

AFRICA RISK CONSULTING

Ethiopia Monthly Briefing August 2019

Ethiopia Summary 22 August 2019

Ethiopia's ruling coalition, the Ethiopian People's Revolutionary Democratic Front (EPRDF), confirms that it will hold a national election in 2020. The announcement comes amid heightened security concerns over ethnic divisions which caused the postponement of last month's scheduled independence vote in the Southern Nations, Nationalities and Peoples' Region (SNNPR). Prime minister Abiy Ahmed (2018-present) threatens to permanently shut off internet if civil unrest continues with online incitement. Internet shutdowns are costly to local economies and are very unpopular with Western governments and international organisation, but they are on the rise in Africa. The National Bank of Ethiopia (central bank) grants the first finance licence to a foreign-owned company, Ethio Lease, a capital goods financial company that is owned by United States-based bank, Africa Asset Finance Company (AAFC). Parliament introduces a bill that allows its diaspora population of 5 million to invest, buy shares and set up lending businesses in the domestic financial sector.

Will elections take place next year?

Ethiopia's ruling coalition, the **Ethiopian People's Revolutionary Democratic Front (EPRDF)**, announced on 8 August that it would hold a national election in 2020.¹ The government's decision to continue with elections next year, in the face of a recent spate of civil unrest and ethnic violence, solidifies its intention to uphold the country's newly established democratic principles.² Authorities are yet to declare an exact date for the election.

However, the government's willingness in recent months to delay significant polls raises doubts that next year's national election will take place.³ The central government delayed a promised independence referendum in the **Southern Nations, Nationalities and Peoples' Region (SNNPR)** last month due to a heightened security risk stemming from ethnic tensions (see *ARC Briefing Ethiopia July 2019*). This led to protests and at least 25 deaths as some members of the **Sidama** ethnic group, Ethiopia's fifth-largest ethnic group, took to the streets in protest against the postponement of their chance to declare the SNNPR as semi-autonomous.⁴ Parliament also postponed a federal census for the second time on 11 June over heightened security concerns (see *ARC Briefing Ethiopia June 2019*). Less than two weeks later an alleged coup attempt by a rogue militia in the northern **Amhara** region left the army chief of staff **Seare Mekonnen** and four other senior officials dead. For now, next year's elections appear to be going ahead; however, the holding of elections is ultimately dependent on the country's security situation – which will inevitably experience more twists and turns in the latter half of the year.

... as Abiy threatens to turn Ethiopia offline ...

Prime minister **Abiy Ahmed** (2018-present) said at a press conference on 1 August that if civil unrest continues with online incitement, "for [the] sake of national security, internet and social media could be

¹ Reuters, 9 Aug 2019

² Source, analyst, London

³ Source, analyst, London

⁴ The Economist, 25 Jul 2019

blocked any time necessary” and could be cut off “forever”.⁵ Abiy’s decision was motivated by the upsurge in civil unrest in the country, and, in particular, last month’s alleged coup attempt. Government-ordered internet stoppages are on the rise globally – and, particularly in **Africa** (see *Box 1*). Internet shutdowns are costly to local economies and are unfavourable with Western governments and international organisations.

Box 1: Rise in Internet Stoppages in Africa

Government-ordered internet stoppages are on the rise in **Africa**. They have occurred in **Algeria, Democratic Republic of the Congo, Egypt, Eritrea, Ethiopia, Gabon, Liberia, Sudan and Zimbabwe** since the start of this year.⁶ In 2018, there were 21 instances of partial or total internet shutdowns, compared with 13 in 2017 and 4 in 2016.⁷ **United States**-based **Internet Society’s** regional director for Africa, **Dawit Bekele**, said: “state-ordered internet shutdowns are on the verge of becoming the ‘new normal’.”⁸

Internet restrictions vary from temporarily blocking social media (e.g. before Eritrea’s Independence Day in May) to full network shutdowns (e.g. following Ethiopia’s alleged coup attempt in June). Governments justify internet freedom violations in various ways, including citing security concerns around elections and protests (e.g. Zimbabwe January 2019 and DRC January 2019), to prevent the dissemination of ‘fake’ news and hate speech (e.g. Tanzania July 2018) and to prevent cheating during exams (e.g. Algeria June 2018). However, authoritarian governments also use them as a censorship and social control tool. A 2015 **United Nations** joint declaration stated that internet shutdowns “can never be justified under human rights law”.⁹

Local businesses are severely impacted by internet disruption. **United States**-based think tank, **Brookings Institution**, in 2016 found that seven¹⁰ African countries lost a combined amount of \$320m in revenue from internet shutdowns.¹¹ Civil rights group **NetBlocks’ Cost of Shutdown Tool** shows social media restrictions that lasted from March 2018 to July 2019 cost the **Chadian** economy over \$200m.¹²

