



To cite this article: Fasika Dereje Gemechu, *Collateralization of Intellectual Property Rights in Ethiopia: An Examination of Legal, Policy and Institutional Frameworks*, *HARAMAYA LAW REVIEW* 9 (2020): 71-91

**COLLATERALIZATION OF INTELLECTUAL PROPERTY RIGHTS IN ETHIOPIA: AN EXAMINATION
OF LEGAL, POLICY AND INSTITUTIONAL FRAMEWORKS**

*Fasika Dereje Gemechu**

Abstract

Utilization of intellectual property rights (IPRs) as loan collateral has emerged as a unique business and financing tool that offers opportunity for alternative financing to the traditional financing system that solely uses tangible properties as collateral. Ethiopia has put in place the legal framework for utilization of properties as collateral. The laws recognize and regulate the use of both tangible and intangible properties as collateral to obtain financing. In practice, financial institutions in the country only advance loans to persons having tangible assets that can be used as collateral. Hence, IPRs are not yet utilized as loan collateral in Ethiopia though they are legally recognized and protected asset class in the country. As a legally recognized and protected property, IPRs should be able to function as loan collateral. Recently, Ethiopia has undertaken reforms that support the realization of this idea and has enacted a new secured transaction law. However, it is understood that IPRs collateralization goes beyond the sphere of secured transaction law. It demands a number of other laws and factors to explore. The objective of this paper is to examine whether IPRs can be utilized as collateral in Ethiopia by critically investigating the existing Ethiopia's legal, policy and institutional frameworks, and explore the main difficulties that may hinder it from becoming a successful financing tool. To address the objective, the study employed doctrinal research methodology and analyzed pertinent laws, policies and scholarly literatures. The paper finds that IPRs are not utilized as loan collateral in Ethiopia not only because its benefits are not understood in the country, but also because the government has not put in place adequate policy, legal and institutional frameworks. It also shows that there are multiple practical challenges that impede the use of IPRs as collateral in the country. Therefore, this study recommends reforms in the pertinent policy, legal and institutional frameworks for the use of IPRs as of collateral Ethiopia.

Keywords: *utilization of IPRs, loan, collateral, banks, financial institutions*

* LL.B (Addis Ababa University), LL.M in Law and Development (Arsi University). The author currently serves as a District Court President at Oromia Regional State, Ethiopia. This article is a refined version of part of my LL.M thesis. The author would like to extend his gratitude to Sileshi Bedasie Hirko (PhD) and the anonymous reviewer (s) of HLR for reading and providing valuable comments on the earlier version this article. The author can be reached at dereje.fasi@gmail.com.

I. INTRODUCTION

Historically, the traditional collateral system that only accepts tangible assets as loan collateral has been practiced as a sole financing tool at a global level.¹ As a result, businesses or individuals seeking credit for growth were restricted to rely on tangible property for borrowing money.² Over time, however, intangible assets, such as IPRs, have become increasingly important in the modern economy as research and development brought new goods and services to the market.³ Put differently, the advancement of knowledge based economy has changed the underlying assumptions of the conventional collateral system. Further, following the 2009 global economic recession, utilization of IPRs as loan collateral has become a realistic alternative to the traditional financing system for obtaining loans.⁴ This has shifted the global economy from tangible to intangible assets, and from a manufacturing/service economy to a knowledge-based economy.⁵ As the global economy has been shifting to more innovation and knowledge based economy, utilization of IPRs as collateral has emerged as a unique business and financing tool. It unlocks new opportunities for domestic and foreign investment, widens the opportunity to get loans, expands the range of financing tools, creates new marketing prospects for financial institutions, increases employment opportunities, generates additional revenue for the government and spurs economic growth.

In a modern and rapidly evolving global knowledge-based economy, inventors, creators and business corporations are making the most from their intangible assets particularly from IPRs. IP rich businesses or individual owners that only have IPRs as their valuable asset are increasingly relying on these assets to obtain financing in order to grow. As a result, utilization of IPRs as loan collateral has emerged as a unique and effective IPRs financing tool and business option that offers an opportunity for alternative financing to the traditional financing tools for businesses and individuals having IPRs as their underlying assets.⁶ Currently, utilization of IPRs as loan collateral has earned wider recognition as the most effective intellectual properties financing tool in a global business and trade transactions, and used in intellectual properties industries and financial institutions.⁷ Multinational Companies (MNCs) as well as Small and

¹ PHILIPP SANDNER, *THE VALUATION OF INTANGIBLE ASSETS: AN EXPLORATION OF PATENT AND TRADEMARK PORTFOLIOS* (Gabler, 2009), AT 1-3; See also Sean Thomas, *Security Interests in Intellectual Property: Proposals for Reform*, 37(2) JOURNAL OF LEGAL STUDIES 214-247 (2016), (DURHAM UNIVERSITY, DURHAM RESEARCH ONLINE), at 215.

² *Id.*

³ *Id.*

⁴ Anjanette Raymond, *The Use of Intellectual Property as Collateral in Secured Financing: Practical Concerns*, (QUEEN MARY UNIVERSITY OF LONDON, CENTRE FOR COMMERCIAL LAW STUDIES) at 2; See also S K Verma, *Financing of Intellectual Property: Developing Countries' Context*, 11 JOURNAL OF INTELLECTUAL PROPERTY RIGHTS 22-32, (2006).

⁵ Duff & Phelps, *IP-Backed Financing: Using IP as Collateral* (CONFEDERATION OF INDIAN INDUSTRY) (2019), at 8.

⁶ Thejaka Perera, *Collateralization of Intellectual Property: Bowie Bonds and the Collateral of the Future*, (29th ANNIVERSARY CONVENTION), (2017), at 191-198; See also <<https://www.stoutadvisory.com/insights/article/financing-alternatives-companies-using-intellectual-propertycollatera>>.

⁷ Duff & Phelps, *supra note 5*; See also Sung Kim, *Intellectual Property Asset Value as Collateral: The Increasing Use of Patents as Collateral in Asset-Based Lending*, ABF JOURNAL (2016), available at

Medium Enterprises (SMEs) are leveraging their IPRs in exchange for finance, and lending institutions around the world are increasingly extending their business to provide loans on the basis of IPRs.⁸

In Ethiopia, banks require collateral for providing loans.⁹ But, they only take the conventional forms of assets as collateral.¹⁰ This conventional form of assets refers to tangible assets mainly immovable assets¹¹ or a chattel.¹² Further, banks loans are hard to get as banks require strong collateral.¹³ As a result, any person who wishes to get bank loan should possess such properties.¹⁴ In addition, there is a problem of under estimation of the collateral by banks.¹⁵ This makes difficult for firms or individuals that do not have valuable tangible assets in place to be used as collateral to get bank loan.¹⁶ Hence, beyond recognizing limited forms of property to be used as collateral and providing limited loan amount to private sectors, the specific forms and features of assets banks in Ethiopia were using as collateral would not match with the needs and demands of those lacking valuable tangible assets to obtain loan.¹⁷

Since the banking system could not address the financial needs and demands of all, especially start up SME's, Micro Financial Institutions (MFIs) were emerged in 1996.¹⁸ Since then, 21 MFIs were registered and licensed by the National Bank of Ethiopia (NBE).¹⁹ These

<http://www.abfjournal.com/articles/ip-asset-value-as-collateral-the-increasing-use-of-patents-as-collateral-in-asset-based-lending/> (Accessed on 14th of May, 2020).

⁸ *Id.*

⁹ Deresse Marsha Lakew & Zerihun Ayenew Birbirsa, *Financing Practices of Middle and Small Enterprises in West Oromia Region, Ethiopia*, 2 (10) JOURNAL OF MANAGEMENT RESEARCH 10-11, (2018). See also Kefani Gurmu, *Banking Activities and Laws*, (2010), at 92.

¹⁰ *Id.*

¹¹ *Id.* As per Article 1130 of the 1960 Ethiopian Civil Code, land and buildings are deemed to be immovable property. But, since Article 40 (3) of the FDRE Constitution provides that the right to ownership of rural and urban land is exclusively vested in the state and the people of Ethiopia, and cannot be privately owned or shall not be subject to sale or to other means of exchange, land cannot be used as collateral to obtain loan in Ethiopia. Thus, immovable asset only refers to buildings, which is the most common tangible asset used as collateral in Ethiopia.

