Don't kill the goose that lays the golden egg

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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.

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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.

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A street vendor uses a mobile phone.

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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New approach brings US homeless in from the cold

AFP, *Washington*

In the dead of winter last year, after 13 years of wandering the streets and homeless shelters of the US capital, Maureen Brosnahan was given a tiny apartment with no strings attached.

She would no longer have to endure icy nights lying on cardboard and wrapped in blankets and plastic, or huddle with others for protection against the thieves and psychotics who prey on the homeless after dark.

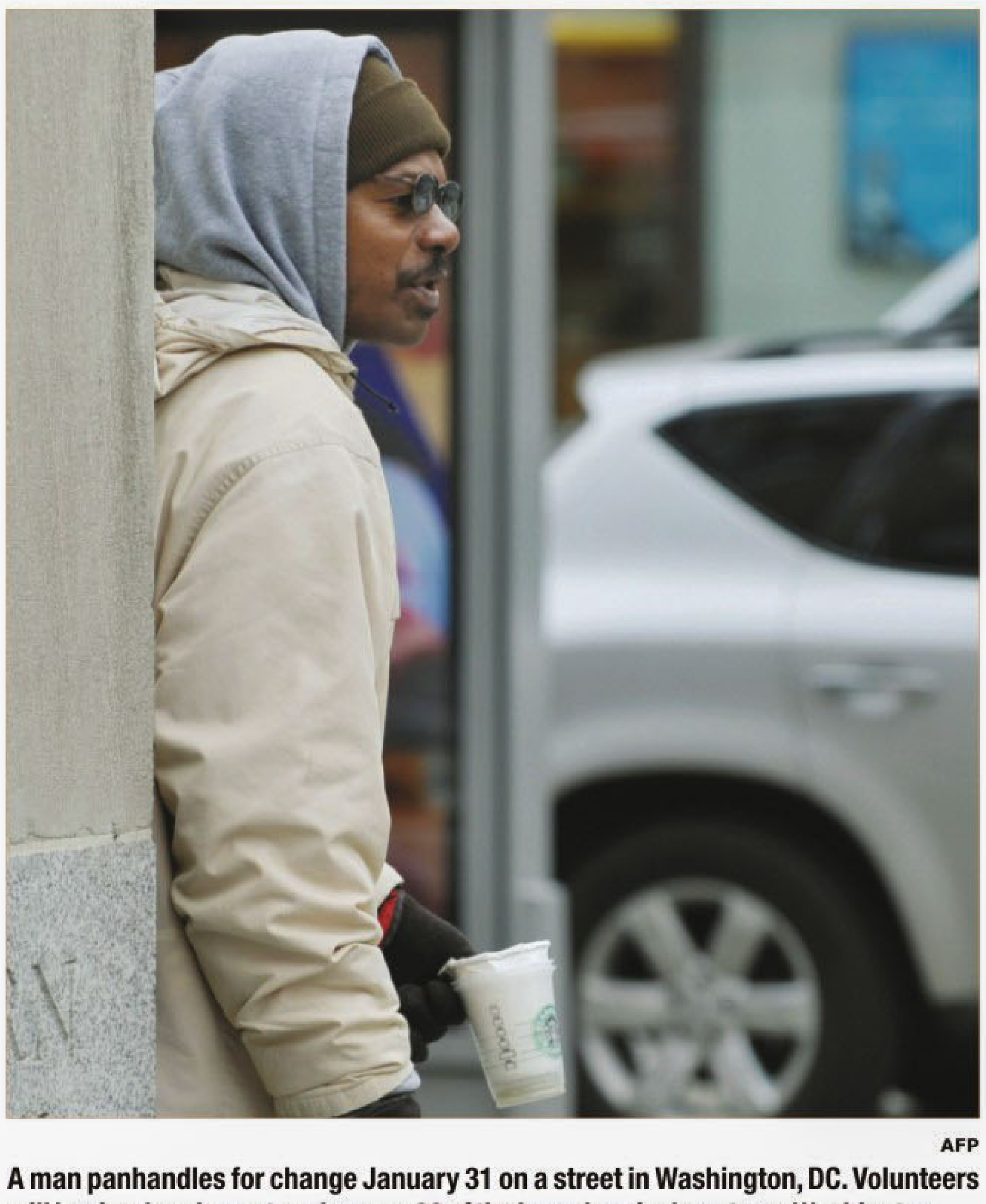
"You always think that something better is going to happen. And for me, this happened," she says of the 16-room dorm-style building run by Open Arms Housing, a local non-profit that houses homeless women.

