

## **Third Party Evaluator's Opinion on Telecommunication Network Expansion Project in Colombo Area**

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### **Criteria 1 – Relevance**

For the project to achieve its objectives of expanding telephone services to meet the increasing demand by installing the basic infrastructure embodying advanced technology in the Colombo area, which is the hub of commercial activity of the country, and thereby invigorate economic activity of the country, it depends on how well the critical variables in the telecommunications sector, i.e., liberalization, competition, investment and technological improvements, get managed by adoption of appropriate policy. Following are view points on how appropriately sector policy managed these interdependent variables in the period between appraisal (1997) and ex-post evaluation (2006), and also on what effects the project itself may have had on sector policy. Focusing on the latter, it can be said that the installation of the basic infrastructure incorporating advanced technology for fixed access telephones by itself paved the way for the adoption of the policies on deregularization, privatization of telecommunication services, competition and investment with foreign participation. Under the National Telecommunications Policy (2002), the support given for Wireless Local Loop (WLL) that connects with the fixed line network developed by the project using radio links, was able to attract two private operators to enter the market with foreign capital investment participation, and thereby increase competition and broad base supply of services. External Gateway was opened for competition with the ending of Sri Lanka Telecom's monopoly enabling 32 private operators to enter the market leading to reduction of IDD call charges and growth of the sector. Ten digit number system was introduced to accommodate the increasing demand. However, the sector policy was criticized by Central Bank in 2003 for having suspended the progress of national telecommunications policy, thereby increasing regulatory uncertainty and restriction in the granting of licenses; for foregoing the advantages that could have been reaped had the Gateway been opened much earlier; for not implementing the Calling Party Pays (CPP) which would have promoted growth of telecommunication services and inability to have overcome limitedness of sector's capacity associated with inadequate bandwidth.

Sectoral policy reached to these criticisms by supporting investments in three submarine cable projects (2002-2006) to expand the capacity of the sector by increasing the bandwidth. Code Division Multiple Action (CDMA) technology based wireless networks were developed to provide easy access to services in rural areas. Sector policy thus became sensitive and flexible to adopt ever improving advanced technology which is a reflection of direct or indirect effect of the project on policy. The relevance of sectoral policy that activated the critical variables is attested to by the current Ten Year Development Framework, 2006-2016, which will continue to develop the sector on the same lines as above implying fully liberalized and competitive telecommunications market environment harnessing the ever improving technologies within a framework of good public-private partnership relations.

### **Criteria 2 – Impacts**

Fixed access phone network grew at high rates of 26% in 2005 and by 52% in 2006 mainly due to the introduction of CDMA technology and the expansion of the wireless network linked to it which enabled the sector to overcome the constraint of inadequate capacity. For the same reasons, fixed access teledensity rose from 5.1% in 2004 to 6.3% in 2005 and subscribers to internet and e mail services increased by 23% in 2005 and 13% in 2006, raising the internet-e mail subscription density at national level to 1.4% and to 5.3% at urban level. This was due to the expansion in competition arising from the entry into the market by 29 service providers. Call completion improved and the fault rate declined signifying improvement in quality as well of the network, mainly due to the expansion in competition. IDD call charges got reduced by over 50% and calls grew in volume with the number of subscribers to IDD facilities provided by SLT alone growing by 25%, benefiting both domestic and corporate business, mainly due to the

ending of SLT's monopoly over the external gateway and opening it to competition, which enabled 32 external gateway operators to enter the market. The rural urban disparity in the access to telephone services tended to decline due to a number of reasons - the introduction of the WLL technology which connects subscriber lines to fixed network using radio links and therefore effective in providing telecom services in regions with low demand; the entry of 2 private operators in competition with each other that helped to spread WLL telephone services to farming areas around the capital city and to other rural regions; the introduction of the CDMA based wireless networks technology which unlike fixed line telephones provided easy access to telephone services in rural areas at lower fixed cost while also providing other value added services; increased subsidies given to operators of payphones in rural areas on more liberalized eligibility conditions; adoption of WLL and CDMA technologies which yielded a more equitable distribution of the facilities in the provinces with their shares ranging from 9-13% as compared to SLT's land phones which shows a less equitable distribution with the provincial shares ranging from 4-8%. Several commercial banks have begun to operate their business through online electronic commerce system to enhance bank services in outstations through agency banking network. The government has taken initiatives to transform ICT into social benefits through several innovative projects – e'lanka government network, schoolnet, lanka education and research network, *nanasala*, (knowledge centres), national distance education network, business process outsourcing.

Sources consulted – Central Bank Annual Reports, 2002, 2003, 2004, 2005 & 2006; Ten Year Development Framework 2006-2016, Department of National Planning.