

AFRICA RISK CONSULTING

Ethiopia Monthly Briefing January 2018

Ethiopia Summary 8 January 2018

The government orders the release and pardon of political prisoners before clarifying that the order refers only to imprisoned politicians. The order follows a meeting of the ruling Ethiopian People's Revolutionary Democratic Front (EPRDF) executive committee that resolved to bridge Ethiopia's democratic deficit. The National Bank of Ethiopia (NBE) (central bank) confirms the implementation of a new foreign exchange transactions directive, as businesses complain of worsening foreign exchange shortages. Suspected Afar Revolutionary Democratic Union Front (ARDUF) gunmen kill a German tourist at the Erta Ale volcano tourist site in Afar Regional State.

Government releases political prisoners

The prime minister, **Hailemariam Desalegn** (2012-present), ordered the release and pardon of political prisoners on 3 January.¹ The exact parameters of the order, and therefore its implications, are currently unclear. Hailemariam made the order in the presence of the heads of the four constituent member parties of the ruling **Ethiopian People's Revolutionary Democratic Front (EPRDF)**. Hailemariam said,

*"Political prisoners that are facing prosecutions and are already under arrest will be released."*²

Hailemariam also ordered the closure of the **Federal Police Crime Investigation Sector**, commonly known as **Maekelawi**, a federal police station in **Addis Ababa**.³ Maekelawi hosts **Ethiopia's** most prominent political prisoners.⁴ Maekelawi is notorious due to persistent allegations since 2010 that security forces have used torture and other coercive measures to extract information from political detainees often held incommunicado.⁵ Hailemariam said the government will transform Maekelawi into a museum.⁶ According to Hailemariam, the government will open a new detention centre that complies with international standards.⁷

Hailemariam said the objective of the order is *"to create a national consensus and widen the democratic space for all"*.⁸ Political tensions remain high in Ethiopia with continuing ethnic clashes along the restive border between the **Oromia** and **Somali Regional States**.⁹ At least 61 people died in a week of clashes in the **West Hararghe** region near the border between the Somali and Oromia states in mid-December in what Hailemariam described as a *"mass killing"*.¹⁰ Soldiers allegedly killed 16 Oromos during a violent attempt to disperse a protest in **Celenko** on 17 December.¹¹

There are various explanations for the timing of the order. Political activists have linked it to a two-day long social media campaign to draw attention to the treatment of political prisoners.¹² The

¹ ENA, 3 Jan 2018.

² The East African, 3 Jan 2018.

³ The East African, 3 Jan 2018.

⁴ Source, security analyst, East Africa

⁵ Source, security analyst, East Africa

⁶ The East African, 3 Jan 2018.

⁷ The East African, 3 Jan 2018.

⁸ The East African, 3 Jan 2018.

⁹ Source, journalist, Addis Ababa

¹⁰ Daily Monitor, 21 Dec 2017.

¹¹ Reuters, 18 Dec 2017.

¹² Addis Standard, 3 Jan 2018.

government is concerned about the power of social media to mobilise political movements. In mid-December, the government partially blocked internet access in an apparent attempt to prevent the spread of information about the Somali/ Oromia border clashes.¹³ However, a more likely interpretation is that the order is linked to internal-EPRDF machinations. The order came four days after the completion of a 17-day long meeting of the EPRDF executive committee, the party's highest decision-making body, which conducted "*an immense and detailed evaluation of the country's current situation*".¹⁴ The executive committee issued a statement, claiming that the EPRDF has allowed "*democratic tendencies to diminish and opportunistic tendencies to triumph*".¹⁵ The executive committee decried the "*absence of internal party democracy*"¹⁶ at all levels of the EPRDF, claiming this has undermined governance and the multiparty democracy, facilitated corruption, and encouraged the recent anti-government protests in Oromia and **Amhara Regional States**.¹⁷ The executive committee therefore resolved,

*"to ensure sustainable peace and stability in the country and improve the participation of our peoples in democratic and development activities within a short period of time... all opposition parties, together with the people, should strive to overcome the challenges of the multiparty system... to put a stop to any tendency that violates human and democratic rights endured by our democratic constitution."*¹⁸

Hailemariam's language about "*democratic space*"¹⁹ seemed to mirror that of the EPRDF executive committee.

