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Response to crisis: How to maximize the contribution of telecoms to the economic recovery in FBiH?

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The policy issue and main policy questions

Since BH governments are seeking for broader international financial assistance to mitigate economic and social consequences of the recession, we expect that the reform of State-Owned Enterprises sector will return to the policy agenda soon. This priority was an important element of both the Reform Agenda and previous programs with the IMF and the World Bank. The progress in reforming this sector has been rather limited since then. Therefore, the need for timely and evidence-based policy decisions for maximizing contributions of state-owned telecoms to the recovery is evident.

CPU advocates for a broader debate about this topic, which is rather limited today, to support the upcoming processes and decisions. This debate should bring closer divided opinions about ways to maximize contribution of those important assets to the economy and the society as whole. More precisely, we should look into market developments, telecoms' performances, and business models to address following questions:

- How to improve the quality and affordability of services?
- What is an optimal / expected contribution of telecoms to productivity gains and digital economy development?
- What are expected financial and fiscal implications/benefits to the economy and citizens of telecom operations in FBiH?
- What are the necessary deregulations to support effective sector development?

Following text provides a rationale for addressing this topic, in order to initiate and contribute to a debate about the future of main telecoms in FBiH in the light of ongoing economic crises and expected recovery.

Snapshot of key performances

The debate about the future and possible privatization of the two majority state-owned telecoms in the FBiH has been going on for over a decade now. Since then, key performance indicators of both BH Telecom and Eronet (owned by FBiH: BH Telecom: 90%, Eronet 50.1%) have declined significantly. The income of BH Telecom declined from 526.73 mil. BAM in 2015 to 486.95 mil. BAM in 2019, while the company generated

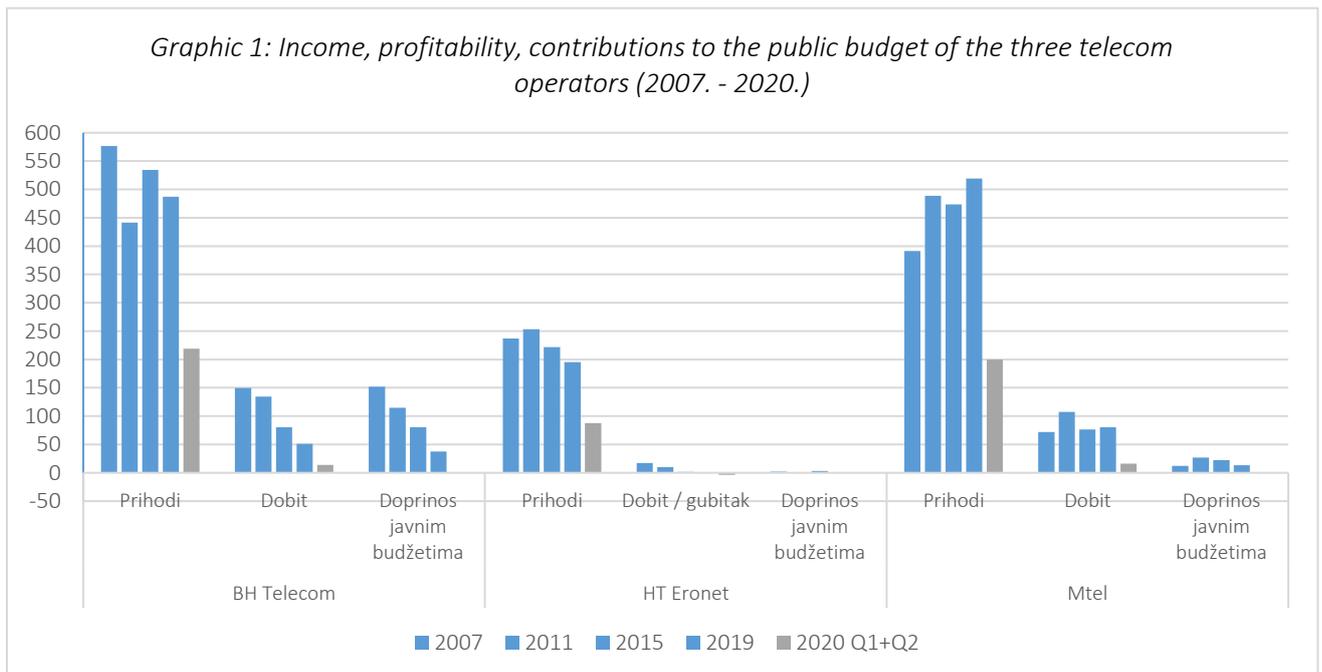
218.78 mil. BAM in the first half of 2020. Eronet's income declined from 221.57 mil. BAM in 2015 to 195.34 mil. BAM in 2019, and to 87.94 mil. BAM in the first six months of 2020.

