

Process and impact of commercialisation/privatisation: Worldwide trends

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The views expressed in this paper are those of the author and do not necessarily reflect the opinions of the ITU or its membership. Dr Kelly can be contacted at Tim.Kelly@itu.int.

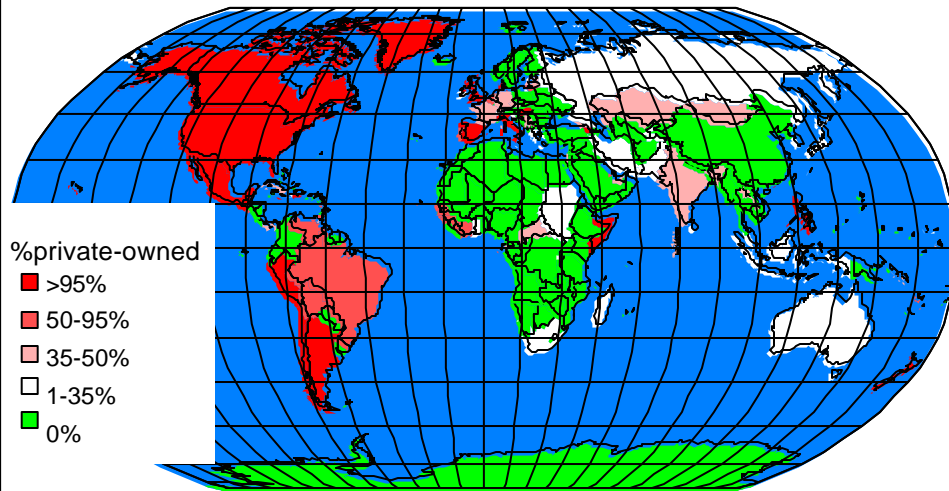


Agenda

- **Privatisation / Corporatisation: Trends**
 - ⇒ **Why? Where? When?**
 - ⇒ **How much?**
- **Case studies:**
 - ⇒ **Telkom South Africa, TelMex (Mexico)**
- **Developing country concerns**
 - ⇒ **Universal service obligations**
 - ⇒ **Loss of strategic control over sector**
 - ⇒ **Repatriation of profits to foreign country**
- **Identifying and avoiding pitfalls**
- **Does privatisation bring the expected benefits?**



Privatisation of PTO incumbents worldwide



Source: ITU Telecommunication Regulatory Database. Note: For India and some Caribbean countries, the international services operator is shown.

Privatisation status of 188 ITU Member States

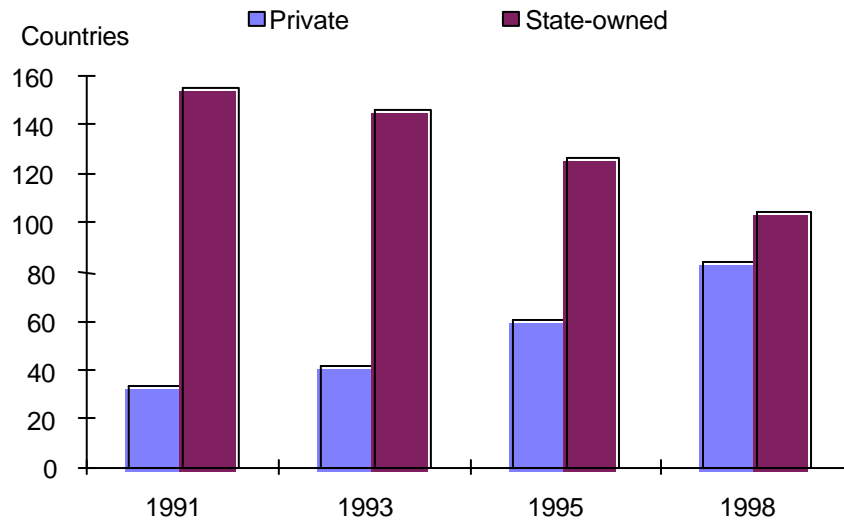
Fully-private, 16 countries (9%)

Partially-private, 67 countries (36%)

State-owned, 105 countries (56%)

