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Ethiopian security officials meet South Sudanese counterparts amid increased bilateral tensions. Sources of disagreement include cross-border raids and South Sudanese refugees in Gambella Regional State, and the Grand Ethiopian Renaissance Dam (GERD). The mines and petroleum ministry revokes mining exploration and production licences of companies that failed to begin operations within 90 days as contractually obliged. Standard & Poor's (S&P) affirms its B/B long- and short-term foreign and local currency sovereign credit ratings, with a stable outlook. Six people die in clashes between Amhara and Tigrayan militias at the Waldeba Monastery, where the government plans to establish a sugar plantation and processing plant.

Relationship with South Sudan deteriorates

Ethiopian security officials visited **Juba (South Sudan)** on 7 April amid deteriorating bilateral relations.¹ Continued engagement mitigates the risk of diplomatic tension between Ethiopia and South Sudan escalating. **Ethiopian National Defense Force (ENDF)** chief of staff **Samora Muhammad Yuni** led the Ethiopian delegation which met South Sudanese counterparts and president **Salva Kiir** (2011- present).² The ENDF and the **Sudan People's Liberation Army (SPLA)** reportedly signed a memorandum of understanding (MoU) with regard to border security.³

The main source of diplomatic tension is due to a recent deterioration in the security situation in Ethiopia's **Gambella Regional State**. The ethnic **Murle** militia, based in South Sudan's former **Jonglei State**, notably killed at least 28 people and kidnapped 43 children during raids on Gambella between 10 and 12 March.⁴ The raid was part of a broader trend of cross-border attacks since the beginning of 2016. In April 2016, the Murle ethnic militia crossed the South Sudan border, killing 208 civilians and seizing over 100 women and children and 2,000 cattle in raids in **Jekou** and **Nyinenyang Counties** (see *ARC Briefing Ethiopia May 2016*).⁵ Local government officials confirmed to ARC Briefing that the same militia was responsible for the recent uptick in violence,

*"The attack was carried out by the Murle tribe that also carried out last year's attack. They came in large numbers... more than 1,000 in total. They caused the chaos and then tried to flee but they were pursued by Ethiopian troops."*⁶

The government has deployed the ENDF to curb the cross-border raids. Following the April 2016 raid, the ENDF, at the invitation of the South Sudan government, crossed the border in pursuit of the militia.⁷ The government additionally deployed a heavy permanent security presence in Gambella.⁸ However, the deployment has done little to improve the security situation along the border. The Murle often attack in remote locations with no access by road, making it difficult for the ENDF and

¹ Sudan Tribune, 7 Apr 2017.

² Sudan Tribune, 7 Apr 2017.

³ Sudan Tribune, 7 Apr 2017.

⁴ Source, journalist, Addis Ababa

⁵ East African, 21 Apr 2016.

⁶ Source, local government official, Gambella

⁷ East African, 21 Apr 2016.

⁸ Source, journalist, Addis Ababa

local security forces to respond. The continued attacks have encouraged a perception that the government is impotent to stop the Murle.⁹

“We have told the central government to solve their problem once and for all. But it is still happening. We are still losing our children.”¹⁰

The raids have damaged previously good relations between the Ethiopian and South Sudanese governments. Ethiopia was a long-standing backer of South Sudan’s independence from **Sudan**. Emperor **Haile Selassie** (1930-1974), president **Mengistu Haile Mariam** (1977-1991) and former prime minister **Meles Zenawi** (1995-2012) all backed the secessionist SPLA.¹¹ Following South Sudan’s independence in July 2011, Ethiopia remained a strong backer of the Kiir administration. After the outbreak of violence in December 2013, Ethiopia’s historical ties with South Sudan and good diplomatic ties meant that it was able to take the leading role in mediating between the SPLA and the anti-government forces of the **Sudan People’s Liberation Movement in Opposition (SPLM - in Opposition)**. However, relations have subsequently deteriorated. There are unsubstantiated allegations that members of the Kiir administration have done little to curb Murle activities on their side of the border. The majority of victims of Murle raids in Ethiopia are **Nuer**, the same ethnic group as SPLM-in opposition leader **Riek Machar**, who remains in exile in **South Africa**.¹²

