

PRIVATE PARTICIPATION IN INFRASTRUCTURE DATABASE

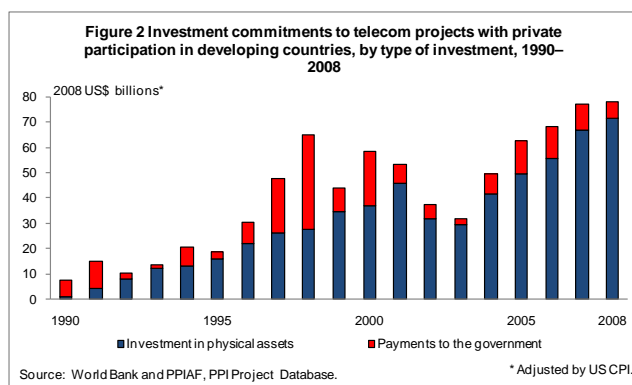
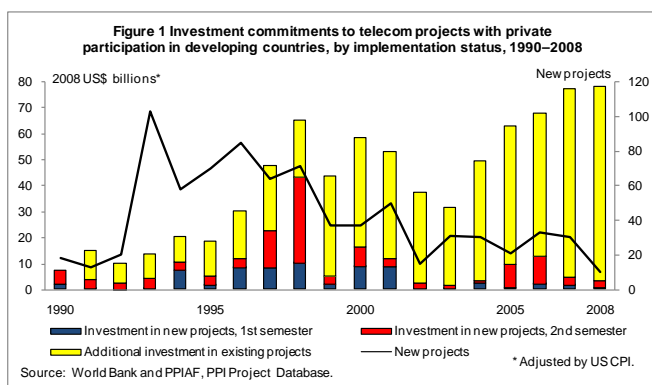
PPI data update note 27

November 2009

Investment commitments to telecommunications continued at peak levels in 2008

Investment commitments to telecommunications projects with private participation in low- and middle-income countries amounted to US\$78.1 billion in 2008, according to just-released data from the Private Participation in Infrastructure Project Database.¹ This level of investment commitments (hereafter, *investment*) represents an increase of around 1% from the previous peak reached in 2007.

As before, investment was driven by projects implemented in previous years. Projects that reached financial closure in 1990–2007 attracted investment of US\$74.7 billion, while new projects implemented in 2008 accounted for US\$3.4 billion (figure 1).² Investment in physical assets (that is, network expansion) grew by 7% to US\$71.6 billion, reaching a new peak for the fourth consecutive year (figure 2).³ Payments to the government (such as spectrum or concession fees and divestiture revenues) fell by 37% to US\$6.5 billion, the lowest level since 2004. The data do not allow the separation by semester of additional investment in existing projects to see whether such investment slowed in the second half of the year with the full onset of the financial crisis. But its slower growth in 2008 as a whole compared with the previous four years suggests a more cautious approach to capital expenditure.⁴



Stand-alone mobile operators accounted for most of the investment growth in 2008. Investment in this segment rose by 7% in real terms to US\$43.8 billion, and accounted for 56% of annual investment in the sector (figure 3). Multiservice providers, the second largest segment (with 30% of sector investment), saw investment fall by 5% to US\$23.4 billion. These two segments also accounted for most of the new projects (figure 4). This concentration of activity in the two segments was observed across developing regions.

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¹ The telecommunications projects covered include those that provide basic telephone services (fixed access and long distance) or mobile access using their own physical infrastructure. Not included are voice over Internet protocol (VoIP) services or operators providing services with leased infrastructure.