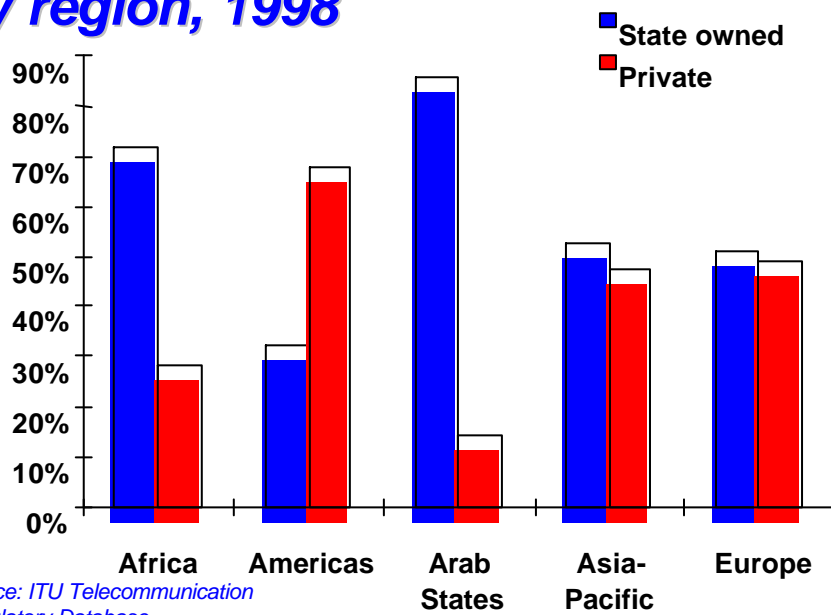
Source: ITU Telecommunication Regulatory Database.

Ownership status of the incumbent



Source: ITU Telecommunication Regulatory Database.

Ownership status of the incumbent, by region, 1998



Source: ITU Telecommunication Regulatory Database.



Why corporatise the incumbent operator?

- To separate regulatory, policy-making and operational functions
- To provide greater financial autonomy to the incumbent operator
 - ⇒ Outside of the government's annual budget
 - ⇒ Outside of civil service pay scales
 - ⇒ Outside of public sector borrowing requirement
- To clarify operator's financial situation
 - ⇒ To replace 'profits tax' with sales tax
 - ⇒ To create separate pension scheme
- To prepare the way for eventual privatisation and sector reform



Why privatise the incumbent operator?

- To introduce fresh investment and/or foreign investment into the Sector
 - ⇒ To rid company/country of accumulated debts
 - ⇒ To initiate new network roll-out programme
- To introduce new management or technology transfer into the Sector
- To create level playing field for other, privately-owned operators in the Sector
- To raise capital for government by selling assets
- To create obligations and incentives for the incumbent



But: Conflicting objectives can create conflicting policies ...

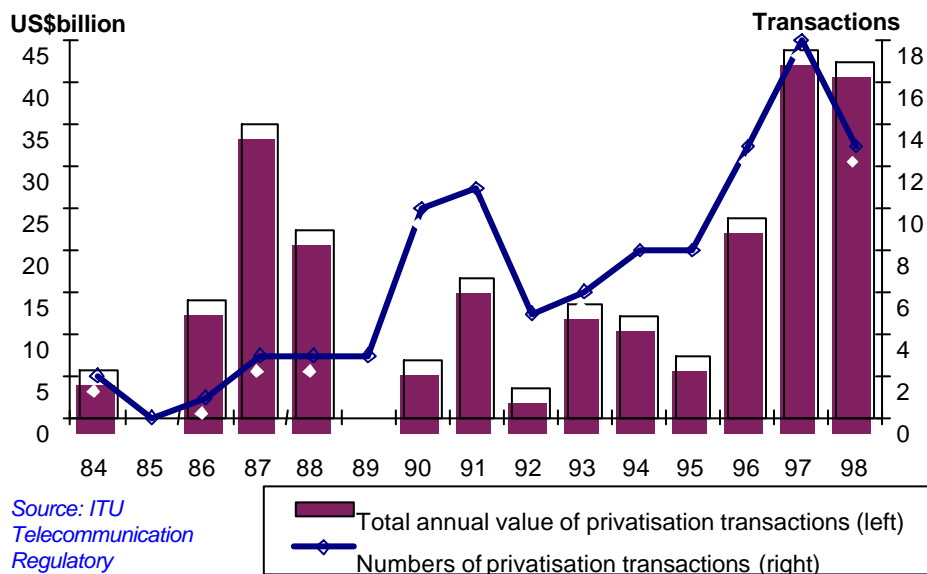
If the objective is achieving maximum asset value...

