

## AFRICA RISK CONSULTING

### Ethiopia Monthly Briefing August 2023

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#### Ethiopia Summary 25 August 2023

*Ethiopia embraces membership in the BRICS community as the economic bloc more than doubles membership following the Heads of State and Government Summit held in between 22 and 24 August. Ethiopia stands to benefit economically through access to a larger market and increased investment opportunities while foreshadowing a decreased dependence on condition-laden Western aid and assistance. The federal government announces a State of Emergency on 4 August in response to increased fighting between Amhara region's ethnic-nationalist Fano militia and government forces. The government's inability to resolve underlying territory disputes and ethnic tensions negatively impacts business and investment in the region. Safaricom Ethiopia launches its MPesa mobile money service on 16 August, expressing optimism about expanding financial connectivity to Ethiopia's growing population. However, ongoing security risks and market domination by state-owned Telebirr pose barriers to investors' returns on investment.*

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#### Ethiopia becomes new member of BRICS+

Ethiopia has been invited alongside five other countries to join the **BRICS (Brazil, Russia, India, China, South Africa)** bloc, providing Ethiopia with access to a larger market, increased trade opportunities with other growing economies, and greater foreign direct investment (FDI) from other members. The invitation came after the **15<sup>th</sup> BRICS Summit** held between 22 and 24 August in **Johannesburg** (South Africa).<sup>1</sup> It is only the second time the bloc has expanded after South Africa joined in 2010 with the new members expected to be officially welcomed by 1 January 2024. South Africa's BRICS ambassador **Anil Sooklal** stated that over 40 countries had expressed interest in joining and that the bloc received 22 formal applications.<sup>2</sup>

Prime Minister **Abiy Ahmed** (2018-present) attended the summit, calling the invitation to join BRICS a "great moment" and noted that "Ethiopia stands ready to cooperate with all for an inclusive and prosperous world order."<sup>3</sup> While there is no formal application process, South Africa's foreign minister **Naledi Pandor** stated that during the summit the leaders had agreed on a document to outline guidelines, principles, and processes for considering applicants.<sup>4</sup> Details of the criteria are as yet unknown.

The BRIC acronym originated in a 2001 **Goldman Sachs** paper about fast-growing emerging economies to encourage investment into the named countries.<sup>5</sup> BRIC was formed in 2009 and although it is not a formal multilateral organisation like the **United Nations (UN)**, **World Bank** or the **Organisation of the Petroleum Exporting Countries (OPEC)**, members shared a common desire for an alternative to the **United States (US)** dollar hegemony in the global arena and believed that the international system was not representing the interests of developing nations.<sup>6</sup>

Ethiopia comfortably fits the definition of a fast-growing emerging economy - the **World Bank** reported in 2021 that Ethiopia was among the fastest-growing countries in the world between 2004

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<sup>1</sup> Voice of America, 21 Jul 2023

<sup>2</sup> Voice of America, 21 Jul 2023

<sup>3</sup> Office of the Prime Minister Ethiopia, X, 24 Aug 2023

<sup>4</sup> Reuters, 23 Aug 2023

<sup>5</sup> The Economist, 9 Aug 2022

<sup>6</sup> The Guardian, 24 Aug 2023

and 2019 with gross domestic product (GDP) averaging 10.3%.<sup>7</sup> GDP slowed to 5.6% in 2021 and 5.3% in 2022 following the **Covid-19** pandemic, subsequent inflation and a two-year civil war between the government and the **Tigrayan People's Liberation Front (TPLF)**, however, these are still respectable figures.<sup>8</sup> The **International Monetary Fund (IMF)** predicts 6.1% growth in 2023 and forecasts that Ethiopia will surpass **Angola** and **Kenya** as the third largest economy in **sub-Saharan Africa**.<sup>9</sup>

As mentioned, joining BRICS could provide Ethiopia with access to a larger market, increase trade opportunities and increase greater foreign direct investment (FDI). To this point, BRICS multilateral **New Development Bank** president **Dilma Rousseff** stated that the bank can help finance African countries' projects to tackle critical challenges.<sup>10</sup> With Ethiopia's ongoing humanitarian crises caused by war and drought, this may be a useful source to tap into. Membership in BRICS also has the potential to increase Ethiopia's geopolitical influence. Throughout recent history, Ethiopia has maintained a stance of non-alignment and has continued to foster close ties with Russia and China. During the Tigray conflict, Ethiopia's relationship with the US and the broader **West** soured due to accusations of human rights atrocities which led to the restriction of financial and technical assistance (see *ARC Briefing Ethiopia Jul 2023*).

