

## AFRICA RISK CONSULTING

### Ethiopia Monthly Briefing November 2023

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#### Ethiopia Summary 23 November 2023

*Peace negotiations between the government and the Oromo Liberation Army (OLA) ends on 21 November without an agreement. Conflict between the Ethiopian National Defence Force (ENDF) and Amhara nationalist militia groups continues in Amhara region leading to further civilian casualties. Ethiopia secures a debt servicing suspension agreement with its major bilateral creditors as it attempts to negotiate a wider debt restructuring deal. United States-headquartered credit rating agency Fitch downgrades Ethiopia's Long-Term Foreign-Currency (LTFC) Issuer Default Rating (IDR) to 'CC' from 'CCC-' on 2 November. Economic challenges persist with no investor interest in the latest telecom licence offering, and the country's only foreign-owned financial services firm, Ethio-lease, announcing on 15 November it is ceasing operations.*

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#### Peace talks between government and Oromo nationalists fail

The peace negotiations between **Ethiopia's** federal government and the **Oromo Liberation Army (OLA)** began on 7 November in **Dar es Salaam (Tanzania)** and ended on 21 November after the parties failed to reach a peace agreement.<sup>1</sup> The government blamed the OLA for the failed negotiations accusing the militant group of intransigence and making unrealistic demands; the OLA, meanwhile accused the state of failing to address the fundamental issues which underpin the ongoing conflict.<sup>2</sup>

The OLA has waged an insurgency in Ethiopia's **Oromia** region since 2018 when it split from the **Oromo Liberation Front (OLF)** after the latter agreed to participate in Prime Minister **Abiy Ahmed's** (2018-present) reconciliation process.<sup>3</sup> The OLA's grievances are rooted in their belief that the Oromo ethnic group have been repeatedly marginalised by the central government, including having their land rights ignored, despite being Ethiopia's largest ethnic group. These grievances have manifested in a desire for the Oromo to have self-determination and the establishment of an independent – or at least autonomous Oromia. It is estimated that hundreds of people have been killed in the insurgency over the past five years.

The November negotiations were the second round of peace talks between the federal government and the OLA, after similar talks in April and May also failed to produce a lasting peace agreement or ceasefire.<sup>4</sup> It should be noted that neither party has indicated a desire for a third round of negotiations indicating that the two sides view their differences as irredeemable. The negotiations also took place in the absence of a pre-agreed ceasefire, confirmed by the 20 November clashes between **Ethiopian National Defence Force (ENDF)** soldiers and OLA militants in the **Horo Guduru Welega** zone of the Oromia region.<sup>5</sup> At least 4 civilians were killed in these clashes.

The failure of the peace negotiations portends an intensification of the conflict between the OLA and the ENDF. This insurgency poses a serious security threat throughout the Oromia region including in Ethiopia's capital, **Addis Ababa**, which is located within this region. However, the OLA has not illustrated that it has the capacity to stage a direct attack on Addis Ababa at this time.

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<sup>1</sup> Reuters, 22 Nov 2023

<sup>2</sup> Reuters, 22 Nov 2023

<sup>3</sup> Africa News, 9 Nov 2023.

<sup>4</sup> Reuters, 22 Nov 2023

<sup>5</sup> Addis Standard, 22 Nov 2023

### ... as conflict continues in Amhara region

The ENDF is also continuing to battle **Amhara** nationalist militias (known as **Fano**) in the Amhara region, with the **United Nations** estimating that at least 50 civilians have been killed in clashes between federal soldiers and Fano fighters in the past two months.<sup>6</sup> Similar to the OLA, these Fano groups desire an independent Amhara homeland as they believe that the central government marginalises ethnic Amhara communities and ignores their concerns. The Amhara are Ethiopia's second largest ethnic group after the Oromo.

The Amhara conflict is arguably the most serious internal security issue facing the federal government ever since the war in the **Tigray** region concluded in December last year. Fano militia has repeatedly overrun ENDF positions and captured important towns. Most notably, militia fighters briefly captured the historic town of **Lalibela** on 7 November - Lalibela is a **UNESCO World Heritage** site and was a popular tourist destination prior to the rapid deterioration of the security environment in the region.

Illustrative of the seriousness with which the state views the threat posed by Fano militia groups, the Amhara region has been under a state of emergency since August and has had heavy internet restrictions since June. Furthermore, the ENDF has carried out a series of drone strikes targeting Fano forces throughout the region. The most recent of these occurred outside the town of **Woldia** on 15 November and killed at least five civilians.<sup>7</sup> Although these drones are an effective offensive strike tool, the high rate of civilian casualties does risk further radicalising local communities, further assisting Fano's recruitment efforts.

