

## ETHIO-SPOTLIGHT<sup>1</sup>

### ISSUE 6: THE TELECOMS LANDSCAPE IN ETHIOPIA

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#### 1. General overview: What has the status of the telecoms market in Ethiopia been?

In September 2019, Ethiopia's Prime Minister Abiy Ahmed launched the 'Homegrown Economic Reform Agenda' with the intention to streamline economic reform.<sup>5</sup> This initiative, under the ambit of the 'Medemer' political philosophy, aims to foster a sense of national unity and create an Ethiopia which is prosperous for all Ethiopians in the face of the intense ethnic division which has plagued the nation.<sup>6</sup> Supported by the International Finance Corporation, the Reform program was developed to accommodate both the opportunities of the free market and the role of the State to address the country's economic challenges with the increased incentivisation of and participation of the private sector.<sup>7</sup> Specifically, the Reform program intends to boost private sector contribution to the overall economy by opening up major public enterprises including Ethiopian Airlines, Ethio-Telecom, Ethiopian Electric Power Corporation, and Ethiopian Shipping & Logistics Services Enterprises to private and foreign investment.<sup>8</sup>

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<sup>1</sup>Ethio-Spotlight is a free 6-part series on topics that we as authors and Oxford Policy Fellows observe are of interest to the regional and international community. These articles are published with a view to collate and transmit information that may spark further engagement with our host-country and with the Oxford Policy Fellowship

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<sup>4</sup> The Oxford Policy Fellowship is a demand-led initiative which gives legal professionals the opportunity to work within a government in low- and middle-income countries as civil servants reporting to host-country managers and provides contextually relevant embedded expertise.

<sup>5</sup> PMO F, 'Initiatives | FDRE Office of The Prime Ministers' (*Pmo.gov.et*, 2019) <<https://www.pmo.gov.et/initiatives/>> accessed 18 June 2021

<sup>6</sup> 'Ethiopia's Abiy Ahmed: The Nobel Prize Winner Who Went To War' (*BBC News*, 2021) <<https://www.bbc.com/news/world-africa-43567007>> accessed 15 June 2021

<sup>7</sup> 'Ethiopia: The Case For Partial Privatization Of Ethio Telecom' (*The Africa Report.com*, 2020) <<https://www.theafricareport.com/39864/ethiopia-the-case-for-partial-privatization-of-ethio-telecom/>> accessed 20 June 2021

<sup>8</sup> Ibid at 7

Ethio-Telecom has become the first major enterprise to undergo this corporate restructuring exercise. The Ethiopian telecoms sector is unique in that Ethiopia is one of the last countries in the world to have retained a state-owned monopoly provider of telecom network and services; a market which is dominated by the private sector in most countries.<sup>9</sup> Unfortunately, this state-owned monopoly has resulted in the stunted development of the sector and in significant digital isolation of the country with internet penetration approximated at 18%.<sup>10</sup> It is therefore expected that by opening up the telecoms market to private sector competition and foreign investment, lower prices, higher quality of service and more choice for the consumers will be introduced. Further, this move should also help protect national security interests by reducing the significant debt exposure to the Chinese and reliance on Chinese infrastructure as well as lay the foundation for Ethiopia's future digital transformation.<sup>11</sup>

## **2. What are the pros and cons pertaining to liberalisation of the market?**

The road to liberalisation was set with the Communication Service Proclamation No. 1148/2019 being passed into law, and the Ethiopian Communication Agency (ECA) established to restructure the telecommunications market and introduce competition in the sector. This law precedes other institutional arrangements which need to be put in place in order to manage the privatization process, ensure transparency and consistency.<sup>12</sup>

While the need for reliable telecommunication services could not be previously understated, the ongoing COVID-19 pandemic has underscored the importance of the same as a backbone for the global economy as well as a lifeline for many in healthcare delivery.<sup>13</sup> To this end, Ethiopia's potential as a telecoms market is undisputed and the opportunities for growth are immense in a country of approximately 110 million people making it the second largest in Africa by population. However, there are significant concerns notably: - (a) Whether the country is indeed ready for a competitive telecoms sector. In this regard, though Ethio-Telecom has the most to gain from the expansion of the digital economy there is the very real risk of losing its dominant market share if it fails to compete effectively and any policy interventions by the government which attempt to shield the company from fair competition may have the undesired effect of slowing down innovation and investment in the market; (b) The direction taken by the government in limiting investment by independent infrastructure, obliging the new entrants to use the infrastructure provided by Ethio-Telecom, may slow down network roll-out, particularly in rural areas; (c) Whether the government would permit the investors to offer mobile money services which are currently largely controlled by the state-owned Commercial Bank of Ethiopia. In this regard, it is projected that mobile services will contribute to nearly 10% of Africa's GDP by 2023, and is

