

CASE STUDY - GSM LICENSING PROCESS INDUSTRY



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INTRODUCTION

- The Digital Mobile Communications was identified as a key infrastructure that will accelerate the improvement of telecommunication services.
- NCC was charged with the responsibility of organizing a credible, open and transparent licensing exercise by way of an auction.
- This was to be implemented within a very tight time schedule of about five months.

INITIAL STEPS TAKEN

- **NCC appointed Radio Spectrum International (RSI) Consulting Limited as the Principal Consultant to facilitate the DML auction for Nigeria.**
- **A number of factors were considered in appointing RSI as Consultants:**
 - **The need to proceed quickly to ensure that the licences are issued by December 2000.**
 - **The proven independence of the Consultancy firm.**
 - **The firm's recent experience in the handling of a high profile auctioning process.**

INITIAL STEPS TAKEN - CONTD.

- The proposal presented by the firm, and the timetable proposed for the Consultancy.
- The specific expertise in evaluation of auction and licensing policy, auction design, documentation and execution, technical expertise relating to radio spectrum issues, and Design of Internet sites for provision of background information and real time auction results.
- RSI identified some specialist Consultants to also work with on the process.

THE CHOICE OF LICENSING PROCESS

- The NCC as a Commission proceeded to consider various ways of licensing operators for mobile network.
- The two options that came up for consideration were:
 - An auction process and
 - A comparative selection process a.k.a. Beauty contest selection process.

WHY THE CHOICE OF AUCTION PROCESS

- Auction are used by many government agencies and private companies to allocate scarce resources.
- One of the main virtues of an auction mechanism is that it ensures that the prices paid by buyers reflect their valuations.
- Rather than have the government administrators second guessing prices for assets, auctions mimic markets by promoting competition .

WHY THE CHOICE OF AUCTION PROCESS - CONTD.

- Auctions are viewed as the most efficient mechanism for assigning licenses on the assumption that the bidder with the best business plan for a license will value it most highly and hence be successful in the auction.

WHY NOT A BEAUTY CONTEST

- Where public administrators are selling national resources such as spectrum or oil blocks, some traditional methods for allocating the resources are prone to corruption.
- Beauty contests naturally give rise to suspicions of behind the scenes fixing in favor of particular vested interests.
- Well-designed auctions, which operate under full public scrutiny, can successfully overcome this.

STRATEGY

- **Consultation**
- **Technology**
- **Market Analysis**
- **Spectrum Packaging and Auction Design**
- **Criteria for Application**

DETERMINING THE AUCTION DESIGN AND RULES

- Market research were conducted and it was agreed that the spectrum packages would be of equal size and value.
- A number of alternative auction designs were considered, and the “ascending clock auction” design was selected as the most appropriate.
- A single price was set for all the licenses and sold simultaneously.

DETERMINING THE AUCTION DESIGN AND RULES - CONTD.

- The advantage of this auction design was its simplicity.
- The risk of default of payment was assessed and it was important to ensure that only serious bidders entered the process.
- Bidders must be seen as separate entries in terms of share ownership, to be admitted to the process as a condition of taking part in the auction.

DETERMINING THE AUCTION DESIGN AND RULES - CONTD.

- Prompt payment of the fee is essential in ensuring that bidders do not over commit themselves when bidding and the prospect of forfeiting a substantial deposit is an effective deterrent.
- A further deterrent against default or contravention of the auction rules was the prospect of being disqualified from participating in any other government licensing rounds for the next five years.
- The Auction Logistics.

SUBMISSION OF APPLICATIONS

- At the close of business on the date for submission of applications, a total of eight applications were received.
- One company wrote in withdrawing its application.
- As at the closing date of 21st December 2000 only five companies fulfilled the payment requirement of \$20 Million US Dollars.

MOCK SESSIONS

- To ensure a hitch-free exercise the Commission together with the consultants organized several Mock Auction sessions.
- The objective was to engender general understanding of the Auction Process and help improve and perfect the system.
- All bidders were required to take part in the mock auction as a condition for taking part in the auction proper.
- This meant that any misunderstanding of the rules or questions regarding the process could be dealt with before the actual auction process.

THE AUCTION STAGE

- Bid Teams were placed in rooms well away from each other so that they could not be overheard.
- Rooms were randomly allocated each day to the bid teams, and they were accompanied by a representative of the Commission as an Independent Observer.
- All communication between the auction control team and the bid teams were verified using approved signatures and passwords.
- Appropriate arrangement was put in place and roles assigned to guarantee a successful process.

THE DML AUCTION WEB PAGE

- At the commencement of the process, a web page was designed to enable people all over the world access information on the DML process.
- The DML webpage was used to publish the results of each round of the bidding process, thus people all over the world were able to follow the auction procedures via the Internet.

THE PRESS

- A press center was provided for journalist .
- The media was adequately represented throughout the auction exercise.
- Information on the auction was managed efficiently and newspapers gave the process prominence in their headlines and reports.

THE AUCTION

- The auction lasted for three days, from January 17th, 2001 to January 19th 2001.
- The winning bid price for the successful companies was Two Hundred and Eighty Five (285) Million US Dollars.
- Three companies and NITEL (four companies in total) were issued letter of provisional award of license and given fourteen (14) business days within which to effect payment after which the license would be confirmed.
- At the close of the 14 days only three companies met the payment obligations on time and were therefore issued the final licenses.

CRITICAL SUCCESS FACTORS

- **Government Commitment to transparency at the highest level.**
- **Commitment of the executives of the Commission to transparency.**
- **Strong management team in the regulatory agency.**
- **Choosing the right consultants that are competent and not aligned to any of the bidders.**
- **Choosing an auction design that is simple and fast to execute.**
- **Having a regulatory agency that is well funded and has the financial base to hire the right consultants.**