The ongoing conflicts in the Oromia and Amhara regions highlight the wider deterioration of Ethiopia's security environment and prevent the state from effectively recovering from the Tigray war. These ethno-nationalist-driven conflicts do pose an existential threat to Ethiopia's survival as a federal state over the long term, placing pressure on Abiy and the federal government to bring these conflicts to a conclusion and implement some form of nation-building reforms.

### Debt service suspension agreement secured

The finance ministry announced on 15 November, that it had managed to secure an in-principle agreement with bilateral creditors on an interim debt-service suspension, believed to resemble the one reached with **China** in August under which Ethiopia will receive a two-year reprieve from needing to finance its debt.<sup>8</sup> This will grant the government some fiscal flexibility with which to implement its necessary budgetary and governance reforms. The agreement was secured while the government was undergoing debt restructuring negotiations with the **International Monetary Fund (IMF)** and its bilateral creditors under the **G20's Common Framework**.

Ethiopia has also confirmed that it is seeking to reach a restructuring agreement worth \$1 billion with its **Eurobond** holders. If achieved, this will also grant the state some additional space with which to begin addressing its financial challenges which include an estimated debt burden of around \$28 billion. The country will likely succeed in securing this debt restructuring given the support it is receiving from the IMF; however, this will likely also be based on the country securing a similar debt restructuring deal with China which is estimated to hold almost half of Ethiopia's external debt.<sup>9</sup> China is typically resistant to debt restructuring agreements and this resistance will likely prolong the restructuring negotiations into 2024.

### ... but economic challenges persist

**United States**-headquartered credit rating agency **Fitch** downgraded Ethiopia's **Long-Term Foreign-Currency (LTFC) Issuer Default Rating (IDR)** to 'CC' from 'CCC-' on 2 November, pushing

<sup>6</sup> VOA, 17 Nov 2023

<sup>7</sup> Borkena, 17 Nov 2023

<sup>8</sup> Reuters, 15 Nov 2023

<sup>9</sup> Reuters, 14 Nov 2023

Ethiopia further into sub-investment grade.<sup>10</sup> Fitch cited persistent concerns about the country's debt burden as a reason for the downgrade. Notably, the downgrade was issued prior to the debt servicing agreement being reached (see above), but this agreement would unlikely have influenced Fitch's decision in the absence of a more comprehensive debt restructuring deal. Ethiopia is also facing a variety of other economic challenges including a high inflation rate. Inflation in Ethiopia increased to 29.2% in October from 28.3% in September, ending a six-month streak in which inflation declined or remained static.<sup>11</sup>

Ethiopia's challenging economic conditions and security issues have also discouraged investment in the country. This was best illustrated by the fact that there were no bidders in the round ending 14 November for the country's third telecom licence.<sup>12</sup> Such a lack of investor interest marks a sharp reversal from 2021 when **Kenya's Safaricom** and **South Africa's MTN** competed fiercely to be the second telecoms operator in the country after the state-owned **Ethio Telecom**. Safaricom successfully secured that licence, but despite bidding \$600m in 2021, MTN displayed no interest in this latest round highlighting the change in investor perception of Ethiopia.

Further compounding Ethiopia's foreign investment challenges, it was revealed on 15 November that the country's only foreign-owned financial services firm **Ethio-lease** was exiting the country.<sup>13</sup> Ethio-lease – which is owned by the US-based **African Asset Finance Company** – became the first, and to date only, company to be granted a financial services licence by the **National Bank of Ethiopia** (central bank) in 2019. However, after less than five years in the country, it is shutting down its operations citing the tough foreign exchange constraints in Ethiopia. This is rooted in the central bank's 2021 decision to amend the regulatory framework mandate that all lease agreements had to be in fixed payments denominated in Ethiopian birr which has halved in value since 2019 undermining Ethio Lease's financial viability. Ethio Lease's decision to end operations in the country and the lack of interest in the latest telecom licence offering underscore the extent to which Ethiopia has lost its reputation as the next investment frontier in Africa.

