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FOR INFORMATION

Questions: All

STUDY GROUPS 1 AND 2

SOURCE: CHAIRPERSON OF THE TDAG SUBGROUP DEALING WITH PRIVATE SECTOR ISSUES

TITLE: REPORT OF THE MEETING OF THE TDAG SUBGROUP DEALING WITH PRIVATE SECTOR ISSUES (GENEVA, 7 APRIL 1999)

Abstract:

The report contains items such as: expectations of the private sector from BDT, ways BDT can respond to them, experience of companies in developing countries, criteria for investment in developing countries and recommendations.

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1 Introduction

Opening the meeting, the Chairperson noted that the basic purpose of the subgroup was to bring private companies closer to the work and mandate of the ITU Development Sector. The objective of the present meeting was to move towards specific action and to increase cooperation and partnership between the private and non-private entities in developed and developing countries.

In his introductory comments, the Director of BDT noted that the Strategic Plan of ITU identified Sector Members as partners in appropriate areas of work of ITU. The Union must satisfy the needs of its customers and members by providing products and services of increasing value and significance. Universal access remained at the top of the Union's agenda, and BDT must act as a catalyst to promote partnerships between the private and public sectors so that new technologies reached all parts of the world, in particular rural areas. The outlook of the private sector was changing, and private entities were eager for real partnerships. The theme of the meeting was to continue the brainstorming exercise that had commenced at the special meeting held during PP-98, with a view to satisfying the requirements of public and private sector entities and users by defining specific, business-like arrangements, *inter alia* on the basis of lessons learnt from practical examples. The subgroup was part of TDAG, and the latter looked forward to receiving the subgroup's advice at its meeting commencing 8 April 1999, i.e. the following day.

2 Expectations of the private sector of BDT and ways that BDT can respond to them (Documents SUBTDAG-1/4, SUBTDAG-1/6)

The background documents included a working checklist of factors in strengthening development partnerships, recommendations arising from previous meetings, and comments in response to a survey of the private sector and Administrations. The Director of BDT emphasized that the purpose of the discussion was to identify what BDT could do for its Sector Members. During the debate the following comments were made:

- Not only are there business opportunities in developing countries for industrialized countries, but also there are business opportunities in industrialized countries for developing countries. BDT should help bring developing countries and industrialized countries together on a one-to-one basis so that they can understand each other's needs and seek ways of fulfilling them. The Global Telecommunications Action Committee (GTAC), grouping some 30 trade associations around the world with many hundreds of members, chaired by the Telecommunications Industry Association (TIA) with a discussion forum on the TIA web site, offers a mechanism for spreading the message. Other possibilities include seminars and participation in various telecommunication meetings under the auspices of BDT.
- BDT should assist the Governments of developing countries to put adequate telecommunication regulations in place and should raise the awareness of the private sector in developing countries of the potential opportunities offered by telecommunication development.
- The discussions taking place within ITU have important consequences for the private sector, yet private companies from developing countries rarely take part in those discussions. Participation costs money and does not appear to have an immediate impact on profits. BDT should encourage the participation of the developing country private sector in the work of the Union. Sometimes the private sector does not know who to talk to. BDT should therefore offer the equivalent of "one-stop shopping" - offering comprehensive information to Governments and the private sector in industrialized and developing countries.

- BDT should help Governments to ensure that privatization takes place in a mutually beneficial manner (level playing field).
- BDT should help to find financial support to enable Governments of developing countries, especially least developed countries, to put in place suitable regulatory frameworks to allow for the development of their telecommunication network with the active participation of private sectors. BDT might work with the World Bank in this respect.
- The participation of the developing country private sector in the work of the Union could be increased through regional meetings. These would be less costly and time consuming than participation at headquarters meetings, and representatives of regional groups could then take part in meetings such as the present one.
- BDT should compile a compendium of best practices, going beyond telephony to address state-of-the-art telecommunication development, as well as the economics of privatization as called for by resolutions 5 and 12 of WTDC.
- BDT could work through new and existing pilot projects to test how particular technologies could be introduced in a mutually beneficial way.
- Where there are plans to develop a second network based on radio-communication, rather than increasing the number of lines (e.g., in Ghana), BDT should help with spectrum management questions so that the private sector can deliver the required services. BDT should work with ITU-T and ITU-R so as to offer developing countries help with spectrum management and licensing, and thus allow third generation wireless to become a reality. BDT should encourage developing countries to participate in ITU-R Task Group 1 of Study Group 8.

