

## AFRICA RISK CONSULTING

### Ethiopia Monthly Briefing February 2021

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#### Ethiopia Summary 15 February 2021

*The focus on the armed conflict in Tigray region transitions to its humanitarian impact. With growing food insecurity and perceptions of Ethiopian government disruption to aid, international pressure is mounting on the federal government. There are concerns this could impact international financial support, as the unresolved issue of the Grand Ethiopian Renaissance Dam (GERD) and continued hostilities on the border with Sudan further complicate Ethiopia's position. Concerns are also rising over potential debt distress, with the Ethiopian government reportedly outlining the need for debt restructuring, prompting downgrades in Ethiopia's credit ratings. Covid-19 remains a background concern amid the growing complexity of the interconnected political, economic and humanitarian situation. Meanwhile, Germany-based NGO Transparency International's latest report on perceptions of corruption in Ethiopia indicates modest progress, representing an improving ease in doing business.*

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#### International pressure increases amid worsening humanitarian crisis in Tigray

The crisis in **Tigray Region** continues. Despite prime minister **Abiy Ahmed's** (2018-present) claims of victory over the **Tigray People's Liberation Front (TPLF)** in December, pockets of violence remain.<sup>1</sup> However, the dynamic of the conflict has changed. The focus in Tigray is now on the worsening humanitarian cost of the conflict.

On the ground, the humanitarian situation is desperate. A **United Nations (UN)** report released on 7 February noted that over 2.5 million people in Tigray are believed to be in need of emergency food assistance.<sup>2</sup> Concurrently, reported government restrictions on humanitarian access have made much of Tigray inaccessible to aid agencies, with the **Ethiopian Red Cross** claiming that access is only sufficient to meet the needs of 20% of those requiring assistance.<sup>3</sup> In contrast, the Ethiopian government claims it has provided relief to 1.8 million Tigrayans.<sup>4</sup> Such complaints over restrictions in humanitarian access are nothing new. A UN team travelling to Tigray in December allegedly came under small-arms fire from security forces after failing to adhere to checkpoints.<sup>5</sup>

Abiy's perceived disruption to humanitarian aid has angered the international community and placed renewed pressure on **Addis Ababa's** handling of the Tigray conflict. Over the past four weeks international pressure on the government to expand humanitarian access in Tigray region and withdraw security forces from neighbouring **Eritrea** has increased. This scrutiny has come in response to allegations of acts of indiscipline conducted by Ethiopian security forces and the deteriorating humanitarian outlook in Tigray.<sup>6</sup>

The **European Union (EU)** has led the narrative attack on the Ethiopian government and backed up its threats by withholding funds. On 15 January, the EU suspended its budgetary support to Ethiopia, citing the need for the expansion of humanitarian access in Tigray as a condition for releasing funds

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<sup>1</sup> Borkena, 5 Feb 2021

<sup>2</sup> UN News, 7 Feb 2021

<sup>3</sup> Ethiopian Red Cross, 11 Feb 2021

<sup>4</sup> The New Humanitarian, 11 Feb 2021

<sup>5</sup> Al Jazeera, 6 Feb 2021

<sup>6</sup> Human Rights Watch, 11 Feb 2021

worth \$107m.<sup>7</sup> The EU is Ethiopia's largest donor and has provided €815m (\$988m) in development aid since 2014.<sup>8</sup>

The Ethiopian government has sought to mitigate the increased international pressure by agreeing to enable humanitarian reach in Tigray. The government and the **World Food Programme (WFP)** agreed on 6 February to scale up humanitarian operations in Tigray.<sup>9</sup> The changes will reportedly improve the WFP's reach in Tigray and provide one million people with food aid. This follows an earlier arrangement made with the UN in December over humanitarian access – that deal did not go far enough for many multilateral aid agencies.<sup>10</sup>

As the humanitarian situation deteriorates on the ground, pressure is likely to increase on Addis Ababa to further enable aid distribution and accept external guidance on a political solution to the Tigray crisis. It is also conceivable that the federal government has been underplaying the level of food insecurity to mitigate external pressure. The government has historically understated famines in Ethiopia, such as in 1973, 1984 and 2001. The process for deeming food insecurity a 'famine' is now more stringent. However, governments can easily manipulate data to misrepresent the severity of food insecurity and avoid the designation of 'famine' status, as seen most recently in the conflict in **Yemen**.<sup>11</sup> Ensuring the accuracy of food insecurity data is key to managing the humanitarian crisis effectively.<sup>12</sup>

