

***COUNTRY EXPERIRNCE IN
TELECOM MARKET
REFORMS - Nigeria***

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Introduction:

- It is often said that countries that are successful are those that have employed the economic model of market reforms
- In the telecoms market, it is recognised that the quality and density of the telecom network and the intensity of the use of its services are major indicators of social and economic development
- But in most countries, telecoms was established as a monopoly

Introduction:

- However, based on several factors, including the acceptance of market forces as the prime drivers of efficiency, most countries have introduced market reforms into telecom in the last quarter of a century
- Market reforms as it is known and practiced today began in the early 1980's
- However, after $\frac{1}{4}$ of a century, telecoms market still remain only partially competitive in many countries due largely either to cases of natural monopolies, or because of market failure
- Nonetheless there are numerous success stories, e.g.

THEORETICAL FRAMEWORK

Elements of Market Reform

- **DIVERSIFICATION** The transition from an undifferentiated single product market to a diverse market with several main products and specialised products
- **LIBERALISATION** The process of establishing a competitive market out of circumstances in which services were provided by a monopoly
 - In most cases, it is facilitated either by deliberate government action (regulatory interventions) to promote and/or maintain competition, or by developments in technology
 - However, “every country seriously introducing competition finds that the transition from monopoly to competition is both economically rewarding and laden with policy dilemmas” – *The World Bank, 1999*

Elements of Market Reform:

- **PRIVATISATION** The introduction of private capital and management into telecoms either by sale of the state company, award of new licences to private operators (e.g. 2NO or mobile operators)
- **REGULATION** The establishment of an agency to implement government policies towards promoting and managing competitive markets, as well as protecting consumer interests

Sequencing & Outcomes:

- The sequencing of the reform process has not followed any universal definition
 - Many countries began with privatisation followed by liberalisation (competition) and regulation, while others started with liberalisation
 - In some instances, the sequence and/or starting point has not been by deliberate choice, but rather as a result of peculiar circumstances, e.g. Nigeria

Sequencing & Outcomes:

- However, there are indications on the expectations from following particular sequences, for instance,
 - ***C. Fink, et al*** found that “both privatisation & competition lead to significant improvements in performance, but a comprehensive reform program, involving both policies and the support of an independent regulator, produce the largest gains” – *World Bank Policy Research Working Paper 2909, October 2002*

Sequencing & Outcomes:

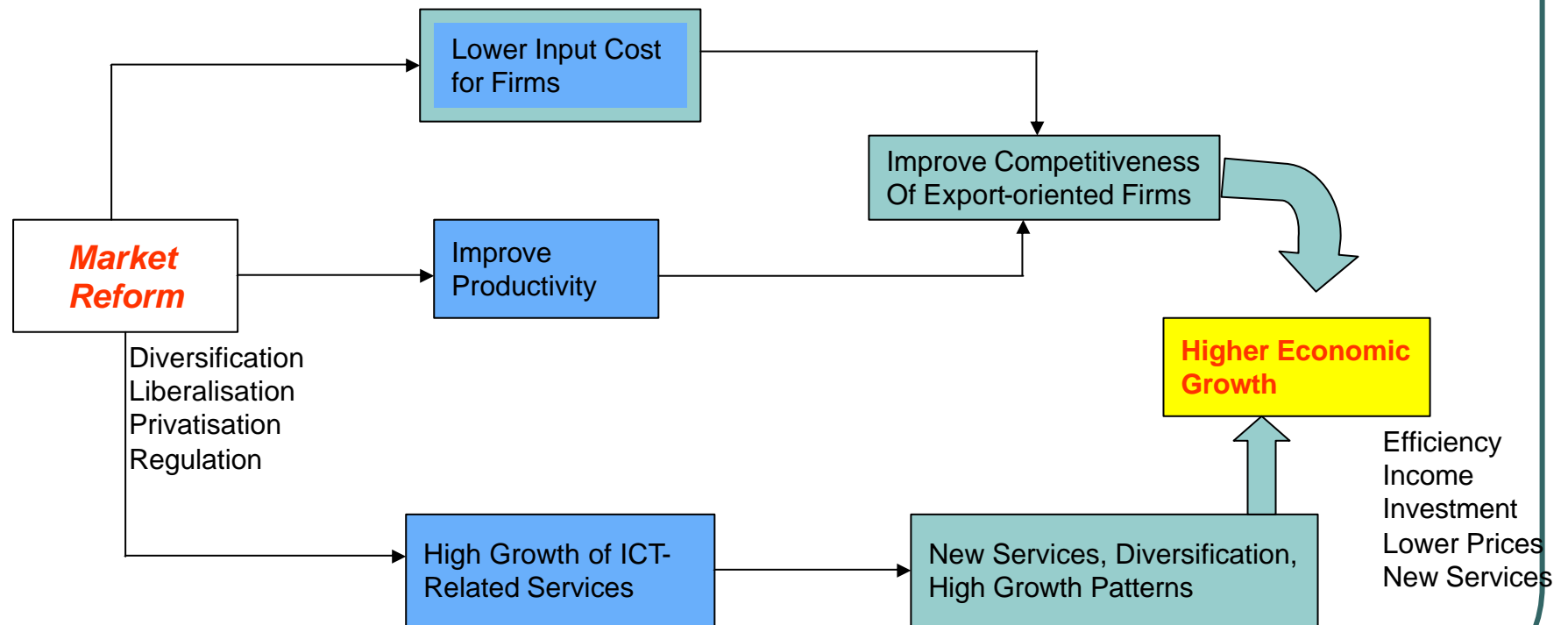
- However, **S. Wallsten** found that countries that established regulatory authorities prior to privatisation saw increased telecom investment & telephone penetration compared to countries that did not, and that investors paid more for telecom firms in countries that established a regulator prior to privatisation – *S. Wallsten (June 2002), Development Research Group, The World Bank*

Sequencing & Outcomes:

- In our view, since the ultimate goal of market reform is not in dispute, then the peculiarities of each economic environment should dictate the sequencing of the reform process
 - In Nigeria, for instance, while the unintended delay in privatising the incumbent might have had some negative effects on the outcome of our reform exercise, there has been significant improvement in the telecom sector due largely to fair, firm and forthright regulatory environment