3 Criteria for investment in developing countries (Documents SUBTDAG/INF/2, SUBTDAG/INF/3) and SUBTDAG-1/3)

Document SUBTDAG/INF/2 contained a list of key elements established by the APEC telecommunications working group (1997), to be taken into account by Governments in order to promote private sector investment in telecommunication infrastructure development. The subgroup welcomed the excellent document, which should be retained for future reference. It went on to identify the following further requirements for inclusion in the list:

- transparent, standardized regulations on practices relating to the provision of equipment;
- application of ITU standards; and
- open, non-discriminatory procurement practices, especially for Government operators.

Document SUBTDAG/INF/3 contained a list of viewpoints on the development of telecommunication networks, reflecting experience in Asia on the basis of a survey of private sector entities conducted in Japan. The subgroup welcomed this document as a further valuable contribution to be retained for future reference. Discussion of the document gave rise to the following comments:

- build, operate and transfer (BOT) arrangements may provide a comfortable compromise between full privatization and straight monopoly. BOT schemes may nevertheless give rise to problems after two or three years when conditions change, sometimes to the disadvantage of Governments. Allowance must therefore be made for re-negotiation over time, or for different periods of application. The subgroup should consider drafting a model BOT framework contract in order to assist the developing countries in the negotiation of such schemes;

- operation in rural areas do not necessarily mean non-profitability. Other approaches are appropriate in rural areas, for example telecentres may be very profitable if they provided other services in addition to basic telephony, for example Internet access. Satellites may be used rather than fixed lines for links between rural and urban locations;
- new approaches and technologies, for example a combination of satellite technology and wireless local loop, show that telecommunications in rural areas can be profitable;
- examples exist of the provision of telecommunications to rural areas using development assistance funds in profitable ventures involving cooperation between both the private and public sectors;
- Japan will be submitting a proposal to the meeting of TDAG, on the implementation of new technologies for rural telecommunications. New approaches are essential, but information gathering is seen as the first step therein.
- if telecommunication development is to be sustainable over time, it must be shown to be commercially viable and attractive;
- the list in Document SUBTDAG/INF/3 should be completed to ensure that other potentially interested entities are attracted over and above those immediately obvious to Government operators and regulators. BDT should provide input in that respect;
- the following are further elements that companies should take into account in their first consideration of whether a market is of interest to them: regulatory environment; cost of regulation; conditions for spectrum allocation and licensing, its use and related fees; operational flexibility or lack thereof; and market access policy;
- Governments are asked to ensure that telecommunication regulations are clear, transparent, consistent and reliable and that they are enforced in a fair and objective manner; and
- legal obstacles rarely constitute the main barriers to investment. Non-profitability is the greatest deterrent to potential investors, as private sector entities have obligations towards their shareholders. The Administrations of developing countries in many cases do not have funds available, whereas private sector entities do, therefore such Administrations must show that investment in their telecommunications will be profitable. A stable regulatory environment is a major factor for attracting investments. BDT can work with Administrations to establish a model in which ownership may become irrelevant if the methods adopted are to everyone's advantage.

Document SUBTDAG-1/3 was an input from the BDT secretariat to Question 11/1: Factors to create a climate favorable to investment. As an input also to the present meeting, it provided a good example of BDT's work and programme integration.

The document provided a list of criteria for investment that could usefully be expanded to include, for example, conditions relating to spectrum sharing, and the need for non-discriminatory, transparent regulatory policy.

4 Achievements and problems encountered by companies in developing countries - Exchange of experience

The meeting divided into groups to discuss investment factors specifically relevant to the five geographical regions with the participation of the BDT regional and sub-regional representatives. The five geographic groups discussed and reported on successful and unsuccessful business experiences.

Africa

The experience of Alcatel in the financing of network development indicates that a case by case approach is needed, ranging from soft loans, to other forms of loans or grants. Although there is little experience with BOT schemes, the speed of technological change and its implications for modernizing networks raises some concerns with regard to these schemes. In particular, by the end of the agreed BOT period, there would be no incentive for the private sector to continue to invest, and as a result an obsolete network would be transferred.

