



Telecommunication Development Bureau (BDT)

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Note by the Director of BDT

**STRATEGIC APPROACHES TO FINANCING
TELECOMMUNICATION DEVELOPMENT**

Nature of the problem

General situation of the world economy

"Global economic and financial conditions improved during the financial year,¹ as the world economy proved more resilient to the financial crises that erupted in 1997-98 than initially believed. On average, output growth picked up or remained strong in the advanced economies, the developing countries in Asia, and the countries in transition, but slowed in Africa, the Middle East, and the Western Hemisphere."²

According to the analysts, growth in Asian and emerging countries is primarily due to recovery from the effects of the financial crisis of 1997-1998.

They also recognize the predominant impact of growth in services, particularly those resulting from the application of new technologies.

Role of telecommunications and information technologies

Information and communication technologies (ICT), together with the related services, are without any doubt the primary driving force behind this growth. It would be impossible not to mention the effect of the Internet, that formidable vehicle for creativity and innovation, but over and above its most striking features it is the underlying basic concepts (protocols) that are in the process of significantly modifying the foundations of the world economy, for they have enabled the effect of the time and distance factors in accessing information to be reduced to a minimum.

It has to be recognized, however, that this impressive progress is occurring mainly in economies with high GDP levels, in which industrial and household needs for basic telecommunication services are fully met.

¹ May 1999 to April 2000.

² IMF Annual Report 2000.

The case of developing countries

Those countries in which growth has slowed down are those in which ICTs are the least developed. The observations made above, together with the numerous studies carried out in this area, show that a good telecommunication infrastructure is good for economic and financial conditions.

The development and worldwide use of telecommunications lies at the heart of ITU's mission. The World Telecommunication Development Conference and the Plenipotentiary Conference have drawn up guidelines to serve as pointers.

Objectives

BDT's task is to identify the major obstacles to telecommunication development in these countries. There are a number of such obstacles but the end result is that the financial resources needed for the development of the telecommunication infrastructure are inadequate.

Two types of financial resources can be distinguished: 1) telecommunication operators, own resources and 2) external contributions.

Short/medium term (maximum four years)

Two main lines of approach can be identified in the short and medium term:

- 1) improvement of telecommunication operators, financial structure;
- 2) improvement of the institutional, legal and regulatory framework.

Long term (five years at the most)

With the national market established on more solid foundations following the first phase, it will become possible to expand it, within the limits of the national economy's capacity for absorption, through the input into the sector of external resources by such means as:

- 1) loans;
- 2) equity funding;
- 3) modes of participation such as BOT (Build-Operate-Transfer);
- 4) opening-up of the sector to competition;
- 5) the stock market.

Current situation

The current situation can be seen from the triple standpoint of finance, regulation and technology.

Finance

The finances of telecommunication operators in the majority of low-income countries are characterized by two major factors: the overwhelming predominance of revenue from international communications (incoming and outgoing) and the insufficient level of revenues from domestic communications in view of the level of amortization and operating costs that they incur (owing in particular to the cost of universal service obligations).

International accounts

In general, the tariffs of outgoing international communications are very high in relation to their costs (most often unknown), and in international traffic there is an imbalance in favour of developing countries as compared with high-income countries. With high accounting rates, that imbalance provides resources for low-income countries which sometimes amount to more than 45 per cent of the local telecommunication operator's total turnover.

However, the resources provided by the balance of international traffic are dropping rapidly, owing to a combination of two factors: 1) the level of accounting rates is declining irretrievably; 2) an ever-growing portion of international traffic is sent via channels which evade the international accounting rules governing the accounting rate system.

Universal service obligations

In all countries, the State is concerned to ensure that the people, even the most deprived, are not denied their "right to communicate". This gives rise to two constraints: 1) the people must have access to means of communication even in areas where the service cannot be financially viable; 2) they must be able to afford the charges for domestic communications.

The upshot of these two constraints is that domestic communications are sold at a loss and, to compensate, the operator raises the tariff for international communications (incoming and outgoing).

With revenue from incoming communications declining, if tariffs on domestic communications remain unchanged, income from outgoing international communications will have to be raised, probably by attempting to raise prices, which would be liable to depress the economy still further and produce the contrary effect to that sought. Financing of universal service obligations is an issue of major importance.

Regulation

A healthy and stable legal, judicial and regulatory environment is certainly one of the major factors which make a market attractive to investors.

Institutional framework

Apart from those countries which are in crisis (conflicts, embargos, etc.), a large number of developing countries are still engaged in consolidating their institutional framework and establishing the legislation on a more permanent basis (fewer substantive changes to meet short-term needs). The risk factor remains high for the investor, whose commitments, if made at all, are therefore not long-term ones.