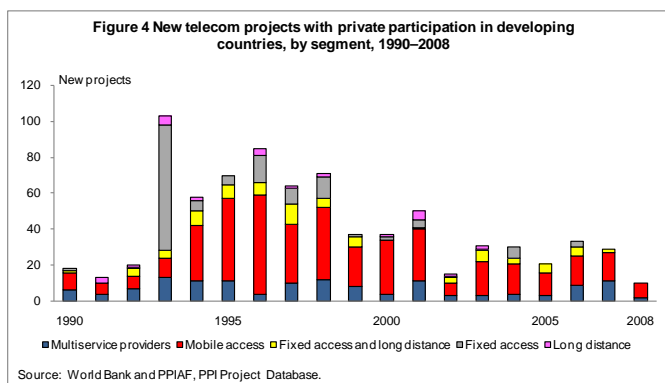
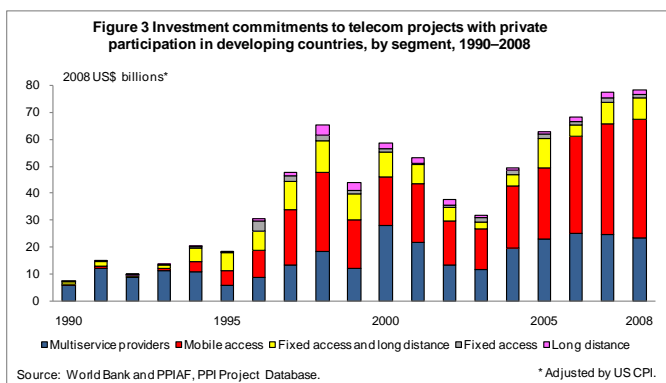
² Data on telecommunications contracts include primarily medium-size and large projects as reported by the media and other public sources. Small-scale projects are generally not included because of a lack of public information. Additional annual investment in some previously implemented projects may have been omitted for the same reason. Equatorial Guinea, Hungary, the Northern Mariana Islands, Oman, and the Slovak Republic became high-income economies according to the 2008 World Bank country classification (released in July 2008) and are therefore excluded from the 2008 update of the PPI Project Database.

³ Investment data are reported in 2008 U.S. dollars, using the U.S. consumer price index and 2008 as the base year. Data at <http://ppi.worldbank.org/> are reported in millions of current U.S. dollars unless otherwise indicated.

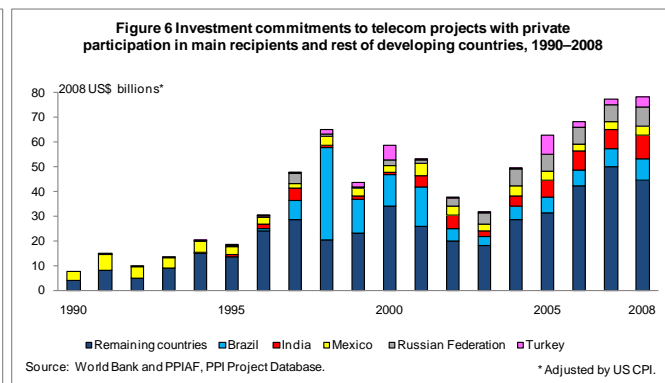
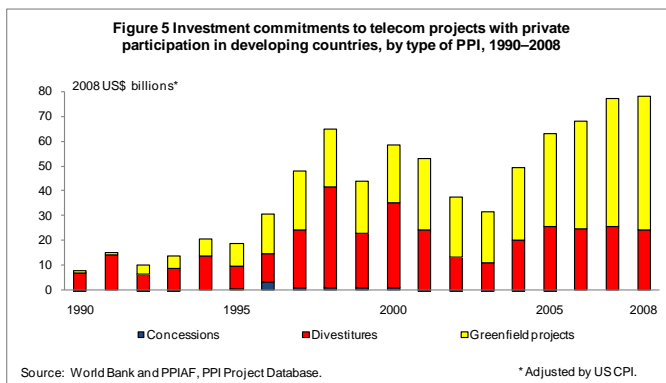
⁴ "Assessment of the Impact of the Crisis on New PPI Projects: Update 4," PPI data update note 24 (October 2009).

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In 2008, 10 telecommunications projects with private participation reached financial or contractual closure in eight low- or middle-income countries. Of these projects, seven were greenfield merchant projects, involving investment of US\$1.3 billion, and three were divestitures, with US\$2.1 billion. Previously implemented greenfield projects accounted for another US\$52.6 billion, and previously divested companies for US\$22.1 billion. These two types of private participation accounted for all sector activity (figure 5).



