

Telecommunication services: a key source of economic development

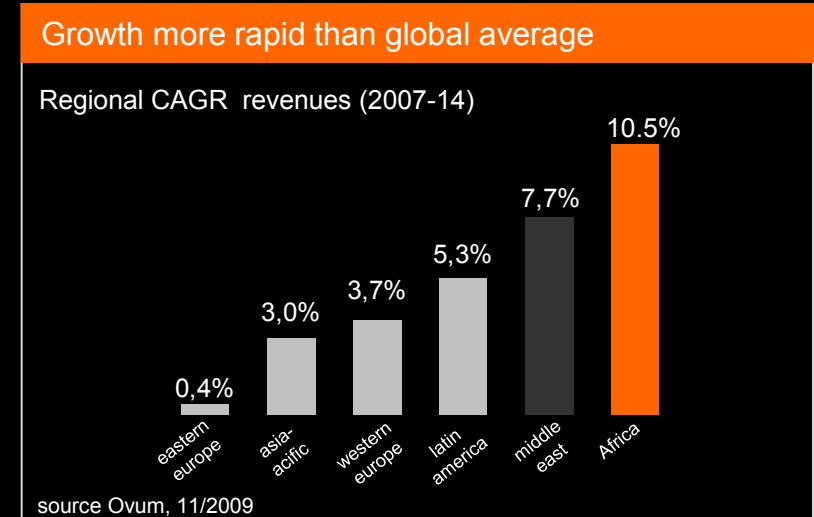
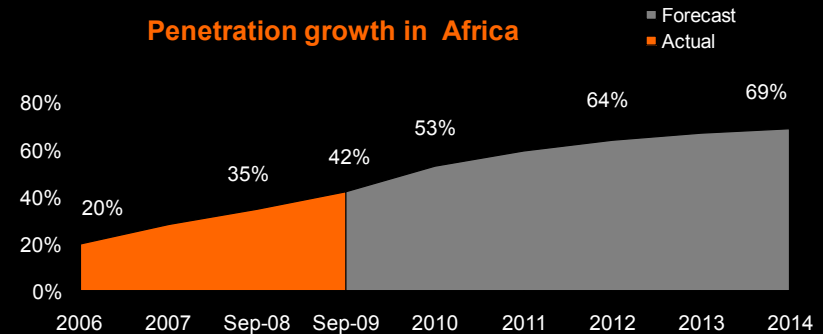
Marc Ricau, 1 September 2011
ITU, Geneva



Africa and the Middle East, two major markets in rapid expansion: a potential not to be restrained

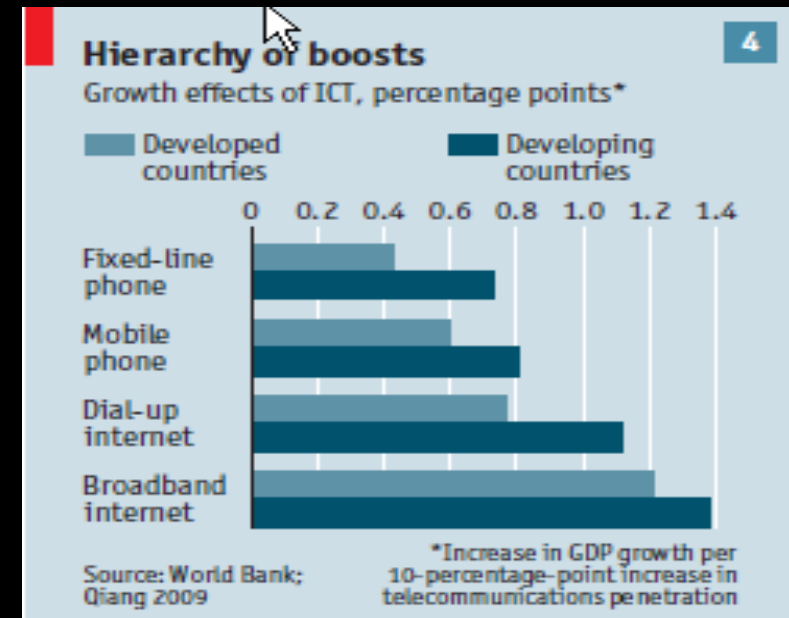
- 551.5 million mobile customers in Africa and 239 million in the Middle East (March 2010)
- Africa has the most rapid growth in the mobile market with a turnover CAGR of 10.5% (2007-14)
- Internet is likewise a very rapidly expanding segment in AME: 10.4% growth in turnover from 2008 to 2009; the number of broadband customers is likely to double by 2013 (11.5 million customers in 2009)
- Growth (voice, Internet) driven by, among other things, regular tariff reductions

