© baona/iStockphoto

Summary of Operation Evaluation

A Telecommunications Company

September 2017

Purpose of the evaluation

This evaluation concerns the EBRD's investments in a telecommunications company ("the Company") providing broadband telecommunication solutions in regional areas of the country of operation. It evaluates the relevance of the operations to the Bank's mandate and strategies, the results they produced and the efficiency of implementation, and it provides an overall assessment of performance.

European Bank for Reconstruction and Development

The client

The Company was founded by a group of telecommunication industry executives with the objective of providing broadband telecommunication solutions based on wireless and other state-of-the-art technologies in regional areas of the country of operation. The Company's founders had acquired 100 per cent of the share capital of a local company with no trading activity but which had acquired licences to use radio spectrum in several cities outside the country's main centres. The Company then concluded a framework agreement with the country's largest state-owned fibre operator, giving the Company access to the fibre company's national virtual private network and allowing the fibre company to use the Company's services for its "local loop" – the "last-mile" connection between the network and individual customers. The agreement was not exclusive but it gave the Company preferential access to the country's internet spine, and a cost structure on a par with much larger operators. The Company obtained seed capital from a foreign investor.

About the EBRD investment

The EBRD made a series of loans to the acquired local company and equity investments in the Company. The Bank invested in its equity both directly and indirectly through two private equity funds in which the EBRD was a shareholder.

The direct investments were all directed towards supporting the expansion of wireless broadband networks and operations in a number of cities in the country of operations using a relatively new technology, Worldwide Interoperability for Microwave Access (WiMAX). This wireless technology provided a service that was superior to the older dial-up technology; and while it did not offer such high speeds as fibre connections, it was much cheaper to roll out. It therefore offered the prospect of expanding broadband access to new geographic locations relatively quickly and cheaply.

The operations aimed to achieve transition impact through:

- market expansion, achieving a significant increase in broadband internet penetration in regional areas of the country of operations and broader access to this technology for consumers
- enhanced competition with existing digital subscriber line (DSL) operators and new entrants to the market, achieved by developing and consolidating the broadband market and offering new services, and evidenced by falling average revenue per user
- demonstration effect stimulating other operators to employ WiMAX-based solutions, and contributing to more common use of the technology and broader access to internet services in the regions.

There were no associated technical cooperation funds or explicit policy dialogue objectives.

Evaluated results

The Evaluation Department (EvD) rates the **overall performance** of the operations in aggregate *acceptable*. The strategic relevance of the evaluated operations has become more pronounced over time with the Bank's adoption of the 2016 Knowledge Economy Initiative and the 2014 Information and Communication Technologies sector strategy with a greater focus on broadband infrastructure. Some weaknesses in the specification of results made it difficult to track the operations' achievements.

