warned that state-owned

²⁸ Reuters, 4 Oct 2016.

²⁹ Source, business consultant, Ethiopia

³⁰ Source, development finance institute executive, Ethiopia

³¹ Source, business consultant, Addis Ababa

³² Reuters, 24 Oct 2016.

³³ Reuters, 24 Oct 2016.

³⁴ Source, journalist, Addis Ababa

³⁵ Reuters, 24 Oct 2016.

³⁶ Reuters, 24 Oct 2016.

³⁷ Reuters, 24 Oct 2016.

enterprise debt stands at 25.6% of GDP, much of which is non-concessional.³⁸ Consolidated debt therefore stands at 52% of GDP.

Implications

The state of emergency is likely to increase short-term tensions in Ethiopia and do little to address long-standing opposition grievances. Nevertheless, the EPRDF administration, though its authority is shaken, is not under immediate threat. There is still no indication that the Oromo and Amhara protesters have developed into a coordinated movement with specific political ambitions. The government also retains total control of the security forces. The government will therefore probably only offer limited concessions, with Hailemariam lacking the political will or authority to significantly challenge the privileged position of the Tigrayans.

The protests will have a short-term economic impact. Increased political risk will result in lower FDI, which will jeopardise Ethiopia's growth rate and external position. Government human rights abuses under the state of emergency may lead to donors suspending aid, though Ethiopia's location on migration routes to **Europe** mitigate the risk of this. Increased security on major roads will create bottlenecks and slow progress on major infrastructure projects.

The longer-term picture is more positive. Fitch praises Ethiopia's improved effective policy responses to challenges. A resumption in investor confidence due to continued growth and Ethiopia's market potential will result in stronger private investment and improved competitiveness.

³⁸ Reuters, 24 Oct 2016.

About Africa Risk Consulting:

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