

AFRICA RISK CONSULTING**Ethiopia Monthly Briefing December 2018**

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A government crackdown on the Tigrayan People's Liberation Front (TPLF) continues with a large number of high-profile arrests for corruption and human rights abuses. Statehood requests from several administrative zones in Southern Nations, Nationalities and Peoples' Regional State (SNNPRS) threatens an ethnic balkanisation of the SNNPRS and possibly further afield. The International Monetary Fund (IMF) concludes its Article IV visit to Ethiopia, predicting continued economic growth but warning of high debt distress risk.

Government crackdown on TPLF continues

A spate of high-profile arrests of cadres from the **Tigrayan People's Liberation Front (TPLF)** has demonstrated the willingness of prime minister **Abiy Ahmed** (2018-present) to hold the regime of former prime minister **Hailemariam Desalegn** (2012-2018) to account. The TPLF is one of the four constituent parties of the ruling **Ethiopian People's Revolutionary Democratic Front (EPRDF)** and held a tight grip on political and military power across Ethiopia until Abiy and his **Oromo Democratic Party (ODP)** toppled it from primacy in April.¹

Attorney general **Berhanu Tsegaye** on 12 November accused members of the **National Intelligence and Security Service (NISS)** of instigating a grenade attack aimed at Abiy at a rally in the capital, **Addis Ababa**, on 23 June (see *ARC Briefing Ethiopia June 2018*).² The accusation forms part of a sustained and multifaceted effort from Abiy and the newly empowered ODP to discredit and marginalise the TPLF, to which former prime minister Hailemariam Desalegn and many security forces leaders belonged.³ Authorities arrested more than 60 top-ranking military and intelligence personnel in November on grounds of corruption and human rights abuses.⁴ Included in the arrests were the former head of state-owned and military-run **Metals and Engineering Corporation (MeTEC)**, **Kinfe Dagneu**, and former head of the state-owned **Ethiopian Sugar Corporation**, **Abay Tsehaye**, both senior Tigrayan political and military figures, accused on 13 November of grand corruption in projects including the **Grand Ethiopian Renaissance Dam (GERD)**.⁵ Police also arrested former NISS deputy **Yared Zerihun** on 15 November and charged him with human rights abuses and corruption, alleging that he had ordered prison officers to torture prisoners.⁶ Officials from state-owned **Ethiopian Electrical Power** and **Ethio Telecom** also faced arrest.⁷

Several developments earlier this year weakened the TPLF's power with the state apparatus.⁸ **Sebhat Nega**, a key founder and ideologue of the TPLF, retired in May from his role as general director of the **Ethiopian Foreign Relations Strategic Studies Institute (EFRSSI)**.⁹ In June, Abiy dismissed TPLF veteran **Getachew Assefa** as head of the NISS and fellow Tigrayan **Samora Yunis** as head of the

¹ Ethiopia Observer, 13 Oct 2018.

² Reuters, 12 Nov 2018.

³ ECADF, 25 June 2018.

⁴ Xinhua, 13 Dec 2018.

⁵ ESAT News, 12 Nov 2018.

⁶ Addis Standard, 16 Nov 2018.

⁷ ESAT News, 12 Nov 2018.

⁸ Reuters, 8 June 2018.

⁹ Ethiopian Observer, 18 May 2018.

armed forces, replacing Getachew with **Adem Mohamed**, an ethnic **Amhara**, and Samora with **Seare Mekonnen**, a more junior member of the Tigrayan military class.¹⁰

Some of those excluded from the political process under Hailemariam and the TPLF have now gained representation. Announcing his cabinet on 16 October, Abiy promoted those such as **Aisha Mohamed** from **Afar Regional State** and **Muferiat Kamil** from the **Southern Nations, Nationalities and Peoples' Region (SNNPR)** to high-profile cabinet positions.¹¹ The TPLF-led government had imprisoned the new head of the **National Election Board of Ethiopia**, **Birtukan Mideksa** in 2005 and 2008 over the disputed 2005 elections.¹²

The TPLF cries foul of these developments, arguing that the current administration is targeting them on ethnic grounds.¹³ TPLF chair **Debretsion Gebremichael** claimed on 19 November that the anti-graft drive sweeping Ethiopia's state-owned enterprises unfairly targets Tigrayans.¹⁴ Protest marches against these arrests took place across **Tigray Regional State** on 25 November,¹⁵ with another "huge rally" in protest of the arrests taking place in **Mekelle** (Tigray Regional State) on 8 December.¹⁶

Across the rest of Ethiopia and overseas, the crackdown on human rights abuses and corruption under the former regime enjoys popular support. Human rights groups, including **United Kingdom-based Amnesty International**, support the arrests, and Abiy's willingness to hold the previous regime to account has shown his strength to the public and made him more popular.¹⁷

