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**CONNECTING AFRICA TO AFRICA AND AFRICA TO THE REST OF THE WORLD –
A COMTEL PROJECT**

The present document presents some of the main characteristics of, and the lessons from, the COMTEL telecommunications project.

CONNECTING AFRICA TO AFRICA AND AFRICA TO THE REST OF THE WORLD – A COMTEL PROJECT

SUMMARY

The main challenges – Scale and Uniqueness

Scale

The main challenge is quite simply the sheer scale of the COMTEL project – never been done before let alone in an underdeveloped region – to connect 21 countries by a terrestrial fibre backbone network, 400 million people and their respective governments, ministries and telecoms operators, and all with differing political systems and level of stability, multiple cultures and languages, varying inherited legal systems (English, French, Arabic, Portuguese from the colonizing powers alone), and finally with no other unifying structure or institutions in place other than the embryonic Common Market for Southern and Eastern Africa or COMESA.

Uniqueness

From initial concept to today's current position of contracts it has taken 10 years to realize. Three complete rounds of feasibility studies, due diligence and tender & awards have been managed by COMESA to arrive at the successful Anderberg Consortium and project rollout. In addition to the scale of the project is the uniqueness which has meant a trial by error process to arrive at the only solution capable of delivering the project.

The lessons learnt:

- The aggregated traffic of the Comesa region is less than that of Austria but spread over 20 plus countries renders uneconomic for any international Carriers carrier to take a position to fund and manage. The National Telecom Operators pay approximately USD90million a year in transit fees and charges to international carriers switching the local, regional and international traffic on their behalf.
- The total budget is USD 272 million, but only USD 50 million is for telecoms equipment (the balance is the cost of the civil works of digging trenches and professional services) or less than 20%, and that budget is spread over 20 countries so averaging a little more than USD 2.5 million per country and not attractive to an equipment manufacturer other than straight supply to order.
- Since a project like this has never been carried out before, there is no simple blueprint of how to design, fund, implement and manage such a network. Below are the key challenges faced by Anderberg International in creating such a blueprint and successfully getting the project to Rollout stage today.

ANDERBERG INTERNATIONAL TEAM

Anderberg Consortium was created in order to take the role of Strategic Equity Partner and thus the developer and leader of the consortium of companies required to deliver the project. As a private, independent and international telecoms infrastructure investment and management company, Anderberg International management has the requisite skills and experience to be able to design the network solution, assemble the complete package of funding, and backed by consortium members of international repute and African experience, to implement and manage the Comtel project to the satisfaction of all the stakeholders.

PROSPECTING

Comesa as the project sponsor and facilitator on behalf of the National Telecom Operators, invited and mandated Anderberg International in June 2003 to design and fund the project. However Comesa has already spent up to USD 8 million over the previous 7 years and had no further funds available to enable the required necessary work to complete the project development to the level acceptable to the private institutional investors.

This resulted in Anderberg International providing all the funding to carry out the extensive research work across the COMESA region to conclude the project developmental work and with a sound business case for the investors.

At the same time there were many potentially overlapping projects and this required a 4-month consultative process by the Nepad e-Africa Commission in the summer of 2004 to arrive at the conclusion that Comtel provided the best terrestrial backbone solution, and that there was scope for Comtel to reduce overlap by utilising existing or planned networks should these be considered as meeting the Comtel specifications.

MANAGING PROJECT

The two key areas of managing the project thus far have been:

- Technical Partner within the Anderberg Consortium required to provide the design solution and equipment supply.
- Contractors – required to provide the fibre installation resources and network built.

In each case Anderberg International carried out Search & Selection in accordance with the procurement guidelines of the IBRD / World Bank / EIB and African Development Bank Rules of Procedure for International Competitive Tendering as applied to complex turnkey telecommunications infrastructure projects.

The resulting Pre-Qualification process has enabled Anderberg to assemble the Consortium capable of delivering the project, but this process has taken nearly two years to complete.

FUNDING

In the absence of a service contract, and Comesa lacking funds to development the project work any further, rendering the developmental work not at the level for presentation to investors, Anderberg International has to step in and fund all the work to date through its own partner and consortium resources. (Such supplier commitments to produce contributions to the final Project Information Memorandum of March 2005, has had to be done in the knowledge that there is no supply contract or commitment to award such a contract).

To date Anderberg International has received no funding and remains the only party committed to the Comtel project and is carrying out the project at its own cost. However, through the Nepad Infrastructure Project Preparation Fund (IPPF), the African Development Bank, and the Development Bank of South Africa, have approved a total of USD 800,000 towards Anderberg costs for the developmental work, which cost USD2million.