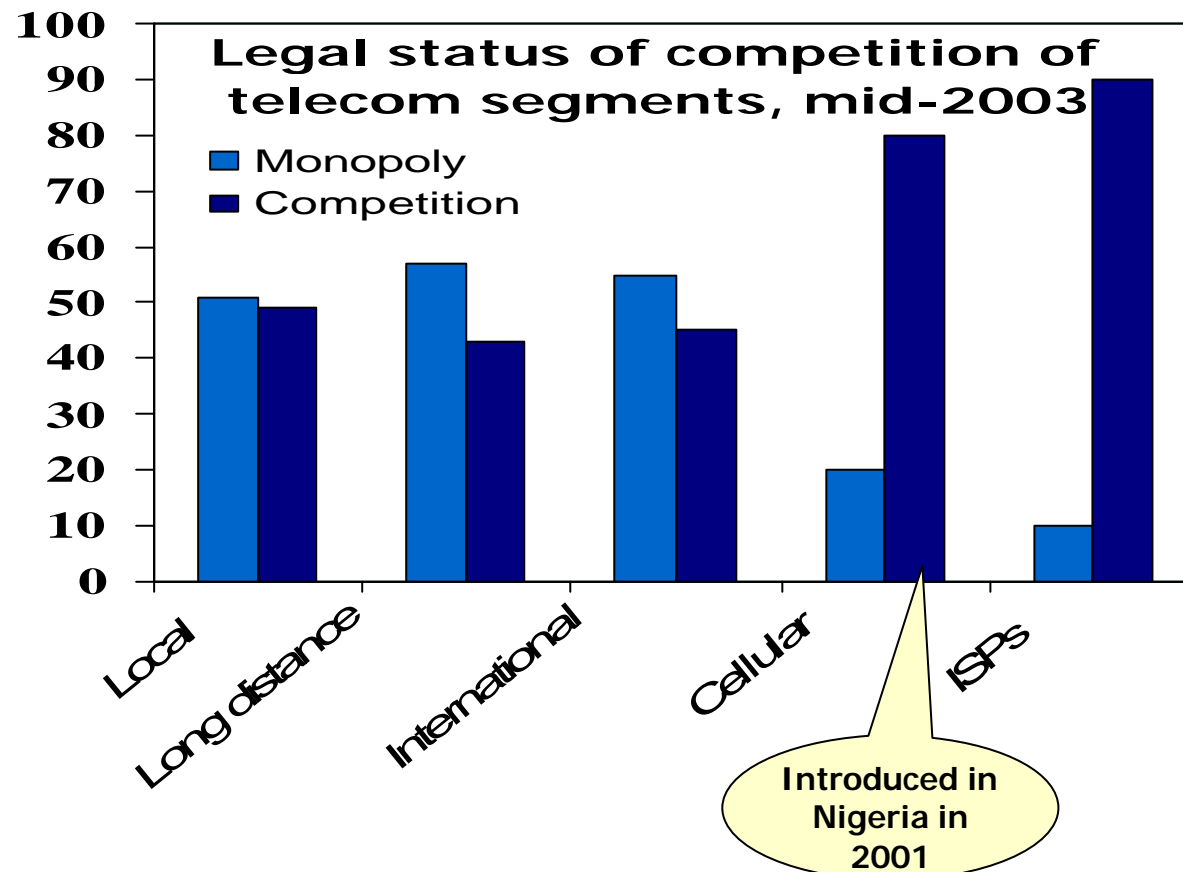
Sequencing & Outcomes:

Rationale for Sector Reform



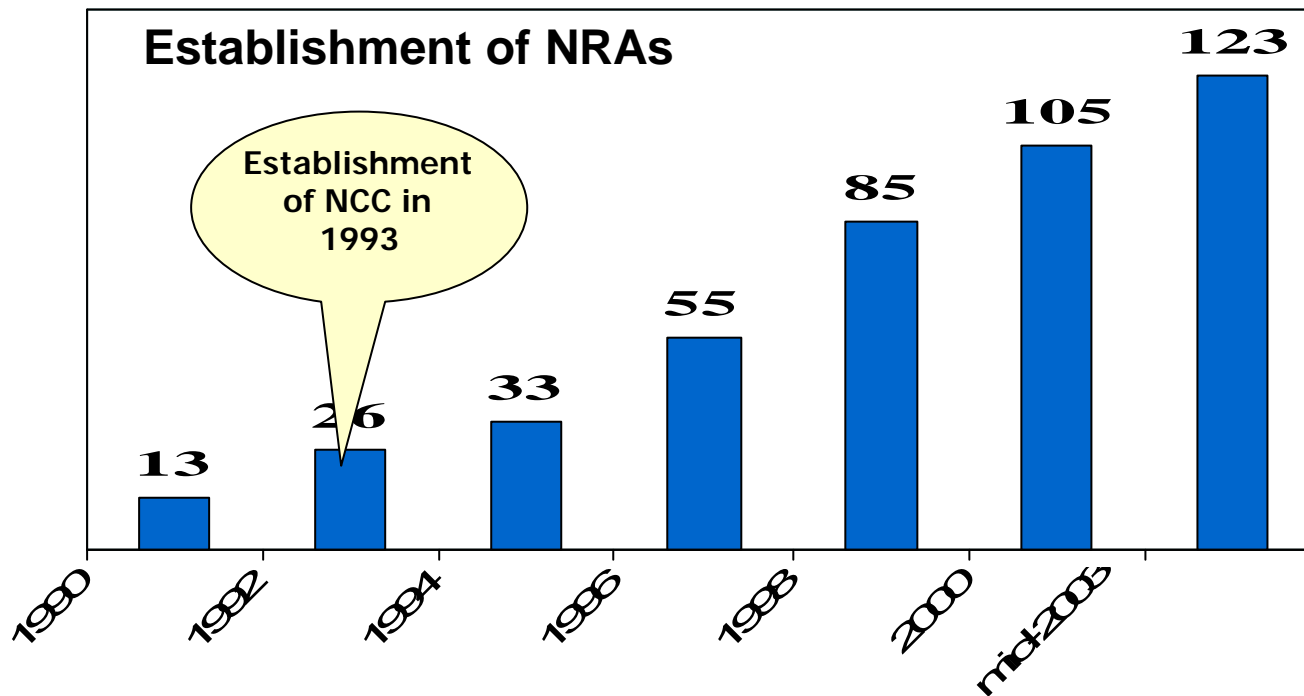
THE GLOBAL PERSPECTIVES

Legal Status of Competition:



Source: ITU

Growth in NRAs:



To date, not less than 140 countries have established NRAs

Growth in Teledensities:

<i>Region</i>	<i>Population (million) 2003</i>	<i>GDP per capita (\$) 2002</i>	<i>Teledensity</i>		
			<i>1995</i>	<i>2001</i>	<i>2003</i>
World	6,130.42	5,393	12.29	17.19	41.42
Africa	825.45	663	1.77	2.62	8.66
Nigeria	123.31	409	0.39	0.43	3.35

Source: ITU-D Databases

As at today, Nigeria's teledensity stands at about 9.47

Growth in Internet Users:

