

Addis Fortune



Face the Business



Prime Minister Hailemariam Desalegn (middle), giving a chance to the private sector to address their concerns, joined by Solomon Afewerq, president of ECCSA (left), and Kebede Chane minister of Trade (MoT)

Last week, a day after a high level consultation took place between the administration of Hailemariam Desalegn and members of the private sector, a young businessman running a manufacturing outfit on the outskirts of Addis Abeba paid a visit to senior officials of the state owned Commercial Bank of Ethiopia (CBE). He had previously submitted loan applications for working capital, but been granted just one sixth of the total requested. He was out of luck, however, as a top senior manager at the bank declined to discuss details of his complaints, but informed him that the case had been directed to a loan committee.

While senior CBE officials tell Fortune that they have done all they could to bail out this business man's company, which has been at a loss for the past two years, injecting over 100 million Br into it, his continued complaint about lack of financing shows the plight of businesses in Ethiopia.

Despite repeated and assertive pledges by the administration to support businesses in the manufacturing sector and away from imports of "candy and chewing gums", the frustration of the young businessman is one widely shared by several members of the private sector. The issue of accessing finance is indeed the second most painful constraint businesses have identified, next to problems in tax administration, according to a newly released survey commissioned by the Ethiopia Chamber of

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Last week was an awkward week, in every sense of it. It

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Commerce & Sectoral Association (ECCSA). Other issues include problems in accessing land and construction permits.

The survey, financed by an assortment of Ethiopia's development partners, including the International Finance Corporation (IFC) and the governments of Canada, Sweden, the United Kingdom and Italy, was carried out across the country with close to 200 businesses, 12 industry associations and seven regional and federal agencies. Entitled "Ethiopia's National Business Agenda", the findings were revealing in illustrating the perception of the private sector on what ails them in doing business.

Although outsourced to BKP Development Research & Consulting, the survey was the first to be impressively compiled by an indigenous organisation, the secretariat of Ethiopian Private Public Consultative Forum, under the stewardship of Eyob Tekalegn, a former diplomat assigned to Washington DC. Yet, Solomon Afeworq, president of the national chamber, boldly tabled it to the government, on Wednesday, July 2, 2014, during the second consultative forum held inside Millennium Hall, on Africa Avenue.

Unusually attended by a full pack of cabinet ministers, Solomon's address on behalf of the nation's private sector, of which close to 2,000 were in attendance last week, was thoughtful. He even commanded a rare complement from the Prime Minister, who described it as "comprehensive".

It was an acknowledgment of the positive steps the government has taken in remedying problems, such as customs reforms, that businesses face, at the same time as acting as a potent reminder of the things that are yet to be addressed. He described the country's regulatory environment as "unpredictable, non-comprehensive, contradictory and applied in retrospect".

Rarely do leaders of the private sector come to such forums having done their homework as intently as was the case last week. Last week's forum shifted from presenting personal claims, akin to previous years, to well organised policy issues after conducting continuous assessments. In this way, they were able to successfully illustrate the problems of the business sector in its second encounter with the Prime Minister, according to Eyob.

Unlike many of the past 10 consultation sessions, where menus of individual complaints aggregated to the disdain of senior policymakers, Solomon's organised and focused address was backed by well documented and professionally edited surveys of what the broader business community feels about the environment it operates in.

Solomon, for instance, demanded that the administration introduce, among the list he laid out, a regulatory impact assessment mechanism and administrative procedural law.

So too was the manner in which Prime Minister Hailemariam conducted himself last week in sharp contrast from the last encounter he had with the business community. Although forceful in assertion and defensive in his response, he nonetheless took all the issues and questions on his own. He had none of the ministers seated across the whole first row respond – an odd reminiscent of the days of his predecessor.

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With “candy and chewing gum” almost sounding like a new catchphrase for the Prime Minister, if not his dry sense of humour in repeated references to those in the IMF as “our bosses”, he appeared for many determined to drop the demands down, from appeals for reconsideration of the 27pc bond purchase by private banks to the reduction of the 50pc deposit businesses are required to make when going to the tax appellate tribunals.

His assertion that continued complaints over the process of getting loans from state owned banks should be put in “quotations mark” is a detached remark from the reality on the ground, according to some of the business people who followed the discussion. One such businessman, who was not given the opportunity to address the Prime Minister despite his efforts, was Etsegenet Berhe, general manager and major shareholder of Tana Industries.