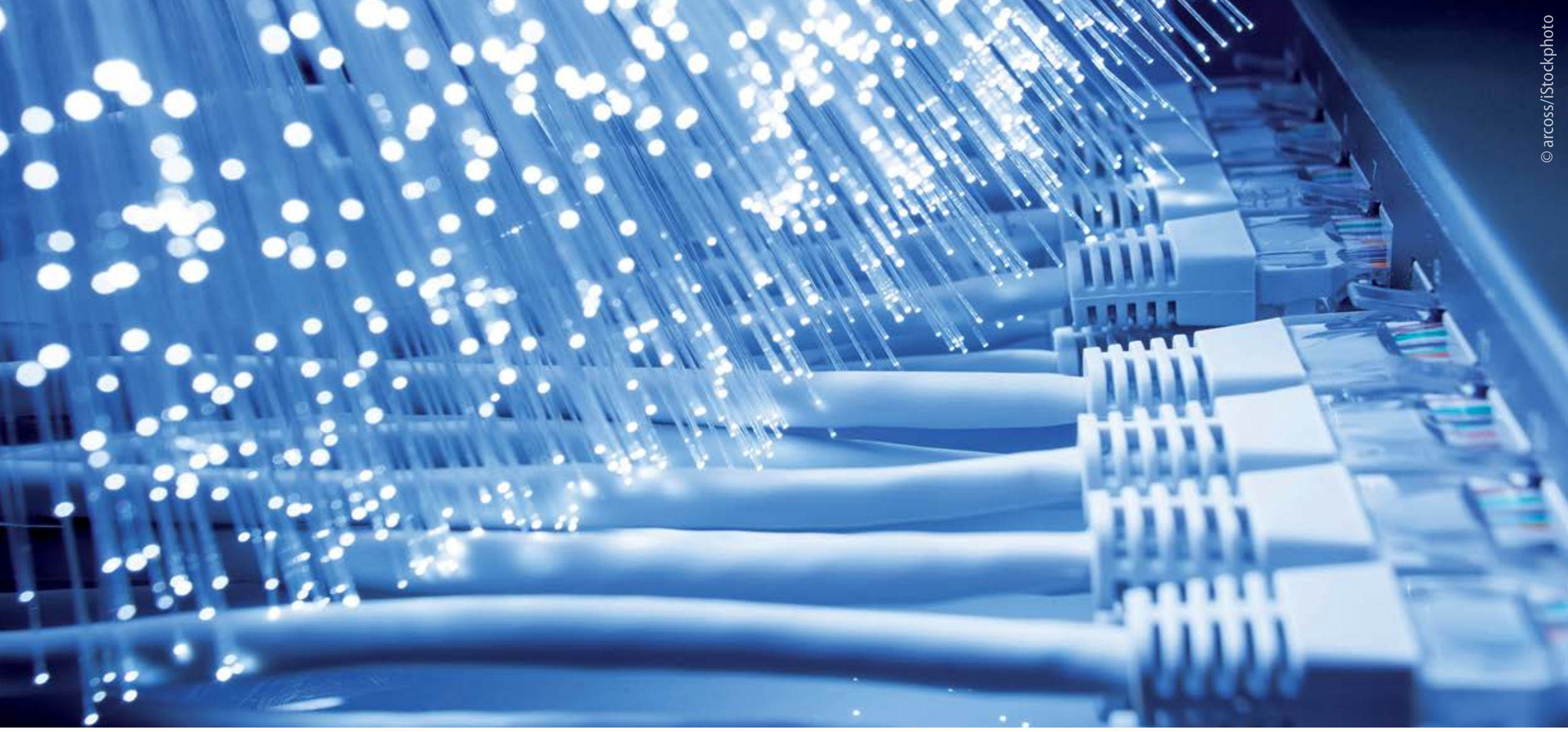
Expected additionality was strong and was fully demonstrated in retrospect, contributing to a *fully satisfactory* rating for relevance. Despite some limitations in monitoring, achievement of expected results was *fully satisfactory*. The operations brought affordable broadband connections to many regional cities where broadband had previously been unavailable or unaffordable. It is likely that they also contributed to the development of competition in those regions, as other companies later competed with the Company, often using more expensive fibre/local area network (LAN) connections.

Efficiency is rated *partly unsatisfactory overall*. This is because the Company's financial performance was below projections; the EBRD has not yet been able to achieve an exit; and the expected return on equity investment is currently well below target, resulting partly from currency devaluation but mostly from the Company's operations. Bank handling is rated *fully satisfactory* overall although there were a number of negative elements.

Evaluation questions and answers

EvD also set out to answer a series of evaluation questions regarding:

- operational handling of equity operations
- data monitoring and collection
- the operations' contribution to broadband access and competitiveness of regional companies in the broadband sector
- the operations' demonstration effect
- strategic lessons the Bank could learn regarding relevance to the Knowledge Economy Transition and other strategic initiatives.



In response to these questions, EvD found that the operations raised a number of issues relating to how the Bank handles its equity investments, including how it selects, trains and monitors nominee directors on the Boards of investee companies. Since the operations' inception the Bank has sought to address many of these issues through updated guidelines on nominee directors issued in 2010 and 2016, and its Enhanced Equity Approach developed in 2016. The report recognises that some of these developments are too recent for the results to be assessed. It proposes some further measures that could improve equity handling further, including specific actions in relation to the Venture Capital Investment Programme, which faces many similar challenges to those experienced by these operations. The report also offers some practical insights that may help in setting and monitoring benchmarks.

EvD found that the operations did make a positive contribution to broadband access and competitiveness in the broadband sector. However it found a lack of data at subnational level, which not only limited its ability to evaluate the operations' impact, but will also affect the Bank's ability to assess the achievements of the Knowledge Economy Transition and the inclusion agenda more broadly.