REGION	INTERNET USERS ('000)		
	<i>1995</i>	<i>2001</i>	<i>2003</i>
World	40,000	495,025	693,424
Africa	307	6,119	12,805
Nigeria	N/A	115	750

Source: ITU-D Databases

As at end of 2004, there no less than **1.6 million** Internet Users in Nigeria

Levels of Investments:

<i>Region</i>	<i>Population (million) 2003</i>	<i>Investment in Telecom (2003)</i>	
		<i>Million (US\$)</i>	<i>Per Inhabitant (US\$)</i>
World	6,130.42	18,763.5	31.10
Africa	825.45	3,555.3	5.40
Nigeria	123.31	3.8	0.32

As at end of 2004, telecom investment in Nigeria was about **US\$10 billion**

THE NIGERIAN EXPERIENCE

Background:

- In Nigeria, the Telecommunications Industry has experienced exponential growth in the last four years with close about 12 million telephone lines connected to date
- For this, Nigeria has been described as one of the world's fastest growing telecommunications markets
- These achievements can be attributed largely to the goodwill exhibited by the Nigerian government and the enabling and conducive environment with respect to government policy and regulatory regimes

Background:

- Perhaps a significant driving force behind the Nigerian success story can be located in a statement by the Nigerian President, Olusegun Obasanjo, viz.
 - *“We cannot be talking about creating a conducive environment for foreign investments if the performance of our transport, **telecommunications** and energy sectors remain dismal and epileptic.” - July 1999*

Background:

- We are equally not unmindful of the need to keep abreast of developments and remain relevant in the world information superhighway
- Hence, our continued commitment to promoting a regulatory environment that is fair, transparent and predictable within nationally and globally defined agenda for sustainable development
- However, the process did not begin in 1999, but in 1985

Drivers:

- The reform was motivated by:
 - The inability of governments to continue funding public enterprises, due to dwindling resources
 - The need to ensure affordable access to services while creating the conditions for the development of the information and infrastructure needed to improve operational efficiencies in all aspects/sectors of the economy

Drivers:

- The need to attract foreign investment and reduce the role of the government where the private sector has the capabilities to operate more efficiently
- The success of market reform in the developed world
- The prescription of market reform by the multilateral financial institutions to the developing countries as the panacea for economic growth and development

Evolution:

- The telecom market reform in Nigeria evolved from several administrative, structural and operational changes since 1960, through 3 successive National Development Plans, viz.
 - Separation of the Post & Telecom Department in 1985, and the establishment of a public monopoly telecom company, NITEL – an amalgamation of the Telecom arm of the P&T and the then NET

Evolution:

- Seminar on telecom sector restructuring in 1987 led to the first National Telecommunications Policy, whose recommendations included:
 - Privatisation of the public monopoly, NITEL
 - Deregulation/liberalisation of the industry
 - Establishment of the National Regulatory Authority
- Introduction of mobile telephony in 1992, through a joint venture between NITEL and DSL of Canada to form MTS

Evolution:

- Establishment of the NRA in 1993
- Introduction of competition in fixed telephony in 1997 through licensing of Private (Fixed) Telephone Operators
- Review and amendment of Telecom Law in 1998
- Review of the 1987 Telecom Policy, and the release of a new National Telecom Policy in 2000, with the following thrusts:

Evolution:

- To modernise & expand the telecom network and services
- To licence 4 national digital mobile telephone operators, with initial 5-year exclusivity;
- To privatise the incumbent operator/carrier by 2002;
- To licence a second national carrier by 2002;
- To achieve 2 million fixed lines and 1.2 million mobile telephone lines by 2002 and 5 million fixed lines and 4 million mobile lines by 2005;

Evolution:

- To strengthen and empower the Regulator through full independence;
- To establish a National Frequency Management Council to coordinate and allocate block spectrum to different user groups
- To develop and enforce Universal Access obligations for fixed and mobile telephone operators

Regulatory Interventions:

- Published Reference Interconnection Offer in 2003 to guide the technical & economic relationships among operators
 - This is complementary to one of the conditions of licences on non-discriminatory & transparent interconnection of networks
- Licensed Metropolitan & Long Distance Fiber Optic transmission networks operators to address problems of inadequate backbone infrastructure

Regulatory Interventions:

- Conduct public inquiries on a number of regulations to secure necessary buy-in of all stakeholders, e.g. Spectrum fees & prices, Enforcement, and Dispute Resolutions
- Hold monthly 'Consumer Parliament' to inform and educate consumers, and to redress complaints
- Established an ICT-based training Institute to facilitate human capital development required for the sustenance of the industry

Regulatory Interventions:

- Conduct researches to monitor impacts or regulatory actions, as well as global developments for purposes of measuring effectiveness and benchmarking

Outcomes:

- Introduction of competition in mobile telephony with the licensing of 4 Digital Mobile (GSM) operators in 2001, through auction
- Evolving appropriate competition safeguard through telecom network Interconnection regulations
- Introduction of facility-based competition with the licensing of the SNO in 2002 to establish transmission infrastructure, etc
- Strengthening the Regulator for better performance through a new Nigerian Communications Act, 2003

Outcomes:

- **Achieved full liberalisation – Growth in Operators**

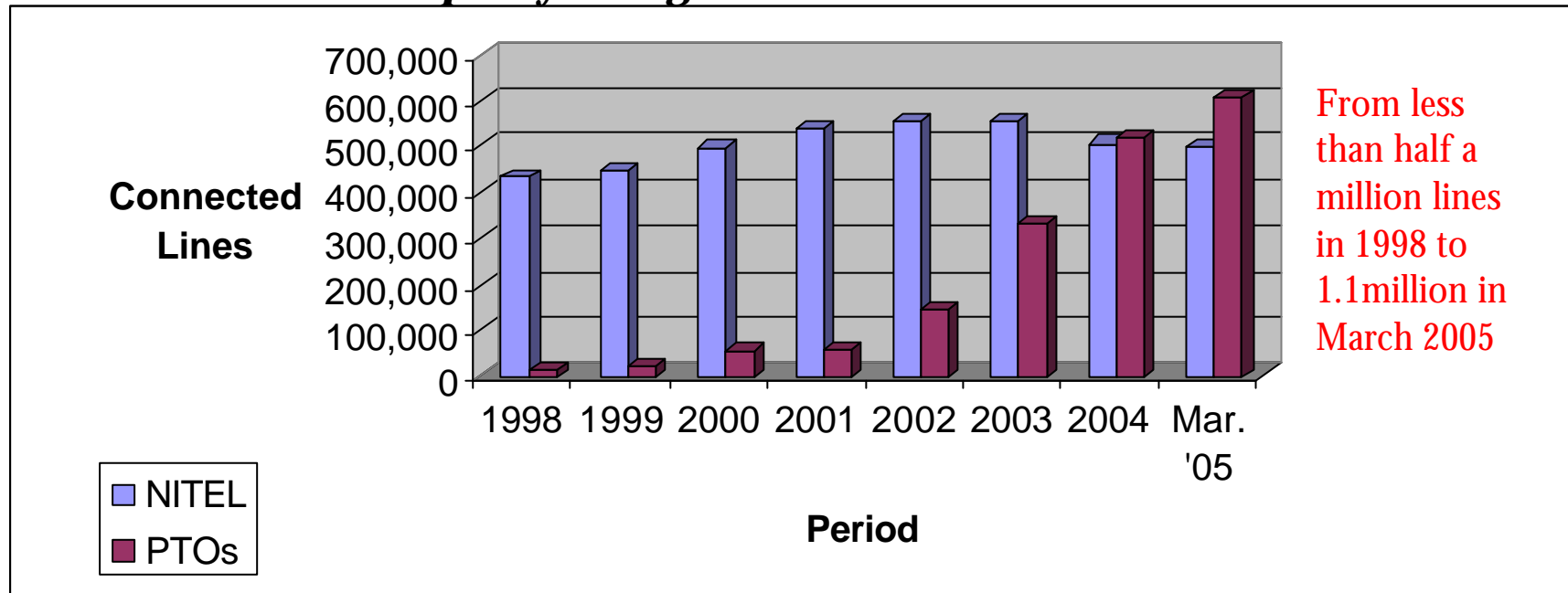
SERVICE CATEGORY						
	1999	2000	2001	2002	2003	2004
National Carriers	1	1	1	2	2	2
Mobile Telephony	1	1	3	3	4	4
Fixed Telephony	9	16	16	17	20	24
VSAT Networks	25	32	38	45	51	52
ISPs	18	30	30	35	35	36

Outcomes:

- Developed Spectrum Plan for the country
- Published Interconnection Regulations and Guidelines
- Developed various regulations to facilitate fair industry practices, e.g. enforcement regulation
- Established Consumer Affairs Bureau and Consumer Parliament to promote consumer rights, amongst others
- Increased access to affordable telephony and Internet access through Phone Kiosks, Tele-Centers and Cyber Cafes

Outcomes:

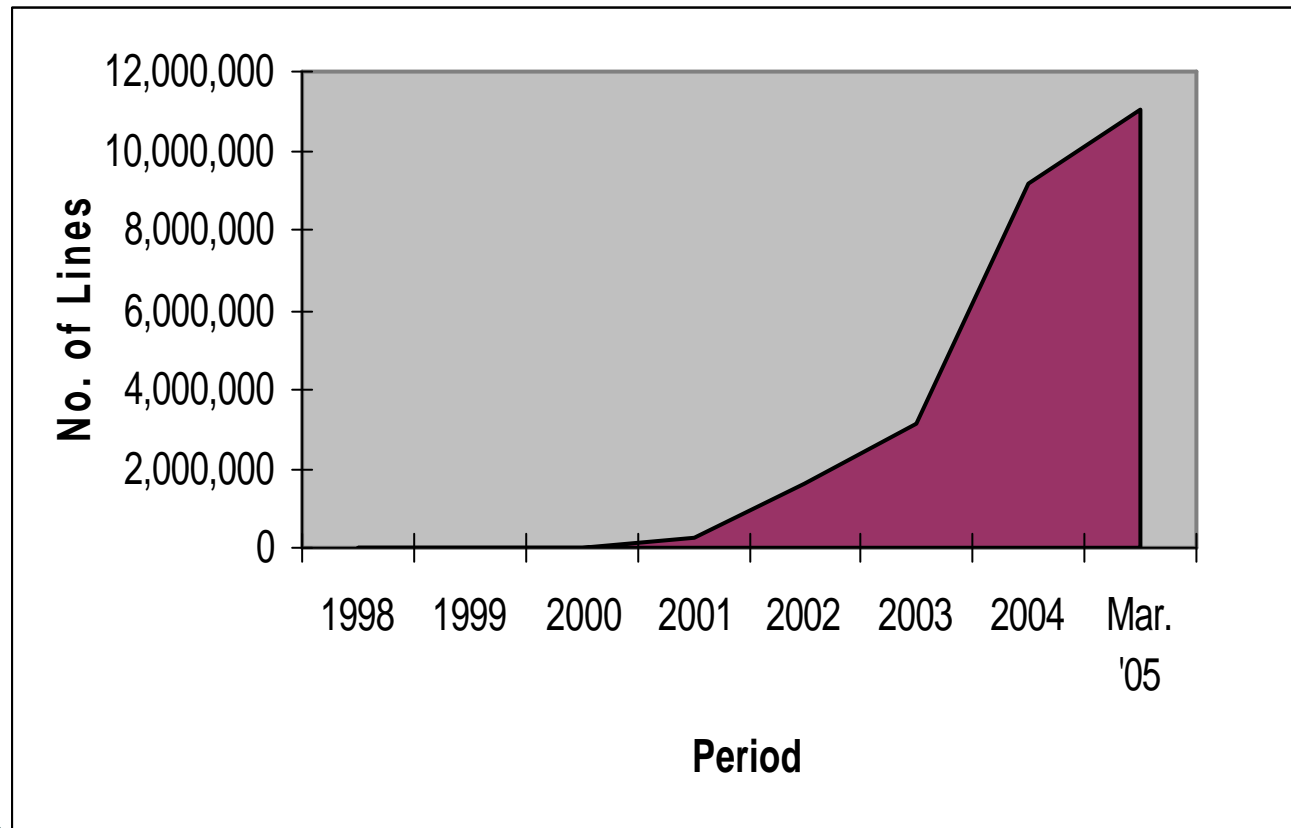
Growth in fixed Telephony in Nigeria



The visible growth in fixed lines has been made possible by competition; by the end of 2004, Private Telephone Operators (PTOs) had begun to contribute more fixed lines than the incumbent's. Currently, the ratio stands at **50.5% : 49.5%**, in favour of the PTOs.

