

Enabling investment: Lessons from the region

Rohan Samarajiva with
contributions from Team





Agenda

- Why is investment important?
 - Benefits of creating conditions for investment
 - Liberalization and its results in Pakistan, India, and Sri Lanka
- Regulatory actions that create an environment conducive to investment
 - Example of improving backbone network



Why investment?

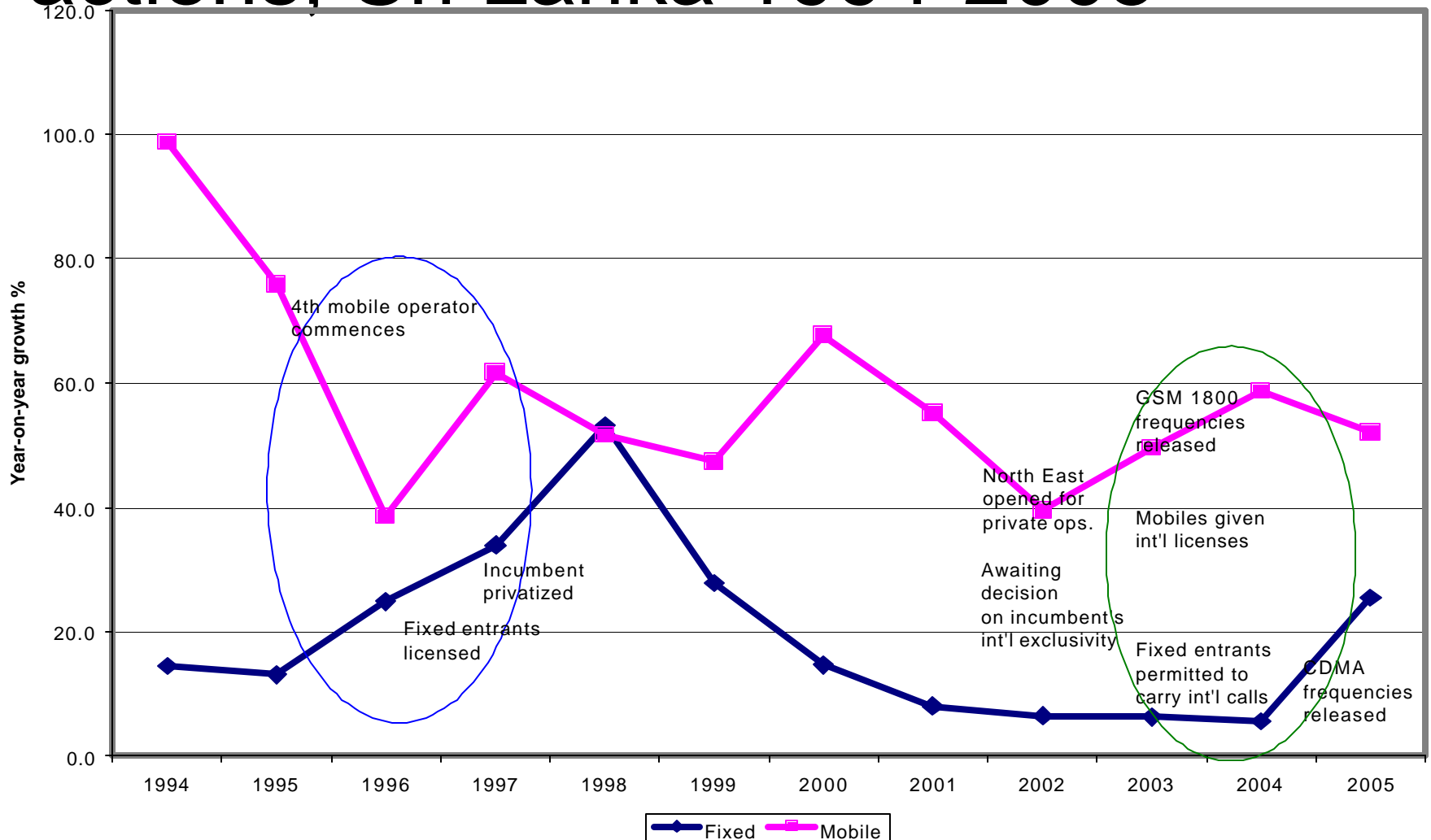
- Not an end, but the necessary means to achieving good sector performance:
 - Network buildout → greater connectivity
 - More value for money
 - Lower prices
 - Improved quality of service
 - Greater choice and more functionalities



