Licence renewal and Digital Bangladesh

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The debate on how much the government should charge Grameenphone, Banglalink, Robi and Citycell to renew their licences, has turned around, but not enough. After the Draft Regulatory and Licensing Guidelines proposed by the Bangladesh Telecom Regulatory Commission came under heavy criticism from multiple quarters, the Ministry of Posts and Telecommunications under whose authority licensing now falls has decided to make several amendments to the draft. The retrograde utilisation factor has not yet been removed. Implications for Digital Bangladesh do not appear to have been fully thought out.

The main change thus far has been the downward revision of the proposed renewal fee. The per MHz fees that were originally set at Tk 150 crore per MHz in the GSM 1800 band and at Tk 300 crore per MHz in the GSM 900 band have now been unified at Tk 150 crore per MHz. The Tk 150 crore per MHz fee for CDMA frequencies has been reduced to Tk 100 crore. However, the utilisation factors that had been set at 1.6 for Grameenphone, 1.1 for Banglalink, 0.95 for Robi and 0.45 for Citycell continue without any logical explanation other than the number of active SIMs per operator.

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Continuing market-efficiency issues

The lower fees have been welcomed with a few exceptions. But, do these revised fees reflect the market-efficient price for spectrum? In other words, do they reveal the true value of spectrum for each of the operators? The logic behind the new fee is as arbitrary as before. Why was the fee reduced from Tk 300 crore to Tk 150 crore? Why not to Tk 200 crore or to Tk 100 crore? Why was the fee for GSM 1800 frequencies not reduced? Why should the two frequencies be priced the same, or why not? Because operators are unable to trade in spectrum in the secondary market and it is not possible to reallocate the spectrum in the most efficient manner even leaving aside the original prices.

The arguments to justify the administratively set spectrum price as reflecting its true value lack substance. It is being argued that the price for 2G spectrum should be on par with neighboring countries. To suggest that the Bangladeshi operators have been offered a good price for the 2G spectrum (Tk 300 crore per MHz of GSM 900) in comparison to what Indian operators paid for 3G spectrum in the Delhi circle (approximately Tk 1,000 crore per MHz) is misleading to say the least. The Indian conditions were different. Spectrum there was allocated after a transparent auction which took 34 days and 183 rounds. That price reflects different market opportunities, which were freely assessed by the bidders. It cannot be extrapolated to the very different conditions in the 2G market in Bangladesh.

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Experts think a grave policy mistake may dent the government's vision for a 'digital Bangladesh'.

It is also argued that given the superior propagation characteristics of the 900 band, the ministry should not have equalised the fees for the 900 and 1800 bands. While there is technical truth in the argument, this is too simplistic a position because the price ratio is not static in all circumstances and the previous differential was arbitrary. For instance, 900 band is more attractive in rural areas, while the 1800 band is more appropriate for densely populated urban areas. Therefore, if the price differential between the two bands is very large, rational decision makers could substitute 1800 frequencies for 900 frequencies and vice versa. The only way to discover the true values is through auction or secondary trading.

Among the divergent views on what has taken place thus far there is one point of convergence. That is that 'utilisation factor' is irrational and unfair, in that the more efficient operators who served more customers with the same amount of spectrum are being compelled to pay more. Regulation must reward, not punish, efficiency. Rohan Samarajiva, the CEO of LIRNEasia, was recently quoted as saying this was like charging different prices for jet fuel based on the number of passengers in an aircraft. Those who work hard to fill the plane are being charged more, while those less successful are charged less.

What serves Digital Bangladesh?

Digital Bangladesh is the centerpiece of the government's ICT policy. Therefore, the government must consider the evidence, in both Bangladesh and in fast-developing Asia, on what infrastructure is likely to make Digital Bangladesh possible. Will Digital Bangladesh become a reality on wireless network platforms operated by well capitalised and managed mobile operators, or on some government-managed wireguide-based platform? Also considered must be the evidence building up on the use of mobile applications on inexpensive phones as well as the explosion of smart phones that have as much computing power as desktop machines a few years back.

