

## **Third Party Evaluator's Opinion on Telecommunications Network Expansion Project**

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### **Relevance**

The infrastructure gap, particularly in the telecommunication area, between Ecuador and the region's is deep. According to the Consejo Nacional de Competitividad (Competitiveness National Council), for the year 2002, the world average telephone density was 17.19%, the Latin American average was 16.34%, and the Andean (Ecuador, Colombia, Venezuela, Perú y Bolivia) average was 12.24%. In spite of an important improvement in telephone density in the country in the last years -as the ex-post evaluation notices-, Ecuador only has a density of 11.38%. However, the project has supplied nearly 5% telephone lines in Ecuador.

In the year 2000, Ecuador adopted the American dollar –a hard currency- as the national currency. Therefore, without a monetary policy, competitiveness is basically determined by structural factors, such as telecommunication network and connectiveness. The first axis of the Agenda Nacional de Conectividad (National Agenda for Connectiveness), a part of the Plan Nacional de Competitividad (National Plan for Competitiveness), is to build access infrastructure, i.e., to improve the telecommunication network.

Consequently, I consider the project had a very high relevance. However, the gap in telecommunications network *inside* the country is also deep. The project's main target areas - Quito, Guayaquil and their surrounding areas- are the most developed ones. For instance, Pichincha Province (whose capital is Quito) has a telephone density of 19.4%, whereas Manabí, the third biggest province, has a density of only 4.38%. Therefore, it would be a better strategy to support intermediate cities and rural sector infrastructure, energy and telecommunications networks. This is not just a matter of equity. It is also a matter of efficiency, since Quito and Guayaquil have enough economic and political weight to obtain national resources to improve their telecommunication network. Supporting the rest of the country could start then a virtuous circle to improve resource allocations and productive infrastructure.

Finally, there is a special national program called FODETEL (National Fund for Telecommunications) to improve telecommunication network in rural and poor urban areas. This is why financing telecommunication network through FODETEL could be a better way to achieve even more relevance for future projects.

### **Efficiency**

The initial project period was February 1988 - March 1990, that is, 25 months. However, in the end the project lasted 107 months. Consequently, there was clearly a lack of efficiency in the executive agency. A crucial factor for this situation was the continuous changes in the telecommunication regulatory and operative framework.

The delay could substantially affect the project's internal rate of return. However, due to the lack of financial data, it was not possible to compute the ex-post economic profitability of the project. This is a critical –and unfortunately very usual- problem in Ecuadorian projects financed by external loans, and it is very common to find projects that have a huge impact, but no profitability. In other words, considering just the benefit but not the cost of the utilized resources does not make economic sense. An ex post cost-benefit analysis is fundamental and without it, any evaluation of the project is *absolutely* incomplete.

Therefore, in the future, the donor agency should impose mandatory requirements –and the corresponding penalties- to keep adequate records of the project. This could be achieved through an external supervisory (not executive) agency in situ, for instance, a national university.