

## AFRICA RISK CONSULTING

### Ethiopia Monthly Briefing March 2017

#### Ethiopia Summary 1 March 2017

*President Mohamed Abdullahi Mohamed 'Farmaajo' (2017-present) defeats Ethiopia-backed incumbent president Hassan Sheikh Mohamud (2012-2017) in Somalia's presidential election. Ethiopia fears for its influence both under new president and after Somaliland agrees to a United Arab Emirates military base near Berbera Port. The house of people's representatives (parliament) establishes a \$500m Youth Revolving Fund to address youth unemployment, a grievance behind the anti-government protests in the Oromia and Amhara Regional States. The Ethiopian Investment Commission (EIC) publishes data showing that foreign direct investment (FDI) decreased 20% year-on-year to \$1.2 billion in the second half of 2016. However, the longer-term FDI picture is more positive, with the state-owned Ethiopian Industrial Parks Development Corp (IPDC) announcing combined \$462m Chinese investment in three industrial parks.*

#### Ethiopia loses influence following Somalia presidential election

Ethiopia-backed incumbent **Hassan Sheikh Mohamud** (2012-present) lost to President **Mohamed Abdullahi Mohamed 'Farmaajo'** (2017-present) in **Somalia's** presidential election on 8 February.<sup>1</sup> Farmaajo's victory will curb Ethiopia's political and security influence in its neighbour. **Tayo Political Party (TPP)** leader Farmaajo secured the backing of 184 members of parliament (MPs) in the second round of voting to defeat Hassan Sheikh who won only 97 votes.<sup>2</sup> Farmaajo had campaigned on a nationalist platform that rejects foreign intervention in Somalia affairs.<sup>3</sup> Opponents portrayed Hassan Sheikh as "*Ethiopia's man*".<sup>4</sup> Securing the support of Somali nationalists was central to his surprise election win.<sup>5</sup> During his campaign, Farmaajo openly criticised Ethiopia's military involvement in Somalia.<sup>6</sup> Following Farmaajo's victory, there was a small fight within the Somali federal parliament. Security officers intervened and temporarily detained former **Ethiopian National Defense Force (ENDF)** general **Gabre Heard**, the highly influential, but unofficial, representative of the Ethiopian government in **Mogadishu**.<sup>7</sup> Gabre is a member of the ruling **Ethiopian People's Revolutionary Democratic Front's (EPRDF)** most influential constituent party, the **Tigrayan People's Liberation Front (TPLF)**. Gabre is a controversial figure, who allegedly wielded influence over the Hassan Sheikh administration.<sup>8</sup> Gabre has never faced accountability for significant allegations of corruption and human rights abuses from when he commanded all Ethiopian forces in Somalia during the 2007-2008 military intervention.<sup>9</sup> Farmaajo's supporters therefore saw his arrest as indicative of Ethiopia's diminished influence under Farmaajo.<sup>10</sup>

Farmaajo has a broadly positive reputation. Farmaajo was prime minister between November 2010 and June 2011 under former president **Sharif Sheikh Ahmed** (2009-2012). Farmaajo resigned when Sharif looked to extend his time in office in line with the political timeline set out in the 2011

<sup>1</sup> Bar Kulan, 8 Feb 2017.

<sup>2</sup> Bar Kulan, 8 Feb 2017.

<sup>3</sup> Source, Somali analyst, East Africa

<sup>4</sup> Source, Somali analyst, East Africa

<sup>5</sup> Source, Somali analyst, East Africa

<sup>6</sup> Source, Somali analyst, East Africa

<sup>7</sup> Africa Confidential, 17 Feb 2017.

<sup>8</sup> Africa Confidential, 17 Feb 2017.