*“There are even some suggestions that some people inside Kiir’s circle may be among the perpetrators. [Trying to refute these allegations] is why a number of senior South Sudanese government officials, including SPLA chief of general staff, and among the most powerful and feared people in South Sudan, **Paul Malong Awan**, is shuttling between **Addis Ababa** and **Juba**.”¹³*

There are other sources of tension between Ethiopia and South Sudan. The number of South Sudanese refugees in Gambella has increased domestic demand for scarce resources. The majority of the 270,000 refugees who have fled South Sudan during the civil war are hosted in four major refugee camps (**Jewi, Pugnido, Tierkidi, and Kule**)¹⁴ in Gambella, which has a population of only 300,000. The large influx of refugees into the region and the **United Nations (UN)** and international non-governmental organisations’ (NGO) supposed preferential treatment of Nuer refugees compared to local **Anuak** residents have exacerbated tensions.¹⁵ Land is especially controversial in Gambella due to several vast, foreign-owned commercial farming operations in the region, most of which have suffered sporadic attacks.¹⁶ Opponents of large-scale farming operations claim that small-scale farmers forced off their traditional lands carry out the attacks.¹⁷ However, Ethiopian security forces claim the attackers are criminal bandits.¹⁸

Another source of bilateral tension is the **Grand Ethiopian Renaissance Dam (GERD)**. Kiir visited **Cairo (Egypt)** in January and met Egyptian counterpart president **Abdel Fattah Al-Sisi** (2014-present).¹⁹ The Ethiopian government is concerned that Kiir has agreed to back Sisi’s position that the GERD will negatively impact Egypt’s downstream **Nile River** flows.²⁰

The security situation in Gambella will remain linked to that in South Sudan, where the government is struggling to manage its own ethnic tensions. The security MoU, however, indicates that pragmatic

⁹ Source, journalist, Addis Ababa

¹⁰ Source, local government official, Gambella

¹¹ Source, journalist, Addis Ababa

¹² Source, INGO official, East Africa

¹³ Source, journalist, Addis Ababa

¹⁴ www.refworld.org

¹⁵ Source, INGO official, East Africa

¹⁶ Source, security analyst, East Africa

¹⁷ Source, security analyst, East Africa

¹⁸ Source, security analyst, East Africa

¹⁹ Egyptian Independent, 11 Jan 2017.

²⁰ Egyptian Independent, 11 Jan 2017.

cooperation between Ethiopia and South Sudan is likely to continue. There is no publically available information to substantiate Ethiopian concerns that Egypt and South Sudan have agreed a pact that might jeopardise the development of the GERD.

Government revokes mining licences

The mines and petroleum ministry announced on 13 April that it has revoked over 50 mining exploration and production licences.²¹ Dormant licences remain an obstacle to government plans to fulfil the mining sector's commercial potential. Mines and petroleum ministry director **Bacha Faji** said, in the majority of cases, licence holders had failed to begin exploration or production activities within 90 days as contractually obliged. According to mines and petroleum ministry data, the government has cancelled 211 mining licences since 2004, including 130 owned by foreign companies, 49 joint ventures and 32 domestically owned licences.²² The mines and petroleum ministry has only registered 530 mining companies, with the high number of revocations raising concerns about the effectiveness of its internal due diligence process.

The government has looked into improving the calibre of mining companies in the sector. The government in 2013 tightened up exploration licence provisions, with companies now required to have a minimum of three years' experience in the mining sector. At the same time, the government has moved to make the mining sector more commercially attractive for investors. In November 2013, the government reduced the mining sector income tax from 35% to 25%.²³ However, international mining companies remain wary about Ethiopia. Capacity in the mines and petroleum ministry, potentially the reason for the high number of licence cancellations, is a particular concern. Mining companies offer higher wages and therefore have attracted the most capable government employees.²⁴ Government capacity is an issue as legally the government may acquire a free participation interest of 5% of any large-scale or small-scale mining investment.²⁵

*"I know the current staff well and capacity in the mines ministry is most definitely an issue."*²⁶

The lack of capacity is replicated at regional state level. State-level governments have a role in the mining sector as they retain responsibility for the management of land and natural resources within their borders.²⁷

