

# Powering the lift-off from poverty

Energy sector reform in Ethiopia

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**Ethiopia is home to one of the fastest growing economies in the world, with an average growth rate of 10% since 2005. Yet, it remains one of the planet's poorest countries, where about 24% of the population lived under the poverty line in 2015-16. To tackle this challenge, the Ethiopian government put in place a Growth and Transformation strategy (GTP)<sup>1</sup> aiming to turn the country into a lower middle-income country by 2025. This strategy identified the energy sector as a key driver for development, with access to affordable, reliable and clean energy deemed as critical for poverty reduction and better social outcomes. The strategy also recognised energy as essential for economic growth, industrialization and modern infrastructure.**

## **Why a power sector reform?**

Simply put, in order to meet the development needs of a population which is currently estimated at a staggering 115 million people and whose demand for electricity is growing at 30% per year, the realization of the GTP depends largely on the continued development of the energy sector and power subsector. Currently, Ethiopia's ability to achieve economic transformation is constrained by the shortcomings of its energy sector. The existing installed generation capacity of 4,200 MW is sourced almost entirely from hydroelectric sources and faces numerous hurdles, not least climate vulnerability. In addition to facing significant transmission and distribution challenges, this installed capacity provides only 44% of the country with electricity access on a 33% on-grid and 11% off-grid basis (85% of these connections are found in urban and peri-urban areas while the rest are found in rural areas).<sup>2</sup> Further, over half of the on-grid consumers, approximately 3.8 million households, do not have a formal metered connection.<sup>3</sup> Comparatively, the installed generation capacity in neighbouring Kenya, with a population of approximately 48 million people, is 2,819 MW, which provides the country with a current access rate of 75% with 100% of these connections being found in urban areas, while 65.7% are found in rural areas.<sup>4</sup>

Clearly, any process of transformation in this sector would be nothing short of ambitious. It would include revamping an aged transmission and distribution system (which currently faces high losses) and making sure that an expanded system is operated and

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<sup>1</sup> 'Growth and Transformation Plan II' (Ethiopia, 2016) <<https://ethiopia.un.org/en/15231-growth-and-transformation-plan-ii>> accessed 28 April 2021

<sup>2</sup> 'POWER AFRICA IN ETHIOPIA | Power Africa | U.S. Agency For International Development' (Usaid.gov, 2020) <<https://www.usaid.gov/powerafrica/ethiopia>> accessed 30 April 2021; and Barnes D, Golumbeanu R, and Diaw I, 'Beyond Electricity Access: Output-Based Aid and Rural Electrification In Ethiopia' (Documents1.worldbank.org, 2016) <<http://documents1.worldbank.org/curated/en/781791487789244953/pdf/112967-WP-P105651-PUBLIC-Beyond-Electricity-Access-Ethiopia-FINAL.pdf>> accessed 30 April 2021

<sup>3</sup> 'Ethiopia - Energy' (International Trade Administration | Trade.gov, 2020) <<https://www.trade.gov/knowledge-product/ethiopia-energy>> accessed 30 April 2021

<sup>4</sup> 'Power Africa In Kenya | Power Africa | U.S. Agency For International Development' (Usaid.gov, 2021) <<https://www.usaid.gov/powerafrica/kenya>> accessed 6 May 2021

maintained more efficiently. The creditworthiness of energy utility companies would need to be improved, foreign exchange constraints addressed, and tariffs reviewed to allow for cost recovery. What's more, the new system would need to deliver power to the majority of the population not currently connected to the national grid.

## **A vast challenge, but some progress made**

Aiming to tackle this immense challenge, the government launched the Universal Electricity Access Program in 2005, the First National Electrification Program (NEP) in 2017 and the updated National Electrification Program (NEP 2) in 2019. These three ambitious programmes, led by the Ministry of Water Irrigation and Energy (MOWIE)<sup>5</sup>, have delivered major improvements to the energy sector to date. These include:

- bringing the national electricity access rate up from less than 10% in 2005 to the current 44% by utilizing both on-grid and off-grid solutions,
- developing mega-projects, like the Grand Ethiopian Renaissance Dam, to increase the installed power generation capacity,
- undertaking the integration of the grid and off-grid electricity access,
- providing an implementation framework for the achievement of 35% of off-grid access by 2025, and
- engaging the private sector through Public-Private Partnerships, or PPPs.

