

## AFRICA RISK CONSULTING

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*The long-awaited ruling Ethiopian People's Revolutionary Democratic Front (EPRDF) Congress consolidates the position of the prime minister, Abiy Ahmed (2018-present). Violence in Benishangul-Gamuz Regional State and the rise of ethnonationalist opposition parties continues to raise security concerns. Abiy agrees a deal with soldiers after they demand a pay rise. Abiy opens a tax-free industrial park in Adama (Special Zone of Oromia) and inaugurates the Export-Import Bank of China-financed Omo Kuraz Sugar Factory No. 3 (Bench Maji Zone) to boost domestic production of sugar.*

#### EPRDF congress consolidates Abiy's position but security problems persist

The congress of the ruling **Ethiopian People's Revolutionary Democratic Front (EPRDF)**, took place in **Hawassa**, the capital of the **Southern Nations, Nationalities and Peoples' Region**, from 3 -5 October.<sup>1</sup> The congress saw prime minister **Abiy Ahmed** (2018-present) re-elected as EPRDF chairman.<sup>2</sup> Abiy's re-election gives him a mandate to lead the EPRDF coalition until the next congress, due in two years.<sup>3</sup>

The consolidation of his position as coalition leader will quash opposition to his reformist agenda, which has seen him invite previously banned political groups back into the country and privatise state-owned companies (see *ARC Briefing Ethiopia September 2018*).<sup>4</sup> Moreover, the re-election of **Demeke Mokonnen** from the **Amhara Democratic Party (ADP)** as deputy chairman of the EPRDF affirms the support of other EPRDF member parties in Abiy's agenda.<sup>5</sup> The **Tigrayan People's Liberation Front (TPLF)**, the party within the ruling EPRDF coalition that enjoyed political and military primacy before Abiy's rise to power in April, has posed vocal opposition to Abiy's democratising reforms in the wake of its authoritarian ruling style.<sup>6</sup> However, the congress appears to have succeeded in healing divisions among the EPRDF's constituent parties:

*"The tension between [TPLF] hardliners and Dr Abiy's reformist team have eased following the party's congress."<sup>7</sup>*

Despite his triumph at the EPRDF Congress, problems remain for Abiy with ethnonationalist opposition parties in the country, especially the **Oromo Liberation Front (OLF)**.<sup>8</sup> Ethnically-motivated violence upon the return of the OLF from exile on 15 September saw 28 people killed in **Burayu (Oromia Regional State)** in September.<sup>9</sup> Scores of arrests in Oromia for inciting violence demonstrate the extent of insecurity in the region (see *ARC Briefing Ethiopia September 2018*):<sup>10</sup>

<sup>1</sup> Africanews, 5 Oct 2018.

<sup>2</sup> Africanews, 5 Oct 2018.

<sup>3</sup> The Reporter Ethiopia, 6 Oct 2018.

<sup>4</sup> Al Jazeera, 18 Sept 2018 and VOA, 4 Sept 2018.

<sup>5</sup> Africanews, 5 Oct 2018.

<sup>6</sup> Borkena, 3 Oct 2018.

<sup>7</sup> The East African, 13 Oct 2018.

<sup>8</sup> The East African, 13 Oct 2018.

<sup>9</sup> Al Jazeera, 18 Sept 2018.

<sup>10</sup> Premium Times, 18 Sept 2018.

*“What is on top of everyone’s mind is the recognition among [the EPRDF] that PM Abiy Ahmed’s chairmanship of the EPRDF is besieged by a series of failures to assure the safety and security of Ethiopians across the country.”<sup>11</sup>*

Violence in the western **Benishangul-Gamuz Regional State** has displaced a reported 70,000 people, compounding security problems.<sup>12</sup> **United Kingdom (UK)**-based news agency **Ethiopia Insight** cites a border dispute between Oromia and Benishangul-Gamuz as the cause of violence.<sup>13</sup> **Gamuz** residents have attacked mainly **Amhara** and **Oromo** people in retaliation for the death of four Gamuz officials visiting Oromia on 26 September.<sup>14</sup>

The violence is one example of the numerous incidents that have forced more than one million Ethiopians to flee conflict zones as internally displaced people (IDPs) since Abiy came to power.<sup>15</sup> Political commentators such as **Kifleyohanes Anberbir** have publicly questioned Abiy’s leadership credentials, as well as the popularity of his democratising reforms.<sup>16</sup>

Abiy’s apparent consolidation of power within the ruling EPRDF coalition is important to his longevity as prime minister and will enable him to pursue his political and economic agenda with less disapproval of EPRDF members, especially the TPLF. This is good news for prospective investors to Ethiopia. However, the continuation of violence in the west, south and east of the country (as well as in the capital, **Addis Ababa**<sup>17</sup>) is good reason for investors to exercise caution when considering investments in those problem areas. If Abiy cannot solve Ethiopia’s security crisis, his credibility as prime minister will erode.

