Outline…

• The Nigerian Vision and Long-Term Goals
• VISION 20: 2020 – Objectives, Role Plays, targets
• Telecommunication Sector and VISION 2020
• A Global & African overview
• Telecommunications sector & contributions to the economy
• Challenges
• Framework for Action
### The Nigerian Vision
- A key player in the World Economy
- Largest and Strongest African Economy

### Nigeria’s Long-Term Goals
- Poverty Reduction
- Wealth Creation
- Employment Generation
- Value Re-orientation

### VISION 20: 2020 (Medium-term goals)
- Reform Govt. & Institutions
- Growing the Private Sector
- Implementing a Social Charter
All the NEEDS should be changed to VISION 2020 since they aim towards the same objectives but with a slight different methodology.

8/20/2009
VISION 20: 2020 – Roles

**Government**

- **Enabler**
  (Helping the private sector grow, create jobs and generate wealth)
- **Facilitator**
  (To attract private sector investment)
- **Regulator**
  (To control, supervise and ensure compliance with all laws and regulations)

**Private Sector**

- **Executor**
  (To carry out and perform activities)
- **Direct Investor**
  (To commit capital for such activities)
- **Manager of Businesses**
  (Control all the resources committed to such activities)

**General**

- Mobilize long term capital investment
- Appropriate regulatory framework
- Coherent and consistent trade policy
- Regional/Global integration regime
- Specific interventions
- R&D
VISION 20: 2020 – Role

Role of Government in VISION 20: 2020:

- Mobilization of national resources to facilitate the development of strategic economic infrastructure
- Economic empowerment of indigenous SME businesses
- Providing a robust fiscal and monetary policy regime for the smooth functioning of the economy
- Adopting financing strategies that do not crowd out the private sector
- Holding regular dialogue with private sector operators and playing an active role in economic planning, based on market principles
- Creating greater opportunities for access to appropriate financial resources
- Progressive reduction of its direct role in economic and business activities e.g. privatization, deregulation, liberalization of key sectors of the economy
- Development of appropriate competition and consumer protection policies
Role of Private Sector in VISION 20: 2020:

- Utilizing opportunities provided for rapid and sustainable growth of a diversified economy
- Actively working to expand export base and international competitiveness by improving the quality of products and services
- Using the skills and professionalism of local human resource to achieve the above
- Transforming the structure of the economy through support for R&D in focal economic sectors
- Engendering the development of strong linkages across the economy
- Forming business partnerships/linkages that engender learning and transfer of technology process (implementing Local Content Policy)
- Preservation of environmental resources and maintaining environmental balance
## VISION 20: 2020 TARGETS

### Macroeconomic Targets

<table>
<thead>
<tr>
<th></th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>Non-oil sector (% Growth)</td>
<td>5.83</td>
<td>7.27</td>
<td>8.54</td>
<td>8.34</td>
<td>9.52</td>
</tr>
<tr>
<td>Minimum Number of Jobs (m)</td>
<td>-</td>
<td>1</td>
<td>2</td>
<td>2</td>
<td>2</td>
</tr>
</tbody>
</table>
To me I think the projection should get to 2020 starting from 2007 using the same formula in arriving at the figures.

8/20/209
Telecommunication – Policy Thrusts

- Develop and sustain a modern information and communication Technology capacity (to improve quality of life and impact poverty)
- Improve access to Internet connectivity
- Raise the level of computer usage and literacy
- Facilitate the development of a national multimedia super corridor
- Aggressively promote ICT as an instrument of mass education, growth and development
Telecommunication–VISION 20: 2020 Strategies

- Use of combination of fiscal and financial incentives to encourage private sector investment in service provision in the industry
- Enforce existing intellectual property rights and promote entrepreneurship, training and partnerships
- Pursue a local content policy in the manufacture of communication, telecommunication, electrical and electronic equipment, handsets, accessories, and components
- Facilitate access to special financial support for private sector driven rural wireless telephony and Internet connectivity development
- Foster an enabling environment for software development capacity
- Provide incentives for the development of industrial parks in ICT
**Sectoral Targets**

- *Tele-density from 1:40 in 2003 to 1:25 in 2007*
- Improve access especially in the rural areas
- Develop a national communication and telecommunication backbone, satellite including a national multimedia super corridor
Tele-density from 1:40 in 2003 to 1:5 in 2020
The increase in teledensity has a progressive impact on GDP per capita.
Telecoms penetration and National economic development

March 2005 study backed by UK telecom giant, Vodafone and Centre for Economic Policy Research, on the impact of mobile phones in Africa established the following:

- Mobile phone usage in Africa is growing faster than anywhere else in the World – 5000% growth between 1998 and 2003
- Empirical evidence of a link between social and economic development and the establishment of mobile phone networks
- Mobile networks in addition to the openness of the economy, GDP growth and infrastructure are positively linked with foreign inward investment
- Mobile phones has enabled developing countries to leapfrog old technologies
- African countries with greater mobile use has seen a higher rate of economic growth
Recent data available should be used in order to give up to date information.
Comparative Analysis of Pertinent Emerging Markets

ITU basic indicators of Telecom growth and development provides the means of comparing growth in various markets and establishes how Nigeria has fared.

