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The House of Peoples' Representatives speaker, Abadula Gemed, and two senior officials to the prime minister, Hailemariam Desalegn (2012- present), resign amid tension within the ruling Ethiopian People's Revolutionary Democratic Front (EPRDF) ahead of its congress in early 2018. The National Bank of Ethiopia (NBE) (central bank) devalues the birr (ETB) 15%. The NBE accompanies the devaluation with an interest rate increase from 5% to 7%, to mitigate exacerbating existing inflationary pressures. The European Investment Bank (EIB) provides \$10m to the Mauritius-based, Ethiopia-focused \$100m private equity Cepheus Growth Capital Fund.

Series of resignations hits EPRDF

The **House of Peoples' Representatives** speaker, **Abadula Gemed**, unexpectedly resigned on 8 October.¹ The resignation is linked to the government's heavy-handed response to the **Oromia** and **Somali Regional State** violence in September (see *ARC Briefing Ethiopia October 2017*). The resignation highlights the increased failure of the ruling **Ethiopian People's Revolutionary Democratic Front (EPRDF)** coalition to internally manage tension among its constituent parties.² The resignation came the day before the House of Peoples' Representatives reconvened after its summer recess.³ There are three possible explanations for Abadula's resignation: the first is his criticism of the government's response to the Oromia violence.⁴ Abadula is a member of the **Oromo People's Democratic Organisation (OPDO)** central committee, having helped found the party.⁵ The second possible explanation is that factions within the EPRDF accused Abadula of responsibility for the recent resumption in violence in the region.⁶ The third possible explanation is the targeting of businessmen close to Abadula during the continuing anti-corruption crackdown (see *ARC Briefing Ethiopia October 2017*).⁷

Regardless of the exact cause – and it may be a combination of all three possible explanations – Abadula's resignation will harm the prime minister, **Hailemariam Desalegn** (2012- present).⁸

*"He is regarded as a strong ally of both Hailemariam and his late predecessor, Meles Zenawi (1995-2012); he was one of the few elites from the Oromo region and a trusted person."*⁹

Abadula is a prominent veteran politician, who was formally Oromia Regional State president and **Ethiopian National Defense Force (ENDF)** chief of staff.¹⁰ Abadula had been speaker since 2010.¹¹ Abadula has said he plans to remain as a member of parliament, but he may now take a political role within the Oromia Regional State government under its increasingly assertive president, **Lemna**

¹ Addis Standard, 7 Oct 2017.

² Source, analyst, Ethiopia

³ Addis Standard, 7 Oct 2017.

⁴ Source, analyst, Ethiopia

⁵ Addis Standard, 7 Oct 2017.

⁶ Source, journalist, Addis Ababa

⁷ Source, journalist, Addis Ababa

⁸ Source, analyst, Ethiopia

⁹ Source, journalist, Addis Ababa

¹⁰ www.nazret.com

¹¹ www.nazret.com

Megersa. Lemma is considered a possible challenger to Hailemariam, though is opposed by influential factions within the powerful **Tigrayan People's Liberation Front (TPLF)**.¹² The EPRDF is scheduled to hold its next congress in early 2018.¹³

There is further instability in the EPRDF as a number of officials around Hailemariam have resigned. The first was chief of protocol, **Baye Tadesse**, who entered self-imposed exile in the **United States (US)** on 3 October.¹⁴

*"Baye said he fears for his life after refusing many high-level officials to enter the palace and meet the premier in the past. People within the palace were quick to dismiss him as no more than a receptionist inside the Prime Minister's office, which they tried to corroborate with various photos of him serving Hailemariam."*¹⁵

Bereket Simon, head of Hailemariam's **Policy Studies and Research Center** but more closely associated with Meles, resigned on 17 October.¹⁶ Bereket had already resigned as chairman of the state-owned **Commercial Bank of Ethiopia** on 11 October.¹⁷ Bereket is a senior member of EPRDF constituent member **Amhara Peoples' National Movement (ANDM)**, and was a leading ideologue in both the ANDM and the EPRDF.¹⁸ According to sources within the EPRDF, Bereket had recently fallen out with both Hailemariam and the new generation of ANDM leaders.¹⁹

