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Country Case Studies



INFORMATION DOCUMENT: COUNTRY CASE STUDIES OF THE CHANGING INTERNATIONAL TELECOMMUNICATIONS ENVIRONMENT

The signing of the WTO basic telecommunications services agreement in Geneva on 15 February 1997 marked a new departure from the traditional rules and transactions of international telecommunications. The resulting accelerated liberalization of telecommunication services markets is expected to expose more than 90 per cent of the world's international telephone traffic to increased competition. As competition increases, governments and operators are seeking to lower costs and make international telecommunication settlement rates – traditionally bilaterally-agreed and somewhat arbitrarily set in some cases – more transparent and cost-oriented.

The benefits of lower cost and better quality international telecommunications services are clear for consumers. However, it is feared that competition and rate-cutting may undermine the network expansion and service improvement efforts of some operators, particularly in low-tele-density developing countries. Many governments have concerns about how such market-driven initiatives will affect the abilities of incumbent national operators, and economies that depend on international telecommunication services revenues, to fund universal service efforts.

Country Case Studies: Timetable

- 26 March 1997 - Information Group of Experts met in Geneva and proposed country case studies.
- May-June 1997 - the proposal was endorsed by the ITU Council and ITU SG3.
- June-August 1997 - The case studies working group, comprised of experts from Member States, Sector Members, and ITU-T, ITU-D, and SPU representatives, met to develop and finalize the outline for the studies.
- September-October 1997 - Interested countries were contacted and expressions of interest in performing the case studies were received from consultants. Prequalified consultants were selected for bidding.
- 29 September 1997 - First call for bids released.
- 17 October 1997 - Second call for bids released.
- 28 October, 7 November 1997 - Briefing meetings for consultants and country representatives.
- November 1997 - Final agreements issued to consultants; consultants begin field research.
- 15 December 1997 - Interim reports delivered.
- 31 January 1998 - Final reports due.
- 15 March 1998 - Reporting of case studies at WTPF Information Session.

The Consultants

Bahamas and Colombia - DNTA, USA
India - Tarifica, UK, in association with the Indian Institute of Management, India
Mauritania and Senegal - ICEA, France
Lesotho and Uganda - Clifford Chance/Booz Allen Hamilton, UK
Sri Lanka - Antelope Consulting, UK/Finland
Samoa - ITU Regional Office, Thailand

For all operators and regulators, understanding the effects of the changing international telecommunications environment is a difficult but necessary task. For many developing countries, building the regulatory and cost-accounting frameworks necessary to compete and to leverage competition to their benefit will be, in many cases, an even greater challenge.

The agenda of the second World Telecommunication Policy Forum (WTPF) includes discussion of “*actions to assist Member States and Sector Members in adapting to the changes in the telecommunications environment including analysing the current situation (e.g., by case studies) and formulating possible co-operative actions ... to facilitate adaptation to the new environment.*” The Policy Forum is invited to consider the “*evolution of the international telecommunications environment, particularly the accounting and settlement system.*” In preparation for the WTPF, and in accordance with Council Decision 475, the ITU has commissioned a series of

case studies of a representative range of economies likely to be affected by changes to the international telecommunications environment. Funded by the ITU/BDT and the Commonwealth Telecommunications Organization (CTO), in association with the World Bank's *InfoDev* program, the case studies explore the impact of the changing international telecommunications environment on the economies of *Bahamas, Colombia, India, Lesotho, Mauritania, Samoa, Senegal, Sri Lanka, and Uganda*.

Costs, Settlement Rates, and Universal Service

Historically, settlement rates have been negotiated bilaterally between government-owned operators and are loosely based on estimates of the cost of terminating international telecommunication traffic.

Telecommunications revenues and estimated net settlement payments, 1996			
Country	Total telecom revenues (US\$M)	Net settlement payments (US\$M)	% of revenues derived from net settlement payments
Bahamas	144.65	1.55	1.0%
Colombia		162.75	
India	3'088.0	389.0	12.5%
Lesotho ¹	12.8	(0.412)	-3.0%
Mauritania	27.4	0.2	0.8%
Samoa	7.1	2.9	40.8%
Senegal	121.5	35.6	29.3%
Sri Lanka	166.4	62.3	37.3%
Uganda	47.0	3.0	6.3%
Total/average			

For developing countries, the cross-subsidization model – keeping local access charges low and subsidizing access and network development using the surplus from high international call revenues – was seen as an acceptable means to increase teledensity. Thus, prices for international long-distance calls stayed high and some operators came to rely on income from settlement payments for international call termination.

