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The Ethiopian Federal Police Commission (EFPC) oversees an anti-corruption crackdown that results in the detention and dismissal of government officials. The arrests appear to be part of the government's more conciliatory response to the anti-government protests in Oromia and Amhara regional states. Opposition sources, however, allege that the government continues to detain opposition members. The government inaugurates the \$1.57 billion Gilgel Gibe III hydroelectric plant. The government appoints former education minister Shiferaw Shigute as chairman of the state-owned Development Bank of Ethiopia (DBE). The appointment follows cabinet affairs minister Alemayehu Tegen's report critical of its loan portfolio management.

Government detains officials in anti-corruption crackdown

The **Ethiopian Federal Police Commission (EFPC)** announced on 2 January that it has detained 130 people including senior and mid-tier government officials in an anti-corruption investigation.¹ Commander **Desta Asmelash**, executive adviser to the **Federal Police Commissioner**, has said the alleged corruption relates to public procurement, housing, land development, banking, commercial business activities and tax fraud.² The EFPC has frozen assets and seized properties, control of eight companies, and two factories.³ Government-affiliated media have reported the dismissal or arrest of officials in **Addis Ababa** and in the **Oromia** and **Amhara** regional states, the site of significant anti-government protests during 2016 (see *ARC Briefing Ethiopia November 2016*). Sources estimate that, overall, the government has dismissed more than 1,000 officials in the Amhara and Oromia.⁴ In Addis Ababa, the dismissed officials were mainly from the land administration and immigration departments, and local councils.

The arrests are part of the government's broader **Grassroots Reform** initiative. In response to a question by an **ARC Briefing** researcher, prime minister **Hailemariam Desalegn** (2012-present) said the initiative aims to improve governance standards within the ruling **Ethiopian People's Revolutionary Democratic Front (EPRDF)**,

"We will strengthen the measures that we have been taking against leaders who are involved in corruption and rent seeking practices. Using the inputs gained from the reform programme conducted so far, arrests were made on suspicion of corruption and rent seeking."⁵

Hailemariam confirmed that the government has established a specific bureau under the EFPC that will lead the investigation.

"[The] investigation bureau has been established... to fight against corruption and to hold accountable those involved in corruption and rent seeking. The bureau will also be tasked to make public the wealth of government officials."⁶

¹ Governance, Risk & Compliance Monitor Worldwide, 2 Jan 2017.

² Governance, Risk & Compliance Monitor Worldwide, 2 Jan 2017.

³ Governance, Risk & Compliance Monitor Worldwide, 2 Jan 2017.

⁴ Source, journalist, Addis Ababa

⁵ Source, investigator, Addis Ababa

⁶ Source, investigator, Addis Ababa

Hailemariam additionally confirmed the establishment of the so-called **Democratic Center** for whistleblowers or members of the public to record complaints against corrupt officials.

“A tough investigation will be held of leaders who were singled out as corrupt by the public and the government will take the necessary measures if it is supported with evidence.”⁷

Hailemariam provided no practical details about the staffing or mechanics of the Democratic Center.

There is suspicion that the government hopes the arrests will curb opposition grievances in the Amhara and Oromia, rather than lead to long-term structural improvements in governance. Hailemariam, unlike other senior EPRDF officials, has proved willing to criticise EPRDF failings for the anti-government protests.

“The government often says it is cleansing itself through these reforms while others see it as means of appeasing the general public after violent protests.”⁸

Observers note the arrests coincide with the government adopting a more conciliatory stance over the protests. On 4 January, the government announced the release of over 10,000 detainees in Oromia, *“an unprecedented move in Ethiopian politics”*.⁹ The government in December announced that it would invest 10 billion birr (\$444m) to increase youth employment nationally as part of its proposed **Ethiopian Youth Development Strategy**.¹⁰ These developments followed the major cabinet reshuffle in November (see ARC Briefing Ethiopia December 2016).

The government, however, continues to detain people under the ongoing state of emergency that started in October. This raises questions about the viability of the government’s conciliatory stance. Independent sources estimate that approximately 22,000 people have been arrested under the state of emergency.¹¹ These include senior opposition leaders, suspected opposition supporters, and critical journalists. According to a senior leader of the opposition **Oromo Federalist Congress (OFC)**,

“People are being detained en masse across Oromia. The arrests have become so severe that prison facilities are now at full capacity so people are being held at private residences and government facilities.”¹²

The OFC leader estimates that government forces have detained between 60,000 and 70,000 people in the Oromia in recent months.¹³ The OFC leader noted that the government has closed almost all the OFC offices in the Oromia, making it difficult to keep track of arrests.¹⁴

It is possible that Hailemariam is using the emphasis on good governance as a platform to eventually move to curb the power of the politically and economically influential **Tigray People's Liberation Front (TPLF)** which dominates the EPRDF. However, by blaming the EPRDF for the failure to improve governance standards and end corruption, Hailemariam may face the blame should he fail to deliver on his promises.