¹² Teklu Kidane, Fantahun Melles, Dieter Gagel, & Christine Peter, *Loan Conditions of Commercial Banks and Micro-Finance Institutions* (ETHIOPIAN BUSINESS DEVELOPMENT SERVICES NETWORK, EBDSN) (2004), at 16-26. See also Development Bank of Ethiopia, *A Short Guide to Access DBE's Loans*, at 6-7 & 14. See also article 171-193 of the Commercial Code on Mortgage of Business and article 947-958 on Pledge of securities; article 2825-2863 of the Civil Code regarding pledge of corporeal movable, article 2863-2874 on pledge of incorporeal things, article 3041-3116 on mortgage of immovable and special movables. Banks provide loan against pledge of chattels of various types or pledge of incorporeal things, particular claims and securities, documents of title to goods such as bills of lading, warehouse goods deposit certificates, vehicles, equipment, machinery, urban land use right acquired by lease, financial guarantee (financial guarantee services such as bid bonds, performance bonds, advance guarantee bonds), personal guarantee (business person) based on the degree of risk assumed in the business, bank or insurance guarantee; life insurance policy; export and import letter of credit document, cash collateral (own bank deposit or savings by the third party); merchandise guarantee, and business mortgage.

¹³ Deresse Marsha Lakew & Zerihun Ayenew Birbirsa, *supra note 9*, at 11.

¹⁴ *Id.*

¹⁵ *Id.*

¹⁶ *Id.*

¹⁷ Development Bank of Ethiopia, *A Short Guide to Access DBE's Loans*, (2017) at 6-7 & 14; See also *Ethiopia's Banking Sector*, (CEPHEUS RESEARCH AND ANALYTICS, 2017), at 7.

¹⁸ *Licensing and Supervision of Micro Financing Institutions* Proclamation No. 40/1996 and its amending proclamation, & *Micro Financing Business* Proclamation No. 626/2009.

¹⁹ Teklu Kidane, Fantahun Melles, Dieter Gagel, & Christine Peter, *supra note 12*, at 32-64.

MFIs provide access to financial services to rural farmers and people engaged in other similar activities as well as micro and small-scale rural and urban entrepreneurs.²⁰ They extend loans without collateral, secured by collateral or secured by group or individual guarantees.²¹ But, practically, MFIs are only accepting tangible assets and non-asset collateral such as group collateral, personal guarantee and salary.²² Similar to banks, MFIs in Ethiopia did not recognize utilization of IPRs as loan collateral. The MFIs law has no single provision which allows the utilization of IPRs as collateral to obtain loans from MFIs. Therefore, in spite of its legal recognition as an asset, IPRs are not found in the list of assets utilized as collateral by banks and MFI's for obtaining loan in Ethiopia. Put differently, IPRs are not yet accepted as an asset that is able to function as collateral to obtain loan in Ethiopia.

The objective of this paper is to examine whether IPRs can be utilized as loan collateral in Ethiopia by critically investigating the adequacy of the Ethiopian legal, policy and institutional frameworks. Furthermore, the study also explore the main difficulties that may hinder IPRs collateralization from becoming a successful financing tool and business practices, and suggest what should be done to realize the utilization of IPRs as loan collateral in Ethiopia. To address the objectives, the study employed doctrinal research methodology. To this end, both primary and secondary sources of data were collected and analyzed. Pertinent Ethiopia's and other jurisdiction laws as well as international laws are used as a primary source of data. Besides, secondary sources of data such as books, journal articles, policies and research documents are utilized.

The remaining part of the paper is structured under five sections. Section II discusses the legal framework for utilization of IPRs as loan collateral in Ethiopia. Under this section, the legal challenges to the utilization of IPRs as loan collateral in Ethiopia are also investigated. Section III examines policy framework for utilization of IPRs as collateral in Ethiopia. Section IV analyzes the institutional framework for IPRs collateralization. Section V discusses other practical challenges to the utilization of IPRs as loan collateral in Ethiopia. Section VI provides conclusion and recommendations.

II. THE LEGAL FRAMEWORK FOR UTILIZATION OF IPRs AS LOAN COLLATERAL IN ETHIOPIA

The practice of utilizing IPRs as collateral to obtain loans from financial institutions is common in many countries though this is not the case in Ethiopia. An inadequate collateral legal framework, limited to tangible assets, could lead to insufficient availability of loans which may in turn arrest economic development of the nation. Reforming the inadequate collateral legal framework helps diversify the type of assets acceptable as collateral in the country. This can provides an alternative financing option and also improve the financial market share through profitable lending opportunities for banks and other financial institutions. In order to utilize IPRs as collateral, there must be, among others, two factors that are necessarily required to exist

²⁰ *Id.* See also the preamble and article 4 of Micro Financing Business Proclamation No. 626/2009.

²¹ *Id.* See also article 16 of Micro Financing Business Proclamation No. 626/2009.

²² Teklu Kidane, Fantahun Melles, Dieter Gagel, & Christine Peter, *supra* note 12.

cumulatively.²³ First, there must be an adequate legal framework that recognize IPRs as an asset, ensure its protection and effective enforcement.²⁴ Second, there must be adequate legal framework that allows utilization of IPRs as loan collateral, which is commercial or specific security law.²⁵

Ethiopia has put in place a legal framework that have recognized some forms of IPRs such as patents, industrial design, copyright and neighboring rights, trademarks, access to genetic resources and community knowledge, and community rights, and plant breeders' rights. It also provides IPRs protection and enforcement system. But, the existing IP laws neither expressly nor impliedly recognized the utilization of IPRs as loan collateral. Put differently, there is no express statutory guidance on the use of IPRs as loan collateral under the existing IP laws of Ethiopia.

As discussed above, the existing IPRs laws of Ethiopia neither expressly nor impliedly recognize utilization of IPRs as loan collateral. Because of this gap, Ethiopia has made significant attempt to reform the existing collateral system of the country and enacted a new Movable Property Security Rights Proclamation (MPSRP) that provides for creation of security right on movable property,²⁶ and promised to establish an autonomous Collateral Registry Office.²⁷ The MPSRP is the first and single legal framework that recognized utilization of IPRs as loan collateral in Ethiopia. This modernization of the country's collateral law is encouraging and ideal for the use of IPRs as loan collateral. The law represents a comprehensive legal reform of the country's collateral system by harmonizing the country's secured transaction system into one statutory regime. It purposefully repealed a range of scattered collateral laws in the country and the types of assets eligible to be used as collateral.²⁸ Hence, the MPSRP regulates a general rules for perfecting security interests and acquiring priority on movable properties including IPRs while IP laws will continue to govern issues regarding the existence and validity of these assets, ownership and their enforcements.

The MPSRP introduced major change to the way in which security over movable assets is taken, perfected and enforced. It allows utilization of IPRs as collateral to obtain credit.²⁹ The law recognizes the use of IPRs as collateral, considering that security rights can be created over any type of IPRs including patents, copyrights, utility models, industrial designs, trademarks, geographical indications, etc.³⁰ The recognition of the use of IPRs as collateral to obtain loan under the MPSRP gives access to alternative financing options to IP owners and industries having IP assets as their sole valuable asset and not having tangible assets such as building or machinery. It delivers noticeable goals in the quest for economic sustainable development for the

²³Xuan-Thao Nguyen, *Financing Innovation: Legal Development of Intellectual Property as Security in Financing*, 48:509 INDIANA LAW REVIEW 509, (2015) at 550.

²⁴ *Id.*

²⁵ *Id.*

²⁶ *The Proclamation to Provide for Movable Property Security Rights*, Proclamation No. 1147/2019, FED. NEGARIT GAZETA 25th Year No.76, Addis Ababa, 25th August 2019.

²⁷ *Id.* Article 2(6) cumulative with Article 20 and 94.

²⁸ *Id.*, at Article 2(27).

²⁹ *Id.*, Article 2(21), (22), (26) and Article 12.

³⁰ *Id.*, Article 2 (22).

country. In pursuit of such economic benefit, the enactment of the MPSRP is a significant development for the country and IPRs owners.

Even though Ethiopia has put in place a legal framework that recognizes and protects IPRs as an asset, and allows the use of IPRs as collateral, so far, IPRs are not utilized as loan collateral in the country. Utilization of IPRs as collateral for acquisition of loan presupposes, among others, the existence of adequate legal framework.³¹ However, there are multiple legal uncertainties under the existing IP laws and the MPSRP that may hinder utilization of IPRs as loan collateral. The main legal uncertainties and gaps include the following.