Despite protests in Tigray and a disgruntled TPLF, these developments show Ethiopia to be an improving environment for investors, with state-owned enterprises held to account along with the former political and military elite. A backlash from the TPLF elite appears unlikely, as Abiy appeared to quash the possibility of an existential TPLF threat at the ruling EPRDF Congress in **Hawassa** between 3-5 October (see *ARC Briefing Ethiopia October 2018*).¹⁸ Moreover, Ethiopia's improved position of 159th out of 190 countries in the **World Bank's 2019 Doing Business Report**, up from 161st in the 2018 report, and its improving trend on **Transparency International's Corruption Perceptions Index (CPI)** reflect these positive changes to the country's investment environment.¹⁹

2017 Rank	Country	2017 Score	2016 Score	2015 Score	2014 Score	2013 Score	2012 Score
107	Ethiopia	35	34	33	33	33	33

Source: Transparency International Corruption Perceptions Index 2017, 21 Feb 2018

Sidama push for regional state status threatens ethnic balkanisation of Ethiopia

The council of the Southern Nations Nationalities and Peoples' Regional State (SNNPRS) approved a request on 2 November from the **Sidama Zone** to secede from the SNNPRS and gain statehood.²⁰ The ensuing requests in November by **Gurage Zone**, **Wolyata Zone** and **Kaffa Zone** for statehood demonstrate the possible breakup and ethnic balkanisation of SNNPRS, and could have ramifications further afield.²¹ These requests follow a countrywide trend of ethnonationalist politics, most notably pursued by the ethnic **Oromo** of **Oromia Regional State** during their long protest against the

¹⁰ Ethiopian Observer, 7 Jun 2018.

¹¹ The Washington Post, 16 Oct 2018.

¹² Mail and Guardian, 9 Jan 2010.

¹³ Nazret, 20 Nov 2018.

¹⁴ News24, 19 Nov 2018.

¹⁵ Ezega, 25 Nov 2018.

¹⁶ Borkena, 8 Dec 2018.

¹⁷ Nazret, 20 Nov 2018.

¹⁸ The East African, 13 Oct 2018.

¹⁹ Doing Business 2019.

²⁰ Ethiopia Insight, 3 Nov 2018.

²¹ Ethiopia Insight, 28 Nov 2018.

Tigrayan-dominated federal government until the installation of prime minister Abiy, an ethnic Oromo, in April.²² During Abiy's tenure, ethnonationalist parties such as the **Oromo Liberation Front (OLF)** have been legalised and their leaders returned to Ethiopia from exile (see *ARC Briefing Ethiopia September 2018*).²³ Similarly, in Sidama Zone, the **Sidama Liberation Movement** celebrated as it welcomed its own leaders back from exile on 4 October.²⁴

The growing importance of ethnicity in Ethiopian politics has caused violence across the country, most notably on the border between **Somali Regional State** and Oromia Regional State (see *ARC Briefing Ethiopia August 2018*)²⁵ and in western Oromia (see *ARC Briefing Ethiopia October 2018*).²⁶ Another flashpoint for violence is Sidama Zone, with ethnic Sidama and ethnic **Wolayta** in conflict.²⁷

Investors are advised to take stock of the political regions in which they plan to invest and operate, and assess existing political tensions to determine the likelihood of violence that could damage their assets.

IMF concludes Article IV visit to Ethiopia

An **International Monetary Fund (IMF)** Article IV Consultation with Ethiopia, concluded on 30 November, warned that the IMF's Debt Sustainability Analysis (DSA) deems the country's debt distress risk as 'high' after a continued policy of public sector-led development has increased public debt liabilities.²⁸ So pressing is this issue that the IMF stated categorically that Ethiopia

"has to refrain from any Non Concessional Borrowings (NCB) for the upcoming fiscal year".²⁹

In its report, the IMF urged the government to raise tax revenues and continue to improve the governance and transparency of state-owned enterprises.³⁰ In this regard, the government has already made several high-profile arrests due to the mishandling of public funds by employees of state-owned enterprises such as MetEC carrying out work on the massive Grand Ethiopian Renaissance Dam (GERD) project (see above).³¹

Another key macroeconomic issue facing the Ethiopian government is its foreign currency shortage. The **National Bank of Ethiopia (NBE)** (central bank) has made efforts to increase foreign currency liquidity by removing the upper limit of foreign currency held in bank accounts by the diaspora and forcing all banks to give up 30% of its foreign currency inflow.³² However, the NBE's reluctance to float the Ethiopian birr currency on international markets hampers any true prospect of solving Ethiopia's foreign currency shortage (see *ARC Briefing Ethiopia June 2018*).³³

The IMF did praise the Ethiopian government's tightening of fiscal policy to address its debt issues, noting the attainment of a lower than expected budget deficit of 3.7% of GDP for the 2017/2018 fiscal year.³⁴ Further cause for investor interest in Ethiopia is the increase in the country's gross domestic product (GDP) by 7.7% over the 2017/2018 financial year due to rapid growth in Ethiopia's air transport and manufacturing industries as well as favourable harvests.³⁵ Another positive economic indicator is the IMF's prediction that Ethiopia's economic output growth will reach 8.5% over

²² BBC, 14 Sept 2018.

²³ Al Jazeera, 18 Sept 2018.

²⁴ Borkena, 4 Oct 2018.

²⁵ OPride, 31 Jul 2018.

