

# Reform model: Time to rethink?

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# Agenda

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- What is the objective of reform?
- Puzzle of the below-USD 5 total cost of ownership countries
- Solution to the puzzle
- Seven key lessons



# Sector performance is the end; regulation is the means

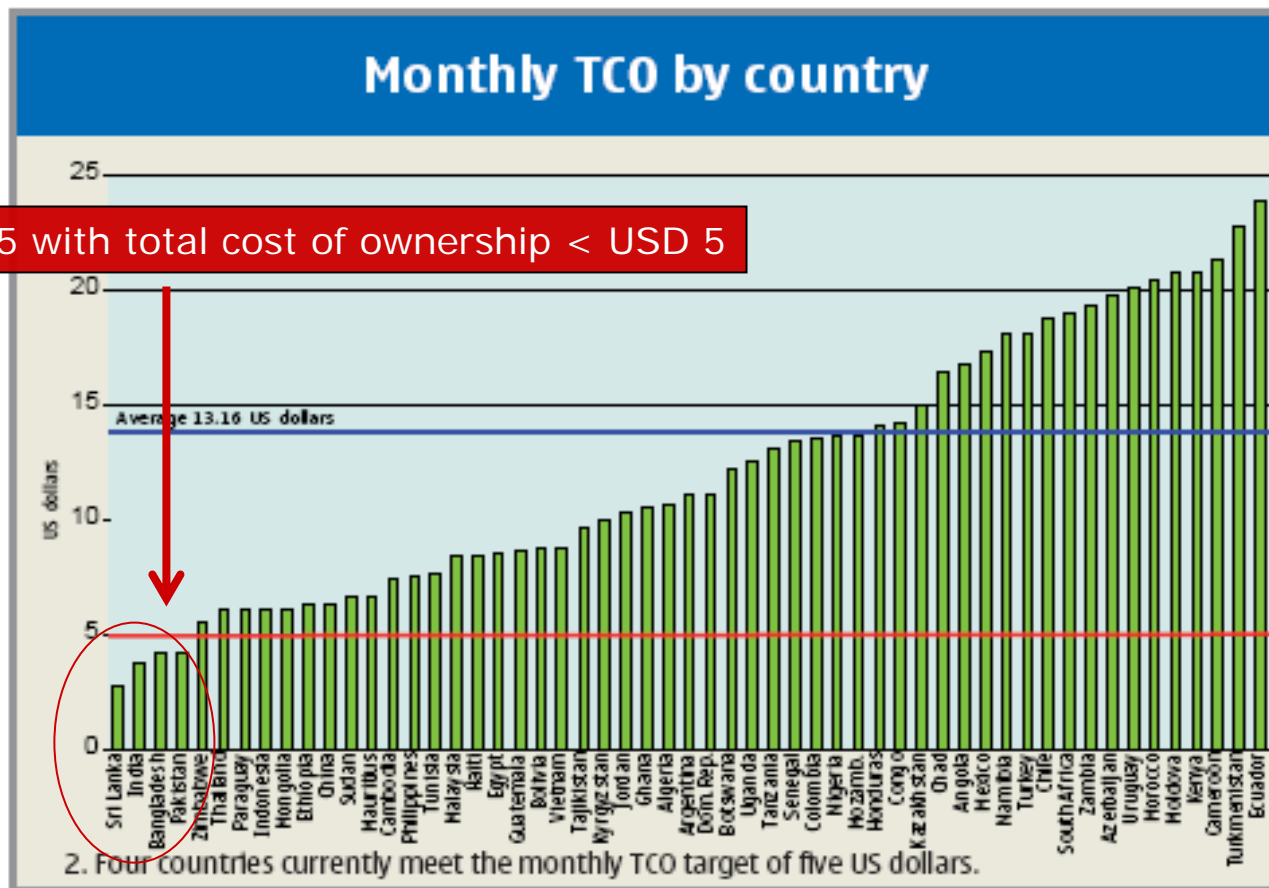
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- What is sector performance?
  - More of the population connected to electronic networks and able to use the services provided thereon
    - E.g., higher number of access paths/100 or high growth (CAGRs)
  - Lower prices
    - E.g., total cost of ownership lower than others or declining over time
  - Higher quality
    - An increase in quality is an invisible decrease in price
  - Greater choice



