

Addis Ababa

Ethiopia

City Risk Profile



Overview

- Verisk Maplecroft's City Risk Profiles offer data-driven risk assessments of the primary issues affecting business operations and investments in cities worldwide
- Primary risks are identified through the screening of cities using Verisk Maplecroft's national and subnational risk indices to determine the external risk profile of a site
- To provide further context, the risk profiles provide analysis of the issues driving the risk environment, the impact to business and the trajectory of risk
- This ensures a quantitative and qualitative approach to discerning key inherent risks

Quantitative scoring:

- City Risk Profiles include risk scores covering threats (potential physical risks), and a range of issues affecting the operating environment
- Scores are calculated using subnational and national data from Verisk Maplecroft's portfolio of 150+ risk indices
- Clients can select which risk indices they would like included so the City Risk Profile reflects the issues most material to their business, sector and location

Qualitative analysis:

- For the issues with the highest risk scores, the profiles include concise analysis of the severity of the risk and its likely impact on an organisation based in the city
- Further in-depth analysis is available on request

Executive summary

Addis Ababa: City disruption risk		
Cumulative	Issue	Theme
5.79 ● City risk score	5.98 ● Threats	5.59 ● Security
		6.37 ● Natural Hazards
	4.52 ● Operating Environment	5.12 ● Political
		5.85 ● Legal & Regulatory
		5.33 ● Environmental
		1.91 ● Human Rights
		4.38 ● Economics

Legend: ● 0-2.5 Extreme risk ● >2.5-5.0 High risk ● >5.0-7.50 Medium risk ● >7.5-10.0 Low risk

Source: Verisk Maplecroft, 2018

Addis Ababa's geographic location in the Oromia Regional State, site of the most significant anti-government disruption ongoing since 2016, poses significant threat and operational environment challenges to investors. Businesses face increased risks to their operations as the ruling Ethiopian People's Revolutionary Democratic Front (EPRDF) enters a period of significant internal upheaval.

- New prime minister Abiy Ahmed Ali is looking to rebalance political and economic power away from EPRDF member party Tigray People's Liberation Front (TPLF). The EPRDF will not face a significant external challenge due to its control of Ethiopia's political space. However, internal opposition may stall or prevent Abiy's political reform agenda.
- Ethiopia's state-led economic model requires investors to either partner with the government or EPRDF-controlled endowment companies. Increased anti-government sentiment will therefore mean investors in Addis Ababa face heightened risk of protests targeting their businesses and causing damage to property or disruption to operations.
- Climate change will exacerbate the challenges that investors face in Addis Ababa. Increased rural-to-urban population will increase pressure on water and land resources. Protests will increase in frequency causing property damage and disruption to businesses.

Threats

Addis Ababa: Threats disruption risk		
Issue	Theme	Index
5.98 ● Threats	5.59 ● Security	+ ○ Civil Unrest
		+ ○ Conflict Intensity
		● Criminality
		+ ○ Terrorism Intensity
	6.37 ● Natural Hazards	○ Drought Hazard
		● Seismic Hazard
		○ Severe Storm Hazard
		● Tropical Storm and Cyclone Hazard

Legend: ● 0-2.5 Extreme risk ● >2.5-5.0 High risk ● >5.0-7.50 Medium risk ● >7.5-10.0 Low risk
 ● National index ○ Sub-national index + Index updated quarterly

Source: Verisk Maplecroft, 2018

Security

5.59 ● Medium risk

The Oromia Regional State is the site of heightened political tensions. The expansion of Addis Ababa was one of the drivers of the anti-government protests in the Oromia Regional State that destroyed investor assets and disrupted business activities. Protests in the Oromia infrequently spill over into Addis Ababa. Clashes between protesters and security forces occasionally cause disruption to business operations around Meskel Square and Menelik Palace. Population growth will increase pressure on already overstretched land and water resources in Addis Ababa and therefore the frequency and scale of disruptive unrest in the city.


































Addis Ababa's distance from borders insulates it from regional conflicts. Ethiopia shares long and porous borders with South Sudan and Somalia, both of which are in an effective state of prolonged civil war. Violence and weapons from both conflicts regularly cross into Ethiopia. Moreover, there are ongoing regional tensions over the Grand Ethiopian Renaissance Dam, whose construction Egypt has threatened to halt through military intervention. However, the distance between Addis Ababa and Ethiopia's national borders protects it from regional conflicts. Conflict does not pose a direct threat to investors in Addis Ababa.





Natural hazards



6.37 ● Medium risk

Ethiopia is affected by tropical storms that form in the North Indian Basin. Heavy rains make flash flooding a regular occurrence during the short rainy season in March and April, and the long rainy season between June and August. Heavy rains, combined with deforestation and poor urban planning, mean that floods often result in land-slides that destroy property and cause fatalities. Climate change will mean an increase in extreme high rainfall over Addis Ababa causing more frequent and intense disruption to business operations.