A. Legal Uncertainties under the Main IP Laws of Ethiopia

IPRs are constitutionally recognized and protected as property in Ethiopia.³² And some IP laws have been enacted and an institution for their enforcement has been put in place in the country. Though this was a welcome development, utilization of IPRs as loan collateral requires addressing the existing legal uncertainties.³³ Utilization of IPRs as loan collateral requires not only having modern secured transaction law, but also having comprehensive domestic IP laws and harmonizing the areas of laws that are applicable to the transaction.³⁴ However, Ethiopia's domestic IP laws are not yet comprehensive. There are no laws that regulate and accord protection to some forms of IPRs such as geographical indications (GIs), trade secret and layout designs of integrated circuit (topographies).³⁵ For example, the legal protection of GIs has not been expressly regulated by any specific law.³⁶ As a result, it is uncertain whether the legally uncovered IPRs can be used as collateral to obtain loan in Ethiopia. Lenders would not accept any type of asset, including IPRs, without getting assurance of adequate legal protection. Therefore, it is very challenging for lenders to provide loan by taking unprotected and unregulated IPRs as collateral.

Besides, Ethiopia's membership to international IP treaties and conventions is inadequate. Currently, at the international level, Ethiopia is only member to the 1981 Nairobi Treaty on the Protection of the Olympic Symbol—a trademark treaty, the 1967 WIPO convention and the 2013 Marrakesh VIP treaty - a treaty on copyright.³⁷ Proper utilization of IPRs as loan collateral and its effective enforcement requires close collaboration with foreign countries and international organizations that would be available through joining international treaties.³⁸ Despite this, Ethiopia's national IP system is not fully linked with the international IP system. The main

³¹ WIPO, WIPO Questionnaire on Security Interest in Intellectual Property, (WIPO Secretariat, 2009) at 129.

³² Article 51(19) and 77(6) of the Federal Democratic Republic of Ethiopia Constitution expressly require the federal government to protect patents and copyrights.

³³ Lorin Brennan, *International Intellectual Property Financing: An Overview*, in *WIPO Information Paper on Intellectual Property Financing* 45, (WIPO SECRETARIAT GENEVA, 2009).

³⁴ *Id.* See also WIPO Questionnaire on Security Interest in Intellectual Property, *supra* note 31.

³⁵ There are no laws, for example, dealing with the protection of GIs, Trade Secrets, Topography and Lay-Out Designs as required by the TRIPS Agreement.

³⁶ Sileshi Bedasie Hirko, *The Legal Framework for the Protection of Geographic Indications in Ethiopia: A Critical Review*, 2(58) JOURNAL OF AFRICAN LAW 210-230, (2014).

³⁷ See <https://www.wipo.int/treaties/en/summary.jsp/>.

³⁸ Getachew Mengistie, *Intellectual Property as a Policy Tool for Development: The Ethiopian Fine Coffee Designations Trade Marking and Licensing Initiative Experience*, (WIPO, 2011), at 28.

reason for this lies in the absence of a comprehensive national IP system and inadequate membership to international IP treaties.³⁹ Without resolving these gaps and uncertainties, Ethiopia's efforts to utilize of IPRs as loan collateral cannot be adequately meet.

Further, utilization of IPRs as loan collateral involves the application of the secured transaction law and other relevant laws such as IP laws, bankruptcy law, tax laws, banking laws and regulations, foreclosure law, civil procedure law, contract laws and other appropriate laws to the transactions. As they exist now, these laws deal more with the transactions involving tangible assets. They did not pay enough attention to the specific characteristics and nature of IPRs. For instance, all the existing IP laws of Ethiopia do not recognize after acquired IPRs while the MPSRP permits its taking as collateral. The existing IP laws of the country neither extend protection to after acquired IPRs nor undergone reform to match with the rules under the MPSRP. Hence, there remain tension between the existing IP laws and the MPSRP. This discrepancies and legal uncertainties among these laws complicate the process of concluding IPRs collateralization transactions and increase the associated legal risks. The legal uncertainties under the existing IP laws, the MPSRP and other relevant laws for the transaction would impede utilization of IPRs as loan collateral. Achieving equilibrium between the laws helps resolve lacunae, inconsistency and uncertainties on rules applicable to IPRs collateralization transactions.

Furthermore, there are other legal uncertainties involved in utilizing IPRs as loan collateral such as risk of litigation over the ownership rights, validity or infringement of the IPRs used as collateral. To illustrate, the copyrights and neighboring rights (CNRs) law of Ethiopia provides automatic protection to copyrightable works. That means copyright protection comes upon creation of the work provided that the work is original and fixed.⁴⁰ Thus, there is no formality requirement, no registration or examination, for the creation of copyrightable works. The law did not make registration of copyright mandatory. There is no title of documents evidencing ownership of copyright. This is an added problem to the lenders as they would have to carry out due diligence before taking copyright as collateral. Further, it creates difficulty to prove ownership right where two or more parties claim ownership right to the same work. This in turn makes the enforcement of security rights over copyright difficult. Put differently, as the CNRs law granted automatic copyright protection without prior registration, it brings difficulty, for the lenders, to ascertain the ownership right as it is intangible and no title of document is created in respect of it and hence, practically makes copyright unsuitable asset to be used as collateral. Thus, taking unregistered IPRs such as copyright increases the cost of the transaction as it would require conducting an extensive due diligence before accepting it. Also, it may cause ownership dispute after encumbering such IPRs that in turn leads to litigation which is a key risk factor that may impede utilization of IPRs as collateral. In addition, the CNRs law does not protect pre-production copyright. Consequently, it does not prevent the exploitation of a copyrightable work before its completion. This is especially very difficult in the film and music industry. This has,

³⁹ *Id.*

⁴⁰ *The Proclamation to Provide for Copyright and Neighboring Rights Protection*, Proclamation No. 410/2004, FED. NEGERIT GAZETA 10th Year No.55, Addis Ababa, 19th July 2004, at Article 6.

therefore, made it possible for the people to acquire copies of the works under production and sell the said copies before they are completely produced thus denying a producer to obtain loan using the work.

Moreover, the trademark law has recognized co-ownership of trademark - two or more people can own a trademark.⁴¹ The law also allows the owner of the trademark to utilize his trademark by himself or authorize other person to use it.⁴² In addition, the law has recognized the transfer of right on a registered trademark or an application for registration of a trademark by assignment or licensing.⁴³ In case of transfer of trademark through assignment or licensing, the law has provided how co-owners transfer their rights. It provides that “*share in a trademark, which is subject of co-ownership, may not be transferred without the consent of all the co-owners*”.⁴⁴ However, potential problem arises in case of self-use by the owners. The problem that may arise in this case is that it is uncertain whether a co-owner utilizes the trademark without the consent of the other co-owners. The trademark law does not provide how each co-owner may use their rights. If there is no contract between the co-owners, each of the co-owner is permitted to utilize it for his own benefit and without the need to account to the other. In such a case, conflict may arise over the use. What is worst, it is not clear whether the use of co-owned registered trademark by one of the co-owners amounts to an infringement of the registered mark for the other co-owner. In such situations, it is difficult to use such right as collateral as it brings legal uncertainty and practical difficulties to the creditors. Hence, utilization of IPRs as loan collateral requires greater coordination and harmonization among the rules in the pertinent laws that regulate the transaction.

B. Legal Uncertainties under the MPSRP

Though the MPSRP was enacted to respond to the legal gaps related to utilization of IPRs as collateral in Ethiopia, an examination of the MPSRP shows that there are legal uncertainties which may impede utilization of IPRs as loan collateral. To begin with, there is no sufficient regulatory and institutional mechanism necessary for utilization of IPRs as collateral in the country. Much of the necessary institutional infrastructure remain to be implemented (notably an autonomous Collateral Register Office) and is anticipated to be created by way of implementing regulation that will follow the entry into force of the MPSRP.⁴⁵ So, part of the problem is the time it takes to issue the required implementing regulation, and establish the necessary and independent institutional structure that will regulate IPRs collateralization transactions in the country.⁴⁶ Further, an adequate legal regime for the use of IPRs as collateral is basically expected

⁴¹*The Proclamation to Provide for Trademark Registration and Protection*, Proclamation No. 501/2006, FED. NEGARIT GAZETA 12th Year No.37, Addis Ababa, 7th July 2006, at Article 28 (3).