# So, how do you explain this?

- Four South Asian countries + Uzbekistan have the lowest Total Cost of Ownership (TCO), according to Nokia



Source: Nokia, November 2007



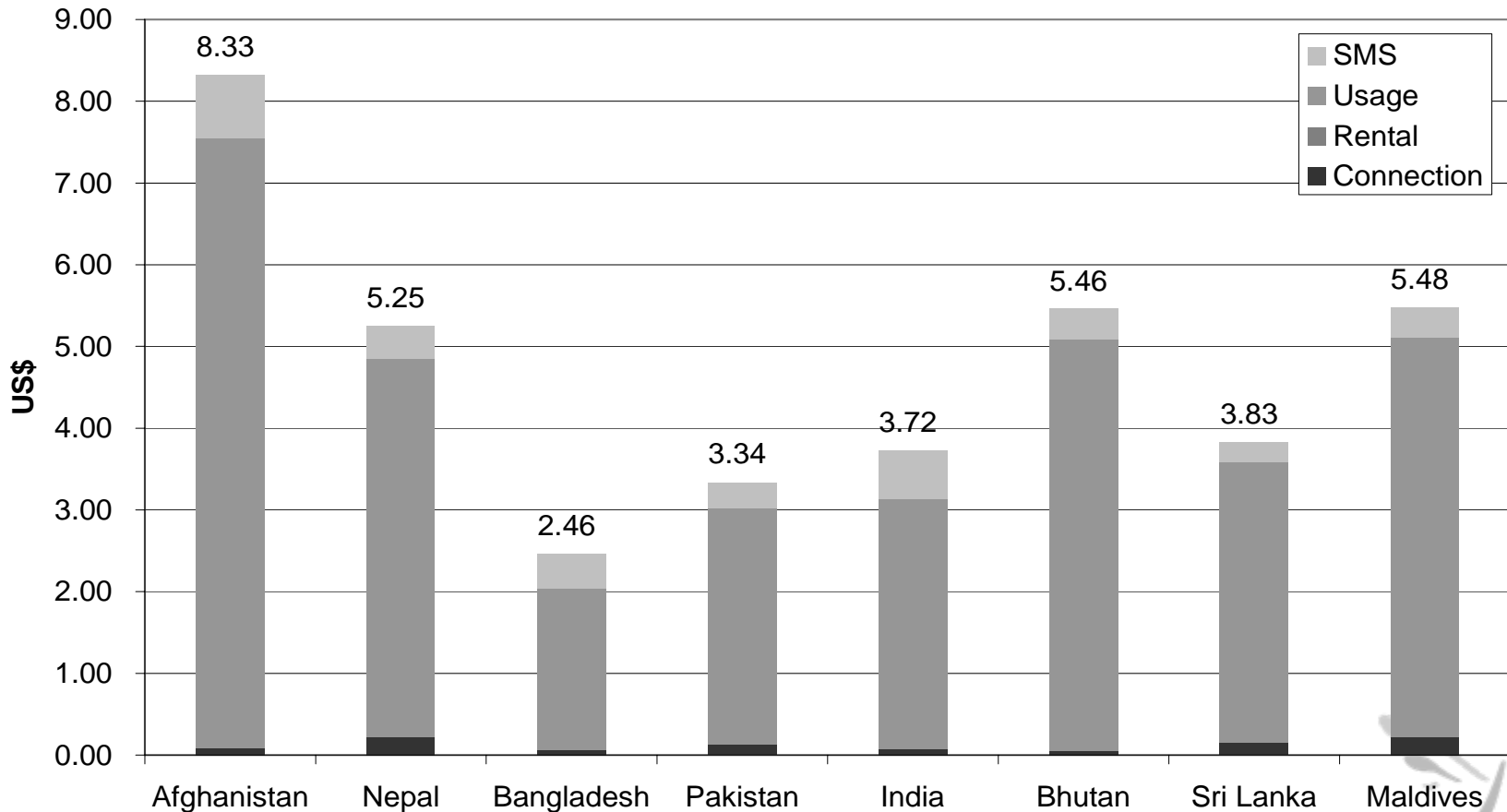
# Monthly TCOs of countries at the course (Saudi Arabia not in set)