- Grant an exclusivity period before the introduction of competition
- Don't limit foreign investment
- Minimise the obligations on the incumbent (e.g., for network roll-out, price cap tariff control)
- Sell the company in several stages including an IPO (timing is important)

If the objective is maximising consumer welfare ...

- Introduce competition at the earliest opportunity in all parts of the Sector
- Sell the company as quickly as possible, including employee share options
- Put Universal Service Obligations into license of incumbent and its competitors
- Pro-competition regulation during early years

Telecom privatisations per year





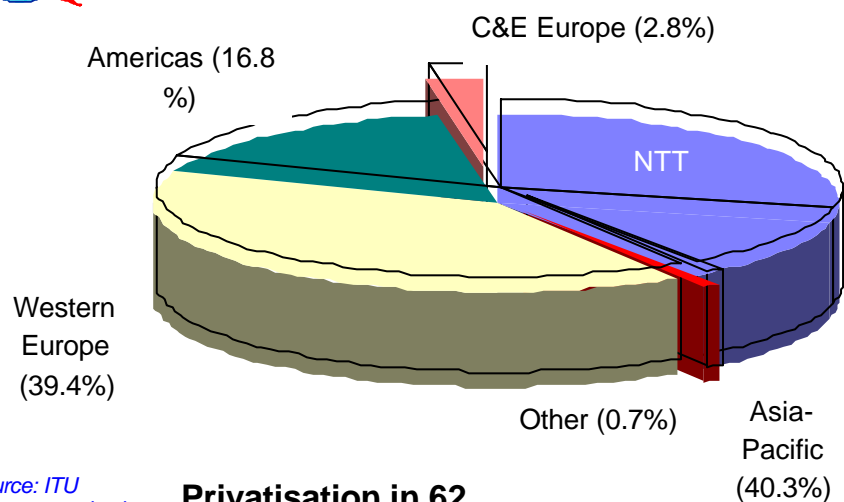
Recent privatisation transactions

1995	1996	1997	1998
Bolivia	Belgium	Armenia	Brazil
Cape Verde	Germany	Australia	Denmark (2)
Cuba	Ghana	Cote d'Ivoire	France
Czech Rep.	Greece	France	El Salvador
Indonesia	Guinea	Greece	Finland
Mongolia	Hungary	Hungary	Guatemala
Portugal	Indonesia	India (MTNL)	Lithuania
Spain	Ireland	India (VSNL)	Malta
	Korea	Israel	Poland
	Peru	Italy	Puerto Rico
	Portugal	Kazakhstan	Romania
	Singapore	Panama	Switzerland
	Venezuela	Portugal	
		Senegal	
		Serbia	
		South Africa	
		Sri Lanka	
		Spain	

Source: ITU
Telecommunication
Regulatory Database.
Note: Some countries
made sales in several
tranches (e.g., Spain)



Value of privatisations by region, 1981-98



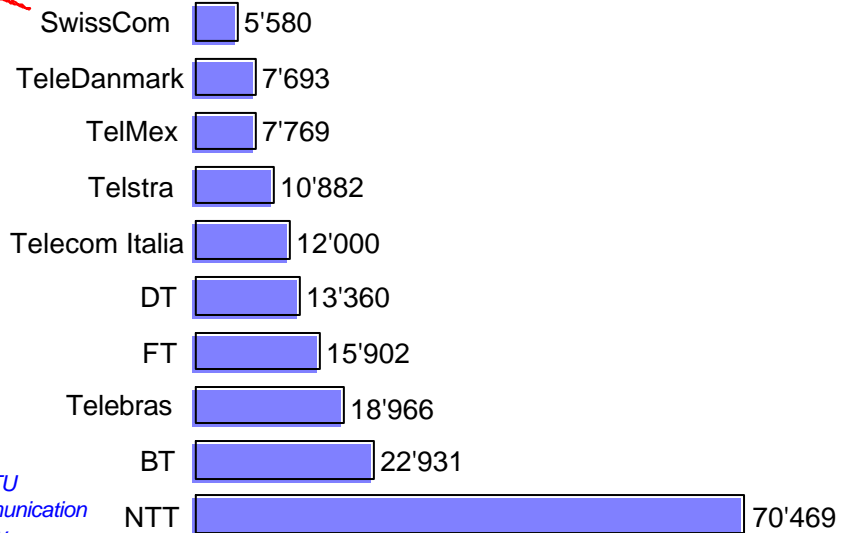
Source: ITU
Telecommunication
Regulatory
Database.

