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The ruling Ethiopian People's Revolutionary Democratic Front (EPRDF) announces plans to sell shares in state-owned businesses to private investors. A grenade explosion at a political rally in Addis Ababa in support of the prime minister, Abiy Ahmed (2018-present), kills two people and injures over 150 in a suspected assassination attempt on Abiy. The Tigray People's Liberation Front (TPLF) condemns Abiy's liberalising policies including selling shares in state-owned companies and agreeing to the terms of the Algiers Agreement with Eritrea. A foreign exchange shortage hurts Ethiopian businesses and scares off Chinese investment in Ethiopia.

EPRDF reveals plans to sell shares in state-owned businesses to private investors

The ruling **Ethiopian People's Revolutionary Democratic Front (EPRDF)** announced plans on 5 June to open its state-run entities, including **Ethio Telecom**, **Ethiopian Airlines**, **Ethiopian Power**, and the **Maritime Transport and Logistics Corporation**, to domestic and foreign investors.¹ With major enterprise the reserve of the **Ethiopian** government for so long, this appears to be a sea change in Ethiopian economic policy. However, the commercial viability of private investment into Ethiopian state-owned companies is contested, begging the question as to who will invest. Most of the state-owned companies, particularly **Ethio Telecom**, are said to be poorly run, and therefore appear to be unattractive investments for private capital.²

*'The only well-performing company offered up for private investment is **Ethiopian Airlines**, and other airlines tend not to invest in others – they take over.'*³

With Ethiopian Airlines certainly unwilling to entertain a buyout from a private company, it remains uncertain as to whether the airline will attract private investment.

The potential limitations of private investors' shareholding privileges could also deter investment. Despite inviting private investment into state-owned companies, the Ethiopian government is unlikely to allow private shareholders to influence business decisions. The chairman of a major Ethiopian company with state investment told ARC that *"the changes allow participation but not competition"*.⁴ The same source told ARC that state officials have, until recently, been reticent to cooperate with other shareholding parties within his company.⁵ However, a second source gave a more positive report on the state's attitude towards his business, which similarly has significant state involvement. He reported that the government had dismissed many of the senior state officials involved in the company who had tended to block the wishes of other investors and were reticent to change, and replaced them with more business-savvy and cooperative officials.⁶

Doubt remains over the extent of the government's will to liberalise Ethiopia's economy. In a speech made to business leaders in **Addis Ababa** shortly after his inauguration, the prime minister, **Abiy Ahmed** (2018-present), said the government will retain overall control of the economy (see ARC

¹ Reuters, 5 Jun 2018.

² Source, board chairman, London

³ Source, senior political risk analyst, London

⁴ Source, board chairman, London

⁵ Source, board chairman, London

⁶ Source, board chairman, London

Briefing Ethiopia May 2018).⁷ As evidence of this, Abiy has refused to release the country's banking sector from state control.⁸

Despite these limitations, Abiy's policies mark significant improvements in Ethiopia's business climate. The government has begun to increase competition by making an attempt to revive Ethiopia's telecoms sector. Abiy announced plans on 19 June to sell a 30% to 40% stake in state-owned telecommunications company **Ethio Telecom** to private investors.⁹ By splitting the company in two, the government aims to break the monopoly over the telecommunications sector and spur competition.¹⁰

Whilst opening state-owned companies is not a transformative development in the Ethiopian business environment, it is certainly a statement of intent from the current administration that it will, to some extent, encourage private business interests.¹¹ The splitting up of Ethio Telecom and opening up of the telecommunications sector are also likely to engender better management of both companies and improved telecoms services in Ethiopia.

Suspected assassination attempt as Abiy's policies draw criticism

A grenade exploded at a political rally in support of the prime minister, Abiy Ahmed, in Addis Ababa on 23 June, killing two people and injuring over 150.¹² The grenade attack is thought to have been an assassination attempt on Abiy's life.¹³ No group has taken responsibility for the attack but it appears likely that it was a violent expression of disapproval of Abiy's rise to power and policy decisions among **The Tigray People's Liberation Front (TPLF)** loyalists:

*"Abiy's effort to move the country forward has angered those who for a very long time maintained a stronghold on the country's politics and economy. These people are trying to scare people and undermine the prime minister so they can send a signal that he is not capable of stabilising the country."*¹⁴

The TPLF is the oldest party within the ruling EPRDF and enjoyed a disproportionately large share of political and military power under the former prime minister, **Hailemariam Desalegn** (2012-2018). The TPLF's power in government and in the military has significantly waned since Abiy succeeded Hailemariam. Abiy, a member of the **Oromo People's Democratic Organisation (OPDO)**, relieved TPLF veterans **Samora Yunis** and **Getachew Assefa** of their roles as head of the army and intelligence services respectively in June.¹⁵ However, despite their fall from political prominence, the TPLF "old guard" still wields enough influence in government to affect Abiy's plans. An Ethiopia-based diplomat noted Abiy has attempted to rush through a raft of reforms in order to present the EPRDF congress in August with "*a fait accompli situation*" to discuss,

*"...instead of discussing what to do [with the coalition of four parties that make up the EPRDF]".*¹⁶

Since his inauguration on 3 April, Abiy has taken steps to improve security and liberalise foreign policy, a significant change in tack from the TPLF's politically and economically conservative agenda. In this vein, Abiy announced on 5 June that Ethiopia would fully accept the **Algiers Agreement of 2000** in terms of which Ethiopia cedes the town of **Badme** to **Eritrea**.¹⁷ The agreement ends a

⁷ Reuters, 23 Apr 2018.