Total telephone subscribers per 100 inhabitants

- Cote d'Ivoire
- Egypt
- Kenya
- Nigeria
- Senegal
- South Africa
- Tanzania
- Africa Avr.
Current statistical data should be used.

8/20/2009
Assessing Nigeria’s Performance

The Nigerian Telecom market has exceeded all expectations by outpacing other African economies in terms of progress in telecom network roll-out due to the advent of mobile telephony.
But in comparison with other markets (within the African Continent), the Nigerian mobile market is still far from achieving its full potentials.
I think it will be good not to use the word mobile too much in the presentation, so I suggest telephone but as you think is okay.

8/20/2009
The Nigerian Telecoms market is still at its infancy and is thus deserving of adequate protection and governmental support.
The Current Market Share among Operators in Nigeria

The GSM sector has a 91% stake in the Nigerian telecoms market

Notes:

i) This split is as at End January 2005
ii) Subscriber figures for Glo, Mtel, Nitel fixed and PTOs were calculated based on last actual available data
iii) Total Market is about 10m
I know that currently Nitel does not have any subscriber.

8/20/2009
Forecasts for the Telecoms Market

The Nigerian Mobile market is bullish

A $7 billion market

Subs per ‘000

© Pyramid Research, 2004
All relevant data can be accessed through NCC's website.
Dispelling the myth of profitability in the Mobile sector

- Estimated Investment to Maintain Growth in Sector
- Cumulative CAPEX - US$9bn-$10bn cumulatively over the 2001-08 period (Mobile radio access and switching infrastructure – US$6 billion)
- Mobile Operators are therefore far from making profits on their investments

CAPEX estimates from (1) operators stated budgets and rollout plans, (2) awarded contracts and (3) BTS deployment estimates based on anticipation of capacity and market share.

© Pyramid Research, 2004
Profit does not mean Cash

Reported Profit vs Cash Flow

- PAT: Planned
- Cash Flow: Planned
Committing Investments in Nigeria

- **The concept of profit**
  - Profitability of an enterprise is not the same as getting a return on investment
  - Projections indicate that:
    - GSM companies will not break even until 2008
    - Investors are in Nigeria for the long haul - should not reap a return on investment until the company breaks even i.e. not until 2016, 15 years after the commencement of business operations

- **Opportunity cost**
  - The cost of procuring investment funds in Nigeria – 24% to 30%
  - In Europe – 2%
  - Inflationary pressures on the time value of money are significant over a period of 15 years
By the statement in point 2, it shows that the GSM break even in 2008, whereas some PTOs’ if not all are still struggling. I will suggest a kind of cohesion here.

8/20/2009
Committing Investments in Nigeria

Return on Investment

- Investment in year 1 GSM Licence in Nigeria
- Required return on Investment added each year
- Actual Dividends received net off to show Payback
Committing Investments in Nigeria

- Operators have invested over $4 Billion from inception till date.

- Sustained investment inflow of at least $3 Billion annually over the next five years to develop a robust National telecommunications infrastructure (Backbone & core network) to support telecom development in Nigeria.

- The Nigerian mobile market is the fastest growing market in Sub-Saharan Africa and one of the fastest growing markets in the World.
Current Investment rate has exceeded $4 Billion
Committing Investments in Nigeria

- Due to infrastructural challenges, operators have to build and manage three networks – core network, transmission network and power supply network.
Contributions to the Economy [2001 till date]

Generation of a rollover effect on the Nigerian economy which includes:

- the employment of direct & indirect labour who in turn spend their income in Nigeria and support a further tier of jobs
- a strong demand for a wide variety of support services and ancillary employment
- the job creation & sustenance arising from the payment of taxes, duties, interest payments and profits

<table>
<thead>
<tr>
<th></th>
<th>TELECOM Operators</th>
</tr>
</thead>
<tbody>
<tr>
<td>Direct Staff.</td>
<td>5,152</td>
</tr>
<tr>
<td>Direct Dealers</td>
<td>687</td>
</tr>
<tr>
<td>Indirect Dealers</td>
<td>7,703</td>
</tr>
<tr>
<td>Informal Dealers</td>
<td>&gt;120,000</td>
</tr>
</tbody>
</table>
Contributions to the Economy [2001 till date]

The Telecoms Value Chain

Inter-relationship of end users with telecom stakeholders

Suppliers of Network Equipment

Fixed network operators
including PTOs & FWA operators, community telephone operators and local exchange operators

Suppliers of Capital Goods

Interconnect payments

Nigerian Digital Mobile Operators

Suppliers of Support Services
e.g. Lawyers, Accountants, Consultants, Caterers, Cleaners, Doctors