Country	Per capita GDP (USD) (2005)	Monthly TCO	TCO rank
Sri Lanka	1,199.78	2.78	1
India	717.33	3.81	2
Uzbekistan	546.89	3.84	3
Bangladesh	398.79	4.20	4
Pakistan	718.54	4.25	5
Indonesia	1,304.06	6.14	10
Mongolia	900.06	6.17	11
China	1,715.93	6.38	13
Kyrgyzstan	478.55	10.05	26
Ghana	513.21	10.57	29
Zambia	627.13	19.38	61
Kenya	572.03	20.79	68
Ecuador	2,813.98	23.89	73
Brazil	4,787.35	33.29	77



# LIRNEasia agrees that BD, PK, IN and LK are the lowest

Average monthly prepaid mobile cost for a Low User



# Best in price. What about connectivity?

	Most recent SIMs/100	M.R. access paths/100	Mobile CAGR
Bangladesh	25	26	294%
Pakistan	52.16	56.7	111%
India	14.62	18.22	91%
Sri Lanka	38.2	51.3	51%

# Choice has improved too

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- Quality of service may be the only laggard
  - Though both the Indian and Pakistani regulators make claims about good quality
- In sum, high performance in 3 out of 4 dimensions, with BD and PK offering the lowest prices and some of the highest growth rates ever seen





# Yet, governance is not too great

- In addition to general governance concerns, sector-specific regulation in the four countries is not seen as superior
- In the World Bank rankings, low numbers are bad (compare: Chile is 88, 91 and 90)

	Govt effectiveness	Regulatory quality	Control of corruption
BD	20	18	8
PK	34	27	16
IN	51	47	47
LK	39	49	48