**Privatisation in 62
countries**

Total: US\$ 247 billion



Top ten privatisations by value, in US\$



Source: ITU
Telecommunication
Regulatory
Database.

Telecom Privatisations in Africa

Country	Year	%	Price US\$m	Partner
Cape Verde	1995	40%	40	Portugal Telecom
Côte d'Ivoire	1997	51%	210	France Telecom
Ghana	1996	30%	38	Telekom Malaysia
Guinea	1996	60%	45	Telekom Malaysia
Guinea-Bissau	1989	51%	3	Portugal Telecom
Sao Tomé & Príncipe	1989	51%	1	Portugal Telecom
Senegal	1997	33%	90	FT-led consortium
South Africa	1997	30%	1'260	SBC/Telekom Malaysia

Source: ITU Telecommunication Regulatory Database.



Case study example: Telkom South Africa



- Telkom SA became public company on 1 October 1991
- Following a period of consultation (White Paper, Green Paper), a process for the privatisation of Telkom SA was set into law
- A strategic equity partner was selected through an international tender
 - ⇒ 5 March 1997, sale of 30% to Thintnana Consortium (60% SBC (US), 40% Telekom Malaysia) for US\$1.261 billion
- Five year exclusivity plus one year incentive
- Plans for later IPO plus sale to employees



Telkom SA: Key facts and figures



- Revenue growth = 21.8% p.a.
 - ⇒ 1994 = 9.1 m Rand; 1998 = 20.2 m Rand
- Line Growth = 6.6 %
 - ⇒ 1994 = 3.6 million; 1998 = 4.6 million
- Significant fall in debt-equity ratio
 - ⇒ 1994 = 1.8; 1998 = 0.4
- Small decline in employment = -1.4% p.a.
 - ⇒ 1994 = 61'255 employees; 1998 = 57'813
- Increase in pre-tax profitability
 - ⇒ 1994 = 12.5% of revenue; 1998 = 17.6%

