

EFFORT emptied Development Bank of Ethiopia

By Abebe Gellaw | February 5, 2010

In mid-January, the ailing Development Bank of Ethiopia (DBE) declared once again that it is in need of rescue fund. The business weekly, Addis Fortune, reported that the bank called on the National Bank of Ethiopia (NBE) to inject more capital¹ to refill its empty cash registers.

Though the health of all state banks has been in dramatic decline within the last ten years, crisis-ridden DBE has been in much more serious trouble carrying a huge burden on its shoulders in the form of non-performing loans². Much of these loans are taken out by crooked “borrowers” like the Endowment Fund for the Rehabilitation of Tigray, which is infamous for defaulting on the multi-billion birr loans it has been raking out from state banks.



In mid-December, Addis Fortune reported that DBE “loaned” a whopping 1.7 billion birr (\$141.6 million)³ to a privileged company, Messebo Cement Factory, one of the many companies owned by EFFORT. Messebo’s business plan was an expansion project, to build a second factory that will extend its market monopoly in the cement business. “The money, 96 million in euro [141.6 million dollars], has been obtained entirely as a loan from the Development Bank of Ethiopia (DBE); only 15 per cent of this money was required in local currency,”⁴ the paper reported.

“The civil work has been completed. The machineries are now coming from China,” Brehanu Werede, acting general manager of the project⁵, boasted to the weekly.

But the interesting twist in the story is the fact that while ailing DBE has been on the verge of collapse, its incompetent management team and board, filled with TPLF loyalists and hirelings, clearly flouted the basic rule of banking by approving EFFORT’s greedy loan applications. As a result of its crisis, cash strapped DBE has been unable to finance essential and relatively more productive entrepreneurial projects. It is turning down loan applications from serious entrepreneurs that have little political and ethnic leverage, while funnelling meagre resources to a borrower that has been deliberately confusing loans with grants. Even more surprisingly, it happened at a time when

¹ Wudineh Zenebe, “DBE hopes additional 1.4 billion birr additional capital boost,” Addis Fortune, January 19, 2010, <http://www.addisfortune.com/DBE%20Hopes%20for%20Additional%201.4b%20Br%20Capital%20Boost.htm>

² For an insightful analysis facing state banks see: Tamrat G. Giorgis and Wudineh Zenebe, “State banks under liquidity crunch threat,” Addis Fortune, January 25, 2010, <http://www.addisfortune.com/State%20Banks%20under%20Liquidity%20Crunch%20threat.htm>

³ Wudineh Zenebe, “Messebo second factory to set up new machinery,” Addis Fortune, December 14, 2009 <http://www.addisfortune.com/Messebo's%20Second%20Factory%20to%20Set%20up%20New%20Machinery.htm>

⁴ Ibid.

⁵ Ibid

DBE pressed the red button for rescue injection from the national treasury. It doesn't make sense to undertake such a mammoth expansion project on the part of Messebo at a time when the cement market is predicted to reach a saturation point with the opening of a dozen of new factories including Sheik Mohammed Al-Amoudi's Derba Midroc Cement Factory, which is expected to start production at the end of this year.⁶

DBE has a long but difficult history. Over one hundred years ago, the founder of the first bank in Ethiopia, Emperor Menelik II (1844-1913)⁷, realized the critical role banks play in development endeavours.



Source: Zena Limat Bank, Oct 2009, No. 45

When Emperor Menelik inaugurated Bank of Abyssinia on February 15, 1906, he undoubtedly envisioned it to grow, multiply and serve generations to come. That bank played a critical role to push his modernization agenda. It is also credited for financing the construction of the only railway line in Ethiopia, the Ethio-Djibouti railway,⁸ which currently finds itself on the verge of extinction.

