



Public-Private Partnership Stories

Kenya: Telkom Kenya



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In December 2007, IFC closed its advisory mandate to the government of Kenya on the privatization of Telkom Kenya Limited (TKL). IFC was able to assist the Kenyan government with a restructuring package that demanded transparency and a need to balance the interests of several players, both public and private.

A consortium led France Telecom won the bid, paying \$390 million for 51 percent of TKL. IFC also helped to unbundle TKL's 60 percent stake in Safaricom and vest it back to the government. The unbundling of this stake led to the flotation of 25 percent of Safaricom in June 2008. The initial public offering was the largest ever in East Africa and raised over KSh 50 billion (about \$800 million) for the government.

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 project was implemented with the financial support of DevCo, a multi-donor facility affiliated with the Private Infrastructure Development Group. DevCo provides critical financial support for important infrastructure transactions in the poorest countries, helping boost economic growth and combat poverty. DevCo is funded by the UK's Department for International Development (DFID), the Austrian Development Agency, the Dutch Ministry of Foreign Affairs, the Swedish International Development Agency, and IFC.

BACKGROUND

Kenya liberalized its telecommunications sector in 2000. Initially, TKL enjoyed a monopoly on landline operations in Kenya, but its business suffered as Kenyans eagerly swapped fixed-line phones for mobiles from other providers. When the privatization of TKL began in 2006, the company only provided landline services to 315,000 subscribers out of a population of 35 million. In comparison, over 7 million people subscribed to the mobile phone services provided by Safaricom (73 percent of the market) and Celtel (27 percent). TKL only participated in this market indirectly, through a 60 percent stake in Safaricom.

In addition, while voice accounted for more than 90 percent of mobile phone operators' revenues and 82 percent of TKL's, data services was a growing segment of the market albeit still a niche one. In this segment, TKL also faced competition from Kenya Data Networks, a company that was investing in rolling out fiber optic infrastructure between the major Kenyan cities.

Finally, in 2007, while the TKL transaction was ongoing, the telecommunications regulatory regime was upgraded to one of unified licenses. Although a necessary step in the evolution of the regulatory regime, this further increased competition in the country's telecommunication sector by allowing the four largest operators –Safaricom, Celtel, Econet (who had obtained a third mobile license), and TKL– to offer the same services. This made it more challenging for IFC to find a private strategic partner for TKL.

IFC'S ROLE

After two unsuccessful attempts to privatize TKL since 2000, the government approached IFC in March 2006 to act as transaction adviser on two linked transactions: the privatization of TKL and the negotiated sale of 9 percent of Safaricom to Vodafone. TKL was effectively on the verge of bankruptcy and its business prospects were bleak under increase competitive pressure from the private mobile telephony players.

The government's objectives were to address the restructuring of the company's deteriorating balance sheet, as well as the losses and significant overstaffing that had accumulated during its monopoly years, as well as also to benefit employees by providing adequate retrenchment compensation for redundant staff and work opportunities for remaining staff.

TRANSACTION STRUCTURE

IFC helped TKL arrange \$81 million in financing to fund the cost of downsizing of thousands of its employees by pledging part of TKL's 60 percent stake in Safaricom. The loan was to be repaid upon the privatization of TKL. This allowed TKL to be privatized as a competitor to Safaricom and thus increase competition in the market. The unbundling of Safaricom also funded the restructuring of TKL's balance sheet so that it could be privatized free of major government liabilities, including government debts

and pension deficits. Lastly, IFC engineered the award of a mobile telephony license to TKL, which was critical to its competitiveness and attractiveness to investors during the privatization transaction.

BIDDING

IFC ran a bidding process for 51 percent of TKL. A consortium led by France Telecom won the bid in late 2007 over the other two bidders: Reliance of India and Telkom South Africa. For telecommunications companies, the technical criteria for bidders included a minimum of 500,000 voice subscribers (fixed, mobile, or both) and experience in deploying broadband services. Financial criteria included at least \$300 million in telecommunications services turnover in the last fiscal year, good financial standing, and the capacity to invest in the expansion of TKL. France Telecom's bid exceeded the government's base price.

The criteria for financial buyers were that they had to have a signed technical services contract with an operator that met the requirements for the telecommunications company, or a signed contract with an experienced telecommunications consulting firm that had the operating, management, and technical skills required to operate TKL.

The unbundling of TKL's stake in Safaricom led to the flotation of 25 percent of Safaricom in June 2008. The initial public offering was five times oversubscribed, raising more than KSh 50 billion (about \$800 million) which more than offset the cost of restructuring TKL.

POST-TENDER RESULTS

- Transaction will improve and expand existing services and increase competition in the sector;
- Improvements in service quality and reliability for the 315,000 existing clients;
- Largest IPO in East Africa raised over \$800 million;
- Over 22 million people have benefited from new or improved access to services (both fixed and mobile);
- Over \$404 million were invested by the private sector;
- Fiscal benefits to the government amounted to over \$1.5 billion.