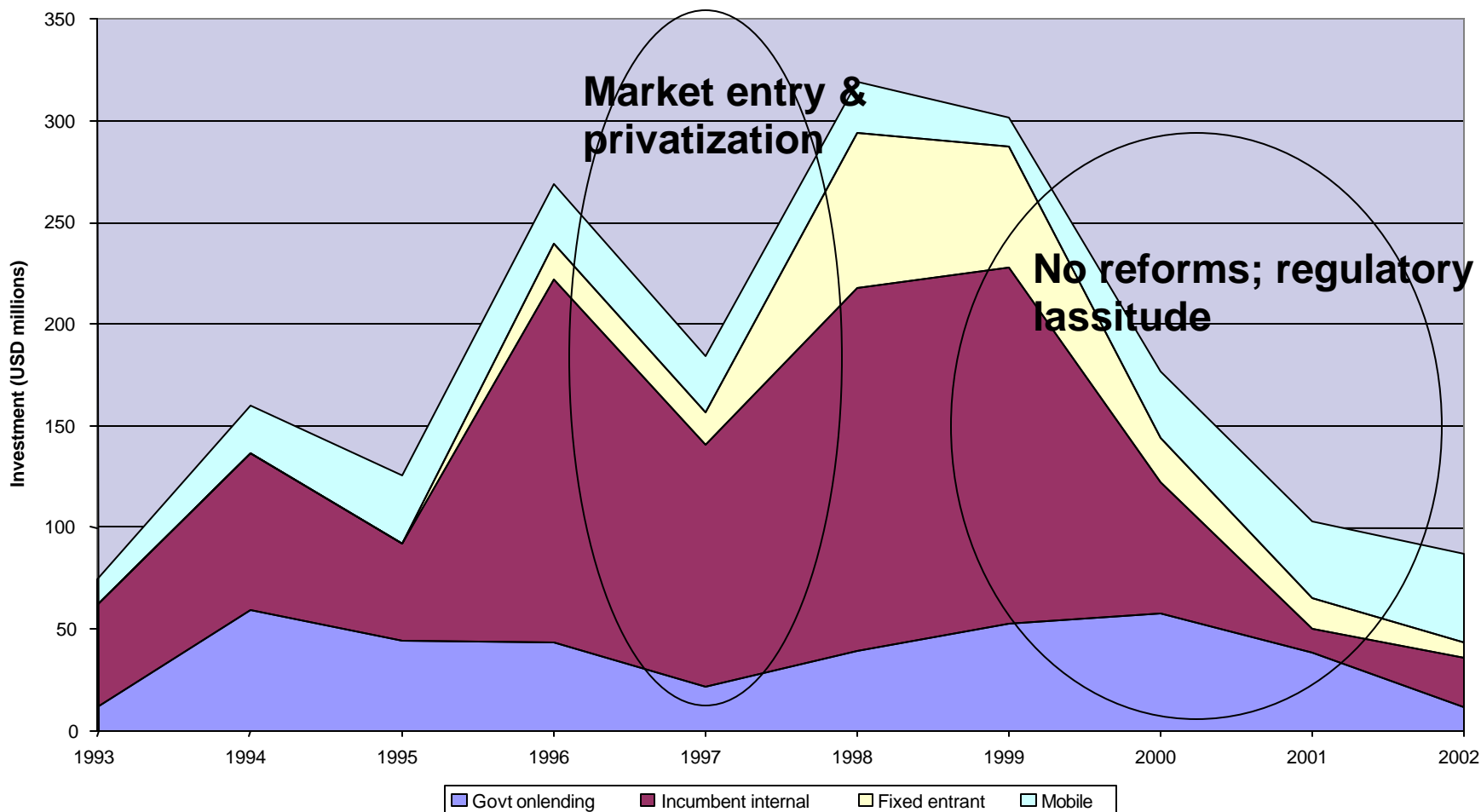
Sector vs. operator performance

- Comments at BRTI Seminar, March 2005
 - PT Telekom: High EBITDA must be included among objectives
 - Indosat: Increasing efficiency is an objective
- These are important objectives, but not for sector; only for operators

