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## ETHIOPIA: IT'S NOT ABOUT THE OIL

By Kwadwo Sarkodie

Political stability and solid investment in infrastructure and renewable energy make Ethiopia an attractive proposition, but new entrants to the market should proceed with care

With annual GDP growth averaging 10.9% for the last decade, Ethiopia has shown that it is not just the oil producers driving Africa's economic boom. Over the course of 20 politically stable years, governments have focused squarely on the country's economic advancement. Infrastructure development has taken a key role, together with ambitious plans to lead the continent in renewable energy.

Ethiopia's economy is centred on agriculture (coffee, honey products and flowers), mining (gold, silver, diamonds and sapphires) and, increasingly, manufacturing and services. Its status as a non-oil economy may change in future, with exploration ongoing and the Ogaden Basin alone estimated to hold some 4.7 trillion ft<sup>3</sup> of oil and gas.

Ethiopia spends the highest proportion (almost 10%) of GDP on infrastructure in Africa. The development of a planned 5,000km national rail network is underway, together with the expansion of the road network, including a highway linking Ethiopia to Kenya due for completion in 2017. Also due to complete in 2017 is the Grand Renaissance Dam, part of a US\$12bn series of hydro-electric mega projects aimed at making Ethiopia Africa's largest energy exporter by 2035. Ethiopia also boasts one of the largest fibre optic networks in Africa, developed in tandem

with technology parks and school network systems and designed to foster a national ICT industry.

The liberalisation of Ethiopia's markets is progressing, albeit slowly. Companies entering for the first time should proceed with care. Discussed below are some of the key considerations for those wishing to participate in the Ethiopian growth story.

### Business establishment

Business is by no means easy, with Ethiopia ranked 125th out of 189 countries in the World Bank's "Ease of Doing Business Report 2014", representing a slight decline from 124th in the previous year.

However, as part of Ethiopia's market development initiatives, the Ethiopian Investment Agency (EIA) provides foreign investors with a one-stop-shop for business facilitation, licensing and information regarding any applicable incentives. All importers and exporters establishing a local office must register with both the Ministry of Trade (in order to apply for project approval) and the Ethiopian Revenue and Customs Authority (in order to obtain a tax identification number). A business licence through the EIA may be obtained on the day of the application if all requirements are met.

Ethiopia, which has ratified the United Nations Anti-Corruption Convention in 2007, was ranked 111th out of 177 countries in Transparency International's 2013 Corruption Perceptions Index.



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### Doing business

As with much of East Africa, business in Ethiopia is founded upon close personal relationships. Meetings in particular will be preceded by personal greetings and enquiries before any business matters are addressed. Whilst business will often take place in English, the local Amharic script may be used in documents. Further, Ethiopia has its own time recording system, based upon daylight hours, which will often be employed.

Public procurement takes place through a tender system, overseen by the Public Procurement and Property Administration Agency. Whilst priority to domestic suppliers is not official policy, political factors may impact the tender process.

As for security, terrorism presents a risk in parts of Ethiopia. The ongoing conflict along the Somali border has intensified in recent years, and sporadic attacks and kidnappings have been reported in other regions. In November 2013, Ethiopian authorities issued a statement that they had “tangible and reliable evidence” of extremist intent to conduct attacks in Addis Ababa and other parts of the country.

### Contract enforcement

Contractual enforcement within Ethiopia is generally viewed as weak, with an overburdened court system often cited as the root cause. As a result, arbitration is often preferred, although governed by somewhat dated legislation (the 1960 Civil Code and 1965 Civil Procedure Code) which is not reflective of the UNCITRAL Model Law. There are two active arbitral institutions - the Addis Ababa Chamber of Commerce and Sectoral Associations Arbitration Institute and the Ethiopian Arbitration and Conciliation Centre. Ethiopia is not signatory to the New York Convention.

Ethiopia has bilateral investment treaties in force with some 21 countries (a treaty with the UK has been signed, but has not yet been ratified). Ethiopia has not ratified the ICSID Convention, despite being one of the initial signatories.

### The future

Given the Ethiopian government's investment priorities, set out in a series of five-year plans, construction energy and infrastructure opportunities are expected to continue to abound. Therefore despite some undoubted challenges, this could be an opportune time to take a closer look at Sub-Saharan Africa's fifth largest economy.

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