The government has continued its aggressive response to anti-government activities in the Oromia. Security forces allegedly killed four people in **Soda** town in **Dirre** (Oromia) on 12 October.²⁰ Reportedly, the security forces were transporting weapons to the controversial **Liyuu** paramilitary in the Somali Regional State (see *ARC Briefing Ethiopia October 2017*).²¹ Soda residents reportedly attempted to stop the eight trucks allegedly transporting the weapons, resulting in security forces opening fire.²² The previous day, security forces allegedly killed six people during protests in **Shashemene**, **Bookee** and other Oromia towns.²³ The funerals of the dead protesters turned into peaceful anti-government protests.²⁴ The US embassy had advised US citizens not to travel to Shashemene, which is an important business and transport hub in Oromia.²⁵ Anti-government protests continued between 15 and 22 October in the **Buno Bedele** area, with clashes between ethnic Oromos and Amharas, and protesters targeting state-affiliated and commercial vehicles and properties.²⁶ Local activists put the number of deaths at 20 and regional officials at 11, but it is impossible to independently verify this number. The clashes resulted in ethnic displacements:

*"I'm told at least 1,500 Amharas were displaced in the areas."*²⁷

Government forces killed at least 10 people when they opened fire on demonstrators in **Ambo** on 26 October.²⁸

¹² Africa Confidential, 20 Oct 2017.

¹³ www.hornaffairs.com

¹⁴ www.durame.com

¹⁵ Source, journalist, Addis Ababa

¹⁶ Awramba Times, 17 Oct 2017

¹⁷ www.2merkato.com

¹⁸ Addis Fortune, 18 Oct 2017.

¹⁹ Source, within EPRDF, Addis Ababa

²⁰ VOA, 13 Oct 2017.

²¹ VOA, 13 Oct 2017.

²² VOA, 13 Oct 2017.

²³ VOA, 13 Oct 2017.

²⁴ VOA, 13 Oct 2017.

²⁵ VOA, 13 Oct 2017.

²⁶ Addis Standard, 22 Oct 2017.

²⁷ Source, journalist, Addis Ababa

²⁸ Addis Standard, 26 Oct 2017.

The government has continued its persecution of Oromia opposition leaders. The long-running trial of **Oromo Federalist Congress (OFC)** chairman **Merera Gudina** resumed on 16 October after the high court's summer recess, with the court once again deferring his case, this time until November.²⁹ During the recess, the council of the **House of Federation** ruled that the prosecution does not have to provide Merera's defence with the identity of its witnesses.³⁰ The OFC first secretary general, **Bekele Gerba**, also remains on trial, though was awarded bail on 30 October.³¹

The government is actively considering re-implementing the state of emergency that it lifted in August, and may do so imminently. The resignation of Abadula and resumption of anti-government protests in Oromia suggests the EPRDF government has failed to internally manage ethnic tensions. This increases the risk that the government and protesters will become trapped in an action-reaction cycle prolonging the violence, and potentially spreading the violence to the neighbouring **Amhara Regional State**. The resumption of violence will undermine Hailemariam's authority ahead of the EPRDF congress in early 2018. It is unclear who, if anyone, in the EPRDF has the ambition and support to challenge Hailemariam.

NBE devalues currency 15%

Vice-governor and chief economist **Yohannes Ayalew** announced on 10 October that the **National Bank of Ethiopia (NBE)** (central bank) had devalued the birr (ETB) 15%.³² The devaluation is a response to inflationary pressures and a continuing foreign-exchange crunch. The NBE devalued the birr from 23.40 to 26.91 to the dollar effective from 11 October.³³ Pre-devaluation, the parallel rate was almost 29 ETB.³⁴ The NBE has operated a carefully managed floating exchange rate regime since 1992. Higher inflation in Ethiopia (see below) than the US meant that the birr was increasingly overvalued as a real effective exchange rate.³⁵ Ethiopia last devalued the birr in September 2010, when it decreased 16.7% against the dollar. Since then, the real effective exchange rate has appreciated in cumulative terms by 84%.³⁶

Investors and international financial institutions alike had long complained that the currency was overvalued and that devaluation was necessary.³⁷ However, the government resisted international pressure to do so. The **World Bank**, in July 2014, estimated that the currency was 31% overvalued, and advised the government that a more accurate real exchange rate valuation would increase export revenue.³⁸ However, the 2010 depreciation increased Ethiopia's high inflation rates due to the relative price of fuel and food.³⁹ This concern about the impact of devaluation on living costs deterred the government from following the World Bank's prescription.⁴⁰