**Growth in mobile market turnover
AME: 10.5% (2008-2009)**



2.1- The evolution of international tariffs, with cost orientation for both voice and Internet, is conducive to genuine national development

- Telecommunications play a key role in a country's long-term development:
 - A 10% increase in mobile penetration produces a 0.8% rise in GDP and a 10% growth in high-speed Internet generates a 1.4% increase in GDP (World Bank, 2009)
- The telecommunication sector enables the creation of very many sustainable local jobs, not only with operators themselves but also, and even more so, with partners (distributors,...) and local providers
- Telecommunication is conducive to contacts between the Diaspora and country of origin and to the resulting currency exchanges
- Ever more initiatives are being taken to develop value-added services in areas of key public impact (content, health, education, research)



2.2 – It results in significant gains for end users

- Expanded mobile development
rural areas
new uses of mobile data
- Internet: a window on the world
facilitated by advances in access facilities:
 - > submarine cables, mobile Internet
- New value-added services:
 - Mobile payments, financial services
 - Content, TV, sms
 - e-health, e-education, e-agriculture...
- Expanded exchanges between the Diaspora and country of origin



2. 3 – and generates significant revenues for States

- The activities of telecommunication operators generate significant revenues for States
 - **directly:**
 - taxes and general levies, with the telecommunication sector representing a considerable share of the total collected by States, particularly in terms of VAT (directly related to the sector's activity)
 - taxes on company revenues
 - taxes and levies related to operation of the service
 - ⇒ taxes and levies constituting a specific contribution to the activity: fees in respect of entry, licence renewal and use of scarce resources; contributions to functioning of the sector (regulators, special funds)
 - **indirectly:** increased tax revenues thanks to higher GDP resulting from growth of the sector and its contribution to the economy as a whole

Taxes and levies must respect a balance between the need to satisfy the State's requirements where regulation of the telecommunication sector is concerned and the need to ensure ongoing and balanced development of the sector

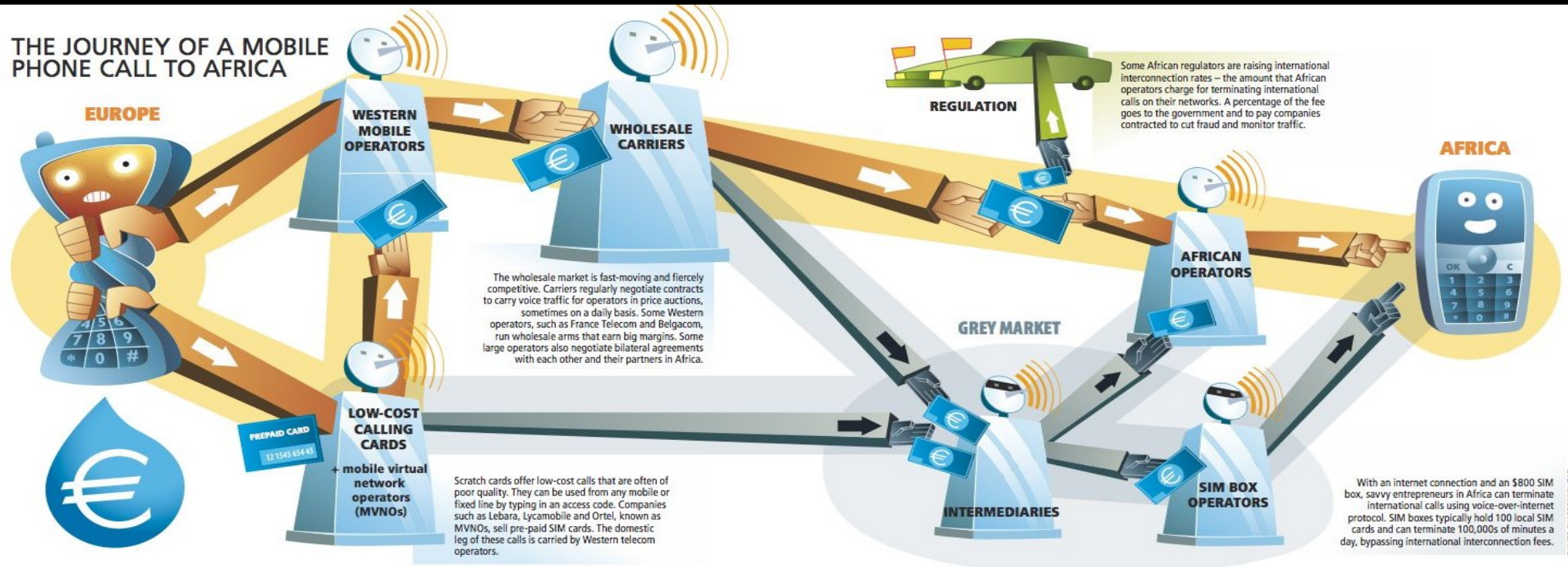
2.4 - Contribution for operators and the market

