



ETHIOPIA: TELECOM LIBERALIZATION

Ethiopia, a nation of 115 million people, was one of the very few countries in the world with a national monopoly for telecommunications services. The lack of competition and private sector investment impaired the coverage and quality of the telecommunication services, resulting in Ethiopia being amongst the least digitally connected countries in the world.

As part of its Home-Grown Economic Reform Agenda and with the drive to foster Ethiopia's economic growth through improved digitalization, the Government of Ethiopia announced in 2018 its decision to open the sector to competition, aiming to attract private sector investment and operational expertise to improve the accessibility and quality of telecommunications services.

To help implement the above, in 2020 the Government of Ethiopia (GoE) retained IFC as lead transaction advisor. IFC advised the Ministry of Finance (MoF) and the Ethiopian Communications Authority (ECA) to design and tender new full-service telecom licenses and associated spectrum and, in May 2021, the country's first competitively tendered telecommunications license was awarded to the Global Partnership for Ethiopia (GPE) consortium. The new entrant, now under the name Safaricom Telecommunications Ethiopia, paid an upfront license fee of \$850 million to GoE, and plans to invest at least \$8 billion in the country's telecoms network, making it the largest single foreign direct investment in Ethiopia.

This series provides an overview of public-private partnership stories in various infrastructure sectors, where IFC was the lead advisor.

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The advisory work for the structuring and tendering of the project had the financial support from the Global Infrastructure Facility (GIF).

BACKGROUND

Technology has been a primary driver of social development, productivity improvements, and inclusive growth, changing the way people live, work, and connect. But in Ethiopia, digital penetration has been slow, with only 21% of people having access to the internet, nearly half the Sub-Saharan Africa average. In 2019, the Government of Ethiopia embarked on a strategy to ignite its digital economy and provide more homes and businesses with access to reliable high-speed telecom services. The government recognized the need to liberalize the telecoms sector to attract investment, extend coverage, and introduce world-class management and cutting-edge technology. In January 2020, the Ministry of Finance appointed IFC as the lead transaction advisor to assist in designing and implementing a tender process for the entry of new private telecom licenses that would enable people and businesses to participate in the global digital and information economy.

IFC'S ROLE

The issuing of the first competitively tendered telecommunications licenses in the country's history required extensive work, with IFC assisting MoF and ECA in drafting the telecommunications licenses and regulations, including the terms and conditions regarding neutrality of technology, level of services, geographic coverage, duration, and renewal conditions. To prepare the licenses, IFC supported GoE in conducting the technical due diligence of the telecommunications market size and structure, existing level of services, and valuing the spectrum to be available for private operators. This required the simulation of a business plan for new entrants that presented various structuring options that could enhance the value of the licenses. IFC also assisted the government in defining the award strategy and in drafting tender regulations, including support throughout the award process and issuance of the license.

IFC's role was pivotal in introducing best international practices to the project, attracting interest from renowned investors and operators, and facilitating a fair and transparent tender in a timely manner, despite the Covid-19 pandemic context. IFC's assistance was part of a broader support by the World Bank Group to help GoE realize the liberalization of the telecommunications sector. The World Bank provided policy and regulatory support to the GoE, which included the establishment of the regulator, ECA, and activities geared towards the partial privatization of the incumbent Ethio Telecom.

TRANSACTION STRUCTURE

The project was structured to meet clear government policy objectives, as follows:

- Generate revenues: the government structured a project that would balance socio-economic benefits with the aim of generating upfront public revenues.

- Catalyze innovation and investments in network infrastructure: the licensed operator would need to meet obligations regarding quality of services and coverage according to a pre-agreed timetable, to stimulate investment in new infrastructure and improve accessibility and reliability of services, especially in peri-urban and rural areas.
- Introduce capable and strong operators in the market to promote healthy competition, consumer welfare and to foster the growth of Information and Communications Technology (ICT) and related services industries.
- Promote sustainability in the sector: any operator in the telecom sector will need to develop and follow an environmental and social management plan that abides by IFC's Environmental and Social Sustainability Standards and implement infrastructure development and operations in compliance with those standards.
- Promote local business development and growth.

BIDDING

Through an international competitive selection process, ECA awarded one 15-year full-service telecommunications operation license in May 2021 to the GPE consortium formed by Safaricom (Kenya), Vodafone Group (UK), Vodacom Group (South Africa), CDC Group (UK), and Sumitomo Corporation (Japan). The upfront fee of \$850 million was paid by GPE and the license was executed the same month. Over the next decade, the private operator, now named Safaricom Telecommunications Ethiopia, is expected to invest \$8 billion dollars in the country's telecoms network in the largest ever single foreign direct investment in Ethiopia.

The commercial launch of Safaricom Telecommunications Ethiopia's services is scheduled to take place in the third quarter of 2022.

EXPECTED POST-TENDER RESULTS

- \$850 million in revenue for the Government of Ethiopia
- \$8 billion in infrastructure investment over the next 10 years
- Up to 1.5 million direct and indirect jobs created through the vast investment program
- High speed mobile penetration to rise from 6% in 2021 to 98% within 3 to 5 years
- Improved access to quality telecoms services for millions of Ethiopians
- Nationwide integrated digital identification, essential public services across the country, health, and critical e-government services