ICR Review
Operations Evaluation Department

Report Number : ICRR10998

1. Project Data:		**Date Posted :** 08/10/2001		
PROJ ID:	P042263		**Appraisal**	**Actual**
Project Name :	Telecommunications Regulation & Public Enterprise Reform Project	**Project Costs (US$M)**	21.6	27.05
Country:	Sri Lanka	**Loan/Credit (US$M)**	15.0	10.34
Sector(s):	Board: PSD - Central government administration (63%), Telecommunications (37%)	**Cofinancing (US$M)**		
L/C Number:	C2837			
		Board Approval (FY)		96
Partners involved :		**Closing Date**	12/31/1999	12/31/2000
Prepared by :	**Reviewed by :**	**Group Manager :**	**Group:**	
Simone Lawaetz	Hernan Levy	Alain A. Barbu	OEDST	

2. Project Objectives and Components

a. Objectives

The project objectives are to:

(1) assist the Sri Lanka Telecommunications Authority (SLTA) in its transition to a more independent regulatory commission and strengthen its regulatory authority;

(2) assist SLTA in: (a) improving its administrative and technical capabilities to plan and control the use of radio frequency spectrum; and (b) establishing a computerized radio frequency management and monitoring system (FMMS); and

(3) facilitate the divestiture of government owned enterprises, including Sri Lanka Telecom (SLT), by strengthening the technical and administrative capacity of the Public Enterprise Reform Commission (PERC).

b. Components

The project consisted of two components:

(1) technical assistance for the strengthening of SLTA, including : (a) a FMMS, with hardware, software, expert assistance during the initial years of operation, and staff training; (b) consulting services to assist SLTA in selected studies on sector regulation; and (c) staff training; and

(2) assistance to PERC in financing consultants and financial advisors for specific transactions and strengthening of the PERC Secretariat (office equipment, training, travel, etc.).

c. Comments on Project Cost, Financing and Dates

Actual project costs were about 20% higher than estimated at appraisal. The Government funded the additional costs. A reduction in the scope of FMMS resulted in significant project savings . However, the cost of the institutional strengthening of PERC was higher by about US$ 12 million, over 3 times as much as anticipated at appraisal. No explanation is given in the ICR for the significantly higher cost of the overall project and of the PERC institutional strengthening component. The closing date was extended by one year to 12/31/2000 to provide additional training and consultancies to address pressing policy issues, including the preparation of a new Telecommunications Policy and Corporate Plan, and to address concerns about rural communications .

3. Achievement of Relevant Objectives:

(1) To assist the Sri Lanka Telecommunications Authority (SLTA) in its transition to a more independent regulatory commission and strengthen its regulatory authority : This objective has been partially achieved. The regulatory authority, Telecommunications Regulatory Authority (TRC), was established separate from the Ministry of Post and Telecommunications (MOPT) and acquired a multidisciplinary structure. It has gained financial autonomy as it now finances its operations from its revenues rather than Government budget . Nonetheless, it has not achieved complete autonomy as the Government remains part owner of Sri Lanka Telecommunications Ltd (SLTL) and conveyor of TRC with the Minister of the MOPT appointing the TRC members . Furthermore, the Telecommunications Act does not currently provide it with adequate power to enforce its determinations in disputes .

Under an MOU between the Government and Industry Canada, training and consultancies were given on interconnection and alternate dispute resolution, competition policy, billing, customer service, supervision of quality service, and other regulatory matters. As a result, TRC has shown improved performance in interconnection arrangements, quality of service and public hearing procedures, customer relations, and establishing competition policy. A new National Telecommunications Policy and Corporate Plan for TRC were developed.

(2) To assist SLTA in : (a) improving its administrative and technical capabilities to plan and control the use of radio frequency spectrum; and (b) establishing a computerized radio frequency management and monitoring system (FMMS): This objective was substantially achieved. During the initial months of project implementation, SLTA devoted its attention to sector reform and so did not have the resources to finalize the bidding documents for the FMMS in the expected time frame. Changes to the scope of the FMMS also led to delays. A contract for FMMS was not signed until March 1999. Training on FMMS operations was provided overseas. The introduction of the FMMS has now made it possible to maintain a national frequency allocation plan according to international standards and to monitor radio installations for compliance with the conditions and requirements attached to the frequency assignments.