Suppliers of Terminal Component

Terminal Designers & Manufacturers

Suppliers of premium services

Dealers, distributors & mobile terminal subsidiary

New & second-hand terminals & accessories

End Users

Fixed to mobile calls

Payment for mobile services

Commissions
## Contributions to the Economy

<table>
<thead>
<tr>
<th>Sectoral contribution to the GDP (N'000,000,000)</th>
<th>2000</th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agriculture</td>
<td>117.95</td>
<td>122.52</td>
<td>127.72</td>
<td>135.99</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>13.96</td>
<td>14.93</td>
<td>16.44</td>
<td>17.37</td>
</tr>
<tr>
<td>Oil &amp; Gas</td>
<td>106.83</td>
<td>112.42</td>
<td>106</td>
<td>131.34</td>
</tr>
<tr>
<td>Transport</td>
<td>7.5</td>
<td>7.86</td>
<td>9.22</td>
<td>9.33</td>
</tr>
<tr>
<td>Communications</td>
<td>0.37</td>
<td>0.45</td>
<td>0.69</td>
<td>0.83</td>
</tr>
<tr>
<td>Finance &amp; Insurance</td>
<td>17.13</td>
<td>17.91</td>
<td>23.17</td>
<td>20.96</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>% Change of Sectoral contribution to GDP</th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agriculture</td>
<td>3.87</td>
<td>4.24</td>
<td>6.47</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>6.95</td>
<td>10.11</td>
<td>5.65</td>
</tr>
<tr>
<td>Oil &amp; Gas</td>
<td>5.23</td>
<td>-5.71</td>
<td>23.90</td>
</tr>
<tr>
<td>Transport</td>
<td>4.8</td>
<td>17.30</td>
<td>1.193</td>
</tr>
<tr>
<td>Communications</td>
<td>21.62</td>
<td>53.33</td>
<td>20.28</td>
</tr>
<tr>
<td>Finance &amp; Insurance</td>
<td>4.55</td>
<td>29.36</td>
<td>-9.54</td>
</tr>
</tbody>
</table>

**Note:** There was a 241% growth in the subscriber base between 2003 and 2004 alone. Therefore, it is expected that there will be a tremendous increase in the impact of the communication sector to GDP in subsequent years.
## Contributions to the Economy [2001 till date]

### Contribution to National Treasury

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount (NGN)</th>
</tr>
</thead>
<tbody>
<tr>
<td>TELECOM Operators</td>
<td></td>
</tr>
<tr>
<td>NCC</td>
<td>12.95 bn</td>
</tr>
<tr>
<td>Duties on Stock</td>
<td>15.23 bn</td>
</tr>
<tr>
<td>VAT on Revenue</td>
<td>25.70 bn</td>
</tr>
<tr>
<td>VAT on Operating Expenses</td>
<td>4.14 bn</td>
</tr>
<tr>
<td>WHT</td>
<td>12.79 bn</td>
</tr>
<tr>
<td>Employee Taxes</td>
<td>10.79 bn</td>
</tr>
<tr>
<td>Duties on Equipment</td>
<td>41.20 bn</td>
</tr>
<tr>
<td>CAC</td>
<td>0.378 bn</td>
</tr>
</tbody>
</table>
## Contributions of TELECOMS to the Economy [2001 to date]

### Contribution to National Treasury

<table>
<thead>
<tr>
<th>Service</th>
<th>TELECOM Operators (NGN)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Stamp Duties</td>
<td>1.34 bn</td>
</tr>
<tr>
<td>Building Permit</td>
<td>0.35 bn</td>
</tr>
<tr>
<td>Local Govt. Permit</td>
<td>0.07 bn</td>
</tr>
<tr>
<td>Motor Vehicle/ Hackney Permit</td>
<td>0.03 bn</td>
</tr>
<tr>
<td>License</td>
<td>77.41 bn</td>
</tr>
<tr>
<td>Rates and Taxes</td>
<td>0.18 bn</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>202.56 bn</strong></td>
</tr>
</tbody>
</table>
Contributions to the Economy (2001 till date)

- **Corporate Social Responsibility:**
  - Operators investing about 1% of its profits after tax annually in Education, Health, economic empowerment and poverty alleviation projects through corporate affairs activities – amounting to at least =N=715 million in 2004 alone

- **Socio-economic Impact:**
  - **National spread and rural penetration:** Mobile services available in all 36 States of the Federation, over 50% of the Local Government Areas and in at least 5,000 towns, communities and small villages
  - **Increased tele-access:** Reduction of average waiting time from 100 days pre-GSM era to about 30 minutes. Mobile telephony is now available to all regardless of status or location
  - **Cross-Industry linkages:** The development of a robust telecom infrastructure & telecom access has a direct impact on the development of other industries in the economy – Financial services, Oil & Gas, Agriculture, Maritime/Shipping, Trade & Industry etc and other ancillary sub-sectors of the economy.
Socio-economic Impact:

- **Economic empowerment**: Mobile services have made businesses more productive. This has led to growth in the small & medium scale business (SMME) segment thereby boosting National GDP. This includes the informal sector of the economy such as artisans, transporters etc.

- **Business efficiency**: Mobile services have significantly improved the operations and logistics of businesses; reduced unproductive trips/travel times and associated risks; provides instant access to relevant business information; enhances faster and more efficient decision-making which positively impacts National productivity.

- **Family/social relationships**: Mobile telecom access has improved family and social relationships tremendously – provides means of staying in touch with family and friends without having to embark on journeys.
Global Telecommunication Requirement:

The International Telecommunication Union (ITU) specified a minimum standard of 1 telephone to 100 inhabitants (1:100). The country’s teledensity however surpassed the minimum standard after only one year of operation. The teledensity was 1:165 at the inception of mobile operations. A teledensity of 1:56 was achieved in 2002 and this has improved tremendously to 1:17 in 2004.

