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Violent clashes along the border of the Oromia and Somali Regional States result in thousands of deaths and displacements. The Oromia government blames the Somali government's Liyuu paramilitary, while the Somali government accuses its Oromia counterparts of links to the secessionist Oromo Liberation Front (OLF). State-owned Ethiopian Airlines Enterprise is in talks to acquire the management of Nigeria-based Arik Air Ltd. The current management of Arik Air files a lawsuit that threatens to disrupt the deal. The Federal Police Commission Crime Investigation Division arrests five executives of state-owned Ethiopian Shipping & Logistics Services Enterprise (ESLSE) as part of a broader corruption investigation.

Thousands displaced in Oromia/ Somali border clashes

Violent clashes along the border of the **Oromia** and **Somali Regional States** in late August and September have resulted in thousands of displacements and a significant number of deaths. The insecurity highlights the failure of the now-ended state of emergency to address **Ethiopia's** structural faultlines. Oromia Regional State president **Lemma Megersa** has said that the fighting has resulted in "brutal killings" and the displacement of 50,000 people.¹ In the most significant incidents, armed ethnic Somali killed tens of Oromo in Somali regional capital **Jijiga**,² while Oromo groups killed 50 Somali in the town of **Awaday** (Oromia).³ There are no independently verifiable figures for the number of deaths and displaced. The government has responded to the violence by deploying the **Ethiopian National Defence Force (ENDF)** to the region.⁴ Prime minister **Hailemariam Desalegn** (2012- present) also jointly met Lemma and Somali Regional State counterpart **Abdi Mohamud Omar** in **Addis Ababa** to discuss an end to the violence.⁵ State media reported on 21 September that Hailemariam had declared security was restored to the border region, but this again is not independently verifiable.⁶

Border disputes between the Oromia and Somali Regional States are a long-standing source of tension. Between 2003 and 2005, the federal government redrew the Oromia administrative borders. A 2004 border referendum was held to settle disputes between the Oromia and Somali regions over 12 woredas (districts). 80% of disputed communities opted to join the Oromia.⁷ The government created the district of **Qumbi** from the villages that chose to join the Oromia. However, the final demarcation process was repeatedly postponed, and there are persistent allegations of electoral fraud. The border issue is especially acute for groups with historically fluid identities including Oromo-Somali pastoralists such as the **Garre**, **Gabra** and **Guji**.⁸ Low-level clashes between armed pastoralists seeking access to grazing grounds and water supplies – whose importance the current drought has increased – are a regular occurrence.⁹ More significant clashes are less frequent, but led to the displacement of more than 80,000 people in 2004 and 2005. In March 2017, the Oromia

¹ AFP, 19 Sept 2017.

² Source, journalist, Addis Ababa

³ Shabelle Media, 17 Sept 2017.

⁴ Source, journalist, Addis Ababa

⁵ ENA, 16 Sept 2017.

⁶ ENA, 21 Sept 2017.

⁷ www.globalvoices.org

⁸ Source, journalist, Addis Ababa

⁹ Source, journalist, Addis Ababa

government reiterated that the result of the referendum was not subject to negotiation.¹⁰ The following month, Lemma and Abdi signed an agreement to end "*border hostilities*".¹¹ In August, the Oromia government clarified that the agreement would involve the transfer of 48 of the 68 contested towns and villages to Oromia.¹² However, the agreement appears to have failed to prevent an escalation in violence.

