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Ghana: Government to Overhaul a Failed Liberalization Process

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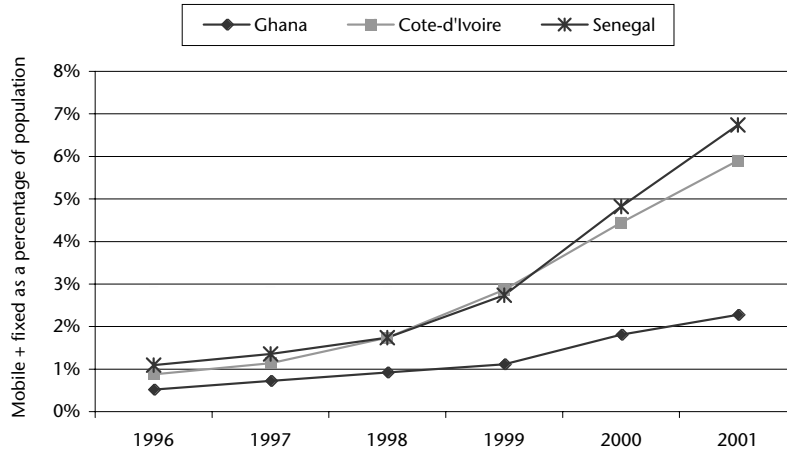
Last week, the five-year exclusivity awarded to telecom carriers Ghana Telecom (GT) and Westel Ghana for the provision of basic services came to an end. The government announced that it would not renew the exclusivity agreement and would also end the technical and consultancy services agreement signed with Telekom Malaysia (TM) in 1997. Telekom Malaysia will not be allowed to increase its stake in GT by 15% as had been agreed last year, but should keep the 30% stake of GT it holds through the G-Com consortium. The government tentatively plans to sell an additional stake of GT to a new foreign strategic partner and break the GT-Westel duopoly by awarding competing licenses.

THE PYRAMID PERSPECTIVE

Government's moves point to frustration with slow market growth

- Since its election in December 2000, the government of John Kufuor (which made the unprecedented promise of broadband access to every town with a secondary school during the election) has manifested its frustration with the sluggish development of Ghana's telecommunications market. There is much to complain about. Ghana was among the first African markets to see the partial privatization of a state-owned fixed carrier and the introduction of competition in the basic services market in 1997. The number of mobile players had ballooned to five at the end of 2001, but Ghana remained one of the few African markets with more fixed than mobile users. Overall quality of service is low and the evolution of fixed line penetration has been slow. In service penetration terms, Ghana is now lagging behind peer markets such as Senegal and Cote-d'Ivoire despite being more liberalized (see **Exhibit 1**).

EXHIBIT 1 Evolution of Full Service Penetration in Ghana and Peer Markets

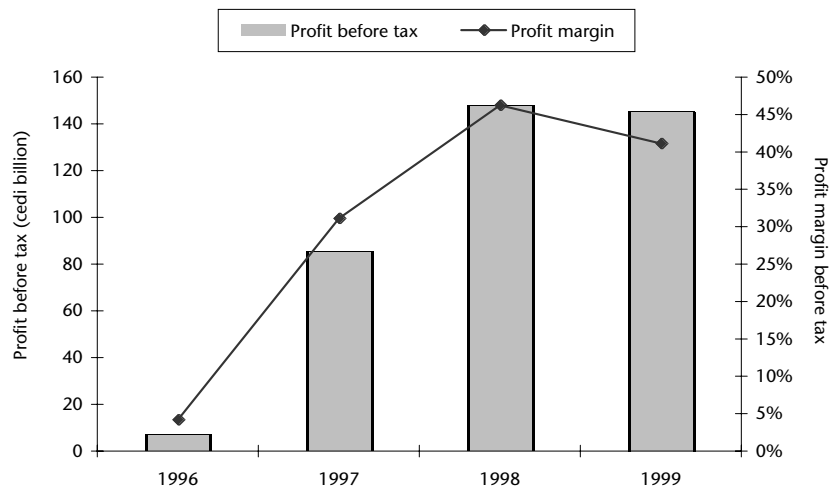


Note: "Full service penetration" is the total of fixed and mobile subscribers as a percentage of the population.
Sources: Operators, Pyramid Research estimates.

