PRESENTATION ON THE PROCESS FOR THE PRIVATISATION OF THE BOTSWANA TELECOMMUNICATIONS CORPORATION

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Definition of Privatisation – Botswana

Context

- Privatisation in Botswana, broadly define to encompass “…ALL THE MEASURES AND POLICIES AIMED AT STRENGTHENING THE ROLE OF THE PRIVATE SECTOR IN THE ECONOMY”. 

- Elsewhere, it means transferring ownership of public enterprises to private buyers (divestiture) 

- Privatisation as one of the legs of three legged pot; the others being competition and regulation.
Linkages Between Policy Reforms aimed at promoting Private Sector Participation (I)

- Reforms – competition, regulation and privatisation

- Economic theory holds that competitive markets result in most effective and efficient use of resources.

- Competition provides incentives for wealth creation and greater opportunities for efficiency gains.

- Hence, Government’s commitment to regulate anti-competitive behaviour of firms through introduction of Competition Policy and impending legislation
Linkages Between Policy Reforms aimed at promoting Private Sector Participation (II)

- Economic regulation is designed to mimic competition which such competitive forces cannot be realised due to:
  - natural monopoly conditions (utility regulation),
  - meeting social obligations may not be in-line with profit maximization.

- “Reason why we are here to discuss how social policy objectives can be met whilst safeguarding the interests of operators (investors)”.
Economic Regulation enhances private sector participation

- balancing interests of operators and customers,
- providing certainty through clear regulatory decision and principles,
- Ensuring fair reward for investment made and risks accepted,
- Protection of consumers from monopolistic behaviour by service providers.
Further Liberalisation of Telecommunications Sector

- Privatisation predicated on further liberalisation to stimulate competition through:-
  - offering service neutral licenses
  - self provision of transmission links
  - Lifting of restrictions on VoIP
  - Opening of international gateway
  - Gradual tariff rebalancing (compensation)
Other Considerations

- Development of international connectivity through EASSy and WAFS Submarine Cable projects for affordable international access to Botswana.
- Ring-fenced from BTC’s assets and operations on a stand-alone basis.
- Provision of services to non-economic areas to be addressed by Rural Telecommunications Strategy, Universal Service Policy and Fund as a stand alone (avoid cross-subsidisation).
Privatisation Policy Objectives

- Promoting competition, improving efficiency and increasing productivity of enterprises,
- Reducing the size of the public sector and withdrawing from commercial activities which no longer need to be undertaken by public sector,
- Increasing direct citizen participation in ownership of national assets,
- Broadening and deepening the capital markets,
- Accelerating rate of economic growth by stimulating entrepreneurship and investment.

In implementing the privatisation of BTC, Government would like to optimise the attainment of as many of the above objectives as possible while recognising that some may be contradictory.
Strategic Objectives for Privatisation of BTC (I)

- Attract Strategic Equity Partner with proven track record in telecommunications business,
- Subject BTC to greater competition by leveling the playing field for other operators to compete fairly,
- Enhance the contribution of telecommunications industry as an enabler to doing business cost effectively and to improve of Botswana’s competitiveness,
- Reduce Government’s financial commitments and operational involvement in telecommunications sector,
Strategic Objectives for Privatisation of BTC (II)

- Facilitate development and deepening of capital market,

- At operational level, objectives include:
  - acquisition of telecommunications technology and equipment plus modernization and enhancement of network and systems,
  - expanding range of products and services as well as strengthening managerial capabilities of BTC,
  - Improving operational efficiency and enhancing customer service.
Approved BTC Privatisation Strategy

- Sale of about 40% - 49% of equity to a Strategic Equity Partner (SEP),
- Allotment of about 5% of shares to citizen employees of BTC on deferred payment terms via Employee Share Ownership Plan (ESOP),
- Warehouse between 15% - 25% of equity in Privatisation Trust Fund for sale to Batswana at a later date,
- Retain between 25% - 30% of shares for sale to public via stock market listing at a later stage.
Divestiture Process for BTC (I)

- Selection of Transaction Advisors (TA);
  - Invitation to Tender for TA,
  - Evaluation of bids, appointment of TA.

- Selection of Strategic Equity Partner (provides management control);
  - Invitation of Tenders for SEP who offers optimum value (technology, network, roll-out, investment, etc),
  - Evaluation of bids, recommendation of SEP to Government and PPADB,
  - Transaction closure and handover to SEP.
Divestiture Process for BTC (II)

- Employee Share ownership Plan (ESOP);
  - Establishment of the BTC ESOP Trust,
  - ESOP financing (deferred payment basis)
  - Trust Administration

- Same process applies to Privatisation Trust Fund.
Divestiture Process for BTC (II)

INITIAL PUBLIC OFFERING (IPO)

- Sale of shares to public on Botswana Stock Exchange;
  - IPO Strategy formulation,
  - Carrying out IPO due diligence,
  - Preparation of IPO documents, listing approval and public offer.
### Approved Indicative Implementation Plan for Privatisation of BTC

<table>
<thead>
<tr>
<th>Activity</th>
<th>Time Line</th>
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<tbody>
<tr>
<td>1. Approval by Cabinet of BTC privatisation</td>
<td>June 2006</td>
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<td>2. Constitution of BTC Divestiture Reference Committee</td>
<td>June 2006</td>
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<td>3. Recruitment of Transaction Advisor</td>
<td>Sept 2006</td>
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<td>4. Tender for SEP</td>
<td>Jan 2007</td>
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<td>5. Selection of SEP</td>
<td>April 2007</td>
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Role of Transaction Advisor

- Carry out due diligence on BTC
- Carry out valuation of BTC
- Draft Information Memorandum
- Establish and manage data room
- Develop bidding documents
- Carry out bid evaluations
- Undertake due diligence of bidders
- Draft sale and purchase agreements
- Ensure transaction closure
Roles of Stakeholders (I)

- MCST responsible for privatisation of the BTC.
- MFDP responsible for co-ordination of privatisation programme.
- PEEPA plays an **advisory role** to Government, prepares privatisation strategies and implementation plans as well as assist in privatisation transactions.
- De facto PEEPA has recently been delegated the privatisation implementation functions (Air Botswana through a Power of Attorney)
Roles of Stakeholders (II)

- Attorney General is Government’s advisor on all legal aspects of privatisation.
- PPADB regulates and approves sale or disposal by Government assets and parastatals.
- Divestiture Reference Committee steers and guides, in an advisory capacity, the privatisation of BTC.
Issues of Concern

- Tight privatisation timetable (but could be reviewed by Government, if warranted).

- Possible job losses, if BTC overstaffed; but mobile license could create replacement jobs.

- Limited service roll-out in uneconomic areas; that is why rural telecommunications strategy and policy is critical.
Issues of Concern (II)

- Possible loss of value due to further liberalisation; mobile license to compensate.
- Avoidance of transferring public monopoly into private monopoly
Summary

- BTC privatisation is only big and flagship transaction
- Requires careful but expeditious execution to avoid further loss of value (due to intensifying competition)
- Requires involvement of all key stakeholders, including the public, to ensure the shareholders’ objectives are realised whilst making conditions sufficiently attractive to secure a quality SEP
- Transaction not only about maximizing price but shareholder value broadly defined (economic spin-off).
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