

# Development Investment and Sustainable Change in Ethiopia

**A conference held on November 27, 2015 by the Center for Corporate Responsibility and Sustainability (CCRS) at the University of Zurich**

---

## Conference Summary

The purpose of the conference ‚Development Investment and Sustainable Change in Ethiopia‘ on Friday, November 27, was to strengthen economic and social ties with Ethiopia through its diaspora in Zurich, small and large Swiss companies that invest in Ethiopia, and university collaborations. The one-day conference consisted of three panels. The first panel discussed the challenges and opportunities of doing business in Ethiopia from government, business and diaspora perspectives. The second panel discussed concrete large-scale infrastructure projects in Ethiopia with Swiss involvement, and the third panel reviewed current efforts to mobilize local entrepreneurship and innovation in frontier markets in general. The conference was attended by more than 100 people.

In his welcome address, the president of the University of Zurich, Prof. Dr. Michael Hengartner, expressed his gratitude to the organizers to make a conference possible that is reaching out to a wide audience and brings together stakeholders from civil society, academia, business and government with different perspectives and professional backgrounds. He also welcomed the numerous Ethiopian students, scholars and professionals that attended the conference as well as the Ethiopian ambassador to Switzerland and Austria, based in Geneva.

The president praised Ethiopia for its rich culture and history and for having achieved much progress over the past two decades in fostering economic growth, reducing poverty, and maintaining political stability in the country. On the other hand, he also noted that economic and political freedom is still very limited in Ethiopia. But this should not keep Swiss business, academia and civil society from engaging with the country and exploring opportunities for collaboration.

Currently, Europe’s presence in Ethiopia is heavily dominated by civil society and development organizations. Overall, Ethiopia hosts 1400 registered foreign NGOs or not-for profit organizations. Professor Hengartner argued that even though such ‘donor’ investments are certainly important, the question how donor agencies can also facilitate more long-term European business investment has so far not been addressed properly. Swiss investment in particular, would have a great potential to make Ethiopia’s strong economic growth more sustainable in terms of product quality as well as labor and environmental standards. The Swiss Federal Councillor, Simonetta Sommaruga, who visited Ethiopia as the first acting Swiss President at the end of October 2015, was a first step to bring the two countries closer together. According to Michael Hengartner, this makes the present university-based conference very timely as a follow-up event that allows for a first exchange and networking between stakeholders from Ethiopia and Switzerland.

The first panel chaired by Thorsten Vogl from the Swiss-Africa Chamber of Commerce contributed to this exchange by letting highly qualified Ethiopians who currently work for Swiss companies and universities talk about their achievements as well as their concerns and hopes for future

development in Ethiopia. Dr. Wondwossen Aysheshim who works as an engineer for ABB talked about his education in Germany, how he ended up with a large Swiss Company and how he intends to make use of his network and know-how to support his native country Ethiopia. Dawit Tesfaye works as a Siemens engineer in Switzerland and is involved in the management of many large-scale projects in Latin America and Africa. He illustrated how his company has become part of a consortium that has won a contract to build a 1,000-kilometer power line from Ethiopia to Kenya. It will transmit 2,000 megawatts of hydropower and greatly enhance access to electricity for households and industry in the region. Mr. Tesfaye is also investing in his country as a private individual. He created jobs by establishing a factory that produces mosquito nets and has set up an IT school for young and motivated Ethiopians. Dr. Zerihun Tadele heads the Tef Biotechnology Project at the University of Bern. His team uses a technique called TILLING to identify semi-dwarf lines resistant to lodging, but still responsive to fertilizer. He showed a movie where his new semi-dwarf varieties are tested in the field in Ethiopia. For his research he received the 2015 SFIAR Award (<http://www.sfiar.ch/award.htm>).

