UNDERSTANDING THE DYNAMICS OF TELECOMMUNICATION FINANCING

KEY CONSIDERATIONS AND STRATEGIES FOR SUCCESS

OVERVIEW

- The use of smoke signals and drums began what is known as telecommunications in Africa, the Americas and parts of Asia. The first fixed semaphore system (system for conveying information by means of visual signals, using towers with pivoting blades or paddles) emerged in Europe in the 1790s but it was not until the 1830s that electrical telecommunications systems started to appear.

OVERVIEW CONT'D…

- The establishment of the first telecommunications facilities in Nigeria in 1886 by the British colonial administration was not as a result of the need to provide socio-economic development for the country, rather, it was to enable the easy discharge of administrative functions. This was achieved by connecting colonial territories to England rather than building a robust system for these territories.

OVERVIEW CONT'D…

- To expand and modernize telecommunication networks and services in Nigeria a number of largely unsuccessful development plans were rolled out.
- Exchanges at that time operated using analogue systems that were not customer friendly, highly unreliable, congested and expensive.
- As against a planned target of 460,000 lines, the installed switches at the end of 1985 was only 200,000.

OVERVIEW CONT'D…

- As a result of the inefficiencies noticed, in 1985, the department of Posts and Telecommunications (P&T) was split into Postal and Telecommunications Divisions.
- The Telecommunications division was later merged with the National External Telecommunications (NET) limited to form the Nigerian Telecommunications Limited (NITEL) while the Postal Division was reconstituted into what we know as Nigerian Postal Services (NIPOST)

Telecommunications Revolution

Between 1993 and 2001, the NCC granted licenses to private companies to provide services such as fixed wireless telephony, mobile services and fixed satellite, paging, payphone, internet and other value added services (VAS).

The course of Nigeria's telecom sector however changed in January 2001 with the auction for Global System for Mobile communications (GSM). This move liberalized the sector bringing in mobile operators like MTN Nigeria, Econet Wireless Nigeria (Now Airtel), the comatose MTEL), Globacom and Etisalat and to operate digital mobile service. The GSM licensees paid $285 million each to obtain the Digital Mobile License (DML).

This telecom auction which led to the revolution brought in a liberalized sector, striping NITEL its monopoly and making the private telephone operators to sit up. The success of the licensing process attracted international praise from as far as the International Telecommunications Union (ITU) and Commonwealth Telecommunications Union (CTU). The Nigerian telecoms market in general is ranked the largest and fastest growing in Africa and among the 10 fastest growing telecom markets in the world, an indication of its robustness to return on investments. From a private sector investment of about US$50 Million in 1999 when the current democratic regime came in place, the telecom industry in Nigeria has by end of 2009, attracted more than US$18 billion in private sector investments, including Direct Foreign Investment.

Based on the exponential growth in the mobile market the percentage share of GDP from the telecom sector rose from 0.06 in 1999 to 3.66 by end of 2009. According to estimates by Pyramid Research in a 2010 report, the annual revenue from mobile services represents between 2 per cent and 7 per cent of African countries' Nominal GDP; in Nigeria this ratio is close to 4 per cent.

Specifically, it was revealed just recently that the four GSM operators in the country - MTN, Globacom, Airtel and Etisalat - remit in excess of N264 billion to government annually through Company Income Tax (CIT), annual operating levy, education tax and government agencies task.

DYNAMICS OF TELECOMMUNICATIONS FINANCING

INFRASTRUCTURE GAPS

- The success of any growth and development effort must be backed by adequate infrastructure. This will ease the clogs in transacting business as well as enable and enhance the satisfaction to be derived by the end users of the goods and services that these infrastructures support.

