

## AFRICA RISK CONSULTING

### Ethiopia Monthly Briefing May 2020

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#### Ethiopia Summary 27 May 2020

*Ethiopia's House of People's Representatives (lower chamber), largely made up of members of the newly formed ruling Prosperity Party, approves a measure that would allow the postponed August general elections to be rescheduled once the coronavirus pandemic is under control. The International Monetary Fund approves a disbursement of \$411m under the Rapid Financing Instrument to help Ethiopia meet urgent balance-of-payments and fiscal needs stemming from the Covid-19 pandemic. State-owned Ethiopian Airlines announces it has delivered its first international cargo from Burkina Faso to Germany, at a time when border closures across the world have severely impacted the global airline industry.*

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#### Constitutional crisis – what is the solution?

Ethiopia's **House of People's Representatives** (lower chamber), largely made up of members of the newly formed ruling **Prosperity Party**, on 5 May approved a measure that would allow the postponed August general elections to be rescheduled once the **coronavirus** pandemic is under control. This leaves much up in the air for Ethiopia's new and fragile democracy and does nothing to circumvent a situation in which an ethnic-based political party governs the country without a mandate from 30 September when the incumbent government's five-year tenure ends.

The Prosperity Party, led by prime minister **Abiy Ahmed Ali** (2018-present), has proposed four possible solutions to the constitutional crisis, none of which has popular support. Government's four possible scenarios are: dissolving parliament; declaring a state of emergency; amending the constitution; or, seeking a constitutional interpretation. Government favours the latter option, and on 5 May it asked the **House of Federation** (upper chamber) to issue an interpretation within a month. Ethiopia's electoral board on 21 May said the nation is unlikely to hold elections before April 2021 due to logistical and budgetary constraints caused by the coronavirus outbreak.

**Belgium**-based think tank **International Crisis Group's** Ethiopia analyst, **William Davison**, argues that what is needed is more political dialogue and a provisional new election date that is agreed by all political parties. The longer the constitutional crisis continues, the louder will become claims that Abiy is pulling the nation back to its authoritarian past. Davidson says an agreement on the poll date, as well as the type of provisional administration to bridge the gap between September and the next election, can only come through dialogue between all political parties and key civil society organisations. Anything less could spell a severe crisis.

Opposition parties and much of the independent news media dispute the government's reasoning over postponing elections and have snubbed its proposed four solutions. Opposition parties on 4 May issued a statement on the government's proposed solutions, saying they lack political or legal legitimacy and instead call for a national consensus among political parties. Many opposition groups want to see a transitional government put in place after the mandate ends. That would grant them more decision-making power until the government lifts the state of emergency related to the pandemic and holds elections. However, Abiy accuses the opposition of trying to take advantage of the postponement of elections to seize power by unconstitutional means.

**Oromia** region's largest political party, the **Oromo Federalist Congress**, and its six coalition parties have rejected government's proposals and called for dialogue to find a political solution. The **Tigray People's Liberation Front (TPLF)**, claiming the government is acting unconstitutionally, plans to

hold regional elections to avoid an illegitimate power grab. The TPLF is the **Tigray** region's governing party, which split from the **Ethiopian People's Revolutionary Democratic Front (EPRDF)** coalition in December when the coalition dissolved and was succeeded by the Prosperity Party, which comprises three of the four parties of the coalition.

The TPLF's decision to hold regional elections will cause a headache for government at best, and a flare-up of the nation's fragile ethnic lines at worst. While the government cannot legally stop the TPLF from holding elections, Davison has said that the TPLF's decision to proceed with elections before the rest of the country does so could be politically explosive given a lack of legal clarity. A more heavy-handed response from government could result in the region declaring independence.