Joining BRICS is an important signal that Ethiopia can retreat from Western influence and dependence on their aid. BRICS's policy of non-interference in internal politics of member states' affairs gives the Ethiopian government greater cover over future accusations of human rights abuses and, with human rights and governance conditions increasingly being applied to Western loans, aid, or debt relief, Ethiopia can turn to other BRICS members for support without political reform.

Ethiopia joining the group will also test how it handles issues with **Egypt**, also invited to join, over the **Grand Ethiopian Renaissance Dam (GERD)** and with **Saudi Arabia**, which was also invited to join, over the alleged mass killings of Ethiopian migrants by Saudi border guards.<sup>11</sup> Nonetheless, the BRICS expansion and the number of interested applicants is an important indicator that the pre-existing global order and international structures employed through institutions such as the **United Nations Security Council** and **G7** countries are out of date with the current economic reality. Going forward, mature economies in the 'global north' will be under greater pressure to engage with the 'global south' in more diverse ways.

A source told **Africa Risk Consulting Briefing (ARC Briefing)** currently in **Addis Ababa** reported that membership to BRICS is positive news for a country that is "*desperate for investment*" but any celebration is overshadowed by exhaustion and frustration over the protracted conflict in Ethiopia's **Amhara** region (see below).

### Fighting intensifies in Amhara

Ahmed declared a six-month State of Emergency in Ethiopia on 4 August at the request of Amhara regional state president **Yilikal Kefale**, following an increase in violent clashes between the **Ethiopian National Defense Force (ENDF)** and **Fano** militia, an ethno-nationalist Amhara volunteer militia. The militia seized **Lalibela** airport and occupied **Gondar**, Amhara's second-largest city on 3 August, prompting national air carrier **Air Ethiopia** to suspend flights to the two cities as well as to **Dessie** and **Bahir Dar**.<sup>12</sup> The ENDF had pushed Fano out of Gondar y 8 August, overpowering the part-time militia with military force.<sup>13</sup> A suspected ENDF airstrike on the **Finote**

<sup>7</sup> World Bank, worldbank.org, April 2021

<sup>8</sup> African Development Bank, afd.org,

<sup>9</sup> Business Insider Africa, 14 Apr 2023

<sup>10</sup> Reuters, 24 Aug 2023

<sup>11</sup> Human Rights Watch, 21 Aug 2023

<sup>12</sup> The East African, 3 Aug 2023

<sup>13</sup> Al Jazeera, 9 Aug 2023

**Selam** community on 13 August, which killed 26 people and wounded 55, prompted international concern over human rights abuses.<sup>14</sup>

Humanitarian organisations expressed concern that the state of emergency measures which allow authorities to arrest suspects without a warrant, conduct searches and impose curfews may be employed indiscriminately to crack down on the ethnic Amhara population. Under a state of emergency imposed during the Tigray conflict, the federal forces rounded up thousands of ethnic Tigrayans across the country.<sup>15</sup> The **Ethiopian Human Rights Commission (EHRC)** reported on 15 August that mass arrests of Amhara people were underway in Addis Ababa and urged the federal government to stop arbitrary arrests and detentions and provide the EHRC access to all incarceration facilities.<sup>16</sup>

Amhara is Ethiopia's second-largest region and was a key ally in the federal government's war against the TPLF. However, discontent grew in April after government ordered the disarmament, demobilization, and reintegration (DDR) of the 250,000-strong regional special forces. This was an expansion of the stipulation in the **Pretoria Peace Agreement**, signed in November 2022, which called for the disarmament of TPLF. The move prompted Amharas within Ethiopia and in its diaspora to protest the federal government, rehashing underlying ethnic and land conflicts which led to arrests and violent attacks (*see ARC Briefing Ethiopia May 2023*).