Outcomes:

Growth in Mobile Telephony in Nigeria

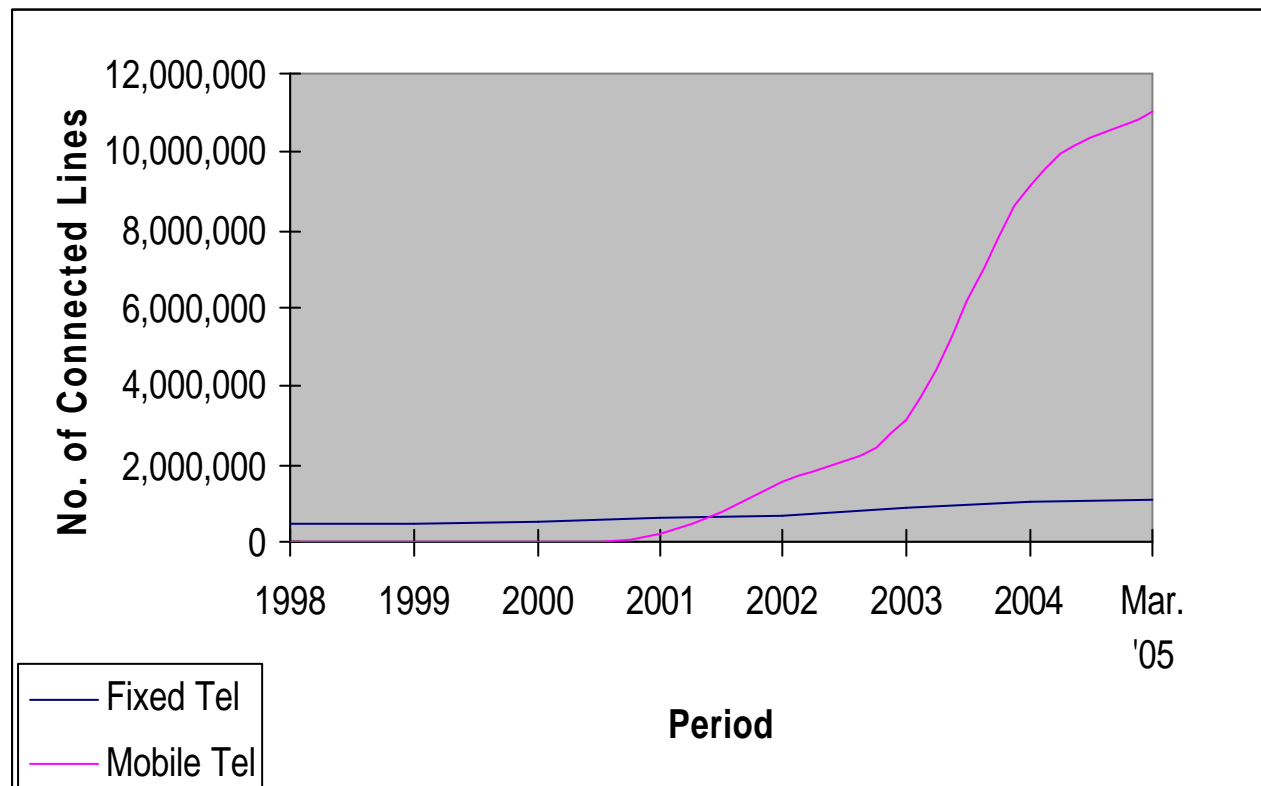


From a mere 35,000 Analogue lines between 1996 and 2000, to about 11 million in March 2005.

Growth of more than 1 million lines annually since the year 2002

Outcomes:

Comparative Growth in Fixed & Mobile Telephony in Nigeria



Mobile grew from 35,000 lines in 1998/2000 to 11.02 lines in March 2005

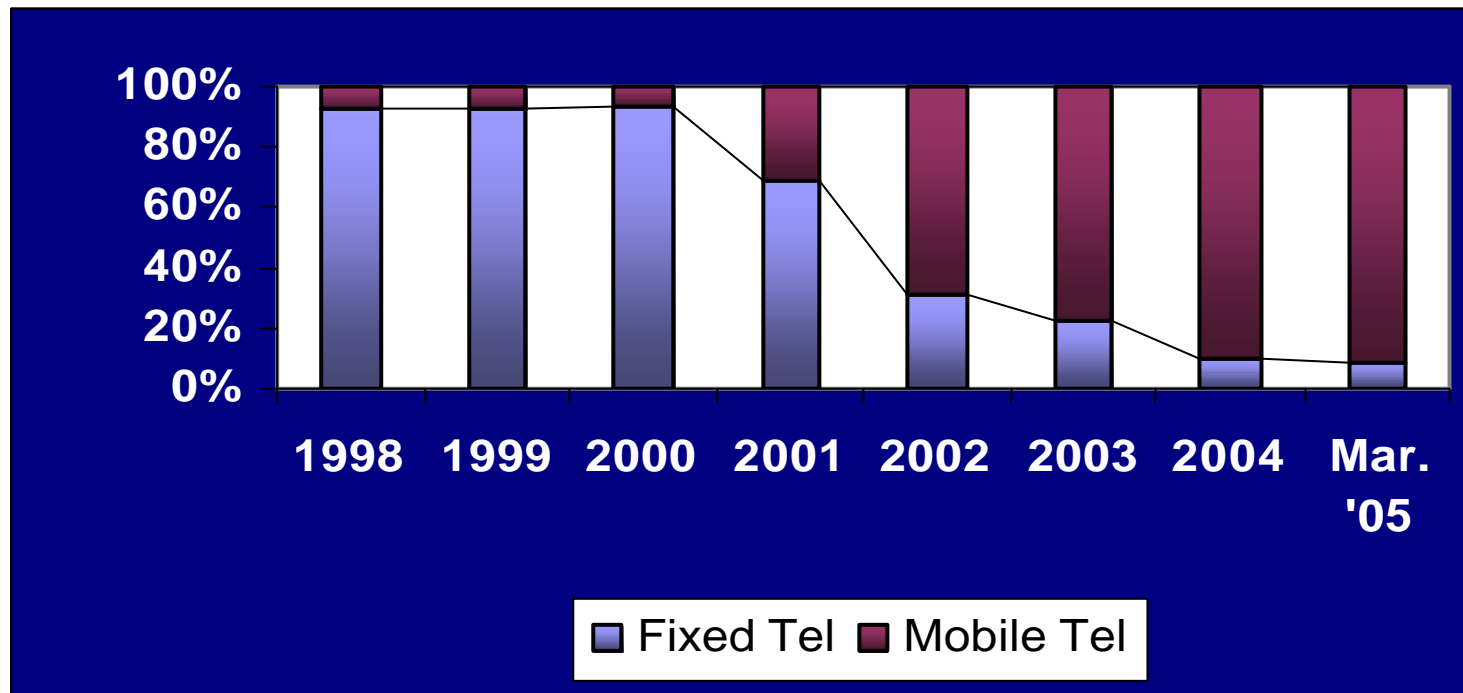
Fixed grew marginally from about 450,000 in 1998/99 to about 1.1 million by March 2005

Av. annual growth rate in mobile = %

Av. annual growth rate in fixed = %

Outcomes:

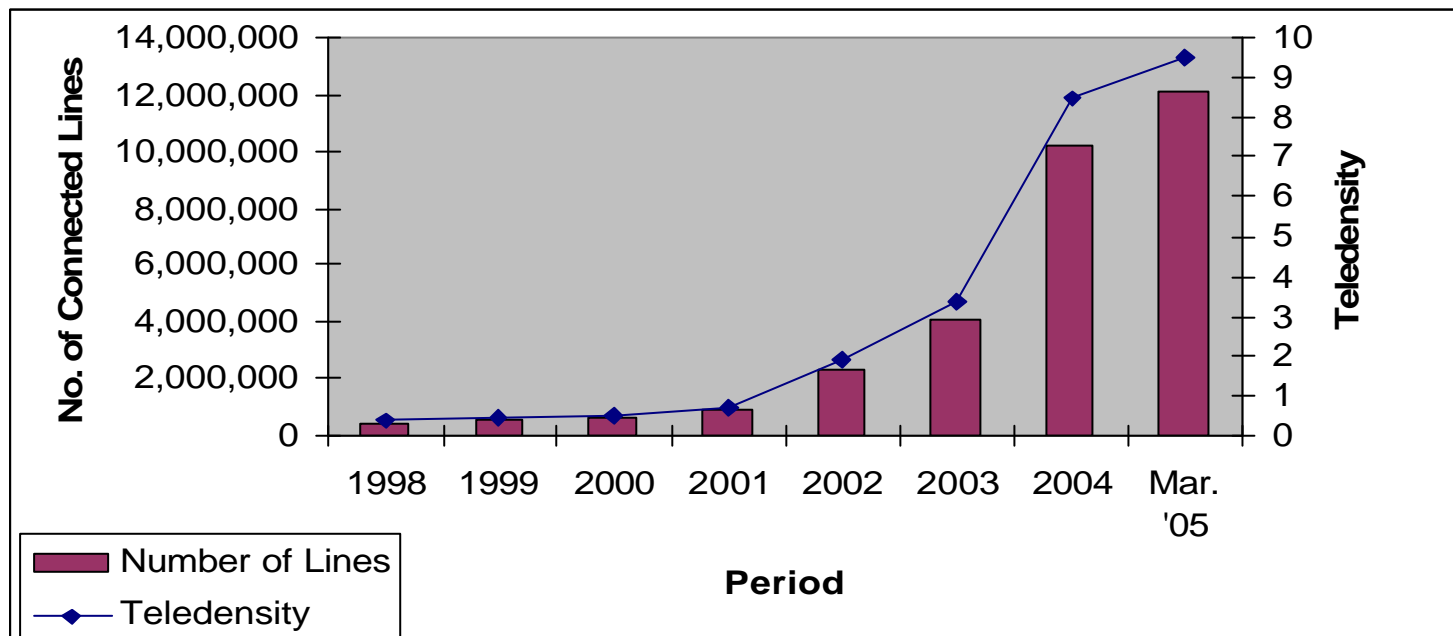
Trend in the Contributions of Fixed and Mobile Telephones in Nigeria



Contribution of fixed Lines began to **reduce from about 95%** in 2000 to the current level of **less than 10% by March 2005**

Outcomes:

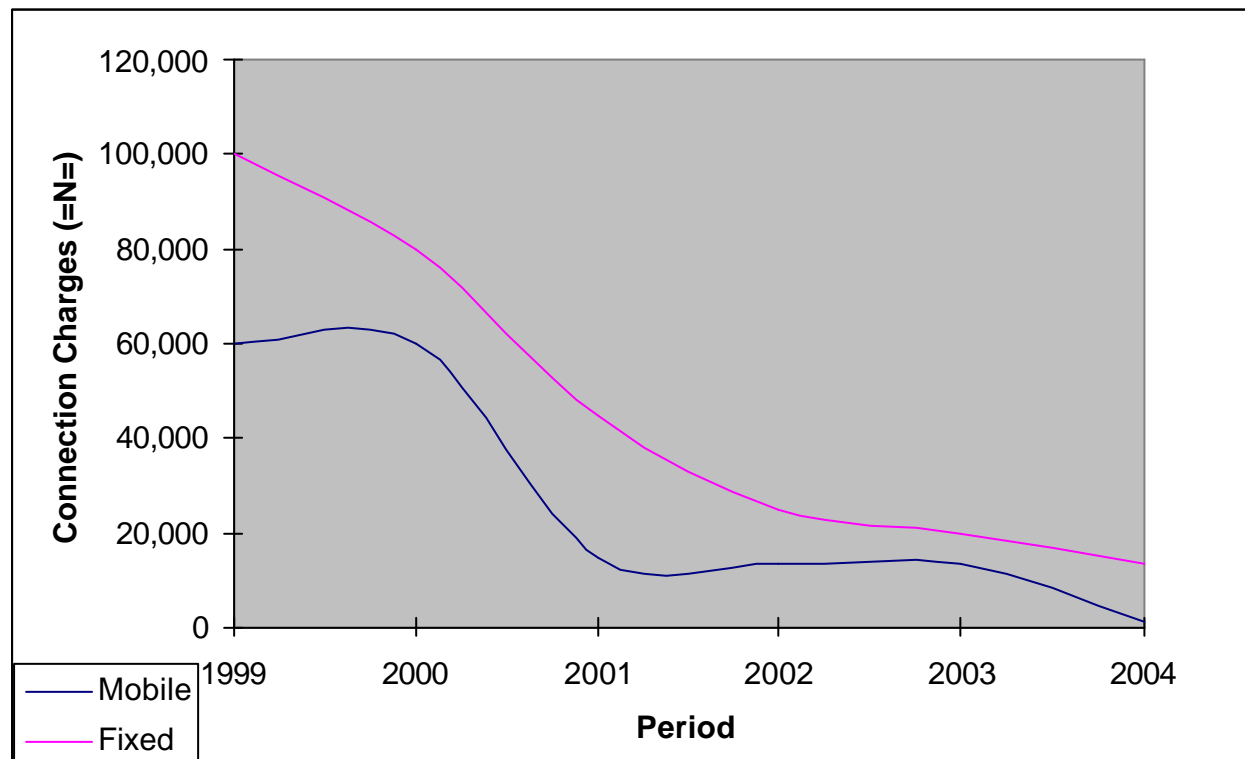
Aggregate Number of Connected lines & teledensity in Nigeria



Total teledensity was **0.4** lines per 100 inhabitants in 1998; reached **1.89** in Dec 2002, increased to **3.35** in December 2003, and is currently about 9.47, **implying 1 telephone to about 10 inhabitants**

Outcomes:

Trend in Fixed & Mobile Line Connection Changes in Nigeria



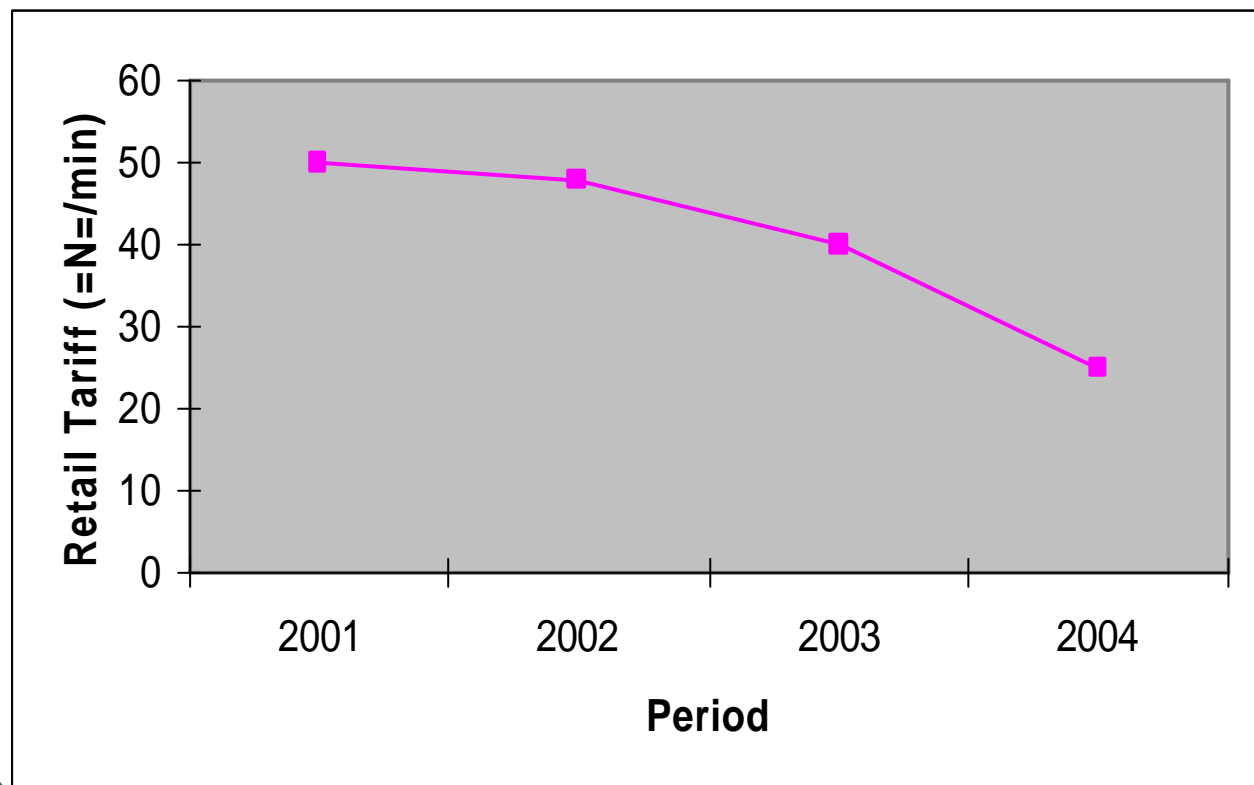
- Connection was at =N= 60,000 for analogue mobile in 1999 and 2000

- Entry charge for prepaid GSM SIM Pack was an average of =N= 15,000 in 2001, now costs about =N=1,000

- Connection charge for fixed has reduced from about =N=100,000 per line in 1999 to less than =N=20,000

Outcomes:

Trend in Retail Call Charges for Mobile Telephony in Nigeria



• From =N=50/min in 2001, retail call charges for prepaid service has reduced to between =N=30 to =N=35 per min

• However, promotional packages (use of booster cards) have further reduced end user tariff to about =N=20

Outcomes:

Expanding access through “Umbrella Phone Kiosks”;
Over 300,000 Nigerians earn income through these ventures