*"The capacity issue at federal level is exacerbated at state level."*²⁸

The government has looked abroad to improve its mining sector capacity. On 18 April, **Omar Alhabra, Canadian** parliamentary secretary to the foreign minister, committed his government to supporting capacity building in the sector during a meeting with prime minister **Hailemariam Desalegn** (2012-present).²⁹ Nevertheless, this will take time.³⁰ In the medium term, private sector wariness and a lack of government capacity undermine the accuracy of government data and targets. In the first half of the current financial year, Ethiopia exported only 35% of the mines and petroleum ministry's target for gold, 22% of its target for tantalite concentrate, and only 24% of its target for marble.³¹ During the first eight months of the financial year, artisanal miners generated \$70m, while

²¹ East African, 15 Apr 2017.

²² East African, 15 Apr 2017.

²³ www.africanlawbusiness.com

²⁴ Source, senior mining executive, Ethiopia

²⁵ www.africanlawbusiness.com

²⁶ Source, senior mining executive, Ethiopia

²⁷ www.africanlawbusiness.com

²⁸ Source, senior mining executive, Ethiopia

²⁹ Ethiopian Herald, 19 Apr 2017.

³⁰ Source, senior mining executive, Ethiopia

³¹ East African, 15 Apr 2017.

industrial operations generated only \$62m.³² A total of 70-80% of exports are by artisanal miners, highlighting the low number of large-scale operations.³³

The missed export targets raise questions about the feasibility of government expectations about the sector's economic contribution. According to a 2014 **World Bank** assessment, the mining sector only contributed 1.5% to national gross domestic product (GDP) in the 2011/2012 financial year.³⁴ Mines and petroleum minister **Tewodros Gebre Egziabher** has said the government is targeting 10% of GDP by 2025.³⁵

*"... the government is making every effort to respond to the needs of investors in the mining sector and direct foreign investors in general but it is not clear whether this will be adequate or timely enough to meet the targets they have set - or the cyclical nature of the sector."*³⁶

The missed targets also highlight the challenges that the government faces in its attempts to diversify mining so that it supports the industrial sector rather than just provide exports in line with the **Growth and Transformation Plan II (GTP II)**. The government wants to diversify the sector away from gold to focus on potash and iron ore in order to support the local manufacture of fertiliser and steel.³⁷ The majority of mining exploration and production activity is focused on gold. As of January 2016, there were 170 licensed companies engaged in exploration and development of gold resources, of which 51% were foreign-owned companies.³⁸ The majority of gold mining takes place in **Tigray**, **Gambella**, **Benishangul Gumz**, **Amhara** and **Oromia Regional States**.³⁹

The revocation of the mining licences is indicative of government efforts to improve the capacity of mining companies in the sector. However, the capacity of the mines and petroleum ministry remains a greater obstacle to the effective development of the sector, and will take time to address.

S&P affirms Ethiopia's credit ratings

Standard & Poor's (S&P) affirmed its B/B long- and short- term foreign and local currency sovereign credit ratings with stable outlook for Ethiopia on 24 April.⁴⁰ S&P cited Ethiopia's weak external position, low monetary policy flexibility, and limited institutional effectiveness for its constrained ratings.⁴¹ S&P placed its ratings within the context of the anti-government protests in Amhara and Oromia and the continuing state of emergency.⁴²

S&P said highly centralised government decision making makes it hard to forecast the government's policy response to the protests, and its underlying causes including high unemployment, unequal land rights, and ethnic marginalisation.⁴³ S&P said limited political reform in response to the protests was a significant downside risk.⁴⁴

S&P said Ethiopia's growth prospects supported the ratings.⁴⁵ S&P noted that growth has averaged approximately 10% during 2010-2015 on the back of state-led infrastructure investment.⁴⁶ Real

³² Ethiopian Herald, 11 Apr 2017.

³³ Ethiopian Herald, 11 Apr 2017.

³⁴ Business Daily, 15 Apr 2017.

³⁵ Ethiopian Herald, 17 Apr 2017.

³⁶ Source, senior mining executive, Ethiopia

³⁷ Ethiopian Herald, 17 Apr 2017.

³⁸ Business Daily, 15 Apr 2017.

³⁹ East African, 15 Apr 2017.