<sup>9</sup> www.wikileaks.org

<sup>10</sup> Source, Somali analyst, East Africa

**Kampala Accord.** There were widespread cross-clan protests following Farmaajo's resignation. Farmaajo (**Darod/Marehan/Rer Dalal**) has retained a reputation for securing support not dependent upon clan affiliations.<sup>11</sup> Since leaving office, Farmaajo had based himself in the **United States (US)** and has not played a significant domestic or regional political role.<sup>12</sup>

Ethiopian prime minister **Hailemariam Desalegn** (2012-present) welcomed the election of Farmaajo on 10 February, and said he looked forward to constructive bilateral relations.<sup>13</sup> However, there are a number of sources of potential tension. To strengthen this nationalist credentials, Farmaajo may remove Ethiopia's most influential allies from the government. These reportedly include presidential adviser **Mustaf Sheikh Ali** and telecommunications minister **Mohamed Jana Marsa Geelle**.<sup>14</sup> Somalia attorney general **Nur Jimale Farah** on 14 February declared illegal a contract between autonomous region **Somaliland** and the **United Arab Emirates (UAE)** to build a military base near **Berbera Port**.<sup>15</sup> Berbera Port is an increasingly important trading route for Ethiopia as it looks to decrease its dependence on **Djibouti Port**. While Ethiopia would normally welcome any increased military presence that improves security along the supply route, it is concerned about the UAE's dominance of ports in the region, notably the number of management contracts that UAE-based **DP World** controls.<sup>16</sup> Hailemariam is also concerned that the UAE might hand over control of the military base to Ethiopia's regional rival **Egypt** with whom it continues to dispute the impact of the **Grand Ethiopian Renaissance Dam (GERD)**.<sup>17</sup> Somaliland foreign minister **Saad Ali Shire** has reportedly threatened to resign over the potential impact of the military base on bilateral relations with Ethiopia.<sup>18</sup> In the days before Somaliland announced the UAE contract, Hailemariam hosted a delegation from the region's ruling **Kulmiye** party.<sup>19</sup> Protests over increased inflation, the government's flawed implementation of a fixed exchange rate in January, and delayed presidential elections threaten the stability of Somaliland, and therefore its potential value to Ethiopia as a trade route.

The appointment of Farmaajo will curb Ethiopia's ability to directly influence Somali affairs. It will probably encourage Ethiopia to withdraw its non-**African Union Mission in Somalia (AMISOM)** forces from **Bay, Bakool**, and **Gedo Administrative Regions** as it looks to address its own domestic security concerns. The Somalia federal government lacks the security and financial capacity to go it alone. It is therefore likely to look to renegotiate its relationship with Ethiopia, rather than end it entirely. Berbera Port is likely to be at the heart of a new accord between Ethiopia and Somalia.

### Government creates \$500m Youth Revolving Fund

The house of people's representatives established the so-called **Youth Revolving Fund** on 7 February.<sup>20</sup> The Youth Revolving Front is a central part of government efforts to address the grievances behind the 2016 anti-government protests in the **Oromia** and **Amhara Regional States**.<sup>21</sup> The EPRDF-drafted bill acknowledges that Ethiopia's rapid growth in recent years has not delivered meaningful economic opportunities for its youth.<sup>22</sup> The Youth Revolving Fund targets increased employment for 2.9 million unemployed Ethiopians aged 18-34.<sup>23</sup> While the government says the

<sup>11</sup> Source, Somali analyst, East Africa

<sup>12</sup> Source, Somali analyst, East Africa

<sup>13</sup> Sudan Tribune, 10 Feb 2017.

<sup>14</sup> IHS, 10 Feb 2017.

<sup>15</sup> Radio Dalsan, 14 Feb 2017.

<sup>16</sup> Africa Intelligence, 10 Feb 2017.

<sup>17</sup> Africa Intelligence, 10 Feb 2017.

<sup>18</sup> Africa Intelligence, 10 Feb 2017.

<sup>19</sup> Source, Somali analyst, East Africa

<sup>20</sup> Ethiopian Herald, 8 Feb 2017.

<sup>21</sup> Ethiopian Herald, 8 Feb 2017.

<sup>22</sup> Ethiopian Herald, 8 Feb 2017.