As the constitutional crisis goes on, the argument that Abiy is using the **Covid-19** pandemic to hold on to power gains momentum. Government and the electoral board were already struggling to meet the election schedule for a 29 August vote, meaning structures and processes were not in place to ensure a well-managed election (see *ARC Briefing Ethiopia April 2020*). The election timeline was only released in February this year, which is well past the target of nine months before polling day. Reputable Ethiopia political analysts such as **Rene LeFort** have noted that Abiy has shown growing authoritarian tendencies. International Crisis Group's Davison has also noted that some of Abiy's tactics, such the arrest and harassment of activists and opponents, are a reminder of the country's authoritarian past.<sup>1</sup>

### Economic response to covid-19

The **International Monetary Fund (IMF)** on 30 April approved a disbursement of \$411m under the **Rapid Financing Instrument** to help Ethiopia meet urgent balance-of-payments and fiscal needs stemming from the covid-19 pandemic. It also approved Ethiopia's request for a suspension of debt service payments of about \$12m to the IMF under the IMF's **Catastrophe Containment and Relief Trust** for poor countries. The IMF's emergency funds will support two broad areas: first, by funding essential health supplies such as personal protective equipment and supporting communication on health issues; and secondly, by ensuring an adequate supply of essential goods to aid the vulnerable. The IMF noted that the funds are "*important to ensure that those in extreme poverty have access to basic items to survive*".<sup>2</sup>

The coronavirus pandemic and ensuing lockdown have stopped one of the fastest growing economies in **Africa** in its tracks, with many sectors, such as transport, hospitality and, crucially, the informal sector, now in dire straits. Although the Ethiopian economy has grown rapidly in recent years, it remains highly fragile to global shocks. Authorities must implement targeted, effective and rapid economic measures with limited resources to ensure the nation achieves its world-leading growth rates when the pandemic subsides. **Addis Ababa**-based economic analyst **Getachew Teklemariam** notes:

*"This pandemic is adding more burden on an economy already pressured with multiple challenges."*<sup>3</sup>

Ethiopia's high true unemployment rate and its large informal sector make the country particularly vulnerable to the pandemic. The **Jobs Creation Commission** has estimated that the pandemic will affect close to 1.4 million workers, particularly in the service and manufacturing sectors. Some industrial parks have already laid off workers due to a slump in global demand. The informal sector has been particularly hit by the covid-19 pandemic. The Jobs Creation Commission's recent estimate indicates that there are nearly 1.9 million self-employed businesses in cities, most are in the informal service sector. The commission estimates conservatively that around 750,000 jobs could disappear in the next three months, most of which will be in the cities. **National Bank of Ethiopia** vice governor and chief economist **Fikadu Digafe Huriso** has noted the potential impact on the informal sector:

<sup>1</sup> The Africa Report, 18 Apr 2020

<sup>2</sup> 'Ethiopia Steps Up Health Spending With Help From IMF Emergency Assistance', IMF, 6 May 2020

<sup>3</sup> Getachew Teklemariam quoted in The East African, 17 May 2020

*“A number of studies suggest that disruptions in supply chains will affect the most vulnerable, especially those engaged in informal sectors, as their earnings and access to food will be severely affected.”<sup>4</sup>*

This, coupled with the true number of unemployed (which is expected to be much higher than the official figure), threatens to put millions of people in dire financial straits, which increases the already high risk of civil unrest.

Large companies have also taken a hit. The **East African Bottling Company**, which distributes **Coca-Cola** locally, has been forced to reduce the number of casual employees at its bottling plant in **Addis Ababa**.<sup>5</sup> **Ethiopian Airlines**, the continent’s biggest airline, says it is set to lose \$1 billion in ticket sales over its fiscal year to end June.<sup>6</sup>

Authorities have responded with various financial packages (see below), plans and funds as damage limitation strategies during the pandemic, but it is crucial that they implement effective economic measures as the nation begins to open up. According to the IMF, measures to stimulate growth and limit damage should include providing low-cost lending and rescheduling loans to severely affected enterprises; ensuring adequate liquidity in the financial system to encourage spending; ensuring adequate foreign exchange resources to revitalise both imports and exports; tax relief to induce firms to hire.<sup>7</sup>

The **Ethiopia Economics Association (EEA)** says commercial banks need to reschedule loan repayments and write off interest payments for severely affected sectors until the shock abates. The EEA says the **National Bank of Ethiopia** (central bank) needs to consider reserve rate relaxation to enhance banking liquidity and discuss reducing interest rates to stimulate the economy. It also stresses the need for banks to discuss with financial institutions to support exporters by increasing foreign trade credits and deferring loan payments.