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<sup>9</sup> Dione O, 'Why Ethiopia Needs To Open Its Telecom Market' (*World Bank Blogs*, 2021) <<https://blogs.worldbank.org/african/why-ethiopia-needs-open-its-telecom-market>> accessed 15 June 2021

<sup>10</sup> Compare this with neighbouring Kenya whose internet penetration is approximated at 85% - Schneidman W, 'Ethiopia, Human Rights, And The Internet' (*Brookings*, 2021) <<https://www.brookings.edu/blog/africa-in-focus/2021/06/15/ethiopia-human-rights-and-the-internet/>> accessed 21 June 2021

<sup>11</sup> Ibid at 9

<sup>12</sup> Ibid at 7

<sup>13</sup> Ibid at 7

therefore, potentially a key growth sector in the country's economy;<sup>14</sup> (d) There is concern among Ethiopians about the transparency and accountability of the privatization process and it is imperative that the public is engaged in order to ensure credibility in the process;<sup>15</sup> (e) Finally, a significant operational challenge includes how market entrants will react following requests from the government to shut down their networks for security reasons which has previously been easy to do with Ethio-Telcom as a state company.<sup>16</sup>

### 3. Recent developments in the sector

In May 2021, after a slight delay in a deal which cost the investor group USD 850 million, Ethiopia's telecommunications regulator awarded the country's first private-use licence in the sector. This was an operating licence granted to the Global Partnership Consortium led by Kenya's Safaricom and Japan's Sumitomo, in a move that will end the state's monopoly over its telecoms sector. The consortium also includes Vodacom, Vodafone and British development finance agency CDC Group. At the time of this publication, it is said to be the single largest foreign direct investment into Ethiopia to date and forms part of Ethiopia's wider telecoms reform plan which includes a plan to sell a 45% stake in Ethio-Telecom towards better efficiency and accountability.<sup>17</sup> The consortium plans to invest USD 8.5 billion in their network and have committed to creating 1.1 million jobs over the course of the next 10 years.<sup>18</sup> In the immediate future, the consortium intends to establish a new operating company in Ethiopia which aims to start providing telecommunications services from 2022.<sup>19</sup> They have also committed to covering the country with a 4G service by 2023.<sup>20</sup>

While there is still a considerable amount of work to be done in order to yield the fruit of this momentous feat, the liberalisation of Myanmar's underdeveloped telecoms sector within the last decade could serve as a useful predictor of how successful similar changes will be in Ethiopia. When the government in Myanmar liberalised the telecoms sector in 2013, mobile SIM penetration accelerated from 10% to 99% and mobile broadband penetration increased from 3% to 67% within

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<sup>14</sup> Madden P, 'Figure Of The Week: Africa's Growing Mobile Economy' (*Brookings*, 2019) <<https://www.brookings.edu/blog/africa-in-focus/2019/09/26/figure-of-the-week-africas-growing-mobile-economy/>> accessed 22 June 2021

<sup>15</sup> Ibid at 7

<sup>16</sup> Kiruga M, 'Ethiopia Prepares For Partial Privatisation Of Ethio Telecom' (*The Africa Report.com*, 2020) <<https://www.theafricareport.com/36194/ethiopia-prepares-for-partial-privatisation-of-ethio-telecom/>> accessed 17 June 2021

<sup>17</sup> 'Ethiopia Awards Telecom Licence To Safaricom-Led Consortium' (*Aljazeera.com*, 2021) <<https://www.aljazeera.com/news/2021/5/22/ethiopia-awards-telecom-licence-to-safaricom-led-consortium>> accessed 21 June 2021