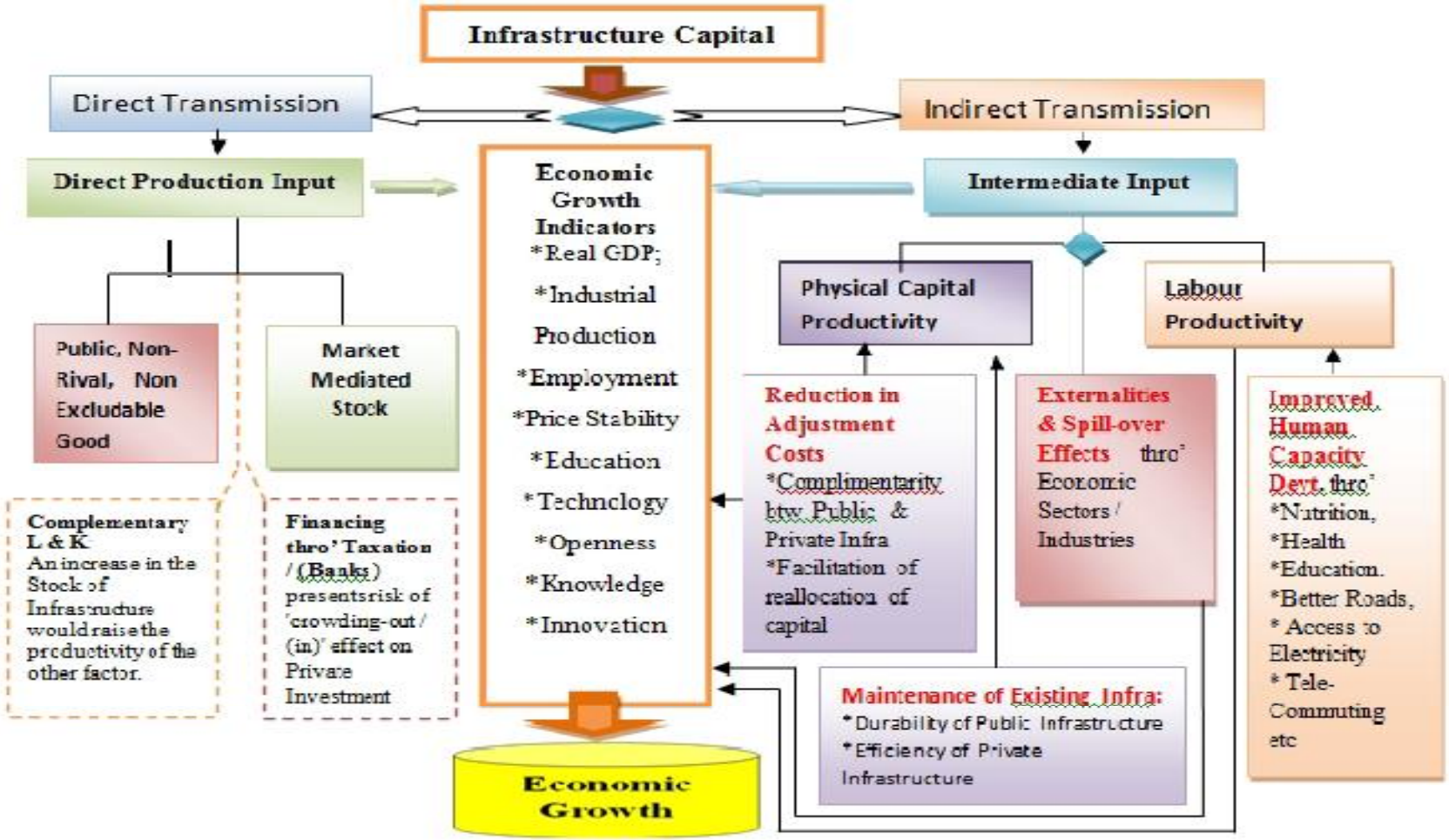
INFRASTRUCTURE GAPS CONT'D…

- The basic infrastructure needed by an economy may be classified along these lines:
- Energy/Power: Electricity, Gas & Petroleum Pipelines;
- Transportation Infrastructure: Surface roads, Rail system, Ports and Aviation;
- Water Infrastructure: Piped water and Irrigation;
- **Communication Infrastructure: Mass media (Print, TV, Bill boards), Internet, Phones and Postal services;**
- Health Infrastructure: Primary, Secondary and Tertiary Health care services
- Education Infrastructure: All categories of schools and Higher Institutions.

INFRASTRUCTURE GAPS CONT'D…

- The risks faced by banks when creating risk assets are huge. These risks are as a result of the volatility of the business space which is hinged among other things, on the near absence of basic infrastructure thus impacting on the cost of doing business.
- With this initial setback and the subsequent and continuous corruption and skill gap prevalent in developing economies, funding the telecommunications sector as well as other critical sectors of the economy has become more risky and difficult to funders.

INFRASTRUCTURE GAPS CONT'D…



CLOSING THE GAPS

- Despite the creation of NITEL in 1985, Inadequate funding has been the bane of the telecommunications sector in Nigeria.
- In spite of the achievements recorded in the sector over the last twelve years, voice telephony remains a major setback due to the absence of a national backbone infrastructure across the country, as well as the weak expansion of the country's telecoms network.

CLOSING THE GAPS CONT'D…

- The three (3) broad perspectives to view the composition of the telecom industry are:

1) Communication
   - Technology
     - GSM
     - CDMA
   - Operators
     - MTN
     - AIRTEL
     - GLO
     - ETISALAT
     - STARCOMM
     - VISAFONE
     - RELTEL etc
2) Infrastructure & Maintenance
3) Original Equipment Manufacturers

CLOSING THE GAPS CONT'D…

- To close this gap, banks will have to play an increased role either on a stand-alone basis or as a consortium through loan syndication.
- Based on the global and capital intensive nature of the telecommunications industry, funding has to be dynamic.
- The provision of funds may follow or include any or all of the following funding types:
  - Term loans underscored by the cashflow of the telecoms operator or regulatory body;
  - Discounting of purchase orders;
  - Overdrafts;
  - Bank guarantees;
  - Lease finance

CLOSING THE GAPS CONT'D…

CommTech Performance Review 2012				
	2011	2012	Projection for 2015	Projection for 2017
Teledensity (fixed line access)	0.51%	1.5%	10%	
Ratio of mobile subscriptions	68.49	71.54%	97.69%	
Access of rural population to ICTs	1.5%	1.65%		
Mobile phone coverage in the rural areas		40%	60%	100%
Speed of broadband access	1.0	1.8	5.0	
Cost of broadband subscription (3GB package/yr)	N93, 000	N72, 000	N36,000	
Ownership rate in personal computers		4.5%	12%	
Ownership of mobile devices rate		60%	80%	
Number of Government services delivered online	10	30	100	
Number of MDAs with effective websites	370	420		
Verified Mobile Money Agets		3000	5000	
Total value of Mobile Money transactions		N228m	N228m	
Total volume of non-store shopping	N62bn	N77.5bn	N658bn	
Source: Federal Ministry of Communication Technology - Dec 28, 2012				