The government perspective was represented in the panel by Paula Oberli from SECO, the Swiss State Secretariat for Economic Affairs, and the private equity perspective by David Mülchi from Muelchi & Associates. They presented an overview of the current economic, legal and political situation and highlighted the opportunities and bottlenecks for Swiss investors. Ms. Oberli pointed out that the trade volume between the two countries is still relatively small (US\$ 297 million) and more than 80% of the Ethiopian exports to Switzerland consists of precious metals. Even though there is great interest from Swiss companies to increase investment in Ethiopia, the country's state-led development model also imposes constraints for foreign investors because it restricting economic freedom and increases the transaction costs of doing business, as Mr. Mülchi mentioned in his presentation.

After these two policy-oriented presentations, representatives from Novartis, Roche and Geberit explained their investment strategies in Ethiopia. Kileken ole-MoiYoi from Novartis spoke about Novartis investments in Ethiopia, highlighting that the company is working with universities and the Ministry of Health to help strengthen infrastructure, expand access to medicines, and build capabilities among the next generation of clinicians and healthcare workers in the country. In addition to improving patient health outcomes, this would help to establish a foundation for future business investment by the pharmaceutical company. Erwin Kälin, Geberit's head of developing markets, mentioned that his company has established its first office in Addis Ababa only recently. He sees a great demand for Geberit's high-quality products, especially for the hotel industry that faces less restrictions compared to other sectors. Frank Löffler from Roche will be the company's representative in Ethiopia in 2016. The first step will be to explore opportunities to sell Roche products. However, the country would still lack the conditions that would make it attractive for Roche to invest in drug manufacturing in Ethiopia.

The second panel was chaired by Oliver Bertschinger, Regional Director Europe & Africa from Switzerland Global Enterprise. He is very hopeful that Ethiopia could become a future market for Swiss investors despite the current institutional bottlenecks that explain why economic freedom in the country is still at a very low level. Yves Peeters, Head of Sales and the ABB Africa Initiative, illustrated in his presentation ABBs involvement in current efforts to contribute to the build up of power lines in the country by rehabilitating, upgrading and integrating transmission substations. He points out that the government has ambitious plans to mobilize its potential for hydro power, and to

some extent, solar and wind, to become the main exporter of power in the region. ABB is involved in the bidding process of many government-funded projects and is well positioned despite the tough competition from China. Even though ABB is eager to be involved in the future expansion of the power grid and railway infrastructure with experienced local partners, it also faces challenges. Constraints are overall delays, requiring a pro-active project management, the retention of trained staff, the complexity in the logistics of country-wide deployment and collaboration with local partners, which have traditionally a different working culture.

Charles Gooderham, Regional Head Sustainability Affairs EMEA Credit Suisse explained how Credit Suisse became a lender to a large consortium designated to build up the Weldiya - Kombolcha - Awash railway. Whereas a the Turkish company Yapi Merkezi takes the lead, Credit Suisse helped setting up a financial package together with the Ethiopian Railway Corporation (ERC). Credit Suisse acted as co-ordinating commercial facility arranger. Some of the loans have already been disbursed. The Ethiopian government launched a five-year Growth and Transformation Plan (GTP) in 2010 of which the National Railway Network of Ethiopia (NRNE) is a major element. The plan aims to gradually transform the land-locked country into an interconnected economy with efficient high capacity transport links to adjacent countries and ports. Mr. Gooderham is very confident that this railway will benefit Ethiopian society at large and that potential negative impacts for local people affected by the construction can be minimized by adhering to the self-imposed equator principles (<http://www.equator-principles.com/>). Verena Utzinger from Swiss Export Risk Insurance (SERV) illustrated how SERV supporting Swiss companies that would like to invest in countries with high economic and political risks. Swiss companies that would like to invest in Ethiopia, a country that is still rated by the OECD as highly risky in political terms, are able to count on the support of SERV to reduce their exposure to risk. In the case of the Weldiya - Kombolcha - Awash railway, 13-year final maturity facility of US\$ 415million is backed by SERV, which committed US\$ 151 million. In addition, the Swedish Export Credit Guarantee Board (EKN), Export Kredit Fonden (EKF) have committed US \$83 million and US\$181 million respectively. Since Yapi Merkezi, a Turkish company, is the appointed contractor on the project, Turk Eximbank has provided a parallel financing of US\$300 million for the Turkish goods and services under the same project. The borrower is ERC, with guarantees from the Ethiopian government. One of the main beneficiaires of the complex financial arrangement is the contractor Swiss Company Molinari Rail, a Swiss engineering and consulting firm that develops concepts for Railway Systems in Europe, North and South America, India, Asia, Russia and Africa. Michele Molinari, the CEO of Molinari Rail, explained how the project will lead to a 375 km railway line linking the fertile south with the resource-rich north of Ethiopia. It starts in Awash, 986 m above sea level, climbs to Kombolcha at 1842 m and finally reaches Hara Gebeya, close to Weldiya at 2122 m above sea level. This is the challenging part of the Ethiopian railway development plan from an engineering point of view. Molinari Rail is responsible for organising and managing finance and supplies from Switzerland and Austria worth in excess of US\$ 140m for the project, including the equipment specification, selection and delivery of the maintenance workshop equipment. Mr. Molinari felt that collaboration with the Ethiopian government, the business partners as well as SERV has been great to so far. He is proud to be part of this ambitious project in Ethiopia and he thinks that, despite many institutional obstacles, doing business in Ethiopia works far better than he expected.