⁸ Source, board chairman, London

⁹ Reuters, 19 Jun 2018.

¹⁰ Africanews, 19 Jun 2018.

¹¹ Source, board chairman, London

¹² Eyewitness News, 24 Jun 2018.

¹³ Madote, 24 Jun 2018.

¹⁴ Al Jazeera, 24 Jun 2018.

¹⁵ OPride, 9 Jun 2018.

¹⁶ Source, diplomat, Addis Ababa

¹⁷ Africanews, 14 Jun 2018.

longstanding and violent border dispute. Accepting the Algiers Agreement is “to recognise the futility of that war and the protracted hostilities that followed”.¹⁸ This moves Ethiopia and Eritrea towards economic cooperation and delegitimises Eritrea’s militaristic policies that impose open-ended terms of military service on its citizens.¹⁹ Eritrea’s president, **Isaias Afwerki** (1993-present) welcomed Ethiopia’s move towards peace on 20 June.²⁰

In a further liberalisation of the political landscape, Abiy’s government prematurely ended on 5 June the six-month state of emergency that Hailemariam’s government had reinstated on 16 February.²¹ The government implemented the state of emergency to quash popular protests, primarily in the **Oromia Region** (see *ARC Briefing Ethiopia March 2018*).²² Since coming to power, Abiy has taken a conciliatory stance with the protesting factions, meeting on 24 May with **Lencho Leta**, chairman of the exiled opposition **Oromo Democratic Front** that backed the protests.²³ Abiy showed his willingness to cooperate with the protesters by discussing political reform with Leta.²⁴

The TPLF executive held an emergency meeting on 13 June, following which it released a statement condemning the acceptance of the Algiers Agreement and the lifting of the state of emergency within the country. The TPLF executive argued that these policies had “fundamental flaws”.²⁵

Although Abiy’s ambitious plans may be upsetting a segment of the establishment, he still boasts popular support.²⁶ However, to maintain this support, he will need to avoid unpopular policies:

“Although Abiy is putting a lot on the table, many doubt he will be able to implement all his proposed policies. With the success of his policies hanging in the balance, if he succeeds in one of the big issues on the plate, say Eritrea, he will be able to continue pushing on with others.”²⁷

Eritrean receptiveness to Ethiopia’s commitment to the Algiers Agreement signals a triumph for Abiy, but the next months will be crucial in deciding his political future and his agenda of political and economic liberalisation in Ethiopia.²⁸

China’s interest cools as forex shortage hits Ethiopian businesses

China’s leading state-owned export and credit insurance company, **Sinosure**, is no longer extending credit to Chinese banks for projects in Ethiopia as willingly as it used to.²⁹ This marks a significant policy change from China’s once bullish approach to investment in Ethiopia.³⁰ China will now become “more cautious” after lending more than \$13 billion for projects in Ethiopia between 2006 and 2015.³¹ The **United Kingdom**-based newspaper **The Financial Times** reported on 3 June that investors attributed the cooling of Chinese interests to Ethiopia’s debt profile and foreign exchange shortage.³² A Chinese diplomat said China was “way overextended” in Ethiopia.³³ The Ethiopian government is similarly overstretched: The many new infrastructure projects (especially in the capital, Addis Ababa)

¹⁸ Financial Times, 11 Jun 2018.

¹⁹ Financial Times, 11 Jun 2018.

²⁰ Reuters, 20 June 2018.

²¹ CNN, 5 June 2018.

²² CNN, 5 June 2018.

²³ Africanews, 24 May 2018.

²⁴ Africanews, 24 May 2018.

²⁵ Addis Standard, 13 Jun 2018.

²⁶ Source, diplomat, Addis Ababa

²⁷ Source, diplomat, Addis Ababa

²⁸ Source, diplomat, Addis Ababa

²⁹ Financial Times, 3 Jun 2018.

³⁰ Financial Times, 3 Jun 2018.

³¹ Financial Times, 3 Jun 2018.

³² Financial Times, 3 Jun 2018.