Abiy has repeatedly justified internet freedom violations by citing the nation’s high-risk security situation, and argues that the stoppages are “*necessary to save lives and prevent property damages*”.¹³ While he hopes that internet access will help drive development, he does not view it as a common good, having said it is “*neither water nor air*”.¹⁴

The government cut off internet in July amid reports of an attempted plot to unseat the **Amhara Regional State Government**.¹⁵ The disruption made it difficult for journalists and observers to assess the situation on the ground and provide independent sources of information, thus limiting news to official press statements. Ethiopia’s **Office for Government Communications Affairs** on 11 June also disrupted connectivity nationwide, reportedly to prevent students from cheating in national exams.¹⁶

⁵ Associated Press, 1 Aug 2019 and Africanews, 2 Aug 2019

⁶ For more information, subscribe to Africa Risk Consulting’s ARC Briefings’ [full service](#), covering politics, business and operating issues in 22 African countries.

⁷ ‘The State of Internet Shutdowns in 2018’, [Access Now](#), 8 Jul 2019

⁸ [Quartz](#), 18 Jun 2019

⁹ ‘Joint Declaration on Freedom of Expression and Responses to Conflict Situations’, [United Nations Human Rights Office of the High Commission](#), 2015

¹⁰ Morocco, Republic of Congo, Algeria, Ethiopia, Chad, Uganda, Libya

¹¹ ‘Internet Shutdowns Cost Countries’, [Brookings Institute](#), Oct 2016

¹² NetBlocks’ [Cost of Shutdown Tool](#)

¹³ Africanews, 2 Aug 2019

¹⁴ Associated Press, 1 Aug 2019

¹⁵ Netblocks, 24 Jun 2019

¹⁶ Quartz, 18 Jul 2019

The founder and chief executive of Ethiopia's first artificial intelligence lab, **iCog**, said the internet shutdown caused hours of wasted productivity and damaged trust from its foreign clients.¹⁷

The **United States (US) Department of State** on 20 August expanded Ethiopia's travel warning to Level 2, and some areas to Level 3 and Level 4, due to "*sporadic civil unrest and communications disruptions*".¹⁸

*"Ethiopia has restricted or shut down internet, cellular data, and phone services during and after civil unrest. These restrictions impede the **US Embassy**'s ability to communicate with, and provide consular services to, US citizens in Ethiopia."*

The US warned against all travel to the border area with **Somalia** "*due to potential for terrorism, kidnapping, and landmines*" and the border areas with **Kenya, Sudan, South Sudan** and Eritrea "*due to crime, armed conflict, and civil unrest*". It gave 'Level 3: Reconsider Travel' warnings to the **Somali Regional State**, the **SNNPR**, the **East Hararge Region and Guji Zone of Oromia State** and the **Benishangul Gumuz** and the western part of **Oromia State**.

Liberalisation of the financial sector

The **National Bank of Ethiopia (NBE)** (central bank) on 8 August granted a finance licence to **Ethio Lease**, a capital goods financial company that is owned by US-based bank, **Africa Asset Finance Company (AAFC)**.¹⁹ The licence is the first ever issued to a foreign-owned company and is part of prime minister Abiy Ahmed's more comprehensive plans to generate growth through liberalising the severely restricted economy.²⁰ An injection of foreign companies could have a transformative impact on the finance sector, but bureaucratic hurdles must first be addressed before companies begin to pile in.²¹

Ethio Lease's introduction to the industry will create jobs and increase productivity. The company's operations will give domestic companies access to equipment, such as MRI scanners, tractors and drilling rigs, that they are unable to import themselves due to foreign exchange shortages. Companies will be able to generate revenue without having to invest heavily in equipment, while also freeing up liquidity for investments in other areas of the economy. AAFC CEO **Frans Van Schaik** expects that further leasing licences will be granted to foreign companies and that the market will become more competitive.²² Van Schaik also noted,

*"There is a liquidity shortage and a lot of businesses are craving equipment that they just can't get. Almost every factory in Ethiopia will be able to tell you about how an equipment shortage or some other issue is delaying their construction or operations."*²³

Ethio Lease plans to import \$600m worth of equipment in the next three years. It will initially focus on the medical, agricultural, energy, information technology, food processing and general industrial sectors.