CLOSING THE GAPS CONT'D…

Nigeria Telecom Industry Data - July 2012

Politics/Demography

Government	Democracy
Population	160,144
Land Space	923,768sq.km
No of States	36
Capital	Abuja
Commercial Capital	Lagos

Key Drivers
Largest telecom market in West Africa
100% growth in wireless business since 2002
12% Annual teledensity growth
30% Annual growth in Wireless network utilization
50% additional BTS roll out is expected by Year 2015.
Annual investment in excess of USD 2 billion
Challenge in Last Mile delivery
Continued investments in BTS and MW segment to improve coverage
Contribution of Telecoms Industry to National GDP is expected to be 5% in 2015
Enterprise segment is valued at USD 200 million
GSM segment holds above 90% of telecom retail market
Market dominance of 99% by Wireless Business i.e. GSM /CDMA.
Potential growth of 20 to 30% in enterprise business segment over 5 years
Slow and steady growth of capital intensive Fibre project
Total MoU in excess of 60 billion Minutes across all operators
YoY increase of 20 to 30%

Investment (Telecom)

From Direct Foreign Inv	$18.5b
From Local Prvt Inv	$5.3b
From Licensing	$2.2b
Major Local ICT Cos	76
Conc. of ICT Cos.	Lagos
Target Indices for 2015 (MoCT)	
Internet users	70m
Internet penetration	34
Broadband penetration	12%
Contribution to GDP	5%
Mobile penetration	80
PC penetration	12
PC Assemblage	1m
ICT Companies	350

Telephone Services

Telephone Lines Fixed	514,905
Telephone Lines Mobile	101.8m
No of Tel Operators 2011	19
No of Tel Operators 2010	20
No of Tel Operators 2009	20
No of Tel Operators 2008	19
No of Tel Operators 2007	18
No of Tel Operators 2005	25
No of Tel Operators 2002	8
Ops deploying GSM Std	5
Ops deploying CDMA Std	10
Ops deploying other std	5
Tel ops that have wound up	4
Tel ops that have been bought into	1
Tel ops that bought into others	2
Tel ops that have been bought 100%	3
Tel ops that have Unified Licenses	13
U/Licensees yet to operate	3
National Operators	2

Internet Services: Nigeria

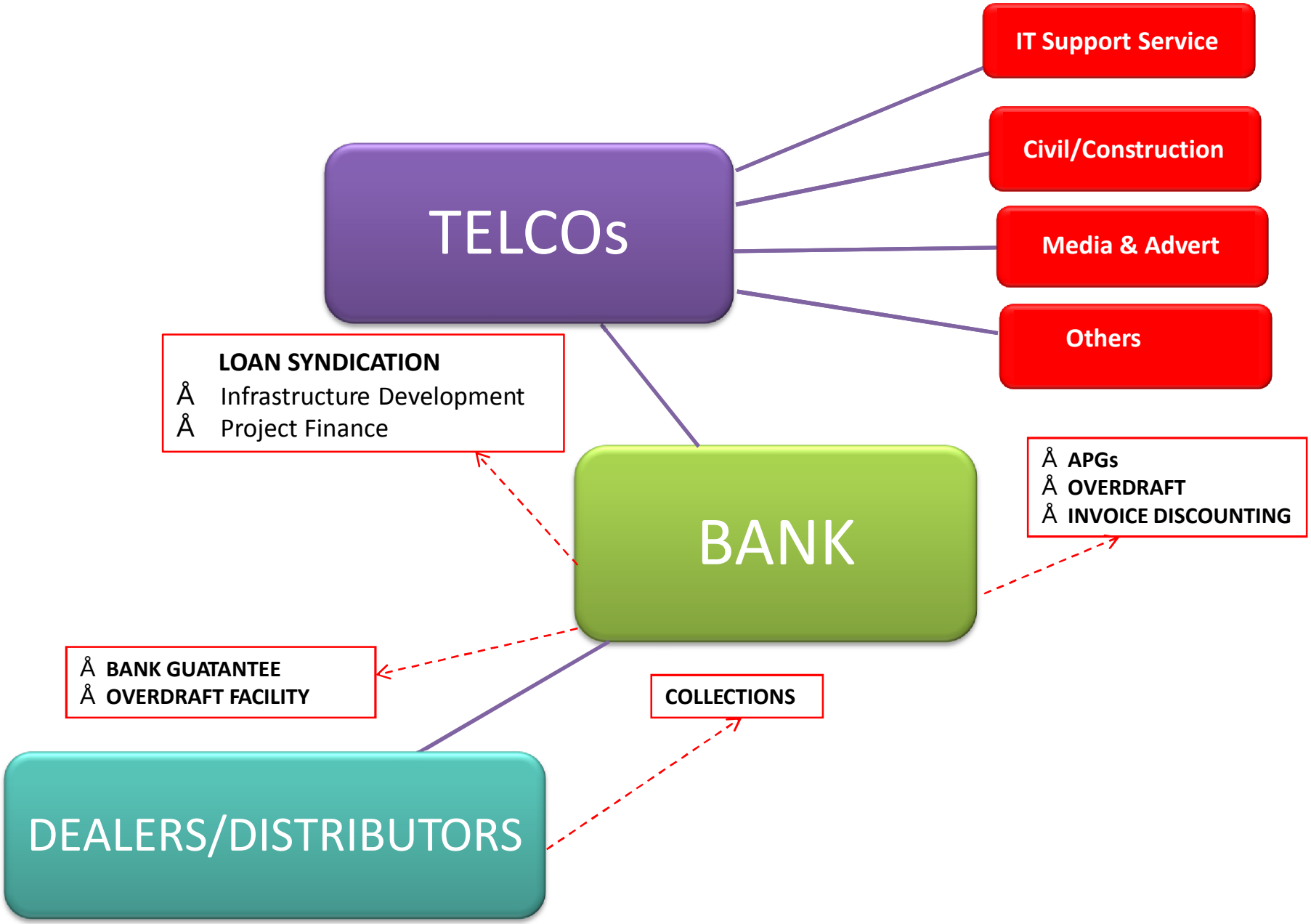
Internet Users Estimate	35.0m
No of ISPs	132
Major ISPs	7
ISP Growth Rate	-ve
Major concentration of ISPs	
Lagos	76
Abuja	14
Ibadan	5
States with ISPs	19
States with No ISPs	17

