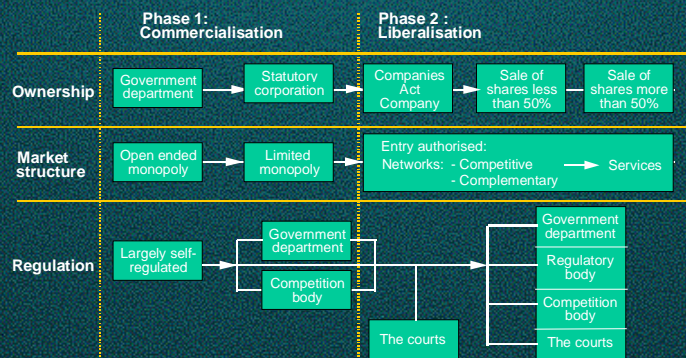


The role of privatisation in telecom sector reform

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The standard model of sector reform



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Arguments for privatising the national telecom operator

- Regulation can be as effective as ownership for controlling monopoly
- Management of state-owned enterprises lack incentives to provide good service or manage assets efficiently
- To boost Government finances
- To introduce new techniques

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Methods of privatisation

The appropriate method of privatising the national operator depends on the Government's priorities and on market conditions.

1. Public offer (IPO)
2. Corporate finance
3. Project finance
4. Divestiture
5. Franchising/Management contract

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1. Public offer (IPO)

- Most widely-used method in developed countries
- Scale and method of IPO can be adapted in fit condition of domestic capital market
- Existing management usually left in charge
- Unlikely to produce rapid improvement in quality of services or additional investment

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2. Corporate finance

- Most widely adopted method in developing countries, typically with a "strategic investor" taking management control with a minority stake
- Only practical if international capital markets are in the mood
- To be successful, requires careful elaboration of regulatory framework
- Explicit account should be taken of investor's exit strategy

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3. Project finance

- Takes variety of forms: BOT, BOO, BLT, DBFO and applicable to most networks and services
- Great care with project design is essential if substantial benefits are to be gained
- Primarily an alternative to full scale privatisation, and may delay sector reform

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4. Divestiture

- The objective in divesting the national operator of parts of its business is to facilitate liberalisation, e.g. AT&T, Korea Telecom
- Assumes knowledge of potential scope for market entry and that regulation of integrated monopolist will be ineffective
- Recent proposals for divestiture have focussed on separating operation of national network from delivery of services, e.g. Internet access

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5. Franchising/Management contract

- A traditional method of attracting management and expertise without loss of control
- Still applicable in a variety of contexts, e.g. turnkey projects, outsourcing, MVNOs
- Can provide short term benefits; not the basis for sector reform

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Problems with privatisation in the telecoms sector

- Lack of clarity in policy priorities and constraints
- When is the best time to privatise?
- Securing the co-operation of the national operator
- Effectiveness of regulatory framework
- Relations with international investors
- Dealing with national security issues