The private sector alternative

Ir Willy Moenandir discusses Indonesia's telecommunication deregulation and the opportunities for private sector participation

The rapid development of telecommunications technology, and a dramatic increase in the demand for telecommunication services require structural change in Indonesia's telecommunications industry. Slow growth and poor performance in the development of the telecommunications system are mainly attributable to three inter-related factors:

- shortage of investment capital;
- ineffective organisation and management of operating entities;
- inadequate sector policies.

These factors are decelerating telecommunications development, and driving the decision-makers to utilise deregulation as a tool to overcome the problems.

Telecommunications in less developed countries

There are about 43 million telephone connections in service in Less Developed Countries (LDC's), but more than 17 million outstanding applications. Telecommunications facilities tend to concentrate in a few main cities while most of the population live in places that do not even have a public telephone.

In LDC's the cost of expanding and modernising the basic telephone infrastructure is about $US2,000 per additional connected line, of which 50-80 per cent consists of imported goods and services. To satisfy the unmet demand for basic telephone services, by the year 2000 they would need to invest at least $US20 billion annually. In real terms, this is about three times the actual average investment level in the 1980's and six times that of the 1970's. LDC's invest about 0.3 per cent of GDP in telecommunications compared to 0.6 per cent for industrialised countries.

However, it is important to remember that making telecommunications entities more commercial must be balanced against social concerns. The differences in political, social, economic and cultural conditions between LDC's and industrialised countries will require different responses to ensure that customers' needs are met, production is efficient and competition fair.

Structural reforms in telecommunications fall along a continuum. At one end are measures merely reorganising an existing entity; next comes giving the telecommunications entity operational autonomy as an independent but wholly government corporation; further along are arrangements creating a private telecommunications corporation, operating under normal company law, but whose stock is wholly or majority government owned; next are private companies with minority government ownership; and finally there is full scale 'privatisation' where a firm with no government participation is created or allowed to take over the provision of telecommunications systems.

Telecommunications in LDC's tend heavily towards the government end of the continuum, whereas in industrialised countries, reform is at the privatisation end.

Most industrialised countries have introduced a distinction between 'basic' and 'enhanced' services. Basic services are government controlled, while enhanced services are not. Also, in industrialised countries most aspects of the provision of telecommunication services are executed by the private sector which has a high degree of participation in the development of the telecommunication infrastructure.

Telecommunications in Indonesia

According to research at the end of 1987, the demand for telephones will be approximately 4.5 million line units Indonesia in the current five year plan (1989 - 1994). Lines available are likely to be between 100,000 and 150,000 per annum - only 18 per cent of demand. If the capacity to meet demand is the same for further five year plans, then the gap between demand and supply for telephone connections with only become wider.

Jakarta represents about 40 per cent of the nation's total telephone connections, with less than 5 per cent allowance for idle capacity. The successful call ratio (SCR) for local traffic is very low - about 19 per cent - and the call failure rate is about 48 per cent. (The allowable SCR in LDC's is 45-50 per cent and in industrialised countries 75 per cent for local traffic.)

These figures indicate appropriate areas for private sector participation. To meet demand, the capacity for construction of the telecommunications network, including engineering services, should be increased six to eight times.

Currently, telecommunications equipment is produced by both state owned and private companies, and the possibility is open for the latter to increase their capacity. The figures concerning the performance of telecommunications operations also indicate room for private participation in repair and maintenance.

Deregulation

The wind of deregulation which has been sweeping the world started to blow in Indonesia some years ago. In 1961 the PTT was changed into a state owned company, PN Postel. In 1964 a government decree (*Law no.5 of 1964*) required that public telecommunications services be provided by the government telecommunications entity, and they are currently provided by a state owned corporation called Perum Telekomunikasi ('Perumtel').

Law No. 5 of 1964 has now been replaced by *Law No. 3 of 1989* which gives more opportunity to the private sector. It has already facilitated a degree of deregulation in the construction and installation of networks and the manufacturing of comparatively small equipment.

Larger equipment, such as public switched exchanges, have been manufactured by public corporations but recently some private companies have entered the field. Some public corporations are also now engaging private companies' assistance in the provision of engineering services. Certain operating services have also been deregulated, such as international telecommunications, mobile telephone services, data communications and paging services.

Law No. 3 of 1989 has opened up private sector opportunities through the introduction of revenue sharing concepts, users credit policies and other co-operation schemes. While I do not advocate any particular regulatory system, the proper focus is upon balancing the duties of telecommunication companies to the nation on the one hand and the interests of private sector participants on the other, in the national interest.

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