

AFRICA RISK CONSULTING

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Ethiopia Summary 14 January 2020

A United States (US) airstrike that killed Iranian major general Qassem Soleimani heightens tensions in the Middle East and raises concerns over an increase in terrorism attacks in Africa – what does this mean for Ethiopia? The International Monetary Fund says Ethiopia was the fastest growing economy last decade, but the World Bank cuts Ethiopia’s economic growth forecast to 6.3% for the 2020 fiscal year, down from an earlier estimate of 9.0%, citing the growing debt burden and rising insecurity. Water minister Seleshi Bekele warns of a “last chance” to reach an agreement with Egypt and Sudan on the filling and operation of the Grand Ethiopian Renaissance Dam, as prime minister Abiy Ahmed (2018-present) favours South Africa’s President Cyril Ramaphosa (2018-present) over US President Donald Trump (2017-present) to mediate in the dispute.

Growing insecurity from terrorism...

The killing of top **Iranian** general **Qassem Soleimani** in an airstrike on 3 January has heightened tensions in the **Middle East** and raised concerns over an increase in terrorist attacks in **Africa**. While Africa does not appear to be a focal point of the emerging conflict between the **United States (US)** and Iran, **Western** businesses and nationals in **Ethiopia**, and elsewhere in Africa, should tighten security procedures as a precaution.¹ ARC has conducted an overview of Ethiopia’s safety and security situation – in which there is growing insecurity due to heightened ethnic and regional tensions, which is likely to worsen in the run up to the May national elections.²

There is a heightened terrorism risk due to the Soleimani-linked terror cells aligned to global terrorist groups such as **al-Qaeda** that operate in the **Horn of Africa**. The **Washington Institute** fellow on **Shia Islamist** militarism, **Phillip Smyth**, has stated that Iran will look to show its influence on a global scale and he thinks Iran may look for “*low-hanging fruit or easier targets that they can go after*” in an “*unexpected location*” – which may be in Africa.³ **United Kingdom (UK)**-based newspaper **The Telegraph** published a report in June 2019 saying Soleimani was setting up terror cells in several African countries including **Sudan, Ghana, Chad, Niger, The Gambia** and the **Central African Republic**, to target the US and other Western military bases on the continent.⁴

As US and Iran tensions escalate, regional countries like Ethiopia are liable to get caught in the crossfire. Ethiopia has a burgeoning relationship with **Arabian Peninsula** nations, particularly **Saudi Arabia** and the **United Arab Emirates**, and has close ties with the US, making it a potential target to Soleimani-linked terror. As Iran vows to exact revenge on US interests and the US sets out to protect its citizens and interests, the Ethiopian government needs to work closely with Horn of Africa nations to adopt a common position aimed at thwarting the threat of a proxy war in the region. However, the chances of forming a common national or regional stance is very low given the current high level of political instability in Ethiopia and the regional tension over the **Grand Ethiopian Renaissance Dam** (see below). Failure to adopt a common stance could entail dire consequences for Ethiopia’s national interest.

¹ ARC’s Ethiopia analyst

² ARC’s Ethiopia analyst

³ Voice of America, 4 Jan 2020

⁴ The Telegraph, 24 Jun 2019

Ethiopia ranked 29th globally in the **Institute for Economics and Peace's Global Terrorism Index 2019**, which is a three-place improvement from the previous year.⁵ Ethiopia ranked 11th in **sub-Saharan Africa**.⁶ Ethiopia's poor ranking is mainly due to terrorist group **al-Shabaab**, which is based in **Somalia** but poses a threat across the **East Africa** region.

... and civil unrest in 2020

Ethiopia's domestic politics is its main source of instability, causing ethnic and religious violence and widespread displacement. Prime minister **Abiy Ahmed** (2018-present), this year's **Nobel Peace Prize** laureate (see *ARC Briefing Ethiopia October 2019*), has pursued wide-ranging political and economic reforms since he came to power in 2018, but the reforms have unearthed simmering inter-communal divisions. In the latest unrest, several thousand **Muslims** protested across the country on 24 December following the burning of four mosques and attacks targeting Muslim-owned businesses in **Motta town (Amhara Region)**.⁷ It is worth noting that conflicts that appear to be rooted in religion in Ethiopia are often also shaped by disputes over land use, ethnicity and other issues.

