

## AFRICA RISK CONSULTING

### Ethiopia Monthly Briefing Jun 2023

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#### Ethiopia Summary 22 Jun 2023

*The World Food Programme (WFP) and the United States halt food aid to Ethiopia after discovering a food diversion scheme targeting donor-funded food commodities. Finance minister Ahmed Shide unveils his budget for the 2023/2024 financial year on 8 June. The annual budget will increase to Br 801.7 billion (\$14.7 billion) from Br 786.6 billion (\$14.3 billion) in the previous year. Rammis Bank, a local Islamic finance-based institution launches in Ethiopia on 5 June. The National Bank of Ethiopia also announces that it will allow foreign insurers to enter the Ethiopian market once an independent regulatory body has been created. The developments indicate the government's ongoing liberalisation drive. National power utility Ethiopian Electric Power records over \$83m in revenues on 14 June after exporting 12,126 gigawatt hours (GWh) of electricity to Djibouti, Kenya and Sudan over ten months. The Tigray peace accord between the federal government and Tigray People's Liberation Front is holding, however, security challenges continue to plague peace prospects.*

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#### Food aid diversion scheme uncovered

The **United States (US)** and the **World Food Programme (WFP)** announced on 8 and 9 June that it would suspend food aid disbursement in Ethiopia after finding a “*diversion scheme primarily targeting donor-funded food commodities*”, raising fears of malnutrition and food insecurity in a country where 20 million people are reliant on food assistance. The foreign ministry released a joint statement with the **United States Agency for International Development (USAID)** on 8 June describing the situation as “*deeply concerning*” and pledging to investigate the matter to ensure perpetrators of the scheme are held accountable.<sup>1</sup>

WFP's executive director **Cindy McCain** labelled the food diversion as “*absolutely unacceptable*” on 9 June and joined the US in temporarily halting food aid assistance to the country except for “*children, pregnant and breastfeeding women, school meals programmes, and activities for building the resilience of farmers and pastoralists*”.<sup>2</sup> WFP stated on 19 June that it hoped to resume more distribution of food aid in the country in July providing some prospects for relief.<sup>3</sup>

Indicative of an increasingly strained relationship between the government and its donors over this decision, the government spokesperson **Legesse Tulu** later called the food aid suspension “*political*” and lamented that “*making only the government responsible (for embezzlement) is unacceptable*”.<sup>4</sup> The suspension could also potentially have devastating consequences in **Tigray** where the government and **Eritrean** forces have been found to have played a major role in the food diversion syndicate.<sup>5</sup> In Tigray, at least 5.4 million of the region's 6 million population are reliant on humanitarian assistance.

#### 2023/2024 budget approved

Finance minister **Ahmed Shide** released his budget for the 2023/2024 financial year on 8 June, raising the annual budget from Br 786.6 billion (\$14.31 billion) in the previous financial year to Br 801.7 billion (\$14.58 billion).<sup>6</sup> The **Council of Ministers** approved the **2023/2024 Federal Budget**

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<sup>1</sup> United States Embassy Addis Ababa, 8 Jun 2023

<sup>2</sup> UN News, 9 June 2023

<sup>3</sup> Reuters, 19 Jun 2023

<sup>4</sup> Africa News, 12 Jun 2023

<sup>5</sup> The East African, 16 Jun 2023

<sup>6</sup> The East African, 11 Jun 2023

**Bill** on 6 June. Ahmed conceded a gross budget deficit of Br 281.1 billion (\$5.11 billion) which the government expects to largely finance from domestic sources, with approximately Br 242 billion (\$4.40 ) of this to come from treasury bills and domestic loans and the remainder will come from foreign loans. Debt will be a concern for the government as Ethiopia held around \$26 billion of external liabilities in end-September 2022, spending around \$1.7 billion in debt service payments in the first half of the fiscal year (running from July to June) (see *ARC Ethiopia briefing Apr 2023*). The budget also forecasts that the economy will grow by 7.5% during the 2022/2023 fiscal year and by 7.9% in 2023/2024.<sup>7</sup>

Shide also conceded that the negotiations with the **International Monetary Fund (IMF)** for the restructuring of the country's debt have not progressed fast enough.<sup>8</sup> The government first requested a new programme in January 2021, under the **G20 Common Framework for Debt Treatments**.<sup>9</sup> However, the government noted that it remains committed to the negotiations and will continue to work on the required elements from its side.<sup>10</sup> The IMF's communications director **Julie Kozack** also reiterated on 8 June the IMF's support for Ethiopia's economic turnaround and noted that an IMF programme would help support the government's reform agenda, address macroeconomic vulnerabilities and help the government unlock further economic growth.<sup>11</sup>