### Economic responses to covid-19<sup>8</sup>

- Government in early March announced a Br 300m (\$8.82m) package to bolster healthcare spending. Prime minister Abiy said on 23 March that the aid package would be increased to Br 5 billion (\$154m or 0.15% of GDP) but details on the precise modalities of the assistance were not made available;
- **National Bank of Ethiopia** (central bank) on 27 March provided Br 15 billion (\$441m or 0.45% of GDP) of additional liquidity to private banks to facilitate debt restructuring and prevent bankruptcies;
- The prime minister’s office on 3 April announced a **Covid-19 Multi-Sectoral Preparedness and Response Plan**, with prospective costing of interventions. The plan is to be implemented over the next three months and will require \$1.64 billion (1.6% of GDP) in funding. The funds are expected to be allocated as follows: (i) \$635m (0.6% of GDP) for emergency food distribution to 15 million individuals vulnerable to food insecurity and not currently covered by the rural and urban PSNPs; (ii) \$430m (0.4% of GDP) for health sector response under a worst-case scenario of community spread with over 100,000 covid-19 cases of infection in the country, primarily in urban areas; (iii) \$282m (0.3% of GDP) for provision of emergency shelter and non-food items; (iv) The remainder (\$293m, 0.3% of GDP) would be allocated to agricultural sector support, nutrition, the protection of vulnerable groups, additional education outlays, logistics, refugees support and site management support;
- Council of Ministers (cabinet) on 30 April approved another set of economic measures to

<sup>4</sup> Fikadu Digafe Huriso quoted in IMF, 6 May 2020

<sup>5</sup> Ethiopia Insight, 4 May 2020

<sup>6</sup> Logistics Update Africa, 7 May 2020

<sup>7</sup> ‘Ethiopia Steps Up Health Spending With Help From IMF Emergency Assistance’, IMF, 6 May 2020

<sup>8</sup> ‘Policy Responses to Covid-19’, IMF (accessed on 20 May 2020)

- support firms and employment. These include forgiveness of all tax debt prior to 2014/2015, a tax amnesty on interest and penalties for tax debt pertaining to 2015/2016-2018/2019 and exemption from personal income tax withholding for four months for firms who keep paying employee salaries despite not being able to operate due to covid-19;<sup>9</sup> and, IMF on 30 April approved a disbursement of \$411m under the Rapid Financing Instrument to help Ethiopia meet urgent balance-of-payments and fiscal needs stemming.

### Ethiopian Airlines rises to the challenge

Ethiopian Airlines on 4 May said it had delivered its first international cargo from **Burkina Faso** to **Germany**, at a time when border closures across the world have severely impacted the global airline industry. Although Ethiopian Airlines expects to lose \$1 billion in ticket sales over its fiscal year to end June, its decision to continue operating its repatriation and cargo services, which the country relies on for exports, has helped the airline avoid much larger total losses, which many of its regional competitors have experienced. The **International Air Transport Association** estimates that the global industry will see its revenue shrink by 44% in 2020, while global GDP will “only” contract by approximately 3%.<sup>10</sup>

Air cargo operations are surging to respond to calls to move essential supplies to tackle the covid-19 pandemic, but the pandemic and restrictions designed during the ‘old normal’ are hindering operations. The **World Bank** says industry and governments need to create a more flexible aviation environment for freight, which can serve as a model for passenger aviation once that resumes. The World Bank says “*the recovery of the industry depends on it.*”<sup>11</sup>

The World Bank commended Ethiopian Airlines on the way it has partnered with other air cargo operators to set up new freight routes:

*“Coordination to match cargo supply and capacity demand has been time-, labour- and negotiation-intensive. It has been mostly undertaken through unilateral arrangements such as government-driven missions operated by their national carriers. There have also been some bilateral operator partnerships such as [Malaysia-headquartered] **MASKargo** and Ethiopian Airlines jointly operating a triangular route between **Brussels [Belgium]**, **Dubai [United Arab Emirates]** and **Kuala Lumpur [Malaysia]**. But overall, efforts have been ad-hoc and de-centralised. This is setting aside other contentious considerations such as the prioritisation of essential goods and competitive dynamics of pricing, with some concerns of price gouging being raised.”<sup>12</sup>*

Ethiopian Airlines has also partnered with regional operators to improve transportation and access to regional cargo, particularly essential goods and utilities and health equipment. For instance, Ethiopian Airlines partnered with **South Africa**-based regional airline **Airlink** on 15 May to transport hygiene kits to **Uganda** in hopes of preventing the spread of covid-19 in the **Bidi Bidi** refugee settlement.