### **Abiy agrees deal with soldiers demanding pay rise**

Hundreds of soldiers congregated outside the prime minister’s office in Addis Ababa on 10 October, reportedly demanding a pay rise and a review of the structure and operations of the military.<sup>18</sup> Many of the soldiers carried assault rifles but were refused entry into the prime minister’s office until they laid down their weapons.<sup>19</sup> Speaking to the soldiers in his office, Abiy diffused tensions by performing press-ups with the disgruntled soldiers and came to an agreement with them during their meeting.<sup>20</sup>

Although the agreement highlights a positive aspect of Abiy’s leadership, the protest illustrates the prime minister’s weak position with regard to the armed forces. By marching to the prime minister’s office with weapons, the soldiers clearly violated proper procedure, and Abiy’s leniency in dealing with them suggests that he lacks control of the armed forces.<sup>21</sup> **Addis Ababa University** associate law professor **Dereje Zeleke** told **BBC Amharic** that,

*“This shows that the military and intelligence apparatus are not willing to serve the new commander-in-chief [i.e. Abiy] or the reform he represents.”<sup>22</sup>*

In recent years, the military and intelligence forces were largely controlled by the TPLF.<sup>23</sup> However, shortly after his appointment as prime minister, Abiy sacked TPLF stalwarts **Samora Yunis** and **Getachew Assefa** from their roles as head of the army and intelligence services respectively, wresting

<sup>11</sup> Addis Standard, 3 Oct 2018.

<sup>12</sup> Ethiopia Insight, 4 Oct 2018.

<sup>13</sup> Ethiopia Insight, 4 Oct 2018.

<sup>14</sup> Ethiopia Insight, 4 Oct 2018.

<sup>15</sup> Ethiopia Insight, 4 Oct 2018.

<sup>16</sup> The East African, 13 Oct 2018.

<sup>17</sup> Al Jazeera, 18 Sept 2018.

<sup>18</sup> Al Jazeera, 10 Oct 2018.

<sup>19</sup> BBC, 11 Oct 2018.

<sup>20</sup> BBC, 11 Oct 2018.

<sup>21</sup> BBC, 11 Oct 2018.

<sup>22</sup> Dereje Zeleke quoted in BBC, 11 Oct 2018.

<sup>23</sup> Borkena, 3 Oct 2018.

control of these significant institutions from the TPLF's grasp.<sup>24</sup> Resentment at this exchange of military power could explain this protest.

In a bid to restore public confidence in the government's control of the army, defence minister **Motuma Mekassa** announced an investigation into the military commanders in charge of the protesting soldiers.<sup>25</sup> It remains unclear whether any of these commanding officers will face disciplinary action.<sup>26</sup> However, military officers thought to be responsible for the protest were arrested and detained on 10 October.<sup>27</sup>

Public attitudes towards the protest on social media express little faith in the government's ability to maintain security in the country.<sup>28</sup> This development provides further evidence of insecurity in Ethiopia following the mass displacement of people in the country due to widespread violence (see above) and warns investors to monitor security within the country.

### New sugar factory and industrial park show Ethiopia's will to industrialise

Prime minister Abiy inaugurated the state-owned **Omo Kuraz Sugar Factory No. 3** in the **Bench Maji Zone** of southern Ethiopia on 14 October, signifying the Ethiopian government's commitment to the growth of light industry in Ethiopia.<sup>29</sup> Despite Ethiopia's vast potential for sugar production, the country is a net importer of sugar, importing 100,000 metric tonnes of sugar between December 2017 and March 2018 as domestic production failed to meet demand.<sup>30</sup> Omo Kuraz Sugar Factory No. 3, the eighth operational sugar factory in Ethiopia, will work to boost domestic production of sugar.<sup>31</sup>

A week prior to the opening of the sugar factory, Abiy opened a tax-free industrial park in **Adama** in the **Special Zone of Oromia**, the fifth of its kind in the country.<sup>32</sup> The park will house international textiles companies based in countries as disparate as **Spain** and **Hong Kong**.<sup>33</sup> The Ethiopian government plans to open three further industrial parks before July 2019, demonstrating its industrialisation and development plans.<sup>34</sup> The government aims to increase the market share of the manufacturing industry in the country from 5% to 22% by 2025.<sup>35</sup>

**China-based Export-Import Bank of China** financed the Omo Kuraz Sugar Factory No. 3 with a loan several years ago. The Chinese-owned **Industry and Commercial Bank of China** has financed subsequent sugar manufacturing projects in Ethiopia.<sup>36</sup> Similarly, the Adama industrial park is built, financed and managed by Chinese entities including the state-owned **China Civil Engineering Construction Company**.<sup>37</sup>

Ethiopia owes the Chinese government \$13.73 billion after taking out loans mainly for the development of transport and manufacturing projects.<sup>38</sup> The extent of Ethiopia's national debt (59% of GDP in 2018), coupled with a foreign currency shortage, worries investors, and has led Chinese investors to lose confidence in the Ethiopian market.<sup>39</sup> China's leading state-owned export and credit insurance company, **Sinosure**, is no longer extending credit to Chinese banks for projects in Ethiopia

<sup>24</sup> OPride, 9 June 2018.