The afternoon panel discussion focused on the challenges and opportunities of Swiss investors in frontier markets. The chair of the panel was Walter Fust, former head of OSEC (later renamed Switzerland Global Enterprise) and DEZA/SDC (Swiss Agency for Development and Cooperation) and

acting president of the African Innovation Foundation based in Zurich. Mr. Fust is a great believer in the potential of African entrepreneurs to grow through innovation. His foundation discovered and awarded many highly talented African entrepreneurs who subsequently managed to build up substantial businesses that were also supported through modern fundraising such as crowdfunding. He also knew Meles Zenawi very well, the late president of Ethiopia who is greatly venerated in his country for having jumpstarted economic development in the country after the defeat of the DERG Regime, the communist regime that economically ruined the country. He found Mr. Zenawi to be a curious, honest and outspoken man who welcomed foreign support as long as it served the country's commitment to inclusive economic growth. Mr. Fust also knows the government that succeeded him and found that it managed the transition quite well. However, he also mentioned the many disagreements he had with the Ethiopian government when it comes to democratic governance and the rule of law. Yet, the relationship was always based on mutual respect.

The first speaker introduced by Mr. Fust was Lars Willi, CEO of WeConnex, a firm dedicated to the development of decentralized rural infrastructure in developing countries. His company has developed a modular infrastructure hub concept for remote communities. These so-called Nexus Centers are currently being rolled out in Nepal and Madagascar, and a first feasibility study has been realized in Ethiopia in collaboration with the organization 'Traveller'. The NEXUS Centers provide access to basic services like drinking water, energy, communication, internet access, sanitation, medical treatment and they are sufficiently flexible to respond to specific local community needs. The Hubs can also act as meeting points and distribution channels for different products e.g. food, healthcare, hygiene, agricultural products and technologies, mobile communication etc. In Ethiopia, the goal is to create such NEXUS centers along tourist routes as a sort of service areas, not just for tourist busses but also pilgrims and commercial drivers. The revenues generated from the business with travelers can then be used to also develop local businesses.