The exact trigger for the most recent violence is unclear. Observers have, in recent months, noted an increase in armed groups crossing the border from Somali to Oromia to conduct raids that have resulted in the death of civilians.¹³ Observers have claimed that the Somali government-controlled **Liyuu Special Police** paramilitary are responsible for the raids.¹⁴ The Liyuu was formed in 2008 to support government-backed efforts to combat the secessionist **Ogaden National Liberation Front (ONLF)** armed group which seeks the independence of the Somali Regional State, and was the recipient of ENDF intelligence and logistical support to carry out this mandate.¹⁵ However, the Liyuu has a controversial record and has allegedly engaged in systematic human rights abuses including the indiscriminate targeting of civilians during operations.¹⁶ The Liyuu has also allegedly acted as the private militia of Abdi, who previously led the paramilitary force.¹⁷ Abdi has previously told Somali elders that raids in Oromia are meant to reclaim territories lost during the 2004 referendum.¹⁸ While the Oromia government has sought to highlight the alleged role of the Liyuu in the violence, the Somali government has alleged that its Oromia counterparts have links to the secessionist **Oromo Liberation Front (OLF)** and blamed Oromia government spokesman **Addisu Arega Kitessa** of coordinating with activists in the diaspora to "*destabilise Ethiopia*".¹⁹ The ruling **Ethiopian People's Revolutionary Democratic Front (EPRDF)** has previously cracked down hard on opposition activities linked to the proscribed OLF, even when armed with little substantial evidence of OLF involvement. The most recent allegations of OLF involvement may be the Somali government looking to gain support within the EPRDF.

The current violence has national implications. There are popular, if entirely unfounded, rumours in Oromia that the **Tigrayan People's Liberation Front (TPLF)** is controlling the Liyuu through Abdi.²⁰ Protests against the alleged Liyuu violence have included anti-**Tigrayan** rhetoric.²¹ The disproportionate political and economic influence of the TPLF within the EPRDF was a key source of the anti-government protests in the region between November 2015 and October 2016. Under populist-nationalist Lemma, Oromia and his **Oromo Peoples' Democratic Organization (OPDO)** have become increasingly assertive (see *ARC Briefing Ethiopia July 2017*). The EPRDF may view the recent violence as the result of allowing an ethno-nationalist leader to gain too significant an influence. At the same time that Hailemariam declared the situation under control, federal affairs minister **Kebede Chane** defended Ethiopia's federalist structure, laying the blame instead with "*narrow nationalists*".²² Lemma is also reportedly facing an internal political challenge from **Abadula Gameda**, the former Oromia Regional State president and current federal parliamentary speaker.²³ Lemma appears to have moved to strengthen in position in recent weeks with a cabinet reshuffle

¹⁰ Addis Standard, 14 Sept 2017.

¹¹ Addis Standard, 14 Sept 2017.

¹² Addis Standard, 14 Sept 2017.

¹³ Addis Standard, 14 Sept 2017.

¹⁴ Addis Standard, 14 Sept 2017.

¹⁵ Source, political analyst, Addis Ababa

¹⁶ Source, political analyst, Addis Ababa

¹⁷ Source, political analyst, Addis Ababa

¹⁸ Source, journalist, Addis Ababa

¹⁹ Addis Standard, 14 Sept 2017.

²⁰ Addis Standard, 14 Sept 2017.

²¹ Addis Standard, 14 Sept 2017.

²² ENA, 21 Sept 2017.

²³ Africa Confidential, 22 Sept 2017.

including appointing **Abiy Ahmed** head of the OPDO secretariat, and appointing six officials, who reportedly share his nationalist stance, to the central committee.²⁴

The violence may also have international implications. An Oromia government spokesman in September shared a copy of a **Somalia National Army** identification card of an individual allegedly captured during one of the raids.²⁵ On 15 September, two Ethiopian nationals were killed during clashes between Oromia and Somalis in **Hargeisa** in autonomous **Somaliland (Somalia)** which shares a border with Ethiopia.²⁶ The Ethiopian government has also accused the Somaliland government of exacerbating tensions by expelling thousands of Oromos, without providing proof to substantiate the allegation.²⁷ There is also tension between Ethiopia and Somalia over how Somalia-based senior ONLF leader **Abdikarin Sheikh Muse** ended up in Ethiopian custody in early September. The ONLF has accused Somalia's security forces of kidnapping Abdikarin in **Galkayo** (Somalia) and forcibly extraditing him to Ethiopia, which would be a breach of the Somalia constitution which prevents the extradition of its citizens.²⁸ The Ethiopian foreign ministry has only said that Somalia "*played a facilitation role*"²⁹ in Abdikarin's detention in Ethiopia.