<sup>25</sup> Borkena, 12 Oct 2018.

<sup>26</sup> Borkena, 12 Oct 2018.

<sup>27</sup> Borkena, 14 Oct 2018.

<sup>28</sup> Borkena, 12 Oct 2018.

<sup>29</sup> Borkena, 14 Oct 2018.

<sup>30</sup> Capital Ethiopia, 30 May 2018.

<sup>31</sup> Borkena, 14 Oct 2018.

<sup>32</sup> Global Construction Review, 9 Oct 2018.

<sup>33</sup> Global Construction Review, 9 Oct 2018.

<sup>34</sup> Global Construction Review, 9 Oct 2018.

<sup>35</sup> Global Construction Review, 9 Oct 2018.

<sup>36</sup> African Farming, 28 Jul 2015.

<sup>37</sup> Africa Intelligence, 11 Oct 2018 and Capital Ethiopia, 17 Apr 2018.

<sup>38</sup> The East African, 15 Oct 2018.

<sup>39</sup> Financial Times, 3 Jun 2018.

as willingly as it used to (see *ARC Briefing Ethiopia June 2018*).<sup>40</sup> These issues will continue to hinder Ethiopia's economic progress.

Despite Ethiopia's pressing economic issues, international businesses appear eager to invest in Ethiopia. During a visit to Ethiopia in late August, **Germany's** development cooperation minister, **Gerd Muller**, announced that Germany-based car manufacturer **Volkswagen** "will start assembling cars in Ethiopia in the near future."<sup>41</sup> Prime minister Abiy has tried to address macroeconomic issues, having convinced his Chinese creditors to extend a \$4 billion loan repayment plan from 10 years to 30 years in September<sup>42</sup> and gaining foreign currency injections from the **United Arab Emirates** (see *ARC Briefing Ethiopia September 2018*).<sup>43</sup> Professor **Christopher Cramer** from the UK-based **School of Oriental and African Studies (SOAS)** advocates Ethiopia's large public spending, arguing that such spending has facilitated Ethiopia's sustained and rapid economic growth.<sup>44</sup> Testament to this economic model is the fact that Ethiopia's GDP has grown tenfold since the year 2000.<sup>45</sup>

Investors can expect Ethiopia's grand plan to transform the country's largely agrarian economy into an industrialised one by 2025 to continue, with new factories and industrial parks at the forefront of the Ethiopian plans.<sup>46</sup> **Vijaya Ramachandran**, senior fellow at the **United States-based Centre for Global Development**, claims that Ethiopia's low cost of labour makes the country an ideal investment destination for manufacturing industries.<sup>47</sup> The continued rapid growth of Ethiopia's economy could offset the country's debt and foreign currency woes.

### Planner

25-28 Oct 2018 **Addis Ababa (Ethiopia)** *10Times.com*. Ethiopia International Trade Expo; 2020 **(Ethiopia)** Parliamentary elections

### Chronology

14 Oct 2018 **Bench and Maji zone (Ethiopia)** *Borkena*. Prime minister **Abiy Ahmed** inaugurates the **Omo Kuraz Sugar Factory No. 3**;

10 Oct 2018 **Addis Ababa (Ethiopia)** *Al Jazeera*. Prime minister **Abiy Ahmed** reaches an agreement with striking soldiers, though no details of the agreement are released;

9 Oct 2018 **Adama (Ethiopia)** *Global Industrial Review*. Prime minister **Abiy Ahmed** inaugurates the **Adama Industrial Park**;

9 Oct 2018 **Addis Ababa (Ethiopia)** *africanews*. President **Mulatu Teshome** plans to reform several laws criticised as affecting human rights and democracy;

3 Oct 2018 **Hawassa (Ethiopia)** *Africanews*. **Ethiopian People's Revolutionary Democratic Front (EPRDF)** Congress begins;

28 Sep 2018 **Addis Ababa (Ethiopia)** *Reuters*. Attorney-general **Berhanu Tsegaye** files terrorism charges against five suspects for the grenade attack against prime minister **Abiy Ahmed** in June;

<sup>40</sup> Financial Times, 3 Jun 2018.

<sup>41</sup> New Business Ethiopia, 24 Aug 2018.

<sup>42</sup> Reuters, 6 Sept 2018.

<sup>43</sup> Africanews, 30 Aug 2018.

<sup>44</sup> World Finance, 9 Oct 2018.

<sup>45</sup> World Finance, 9 Oct 2018.

<sup>46</sup> Xinhua, 9 Oct 2018.

<sup>47</sup> Vijaya Ramachandran in World Finance, 9 Oct 2018.

26 Sep 2018 **Addis Ababa (Ethiopia)** *Reuters*. The IMF forecasts that **Ethiopia's** economy will grow 8.5% in 2018, up from 7.5% in 2017;

25 Sep 2018 **Addis Ababa (Ethiopia)** *AA*. **Ethiopia, Egypt** and **Sudan's** water ministers meet to discuss the multi-billion-dollar **Nile** dam project;