### Industry benefiting from economic reforms

**Rammis Bank**, a start-up local Islamic bank officially entered the financial services sector on 5 June, with plans to have head offices in Addis Ababa and **Dawa Dire**. The bank mobilised capital of Br 2.1 billion (\$38.21m) as well as paid capital of Br 636.1m (\$11.57m) to secure its licence.<sup>12</sup> The liberalisation and deepening of the country's financial sector will be crucial as the government embarks on its expansive economic liberalisation and industrialisation plans which will necessitate access to capital from firms and businesses alike. Currently, these ambitions are constrained by low financial inclusion levels, a legacy of years of public sector entrenchment and influence of the state in the sector. Only 30.5% of Ethiopians had an account at a formal financial institution in 2019.<sup>13</sup>

In a further boon for the liberalisation of the sector, the **National Bank of Ethiopia** (central bank) announced on 16 June that it will allow foreign insurers to enter the Ethiopian market once an independent regulatory body has been established.<sup>14</sup> The country currently only hosts 18 active insurance firms, of which 17 are privately owned and reported a total capital of Br 14.4 billion (\$262.02m) in 2021/2022.<sup>15</sup> The ongoing economic reforms will create opportunities for insurance services in the country, particularly those focused on commercial services such as property insurance, stock insurance, and employee insurance services.

### Government aims to increase electricity exports

National power utility **Ethiopian Electric Power** recorded over \$83m in revenues on 14 June after exporting 12,126 gigawatt hours (GWh) of electricity to **Djibouti, Kenya** and **Sudan** over ten months, achieving 85% of the target set for the period under review. The government has set a wider target of raising the contribution of electricity exports to total export earnings to \$400m within ten years. This stood at \$95.5m for the 2021/2022 financial year (ending July).<sup>16</sup> The **Grand Ethiopian Renaissance Dam** project on the **Nile River** will be key to this and once completed it is expected to have an average electricity production capacity of 15,700 GWh annually.<sup>17</sup>

<sup>7</sup> New Business Ethiopia,

<sup>8</sup> The East African, 11 June 2023

<sup>9</sup> Fitch Ratings, 22 Jul 2023

<sup>10</sup> Reuters, 8 Jun 2023

<sup>11</sup> The Reporter, 17 Jun 2023

<sup>12</sup> New Business Ethiopia, 5 Jun 2023

<sup>13</sup> World Bank, Jun 2021

<sup>14</sup> Addis Standard, 16 Jun 2023

<sup>15</sup> National Bank of Ethiopia, accessed 20 Jun 2023

<sup>16</sup> Modern Diplomacy, 14 Jun 2023

<sup>17</sup> Global Construction Review, 21 Feb 2022

However, a key risk to this outlook stems from the **Egyptian** government's strong opposition to the dam as it continues to mobilise regional support to pressure the Ethiopian government to refrain from uses of the dam which could impact downstream users of the Nile. Egypt's president **Abdel-Fattah El-Sisi** (2014-present) and **Mauritania's** president **Mohamed Ould Ghazouani** (2019-present) called on the Ethiopian government on 4 June to adopt the legally binding solutions for the operationalisation of the dam which were proposed in negotiations the **African Union** hosted in 2019. These were halted without resolution. Ghazouani commended "*the patience and wisdom that the Egyptian leadership have adopted in tackling this very important topic*".

### Tigray security challenges persist

US-headquartered rights organisation **Human Rights Watch (HRW)** released a report on 1 June alleging that local authorities and **Amhara** forces are continuing to carry out an ethnic cleansing campaign in **Western Tigray Zone** and expelling Tigrayans as security challenges persist in Tigray. These reports come despite the 2 November peace accord between the federal government and **Tigray People's Liberation Front** leaders remaining intact.

The findings stem from telephone interviews with 35 people in the region between September and April. HRW has called for the government to "*suspend, investigate, and appropriately prosecute*" authorities involved in the rights abuses. Deputy African director at HRW **Laetitia Bader** stated:

*"If the Ethiopian government is really serious about ensuring justice for abuses, then it should stop opposing independent investigations into the atrocities in Western Tigray and hold abusive officials and commanders to account"*<sup>18</sup>

The **Ethiopian Human Rights Commission (EHRC)** also sounded the alarm on "*enforced disappearances*" taking place in Amhara, **Oromia**, and **Addis Ababa**. EHRC stated on 5 June that the disappearances seem to be related to the Tigray conflict "*in one way or another*". According to the commission it has documented at least 12 people who have been arrested or abducted under "*unclear*" circumstances.<sup>19</sup> The security situation in Tigray is set to remain volatile at least over the medium term, particularly as the government struggles to rein in factions including the Eritrean security forces, and Amhara forces.

