

One page executive summary: Financing FTTH Networks

An important question is how best to finance multi-year infrastructure projects affected by short-term business uncertainties. Fibre-to-the-home projects have high upfront costs for getting the optical fibre into the ground. Although, like most things in life, you get what you pay for! The situation is further complicated by the competitive and rapidly changing nature of the telecommunications market. Reconciling the two aspects of the FTTH project can be a challenge for both project managers and investors.

To help unearth some answers to this vital question, the FTTH Council Europe commissioned Telecom Advisory Services and iDATE to investigate the financial strategies used by FTTH projects, and determine what factors contributed to a successful outcome. The analysts examined various FTTH projects and categorised them according to their financial model, investment structure and risk profile. Using this information, they were able to identify the most favourable financial model and investment structures for FTTH projects.

Public funding to the fore

The study identified eight common models for FTTH projects. There was no single approach that suited all projects; the best approach depended on the local conditions and the competitive market in which the project took place. Projects that are funded by incumbents typically target urban and suburban markets, while alternative operators are more prevalent in suburban settings. The public-owned utility model appears to be ideal for bringing FTTH to rural environments.

The authors conclude that the most favourable funding model is based, where possible and appropriate, on public funding rather than equity or debt (loans). Public institutions such as local government or the European Investment Bank (EIB) tend to offer more favourable terms than the commercial lenders and products with a long maturity that matches the long-term nature of the FTTH project.

Novel method for financing small projects

Paradoxically, financing a smaller project can prove to be more difficult than financing a larger one. Small communities cannot always gain access to support from public lending institutions such as the EIB because the amounts that they require fall below the lender's facility limits. Instead small projects are often forced to turn to commercial banks with more stringent lending requirements.

The authors of the study proposed a "pooled financing" model to help to overcome this obstacle. A pooled financing structure would benefit projects because it would spread the transaction costs among several borrowers, and release access to funding that had previously been denied. A pool of loans is also more attractive to lenders because it diversifies the risk – it is unlikely that all projects would default on their loans.

The difference between success and failure

Finally, the study identified a number of practices that contributed to a successful outcome. Among the practices that reduced the risk of a project were demand aggregation and adoption thresholds, sharing deployment costs across multiple players, increasing the addressable customer base with an open access business model, and – in the case of incumbents – funding the roll-out from existing company funds.

Conversely, the practices that contribute to a project failure include limited support to negotiate financial debt terms, lack of focus on the project's business plan, over-optimistic expectations of customer acquisition rates, and lack of commitment from the project sponsor, which could lead to them pulling out prematurely.

At the end of the day, good business sense must prevail. The factor with the greatest bearing on the project's success is careful development of the business plan, and the conduct of due diligence by an outside party.