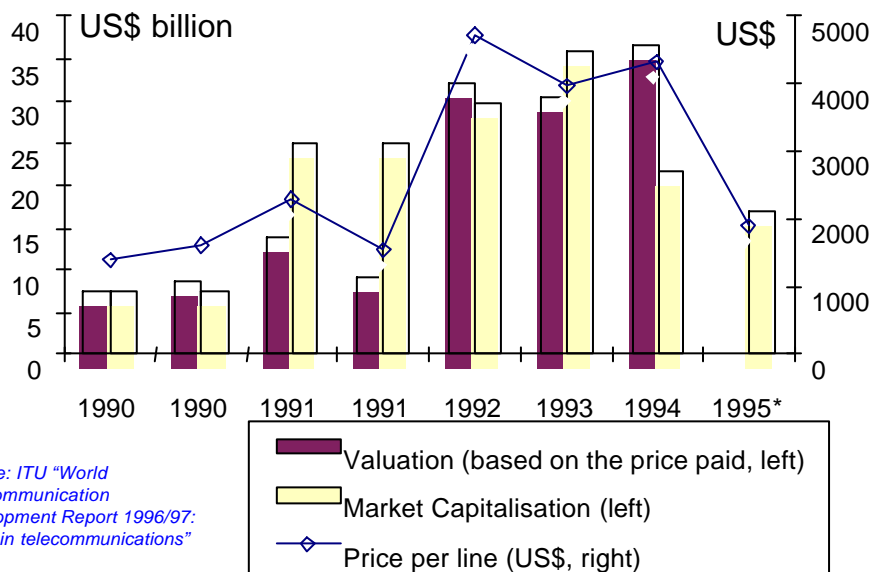


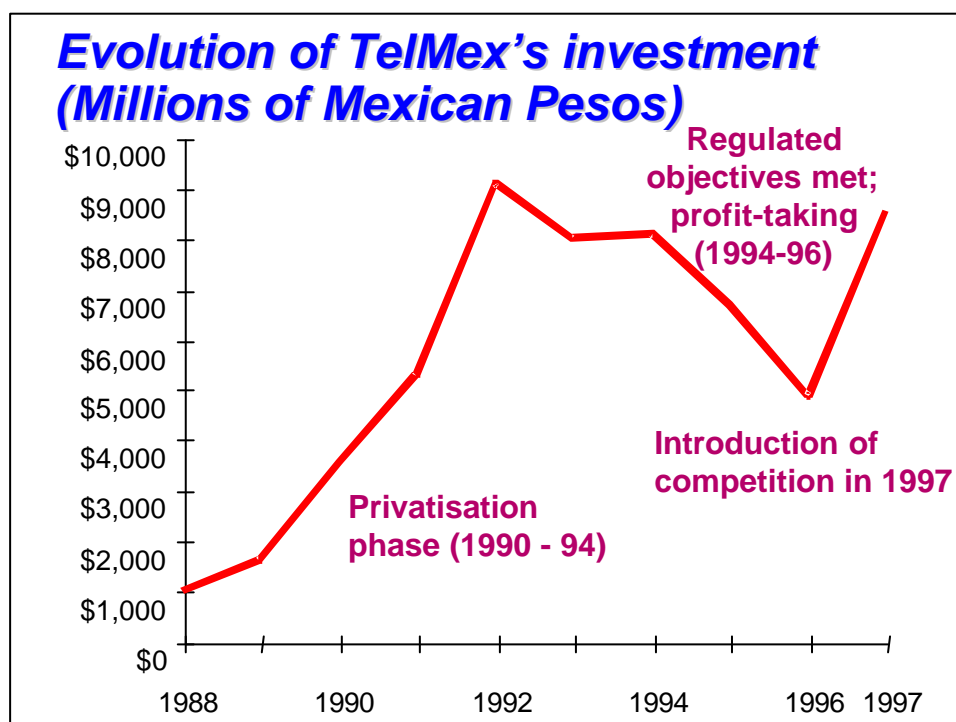
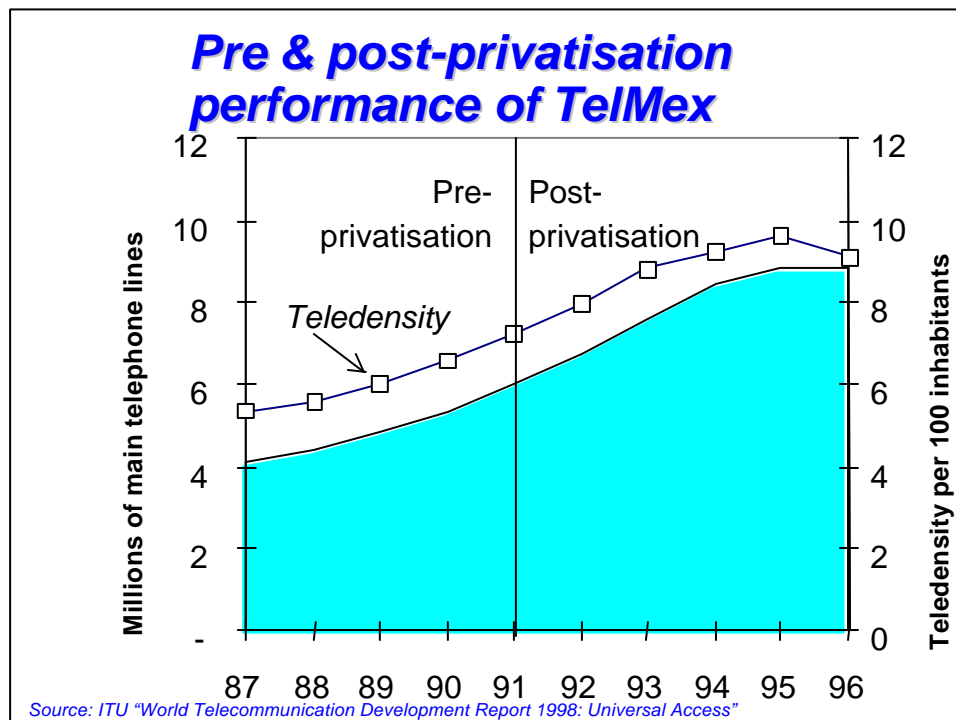
Case study example: TelMex (Mexico)



- In 1990, 4.4% was sold to employees and 20.4% was sold to consortium including Grupo Carso (Mexico), SBC (US) and France Telecom
- 1991, 15.7% sold to public (local and foreign)
- 1991, SBC exercised option to buy 5.1%
- 1992, 1993, 1994, further sales of remaining shares
- Exclusivity period for long-distance and international ended in 1997. Interconnection issues partially resolved.