With the present growth rate, teledensity by 2007 is estimated at 1:10.
Macroeconomic Climate

Cost Structure for GSM Operators - MTN

- **Inflation:** 4yr average: 16.13%
- **Cost Of Funds:** Average Lending Rate (02-04): 22.03%
- **Exchange Rate – NGN to USD:**

<table>
<thead>
<tr>
<th></th>
<th>End 2001</th>
<th>End 2002</th>
<th>End 2003</th>
<th>End 2004</th>
<th>Average EX Rate (01-04)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Naira Value</strong></td>
<td>120.10</td>
<td>133.26</td>
<td>138.21</td>
<td>132.30</td>
<td>130.94</td>
</tr>
<tr>
<td><strong>Depr. Rate</strong></td>
<td>11%</td>
<td>4%</td>
<td>-4%</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Macroeconomic Climate

- **Inflation:**
  - 4yr average: 16.13%

Inflation Rates

- **End 2004:** 17.10%
- **End 2003:** 15.30%
- **End 2002:** 13.20%
- **End 2001:** 18.90%

*Culled from CBN statistics*
### Macroeconomic Climate

**Revenue / Pricing Structure for TELECOM Operators - MTN**

- **Average Sim-Pack Price**

<table>
<thead>
<tr>
<th></th>
<th>End 2001</th>
<th>End 2002</th>
<th>End 2003</th>
<th>End 2004</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Naira Value</strong></td>
<td>18,000</td>
<td>14,900</td>
<td>12,980</td>
<td>980</td>
</tr>
<tr>
<td><strong>Growth Rate (%)</strong></td>
<td>-17%</td>
<td>-13%</td>
<td>-92%</td>
<td></td>
</tr>
</tbody>
</table>

- **Average Weighted Airtime Charges**

<table>
<thead>
<tr>
<th></th>
<th>End 2001</th>
<th>End 2002</th>
<th>End 2003</th>
<th>End 2004</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>National</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Naira Value</td>
<td>46</td>
<td>45</td>
<td>38</td>
<td>30</td>
</tr>
<tr>
<td>Growth Rate (%)</td>
<td>-2%</td>
<td>-16%</td>
<td>-21%</td>
<td></td>
</tr>
<tr>
<td><strong>International</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Naira Value</td>
<td>120</td>
<td>120</td>
<td>120</td>
<td>65</td>
</tr>
<tr>
<td>Growth Rate (%)</td>
<td>0</td>
<td>0</td>
<td></td>
<td>-46%</td>
</tr>
</tbody>
</table>
Macroeconomic Climate

Average Weighted Airtime Charges

<table>
<thead>
<tr>
<th>Year</th>
<th>National</th>
<th>International</th>
</tr>
</thead>
<tbody>
<tr>
<td>2001</td>
<td>40</td>
<td>120</td>
</tr>
<tr>
<td>2002</td>
<td>40</td>
<td>120</td>
</tr>
<tr>
<td>2003</td>
<td>40</td>
<td>120</td>
</tr>
<tr>
<td>2004</td>
<td>40</td>
<td>80</td>
</tr>
</tbody>
</table>

NGN

VISION 20: 2020—Framework for Action
Macroeconomic Climate
- Implications

- Increase in expenditure due to rising costs even though price has been driven down due to competition.

- The double-digit bank lending rates increases the cost of funds for investment, and therefore hinders the growth rate of the sector.
Challenges – Communication Sector

- Inadequate Power Supply
- Customs Clearance Processes
- Multiple Taxation
- Lack of Fiscal and Financial Incentives
- Inappropriate Infrastructure support (Transmission backbone)
- Absence of local Manufacture and Maintenance Capacity
- Regulatory framework
VISION 20: 2020 – A Framework for Action

Nigeria’s Long-Term Goals

Communication Sector Targets

Challenges

Government’s Role

Operators’ Role
### Challenges

- Inadequate Power supply
- Customs clearance processes
- Multiple Taxation
- Lack of fiscal and financial incentives
- Inadequate backbone Infrastructure
- Lack of local manufacture and maintenance capacity
- Regulatory framework

<table>
<thead>
<tr>
<th>Poverty Reduction</th>
<th>Wealth</th>
</tr>
</thead>
<tbody>
<tr>
<td>Creation</td>
<td></td>
</tr>
<tr>
<td>Employment Generation</td>
<td>Value Re-orientation</td>
</tr>
</tbody>
</table>

- Tele-density from 1:40 (2003)
  - Improve access especially in rural areas
  - Develop a national communication and telecommunication backbone

<table>
<thead>
<tr>
<th><strong>Government’s Role</strong></th>
<th><strong>Operators’ Role</strong></th>
</tr>
</thead>
</table>

- Inadequate Power supply
- Customs clearance processes
- Multiple Taxation
- Lack of fiscal and financial incentives
- Inadequate backbone Infrastructure
- Lack of local manufacture and maintenance capacity
- Regulatory framework
Inadequate Power Supply - Background

- Telecom operators and other stakeholders in the telecom industry used over 5,600 generators of different capacities in 2003. These generators had an aggregate estimated value of NGN 9.5 billion, and most of them are used for the direct operations of the four (4) players.