This data is from private source. Not Government authorised.
Informed comments will be appreciated. Source :TELECOM ANSWERS ASSOCIATES titi@cyberschuulnews.com

TELECOMMUNICATIONS FINANCING

- **TELCOS FINANCING:**
- This type of financing is usually structured as a term loan or a project/object finance facility.
- It could be financed solely by an individual bank or a consortium of banks, depending on the magnitude of the infrastructure development being embarked by the telecom firm.
- Development finance institutions also engage in this type of financing.
- Financing via the establishment of a Special Purpose Vehicle (SPV)

The Financing Structure of the Industry



TELECOMMUNICATIONS FINANCING CONT'D…

- **VENDOR FINANCING:**
- Vendor Financing involves the bank support of the service providers such as the IT Support Service, Civil Engineering/Construction, Media and Advertisement and others.
- In this sector of the industry, the financing required is usually Advance Payment Guarantee, Invoice Discounting and Overdraft.
- These facilities are structured around the tenor of the transaction which is usually short i.e. (120-150days) with a 30days extension in the event of contract variation or counter party delay with an option to rollover but not more than 365days.
- The facility also gives consideration to the track record of the vendor and the recommendation of the operator (the Telco)
- Most vendors are unable to give adequate collateral to support the facility request hence the banks rely on tripartite domiciliation agreement between the Telco, the bank and the vendor.
- The aim is to create a value chain network that will ensure the retention of funds within the Banks system.

TELECOMMUNICATIONS FINANCING CONT'D…

- **Vendor Financing, the challenge:**
- As with most financing challenges in Nigeria, this industry is plagued with the lack of credibility of obligors coupled with inadequate or total absence of security to support their request.
- Most of the companies are unstructured and/or are at the risk of a key man.
- Some operators are unwilling to recommend the vendors for financing or commit to their character. Thereby shying away from domiciliation agreements.

TELECOMMUNICATIONS FINANCING CONT'D…

- **DEALER/DISTRIBUTORS FINANCE**
- Dealer/Distributors Financing involves the bank support of the sale and distribution of telecoms product such as recharge cards, E-pins and SIM cards
- In this sector of the industry, the financing required is usually Bank Guarantee and Overdraft.
- These facilities are usually tenured for 365 days with an option of a 90-180 days clean-up cycle.
- The Telco releases a list of their accredited dealers to the banks and sometimes the list is ranked according to trade volumes.

TELECOMMUNICATIONS FINANCING CONT'D…

- **BANK GUARANTEE:**
- Most networks request a bank guarantee from their dealers for the credit sale made to the dealers.
- The tenor of the credit sale varies with network usually between (7-14 days) depending on the shelf life of the products e.g the shelf life of MTN is 3days while Airtel and Glo are 5days etc.).
- The bank issues a one year bank guarantee to the network on behalf of the dealers.
- The dealers will then receive products from the network and issue a post-dated cheque to the network for the credit sale period (i.e. 7-14days).
- Upon maturity and without recourse to the dealer, the cheque will be presented to the bank that issued the BG.
- It is however expected that the dealer would have completed sales of the product and funded his/her current account in order to accommodate the presented cheque.

TELECOMMUNICATIONS FINANCING CONT'D…

- **Bank Guarantee, the Challenge:**
- It has been observed that the dealers usually are unable to totally clean-up the sale of the product hence the need for an overdraft facility to augment the due obligations.
- The product sale is driven by the target volume set for the dealer rather than by the simple law of demand and supply this is because of the periodic incentive attached to trade volumes by the network .
- Also competition amongst dealers has been so fierce that dealers trade off the margin on the product sale to achieve the set target volume. In more severe scenarios the dealers factor in a percentage of the incentive to be received from the network to drive sales.