Year-on-year growth & reform actions, Sri Lanka 1994-2005

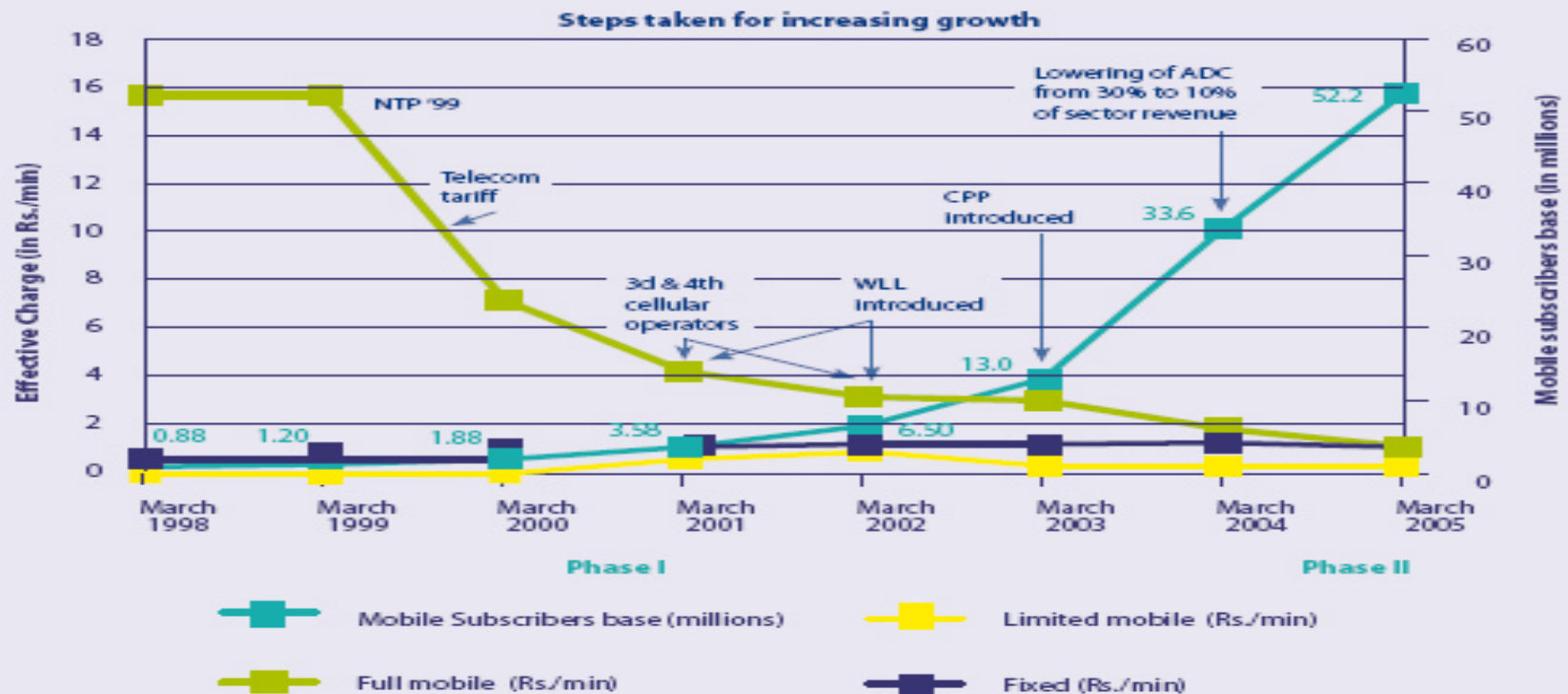


Investment ebbs & flows, Sri Lanka 1993-2002



Performance on price, alongside growth & policy/regulatory actions in India

Mobile growth and effective charge per minute (in Rupees)



Note: NTP '99 = India's New Telecom Policy 1999.
WLL = Wireless Local Loop
CPP = Calling Party Pays
ADC = Access Deficit Charge

Source: Telecommunications Regulatory Authority of India.