Government inaugurates Gibe III dam

The government on 16 December inaugurated the €1.5 billion (\$1.57 billion) **Gilgel Gibe III** hydroelectric plant.¹⁵ Hydroelectric megaprojects will drive growth in electricity generation and capacity in the medium term. When it comes fully online, the Gilgel Gibe III hydroelectric plant on the **Omo River** will have a capacity of 1,870 megawatts (MW), approximately doubling **Ethiopia’s** total

⁷ Source, investigator, Addis Ababa

⁸ Source, journalist, Addis Ababa

⁹ Source, journalist, Addis Ababa

¹⁰ Addis Fortune, 20 Dec 2016.

¹¹ Source, journalist, Addis Ababa

¹² Source, senior OFC leader, Oromia

¹³ Source, senior OFC leader, Oromia

¹⁴ Source, senior OFC leader, Oromia

¹⁵ Addis Fortune, 20 Dec 2016.

electricity output to 4,238MW.¹⁶ Under the second **Growth and Transformation Plan 2015 – 2020 (GTP II)**, the government wants to increase output to 17,346 MW.¹⁷ A 400 kilovolt (KV) line will transmit the Gibe III power to the **Kaliti** power plant on the outskirts of Addis Ababa.¹⁸

Development of the Gibe III hydroelectric plant was contentious. In 2006, the state-owned **Ethiopian Electric Power Corp (EEPCo)** contracted **Italy**-based construction company **Salini Impregilo SpA** to build the hydroelectric plant in a closed tender.¹⁹ EEPCo additionally contracted Salini to undertake all related feasibility studies, designs and documentation, raising questions about third-party supervision over the development of the project.²⁰ The **African Development Bank (AfDB)** eventually oversaw an independent environmental and social impact assessment.²¹ Salini additionally holds the contract to develop **Gibe I** (184 MW) and **Gibe II** (420 MW) and the **Grand Ethiopian Renaissance Dam (GERD)**. This is despite a series of previous disputes between the company and the Ethiopian government. In 2001, the government referred a contract dispute with Salini over a raw water sewage reservoir to the **International Court of Arbitration in Paris (France)**.²² In January 2010, half of a 25-kilometre Salini-constructed tunnel part of Gibe II collapsed.²³ There is speculation that human rights (see below) and financing concerns deterred other investors, meaning that the government had little option but to persist with Salini.²⁴ The AfDB, **World Bank** and **European Investment Bank** all proved unwilling to either finance the development of Gilgel Gibe III or provide Salini with export guarantees.²⁵ In the end, a **China** state-owned **Industrial and Commercial Bank of China (ICBC)** loan covered 60% of the costs and the government the remaining 40%.²⁶ China-based **Dong Fang Electric Corp** installed the electronics.²⁷

The coming online of Gibe III will support state-backed agribusiness in the immediate vicinity of the dam between the **Wolaita** and **Dawero** zones in the **Southern Nations, Nationalities and Peoples Region (SNNPR)**. The Ethiopian government has designated several hundred thousand hectares of land for large-scale plantation based irrigated agriculture, primarily for the production of sugar cane.²⁸ The newly formed **Ethiopian Sugar Corporation** has been allocated 245,000 hectares.²⁹ Gibe III will additionally facilitate regional energy exports. The export of electricity to neighbouring countries is at the heart of Ethiopia's energy policy as the government regards electricity as a reliable source of hard currency. Gibe III is expected to earn the government over \$400m annually from exports.³⁰

The Gibe III hydroelectric plant will increase political risks in the SNNPR. The development of large-scale agribusinesses has allegedly involved the forced displacement of up to 1.5 million people currently living in the designated areas.³¹ There are concerns that half a million livelihoods could be threatened as water levels fall and fisheries are depleted.³² The importation of large numbers of plantation workers and the likely introduction of agrochemicals will exacerbate the situation.³³

¹⁶ Addis Fortune, 20 Dec 2016.

¹⁷ Reuters, 16 Dec 2016.

¹⁸ Addis Fortune, 20 Dec 2016.

¹⁹ Africa Confidential, 12 Dec 2013.

²⁰ Africa Confidential, 12 Dec 2013.

²¹ www.afdb.org

²² Africa Confidential, 12 Dec 2013.

²³ Africa Confidential, 12 Dec 2013.

²⁴ Source, investigator, Addis Ababa

²⁵ HRW, Jun 2006.

²⁶ Addis Fortune, 20 Dec 2016.

²⁷ Addis Fortune, 20 Dec 2016.