Abiy's government has been cracking down on the illicit flow of weapons that have fuelled ethnic and religious violence. Government said in April that it had seized 21 machine guns, more than 33,000 handguns, 275 rifles and 300,000 bullets in different parts of the country over the previous year. In October security forces confiscated a further 2,221 handguns and 71 **Kalashnikov** assault rifles in **Gonder (Amhara Region)** – which is particularly affected by domestic violence. The media said the rifles had been smuggled into the country in oil trucks from Sudan. The spread of small arms has been partly blamed for hundreds of killings in various ethnic conflicts over the past two years that have displaced more than 2.7 million people.

House of People's Representatives, the lower chamber of the **Ethiopian Federal Parliamentary Assembly**, passed the **Weapons Administration and Control Proclamation** on 9 January, aimed at curbing gun ownership by banning private trade in weaponry, limiting the number of firearms an individual can own to one, and allowing each region to stipulate a legal age for gun ownership.⁸ It will allow only certain government institutions to import guns. The legislation was passed after a surge in regional ethnic and religious violence blamed on a proliferation of small arms in private hands. Arms smuggling is relatively common in northwest Ethiopia, where smuggled firearms have been used by criminals to commit robbery and by rebel groups to fight the government. However, armed anti-government acts have dropped significantly in Ethiopia in recent years following government efforts to reconcile with armed opposition groups.

Fastest growing economy last decade

US-based international lending agency **World Bank** on 9 January cut Ethiopia's economic growth forecast to 6.3% for the 2020 fiscal year in its **Global Economic Prospects** report, down from an earlier estimate of 9.0%, citing the growing debt burden and rising insecurity.⁹ Prime minister Abiy's economic reforms have renewed interest from investors and attracted billions of dollars in financial support – helping it achieve the title of fastest growing economy globally last decade according to the **International Monetary Fund (IMF)** – but the economy is by no means in the clear now. Foreign currency shortages, shrinking exports and the highest inflation in half a decade, coupled with rising civil unrest, continue to hamper economic growth.

Ethiopia has the highest 10-year growth rate of 194 economies tracked by the IMF, while World Bank data ranks it second. IMF and World Bank data shows that over the past decade, Ethiopia's economy grew by between 9.5% and 9.8%. Ethiopia also leads on growth per person – the IMF says in per-capita terms Ethiopia's growth has been 7.7% per year during the past decade, which is the highest in

⁵ Global Terrorism Index 2019, Institute for Economics and Peace, visionofhumanity.org

⁶ Global Terrorism Index 2019, Institute for Economics and Peace, visionofhumanity.org

⁷ Aljazeera, 24 Dec 2019

⁸ Borkena, 9 Jan 2020

⁹ CNBC, 9 Jan 2020

the world. The IMF forecasts Ethiopia to be the fourth fastest growing economy in Africa in 2020 with 7.2% growth, behind **South Sudan** (8.2%), **Rwanda** (8.1%) and **Côte d'Ivoire** (7.3%).

That said, the economy suffers from currency shortages, shrinking exports and high inflation. The World Bank's downgraded growth forecast for Ethiopia is based on an expected tighter fiscal and monetary policy stance this year aimed at containing inflation. Ethiopia's annual inflation rate was 19.5% in December. The World Bank revised growth forecast comes several weeks after the IMF approved a \$2.9 billion three-year financing package to Ethiopia to provide balance of payment support and assistance for the government's liberalisation agenda.¹⁰ The lending programme, which will push a tighter fiscal and monetary policy stance, coupled with the launch of the **Addis Ababa Stock Market** in 2020, will encourage greater foreign investor participation in Ethiopia and boost growth projections. The World Bank said growth could increase slightly to 6.4% in fiscal 2021 and 7.1% in 2022.

Nile talks approach cliff edge

Water minister **Seleshi Bekele** on 8 January warned of a "*last chance*" to reach an agreement with **Egypt** and **Sudan** on the filling and operation of the \$5 billion **Grand Ethiopian Renaissance Dam (GERD)** being built by Ethiopia on the **Blue Nile** river.¹¹ In September, ARC Briefing warned that unsuccessful talks could be disastrous for relations in the Horn of Africa – three months later and there has been little progress, no thanks to US President **Donald Trump** (2017-present).¹² Seleshi announced last month that the first phase of filling the GERD will begin in July.

The United States' role as a mediator in the dispute was jeopardised by President Trump's claims on 9 January that he deserved the **Nobel Peace Prize**, not Abiy. Abiy addressed Trump's comments by saying he is not involved in the selection process and Trump must ask **Oslo (Norway)**, not Ethiopia. Abiy was awarded the prize in October 2019 for his peace efforts to end a long-running conflict with **Eritrea**.