The goal behind progressively encouraging private sector participation is to arrive at a place where power generation projects are developed by independent, private power producers, while the public sector will focus on the regulatory and off-taker/purchase roles.

Building on this momentum, and in partnership with the World Bank, the government launched a power sector reform programme to be implemented between 2020-2025. This process includes major components and ambitious objectives. It aims to secure the financial stability of the power sector, such as tariff reforms to recover costs and the restructuring of the power sector utilities' debt. The reform also aims to unbundle the sector's institutions to ensure transparency and accountability in their operations and to

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<sup>5</sup>MOWIE is a federal organization established to undertake the management of water resources, water supply and sanitation, large and medium scale irrigation and energy resources. Its responsibilities include: (a) resource assessment and development, (b) preparation and implementation of guidelines, strategies, policies, programs, and sectoral laws and regulations; and (c) supervising utilities including the Ethiopian Energy Authority (Regulator), the Ethiopian Electric Power company which is responsible for generation, transmission, and substation construction and operation, and the Ethiopian Electric Utility company which is responsible for distribution network construction and operation, and energy retail. For more, see: <http://mowie.gov.et/about-the-ministry>

privatize selected energy generation assets. In parallel, a legal regulatory framework and a programme for strengthening governance will be put in place, along with measures to improve efficiency, service delivery, and customer service.

OPF was part of the implementation of this reform programme. It joined forces with MOWIE to develop a suitable legal framework that would comprise energy policies, the various sector and related laws, and a comprehensive regulatory framework. The OPF Fellow represented MOWIE in the wider reform team.

*“The emergence of the COVID-19 pandemic in early 2020 was difficult for many countries around the world. One of the biggest challenges that African countries had to navigate within the professional sphere was adopting some of the medical advice from the WHO, including working from home when the technical capability to do so within the particular country context is not yet mature enough to accommodate this. Despite this, Abeba (Nduta) continuously demonstrated her cheerful can-do attitude and her willingness to work alongside us as part of the policy and strategy development team. She continued to deliver on her duties to a high quality and timely standard throughout the duration of the Fellowship.”*

**Yihejis Eshetu**

Head of Policy and Strategy, MOWIE

## **OPF’s contribution to the reform process**

The main purpose of an energy legal framework is to establish the sector’s main principles and goals, and to define the sector institutions, activities, and mechanisms, with the expectation that they will achieve the desired objectives. The framework comprises a number of strategies and instruments, such as the Growth and Transformation Plans, the Climate Resilient Green Economy Strategy, the Energy Proclamation 810/2013, the Energy Regulation, the Geothermal Development Proclamation 981/2016, the National Electrification Strategy, and the Public Private Partnership Proclamation 1076/2018. The task at hand was to advise on the modernization, that is the review and redraft, of the Ethiopia Energy Policy dating to 1994. This document had not been amended in over two decades and, as a result, did not reflect the changes that have taken place in the energy sector on the global, regional and country levels. These include effective competition, supply adequacy, reliable and quality service delivery, and, in keeping with the global climate change goals, sustainability.

The Fellow assisted in the development of an energy policy that tabled a rich energy mix reflecting Ethiopia’s significant renewable energy resources. The policy was designed to leverage this potential and to incorporate the sustainable development mandate set out in the country’s Climate Resilient Green Economy strategy<sup>6</sup>. The policy was also designed

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<sup>6</sup> The CRGE is an integral component of Ethiopia’s wider National Growth and Transformation Plan II (GTP II) which prioritises low-carbon energy access and energy security for socio-economic growth

to spur progress on other key issues, such as gender representation and protection, land use and environmental protection, and to be fit to attract the requisite funding for its implementation.

Policy reform is a very complex undertaking. The Fellow started by embarking on an extensive comparative study of other energy policies, at the international and regional level, from countries with similar populations and development challenges. This was essential to gather lessons from other development processes and to recognise where the context differed and modifications were needed.