Despite fighting on behalf of ENDF, Amhara interests were largely excluded from the Pretoria agreement and Amhara's territory disputes were not addressed - Amharas argued that disarming their regional force leaves them vulnerable to continued attacks from Tigray as well as from the **Oromo Liberation Army (OLA)** over contested territories.<sup>17</sup> To further stoke highly volatile ethnic divisions, the TPLF released statements on 14 August in support of ENDF's military campaign in Amhara.<sup>18</sup> It is unclear what the federal government can do to quell the growing rebellion in Amhara as the Fano is loosely organised, drawing volunteers from a burgeoning ethno-nationalist local population. Military force without addressing underlying causes is likely to stoke these sentiments.

**Amhara Industry and Investment Bureau** reported on 16 August that the conflict has created \$45m in damages and loss of over 3,000 jobs.<sup>19</sup> The Amhara region is also an important agricultural source for the country, accounting for 22% of the national GDP.<sup>20</sup> The recent conflict has disrupted supply chains, blocked important overland trade routes, and threatened Ethiopia's investment climate. Telecoms newcomer **Safaricom Ethiopia** has had to curtail its presence in the region and the international flower trade has had to suspend its exports due to the prolonged fighting.<sup>21</sup>

Finance minister **Ahmed Shide** stated on 20 August that the post-Tigrayan conflict reconstruction will cost \$20 billion and called on foreign investors and international institutions to assist in Ethiopia's recovery. With the addition of this conflict, Ethiopia will require even more, however, as the federal government is faced with unresolved security challenges in the Oromia region and renewed violence in Amhara, much-needed investment and aid in the country come with significant risks that may in turn deter investors.

### **MPesa launched in Ethiopia**

**Safaricom Ethiopia** launched its **MPesa** mobile money service in Ethiopia on 16 August following license approval by the Ethiopian government and \$150m in investment fees.<sup>22</sup> Safaricom Ethiopia is majority-owned by **Kenya's Safaricom** with shareholders including **United Kingdom's (UK)**

<sup>14</sup> BBC News, 14 Aug 2023

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

<sup>16</sup> Jurist, 15 Aug 2023

<sup>17</sup> The Africa Report, 28 Jul 2023

<sup>18</sup> Borkena, 14 Aug 2023

<sup>19</sup> Addis Standard, 16 Aug 2023

<sup>20</sup> Addis Standard, 16 Aug 2023

<sup>21</sup> Semafor, 23 Aug 2023

<sup>22</sup> Capital News, 17 Aug 2023

## Vodafone, South Africa's Vodacom, Japan's Sumitomo Corporation, and British International Investment.

Safaricom Ethiopia officially launched in Ethiopia's telecoms landscape in October 2022 following months of lobbying and bidding. The **Ethiopian Communication Authority (ECA)** granted the Kenyan company one of two telecommunications licenses made available to private operators following the government's liberalisation of the sector (*see ARC Briefing Ethiopia May 2023*). In its \$850m bid, Safaricom Ethiopia committed to invest \$300m a year into Ethiopia until 2032.<sup>23</sup>

MPesa has an impressive track record within Kenya and globally where it boasts over 50 million customers in 7 countries with annual revenues of \$1.3 billion.<sup>24</sup> However, MPesa faces stiff competition in Ethiopia where state-run **Ethio Telecom's** mobile money service **Telebirr** dominates. After launching in August 2021, Telebirr has amassed 34.3 million subscribers and facilitated transactions worth \$12.3 billion.<sup>25</sup> Rather than being intimidated by the market leader, Safaricom chief finance officer (CFO) **Dilip Pal** stated that the success of Telebirr was an "*encouraging signal*" to Safaricom, referencing the readiness of Ethiopian users to embrace the digital finance sphere.