- It is projected that the above could climb up to 9,000 generators (estimated at N59.36 billion) by 2007.

- To avoid breakdown of operations, the generators are serviced thrice a month, and the generators used for Telecom operations are replaced every two (2) years.

- In 2004 alone, about NGN 6.4 billion was spent on the maintenance of generators and figure is expected to rise to about NGN19.27 billion in 2007.
The figure on consumption of fuel needs to go up. “Telecom Operators and other stakeholders in the Industry” replaced the GSM.
Inadequate Power Supply - Background

- It is estimated that the Telecom operators and other stakeholders in the telecom industry used about 84 million litres of fuel to run generators in 2003. This amounts to about N5bn annually at current prices. We expect fuel consumption to reach about 116 million litres annually in 2005 amounting to an accumulated fuelling cost of about N 67.99 billion in 2007.

- It is estimated that the cost of generating alternative power per site is an additional 35% relative to the full cost of constructing the site.

- GSM operators rely only 16.87% on NEPA today – with the projected 138% increase in power generation by 2007 under the power sector reform process vis-a-vis the projected mobile industry growth rate, the GSM operators will be relying even less on NEPA by 2007 thereby incurring huge additional expenses with a larger network to manage.
Some projection needs to be updated.

8/20/2009
Inadequate Power Supply – Rising Fuel Costs

- Pump price of Diesel per Litre

<table>
<thead>
<tr>
<th></th>
<th>End 2001</th>
<th>End 2002</th>
<th>End 2003</th>
<th>End 2004</th>
<th>4 yr price change (01-04)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Per Litre rate</td>
<td>26</td>
<td>40</td>
<td>48</td>
<td>65</td>
<td>N39.00</td>
</tr>
<tr>
<td>Growth Rate</td>
<td>54%</td>
<td>20%</td>
<td>35%</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

![Graph showing the increase in diesel price from 2001 to 2004](image.png)

- Per Litre Rate (Diesel)
Inadequate Power Supply – VISION 20:2020

Targets

The Power Sector and VISION 20: 2020

- Expeditious implementation of the electric power reform programme
- Increase generation capacity from 4200 MW to about 10,000MW by year 2007 (138% increase)
- Increase transmission capacity from 5,838 MVA to 9340 MVA (60% increase)
- Increase distribution capacity from 8,425 MVA to 15,165 MVA (80% increase)
- Expeditious implementation of the electricity power sector reform programme – unbundling NEPA, privatizing business units from privatization, liberalization of the sector & establishment of a regulatory agency
Inadequate Power Supply — Action Plan

Role of Government

- Power sector reform should be accorded NATIONAL PRIORITY in view of direct impact on telecom & National Industrial development – GSM operator representation in National steering process.

- The reform measures should include the incorporation of electrification targets as prerequisites for the purchase of current distribution and transmission assets/basis for licensing to ensure even development of electricity sector.

Role of Operators

- Operators and other stakeholders in the telecom industry to comply with all requirements to ensure listing as priority customers in view of direct impact of poor electricity supply on quality of service and increased network deployment.
Inadequate Power Supply — Action Plan

Role of Government

- To guarantee Power Supply Agreements between NEPA/unbundled entities and Telecoms operators to ensure adequate power generation to major network installations

- NCC and proposed Power Sector Regulator to synergize in order to avoid double regulatory regime over mobile/phone operations.
Tedious Customs Clearance Processes -

Background

- It takes an average of 3 weeks to clear a unit of equipment from the Nigerian seaports.

- The operators must go through not less than 15 processes which take about 30 days; even before actual clearing processes start.

- Current lead-time at the ports can be as long as 10-14 days after arrival of shipment.

- This directly affects GSM/TELEPHONE network roll-out especially in contending with major network failures when relevant network components are being imported.
Tedious Customs Clearance Processes –
VISION 20: 2020 Targets

- Rationalize the number of agencies responsible for clearing goods at ports facilities
- Institute simultaneous document verification
- Increase diligence in applying Automated System for Customs Data (ASYCUDA) programmes
- Goods to be cleared from the Ports within 48 hours
## Role of Government

- Simplify tariff classification for imported cargoes
- Standardization of applicable forex exchange rate to the ‘form M’ rate
- Reduction in CRI lead-time to 24 hrs after shipment sail on board.
- Customs should allow clearance to commence based on duty payment on face value of invoice with stipulation that perfection of documents are effected within defined timeframes

## Role of Operators

- Support to implementation of the ASYCUDA project to instill transparency in clearance process
- Digital/ICT support to port reforms processes – contribution towards automation of port operations
Tedious Customs Clearance Processes – Action Plan

Role of Government

- Expedite process towards Ports concessioning to enhance high level of efficiency - private investors to achieve the 24hr goods clearance time as proposed in the Port reforms.
Multiple Taxation - Background

- Between 2001 and 2004, at least N216 million was paid to both State and Local Government as double taxation on building permits. With the annual percentage increase experienced so far, coupled with the accelerated pace of network roll-out, the value is estimated to be =N= 1.3 Billion by 2007 on this cost item alone.

