



1. Project Data :		Date Posted : 06/27/2000	
PROJ ID: P010396 OEDID: C2364		Appraisal	Actual
Project Name : Fifth telecommunications project	Project Costs (US\$M)	124.0	142.3
Country: Nepal	Loan/Credit (US\$M)	55.0	50.0
Sector, Major Sect .: Telecommunications & Informatics, Telecommunications	Cofinancing (US\$M)	37.5	50.3
L/C Number: C2364			
	Board Approval (FY)		92
Partners involved : DANIDA, JICA, FINNIDA, NDF	Closing Date	06/30/1999	06/30/1999
Prepared by :	Reviewed by :	Group Manager :	Group:
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<p>2. Project Objectives and Components</p> <p>a. Objectives</p> <p>The project had three objectives:</p> <ol style="list-style-type: none"> 1. Address network shortages and improve network quality 2. Improve Nepal Telecommunications Company's (NTC) performance 3. Prepare the ground work for sector reform, including substantial private sector participation, more competition and independent regulation <p>b. Components</p> <p>Expand telephone services in Katmandu valley through the provision of about 43,000 new lines;</p> <ol style="list-style-type: none"> 1. Expand telephone services outside of Katmandu Valley in both provincial and rural areas through the provision of about 18,000 new lines; 2. Expand the national and international networks; 3. Initiate an institutional development program, including consultant services for improving NTC's management, planning and corporate computer facilities; 4. Provide consultant services to review and make recommendations concerning sector reform issues . <p>c. Comments on Project Cost, Financing and Dates</p> <p>The total actual project cost was US\$ 142.3 million, which was US\$ 18.3 million over the appraisal estimate. The project was financed by a Bank credit of US\$ 55.0 million, US\$ 50.0 million was disbursed and US\$ 5.0 million was canceled. Cofinancers' contributions are as follows: Danish International Development Agency (DANIDA): US\$ 25.0 million; Finnish International Development Agency (FINNIDA): US\$ 3.0 million; Nordic Development Fund (NDF): US\$ 7.3 million; and Japan International Cooperation Agency (JICA): US\$ 15.0 million. The Nepal Telecommunications Corporation (NTC) contributed US\$ 42.0 million to the project, which was US\$ 10.5 million above the appraisal estimate. FINNIDA arranged with NDF to assume 50 percent of its original grant amount.</p>
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<p>3. Achievement of Relevant Objectives :</p> <ol style="list-style-type: none"> 1. Address network shortages and improve network quality : <u>This objective was achieved.</u> NTC has accelerated its network development and, as of June 1999, had more than 210,000 working telephone lines, compared with an appraisal target of about 120,000 working lines. Unsatisfied demand for telephone service has been reduced. 2. Improve Nepal Telecommunications Company's (NTC) performance : <u>This objective has been largely achieved.</u> NTC produced a higher economic rate of return (47 percent) than appraisal estimate (21.7 percent) and a higher financial rate of return (29.3 percent) than the appraisal estimate (19 percent). However, NTC's accounting/financial management remained weak during the project period . 3. Support sector reform : <u>This objective was substantially achieved.</u> A new Telecommunications Act was enacted, providing for international and long distance services to be liberalized by 2001 and expanding rural telecommunications service by NTC and private operators . Policy making duties were separated in the Ministry of Information and Communications and the Nepal Telecommunications Authority (NTA) was created,
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which functions as a sector regulator . Also, NTC achieved its objectives in the areas of reducing staffing ratios, and improving network engineering and planning, operations and maintenance, and service quality .

4. Significant Outcomes /Impacts :

The main achievement of the project was the opening of Nepal's telecommunications market to private operators . The project's private sector development objective has been greatly advanced .

- His Majesty's Government (HMG) has started the process of privatizing NTC: NTC has been corporatized and competition has been introduced through the preparation of tenders to select cellular and wireless local loop (WLL) service providers .
- At the project's end, there were a number of private companies providing telecom service centers, cable television, paging, data transmission, internet access and other services .
- The Telecommunications Act provides for the liberalization of international and long distance services by 2001. It also provides for the expansion of rural telecommunications service by NTC and private operators .
- A sector regulator (NTA) was established, which is an essential step in the sector's efforts to liberalize and attract private competition .

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

- NTC's financial management did not improve as expected and NTC complied late, or not at all, with the Credit covenants having to do with timely financial reporting and audits .
- In spite of the establishment of the legal/regulatory framework, and other steps in reforming the sector, Nepal still has a long way to go in introducing private sector participation and competition in basic telephony .

6. Ratings :	ICR	OED Review	Reason for Disagreement /Comments
Outcome :	Satisfactory	Satisfactory	
Institutional Dev .:	Partial	Modest	While narrow ID <i>objectives</i> were achieved, overall ID <i>impact</i> was only modest, when compared to current sector standards and bank sector strategy
Sustainability :	Likely	Likely	
Bank Performance :	Satisfactory	Satisfactory	
Borrower Perf .:	Satisfactory	Satisfactory	The ICR rating for Borrower Performance was qualified in the text as "Marginally Satisfactory," which is not a formal rating option for the ICR. OED concurs with this rating and, despite difficulties with procurement and implementation, on balance OED rates Borrower performance as "Satisfactory."
Quality of ICR :		Satisfactory	

7. Lessons of Broad Applicability :

- Comprehensive sector reform takes time and continued involvement in a sector provides the Bank with the opportunity to support reforms step by step under various governments .
- The efficacy of a government corporation can be hampered by government salary scales, investment approvals, and procurement procedures . Only the establishment of a privately owned commercial company, operating under suitable regulation, provides the necessary autonomy to quickly expand service to meet demand and incentives to employees to become more consumer oriented and competitive .
- The successful private operation of value-added and other marginal telecommunications services creates new job opportunities and may reduce staff fears of privatization of the main operators . It may also encourage potential investors, as it provides a track record of commercial operations and demonstrates that the legal and regulatory framework is working satisfactorily .

8. Audit Recommended? Yes No

9. Comments on Quality of ICR :

The overall quality of the ICR is satisfactory and qualified only by the fact that the ICR does not mention the reason for the increase in project costs and does not itemize where the money was actually spent . The only mention of the actual project cost is in Table 8B, "Project Financing." (This oversight may be a function of NTC's feeble accounting methods.) Nevertheless, the ICR is well organized, clearly written and cogently analyzed .