⁴² *Id.*, at Article 26.

⁴³ *Id.*, at Article 28.

⁴⁴ *Id.*, at Article 28(3).

⁴⁵ *The Proclamation to Provide for Movable Property Security Rights*, Proclamation No. 1147/2019, FED. NEGARIT GAZETA 25th Year No.76, Addis Ababa, 25th August 2019, at Article 94 (1).

⁴⁶ *Id.*

to have a clear and exact scope regarding the type of IPRs eligible to be used as collateral.⁴⁷ But, the scope of eligible IPRs to be used as collateral to obtain loan is unclear under the MPSRP. The MPSRP uses generalized approach and does not make clear the type of IP that can be used as collateral. This approach creates legal uncertainty to the use of IPRs as loan collateral. On one hand, as IP by itself is a broad legal concept, which includes a bundle of different protection regimes over various types of human intellectual output, it makes difficult to determine the types of IPRs eligible to be utilized as collateral. There has been no internationally accepted statutory definition of IPRs. Even TRIPS just chooses an enumerative approach to list the scope of IP, instead of giving abstract definition.⁴⁸ Also, the UNCITRAL legislative guide on Secured Transactions provides that the law that allows the use of IPRs as loan collateral should provide exact scope of IP that could serve as collateral.⁴⁹ Thus, the generalized approach used by the MPSRP creates legal uncertainty to the use of IPRs as collateral to obtain loan. On the other hand, in practice, lenders may not accept all forms IPRs as collateral because not all IPRs possess economic value. Some IPRs are valueless and protected for other purposes. Some are intrinsically more valuable than others. Hence, any given IPRs should not be used as collateral. In many countries, only the three fundamental forms of IPRs namely copyright, patents and registered trademarks are favored by banks and other financial institutions largely due to the fact that the relevant laws concerning them enjoy a high level of harmonization around the world.⁵⁰ The rights comprised in those three kinds of IP and their characters are determined and regulated in most jurisdictions by laws that comply largely with international treaties, which are now generally and uniformly administered by the WIPO and the WTO.⁵¹ Also, lenders may not take security interests over the other types of IP considering the associated high transaction costs, legal risks and practical difficulties.⁵² This legal uncertainties and practical difficulties impose a heavy burden in terms of time and financial costs on the transactions. Transaction costs rise when much time and effort devoted to determine whether the law permits the taking of a security right over a particular type of IP. This would be a challenge to the utilization of IPRs as loan collateral. Hence, the MPSRP is inadequate, with regard to utilization of IPRs as collateral, as it lacks clear and exact scope regarding the types of IPRs eligible to be used as collateral.

Furthermore, registration is a necessary prerequisite to utilize IPRs as loan collateral as it is helpful to determine priority right at the time of priority disputes, real owner when ownership

⁴⁷ Min Lin, *Law and Economics of Security Interests in Intellectual Property*, (Unpublished, DPhil Thesis in Law and Economics, Erasmus Universities Rotterdam, February 2017) at 48.; See also the United Nations Commission on International Trade Law (UNCITRAL), *Legislative Guide on Secured Transactions*, (Official Records of the General Assembly), 56th Session, Supplement No. 17 (A/56/17), para. 346.

⁴⁸ The TRIPS Agreement lists the scope of IP in Part 2 (Standards Concerning the Availability, Scope and Use of IPRs), including copyright and related rights, Trademarks, GI's, Industrial Designs, Patents, Layout-designs (Topographies) of integrated circuits, protection of undisclosed information.

⁴⁹ The United Nations Commission on International Trade Law (UNCITRAL), *Legislative Guide on Secured Transactions*, (Official Records of the General Assembly), 56th Session, Supplement No. 17 (A/56/17), para. 346.

⁵⁰ Min Lin, *Law and Economics of Security Interests in Intellectual Property* (Unpublished, DPhil Thesis in Law and Economics, Erasmus Universities Rotterdam, February 2017) at 114.

⁵¹ *Id.*

⁵² Bromfield & Runeckles, *Taking Security over Intellectual Property: A Practical Overview*, (2006).

right is contested, and properly perfect security interest upon the debtor's default.⁵³ Accordingly, lenders may want registration of all IPRs that would be used as collateral, including unregistered IPRs, with the institution that is empowered to register IPRs in the country and simultaneously register/record security interests that would be created over IPRs with the collateral registry office.⁵⁴ However, as previously discussed, in Ethiopia, some IPRs are not required to undertake registration as their protection arises automatically even if no registration is done. For example, some of the most valuable business assets such as software products are protected automatically under the CNRs law of Ethiopia. On the other hand, the MPSRP allows the use of all types of IPRs, whether registered or not, as loan collateral. The MPSRP only requires registration of security agreement created over IPRs within the collateral registry office. In this regard, taking unregistered IPRs as loan collateral may causes many difficulties. First, it would make the determination of priority rights over unregistered IPRs in the priority disputes difficult. Second, it would be risky and challenging to the lenders in case a third party challenges the ownership right of the borrower. At a time of perfection of security interest created over unregistered IP, it would be difficult for the lenders to conform the real ownership of the borrower in cost effective manner as there might be no documents which establish title on unregistered IPRs and the lender risks losing the collateral. Third, these problems would require lenders to conduct extensive due diligence to determine their priority and the real owner of the IP used as collateral. For this reason, lenders may refuse to accept unregistered IPRs as collateral. This problem would require further legislative clarification in the area as a future reform.

Besides, when considering enactment of laws pertaining to creation of security rights over IPRs, there must be a careful coordination between the laws governing IPRs collateralization transactions, mainly the IP laws and the MPSRP.⁵⁵ Lack of coordination and incompatibility between the two laws impedes utilization of IPRs as collateral.⁵⁶ The writer argues that the MPSR (from creation to enforcement of a security interest) was not crafted with IP based lending in mind. A close scrutiny of the MPSRP and core IP laws of the country shows that there remain issues to be overcome before the lenders consider the taking of IPRs for securing performance of obligation. For instance, inconsistency occurs in the area of 'after-acquired or future asset'. To illustrate, the focus of CNRs law revolves around the protection of the author's or owner's work. Accordingly, CNRs law provide for creation or a transfer of copyright ownership on an existing work. However, this situation creates difficulty for the lenders who wishes to perfect a security interest over future copyrights of the debtor. On the other hand, as the MPSRP aimed at

⁵³ Alicia Griffin Mills, *Perfecting Security Interests in IP: Avoiding the Traps*, THE BANKING LAW JOURNAL 746, 752-753 (2008).

⁵⁴ *Id.*

⁵⁵ Anjanette Raymond, *Intellectual Property as Collateral in Secured Transactions: Collision of Divergent Approaches*, 10 BUSINESS LAW INTERNATIONAL 27, (2009) at 42; See also Lorin Brennan, *International Intellectual Property Financing: An Overview*, in WIPO Information Paper on IP Financing (WIPO Secretariat Geneva, 2009), at 16; See also The UNICTRAL, *Legislative Guide on Secured Transactions: Supplement on Security Rights in Intellectual Property*, (2011) at 29-30.

⁵⁶ *Id.* See also Anjanette Raymond, *The Use of Intellectual Property as Collateral in Secured Financing: Practical Concerns*, (QUEEN MARY UNIVERSITY OF LONDON, CENTRE FOR COMMERCIAL LAW STUDIES), at 4-5; The UNICTRAL *Legislative Guide on Secured Transactions: Supplement on Security Rights in Intellectual Property*, (2011).

facilitating secured lending transaction, it allows the use of future IPRs as collateral.⁵⁷ For instance, it allows the use of rights in a novel to be written or in a movie to be produced as collateral. Quite the reverse, there remain inconsistencies with IP laws which do not extend protection to after acquired IPRs as the Ethiopia's IP legal system is fundamentally unfriendly to the notion of 'after-acquired' IP rights or future IP assets. By permitting the use of after acquired IPRs as collateral, the MPSRP transgresses the structural and functional principles of IP laws. Because there is no IP law in Ethiopia that recognize and provide protection to after acquired IPRs. Further, many IPRs get protection based on registration. This is because IPR is a kind of intangible assets the physical possession of which is impossible and meaningless.⁵⁸ However, taking future IPRs as collateral creates problem as it is impossible to describe since it is intangible. For instance, the grant of patents and trademarks has to pass through certain examinations, which is subject to plenty of uncertainties. In addition, it is impossible to include the registration number of the future patent or trademark in the security agreement. IPRs registries usually require specific description and identification of the IPRs such as the identifier in IP-registries (especially for trademarks & patents) and do not permit a blanket registration, without which creation of security interests in future IP is practically impossible.⁵⁹ It is difficult to perfect a trademark used for a new service or good, or a copyrighted work that can form the basis for derivative work by the first registration. Accordingly, it is an already created IPR that have legitimate identity to be recorded in advance that can be eligible for registration. IP that are not created yet are not eligible for registration because they do not have a legitimate identity to be recorded. Thus, registration of future IP would be impractical as it is difficult to specifically describe beforehand. For instance, it is impossible to include the registration number of the future copyright, patent, or trademark.