Operating Environment

Addis Ababa: Operating Environment disruption risk		
Issue	Theme	Index
4.52  Operating Environment	5.12  Political	 Efficacy of the Regulatory System
		+  Government Stability
		+  Transfer and Convertibility
	5.85  Legal & Regulatory	 Contract Enforcement Process
		 Corruption
		 Investor Protection
		+  Resource Nationalism
		+  Trade Sanctions
	5.33  Environmental	 Biodiversity and Protected Areas (Terrestrial)
		 Climate Change Vulnerability
		 Environmental Regulatory Framework
		 Water Stress
	1.91  Human Rights	 Freedom of Assembly
		 Freedom of Opinion and Expression
		 Indigenous Peoples' Rights
		 Land, Property and Housing Rights
		 Minority Rights
		 Right to Privacy
		 Security Forces and Human Rights
	4.38  Economics	 Women's and Girls' Rights
		 Barriers to Entry
		 Fiscal Resilience
		 Human Capital
		 Logistics
		 Macroeconomic Environment
		 Tax Burden
		 Transport Infrastructure

Legend:  0-2.5 Extreme risk  >2.5-5.0 High risk  >5.0-7.50 Medium risk  >7.5-10.0 Low risk

 National index  Sub-national index + Index updated quarterly

Source: Verisk Maplecroft, 2018

Natural hazards

5.12 ● Medium risk

Capital controls have failed to end foreign exchange shortages which negatively impact business activities. The government supports capital controls to address foreign exchange shortages which are the result of poor export performance and high demand for foreign currency. Only authorised dealers can conduct foreign exchange transactions, at margins determined by the National Bank of Ethiopia (NBE) central bank. Under the oversight of the NBE, commercial banks prioritise state-owned enterprises and government-sponsored infrastructure projects when allocating the limited available foreign exchange. Currency shortages mean investors face delays in accessing the capital required to conduct business in Addis Ababa and across Ethiopia.

Corruption

● High risk

Corruption is common in Ethiopia, posing reputational and legal risks to investors. Corruption is highest in business-to-government interactions, especially in land auctions, tax collection and customs clearance. Government corruption, especially in land allocations around Addis Ababa, was one of the drivers of the anti-government protests. On entering office in April 2018, Abiy pledged to crackdown on government corruption. The resignation of the head of a notoriously corrupt state-owned military contractor resigned two weeks later. However, Abiy is yet to deliver the high-profile Federal Ethics and Anti-Corruption Commission investigations and prosecutions necessary to end the nationwide culture of impunity.

Investor protection

● High risk

Investors enjoy legal protections against expropriation and restrictions on repatriation of capital. The constitution and regulatory laws protect investors against the expropriation or nationalisation of business interests or assets. The right to repatriate profits is also codified in the constitution, and the right to employ international staff is also legally protected. The legal and regulatory system is generally favourable to investors. However, capacity issues within government ministries, departments and agencies mean regulations are not uniformly applied. The necessity for investors to have close links with the government increases the risk that investments are targeted by politically-driven violence, as happens frequently in the Oromia.

Environmental

5.33 ● Medium risk

Inadequate physical infrastructure and weak institutions undermine Ethiopia's capacity to improve resilience and adaptability to climate change. Businesses therefore face increased risk of disruption to their business operations caused by more frequent extreme temperatures, droughts, and floods. Extreme climatic events will have an economic cost, as a large proportion of the Ethiopian population dependent on pastoralism and rain-fed agriculture for their livelihoods. Climate change will drive rural to urban migration, accounting for the rapid increase in population of Addis Ababa. An increased population in Addis Ababa will worsen existing water shortages. There are already regular water shortages because of overdemand and dilapidated water infrastructure. The government responds by rationing businesses and residential properties. Investors will face reputational risks around their use of water.

Human Rights

1.91 ● Extreme risk

The EPRDF dominates all levels of government and faces no meaningful opposition. The government, including the Addis Ababa City Council, operates with little oversight or external accountability. This impunity allows the EPRDF to use legal tools to crack down on opposition parties and critical media, including those representing minority ethnic groups. Moreover, security forces, including government-sponsored paramilitaries, are not fully under civilian control and commit significant human rights abuses. International media has reported on alleged human rights abuses by the government to relocate communities for largescale infrastructure projects, including in Addis Ababa. When partnering with the government or EPRDF-controlled endowment companies, investors face reputational risks from their alleged human rights violations.

Economics

4.38 ● High risk

State-owned enterprises and politically-favoured companies distort genuine market competition. The government prescribes foreign participation in strategic economic sectors including financial services, telecommunications and utilities. Moreover, state-owned enterprises and politically-favoured companies enjoy an unduly privileged position. Human capital is constrained by a lack of adequate knowledge and literacy. The negative impact of low human capital on cost-competitiveness in Ethiopia is largely offset by extremely low wages, including in the manufacturing parks around Addis Ababa. Until September 2018, the government proscribed foreign investment from the logistics sector. This curbed competition, thereby increasing the business costs and time involved in moving goods. The positive impacts of the reform are yet to take effect. Land-locked Ethiopia is investing heavily to address its transport infrastructure deficit that remains a significant bottleneck to getting goods to market. Transport infrastructure has not kept pace with the rapid growth of Addis Ababa, slowing the movement of goods and people across the city.

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