



Public-Private Partnership Stories

Uganda: Posts and Telecom



The Ugandan government reforms of the 1990s attracted new investment to the country, requiring telecommunications systems to satisfy the needs of incoming business and appeal to fresh markets. IFC re-envisioned and restructured the country's telecommunications industry to fulfill demand, meet business obligations, and comply with legislative conditions. The program ultimately positioned Uganda as a telecommunications industry leader.

Uganda Posts and Telecommunications Corporation (UPTC) was unbundled, separating postal and telecommunications services. Uganda Telecom Ltd. was privatized and a Second National Operator (SNO) license was tendered to avoid a private monopoly. The competitive tender for the SNO was held in December 1997 and the license was awarded to the group led by Mobile Telephone Networks of South Africa with an offer of \$5.6 million. In June 2000, UTL was privatized when the government divested 51 percent of its shares to Ucom, a consortium formed by Detecon, Telexel International of Switzerland and Orascom Telecom of Egypt. The Ugandan government retained 49 percent ownership in UTL.

This series provides an overview of public-private partnership stories in various infrastructure sectors, where IFC was the lead advisor.

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The East African newspaper characterized the sale as “perhaps the fairest and most transparent privatization anywhere on the African continent”.

BACKGROUND

In the early 1990s, Uganda faced a daunting task: to rebuild and expand its dilapidated telecommunications industry. After decades of political unrest, economic stagnation and civil war, the country's telephone network had shrunk to a fraction of the size it had been in the 1960s. However, new investment in the country led to increased demand for modern telecommunications facilities. The only way to meet this demand was for the government to enter into a partnership with the private sector.

With only 55,000 fixed lines for a population of roughly 20 million, Uganda had one of the lowest levels of penetration in the world at the time, and what services the state company did offer, were antiquated and unreliable. In fact, goods entering the country used to sit for two weeks at the border, unable to clear customs, because their owners could not be reached by phone or fax.

IFC'S ROLE

In 1996, the government prepared a national telecommunications policy that set out, among other things that: **(i)** the postal and telecommunications operations of UPTC be unbundled into Uganda Post Limited (UPL) and UTL; **(ii)** UTL be privatized; **(iii)** the telecommunications sector be liberalized; and **(iv)** a regulatory agency for the telecom sector be established.

IFC was selected to restructure and modernize the country's entire telecommunications system and position Uganda as a forward-thinking innovator.

IFC's advisory work helped overhaul the telecommunications system, including:

- Separating the post and telecommunications businesses.
- Establishing a regulatory agency.
- Evaluating telecommunications demand and tariffs.
- Developing a business plan for an independent postal service.
- Assisting the government in drafting new legislation.
- Drafting the licenses for telecommunications providers.

IFC also assisted government officials in identifying and resolving questions of reform, timing, monopolies, and tradeoffs.

TRANSACTION STRUCTURE

To avoid swapping a state monopoly for a private one, the government decided on a competitive market structure. The existing operator, UPTC, was separated into post and telecom companies, and a controlling share in the successor, UTL, was sold by competitive tender. At the same time, a license for a Second National Operator (SNO) to compete with the incumbent UTL was also sold.

An Investor's Forum was held in 1997 to gauge the level of interest in the SNO; to receive feedback from investors on key aspects of the transaction; and to aid the process of consortium-forming, particularly between local and foreign investors. A formal prequalification process was set up to ensure the credibility of participants.

Bidders for the SNO license were required to present expansion plans and these were, along with proposed prices for service, the primary basis for bid evaluation.

BIDDING

Five groups prequalified for the international competitive tender of the SNO license, including several large international operators. The bidding was completed at the end of 1997 and the winner, Mobile Telephone Networks (MTN) Uganda Limited, won with an offer of \$5.6 million. MTN received its license for full service provision in April 1998 and began operating six months later.

The UTL privatization (for a 51 percent stake) ended up requiring three tries. The third attempt to privatize UTL occurred in 1999 when MTN was, through its success, revealing a more robust market than most had expected. Two bids were received and Detecon/ Telecel won with a bid of \$33.52 million. The sale was completed in June 2000. The government retained 49 percent ownership in UTL.

The expansion plans from the winning bid were incorporated directly into the license as requirements. MTN was thereby required to provide telephone service to every county by 2005, and 89,000 subscriber lines and 2,000 payphones by 2003. The UTL license required the company to provide telephone service to every county, 100,000 subscriber lines and 3,000 payphones by 2005. These license obligations did not specify the type of telephone service to be provided.

EXPECTED POST-TENDER RESULTS

- Within a year of the first tender, MTN Uganda began a \$70 million rollout of new products. Costing 50 percent less than the existing private cellular monopoly service, it made cellular an affordable mass market phenomenon.
- MTN signed up 35,000 wireless subscribers in less than a year, well ahead of the concession agreement's schedule.
- Ten years after privatization, the country has eight operational telecommunications companies serving in excess of 10 million subscribers, out of a population now estimated at about 32 million.
- Teledensity continues to expand: according to independent experts, mobile penetration in Uganda is expected to increase from 39 percent in 2009 to 71 percent by 2014, prompted by the successful liberalization of the sector and increased competition.
- MTN and UTL, two of the most profitable businesses in Uganda, have become the country's largest single taxpayers.
- Uganda is recognized widely as an African telecommunications leader and is considered one of the fastest growing markets in Africa and the Middle East.