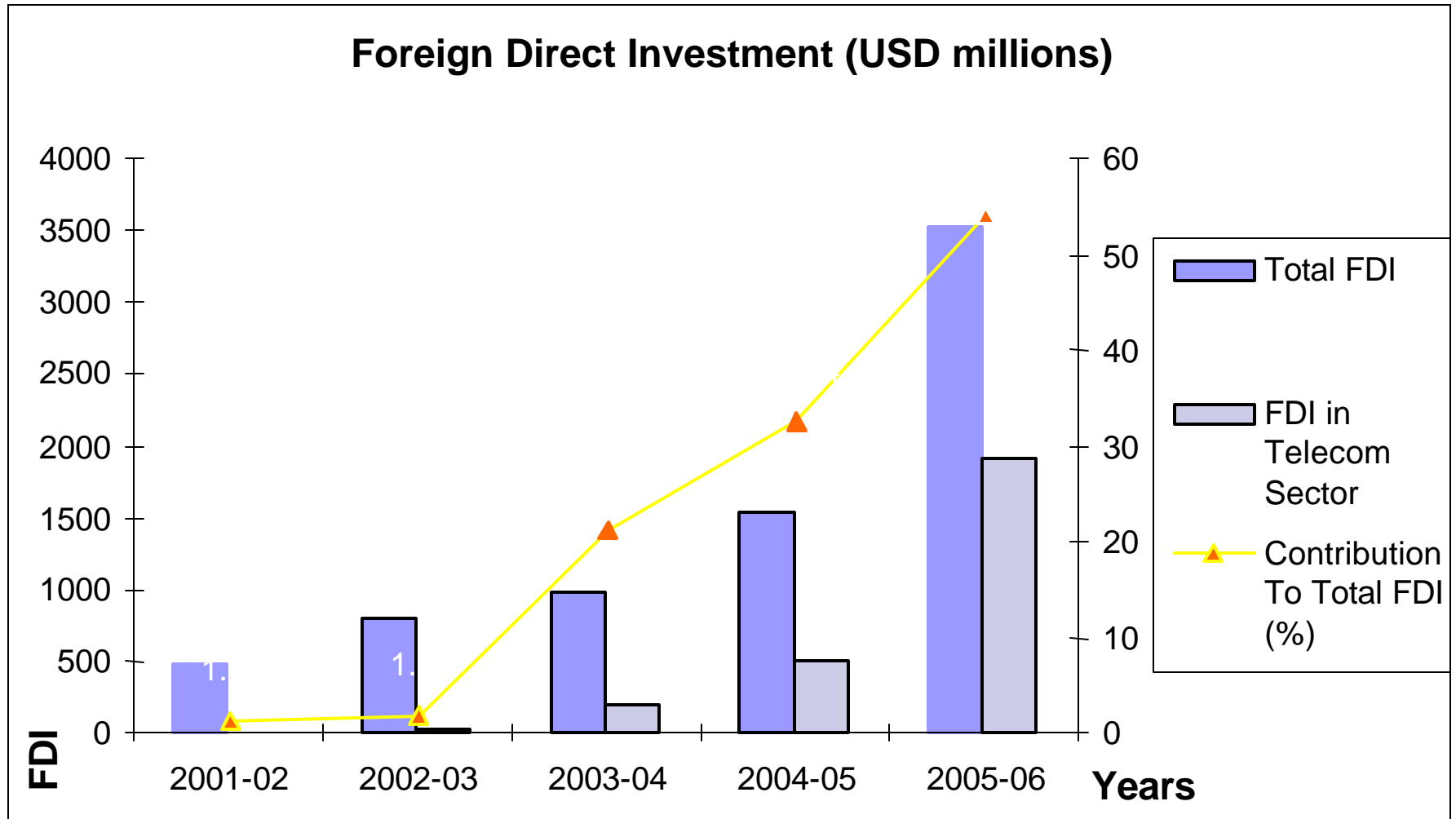
Government actions affecting investment

- Government cannot eliminate market risk
 - Duopolies, monopolies, exclusivities are examples
 - Cause long-term bad effects
- Government must reduce regulatory risk
 - Term of art that is not limited to actions by regulatory agency
 - Actions to make market-entry rules rational and transparent (policy-regulation)
 - Actions to improve regulatory environment (regulator)
 - Also, actions to make taxation and other general rules more coherent and transparent (government)