Emperor Menelik had also set up another bank, solely committed to enhancing development and trade by providing badly needed financial facilities, despite the fact that resources were extremely meagre. In 1909, the emperor launched the *Societe Narionale d' Ethiopie Pour le Development de l' agriculture et de Commerce* (The Society for the Promotion of Agriculture and Trade).⁹

⁶ "Volvo sets to deliver trucks to Derba Cement," Ethiopian News Agency, January 16, 2010

<http://www.ena.gov.et/EnglishNews/2010/Jan/16Jan10/104436.htm>

⁷ See Zena Limat Bank, 100 anniversary edition, October 2009, No. 45, available on Development Bank of Ethiopia's official website: <http://www.dbe.com.et/Publication/Limat%20Bank.pdf>

⁸ See Abatbaye Endaylalu, "Development Bank in Ethiopia as a development partner," in Amharic, Zena Limat, Oct. 2009, No 45, pp. 13-20

⁹ Ibid.

Since its establishment, the bank has undergone major restructuring and re-naming at least eight times.¹⁰ During the reigns of Haile Selassie and Mengistu Hailemariam, the bank did not register any dramatic growth nor faced critical illness. After the fall of the Derg, the bank saw dramatic changes as its non-performing loans had reportedly reached as much 94 per cent¹¹. In 2003, it was re-established as the Development Bank of Ethiopia. In July 2009, the bank declared that it completed the controversial Business Process Re-engineering (BPR) which has been allegedly used to push the agenda of the ruling elite to tighten its monopolistic grip on every key institution in the country.

It is an open secret that the Development Bank of Ethiopia has been experiencing more difficulties under the Meles regime than its predecessors. The main cause of its dire problems, as mentioned above, is related to the fact that the amount of loans it disburses and the amount it recovers have been showing a widening gap that cannot be easily filled with capital injections from external and internal sources.

According to the data obtained from the bank, from 1972 to 2009, DBE disbursed 13.3 billion birr in loans but could only collect 8.39 billion birr from borrowers.¹² Laden with heavy burden of debts, the bank is making recurrent loan requests from internal and external sources. In fact, had the bank been in healthy condition, borrowing from external and internal sources would not have been a problem due to the fact that the bank was set up to operate as such.

Under normal circumstances, no bank in any part of the world will ever lend money to any borrower with terrible credit history.¹³ But a bad client called EFFORT is a powerful part of the establishment being run by senior TPLF officials, including the Prime Minister's wife, Azeb Mesfin, who has been appointed by her husband to oversee EFFORT's multi-billion business empire.¹⁴ No state bank official can dare say "No" to any amount of "loan" requests, no matter how outrageous it could be, to the Queen of Mega and her entourage. Obviously, a bank official handpicked by Meles can hardly be expected to refuse to oblige whenever his wife demands a loan or grant be issued, no matter how much or whether it is in local or hard currency. In fact, thanks to the unlimited power accorded to the tyrant's wife, she has been known to employ *real politik* to get whatever she wants. Dr. Seid Hassan, Economics and business Professor at Murray State University pointed out the fact that he had even come across credible complaints about Azeb Mesfin's underhand business activities including using her power and influence to force potentially competitive entrepreneurs to "sell" their start-ups to her or her business partners and/or sign on for "joint ventures." Dr. Hassan says that several credible reports indicate that the TPLF leaders lure Ethiopian entrepreneurs to sign on for joint ventures to later kick them out of the their own companies by "buying" their shares.

Last year, DBE celebrated its 100th anniversary in the presence of Zenawi's octogenarian figurehead, President Girma Woldegiorgis, who recently celebrated his 86th birthday. As the celebration was in high tempo, interesting figures that were rarely made public were released by the officials.

One of the most eye-catching figures came from Abay Weldu, TPLF Executive Committee member as well as Deputy President of the State of Tigray and DBE Northern Region Manager, Hadush Gebregziabher. At the bank's diamond jubilee, both of them excitedly disclosed that since the fall of the Derg, the bank loaned over 3 billion birr to Tigray region, i.e. EFFORT and its affiliate business projects, as reported by TPLF's own media outlet, Walta Information Centre.¹⁵

¹⁰ "History of Development Bank of Ethiopia," DBE official website, <http://www.dbe.com.et/About/History.htm>

¹¹ Wudineh Zenebe, "DBE hopes additional 1.4 billion birr additional capital boost," Addis Fortune, January 19, 2010, <http://www.addisfortune.com/DBE%20Hopes%20for%20Additional%201.4b%20Br%20Capital%20Boost.htm>