The 'Budget Telecom Network' business model that has been responsible for giving unprecedented numbers of people in South Asia access to voice telephony at hitherto unthinkably low prices must be extended to broadband to make Digital Bangladesh a reality. This will include two components. One, building wireless access networks capable of handling data cost-effectively and backed up by non-discriminatory and cost-oriented access to backhaul including redundant capacity. Two, offering applications that are of value to consumers giving them reason to use broadband.

For this, it is necessary to create the conditions for the operators to make further investments; not to suffocate them with punitive license and spectrum fees. The 2G mess must be quickly put behind and focus must shift to making available frequencies for 3G and LTE (4G), already being trialed in Sri Lanka. Tax collection is better served through greater economic activity spurred by further investments. A grave policy mistake at this time would not only erode the confidence of the industry but take away from economic efficiency, transparency and good governance which certainly would not help in achieving the noble objectives of Digital Bangladesh.

The author is a lead economist in LIRNEasia. He is also a member of parliament representing the United National Party in Sri Lanka.

Indian growth slows as higher interest rates bite

AFP, *New Delhi*

India's economy expanded at its weakest pace in five quarters, slowing to 7.8 percent in the three months to March, data showed Tuesday, as aggressive interest rate hikes hit output and investment.

Growth for the final quarter of the fiscal year 2010-11 was down nearly a percentage point from 8.6 percent growth in the same period last year and was also below the 8.3 percent expansion posted in the third quarter.

The sharp deceleration indicated Asia's third-largest economy was feeling the pinch from nine interest rate hikes in 15 months aimed at curbing stubbornly high inflation that has caused huge hardship to India's poor masses.

"We believe the omens for Indian growth are not particularly good," said Credit Suisse economist Robert Prior-Wandesforde.

The "lagged effect of the sizeable tightening of monetary policy together with the 20-percent rise in crude oil prices this calendar year is likely to take a sizeable toll on economic activity," he said.

The quarterly growth, well below rival emerging market giant China's 9.7 percent expansion, surprised markets which expected an 8.2-percent rise.

Manufacturing growth slowed to 5.5 percent from 15.2 percent in the same period the previous year. Mining and utilities output was also down.

Investment growth decelerated to 0.37 percent in the quarter from 7.8 percent in the previous three months as borrowing costs climbed.

Business reacted with dismay to the figures.

The industrial slowdown "is a worrying trend," said Rajiv Kumar, secretary general of the Federation of Indian Chambers of Commerce and Industry.

The service sector, which accounts for more than half of India's gross domestic product, grew by an annual 8.7 percent in the quarter, the weakest rate since the last three months of 2004, economists said.

The slowdown was seen as unlikely to put an end to rate hikes, although economists said the central bank might moderate its tightening pace.

The bank has "made it crystal clear" it is prepared to sacrifice some growth in the short-term to protect the economy from the damaging effects of inflation, said Prior-Wandesforde.

CLSA economist Rajeev Malik forecast the bank would raise its benchmark lending rate by 25 basis points to 7.5 percent at a policy-setting meeting next month and by a further a further half-point during the rest of the year.

Controlling inflation is an overriding priority for the Congress-led government, which is also battling a slew of corruption scandals. Poorer households -- the backbone of its support -- have been especially hard hit by rising food and fuel costs.

India's benchmark Sensex share index initially retreated on the figures but recovered to close up 1.49 percent at 18,503.28, buoyed by a surge in Asian stocks.

For the full year, the Central Statistical Organisation said the economy grew 8.5 percent, just a shade below the government's 8.6 percent projection.

Prime Minister Manmohan Singh warned at the weekend growth in 2011-12 would likely miss the government's nine percent target.

The central bank earlier this month cut its growth projection to 8.0 percent. Some economists expect growth for the year to be even lower with investment house Credit Suisse pegging it at 7.5 percent.

While India's expansion might seem strong by anemic Western standards, the government says it wants to see double-digit growth to make an impact on crushing poverty that blights hundreds of million in the nation.

High growth is essential to fund social projects such as the proposed Right to Food Act to feed India's hungry millions, government leaders say.

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AFP

Indian street children study at a school run by Save the Children NGO in New Delhi on May 24.