Ernst Hafen, professor of molecular systems biology, former president of ETH Zurich, and current president of the Biotechno Park Schlieren-Zurich, gave the second talk in the panel. He gave a short introduction to the growing value of human genome data in the 21<sup>st</sup> century and the risk that this personal data will eventually end up in the hands of the large global data-gathering companies such as Google. He thinks people have a right to ownership of their personal genome data and that there is a need for cooperatives that act as fiduciaries of their members data. In this context he introduced the audience to his initiative called Mydata.coop (<http://www.midata.coop/>). MIDATA cooperatives are designed to enable citizens to securely store, manage and control access to their personal data. Current Mydata projects develop and test legal, ethical and technological framework that will provide a means of a fair and transparent data access that respects the autonomy and privacy of patients/citizens in such a way that provides true benefits to them and that of society. Even though Ernst Hafen is not very familiar with the situation in Africa, he believes that African governments should start thinking about the risks and opportunities of personalized medicine. African genomes is very valuable for research as well as for treating specific diseases that primarily affect Africans. An ethical and legal framework could ensure that Africa really benefits from the future development of personalized medicine.

Fiorina Mugione, Chief of the Enterprise Development Branch at UNCTAD, highlighted the achievements of her UN institution in supporting entrepreneurs in developing countries through an integrated capacity-building programme called Empretec. Empretec promotes the creation of sustainable support structures for promising entrepreneurs to build innovative and internationally

competitive small and medium sized enterprises (SMEs). Since its inception in 1988, Empretec programmes have been initiated in 26 countries, assisting more than 70,000 entrepreneurs through local market-driven business support centers. These Empretec centers have thus greatly contributed to the development of a dynamic private sector. Even though Empretec centers in large Latin American countries such as Brazil are much larger than those based in African countries, Ms. Mugione pointed out that the one center that currently grows fastest, is based in Ethiopia.

After the three presentations, the discussants Jens Soth from Helvetas, Christian Etzensperger from ResponsAbility Investment AG and Oliver Karius from LGT Venture Philanthropy talked about the potential of small businesses such as WeConnex that are likely to produce large welfare effects for local communities to attract investment and eventually become financially sustainable. The difficulty of such businesses is to face competition from charities and foundations that often provide the services for free. Jens Soth who represents the Swiss NGO Helvetas admits that many civil society organizations remain hostile to invest in growth-oriented local businesses but also pointed out that Helvetas often acts facilitator of such businesses through its large network in business and government. Christian Etzensperger points out that ResponsAbility Investments AG is focused on development investments and offers professionally-managed investment solutions to both private and institutional investors. He finds Lars Willi's idea to build up a business service for water treatment in Ethiopia commendable and of great interest to investors such as his company. But he is also cautious as he recently learned that the Ethiopian government exerts control over the use, distribution and treatment of water. It may be reluctant to allow private sector activities in this area. Oliver Karius, who is the CEO of LGT Venture Philanthropy, highlighted the fact that in the absence of government institutions that do not yet have the means and competences to manage essential public goods such as health and education, private sector initiatives can play an important role. LGT venture philanthropy proved with privately run schools and health service centers in very poor urban settlements that people are willing to make tiny payments for public services as long as these services have the quality they expect.

The conference ended with the concluding remarks by his excellency ambassador Negash Kebret Batora, Permanent Ethiopian Representative to Switzerland and Austria. The ambassador welcomed the initiative by the University of Zurich to hold a conference on development investment and sustainable change in Ethiopia. He emphasized the fruitful Swiss bilateral and economic relations between the two countries and the fond memory Ethiopia has of Alfred Ilg, the Swiss engineer and advisor to the Ethiopian Emperor Menelik II, who greatly contributed to the country's independence struggle and economic development a century ago. He thinks it is time again to strengthen the business and cultural relationships between Ethiopia and Switzerland because they will benefit both countries. A first promising start was the Swiss business delegation that came to Ethiopia in 2014 and the 3-day visit of the Swiss president Simonetta Sommaruga at the end of October 2015 in Ethiopia. He is looking forward to future events such as this conference that allow Ethiopians to connect with Swiss experts from different fields and make them curious about their country and the advantages it can offer for investors. The ambassador concludes his speech by reiterating the Ethiopian government's willingness to be supportive of Swiss investment since such investments do not just generate revenues for the companies and their respective local partners, but also create sustainable jobs but contribute to technology transfer and poverty reduction.

*Contact: philipp.aerni@uzh.ch*