⁴⁰ CPI Financial, 24 Apr 2017.

⁴¹ CPI Financial, 24 Apr 2017.

⁴² CPI Financial, 24 Apr 2017.

⁴³ CPI Financial, 24 Apr 2017.

⁴⁴ CPI Financial, 24 Apr 2017.

⁴⁵ CPI Financial, 24 Apr 2017.

⁴⁶ CPI Financial, 24 Apr 2017.

investment growth averaged 17% over the past five years.⁴⁷ Despite the 2015 drought negatively impacting agricultural production and forcing the government to divert \$1 billion (1.5% of GDP) in response, S&P estimates that growth reached 7.6% in the 2016 fiscal year.⁴⁸ S&P forecast that growth will recover in 2017 on the back of recovery in the agriculture sector and continued government investments, and average approximately 9% between 2017 and 2020.⁴⁹

S&P noted downside risks to growth, notably the government's fiscal liabilities due to its investment programme. S&P warned that government debt will reach 28% of GDP in 2017. Combined with the debt of state-owned enterprises, overall public sector debt will reach almost 60% of GDP.⁵⁰ Managing these liabilities will require state-led infrastructure projects to deliver their anticipated returns.⁵¹ The current account deficit has averaged 11% of GDP over the past few years due to increased imports for government projects.⁵² External debt trebled from 50% of current account receipts in 2010 to 178% in 2016.⁵³ S&P projected that the government will decrease its investment programme and borrowing in the medium term.⁵⁴ S&P also warned that the **National Bank of Ethiopia's (NBE)** (central bank) currency peg limits flexibility of monetary policy and that the domestic capital market remains undeveloped.⁵⁵ Combined with relatively low NBE reserves, there is little capacity to mitigate exogenous shocks.⁵⁶ S&P warned that the birr's relative strength may hamper the competitiveness of the Ethiopian economy, and curb government plans for the development of the manufacturing sector.⁵⁷

Positive revisions to Ethiopia's rating will depend on the early completion of infrastructure projects that will increase exports, thereby reducing pressure on the external debt burden. Ratings could fall if political tensions escalate over the next year.

Amhara and Tigrayan militias clash at monastery

Six people died in clashes between Amhara and Tigrayan militias at the **Waldeba Monastery** in Tigray Regional State on 4-5 April ahead of the Easter festival.⁵⁸ The clashes highlight continued grievances in the Amhara region over the perceived disproportionate political influence of the **Tigrayan People's Liberation Front (TPLF)** within the ruling **Ethiopian People's Revolutionary Democratic Front (EPRDF)**. At least one Amhara and five Tigrayans were reportedly killed in the fighting at the monastery which belongs to the Ethiopian Orthodox Tewahedo Church.⁵⁹ Security forces reportedly detained 39 monks at the monastery in the same week after they protested government plans to establish a sugar plantation and processing plant on its land.⁶⁰ The Waldeba Monastery lies in **Welkait**, which both the Tigrayans and the Amhara claim as their own, and which was the source of violent clashes in **Amhara Regional State** in August 2016.

The Waldeba Monastery clashes, while limited in scope, are highly significant. They highlight the failure of the government to address the long-standing grievances between the anti-government protests in 2016, notably, the political power of the TPLF, the expropriation of land for large-scale commercial enterprises, and the disputed status of Welkait. The risk of wider violence remains high as long as the government does not embark on meaningful political reform.

⁴⁷ CPI Financial, 24 Apr 2017.

⁴⁸ CPI Financial, 24 Apr 2017.

⁴⁹ CPI Financial, 24 Apr 2017.

⁵⁰ CPI Financial, 24 Apr 2017.

⁵¹ CPI Financial, 24 Apr 2017.

⁵² CPI Financial, 24 Apr 2017.

⁵³ CPI Financial, 24 Apr 2017.

⁵⁴ CPI Financial, 24 Apr 2017.

⁵⁵ CPI Financial, 24 Apr 2017.

⁵⁶ CPI Financial, 24 Apr 2017.

⁵⁷ CPI Financial, 24 Apr 2017.

⁵⁸ www.debirhan.com

⁵⁹ www.debirhan.com

⁶⁰ www.debirhan.com



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