
SEACOM: LESSONS LEARNED FROM A SUCCESSFUL FUNDING

Abstract: The SEACOM cable system went live in the summer of 2009 amidst great anticipation and excitement as to the substantial benefits that it and other future cable systems would bring to African communications and continued African development and integration into the world economy. The SEACOM project faced many obstacles to its successful development, not least of which was its funding. The lingering effects of the 2001 telecommunications industry downfall on overall telecom project financing, combined with the financing uncertainties inherent in the African region and complexity of the project's multi-jurisdictional character, did not initially bode well for a successful project funding. Yet, SEACOM was able to obtain its project funding in short order. This paper discusses the factors that led to SEACOM's funding success and the lessons that future cable system developers can take from SEACOM's funding success.

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In the summer of 2009, the SEACOM cable system went live amidst much fanfare. The fanfare was deserving, as the SEACOM system's launch marked a watershed moment for communications in the African continent. Indeed, at its launch, the SEACOM system became the first submarine cable system to link East Africa to global fiber networks, doing away with East Africa's complete dependence on costly and high latency satellite systems for communications. Moreover, the SEACOM system is expected to be just the first of several undersea cable systems to connect Africa with the rest of the fiber world. All of this is cause for optimism for continued African development and integration into the world economy.

As with other ambitious infrastructure projects, the SEACOM project faced a number of hurdles to its development. Its funding, not surprisingly, loomed largest among its initial hurdles. The lingering effects of the 2001 telecommunications industry downfall on overall telecom project financing, combined with the financing uncertainties inherent in the African region, did not initially bode well for a successful project funding. Added to this was the

complexity of the project's multi-jurisdictional character and resulting regulatory issues. Yet, SEACOM was able to obtain its project funding in relatively short order -- financial closure for the project occurred at YE 2007, which was roughly one year and a half after the project itself was conceived by its developers.

SEACOM's successful funding was made possible by a multitude of factors, the most important of which are set out below. Every telecom project is unique. The existence of SEACOM's funding success factors do not, of course, guarantee funding success for other telecom projects, and other factors can contribute to the funding success or failure of other telecom projects. Nonetheless, the authors consider that valuable lessons lie in the success of SEACOM's funding that can be applied to future telecom projects.

1. First Mover With Sound Technical and Viable Construction Plan. From the outset, SEACOM distinguished itself from the competition by its "first-to-launch" commitment, its one-shop Africa to Europe solution and its sound technical and viable construction plan.

Early on, SEACOM persuaded its would-be funders that it was a "first mover"

with a sound technical and viable construction plan. SEACOM's developers expended great efforts to ensure this. These efforts included engaging its supplier to undertake the marine survey of the critical southern portion of the SEACOM system prior to actual financial closure. Although undertaking this partial marine survey was obviously a calculated risk, it paid off -- as it went a long way to showing how advanced the SEACOM project was (including, critically, as compared to its competitors) and underscored the commitment of its developers and the soundness of the project's construction and development plan.

SEACOM's sound technical and viable construction plan, smart expenditure decisions about its early seed money, and its one-shop Africa to Europe solution, proved to be key selling points to SEACOM's would-be investors and financiers, and, undoubtedly, contributed to SEACOM's anchor tenant pre-sale success discussed below. The "first to launch" commitment also proved to be a strong marketing tool -- as headlines about SEACOM splashed across newspapers and periodicals in Africa and elsewhere, stating that SEACOM would launch first.

2. Strong Business Plan. SEACOM presented a well thought out and ambitious (yet viable) business plan to its would-be funding sources. Its business plan demonstrated quantitatively how SEACOM would be profitable, taking into account expected costs, revenues, market conditions and other matters typically considered by business plans.

In particular, the business plan discussed how SEACOM already had landing rights with properly-licensed landing parties in all of the relevant jurisdictions, eliminating a potential red flag

to the project from the would-be funders. It also emphasized how profitability would be boosted by the significant savings predicted to result from SEACOM's decision to purchase certain portions of its system rather than develop them, as well as from sales of fiber on the portion of its system north of Africa to a co-build partner. In addition, the plan addressed potential concerns about future competition by emphasizing expectations of healthy demand in the region, and SEACOM's ability to differentiate itself from other competing systems by providing a comprehensive one-shop Africa to Europe solution and being first to launch.

SEACOM's business plan was more than just numbers. It confronted head-on many of the common notions as to the African telecommunications industry that have hindered its development, and, in essence, showed how SEACOM would in fact be a profitable enterprise despite the often perceived pitfalls of developing telecommunications projects in Africa.