In parallel, being based at a department within a ministry, it was important to listen to the views of colleagues across the various disciplines, for example other lawyers, geological scientists and economists, on what they had observed to be the most limiting aspects of the existing policy. Several in-house working group sessions were convened each week. A community of stakeholders were involved, including officials from the ministries of Environment, Finance, the Directorate of Women and Youth Affairs, and representatives from the power sector utilities. During these sessions, several energy-sector specific issues were raised, along with other cross-cutting issues that needed consideration beyond the sector – for example, the work of other government teams on the country's overall economic transformation and how these efforts could be better integrated into the energy policy.

Finally, considering the views of private sector actors and those of the international donor community who invest in the energy sector was crucial. The team gathered virtually every other week, convened by the Energy Development Partner Group, a high-level working group bringing together representatives from Ethiopia's energy sector key players.

## **The economic importance of power sector reform**

Demand for electricity is growing at 30% per year in Ethiopia. Electricity is a key factor of production, so the power sector reform needs to meet this demand because the economy cannot grow without it. The advantages to bringing private investment into the power sector include importing foreign know-how and technology, driving down costs as private owner-operators respond to incentives in supply contracts, and removing investment risk from the government balance. This last consideration was particularly important for Ethiopia due to the fact that energy sector development has largely been based on foreign and domestic borrowing, which has pushed the country close to debt crisis and is no longer sustainable. The policy, legislative and regulatory framework therefore needed to reflect the longer-term goal – to create a competitive market for power generation alongside a state-owned transmission and distribution system which could generate great value for both industry and households.

## **Where are we now and what are the next steps?**

Despite some setbacks due to the COVID-19 pandemic, the energy reform process is at an advanced stage, and the policy is expected to be endorsed by the relevant authorities sometime in mid-2021. In support of this reform, on 13<sup>th</sup> February 2020, the parliament approved the ratification of the Convention on the Recognition and Enforcement of Foreign Arbitral Awards (the New York Convention), which though signed early on, had not been ratified for upwards of 60 years. The Convention requires courts of contracting states to give effect to private agreements to arbitrate and to recognize and enforce arbitration awards made in other contracting states. The Convention is the basic instrument governing international arbitration and its ratification is a significant development in increasing project bankability, in the context of PPPs, because it will encourage private sector and attendant foreign lenders to participate in Ethiopia's infrastructure development, much of which is energy-centric and, ultimately, serves to boost the attractiveness of the country as an investment destination.

## Fellow reflection

While it is exciting to start on a new role in a new job, it can also be quite daunting as there are many unknowns. Ethiopia, once shrouded in a lot of mystery, has in the last two decades dedicated considerable time and effort in opening itself up to, and engaging with, the rest of the world. For me, this Fellowship presented an unparalleled opportunity to make a real contribution in what turned out to be a very unique time in history and it has certainly been a career highlight for me. To be welcomed into a new country and indeed into a government ministry, the proverbial belly of the beast, is a privilege that I did not lose sight of during my Fellowship. Ethiopia is unlike anything I have ever experienced; from learning a new language, immersing myself in a new culture and experiences, getting a new name (my colleagues called me Abeba, which is Amharic for 'flower'), making new friends, delivering on my responsibilities at work and all the while trying to stay alive during the COVID-19 pandemic was not only demanding of my physical and psychological resources but also immensely rewarding by challenging my presumptions, stretching my abilities and revealing strengths that I did not know I possessed, both professional and personal. Policy development is an enormous task and it was a real pleasure to work within a team that I found to be invested in its own success as well as the success of the wider energy sector. It was particularly meaningful to present for consideration matters that were robustly debated by the team. It is my view that the Fellowship has refined my thinking about what success looks like. Adapting to situations as they present themselves is key and I believe that this will serve me well as I hopefully continue my career in the development world.

Nduta Njenga

**OPF is a demand-led Fellowship Programme that works with governments to deliver legal capacity support and development.** We do this through Fellows, networks, and learning. We source high performing legal advisors to work within current government systems and processes for two years so that their work contributes to ongoing policymaking, rather than creating parallel structures for getting things done. By providing governments with key support that they themselves have defined and requested, we deliver sustainable and locally-owned development impact. We also host a network of government practitioners working at the interface of law and public policy, promoting a culture of knowledge sharing and learning across governments and the wider community.

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