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The ruling Ethiopian People's Revolutionary Democratic Front (EPRDF) launches an anti-corruption drive in response to violent Oromia Regional State protests. Ethiopian officials are increasingly willing to criticise the EPRDF's governance record. Geneva-based International Court of Arbitration (ICA) finds in favour of Ethiopia in a dispute following revocation of Hong Kong-based oil company PetroTrans Co Ltd.'s licence. United Nations (UN) World Food Programme (WFP) warns that over 10 million people in Ethiopia now require food aid.

EPRDF increases anti-corruption efforts

The ruling **Ethiopian People's Revolutionary Democratic Front (EPRDF)** has launched a crackdown on corruption and poor governance following the **Oromia Regional State** protests. The campaign highlights the extent to which the student protests raised concerns about stability amongst senior EPRDF officials.¹ The government is keen to put forward a narrative that corruption and poor governance triggered the Oromia violence, downplaying the possible role of long-standing ethnic tensions (see *ARC Briefing Ethiopia January 2016*).² State-owned and affiliated media are promoting this explanation and covering the arrest of large numbers of allegedly corrupt or incompetent government officials and employees of state-owned employees.

The corruption crackdown is part of a longer trend. The EPRDF first began to criticise its own track record of governance at the coalition's conference in **Mekelle** in the **Tigray Regional State** in September 2015. The criticism of the EPRDF's politically influential constituent member **Tigray People's Liberation Front (TPLF)** was "entirely unprecedented".³ Following his election as EPRDF chairman, prime minister **Hailemariam Desalegn** (2012- present) called on the EPRDF to improve its service delivery record and respond more effectively to the requirements of the **Ethiopian** public.⁴ Hailemariam said this required improved internal governance within the coalition, which he described as a "question of life or death".⁵ Hailemariam's comments set a precedent, which has encouraged more public criticism of the EPRDF.

*"After the ruling party broke the ice, many private individuals and officials alike are nowadays talking about EPRDF's failure to attain the desired level in responding to the woes of the public related to good governance and fighting against rent seeking attitudes and practices in the past years."*⁶

A government anti-corruption paper in January criticised the EPRDF's previous strategy of simply reappointing suspected corrupt officials to new positions in different parts of the country.⁷ The paper linked the failure to hold government officials to account to wider governance problems and increased popular frustrations.

¹ Source, journalist, Addis Ababa

² Source, journalist, Addis Ababa

³ Source, journalist, Addis Ababa

⁴ Source, journalist, Addis Ababa

⁵ Addis Fortune, 23 Sept 2015.

⁶ Source, journalist, Addis Ababa

⁷ Source, journalist, Addis Ababa

“It seems that dissatisfaction with corruption, maladministration and inadequate consultations on investments are fueling dissent. This patchwork of grievances presents a fundamental challenge to the government that is aiming to rapidly transform Ethiopia from an agrarian society to an industrial powerhouse. And the discontent is a national issue.”⁸

It seems this is why the EPRDF wants to publicly acknowledge corruption as a problem and begin measures to mitigate it. Since January the **Federal Ethics and Anti-Corruption Commission (FEACC)** and **Ethiopian Revenues and Customs Authority (ERCA)** have increased their investigations into both private companies and state-owned enterprises.⁹ Corruption is rife in land administration, public procurement, the justice system and the tax office, and these are the focus of the recent investigations. In January, **Amhara Regional State** officials arrested at least 102 state employees.¹⁰ In the **South Nations, Nationalities and Peoples’ Regional State**, 150 state employees face charges.¹¹ The ERCA has publicly said it has charged 52 people with corruption since December 2015.¹²

“Though the EPRDF has publicly acknowledged the rent seeking is a ‘decaying threat’ to the party system, it has long been silent about measures. It seems it has now started taking strong actions against low level government officials but it remains to be seen when it will begin clamping down against its top level leadership and ministers.”¹³

The last serious anti-corruption investigation was the politically motivated FEACC investigation that resulted in the dismissal of ERCA director general **Melaku Fenta** in May 2013 (see *ARC Briefing Ethiopia May 2013*) and damaged the ERCA’s credibility.