More rapid downsizing of profits (BH Telecom: 2015 – 80.17 mil BAM, 2019 – 20.92 mil. BAM, I-VI 2020 – 13.84 mil. BAM; Eronet: 2015 – 1.41 mil. BAM, 2019 – 0.12 mil. BAM, I-VI 2020 – (3.46) mil. BAM), contributions to Federal budget (BH Telecom: 2015 – 80.24 mil. BAM, 2019 – 37.60 mil. BAM; Eronet: 2015 – 3.26 mil. BAM, 2019 – 0.31 mil. BAM), are also evident. On the other hand, market shares slightly increased in both cases: BH Telecom from 36.9% in 2015 to 39.3% in 2019; Eronet - from 15.3% in 2015, to 15.8% in 2019.

The Government of RS sold 65% of shares of the state-owned Telekom Srpske (M:Tel) in 2006 to the telecom operator from the Republic

of Serbia for 646 mil. EUR. Since then, M:Tel is having somewhat better performances – the income increased from 473.87 mil. BAM in 2015 to 519.20 mil. BAM in 2019 and counted for 199.67 mil. BAM in the first half of 2020. In 2019, for the first M:Tel became the most profitable telecommunications operator in BiH. M:tel had 76.33 mil. BAM in 2015, 80.30 mil. BAM in 2019 and 16.17 mil. BAM in the first half of 2020. It remained the most profitable operator in the first six months of 2020 as well, when compared with Eronet's loss of 3.46 mil. BAM, and BH Telecom having 13.84 mil. BAM in net profits.

The diagram below presents longer term trends of key performances of three major telecoms in BiH. Some other key trends are provided in the annex.



Sources: Annual and semi-annual financial reports of companies, SASE and BLSE reports, own calculations

Recent developments and previous research

In 2014 and 2017, CPU published [two policy briefs](#) which assessed the pros and cons for the privatization of BH Telecom in the context of quality and affordability of services, key performances including market shares and technological development, taking into account regional experiences. Briefs assessed options for restructuring and privatization, and as such informed well policy debates at that time.

Within the Extended Fund Facility Arrangement from 2016, the Government of FBiH and the IMF agreed on independent due diligence of several SOEs including BH Telecom and Eronet, as a part of the border SOE sector reform agenda. Financed by the EU Delegation in Bosnia and Herzegovina, the due diligence of both companies was completed in January 2019, but no decision on restructuring or privatization has yet been taken.

The IMF working paper [“State-Owned Enterprises in Bosnia and Herzegovina: Assessing Performance and Oversight”](#) from 2019 provides a well-grounded rationale for this topic. The paper finds: *“BH Telecom and HT Mostar face low financial risks, the analysis should be broadened to include operational analysis and international benchmarking. Profits and revenues in these companies have declined substantially over 2014-2017. It is likely that their enterprise value declined significantly over this period and the sustainability of their current business models may be in question.”*

The public opinion

The public opinion about the position of two telecoms is deeply divided. Often, there are voices seeking for more transparency in the work of telecoms, especially when it comes to procurement and hiring, which are often seen as sources of patronage and nepotism. At the other hand, the opponents of privatization refer to telecoms as the “golden goose”, which will always be profitable, good assets in the Government’s hands, although their contribu-

tions to budgets have declined over the time rapidly. The number of employees in both BH Telecom and Eronet has slightly declined recently, there are opinions that surplus of employed in administration and a lack of engineers and technicians might endanger the future viability and service quality of the company.