Ethiopia has the second largest population on the continent which offers companies a huge potential user base. Less than 40% of Ethiopia's 120.3 million population have a mobile phone and Safaricom sees the potential to generate significant returns in Ethiopia's newly liberalised market.<sup>26</sup> Connectivity and access to the mobile money app will be further facilitated through funding by the World Bank which, on 7 August, finalised an agreement to provide Safaricom Ethiopia with \$257.4m in equity, loans, and guarantees to support the company's greenfield telecommunications projects.<sup>27</sup> Greenfield development refers to developing a system from scratch without a pre-existing network connection.

Chief corporate affairs officer **Stephen Kiptinness** told reporters on 24 August that Safaricom Ethiopia had reached five million subscribers, meeting the halfway point of the subsidiary's goal of acquiring 10 million customers by the close of March 2024.<sup>28</sup> Safaricom Ethiopia aims to register at least two million customers on M-Pesa which has the potential to significantly expand financial inclusion and access to banking services throughout Ethiopia's rural areas.<sup>29</sup>

However, local conflicts stand to interfere with greenfield network and site development, especially after the recent fighting in the Amhara region - Safaricom Ethiopia was forced to shut down an unknown number of its 1,272 network sites in the region. Chairman of Safaricom Ethiopia and advisor to its CEO **Michael Joseph** called Ethiopia "*a challenging market*" and stated that the ongoing conflict had derailed the firm's momentum for expansion.<sup>30</sup> The company's earnings report for May 2023 showed a 22% drop in profits year-on-year.<sup>31</sup> Joseph told **Business Daily** reporters on 11 August:

*"It will take four to five years before we start seeing any meaningful contribution to [Safaricom] from Ethiopia."*<sup>32</sup>

Despite a precarious security climate, ECA director general **Balcha Reba** stated that plans were still underway to award a second telecommunications license in addition to a 45% stake in Ethio Telecom before the end of 2023.<sup>33</sup> Dispelling rumours that **France's** telecoms giant **Orange** was in the running, Orange Group CEO **Christel Heydemann** stated that although there were "*several positive*

<sup>23</sup> Addis Standard, 11 Aug 2023

<sup>24</sup> United States Embassy in Kenya, 25 Apr 2023

<sup>25</sup> Tech Cabal, 26 Jul 2023

<sup>26</sup> African Business, 30 Jun 2023

<sup>27</sup> Mobile Europe, 9 Aug 2023

<sup>28</sup> The East African, 24 Aug 2023

<sup>29</sup> The East African, 26 Jul 2023

<sup>30</sup> Business Daily, 10 Aug 2023

<sup>31</sup> African Business, 30 Jun 2023

<sup>32</sup> Business Daily, 11 Aug 2023

<sup>33</sup> Addis Standard, 11 Aug 2023

*developments*” happening in the liberalisation of Ethiopia’s telecommunications including a strong legal and regulatory framework, conditions are not yet the ones that Orange would consider value creation.<sup>34</sup>

## Planner

5 - 7 Sep 2023 **Addis Ababa (Ethiopia)** African Business and Human Rights Forum 2023  
 12 Sep 2023 **(Ethiopia)** Enkutatash (national holiday)  
 18 - 19 Sep 2023 **Addis Ababa (Ethiopia)** Annual Power Tech Africa  
 29 Sep - 1 Oct 2023 **Addis Ababa (Ethiopia)** International Complete Manufacturing Exhibition (COMEXPO)  
 5 - 6 Oct 2023 **Addis Ababa (Ethiopia)** Second Pan-African Conference on Artificial Intelligence (PanAfriCon AI)  
 16 - 18 Nov **Addis Ababa (Ethiopia)** African Economic Conference  
 21 - 24 Nov 2023 **Addis Ababa (Ethiopia)** Fifth Conference on Land Policy in Africa (CLPA)

## Chronology

23 Aug 2023 **Addis Ababa (Ethiopia)** *PV Tech*. State-owned **United Arab Emirates (UAE)** renewable energy company **Masdar** signs an agreement with Ethiopia to build 500MW of new solar capacity in the country;

