

AFRICA RISK CONSULTING

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Prime minister Abiy Ahmed (2018-present) launches 2019 with a drive to eliminate entrenched, corrupt domestic networks. Two of the most powerful people arrested on charges of corruption include Bereket Simon and Kinfu Dagneu, the all-powerful head of state and military owned Metals and Engineering Corporation (METEC). Abiy intervenes in Saudi Arabia to secure the release of Saudi-Ethiopian billionaire Mohammed Al Amoudi. Abiy's consistency in cementing regional and domestic peace continues with neighbouring Eritrea, the Oromo Liberation Front (OLF) and eastern ethnic Somali regions. United States-based ratings agency Fitch awards a B rating with a stable outlook and highlights future growth stabilising over two years at 8%. Business highlights the fall-out from corruption allegations made against former regime board members. Operating problems continue: shortage and cost of foreign exchange; commercial inexperience of senior executives; inability to repatriate dividends. Despite these problems, the size of the market means "you have to be there".

Arrests lead to imprisonment for some ...

Prime minister **Abiy Ahmed** (2018-present) embarked on 2019 with a renewed focus on the drives that dominated **Ethiopian** politics in 2018. Abiy Ahmed's consistency in cementing regional and domestic peace, clamping down on entrenched and corrupt domestic networks while liberalising the economy and introducing gender equality, has drawn international attention and praise abroad. He has had considerable success at home and in the region but in early January he intensified an anti-corruption crackdown on entrenched, mainly **Tigrayan**, interests within the ruling **Ethiopian People's Revolutionary Democratic Front's (EPRDF)** spheres.

ARC's business sources report a fresh wave of government arrests on 23 and 24 January of members of the entrenched elite – senior former politicians and businesspeople, including board members – who are accused of corruption. The arrests, which include several senior political advisers and allies of the late prime minister and prominent Tigrayan, **Meles Zenawi** (1995-2012), also risk a backlash. Among those arrested – the highest profile arrest to date – was former government minister **Bereket Simon**, a close ally of Zenawi going back to his university days. Bereket Simon was for years the EPRDF's communications director:¹

*"He was one of the most important people in the country."*²

Equally significant is the news on 10 January that the state charged **Kinfu Dagneu**, the former head of state-owned industrial and defence conglomerate **Metals and Engineering Corporation (METEC)**, with corruption. Kinfu Dagneu's arrest was made days after the state broadcaster, **Fana Broadcasting**, aired an investigative documentary that uncovered vast delays in works and widespread expropriation of funds in Ethiopia's mega project, the **Grand Ethiopian Renaissance Dam (GERD)**.³ The government terminated METEC's involvement in the project in August 2018,⁴

¹ Wikipedia

² Senior investor source with interests in Addis Ababa

³ Senior investor source with interests in Addis Ababa

⁴ Ezega News, 27 Aug 2018.

dealing a dramatic blow to the country's most powerful industrial conglomerate and source of the ruling elite's power and wealth.

... but what role for METEC in Ethiopian politics and business now?

Until METEC's sacking from the GERD, it was central to the ethnic-Tigrayan **Tigray People's Liberation Front's (TPLF)** control within the umbrella of ethnic movements of the ruling EPRDF. ARC sources report that Kifle Dagneu was the face of METEC: his arrest and charging may mean more arrests follow of senior military and ex-military, but also risk provoking a backlash. Ethnic Tigrayans hold most of the senior management and board posts of METEC subsidiaries, which means that any purge could be interpreted as an attempt to dismantle the Tigrayan's historic stranglehold on politics, state-owned wealth and the armed forces.