There are factors that raise the risk that the border clashes may escalate to a resumption of the Oromo anti-government protests. Notably, the anti-Tigrayan rhetoric and Lemma's nationalist stance may encourage anti-EPRDF protests. If so, government sites and foreign-owned businesses will again be at risk of attack. Even if the violence doesn't escalate, small-arms clashes and cattle raids are expected to continue.

Ethiopian Airlines to acquire management of Arik Air

Nigeria-based **Arik Air Ltd** filed a lawsuit against the government on 6 September that may hold up the acquisition of its management by state-owned **Ethiopian Airlines Enterprise**.³⁰ The acquisition of **West Africa's** largest airline by passenger numbers³¹ would provide Ethiopian Airlines with a regional platform to continue its ambitious expansion strategy. Arik Air had announced in October 2016 that it was looking to raise \$1 billion through a private share placement and a possible initial public offering (IPO) in 2017 to finance its own expansion plans.³² However, falling demand due to Nigeria's then currency crisis resulted in significant financial problems.³³ The state-owned **Asset Management Co of Nigeria (AMCON)** seized control of Arik Air in February after it failed to meet its financing obligations, defaulting on lease payments and insurance premiums.³⁴ At the time of its intervention, the AMCON described "*deep-rooted rot*"³⁵ at Arik Air, noting that only nine of its fleet of 30 aircraft were operational and, even then, the airline did not have the funds to procure sufficient aviation fuel.³⁶ The latest official figures from Ethiopian Airlines indicate that it operates more than 87 aircraft with another 50 in order, and generated total revenue of close to \$3 billion in 2017.³⁷

Ethiopian Airlines announced on 31 August that it was in negotiations with the AMCON to acquire Arik Air.³⁸ However, the AMCON subsequently denied that it was in discussions with Ethiopian

²⁴ Source, journalist, Addis Ababa

²⁵ Africa Confidential, 22 Sept 2017.

²⁶ Horseed Media, 15 Sept 2017.

²⁷ Bloomberg, 25 Sept 2017.

²⁸ AP, 1 Sept 2017.

²⁹ AP, 1 Sept 2017.

³⁰ Punch, 10 Sept 2017.

³¹ Reuters, 12 Feb 2017.

³² Reuters, 21 Oct 2016.

³³ Reuters, 21 Oct 2016.

³⁴ Punch, 10 Sept 2017.

³⁵ Punch, 10 Sept 2017.

³⁶ Punch, 10 Sept 2017.

³⁷ Source, journalist, Addis Ababa

³⁸ Daily Post, 5 Sept 2017.

Airlines or any other airline to take over Arik Air's management.³⁹ Executive-level sources within Ethiopian Airlines have confirmed that the airline is in talks over Arik Air, at the invitation of the Nigerian aviation ministry.

*"We are negotiating to take over the management of Arik Air as per a request made to us by the Nigerian aviation ministry. We are now working on the details. We definitely are willing and able to take over the management of Arik Air."*⁴⁰

Ethiopian Airline's successful management of **Malawian Airlines**, in which it holds a 49% stake, and **Togo-based ASKY Airlines**, in which it holds a 40% stake, facilitated the aviation ministry's request for talks.⁴¹

*"It is because we have a success story with Asky Airlines and Malawian Airlines, and our profile as the most profitable aviation group in the continent."*⁴²