### Planner

18 Sep 2023 – 19 Sep 2023 **Addis Ababa (Ethiopia)** Annual Power Tech Africa

### Chronology

20 Jun 2023 **(United States)** *Bloomberg Law*. **United States**-headquartered **Boeing** settles the last of six cases that had been scheduled for trial with the families of individuals killed in a 2019 **Ethiopian Airlines** plane crash. This decreases the number of remaining plaintiffs to 68;

19 Jun 2023 **Wolaita Zone (Ethiopia)** *Ethiopian Monitor*. **National Election Board of Ethiopia** holds a referendum election for residents of the **Wolaita zone** to vote on the proposed creation of Ethiopia's 12<sup>th</sup> state;

19 Jun 2023 **Addis Ababa (Ethiopia)** *Ethiopian Monitor*. **United Kingdom's** international trade minister **Nigel Huddleston** launches the **Developing Countries Trading Scheme** which aims to improve trade dynamics with developing countries including Ethiopia;

19 Jun 2023 **(Ethiopia)** *Proactive Investors*. **United Kingdom**-listed **KEFI Gold** announces that it has met all the key funding conditions to utilise a \$39m financing package for its **Tulu Kapi**

<sup>18</sup> Human Rights Watch, 1 Jun 2023

<sup>19</sup> Voice of America News, 13 Jun 2023

**Gold Mine** project in Ethiopia. Production at the mine is expected to encompass 140,000 ounces of gold annually.

16 Jun 2023 **Oromia (Ethiopia) *aciacfrica***. The **Catholic** pontifical and charity foundation **Aid to the Church in Need** calls on the Ethiopian federal government and members of the Oromia community to “*seek solutions*” to end violence in Oromia;

16 Jun 2023 **(Nairobi) Kenya *Prensa Latina***. Kenya and **Ethiopia** agree to cooperate on the prevention of terrorism, human trafficking, drug smuggling and the illegal movement of cattle in their border areas;

16 Jun 2023 **Amhara, Tigray (Ethiopia) *UNICEF***. **Japan** grants \$8.1 billion to **United Nations International Children's Emergency Fund** for education, water, sanitation, and hygiene services in the conflict-impacted regions of **Amhara** and **Tigray**;

14 Jun 2023 **Addis Ababa (Ethiopia) *Ethiopian Monitor***. Government reports Br 34.6 billion (\$634.86m in tax revenues in May, up 28.6% from the previous month);

12 Jun 2023 **Addis Ababa (Ethiopia) *Addis Standard***. **Ethiopian Airlines Group** confirms the departure of board chairman **Girma Wake**, announcing **Yilma Merdassa**, the commander of the **Ethiopian Air Forces**, as his replacement. No reason is provided, however, Girma's replacement comes on the heels of the controversial 26 May launch of **Nigeria Air**, in which Ethiopian Airlines owns a 49% equity stake;

7 Jun 2023 **Dollo (Ethiopia) *Ethiopian Monitor***. **Ethiopia National Defense Force** announces that it repelled a planned attack by **Al-Shabaab** militants in Dollo, a border town between Ethiopia and **Somalia**;

6 Jun 2023 **(Ethiopia) *BBC***. **United Kingdom**-headquartered media outlet **BBC** reports that over 20,000 people have fled from warring **Sudan** to Ethiopia across the **Meteme** bridge which links the two countries;

31 May 2023 **Tigray (Ethiopia) *The Guardian***. Civil society organisation **Human Rights First** files a lawsuit against **Ethiopian Airlines**, alleging that the national carrier has been discriminating against ethnic Tigrayans by preventing them from buying tickets to fly from Tigray to **Addis Ababa**;

26 May 2023 **Tigray (Ethiopia) *124news***. Government launches the first round of the **Tigrayan** ex-combatants' reintegration and rehabilitation program, in **Mekele City**, as mandated under the November peace accord;

25 May 2023 **Addis Ababa (Ethiopia) *Addis Standard***. The **Ethiopian Media Authority** issues a final warning to local media outlet **Prime Television** which it accuses of broadcasting content inciting discord among citizens and risking the provocation of conflicts;

24 May 2023 **Addis Ababa (Ethiopia) *Addis Standard***. Education ministry finds 85.9% of elementary and middle schools, and 70.9% of high schools to be “*completely sub-standard*” following an evaluation of 47,000 schools across the country.

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