23 Aug 2023 **Nairobi (Kenya)** *Bloomberg*. **Kenya** announces that construction of the \$13.8 billion standard gauge railway (SGR) from **Lamu (Kenya)** to **Ethiopia** and **South Sudan** will begin in 2025;

22 Aug 2023 **Addis Ababa (Ethiopia)** *Borkena*. **Amhara** regional council calls an emergency meeting at the conference hall of the council in **Bahir Dar City** to discuss a proposed state of emergency decree a day after the region requested the federal government to intervene and “*take necessary measures*” to stabilise the region;

22 Aug 2023 **Addis Ababa (Ethiopia)** *Agence France Presse*. Foreign minister **Demeke Mekonnen** announces that the government will launch a joint investigation with **Saudi Arabia** into a report published by **United States**-headquartered **Human Rights Watch (HRW)** accusing Saudi Arabian border guards of killing hundreds of Ethiopian migrants;

21 Aug 2023 **Addis Ababa (Ethiopia)** *Human Rights Watch*. **United States**-headquartered **Human Rights Watch (HRW)** releases a 73-page report outlining the alleged mass killings of Ethiopian migrants at the **Yemen - Saudi Arabian** border by Saudi Arabian guards;

20 Aug 2023 **Addis Ababa (Ethiopia)** *Borkena*. Following the restructuring of the former **Southern Nation Nationalities and Peoples’ Region** into four new regions, protest sparks against the one that was named **Central Ethiopia Region**;

19 Aug 2023 **Addis Ababa (Ethiopia)** *Zawya*. **Etihad Credit Insurance (ECI)**, a **United Arab Emirates (UAE)** federal export credit company signs three memoranda of understanding (MOUs) with the **Commercial Bank of Ethiopia**, the **Development Bank of Ethiopia**, and the **Ethiopian Insurance Company**;

18 Aug 2023 **Addis Ababa (Ethiopia)** *Reuters*. **Ethiopian Investment Commission** states that **Ethiopian Airlines** will start manufacturing aircraft parts in a venture with **United States (US)** plane manufacturer **Boeing** at an initial cost of \$15m;

<sup>34</sup> Telco Titans, 27 Jul 2023

18 Aug 2023 **Addis Ababa (Ethiopia)** *Emirates News Agency*. Prime Minister **Abiy Ahmed** holds talks with **United Arab Emirates (UAE)** President **Sheikh Mohamed bin Zayed Al Nahyan** on enhancing economic, investment, and development cooperation;

18 Aug 2023 **Addis Ababa (Ethiopia)** *United States Department of State*. **United States (US)** state department communicates that US **Special Envoy for the Horn of Africa (SEHOA) Mike Hammer** will travel to **Stockholm (Sweden)** and **Brussels (Belgium)** to act as primary US interlocutor on issues related to the **Grand Ethiopian Renaissance Dam (GERD)** and how the international community can support a peaceful resolution to ongoing violence in the **Amhara** and **Oromia** regions;

17 Aug 2023 **Amhara (Ethiopia)** *Borkena*. **African Union** releases a statement expressing concern over the continued military confrontations between the **Ethiopian Defence Force** and **Fano** militia;

16 Aug 2023 **Addis Ababa (Ethiopia)** *African Development Bank*. **African Development Bank (AfDB)** awards Ethiopia \$84.3m in grant funding to advance wheat production and increase farmers' incomes through the implementation of the country's **Climate Resilient Wheat Value Chain Development Project (CREW)**;

14 Aug 2023 **Addis Ababa (Ethiopia)** *Times Aerospace*. **Ethiopian Airlines** CEO **Mesfin Tasew** announces a new thrice-weekly direct flight service between **London-Gatwick (United Kingdom)** and Addis Ababa commencing 21 November;

12 Aug 2023 **Addis Ababa (Ethiopia)** *The Star*. Transport and logistics minister **Alemu Sime** leads a delegation to **Kenya** where he signs a bilateral agreement with **Kenya's** transport cabinet secretary (CS) **Kipchumba Murkomen** for a standard gauge railway (SGR) network between **Lamu Port** and **Moyale** (Kenya) and Addis Ababa and expresses Ethiopia's readiness to start using Lamu port and fast track development in the **Lamu Port-Southern Sudan-Ethiopia Transport (Lapsset) project**.