This track record has encouraged other governments and operators to express an interest in partnering with Ethiopian Airlines. Operators based in **Uganda, Tanzania, Zambia, Zimbabwe Mozambique** and **Botswana** have all expressed an interest in working with Ethiopian Airlines.⁴³ Ethiopian Airlines is reportedly considering taking on management roles and stakes in at least half a dozen other airlines across Africa.⁴⁴

International air services represent only one pillar of Ethiopian Airlines' 15-year strategic plan **Vision 2025**. The plan calls for Ethiopian Airlines to develop business centres as a domestic and regional airline; an international passenger airline; domestic cargo; domestic maintenance, repair and overhaul (MRO); domestic aviation academy; in-flight catering services; and ground service.⁴⁵ Ethiopian Airlines is aware that its partnerships might stretch its resources and distract from its domestic interests, including the \$345m expansion of **Addis Ababa Bole International Airport**, due for completion in first quarter 2018. This has encouraged Ethiopian Airlines to carefully consider its new partnerships.

*"We have our own domestic business to conduct too. Having the right strategy, well-crafted corporate governance and a strong support from the host government are the main recipes for our major successes."*⁴⁶

Despite this careful approach to partnerships, Arik Air poses several hurdles for Ethiopian Airlines' takeover. The lawsuit against the Nigerian government aims to restrict it from conducting further negotiations with Ethiopian Airlines. Arik Air director **Chris Ndulue** noted in the company's deposition that there are two cases pending before the federal high court that Arik Air's management brought challenging AMCON's takeover.⁴⁷ Arik Air has a popular standing in Nigeria as the unofficial national air carrier and is therefore politically sensitive in a sector where appointments are often the result of political patronage.⁴⁸ Foreign exchange constrictions continue to result in commercial pressures in the Nigerian aviation sector.

The commercial performance of Ethiopian Airlines is important to the Ethiopian government as it is a high-profile success story of the government's state-led economic model. Ethiopian Airlines' rapid and sustained growth is especially impressive as the African aviation sector is characterised by low

³⁹ Daily Post, 5 Sept 2017.

⁴⁰ Source, Ethiopian Airlines executive, Addis Ababa

⁴¹ Source, journalist, Addis Ababa

⁴² Source, Ethiopian Airlines executive, Addis Ababa

⁴³ Source, journalist, Addis Ababa

⁴⁴ Source, journalist, Addis Ababa

⁴⁵ Source, journalist, Addis Ababa

⁴⁶ Source, Ethiopian Airlines executive, Addis Ababa

⁴⁷ Punch, 10 Sept 2017.

⁴⁸ Source, diplomat, Lagos.

profitability. Success in Nigeria would provide it with a transport hub from which to dominate West African routes.

Anti-corruption investigation expands to ESLSE

The **Federal Police Commission Crime Investigation Division** confirmed the arrest of five executives of state-owned **Ethiopian Shipping & Logistics Services Enterprise (ESLSE)** on suspected corruption charges on 1 September.⁴⁹ The arrests are potentially indicative of the poor corporate governance and management at ESLSE, which encouraged the government to begin its privatisation in December 2016. The arrested executives are the deputy CEO of shipping services, **Alemu Ambaye**, the deputy CEO for corporate services, **Sisay Abaferda**, the deputy CEO of port and terminal services, **Desalegn Gebrehiwot**, the director of planning and business development, **Siraj Abdullahi**, and the head of finance, **Samuel Melaku**.⁵⁰ The only deputy CEO not detained was **Mesfin Tefera**, who served as acting CEO between December 2016 and the appointment of **Roba Megersa** in May 2017.⁵¹ The **Federal Police Commission** has suggested that further arrests at the ESLSE are possible.⁵²