More broadly, the public is skeptical towards privatization in general, due to overwhelmingly negative privatization outcomes in the past. For instance, the proceeds from the privatization of Telekom Srpske are sometimes seen as squandered on questionable public procurements and investment. There is a need for more comprehensive assessment of benefits and shortcomings of the privatization of this company.

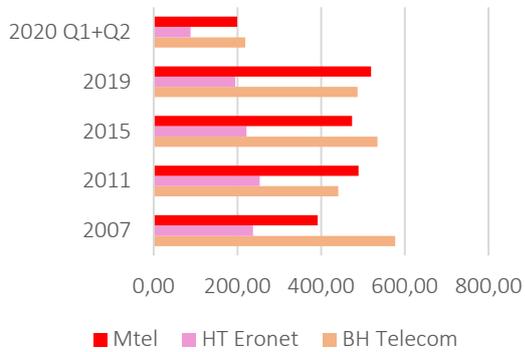
Telecoms and COVID-19

Today, the digital economy is a cornerstone of economic advancements, and telecoms should adequately contribute to an enabling environment for digital transformation of businesses and public services. COVID-19 pandemic and economic crises make this issue even more relevant – accessibility, reliability and affordability of high-speed internet and other supporting digital services have been a precondition for maintaining various business activities and public services, including online schooling. Globally, the pandemic has increased demand for mobile and internet services.

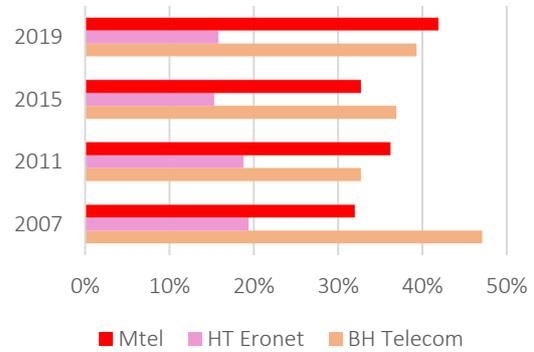
Also, optimizing the fiscal impact of telecom operators should be a high priority for the Government of FBiH in the spite of ongoing crisis and fiscal uncertainties. The crisis could increase the Government inclination to sell shares of telecoms and will increase the risk of using revenues from eventual privatization proceedings for covering current spending instead of investments.

Annex – Key performance indicators of three largest telecoms in BiH (2007-2020)

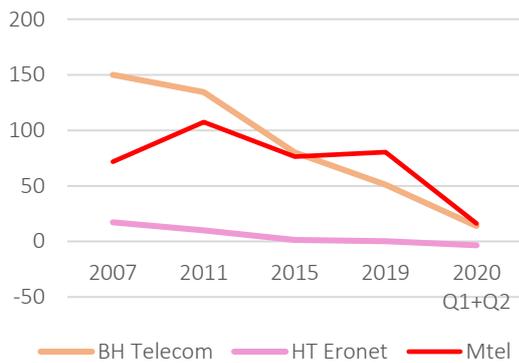
Graphic 2: Income of the telecoms in the 2007-2020 period.



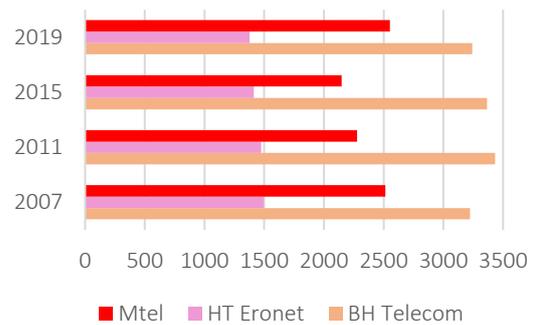
Graphic 5: Market share of telecoms in the 2007.-2019. period



Graphic 3: Profit of the telecoms in the 2007-2020 period.



Graphic 6: Employment in three biggest telecom operators in BiH for the 2017.-2020. period



Graphic 4: Telecoms investments in the 2007.-2019. period

