

Don't kill the goose that lays the golden egg

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A street vendor uses a mobile phone. Photo: STAR

In today's article, we wanted to address an issue that has important implications on a number of critical issues for the economy and our future growth prospects, including infrastructure development, foreign direct investment (FDI), and mobile and broadband penetration.

The telecoms sector has been one of the overwhelming success stories of the Bangladesh economy over the past decade with mobile subscriber growth exceeding all expectations. The almost exponential growth in the sector in the last 5-10 years has had the same impact on Bangladesh's economy as the growth of ready-made garments and remittance. As well as

being the largest contributor to FDI and tax revenue, the catalytic effect of rapid mobile penetration on increasing the quality of life of tens of millions of people has been significant.

However, Bangladesh Telecommunication Regulatory Commission (BTRC) published the draft renewal guidelines for renewing 2G licences for four of the six operators last month. We believe the proposed licence renewal fee of around \$1.6 billion, along with a number of other provisions, is inconsistent not only with continued long-term growth of the sector but also the broader economic objectives for Bangladesh.

Critically, there is a risk that short-term fiscal expediency is receiving greater priority than equipping Bangladesh to compete in the information economy of the 21st century. There are also implications for capital market development, both in terms of exacerbating short-term risks as well as limiting long-term supply growth — something that is clearly topical given the current pressures on the Dhaka Stock Exchange.

The global experience with the trade-offs between high telecom licence fees and the extension and modernisation of telecom services brings out the issue more clearly. A number of Scandinavian countries and some in East Asia charged a minimal or moderate fees for 2.5G or 3G licences, while some West European countries, including Germany and the UK, adopted the more aggressive approach to collecting the highest licence fees through competitive auction biddings.

Certainly the second group of countries collected more revenue to support their budgets, but the negative impact of that exorbitant level of rent from the sector seriously undermined the health of the telecom sectors in those countries and impeded the sectors growth potential.

In contrast, the first group of countries experienced much deeper internet penetration and modern and broader telecom and IT networks. Telecom and internet access of the first group of countries beats the other group by all standard measures. We must keep in mind that the strategy with respect to telecoms in Bangladesh has been largely along the line of the first group of countries. Bangladesh did not charge the telecom operators high licence fees at inception. Thus, the strong performance of this sector as the cheapest provider of services and rapidly expanding coverage for a low-income developing country is partly attributable to this policy.

The government may also, we believe, be underestimating the risks that massive licence renewal costs are having on delaying the 3G rollout. This is directly contrary to the Digital Bangladesh objectives of the current Awami League Government.

The policy may also have other collateral damage. The authorities may not be recognising the potential risks of triggering further stockmarket turbulence in the near-term with Grameenphone being by a large margin the largest stock (14 percent of the market index). A large licence renewal cost is essentially a transfer of funds from shareholders to the government.

In this context it is worth bearing in mind that Grameenphone has 100,000+ retail shareholders and any impact on their share price or dividend payout as a result of reduced cash flow from licence costs will be a particularly sensitive issue, given how much small investors have been protesting the recent market decline. If there is a sharp sell off in Grameenphone, this may be a catalyst for another broader-based phase of market weakness.

It has widely been recognised that a major reason for the 2010 DGEN stockmarket bubble was the lack of high quality issues in the market place. In this context, Grameenphone's initial public offer in November 2009, the largest in the history of Bangladesh, was an important step forward.

The licensing guidelines contain a provision to require all new licence holders to have a 30 percent free float listed on the stockmarket within 2 years of licence renewal. However, there is major inconsistency insofar as the massive cost of the licence renewal itself will make it difficult, if not impossible, for the three telecom companies due for renewal (Banglalink, Robi and Citycell), who are not listed to do so. They were only marginally profitable without the licence costs and will likely struggle to convince stockmarket regulators, and indeed rationale investors, to allow them to list once they have absorbed the large new costs. The dramatic stockmarket sell off in 2011 is likely to make the Securities and Exchange Commission even more sensitive about allowing companies with an insufficient track history of profits to list.

There are also risks of substantial crowding out of other sectors, most importantly, energy and infrastructure. Some estimates suggested that Bangladesh needs \$35 billion of infrastructure investment in the next 5 years. Massive financing requirements of \$1.6 billion

for 2G licences cannot be met in 2011 either from the domestic banking system or the capital market, especially since 3G licence fees and capital expenditure will add at least a further \$1.5 billion in 2012.

All information and communication technologies promote growth more effectively in developing countries than in developed ones. This is because telecommunication services help improve the functioning of the markets, reduce transaction costs and increase productivity through better management in both the public and private sectors. These issues are more acute in developing economies than in developed ones. Therefore, developing countries gain more by resolving some of them through better access to telecommunications. Investment in telecoms generates growth dividend because the spread of telecommunications reduces costs of interaction, expands market boundaries and the flow of information.

The World Bank conducted a 2009 analysis to test the impact of telecommunication penetration on economic growth rates at country-levels. According to an analysis of 120 countries, for every 10 percentage point increase in the penetration of mobile phones, there is an increase in economic growth of 0.81 percentage points in developing countries, versus 0.60 percentage points in developed countries (Qiang, 2009).

This growth effect of mobile phones is higher than that of fixed-line phones, but less than internet access or broadband. However, since mobile phones have the greatest penetration, Qiang notes that “the aggregate impact is highest for mobile”.

These are interesting times in the world of telecoms. The 2G licence renewal scandal in India has just taken another turn with the former telecoms minister being placed under arrest with the crisis undermining the credibility of Prime Minister Manoman Singh himself.

Telecoms companies need to pay a fair cost that balances generating necessary fiscal revenues. Developing our digital infrastructure is no less important than energy or roads and highways for our economic development.

The telecoms sector has been our one resounding infrastructure and economic success story in the last decade. Lets have more consultation and debates with stakeholders on this issue

and not allow excessive licence renewal zeal to “kill the goose that lays the golden egg”.

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