The devaluation indicates that the government is looking to prioritise currency stability. The NBE accompanied the devaluation with an interest rate rise, from 5% to 7%, in an effort to mitigate exacerbating existing inflationary pressures.⁴¹ State media gave prominence to NBE statements that the devaluation would not result in additional inflation as the growth outlook remains positive.⁴² However, high inflation is a monetary concern as it means an overvalued economy. Inflation has been

²⁹ Addis Standard, 16 Oct 2017.

³⁰ Addis Standard, 16 Oct 2017.

³¹ ESAT, 2 Oct 2017.

³² FBC, 10 Oct 2017.

³³ FBC, 10 Oct 2017.

³⁴ Addis Fortune, 8 Oct 2017.

³⁵ Source, senior Ethiopian economist

³⁶ Addis Fortune, 8 Oct 2017.

³⁷ Source, senior Ethiopian economist

³⁸ World Bank Third Ethiopia Economic Update, 22 Jul 2014.

³⁹ Source, senior Ethiopian economist

⁴⁰ Source, senior Ethiopian economist

⁴¹ FBC, 10 Oct 2017.

⁴² FBC, 10 Oct 2017.

on an upward trend since October 2015 due to increased food costs (13.3% year-on-year in August⁴³) on the back of the failed rains in 2015.⁴⁴ The **Central Statistical Agency (CSA)** published data on 4 September showing that headline inflation had reached 10.4% year-on-year in August, the first time that inflation had reached double digits for 22 months.⁴⁵ The government's inflation target in the **Ethiopian Growth and Transformation Plan II (GTP II)** is 8%.⁴⁶ Even with the interest rate rise, the devaluation may increase inflationary pressures if importers pass the higher costs of importing more expensive consumer goods and food items.⁴⁷ The global and regional prices for these goods were already increasing.⁴⁸

The government is also anxious about depressed export earnings.⁴⁹ The government earned \$2.9 billion in export revenue in the 2017 financial year, compared to its target of \$4 billion.⁵⁰ The GTP II targets increased competitiveness in external markets. Regional states, including **Kenya** and **Uganda**, with free-floating exchange rates, have faced greater local currency depreciatory pressures than Ethiopia. The Kenyan shilling depreciated 10% against the dollar in 2014 and 2015, stabilised in 2016 due to an improved external deficit, and has face increased pressure due to political uncertainty around the 8 August general election and 26 October presidential election rerun.⁵¹ The Ugandan shilling depreciated sharply in 2014 and 2015 and, though moderating, continued to do so in 2016 and has accelerated due to uncertainty caused by President **Yoweri Museveni** (1986-present) looking to amend the constitution to extend his time in office.⁵² The regional depreciation, like the low inflation in the US, has also resulted in an appreciation of the birr's real effective exchange rate.⁵³ This exacerbates a longer-standing trend: the overvalued exchange rate is reducing Ethiopia's regional competitiveness, already undermined by its limited export promotion power, with regard to manufacturing and the price of horticultural and agricultural exports.⁵⁴ It will also increase its relative attractiveness to manufacturers looking for cheap inputs.⁵⁵

The government therefore hopes the devaluation will increase the foreign exchange supply. In addition, the devaluation – and related NBE regulations – will help the NBE build up foreign reserves that the depressed commodity price environment has depleted. The NBE, on 10 October, announced that it was introducing restrictions on both private and state-owned banks lending to non-export businesses.⁵⁶ The NBE will now limit outstanding loan growth rates to 16.5%.⁵⁷ This goes against the NBE's stated objective of increasing financial inclusion. The NBE regulations also mean the government will take the windfall profits that banks stand to gain from the devaluation. Following the 2010 devaluation, banks received 75% of the windfall. Now, banks will transfer the entire gain to the government in line with the 2010 amended income tax proclamation.⁵⁸ Under a third new regulation, the NBE will require banks to sell 30% of their hard currency reserves.⁵⁹ The NBE will pay for the hard currency in birr.⁶⁰ However, the NBE has reduced the amount of export earnings that exporters

⁴³ Addis Fortune, 9 Sept 2017.