<sup>23</sup> Ethiopian Herald, 8 Feb 2017.

programme is nationwide, it appears focused on Oromia and Amhara.<sup>24</sup> The state-owned **Commercial Bank of Ethiopia (CBE)** will administer the 10 billion birr (\$500m) Youth Revolving Fund.<sup>25</sup> Both private and state-owned banks are expected to contribute to the Youth Revolving Fund. The CBE will then make funds available to young people through its 3,900 nationwide branches and 1,700 microfinance centers.<sup>26</sup> Youth looking to draw upon the fund need to submit a relevant project proposal to the CBE.<sup>27</sup> The legislation does not indicate when or how repayments will be made.<sup>28</sup> State media has subsequently reported that the government will also provide relevant skills training for unemployed youth to benefit from the programme, but the legislation does not appear to provide for this.<sup>29</sup>

Deputy prime minister **Demeke Mekonnen** is leading the development and implementation of the Youth Revolving Fund. Demeke set out the expected benefits to an ARC Briefing researcher,

*"We are hoping that this fund will greatly enhance the youth's capacity to do things by themselves. We no more need to tell them what to do. We are having an increasing number of skillful youths who could bring miracles if they get the necessary support that they deserve."<sup>30</sup>*

The government has previously acknowledged the role of unemployment in the protests. In October, President **Mulatu Teshome** told parliament that an absence of regular employment and income meant that young Ethiopians live in

*"...extreme anxiety... If the government does not focus more on the youth, it should realise that our country could again face the kind of political crisis that was experienced recently."<sup>31</sup>*

Mulatu, at the time, placed increased youth employment in a broader framework of ensuring broader economic benefits for all. He pledged to improve the living standards of civil servants and security forces, and to increase wages. The government has so far failed to deliver on these promises.

The scale of youth unemployment is unclear. However, unemployed graduates have long complained about their lack of employment opportunities.<sup>32</sup> According to the education ministry, over 7,500 students enroll for undergraduate and postgraduate courses annually.<sup>33</sup> The opposition alleges that EPRDF-affiliated youth benefit first from skewed academic marking, and then from employment opportunities closed off to others.<sup>34</sup> The opposition has therefore questioned the value of the fund. According to opposition figurehead **Gebru Gebremariam**,

*"This government has failed once again to realise the core issues that are at stake among the youth here. What the youth demand now is freedom. They want their friends to be released. They want to oppose the government when they see wrongdoings. That's not possible here. What use will this fund have without addressing these core issues?"<sup>35</sup>*

Finance minister **Alemayehu Gujo** argues the Youth Revolving Fund will have a broader social and political impact:

<sup>24</sup> Source, journalist, Addis Ababa

<sup>25</sup> Ethiopian Herald, 8 Feb 2017.

<sup>26</sup> Ethiopian Herald, 8 Feb 2017.

<sup>27</sup> Ethiopian Herald, 8 Feb 2017.

<sup>28</sup> Ethiopian Herald, 8 Feb 2017.

<sup>29</sup> Source, journalist, Addis Ababa

<sup>30</sup> Source, ARC Briefing researcher, Addis Ababa

<sup>31</sup> www.dw.com

<sup>32</sup> Source, youth NGO worker, Ethiopia

<sup>33</sup> www.dw.com

<sup>34</sup> www.dw.com

<sup>35</sup> Source, ARC Briefing researcher, Addis Ababa

*“These financial and technical supports are crucial. The fund is expected to play a big role in generating income for the youth in an organised manner. As well it will ensure active participation of the youth in the national development endeavour.”<sup>36</sup>*

In the wake of the anti-government protests, the EPRDF promised political and electoral reforms that it has failed to subsequently deliver. It is unclear if its commitment towards the Youth Revolving Fund is any more meaningful. Regardless, over time, the government’s commitment to developing the manufacturing sector (see below) is likely to absorb unemployed youth. Investors will watch carefully whether banks do divert funding to the Youth Revolving Fund, which would exacerbate existing currency illiquidity.