¹² See Zena Limat, Oct. 2009, No 45, p. 51

¹³ DBE's guideline is quite interesting as seems to be ignored when it comes to EFFORT, <http://www.dbe.com.et/Services/A%20Guide%20to%20Development%20Bank%20of%20Ethiopia%20Loan%20Requirements.pdf>

¹⁴ Azeb Mefin replaced Sebat Nega at the helm of EFFORT

¹⁵ "DBE loans over 3 billion birr in Tigray State," Walta Information Center, October 26, 2009

What makes the story much more interesting is the fact that from 1970 to 2009, the bank loaned 13.2 billion birr to private businesses and government projects. Out of the total outlay disbursed in four decades, it was learnt that the bank loaned nearly 8.5 billion birr since the fall of the Derg, which was 19 years ago. That makes TPLF the biggest beneficiary of the “loan” bonanza taking the lion’s share, i.e. nearly 40 per cent of loans, from the struggling bank, and its other external and domestic sources of capital, including the Commercial Bank of Ethiopia and the National Bank of Ethiopia.

Development Bank of Ethiopia Statement of Loan Approvals, Disbursements, Repayments and Loan outstanding (1970/71 - 2008/09)					
Fiscal year	Loan Approval	Loan Disbursement	Collection (Loan Repayment)	Loan Outstanding	Fiscal year in E.C
1970/71	16,043	6,111	6,954	46,515	1963
1971/72	29,221	28,169	21,482	55,953	1964
1972/73	47,111	43,962	22,882	75,860	1965
1973/74	47,875	35,325	19,277	89,116	1966
1974/75	75,864	71,827	24,050	136,010	1967
1975/76	194,064	141,494	54,057	221,011	1968/69
1977	200,209	131,335	68,712	282,405	1969/70
1978	242,617	173,501	52,652	401,033	1970/71
1979/80	827,871	373,215	78,779	695,858	1971/72
1980/81	196,301	351,858	107,608	927,892	1973
1981/82	482,106	336,742	187,198	1,077,954	1974
1982/83	472,968	255,567	369,259	963,536	1975
1983/84	582,153	275,391	120,410	1,120,131	1976
1984/85	530,886	306,625	169,182	1,259,166	1977
1985/86	197,918	374,488	175,237	1,455,092	1978
1986/87	499,363	289,886	117,663	1,627,317	1979
1987/88	395,229	382,931	124,434	1,896,150	1980
1988/89	347,463	307,619	101,546	2,098,558	1981
1989/90	266,867	309,462	126,286	2,298,912	1982
1990/91	127,963	156,586	98,862	2,350,274	1983
1991/92	166,551	167,652	58,168	2,456,827	1984
1992/93	74,079	178,903	73,826	816,672	1985
1993/94	430,598	180,992	81,014	921,204	1986
1994/95	357,200	358,100	185,644	1,107,763	1987
1995/96	668,200	538,600	255,321	1,407,398	1988
1996/97	696,832	638,284	361,623	1,470,493	1989
1997/98	781,285	705,253	497,807	2,761,735	1990
1998/99	604,920	553,720	397,080	2,499,440	1991
1999/2000	356,800	456,960	411,100	2,783,500	1992
2000/01	212,940	227,680	350,800	2,911,130	1993
2001/02	127,337	111,292	242,472	2,976,787	1994
2002/03	120,866	69,177	266,290	2,996,380	1995
2003/04	434,215	294,896	230,309	4,331,088	1996
2004/05	777,510	575,651	323,318	4,911,826	1997
2005/06	1,667,314	649,335	582,883	5,376,466	1998
2006/07	3,325,033	792,607	764,785	5,865,468	1999
2007/08	1,856,746	904,477	606,848	6,357,967	2000
2008/09	2,783,842	1,304,040	655,906	7,508,725	2001
Total	21,222,360	13,059,713	8,391,724		

Source: DBE annual report

In addition to the 3 billion birr plus loan, Messebo Cement Factory was recently awarded 1.7 billion birr (147.6 million US dollars). That simply means that in the last 19 years, the TPLF and its ethnic affiliates took out over 4.7 billion birr of fund from the coffers of DBE, not to mention other states banks that are also victims of TPLF money grab scheme. TPLF companies are currently undertaking “expansion” projects with funding from struggling state banks. But it is quite obvious that the funding should have been allocated fairly and equitably to finance serious development projects throughout Ethiopia including underserved and neglected regions.

