

# Bangladesh, Sri Lanka Effects of Privatization in the Telecommunications Sector

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## Outline and Objectives

This thematic evaluation clarifies the impact that privatization in Sri Lanka had on the level of customer services, business efficiency, and financial conditions of the executing agency, Sri Lanka Telecom (SLT), and examines the role that the ODA loan played in the privatization of the telecom sector in the country. In analyzing the effects of privatization, the evaluation compares conditions in the telecom sector in Sri Lanka before and after privatization. It also compares SLT with the Bangladesh Telegraph and Telephone Bureau (BTTB), which is in the preparatory stages of becoming a public corporation.

Compared to before the privatization, business efficiency and the quality of telecom services by SLT improved after its privatization. Access to telecom services in remote areas also improved. In comparison with Bangladesh, a high level of customer satisfaction with SLT was identified. The ODA loan project contributed to the formation of the executing agency as a joint stock company, the entry of new

enterprises in the market, and the establishment of an environment conducive to competition. Therefore, the project assisted the country in the smooth transition to privatization and the demonstration of privatization effects.

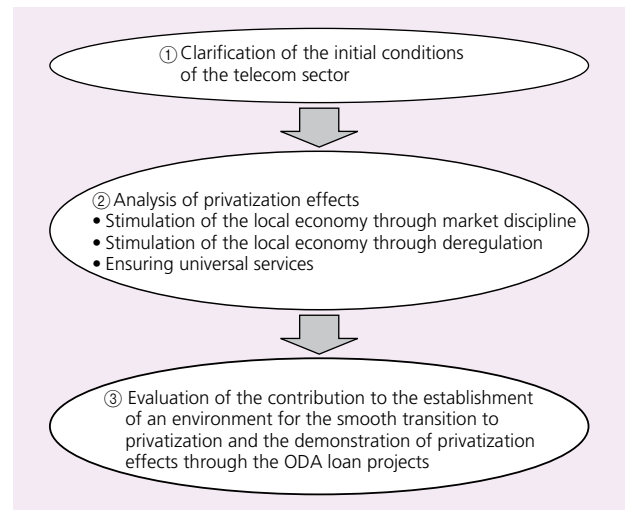
Project Name	Loan Agreement	Loan Amount	Final Disbursement
Bangladesh Greater Dhaka Telecommunications Network Improvement Project (2)	May 1992	14,761 million yen	February 2003
Sri Lanka Telecommunication Network Expansion Project in the Colombo Area	August 1997	10,023 million yen	October 2004

\*See pages 87 and 88 for individual evaluations of the above projects.

## Evaluation Methodology

The objectives of this thematic evaluation were 1) to identify the impact of privatization in Sri Lanka on the level of customer services, business efficiency, and on the financial conditions of the executing agency of the ODA loan, SLT, and 2) to examine the role of the ODA loan, granted around the same time as privatization, in the privatization of the telecom sector.

In specific terms, the evaluation ① identifies the differences in the initial conditions and the regulatory policies regarding privatization in Sri Lanka and Bangladesh. It also ② analyzes business efficiency, the level of services, and financial conditions before and after the privatization of SLT from three perspectives; stimulation of the local economy through market discipline, and deregulation, and through the provision of universal services. Furthermore, it measures the effects of privatization in comparison with the BTTB, which is currently in the preparatory stages of becoming a public company. Lastly this study ③ evaluates the contribution of the ODA loan projects to the smooth transition to privatization of the telecom sector in Sri Lanka and to the establishment of an environment for demonstrating privatization effects.



## Evaluation Results

### 1. Differences in Initial Conditions and Regulatory Policies

In the analysis of the differences in the environment surrounding the SLT and the BTTB, the most notable external factors were the differences in infrastructure conditions of the telecom networks and the related policies of the two governments.

There was a significant difference between these two countries in terms of the telephone penetration rate at the time of project commencement. The establishment of a fixed-line telephone network infrastructure requires substantial initial investment as it entails laying cables and installing telephone exchange equipment. Such costly back-

bone infrastructure development does not efficiently progress if left to private sector initiatives; it is therefore necessary for governments to promote such infrastructure as a public investment. In Bangladesh, the BTTB remained as a government department (MOPT: Ministry of Post and Telecommunications) and the government exercised monopolistic control over the fixed-line telephone network infrastructure. This was one of the underlying reasons for the lagging fixed-line telephone infrastructure. The political environment (the political power of the labor unions, etc.) was also a factor inhibiting the entry of private companies.



Conducting an interview survey at Sri Lanka Telecom (Sri Lanka)

In Sri Lanka, on the other hand, the penetration rate of fixed-line telephones was already relatively high and the environment, including that in metropolitan areas, was favorable to private investment.

Regarding regulatory policies in the two countries, some differences were observed.