Transparency International released its global **Corruption Perceptions Index (CPI)** in January showing the persistence of corruption in both Ethiopia and the **East Africa** region.¹⁴ This leading international corruption study measures perceived levels of public sector corruption and ranks countries based on a ‘corruption perception’ scale ranging from 0 (highly corrupt) to 100 (very clean).¹⁵ ‘Perception of corruption’ is important as it identifies a general culture of distrust under which the practice of corruption flourishes.¹⁶

	2015	2014	2013	2012
Ethiopia	33	33	33	33
Uganda	25	26	26	29
Kenya	25	25	27	27
Somalia	8	8	8	8
Djibouti	34	34	36	36

International arbitrators rule in Ethiopia’s favour in PetroTrans case

The Geneva-based **International Court of Arbitration (ICA)** of the **International Chamber of Commerce (ICC)** has found in favour of Ethiopia in its long running dispute with **Hong Kong**-based

⁸ Source, journalist, Addis Ababa

⁹ Source, journalist, Addis Ababa

¹⁰ Source, journalist, Addis Ababa

¹¹ Source, journalist, Addis Ababa

¹² Source, journalist, Addis Ababa

¹³ Source, journalist, Addis Ababa

¹⁴ Transparency International, Corruption Perceptions Index 2015

¹⁵ Transparency International, Corruption Perceptions Index 2015

¹⁶ Source, Transparency International officer, UK

oil company **PetroTrans Co Ltd**.¹⁷ The resolution will reduce legal uncertainty around the **Calub** and **Hilal** gas fields in the **Ogaden** basin. PetroTrans had sought \$1.4 billion in compensation from the Ethiopian government, or the reinstatement of cancelled petroleum exploration production and sharing (PEPS) contracts.¹⁸ PetroTrans, whose chairman is Hong Kong businessman **John Chin**, launched the international arbitration against Ethiopia in December 2012.

PetroTrans agreed the PEPS, which covered the Calub and Hilal gas fields and four other exploration agreements, in July 2011. The agreements in total covered permits 3-4, 11- 15, 12- 16 and 17-20.¹⁹ According to a government statement at the time, PetroTrans paid \$130m to secure the permits, and pledged to invest \$4 billion in the gas development project, including the construction of a liquefied natural gas (LNG) plant. The government, however, unilaterally revoked PetroTrans' PEPS in July 2012. The then mines minister **Sinknesh Ejigu** offered little explanation for the initial revocation, citing PetroTrans' failure to raise loans for Ethiopia.²⁰ PetroTrans has reportedly agreed to help Ethiopia secure \$3 billion loans guaranteed against the country's gas reserves.²¹ This, however, depended on PetroTrans proving the commercial viability of the gas reserves.²² While PetroTrans has signed an export agreement with **China**-based state-owned **China Petroleum & Chemical Corp (Sinopec)**, it appears the government was unable to reassure both companies about security in the **Ogaden**. The **Ogaden National Liberation Front (ONLF)** in 2007 killed nine Chinese employees of **Zhongyuian Petroleum Exploration Bureau** who were undertaking a seismic campaign on the same blocks for **Malaysian** state-owned enterprise **Petroliam Nasional Berhad (Petronas)**. Petronas sold the blocks to oil junior **SouthWest Energy**, whose owner is Ethiopian-**United States** national **Tewodros Ashenafi**, in September 2010 for an undisclosed sum. The government, however, did not approve the sale to SouthWest Energy as it wanted open bidding to secure a signature bonus, leading to the entrance of PetroTrans.²³

After revoking the PetroTrans PEPS, the government allocated all five blocks to **China**-based **GCL Poly Petroleum Investments (GCL)** in November 2013.²⁴ GCL in January 2014 signed a framework agreement with the **Djibouti Ports and Free Zones Authority** for the export of oil and gas through the **Port of Djibouti** through an 800km pipeline.²⁵ GCL will reportedly invest \$10 billion to produce 4 billion cubic meters of natural gas and export up to 3 million tonnes of LNG per annum.²⁶ GCL plans for commercial production of gas to begin in 2018.²⁷ The ICA ruling is in effect binding. After the three ICA judges (**Gabrielle Nater-Bass**, **Philippe Pinsolle** and **David Caron**) completed their arbitration, eight ICC magistrates examined their conclusions to ensure they are legally sound and in line with similar oil arbitration procedures. The two-step process significantly reduces the possibility of appeal.²⁸

Despite low international oil prices, oil companies continue to invest in low risk and low cost acreage in East Africa. In November 2015, **Canada**-based **Africa Oil Corp** entered a farmout agreement with **Denmark**-based **A.P. Moller-Maersk Group** subsidiary **Maersk Oil & Gas A/S** for oil fields in **Kenya** and **Ethiopia**.²⁹ In Ethiopia, Maersk acquired 50% of Africa Oil's interests in the **Rift Basin** and **South Omo** blocks.³⁰ Under the new ownership structure for Rift Basin, operator Africa Oil holds 25%,

¹⁷ Reporter, 24 Jan 2016.

¹⁸ Reporter, 24 Jan 2016.

¹⁹ www.gasandoil.com

²⁰ Strategic Studies Institute, Dec 2013.

²¹ Africa Intelligence, 24 Oct 2012.