The government expects to achieve 11% year-on-year economic growth in 2019/20 and hopes to achieve this partly through liberalising the economy, which, in turn, will provide jobs for the country's 100 million people. However, Abiy Ahmed is likely to encounter resistance from the bureaucracy that favours public sector-fueled growth rather than the private sector. The **World Bank's 2019 Ease of Doing Business** report ranks Ethiopia 159th out of 190 globally.²⁴ The World Bank scores Ethiopia

¹⁷ Quartz, 18 Jul 2019

¹⁸ 'Ethiopia Travel Advisory', US Department of State, 20 Aug 2019

¹⁹ FT, 8 Aug 2019

²⁰ FT, 8 Aug 2019

²¹ Source, analyst, London

²² Van Schaik quoted in Reuters, 9 Aug 2019

²³ Van Schaik quoted in Reuters, 9 Aug 2019

²⁴ 'Ethiopia', Ease of Doing Business 2019, World Bank

particularly low on obtaining credit (lowest possible score for the depth of credit information available) and insolvency framework (five points out of a maximum 16).

NBE governor **Yinager Dessie** said the central bank plans to issue more licences to foreign companies to lease equipment, which he says “*will ultimately create more jobs, more employment and more economic growth.*”²⁵ Yinager says the government was taking measures to support the private sector. Last year, for the first time, the central bank allocated more foreign exchange to the private sector than the public sector.

... as law passes to open the financial section to diaspora ...

Parliament introduced a bill on 31 July that allows the country’s financial sector to its 5 million diaspora population to invest, buy shares and set up lending businesses in the state-dominated financial sector.²⁶ While this law is very promising for local and foreign investors, prime minister Abiy Ahmed’s full-scale economic reforms are expected to take several years.²⁷

US-based private equity fund **Cepheus Growth Capital**’s founder and managing director **Kassy Kebede** said: “*it will be great for both the country and diaspora community to be able to invest in the whole financial sector.*”²⁸ US-based consulting firm **Dewey Square Group**’s finance director **Birhanie Beka Geleto** said the diaspora would bring “*technology advancement in the industry with them.*”²⁹

The purchase of shares has to be done only in Ethiopia, and the shareholders will be paid (or earn their dividends) in Ethiopian birr like any other Ethiopian citizen. The law also allows the private sector to operate digital-based financial services. It also grants the NBE more regulatory roles, including giving it the right to issue directives to regulate banking businesses related to interest-free deposit mobilisations and utilisation and the ability to demand correction or impose bans on commercial advertising on the media when it deems it to be harmful. The new law was approved unanimously by members of parliament. The former **Banking Business Proclamation** considered Ethiopian-born diaspora as foreign citizens and barred foreign nationals from investing or acquiring shares in an Ethiopian bank or its subsidiaries.³⁰

Prime minister Abiy Ahmed has targeted the large diaspora population to generate economic growth before. Abiy last year set up the **Ethiopian Diaspora Trust Fund**, a non-profit organisation which raises money from the global diaspora community, which works with the government to build development projects in Ethiopia. Abiy’s democratic and liberalisation reforms have been hugely popular with local and foreign businesses. Parliament approved a law in June to liberalise the telecommunications market, and government plans to issue licences by the end of the year.

Planner

24 -25 Sep 2019 **Addis Ababa (Ethiopia)** Trade Africa International Tourism-Tech Expo;
 24 -26 Sep 2019 **Addis Ababa (Ethiopia)** Africa Hotel Investment Forum;
 1-5 Nov 2019 **Addis Ababa (Ethiopia)** Ethiopia International Trade Expo;
 9-12 Oct 2019 **Addis Ababa (Ethiopia)** Addis Power;
 17 -19 Oct 2019 **Addis Ababa (Ethiopia)** African Livestock Exhibition and Congress;
 23 - 25 Oct 2019 **Addis Ababa (Ethiopia)** Social Enterprise World Forum;
 31 Oct – 4 Nov 2019 **Addis Ababa (Ethiopia)** Matex Ethiopia Expo;

²⁵ Reuters, 8 Aug 2019

²⁶ Reuters, 31 Jul 2019

²⁷ Source, analyst, London

²⁸ Kassy Kebede quoted in Quartz, 10 Aug 2019

²⁹ Birhanie Beka Geleto quoted in Quartz, 10 Aug 2019

³⁰ The Reporter, 3 Aug 2019

15 – 17 Nov 2019 **Addis Ababa (Ethiopia)** Agritech Ethiopia;
 25 - 26 Nov 2019 **Addis Ababa (Ethiopia)** Ethiopia International Mining Conference & Exhibition;
 2020 **(Ethiopia)** Parliamentary elections;

Chronology

21 Aug 2019 **Addis Ababa (Ethiopia)** *ESI Africa*. **Africa-focused sustainable energy firm Gaia Energy** signs an agreement with waste-to-energy company **4R Energy** to accelerate biomethane production and use it to increase the security of energy supply in Ethiopia;

20 Aug 2019 **Washington (United States)** *US Department of State*. The **US Department of State** expands Ethiopia's travel warning in Level 2, and some areas to Level 3 and Level 4 due to "sporadic civil unrest and communications disruptions";