⁴⁴ Source, senior humanitarian official, East Africa

⁴⁵ Addis Fortune, 9 Sept 2017.

⁴⁶ Addis Fortune, 8 Oct 2017.

⁴⁷ Source, senior Ethiopian economist

⁴⁸ Source, senior Ethiopian economist

⁴⁹ Source, analyst, Ethiopia

⁵⁰ Reuters, 10 Oct 2017.

⁵¹ www.cnbcfrica.com

⁵² Central Bank of Uganda data, Oct 2017.

⁵³ Source, senior Ethiopian economist

⁵⁴ Source, analyst, Ethiopia

⁵⁵ Source, analyst, Ethiopia

⁵⁶ Capital Ethiopia, 16 Oct 2017.

⁵⁷ Capital Ethiopia, 16 Oct 2017.

⁵⁸ Capital Ethiopia, 16 Oct 2017.

⁵⁹ Capital Ethiopia, 16 Oct 2017.

⁶⁰ Capital Ethiopia, 16 Oct 2017.

must transfer to it from 30% to 10%.⁶¹ The NBE has instructed exporters to invest the increased foreign exchange in business activities.⁶²

The devaluation brings the currency more in line with its real value. This will improve the short-term trade balance. However, sustainable export value and decreased dependence on imports will depend on a diversification of Ethiopia's export base. The NBE regulations on commercial banks will increase pressure on the availability of private sector credit.

EIB invests in Ethiopia private equity fund

The **European Investment Bank (EIB)** provided \$10m to the **Mauritius**-based Ethiopia-focused \$100m private equity **Cepheus Growth Capital Fund** on 14 October.⁶³ Ethiopia is an attractive destination for private equity investors due to the size of its market and relative lack of competition from other funds. The EIB vice-president, **Pim van Ballekom**, finalised the investment, originally announced in June, during a visit to **Addis Ababa**.⁶⁴ The investment fits into the EIB's objective of encouraging private sector activity in Ethiopia. However, the form of the financing is unprecedented for the EIB in Ethiopia, which has typically provided credit lines to back private sector investment.⁶⁵ The EIB is reportedly finalising investments in mobile banking, and considering future investments in off-grid solar investment and financing for renewable energy projects and industrial parks.⁶⁶

The fund is the first for Addis Ababa-based **Cepheus Growth Capital Partners**. Ethiopian nationals **Kassy Kebede** and **Berhane Demissie** founded Cepheus Growth Capital Partners in 2016.⁶⁷ Cepheus Growth Capital will initially focus on small and medium enterprises in the industrial, agricultural, and services sectors.⁶⁸ These tend not to be the priority sectors for international private equity funds. Ethiopia recorded 7% of private equity deals in East Africa between 2010 and 2015 and accounted for 13% of the total value of private equity deals in the region.⁶⁹

	Share of East Africa private equity deals 2010-2015 (%)	Share of value of East Africa private equity deals 2010-2015 (%)
Kenya	55%	66%
Ethiopia	7%	13%
Uganda	18%	10%
Rwanda	9%	6%
Tanzania	11%	5%

The majority of private equity interest is focused on the consumer market, as investors look to take advantage of Ethiopia's increasing urbanisation and emergent middle class.⁷⁰ Notable private equity investments include **Africa Juice (Agri-Vie, 2010)**, **Alemayehu Makonnen Farm (Pearl Capital Partners, 2012)**, **Awash Wine Share Co (8 Miles, 2013)**, **Dashen Breweries (Abraaj Group & Duet Group, 2012)**, **Medpharm Holdings (Ascent Capital, 2015)**, and **Yes Brand Food & Beverages (Catalyst Principal Partners, 2013)**.⁷¹

⁶¹ Addis Fortune, 8 Oct 2017.

⁶² Addis Fortune, 8 Oct 2017.

⁶³ Financial Services Monitor Worldwide, 14 Oct 2017.

⁶⁴ Financial Services Monitor Worldwide, 14 Oct 2017.

⁶⁵ Financial Services Monitor Worldwide, 14 Oct 2017.

⁶⁶ Financial Services Monitor Worldwide, 14 Oct 2017.

⁶⁷ Financial Services Monitor Worldwide, 14 Oct 2017.