International pressure is also mounting for the government to admit Eritrea's military involvement. Eritrean forces are widely believed to be operating in Tigray region.<sup>13</sup> The Ethiopian government has not formally recognised the allegations, although it is highly likely Eritrean forces have been involved. The **United States (US)** embassy in **Asmara** issued a statement on 5 February demanding the withdrawal of Eritrean forces from Tigray.<sup>14</sup> The EU later joined the US in calling for Eritrean security forces to withdraw, accusing them of exacerbating intercommunal violence.<sup>15</sup> In response, Ethiopia's foreign affairs ministry claimed that the EU's statement did not "*reflect the reality on the ground and turned a blind eye to the efforts exerted by the government to address pressing humanitarian needs.*"

There is now no doubt that Eritrean troops have been operating in Tigray, with the Ethiopian government's continued denial only adding external scrutiny.<sup>16</sup> Given the intercommunal and political tensions between Tigray and Eritrea, international observers are keen to prevent the development of a clear ethnic dimension. The TPLF is increasingly trying to depict the conflict as one based on ethnicity through the targeting of ethnic Tigrayans, while the federal government has sought to make the conflict one about the TPLF's political rebellion. With continued Eritrean involvement and the perceived prevention of humanitarian aid to Tigrayans, this ethnic dimension is likely to outstrip the narrative that the Tigray crisis is primarily a constitutional issue.

Ethiopia's attempts to deflect international pressure from the Tigray crisis and Eritrea have not been helped by the continuing tensions over the **Grand Ethiopian Renaissance Dam (GERD)** and renewed and unresolved border hostilities with **Sudan**. This backdrop adds further complication to the Tigray crisis, with domestic political uncertainty ahead of June's planned elections.

### **Debt distress concerns prompt credit rating downgrade**

Despite Ethiopia's positive economic growth figures for 2020, compared to most of the world, the tangible economic impact of the **Covid-19** pandemic and the Tigray crisis is becoming clearer. On 29

<sup>7</sup> Reuters, 15 Jan 2021

<sup>8</sup> Al Jazeera, 6 Feb 2021

<sup>9</sup> Al Jazeera, 6 Feb 2021

<sup>10</sup> Reuters, 15 Jan 2021

<sup>11</sup> BBC, 8 Feb 2021

<sup>12</sup> BBC, 8 Feb 2021

<sup>13</sup> Borkena, 24 Jan 2021

<sup>14</sup> Addis Standard, 5 Feb 2021

<sup>15</sup> Addis Standard, 8 Feb 2021

<sup>16</sup> The Africa Report, 21 Jan 2021

January the finance ministry was reportedly preparing for discussions with its creditors to de-risk its debt vulnerabilities and mitigate the potential for debt distress.<sup>17</sup> The fear over debt sustainability prompted concerns within global financial houses.

Ethiopia has reportedly requested debt relief through the new **G20 Common Framework for Debt Treatments** scheme, following **Chad** as the second **African** country to apply for relief under the scheme.<sup>18</sup> **Zambia** has since followed suit.<sup>19</sup> Under the initiative, established in November 2020, countries can restructure or write off debt rather than simply deferring payments, exceeding the requirements outlined by the **Debt Service Suspension Initiative (DSSI)** in May 2020.<sup>20</sup> Ethiopia will have to agree debt relief with both official lenders and private creditors if it pursues the **G20** framework, an **International Monetary Fund (IMF)** programme.

Ethiopia's debt relief request is a significant concern. Towards the end of 2020, debt distress concerns in Africa focused on Zambia as the first casualty of debt default in the global economic environment precipitated by the Covid-19 pandemic. In reality, Ethiopia's potential for debt distress is of less imminent concern than that of much of the continent at the moment, especially when compared to debt distress in Zambia and Chad.

