

Ethiopia: Breaking the deadlock

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On 2 April, Ethiopia's ruling coalition, the Ethiopian People's Revolutionary Democratic Front (EPRDF), elected Dr. Abiy Ahmed as Prime Minister. The move came 41 days after Hailemariam Desalegn, the embattled former Prime Minister, had stepped down following two years of rumbling protest and insecurity.

The newly elected Prime Minister brings widespread hope among Ethiopians that the country will evolve out of the stalemate created by ethnic politics - a new pluralism to replace the favouritism of old.



Reconciliation and renewal

While the past 25 years of EPRDF leadership tied political legitimacy to economic growth, Dr. Abiy's promise rests on two pillars: 1) ethnic reconciliation; and 2) an end to corruption. These are interrelated and reflect increasing popular dissatisfaction with the ruling party elite, particularly the perception of Tigray dominance over the ruling EPRDF and, by extension, over Ethiopia's economy. This dissatisfaction has boiled over on several occasions, sparking violent protests in Oromia and northern Amhara and prompting the imposition of martial law.

In his first three weeks, Dr. Abiy's actions have matched his words and laid the foundation for tangible change. He has conducted a whistle-stop tour of ethnically-tense cities, ushered out the head of the military's manufacturing enterprise (which has been dogged by corruption allegations), eased religious tensions, and reshuffled the cabinet to be the most balanced – in ethnic, generational, religious and gender terms – of the EPRDF era. There is widespread confidence that these actions will enable Ethiopia to embark of a new era of robust, inclusive economic growth.

Dr. Abiy Ahmed



Dr. Abiy Ahmed, 42 years old, was born in Jimma Zone, Oromia Region. A protestant born from an Oromo, Muslim father and an Orthodox, Amhara mother, he symbolises the ethnic and religious unity sorely lacking in Ethiopia in recent years. Dr. Abiy started his career in the military, where he allied himself with the Tigrayan People's Liberation Front (TPLF) against the Derg, a Marxist junta that had overthrown Emperor Haile Selassie in the mid-70s. This gained him considerable currency within the TPLF-dominated military during the rise of the EPRDF and allows him to push back against the old TPLF guard.



Academically, Dr. Abiy has focused his studies on peace, security, and conflict resolution – the subject of his Ph.D. This focus underpins his political rise, which has been tied to his ability to reconcile inter-ethnic grievances. Abiy speaks three Ethiopian languages: Amharic, Oromifa and Tigregnya, as well as fluent English.

He was also the founder and director of Ethiopia's Internet Security Agency (INSA) between 2009 and 2012, after which he served as Minister of Science and Technology under Prime Minister Hailemariam Desalegn. In 2015, Abiy resigned to become Vice President of the Oromia region in an attempt to address the grievances of those speaking out against the government. Abiy's formative role in INSA, which is responsible for spying on Ethiopian dissidents, was initially seen as contentious; some flagged it as evidence that he would represent a continuation of the status quo. However, these fears appear unfounded.

Easing ethnic tensions

Dr. Abiy's first stop on his tour of areas in the grip of ethnic tension was Jijiga, an area stricken by Oromo-Somali conflict whose inhabitants were wary that an Oromo Prime Minister would side against the Somalis. Jijiga is also home to a powerful regional militia that had clashed with Oromo militias over the past year.

His next stop was Ambo - the centre of the Oromo protests and a city that prides itself on being contrarian towards whomever is in power. Dr. Abiy surprised the old guard by acknowledging the influence of Ethiopia's Qeerroo (Oromo youth) and urged them to play a constructive role in Ethiopia's future.

After Ambo, he travelled to Mekele - the capital of Tigray. There, he was able to convincingly make the case to the old guard that more evenly distributed power would benefit all Ethiopians. The Tigray elites have the most to lose from a shift in power, so their warm reception subdued fears that they would undercut his agenda.

Finally, Abiy visited Gondor - a northern Amhara city that has emerged in opposition to the ruling coalition due to a land dispute between Amhara and Tigray. In Gondor, Amhara's regional party to the coalition (ANDM) is viewed as having been co-opted by the Tigray elites running the EPRDF, thus allowing Tigray to annex ethnically-Amhara border areas. Abiy again spoke of unity, but although this message was well-received, he avoided the subject of the border dispute. This was seen as a necessary step to avoid inflaming tensions with Tigray elites during the moment he was ushering the old guard from ministerial power.

The anti-corruption agenda

At the national level, Abiy's promise to reduce corruption and promote unity was met with less scepticism than expected. Abiy has mentioned corruption in each of his speeches, and Ethiopians are well aware that "corruption" manifests in Ethiopia as narrow ethnic-patronage rather than the cash bribery found elsewhere. Connected people have secured lucrative government contracts and land allocations, particularly in Addis Ababa. Thus, 'ending corruption' requires installing a system of meritocracy - a hopeful course for a country plagued by youth unemployment. Emblematic of Abiy's commitment to this change was his decision to push out Maj. General Kinfu Dagneu, the head of the military's manufacturing enterprise (METEC) - a notoriously corrupt enterprise that reportedly funnelled money to TPLF elites. There are rumours in Addis, so far uncorroborated, that Kinfu may be brought up on corruption charges.

Ethiopians are eager to move out of an era of opaque patronage in favour of a more egalitarian political and economic space. While even the most cynical are optimistic, seasoned analysts caution that change cannot happen as quickly as many are hoping. The measured consensus is that people will back Abiy as long as he is able to create incremental change.