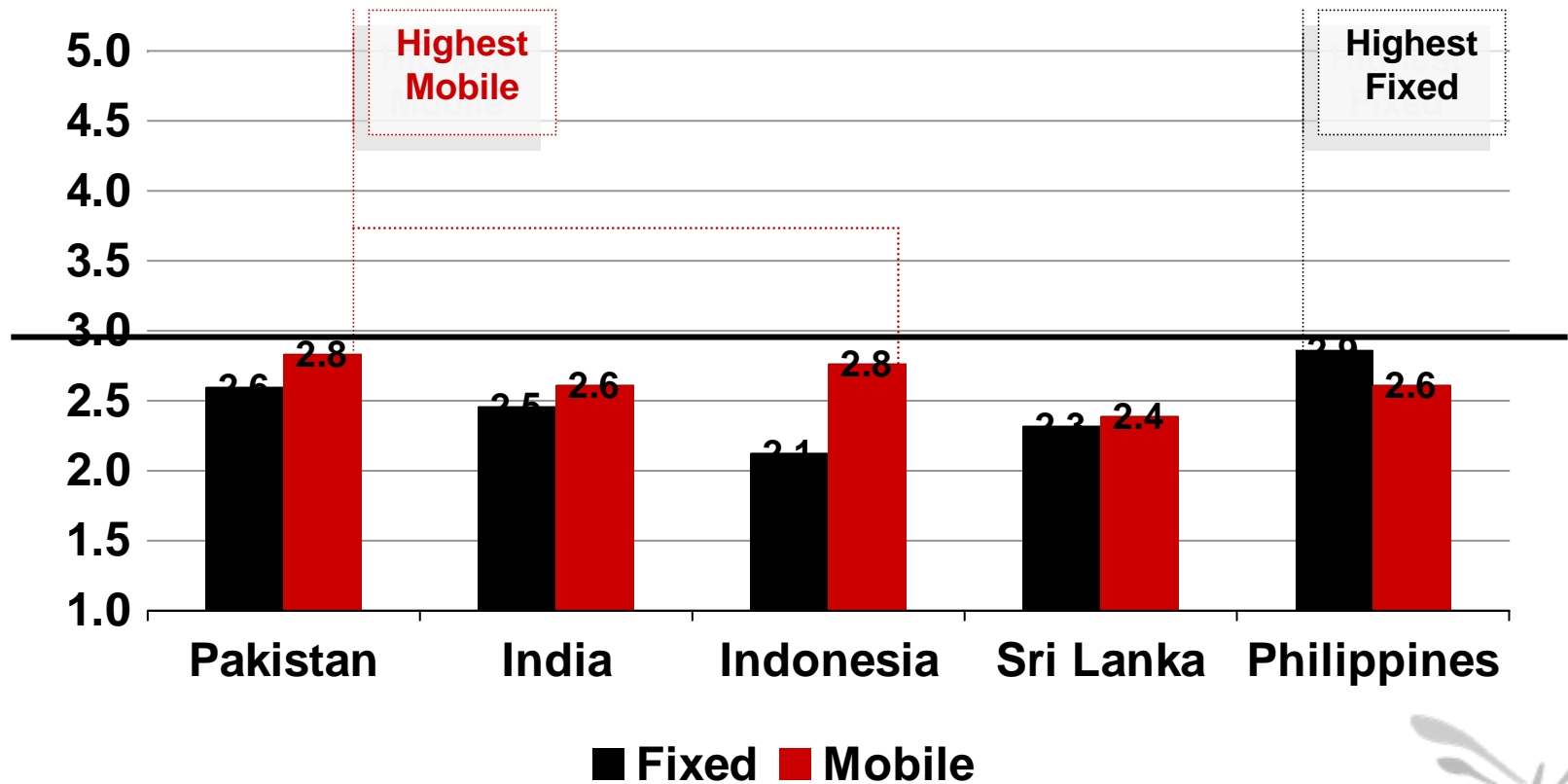
# Sector-specific regulation

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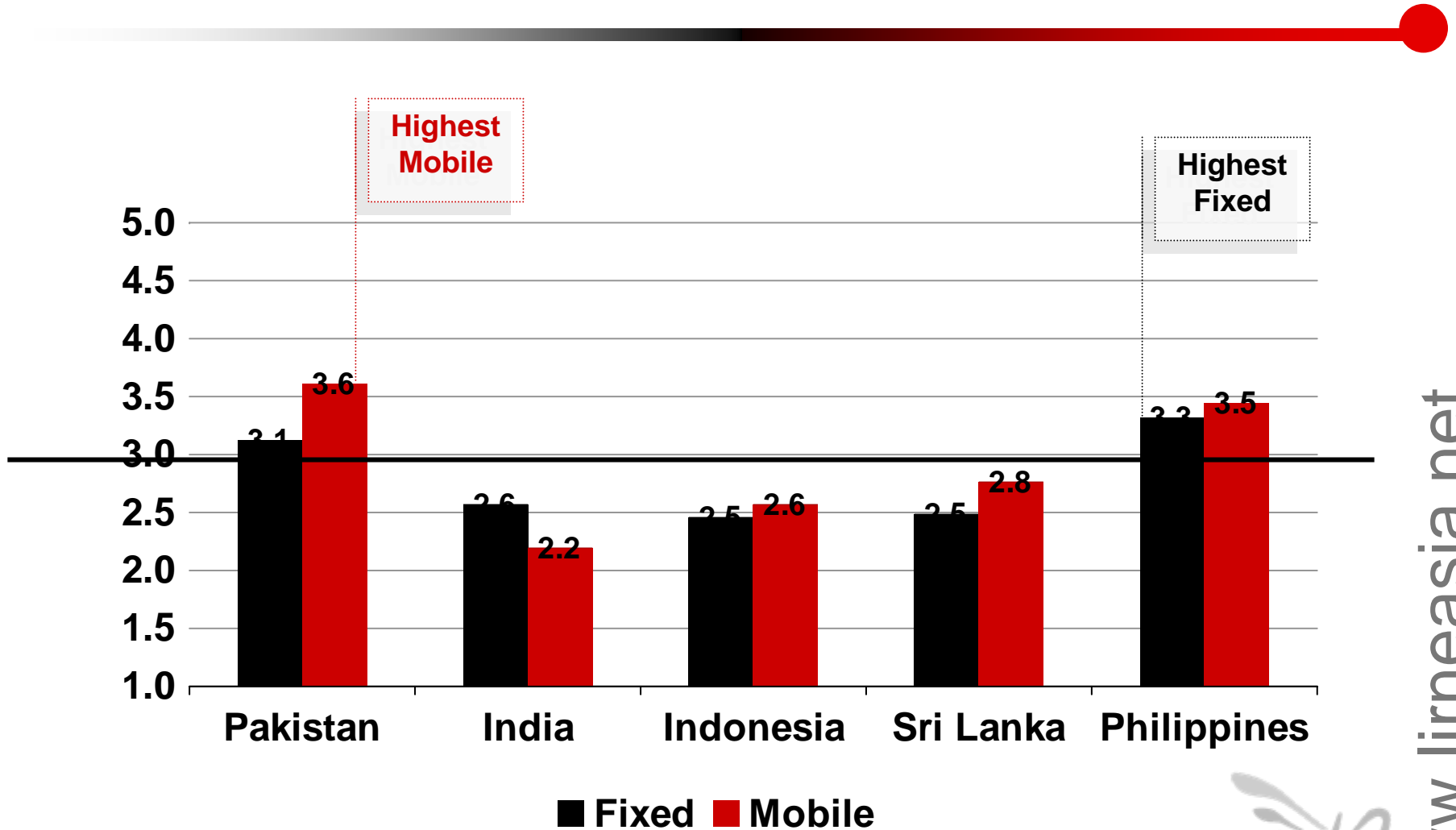
- Measured across six dimensions drawn from Reference Paper of the Fourth Protocol of the General Agreement on Trade in Services by weighted survey of informed stakeholders by LIRNEasia in 2006 (new survey in 2008)
  - Does not include BD
- Two key dimensions are scarce resources and interconnection



