



1. Project Data:		Date Posted : 06/18/2002	
PROJ ID: P008518		Appraisal	Actual
Project Name: Telecommunications	Project Costs (US\$M)	31	34.37
Country: Kyrgyz Republic	Loan/Credit (US\$M)	18	17.57
Sector(s): Board: GIC - Mining and other extractive (52%), Other social services (25%), Micro- and SME finance (14%), Housing construction (6%), Pre-primary education (3%)	Cofinancing (US\$M)	7.5	16.94
L/C Number: C2634			
	Board Approval (FY)		94
Partners involved : EBRD	Closing Date	03/16/1998	06/30/2001

Prepared by :	Reviewed by :	Group Manager :	Group:
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2. Project Objectives and Components

a. Objectives
Main objectives: i) to replace/expand network to facilitate growth and improve quality; ii) build institutional capacity of operator and commercialize communications activities; iii) establish a regulatory and policy framework for restructuring and future liberalization of the sector. Advances under this phase of telecom development would lead to the longer-term (phase 3) goals of liberalization and sector reform beyond this project.

b. Components

1. Rehabilitation/Expansion of the telecommunications network to modernize national and international networks and improve international access and service quality, particularly for businesses.
2. Institutional development: ID of Kyrgyz Telecom, strengthening its commercial autonomy and accountability, and building management and planning capabilities and MIS.
3. Sector restructuring: drafting a new telecom law, promoting private sector participation and competition, including liberalization of non-basic telecom market segments, and separation of regulatory, policy and operational functions.

c. Comments on Project Cost, Financing and Dates
Credit (appraisal and actual costs) vs. total project costs are not clearly presented in the ICR (Annex 2).

3. Achievement of Relevant Objectives:
The project met its objectives. In the investment component, the upgrading and expansion of the network, targets were met, providing better services to both high priority and residential users. The physical investment program was fully carried out, and in some instances, exceeded. The telecom entity, KT, was corporatized. Institutional building and commercialization of KT resulted in greater cost recovery, improved financial viability, more efficient operations, and improved quality of services. A billing system was also developed. Sector restructuring was advanced by adopting a new telecommunications law that also included the corporatization and privatization of KT. price and tariff regulation, and establishment of an independent regulatory body. To foster competition, amendments to telecom legislation were made to reduce KT's license exclusivity period in basic, long distance and international segments from 2008 to January 2003, consistent with commitments to WTO. Liberalization of the mobile and value-added services private participation in the cellular and ISP segments.

4. Significant Outcomes/Impacts:
At project end the economic rate of return was calculated at 43%, compared to 37% at appraisal. The financial IRR was calculated at end of project at 31%, compared to 23% at appraisal. Legal/regulatory reforms contributed to the successful accession of the Kyrgyz Republic to the WTO, making the KR the first country of the former Soviet Union to join the WTO. The project also relieved bottlenecks in the telecom network. KT was restructured and organized on commercial principles. Despite setbacks on privatization and regulation (see below, 5), the project started the process of reform and prepared the sector for competition through key elements in the legal and regulatory framework. Reforms in this sector were an important component in instituting the liberalization agenda in the

government as a whole.

5. Significant Shortcomings (including non-compliance with safeguard policies):

The privatization of KT has run into significant difficulties . While IDA and EBRD offered to finance TA for privatization, the government decided to do so on its own . The ICR does not explain why . First attempt to privatize set difficult conditions and in November 1999, no compliant bids were received . While these conditions have been dropped (under Bank advice) in a second attempt to privatize, a conflict on consulting fees with the privatization advisor has further stalled the process . Another setback was the change in the status of the regulator in January 2000 that undermined its independence and power in general, and curtailed its powers over the tariff structure in particular . Thus the last tariff rebalancing did not take place in March 2001 as envisaged, further clouding the prospects for privatization.

6. Ratings :	ICR	OED Review	Reason for Disagreement /Comments
Outcome :	Satisfactory	Satisfactory	
Institutional Dev .:	High	Modest	Failure to privatize so far, and changes in the status of the regulator that curtailed its power and independence, are reasons for downgrading, as they undermine the progress made in commercializing and capacity building of the KT
Sustainability :	Likely	Likely	
Bank Performance :	Satisfactory	Satisfactory	Borrower highly valued Bank input and advice. But the Bank could have leveraged both this operation and other adjustment instruments more strongly and consistently to push the liberalization and privatization agendas.
Borrower Perf .:	Satisfactory	Satisfactory	The Ministry, KT, and the regulator had a mixed record. The government's commitment waned in the late phase of the project, as evidenced by both its actions on privatization and the independence of the regulatory agency, dealing a serious setback to the reform process.
Quality of ICR :		Satisfactory	

NOTE: ICR rating values flagged with '*' don't comply with OP/BP 13.55, but are listed for completeness.

7. Lessons of Broad Applicability:

Blueprint design is inappropriate for projects with long duration in fast changing sectors like telecommunications . Adjustments of project objectives and means to achieve them are likely to be needed The project did not provide advice on privatization, cellular competition, and broader information infrastructure issues . Although the team provided broader advisory assistance during supervision that went beyond the narrower original scope and objectives of the project, incorporating privatization as a clear objective /component might have given the process more support.

Various instruments may be needed to achieve difficult objectives . This investment loan should have been complemented by covenants in parallel adjustment operations with explicit objectives on privatization .

Investment should be coordinated and sequenced to ensure effective utilization of assets and to minimize excessive early outlays . In laying out the physical infrastructure, the gap between switching (which require short time to expand) and access network facilities (which take longer time to implement) widened, resulting in excess idle switching capacity.

Building the capacity and independence of new regulatory agencies is a difficult and highly uncertain process, and requires long term engagement.

8. Assessment Recommended? Yes No

Why? For a broader study of information infrastructure, ICT sector development, and knowledge economy, particularly for poor countries . Validation of ratings.

9. Comments on Quality of ICR:

Satisfactory overall.

