

## AFRICA RISK CONSULTING

### Ethiopia Monthly Briefing December 2019

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#### Ethiopia Summary 10 December 2019

*The ruling coalition, the Ethiopian People's Revolutionary Democratic Front, approves the merger of three of its four ethnic-based parties into a single national one, the Prosperity Party, ahead of the scheduled May 2020 national elections. Minerals minister Samuel Urkato vows to remove barriers to investment in the mining sector during the second Ethiopian International Mining Conference and Exhibition. Ethiopia, Egypt and Sudan's foreign ministers meet with United States (US) treasury secretary Steven Mnuchin and World Bank president David Malpass in Washington (US) to resolve a dispute over the Grand Ethiopian Renaissance Dam.*

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#### The Prosperity Party, ethno-politics and a growing opposition

The ruling coalition, the **Ethiopian People's Revolutionary Democratic Front (EPRDF)**, on 21 November approved the merger of three of its four ethnic-based parties<sup>1</sup> into a single national one, the **Prosperity Party (PP)**, ahead of the scheduled May 2020 national elections.<sup>2</sup> National elections will centre on prime minister **Abiy Ahmed Ali's** (2018-present) ability to hold together his political party, the response of other ethnic groups to the formation of a **Sidama** state, and the presidential campaign of **Jawar Mohammed**, Abiy's most vocal critic.<sup>3</sup> This year saw the continuation of Abiy's political and social liberalisation agenda, which helped achieved the country's fast economic growth rate of around 8% but also unearthed ethnic divisions and caused mass displacement.

Abiy hailed the decision to merge the EPRDF as a "*crucial step in harnessing our energy to work toward a shared vision*".<sup>4</sup> Abiy hopes that the PP will include people from all ethnic groups – unlike the EPRDF, which historically gave secondary status to ethnicities not included in the four parties making up the coalition. However, the ethnic **Tigrayan People's Liberation Front (TPLF)** wing, one of the four constituent parts of the EPRDF, boycotted the vote, citing legal and procedural shortcomings.

The TPLF's refusal highlights what problems could lie ahead for the prime minister. While it is not yet clear if the TPLF will break away, or whether some members will join the new party while others leave, a split would mean that the TPLF would become an opposition party but still be in control of the **Tigray** regional state. That could lead to greater tension with the federal government and, in the most extreme case, the possibility of the creation of a de facto separate Tigrayan state.

The merge has also encountered opposition from many in Abiy's own ethnic group, the **Oromo**, who fear it will undermine the ethnic autonomy enshrined in the constitution. For instance, defence minister **Lemma Megersa** on 30 November criticised Abiy's move to merge the EPRDF.<sup>5</sup> The details remain unclear but it is likely the merger will involve more centralised decision-making as well as the dissolution of ethnic parties, including Abiy's own **Oromo Democratic Party**.

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<sup>1</sup> The coalition was formed in 1988 by ethnically-based groups fighting the dictator **Mengistu Haile Mariam** (1977-1991). It brought together the Tigrayan People's Liberation Front, the Amhara Democratic Party, the Oromo Democratic Party and the Southern Ethiopian People's Democratic Movement.

<sup>2</sup> Borkena, 21 Nov 2019

<sup>3</sup> ARC's Ethiopia analyst

<sup>4</sup> BBC, 22 Nov 2019

<sup>5</sup> Arab News, 30 Nov 2019

The **National Election Board** on 23 November announced that 98.5% of people in the **Southern Nations, Nationalities and Peoples' Region (SNNPR)** voted to form a new federal region, while 1.48% voted to remain the **Southern** region state.<sup>6</sup> A new Sidama state will have its own constitution, parliament and security forces, as well as powers over tax, education, and land administration. The National Election Board said voter turnout was 99.8%. A consortium of civil society organisations described the referendum as peaceful, but it alleged some polling stations lacked transparency. Sidama's campaign for semi-autonomy heightened tensions between ethnic groups. Some voters said the "remain" camp were intimidated. More than 50 people were killed and the region entered a state of emergency.