STRATEGIES/RECOMMENDATIONS FOR SUCCESS:

RISK MANAGEMENT

Å To engage in financing this industry, the following factors would have to be considered to attain a reasonable level of success:

1) Investment Requirements

a. Telecom projects are characterized by their continual investment requirements.

b. As subscriber demand increases, further investments are made to cater to the increased demand.

c. A 10-year GSM license will often have a 10-year investment plan.

d. Usually, the investment requirement of a telecom project is taken as the cumulative cash shortfall up to the point the project becomes self-financing.

e. Further investment requirements are met through internal generation.

STRATEGIES/RECOMMENDATIONS FOR SUCCESS:

RISK MANAGEMENT

2) Analyzing Project Risks

a. Lenders partake in the actual risk of the project with no or limited re-course to the project sponsors apart from their equity investment in the project plus additional (negotiated) sponsor support.

b. Project financing also requires a very detailed analysis of the project risks by the lenders.

c. Very broadly, the project risks are divided into categories:

i. Pre-completion risks

1. Cost Over-run - The impact of delays in network rollout and cost overruns should be assessed
2. Technology risks - the risk that the technology chosen will render the service required effectively;
3. Regulatory risks - the risk that the licensee has acquired all the legal clearances required to operate the service;

ii. Completion risks

1. Ability of the contractor to install the network within budgeted time and cost, and meet the technical parameters laid down by the regulator.
2. Reliability of the contractor and whether or not the contract is a turnkey, appropriate level of liquidated damages and performance guarantees.

STRATEGIES/RECOMMENDATIONS FOR SUCCESS:
RISK MANAGEMENT

iii. Post-completion risks

1. Technology Risks - For example a cellular licensee has a license for operating mobile telephony on the GSM standard. Technology risk exists that in the future a better cellular technology may render the GSM standard uneconomical;
2. Operational Risks - Ability of the operator to run the network and service effectively. Minimized by the presence of experienced operators as sponsors;
3. Market Risks - The most significant risk of a cellular project is the market risk i.e. the risk that the project revenue strains will materialize. Broken down further as follows ï
    i. Subscriber growth,
    ii. airtime usage per subscriber,
    iii. Tariff development and competition;
4. Regulatory Risks - Important post-completion regulatory risks include the extension of license period and development of interconnect policies.

STRATEGIES/RECOMMENDATIONS FOR SUCCESS:
RISK MANAGEMENT

- **Other Project Issues:**
  - **Sponsor Related Risks**
    a) The identity of the project sponsors is a critical issue.
    b) Lenders will be concerned to see that the sponsors of the project have both the expertise and financial strength necessary to implement the project.
    c) The issues to be considered are:
      - The amount of their equity commitment.
      - The period over which they commit to maintain a substantial interest in the project.
      - Their commitment in terms of the provision of technical and managerial resources to the project.
- Lenders have to be comfortable that the sponsors have adequate financial resources and the required technical and management skills to run a viable telecom business.
- Lenders need to assess the willingness of the stronger sponsors to assume proportionately bigger financial and management responsibility with adequate compensation for undertaking such responsibility.
- Lenders generally prefer a joint venture agreement, which provides for an appropriate use of respective local industry and telecom experience of the sponsors.

STRATEGIES/RECOMMENDATIONS FOR SUCCESS:

RISK MANAGEMENT

3) Review of Finance-ability Issues

a) One of the main concerns for the sponsors and the lenders of a telecommunications project will be its finance-ability.

b) It is important to analyze whether the project is bankable. Whether a project is bankable will depend upon a number of factors.

c) In broad terms, it can be broken down into two main areas:

i. Country Risk issues

- » Political stability
- » Government policies
- » Environmental and social risk issues/concerns

ii. Regulatory Risk issues

- » Terms and conditions of the license.
- » Terms of technical and physical interconnect.
- » Tariff Regulation.
- » Access to radio spectrum.

STRATEGIES/RECOMMENDATIONS FOR SUCCESS:

RISK MANAGEMENT

4) Determine if Level Playing Field Exists

a) Huge capital outlay for infrastructure deployment such that a new entrant faces an inherent disadvantage, and an immediate and unfair competition from the incumbent service provider.

5) Review of Interconnectivity Issues

a) An interconnection regime which allows a carrier to interconnect its users to another carrier's network without unreasonable technical or financial restraints is a prerequisite for the development of a competitive telecom network.

b) For an effective interconnectivity, the legal framework must be in place and provide a level playing field.

6) Determine if there are delays in Frequency Allocation

a) Telecommunications depend upon the use of some specific frequencies of electromagnetic spectrum.

b) This spectrum is classified as a worldwide, limited resource and is managed both at a national and international level.

c) Delay in allocating frequency is a major cause of worry in this sector

STRATEGIES/RECOMMENDATIONS FOR SUCCESS:
RISK MANAGEMENT

7) Access to 'Right of Way' from State Authorities

a) A telecommunication network requires the acquisition of a right to lay down the telecommunication wires or fibre optic cable or other form of cables.

b) Accordingly the licensee has to seek a grant of right of way from the owners of the concerned land by negotiation.

c) This is a tedious job and affects the rollout of the project.

d) A uniform legal framework in relation to grant and vesting of right of way is very necessary for the viability of the project.