Issues, lessons and recommendations

The report presents several findings and recommendations arising from the evaluation. There are four specific recommendations.

- **Guidance on equity investments in directly competing companies.** A communication problem arose between the EBRD and the Company because of a perceived conflict of interest through the Bank's investment in a competitor.

  Recommendation

  Banking should develop specific guidance on avoiding the perception of conflicts of interest when investing in the equity of directly competing companies – that is, companies competing in the same industry and market where there is a significant overlap of (target) customers. Among the points to be addressed are:

  - ensuring investee companies are aware that the Bank may invest in directly competing companies and may target such direct competitors as part of its mandate to promote competitive activity, and are aware of steps the Bank takes to mitigate potential conflicts of interest
  - where possible, avoiding assigning the same banker as an operation leader, nominee director or team member with access to investee Board discussions on operations with a direct competitor
  - where possible, communicating with an existing investee company when an investment in a directly competing company is made public.

Management response

Management **agrees** with this recommendation, and would like to emphasise that it is already standard practice to inform clients that the Bank may invest in competing projects, and also to avoid having the same team members working on directly competing investments. The guidance will incorporate relevant considerations including, among other factors, the size of the sector and/or country team and the time elapsed between directly competing projects. An action plan will be provided in due course.

- **Training and incentives for nominee directors, and bankers managing external nominee directors and performance reviews.** The Bank has recently introduced additional support and specialisation for equity bankers, although some issues remain around nominee directors.

Recommendation

The Bank should review the workload, recognition and training of bankers serving as nominee directors, and also bankers supervising external nominee directors. The review should address the problem of attracting sufficiently experienced staff to serve as nominee directors for small and immature companies, which is where the Bank's influence and transition potential is likely to be greatest. The annual review of nominee directors' performance should incorporate an assessment against specified milestones leading to possible additional training, an adjustment to the milestones, or a consultation on how to push forward objectives in a difficult environment. The Bank should also develop training and guidance for staff managing external nominee directors, especially any staff still in this role who are not specialist equity bankers. This is a separate role and requires different training from that provided to internal or external nominee directors themselves.

Management response

Management **agrees** with this recommendation and an action plan will be provided in due course. However, it should be clarified that the performance of nominee directors is already assessed annually and the assessment will include whether additional training may be necessary.

- **Improved market information relevant to the Knowledge Economy Initiative and the inclusion agenda.** Access to broadband is relevant to the Information Systems Stream (one of the Knowledge Economy Initiative's four operational streams) and to inclusion (one of the six qualities of the new transition concept). Both target excluded groups at subnational level, comprising specific population groups or regions outside the country's core cities. As this evaluation illustrates, the Bank often does not have the data it needs to assess progress at this level. In this country's case, although figures on broadband access were available by region, they still did not address the question of large versus small towns, or rural versus urban locations. Without this kind of information the Bank will struggle to set meaningful benchmarks and measure progress. The Bank is working on improving monitoring and measurement through its Economic Inclusion Strategy, currently under development, and the automation of transition impact monitoring through its new computer-based system, Project Christopher.

Recommendation

The Bank should determine what market data it will need to measure achievements of the Knowledge Economy Initiative and the inclusion agenda. It should seek to identify additional data sources, especially at subnational level and perhaps in cooperation with national ministries or regulatory bodies. The Country Strategy preparation process may provide a good context for this. Where the necessary data are not available, the Bank should commission its own research or clarify how it plans to measure progress.

Management response

Management **agrees** with this recommendation as the Management has been working on a number of initiatives that support the measurement and monitoring of the inclusion agenda.

- The Bank's first Economic Inclusion Strategy, which is planned to be launched at the AGM (May 2017), will provide the structure for improved monitoring on the Bank's inclusion agenda by implementation of the strategy's performance-monitoring framework.

- The economic inclusion agenda will, moreover, continue to be based on rigorous inclusion gap assessments, that is, identification of inclusion transition challenges. For the inclusion gap assessments, country-level data are used across a number of market-level and economy-level indicators. Where the necessary data are not available, the Bank will commission its own research (e.g. analytical papers; baseline and impact assessments). A similar approach is being developed for the knowledge economy, a component of competitive economy quality under the updated transition concept. Cost–benefit and timing are important considerations that would condition the extent of such research. Market data used in the assessment of transition gaps, and the gap indices (or sub-indices), are used in the relevant country strategies as a context for the Bank's activities to describe countries' progress and frame the Bank's achievements in the inclusion or knowledge economy area.