Activity by region. Investment in telecommunications was as concentrated by country in 2008 as in 2007 (figure 6). In 2008 the top 5 recipient countries (India, Brazil, the Russian Federation, Turkey, and Mexico) accounted for 43% of total investment, while the top 10 (with Nigeria, Indonesia, Pakistan, Poland, and Romania added to the list) attracted 60%. In 2007 the top 5 accounted for 38%, and the top 10 for 56%.



In *East Asia and Pacific* previously implemented projects attracted investment of US\$4.9 billion, and three new projects US\$525 million, for a total of US\$5.5 billion. The Democratic People's Republic of Korea granted a 25-year national license for mobile phone service to CHEO Technology, a joint venture between Egyptian Orascom and the government (table 1). The initial investment commitments of the joint venture amount to US\$400 million. Bermuda-based Digicel was awarded mobile licenses in the Pacific island nations of Fiji and Vanuatu. Digicel's related investment commitments amount to US\$90 million in Fiji and US\$35 million in Vanuatu.

In *Europe and Central Asia* investment in previously implemented projects amounted to US\$22 billion in 2008. Investment in one new project added US\$800 million, for a total of US\$22.8 billion. Russia accounted for 35%, and Turkey for 18%, of the regional investment in previously implemented projects. Belarus implemented the only new telecommunications project in the region. In July 2008 its government sold 80% of BeST, a state-owned mobile operator, to Turkish Turkcell for US\$300 million. As part of the transaction, Turkcell committed to investing at least US\$500 million in network expansion. With 187,000 subscribers in 2008, BeST was the third largest mobile operator in Belarus.



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In *Latin America and the Caribbean* previously implemented projects attracted investment of US\$19.6 billion, and two new projects US\$759 million, for a total of US\$20.3 billion. Brazil accounted for 43% of the regional investment in previously implemented projects. Panama implemented the two new projects in the region. Its government granted two mobile licenses: one to Mexican America Movil and another to Digicel. Each operator paid US\$86 million for its license. In addition, America Movil committed to investing US\$350 million and Digicel to investing US\$237 million.

In the *Middle East and North Africa* investment in previously implemented projects amounted to US\$3.6 billion, and that in one new project to US\$370 million, for a total of US\$3.9 billion. The government of the Islamic Republic of Iran divested 5% of the national fixed and mobile operator Telecommunication Company of Iran (TCI) through an initial public offering in the local stock exchange.

In *South Asia* previously implemented projects attracted investment of US\$13.9 billion. India accounted for 71%. No new telecommunications projects were implemented in the region.

In *Sub-Saharan Africa* investment in previously implemented projects amounted to US\$10.8 billion while two new projects attracted US\$950 million, for a total of US\$11.7 billion. Ghana had these two new projects. Its National Communications Authority awarded Ghana's sixth mobile license to Nigerian Globacom for US\$50 million. And the national government sold 70% of Ghana Telecom, the national fixed and mobile operator, to the United Kingdom's Vodafone for US\$900 million. This was the second time that the government had divested Ghana Telecom. The first time was in 1996, when a 30% stake in the company was sold to a consortium led by Telekom Malaysia. The government canceled this divestiture in 2002 because of disagreements over compliance with the divestiture agreement. Norwegian Telenor then managed Ghana Telecom under a three-year management contract that started in 2003.

A third new project was implemented in Uganda. The Orange Uganda mobile telecommunications project reached financial closure after France Telecom acquired 53% of Hits Telecom Uganda, the company that acquired Uganda's fourth GSM license in 2007. Orange Uganda started network development in 2008 and commercial operation in March 2009. No information on investment in network development was publicly available.

Potential new projects. Besides the 10 new projects reaching financial or contractual closure in 2008, at least 13 others were awarded but did not reach closure before the end of the year. All 13 were for mobile licenses. Turkey awarded three 3G licenses, while India awarded four 2G licenses. Armenia, Burundi, Comoros, Peru, Rwanda, and Uganda all awarded one new license.