GT performance may be the main source of government frustration, but the roots of the slow evolution of the market run deep

- Fixed carrier GT is the main lightning rod for government frustration. The performance of the TM-managed company has certainly been mixed. On the bright side, its financial performance has improved significantly since its privatization in 1997. The company has been profitable and its debt was at manageable levels at the end of 1999. Profits before tax leaped from about \$4m in 1996 to nearly \$55m at the end of 1999, with before tax profit margins rising from 4% in 1996 to more than 40% in 1999 (see Exhibit 2). GT's contribution to TM's profits more than doubled to about \$8.3m between 2000 and 2001. As of September 2001, GT's contribution was the highest in Africa (ahead of Telkom South Africa's) and only second to a Sri-Lankan unit among all of TM's foreign subsidiaries and affiliated companies.

EXHIBIT 2 Evolution of Ghana Telecom Profits



Source: Ghana Telecom.

- As a state-owned company in a developing country, however, GT's mission goes beyond simple profit generation and value creation for its shareholders. Its operational performance is intimately linked to the country's economic development, and this is where GT has fallen short of expectations. The company failed to meet cumulative network deployment targets, installing about 165,000 new main lines over the past five years – 60,000 less than required by its license agreement. While TM largely blames a crippling depreciation of the Ghanaian cedi, it is accused of not investing in the company. In a public letter to labor unions, the Ghanaian Minister of Communications said, "TM never put a cent of working capital in Ghana Telecom." Further, GT has been an obstacle to overall market growth, hampering the establishment of interconnection agreements with mobile operators and Westel, its basic services rival.

A case study in how not to liberalize a market

- It would be short-sighted to regard the slow evolution of the Ghanaian market as merely a result of a foreign strategic equity partner (TM) not living up to expectations. The failure of the Ghanaian model is first and foremost that of a disorganized market framework that led to the licensing of multiple operators using various technology standards, confusing sector policy, and ineffectual regulatory oversight. In other words, the idea was right, but the execution was not.
- Ghana's regulator, the NCA, operated for years with scant financial resources and no management board. Spectrum management has been messy; mobile operators were allowed to offer services using "authorizations" rather than formal licenses with clearly defined service obligations. Westel, the second national operator, was licensed at the end of 1996, but only started offering services in 1999, due to interconnection issues and limited investment. Competition has been largely marginal: GT maintains a market share of at least 99% in the local access segment. Celltel and Westel, which also hold mobile licenses, have had no impact in the mobile market; multiple technologies have reduced direct competitive choices, although the launch of GSM service by GT has led to a staunch rivalry with market leader Spacefon.

What now? The government must tread carefully

- The Kufuor government has yet to reveal its next moves, but it will need to be careful not to substitute one mess for another if it is to keep its electoral promise. Sector policy will need to be thoroughly reviewed. Presumably, more companies will be licensed to compete with GT. The government would like to bring in a foreign strategic partner willing to invest in the company, although that may be difficult if it means lower profit margins. The government may even restructure the mobile market by replacing inactive players with ones more willing to invest and compelling all operators to migrate to GSM. A priority will be the strengthening of the regulatory body, without which – experience has now shown – no meaningful competitive market development will take place.

Additional Pyramid Research Resources

Pyramid Research Mobile Forecasts, Africa, 1Q 2002

Pyramid Research Mobile Market Atlas, Africa/Middle East, January 2002

"Africa and the Middle East Mobile Markets in 2001: The Year in Review," *Pyramid Perspective*, January 11th, 2002

"Africa: Telecoms Market Ripe for Operator Consolidation," *Pyramid Perspective*, November 1st, 2001

"West Africa: Stemming the Decline in Mobile ARPU," *Pyramid Perspective*, April 27th, 2001

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