10 Aug 2023 **Addis Ababa (Ethiopia)** *Business Daily*. **Safaricom Ethiopia** shuts down its sites in the **Amhara** region after the federal government declares a state of emergency;

8 Aug 2023 **Addis Ababa (Ethiopia)** *Africanews*. **Ethiopian Airlines** cancels scheduled flights travelling to **Bahir Dar**, the capital of **Amhara** region, until 11 August amid increased fighting between the federal army and local militia;

7 Aug 2023 **Addis Ababa (Ethiopia)** *Office of the Prime Minister Ethiopia*. Prime Minister **Abiy Ahmed** receives **South Sudan's** President **Salva Kiir** to discuss bilateral issues including trade and infrastructure development as well as regional peace and security issues;

4 Aug 2023 **Addis Ababa (Ethiopia)** *Reuters*. Government declares a six-month state of emergency in **Amhara** following days of clashes between the military and local **Fano** militia;

4 Aug 2023 **Addis Ababa (Ethiopia)** *Addis Standard*. Trade and regional integration ministry reports that export earnings in 2022/23 decreased to \$3.6 billion, experiencing a notable 12% reduction compared to the previous fiscal year and falling \$1.6 billion short of the targeted \$5.2 billion;

3 Aug 2023 **Addis Ababa (Ethiopia)** *Borkena*. The government shuts down internet services in most parts of the **Amhara** region with parts of **Gojjam, Gondar, Wollo, Sekota, and Shoa** without access to the internet since 2 August;

3 Aug 2023 **Addis Ababa (Ethiopia)** *Voice of America*. **Japan's** foreign minister **Yoshimasa Hayashi** meets with deputy prime minister **Demeke Mekonnen** to express hope that their two countries could work together on the resumption of the **Black Sea Grain Initiative**;

3 Aug 2023 **Addis Ababa (Ethiopia)** *The East African*. **Ethiopian Airlines** spokesperson **Ashenafi Zeray** says that flights to **Gondar** and **Lalibela** airports have been suspended following concern over the escalation of violence in the northern region;

1 Aug 2023 **Addis Ababa (Ethiopia)** *2 Merkato*. **China's** automobile exporting company **Chery International Commercial Vehicle Corporation** plans to make a pre-investment trip to Ethiopia to discuss the possibility of opening an assembly plant;

31 Jul 2023 **Addis Ababa (Ethiopia)** *Prensa Latina*. Prime Minister **Abiy Ahmed** meets with **South Africa's** international relations and cooperation minister **Naledi Pandor** to discuss improving diplomatic relations and increasing trade;

30 Jul 2023 **Addis Ababa (Ethiopia)** *The Korea Times*. **Ethiopian Civil Aviation Authority** signs an agreement with **South Korea** to increase the number of direct flights between the countries from six to nine per week. Ethiopia is the only **African** country with direct flights to and from South Korea;

29 Jul 2023 **Addis Ababa (Ethiopia)** *The Reporter*. **Volkswagen Group Africa** managing director **Martina Biene** states that Volkswagen's entry into the Ethiopian market through the building of an assembly plant is dependent on the development of a clear automotive policy that offers export incentives;

27 Jul 2023 **St. Petersburg (Russia)** *Rosatom press release*. **Russian** state-owned **Rosatom State Nuclear Energy Corporation (ROSATOM)** director general **Alexey Likhachev** and Ethiopian innovation and technology minister **Belete Molla** sign a roadmap agreement for the development of Russian-Ethiopian cooperation in the field of the peaceful use of atomic energy;

24 Jul 2023 **Addis Ababa (Ethiopia)** *MenaFN*. **United Nations Office for the Coordination of Humanitarian Affairs (UNOCHA)** reports that the number of people entering Ethiopia from conflict-affected **Sudan** exceeds 68,000, with Ethiopian returnees accounting for about 49% and **Sudanese** nationals 30%;