Price paid and valuation in different sales of TelMex

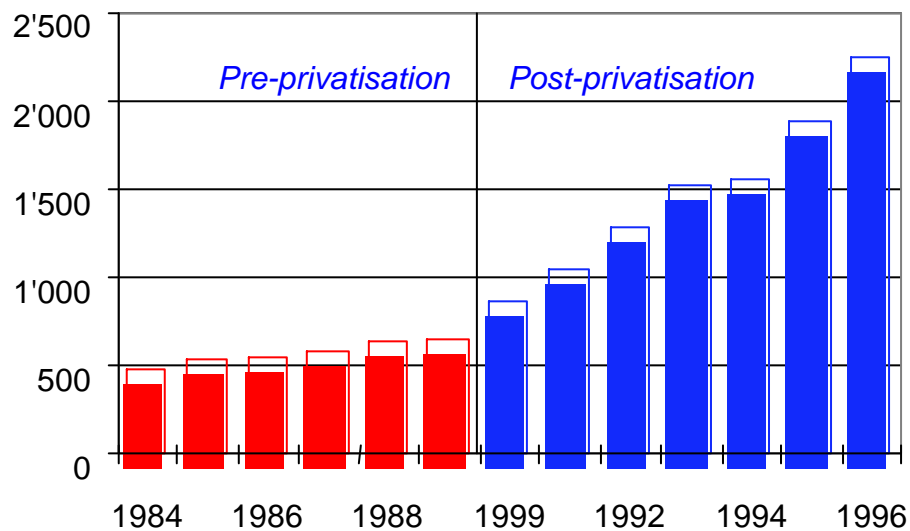




Developing country concerns (1) Universal Service Obligations

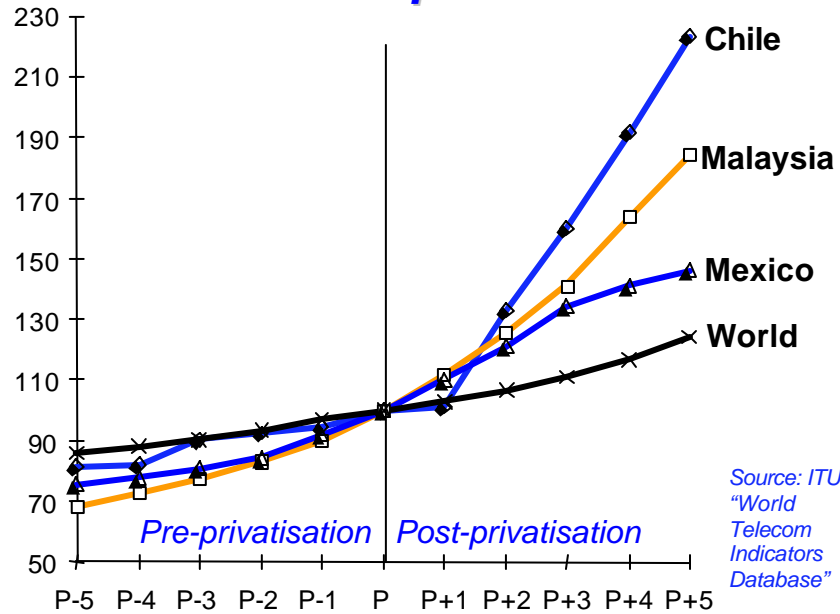
<u>Concern</u>	<u>Response</u>
<ul style="list-style-type: none"> ● Private capital only interested in “profitable” customers ● Private capital not interested in rural areas ● Quality of service could decline following privatisation 	<ul style="list-style-type: none"> ● Where private capital has been introduced, teledensity has risen markedly ● International and mobile licences can be linked with rural ● Experience shows quality of service improves after privatisation

Impact of Privatisation in Chile Telephone lines installed (thousands)