In the current environment, and subject to an adequate regulatory regime, the BOO approach seems to be a more attractive method of developing telecommunication networks.

In any scheme, human resources development is a key factor. On-the-job training is one of the various ways of developing the local expertise needed to ensure sustainability. Both BOT and BOO schemes include some component of transferring technology and expertise.

Americas

Following a discussion of ITU collaboration and consideration of three categories of private sector organizations (suppliers, operators and human resources), as well as a review of examples of private sector/ITU projects in the Americas, three main factors affecting investment were identified: regulatory, political situation, and size of market. Additional observations included in the following:

Although there are sometimes internal problems, ITU can assist Governments in:

- establishing a regulatory body;
- implementing WTO decisions; and
- preparation of a modern legal framework.
- With regard to market size, consideration might be given to combining activities/projects in smaller countries;
- In general, procedures should be open and transparent, reduce barriers to trade, and encourage decisions on a commercial basis; and
- The possibility of holding regional meetings between ITU and the private sector (for example, just prior to CITELE meetings) might be explored.

Arab countries

The private sector is well established in some countries - providing telecommunication services and equipment - while other countries are not yet open to private companies. Various factors affect the ability of countries to attract or retain private sector investment, including the following:

- a regulatory framework which facilitates fair competition while administering the use of spectrum and the licensing process;
- clear financing role of local banks and the World Bank in enhancing the participation of local private companies, and in supporting liberalization and total or partial privatization;
- human resources; and
- infrastructure.

An example of a problem faced by Lebanon illustrates the need for expert advice. Because the estimated market for a mobile cellular network service was estimated as 500 000 subscribers by the year 2005, the Government of Lebanon decided to authorize two companies each to sell 250 000 lines, and not to authorize any other implementation of cellular networks before the end of the BOT

scheme. Because of the growing market, both companies had sold more than the authorized maximum before the end of 1998. The current problem was how to move from BOT to BOO (build, operate and own) schemes.

Asia-Pacific

Based largely on the experiences of Japan, Viet Nam, Malaysia, Sri Lanka and the Republic of Korea, it was generally recognized that there was a need for strategic partnerships between the public and private sectors, and for cooperation between both the public and private sectors and ITU. To achieve successful strategic partnerships:

- Governments/regulators need to provide an enabling regulatory framework that is transparent and non-discriminatory, to build the trust needed to encourage long-term investment by the private sector;
- ITU should act as a catalyst to foster partnerships and should assist countries, especially developing countries, which need to introduce appropriate regulatory frameworks; and
- the private sector should try to understand national rules, conditions, strategic plans and practices, both to enhance long-term investment and to minimize future risks.

Emphasis was placed on joint research and development projects as long-term future strategic partnerships, the role of financing and investment, the need to tailor partnerships to the specific business practices of customers and countries, and the importance of assistance by ITU, in close collaboration with regional organizations (such as APT), in establishing an appropriate regulatory framework.

Europe

Part of the European region is well developed in terms of both the economy and telecommunications. But part is underdeveloped in these areas. As in the Arab countries, the prerequisite for investment includes regulatory and political stability. There has been negative experience with projects in Europe because of regulatory instability in the countries concerned.

Strategic partnerships with incumbent operators have been very successful in the past, but the saturation point has almost been reached. There is now a need to look for innovative ways of attracting domestic and foreign investment in the telecommunication sector. Perhaps a licensing regime that allows participation in cable TV, might encourage domestic investment.

Comments

The regional reports gave rise to the following comments:

- a compendium of best practices based on experience would be useful;
- BDT should consider holding regional meetings to attract private sector participation; such meetings should be scheduled to take place in conjunction with other regional meetings;
- the problems identified (regulatory regime, economic stability, etc.) do not only concern the private sector, and their solution needs the participation of all players;
- security and political continuity, so that telecommunication policy is not dependent on political changes;
- the private sector (manufacturers and operators together) should explain their problems to Governments in a coherent way;

- by means of the list of criteria for investment, the factors affecting regulatory and licensing regimes could be identified - there would be different types of contracts for manufacturers and operators but the principles would be the same; and
- BDT should actively encourage the participation of the developing country private sector in ITU-D meetings.

