



April 28th, 2021

Safaricom Proposal: Ethiopia Telecom Liberalization



Ethiopian Communications Authority (ECA) was established in September 2019 to champion telecom liberalization. The main aim of the liberalization process is to enhance the economic and social development of the country and promote rapid economic transformation and growth. This was to be done through;

- i. Awarding two new licenses
- ii. Selling off a minority stake (40%) in the state-owned monopoly Ethio telecom.

Of the 9 telecommunication that showed interest, only two submitted their proposal which were opened on Monday April 26th, 2021. The two were:

- i. Global Partnership for Ethiopia (Vodafone, Vodacom, Safaricom, CDC Group and Sumitomo Corp)
- ii. MTN International (Mauritius) Limited

The key items on review were the technical aspect and financial offer.

With only two telecommunication companies submitting their proposals by deadline date, we perceive Safaricom and its partners stand a good chance of winning one of the licenses.

Safaricom has worked to create a techfin business which has enabled it to serve its clients technology and financial solution while enhancing financial deepening to the rural areas while establishing its position as a market leader.

If Safaricom gets the license, it put itself in a position to generate faster shareholders' value due to the new market. This will see share value growth and increase in par shared dividend.

The tender:

In October 2019, ECA started engaging regulatory framework development exercise. The regulation put in place focused on;

- i. **Mobile Number Portability Directive** – Focused on relationship between the mobile service provider and the subscribers
- ii. **Telecommunications Wholesale National Roaming Directive** - sharing and ranging the coverage, allowing customers of a mobile network operator to use another mobile network when they are in an area not covered by its own operator.
- iii. **Universal Access and Service Framework-**
 - a. Universal Access - all segments of Ethiopia's population, regardless of their geographic location, and socio-economic standing and situation, must have access to a full range of communications services at suitable (affordable) prices.
 - b. Universal Service - all citizens will ultimately be able to subscribe privately to a full range of affordable voice and data services.



The consortium

- Safaricom
- Vodacom
- Vodafone
- CDC Group

Ethiopia Stats:

Population: **112.08Mn**

GDP Growth: **8.4%**

Inflation: **12.9%**

Mobile Subs: **39.54Mn**

Mobile Penetration: **35.3%**

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- iv. **Universal Access Fund Regulation** - the fund will aid in developing infrastructure and services to all rural and remote areas, capacity building in ICTs and technological innovation.

The calendar of events was as follows:

- September 2019 - preparation of regulation towards liberalization of the telecom sector
- October 2019 - started engaging regulatory framework development exercise
- November 27th, 2020 - Request for Proposal for the two licenses
- March 5th, 2021 – Deadline extended by 30 days to 26th April
- April 26th, 2021 – Opening of proposal

About the People's Democratic Republic of Ethiopia;

- Ethiopia which is categorized as a low-income country remains an untapped market in mobile and ICT infrastructure. The country covers 114Mn square KM (4.7% Sub-Sahara, SSA, Land) and has a population of 112.08Mn (10.1% of Sub-Sahara, SSA, population) and an annual population growth of 2.6% (SSA 2.7%).
- Of the population, 78.78% reside the rural areas compared to 59.3% of SSA.
- The 2019 GDP growth stood at 8.4% and inflation rate of 12.9% vs SSA 2.3% inflation. GDP per capita of 855.76 in USD
- In 2019, Ethiopia had 39.54Mn subscribers and mobile penetration stood at 35.3% against SSA with 873.05Mn subscribers and 78.9% mobile penetration.
- As of 2018, only 38.36% of the population aged >25 years had accounts at a financial institution or with a mobile-money-service provider. This was lower when compared to 45.6% of SSA.

Indicator Name	Sub-Sahara Africa			Ethiopia		
	2017	2018	2019	2017	2018	2019
Population, total	1,050,153,672	1,078,306,520	1,106,957,898	106,400,024	109,224,559	112,078,730
Population growth (annual %)	2.7%	2.7%	2.7%	2.7%	2.6%	2.6%
Rural population (% of total population)	60.4%	59.8%	59.3%	79.7%	79.2%	78.8%
Surface area (sq. km)	24,287,425.64	24,287,427.39	24,287,427.39	1,136,255.76	1,136,259.41	1,136,259.41
GDP growth (annual %)	2.4%	2.4%	2.3%	9.6%	6.8%	8.4%
Gross domestic savings (% of GDP)	19.7%	20.7%	21.9%	22.4%	24.1%	22.1%
Inflation, GDP (annual %)	4.4%	2.8%	2.5%	6.7%	12.4%	12.9%
GDP per capita (current US\$)	1,563.36	1,596.15	1,596.21	768.52	771.52	855.76
Mobile cellular subscriptions	765,230,774	783,580,303	873,045,613	39,600,000	39,570,000	39,540,000
Mobile Penetration (% of Mobile Subscription)	72.9%	72.7%	78.9%	37.2%	36.2%	35.3%

Table 1: SSA and Ethiopia Economic Data

Source: World Bank, KSL

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- **Buy** – A buy rating reflects 1) An analyst has a bullish conviction on a stock 2) A 30% or greater expected return.
- **Accumulate** – An accumulate rating reflects 1) An analyst has a lesser bullish conviction on a stock 2) Expected return falls between 10% and 30%.
- **Hold** – A hold rating reflects 1) An analyst has a neutral conviction (lack of bullish or bearish conviction) on a stock 2) Expected return falls within the range of 5% to 10%.
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- **Sell** – A sell rating reflects 1) An analyst has a bearish conviction on a stock 2) Expected return falls below 5%.

*Expected Return (ER) represents the sum total of both capital appreciation and the dividend yield.

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