²⁸ Source, journalist, SNNPR

²⁹ Source, journalist, SNNPR

³⁰ Source, journalist, SNNPR

³¹ Source, journalist, Addis Ababa

³² Source, NGO official

³³ Source, journalist, SNNPR

Communities in Ethiopia's **Lower Omo Valley** and along **Lake Turkana** in **Kenya** will be particularly affected.³⁴ Displaced groups are liable to seek resources in neighbouring regions, including across the border in Kenya. Based on the recent history of conflict in the region, this is expected to trigger a cycle of raids and counter raids. Cattle raids typically get worse in times of drought.³⁵ The Gibe III dam and associated agro-industrial projects will increase water scarcity significantly.

There are also geological concerns. According to the **US Geological Survey**, the Gibe III is located near the **Main Ethiopian Rift (MER)**, which is the 'failed' northern arm of the **East African Rift (EAR)**, an active seismic area capable of producing large magnitude destructive earthquakes.³⁶ There is a 20% risk of earthquakes of 7 or 8 intensity occurring within the next 50 years in the MER.³⁷

Despite concerns about financing, human rights and geological risks, the government will view the inauguration of Gibe III as testament to the success of its state-led and financed infrastructure projects. The government's ambitious power export plans will ensure its continued commitment to power sector expansion.

Shiferaw becomes Development Bank of Ethiopia chairman

The **Financial Institutions Supervision Agency** on 27 December approved the appointment of **Shiferaw Shigute** as chairman of the state-owned **Development Bank of Ethiopia (DBE)**.³⁸ Senior DBE appointments are especially significant as the DBE finances state-led long-term infrastructure projects.³⁹ The DBE extends short, medium and long-term loans for viable development projects, including industrial and agricultural projects, as well as offering commercial and retail banking services. The appointment of Shiferaw is part of a broader reshuffle of the DBE management following alleged mismanagement of 3.3 billion birr (\$146.6m) loans to commercial farms.⁴⁰ Cabinet affairs minister **Alemayehu Tegenu** in December presented criticism of DBE's loan portfolio management to the prime minister's office.⁴¹ The Alemayehu report claims that loan recipient misused loans for investments unrelated to commercial agriculture, or took out multiple loans secured against a single piece of land.⁴² In the **Tigray Regional State**, the report claims that investors under a \$50m DBE-backed scheme had only developed 15% of the agricultural land the projected targeted.⁴³ Government investigators could only trace half the agricultural equipment imported duty free under the scheme.⁴⁴

The DBE additionally has a high proportion of non-performing loans: reportedly over 50% of the 11.8 billion (\$524m) birr in loans and advances extended in 2015/2016 are non-performing.⁴⁵

Shiferaw is a member of the EPRDF executive committee.⁴⁶ He was education minister until his dismissal following an EPRDF council meeting in September 2016 amid criticism of his ministry's failure to curb corruption in academic exams.⁴⁷ Shiferaw is the deputy chairman of Hailemariam's **Southern Ethiopian People's Democratic Movement (SEPDM)**.⁴⁸ The SEPDM is largely united behind Hailemariam, but its unity is fragile and at times undermined by government appointments. Shiferaw is additionally a former president of the SNNPR.⁴⁹ Shiferaw is the former chairman of the

³⁴ Source, journalist, SNNPR

³⁵ Source, journalist, SNNPR

³⁶ US Geological Service

³⁷ US Geological Service

³⁸ Addis Fortune, 27 Dec 2016.

³⁹ Addis Fortune, 10 Nov 2013.

⁴⁰ Addis Fortune, 27 Dec 2016.

⁴¹ Addis Fortune, 27 Dec 2016.

⁴² Addis Fortune, 27 Dec 2016.

⁴³ www.ethsat.com

⁴⁴ www.ethsat.com

⁴⁵ Addis Fortune, 27 Dec 2016.

⁴⁶ Addis Fortune, 10 Nov 2013.

⁴⁷ www.ethiotime.com

⁴⁸ www.capitalethiopia.com

⁴⁹ www.capitalethiopia.com

now defunct **Construction and Business Bank of Ethiopia SC (CBB)**.⁵⁰ Former CBB president **Hayleyesus Bekele** is the new vice governor of DBE.⁵¹ Hayleyesus was formerly at the **Commercial Bank of Ethiopia (CBE)** until his resignation in September 2016. The DBE is also replacing board members **Redwan Hussien**, youth minister, and former petroleum minister **Tolosa Shagi**, who Hailemariam appointed as an ambassador in November.⁵²

The appointment of an SEPDM official at the DBE may suggest that Hailemariam wants to retain a greater degree of direct influence over the influential banks. The DBE is involved in the majority of significant industrial and agricultural projects in Ethiopia. Improvements in its corporate governance will reduce investor risks.

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⁵⁰ Addis Fortune, 10 Nov 2013.

⁵¹ Addis Fortune, 27 Dec 2016.

⁵² Ethiopian Herald, 19 Nov 2016.