8) Viability of the Proposed Tariff

a) Viability of the proposed tariffs which are generally fixed by the telecom regulators which includes interconnection fees, future rebalancing, and if anticipated cashflows is achievable.

9) Review of Telecommunications Policy

a) A clear telecommunications policy and implementation process on the part of the government has obvious advantage.

b) If policies are maintained in a consistent manner, they provide a clear framework for developers to pursue projects and can reduce the perceived level of political risk.

STRATEGIES/RECOMMENDATIONS FOR SUCCESS:

RISK MANAGEMENT

10) Assess Inherent Political Risk

a) The lenders to a project will assess the political environment of the country in which the project is located.

b) Lenders prefer a stable political environment as changes in government policy could have significant impact on the project.

c) The issues, which can impact project viability, include tax, foreign ownership laws, extent of competition, legal framework etc.

d) Lenders may also consider obtaining political risk cover from ECAs or the private insurance market.

11) Market Risk

a) Lenders will run sensitivities to assess the robustness of cashflows and the cushion available in case actuals are below forecasted levels.

b) The reliability of the revenue stream has a significant impact on ability to raise finance for a project.

c) Lenders will assess the reliability of subscriber numbers and revenue per subscriber, which are the key revenue drivers.

d) Issues to be evaluated include:

i. The population covered,
ii. the addressable population based on income levels,
iii. the penetration level, the operator market share,
iv. the level of subscribers moving between operators,
v. the mix between high usage and low usage subscribers,
vi. call profile/breakdown i.e. local, international, long distance, peak/off peak, subscriber acquisition costs and level of bad debts.
vii. Generally lenders will insist on an independent market study to assist in their evaluation of market risk.

STRATEGIES/RECOMMENDATIONS FOR SUCCESS:
RISK MANAGEMENT

12) Completion Risk

a) Lenders need to carefully assess the risk attached to delays in planned network rollout and/or significant cost overruns as this could result in cancellation of license, financial penalties, delayed revenues and requirement of additional funding.

b) Lenders need to get comfortable with the Engineering, Procurement and Construction (EPC) contracts between the contractors and the project company.

c) The issues that lenders will focus on will include the reliability of the contractor and whether or not the contract is a turnkey, appropriate level of liquidated damages and performance guarantees.

d) In the absence of turnkey contracts, lenders will assess the capability of the management to ensure that network planning and integration issues would not hamper project completion.

e) The impact of delays in network rollout and cost overruns should be assessed.

f) Lenders will assess the level of contingent support that may be required from sponsors during the completion period.

13) Business Expansion Risk

a) Unlike typical project financing in power and other infrastructure sector where the project is fully built and then commissioned, telecom companies can vary rollout according to market growth.

b) Telecom companies will generally submit business plans with high ongoing capital expenditures funded from internal cash generation or additional equity to meet subsequent network expansion after drawdown of facilities.

c) Lenders may need to run sensitivities to assess the impact of a varying network roll out on projected cashflow and on the ongoing financing requirement.

STRATEGIES/RECOMMENDATIONS FOR SUCCESS:

RISK MANAGEMENT

- **Other Issues to consider in understanding Dynamics of Telecom Financing**

1) Allocation of Risk

a) Lenders are concerned about an equitable sharing of risks among various participants as ongoing successful project development is generally assured as long as the risk-reward objectives of various participants are being met.

b) The basis on which risk is allocated among the participants is broadly as follows:

i. The participant bearing the risk is capable of analyzing the risk assumed.

ii. Risk is commensurate with the participant's economic interest in the project.

iii. Risk is assumed by the participant best able to manage the risk, for example a major portion of the completion risks is generally borne by the vendors and equipment suppliers.

iv. Post completion the project sponsors and lenders will assume many of the risks.

v. The risk- reward ratio is balanced and fair to all participants.

STRATEGIES/RECOMMENDATIONS FOR SUCCESS:

RISK MANAGEMENT

2) Security Issues

a) Role of Security

- The financing of telecommunication projects have the same security structure as other forms of limited recourse project finance, although in many countries, the laws of the land will not allow a lien or charge over a telecommunications license or concession to be perfected.
- The primary purpose of taking security is to put the project lenders in a position where, in the circumstances of a default and the failure of the borrower to repay the debt, the lenders are able to realize the security (normally by disposing of the assets, the subject of the security) and use the proceeds to satisfy the outstanding debts.
- However the nature of telecommunications assets places some limits on the lenders in terms of their availing themselves of the traditional means of enforcement.
- The assets associated with the telecommunications projects are likely to be difficult to realize, particularly if default occurs during the network rollout phase of the project.

STRATEGIES/RECOMMENDATIONS FOR SUCCESS:
RISK MANAGEMENT

- In those circumstances the lender is faced with the prospect of either committing further resources to the project to complete construction of the network or, in the alternative, scrapping the commissioning or roll-out and attempting to sell the components of the system in a piecemeal fashion.
- In certain cases it is possible to package the security in such a way that the shares in the concession company can be pledged and, in a default situation, transferred to a purchaser.
- In this way, the problems of assigning all of the contractual relations and licenses may be overcome since the legal personality of the concession corporate entity remains unchanged and it continues to exist with its web of contractual rights and obligations unaltered by change of ownership.

a) Types of Security

- Whether or not guarantees or other support undertakings are given by the sponsors will largely depend on the viability of the project as well as the level of commitment that the sponsors are prepared to put into the project.
- The types of security and support can be broken down into three distinct categories:
  - **Sponsor support**, sponsor guarantees and support undertakings (which are, in essence unsecured contractual obligations);
  - **Security over physical assets of the projects**; and
  - **Security over the legal rights and cash flows of the project**.