Ethiopia's approach to the G20 programme is likely to be a route for raising concern over current debt obligations and encouraging bilateral restructuring with lenders. By raising economic concerns, it also helps to dissuade international donors and financiers from suspending financial support or imposing sanctions over the federal government's handling of the Tigray crisis. In terms of the rhetoric, if Ethiopia portrays itself as being on the brink of distress, it is more difficult for other countries to end their financial support to Ethiopia for political reasons. This move is also focused on showing transparency over debt sustainability to western institutions by favouring an appeal to the G20 programme ahead of direct appeals to Ethiopia's most significant bilateral financier – **China**.<sup>21</sup> In reality, an approach to renegotiate debt with private creditors is likely to be a last resort.<sup>22</sup>

The house view of **Aberdeen Standard Investments** further corroborates this outlook. As quoted in the **Financial Times**, an investment director at Aberdeen Standard Investments stated:

*“Ethiopia is trying to explore the options for broader debt relief... This is their way of saying things are difficult, we need relief. What we don't know is how this will work in practice. There is a lack of clarity right now.”*

Ethiopia's very public debt worry has already had an impact. As a result of the request, ratings agency **Fitch Ratings** downgraded Ethiopia's **Long-Term Foreign-Currency Issuer Default Rating (IDR)** from 'B' to 'CCC' on 9 February.<sup>23</sup> The value of Ethiopia's 2024 **Eurobond** also fell by \$0.084 to \$0.92 – its largest fall in eight months.<sup>24</sup> Fitch Ratings' reasoning for the downgrade was concerns over low foreign exchange reserves, current account deficit and deteriorating debt sustainability.<sup>25</sup>

International credit ratings agency **S&P Global Ratings** has also since downgraded Ethiopia's long term and local currency sovereign credit ratings from 'B' to 'B-'.<sup>26</sup>

The Tigray crisis, against the backdrop of the Covid-19 pandemic, is beginning to have a longer-term economic impact in Ethiopia. The **Ethiopian Investment Committee** confirmed in January that

<sup>17</sup> New Business Ethiopia, 1 Feb 2021

<sup>18</sup> FT, 1 Feb 2021

<sup>19</sup> Global Capital, 5 Feb 2021

<sup>20</sup> Fitch Ratings, 9 Feb 2021

<sup>21</sup> The Africa Report, 8 Feb 2021

<sup>22</sup> Bloomberg, 11 Feb 2021

<sup>23</sup> Fitch Ratings, 9 Feb 2021

<sup>24</sup> Bloomberg, 11 Feb 2021

<sup>25</sup> Fitch Ratings, 9 Feb 2021

<sup>26</sup> Reuters, 12 Feb 2021

Ethiopia had attracted foreign direct investment below the expected level.<sup>27</sup> It is highly likely that the Tigray situation will continue to limit foreign direct investment (FDI) going forward.

Despite threats of cuts in financial support, contributions to the Ethiopian government are still being made in key areas. **Germany's** government on 9 February pledged an additional €4m (\$4.85m) in financial support for the upcoming election in June.<sup>28</sup> This follows existing funding contributions from the EU to Ethiopia for electoral rollout in November 2020.

Recent government statistics for tax income in Ethiopia for the six months from July 2020 show receipts up 17% compared to the same period in the previous year.<sup>29</sup> Such positive indications convey the strengthening of Ethiopia's revenue system. However, foreign financial support ultimately remains more important, with the wider ramifications of the Tigray crisis now likely to act as a deterrent to private FDI.

### Ease of doing business improving modestly against chaotic political climate

Despite the backdrop of uncertainty and the focus on the Tigray conflict, the Ethiopian government remains committed to improving the ease of doing business in Ethiopia. Ethiopia's trade and industry ministry launched an online platform for business registration on 1 February.<sup>30</sup> The modernisation of the registration process is expected to cut the time for registering a business in Ethiopia to just hours, rather than the previous process, which could take up to 30 days for approval.<sup>31</sup> Such moves demonstrate the government's commitment to increasing the ease of doing business.

There are also indications of external appreciation for Ethiopia's efforts to remove some of the historic challenges of doing business in Ethiopia. In its annual **Corruption Perceptions Index (CPI)**, published on 28 January, Germany-based NGO **Transparency International** ranked Ethiopia two places higher than in last year's report. The CPI assesses 180 countries for their perceived level of public sector corruption.<sup>32</sup> For 2020, Ethiopia came joint 94<sup>th</sup> position – the same level of perceived corruption as that in more developed economies, such as **Brazil, Kazakhstan** and **Serbia**, with a score of 38/100. The change represents a modest improvement on Ethiopia's 2019 ranking of 96<sup>th</sup> with a score of 37. Compared to the rest of continent, Ethiopia ranked 15<sup>th</sup> – the same position as in 2019. In comparison, the highest score in Africa was **Seychelles** (66), while Ethiopia ranked higher than all its neighbours: **Kenya** (31), **Djibouti** (27), Eritrea (21), Sudan (16), **Somalia** (12) and **South Sudan** (12), and higher than the **sub-Saharan African** average of 32 points.