Stability of the regulatory framework

An ever-growing number of developing countries have entrusted, or plan to entrust, regulation of their telecommunication services market to a National Regulatory Authority (NRA). It is, however, evident that a good number of these NRAs do not have the means (legal, financial or technical) that would have enabled them to play their role properly. The BDT Sector Reform Unit (SRU) and study groups play a primordial role in providing the instruments with which to improve the situation.

Technology

The impact of technological change is felt by operators in developing countries through the premature obsolescence of their infrastructure, the lack of control over the impact of the convergence of technologies and of the development of commercial models.

Obsolescence

Developing countries are penalized by the following combination of factors: 1) they have a tiny share of the telecommunication equipment manufacturing industry; 2) they account for a minority share of the market. The corollary of this situation is that the equipment is not designed to meet their needs, so that it is often disproportionate to their requirements in the first place and may then undergo significant changes unbeknown to them, leading to premature obsolescence.

Convergence and cost structure

Their limited resources in terms of qualified staff make it difficult for developing countries to look ahead in the technological field. The gains to be made by sharing resources between convergent services (fixed-mobile, circuit-packet, voice-data, distribution-broadcasting) may elude them.

These convergences can greatly modify the commercial models on which the services market is based and can have an impact on cost structure which needs to be mastered both by operators and service providers and by regulators. This is not always the case in developing countries.

Actors

The financing of development in the telecommunication sector is therefore a complex issue, which calls for action in many difficult sectors and requires input from a number of actors.

States

The State is responsible for the establishment of an institutional, legal and judicial framework and the development of macroeconomic policies.

Regulatory bodies

These have to apply the sector policies laid down by the State and ensure that the market presents an image of equity and fairness which is favourable to service consumers and attractive to investors.

Network operators

These are at the core of the technical structure and the development or lack of development of services can depend on their attitude. They are the ones to take the greatest risks.

Strategic guidelines

The financing strategy for telecommunication development as envisaged by BDT is necessarily of a plural, cross-sector and partnership-based nature. Given the nature of its functions, ITU/BDT should have two main roles in that strategy: 1) the role of general catalyst and coordinator, 2) the role of actor in its areas of competence. To fulfill the second of these roles, it can take an approach based on the following principles:

- assisting current telecommunication network operators in establishing/re-establishing a healthy financial situation;
- advising Member States and telecommunication operators on means of promoting investment and during the execution of investment projects;
- assisting Member States in establishing a macroeconomic, legal and regulatory framework which is favourable to investment, in close collaboration with other competent bodies.

Process for achieving objectives

Rehabilitation of the financial structure of telecommunication operators

Assisting telecommunication operators to:

- calculate the cost of each service they offer;
- calculate the cost of international traffic termination and interconnection traffic;
- identify the cost of universal service obligations and distributing it equitably among the different services offered;

- determine the minimum tariff at which those services should be offered to customers and to other operators (national and international);
- identify the scenarios that are most appropriate for sustainably restoring the financial situation of telecommunication operators and that are likely to be accepted by the NRA;
- acquire appropriate accounting systems with a view to the exercise of permanent control and master cost management systems;
- anticipate the effects of changes brought about by technological developments.

Assisting NRAs to get a better idea of the impact of universal service costs on the finances of telecommunication operators and advising them on the means of taking these into account in practice.

Promotion of mechanisms for investment and advice

- Preparing an up-to-date manual on investment mechanisms in telecommunications, taking into account the conclusions of colloquiums held on the subject and the relevant BDT study group reports;
- Organizing seminars and workshops on the application of those mechanisms under specific circumstances;
- Providing experts for direct assistance (to Member States or telecommunication operators) in the framework of the implementation of those mechanisms.

Establishment of a favourable macroeconomic, legal and regulatory framework

- On the basis of work carried out by ITU-D and in close collaboration with other bodies (World Bank, International Monetary Fund, regional development banks, UNCTAD, etc.) making investors' expectations known in respect of the macroeconomic, legal and regulatory framework;
- Pursuing activities currently carried out by BDT to continually update the knowledge required at the national, regional and global levels in respect of regulation of the telecommunication markets.

Conclusion

The problems posed by the financing of telecommunication development are not just a matter of whether financial resources are available or not; they call for a complex strategy comprising short- and medium-term action on the microeconomic level as well as long-term action with the objective of establishing a sustainable macroeconomic and institutional framework which is more favourable to investment. BDT's role is to be very close to its members in respect of short- and medium-term actions, while ensuring that the telecommunication sector is always involved in the initiatives taken to improve the macroeconomic frameworks.

The activities listed in Programmes 1 (Sector Reform Unit) and 4 (Policies, Strategies and Financing Units) of the BDT Operational Plan run along those lines.