### **FDI decreases 20% in second half 2016**

The **Ethiopian Investment Commission (EIC)** published data on 15 February showing that foreign direct investment (FDI) decreased 20% year-on-year to \$1.2 billion in the six months through December 2016.<sup>37</sup> The lasting impact of the anti-government protests that targeted foreign-owned businesses is unclear; FDI investors tend to take a longer-term view in their decision making. According to EIC commissioner **Fitsum Arega**, Ethiopia attracted \$1.5 billion in the corresponding period in 2015.<sup>38</sup> Fitsum warned that the government may miss its FDI target of \$3.5 billion for the current financial year.<sup>39</sup> Fitsum indicated that \$3.2 billion is a more feasible target for the current financial year.<sup>40</sup> Fitsum confirmed that the government has received liability claims from both international and domestic companies for damage caused during the initial protests and disruption during the subsequent government state of emergency. A total of 20 domestic and two foreign-owned companies have submitted claims.<sup>41</sup> The EIC has not provided a total figure for claims received, but said the government has already issued 100 million birr (\$4.4m) in payments and that *“more are in progress.”*<sup>42</sup> The EIC also confirmed that the government is providing tax relief to companies that sustained property damage during the protests.<sup>43</sup> The tax relief includes a year-long grace period and duty-free privileges.<sup>44</sup>

The longer-term FDI picture is more positive. If the government does record \$3.2 billion FDI in the current financial year, inflows will be 68.8% higher than the \$2.2 billion received in 2015/2016.<sup>45</sup> However, violence during the recent anti-government protests notably peaked during the second half of the 2015/2016 financial year. According to Fitsum, international companies have delayed final investment decisions, but none have cancelled FDI projects in Ethiopia. On average, FDI inflows have increased 12% per annum over recent years.<sup>46</sup> Ethiopia’s rapidly growing population, subsidised power, stable government that has prioritised manufacturing to substitute imports due to low foreign currency reserves, development debt in local currency and a dollar-pegged currency have increased the attractiveness of Ethiopia as an FDI destination. These fundamentals continue to attract interest, especially in the manufacturing, agro-processing and tourism sectors which the second **Growth and Transformation Plan (GTP-II)** prioritises. According to the EIC, three **China**-based and two **India**-based manufacturing companies have acquired units at the **Hawassa Industrial Park (Southern Nations, Nationalities, and Peoples’ Region)**.<sup>47</sup> A total of 121 projects involving foreign investment

<sup>36</sup> Source, ARC Briefing researcher, Addis Ababa

<sup>37</sup> [www.2merkato.com](http://www.2merkato.com)

<sup>38</sup> [www.2merkato.com](http://www.2merkato.com)

<sup>39</sup> [www.2merkato.com](http://www.2merkato.com)

<sup>40</sup> [www.2merkato.com](http://www.2merkato.com)

<sup>41</sup> Bloomberg, 13 Feb 2017.

<sup>42</sup> Bloomberg, 13 Feb 2017.

<sup>43</sup> Bloomberg, 13 Feb 2017.

<sup>44</sup> [www.2merkato.com](http://www.2merkato.com)

<sup>45</sup> [www.2merkato.com](http://www.2merkato.com)

<sup>46</sup> Ethiopian Herald, 25 Feb 2017.

<sup>47</sup> [www.2merkato.com](http://www.2merkato.com)

became fully operational during the second half of 2016.<sup>48</sup> Subsequent announcements in February for future projects include **France-based Accor SA's** announcement on 16 February that it plans to open three hotels in **Addis Ababa** by 2021<sup>49</sup> and the announcement of **Israel-based Emefcy Group Ltd** on 13 February to construct a wastewater treatment facility in Addis Ababa during the third quarter 2017.<sup>50</sup>

