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# **Briefing Note July 2020**

## **Ethiopia’s PrivatizationProgram: A Short Guide**

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**BACKGROUND**

In 2018, as part of the economicreformmeasures being undertaken by the Ethiopian government, the government announced its decisionto graduallyprivatize the major state-owned enterprises in the aviation, telecommunication, energy, and shipping and logistics sectors. These enterprises include Ethio Telecom, Ethiopian Electric Power, Ethiopian Airlines, Ethiopian Sugar Corporation and Ethiopian Shipping and Logistics Enterprise.Enhancing the efficiency of public enterprises, boosting competition,and encouragingforeign investment in the sectors are cited as the main reasons for privatizing these state enterprises.

Ethio Telecom is set to be the first public enterprise to be divested under the new privatization program and the Ministry of Finance, the regulatory organ that oversee the privatization transaction, has announced that it will sell-off 40% of its interest in Ethio Telecom to the private sector. It is also reported that 5% of Ethio Telecom will be availed to the public. The Ministry has hired two international consulting firms to conduct the asset valuation and to advise on the privatization of Ethio Telecom.With the view offacilitating and regulating the privatization process, the government has recently enacted a new privatization law that govern the process of preparation of state enterprises for privatization and undertaking the transaction.

**THE PRIVATIZATION ACT**

The Public Enterprises Privatization Proclamation (“the Privatization Act”) repeals and replaces the privatization laws that existed for more than two decades; and it sets out the objectives, procedures and modalitiesof privatization. The Privatization programshould conduct based on the principles of transparency, openness and integrity; and it should aim at improving the efficiency and competitiveness of public enterprises, generating revenue and attracting technical expertise and financing.

**INSTITUTIONAL ARRANGEMENTS**

The power to select public enterprises to be fully or partially privatized is vested in the Council of Ministers. The Council will make such determination based on the recommendation of the Ministry of Finance and the Supervising Authority of the Public Enterprise. Following the decision of the Council of Ministers, the Ministry of Finance (“MOF”) determines the commencement of pre-privatization activities, the methods of privatization and the readiness of each public enterprises for privatization.The Public Enterprise Holding and Administration Agency (“PEHAA”) is responsible for the implementation of the privatization transaction.

**THE PROCEDURES**

MOF and PEHAA carry out pre-privatization preparation activities which may include undertaking financial and operational restructuring.In preparing a public enterprise for privatization, the enterprise may be converted into a share company with one shareholder; and the capital of the share company will be divided in to shares which shall be held as government shares. The assets of the enterprise or the government owned shares should also be valued by a qualified expert prior to the privatization.

Once the enterprise is prepared for privatization, and the privatization modality has been determined by MOF, PEHAA should commence the implementation of the privatization transaction.

**METHODS OF PRIVATIZATION**

In determining the method of privatization, the MOF required to make its decision on the basis of the principles of transparency and the goal of securing the most favorable terms for the government. The modalities of privatizations which MOF may use are: a) competitive tender, b) public auction, c) Initial Public Offerings (“IPO”); where there is a stock exchange or other suitable trading platform, and d) mixed sales, featuring sale tranches over time.

In the case of the sale of a majority or controlling interest, the Privatization Act also gives the government the right to retain a golden share which provides the government with voting and veto rights over any board resolution which it believes is not in the public's interest.

**POST-PRIVATIZATION ISSUES**

The privatization agreement may impose post-privatization obligations on the purchaser and PEHAA monitors the execution of such post-privatization obligations.

This material has been prepared for informational purposes only, and is not intended to provide, and should not be relied on for investment advice.

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