

Sri Lanka: Speeding towards the Information Highway

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Sri Lanka, with its new emphasis on privatization, has a thriving market for telecommunications and prospective investors can be certain of a

rapidly growing market with good returns, in a country which is determined to be the hub of economic activity in the South Asian region.


The restructuring of the island's telecommunication system through privatization and competition ranks high among the Sri Lankan Government's priorities in its move towards an investor-oriented marketled economy.

Initial steps towards a complete overhaul of the telecommunications structure have already been taken, with the appointment of an internationally reputed team of financial consultants to advise on the restructuring process. Although the government has not made any final decision on the amount of equity of Sri Lanka Telecom (SLT), the existing government corporation which operated the island's telecom network will be offered to a strategic partner. Some proposals suggested an initial allotment of 20 per cent, however, the final decision will have to await the report of financial consultants.

Although Sri Lanka's telecommunication service goes back to more than a century, and was among the first to be installed in South Asia, its rate of development has in no way matched the public demand. Today, even with an island-wide network — which is by and large well maintained, and has already moved into fiber optics in some areas of the infra-structure — the service available is not able to meet existing domestic and business demands or, the needs of an investor-oriented economy, which is seeking to achieve the status of a Newly Industrialized Country (NIC) at least within the next decade.

The island currently has a little over direct line telephones in operation, with a waiting list of another 230,000 as on April 1996. At the current rate of giving connections, which has now been expedited, even the existing demand cannot be met by the end of this century. The problem has mainly been that the telecommunication service has since its inception been a government department, subject to the red-tape and delays of government. In addition, it was not till the late seventies that telecommunications was treated as a priority area in the development plans of successive governments. The rate of expansion was therefore very slow, and today the service has to do a spurt which is not possible under the constraints of a government owned corporation, and with the limited funds available to the government for investment.

With greater investment by government and foreign loan assistance, Sri Lanka Telecom was able to modernize and improve its service, including the speeding up

of direct line connections and the introduction of automatic switching systems making possible direct dial contact throughout the island. In 1993, for the first time it was able to give 25,000 new direct line connections. The addition in 1994 was 24,000 and in 1995 was again 25,000. With greater efficiency, the target of new direct connections has been raised to 60,000 in 1996. But even at this rate of progress Sri Lanka Telecom (SLT ) will not be able to meet the very conservative expectations of demand by the end of the century, which is expected to be 700,000. A more realistic figure is in the region of one million new connections by the year 2000.

In order to ease the demand for telephones, especially in the business sector, SLT moved into the area of licensing private operators to provide cellular telephone facilities six years ago. The demand for this was much more than expected although a connection was more than four times the cost of a direct line telephone. An initial estimate of 20,000 cellular telephones in five years with two competitors in the field proved to be wholly unrealistic.

Just now there are over 45,000 cellular telephones and four operators in the field. The main reason for this huge demand despite the high costs was the facility of instant connection with no waiting list and the absence of corruption in the allocation of lines. Domestic users also began choosing cellular telephones and small businessmen and even technicians and journeymen took to cellular telephones apart from the big businessmen and professionals who made up the initial target market. The main attraction was the ability to get an instant connection. Even today there are some who have been on the waiting list for at least ten years for a direct line connection.



Mangala Samaraweera

The Minister for Telecommunications, Mr. Mangala Samaraweera, is clear on the position that in today's world, it is almost a fundamental right for a person to have immediate access to a direct line telephone connection. He says that the long waiting list of over 200,000 is only part of the existing demand, with many people reluctant to even apply for a telephone because of the necessity of being on a long waiting list. He is of the view that this unmet demand is also the cause for considerable corruption involved in the obtaining of telephone connections. He is convinced that a restructured SLT, which will have private sector equity would help greatly in expanding the telephone network. He is also of the view, that there is a strong need for competition in the telecommunications sector for the service to improve, for faster modernization and for the lowering of tariffs.