- With the development of the Bank's new IT system for automated transition impact monitoring (Project Christopher), project specifics and some specific market data requirements have been identified for the measurement and pre-screening of inclusion and knowledge economy impact potential. These achievements will be mapped to the compendium of indicators to be aggregated at country level for countries where supporting inclusion or the knowledge economy is a strategic priority.

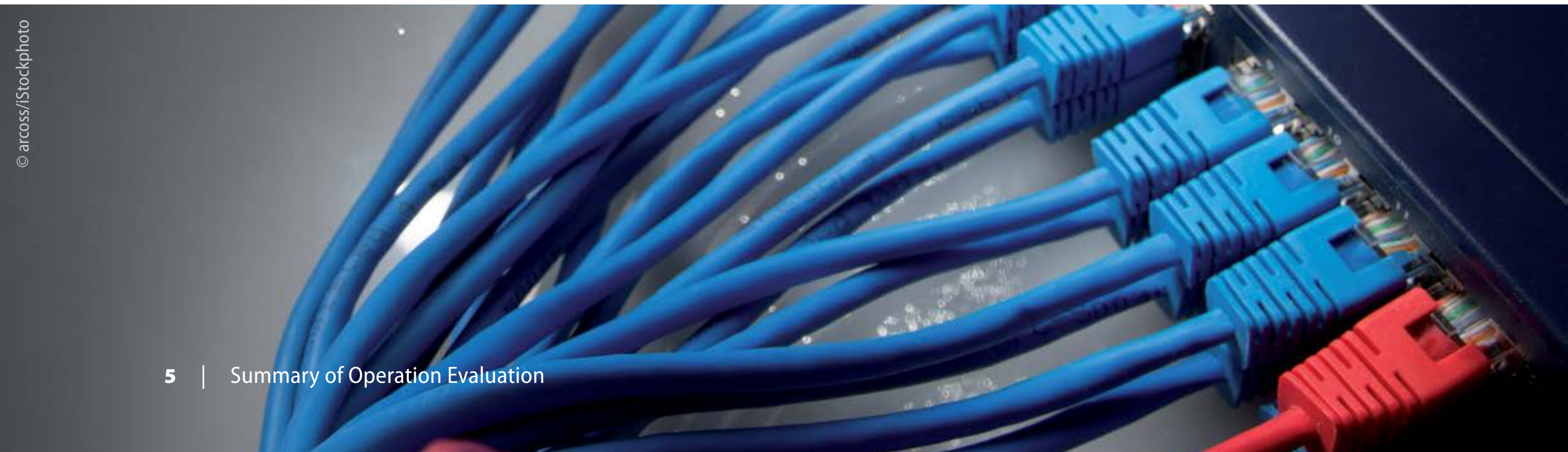
- **Early review of Venture Capital Investment Programme exits.** An increase in early stage equity investments (targeted in the Knowledge Economy Initiative) raises the risk that the Bank will be left with a series of small equity positions that it cannot exit. It is recognised that the timing of both entry and exit are the most critical and challenging aspects of equity investments. The innovative SMEs targeted by the Knowledge Economy Initiative are not necessarily broadband providers but do share some elements in common with the investment in the Company. The Venture Capital Investment Programme has been established as a vehicle for such investments. In the Company, the Bank has not been able to exit the equity in a timely fashion. EvD notes that the Venture Capital Investment Programme recognises the need for outside expertise in this area, which is a welcome design feature. The Programme Board document envisages exit between three and seven years after an investment.

Recommendation

The Bank should review the Venture Capital Investment Programme when the earliest investments reach seven years' maturity to check whether exits are materialising within a reasonable time frame or whether an emerging problem is visible.

Management response

Management **agrees** with this recommendation; however, Management believes that the project findings and recommendations have no direct link and relevancy to the Venture Capital Investment Programme, since the Programme is designed to take a portfolio approach and has unique risk-mitigation features. Management aims to review the Venture Capital Investment Programme by 2023 or seven years from the mid-point investment period.