The executive committee meeting took place amid continuing tensions within the EPRDF. The **Oromo Peoples' Democratic Organization (OPDO)**, increasingly assertive under party president **Lemma Megersa** (see *ARC Briefing Ethiopia July 2017*), and the powerful **Tigrayan People's Liberation Front (TPLF)** remain antagonistic.²⁰ The OPDO is increasingly united with the **Amhara Peoples' National Movement (ANDM)**.²¹ In December, OPDO and ANDM members of parliament (MPs) reportedly boycotted parliamentary business in an effort to influence the EPRDF's response to the anti-government protests in their regions.²² The executive committee statement made reference to "*unprincipled relations*"²³ within the EPRDF which opposition supporters have interpreted as efforts to break-up the alliance between the OPDO and the ANDM.²⁴ The leaders of all the EPRDF constituent parties, including Lemma and newly elected TPLF chairman **Debretsion Gebremichael**, publicly backed the executive committee statement.²⁵ In a sign that the statement might have appeased the OPDO, the **House of Peoples' Representatives** speaker, **Abadula Gameda**, who resigned in October in protest at the government's heavy-handed response to the Oromia protests, reversed his resignation and resumed his duties on 4 October.²⁶

There is widespread scepticism about Hailemariam's order.²⁷ Hailemariam did not specify which prisoners are covered by the order, notably whether it will only include high-profile prisoners like **Oromo Federalist Congress** leaders **Merera Gudina** and **Bekele Gerba** or ordinary prisoners. The day after the order, the government appeared to suggest it would be the former, clarifying that it

¹³ VOA, 15 Dec 2017.

¹⁴ EPRDF executive committee statement, 2 Jan 2018.

¹⁵ EPRDF executive committee statement, 2 Jan 2018.

¹⁶ EPRDF executive committee statement, 2 Jan 2018.

¹⁷ EPRDF executive committee statement, 2 Jan 2018.

¹⁸ EPRDF executive committee statement, 2 Jan 2018.

¹⁹ The East African, 3 Jan 2018.

²⁰ Source, journalist, Addis Ababa

²¹ Source, journalist, Addis Ababa

²² www.ecadforum.com

²³ EPRDF executive committee statement, 2 Jan 2018.

²⁴ www.ecadforum.com

²⁵ ENA, 3 Jan 2018.

²⁶ The Reporter, 4 Jan 2018.

²⁷ Source, journalist, Addis Ababa

referred only to imprisoned politicians rather than political prisoners, and blaming a mistranslation for the idea of a blanket amnesty.²⁸ Hailemariam also did not provide any timeline for implementation, or whether the government would enforce conditions on those released.²⁹ There is also concern that the move will provide the government with cover to avoid more systematic political reforms, including revocation of the **2009 Anti-Terrorism Proclamation** which the government uses to limit opposition activities.

The release of the political prisoners is unlikely to end Ethiopia's political tensions, unless accompanied by meaningful political reforms. The EPRDF executive committee statement, however, indicates for the first time that the government is aware of the significant structural challenges that Ethiopia faces. Turning the executive committee's resolutions into action will require continued political will and careful balancing of interests across the EPRDF's member parties.

NBE implements new foreign exchange directive

The **National Bank of Ethiopia (NBE)** (central bank) confirmed the implementation of a new foreign exchange transactions directive on 20 December.³⁰ Despite the October currency devaluation, the black market continues to flourish while the formal economy suffers from a foreign exchange shortage that is jeopardising government and private sector investments. NBE vice governor and chief economist **Yohanes Ayalew** confirmed that commercial banks are already enforcing the directive. Under the NBE directive, only banks and authorised foreign exchange bureaus can convert foreign currency cash notes into birr.³¹ The NBE will allow the reconversion of birr into foreign currency, but only if the customer has the receipts from the original transaction, and a customs declaration for values of over \$3,000.³² Ethiopian nationals and residents must surrender all foreign currencies in their possession to an authorised foreign exchange bureau for payment of the equivalent sum in birr within 45 days from the date of acquisition.³³ Any Ethiopian resident unable to justify the possession of foreign currency will face punishment under the penal code and the confiscation of the funds.³⁴

Foreign exchange shortages are a long-standing problem in Ethiopia due to the NBE's strict foreign currency control regime, under which the local currency is not freely convertible. It has, however, worsened in recent months due to the continuing political tensions which have deterred business activity.

"The nation has been hit by foreign currency crises for the last five years and the shortage has gotten worse in the last two years as anti-government protests bear a negative impact on the country's foreign trade. The crisis at the moment is so severe that the government is quietly cancelling international bids, announcing change in plans for infrastructure projects, and also clamping down on black market traders that are benefiting in leaps and bounds from shadowy foreign exchange trades, most often conducted in streets across the capital Addis Ababa and in the regions."³⁵

According to NBE data, Ethiopia suffers from a pronounced trade imbalance that limits access to hard currency. The NBE puts the trade deficit at \$7 billion in 2009/2010, \$10.47 billion in 2013/2014 and \$6.6 billion for only the first two quarters of 2015.³⁶ The NBE has not made available most recent data.³⁷ The low international price of coffee has exacerbated the situation by reducing the income

²⁸ Source, journalist, Addis Ababa

²⁹ www.hrw.org

³⁰ www.ethiodailypost.com

³¹ www.ethiodailypost.com

³² www.ethiodailypost.com

³³ www.ethiodailypost.com

³⁴ www.ethiodailypost.com

³⁵ Source, journalist, Addis Ababa

³⁶ Source, journalist, Addis Ababa

³⁷ Source, journalist, Addis Ababa

projection in the sector by half.³⁸ Meanwhile the government continues to divert the diminishing foreign exchange into state-led infrastructure projects like the **Grand Ethiopian Renaissance Dam**.

