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## Open Letter to EY:

### **“Is Misinformation from EY’s East Africa Management Office Blocking the People of Ethiopia from Economic Participation and Putting Foreign Investors in Ethiopia at Risk?”**

**“The people of Ethiopia are being bled dry. No matter how hard they try to fight their way out of absolute destitution and poverty, they will be swimming upstream against the current of illicit capital leakage.”<sup>i</sup>**

October 20, 2015

**Mr. Mark A. Weinberger**  
**Global Chairman and Chief Executive Officer**  
**Ernst & Young Ltd.**

**Roger F. Dunbar**  
**Global Vice-Chairman, Ernst & Young LLP**

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**Dear Mark and Roger**

The question addressed in the above title is a serious one for the people of Ethiopia as well as for EY and the clients you serve. We believe misinformation, skewed to the benefit of a few, is closely related to the continued poverty and oppression of most Ethiopians. We are not talking about robbing the rich to pay for the poor, but about a regime in Ethiopia with a verifiable history of robbing the poor of the few opportunities they have to work their way out of poverty so as to advance their own interests.

Right now, avenues typically available to hard-working people are solidly blocked by a minority ethnic and crony- based regime that is wildly and dangerously advancing only their own interests. Fewer than 6% of Ethiopians can participate. Working hard will not open the doors—only the proper ethnic and party connections.

The above-mentioned quote points to the problem of illicit capital leakage that has resulted as those in power become rich due to the lack of transparency, accountability and a closed-door economy, which is open only to themselves. It is one of the ways the majority of Ethiopians are blocked from escaping destitution and poverty despite boastful claims of a rapidly expanding economy.

Another way they are being blocked is through those representatives of regime power holders in key places who provide misinformation to other stakeholders, like EY and their clients, all to their own advantage. A key component to make it work involves gatekeepers, like found in the EY East Africa Management Office, who will ensure that no one but their own cronies and patrons will enter in.

We hope to enlighten EY to some of the concerns from the ground so you might take a strong moral stand against complicity in such an apartheid system. As an important global firm, taking a moral stand that will have a positive impact on the people of Ethiopia, Africa and beyond is a good business decision.

I am writing to you on behalf of the [Solidarity Movement for a New Ethiopia \(SMNE\)](#), a non-political, non-violent, grassroots social justice movement representing the diverse people of Ethiopia. My name is Obang Metho; I am the Executive Director of the SMNE. Much of our organizational work is based in Washington DC, with activists in North America, Europe and Africa, as well as within Ethiopia where we have many close contacts with Ethiopians on-the-ground.

I come to you first and foremost as a human being who believes that the future well being of our global society rests in the hands of those among us who can put *humanity before ethnicity* of any other distinctions that divide and dehumanize other human beings from ourselves; inspiring us to care about these *others*; not only because of the intrinsic God-given value of each life, but also because *none of us will be free until all are free*. These are the underlying principles of the SMNE.

The focus of this letter is to express concerns regarding EY's East Africa Managing Partner's activities in Ethiopia, presently under the leadership of Mr. Zemedeneh Negatu, particularly in regards to serious issues we recommend you investigate pertaining to the reliability of statistics, information, advice and analysis you are receiving in regards to investment, the economy, its financial practices, the dependability of your partners and the state of security in Ethiopia. You may discover serious indications of entrenched self-interest on the part of Mr. Negatu, EY's East Africa office he manages and those in positions of power or among the patronage networks within Ethiopia, all of which may be difficult to ascertain without extreme due diligence.

Ethiopia is a country where transparency and accountability are non-existent. The current regime of the Ethiopian Peoples' Revolutionary Democratic Front (EPRDF) has a track record of nearly absolute control over the flow of information. It has made it nearly impossible to independently verify many of the claims coming out of Ethiopia regarding its double-digit economic growth and numerous other statistics now being used to attract foreign direct investment. You may not realize that Ethiopia is the fourth worst country in the world in regards to censorship, preceded only by Eritrea, North Korea and Saudi Arabia according to the recent study by the [Committee to Protect Journalists \(CPJ\)](#).

Those who challenge the *government spin* regularly face repercussions such as the loss of jobs, benefits, perks and opportunities as well as harsher consequences involving threats, harassment, beatings, arrests, torture, imprisonment and sometimes death. This has led to Ethiopia's disreputable standing of having the second highest number of political prisoners in Africa according to [Freedom House](#). As a result, as you attempt to provide accurate information regarding Ethiopia's investment climate and to carry out your business effectively, we encourage you to consider, and possibly investigate more thoroughly, some of the following concerns.