STRATEGIES/RECOMMENDATIONS FOR SUCCESS

Å Socio-political:

Questions		Average weighted assessment	
		Lease based	Non-lease based
a	High cost of importing leasable technology	4.78	4.04
b	Inadequate tax incentives	4.69	4.20
c	Instability in government policies	4.72	4.39
d	Unstable rate and cost of lease funds	4.70	4.23
e	High lease legal and administrate costs	4..77	4.23
Cumulative weighted Average Score		**4.75**	**4.20**

Å Socio-political Instability/Insecurity:

Questions		Average Weighted Assessment	
		Lease based	Non-lease base
a	Problems of recovery and repossession of lease assets based on defaults	4.80	4.09
b	Willful over use and malicious damage of assets in usage	4.83	4.80
c	High incidence of fraud/ corruption	4.86	4.28
d	High incidence of lease defaults	4.86	4.28
e	Non-flexible lease agreements	4.73	4.27
Cumulative weighted Average Score		**4.81**	**4.18**

Source: Interdisciplinary journal of research in Business Vol. 2, Issue. 7, 2012

STRATEGIES/RECOMMENDATIONS FOR SUCCESS:

SOCIO-POLITICAL

- Despite the challenges highlighted in the above tables, the development of a robust telecommunication industry also have positive socio-political implications. It will promote the following:
  - Communication via the internet. This will evidently encourage the exchange of ideas;
  - It will serve as the voice of the people as have been witnessed both in Nigeria (Hike in fuel prices) and abroad (Syria, Egypt).
- The buy-in of government will also provide the right political and economic climate for investment. The following incentives can be provided by government:
  - Granting Tax breaks;
  - Reduction of import duties;
  - Provision of fiscal incentives to encourage the local manufacture of telecommunications equipment and development of related software;
  - Simplification of procedures and requirements for the importation of telecommunications equipment.

STRATEGIES/RECOMMENDATIONS FOR SUCCESS: ECONOMIC

Å The lack of specialization and professionalism in the lease market possess economic challenges due to the present inefficiencies observed in leasing. As shown in the table below, the lease market has not yet distinguished itself in the economic space.

Lack of Specialization/Professionalism in lease Marketing Practices

Questions		Average Weighted Assessment	
		Lease based	**Non-lease based**
a	Poor lease market segmentation and niche marketing practices	4.86	4.17
b	Low level of specialization in lease portfolio management	4.84	4.81
c	Inefficiency in equipment lease value creation activities and strategies	4.78	4.11
d	Lack of innovation in the lease market and innovative marketing	4.80	4.22
e	Incomprehensive nature of Nigeria lease products	4.77	4.25
Cumulative Weighted Average		**4.81**	**4.11**

Source: Interdisciplinary journal of research in Business Vol. 2, Issue. 7, 2012

STRATEGIES/RECOMMENDATIONS FOR SUCCESS:
ECONOMIC

- Easy access to the capital market will not only guarantee the growth and survival of the telecommunications industry, it will engender the multiplier effect of employment that will translate to economic growth.

- The telecommunications industry can get finance through different bond instruments which are less risky and guarantees regular returns:
  - Federal Government (sovereign) bonds,
  - Government Agency bonds,
  - State/Local Government bonds.
  - Dim Sum Bonds (Chinese Yuan denominated bond)

- The provision of financial advisory services and the granting of loans at reasonable rates with opportunity for moratorium is another service that will lead to the success of telecommunications infrastructure development in Nigeria.