His company is in the process of establishing a plant for the manufacturing of plastic pipes and fitting in the Kality District, where a loan application was made to the state owned Development Bank of Ethiopia (DBE), close to a year ago. The Bank has advanced 22 billion Br over the past nine months – all but two billion Birr to private investments – according to Hailemariam.

Ironically, many of the businesspeople, who had spent the previous two days going through an orientation of the administration’s industrial development strategy, were observed making sarcastic remarks in describing the bank as the “Development Bank of Turkey”. It rather reflects their frustrations at seeing much of the loans the Prime Minister argued went to the private sector ending up in the hands of foreign companies, with little going to help local businesses, such as Tana Industries, which faces a dead end in getting its 170 million Br loan request approved.

Putting in its own finance to erect the civil structure where the plants were meant to be housed, the company has issues with the Bank’s policy of not accepting in-kind contributions amounting to 30pc as equity by local businesses. Estegenet sees a blatant discrimination in this policy, with foreign companies not subjected to it when using imported, often refurbished, machinery as an equity contribution to secure their loans from the same Bank.

Neither was Hailemariam any softer on the issue of private sector competitiveness, raised, albeit reluctantly, by chamber leaders. This enabled the Prime Minister to brandish the issue. His claim that the state is not there to compete with the private sector, but to fill market failures in conducting the mega works did not please many.

“If you’re able to do the GERD, Gilbel Gibe and the railway on your own, we would be happy to give them to you,” Hailemariam told a sceptical audience, some of whom see the many state owned enterprises and ruling party affiliated companies as contradictions to his claims.

“I don’t know what power does to people,” a prominent businessman, who has known the Prime Minister for many years, commented, in observing the changes he says he has seen in Hailemariam. “He wasn’t like this before.”

He too wonders why businesses are shying away from

investing in the manufacturing sector, which currently only represents five percent of the nation's GDP. This is compared, for instance, to Kenya's 12pc. Despite admitting how difficult and complicated getting into manufacturing in Ethiopia could be, he calls on businesses to "ride on the rough road".

"The current growth is unsustainable in the absence of structural transformation in the economy," he told businesses.

His ministers, Ahmed Abetew, of Industry, and Kebede Chane, of Trade, tried hard to persuade businesses during the first two days of last week, promoting their government's industrial strategic document, authored a decade ago by Meles Zenawi, former chairman of the party. Jointly organised by their respective ministries and the national chamber, they ought to be in for a shock at discovering that many of the businesses in attendance are unfamiliar with the details of the strategy.

The Prime Minister too was confronted with potent questions from a businessman on why his administration failed to make a dent in fighting rent-seeking despite the "talks". The lack of good governance and rampant corruption in the government is why businesses aren't getting into manufacturing, according to this businessman.

To the surprise of many, Hailemariam retorted, arguing that "there could be no fast growth in the absence of good governance", and attributed growth in Ethiopia's GDP to the presence of such.

He was consistent in his dismissive engagement last week on most cases, except where he accepted reconsidering the laws that incorporate interests and penalties when businesses deposit half of the tax they are subjected to, and pledged his administration's desire to help establish equity and corporate bond markets.

Unlike many of the discontented participants from the private sector, who viewed the Prime Minister's address as "dismissive and in denial", organisers were pleased with the outcome. The forum is satisfactory in getting responses from the government, which is giving more emphasis to the private sector as a main actor in economic development, according to Eyob.

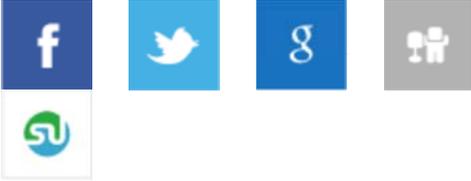
"It was a forum for consultation," said the former leader of the national chamber. "It was not a place to make a decision."

Ironically, it was an event tainted by Solomon having to defy a power cut by using a battery powered stage-light, while other participants were compelled to resort to a light from mobile phones to follow his speech in a massive hall left dim for 15 minutes. A grim reminder of limitations the administration has in delivering dependable public utilities, this issue was nonetheless completely overlooked during the forum. Neither did the chamber's leaders nor members of the private sector raise the subject of the impact of unreliable and increasingly frequent power cuts on the productivity of businesses, small alike big.

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