Three days after Trump's comments, Abiy invited **South Africa's** President **Cyril Ramaphosa** (2018-present) to mediate the GERD dispute. Abiy's move is likely a result of Trump's comments, making **Addis Ababa** cynical that **Washington** will be a neutral arbiter in the Nile dispute. It is also worth noting that the US has historical support for **Cairo**, and, on the other hand, Addis Ababa has close historical ties with South Africa's liberation party, the ruling **African National Congress (ANC)**. Additionally, Ramaphosa is the upcoming president of the **African Union** – which is headquartered in Addis Ababa. South Africa is serving its third two-year membership on the **United Nations Security Council**.

Ethiopia and Egypt disagree over the annual flow of water that should be guaranteed to Egypt and how to manage flows during droughts. Egypt relies on the Nile for 90% of its fresh water, and it wants the GERD's reservoir to release a higher volume of water than Ethiopia is willing to guarantee, among other disagreements. Ethiopia promises economic benefits for both itself and Sudan while Egypt fears for its freshwater supply. The Nile serves as a lifeline for the country's 100 million people.

The GERD project was announced in 2011 and is designed to be Africa's largest hydroelectric dam and the centrepiece of Ethiopia's bid to become Africa's biggest power exporter, generating more than 6,000 megawatts. Seleshi said in January that following construction delays, the dam would start production by the end of 2020 and be fully operational by 2022.

¹⁰ Financial Times, 11 Dec 2019

¹¹ Borkena, 8 Jan 2020

¹² ARC's Ethiopia analyst

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 53rd 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 Jan 2020 **Addis Ababa (Ethiopia)** *Borkena*. Parliament passes legislation aimed at curbing gun ownership by banning private trade in weaponry, limiting the number of firearms an individual can own to one and allowing each region to stipulate a legal age for gun ownership;

9 Jan 2020 **Addis Ababa (Ethiopia)** *CNBC Africa*. **World Bank** cuts **Ethiopia's** economic growth forecast to 6.3% for the 2020 fiscal year, down from an earlier estimate of 9.0%, citing the growing debt burden and rising insecurity;

8 Jan 2020 **Addis Ababa (Ethiopia)** *Borkena*. Water minister **Seleshi Bekele** warns of a "last chance" to reach an agreement with **Egypt** and **Sudan** on the filling and operation of the \$5 billion **Grand Ethiopian Renaissance Dam** being built by **Ethiopia** on the **Nile**;

7 Jan 2020 **Addis Ababa (Ethiopia)** *Borkena*. **National Bank of Ethiopia** (central bank) says the economy is expected to expand by 10.8% in the fiscal year to 8 July, up from 9% in the previous year, led by a raft of economic reforms;

25 Dec 2019 **Addis Ababa (Ethiopia)** *Borkena*. Minister of water, irrigation, and electricity **Seleshi Bekele** announces that the first phase of filling the **Grand Ethiopian Renaissance Dam** will begin in July;

25 Dec 2019 **Addis Ababa (Ethiopia)** *AFP*. Prime minister **Abiy Ahmed** and **Eritrea's** President **Isaias Afwerki** meet for the first time since Abiy won the **Nobel Peace Prize** for initiating a thaw between the sparring neighbours;

24 Dec 2019 **Amhara Region (Ethiopia)** *Aljazeera*. Several thousand **Muslims** protest across the country following the burning of four mosques and attacks targeting Muslim-owned businesses in **Motta** town;

24 Dec 2019 **Dar es Salaam (Tanzania)** *The Citizen*. **African Development Bank** and **Tanzanian** authorities agree on a \$272m loan to build a new international airport at the administrative capital, **Dodoma**;

20 Dec 2019 **Addis Ababa (Ethiopia)** *Borkena*. **Ethiopia** launches its first satellite, designed by **Chinese** and Ethiopian engineers at a cost of over \$7m, which will be used for weather forecasting and crop monitoring;

20 Dec 2019 **Addis Ababa (Ethiopia)** *Reuters*. A draft law in parliament shows plans to cut an excise tax on sugar to 20% from 33%, proposing the move ahead of plans to privatise the sugar industry;

12 Dec 2019 **Addis Ababa (Ethiopia)** *New Business Ethiopia*. Ministry of revenue says it has collected \$617m in tax in November 2019, which is 104% of its tax collection target;

11 Dec 2019 **Addis Ababa (Ethiopia)** *Financial Times*. **International Monetary Fund** staff approve a \$2.9 billion three-year financing package to **Ethiopia** to provide balance of payment support and assistance for the government's liberalisation agenda;

About Africa Risk Consulting:

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