Opinions differ about whether the referendum outcome, creating Ethiopia's tenth semi-autonomous state, is positive for the country. On the plus side, it signifies that the former heavily state-controlled country now favours democratic process – it was the first vote of its kind since the introduction of the current constitution in 1995. It is an encouraging sign for next year's national elections. However, there are also fears that the formation of a new state may lead to other campaigns to self-identify, which could unravel a fragile part of the federation. At least ten other ethnic groups in southern Ethiopia have demanded their own polls. Next in line is likely to be the **Welayta**, who will now reside within a Sidama state. That said, although several groups have demanded referendums, none have pushed their claims with the force or organisation of the Sidama. Additionally, ethnic elites are engaged in a bargaining process that may still end in a compromise that keeps the remainder of the SNNPR region together.

Expect to see Jawar Mohammed rising in prominence in 2020 as national elections dominated by ethno-politics approach (see *ARC Briefing Ethiopia November 2019*). Jawar, the founder of independent television channel **Oromia Media Network**, said on 16 November that he would contest in the May 2020 presidential election.<sup>7</sup> The central divide between Jawar and Abiy in next year's election is likely to focus on ethnic federalism. Jawar is a defender of ethnic federalism, having described the Sidama vote as "*one in the bag for federalists*" and calling on like-minded groups to "*form or join political parties which unequivocally stand for self-determination.*" Abiy is cautious of its possible effect on destabilising the country, highlighted by his decision to delay the Sidama vote.

### **Liberalisation: telecoms and mining, but not finance**

Minerals minister **Samuel Urkato** on 25 November vowed to remove barriers to investment in the mining sector during the second **Ethiopian International Mining Conference and Exhibition**, held on 25-26 November.<sup>8</sup> The reforms will encourage more foreign investors in the underdeveloped sectors as part of prime minister Abiy's grand plans to open up the economy, ease a dollar shortage and plug a large trade deficit. Abiy has committed to liberalise key sectors of the economy, including telecommunications, to transform Ethiopia into a middle-income country.

The government will give incentives to investors who develop minerals used in agriculture such as potash, a key ingredient in fertiliser, as well as construction minerals. Samuel said the ministry is still working out the details on tax and incentive policies, and the revised mining law would be announced by August 2020. Samuel first announced reforms for Ethiopia's mining and oil sectors at the **Investing in African Mining Indaba in Cape Town (South Africa)** in February (see *ARC Briefing Ethiopia February 2019*).<sup>9</sup>

Samuel has said that the mining sector in particular has become a priority and that foreign investors can expect tax incentives along with other investor-friendly reforms.<sup>10</sup> Ethiopia aims to increase the mining sector's contribution to GDP to 10% by 2030 from the current 3%. Currently, the mining

<sup>6</sup> Fana Broadcasting, 23 Nov 2019

<sup>7</sup> AFP, 16 Nov 2019

<sup>8</sup> Borkena, 25 Nov 2019

<sup>9</sup> Business Day, 6 Feb 2019

<sup>10</sup> Reuters, 5 Feb 2019

corporate income tax rate is 25% (down from 35% in 2017) and the precious metals royalty rate is 7% (down from 8% in 2017).<sup>11</sup> The current law also guarantees the government a 5% minimum equity stake in projects, which is much lower relative to other **African** countries.<sup>12</sup>

Ethiopia has been one of Africa's biggest growth engines in 2019 – largely thanks to Abiy's liberalisation drive. Parliament approved in June a law outlining the liberalisation of the former state-controlled telecommunications markets (see *ARC Briefing Ethiopia June 2019*).<sup>13</sup> Next year, government will award telecoms licences to multinational companies, ending the state monopoly in the sector.<sup>14</sup> Leading **France**-based telecoms company **Orange SA** has expressed interest in bidding for a minority stake in Ethiopia's state-owned telephone monopoly, **Ethio Telecom**.<sup>15</sup>

But Abiy's reformist drive is not targeting all sectors of the economy. A draft law seen on 2 December shows that Ethiopia will not open up its banking and insurance firms to foreign ownership.<sup>16</sup> The draft law shows that banking, insurance, micro-credit and micro-saving services will be reserved for domestic investors. Ethiopia's banking sector is still one of the most tightly state-controlled in Africa and is dominated by the two oldest and most profitable institutions, **Awash Bank** and **Dashen**.