In fact, there is also an incredible and outrageous twist to this saga. DBE reportedly had planned to lend around 2.4 billion birr this fiscal year. Of the 2.4 billion birr, 1.7 billion birr has already been granted to Messebo’s so-called expansion project. In other words, the privileged Messebo has been allowed to take well over **70 per cent** of the total outlay allocated this year to finance businesses and public projects in the whole of Ethiopia, while DBE has fallen in the habit of dialling for emergency services and rescuers. This huge inequality gap in TPLF’s Ethiopia clearly

symbolizes Meles Zenawi's ideology of gangster capitalism that has been designed to benefit only a selected few members of the ethnic junta in power.

As the TPLF leadership has been consistently claiming, EFFORT does not belong to the people of Ethiopia. Abadi Zemu, Sebhat Nega and many TPLF leaders, including those who have left the party, claimed that EFFORT belongs to anyone with Tigrian blood as if being a Tigrian was a privilege to own multiple companies without any contributions. They are telling us that the business empire, which enjoys a huge array of privileges including unrestricted loans, exemption from external auditing, exemption from paying taxes, belongs only to the people of Tigray despite the fact that the EFFORT conglomerate is completely under the control of Meles, his wife and his closest cronies like Abadi Zemu, Arkebe Ekubay, Yohannes Ekubay, Getachew Belay, et al. who behave like a kleptomaniac gang of mafia than responsible public servants.

In a recent interview with VOA's reporter Girmay Gebru, Abadi Zemu, who is the CEO of EFFORT and Executive Committee member of the TPLF, said that Messebo Cement Factory already commands 40 per cent of the cement market in Ethiopia.¹⁶ Messebo was set up in 1995 with a registered capital of 240 million birr.¹⁷ It is puzzling why DBE approved Messebo's 1.7 billion birr loan in foreign exchange to construct a second factory at a time when businesses are closing down due to severe shortages of hard currency and loan facilities. Normally, one would not expect a single company, run by the ruling elite with such a bad credit history, to have been allowed to rake out such outrageously disproportionate amount of capital at the detriment of the poor people of Ethiopia and the ailing bank, which has now been appealing for a rescue fund from the national treasury. Unfortunately, such has been the usual way of "doing business" in Ethiopia since the TPLF came to power.

It was just a few months ago that the international media jokingly reported about Ethiopia's Coca Cola drought as the East African Bottling Company, which was forced to suspend production of the global brand and laid off its employees as the state banks claimed to have run out of their foreign exchange reserves. Tens of thousands of business owners, especially those engaged in the import sector, have been seriously affected by the foreign exchange crunch. In July last year, Bloomberg reported that the Meles regime was forced to devalue the birr 9.9 percent against the dollar as a result of critical shortage of foreign currency in a country where the trade deficit has surpassed 4.5 billion birr in 2008.¹⁸ The unsustainable current account deficits and the foreign exchange crunch have forced the government to repeatedly devalue the birr, the latest such measures being 5 per cent devaluation effective January 30th, 2010. The value of the Birr has depreciated by 30 per cent since the devaluation has begun. Dr. Seid Hassan believes that devaluation is a sign of poor economic management, and given the dire state of the Ethiopian economy and the unsustainable macroeconomic imbalances, the birr is still overvalued. Thanks to the TPLF's poor economic management, such devaluations of the birr will raise both the domestically produced and imported goods (particularly the later), thereby negatively affecting the poor more.