- Lagos State Government proposed legislation to impose taxes on telecom masts & towers is subject of litigation between Federal & Lagos State Government in the Supreme Court.

- Some State Governments collect three different taxes on the environment. e.g. Environmental Impact Assessment (EIA), Environmental Development Charge (EDC) and Sanitation levies (separate from taxes to the Federal Environmental Authorities).
Multiple Taxation — VISION 20: 2020 Targets

- Obtain agreement among all tiers of Government on which level should collect which taxes and how.
- Passage and implementation of the comprehensive tax reform Bill
- Joint Tax Board and peer review mechanism to be established to achieve a more harmonized tax system.
## Multiple Taxation – Action Plan

### Role of Government

- Urgent policy framework on harmonized tax regime between Federal, State and Local Governments based on recommendations of the Joint Tax Board
- Urgent passage of the Comprehensive tax reforms Bill to legitimize harmonized tax regime between the Federal, State and Local Governments
- Introduce basis for annual increase of statutory taxes/levies to be indexed against inflation or other relevant macro-economic indicators

### Role of Operators

- Prepare industry proposals on harmonized tax regime at all levels of government as input into designing policy & legal regime on harmonization of taxes.
- Support Government e-taxation initiatives
Lack of Fiscal and Financial Incentives -
Background

- The Government extended a two-year duty concession (from date of roll-out) to telecom operators (including mobile operators) as an incentive to enhance accelerated network roll-out.

- The concession amounted to a reduction from at least 25% duty regime to 5% duty regime during the period under reference.

- The duty concession has since been withdrawn for most operators since August 2003.
Lack of Fiscal and Financial Incentives -
Background

- Averaged duties paid for importation of telecom equipment and accessories presently is about 40% - representing a 600% increase over duties paid under the concession regime

- Operators have since outstripped network roll-out targets as prescribed in their licences or envisaged under VISION 20: 2020
Lack of Fiscal and Financial Incentives – VISION 20: 2020 targets

- Extending fiscal and financial incentives to encourage private sector investment is identified as one of the key strategies for telecom-sector targets under VISION 20: 2020
Lack of Fiscal and Financial Incentives –
COUNTRY EXPERIENCE - INDIA

- Mobile subscriber base is growing at nearly 100% per annum and is presently about 50 million subscribers by end of 2004.

- The industry generates a GDP contribution of R313 Billion per year and 3.6 million jobs depend on the mobile services industry.

- The Indian Government has introduced some incentives which is intended to reduce infrastructure costs the benefit of which is expected to be passed on to end users in lower prices; boosting production and profitability of the telecom equipment manufacturing sector; encourage investment and development of key sectors of the economy.

- There is still an ongoing clamour for Government to further minimize the tax incidence on operators to boost operations in the sector and economy as a whole.
Lack of Fiscal and Financial Incentives –
COUNTRY EXPERIENCE – INDIA

• Custom Duties
  • Reduced duties for specified capital goods for use in the ICT sector e.g. PCs, magnetic tapes/discs, e-glass & optical fibre cables
  • Full exemption for specified goods for the manufacture of telecommunication grade optical fibres; cables and specified infrastructure equipment for basic/cellular/internet, V-Sat equipment; mobile switching centres imported by cellular mobile telephone service providers & universal access service providers

• Excise Duties
  • Reduction of duties on PCs & standalone CPUs
  • Exemption for VCDs/DVDs, some TVs & mobile phone parts e.g. cathode ray tubes & plasma display panels
Lack of Fiscal and Financial Incentives –
COUNTRY EXPERIENCE – INDIA

• Tax exemption to telecom operators
  • With effect from date of commencing operations, telecom operators are entitled to the following incentives during the initial term of the licence (15 years):
    • 100% exemption on taxable profits for 5 years; and
    • thereafter a 30% exemption on taxable profits for the next 5 years

• Tax exemption to infrastructure providers
  • Infrastructure providers enjoy a 100% exemption from income tax for the full term of the 10 years of their licence
Lack of Fiscal and Financial Incentives –
COUNTRY EXPERIENCE – INDIA

• Other incentives include:
  • Amortization of license fees – enabling telcos to charge such fees as expenses
  • Reduction of licence fees by 2% for basic/cellular/unified access services depending on network roll-out status
  • Enhanced limit of external commercial borrowings & the benefit of carry forward losses on mergers
  • Rebate on subscription to shares/debentures
  • Scope for tax exemption on financing through venture & reduced Central Sales Tax of 2%
Lack of Fiscal and Financial Incentives –
COUNTRY EXPERIENCE – INDIA

- **Access Deficit Charge (ADC)** drastically reduced by up to 62%
  - ADC is paid by all operators to the Incumbent National Operator, Bharat Sanchar Nigam Ltd (BSN), to subsidize costs of providing rural telephony services, due to its extensive coverage and infrastructure. This is in addition to the universal service fund (USF) which is also to facilitate rural telephony.
  - The reduction is geared towards encouraging lower tariffs for end users and enable the sector achieve higher mobile growth like China. It leverages on the increase in usage with over 47 million mobile lines at the beginning of 2005 from 13 million lines last year.
  - TRAI plans to conduct a similar revision of Universal Service Obligations (USO) and operating fees paid by operators to the Government
Lack of Fiscal and Financial Incentives – Action Plan

Role of Government

- Extend tax concessions/rebates/incentives to mobile operators based on achievement of telecom-specific VISION 20: 2020 targets – increase in teledensity, network expansion into rural areas, and contribution to development of backbone infrastructure.

