

**OPERATION PERFORMANCE EVALUATION REVIEW**  
**EVALUATION OF A LOAN TO A TELECOMMUNICATIONS COMPANY**  
**NOVEMBER 2007**

**THE PROJECT**

The main purpose of this loan was to provide long-term funding to the company that had shortly before been acquired by a leading mobile telephone company. This was to refinance its costly short-term borrowings and to finance its network expansion. The total costs of approximately US\$ 230 million were financed by EBRD's A and B Loan, by ECA-backed debt and also by internally generated cash. The company repaid the short-term loans and the approved funds were fully utilised.

**PROJECT RATIONALE**

The Bank's rationale for approving this operation was essentially to support the expansion of this telecommunications company that was expected to lead to improved competition, market expansion and transfer of skills. Through the B-Loan structure, the Bank was also expecting to bring in commercial banks, which at that time would not have provided financing to the company on a similar long-term basis without the Bank's involvement.

**ACHIEVEMENT OF OBJECTIVES**

The objective of increasing market share and market development have been achieved in full. The development of the local management team and organisational strength has been achieved.

**OVERALL ASSESSMENT**

On the basis of its independent review of the Operation's performance to date, EvD assigns a *Successful* performance rating.

**TRANSITION IMPACT AND ADDITIONALITY**

**Overall transition impact**

The Company had an impact on competition by challenging the previous sector leader in the country. EvD rates the overall transition impact as *Good*.

**Company impact**

After acquiring the company, the owner has totally reorganised the senior management and transferred highly experienced and motivated individuals (expatriates) from its other operations. At the same time local staff are being trained to take over the role of the expatriates. The Company's profitability has substantially improved. The EBITDA results exceed Base Case projections for 2006. EvD rates the company impact as *Good*.

**Industry impact**

EvD rates the industry impact as *Satisfactory/Good*. The company has introduced some new elements (tariff plans, new products etc.) to attract new customers.

**Impact on the economy as a whole**

EvD rates the impact on the economy as a whole as *Satisfactory/Good*. The reform of the telecom sector is only slowly moving forward to a more liberalised market. Hence, the impact of this mobile company on the overall economy is limited.

**Environmental impact**

The Bank's analysis and monitoring confirmed that the Company is in compliance with the national environmental, health and safety standards and requirements. The Company provides annual reports on environment, health and safety issues to the Bank.

### **Country strategy and sector policies**

The project complies with EBRD's country and sector policies.

### **Additionality**

The Bank was able to assist the company at a crucial time. Due to earlier ownership issues, some uncertainties needed to be addressed for international commercial banks to be interested in such a syndication. The Bank was clearly additional by providing the due diligence check and sign of approval. Furthermore, it was possible for the Bank to offer somewhat longer maturities than commonly available at the time of approval for similar companies in the country. EvD rates additionality as Verified at Large.

### **BANK HANDLING**

The Company expressed that it was very pleased with the Telecom Team's motivation and professionalism. Especially in the early days, after the acquisition of the company, it was important for them to obtain EBRD's support. There were some remaining issues in the context of legal actions against the previous owners which could have made a syndication without EBRD more difficult. Bank handling both in the structuring, syndication and monitoring stages was efficient. During the evaluation visit, the Client expressed an interest to undertake a further transaction with EBRD involvement and clearly stated that the company appreciated the Bank support in the first transaction. Bank handling is rated *Good*.

### **KEY ISSUES AND LESSONS LEARNED**

**A high degree of liberalisation of the sector and the emergence of a strong regulator are important pre-requisites for enhancing transition impacts in operations such as this one.**

The sector framework is a key pre-requisite for transition success. Whilst an operation like this one can have some impacts on the market and competition, it is unlikely to have a significant transition impact unless a separate TC operation by the Bank contributes to the framework discussion with the Government as experienced in this project.

**Rural access needs to be addressed by the Government and a properly funded mechanism needs to be established.** Universal coverage in the telecommunication sector is a political objective and needs to be carefully planned in particular in large countries with a low density of population. A tender process that selects the winning bidder also based on the lowest subsidy requirement may facilitate market solutions with a minimum requirement of subsidies. Depending on the population size of a settlement, access maybe shared with others e.g. in an information kiosk etc.

**The Bank cannot expect to have a strong transition impact without a commitment to reform by the Government.** In still unreformed environments the Government's attitude to reform in the telecommunications sector is crucial in order to achieve a more level playing field for new entrants. It is important to seek strong commitments from the Government regarding the reform agenda.

**Enhancing effectiveness of TC by seeking local cost participation and identifying a high level of commitment to sector reform targets.** In a country such as this one, the Bank should seek increased ownership from clients by inter alia requesting when possible a

reimbursement of TC costs. This could contribute to a better alignment of interests and a better identification of the local counterparts with the focus of the study.

**Enhancing transition impact through EBRD engaging in the overall sector reform in close cooperation with other IFIs.** When the Bank continues its TC efforts and policy dialogue for full sector reform in sectors such as telecommunications and energy, the local Government can be persuaded that liberalisation will be best for transition and development. This process can be strengthened when adequate coordination takes place with other IFIs.