*“The only companies that are getting preference to get the foreign exchange are either government-tied like the **Metals and Engineering Corp (Metec)** or the **Endowment Fund for the Rehabilitation of Tigray (EFFORT)** group or state-owned like **Ethiopian Airlines** and **Ethio Telecom**.”³⁹*

The directive suggests that the government will continue to resist the lobbying of the **World Bank** and other international financial institutions to liberalise the foreign exchange sector.⁴⁰ The directive notably does not replace other foreign exchange regulations which remain in place. Notably, travellers are only allowed to enter or leave Ethiopia with a maximum of \$3,000 worth of foreign currency without a permit, or without notifying authorities.⁴¹ Customs authorities in November reported increased incidents of foreign exchange smuggling through **Addis Ababa Bole International Airport**.⁴² The failure to embark on meaningful reform of the foreign exchange sector will prolong the shortages which are impacting business activity.⁴³

*“Importers and travellers alike here in Ethiopia are currently getting no foreign exchange [from banks and] they are paying huge sums to get dollars and euros from the black market. One source at the **Commercial Bank of Ethiopia** told me opening a letter of credit may take several months at the moment and there is even no guarantee that the foreign currency will be secured after the long wait.”²*

The impact on businesses is more acute than previously, with the economically significant manufacturing sector at risk of factory closures.

“Not even the pharmaceutical importers, the last frontier to be deprived of access to foreign exchange, can get approval from their respective banks to open letters of credit. Unlike the past couple of years when there has always been an issue with foreign exchange, some business owners are now confronted with the prospect of shutting down their factories.”⁴⁴

There were reports after Hailemariam paid a state visit to **Doha (Qatar)** in November that Qatar would provide Ethiopia with hard currency. However, observers are sceptical.²

*“This hasn’t been made official, so it remains to be seen if that happens. A similar reported pledge by **Saudi Arabia** two years ago to provide \$1 billion in foreign currency went into thin air and never materialised.”²*

There is concern that the government does not appreciate the scale of the challenge it faces. Local media quoted industry ministry director **Melaku Taye** as saying there is sufficient hard currency for both government-led projects and the private sector,

“...and anyway, not a single industry has complained about the hard currency shortage.”⁴⁵

The currency devaluation in October will increase Ethiopia’s limited export promotion power, and its relative attractiveness to manufacturers looking for cheap inputs. The foreign exchange outlook is therefore more positive than the current situation, However, in the medium term, both locally owned and international businesses will continue to struggle to source the foreign currency necessary for their own business objectives and for the government’s own manufacturing targets.

³⁸ Source, journalist, Addis Ababa

³⁹ Source, business consultant, Addis Ababa

⁴⁰ Source, journalist, Addis Ababa

⁴¹ www.ethiodailypost.com

⁴² www.ethiodailypost.com

⁴³ Source, journalist, Addis Ababa

⁴⁴ Source, businessman, Addis Ababa

⁴⁵ Capital Ethiopia, 4 Feb 2013.

Gunmen kill German tourist in Afar

Gunmen killed a **German** tourist at the **Erta Ale** volcano tourist site in **Danakil (Afar Regional State)** on 3 December.⁴⁶ The attack may trigger cross-border military raids into neighbouring **Eritrea**. The secessionist **Afar Revolutionary Democratic Union Front (ARDUF)** appears to be the group most likely behind the attack.⁴⁷ The ARDUF emerged as a militant group in the early 2000 and,

“... seeks the creation of an independent Afar homeland, which would include areas of Ethiopia, Eritrea and Djibouti. However, there is disagreement on whether this would be an internationally recognised sovereign state or an autonomous region within Ethiopia.”⁴⁸

Gunmen reportedly crossed the border from Eritrea, which neighbours Afar, before shooting German national **Walter Roepert** and his translator.⁴⁹ Regional police exchanged fire with the gunmen, and the government deployed additional security forces to the area.⁵⁰ The ARDUF has previously targeted tourists in Afar. In January 2012, the ARDUF killed five **European** tourists in an attack on a tourist camp.⁵¹ In 2007, the ARDUF kidnapped a group of European nationals.⁵² In 2004, a **French** tourist disappeared in the region.⁵³ However, the military capability of the ARDUF is in decline.