²² Africa Intelligence, 24 Oct 2012.

²³ Strategic Studies Institute, Dec 2013.

²⁴ Reporter, 24 Jan 2016.

²⁵ www.centurionlawfirm.com

²⁶ www.centurionlawfirm.com

²⁷ www.centurionlawfirm.com

²⁸ Source, senior arbitrator, London

²⁹ Africa Oil statement, 9 Nov 2015.

³⁰ Africa Oil statement, 9 Nov 2015.

Maersk 25% and **Marathon Oil Corp** 25%.³¹ Under the new ownership structure for South Omo, Africa Oil holds 15%, Maersk 15% and operator **Tullow Oil Plc** 50%.³² Under the terms of the agreement, Maersk will pay Africa Oil \$350m for approximately 50% of past costs incurred.³³ Maersk will carry up to \$75m of development expenditure upon confirmation of resources, and \$15m of exploration expenditure.³⁴ Following the final investment decision, Maersk will carry up to \$405m of Africa Oil's working interest share of development expenditure. In November, Maersk Oil announced a third quarter profit of \$32m compared to \$222m during the same period in 2014 encouraging a conservative strategy, which the East Africa acquisition fits into.

Government and donors struggle to finance drought response

The **United Nations (UN) World Food Programme (WFP)** has warned that over 10 million people in Ethiopia now require food aid. The WFP statement indicates the scale of the ongoing drought, which humanitarian officials expect to worsen over the next couple of months.³⁵ Humanitarian requirements in Ethiopia have trebled in Ethiopia since early 2015, as severe drought has caused successive harvest failures and widespread livestock deaths. Acute malnutrition has increased sharply, and over one quarter of Ethiopia's districts are officially classified as facing a nutrition crisis. The 10 million is in addition to the 7.9 million that the government supports through its **Productive Safety Net Programme (PSNP)**, which the WFP implements. Deputy prime minister **Demeke Mekonnen** has warned that Ethiopia has less than half the \$1.4 billion it requires to ensure sufficient food.³⁶ The government had allocated \$272m additional spending in 2015, and an additional \$109m in 2016.³⁷ However, securing food from abroad will increase pressure on Ethiopia's already limited foreign reserves.

*"Governments are beginning to wake up, but can't solve this on their own. The problem for them is that donors are facing a multitude of competing demands for increasingly limited resources. Southern Africa is also on donors' agenda."*³⁸

International donors are notably struggling to secure funds for East Africa, with domestic political pressure ensuring they prioritise **Syria** and the resultant **Mediterranean** refugee crisis. The WFP – which is delivering food supplies through the **Port of Berbera** in **Somaliland** – has said that it has only received 26% of the funds required to sustain its operations in Ethiopia during the first half of 2016.³⁹ The WFP warned that, without additional funds, it will need to halt food distribution in April.⁴⁰ The **United States Agency for International Development (USAID)** has announced an additional \$97m in funding to humanitarian agencies including the WFP which will extend distributions until July.⁴¹

Implications

The EPRDF corruption crackdown will only have a meaningful deterrent effect if it results in the arrest and prosecution of senior officials. Curbing the overlap of political, military and business interests in the EPRDF leadership will not prove easy and will increase hostility to Hailemariam if not handled carefully. Politically motivated investigations will increase the risk of doing business with politically exposed individuals, as businessmen from the era of former late prime minister **Meles Zenawi** (1995-2012) continue to secure major contracts with the government and foreign investors

³¹ Africa Oil statement, 9 Nov 2015.

³² Africa Oil statement, 9 Nov 2015.

³³ Africa Oil statement, 9 Nov 2015.

³⁴ Africa Oil statement, 9 Nov 2015.

³⁵ Source, INGO official, East Africa

³⁶ Source, INGO official, East Africa

³⁷ www.Reliefweb

³⁸ Source, INGO official, East Africa

³⁹ www.Reliefweb

⁴⁰ www.Reliefweb

⁴¹ www.Reliefweb

alike. The focus on corruption and governance will distract the EPRDF from managing Ethiopia's ethnic divisions, which will become an increasing source of tension and social unrest.

The PetroTrans ruling will facilitate the development of the Calub and Hilal gas fields. Uncommercialised oil and gas discoveries and unexplored acreages mean that Ethiopia remains attractive to international oil and gas companies despite regulatory uncertainty and security risks in the Ogaden basin. Gas exports are likely to begin in 2018 – 2019, and will then provide a key source of foreign exchange earnings.

While donors are beginning to mobilise, the humanitarian crisis in Ethiopia is quickly becoming acute. Beyond the lives and livelihoods at risk, the drought is a reminder that Ethiopia remains susceptible to climate shocks, which may curb its economic growth and damage investor perceptions.

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