### Operational restraints from covid-19

- Most states have banned inter-regional public transport and public gatherings.
- Authorities have closed borders and closed schools and announced social distancing measures.
- The international border with **Djibouti** remains fully open to transport of commercial goods.

<sup>9</sup> A broader set of measures including further support to enterprises and job protection in urban areas and industrial parks is under discussion with the donor community but has not been formalised. The expansion of the **Urban Productive Safety Net Programme** to 16 additional cities over the next two months is under active consideration, in collaboration with the **World Bank**, at an estimated cost of \$134m)

<sup>10</sup> The Africa Report, 6 May 2020

<sup>11</sup> ‘Coronavirus and aviation: Why is air cargo grounded when the world needs it’, World Bank, 30 Apr 2020

<sup>12</sup> ‘Coronavirus and aviation: Why is air cargo grounded when the world needs it’, World Bank, 30 Apr 2020

- All people entering Ethiopia from another country are subject to a mandatory 14-day quarantine at designated hotels at the traveler's expense.

### Planner

1 Jul 2020 **(Africa) African Continental Free Trade Area** deadline for 90% tariff liberalisation;

Apr 2021 **(Ethiopia)** Earliest day Ethiopia's electoral board expects postponed elections to be held.

### Chronology

22 May 2020 **Cairo (Egypt)** *Al Jazeera*. Foreign ministry says **Egypt** is willing to resume negotiations with **Ethiopia** and **Sudan** over the filling of the controversial **Grand Ethiopian Renaissance Dam** that has been a source of tension between all three **Nile** basin countries;

21 May 2020 **Addis Ababa (Ethiopia)** *The Reporter Ethiopia*. **Ethiopian Telecommunications Authority** invites expressions of interest for two telecom licences, open to national and foreign telecom operators;

21 May 2020 **(East Africa)** *World Bank*. **World Bank** approves the \$500m **Emergency Locust Response Programme** to help countries in **Africa** and the **Middle East** fight the locust swarms that are threatening the food security and livelihoods of millions of people; first countries to be financed under the initial phase of the programme are **Djibouti, Ethiopia, Kenya** and **Uganda**, with a total financing package of \$160m;

19 May 2020 **Addis Ababa (Ethiopia)** *EMPEA*. **Ethiopia**-focused fund manager **Cepheus Growth Capital Partners** makes an undisclosed investment in **Ethiopia**-based fast-moving consumer goods manufacturer **East African Lion Brands Manufacturing Share Company**;

18 May 2020 **Addis Ababa (Ethiopia)** *Addis Standard*. Foreign minister **Gedu Andargachew** sends a letter to the **United Nations Security Council** saying it "does not have legal obligation" to seek **Egypt's** approval to fill the **Grand Ethiopian Renaissance Dam**;

18 May 2020 **Addis Ababa (Ethiopia)** *Bloomberg*. **United States**-based management consulting firm **McKinsey & Co** forecasts that **Africa's** largest coffee grower, **Ethiopia**, could face a 25% drop in coffee yields in a decade due to changing weather patterns;

16 May 2020 **Addis Ababa (Ethiopia)** *Reuters*. **Ethiopian Airlines** CEO **Tewolde Gebremariam** says he expects a settlement with **United States**-based aircraft manufacturer **Boeing** by end of June over compensation related to the **737 MAX** grounding in March 2019;

14 May 2020 **(Horn of Africa)** *Council on Foreign Relations*. **United States**-based non-profit think tank **Council on Foreign Relations** says **African Union** leadership has been absent from **Egypt** and **Ethiopia's** dispute over the **Grand Ethiopian Renaissance Dam**;