Meles Zenawi used METEC as a means to control and reward the army and avoid risks of internal rebellions:⁵

*"METEC was created to allow the generals to share the increasingly prosperous economic rewards. This has reinforced their client network into the country's political and economic system, but also empowered their own constituencies and affiliations. METEC gives jobs to many army families, it guarantees extra-incomes – thus loyalty – to some middle-ranking officers, and huge revenues to the upper echelon of the army, which has become increasingly interested in making money and less in the real political trajectory of the country."*⁶

METEC's influence in the economy was considerable with a stake in about 15 industries and over 100 factories. METEC controlled the corporation responsible for all the electro-mechanical subcontracting work of the GERD, including the **Ethiopian Power Engineering Industry**. Although it is unclear what is METEC's future, it had become a behemoth and had an influence in most sectors of the economy from the GERD to arms factories, to a new fertiliser factory, sugar factories, logistics, and vehicle assembling – including public transportation buses. Such was METEC's power that in a country where corporations still queue for an allocation of foreign exchange, state-owned companies always got their share first. In several instances, METEC companies have gone into business with foreign companies, notably to acquire knowledge transfer but also to acquire foreign capital investment.⁷ Up to now, METEC and its subsidiaries' companies have kept a firm control over the companies they manage.

*"They allow the partner to do business in a closed market like the Ethiopian one, and they expect silence and total respect of their conditions, including favours. It's not clean business, it cannot be clean business, these people are former rebels, they think they own the country, thus they do business their own way."*⁸

Saudi Arabia frees Al Amoudi ...

Saudi Arabia has released Saudi-Ethiopian businessman and billionaire **Mohammed Al Amoudi** more than a year after arresting him on 6 November 2017 as part of what Saudi Arabia portrayed as ruling crown prince **Mohammed Bin Salman's** (2017-present) crackdown on corruption.⁹ Al Amoudi is a popular figure in Ethiopia where he is a large-scale investor but it remains unclear whether he will be free to leave Saudi Arabia. Financial news service **Bloomberg** estimates Al Amoudi's fortune at \$8.8 billion.

Al Amoudi's release follows the visit of prime minister Abiy Ahmed to Saudi Arabia in December. Abiy said on social media platform **Twitter** that he had raised the issue with Crown Prince Mohammed bin Salman during a trip to **Riyadh** in May 2018.¹⁰

⁵ ARC source, Ethiopia expert, Kenya

⁶ ARC source, Ethiopia expert, Kenya

⁷ ARC business sources

⁸ ARC source, Ethiopia expert Kenya

⁹ www.nordic.businessinsider.com

¹⁰ Aljazeera, 29 Jan 2019.

... as Abiy's efforts to cement peace continue to avert federal disintegration

Prime minister Abiy Ahmed continues his efforts to end violence and bed down the peace at home and in Ethiopia's immediate region, despite sporadic outbreaks of violence and uncertainty. Abiy's determined interventions have resulted in his name now being whispered as a potential future **Nobel Peace Prize** winner.¹¹

- In a move that has been widely hailed internationally for its humanity, Ethiopia passed a law on 17 January that will allow one million refugees living in camps in Ethiopia the right to work and live outside of camps;¹²
- Military forces launched operations in mid-January against the **Oromo Liberation Front (OLF)** as there were signs that the August peace agreement was fraying. However, a ceasefire on 25 January between **Oromia** state leader **Milkesa Mideksa** and OLF chair **Dawud Ibsa** restored peace and furthered the peace agreement. Abiy Ahmed's reforms had agreed that the OLF would no longer be considered or called a terrorist group. The ceasefire made provision for OLF soldiers to move to demobilisation camps where they would be disarmed and re-integrated into the armed forces;¹³
- On 31 December, the **Ethiopia-Eritrea** border to Eritrea was closed to some crossings without reason or warning. On 8 January, Abiy and Eritrea's President **Isaias Afwerki** (1993-present) formally re-opened the **Oumhajer-Humera** border crossing, reinforcing the openness between both countries.¹⁴