In Sri Lanka, WLL (wireless local loop, a wireless telephone network using CDMA technology) and fixed lines were allowed to operate in the same area, and mutual interconnection to fixed-lines by private sector new entrants was obligatory. Whereas in Bangladesh, fixed lines and WLL were not permitted in Dhaka and the BTTB's monopoly in telecommunications was strongly protected. In addition, the Government of Sri Lanka did not engage in the fixed-line business but assumed a supervisory role to ensure fair competition through regulations. In 1996, the Telecommunications Regulatory Commission, a regulatory authority with strong autonomy, assumed oversight of compliance with regulations in the telecom sector and the Ministry of Postal Services and Com-

munications became the main jurisdictional body in the telecommunications industry. In this way, in Sri Lanka, the government's stance and supporting measures fostered an environment where private sectors in the industry could compete with the SLT on a level playing field. In Bangladesh, on the other hand, a similar environment was not forged.

In addition to the above differences, the business management entities of the telecom sector assumed quite different forms in the two countries. While the SLT in Sri Lanka went as far as privatization (with the private sector holding shares), the Government of Bangladesh has only just begun to consider reorganizing the BTTB as a stockholding company. However, even if it issues stocks, the BTTB will remain a state-owned joint stockholding company, and opening the company to foreign or private sector investment as in Sri Lanka has not yet been considered.

**Table 1: Differences in Deregulation and Privatization in Sri Lanka and Bangladesh**

	Deregulation	Privatization
Sri Lanka	The same conditions of competition as the SLT were guaranteed for new entrants.	The SLT was privatized and foreign investors and the private sector were allowed to have equity interests in it.
Bangladesh	Private sector entry is permitted but operators are not allowed to engage in the fixed-line business in the same geographical area (city of Dhaka) as the BTTB operates.	As of 2006, consideration of the establishment of a joint stockholding company (public corporation) as the executing agency within a government administrative organization remains at the discussion stage.

## 2. Effects of Privatization on Business Efficiency, Level of Service, and Financial Conditions

A comparison of the SLT before privatization in 1997 and after privatization in 2006 confirmed that business efficiency and the quality of telecommunications had improved (see Table 2). Furthermore, an analysis on universal services confirmed that access to services in remote areas had also improved.

There was an increase in the number of lines per employee. One of the contributing factors was an increase in business efficiency resulting from the introduction of laborsaving digital technology and equipment and from the improvement in business management. In addition, during the same period, a significant increase in pre-tax profit was recorded. "Call completion rate (the number of successful connections to the number of attempted calls)" and the "telephone service restoration rate within 24-hours" also improved. Moreover, the ratio of telephone subscribers in the Colombo metropolitan area to nationwide telephone subscribers, an indicator for universal services in remote areas, improved from 60.4% in 1997 to 42.8% in 2005.

**Table 2: Business Efficiency and Telecommunications Quality Before and After Privatization**

	Before Privatization (1997)	After Privatization (2006)
Profit before taxes	2.5 billion rupees	9.3 billion rupees
Call completion rate	55%	86%
Telephone service restoration rate within 24-hours	32.9%	47.1%

Through the comparison of BTTB and SLT, higher customer satisfaction indicated for the latter was particularly evident (see Table 3). SLT customers expressed their satisfaction with "good telephone connections" and "the high quality of telephone reception." At the same time, the comparison re-

vealed some dissatisfaction with BTTB services, with some customers claiming that "invoiced telephone charges are not clearly explained in the bill."

**Table 3: Customer Satisfaction with the Provision of Services**

	BTTB (Bangladesh)				SLT (Sri Lanka)			
	Subscriber Households		Subscriber Companies		Subscriber Households		Subscriber Companies	
	No.	%	No.	%	No.	%	No.	%
Extremely satisfied	13	5	13	5	295	33	32	36
Very satisfied	58	22	65	26	453	51	35	39
Fairly satisfied	114	43	123	49	111	12	7	8
Somewhat dissatisfied	57	22	38	15	26	3	9	10
Dissatisfied	20	8	13	5	9	1	7	8
Total	262	100	252	100	894	100	90	100

In summary, the case study of Sri Lanka suggests that if the appropriate conditions are met at the time of privatization, it is possible for the executing agency to maintain profitability and to promote improvement in business efficiency while pursuing development objectives such as maintaining universal services.



Sharing findings from a beneficiary survey at a seminar with the executing agency (Bangladesh).

## 3. Contribution of the ODA Loan Project in Establishing an Environment for Privatization

In Sri Lanka, the ODA loan project led to the establishment of an environment which facilitated the smooth promotion of privatization policies including the establishment of a joint stockholding company as the executing agency, competition in the industry through the new entry of enterprises in the telecom sector, and the demonstration of privatization effects. Therefore, the ODA loan project can be recognized as assisting indirectly in the privatization of Sri Lanka's telecom sector. The ODA loan project also assisted in increasing the business efficiency of the existing telecommunications company (SLT) in Sri Lanka, in strengthening

its financial position, and establishing an environment conducive to competition. Unlike in Japan where new entrants already had their own dedicated lines at the time of deregulation of the telecom sector, new entrants in Sri Lanka were obliged to lease lines from the SLT when the market in the telecom sector opened up to private sector companies. Boosting the SLT's telephone network capacity through the ODA loan project also enabled the SLT to secure sufficient lines to lease to new market entrants and thereby made it possible to provide equal competitive conditions to new market entrants.