### High-stakes negotiations over the Nile

A joint statement issued by the **United States (US) Treasury Department** on 9 December said **Egypt**, Ethiopia and **Sudan**'s foreign ministers met with US treasury secretary **Steven Mnuchin** and **World Bank** president **David Malpass** in **Washington (US)** to resolve a dispute over the **Grand Ethiopian Renaissance Dam (GERD)**.<sup>17</sup> The dispute between two of Africa's most populous and powerful countries is the most serious threat to stability in the **Horn of Africa** region – which is why the international community is stepping in to mediate an equitable settlement.<sup>18</sup>

The dispute raises serious concerns over Egyptian military action. Egypt considers Ethiopia's dam project the country's most pressing national security threat due to its reliance on the river – both economic and for survival for millions for Egyptians. Military action is a preferred strategy over diplomacy by some in Egypt's government-affiliated media.<sup>19</sup> Abiy has acknowledged this possibility and said on 22 October that his country is ready to field millions of troops to protect the dam should a war erupt over it.<sup>20</sup>

Officials from Egypt, Ethiopia and Sudan met on 2 December in **Cairo (Egypt)** for a new round of talks aimed at resolving a dispute over the Ethiopia's \$5 billion GERD project, which is set to be Africa's largest hydroelectric dam.<sup>21</sup> The meeting was the second such meeting since early November. Egypt's water and irrigation minister, **Mohamed Abdel Aty**, and its foreign minister, **Sameh Shoukry**, are attempting to gain a written understanding from Ethiopian officials that Ethiopia will not take a decision on the management and operation of the GERD without consulting all the relevant parties.<sup>22</sup>

Meetings have so far failed to yield consensus on the dam's most contentious issues, including a timetable for filling the reservoir (see *ARC Briefing Ethiopia September 2019*). Ethiopia and Egypt also disagree over the annual flow of water that should be guaranteed to Egypt and how to manage flows during droughts. A breakdown in technical talks on the dam prompted Egypt to appeal for

<sup>11</sup> Business Day, 6 Feb 2019

<sup>12</sup> Business Day, 6 Feb 2019

<sup>13</sup> Reuters, 13 Jun 2019

<sup>14</sup> Yahoo, 12 Jun 2019

<sup>15</sup> Bloomberg, 21 Jun 2019

<sup>16</sup> Reuters, 2 Dec 2019

<sup>17</sup> Aljazeera, 10 Dec 2019

<sup>18</sup> ARC's Ethiopia analyst

<sup>19</sup> Foreign Policy, 15 Nov 2019

<sup>20</sup> Foreign Policy, 15 Nov 2019

<sup>21</sup> Aljazeera, 10 Dec 2019

<sup>22</sup> Al-Araby Al-Jadeed, 9 Dec 2019

international mediation. US and **World Bank** officials attended the negotiations, and a third round of talks is scheduled for 21-22 December in **Khartoum** (Sudan).

Relations between Ethiopia and Egypt have simmered in recent years, but they remain deadlocked. The April 2018 leadership transition in Ethiopia eased tensions between Addis Ababa and Cairo; prime minister Abiy visited Cairo in June 2018 and promised to ensure that Ethiopia's development projects do not harm Egypt. Egypt's President **Abdel Fattah al-Sisi** (2014-present) responded by saying that the dispute has no military solution.

The GERD is about 70% complete and promises to provide much-needed electricity for Ethiopia's 70 million people. The project was announced in 2011 and is the centrepiece of Ethiopia's bid to become Africa's biggest power exporter, generating more than 6,000 megawatts. Ethiopia's minister of water, irrigation and electricity, **Seleshi Bekele**, expects the dam to start production by the end of 2020 and be fully operational by 2022.