| TI 2020 CPI Rankings for Ethiopia <sup>33</sup> |        |        |         |         |         |
|---|--------|--------|---------|---------|---------|
|   | 2020   | 2019   | 2018    | 2017    | 2016    |
| <b>Ranking</b>                                  | 94/180 | 96/180 | 114/180 | 107/180 | 108/176 |
| <b>Score</b> (out of 100)                       | 38     | 37     | 34      | 35      | 34      |

The slight improvement is testament to the perception that the Abiy regime is tackling corruption. Improving transparency and the ease of doing business provides a sign of the success of the Abiy government's ability to liberalise the economy, increase privatisation and increase foreign direct investment. While the latter is currently being hampered by the pandemic and the Tigray crisis, the improvement in transparency shows the government's commitment to streamlining historic obstacles to entrepreneurship and doing business. Of course, patronage networks remain fundamental to Ethiopia's domestic political structures but as this dynamic becomes less intrinsic to doing business in

<sup>27</sup> New Business Ethiopia, 11 Jan 2021

<sup>28</sup> Ethiopian News Agency, 9 Feb 2021

<sup>29</sup> New Business Ethiopia, 1 Feb 2021

<sup>30</sup> New Business Ethiopia, 1 Feb 2021

<sup>31</sup> New Business Ethiopia, 1 Feb 2021

<sup>32</sup> Transparency International, 28 Jan 2021

<sup>33</sup> Transparency International, 28 Jan 2021

Ethiopia, it will make it easier for foreign companies to operate in Ethiopia and attract further investment.

## Planner

6 Jun **(Ethiopia)** Parliamentary elections (excluding Tigray region);

## Chronology

14 Feb 2021 **Addis Ababa (Ethiopia)** *Al Jazeera*. Concerns grow over the health of opposition leaders currently imprisoned in Ethiopia following the announcement of hunger strikes, including **Bekele Gerba** and **Jawar Mohammed**, senior members of the **Oromo Federal Congress (OFC)**;

12 Feb 2021 **Addis Ababa (Ethiopia)** *Ethiopia News Agency*. The **Commercial Bank of Ethiopia (CBE)** adjusts its loan service rate upwards from 8.63% to 9.8%, representing CBE's current imbalanced income and expense rates;

12 Feb 2021 **Addis Ababa (Ethiopia)** *Reuters*. **S&P Global Ratings** follows **Fitch Ratings** in downgrading Ethiopia's credit rating from 'B' to 'B-';

11 Feb 2021 **Addis Ababa (Ethiopia)** *Africa News*. President **Sahle-Work Zewde** conducts a two-day visit to **Burundi** and agrees with her counterpart, President **Evariste Ndayishimiye**, to enhance cooperation;

11 Feb 2021 **Tigray (Ethiopia)** *Human Rights Watch*. A **Human Rights Watch** investigation accuses Ethiopian military forces of indiscriminately shelling civilian areas in **Tigray**, including **Mekelle**, **Humera** and **Shire**, in November 2020, and reportedly killing over 83 civilians;

10 Feb 2021 **Tigray (Ethiopia)** *Addis Standard*. Ethiopia's **Ministry of Foreign Affairs** condemns the statement by the **European Union (EU)** pressing for a withdrawal from **Tigray**, claiming the calls did not reflect the reality on the ground;

9 Feb 2021 **Tigray (Ethiopia)** *Borkena*. Ethiopia's government shuts down two refugee camps in **Tigray** housing 92,000 refugees from **Eritrea** as a result of alleged damage by the **Tigray People's Liberation Front (TPLF)** armed forces. The refugees are to be rehoused elsewhere;

8 Feb 2021 **Addis Ababa (Ethiopia)** *VOA*. Armed men, accused of connections with the **Tigray People's Liberation Front (TPLF)**, attack **Addis Ababa**-based freelance journalist **Lucy Kassa**;

8 Feb 2021 **Tigray (Ethiopia)** *Addis Standard*. The **European Union (EU)** issues a statement calling for the withdrawal of security forces from **Eritrea** conducting security operations in **Tigray** region, claiming that they are exacerbating inter-communal violence and committing atrocities;