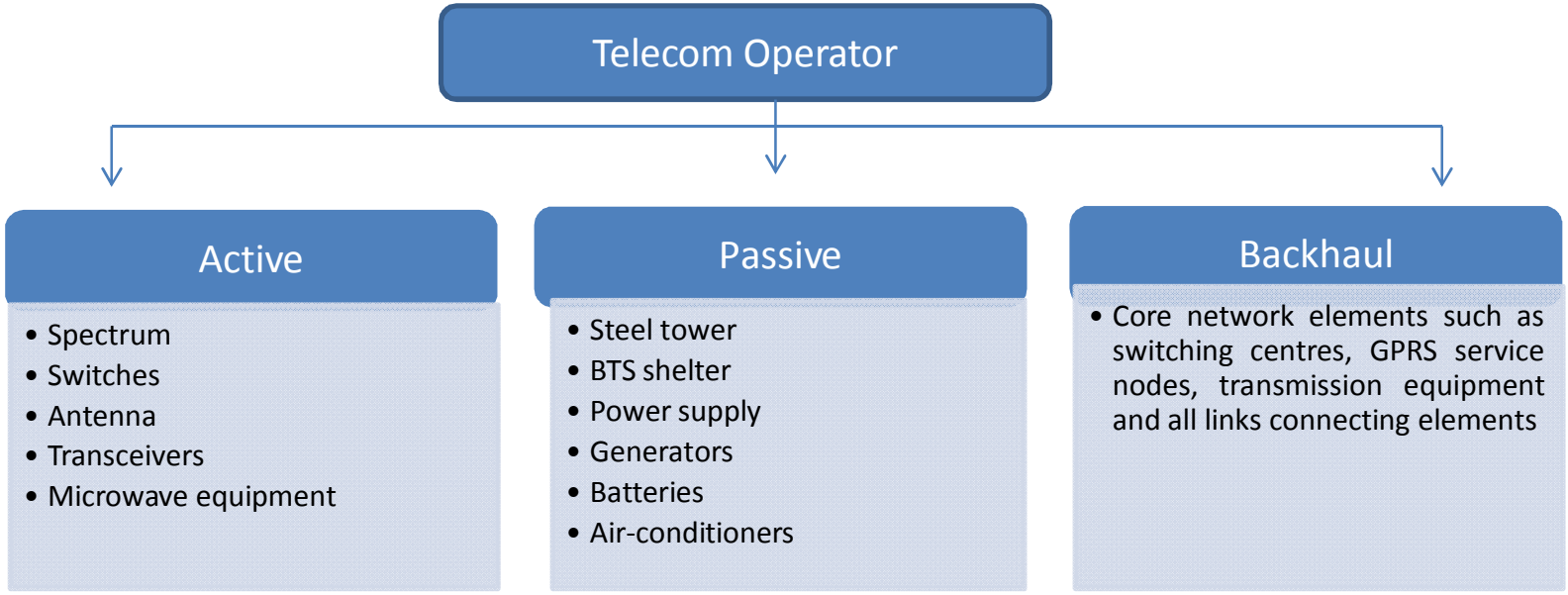
STRATEGIES/RECOMMENDATIONS FOR SUCCESS:

EFFECTIVE MIX (SOCIO-POLITICAL/ECONOMIC)

- The handshake between the public and private sectors is important in ensuring the provision of the much needed funds for infrastructure development.
- A few of the key factors necessary for a successful Public Private Partnerships (PPP) are:
  - Having the political will;
  - Transparency;
  - The provision of a clear institutional framework to govern the Public private partnerships;
  - Having and enforcing the right legislation;
  - Having the right skill set for project execution and management;
  - Political stability;
  - Financial support with favorable repayment terms and conditions.

VENDOR FINANCING, FACILITIES SHARING AND EQUIPMENT LEASING

- Considering that building and operating infrastructure is a significant cost for operators, the ability to lease and/or share equipment among operators cannot be over emphasized though certain disadvantages may exist. According to a 2011 KPMG publication, the estimated Capex savings resulting from tower sharing alone in the Middle East and Africa region amount to USD 8 billion.
- **Telecommunications Infrastructure**



VENDOR FINANCING, FACILITIES SHARING AND EQUIPMENT LEASING CONT'D…

- The equipment leasing community can play a vital role in improving the infrastructure challenges faced by the telecommunications sector especially by participating in the currently most shared infrastructure segment between operators i.e. the Passive infrastructure.
- Equipment such as Generators, Batteries, Air conditioners etc. that form an essential part of the necessary input for the telecoms operators could be championed by the Equipment leasing community. This will in no small measure ease the financial burden on the operators as well as improve business operations.

VENDOR FINANCING, FACILITIES SHARING AND EQUIPMENT LEASING CONT'D…

- The bedrock to availing lease finance is "risk underwriting". This is the process by which the various risks faced by the lessor are assessed.
- Risks that can be identified during assessment include:
  - Contingent Risks: Funding, tax, political and regulatory risks;
  - Residual Risks in the case of operating lease;
  - Portfolio Risk
  - Equipment risk: This includes the collateral value, specialized nature and other attributes that affect the value of the asset.

VENDOR FINANCING, FACILITIES SHARING AND EQUIPMENT LEASING CONT'D…

- Identified risks can be mitigated basically by proper lease structuring.
- The structuring variables that will enable proper mitigation include:
  - Increase in yield
  - Security deposit
  - Advance payment
  - Lease term reduction
  - Credit enhancement
  - Guarantee (personal/vendor)
  - Additional collateral

CONCLUSION

- A lot has been documented of late on the role played by financial institutions in partnering with the telecommunications industry by encouraging the sharing of facilities such as Telecom Towers.
- A huge sigh of relief was heaved at the introduction of Independent Tower Management Companies. Today, the likes of Helios Towers Nigeria (HTN), IHS and SWAP have become the major backbone of all telecom operators in the country.

CONCLUSION CONT'D…

- A recent example is the loan facility MTN Nigeria ($3 billion) and Etisalat Nigeria ($1.2 billion) got from a consortium of 24 banks (17 local and 7 foreign banks) as well as the $1.25 billion network financing agreements Glo Nigeria signed with Chinese equipment vendors. These investments are expected to take number of base transceiver stations in operation to over 25,000 while at the same time expanding fibre optic backbone round the country to beyond 12,000 kilometers.
- Apart from banks, funding can also be generated from Pension funds which yield predictable streams of income in the long-term that match their typical long-term liabilities,
- Insurance companies, private equity firms and the capital market also serve as potential areas to source for sustainable finance for the telecommunications industry.

Q & A