

REGIONAL SEMINAR ON COSTS AND TARIFFS FOR THE TARIFF GROUP FOR AFRICA (TAF)

MIDRAND (SOUTH AFRICA), 29 JUNE – 1 JULY 2005

FINAL REPORT ON THE SEMINAR

1. Purpose of the Seminar

This seminar was organised in coordination with ITU-T Study Group 3 and Vodacom South Africa. The purpose of the seminar was to provide Member States and Sector Members the opportunity to discuss relevant subjects on economics and finance for the region. 65 delegates from 29 countries participated.

The seminar was held within the framework of the activities planned under Programme 4 of the BDT Operational Plan (Economics and finance, including costs and tariffs).

The seminar was followed by the meeting of the Regional Tariff Group for Africa (TAF Group).

2. Opening

The Opening Ceremony was conducted by the Acting Deputy Director of the Department of Communication of South Africa (DOC), and the representative of Vodacom, Mr Louw Middel. During his remarks, the Acting Deputy Director of DOC, emphasised the importance of coordination between African countries in the negotiation and establishment of international termination rates, and of inter-African support of telecommunication traffic. Ms. C. Prado-Wagner, as the representative of ITU/BDT, laid out the objectives of the seminar, and the actual context of telecommunications in the region. Finally, the President of the TAF Group, Mr. Modibo Traoré, thanked DOC and Vodacom for hosting these two events and opened the seminar.

3. Outcomes

The economic and financial aspects of implementing Next Generation Networks (NGN) in African countries

This session was divided into three parts:

- 1) overview of what NGN is, how it works, and the network architecture;
- 2) migration from former network to NGN network;
- 3) the economic aspects of this migration and business planning, and different services provided by NGN.

Discussions centred on the technological alternatives of the application of NGN (advantages and disadvantages). It was explained that it guarantees quality, speed, overhead cost reduction, and that implementation could be developed in the long term, as whereas there are now five networks for each different service, with NGN, only one is required to manage the whole.

- Regarding security, the network management system should be organized with at least two switching main points installed, geographically and technically isolated. The design of the network should be developed based on security blocs, to avoid interruption in case of problems in one point of the network.
- NGN does not cover 100% of the world. At present only a few private networks are 100% NGN, especially for multiservices. For example in the United Kingdom, British Telecom has

published a strategy to gradually absorb each type of service. In Yugoslavia, where the total telecom network was destroyed, they are now implementing 100% NGN. In developing countries layer development is the better option.

- New services will bring new revenues, which can compensate for infrastructure investment in NGN, and convergence of new services.
- The advantage for developing countries is the high penetration rate available during the implementation of NGN. Fortunately developing countries are learning from the experiences, trials and errors of developed countries (e.g. third generation networks).
- Normally, the implementation of NGN will not result in any change in international rates. As Capex and Opex will be calculated in the same manner, all the accounting principles in force will continue. Regarding traffic and interconnection rates, there is a conversion factor between Erlangs to Jitters, but the traditional accounting systems will continue.
- The transition period is protracted because the change should be made internationally/regionally. ITU should contribute by recommending solutions in order to harmonize operations at the regional level.
- If convergence is the future, the regulator should converge too. An example of best practices is the UK, which is trying to put together all the regulatory issues. The regulator cannot regulate technologies; it is better to focus on USO, society, services and good prices.

Cost and demand of mobiles services – Mobile termination rates MTR

The charging model of mobile termination rates specifically in the role of 'calling party pays' (CPP) was presented by Vodafone, taking into account the regulatory approach. The discussions focused on the problem of fraudulent traffic, as users always want to pay less. One solution, proposed by the expert, could be to verify that prices do not contain excess (surplus), in order to maintain good tariffs and avoid fraud problems.

Another point was the determination and negotiation of mobile termination rates. The present problem is that in many countries, the work of the regulator is not yet defined in this area, and these rates are considered expensive and not cost-based.