- Implement proposed harmonized tariff bands (i.e. between 5% to 20%) designed for the common ECOWAS market – telecom equipment and accessories to attract 5% regime.

Role of Operators

- To ensure that their operations are in compliance with the regulatory requirements to qualify for such incentives.

- Continued commitment to greater use of local labour and empowerment initiatives including support to small & medium scale enterprises (SMMEs).
Lack of Fiscal and Financial Incentives – Action Plan (Cont’d)

Role of Government

- Exemption from payment of duties for telecom goods/materials/infrastructure utilized for development of backbone infrastructure and telecom equipment manufacture.

- Clear commitment by Government on incentives available to mobile operators including validity period to enable operators plan accordingly and avert policy inconsistency

- Reversal of decision on withdrawal of pioneer status

Role of Operators
Role of Government

- Downward review of the Annual operating levies, spectrum charges and other relevant regulatory charges imposed on mobile operators as part of incentives to encourage rapid expansion of telecoms services

Role of Operators
Inadequate backbone Infrastructure

Background

- Existing NITEL backbone infrastructure is inadequate to support the level and pace of Telecoms network expansion/telecom development in Nigeria.

- Telecoms operators have had to build microwave network as an immediate measure and currently building fibre optic network to support their network roll out and ability to provide efficient telecom services.

- It costs about NGN 3.10billion to build and operate a 696km (Lagos – PHC) fibre optic backbone over a 3 year period.

- Telecoms operators investing towards cumulative deployment of over 20,000 km National fibre optic infrastructure in different parts of the country.
Inadequate backbone Infrastructure

Background

- The above costs could have been channeled to other areas of Telecoms development if there was adequate National fibre optic backbone infrastructure on ground.

- In other words, the Telecoms operators have had to develop two additional networks in addition to the core network – transmission network & power grid.
Inadequate backbone Infrastructure

VISION 20: 2020 targets

- Developing a National communication and telecommunications backbone including a National multimedia super corridor is identified as one of the key strategies for telecom-sector targets under VISION 20: 2020.

- This infrastructure is expected to support multi-media and other services evolving with technology and is therefore critical to National telecommunications development as a whole.
Inadequate backbone Infrastructure - Action Plan

Role of Government

• Provide specific incentives to encourage operators engaged in fibre optic network deployment

Role of Operators

• To develop industry guidelines towards optimal utilization of National backbone infrastructure among operators.

• To develop Industry guidelines and modalities for infrastructure sharing of other relevant network infrastructure/facilities among GSM/TELEPHONE operators and other stakeholders in the telecom industry to ensure optimal utilization of available/existing infrastructure.
Lack of Local Manufacture and Maintenance Capacity — Background

- Over 95% of Telecom equipments are imported into the country due to lack of local manufacturing capacity.

- Equipment estimated at about NGN 102.99 billion have been imported into the country since the inception of Telecom operations. This translates to significant foreign exchange loss which will continue until full localization of the industry.

- In order to fully maximize the economic benefits from the industry, there is need to establish an indigenous terminal/network equipment and component supply industry.
Lack of Local Manufacture and Maintenance Capacity – VISION 20: 2020 targets

- Pursuing a local content policy in the manufacture of communication, telecommunication, electrical and electronic equipment, handsets, accessories, and components is identified as one of the key strategies for telecom-sector targets under VISION 20: 2020
Creating Information and Communication Clusters – COUNTRY EXPERIENCES

- The leading silicon valleys and silicon plateaus were made possible by progressive Government policies, concessions and incentives that encouraged an indigenous communications equipment supply, technology innovations and manufacture.

- The primary tools were Government investment, grants, loans, tax holidays, subsidies, and PPPs:
  
  - **China** – domestic chip industry funded by a Government initiated venture capital fund of 1 billion Yuan ($122 million) p.a to support Chinese fledging companies.
  
  - **India, Bangalore** – a centre of technology development bolstered by Government commitment to education and training and incentives such as exemption of duties (customs & excise) and tax holidays.
  
  - **Ireland** – a centre for electronics hardware manufacture, such as PCs, PC components and office machinery, software products and services and call centres encouraged by economic restructuring - opening the economy to external trade and lowering tariff barriers and Government investment in education and infrastructure.
Creating Information and Communication Clusters – COUNTRY EXPERIENCES

- **Singapore** - Industry 21 project initiative launched by Government in partnership with investors to develop ICT industry clusters e.g. in electronics / precision engineering

- **South Korea** – the centre of broadband deployment arising from Government investment in super-highway networks for its agencies, schools and universities, and loans to carriers for infrastructure construction; the creation of cluster complexes to house high-end digital, optical and electronics outfits, and a state-of-the-art machinery industry serviced by public research and development centres

- **Japan** - a “model cities” program to create 21st Century “info-communications” centres for new business and residential sub-centres, each served by a fibre network and satellite facilities

- **UK, Sunderland** - Telematics Strategy funded by UK govt & EU grants to provide training programs in Digital Age skills for the unemployed, public-access Internet terminals, a government-funded high-speed network, and a business incubation program in collaboration with Sunderland University
## VISION 20: 2020– Framework for Action

### Lack of Local Manufacture and Maintenance Capacity — Action Plan

#### Role of Government

- Design targeted incentives towards encouraging cost-effective local manufacture of telecommunications equipment and accessories.