(3) To facilitate the divestiture of government owned enterprises, including Sri Lanka Telecom (SLT), by strengthening the technical and administrative capacity of the Public Enterprise Reform Commission (PERC): This objective was substantially achieved. TA was provided for strategy formulation, pre-reform packaging, implementation of privatization transactions, and review of the regulatory framework in various sectors. As a result, PERC has developed significant expertise in handling simple and complex privatization transactions. From 1996 to 2000, a number of state-owned enterprises were divested with receipts to the Government of about US$ 535 million. SLT was incorporated as a public limited liability company in September 1996 and 35% of its shares were sold to a strategic investor which took over SLT's operations under a management contract in August 1997. Other divestitures included sale of stakes in Air Lanka and privatization of regional holding companies in the plantation sector, Colombo Gas Company Ltd., Lanka Orient, Ceylon Steel Ltd, and the Queen Elizabeth Quay in the Colombo Port. Despite these achievements, a renewed commitment to privatization is needed as no major transactions have occurred in the last three years. Privatization proceeds have declined from US$380 million in 1997 to US$2 million in 2000.

4. Significant Outcomes/Impacts:

(1) Competition has been introduced in all telecommunications service categories with the exception of international telephone services on which SLTS has a monopoly until August 2002.
(2) Private telecommunications investments increased in an unprecedented manner (25% p.a.) with over US$2,900 million invested between 1996-2000. The number of new jobs in the sector has increased from 700 in 1996 to over 3500 in 2000. During the last four years, fixed access telephony grew at an average of 32% p.a. and mobile service average grew at about 57% p.a.
(3) Significant progress has been made in implementing the Telecommunications Sector Policy, including passage by Parliament of an amended Telecommunications Act to permit incorporation and sale of shares in SLTL, tariff revisions in 1997 and 1998, and granting of licenses for provision of radio-based basic telecommunications services.
(4) In addition to facilitating the divestiture of government owned enterprises, project support for strengthening the technical and administrative capacity of PERC contributed to the liberalization of import licenses and the elimination of price controls, quotas, and import taxes.

5. Significant Shortcomings (including non-compliance with safeguard policies):

(1) Maximizing financial returns was given a priority over sector liberalization. To attract investors, temporary monopolies were granted by the Government for Colombo Gas Company, SLTL for international service, Lanka Orient, and Air Lanka. This has limited the development of an open market with full competition and associated consumer benefits.

6. Ratings:	ICR	OED Review	Reason for Disagreement /Comments
Outcome:	Satisfactory	Satisfactory	Note that in the ICR, the project is rated 'Satisfactory' in Section 4. Achievement of Objectives and Outputs but 'Highly Satisfactory' in Section 2. Principal Performance Ratings.
Institutional Dev.:	Substantial	Substantial	
Sustainability:	Highly Likely	Likely	While TRC has gained independence under the project, its decision-making is still subject to political interference. Until the necessary legislative changes have been made to grant it adequate powers and it has achieved greater institutional separation from MOPT, the operational autonomy of TRC gained under the project remains subject to political and economic risks. As a result, sustainability

			has been downgraded from 'highly likely' to 'likely'.
Bank Performance :	Satisfactory	Satisfactory	
Borrower Perf .:	Satisfactory	Satisfactory	
Quality of ICR :		Unsatisfactory	

NOTE: ICR rating values flagged with ' * ' don't comply with OP/BP 13.55, but are listed for completeness.

7. Lessons of Broad Applicability:

(1) To be effective, regulatory authorities need complete institutional autonomy and adequate powers, backed by appropriate legislation. This will foster greater private sector confidence and willingness to invest .

(2) A transaction oriented approach that focuses on maximizing privatization proceeds can be at the expense of long term goals of the development of a fully competitive market . Greater consideration needs to be paid to the trade -offs between these approaches.

(3) Reforms should give appropriate focus to rural access by stipulating roll out obligations and service targets in operating licenses.

(4) Delays in complex procurement activities could have been mitigated by the early implementation of a training program on procurement and bidding procedures .

8. Assessment Recommended? ○ Yes ● No

9. Comments on Quality of ICR:

The ICR lacks clarity. The quality of the ICR has been rated as unsatisfactory because : (1) the ICR lacks explanation of key issues such as the significant increase in project costs and the impact (expected) of implementing the FMMS which accounted for over a third of total project costs; (2) the ICR did not clearly articulate the project's development objectives. The development objectives from the MOP were used in this ICR Review; and (3) there are inconsistencies in the ratings given to the project outcome in different sections of the ICR .