Efforts continue to stabilise the eastern ethnic **Somali** regions and end a stalemate between the federal government and ethnic Somali regional rulers following two decades of violence. Prime minister Abiy deployed federal troops to **Somali Regional State** on 3 August¹⁵ in response to widespread attacks on people from other Ethiopian regions in Somali Regional State.¹⁶ Federal troops fought with the regional security force, the **Liyu Police**, to gain control of the region.¹⁷ By 6 August, Somali Regional State president and **Ethiopian Somali People's Democratic Party (ESPDP)** leader **Abdi Mohamoud Omar** (aka **Abdi Illey**) resigned.¹⁸ Abiy brought back from the **United States (US)** human rights activist and Somali regional leader **Mustafa Omer**, to work with ruling party chairman and finance minister **Ahmed Shide** on reforms at both the district and regional level. Mustafa Omer was sworn in on 26 August as the new president of Somali Regional State.¹⁹

Abiy's government accuses Illey, who had been president since 2005, the local government and Liyu police of over a decade of human rights abuses. The federal government fired local prison officials after details emerged of torture and other abuses. Illey had been involved in clashes along the province's border with the Oromia region since 2017 that displaced thousands.²⁰

Economy slows from five-year Africa-wide records of 10% to a sustainable 8%

US-based ratings agency **Fitch Ratings** has awarded Ethiopia a "B" rating as Ethiopia promises to outstrip the average growth rates (3%) of other "B" rated countries in current market conditions.²¹ Fitch expects Ethiopia's economy to grow at 8%, less than the 10% posted in the past five years. Fitch expects growth to stabilise around 8% over the next two years. Fitch points to strong economic growth under the country's industrialisation strategy but also highlights the risks of imbalances like a

¹¹ AFX

¹² Reuters.

¹³ Fana Broadcasting, 25 Jan 2019.

¹⁴ New Times, 8 Jan 2019.

¹⁵ BBC, 4 Aug 2018.

¹⁶ The Reporter Ethiopia, 4 Aug 2018.

¹⁷ BBC, 4 Aug 2018.

¹⁸ Africanews, 6 Aug 2018.

¹⁹ Sahan Journal, 27 Aug 2018.

²⁰ www.africanews.com, 7 Aug 2018.

²¹ Fitch press release, 28 Jan 2019.

wide current account deficit, low foreign-currency reserves and rising public sector debt. The agency highlights the risks to watch:

- Political instability, particularly if it leads to macroeconomic spill-overs such as disruptions to FDI, lower growth or fiscal slippages;
- Rising external vulnerability, such as a failure of export growth to accelerate, leading to the persistence of wide current-account deficits and low foreign-exchange reserves; and
- A sizable increase in government indebtedness or crystallisation of contingent liabilities from SOEs on the sovereign's balance sheet.

However, Abiy Ahmed may yet surprise the business world by taking steps in 2019 to open up the economy. He used the annual business to government **World Economic Forum in Davos (Switzerland)** to again promise to open up state-owned enterprises to new investors in 2019 and to ease problems of doing business, which, if effected could provide the spur for additional FDI and a further boost to the economy in 2019. The METEC arrests and suspension of its involvement in the GERD may pave the way for immediate foreign direct investment. As January drew to a close, Abiy hosted **Germany's** president, **Frank-Walter Steinmeier**, and a business delegation with leading delegates from German car manufacturer **Volkswagen (VW)** and energy giant **Siemens**, with VW and Ethiopian officials signing a memorandum of understanding whose objective is to develop a car industry.²²

The arrests of board members in partially privately owned companies have raised concerns among chief executives that they may be inadvertently implicated in what they see as political arrests:

*"The new regime is sweeping away the vestiges of the old regime but two of our local directors were arrested and charged with fraud and corruption yesterday. My concern is that this then intimates that there has been fraud and corruption in our businesses. With overseas shareholders this is particularly problematic."*²³

While the authorities "rake over all transactions" at present, it is having other unintended consequences, one executive told ARC:

"When newly appointed board directors see the previous board directors locked up, they become ultra careful, making decision-making difficult and turgid. They have lost the freedom to take action. In appointing people that he [Abiy] thinks are loyal to him, he has appointed a lot of people who have no experience... and no business or commercial experience."