### Planner

20-24 Feb 2020 Addis Ababa (**Ethiopia**) Ethiopia International Trade Expo;  
 18-24 Mar 2020 Addis Ababa (**Ethiopia**) United Nations Economic Commission for Africa 53<sup>rd</sup> session;  
 19-22 Mar 2020 Addis Ababa (**Ethiopia**) Pan African Trade and Investment Expo;  
 May 2020 (**Ethiopia**) National elections;  
 1 Jul 2020 (**Africa**) African Continental Free Trade Area deadline for 90% tariff liberalisation;

### Chronology

9 Dec 2019 **Addis Ababa (Ethiopia)** *CTV News*. **United Nations** expert on the freedom of expression **David Kaye** urges **Ethiopian** officials to stop shutting down the internet following a 20-minute internet shutdown on 5 December over a cyber-attack;

7 Dec 2019 **Addis Ababa (Ethiopia)** *Europa.eu*. New president of the **European Commission Ursula von der Leyen** announced a \$188m financing pact with Ethiopia during her visit to the country;

5 Dec 2019 **Addis Ababa (Ethiopia)** *Fana Broadcasting Corporation*. **Ethiopia Information Network Security Agency** says it shut down internet for 20 minutes because of a cyber-attack directed at financial institutions, which was foiled;

5 Dec 2019 **Addis Ababa (Ethiopia)** *Reuters*. Prime minister **Abiy Ahmed** draws rare criticism from the **Nobel Peace Prize** committee for not agreeing to talk to the news media when he receives the award in **Norway** on 10 December;

5 Dec 2019 **Washington (United States)** *Defense.gov*. **Ethiopian** defence minister **Lemma Megersa** and **United States** deputy assistant secretary of defence for African Affairs **Pete Marocco** co-chair the 9th annual US-Ethiopia **Bilateral Defense Committee** meeting;

3 Dec 2019 **Addis Ababa (Ethiopia)** *Reuters*. A draft law shows that **Ethiopia** will not open up its banking and insurance firms to foreign ownership even as it clears the way for overseas investors to buy into other sectors of its economy;

2 Dec 2019 **Cairo (Egypt)** *Aljazeera*. The irrigation ministers of **Egypt, Ethiopia** and **Sudan** meet in **Cairo** for a new round of talks aimed at resolving a dispute over the **Grand Ethiopian Renaissance Dam** being built by Ethiopia;

1 Dec 2019 **Addis Ababa (Ethiopia)** *Brussels Times*. New president of the **European Commission Ursula von der Leyen** announces visit to **Addis Ababa** for 6 December, her first official trip outside the **European Union**;

30 Nov 2019 **Addis Ababa (Ethiopia)** *Arab News*. Defence minister **Lemma Megersa** criticises prime minister **Abiy Ahmed**'s plans to transform the ruling coalition **Ethiopian People's Revolutionary Democratic Front** into a single party;

28 Nov 2019 **Addis Ababa (Ethiopia)** *Borkena*. Finance minister **Eyob Tekalign** announces plans to privatise six sugar factories in the first quarter of 2020 to boost production;

25 Nov 2019 **Addis Ababa (Ethiopia)** *Borkena*. Minerals minister **Samuel Urkato** vows to remove barriers to investment in Ethiopia's largely untapped mining sector during the second **Ethiopian International Mining Conference and Exhibition**;

25 Nov 2019 **Addis Ababa (Ethiopia)** *Xinhua*. Prime minister **Abiy Ahmed** and China-based **Alibaba Group** founder **Jack Ma** agree to establish an **eWTP Hub** in Ethiopia to boost ecommerce and assist SMEs to reach China and other markets;

23 Nov 2019 **Addis Ababa (Ethiopia)** *Fana Broadcasting*. The electoral board announces that the **Sidama** people voted overwhelmingly for a new federal region, with 98% choosing autonomous rule;

21 Nov 2019 **Addis Ababa (Ethiopia)** *Borkena*. The ruling coalition, **Ethiopian People's Revolutionary Democratic Front**, approves the merger of three of its four ethnic-based parties into a single national one ahead of the scheduled May 2020 national elections;

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