Moreover, the transaction based on future IPRs merely relies on some expectations concerning the innovative potential of the debtor. In the case of debtor's default, a secured creditor may get nothing from the encumbered future IPRs. Besides, valuation and risk management prevent using future IPRs as collateral. These gaps would make the taking future IPRs as loan collateral impracticable as it is impossible to identify, describe, examine and register the same. Further, it is not easy for the lenders to take future IPRs as collateral which is unrecognized and unregulated under the IP laws of the country. It also leads to practical concerns on how to perfect security interest in the future IPRs. In particular, this creates problems for the owners of software because updates and upgrades are considered derivative works which are protected by copyright law in their own right. Thus, there remain inconsistencies between the MPSRP and the core IP laws of the country. The MPSRP fails to make coordination with the existing IP laws while avoiding conflicts or contradictions. It fails to do this though it prefers to follow an integrated approach by permitting financing by taking future IPRs. Nor, the IP laws

⁵⁷ *The Proclamation to Provide for Movable Property Security Rights, supra note 45* at Article 4(3).

⁵⁸ Andrea Tosato, *The UNCITRAL Annex on Security Rights in IP: A Work in Progress*, 4 JOURNAL OF INTELLECTUAL PROPERTY LAW AND PRACTICE 743, (2009) at 743-750.

⁵⁹ *Id.* See also The UNICTRAL Legislative Guide on Secured Transactions: Supplement on Security Rights in Intellectual Property, (2011) at 41.

undergo legislative revision to harmonize IP rules with the MPSRP. Therefore, lack of harmonization between the two laws would impede the use of IPRs as loan collateral as it would make creditors reluctant to accept IPRs as loan collateral.

Besides, after default, the MPSRP allows a secured creditor to use judicial or extrajudicial methods to take possession of the collateral, sells or dispose of the collateral, or render the collateral unusable while in the possession of the grantor.⁶⁰ Accordingly, although the MPSRP introduced self-help remedies to enforce security, it does not totally avoid the possibility to resort to court where there is a dispute between the parties.⁶¹ The law retains the ability to enforce security through judicial proceedings.⁶² During disposition of the collateral, a grantor or other interested persons have the right to ask the court for relief if the secured creditor violates enforcement procedures. However, the MPSRP does not indicate the court that has jurisdiction over the dispute. This creates uncertainty to the lenders to enforce its rights at a time of default.

In addition, the MPSRP does not deal with international transactions. There is no provision under the MPSRP to provide for choice of jurisdiction and law to govern security agreement on IPRs, on perfection and priority of security interest over IPRs in case of international business transactions involving IPRs collateralization. For instance, if the collateralized IPRs is used in more than one state, or debtors and creditors are located in different jurisdictions and their agreements involve cross-border performance, issue of conflict of law may arise regarding the creation, perfection, and priority of a security interests over the encumbered IPRs. But the MPSRP does not specify the law of the State which takes precedence and choice of jurisdiction. Neither, the existing IP laws provide adequate solution to the conceptual nor practical challenges posed by the taking of IPRs as collateral multi-jurisdictionally. This creates uncertainty on IPRs collateralization transactions and ultimately depresses the value of IPRs to be used as collateral.

III. POLICY FRAMEWORK FOR UTILIZATION OF IPRs AS COLLATERAL IN ETHIOPIA

Even though Ethiopia has put in place a legal framework that recognize and protect IPRs as an asset, and allows utilization of IPRs as collateral, so far, IPRs are not used as collateral. Financial institutions are not accepting IPRs as an asset capable to secure performance of obligation as modernizing the security law alone is not enough for the realization of IPRs collateralization. The presence of specific and comprehensive national IPRs policy is essential for effective utilization of IPRs as loan collateral.⁶³ Many countries have developed National IPRs Policy (NIPRP) and have set up a fund in support of the same. For instance, Malaysia launched NIPRP in 2007⁶⁴, China in 2008⁶⁵, India⁶⁶ and Ghana⁶⁷ in 2016. NIPRP provides for

⁶⁰ *The Proclamation to Provide for Movable Property Security Rights*, *supra* note 45 Articles. 54, 80 (2), 81-82 & 86.

⁶¹ *Id.*, at Article 77(1).

⁶² *Id.*

⁶³ OECD, *IP-Based Financing of Innovative Firms*, in *Enquiries into Intellectual Property's Economic Impact* 457, 457-477 (OECD, 2015), at 466.

⁶⁴ Jern Ern Chuah, *Intellectual Property Financing in the Field of Trademarks: A Malaysia Perspective*, in *WIPO Information Paper on Intellectual Property Financing* (WIPO Secretariat Geneva, 2009), at 47.

⁶⁵ EC Commission Staff Working Document, *Report on the Protection and Enforcement of Intellectual Property Rights in Third Countries*, (2018).

creation of enabling legislative, administrative and marketing system, adequate protection and effective enforcement system, valuation of IPRs by application of appropriate methodologies and guidelines, recognize and facilitates the use of IPRs as collateral to obtain affordable credit, provide proper IPRs commercialization tools, set appropriate valuation methodologies, rules and guidelines that facilitate the use of IPRs as a security, offers incentive and risk management system for using IPRs as collateral.⁶⁸

In Ethiopia, various policies issued by the government have recognized the importance of IP protection, the promotion of local creativity and innovative activities.⁶⁹ These include the 1993 National Science and Technology Policy, the 1992 Seed Policy and the 1997 Cultural Policy.⁷⁰ In addition to these policies, there are policies that envisage the development of a scheme of protection for community achievements and IP, an example of which is the 1997 Environment Policy.⁷¹ In line with this policy, a law providing for the protection of community rights over their knowledge was promulgated.⁷² However, the credit policy of the country does not recognize IP as an asset that can be used as collateral.⁷³ This would make difficult obtaining loans to leverage and extract value from intellectual creations and inventions.⁷⁴

Further, in spite of its long history of a modern IP system, Ethiopia has no specific and comprehensive NIPRP.⁷⁵ This means the country has not laid a common national guideline with regard to protection, administration, commercialization and enforcement of IPRs in the country.⁷⁶ What we have in this regard is that the 2013 draft NIPRP, which is a mere draft and has not been adopted yet.⁷⁷ Those indirect references to IPRs in other policy documents cannot

⁶⁶ *Id.* For more on this point, see also <http://dipp.gov.in/policies-rules-and-acts/policies/national-ipr-policy/> (Accessed on 25th of May, 2020).

⁶⁷ *Id.* For more on this point, see also <http://www.lexology.com/library/details.aspx?g=89862cf5-4d5e-88b6-34112cbc9fb4/> (Accessed on 25th May, 2020).

⁶⁸ APEC, Intellectual Property Commercialization for SMEs: APEC IP Rights Experts Group, (2020) at 11; see also Duff & Phelps, IP-Backed Financing: Using Intellectual Property as Collateral, (CII, 2019), at 14-15.

⁶⁹ Getachew Mengistie, *Intellectual Property as a Policy Tool for Development: The Ethiopian Fine Coffee Designations Trade Marking & Licensing Initiative Experience*, (WIPO, 2011), at 17.

⁷⁰ *Id.*

⁷¹ *Id.*

⁷² *The Proclamation to Provide for Access to Genetic Resources and Community Knowledge, and Community Rights*, Proclamation No. 482/2006, FED. NEGARIT GAZETA 13th Year, No. 13, Addis Ababa, 27th February 2006.

⁷³ Getachew Mengistie, *supra note 69*.