²⁶ Ethiopia Insight, 4 Oct 2018.

²⁷ Addis Standard, 19 Nov 2018.

²⁸ Continental Telegraph, 9 Dec 2018.

²⁹ International Monetary Fund, 3 Dec 2018.

³⁰ International Monetary Fund, 3 Dec 2018.

³¹ Addis Standard, 7 Dec 2018.

³² International Monetary Fund, 3 Dec 2018.

³³ Source, business leader, London.

³⁴ International Monetary Fund, 3 Dec 2018.

³⁵ International Monetary Fund, 3 Dec 2018.

2018/2019, with privatisations and opening previously public economic sectors, including logistics,³⁶ to private competition aiding this further growth (see *ARC Briefing Ethiopia September 2018*).³⁷

In sum, Ethiopia's predicted high rate of economic growth and efforts towards improving the investment environment makes the country an attractive investment destination. However, investors should take note of Ethiopia's debt distress risk when considering investing in Ethiopia, particularly in public-private partnerships. Ethiopia's high risk of debt distress and foreign currency shortage show that significant investment risks remain.

Planner

6 Feb 2019 **Addis Ababa (Ethiopia) African Islamic Finance Summit**;
 21-25 Feb 2019 **Addis Ababa (Ethiopia) Ethiopia International Trade Expo**;
 2-4 May 2019 **Addis Ababa (Ethiopia) China Trade Week Ethiopia**;
 2020 **(Ethiopia)** Parliamentary elections;

Chronology

16 Dec 2018 **Addis Ababa (Ethiopia) News24**. A court jails 66 soldiers who protested in October over low pay;

15 Dec 2018 **Addis Ababa (Ethiopia) Al Jazeera**. Ethnic violence results in 21 people dead after conflict between **Oromo** and **Somali** ethnic groups;

11 Dec 2018 **Addis Ababa (Ethiopia) World Highways**. The government awards a \$138m deal to **South Korea**-based contractor **Hyundai Development** to build a 143-km highway between the **Tepi** and **Gore** regions;

2 Dec 2018 **Addis Ababa (Ethiopia) Journal du Cameroun**. **Ethiopian Airlines** partnership airline in **Mozambique**, **Ethiopian Mozambique Airlines**, launches domestic flights in Mozambique;

29 Nov 2018 **Addis Ababa (Ethiopia) Mining.com**. **United Kingdom**-based mining company, **Altus Strategies**, discovers silver at its **Daro** project in **Tigray Regional State**;

28 Nov 2018 **Addis Ababa (Ethiopia) Quartz**. **Bole International Airport** overtakes **Dubai International Airport** as the leading aviation gateway into **Africa**;

28 Nov 2018 **Addis Ababa (Ethiopia) Borkena**. **United States (US)** assistant secretary of state for African affairs, **Tibor P. Nagy**, visits **Ethiopia**, **Djibouti**, **Eritrea** and **Kenya** as part of an official visit;

27 Nov 2018 **Addis Ababa (Ethiopia) Fana Broadcasting Corp**. **Ethiopia** plans to hold its first census in a decade prior to the 2020 election;

27 Nov 2018 **Addis Ababa (Ethiopia) Reuters**. Prime minister **Abiy Ahmed** promises free elections in 2020 as he meets with 81 opposition groups;

22 Nov 2018 **Addis Ababa (Ethiopia) Al Jazeera**. Prime minister **Abiy Ahmed** appoints opposition leader **Birtukan Mideksa** as head of the **National Electoral Board of Ethiopia**;

21 Nov 2018 **Addis Ababa (Ethiopia) Daily Trust**. **Ethiopian Cargo and Logistics Services** plans to increase revenue to \$2 billion by 2025 with delivery of its eighth B777

³⁶ VOA, 4 Sept 2018.

³⁷ International Monetary Fund, 3 Dec 2018.

freighter aircraft;

19 Nov 2018 **Addis Ababa (Ethiopia)** *News24*. **Tigray People's Liberation Front** chair **Debretsion Gebremichael** claims that the anti-graft drive targets **Tigrayan** people;

18 Nov 2018 **Cairo (Egypt)** *Reuters*. **Egypt** will hold talks with **Ethiopia** to iron out differences over the **Grand Renaissance Dam** and the **Nile River**;

18 Nov 2018 **Addis Ababa (Ethiopia)** *Xinhua*. **African Union Commission** chair **Moussa Faki Mahamat** states that it will impose sanctions against members who fail to make annual financial contributions;

17 Nov 2018 **Addis Ababa (Ethiopia)** *Borkena*. Authorities arrest former deputy chief of the **National Intelligence and Security Services**, **Yarid Zerihun**, for embezzlement and human rights violations;

12 Nov 2018 **Addis Ababa (Ethiopia)** *Reuters*. Attorney-general, **Berhanu Tsegaye**, accuses members of the **National Intelligence and Security Service** of being involved in the grenade attack in June;

9 Nov 2018 **Addis Ababa (Ethiopia)** *The Citizen*. Police uncover a mass grave with 200 bodies near the **Somali** region;