Network externalities

The subject of network externalities was discussed from the theoretical point of view taking into account the potential importance and benefits for African countries bearing in mind low penetration rates and the development of the mobile sector. Different case studies were explained and discussed, especially how some countries are applying this model, and how to calculate it. "An externality is an effect (i.e. a cost or a benefit) that impacts on a third party by a decision (i.e. to consume or produce) taken by another party. Since this cost (or benefit) does not affect the party that makes the decision, the latter does not, in general, take account of this cost/benefit in his decision."

It was stated that externalities provide an economic justification for intervention in the market. This intervention is usually in the form of a tax normally collected by operators, but regulators must authorize its implementation, for both fixed and mobile services, from the point of view of consumer affordability.

Universal service/access management: funding mechanisms, regulation of economic aspects

In the framework of work being undertaken by BDT in Africa, a study was carried out on management of universal service/access funds. Discussions centred on funding mechanisms, sources of funding, management of funds, and regulatory aspects including incentives to operators who will develop network infrastructure in rural areas to provide telecommunication services. An example is for regulatory authorities to agree on favourable interconnection rates for rural operators for a period, to increase traffic. Some of the conclusions of the panel were:

- One of the problems experienced by regulators is that the Universal Service Fund is used by governments for the development of other projects (e.g. health, education, etc.) with the result that the development of the telecommunication sector in rural areas is limited.
- In some cases, regulators face the problem that the funds are available, the bid is launched, but there are no operators interested in applying because it is not profitable for them to work in rural areas.

Regional ICT Backbones and Internet Exchange Points (IXP) – Optimize connectivity among major information networks

The objective of this presentation was to respond to Member States and Sector Members on the questions and doubts about the installation of Internet Exchange Points (IXP) in Africa. The presenters gave an explanation on the African Association of ISP Associations (AfrISPA), how it works and how regulatory authorities and operators can participate in this type of association. To date, there are 12 operational IXPs in Africa. Almost all of these were formed in coordination with AfrISPA. Their objective is to create an African Internet Backbone by establishing connectivity between African IXPs. This will create opportunities for the establishment of regional carriers. Discussions took place on the integration of West African French-speaking countries into this project, as at the moment it is more oriented to Eastern and Southern African English-speaking countries.

Another point raised was the support of this type of initiative by Regulatory Authorities in different countries and international organizations such as ITU. For the moment ITU is analyzing this type of connectivity as a possible solution to avoiding high termination rates in developed countries.

The ITU Centre of Excellence for African French-speaking countries

The plan of activities for 2005 of the ITU Centre of Excellence (CoE) was presented. Details of the training programme for COSITU (the ITU model for the calculation of costs, tariffs and rates for telephone services) were also given.

4. Closing and follow-up actions

During the TAF meeting, comments were made by some countries, particularly French-speaking, regarding the use of COSITU and problems they experience with the implementation of this model. In general, English-speaking countries expressed their satisfaction with the use of the model. The BDT representative explained that:

- This model was developed by ITU with the objective that it be used as a negotiation tool by regulators and operators. It was never intended that it be imposed on countries.
- During the COSITU training workshops provided by BDT, the main objective is to teach participants how to use the model. It is impossible for participants to learn how to implement a cost calculation model in one week.
- BDT, in coordination with the ITU Centres of Excellence, is trying to provide in-country training for regulators and operators, so that this model can be implemented with real data and real results obtained.
- As promised last year two COSITU workshops were planned for this year. The first one was held in Dakar for West African countries in March in the framework of the European Community Project and in coordination with the CoE (ESMT). The second one will be held in Kinshasa in October for Central African countries.
- ITU guarantees advanced training for COSITU experts in order to improve their knowledge which will improve general training for countries.
- ITU encourages regulators and operators to develop a team that can work on the collection of data and results analysis.

The Chairman of the TAF Group concluded the seminar by expressing his gratitude to BDT for organizing the seminar in the region and requested ITU to continue to do so as they provide the best platform for debates in the TAF Group. The participants also expressed their gratitude to ITU, the Government and the people of South Africa, and in particular to the DOC and Vodacom, for their hospitality and the organization of the seminar on costs and tariffs, and the TAF Group meeting.

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