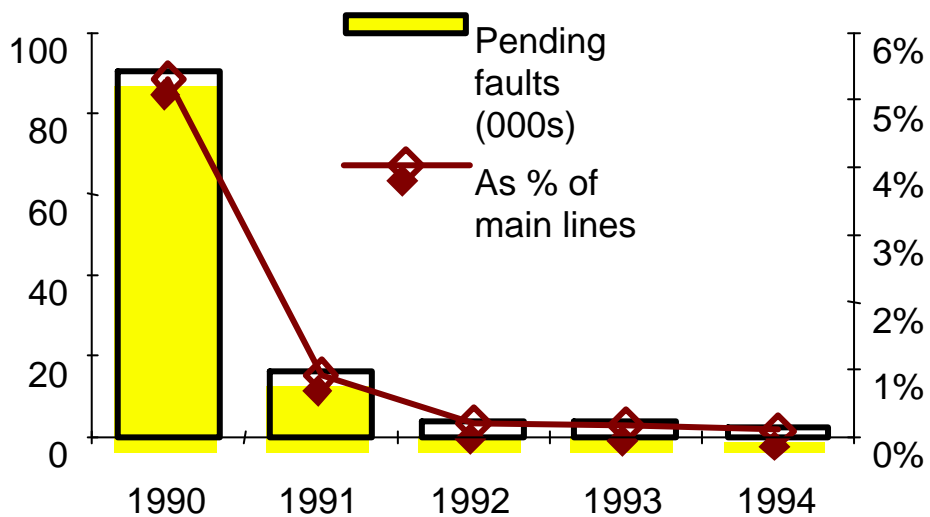


Source: ITU "World Telecommunication Indicators Database"

Teledensity before and after privatisation: Year of privatisation = 100



Quality of service after privatisation: Telefonica de Argentina



Developing country concerns (2) ***Loss of strategic control over sector***

<u>Concern</u>	<u>Response</u>
<ul style="list-style-type: none"> ● Inviting in foreign investors means loss of control ● Foreign owners will dictate investment ● Large-scale job losses may follow privatisation ● Foreign investors acquire cheap assets 	<ul style="list-style-type: none"> ● Government can retain a “golden share” (e.g., UK) ● Market signals direct investment strategy ● Employment loss can be counteracted by growth in new areas ● Telecom shares trade at a premium



Privatisation and telecom employment: Latin America

Country	CAGR (%) 1990/96	lines / empl. 96
Argentina	-6.5	224
Chile	0.9	184
Bolivia	6.4	119
Peru	-14.3	228 (36/90)
Venezuela	-3.1	161

Source: ITU World Telecommunication Indicators Database.

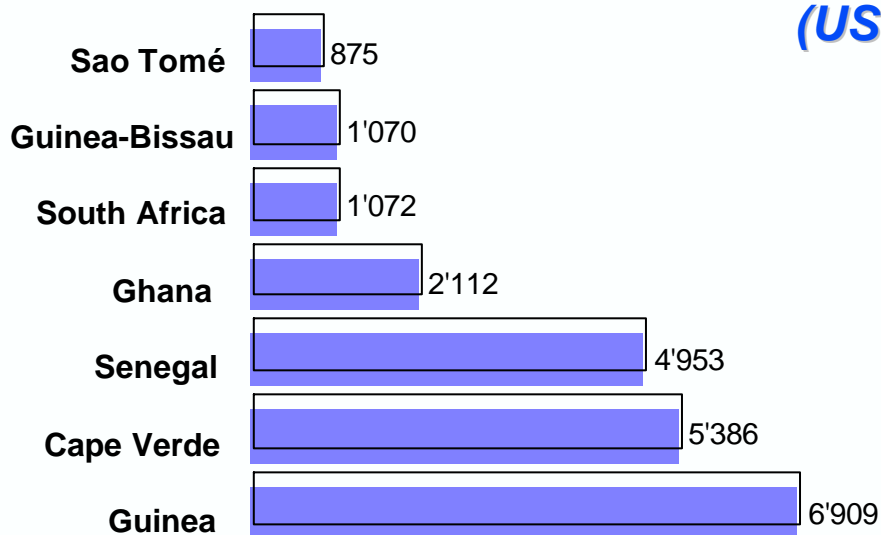


Telecoms employment in Latin American countries not privatised in 1996

Country	CAGR (%) 1990/96	lines / empl. 96
Brazil	-3.2	169
Costa Rica	6.7	228
Guatemala	3.9	56
Paraguay	-1.6	28
Uruguay	-5.7	117

Source: ITU World Telecommunication Indicators Database.

