Structured and Securitized Products

Celtel Uganda Ltd.

HIGHLIGHTS

- **The first IFC risk-sharing facility for SME in the telecommunications sector**
- **Designed to improve access to medium–term local currency financing for Celtel mobile phone distributors**
- **Financial support is coupled with a capacity building program to upgrade distributor business practices**

THE PROJECT

Uganda's mobile telecommunication market has grown dramatically during the past five years. Mobile services subscribers have increased from 490,000 in 2002 to 4.6 million in 2007. The primary challenge for mobile operators today is to improve their distribution channels in order to reach lower income population segments and higher-cost geographic regions with limited communications infrastructure.

Celtel Uganda Ltd. is the second biggest mobile services operator in Uganda, with a market share of over 30% and registered customer growth of over 200% as of end-2007. In order to address growing demand, Celtel distributes handsets and starter sets through a network of dealers in charge of specific geographic areas across the country. Most dealers, however, lack the necessary working capital to grow their business. They struggle to raise funding with local commercial banks due to an inability to provide required collateral and a lack of business management skills.

By providing a risk-sharing facility on a portfolio of loans to companies within the Celtel distribution network, IFC is encouraging a financial intermediary (Stanbic Bank Uganda) to provide competitive medium-term financing to this underserved segment of Uganda's small- and medium-sized enterprise (SME) market. In addition to mobilizing this local currency funding, IFC is also providing a capacity building program for Celtel distributors to improve their business practices and facilitate their eligibility for financing.

THE PARTICIPANTS

Stanbic Bank Uganda Ltd. is an 80% subsidiary of Stanbic Africa Holdings Ltd., which, in turn, is owned by the Standard Bank Group Ltd. Stanbic Uganda is the largest bank in Uganda, accounting for 24% of total banking system assets, and provides a wide range of retail and corporate banking services.

Celtel Uganda Ltd began offering mobile phone services in Uganda in 1998. The company is owned by Celtel Group, one of the largest mobile telecommunications operators in sub-Saharan Africa, whose parent company—Zain—is the leading telecommunications operator in the Middle East and Africa.

FINANCING OBJECTIVES

The risk-sharing structure provided by IFC enables Celtel distributors to borrow from Stanbic Uganda at a more competitive interest rate of 15% versus an average interest rate of 19-20% previously charged on loans from local banks. The goals of the project are: (i) to provide Celtel distributors with financing at an affordable cost; (ii) to allow Stanbic Uganda to expand its lending to this sector with lower risk of loss; and (iii) to improve the ability of Celtel to reach previously underserved market segments within Uganda.

IFC International Finance Corporation
World Bank Group

THE STRUCTURE

The maximum potential size of the distributor loan portfolio covered by the risk-sharing facility is UGX 15 billion (US$9.2mn equivalent). IFC will reimburse Stanbic for 30% of all losses exceeding the first loss threshold, subject to a maximum reimbursement amount of UGX 4.2 billion (US$2.6mn equivalent). The first loss tranche (equal to 6% of the outstanding portfolio balance), will be shared between Stanbic Uganda and Celtel on a pro rata and pari passu basis, with Celtel covering 25% of the first loss amount and Stanbic covering the remaining 75%. By absorbing a majority of the first loss tranche, Stanbic Uganda will assume the highest risk portion of the portfolio, incentivizing the bank to implement sound origination, risk management, and work-out practices.

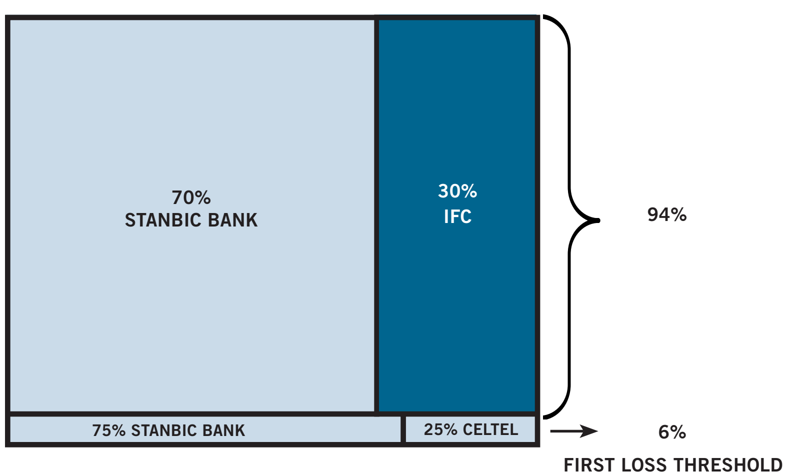
OUTCOME

The risk sharing facility and advisory services program are expected to increase Celtel's sales by approximately 25% in the first year of the program, with 75% of Celtel's distributor network expected to be included in the facility portfolio. The increased financing available to Celtel's distributors should help them to expand their network and reach previously underserved regions of Uganda. In addition, the project is expected to have a significant developmental impact by strengthening the financial condition and management capabilities of the participating distributors. IFC, Stanbic, and Celtel also expect that the project will demonstrate that the SME sector is a viable and profitable market segment worthy of additional financial resources and marketing attention from local lending institutions.

TERMS AND CONDITIONS

Amount of the Portfolio	UGX 15bn (US$9.2 mn equivalent)
Currency	Uganda Shillings
Issue Date	July 07, 2008
Origination Period	3 years
Termination Date	May 2012 or the date on which the sum of all disbursements under the Facility has reached the Maximum IFC Risk Amount
Maximum Reference Portfolio Balance	UGX 15bn (US$9.2mn equivalent)
Maximum IFC Guarantee Amount	UGX 4.2bn (US$2.6mn equivalent)
Enhancement	IFC covers 30% of all losses in excess of 6% first loss threshold

STRUCTURE OF THE RISK SHARING FACILITY



IFC | 2121 PENNSYLVANIA AVENUE | WASHINGTON, DC 20433
EMAIL: STRUCTUREDFINANCE@IFC.ORG | WWW.IFC.ORG/STRUCTUREDFINANCE