Perhaps most importantly, SEACOM demonstrated that concerns as to uncertainty in future demand were not warranted, given the up-to-then largely untapped East African market. Also, SEACOM was able to show that there was strong government support and other enabling conditions for the terrestrial access essential for the long term success of the system (and fundamental in the business model).

3. Value of First Dollar and Proof of Concept. SEACOM's developers were able to show early on that the project was a real project that would indeed materialize in short order.

Much of this flowed from an appreciation by SEACOM's developers of the value of the first money into the project,

and their understanding that the success of the project would not necessarily be driven by having early project money but on how this early project money would be used. With this appreciation and understanding in hand, the developers made smart early expenditure decisions. For instance, much of the initial project money was spent on legal fees associated with development of the project documentation. The resulting sound project documentation did not necessarily get the project running, but did create the contractual basis for a future successful enterprise.

In addition, a large portion of the initial project money was contributed by the founding developers, which, of course, showed to would be funders that the developers had “skin in the game” and thus incentivized to maximize the success of the project.

Also key to the “proof of concept” was a showing of significant regional political goodwill for the SEACOM project as well as healthy regional support from private and public institutions. The political support flowed from the wise recognition by political leaders of the role played by telecommunications in overall economic and social development and political stability of East Africa, and, to an additional degree, by the good and often long-standing relations enjoyed by certain of SEACOM’s developers and team leaders with political leaders in the region. Private institutions, in turn, recognized that good communications is good for business and would aid their own enterprises. Others -- including, undoubtedly, countless African individuals - - supported SEACOM simply because it and other competing cable systems were widely anticipated to bring much-needed improvements to their lives in the form of

faster and cheaper Internet and telephone connections.

Equally as important, SEACOM showed its funders that the project was not only well thought-out but also had strong leadership and organization. Central to this organization was the appointment, early on, of a group of skilled individuals with vast experience in both infrastructure development and the African region as project leaders as well as the engagement of industry-recognized consultants (lawyers, engineers, business consultants, etc.). The assembled SEACOM team boasted countless infrastructure projects previously successfully developed by them, and lent credence to the project -- particularly at its early stages of its development.

4. Strong Organization.

SEACOM’s project leaders were successful in maintaining order and proper coordination of the project throughout its various stages of development. This was a priority of its developers and was essential in light of the moving parts and number of players actually involved in SEACOM’s funding and overall development -- countless legal teams, engineers, consultants, investors and would-be investors, government officials, vendors, etc. It also greatly facilitated the actual funding process, by, among other things, making it possible to both promptly respond to investor and lender requests and quickly satisfy the conditions precedent required by SEACOM’s lenders and equity investors to actual funding.

The project’s organizational strength was made evident by a detailed plan of work for project completion and implementation. The plan of work included time lines and responsibility matrices, and addressed all of

the elements that would be needed to take the project to fruition -- including not only construction but also critical elements such as permitting and landing rights.

A great deal of SEACOM's organizational success flowed from its developers' appointment of the project's leaders and consultants at the outset of the project. This provided continuity and a sense of unity for the project as well as good guidance from the outset.

5. Sound Financial Structure. SEACOM's developers illustrated quantitatively to its would-be funding sources how their investment or loaned monies would be put to use and produce results. Much of this relied on a combination of the foregoing points (first mover, strong business plan, proof of concept and strong organization).

Key to SEACOM's ability to demonstrate a sound financial structure was the success of its project leaders in selling capacity in the early stages of the project's development, to strong, creditworthy anchor tenants. These capacity pre-sales supported what the developers said about the project's financial structure as well as to what was said in the business plan in respect of future demand and expected sales.

6. Early Equity Investment. SEACOM's robust regional support and strong business case, enabled its developers to line up equity investors for a large portion of the project's funding requirements early on in its development. The project's early equity commitments as well as the developers' own initial investment made it much easier for the developers to in turn obtain the required financing for the project, since this debt portion would accordingly

only account for a relatively small portion of the project's initial funding requirements.

SEACOM's efforts at procuring equity commitments were aided by a keen interest on the part of many potential Africa-based investors to invest in a true African telecommunications project. This was in line with the view held by SEACOM's developers that for the SEACOM system to be successful in the long run, its equity funding needed to be Africa-based. There were of course also political and symbolic overtones to the system being African-owned. Not surprisingly, SEACOM's initial equity investors were predominantly African-based and, to date, SEACOM remains a primarily African owned enterprise.

7. Strong Project Documentation. SEACOM spent a significant amount of time and money on lawyers and other consultants to ensure the quality of its project documentation. Its developers felt that this was money well spent, as they recognized the importance of not only having a concept to implement but also of having contractually binding agreements to ensure implementation. In addition to lending credence to the project, the sound project documentation enabled SEACOM's funding sources (including their counsel) to subsequently quickly sign-off on the project documentation.