Management problems at the ESLSE are not new. In February 2015, an internal survey revealed that 56% of its customers were 'dissatisfied' and 19% 'very dissatisfied' with its service.⁵³ In December 2016, the government announced that it planned to liberalise the ESLSE and sell off a 40% stake to a private investor.⁵⁴ The **Privatization and Public Enterprises Supervising Authority** reportedly pre-selected seven maritime freight companies based in **China, Denmark and France**.⁵⁵ The government reportedly preferred **A.P. Moller-Maersk Group** and state-owned **China Merchants Group** subsidiary **China Merchants Holdings**.⁵⁶ Both shipping companies would offer strategic advantages to landlocked Ethiopia. Maersk has an agreement with the Somaliland government to operate a regular service to the **Port of Berbera**, where the Ethiopian government holds 19% of access and usage rights (see *ARC Briefing Ethiopia July 2017*).⁵⁷ On the other hand, China Merchants Holdings owns 23.5% of the **Port of Djibouti (Djibouti)** and two-thirds of the **Doraleh Container Terminal (Djibouti)**.⁵⁸ The ESLSE maintains a fleet of 11 ships, including two tankers, which transported 1.4 million tonnes of cargo in 2015/2016, mainly from **Asia** and the **Middle East**, generating 16.5 million birr (\$70.1m) in earnings.⁵⁹ However, like the majority of companies in Ethiopia, the ESLSE has struggled due to the continuing foreign exchange crunch. On 28 August, the **National Bank of Ethiopia (NBE)** (central bank) instructed private banks to sell sufficient foreign exchange to the ESLSE for it to clear \$15m debt to the Port of Djibouti.⁶⁰ The NBE gave banks only three days to comply with the order, which bankers described in the local media as "*unprecedented*".⁶¹

The ESLSE is central to government efforts to increase trade efficiency and foreign exchange. The arrests may facilitate a long-overdue improvement in its corporate governance and management. The current status of the privatisation process is unclear, and it is equally uncertain if the arrests will deter potential investors.

⁴⁹ Addis Fortune, 3 Sept 2017.

⁵⁰ Addis Fortune, 3 Sept 2017.

⁵¹ Addis Fortune, 3 Sept 2017.

⁵² Addis Fortune, 3 Sept 2017.

⁵³ Indian Ocean Newsletter, 23 Dec 2016.

⁵⁴ Indian Ocean Newsletter, 23 Dec 2016.

⁵⁵ Indian Ocean Newsletter, 23 Dec 2016.

⁵⁶ Indian Ocean Newsletter, 23 Dec 2016.

⁵⁷ Journal of Commerce, 15 May 2017

⁵⁸ Addis Fortune, 6 Dec 2016.

⁵⁹ Addis Fortune, 6 Dec 2016.

⁶⁰ Addis Fortune, 15 Sept 2017.

⁶¹ Addis Fortune, 15 Sept 2017.

Planner

Early 2018 **(Ethiopia)** *Horn Affairs*. **Ethiopian People's Revolutionary Democratic Front (EPRDF)** to hold congress;

2018 **(Ethiopia)** *Addis Fortune*. Local elections.

Dec 2017 **(Ethiopia)** *Egyptian Daily News*. **Grand Ethiopian Renaissance Dam (GERD)** to begin filling.

4-6 Oct 2017 **(Ethiopia)** *Press release*. **India** president **Shri Ram Nath Kovind** to hold official visit.

Chronology

1 Oct 2017 **(Ethiopia)** *East African*. **Kenya-based Safaricom Ltd** denies that it is planning to enter **Ethiopian** market through stake in state-owned **Ethio Telecom**;

1 Oct 2017 Bishoftu **(Ethiopia)** *AFP*. **Oromos** use **Irreecha** religious festival to criticise government;

26 Sept 2017 **(Ethiopia)** *FinancialWire*. The **International Monetary Fund (IMF)** publishes Article IV report highlighting strong economic resilience in 2016/2017 financial year;

25 Sept 2017 **Somaliland (Somalia)** *Bloomberg*. Government accuses Somaliland of displacing thousands of Oromos thereby exacerbating border tensions;