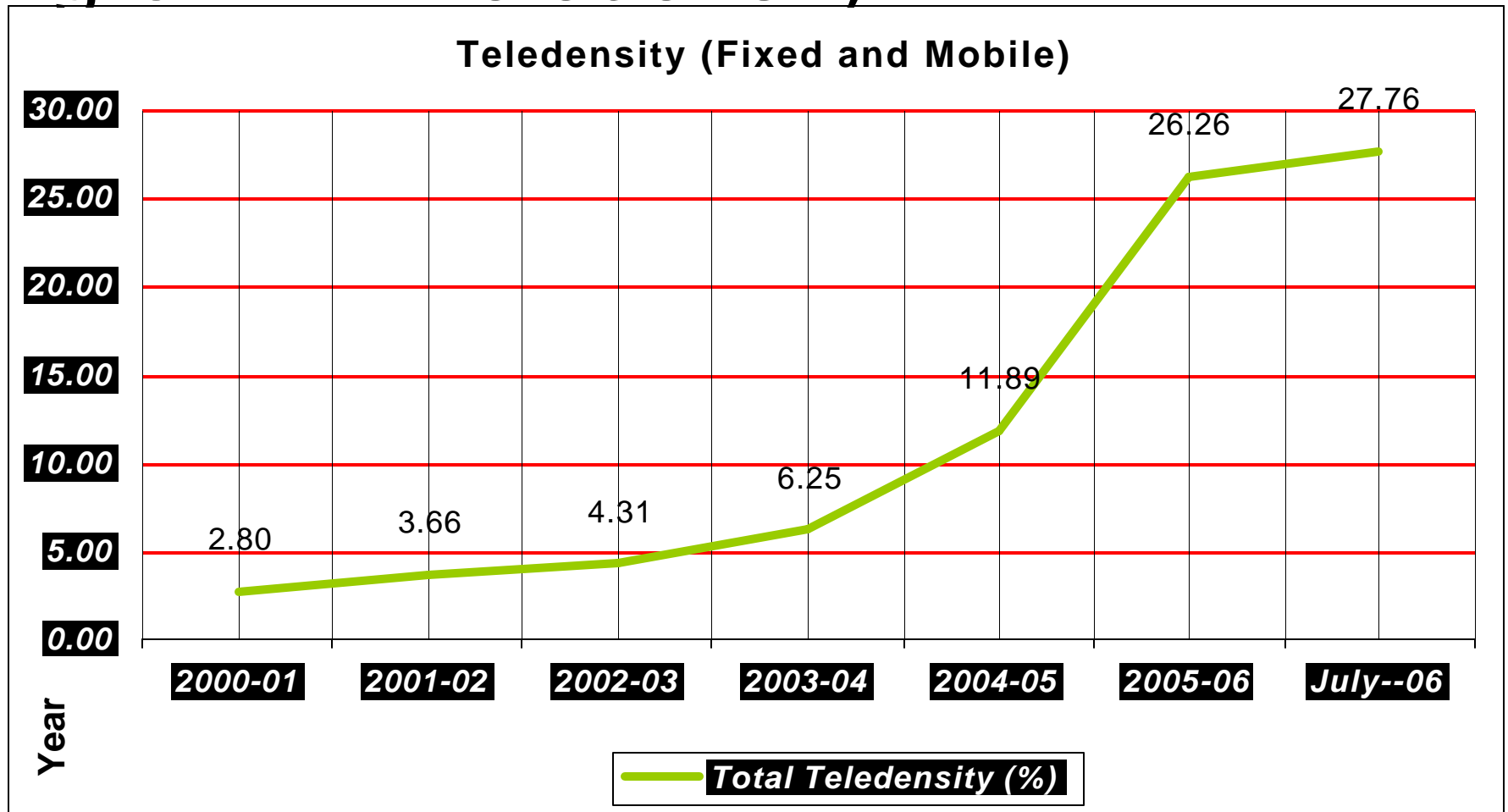
Market entry in Pakistan, 2003-05

| License type | Number |
|------------------------------------|--------|
| Fixed local loop (2003) | 76 |
| Long-distance international (2003) | 12 |
| Wireless local loop (2005) | 92 |

