

## Ethiopia's Only Foreign-Owned Financial Services Licensed Company Is to Close

- *In 2019 Ethio Lease became the first and remains the only foreign-owned company with a financial services license from the National Bank of Ethiopia*
- *In its first year of operation, Ethio Lease wrote US\$25 million of leases for medical equipment, energy backup devices, road construction machinery, and agricultural equipment, supporting thousands of jobs, access to healthcare, and food security*
- *In 2021, the National Bank of Ethiopia amended a directive applicable to the business in a way that made it impossible for Ethio Lease to write new leases*
- *Despite their sustained efforts, Ethio Lease and its investors have been unable to achieve resolution with the Ethiopian government*

**Addis Ababa, Ethiopia, 15<sup>th</sup> November 2023** – Ethio Lease, Ethiopia's first and only foreign-owned company to obtain a financial services license from the National Bank of Ethiopia (NBE), is set to close.

The company's owner, African Asset Finance Company (AAFC), an investor in and provider of cost-effective access to state-of-the-art equipment in frontier and emerging markets, announced today it has instructed its subsidiary to begin the process of voluntary liquidation (winding down and dissolution).

A milestone at the time, the NBE awarded Ethio Lease its license following the announcement of economic reforms to liberalise several sectors of the economy, including the financial services industry. The company had a promising start and in 2020 wrote over US\$25 million worth of leases in medical equipment, energy backup devices, road construction machinery, and agricultural equipment, supporting thousands of jobs, improved food security through the mechanization of farming services, and increased access to healthcare services.

Despite its positive contribution to the economy and people's lives, a legal and valid license to operate, and the Ethiopian government's commitment to sector liberalisation, Ethio Lease increasingly faced obstruction. The situation reached a tipping point in June 2021 when the NBE amended one of the directives that established Ethio Lease's regulatory framework.

The amendment decreed that all lease agreements must have fixed payments denominated in Ethiopian Birr, as opposed to being set in foreign currency and payable in Birr against the exchange rate at the time of settlement. The combination of this amendment and another directive which prohibits foreign-owned leasing companies from borrowing Ethiopian Birr has made it impossible for any foreign-owned leasing company to operate in the country: they can no longer reprice for currency fluctuations and hence risk being unable to repay their own financing. Since the Ethiopian Birr is not a free floating and tradeable currency, hedging options are not available.

Ethiopia's official exchange rate has halved since Ethio Lease commenced operations, sliding from 28 Birr to one US Dollar in 2019 to 56 Birr per Dollar this month. On the parallel market, which is used as the basis for pricing many products and services in Ethiopia, the Birr trades at half of this official rate, at 110 Birr to the Dollar.

As a result of the changes to the regulatory framework, the viability of Ethio Lease as a foreign-owned leasing company became structurally impaired, and severely impeded its ability to raise funding. Despite repeated and sustained efforts by Ethio Lease and its

investors in discussions with the Ethiopian government, no resolution has been found that would allow the company to continue to grow its leasing portfolio and service its debt as per its business plan that had been approved by the NBE.

Ethio Lease's capital has now almost reached the legal threshold of 25% of its original capital (at the time US\$14 million) at which the company under Ethiopian law needs to be either recapitalized or dissolved. The dissolution and winding down is expected to take a few years, as the company will continue to service its existing customers until the last lease expires.

Girma Wake, Chairman of the Board of Directors of Ethio Lease, based in Addis Ababa, said: "This is a huge loss for Ethiopia as Ethio Lease demonstrated that foreign financial services providers can contribute significantly to the economic development of the country."

Ethio Lease and its majority shareholder, African Asset Finance Holdings BV, which is largely funded by US investors, have sought compensation for damages under the Bilateral Investment Treaty between the Netherlands and Ethiopia.

"We had high hopes that the Ethiopian government would successfully liberalise its financial services sector," said Frans Van Schaik, CEO of AAFC. "The closing of Ethio Lease is more than unfortunate, and we regret the position the Ethiopian government is taking in this matter."

## **About Ethio Lease**

After a year of market research and almost two years of discussions with the regulator, Ethio Lease received a license from the National Bank of Ethiopia to operate a leasing company in July of 2019, becoming the first foreign-owned entity to be granted a financial services license in the country. Ethio Lease is a subsidiary company of African Asset Finance Company (AAFC).

## **About AAFC**

African Asset Finance Company (AAFC) was launched in 2017 and aims to bridge the gap between capital markets with ample liquidity and emerging markets in need of solutions for equipment, equipment-as-a-service, equipment leasing, asset backed lending, and (clean) energy and infrastructure financing in Africa through AAFC group companies and partnerships. AAFC is headquartered in New York, and has offices in Africa, the Middle East and Europe.

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