RECOMMENDATION ITU-D 4

Policies and ways for financing telecommunication infrastructures in developing countries

Question 4/1: *Policies and ways for financing telecommunication infrastructures in developing countries*

The World Telecommunication Development Conference (Valletta, 1998),

considering

Article 1 of the Constitution (Geneva, 1992) and in particular No. 19 thereof, as well as the Buenos Aires Action Plan,

recognizing

the sovereign right of each Member State to regulate its telecommunications and the need to implement the ITU's instruments,

taking into account

relevant national laws and regulations, including those concerning licensing and investments,

convinced

that developing countries should have access to different ways, methods and tools for financing investments with a view to promoting the development of the telecommunication sector, increasing operating efficiency and broadening the supply of services,

recommends

that governments and administrations consider the following principles and guidelines when establishing and implementing their telecommunication investment policies.

1 Investment financing policies

a) In view of the profitable nature of telecommunications, the reinvestment of profits should be encouraged and the transfer of revenue between the State and the operator should be limited to the payment of dividends for the State's share in the operator's capital, to the payment of interest on the credits invested by the State or to the business tax levied on telecommunication operators.

b) In the case of concessions for public service, the approving authorities must choose experienced partners, ready to commit themselves on a long-term basis, capable of assuming important risks, who will respect basic principles of public service (regular operation, equal treatment for users, and adapting the service to relevant evolutions) and fulfil the obligation of universal service/access.

c) Financing based on BOT, BTO, BLT or joint ventures may facilitate the rapid development of telecommunications in developing countries provided considerable negotiating skills and relevant guarantees are available. Where these conditions are not fulfilled it may be preferable to consider other options. It may be necessary to simplify the legal regime in order to facilitate such arrangements.

NOTE – BOT: Build – Operate – Transfer
BTO: Build – Transfer – Operate
BLT: Build – Lease – Transfer

2 Privatization

a) Privatization, with or without transferring the majority of the shares, should occur within an adequate legal and regulatory environment. Whether privatization is carried out in stages or as a whole, consideration should be given to whether the objectives of infrastructure investments are being met, while permitting the investors to achieve the desired profitability.

b) In certain cases of privatization, the conversion of the incumbent operator’s debt into shares in the new telecommunication operator’s capital may resolve difficult financial issues and may facilitate the recapitalization of the incumbent operator.

c) The real value of an operator is determined by the market. An operator evaluating its assets should take account of the effects of currency fluctuations and high inflation and apply appropriate measures such as non-distribution of profits and dividends, amortization of replacement cost, re-evaluation of the balance sheet and debt restructuring in foreign currency, and expected future profits.

3 Factors favourable to investment

a) In order to increase the attractiveness of investment in telecommunications, the following measures can be considered:

- acceding the World Trade Organization (WTO) Agreements;
- displaying the resolve to implement the following necessary regulatory and legal changes and setting a precise timetable:
  - i) commitment from the State on a clear telecommunication development policy, including a separation of posts and telecommunications;
  - ii) separation of the regulatory and operating functions, in order to allow operators to adopt a commercial approach;
  - iii) opening services to competition e.g. mobile or value-added services;
  - iv) opening basic services and telecommunication infrastructures to private investment and competition whenever appropriate;
- establishing fair competition legislation;
- considering tax exemptions;
- ensuring the free circulation of capital;
- ensuring the possible repatriation of profits;
- considering cooperation with neighbouring countries in order to establish multilateral investment guidelines and to achieve economies of scale.

b) In order to enable greater capital mobility and to reduce some of the risks which are important to investors, it would be desirable to encourage access to capital markets in conjunction with other solutions such as debt conversion, equity investment, project financing, joint ventures, supplier credit, etc.