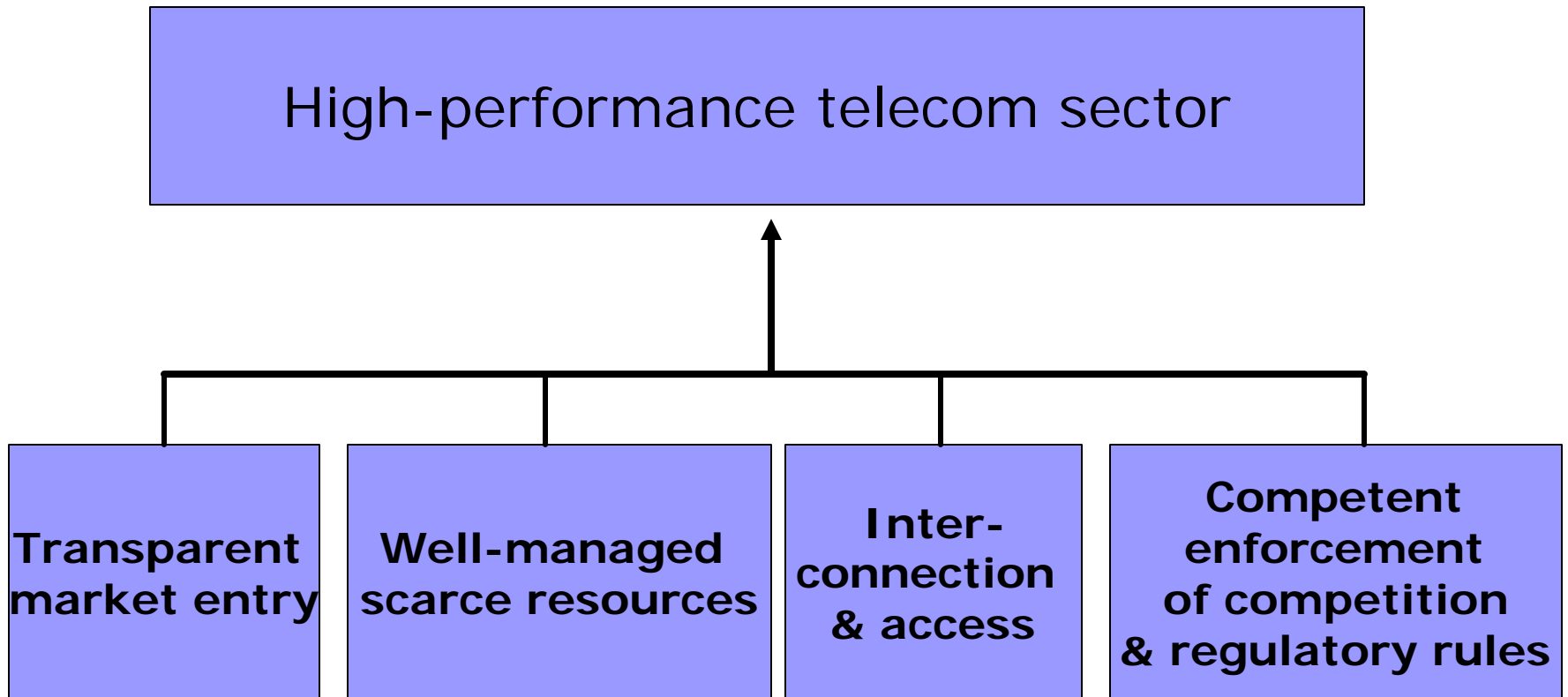
FDI resulting from policy/regulatory reforms incl. market entry in Pakistan, 2003 on



Outcome: massive increases in mobile & WLL → spectacular growth in teledensity



Schematic of regulatory implementation actions



Example: Encourage backbone network rollout

- Assumption: backbone is an essential facility → will be shared by operators
- License(s) and subsidy, if any, should be transparently auctioned
- Pre-conditions
 - Ensure that a clear, enforceable access regime is developed with adequate consultation and in line with international best practices (this is a material element in bidding decisions)
 - All operators (fixed, mobile, ISPs) need access to backbone; all (or none) should be eligible to bid



Example: Encourage backbone network rollout

- Specify desired outcome, not the details such as how many fiber optic strands or exact routes
- Bundle other permissions such as right to dig along highways or build towers into the license package
- Include a “use it or lose it” clause so that unserved areas can be looked after in subsequent rounds

What is needed . . .

- Market entry permitted
 - Case of Bhutan
 - First entry in 2006-07
- Environment for investment created
 - Regulatory risk reduced
- Participation by multiple suppliers enabled
 - Level playing field

References

- Samarajiva, R. & A. Dokeniya with Sabina Fernando, Shan Manikkalingam & Amal Sanderatne (2005), Regulation and investment: Sri Lanka case study, in *Stimulating investment in network development: Roles for regulators*, eds. A.K Mahan and W.H. Melody, pp. 141-76. Monte Video: World Dialogue on Regulation. <http://www.regulateonline.org/content/view/435/31/>
- www.trai.gov.in
- www.pta.gov.pk
- Ongoing research by Dr Joseph Wilson, Lahore U of Management Sciences
- www.lirneasia.net