⁷⁴ *Id.*

⁷⁵ Sileshi Bedasie Hirko, *Copyright and Tertiary Education for Human Development: Rethinking the Policy, Law and Practice in Ethiopia*, (DPHIL THESIS, UNIVERSITY OF OTTAWA, 2020) at 194.

⁷⁶ Getachew Mengistie, *supra note 69*; See also the statement made by the Ethiopia representative at the WIPO meeting, available at http://www.wipo.int/meetings/en/statements_country.jsp?country_code=ET/ (Accessed on 7th of May, 2020); See also INTA comments on draft IP Policy of Ethiopia available at <http://www.inta.org/Advocacy/Pages/UnrealCampaign.aspx/> (Accessed on 7th May, 2020); In the statement made at a national policy forum, which was held in March 2020 in Addis Ababa, Beranu Adello, the current EIPO Director General and Kifle Shenkoru, the Director of Least Developing Countries Division with WIPO said that Ethiopia is not yet to introduced National IP Policy, available at <http://waltatv.et/36202/> (Accessed on 7th of May, 2020).

⁷⁷ Sileshi Bedasie Hirko, *supra note 75*; See also the statement made by Ethiopia at the WIPO meeting, available at http://www.wipo.int/meetings/en/statements_country.jsp?country_code=ET/ (Accessed on 7th of May, 2020); INTA comments on draft IP Policy of Ethiopia, available at <http://www.inta.org/Advocacy/Pages/UnrealCampaign.aspx/> (Accessed on 7th May, 2020).

be regarded as a comprehensive NIPRP as the policy have its own vision, mission, objectives, strategies, etc.⁷⁸ In addition, references to the purposes of IP laws in the preamble are a mere policy statements without a policy approach and strategies.⁷⁹

Also, the current credit policy of the country neither recognizes IPRs as an asset eligible to be used as collateral nor revised meaningfully to meet the current demand of using IPRs as an asset class able to serve as collateral to obtain loans.⁸⁰ In addition, in order to incentivize lenders and other market participants accept IPRs as collateral, developing viable secondary market for effective commercialization of IPRs, enhancing transparency and reliability in the market mechanism, creating new market infrastructures, creating sovereign IP funds, developing and improving IP valuation method, accounting standard, and establishing IP valuation institutions are necessary.⁸¹ Moreover, implementing policies that mitigate risks that may involve in using IPRs as collateral such as establishing IP risk insurance and creating risk-sharing mechanisms against bank loans are essential.⁸² For example, Singapore provides a specific policy scheme to partially guarantee the loans secured by IPRs.⁸³ In addition, the Malaysian government provides an interest rate subsidy and an additional guarantee scheme.⁸⁴ Countries such as China use different policies that would improve the taking of IPRs as loan collateral and reduce the risks involved in the transaction.⁸⁵ Besides, other countries have adopted IP risk insurance system to mitigate the risks involved in using IPRs as collateral.⁸⁶ For example, South Korean has a scheme through which the government shares up to 70% of the insurance premium with SMEs to reduce the litigation risks for SMEs and lenders.⁸⁷ Beside risk mitigation role, banks use IP risk insurance to insure themselves against risks deriving from using IPRs as loan collateral. For example, the US banks use IP insurance for their capital adequacy requirement.⁸⁸

In Ethiopia, there is no specific policy that provides guideline for IPRs collateralization. Recently, the Ethiopian Intellectual Property Office (EIPO) has identified the need for a specific and comprehensive national IP policy that would help deal with a number of policy issues and create an enabling environment for adequate protection, effective enforcement and proper exploitation of IPRs in Ethiopia.⁸⁹ With technical and financial assistance of WIPO, EIPO is preparing national IP policy and strategy that is expected to address the policy gaps and issues.⁹⁰

⁷⁸ Sileshi Bedasie Hirko, *supra note 75*.

⁷⁹ *Id.*

⁸⁰ Getachew Mengistie, *supra note 69*.

⁸¹ OECD, *supra note 63*, at 465-467.

⁸² *Id.*, at 467 & 468.

⁸³ *Id.*

⁸⁴ *Id.*

⁸⁵ *Id.*

⁸⁶ *Id.*

⁸⁷ *Id.*

⁸⁸ *Id.*, at 469.

⁸⁹ Getachew Mengistie, *supra note 69*.

⁹⁰ Sileshi Bedasie Hirko, *supra note 75*, at 197. At the 59th Meetings of the Assemblies of the Member States of WIPO, which was held in Geneva in 30th September 2019, the FDRE representative noted that “through the support of WIPO, the preparation of the Ethiopian draft national policy has reached at the final stage”, *available at* http://www.wipo.int/meetings/en/statements_country.jsp?country_code=ET/ & <http://www.eipo.gov.et/> (Accessed

Yet, currently, there is no comprehensive and specific IPRs collateralization policy that encourages the taking of IPRs as loan collateral in Ethiopia.⁹¹

IV. INSTITUTIONAL FRAMEWORK

Utilization of IPRs as loan collateral requires not only having comprehensive national IPRs policy, adequate IPRs and securities laws, but also demands the existence of essential institutional system and its effective functioning. Lack of essential institution is another key barrier to utilization of IPRs as collateral to obtain loan in Ethiopia. Ethiopia has not yet established essential institutions and built-up other relevant infrastructures that regulate and facilitate utilization of IPRs as loan collateral. For instance, currently, there is no financial credit bureau or independent Collateral Registry Office in operation in the country. In fact, the National Bank of Ethiopia established “*the Ethiopian Movable Collateral Registry (EMCR)*” that can be housed in the National Bank of Ethiopia (NBE), and conduct an electronic collateral registry.⁹² But, the MPSRP envisages the creation of an autonomous “*Collateral Registry Office*” by regulation to manage the Collateral Registry.⁹³ This shows that the NBE established and housed the movable collateral registry, but not an autonomous collateral registry office authorized to be created by the MPSRP. Likewise, the NBE established movable collateral registry exists until such a time of the creation of an autonomous collateral registry office by regulation. Further, much of the country’s current financial institution regulatory systems are still set up only for tangible assets. Also, financial institutions did not recognize the significant role that the use of IPRs as loan collateral would bring to the national economic development as they still follows the traditional collateral approach that accepts only tangible assets.⁹⁴

Furthermore, government agencies such as EIPO, Courts, Police institutions, public prosecutors, and Customs Authority are relevant institutions that play major role in enforcement of IPRs in country. But, much of the concepts created by IPRs and the MPSR laws are new or peculiar to judges, police’s, public prosecutors, lawyers, customs officers, and even to citizens.⁹⁵ Further, the court system is widely regarded as ineffective, and no IP specific court is established to deal with IPRs cases. The ordinary courts are “*still relatively inexperienced*” in the interpretation and implementation of IPRs related laws.⁹⁶ Also, they are understaffed and have

on 7th May, 2020); see also statements made by the Director of EIPO, & the Director of LDC in the WIPO *available at* <http://waltatv.et/36202/> (watched 20th March, 2020 G.C).

⁹¹WIPO Country Report Document, (WIPO, 2012), *available at* https://www.wipo.int/meetings/en/doc_details.jsp?doc_id=199844/ (Accessed on 15th May, 2020); See also the International Trademark Association (INTA) comments on draft IP Policy of Ethiopia which is *available at* <http://www.inta.org/Advocacy/Pages/UnrealCampaign.aspx/> (Accessed on 15th May, 2020); Muradu Abdo, *Legislative Protection of Property Rights in Ethiopia: An Overview*, 2(7) MIZAN LAW REVIEW 165, (2013), at 203.

⁹² *Directive for Operationalization of Movable Collateral Registry*, Directive No: MCR/01/2020; *available at* <https://emcr.nbe.gov.et/> (Accessed on 7th September, 2022).

⁹³ *The Proclamation to Provide for Movable Property Security Rights*, *supra note* 45, at Article 20, 94 and 95.

⁹⁴ Elias N. Stebek, Muradu A., & Hailu B., *Property Rights Protection & Private Sector Development in Ethiopia*, (Private Sector Development Hub, Ethiopian Chamber of Commerce & Sectoral Associations, 2013), at 9.

⁹⁵ Robel Yohannes, *Ethiopia: Trademark Protecting Business*, THE ETHIOPIAN HERALD, 2018.