20 Aug 2019 **Addis Ababa (Ethiopia)** *Committee to Protect Journalists*. **Committee to Protect Journalists** calls on the government to unconditionally release journalist **Mesganaw Getachew**, who was arrested 11 days previously;

19 Aug 2019 **Addis Ababa (Ethiopia)** *Political Analysis South Africa*. The finance ministry says that the debt burden remains a high risk with 55% of debt being external;

19 Aug 2019 **Bombas (Ethiopia)** *Borkena*. **Ethiopian Customs Commission** seizes over 14m Ethiopian birr (\$479,000) worth of gold and foreign currency in southeastern Ethiopia;

16 Aug 2019 **Bombas (Ethiopia)** *Borkena*. **Commercial Bank of Ethiopia** declares 17.9 billion Ethiopian birr (\$612m) profit over the fiscal year that ended in July;

14 Aug 2019 **Addis Ababa (Ethiopia)** *IOL*. Mines and petroleum ministry official **Betru Haile** says that **Ethiopia** plans to earn \$1 billion in revenue from mining exports in the 2019/2020 fiscal year;

12 Aug 2019 **Addis Ababa (Ethiopia)** *Xinhua*. **Liu Yu**, the **Chinese** embassy in **Ethiopia's** economic counsellor, says China will cover 85% of the funding for a \$300m industrial park in **Adama City**;

9 Aug 2019 **Addis Ababa (Ethiopia)** *Reuters*. The ruling **Ethiopian People's Revolutionary Democratic Front** says it will hold a national election in 2020;

9 Aug 2019 **Addis Ababa (Ethiopia)** *Committee to Protect Journalist*. Federal police arrest journalist **Mesganaw Getachew** for allegedly recording an interview outside a court in **Addis Ababa**;

8 Aug 2019 **Addis Ababa (Ethiopia)** *FT*. The **National Bank of Ethiopia** grants a finance licence to **United States-based bank, Africa Asset Finance Company**, the first in a plan to liberalise the financial sector;

8 Aug 2019 **Addis Ababa (Ethiopia)** *Reuters*. Unidentified gunmen shoot dead seven people and injure three others in **Oromo**;

5 Aug 2019 **Addis Ababa (Ethiopia)** *Xinhua*. The **African Development Bank** grants \$95m to finance the **Ethiopia-Djibouti** transport corridor;

1 Aug 2019 **Addis Ababa (Ethiopia)** *Associated Press*. Prime minister **Abiy Ahmed** says that if civil unrest continues with online incitement, internet could be cut off forever;

31 Jul 2019 **Addis Ababa (Ethiopia)** *CGTN*. Parliament passes a bill which allows **Ethiopians** with dual nationality or living abroad to buy shares in local businesses;

31 Jul 2019 **Addis Ababa (Ethiopia)** *Aljazeera*. Ethiopians plant more than 350 million trees in a single day as part of a campaign to fight deforestation and climate change;

28 Jul 2019 **Addis Ababa (Ethiopia)** *Fana Broadcasting Corporation*. The government says that coffee and oilseed exports reached \$1.2 billion during the 2018/2019 fiscal year;

About Africa Risk Consulting:

Africa Risk Consulting (ARC) is a pan-African consulting company that provides timely, relevant information and advice that enables its clients to take informed investment decisions and to safeguard their reputations.

ARC's core consulting services include integrity due diligence and corporate investigations, political advisory and country assessments, opportunity monitoring and reputation risk management. Most relevant to private equity firms is ARC's integrity due diligence and corporate investigations capability. Specifically, ARC offers pre-deal integrity checks to highlight red flags before negotiations start; full detailed multi-jurisdictional reputation due diligence; and supplier and senior hire vetting and repeat due diligence for compliance programmes. ARC is unique in that it offers a 10-day delivery for a routine integrity due diligence. ARC also offers a suite of corporate investigations services from immediate investigation, evidence gathering, e-discovery, forensic accounting and whistleblower support on one end to crisis media management and regular monitoring on the other.

www.africariskconsulting.com

About ARC Briefing:

ARC Briefing is ARC's essential business information service.

Companies at any stage in their Africa expansion, whether building or communicating an Africa strategy, investing directly, expanding current operations, financing other investors, doing the legal leg-work or researching the Africa growth trend, need ARC Briefing.

ARC Briefing is an information service keeping you:

- Up to date with Country Chronologies of business-critical events
- In the know via Country Briefings on political, economic, business and operating trends. Written in-country, ARC experts analyse and comment
- Ahead with Country Planner which details future elections, budgets, regulatory changes etc.

www.africariskconsulting.com

Getting in touch

Please contact us by email info@africariskconsulting.com or call + 44 (0) 20 7078 4080

Follow us on Twitter: [@ARCBriefing](https://twitter.com/ARCBriefing)