5 Role of the private sector in the implementation of ITU-D programmes (Documents SUBTDAG-1/5, SUBTDAG-1/7)

Document SUBTDAG-1/5 dealt with a project to establish a database of operators worldwide, under Programme 5 of the Valletta Action Plan. A survey questionnaire was under development to elicit information on various players and potential partners.

Document SUBTDAG-1/7 described the programmes of the Valletta Action Plan. It was recommended that the lists of ideas relating to investment should be synthesized and disseminated through web sites such as GTAC.

6 Presentation on the role of the private sector in projects in the Americas region.

A presentation was made on the numerous projects under implementation or being planned in the Americas region involving both direct and indirect participation by the private sector and by BDT in its catalytic role. In one case, private sector entities had provided the funds required to establish legislation allowing them to operate in a particular country, thus demonstrating that the private sector was ready to invest where there were potential profits.

It was stressed that ITU/BDT was a neutral partner, ready and able to work with all interested parties. Over and above the organization of workshops and the provision of fellowships, BDT intends to improve telecommunication statistics worldwide and to ensure the full transparency dear to the private sector.

7 Recommendations

- Private sector involvement in ITU work, including meetings of the subgroup, should be enhanced by:
 - encouraging private sector participation also in regional meetings;
 - working through regional telecommunication organizations and ITU regional presence; and
 - contacts through large multinational telecommunication companies with their subsidiaries in developing countries.
- A regulatory framework to encourage private sector participation in the telecommunication sector should be promoted by:
 - encouraging Governments to establish level regulatory playing fields;
 - convincing Governments that enhancement of telecommunications leads to economic and social development;
 - drawing up model BOT and BOO contracts and providing information on such schemes as well as establishing a checklist of items to be taken into account in BOT/BOO-type arrangements;
 - assisting private companies in complying with regulations;
 - providing advice to Administrations on privatization; and

- compiling a compendium of best practices;
- General efforts to enhance private sector participation should include:
 - replicating successes (e.g. GMPCS);
 - helping developing countries to adopt new technologies;
 - using pilot projects, especially in order to assist the developing countries in the introduction of new technologies;
 - addressing the specific concerns of private sector entities by noting the following categories: operators, suppliers, financial and human resource consultants, and other categories of operators, for example GMPCS. In that respect, inform the private sector about public operators in different countries;
 - encouraging small and medium-sized enterprises; promote real working agreements with the banking sector; encourage suppliers to inject more than just technology; and stress the need for training in managerial skills, including how to manage a public entity as a private company;
 - highlighting the importance of regional initiatives and organizations;
 - consolidating the lists discussed by the present meeting into a single list, and disseminating it by appropriate means such as websites;
 - using all appropriate means to reach out to the private sector and inform them of BDT activities; GTAC was proposed as one way of providing such dissemination;
 - bringing the importance of IMT-2000/third generation mobile services to the attention of developing countries, and encourage participation of experts from developing countries in the work of ITU-R Task Group 1 of Study Group 8;
 - exploring ways in which the telecommunication needs of developing countries can be viewed as new business opportunities;
 - recognizing that partnerships between developing and industrialized countries should be mutually beneficial;
 - ensuring that training for telecommunication executives includes information sessions on ITU, and BDT in particular, and their potential benefits to all concerned;
 - encouraging the participation of the developing country private sector in telecommunication development;
 - ensuring that all potential partners have similar understandings, for example with regard to the regulatory environment;
 - ensuring that BDT draws on the expertise of ITU-R and ITU-T to provide the best advice to ITU-D Sector Members; and
 - drafting of a plan of action for the TDAG subgroup on the private sector.

8 Conclusions and closure

Discussion of Item 7 of the Agenda, Partnerships between Companies in Developing and Industrialized Countries: Drafting a Plan of Action, was postponed until the next meeting of the Subgroup as there was insufficient time. It was suggested that the next meeting of the TDAG Subgroup should last at least 1½ days.

The Chairperson noted that the meeting had been extremely productive in addressing a variety of issues, many of them new. He thanked all participants for their contributions.