INSTITUTIONAL REQUIREMENTS FOR FUNDING

At the simple level, the requirements set by institutional providers of equity or debt was just to bring the existing business plan documentation up to date. However this actually required a lot of resources and skills since the project was “Greenfield” and most areas needed design work from the ground up.

Essentially this comprised:

- Field surveys 16,000 km for routing the underground fibre ducts
- Traffic and interconnect surveys with all the NTOs
- Design of network solution
- Design of Network Operations Centre
- Costing of all supply and installation
- Costing of all professional and legal services
- Design of Comtel company incorporation, equity and debt structure, and contractual arrangements between shareholders, suppliers and contractors and customers.

In addition to the completion of the Business Plan, there are the key institutional requirements of:

- Comtel to be a privately owned company, with government investment (NTOs all owned by governments although privatization of some in the pipeline) limited to 25% (USD32.5 million) to avoid blocking capability. This means the NTOs investing collectively in a vehicle (Comtel Investment Company) which in turn takes up the Comtel shareholding.
- Comtel Interim board (staffed by Comesa employees) dissolved upon Financial Closure and new shareholders will elect new board of directors.
- NTOs interconnection agreements to switch 40% of international traffic to Comtel thus providing adequate revenues to Comtel.
- Long term management contract to Anderberg International until debt facilities cleared and equity exit strategy completed.
- Technical and Consulting Partners to back up Comtel management
- Risk management – essentially MIGA for political and Marsh & McLennan for commercial cover
- Revenue management policy – that is, Comtel to be a net receiver, hard currencies only, and settlements with carriers managed in Comtel net benefit.

REGULATORY AND LICENSING

Since such a project as Comtel has never been implemented in the region, there are no precedents or experience. The Association of Regulators in Central and Eastern Africa (ARICEA) has only recently been created, and the existing telecommunications liberalization framework and process launched by Comesa is only partially implemented across the region.

This leaves the potential for uncertainty, which has left Anderberg Consortium the task of drafting the interconnection agreements based on utilising the existing NTO licences, and ensuring that Comtel will comply with generally accepted international standards for telecoms eg non-discriminatory interconnect for all licensed providers of telecommunications services.

LEGAL ISSUES

Challenge is to turn the Ministers of Transport and Telecommunications commitments to Comtel into reality.

Pending a consortium securing the approval of the Comtel interim board, no legal or contractual work had been carried, and this necessitated a complete overhaul of the legal status of Comtel project:

- Each NTO to sign shareholders agreement and equity subscription to Comtel Investment Company in accordance with national legislation – multiple jurisdictions and legal systems.
- Comtel Investment Company registered in Mauritius to be correctly incorporated showing shareholders, officers of the company, shareholders agreements and company bylaws.
- Comtel Communications Company as above
- NTO interconnection Agreements
- Management contracts
- Supplier and Contractor contracts

FINANCIAL CLOSURE

The project information Memorandum was completed in March 2005.

This investment document will be formally presented to the Banks, Financial Institutions and the Investment Funds.

This document has an underpinning with key Agreements, which are currently being negotiated with the National Telecom Operators to obtain their signatures.

These are the Interconnection Agreements and other Shareholders Agreements.

It is expected that these documents will be finalized and the formal placement of the Comtel common stock will be in June 2005

Issues for Regulators and Policy Makers

LESSONS FOR REGULATORS AND POLICY MAKERS

The regulatory environment for telecommunications generally is evolving and particularly challenging for the African Regulators of telecommunications. For instance the regulation of VOIP or voice over Internet Protocol is new around the world, however, some African regulators have passed laws banning the practice by telecom service providers. However, this is the future of telecommunications the world over, and African regulators need capacity building to enable them manage this aspect of their regulatory role to align their obligations with the technology and the need to meet consumer needs of affordable telecommunications and access to the World Wide Web through the Internet.

The issues for Policy makers such as Ministers of Transport and Telecommunications in the African context should be the realization by their governments that the most important contribution they can make to their people is to focus on policies that will enhance the provision of telecommunications infrastructure, similar to other parts of the world, such as South East Asia, where today because of government policies, ordinary households can access the internet with speeds in excess of 10 megabits. In our experience there are countries in Africa whose access to the Internet backbone is limited to 2 megabits. This is quite unacceptable in the 21st century. Policy makers should constantly ask the question, “why does it cost my people poor Africans more to make a phone call than richer people in the rest of the world”, and they must put in policies to change this dichotomy for their people.