The anti-government protests, partially triggered by government attempts to reallocate land for manufacturing parks, does not seem to have impacted the government's development strategy. State-owned **Ethiopian Industrial Parks Development Corp (IPDC)** CEO **Sisay Gemechu** announced three new industrial parks on 23 January.<sup>51</sup> The IPDC awarded China state-owned **China Petroleum & Chemical Corp (Sinopec)** subsidiary **CGCOC Group Co Ltd** a 3.5 billion birr (\$154m) contract to expand **Bole Lemi I** and construct the **Bole Lemi II Industrial Parks** in southern Addis Ababa.<sup>52</sup> With completion scheduled for the start of 2018, the expanded Bole Lemi and Bole Lemi II will focus on textile and garment manufacturing.<sup>53</sup> The IPDC also awarded a 5.5 billion birr (\$242m) contract to China state-owned **China Railway Engineering Corp** subsidiary **China Tiesiju Civil Engineering Group Co Ltd** to construct the **Kilinto Industrial Park** in **Akaki** in Addis Ababa.<sup>54</sup> With completion scheduled for the start of 2018, the Kilinto Industrial Park will manufacture pharmaceuticals and high-tech medical equipment.<sup>55</sup> The majority state-owned **China Communication Construction Co Ltd** will construct the **Jimma Industrial Zone** in the Oromia under a 1.5 billion birr (\$66m) contract.<sup>56</sup> With completion scheduled for the third quarter, the Jimma Industrial Park will manufacture textiles and garments.<sup>57</sup> The IPDC is in discussions with both the **Export-Import Bank of China (China Exim)** and the **European Investment Bank** to secure loans to develop additional pharmaceutical, chemicals and metals plants.<sup>58</sup>

Unless the security situation deteriorates, FDI will remain healthy, especially in the manufacturing sector. With increased manufacturing and electricity output, exports are likely to increase albeit moderately. This will contribute to relative economic stability and growth across the year. However, companies will continue to face operating challenges, including a scarcity of foreign currency as the government continues its state-led infrastructure investment programme.

---

<sup>48</sup> Ethiopian Herald, 25 Feb 2017.

<sup>49</sup> Reuters, 16 Feb 2017.

<sup>50</sup> Jerusalem Post, 13 Feb 2017.

<sup>51</sup> Real Estate Monitor Worldwide, 23 Feb 2017.

<sup>52</sup> Real Estate Monitor Worldwide, 23 Feb 2017.

<sup>53</sup> Real Estate Monitor Worldwide, 23 Feb 2017.

<sup>54</sup> Real Estate Monitor Worldwide, 23 Feb 2017.

<sup>55</sup> Real Estate Monitor Worldwide, 23 Feb 2017.

<sup>56</sup> Real Estate Monitor Worldwide, 23 Feb 2017.

<sup>57</sup> Real Estate Monitor Worldwide, 23 Feb 2017.

<sup>58</sup> Real Estate Monitor Worldwide, 23 Feb 2017.

---

### About Africa Risk Consulting:

**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.

**ARC's** core consulting services include integrity due diligence and corporate investigations, political advisory and country assessments, opportunity monitoring and reputation risk management. Most relevant to private equity firms is ARC's integrity due diligence and corporate investigations capability. Specifically, ARC offers pre-deal integrity checks to highlight red flags before negotiations start; full detailed multi-jurisdictional reputation due diligence; and supplier and senior hire vetting and repeat due diligence for compliance programmes. ARC is unique in that it offers a 10-day delivery for a routine integrity due diligence. ARC also offers a suite of corporate investigations services from immediate investigation, evidence gathering, e-discovery, forensic accounting and whistleblower support on one end to crisis media management and regular monitoring on the other.

[www.africariskconsulting.com](http://www.africariskconsulting.com)

### About ARC Briefing:

**ARC Briefing** is ARC's essential online business information service.

Companies at any stage in their Africa expansion, whether building or communicating an Africa strategy, investing directly, expanding current operations, financing other investors, doing the legal leg-work or researching the Africa growth trend, need ARC Briefing.

**ARC Briefing** is an online information service keeping you:

- Up to date with Country Chronologies of business-critical events
- In the know via Country Briefings on political, economic, business and operating trends. Written in-country, ARC experts analyse and comment
- Ahead with Country Planner which details future elections, budgets, regulatory changes etc.

[www.briefing.africariskconsulting.com](http://www.briefing.africariskconsulting.com)

### Getting in touch

Please contact us by email [info@africariskconsulting.com](mailto:info@africariskconsulting.com) or call + 44 (0) 20 7078 4080

Follow us on Twitter: [@ARCBriefing](https://twitter.com/ARCBriefing)