

AFRICA RISK CONSULTING

Ethiopia Monthly Briefing September 2018

Ethiopia Summary 20 September 2018

Violence in capital city Addis Ababa and Oromia regional state presents challenges to the domestic policy of Ethiopia's prime minister, Abiy Ahmed (2018-present). Abiy's reformist agenda is succeeding in attracting international capital. The government is grappling with high levels of debt and foreign currency shortages. China agrees to restructure some of Ethiopia's extensive loans, notably the \$4 billion Chinese-built Addis Ababa-Djibouti railway. The loan, previously due to be repaid over 10 years, will now be repaid over a 30-year period.

Addis Ababa and Oromia violence highlights challenges to Abiy's domestic policy

Violence in Ethiopia's capital, **Addis Ababa**, and in **Burayu** (**Oromia** regional state), killed at least 23 people between 13 and 17 September as the previously outlawed and exiled **Oromo Liberation Front (OLF)** returned to Ethiopia.¹ The OLF's return to Ethiopia and the violence it triggered highlights the biggest challenge for prime minister **Abiy Ahmed** (2018-present) since coming to power: reconciling competing pan-Ethiopian and ethnocentric nationalisms, notably Oromo nationalism.² OLF supporters arrived en masse in the lead-up to a homecoming concert held in Addis Ababa on 15 September. Some clashed with federal police and largely ethnic **Amhara** residents of Addis Ababa after they reportedly painted the colours of the OLF flag around the capital city.³ Meanwhile, in Burayu, reported attacks that lasted for several days included rape, murder and arson directed at ethnic minorities within Oromia regional state by Oromo ethno-nationalists.⁴ Police stated on 17 September they had arrested 269 people in connection with the violence.⁵

Although a proponent of pan-Ethiopian nationalism, Abiy, an ethnic Oromo, no doubt benefitted politically from the widespread protests in Oromia by Oromo nationalists that directly preceded his ascent to power. As a result, Abiy has treated the Oromo nationalist movement leniently. A local source told ARC that in Oromia, coupled with lethal violence, youths confront businesses with financial demands with increasing impunity (see *ARC Briefing Ethiopia August 2018*).⁶ Political analyst **Andrew Korybko** observed that Abiy "seemed to sympathise with [the OLF supporters] and urged the native inhabitants to remain calm and not overreact".⁷ Inviting the OLF back to Ethiopia as a legitimate political party is a further example of such leniency, a move that appears to have worsened tension between pan-Ethiopian nationalists and emboldened Oromo nationalists.

To date, Abiy's bid to placate these competing expressions of nationalism is falling between two stools. Abiy's soft approach towards Oromo nationalist violence will engender continued

¹ Al Jazeera, 18 Sept 2018.

² OPride, 29 Aug 2018.

³ Daily Nation, 14 Sept 2018.

⁴ Al Jazeera, 18 Sept 2018.

⁵ Premium Times, 18 Sept 2018.

⁶ Source, diplomat, Addis Ababa

⁷ Eurasia Future, 14 Sept 2018.

Oromo protests and violence without satiating their desire for Oromo nationalism.⁸ Conversely, pan-Ethiopian nationalists are also dissatisfied with their treatment at the hands of Oromo nationalists. Thousands of protesters took to the streets on 17 September to express their anger at the previous days' "*ethnically motivated*" violence.⁹ Marchers blocked streets and businesses remained closed in Addis Ababa during the protest.¹⁰ Some protesters openly criticised Abiy, although he has enjoyed high levels of popularity since coming to power in April 2018.¹¹

Despite accusations of leniency, Abiy has issued several statements to condemn the violence in Oromia and arrested hundreds of protesters thought to be responsible for violence.¹² Police arrested more than 170 people in Oromia last month for inciting violence, seizing private property, and murder,¹³ and arrested a further 269 people on similar charges for the most recent outbreak of violence.¹⁴ However, these toothless measures have so far had no effect in curbing violence and instability in Oromia and more recently Addis Ababa. Insecurity in Oromia is likely to continue.¹⁵

The economic ramifications of continued violence and protests in both Oromia and Addis Ababa could be stark. In a public statement, the **United States Embassy in Addis Ababa** announced the suspension of its operations on 19 September "*in light of expected large-scale demonstrations in Addis Ababa*".¹⁶ This news, coupled with the further emboldening of Oromo protesters in Oromia, will certainly diminish investor confidence in Ethiopia at a time when the government seeks to attract international capital to the country (see below).

Abiy's reformist agenda attracts international capital ...