While the preparations for privatization go on, the Ministry has already taken a bold step in introducing Wireless Local Loop System (WLLS) telephone connections to ease the growing demand for telephones, and satisfy those already on the waiting list. Licenses have been given to two internationally reputed companies Tellia of Sweden and Bell Canada, to operate WLLS telephone services in Sri Lanka. They are both making preparations to begin giving connections by early September 1996. The initial assurance is that each company will be able to give at least 100,000 WLLS connections by the year 2000, beginning with Colombo, Kandy and other urban areas where the demand is the highest.

Bell Canada group of companies, which is associated with Trans Marco of Singapore has formed a company Lanka Bell, in association with the Development Finance

Corporation of Ceylon (DFCC), which is Sri Lanka's oldest Development Bank, established in 1956. Tellia of Sweden, the largest telecommunications operator in that country and widely represented in Europe and Asia has formed Tellia Lanka, in association with Metropolitan Communications, a leading Sri Lankan company in the field of communications and the National Development Bank of Sri Lanka.

The selection of the licensees was handled by the Public Enterprise Reform Commission (PERC), an agency established by the present government to carry through its program of privatization, with complete transparency. This was necessary in view of the allegations of large scale corruption in the sale of state assets during the previous government, These allegations of corruption especially that of "cronyism" proved a deterrent to many leading international companies investing in Sri Lanka in the past, although the previous government did introduce an open economy which laid emphasis on private sector-led growth and foreign investment.

The process of privatization is carried out by PERC with advertisements in the local and foreign Press, particularly foreign journals read by investors, clearly drawn up bid documents which give all the conditions of sale or lease, the minimum price below which the transfer of assets will not take place, and the requirement that companies bidding for any project have the necessary capital to carry out the work and ensure its certain to find a expansion.

It was under these conditions that PERC was able to choose market, with a Shell International from among growing demand prominent international bidders for the sale of Colombo Gas Company, which had the monopoly for the sale of LP Gas in the country. Shell International which purchased a majority stake in the Colombo Gas Company for a sum in excess of US\$ 25 million, has already formed another company in Sri Lanka establish a special port terminal for the bulk unloading of LP Gas, which is expected to bring down tariffs. It has also made clear plans for the supply of LP Gas to the underprivileged areas of the island. In keeping with the conditions of the sale, Shell has also already allocated 10 percent of the shares of the Gas Company to its employees.

Investors in telecommunications in Sri Lanka are certain to find a rapidly expanding market, with a growing demand for the latest technological developments in telecommunications, apart from the purchase of direct line telephones. Most companies already

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doing business in the country are fast converting to computerization. In its search for new investment, the government is giving more concessions for investors who will bring hi-tech projects to the country. The future of telecommunications in Sri Lanka will certainly have a great demand for data exchange in addition to voice communication. Sri Lanka with its new emphasis on private development is determined to be part of the Information Highway, and has already taken several steps in this direction.

Sri Lanka Telecom which currently holds the monopoly for telecommunications in the island has a highly trained engineering staff.



It has a good infrastructure which can be easily improved with investment by the private sector. It already supplied the infrastructure and servicing facilities for the cellular telephone companies operating in the country, and ensures the proper maintenance of at least three companies competing in the provision of public telephone booths. It also operates and maintains a satellite receiving station which has been acknowledged as being among the best in the world.

The investor who invests in the proposed privatization of telecommunications and the introduction of greater competition in this sector in the form of Infrastructure and service development, can be certain of investing in a rapidly growing market, with good returns. in a country which expects, with good reason to be the hub of economic activity in the South Asian region.

One of the best assurances of a good and fair opportunity for investment in Sri Lanka, and the attitude of the current government with regard to foreign investment is stated in this comment by Mr. Ronald J Maness, Executive Director of Lanka Bell, on the occasion of the announcement of the issue of the two competitive licenses. Mr. Maness said his company admired the high level of integrity shown both by the Telecom Ministry and the Government in awarding the tender for the provision of WLLs telephones, without compromising its terms and conditions, despite pressure.

The total initial investment by the two companies will be over US\$ 200 million on the two projects. Mr. Maness said that Lanka Bell would initially invest US\$ 120 to 130 million on the project, and hoped the final investment would be in the region of US\$ 1 billion. These views were also endorsed by Mr. Anders Ekman, of Lanka Tellia.