The reshuffle

The Prime Minister's cabinet choices illustrate both his short-term plan of easing Oromo tensions and his long-term plan of phasing out the powerful TPLF old guard to create a

more egalitarian EPRDF. Abiy appointed OPDO (the Oromo party to the EPRDF) members to be Minister of Defense and the Attorney General (head of the Justice Department), which means Oromos will oversee the two ministries directly involved in (and criticized for) the State of Emergency.

In addition, an Oromo is the new ministerial-level head of the much-criticized tax authority (ERCA), and an Oromo woman is the new Head of Parliament (the first woman in Ethiopia's history to head Parliament). These ministerial appointees are Abiy loyalists, which is seen to underscore Abiy's prioritization of contentious security and corruption issues.

The TPLF establishment will witness a decreased role, both in its political and economic power. This shuffle gives the TPLF the minimum number of ministries allowed by law (Ethiopia has regional quotas for ministries) and will limit their influence to the administration of their local region, Tigray, as well as the Federal Ministry of Finance (important but relatively apolitical). Abiy sold these changes on a promise that egalitarianism is the only sustainable path for Ethiopia and that everyone will benefit from unity. Other notable appointments include four representatives from the Amhara regional division of EPRDF whose ministerial promotions will strengthen the power of the Amhara people - now a de facto ally in the ruling coalition.

Business implications

Dr. Abiy has acknowledged that one of the biggest issues facing the country is organized corruption and bureaucratic inefficiencies. He has urged that institutions are not the solution. Instead, the solution is creating a culture at the individual level that stands against stealing, brings about increased competition and creates more favourable ground for corporations in their dealings with the government bureaus. Abiy is unlikely to liberalize the banking and telecom sectors, but the appointment of Teshome Toga (the former EU Ambassador) as Minister of Public Enterprises is a signal that many state-owned enterprises will be liberalized and sold.

On 16 April, Dr. Abiy convened a summit with more than a thousand people from the business sector. In that meeting he outlined his plan to stop corruption and to create a better business environment. Abiy added that he will dismantle the country's black market, which unfairly allocates the country's foreign exchange to the well-connected. He also called upon wealthy Ethiopian businessmen to bring home the dollars they hold offshore to help address the shortage of forex.

The PM noted that though special privileges are needed to encourage domestic investors, foreign investors should also be provided with robust incentives as they will facilitate growth, create jobs and links to global markets, and transfer both technology and know-how to the local market.

The implementation of these promises would ease the overarching challenges to doing business in Ethiopia, but the key issues will not be fixed overnight. Forex availability is expected to remain an especially thorny challenge for years to come as Ethiopia slowly incubates its export-orientated manufacturing industries. However, the promised changes coupled with the strong investment incentive structures will surely give manufacturers in the country a boost. The switch to a new set of western-educated ministers should lead to a partial dismantling of the traditional web of red tape.

Decisions on monetary policy lie with the National Bank of Ethiopia (NBE). The conservative NBE is expected to keep the current semi-managed monetary policy and exchange rate trajectory. For now, there is little risk of a shock devaluation as the economy is still recovering from the burst of inflation (and interest rate spike) that accompanied the recent 15% devaluation.

Outlook

The country believes the Prime Minister can change status quo for the better, bringing about a more stable, equitable socio-economic and political environment. Early signs are positive. The Prime Minister is unlikely to end the State of Emergency, but he will almost certainly let it expire without extension in July. With that, the business environment will improve.

Ethiopia observers are waiting for the 2020 elections before they make a final determination on the country's political trajectory. Questions remain on the degree to which the EPRDF is willing to open up the political space to opposition parties. One indicator of progress in the run up to these elections will be freedom of the press, particularly the government's response to non-violent dissident voices.



It also important to monitor how Abiy continues to address the country's key regions, particularly the Amhara region, which hosts 27% of the population. Current conditions indicate that

the Amhara people stand firmly by Abiy's side and expect to fill the next PM position in due course. This may happen at the next election, but we believe it is more likely to occur in 2025 after a second Abiy term.

Interestingly, Abiy has appointed Ahmed Shide to be the Minister of the Government Communications Affairs Office. This position is not only the official government spokesperson and media monitor, but also an informal party whip for the PM – marshalling party officials along the PM's priorities. It is often seen as stepping stone for promising young politicians. It positions Ahmed, a Somali economist who was the former Minister of Transport and State Minister of Finance, as a potential successor to Abiy should Ethiopia continue its ethnic rotation of the Prime Minister position.

Despite the more positive outlook, Abiy will need to contain several ambient risks to avoid seeing his objectives derailed:

- The current partnership between ANDM and OPDO might turn sour as the Amhara people themselves have an eye for power. This would see the EPRDF's factions become further divided against each other in the hope of controlling the political sphere outright. This could force a contentious election in 2020 and permanently fracture the EPRDF as it heads towards its third decade in power.
- The TPLF and Tigray elites might push back if too much of their power is eroded too quickly. Tigrays are expected to continue to control major industries, but they will be less prominent (as with the leadership change at METEC). To counter this, Abiy's anti-corruption campaign is unlikely to extend as far as taking away assets from Tigrays and other elites.
- Youth activism may derail Abiy's reform agenda if expectations are not properly managed. Ethiopia remains a poor country, and there are simply not enough jobs. This will not change in the near future, so it is important for Abiy to show incremental and substantial progress

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