"It doesn't hit you until you're in for a year or so, and then it's like, 'Bam! I'm inside'... You don't have to go to a church to take a shower."

The 53-year-old is one of thousands of people across the United States who have been moved into permanent housing in recent years as part of a new approach that supporters believe could end homelessness within a decade.

The "Housing First" strategy calls for identifying people who are most likely to die on the streets -- drug addicts, the mentally ill and those with chronic health problems -- and immediately moving them into their own flats.

Perhaps the most ambitious programme is the 100,000 homes campaign, a nationwide effort first launched in New York that aims to eliminate chronic homelessness by providing homes for 100,000 people by 2013.



AFP

A man panhandles for change January 31 on a street in Washington, DC. Volunteers will begin a head count on January 26 of the homeless in downtown Washington.

Since its formal launch last July the campaign has housed more than 7,200 people, including more than 1,000 in Washington alone, with a 90 percent retention rate.

Under traditional federal housing programs, applicants had to spend years on wait lists and were barred from housing by drug or other convictions, a process that offered little hope for the most vulnerable.

"The people right now who get subsidized federal housing in DC are people who can wait five, six, seven years... and you have to have an address," says Linda Kaufman, the East Coast Coordinator of the 100,000 Homes Campaign.

The Housing First approach, by contrast, sees permanent housing and supporting services as prerequisites for curing the other ills that plague the homeless.

"If you're living on the street, and you're anxious, you're drinking maybe a pint of whiskey overnight, because you're trying to stay awake and trying to stay warm and you don't want the rats to bite you and you don't want somebody to beat you up," Kaufman says.

"You move into an apartment where it's safe, you may have a couple of beers and fall asleep in front of the TV."

The government has also come around to the approach, incorporating Housing First into a comprehensive, $1.4 billion program to try to end chronic homelessness by 2015 and family homelessness by 2020.

-- 'Like you have a plague' --

"We know there are strategies out there that actually work. It's a matter of committing to those strategies and making sure we keep that momentum going," says Anthony Love, deputy director of the Interagency Council on Homelessness, which brings together 19 federal departments and agencies.

Officials and advocates alike argue that housing the homeless is not only the most humane solution but also the cheapest, since it reduces the cost of emergency medical care and law enforcement.

There are fears, however, that as governments at every level are forced to slash budgets to cope with the lingering economic crisis, the available funding may not match the ambitious goals set by Housing First campaigns.

"There's just less local money available for housing as state and local budgets have gone down," says Jeremy Rosen, program director at the National Law Center on Homelessness and Poverty.

"Ending homeless at this point is really not a mystery in terms of tactics, it's a question of being able to get the resources."

Others fear that overly zealous officials will view Housing First as an alternative to emergency shelters at a time when the economic crisis is leaving more newly homeless people, including families, in search of beds.

Of the roughly 650,000 homeless people in America nearly 40 percent live "unsheltered" on the street, according to the National Alliance to End Homelessness.

"We're definitely in favor of putting resources into permanent housing. We just don't want resources to be pulled out of emergency shelter until there is a drop in demand," says Andy Silver, an attorney with the Washington Legal Clinic for the Homeless.

When Washington's then-mayor Adrian Fenty embraced the Housing First approach in 2008 he also closed a major shelter downtown that had provided 400 beds, pushing dozens of homeless people into an adjacent park.

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