- Development of international business, bringing with it new activities (e.g. call centres), skilled employment opportunities and currency
- Development of benefit to all areas of society (CSR vision)
- Development of international traffic conducive to exchanges between the diaspora and country of origin – exchanges with highly significant repercussions at the micro-economic level:
 - > Higher call duration
 - > Lower costs (card-based tariffs)

2.5 – It is important to foster market growth by remaining attentive to operators and identifying issues clearly

- Fostering development by clearly identifying the issues and providing appropriate responses that will favour rather than hamper growth
- Guaranteed transparency
- Setting an appropriate level for the sector's contribution to public finances. No ill-considered imposition of a multiplicity of taxes which restrict investment opportunities in a highly capital-intensive sector
- Arrangements that ensure regulator independence
- A vision conducive to innovation, service dissemination and quality of service
- A shared regional vision, founded on collective decisions taken, for example, by groupings of the WAEMU type
- A preference for self-regulation over regulation

3.1 – International tariff mechanisms



- Tariffs based on agreements among operators
- Risk of development of a grey market if tariffs are not kept close to costs (Recommendation ITU-T D.140)

3.2 – Revenues and traffic declarations: the transparency is there

- The issue of transparency of traffic data is of course open to discussion, but we find today's responses altogether adequate to meet the requirements:
- It is in the nature of the game that no operator stands to benefit from cheating: international traffic flows from operator to operator, making it impossible for an operator to be conned from whatever direction → inconsistency
- **There is nowadays a lengthy list of means whereby States and regulators can verify declarations made by operators:**
 - Verification by registered auditors
 - Verification by regular audit, each of which generates results attesting to the quality of declarations

3.3 – Revenues and traffic declarations: where necessary, appropriate additional responses can be put in place

- **Introduction of new equipment and questions raised in that regard:**
 - Does this really make for greater transparency? In terms of its introduction? Of its operation, or of other aspects, including tax-related?
 - Has a corresponding international agreement been concluded?
 - Should there not be more transparency in regard to where the funds are going, rather than to traffic data?
- Other, more efficient and less costly, mechanisms would enable achievement of the same result:
- Where States or regulators so wish, it would be perfectly feasible to implement regular reporting exercises enabling the plotting of traffic data and their checking against audit results
- *The declaration + verification approach is always better than the a priori verification approach, which is very costly*

3.4 – Impact of taxes

- Fiscal decisions, intended to provide States with the means to function, must come as close as possible to neutrality where the sector is concerned, and indeed foster its development rather than restricting it
- Furthermore, an excessive fiscal burden (in the form of taxes or specific levies) will automatically serve as an encouragement to those wishing to sidestep the system, resulting in higher levels of fraud (SIM box, bypass) and hence a medium-term reduction in the fiscal contribution of operators and in their investments

3.5 – Financing of regulators and development (or universal) funds

- It is normal to have a system for financing regulators, but we believe that any such system should be in line with operating costs and should not hamper the sector's functioning or growth
- Reporting on the use of such funds must also be the rule

3.6 – Fostering quality of service - innovation

- Preference must be given to that which is conducive to a high quality of service and not to anything that produces disruption: installing items of equipment that are of no benefit to service provision can only be counter-productive
- A cost-oriented vision, in line with Recommendation ITU-T D.140 (20202), which recommends that tariffs, including for call termination, be cost-orientated

Conclusion: constructing development rather than limiting growth

Beware of the risks of limiting this market... international traffic will not grow indefinitely within the framework currently in place

- By basing oneself on a long-term vision:
 - no impulsiveness where high-impact decisions are concerned
 - predictability
 - respect for agreements, international treaties, licences concluded with operators
- No ill-considered imposition of a multiplicity of taxes which limit investment opportunities, all the more so where the very highly capital-intensive telecommunication sector is concerned
- A shared regional vision, based on collective decisions taken, for example, by groupings of the WAEMU type
- A vision conducive to innovation and service dissemination

THANK YOU