⁹⁶ Elias N. Stebek, Muradu Abdo, & Hailu Burayu, *supra note* 94.

few resources.⁹⁷ Besides, Ethiopia has a serious shortage of judges, particularly those trained in IP laws.⁹⁸ Also, many of the newly appointed judges to the courts have had little experiences to deal with IP issues.⁹⁹ Furthermore, media coverage on IPRs commercialization is very low.¹⁰⁰ Thus, there should be effective enforcement system that requires strong institutional system that deals with civil, administrative and criminal liabilities. But unfortunately, these institutions are characterized by limited capacity in human resources, expertise and budget, ineffective coordination among themselves and the stakeholders, lack of capacity and experiences, and weak enforcement system to investigate, prosecute and adjudicate IP infringements.¹⁰¹ Thus, the existing institutional system is inadequate for utilization of IPRs as loan collateral in Ethiopia. These inadequacies would make taking IPRs as collateral for performance of obligation a risky business for lenders and make financial institutions reluctant to provide loans by taking IPRs as collateral.

V. OTHER PRACTICAL CHALLENGES TO THE UTILIZATION OF IPRs AS LOAN COLLATERAL IN ETHIOPIA

Having adequate legal, policy and institutional frameworks that recognize and regulate utilization of IPRs as loan collateral alone would not solve the existing problems related to the use of IPRs as collateral in Ethiopia. Apart from the legal uncertainties, policy gaps and institutional challenges indicated above, there are multiple practical challenges that may impede the utilization of IPRs as loan collateral.

A. Lack of IP Valuation Methods, Accounting Standards and Valuation Organizations

Another major limitation to the use of IPRs as loan collateral is a problem related to IP valuation and a fair assessment of its importance to the owner. IP valuation is necessary to determine the feasibility of the asset to be used as collateral, establish its commercial value, and know economic benefit that may result from the sale of IPRs in the event of the debtor's default. The use of IPRs as collateral requires having rules or system for valuation of IPRs, adopting standard IPRs assessment method and accounting standards, and recognizing and establishing IP valuation organizations that must have good understanding and coordination with other relevant stakeholders such as IP owners, the IP office and the financial institutions.¹⁰² Therefore, having proper IP valuation method, accounting standards and valuation institution is a necessary precondition for the use of IPRs as loan collateral.

⁹⁷ *Id.* See also <http://www.fsc.gov.et/> (Accessed on 27th May, 2019); Emeritus D.E. Long, *Using IP to Protect Ethiopia's Unique Culture*, THE JOHN MARSHALL LAW SCHOOL REVIEW (2007), available at <https://usembassyaddis.wordpress.com/2017/07/26/using-intellectual-property-to-protect-ethiopias-unique-culture.html/> (Accessed on 22nd August, 2019).

⁹⁸ *Id.*

⁹⁹ Elias N. Stebek, Muradu Abdo, & Hailu Burayu, *supra note* 94.

¹⁰⁰ Robel Yohannes, *supra note* 95.

¹⁰¹ WIPO Country Report Document, *supra note* 91.

¹⁰² Frederic R. & J. T. Weiss, *Securitization of IP Assets: Music and Film Copyright Royalties*, (GOTSHAL & MANGES, 2003); See also The UNICTRAL Legislative Guide on Secured Transactions: Supplement on Security Rights in Intellectual Property (2011), at 14.

Though there is no universally accepted IP valuation methods, in some jurisdiction, there are methods developed by national institutions.¹⁰³ For example, the Mongolian government adopted the “Regulation for IP valuation” in 2011.¹⁰⁴ Consistent with this regulation, the Mongolian IP office makes valuation of inventions, industrial designs, utility models, trademarks and copyrighted works.¹⁰⁵ Further, many countries have adopted national IP valuation methods.¹⁰⁶ For instance, Malaysia developed national IP valuation model that provide a standardized, Malaysia-specific and widely accepted valuation method for valuing IP that can be used as security in lending.¹⁰⁷ Russia has a federal law that deals with standards for IP valuation called “*The Law of Federal Standards of Evaluation*”.¹⁰⁸ Singapore set up “*Centre of Excellence for IP Valuation*” to promote excellence in the research and practice of valuation so as to support IPRs collateralization transactions.¹⁰⁹ Also, the EU has developed a unique evaluation method called IP score.¹¹⁰

Currently, Ethiopia has not adopted standard IP valuation method and accounting standards for the purpose of using IPRs as collateral. Neither the main IP laws nor the MPSRP have rules on IP valuation and accounting standards for the purpose of using IPRs as collateral. There is no regulation or system that properly regulates IP valuation in the country. There is no also model IP valuation method and accounting approach developed at national level in the country. In addition, at the moment, there is no organization that offers IP valuation and accounting services in the country although any accounting firm might be able to do if the model of assessment and accounting approach are agreed on and developed. Normally, no financial institution will advance a loan by taking IPRs as a security until such asset is properly valued to determine its value. Thus, lack of rules, regulations or systems for IP valuation and accounting standards, and organizations that offer standard IP valuation and accounting system are the main difficulties to proper utilization of IPRs as loan collateral in Ethiopia.

B. Lack of Awareness, Trust and Experiences to Use IPRs as Collateral

Utilization of IPRs as loan collateral presupposes not only the existence of adequate legal, policy and institutional framework, but also awareness, trust and experiences to use it by the relevant stakeholders. Hence, lack of awareness, trust and experience was another practical problem to the use of IPRs as loan collateral in Ethiopia.¹¹¹

¹⁰³ Frederic R. & J. T. Weiss, *supra note* 102; See also APEC, Best Practices on Intellectual Property Valuation and Financing in APEC, (Asia-Pacific Economic Cooperation, 2018), at 3-7.

¹⁰⁴ Dashpuntsag Erdenechimeg, *Using IP as Collateral: An International Experience and A Mongolian Perspective*, (TURIN, DECEMBER 2016), at 30.

¹⁰⁵ *Id.*

¹⁰⁶ Best Practices on IP Valuation and Financing in APEC, (Asia-Pacific Economic Cooperation, 2018), at 3-7.

¹⁰⁷ *Id.*

¹⁰⁸ *Id.* See also Federal Law No. 135-FZ of July 29, 1998 on Evaluation Activity in the Russian Federation.

¹⁰⁹ Best Practices on IP Valuation and Financing in APEC, *Supra note* 106, at 6.

¹¹⁰ Tim Karius, *Intellectual Property and Intangible Assets: Alternative valuation and financing approaches for the knowledge economy in Luxembourg*, (*European Institute for Knowledge & Value Management: RAMELDANGE*, Vol.3, 2016), at 35.

¹¹¹ OECD, *IP-Based Financing of Innovative Firms: Enquiries into IP’s Economic Impact*, 457 (2015), at 466.

In USA and other developed countries, companies are increasingly aware of their intangible assets, including IPRs.¹¹² They have experienced a shift in the focus of a company's value from tangible to intangible IP and more frequently monetize their IPRs using as collateral.¹¹³ In Ethiopia, there is awareness problem within the financial institutions and the public regarding the protection and enforcement of IPRs, and its utilization as collateral to obtain loans. Recently, the government, primarily through the EIPO, has actively promoting the importance of IPRs to entrepreneurs and businesses through various programs.¹¹⁴ Yet, such programs are given low priority in terms of budgets, poorly designed, and are not implemented on a national scale. In addition, the programs are insufficient and discuss merely legal aspects of IP (how to protect IPRs and its benefits).¹¹⁵ They rarely discuss other more relevant issues to the business sector, such as how to monetize IP, how to increase the value of IP and how to use it for greater benefit.¹¹⁶ For most entrepreneurs and IPRs owners, the marketability of their IPRs is more important than protection. This difficulty hinders the use of IPRs as collateral in the country.

However, IPRs isn't almost used as loan collateral in Ethiopia given the lack of awareness of the IP owners and financial institutions on the possibility of using IPRs as a security.¹¹⁷ As a result, financial institutions remain dependent on the traditional financing system that only accepts tangible assets.¹¹⁸ They did not recognize IPRs as a valuable asset that can be taken as security for performance of obligation.¹¹⁹ Further, they lack confidence to the use IPRs as loan collateral and consider the taking of IPRs as security as a risky business.¹²⁰ They have not developed a finance system that modernizes the current types of assets used as loan collateral.¹²¹ For example, while IPRs are allowed to be used as collateral to obtain loans, and potentially contributes to capital development, banks and other financial institutions lack the necessary awareness, experiences and trust to take IPRs as loan collateral.¹²² This is a crucial reason why IPRs are currently not funded by mainstream lending institutions in Ethiopia.