Ratings

Criteria/subcriteria	EvD ratings	EvD weight	OPA ratings	OPA weight
1. Relevance	**Fully satisfactory** Fully satisfactory (recommended)		**Fully satisfactory**	
1.1 Strategic relevance	Fully satisfactory	Medium	Fully satisfactory	High
1.2 Relevance of design	Partly unsatisfactory	Medium	Fully satisfactory	Medium
1.3 Additionality – expected	Fully satisfactory	Medium	Fully satisfactory	Medium
1.4 Additionality – demonstrated	Excellent	Medium	Fully satisfactory	Medium
2. Results	**Fully satisfactory** Fully satisfactory (recommended)		**Fully satisfactory**	
2.1 Achievement of outputs	Fully satisfactory	Medium	Fully satisfactory	Medium
2.2 Contribution to expected outcomes	Partly unsatisfactory	Medium	Fully satisfactory	Medium
2.3 Contribution to expected impacts	Fully satisfactory	Medium	Fully satisfactory	Medium
2.4 Performance against benchmarks	Fully satisfactory	Medium	Fully satisfactory	Medium
2.5 Unanticipated results	Not applicable	Not included	Not applicable	Not included
3. Efficiency	**Partly unsatisfactory** Partly unsatisfactory (recommended)		**Partly unsatisfactory**	
3.1 Financial performance of project/client	Partly unsatisfactory	Medium	Partly unsatisfactory	Medium
3.2 Implementation efficiency	Not applicable	Not included	Partly unsatisfactory	Medium
3.3 Bank investment profitability	Unsatisfactory	Medium	Unsatisfactory	High
3.4 Bank handling	Fully satisfactory	Medium	Fully satisfactory	Medium
3.5 Consultant performance	Not applicable	Not included	Not applicable	Not included
Overall project performance rating	**Acceptable** Acceptable (recommended)		**Acceptable**	
4. Derived ratings				
4.1 Transition impact	Fully satisfactory			
4.2 Environmental and social performance	Fully satisfactory		**Recommended ratings:**	
4.3 Additionality	Excellent		Excellent (recommended)	
4.4 Sound banking	Partly unsatisfactory		Partly unsatisfactory (recommended)	

The following rating scales apply:
Criteria and subcriteria: *Excellent – Fully satisfactory – Partly unsatisfactory – Unsatisfactory*
Overall performance: *Outstanding – Good – Acceptable – Below standard – Poor – Very poor*
In determining synthesis ratings, weightings can be applied to subcriteria and criteria as follows: *Low – Medium – High*

The Evaluation Department (EvD) at the EBRD reports directly to the Board of Directors and is independent from the Bank's Management. This independence ensures that EvD can perform two critical functions: reinforcing institutional accountability for the achievement of results; and providing objective analysis and relevant findings to inform operational choices and improve performance over time. EvD evaluates the performance of the Bank's completed projects and programmes relative to objectives.

Operation Performance Assessments (OPAs) are prepared by Banking teams and reviewed independently by EvD through either a desk-based Operation Performance Assessment Validation, or a more in-depth Operation Evaluation involving additional analysis and often a field visit. Operations for full evaluation are chosen deliberately, based on their potential to produce operationally useful findings because particularly important or challenging features have been identified, or for input to a broader study such as a sector strategy evaluation. The Operation Evaluation provides performance ratings, key findings and recommendations. The ratings contribute to EvD's regular reporting on institutional performance.

This report has been prepared by EvD and is circulated under the authority of the Chief Evaluator. The views expressed herein do not necessarily reflect those of EBRD Management or its Board of Directors. Responsible members of the relevant operations teams were invited to comment on this report prior to internal publication. Any comments received will have been considered and incorporated at the discretion of EvD. While EvD considers Management's views in preparing its evaluations, it makes the final decisions about the content of its reports.

This report was prepared by Victoria Millis, Senior Evaluation Manager, EvD with the assistance of Olga Mrinska, Acting Senior Evaluation Manager, EvD and Yuliya Kossykh, consultant. Tom Bartos and Bob Finlayson, Senior Evaluation Managers, EvD peer-reviewed a draft of this report and provided valuable comments and suggestions.

One Exchange Square
London EC2A 2JN
United Kingdom
Web site: www.ebrd.com

European Bank
for Reconstruction and Development

Editing, design and layout: Green Ink (www.greenink.co.uk)