The case studies explore the sensitivity of operators in each of the nine countries to a reduction in international settlements in relation to income, network capacity, investment, network development plans, universal service obligations, provision of various services, quality of service, debt servicing, maintenance, employment, tax payments, etc.

The Demands of Liberalization

The ability of a country to leverage the changing international telecommunications environment to its benefit is largely dependent on the ability of its telecommunications operator(s) to respond effectively to increased competition, as well as the effectiveness of the national regulatory authority to implement and control a “level playing field” for both incumbent operators and new market entrants. The case study project analyzes the effects of possible scenarios for settlement rate reform on countries at various stages of liberalization: from those who are well on their way to implementing WTO agreement commitments, to non-signatories taking the initial steps to establish an independent telecommunications regulator and to implement cost accounting and regulatory frameworks.

Scenarios for analysis

The case study exercise examines the potential impact of implementing different proposed settlement rate reform schemes in each of the countries studied:

- Benchmarks
- Staged reductions
- Termination charges
- Very low rates or sender-keeps-all
- Revenue stabilisation measures

¹ 1997 figures

Summary of the Telecommunications Environment in the Countries Studied

WTO status	Country	Teledensity 1996 (lines per 100 inhabitants)	Telecommunications environment
GATS signatory; signatory to basic agreement on telecommunications	Colombia	9.98	Government-run portion of sector divided into national operator (Telecom), policy maker (Ministry of Communications) and regulatory body (CRT); CRT established independent of Ministry in 1994. Competition in cellular, local, and national and international telephony.
GATS signatory; signatory to basic agreement on telecommunications	India	1.53	Two incumbent domestic service operators: Department of Telecoms (DOT) and Mahanagar Telephone Nigam Limited (MTNL). Liberalization and license-bidding process for basic domestic services enacted in 1994; local license holders must access international network through the DOT. International service monopoly held by Videsh Sanchar Nigam Limited (VSNL). Independent regulator, TRAI, established in January 1997.
GATS signatory; signatory to basic agreement on telecommunications	Senegal	1.11	Regulator officially separated from operator (Sonatel) in 1985. 1996 legislation allowed for the partial privatization of Sonatel and liberalization of certain telecommunications market segments; 33 1/3% of Sonatel was acquired by France Telecom in 1997.
GATS signatory; signatory to basic agreement on telecommunications	Sri Lanka	1.39	Telecommunications Act of 1991 introduced licensing framework for network operators, established independent regulator, and converted operator into state-owned corporation (effectuated in 1996). In March 1996, two new WLL local service competitors were licensed. In August 1997, 35% of Sri Lanka Telecom was sold to NTT.
GATS signatory	Lesotho	.90	Lesotho Telecommunications Corporation holds monopoly on all service provision. Government currently considering establishment of an independent regulator and partial privatization. Mobile services licensed exclusively to Vodacom Lesotho, a Vodacom/LTC joint venture.
GATS signatory	Mauritania	.43	Office of Posts and Telecommunications holds monopoly on all telecommunication services provision. Both operations and regulation are handled by the OPT.
GATS signatory	Uganda	.24	Uganda Posts and Telecommunications Corporation has historically held a monopoly on national, telex, and international service provision. The MTN Uganda Consortium was recently awarded the country's second network operator license for network and cellular services. The Uganda Communications Act of 1997 codified plans to establish an independent regulator and privatize a portion of UPT.
Non-signatory	Bahamas	27.82	BaTelCo holds the monopoly except in paging service provision and Internet access. Plans to privatize BaTelCo in the future.
Non-signatory	Samoa	5.48	Two public telecommunication operators exist: the Posts and Telecommunications Department (PTD) and a joint venture cellular and WLL provider. Full corporatization of PTD planned for July 1998.

The full text of the final country case study reports will be available at the WTPF Information Session on 15 March 1998. Further information regarding the case studies is available on the WTPF Website, <http://www.itu.int/wtpf/>, or by contacting Rebecca Wettemann, ITU Strategic Planning Unit (phone: 41.22.730.6320; fax: 41.22.730.5881; e-mail: rebecca.wettemann@itu.int).