International capital is poised to descend upon Ethiopia as prime minister Abiy's programme of economic liberalisation and democratisation continues. Speaking to press on 25 August, Abiy asserted that the **World Bank's** pledge of \$1 billion to Ethiopia in direct budget support happened "*due to the reforms taking place in the country*".¹⁷ Abiy stated that Ethiopia's reforms would continue "*at any cost*" and that in 2020 there would be a "*free and fair*" election.¹⁸ The pledge of support highlights the World Bank's first involvement in Ethiopia since it suspended budgetary assistance after 2005's disputed election.¹⁹ Echoing the World Bank's sentiment, **United States (US)** congressman **Christopher Smith** told the **US Congress** on 12 September following an official visit to Ethiopia to assess the extent of human rights in Ethiopia, that Abiy deserves the support of the US government.²⁰

Attracting yet more foreign interest in the Ethiopian market, the **Ethiopia Investment Board**, headed by Abiy, announced on 4 September that foreign investors will be allowed to participate in the logistics sector, but will take a maximum stake of 49% in logistics

⁸ Eurasia Future, 14 Sept 2018.

⁹ Al Jazeera, 18 Sept 2018.

¹⁰ Al Jazeera, 18 Sept 2018.

¹¹ Al Jazeera, 18 Sept 2018.

¹² VOA, 16 Sept 2018.

¹³ Ezega, 21 Aug 2018.

¹⁴ Premium Times, 18 Sept 2018.

¹⁵ Source, diplomat, Addis Ababa.

¹⁶ Borkena, 18 Sept 2018.

¹⁷ Africanews, 25 Aug 2018.

¹⁸ Al Jazeera, 25 Aug 2018.

¹⁹ Al Jazeera, 25 Aug 2018.

²⁰ New Delhi Times, 15 Sept 2018.

businesses.²¹ International businesses are already responding positively to Ethiopia's economic liberalisation. During a visit to Ethiopia in late August, **Germany's** development cooperation minister, **Gerd Muller**, announced that German car manufacturer **Volkswagen** "will start assembling cars in Ethiopia in the near future."²²

Abiy's plan to loosen the state's grip on the national economy has seen his government shun state-led business while courting foreign investors and the private sector. The government terminated the involvement of state army-owned **Metals and Engineering Corporation (METEC)** in the **Grand Ethiopian Renaissance Dam (GERD)** due to an investigative documentary by Ethiopian state broadcaster **Fana Broadcasting Corporate S.C.** that uncovered vast delays in works and widespread expropriation of funds by the company.²³

... as government grapples with high levels of debt and foreign currency shortages

Optimism surrounding Ethiopia's economic future is tempered by the country's high level of debt and foreign currency shortage, particularly of US dollars.²⁴ So acute is this problem that **Chinese** state-owned export and credit insurance company **Sinosure** refused to extend credit to Chinese banks for Ethiopia-based projects in June (see *ARC Briefing Ethiopia June 2018*).²⁵ Similarly, China's mission to the **African Union** in Addis Ababa stated publicly in July that "the intensifying repayment risks from the Ethiopian government's debt reaching 59% of GDP is worrying investors."²⁶ The Ethiopian government's insistence on commissioning new infrastructure projects makes it more difficult to address its debt crisis and foreign currency shortages.²⁷ **Belachew Mekuria**, the commissioner of the **Ethiopia Investment Commission (EIC)**, announced on 28 August that the government plans to commission four Chinese-built industrial parks by the end of 2018.²⁸

Abiy has been able to alleviate some of Ethiopia's debt woes. Returning from a visit to China, Abiy announced on 6 September that China has agreed to restructure some of Ethiopia's extensive loans, notably the \$4 billion Chinese-built **Addis Ababa-Djibouti** railway.²⁹ The loan, previously due to be repaid over 10 years, will now be repaid over a 30-year period.³⁰

Prime minister Abiy has also recently introduced measures to boost the country's stock of foreign currency. Firstly, the **National Bank of Ethiopia** will buy 30% of private banks' foreign currency earnings at mid-rate, rather than the previous buying rate.³¹ Secondly, diaspora bank accounts may now hold an unlimited stock of US dollars, abolishing the previous cap of \$50,000.³² Thirdly, more businesses in Ethiopia are now permitted to accept payments in foreign currency.³³ Ethiopia has also secured assurances of dollar injections from foreign powers including the **United Arab Emirates**.³⁴ However, these foreign exchange developments appear sticking plasters over a much larger problem: Abiy's

²¹ VOA, 4 Sept 2018.

²² New Business Ethiopia, 24 Aug 2018.

²³ Borkena, 6 Sept 2018.

²⁴ Africanews, 30 Aug 2018.

²⁵ Financial Times, 3 Jun 2018.

²⁶ Reuters, 6 Sept 2018.

²⁷ Source, business leader, London.

²⁸ Xinhua, 28 Aug 2018.

²⁹ Reuters, 6 Sept 2018.

³⁰ Reuters, 6 Sept 2018.

³¹ Africanews, 30 Aug 2018.

³² Africanews, 30 Aug 2018.

³³ Africanews, 30 Aug 2018.