### **Our Concerns:**

Over the past 14 years, we believe your EY Managing Partner led by Zemedeneh Negatu has consistently painted an unsubstantiated and false picture of the investment climate in Ethiopia, far removed from the realities on the ground. Additionally, we believe the political and market risks involved in doing business in Ethiopia are significantly underestimated. In doing so, we believe Mr. Negatu is not only violating a professional code of conduct; but also, the firm's well established value of good corporate governance, both of which could jeopardize the interests of present and prospective clients of EY and the firm itself.

EY's presence in Africa is an excellent opportunity for Africa's long-term economic development; but, in the absence of institutional transparency and market integrity among many countries on the continent, the firm's contribution to the long term economic integration of Africa would be greatly diminished. Instead, in this volatile region, where a high level of corruption is the norm, failing to strengthen oversight in monitoring the activities of EY's Managing Partners may be shortsighted, risking EY's long-term interests and eminent standing.

This opinion is based on an extended time of observation of your East African Managing Partner by SMNE's economic advisory team; leading us to the conclusion that Mr. Negatu's positions appear to be highly biased in favor of the ruling party's own interests and that of their patronage networks. These patronage networks are largely ethnic-based, in alignment with the ethnicity of those who dominate the current government. Although four ethnic-based parties make up the larger coalition party of the EPRDF; in fact, the government and most every sector of Ethiopian society are controlled by the Tigrayan Peoples Liberation Front (TPLF) through their TPLF Central Committee—the real power in Ethiopia. This should be kept in mind as EY examines the financial infrastructure of the country and its longevity. Some believe rumors of internal conflicts within the TPLF Central Committee and simmering tensions among the majority who are blocked from economic participation could disrupt the balance causing unknown consequences.

Relying on information that could be highly biased could easily undermine the interests of your clients. In fact, one might view Mr. Negatu's omission of facts and risks on the ground as another indication that he is representing the economic interests of regime power holders rather than as someone serving the interests of EY and its clients.

In other words, EY's brand and reputation may be a profitable means to lure Foreign Direct Investment (FDI) to corporations owned by the ruling party and other cronies regardless of the risks. You may find it in EY's best interests to examine the following concerns, some more directly pertaining to Mr. Negatu and others more generally, so as to avoid future problems, including potential violations of the law or codes of conduct contradictory to your own values, policies and best practice that could affect EY's brand and image.

### **Possible concerns to be examined by EY:**

In public statements made by Mr. Negatu, he makes it appear that he serves the Government of Ethiopia (GoE), the ruling party affiliated corporations, and foreign and domestic private investors all at the same time. In doing so, he assumes multiple roles in addition to acting as an EY representative. Do these create a conflict of interest to EY and its clients? Do they conform to your code of ethics?

For example, can someone represent the GoE, a questionable expatriate private equity fund, local investors affiliated with the ruling party, foreign investors and one's own investments at the same time? Can that same person make a pitch to multiple audiences, including the Corporate Council on Africa and the Ethiopian Diaspora Investment Forum, while representing EY?

Would Mr. Negatu, while promoting Foreign Direct Investment (FDI) and Diaspora investment on behalf of the Ethiopian Government, be required to disclose what could be seen as a serious conflict of interest: that the ruling party known as the Tigray People's Liberation Front (TPLF) operates over 100 corporations in key industries from which many in the government and within their patronage networks can personally benefit? Would a failure to disclose the risk to investors be considered a dereliction of company ethics and a violation of professional conduct? Would it be considered illegal under the law?

In a June 16, 2013 [IPS report](#) titled: "*Examining the Depths of Ethiopia's Corruption*", the researchers indicate the extent the ruling party is involved in corruption; but yet, it appears that this risk is not addressed by Mr. Negatu despite the potential risks to investors. Is it a conflict of interest to EY that the office of EY's Managing Partner has been housed in a building [Mega Building], which is reportedly owned by the ruling party since its initial operations began in Ethiopia? Does this maintain EY's basic code of professional integrity and transparency?

We in the SMNE seek to inform companies like EY, who hold to strong international business practices, so as to better enable you to internally investigate these concerns and take corrective actions when necessary to protect your interests and reputation. We have found that foreign companies can more easily be misled by their local partners and representatives. One good example with a very positive outcome was in the case of [H&M](#) who we notified last year over some concerns.

After further investigation, H&M found areas of concern and took positive action; including disassociating themselves from some of the corrupt practices of the government as well as from some TPLF party-affiliated businesses.