At the same time, businesses continue to face the same operational problems they had under the old regime: problems caused by the lack of foreign exchange, the inability to repatriate dividends, and the unfamiliarity of Ethiopian board members to operate private sector companies:

*"There is a lot of interference going on [in the market]. For instance the government charges business 40% commission on foreign exchange regardless of the inflationary impact. Then when we need to increase prices, the government initially refuses even if it then allows it quietly. It is difficult. There is little executive commercial experience: Ethiopian officials are deeply suspicious of everything private sector companies do and always assuming you are trying to do them down. Particularly when it comes to paying dividends offshore. That said, it is an exciting market to operate in; it is still 'investable' for the long term; the size of the market is such – you really want to be there."*²⁴

²² AFX, 29 Jan 2019

²³ ARC private sector business source

²⁴ ARC private sector business source

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

28 Jan 2019 **Riyadh (Saudi Arabia) Reuters** Saudi-Ethiopian billionaire **Mohammed Al Amoudi** is released after being detained since his arrest in November 2017;

28 Jan 2019 **London (UK) Fitch Ratings** affirms **Ethiopia's** long-term foreign-currency **Issuer Default Rating (IDR)** at *"'B' with a Stable Outlook"*;

29 Jan 2019 **Addis Ababa (Ethiopia) AFX** President **Sahle-Work Zewde** and a military guard of honour greet **Germany's** president, **Frank-Walter Steinmeier** on arrival for a three-day visit, accompanied by business delegation including executives from **Volkswagen** and **Siemens**;

25 Jan 2019 **Oromia State (Ethiopia) Fana Broadcasting Corporation.** In a ceasefire between **Oromo Liberation Front (OLF)** and **Oromia State** leader **Milkesa Mideksa**, the two sides agreed to avoid bloodshed and forge a peaceful future together;

25 Jan 2019 **Davos (Switzerland) World Economic Forum** Following a meeting between prime minister **Abiy Ahmed** and **World Economic Forum (WEF)** chair **Klaus Schwab**, Ethiopia will host the 2020 WEF;

25 Jan 2019 **Davos (Switzerland) World Economic Forum** **Ethiopia's** prime minister **Abiy Ahmed** meets **Belgian** premier **Charles Michel** and **World Bank Group** acting president **Kristalina Georgieva**;

17 Jan 2019 **Addis Ababa (Ethiopia) Reuters.** Ethiopia passes a law that gives one million refugees the right to work and live outside of camps;

16 Jan 2019 **Addis Ababa (Ethiopia) Channel NewsAsia.** Military forces launch operations against the **Oromo Liberation Front** as conflict continues despite a reconciliation agreement signed in August;

14 Jan 2019 **Afar Region (Ethiopia) Channel News.** Protesters block the main road to the sea to demonstrate against ethnic violence;

10 Jan 2019 **Addis Ababa (Ethiopia) Reuters.** Authorities charge **Kinfe Dagnew**, former head of state and army-owned **Metals and Engineering Corporation (METEC)** with corruption;

8 Jan 2019 **Addis Ababa (Ethiopia) New Times.** Prime minister **Abiy Ahmed** and **Eritrea's** president **Isaias Afwerki** re-open the **Oumhajir-Humera** border crossing;

1 Jan 2019 **Addis Ababa (Ethiopia) New Business Ethiopia.** The ministry of revenue collects close to \$3 billion in taxes in five months from July;

31 Dec 2018 **Addis Ababa (Ethiopia) New Business Ethiopia.** **Adama Industrial Park** begins exports of textiles to **Europe**;

28 Dec 2018 **Asmara (Eritrea) Reuters.** Eritrea closes some border crossings to Ethiopians for unknown reasons;

27 Dec 2018 **Addis Ababa (Ethiopia) Herald.** The **United Nations Office for the Coordination of Humanitarian Affairs** states that ethnic violence in **Oromia** and **Benishangul Gumuz** regional states has displaced around 255,000 people;

20 Dec 2018 **Addis Ababa (Ethiopia)** *Borkena*. Parliament approves a draft bill to establish a commission in charge of issues related to identity and regional boundaries;

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