³³ Financial Times, 3 Jun 2018.

are expensive to maintain as well as build, notwithstanding the sizable loans from China and elsewhere.³⁴

The foreign exchange shortage poses immediate and practical problems for the Ethiopian business community. A business leader in Ethiopia explained that the foreign exchange shortage made imported raw materials in his sector very scarce, leading to manufacturing shortages and a scarcity of finished product.³⁵ There is also a large black market for foreign exchange in Ethiopia. The black-market exchange rate for the Ethiopian birr is approximately 25-30% more than the official exchange rate.³⁶ The disparity between the birr's official value and its black-market value will continue to rise if the government does not address it.³⁷

The problem of currency value has dogged Ethiopia's economy for some time. Ethiopia devalued the birr by 15% in October in order to make exports more competitive.³⁸ Despite this measure, the **International Monetary Fund (IMF)** advised Ethiopia in February to abolish its exchange restrictions.³⁹

"Floating the currency would solve the problem, but large-scale inflation will happen. [The situation] will come to a crunch, but [prime minister] Abiy has said that he is not willing to face the problem."⁴⁰

Abiy is not likely to address the problem soon.⁴¹ He wants to remain popular, and presiding over a period of great inflation would dent his favourable public image. However, with Abiy unwilling to float the birr, Ethiopia's currency shortage will worsen. The birr's official exchange rates currently overvalue the currency, and therefore make it an unattractive currency to buy. The less the currency is bought, the greater the foreign exchange shortage will become.

Planner

August 2018 **(Ethiopia)** *Horn Affairs*. **Ethiopian People's Revolutionary Democratic Front (EPRDF)** congress;

Sept 2018 **(Ethiopia)** *Chatham House*. Local elections;

2020 **(Ethiopia)** Parliamentary elections;

Chronology

23 Jun 2018 **Addis Ababa (Ethiopia)** *Al Jazeera*. A grenade explodes and kills two people during a politically rally that prime minister **Abiy Ahmed** attended;

20 Jun 2018 **Addis Ababa (Ethiopia)** *Al Jazeera*. **South Sudan** President **Salva Kiir** meets rebel leader **Riek Machar** for talks to end a five-year civil war;

20 Jun 2018 **Addis Ababa (Ethiopia)** *Reuters*. **Eritrean** President **Isaias Afwerki** welcomes **Ethiopia's** peace overtures;

19 Jun 2018 **Addis Ababa (Ethiopia)** *Reuters*. Prime minister **Abiy Ahmed** plans to sell a 30% to 40% stake in state-owned telecommunications company, **Ethio Telecom**, to increase competition;

18 Jun 2018 **Addis Ababa (Ethiopia)** *Reuters*. The government appoints a new central bank governor, **Yinager Dessie**;

³⁴ Source, business leader, London

³⁵ Source, business leader, London

³⁶ Source, business leader, London

³⁷ Source, business leader, London

³⁸ www.imf.com

³⁹ www.imf.com

⁴⁰ Source, business leader, London

⁴¹ Source, business leader, London

- 17 Jun 2018 **Addis Ababa (Ethiopia)** *EWN*. The **United Arab Emirates** pledges \$3 billion in aid and investments to **Ethiopia**;
- 14 Jun 2018 **Addis Ababa (Ethiopia)** *africanews*. Ruling coalition member, the **Tigray People's Liberation Front**, criticise the government's decision to accept the **Algiers Agreement**, which relinquishes territory to **Eritrea**;
- 5 Jun 2018 **Addis Ababa (Ethiopia)** *Fana Broadcasting*. Parliament approves a bill lifting the state of emergency two months earlier than planned;
- 5 Jun 2018 **Addis Ababa (Ethiopia)** *Al Jazeera*. Ruling coalition, the **Ethiopian People's Revolutionary Democratic Front (EPRDF)**, accepts the terms of the 2000 **Algiers** peace agreement with **Eritrea**;
- 5 Jun 2018 **Addis Ababa (Ethiopia)** *Reuters*. The EPRDF plans to open its state-run entities, including **Ethio Telecom**, **Ethiopian Airlines**, **Ethiopian Power**, and the **Maritime Transport and Logistics Corporation**, to domestic and foreign investors;
- 3 Jun 2018 **Addis Ababa (Ethiopia)** *Reuters*. **Ethiopia** plans to build a navy as part of military reforms, despite being landlocked;
- 2 Jun 2018 **Addis Ababa (Ethiopia)** *Al Jazeera*. The Council of Ministers approves a draft law to lift the state of emergency two months early, assessing that law and order has been restored;
- 30 May 2018 **Addis Ababa (Ethiopia)** *africanews*. The government and opposition groups begin talks on reforming the anti-terrorism law which critics maintain has criminalised dissent;
- 24 May 2018 **Addis Ababa (Ethiopia)** *africanews*. Chairman of the exiled opposition party, the **Oromo Democratic Front**, **Lencho Leta**, meets with prime minister **Abiy Ahmed**, to discuss political reform;
- 23 May 2018 **Addis Ababa (Ethiopia)** *VOA*. State-owned telecoms company, **Ethio Telecom**, agrees to allow some local firms to provide internet services through its infrastructure, breaking Ethio Telecom's monopoly in the sector;
- 21 May 2018 **(Ethiopia)** *Philadelphia Tribune*. **Saudi Arabia** releases 1,000 **Ethiopian** citizens from detention centres after a request from Ethiopian prime minister, **Abiy Ahmed**;

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