<sup>18</sup> Schneidman W, 'Ethiopia, Human Rights, And The Internet' (*Brookings*, 2021) <<https://www.brookings.edu/blog/africa-in-focus/2021/06/15/ethiopia-human-rights-and-the-internet/>> accessed 21 June 2021

<sup>19</sup> 'Safaricom News & Latest Press Releases - Safaricom' (*Safaricom.co.ke*, 2021) <<https://www.safaricom.co.ke/about/media-center/publications/press-releases/release/1050>> accessed 21 June 2021

<sup>20</sup> Schneidman W, 'Ethiopia, Human Rights, And The Internet' (*Brookings*, 2021) <<https://www.brookings.edu/blog/africa-in-focus/2021/06/15/ethiopia-human-rights-and-the-internet/>> accessed 21 June 2021

only 4 years. Liberalisation paved the way in Myanmar for reduced prices and increased mobile SIM penetration and higher international bandwidth.<sup>21</sup>

#### **4. Conclusion - a summary of the main issues highlighted throughout the series and a note on how the developments in the telecoms sector complement the overall economic development plans in Ethiopia**

In issue 1 of this series, we hailed Ethiopia's progress towards achieving economic structural transformation and meeting its national development objectives through its development manifesto, the 'Growth and Transformation Plan II' now replaced by the 2020 Ten year 'National Development Plan. Ethiopia has undoubtedly positioned itself as an attractive destination for investment by establishing a clear regulatory framework for entry and establishment of investment, coupled with the notable legal developments in PPPs, the enforcement of arbitration awards, and more recently the restructuring and liberalisation of the telecommunications market to introduce competition in the sector. The legal frameworks established to regulate Investment, Public Private Partnerships and Telecommunications, as well as the power sector reform plan, more fully discussed in Issue 3, which is *inter alia* geared towards promulgating and properly implementing critical power sector regulations that will address the existing challenges in the power sector, have clearly communicated the Ethiopian Government's commitment to promoting transparency, fairness, accountability and efficiency, and as a result generating much needed private sector interest in these key sectors of the economy and more broadly in Ethiopia's economic development agenda.

In doing so, the Ethiopian government has also demonstrated its commitment to by-pass conventional development paths and create a green economy where economic development goals will be met in a sustainable way. To this end, the government remains alert to the significant challenge that climate change poses to the country and has made giant forward leaps under the Climate Resilient Green Economy (CRGE) strategy, more fully discussed in Issue 2, to address and mitigate its effects with observable success. With the recent developments in investments, PPPs, and the proposed power sector reform, there is a great opportunity for private sector participation in the development of green infrastructure, exploiting renewable sources in clean energy production and financing of other climate relevant activities, along with facilitating the transformation of energy project financing and implementation- through the use of power purchase agreements, the latter which has also contributed significantly towards creating a competitive market for power generation.

To mitigate the direct impact on the physical environment and the resultant economic and social costs of the aggressive economic development interventions being spearheaded by the government, Environmental impact Assessment (EIA) has become a critical tool to be applied towards ensuring that there is better environmental accountability in Ethiopia. In order to increase the implementation of this tool, some recommendations are suggested including making concerted efforts to enhance stakeholder awareness and participation across the value chain on the

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<sup>21</sup>Adjovi J, 'The Liberalisation Of The Telecoms Market In Ethiopia Presents A New Opportunity To Operators Worldwide' (*Analysysmason.com*, 2019) <[https://www.analysysmason.com/globalassets/x\\_migrated-media/media/analysys\\_mason\\_telecoms\\_market\\_ethiopia\\_quarterly\\_jul2019.pdf](https://www.analysysmason.com/globalassets/x_migrated-media/media/analysys_mason_telecoms_market_ethiopia_quarterly_jul2019.pdf)> accessed 20 June 2021

importance of the EIA, ensuring the Environmental Protection Authority works more closely with regional environmental organs and sectoral units, taking steps to improve the human and institutional capacity to undertake the EIA; and finally, that all investors including the government must abide by the EIA requirement prior to project commencement.

With the planned and achieved steps towards creating conducive legal and regulatory frameworks in Investment, PPPs and key sectors of the economy including power and telecommunications, discussed more fully throughout this series, Ethiopia is well on its way to achieving its goal of reaching middle income status through a green and sustainable development path leveraging on private sector financing, knowledge and expertise.