³⁴ Africanews, 30 Aug 2018.

reluctance to float the Ethiopian birr on the foreign exchange markets. Although this move would bring about unpopular inflation, it would stop the overvaluation of the birr that is exacerbating the foreign currency shortage (see *ARC Briefing Ethiopia June 2018*).³⁵

Intent on becoming an industrialised economy by 2025, Ethiopia looks set to continue its flirtation with high levels of debt and public spending.³⁶ This, coupled the country's ongoing foreign exchange shortage, will continue to plague Ethiopia's financial health.

Planner

Imminent: **Mekelle (Ethiopia)** *Madote.com*. EPRDF Congress;

25-28 Oct 2018 **Addis Ababa (Ethiopia)** *10Times.com*. Ethiopia International Trade Expo;

2020 **(Ethiopia)** Parliamentary elections

Chronology

19 Sep 2018 **Addis Ababa (Ethiopia)** *africanews*. Prime minister **Abiy Ahmed** calls on political parties in **Oromia** to unite and work together to end conflict in the area;

17 Sep 2018 **Addis Ababa (Ethiopia)** *Al Jazeera*. Protesters descend on **Addis Ababa** over ethnic violence in **Oromo** province;

15 Sep 2018 **Addis Ababa (Ethiopia)** *Fana Broadcasting Corporation*. **Ethiopian** airstrikes kill 70 **al-Shabaab** extremists in **Somalia**;

16 Sep 2018 **Addis Ababa (Ethiopia)** *Washington Post*. Prime minister **Abiy Ahmed** and **Eritrean** President **Isaias Afwerki** sign a peace agreement in **Saudi Arabia**, although terms of the agreement are not yet clear;

13 Sep 2018 **Addis Ababa (Ethiopia)** *News24*. Federal police clash with armed men ahead of the return of opposition groups to **Ethiopia**;

12 Sep 2018 **Addis Ababa (Ethiopia)** *EWN*. **Ethiopia** and **Eritrea** re-open borders for the first time in 20 years;

10 Sep 2018 **Addis Ababa (Ethiopia)** *AFP*. Leader of former armed movement **Ginbot 7**, **Berhanu Nega**, returns to **Ethiopia** after political reforms;

6 Sep 2018 **Addis Ababa (Ethiopia)** *africanews*. **China** extends a \$4 billion loan for a **Djibouti-Addis Ababa** railway to 30 years;

5 Sep 2018 **Asmara (Eritrea)** *Al Jazeera*. Prime minister **Abiy Ahmed** reopens embassy in **Eritrea** after a 20-year hiatus;

4 Sep 2018 **Addis Ababa (Ethiopia)** *VOA*. The **Ethiopian Investment Commission (EIC)** plans to open the logistics sector to foreign investors but will cap their participation at 49%;

3 Sep 2018 **Addis Ababa (Ethiopia)** *GCR*. EIC commissioner **Belachew Mekuria** plans to open four new China-funded industrial parks by the end of 2018;

³⁵ Source, business leader, London

³⁶ Xinhua, 28 Aug 2018.

30 Aug 2018 **Oromia Region (Ethiopia)** *africanews*. The main opposition parties in the **Oromia Region**, the **Oromo Federalist Congress** and the **Oromo Liberation Front**, hint that they may merge for the 2020 elections;

29 Aug 2018 **Addis Ababa (Ethiopia)** *africanews*. **Ethiopia** adjusts its foreign exchange regulations to increase foreign reserves;

28 Aug 2018 **Addis Ababa (Ethiopia)** *FT*. The government cancels a contract with the state military-owned **Metals and Engineering Corporation (Metec)** due to complaints of delays and political patronage;

27 Aug 2018 **Addis Ababa (Ethiopia)** *Al Jazeera*. Police arrest former **Somali** region president, **Abdi Mohamed Omar**, on human rights abuses after deadly clashes in August;

26 Aug 2018 **Addis Ababa (Ethiopia)** *Reuters*. Prime minister **Abiy Ahmed** states that the 2020 elections will not be delayed and will be free and fair;

25 Aug 2018 **Addis Ababa (Ethiopia)** *Al Jazeera*. The **World Bank** plans to provide \$1 billion in direct budget support to **Ethiopia**;

24 Aug 2018 **Addis Ababa (Ethiopia)** *New Business*. **Germany**-based automobile company, **Volkswagen**, plans to assemble cars in **Ethiopia** in the near future;

23 Aug 2018 **Oromia (Ethiopia)** *Premium Times*. Authorities arrest 800 people over new conflict in **Oromia**;

22 Aug 2018 **Addis Ababa (Ethiopia)** *VOA*. A US congressional delegation arrives in **Ethiopia** to discuss reform efforts;

20 Aug 2018 **Addis Ababa (Ethiopia)** *Reuters*. State-owned **Ethiopian Airlines** signs a shareholding agreement with **Zambia's Industrial Development Corporation** to revive **Zambia Airways**;

20 Aug 2018 **Addis Ababa (Ethiopia)** *The Exchange*. **Ethiopia** inaugurates the first waste-to-energy facility which will produce 25 megawatts per day;

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)