8. Good Coordination in Execution of Timetable. One of the most significant challenges for SEACOM was execution of its timetable -- coordinating the financial close with the payment schedule under the construction contract, regulatory permits, and capacity sales, while juggling the inter-dependent requirements of each of the stakeholders. The timetable unfolded like a roller coaster ride with tremendous pressure

to achieve a quick financial close, precipitated by impending payment obligations on the construction contract and the possibility looming overhead that SEACOM would lose its place in the supplier's pipeline (and thus jeopardize its launch date) if financial close was not achieved in relatively quick order. Equity investors created additional pressure on debt financing closure and disbursement, as they required it as a condition of their own funding.

The tremendous pressure to close SEACOM's financing ultimately worked to its advantage. Although creating some nervous moments and sleepless nights for those involved in the project, it served as an accelerator not only for the SEACOM team but also for the lender and equity teams. All of the individuals involved understood that in order for the project to successfully fund in the short time afforded to it, no one could have a let down and all teams and moving parts of the projects would need to work together towards achieving this goal. The pressure created a sense of cohesiveness and teamwork among all of the project's teams - whether on the lender or equity side, the supplier side or on the SEACOM team itself -- that drove the funding to its successful and timely closing.

9. Good Partners -- Flexible. Another key to SEACOM's funding success was the experience and flexibility of its co-build partners, equity investors and other stakeholders -- all of which understood that there were alternative ways of satisfying funding, regulatory and other pre-requisites.

10. Privately Funded System. There had been prior attempts to develop cable systems connecting Africa to global fiber networks. These other competing systems presented challenges of being backed by governmental

entities or quasi-public entities (with national governments as their backers). Although these type of backers may present significant advantages in certain contexts, they can also present challenges for a project -- including possible bureaucratic delays, political wrangling and similar type of complexities.

SEACOM, by contrast, was conceived by a lean group of experienced infrastructure developers, with a proven track record in the African region. SEACOM proved to be more agile and nimble than its predecessors, and successfully accomplished its financial closure and subsequent launch.

11. Not a Consortium - Aided With Flexibility. SEACOM's non-consortium model of decision-making contributed tremendously to its success in obtaining funding in short order and achieving a relatively quick launch. A consortium model of infrastructure development - although essential for certain major infrastructure projects - involves multiple organizations, each with its own, often bureaucratic, governance structure. Such a model can often cause delays in projects, as participants may have different views of achieving the result, and frequently spend countless days and hours debating the various alternatives, and making sure that their organizations are internally comfortable with the agreed-upon consensus approach.

With a centralized, fluid decision-making process, and a small group of extremely dedicated, core people responsible for making decisions, SEACOM was able to move quickly in each phase of the project, to react relatively quickly to unforeseen or unplanned circumstances requiring adjustments to the

execution timetable, and to effect changes in a timely manner in response to changes in stakeholders' needs and requirements.

Summary of Lessons Learned and Conclusions.

SEACOM'S funding success was a critical element in enabling SEACOM to go live in the summer of 2009. Takeaways for future telecom project financings include the following:

- A demonstration of a sound technical and viable construction plan is key;
- A robust, well-thought out business plan is essential;
- The difference between success and failure in a project isn't necessarily about having sufficient seed or initial money, but how that money is used;
- Proof of concept: the would-be developer must be prepared to show that it is capable of developing the project and operating it profitably;
- Sound financial structure: the would-be developer should also be able to demonstrate to future investors and lenders how their investments and loaned monies will work in the context of a profitable enterprise;
- Experienced project leaders and consultants familiar with the project region are of paramount importance, and their appointment early on is also fundamental;
- Strong project documentation is critical, and the would-be developer can expect to spend significant amounts of money in ensuring this;
- Project flexibility -- whether in terms of lenders, investors, partners, or project structure -- is of vital importance. Organizations that are lean and nimble in decision-making

processes, tend to be more flexible in adjusting to unplanned and unforeseen circumstances and other requirements;

- Project structure/model is also key and can determine the success or failure of a project
- In an environment where there are competing projects, distinguishing yourself from the competition is important; and
- Maintaining good organization and coordination is of utmost importance in a complex, multi-jurisdictional financing.

The lessons learned summarized above, can be applied to any submarine cable project in any part of the world. There are always unforeseen circumstances -- whether regulatory, construction or otherwise -- that require flexibility and open-mindedness to address. Additionally, the decision-making processes of the key players involved are essential in achieving a build-out in as expedited a manner as possible.