## Planner

4 Dec 2023 **Addis Ababa (Ethiopia) Second Africa Trade and Investment Summit (ATIS)**

7 Jan 2024 **(Ethiopia) Ethiopian Christmas Day** (national holiday)

6 – 9 Feb 2024 **Addis Ababa (Ethiopia) 20th African Fine Coffees Conference & Exhibition**

Apr 2024 **(Ethiopia) 11th Tana high-level forum on security in Africa**

2024 **Addis Ababa (Ethiopia) Africa Union (AU) – Canada Forum**

2024 **(Ethiopia) Horn of Africa heads of state summit**

## Chronology

21 Nov 2023 **Addis Ababa (Ethiopia) Foreign Brief**. Twenty **French** companies will participate in a pre-investment screening visit to Ethiopia today;

20 Nov 2023 **Addis Ababa (Ethiopia) Ethiopian Monitor**. Ethiopia and **Djibouti**, during the 10<sup>th</sup> defence experts committee meeting, sign a memorandum of understanding (MoU) to cooperate in defence and security;

<sup>10</sup> Fitch, 2 Nov 2023

<sup>11</sup> Trading Economics, 23, Nov 2023

<sup>12</sup> Bloomberg, 14 Nov 2023

<sup>13</sup> Financial Times, 15 Nov 2023

19 Nov 2023 **Addis Ababa (Ethiopia)** *Borkena*. Prime minister **Abiy Ahmed** hosts a bilateral meeting with **German** chancellor **Olaf Scholz** during the **G20 Compact with Africa** summit to discuss economic and political ties between Ethiopia and Germany;

18 Nov 2023 **Addis Ababa (Ethiopia)** *The Reporter*. **South Korea's** ambassador to Ethiopia, **Kang Seokhee**, confirms South Korea will provide technical assistance and training to Ethiopia in the field of nuclear science and technology as Ethiopia seeks to develop a nuclear power plant;

17 Nov 2023 **Addis Ababa (Ethiopia)** *Reuters*. Finance ministry senior advisor **Hinjat Shami** confirms Ethiopia has cancelled a process seeking an international telecoms licence to allow for assessment of market potential and readiness;

16 Nov 2023 **Addis Ababa (Ethiopia)** *OCHA*. Officials report that flooding has killed at least 33 people and displaced over 46,000 in the **Somali** region, caused by the **Shabelle** river breaching its banks following a period of heavy rainfall;

15 Nov 2023 **Addis Ababa (Ethiopia)** *Financial Times*. **Ethio Lease**, a unit of the **United States**-headquartered **African Asset Finance Company** and the only foreign-owned financial services company operating in Ethiopia, says it is pulling out of Ethiopia over foreign exchange constraints;

15 Nov 2023 **Addis Ababa (Ethiopia)** *The East African*. **United States Agency for International Development (USAID)** says it will resume food aid in Ethiopia in December after the implementation of a series of reforms by the government and local implementing partners. Aid was suspended in June as donations were being stolen;

15 Nov 2023 **Addis Ababa (Ethiopia)** *Africanews*. Prime minister **Abiy Ahmed** reiterates his pledge to not invade any neighbouring countries over **Red Sea** port access but says Ethiopia will not abandon its request for port access;

8 Nov 2023 **Addis Ababa (Ethiopia)** *News24*. Residents report new fighting in the **Amhara** town of **Lalibela** between federal government forces and regional militia. Amhara region remains under a state of emergency;

4 Nov 2023 **Asmara (Eritrea)** *AFP*. **United States** secretary of state **Anthony Blinken** calls on Eritrean soldiers to withdraw from **Ethiopia** to help the peace agreement between the **Tigray People's Liberation Front (TPLF)** and the Ethiopian government progress further;

2 Nov 2023 **Addis Ababa (Ethiopia)** *Fitch*. **United States**-headquartered credit rating agency **Fitch** downgrades Ethiopia's Long-Term Foreign-Currency (LTFC) Issuer Default Rating (IDR) to 'CC' from 'CCC-' and affirms the Long-Term Local-Currency IDR (LTLC) at 'CCC-', citing an increased likelihood of default;

27 Oct 2023 **Addis Ababa (Ethiopia)** *Ethiopian News Agency*. **Ethiopian Electricity Power (EEP)** says revenue from electricity exports to neighbouring counties, including **Djibouti, Kenya** and **Sudan**, reached \$21.4m in the first quarter of its current financial year;

26 Oct 2023 **Addis Ababa (Ethiopia)** *Bloomberg*. Prime Minister, **Abiy Ahmed**, assures neighbouring countries that force will not be used to secure access to a sea port. Tensions arose earlier this month when **Abiy** claimed the landlocked nation has a right to access the **Red Sea** and in response, **Eritrea** moves troops closer to the shared border;

23 Oct 2023 **Addis Ababa (Ethiopia)** *Borkena*. **China's** ambassador to Ethiopia, **Zhao Zhiyuan**, says the transformation of relations between Ethiopia and China to an "all weather" strategic partnership indicates growing political trust between the two countries;

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

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