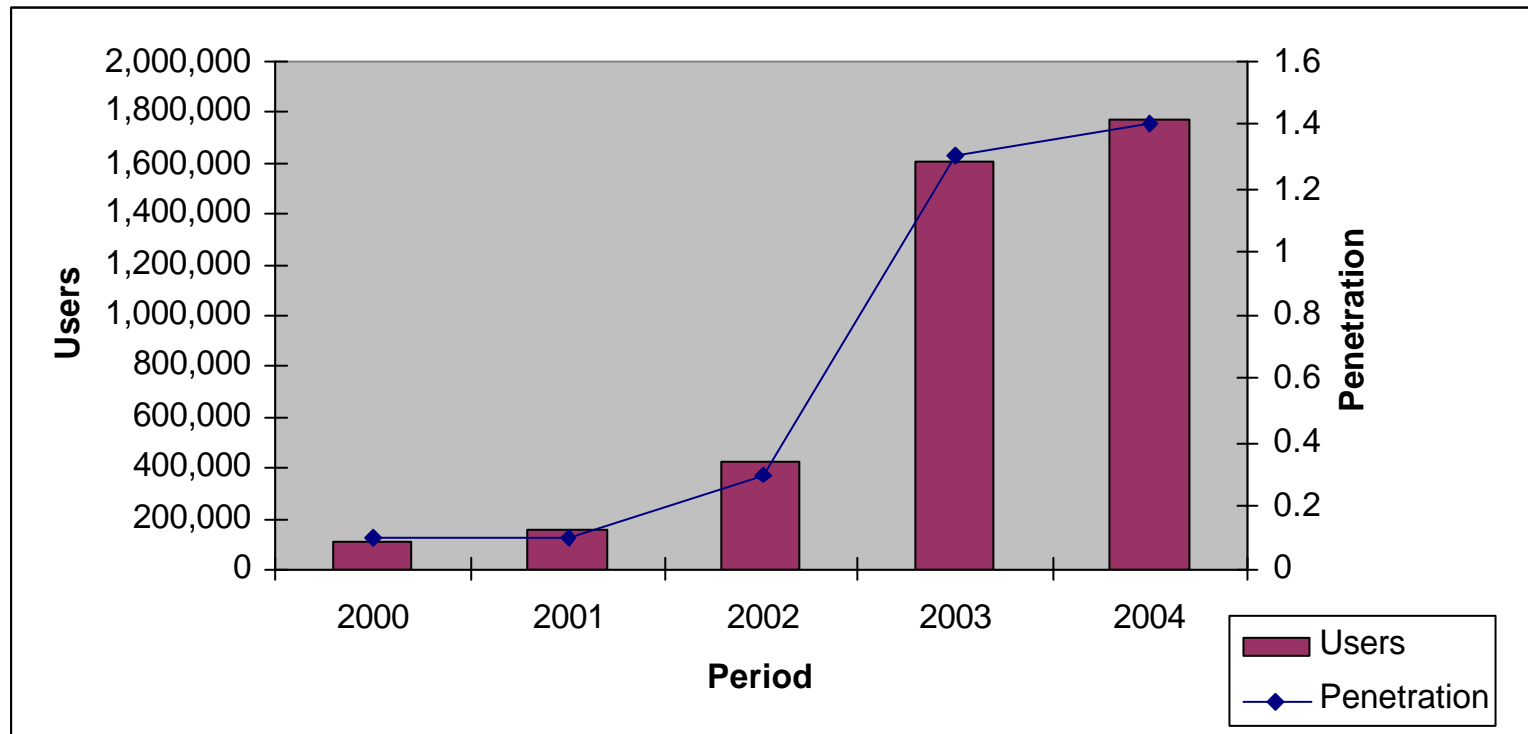
Road-side Phone Kiosks



Sales of phone accessories at the
GSM Village, Abuja

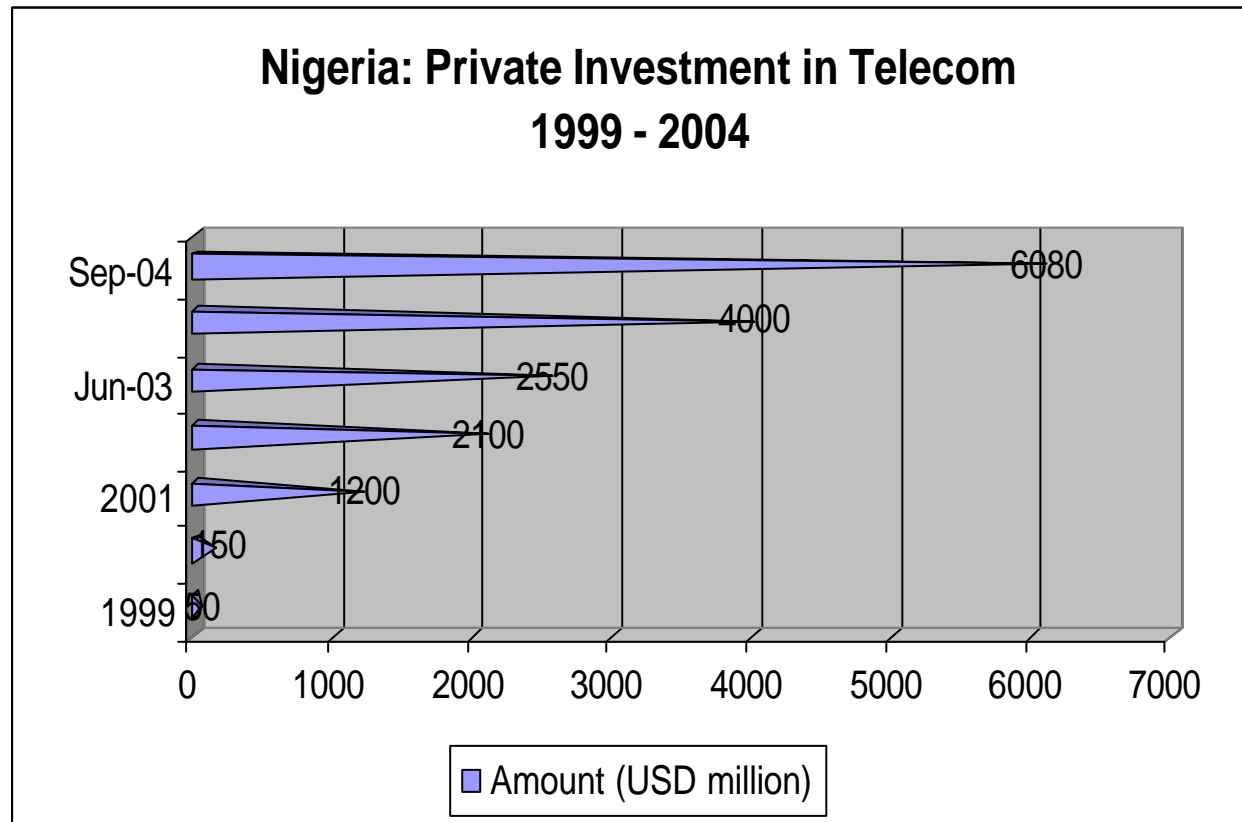
Outcomes:

Growth in Internet Users & Penetration in Nigeria



As at end of 2004, Internet Users had reached about **1.6 million**, while penetration was about **1.4**

Outcomes:



▪ From just about US\$50 million in 1999/2000, investment in telecom was put at about US\$10 billion as at end of 2004

▪ Active participation of local financial institutions

Outcomes:

- Coverage of fixed & mobile telephony
 - All the States of the Federation are covered by both services
 - At least two mobile operators are present in 33 out of the 36 State and the Federal Capital, in addition to fixed operators
 - The mobile operator with the least number of connected lines is present in all 36 States and the Federal Capital
 - Landmass coverage is estimated at between 35% - 45%
 - Population coverage is about 9.5%

Constraints:

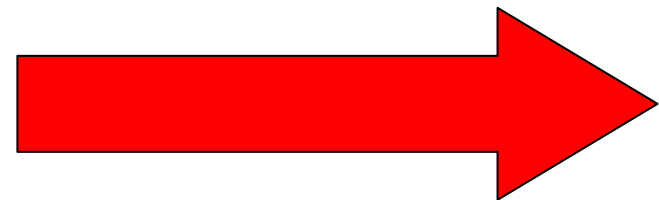
- Inadequate backbone infrastructure
- Unreliable support infrastructure (electricity)
- Lack of adequate domestic financial resources and high cost of capital locally
- Delay in privatising the incumbent operator
-

What Next?

- Innovative deployment of universal access fund to facilitate faster deployment to rural and under-served areas
 - Outcome of a demand study to stimulate market growth through innovative new entry
- Evolve mechanisms to safeguard early exit and/or to cushion effect of such exits
- Pursue sub-regional and regional integration through harmonisation of policies and regulations
- Further liberalise International Services
- Promote Universal Licensing

Conclusions:

- The Nigerian experience is a veritable demonstration of the success of market reform in telecom
- Nonetheless, there continues to be investment opportunities in the country
- So, you are welcome to the world's fastest growing telecom market



Conclusions:



Population (est.): 130 million

(About 55% of population are 16 years and above)

GDP (2003): US\$52 billion

GDP per k (2003): US\$410

GDP Growth: 3.7%

*Thank You!!!
Merci!!!*

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