13 May 2020 **Addis Ababa (Ethiopia)** *New Business Ethiopia*. **Addis Ababa Police Commission** says police have arrested 1,305 people in capital **Addis Ababa** for not wearing face masks in public places, which has been criticised by **Human Rights Commission** chief commissioner **Daniel Bekele**;

13 May 2020 **Addis Ababa (Ethiopia)** *Africanews*. **Prime Minister's Office** announces efforts to consolidate government's **Green Legacy** initiative which started in 2019, with plans to plant 5 billion trees;

9 May 2020 **Addis Ababa (Ethiopia)** *Borkena*. Ethiopia's army admits that it was behind the shooting down of a privately owned **Kenyan** plane in **Somalia** on 4 May, saying they mistakenly believed the plane was on a "potential suicide mission";

8 May 2020 **Addis Ababa (Ethiopia)** *FANA*. **Amhara Regional State Supreme Court** sentences former communication minister **Bereket Simon** to six years in prison over corruption charges;

7 May 2020 **Cairo (Egypt)** *The National*. Foreign ministry says **Egypt** has written to the **United Nations Security Council** about **Ethiopia's** failure to reach an agreement over the **Grand Ethiopian Renaissance Dam**;

7 May 2020 **Addis Ababa (Ethiopia)** *Borkena*. Prime minister **Abiy Ahmed's Facebook** page shows a speech in which he accuses the opposition of trying to take advantage of the postponement of elections to seize power by unconstitutional means;

4 May 2020 **Addis Ababa (Ethiopia)** *Ethiopia Insight*. Opposition parties issue statement on government's proposed solutions to the constitutional crisis from the election postponement, saying the options lack political or legal legitimacy and instead call for a national consensus among political parties;

4 May 2020 **Addis Ababa (Ethiopia)** *Africanews*. **Ethiopian Airlines** continues to operate its cargo and repatriation services, saying it delivered its first international cargo from **Burkina Faso** to **Germany**;

3 May 2020 **Addis Ababa (Ethiopia)** *Africanews*. **Eritrea's** president **Isaias Afwerki** arrives in **Ethiopia** for a two-day summit with Ethiopia's prime minister, **Abiy Ahmed Ali**;

30 Apr 2020 **Addis Ababa (Ethiopia)** *IMF*. **International Monetary Fund** approves a disbursement of \$411m under the **Rapid Financing Instrument** to help **Ethiopia** meet urgent balance-of-payments and fiscal needs stemming from the **covid-19** pandemic;

29 Apr 2020 **Nairobi (Kenya)** *The Star*. **Safaricom** CEO **Peter Ndegwa** says he is determined to enter the **Ethiopia** market despite protectionism, saying there is a chance to bid for a licence through a consortium with local entities;

27 Apr 2020 **Addis Ababa (Ethiopia)** *Borkena*. Health minister **Lia Tadesse** says a yellow fever outbreak has killed four people, piling pressure on the health system that is already focused on fighting the **covid-19** pandemic;

27 Apr 2020 **Addis Ababa (Ethiopia)** *Bloomberg*. **Ethiopian Communications Authority** to hold consultations for 14 days ending 11 May on the final draft of directives on liberalising the telecoms sector;

23 Apr 2020 **Addis Ababa (Ethiopia)** *Borkena*. Health minister **Lia Tadesse** says **Ethiopia** recorded no new cases of **covid-19** over a 24-hour period for the first time since 2 April;

21 Apr 2020 **Addis Ababa (Ethiopia)** *Human Rights Watch*. **United States-based Human Rights Watch** says government's change in asylum procedure is undermining neighbouring **Eritreans'** access to asylum and denying unaccompanied children the necessary protection;

21 Apr 2020 **Addis Ababa (Ethiopia)** *CNBC Africa*. A number of small businesses in **Ethiopia** protests the way **Facebook** is handling their business pages with some being pulled down from the social media site;

16 Apr 2020 **Addis Ababa (Ethiopia)** *Business Day*. **Agency for Refugee and Returnee Affairs** deputy director-general **Eyob Awoke** says Ethiopia plans to shut a camp for **Eritrean** refugees and resettle thousands of its inhabitants in other camps despite **coronavirus** fears.

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