We at the SMNE are working towards the advancement of a healthy business climate where legitimate and transparent investment, with all the checks and balances in place, can encourage firms like your own to "do business" under win-win conditions. You should have the right information upfront to give you greater assurance there will be no deal-breaking surprises later on that seriously affect the outcome.

Firms that maintain high corporate standards for business practice, including transparency and accountability, will fare the best, but it is still risky when doing business with those like the TPLF/EPRDF who are used to setting all the rules in their own favor, ignoring the rule of law or manipulating it to their advantage, and breaking contracts and covering up or minimizing risks at the front end. Such groups may not uphold the same professional or legal standards, believing they are untouchable due to their connections and the lack of strong institutions to make them accountable. Such an atmosphere of impunity can be used by unethical power holders against foreign and domestic investors and partners when interests collide or when the "deal" did not work out as favorably as expected. This has already occurred in Ethiopia in cases like that of [Karuturi Global Ltd.](#)

When working with the GoE or those aligned with them, we believe it will require a higher degree of scrutiny and verification of facts and conditions in order to maintain high standards of integrity and to better protect EY. However, this model of best practice will also help EY ensure a sustained and welcome presence in Africa. Companies who operate with transparency and high standards of ethics will contribute to the betterment of all involved.

**In light of the above, we make the following recommendations to EY:**

- To conduct a thorough assessment/investigation of these concerns in regards to Mr. Zemedeneh Negatu and EY's East Africa Managing Office, currently under his leadership
- To appoint an independent body to examine East African Managing Partner's books and Mr. Negatu's business activities on the ground in Ethiopia, in the Middle East, Asia and in the US
- To also require a disclosure of his associations with all the ruling party-owned and regime-affiliated corporations on the ground in Ethiopia, as well as in the US, Europe, Middle East, Asia and other locations.
- To require that Mr. Negatu and/or his emissaries cease from promoting all FDI in Ethiopia where such promotion favors or is in collusion with the ruling party-owned and affiliated corporations, although few other options exist.
- To stop Mr. Negatu from using EY's brand in association with his role as a representative of the Ethiopian government's foreign investment promotion effort; in particular, where it is used to mislead investors to the reality of the economy. The [Video](#) presentation at the Turkey-Ethiopia Business Forum on 27 April 2015, in Istanbul, Turkey is the latest example.
- To require that Mr. Negatu disclose his personal business activities and his association with [Fairfax Africa Fund LLC](#), established in **McLean, Virginia** and led by the former EY East Africa Managing Partner employee in Addis Ababa, Yared Berhane, regarding the investment of millions of dollars in Ethiopia and East African countries.

According to the news, the latest investment offer of Fairfax Africa Fund was the Ethiopian Crown Cork & Can Manufacturing Industry S.C. (ECCCM), from the government's Privatization & Public Enterprise Supervising Agency. David Johns, Director of Fairfax is a newly hired US national who may be a front to make it appear that the fund is an American investment, when in actuality; it is believed to be a ruling party-affiliated business. The website, All Africa, [reported](#) that Mr. Negatu was the principle representative of the fund in the purchases of ECCCM. Interestingly, he was invited to speak at the Fairfax Africa Fund's organized event: **"Collaborative Investing by the Ethiopian Diaspora in the U.S"** on at least [two occasions in California](#) in February of 2012.

These are a few steps that may be critically important to take at the earliest opportunity and in the near future so as to restore order and integrity in EY's East Africa Managing Partner, mindful of both your clients' and your own long-term interests. We hope you will take our concerns to heart by further investigating the situation so you might ensure that any questionable activities are corrected.

We believe this situation has been problematic for over a decade and hope you will act with decisiveness at this time. If you are interested, we will continue to provide you with more information when deemed important so as to help you with this process.

In conclusion, we look forward to hearing a response from you regarding these concerns as well as to answer any questions and offer assistance where useful. We thank you for any future efforts you make to address these issues and hope you will be an example of a company with the highest of business standards so you might help break down some of the key blocks to a better future for the people of Africa.

Best Regards,

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<sup>i</sup><http://www.financialtaskforce.org/2011/12/05/illicit-financial-outflows-from-ethiopia-nearly-doubled-in-2009-to-us3-26-billion-reveals-new-global-financial-integrity-report> ; Comment highlighting Ethiopia made by Global Financial Integrity on December 5, 2011 preceding the release of their study on Illicit Financial Outflows from Developing Countries Over the Decade Ending in 2009)<sup>i</sup>