7 Feb 2021 **Addis Ababa (Ethiopia)** *New Business Ethiopia*. Prime minister **Abiy Ahmed** makes a statement claiming that external forces are seeking to destabilise Ethiopia;

6 Feb 2021 **Addis Ababa (Ethiopia)** *The Reporter Ethiopia*. The **Financial Intelligence Centre (FIC)** accuses Ethiopian commercial banks of emphasising profits over adhering to banking regulations over fears of an increase in suspicious banking practices;

6 Feb 2021 **Tigray (Ethiopia)** *Al Jazeera*. The **World Food Programme (WFP)** and the Ethiopian government agree to expand access and cooperation in **Tigray** region;

6 Feb 2021 **Benishangul-Gumuz (Ethiopia)** *Sudan Tribune*. The **Ministry of Irrigation and Water Resources** in **Sudan** claims that Ethiopia's decision to expand its filling of the **Grand Ethiopian Renaissance Dam (GERD)** was a threat to security in Sudan;

5 Feb 2021 **Benishangul-Gumuz (Ethiopia)** *Ethiopian News Agency*. Ethiopia's **Ministry of**

**Water, Energy and Irrigation** announces that the **Grand Ethiopian Renaissance Dam (GERD)** is now over 78% complete, representing an increasing rate of construction;

5 Feb 2021 **Tigray (Ethiopia)** *Addis Standard*. The **United States (US)** government calls on **Eritrea** to withdraw its forces from **Tigray** region with immediate effect;

3 Feb 2021 **Tigray (Ethiopia)** *Borkena*. Three opposition parties in Tigray region release a joint statement alleging that more over 50,000 civilians have been killed in the conflict in **Tigray**, with the allegations reprinted by western media outlets;

1 Feb 2021 **Addis Ababa (Ethiopia)** *FT*. Finance ministry requests debt relief from a **G20** scheme, becoming the second country in **Africa** to do so, raising concerns over the potential for debt distress in Ethiopia without restructuring;

1 Feb 2021 **Addis Ababa (Ethiopia)** *New Business Ethiopia*. Trade and industry ministry launches online platform for business registration, set to cut the process time for business registration from up to 30 days to just hours;

1 Feb 2021 **Addis Ababa (Ethiopia)** *EU Observer*. **Tigray People's Liberation Front (TPLF) leader Debretsion Gebremichael** accuses federal security forces of committing "genocide" in Tigray, while the Ethiopian government brands Gebremichael's claims as "delusions";

30 Jan 2021 **Tigray (Ethiopia)** *The Reporter Ethiopia*. Millions of people in **Tigray** are now on the verge of famine, with calls mounting for the establishment of safer humanitarian corridors through cooperation from the Ethiopian government;

28 Jan 2021 **Benishangul-Gumuz (Ethiopia)** *Bloomberg*. Sources close to the matter say Ethiopia moved heavy weapons to disputed **al-Fashqa triangle** territory on its border with **Sudan**;

22 Jan 2021 **Addis Ababa (Ethiopia)** *The Reporter Ethiopia*. **United Kingdom (UK)** foreign minister **Dominic Raab** conducts a one-day visit to Ethiopia to discuss peace efforts with **Sudan**, the **Tigray** conflict and the **Grand Ethiopian Renaissance Dam (GERD)**;

21 Jan 2021 **Tigray (Ethiopia)** *The Reporter Ethiopia*. Prime minister **Abiy Ahmed** receives an open letter from four retired **United States (US)** ambassadors to Ethiopia stipulating their concern over the government's handling of the **Tigray** crisis;

20 Jan 2021 **Benishangul-Gumuz (Ethiopia)** *Borkena*. Foreign Affairs ministry makes a statement requesting that **Sudanese** armed forces withdraw from the border area and calling for normalisation over recent border hostilities;

18 Jan 2021 **Benishangul-Gumuz (Ethiopia)** *Borkena*. Nine civilians are killed in violence in the **Meketel** area, a further escalation following the reported death of 170 civilians during the previous week;

15 Jan 2021 **Addis Ababa (Ethiopia)** *Borkena*. Twenty-two officials from the **Tigray People's Liberation Front (TPLF)** appeared in court in **Addis Ababa** on accusations of attempting to overthrow the government and organising an illegal armed group;

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