# Interconnection



# Access to scarce resources



# The solution

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- Driven by hostile external conditions, low purchasing power, and pressure from disruptive competitors, South Asian operators have
  - Discovered a new “budget-telecom” business model and
  - Implemented service-process innovations that enable them to exploit long-tail markets
  - Revenue-yielding minutes not ARPUs → high minutes of use and high EBITDAs



# But market entry is the necessary condition

- Nepal shares many of the characteristics of the winning four, yet it has low performance on all four dimensions
  - Connectivity is lowest in South Asia; slow growth
  - Low-user basket without handset cost is USD 5.25, suggesting a TCO in the range of USD 7-8
- Main cause is lack of necessary condition: adequate market entry
- Afghanistan has adequate market entry, but low-user basket is USD 8.33 (TCO must be USD 10+); very high growth rates and access paths/100 of over 8 in 2007



# Key lesson 1: Ensure necessary condition by allowing market entry

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- Transparent is good (Pakistan), but even otherwise is better than no entry (Bangladesh and Sri Lanka)
- Entry does not mean a piece of paper, but includes frequencies, numbers and rights of way
  - In these markets, licenses without access to GSM or CDMA frequency bands that support low-cost equipment is meaningless



# Key lesson 2: Disruptive competitor

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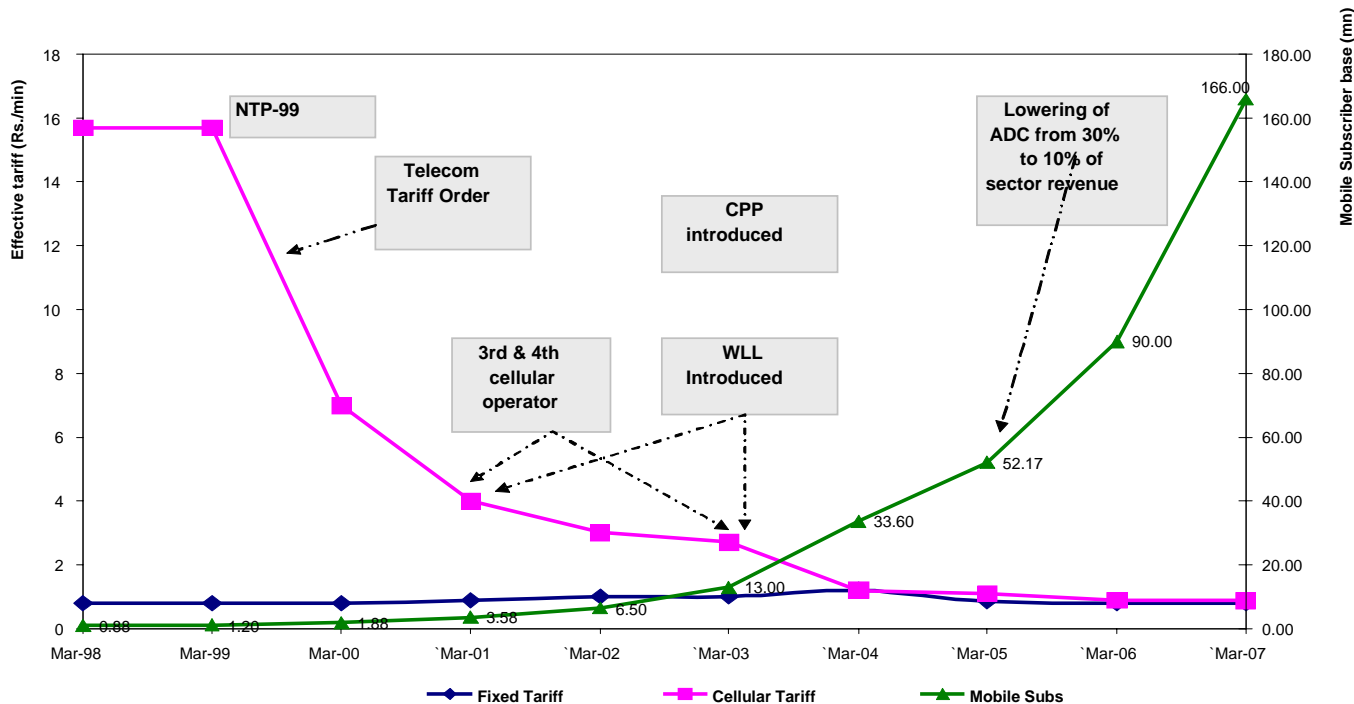
- Not a numbers game
  - Must have enough to make cartel behavior difficult
- Complacent competitor → disruptive competitor without new entry. Examples
  - Thailand
    - Locally owned operator sells to Telenor; disruptive competitor unwilling to play by Thai rules and with enough capital to invest
  - Sri Lanka
    - JV operated by unwilling Telstra sells out to incumbent fixed telco in run up to IPO. Two years of losses and one management change later, transforms mobile market





# Key lesson 3: Implement the South Asian budget telco business model

- Increase network utilization by radical price reductions and effective service design and marketing



# Key lesson 4: Allow operators time to adapt to long-tail markets & new model

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- Prepaid is the key
- Be flexible on pricing (do not constrain number of packages, for example); ideally, forbear tariff regulation
- New model requires high loading of networks
  - ➔ quality problems are a necessary consequence
  - Go easy on QOS regulation involving congestion
  - Not on deceptive advertising and such
  - Can ratchet up the pressure after some time



# Key lesson 5: Give them the raw material to grow the networks fast

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- ❑ Bring down backhaul costs by ensuring cost-oriented, non-discriminatory access to national and international backbone
- ❑ Give frequencies and numbers without delay
- ❑ Assist with rights of way
- ❑ Allow passive and active infrastructure sharing to bring down costs



# Key lesson 6: Lower the tax burden

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- Recognize the fact that long-tail customers are very sensitive to price & are buying “cachets” of services
  - No big usage-insensitive taxes
- Overall tax yield will be increased if taxes limited to VAT
- Time to end universal service taxes; no point in taxing the poor to provide services also to the poor



# Key lesson 7: If you can, improve regulation & be consistent about it

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- Ideal: predictable, transparent and consultative
- If these can be done consistently over time, regulatory risk will decrease → cost of capital will decline → more investment will flow in → more people will be connected at lower prices → more profit → virtuous cycle



# In sum

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- ❑ Service-process innovation, not government action (regulation, universal service funds), has connected unimaginable numbers to networks at unimaginable prices
- ❑ Policy of market opening has created the conditions for emergence of disruptive competitors and discovery of new business model and service-process innovations to bring costs down to the floor
- ❑ Government role is to facilitate telco innovation, not to drive the process



# Performance is the end; regulation is the means

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- “It doesn’t matter if a cat is black or white as long as it catches mice” – Deng Xiaoping
- We may have something to learn from South Asia, even Bangladesh