The repeated firing and hiring of senior management officials within the last decade also reveal that DBE's future has been uncertain and shaky. The bank has also been subjected to scathing criticisms for being too generous on risky loans being granted to EFFORT and failing to insist on repayment with interests in time. No matter where the bank is going, the fact that the TPLF is draining state banks to undertake its discriminatory, monopolistic and illegal business projects will remain a thorny issue, and even a source of future conflicts for generations to come as the ongoing looting and corruption is too naked, parochial and unprecedented in the history of the poor nation. This illegal

¹⁶ Abadi Zemu's interview with VOA's Girmay Gebru broadcast on December 22, 2009

http://www.addisvoice.com/mp3/Abadi_Zemu_lies_on_EFFORT.mp3

¹⁷ According to Messobo's website its production capacity is 630,000 metric tonnes.

http://www.effortgroup.org/messebo/messebo_background.htm

¹⁸ Jason McClure, "Ethiopia devalues birr 9.9 per cent after foreign currency shortages", Bloomberg, July 13, 2009

<http://www.bloomberg.com/apps/news?pid=20601116&sid=aZ9sqeD1s7bl> (Jason McClure was recently detained as a result of his reporting about TPLF questionable business deals and food aid misuse. Apparently Bloomberg preferred to negotiate with the Meles regime to keep the reporter in Ethiopia under restrictive conditions, as I learnt from credible diplomatic sources).

practice has already created a huge economic gap between the minority haves and their business partners on the one hand, and the have-nots, who obediently pay taxes and yet so many have been thrown into jails on frivolous tax evasion charges, on the other hand. Unfortunately, the very people in power jailing poor corner shop and stall owners have been committing grand economic crimes with impunity.

As Zenawi's gangster capitalism¹⁹ is in full swing, his anti-corruption commission, just like his human rights commission, have been engaged in selective outrage while pretending not to have seen the elephant in the room. The people who are currently in power caused so much misery and bloodshed to dismantle the Derg regime, but what we have at the end of all the chaos is a much worse deceptive, repressive and highly kleptomaniac regime that has no moral authority to condemn none of its predecessors.

During their much hyped armed struggle, it is open secret that the TPLF leadership used to rob rural banks. After they succeeded to control state power, they changed their tactics, and began emptying state banks by taking out multi-billion birr loan packages that they hardly pay back. As a citizen of Ethiopia, it is within our constitutional right to request disclosure of information from any government institutions, save classified information related to national security, as the public has a right to know. I challenge the regime and state banks to release all information in regards to all the amount of loans TPLF companies have been swindling, including the amount and the number of times they have been delinquent in terms of repayments during the last 19 years. Opposition leaders and MPs should also request and press for official investigations, in order to guarantee accountability and transparency that has been totally absent under the rule of Meles that came to power promising better change for Ethiopia. The funnelling of meagre national resources to TPLF business conglomerates through the state banks have been major sources of funds the ruling elite which is engaged in rampant corruption and cronyism.²⁰ This must stop and the TPLF's companies should be bridled. After all, these companies belong to their real owner, i.e. the entire people of Ethiopia whose tax coffers and banks are being used like cash cows for the regime whose foundation appears as bad as the Apartheid era.

"My business was a victim of the TPLF ploy that forced me out of market. If the state banks are giving out money to enrich TPLF leaders, why can't they do the same to every citizen? The banks should hand out money to every Ethiopian so that we will have 80 million or so companies that will surely develop the nation," quipped Argaw Bedane, an exiled businessman based in the United States. But it is quite obvious that the issue is far from a joke! It is a serious issue that will loom large in the near present future. I am deeply concerned that such continuous plundering of Ethiopian resources by a few, along with the ongoing misrule will all be to the detriment of national unity, ethnic harmony, and trust among people, thereby affecting the stability and survival of the nation.

In my next piece, *Abadi Zemu's 15 lies in 5 minutes*, I will try to do a fact check on EFFORT chief's recent interview with VOA reporter Girmay Gebru.

For comments, please email abebe@stanford.edu.

¹⁹ Many scholars describe gangster capitalism as primitive accumulation deliberately operated to cause inequality and distorted wealth distribution. See for example, Kathy Le Mons Walker "Gangster capitalism and peasant protest in China," Journal of Peasant Studies, Vol. 33, Issue 1, January 2006, pp. 1-33

²⁰ TPLF companies do not disclose their financial and audit reports to the public. In fact, the companies are allegedly protected from the scrutiny of external auditors.