“The intensity of the ARDUF’s military operations in recent years does appear to have been weakened by internal disagreements. At most, it has been conducting a low-level insurgency.”⁵⁴

The killing might lead to cross-border raids in Eritrea similar to the March 2012 airstrikes targeting ARDUF camps that followed the killing of the European tourists.

“Ethiopian officials blame the Eritrean government for funding and training the rebel group.”⁵⁵

However, the veracity of allegations of Eritrean backing is unclear as the ARDUF opposes the Eritrean state:

“The group has always been very firm, however, in opposing the existence of the separate state of Eritrea, as the creation of that country split the Afar homeland.”⁵⁶

There is a possibility that the government will launch cross-border raids in Eritrea in response to the suspected ARDUF attack. Raids would curb militant attacks in Afar, reducing kidnap and terrorism risks. However, the risk of full-scale conflict is unlikely; Ethiopia has more pressing domestic security concerns, and Eritrea needing to end its international pariah status to maximise its nascent mining sector.

Planner

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

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

⁴⁶ The Reporter, 9 Dec 2017.

⁴⁷ Source, political analyst, Addis Ababa

⁴⁸ Source, political analyst, Addis Ababa

⁴⁹ The Reporter, 9 Dec 2017.

⁵⁰ Source, political analyst, Addis Ababa

⁵¹ Source, political analyst, Addis Ababa

⁵² Source, political analyst, Addis Ababa

⁵³ Source, political analyst, Addis Ababa

⁵⁴ Source, political analyst, Addis Ababa

⁵⁵ Source, political analyst, Addis Ababa

⁵⁶ Source, political analyst, Addis Ababa

Chronology

- 4 Jan 2018 **Addis Ababa (Ethiopia)** *Press release*. NGO **Human Rights Watch** raises concerns about the government's pledge to release political prisoners;
- 4 Jan 2018 **Addis Ababa (Ethiopia)** *The Reporter*. Parliamentary speaker, **Abadula Gameda**, who resigned in October, resumes his duties;
- 3 Jan 2018 **Addis Ababa (Ethiopia)** *East African*. Hailemariam orders release of political prisoners and closure of **Maekelawi**;
- 3 Jan 2018 **(Ethiopia)** *Addis Fortune*. Standard gauge **Ethio-Djibouti** electrified double-track railway begins operations;
- 31 Dec 2017 **(Djibouti)** *New Business Ethiopia*. The **Duraleh Multi-Purpose Port of Djibouti** cuts fees for Ethiopia freight forwarders by up to 45%;
- 30 Dec 2017 **Addis Ababa (Ethiopia)** *Press release*. The EPRDF executive committee completes 17-day long meeting;
- 30 Dec 2017 **(Ethiopia)** *VOA*. The government limits access to social media sites in apparent attempt to prevent the spread of information about the **Somali/ Oromia** border clashes;
- 26 Dec 2017 **(Ethiopia)** *Press release*. The **Egyptian** government proposes including the **World Bank** in multilateral talks over the **Grand Ethiopian Renaissance Dam**;
- 21 Dec 2017 **Rift Valley (Ethiopia)** *Energy Monitor Worldwide*. **Reykjavik Geothermal** signs power purchase agreements with government for 1,040MW **Tulu Moye** and **Corbetti** geothermal plants;
- 20 Dec 2017 **Oromia (Ethiopia)** *Daily Monitor*. At least 61 people die in a week of clashes in the **West Hararghe** region near the border between the **Somali** and **Oromia Regional States**;
- 20 Dec 2017 **Addis Ababa (Ethiopia)** *Ethio Daily Post*. **National Bank of Ethiopia** confirms new foreign exchange directive;
- 17 Dec 2017 **Oromia (Ethiopia)** *Reuters*. Soldiers allegedly kill 16 Oromos during a violent attempt to disperse a protest in **Celenko**;
- 14 Dec 2017 **Addis Ababa (Ethiopia)** *Addis Fortune*. **Christine Lagarde** becomes first **International Monetary Fund (IMF)** managing director to visit Ethiopia;
- 11 Dec 2017 **(Ethiopia)** *Al Jazeera*. **University of Toronto (Canada)** researchers allege that Ethiopia uses **Israel-based CyberBit Solutions Ltd** technology to target journalists and activists in diaspora;
- 3 Dec 2017 **Afar (Ethiopia)** *The Reporter*. Gunmen cross **Eritrean** border and kill **German** tourist at the **Erta Ale** volcano tourist site;
- 1 Dec 2017 **Tigray (Ethiopia)** *Ethiopian Herald*. The **Tigray People's Liberation Front (TPLF)** elects **Debretsion Gebremichael** as chairman.

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

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.africariskconsulting.com

Getting in touch

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

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