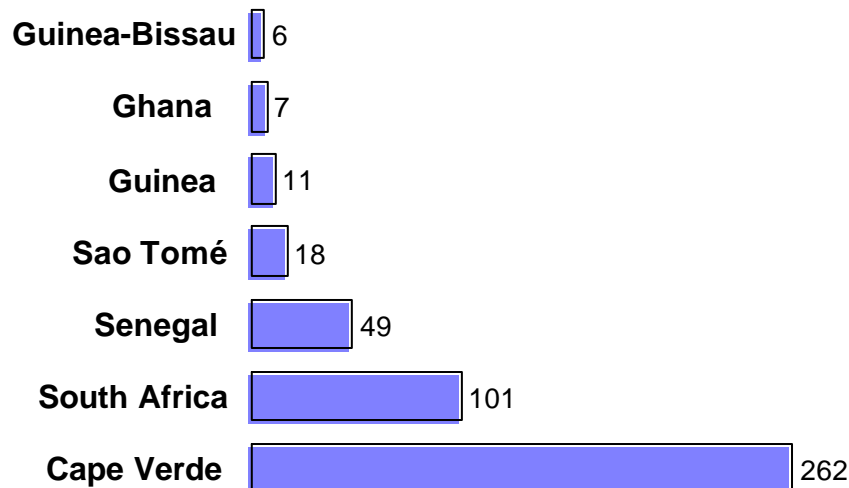
Price per line of privatised African PTOs (US\$)



Note: Calculation based on number of lines in year before privatisation took place.

Source: ITU "World Telecommunication Indicators Database".

Price per inhabitant of privatised African PTOs (US\$)



Note: Calculation based on population in year before privatisation took place.
Source: ITU "World Telecommunication Indicators Database".

Developing country concerns (3) Repatriation of profits to home country

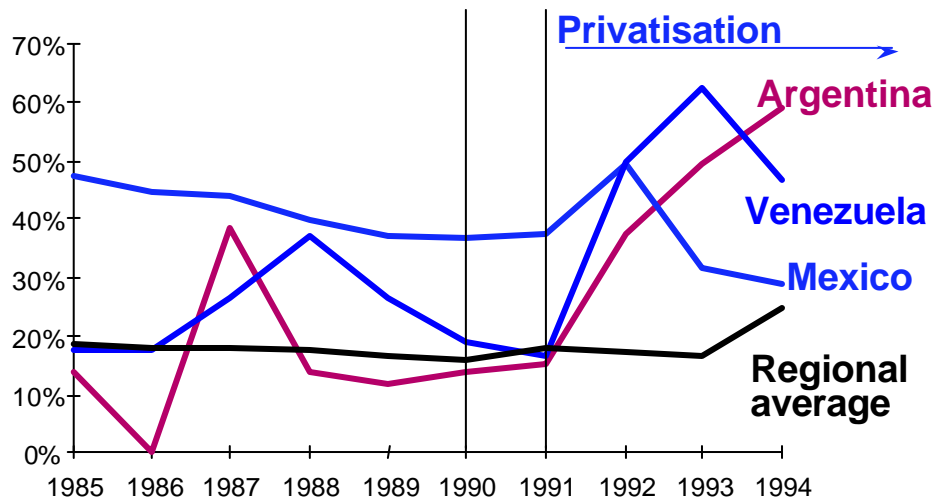
Concern

- Foreign investor will "asset strip" the local PTO
- Prices will rise after privatisation as the investor seeks return
- Level of investment will fall after initial wave
- Government loses potential revenue

Response

- Many developing country PTOs have few assets but big opportunities
- Some rebalancing is necessary but prices can be regulated
- Investment targets can be set by regulator
- Government gains higher tax revenue

Privatisation and investment Telecom investment as % of revenue



Source: ITU World Telecommunication Indicators Database.



Conclusions: Getting the recipe right

- **Define policy objectives first**
 - ⇒ Avoid possible conflicting objectives
- **Plan a long-term strategy**
 - ⇒ Implement privatisation in several stages
- **Privatisation is not an end in itself**
 - ⇒ Must be backed up by independent regulation
 - ⇒ Should be part of a path towards liberalisation
 - ⇒ Privatisation without competition creates private monopolies
- **Choose partners carefully**
 - ⇒ Strategic Equity Partners, or alliances