⁶⁸ Financial Services Monitor Worldwide, 14 Oct 2017.

⁶⁹ www.avca-africa.org

⁷⁰ www.avca-africa.org

⁷¹ www.avca-africa.org

Ethiopia will remain attractive to private equity investors due to its rapidly growing population, subsidised power, stable government, development debt in local currency, and a dollar-pegged currency. However, concerns about the repatriation of profits will persist as long as the government diverts hard currency to state-led infrastructure projects.

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.

Chronology

30 Oct 2017 **Addis Ababa (Ethiopia)** *Addis Standard*. **Supreme Court** overturns **High Court** ruling and awards bail to **Oromo Federalist Congress (OFC)** first secretary general, **Bekele Gerba**;

24 Oct 2017 **Oromia (Ethiopia)** *Addis Standard*. Government forces open fire on protesters in **Ambo** and kill 10 people;

24 Oct 2017 **Oromia (Ethiopia)** *The Reporter*. **Habesha Cement** suspends production after protesters occupy its plant near **Holeta** in dispute over employment opportunities;

23 Oct 2017 **Oromia (Ethiopia)** *PV Magazine*. Italy-based **Enel** subsidiary **Enel Green Power** is preferred bidder for \$120m construction of 100MW solar plant in **Metehara**;

22 Oct 2017 **Oromia (Ethiopia)** *Addis Standard*. Up to 20 protesters die during week of anti-government protests;

18 Oct 2017 **Tigray (Ethiopia)** *Press release*. **Altus Strategies PLC** secures **Daro** gold and copper exploration licence;

17 Oct 2017 **Benishangul-Gumuz (Ethiopia)** *Egypt Independent*. Water minister **Sileshi Bekele** and **Egyptian** and **Sudanese** counterparts visit **Grand Ethiopian Renaissance Dam**;

14 Oct 2017 **Addis Ababa (Ethiopia)** *Financial Services Monitor Worldwide*. The **European Investment Bank** provides \$100m equity fund for Ethiopia-based investments;

13 Oct 2017 **Addis Ababa (Ethiopia)** *Press release*. AIM-listed leather producer **Pittards** says devaluation will cost it £1m (\$1.3m) in balance sheet adjustment;

13 Oct 2017 **(Ethiopia)** *ENA*. Ethiopia assumes chair of the **Nile Basin Initiative** from **Uganda**;

12 Oct 2017 **Oromia (Ethiopia)** *VOA*. Security forces kill four people in **Soda** during apparent operation to supply weapons to **Liyuu** paramilitaries;

11 Oct 2017 **Addis Ababa (Ethiopia)** *ENA*. The **National Bank of Ethiopia (NBE)** (central bank) applies new regulations to improve government access to hard currency;

11 Oct 2017 **Oromia (Ethiopia)** *AP*. Six people die during anti-government protests in **Shashamane** and **Boke**;

10 Oct 2017 **Addis Ababa (Ethiopia)** *FBC*. The NBE devalues the birr 15% and raises key interest rate from 5% to 7%;

10 Oct 2017 **Addis Ababa (Ethiopia)** *ANI*. The **Indian** government extends \$195m line of credit for power transmission;

9 Oct 2017 **Addis Ababa (Ethiopia)** *Energy Monitor Worldwide*. The state-owned **Ethiopian Electric**

Power utility launches tender for two solar photovoltaic plants with total 250MW output;

9 Oct 2017 **Addis Ababa (Ethiopia)** *ENA*. The government is targeting 11% growth in the current fiscal year;

9 Oct 2017 **Addis Ababa (Ethiopia)** *FBC*. The NBE will begin trading bonds on the secondary market in the next financial year;

8 Oct 2017 **Addis Ababa (Ethiopia)** *Addis Standard*. **Abadula Gemed**a resigns as **Ethiopian House of Peoples' Representatives** speaker;

4 Oct 2017 **Addis Ababa (Ethiopia)** *Africa News*. The **World Bank** signs two deals worth a total of \$1.3 billion to support access to government services and social welfare programmes;

2 Oct 2017 **Addis Ababa (Ethiopia)** *ENA*. The labour minister, **Abdulfetah Abdulahi**, launches the **National Employment Policy and Strategy**;

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