¹¹² *Id.*

¹¹³ *Id.*

¹¹⁴ For more on this point, see the EIPO website <http://www.eipo.gov.et/> (Accessed on 25th May, 2020).

¹¹⁵ *Id.*

¹¹⁶ *Id.*

¹¹⁷ Dagnachew W. Gashu, *Examining the Legal Regime Governing Commercialization of Patents, Copyrights and Trademarks in Ethiopia*, 8 JOURNAL OF DEVELOPING COUNTRY STUDIES 32 (2018), at 41, available at <https://www.iiste.org/> (Accessed 27th January, 2020; See also WIPO Country Report Document (2012), available at https://www.wipo.int/meetings/en/doc_details.jsp?doc_id=199844/ (Accessed 15th May, 2020).

¹¹⁸ *Id.* Based on the discussion with banking and finance experts from Oromia International Bank (OIB), Commercial Bank of Ethiopia (CBE) and Oromia Credit and Saving Share Company on "whether IP rights can actually be utilized as collateral in the current banking and Micro Financing Institutions collateral lending", the researcher understand that the domestic financial institutions have not yet recognized the taking of IPRs as loan collateral. The traditional tangible asset-based lending system is still utilized in financial lending process.

¹¹⁹ *Id.*

¹²⁰ *Id.*

¹²¹ *Id.*

¹²² *Id.*

C. Free-Rider (Fair Use) Risk

Another important risk that hinders utilization of IPRs as loan collateral is the “*fair use*” risk.¹²³ This risk exists for most IPRs, but it is more important for CNRs.¹²⁴ The right to fair use gives others the privilege to use copyrighted work without the consent of the owner. The Ethiopian CNRs law, though granting protection to the copyright owners, contains sufficient reservations from that protection. The most important one is the concept of “*limitations*” that is traditionally defined as a privilege to use copyrighted work by other person without the consent of the owner. The owner’s rights to exclude others and prevent reproduction of his work may severally be curtailed through fair use of such copyrights by third parties in activities that are permitted by the CNRs law itself. In case of pharmaceutical patents, the possibility of compulsory licensing by the EIPO can weigh as a drain on the monetary value that can be extracted from the IPRs over the term of the security. Parallel importation of products embodying the IPRs of a given person or company may also undercut the commercial value of the IPRs in the market. Such IPRs risks being easily copied or reverse engineered by competitors and significantly reduce the ability of such IPRs to retain commercial value for any significant financing period of the loan. This adversely affects and reduces the market value of IPRs offered as a security and thus, regarded IPRs unfit to serve as collateral for securing performance of obligation.

D. Infringement Risk and Enforcement Problem

Ethiopia has put in place legal framework and institutional structures to enforce IPRs in the country. However, as pointed out in this study, a mere having of a law is not enough for utilization of IPRs as loan collateral in the country. Effective enforcement of IPRs is a precondition for its successful and proper utilization as collateral to obtain financing. Investors will not be fooled by laws that have been enacted, but will inevitably question the adequacy of the legal and institutional framework, the strength of the enforcement system, and whether the law enforcement authorities effectively enforce these laws. This is because infringement creates significant losses to IP creators, owners and to those investing on it. It creates a direct economic harm to owners, who suffer a loss in revenues as a result of unauthorized use.

IPRs infringement quite affects the predictability of potential cash flow from IPRs and may diminish the attractiveness of IPRs to utilize it as loan collateral. Currently, IPRs infringements by illegal downloading or digital file sharing, or counterfeiting occurs at an alarming rate in Ethiopia.¹²⁵ According to a recent study conducted by the WIPO, the copyright industries in Ethiopia represented by creative people--musicians, writers, and film makers--contributes nearly

¹²³ Innokety Y. Alekseev, *Securitization of IP* (Unpublished, LL.M Thesis in Law, STANFORD LAW SCHOOL, 2002).

¹²⁴ *Id.*

¹²⁵ Ethiopia ranked 108th out of 137 in the world in the year 2017-2018 for IP protection in world economic forum and 111th out of 129 in the global innovation index in 2019, available at <http://www3.weforum.org/> and http://www.WIPO.int/global-innovation_2019_publications/en/details.html/ (Accessed on 20th May, 2020); See also Cornell University, INSEAD, & WIPO, *The Global Innovation Index 2019: Creating Healthy Lives - The Future of Medical Innovation*, (Ithaca, Fontainebleau, & Geneva at xxxiv-xxxv, 2019); See also Gashu, *supra note* 117 at 41.

5% of the GDP and employs over 4.2% of the urban population.¹²⁶ Yet piracy rates are so high that the EIPO reports over 80% of all music sales in Ethiopia are pirated.¹²⁷ With rampant violation of IP, using IPRs as collateral will become a risky business practices. Further, enforcement of IPRs is problematic as piracy and counterfeiting remains a serious problem and the country has not implemented effective system to combat such practices.¹²⁸ For example, there are no adequate knowledge and facilities to identify certain types of counterfeit products from the original one. Responsible institutions are characterized by limited capacity in human resources, expertise and budget, ineffective coordination, and weak enforcement system to investigate, prosecute and adjudicate infringement.¹²⁹ Thus, the prevalence of infringement and weak enforcement would make taking IPRs as collateral highly risky and in turn discourage financial institutions from taking IPRs as collateral for securing performance of obligation.

VI. CONCLUSION AND RECOMMENDATIONS

As this work reveals, utilization of IPRs as collateral remains a promising but unexplored and untapped business and financing tool for obtaining loans in Ethiopia. In spite of its legal recognition and protection as an asset, utilization of IPRs as loan collateral is not a common financing tool and business practice in Ethiopia not only because its benefits are not known in the country, but also because there are legal uncertainties, policy gaps, institutional challenges and other practical barriers that need to be addressed. An examination of the existing policy, legal and institutional framework for utilization of IPRs as loan collateral in Ethiopia portrayed that they are inadequate to realize IPRs collateralization. For this reason, banks and other financial institutions are uninterested to accept IPRs as collateral. Therefore, resolving these problems would realize the utilization of IPRs as loan collateral in the country.

Based on the findings of this paper, certain recommendations are therefore in order. First, the policies and laws that regulate and facilitate utilization of IPRs as loan collateral should be reformed to address the policy gaps and legal uncertainties that have been left out. Secondly, essential institutions and systems should be established and built up in a manner that ensures utilization of IPRs as loan collateral. In particular, an autonomous Collateral Registry Office envisioned by the MPSRP should be established, and the finance system, loan process and accounting principles of financial institutions should be updated and modernized. Third, the practical difficulties and barriers identified in this paper should be resolved for the country to have a good system that enhances utilization of IPRs as loan collateral. In this regard, standard IPRs valuation method and accounting system should be formulated, valuation organizations

¹²⁶ Emeritus Doris Estelle Long, *Using Intellectual Property to Protect Ethiopia's Unique Culture*, THE JOHN MARSHALL LAW SCHOOL (2017), available at <https://usembassyaddis.wordpress.com/2017/07/26/using-intellectual-property-to-protect-ethiopias-unique-culture.html/> (Accessed on 22th August, 2019).

¹²⁷ *Id.*

¹²⁸ Dagnachew W. Gashu, *Examining the Legal Regime Governing Commercialization of Patents, Copyrights and Trademarks in Ethiopia*, 8 JOURNAL OF DEVELOPING COUNTRY STUDIES 32, (2018) at 4. See also Jianyang Yu, *Protection of Intellectual Property in the P.R.C: Progress, Problems, and Proposals*, 13 UCLA PAC. BASIN LAW JOURNAL 140, (1994), at 140-160.

¹²⁹ WIPO Country Report Document (2012), available at https://www.wipo.int/meetings/en/doc_details.jsp?doc_id=199844/ (Accessed on 15th May, 2020).

should be established; reliable and secure IP marketing and financing system should be built up; IP risk management mechanisms (IP risk-sharing mechanisms against bank loans and IP risk insurance) should be adopted. In addition, financial institutions should also be made aware that utilization of IPRs as loan collateral is their future business area and that they should re-orientate their business and lending system.

* * * * *