25 Sept 2017 **Somali (Ethiopia)** *Energy Monitor Worldwide*. Convoluted negotiations with **Djibouti** government reportedly delay construction of natural gas export pipeline;

25 Sept 2017 **Oromia (Ethiopia)** *FBC*. Regional president **Lemma Megersa** pardons 6,655 inmates;

22 Sept 2017 **(Ethiopia)** *Al Ahram*. The **Egyptian** foreign minister, **Sameh Shoukry**, says his government is concerned about the slow completion of **Grand Ethiopian Renaissance Dam** technical studies;

21 Sept 2017 **Oromia (Ethiopia)** *ENA*. Prime minister **Hailemariam Desalegn** (2012- present) says border between Oromia and **Somali Regional States** is now secure;

21 Sept 2017 **Addis Ababa (Ethiopia)** *ENA*. Political parties including ruling **Ethiopian People's Revolutionary Democratic Front (EPRDF)** convene to discuss reform of electoral system;

21 Sept 2017 **Addis Ababa (Ethiopia)** *Bloomberg*. **India-based Karuturi Global** demands compensation from government, accusing it of "unilaterally and illegally cancelling our investment and trade license.";

21 Sept 2017 **(Ethiopia)** *Press release*. **Human Rights Watch** accuses government of harassing and threatening Ethiopian nationals seeking asylum in other countries;

19 Sept 2017 **Oromia (Ethiopia)** *AFP*. **United States (US)** calls on government to investigate clashes along border of Oromia and Somali Regional States;

18 Sept 2017 **Afar (Ethiopia)** *ICIS Chemical News*. The government is looking to replace **Israel Chemicals Ltd (ICL)** as partner in **Danakhil** potash project even as arbitration continues;

17 Sept 2017 **Oromia (Ethiopia)** *AP*. Regional government says violence in **Somali Regional State** has displaced more than 55,000 ethnic **Oromos**;

16 Sept 2017 **Addis Ababa (Ethiopia)** *ENA*. **Oromia Regional State** president Lemma and **Somali Regional State** counterpart **Abdi Mohamud Omar** meet Hailemariam to discuss end to violence;

16 Sept 2017 **Addis Ababa (Ethiopia)** *Addis Fortune*. **Chinese** government extends \$500m concessional loan to **Ethiopian Electricity Utility** for rehabilitation of distribution lines, and new

distribution infrastructure for industrial parks;

15 Sept 2017 **Oromia (Ethiopia)** *ENA*. The government says security forces have detained 200 people linked to violence in Oromia and **Somali Regional States**;

15 Sept 2017 **Oromia (Ethiopia)** *AP*. Government deploys additional security forces to Oromia and **Somali Regional States**;

15 Sept 2017 **Somaliland (Somalia)** *Horseed Media*. Tension between Somalis and Oromos in Ethiopia spreads with killing of two Oromo in **Hargeisa**;

13 Sept 2017 **(Ethiopia)** *Financial Services Monitor Worldwide*. The **African Development Bank** praises Ethiopia's utilisation of funds and project management;

7 Sept 2017 **(Ethiopia)** *Xinhua*. Government data shows Ethiopia received \$3.8 billion foreign direct investment in 2016/2017 financial year, a 20% year-on-year increase;

4 Sept 2017 **(Ethiopia)** *Sub-Sahara Africa Today*. Official data shows inflation increased 10.4% year-on-year in August compared to 9.4% in July;

2 Sept 2017 **(Ethiopia)** *AP*. Government denies that **Somalia** security forces were involved in extradition of senior **Ogaden National Liberation Front (ONLF)** official **Abdikarin Sheikh Muse**;

1 Sept 2017 **(Ethiopia)** *Addis Fortune*. Ethiopia assumes the presidency of the **United Nations Security Council (UNSC)**.

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Africa Risk Consulting (ARC) is a pan-African consulting company that provides timely, relevant information and advice that enables its clients to take informed investment decisions and to safeguard their reputations.

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