Canceled and distressed projects. One telecommunications project was canceled in 2008 while another one became distressed, bringing the total number of canceled or distressed projects to 45.⁵ These contracts represent 5.7% of all telecommunications projects and 3.8% of investment commitments during 1990–2008.

In The Gambia the government canceled a partnership with Spectrum Group, a Lebanese consortium, after only one year of operation because of "fundamental breaches of the provisions of the partnership agreement." No further information was publicly available.

⁵ The 2008 telecom update of the PPI Project Database (<http://ppi.worldbank.org>) reports two more canceled projects as of December 2007 than were reported in the 2007 update (PPI data update note 12). One of these was Pakcom, a mobile operator in Pakistan. The project was reported as distressed in 2007 because of the government's request to terminate the license, but later information indicated that the license was canceled by December 2007. The other project was Kazan GTS, a fixed line provider in the Russian autonomous republic of Tatarstan, which was reported as operational in 2007. Later information showed that the project was canceled in 2006 when a subsidiary of state-owned Svyazinvestneftekhim acquired 100% of the company.



In Senegal mobile operator Sentel, a subsidiary of Millicom, requested arbitration by the International Centre for Settlement of Investment Disputes after the government argued that Sentel had never paid its license fee to operate until 2018.

Concluded projects. No telecommunications projects were concluded in 2008.



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Table 1 Telecom projects with private participation reaching financial or contractual closure in 2008

Note: .. = not available.

East Asia and Pacific									
	Country	Project name	Project status	Segment	Type of private participation	Private equity (%)	Investment commitment (US\$ millions)	Capacity size and type	Main sponsors
1	Fiji	Digicel Fiji	Operational	Mobile access	Greenfield project	100	90.25	21,000 connections	Digicel (100%, Bermuda)
2	Korea, Dem. People's Rep.	CHEO Technology 3G	Operational	Mobile access	Greenfield project	100	400	..	Orascom (75%, Egypt, Arab Rep.)
3	Vanuatu	Vanuatu Digicel	Operational	Mobile access	Greenfield project	100	35	10,000 connections	Digicel (100%, Bermuda)

Europe and Central Asia									
	Country	Project name	Project status	Segment	Type of private participation	Private equity (%)	Investment commitment (US\$ millions)	Capacity size and type	Main sponsors
1	Belarus	BeST	Operational	Mobile access	Divestiture	80	800	250,000 connections	Turkcell (80%, Turkey)

Latin America and the Caribbean									
	Country	Project name	Project status	Segment	Type of private participation	Private equity (%)	Investment commitment (US\$ millions)	Capacity size and type	Main sponsors
1	Panama	Digicel Panama	Construction	Mobile access	Greenfield project	100	436	81,000 connections	Digicel (100%, Bermuda)
2	Panama	Claro Panama	Operational	Mobile access	Greenfield project	100	323	..	America Movil (100%, Mexico)

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Middle East and North Africa									
	Country	Project name	Project status	Segment	Type of private participation	Private equity (%)	Investment commitment (US\$ millions)	Capacity size and type	Main sponsors
1	Iran, Islamic Rep.	Telecommunication Company of Iran	Operational	Fixed access, mobile access, and long distance	Divestiture	5	370	47,000,000 connections	Others (5%, ..)

Sub-Saharan Africa									
	Country	Project name	Project status	Segment	Type of private participation	Private equity (%)	Investment commitment (US\$ millions)	Capacity size and type	Main sponsors
1	Ghana	Ghana Telecom Second Divestiture	Operational	Fixed access, mobile access, and long distance	Divestiture	70	900	1,400,000 connections	Vodafone (70%, United Kingdom)
2	Ghana	Globacom Ghana	Operational	Mobile access	Greenfield project	100	50	..	Globacom (100%, Nigeria)
3	Uganda	Orange Uganda	Construction	Mobile access	Greenfield project	100	France Telecom (53%, France), International Investments House (47%, United Arab Emirates)