- To commission a detailed Industry study to determine short, medium & long-term goals/targets for local manufacturing capacity including appropriate policy reforms to this end – to provide clarity and certainty in the implementation of holistic policy towards achieving local manufacture/maintenance in communications sector by determined timeframes.

#### Role of Operators

- Make commitments towards supporting local human capacity development aligned to policy framework – increased funding in R&D and contribution towards developing telecom research centres/institutes/endowment of chairs in Nigerian Universities.

- Encourage equipment suppliers and manufacturers to establish local production plants/training facilities in furtherance of local content policy to be designed by Government.
Regulatory framework - Background

- Present regulatory regime on the mobile sub-sector not aligned with the realities of a competitive market environment

- Need for regulatory regime to achieve acceptable balance between consumer protection and market development to support operators at this early stage of development.

- Need for formal rule-making procedures/processes in making subsidiary regulations or shaping policies/decisions which engender regulatory certainty and directly impact operators’ interests or market development
Regulatory framework - Background

- Present regulatory regime on the mobile sub-sector not aligned with the realities of a competitive market environment

- Need for regulatory regime to achieve acceptable balance between consumer protection and market development to support operators at this early stage of development.

- Need for formal rule-making procedures/processes in making subsidiary regulations or shaping policies/decisions which engender regulatory certainty and directly impact operators’ interests or market development
Regulatory framework - COUNTRY EXPERIENCES

- **Finland** – The mobile sector has witnessed dramatic explosion with 1,632% penetration rate between 1990-2003 (13yrs). The penetration rate of 5.2 mobile phone subscribers/100 inhabitants improved impressively to 70.2 in 1990 and 90.06 in 2003. This was due to light-handed regulation, competitive market environment and attendant business successes.

- **Uganda** – The Ugandan Telecom Regulator conducted a market study which established that despite steady contribution of telecom to National GDP, affordability and low margins were a major negative effect to overall investment in telecom. This formed the basis for policy recommendation that high taxes constitute a major contributor to slowing telecom growth.

- **United States, United Kingdom & Botswana**: Rule-making processes for regulatory decisions are standard in regulatory environments. In the UK, OFCOM issues consultative documents as a transparent process for engaging with stakeholders. In Botswana, the Regulators’ interconnect dispute resolution in 2003 was accepted by Industry due to the thorough process followed which ensured fair hearing of the parties and a well-reasoned Regulatory decision taken in due consideration of all the submissions of the parties prior to a decision.
Regulatory framework — VISION 20: 2020 TARGETS

- Redefinition of role of Government to that of a facilitator or catalyst to provide enabling environment for a vibrant and globally effective private sector

- To ensure effective policy and regulation with active stakeholder engagement, providing necessary facilitation and intervention to improve firm-level efficiency and reduce the cost of doing business

- Market-driven private sector-led growth does not imply absence of regulation – Regulation will be aimed at enhancing competition, breaking monopolies and improving effective functioning of the market
As part of public sector reform efforts to improve efficiency/service delivery and entrench transparency, the following shall be effected in all Ministries and Government Agencies which have regulatory oversight in the economy:

- Quality of service charters to be delivered by Ministries and Government Agencies to be monitored and a service delivery charter will be developed to include checklists, processing deadlines and other benchmarks for delivery of public services.
- A definitive complaints procedure on poor service can be lodged with the National Planning Commission as government ombudsman.
- An unequivocal consensus building framework in policy and decision making processes engaging the full participation of private sector stakeholders.
- Passage of Fiscal Responsibility Act in 2004 which will require publication of annual audited accounts by all Government Agencies within six months of the end of their financial year.
- Passage of Right to Information Act in 2004 to foster openness in obtaining information from Government/Government Agencies.
### Regulatory framework – Action Plan

#### Role of Government

- NCC should urgently develop Regulations on Consultation and rule-making procedures/processes as framework for engagement with the Industry - to inspire stakeholder confidence and in furtherance to Government’s policy on transparency and accountability.

- NCC to review license conditions and processes imposing onerous obligations to reflect the competitive state of the market.

- Government to establish an Anti-Competition Commission to implement proper competition framework for the Nigerian economy.

#### Role of Operators

- Operators should be more forthcoming in terms of periodic submission of relevant data and statistics to assist the NCC to monitor developments and trends in the industry.

- Operators to ensure strict compliance with license obligations and obedience to lawful directives of the NCC.

- Active participation in consensus building sessions organised by Government & Regulatory bodies.

- Due compliance with rules and regulations.
Regulatory framework – Action Plan

### Role of Government

- NCC to conduct a bi-annual market study with active participation of the industry to provide basic information to provide basis for proper policy formulation/regulation for the industry.
- Cultivate stakeholder-friendly outlook & initiatives.
- Publication of regular bulletins and information on regulations, benchmarks and industry consultations.
- Full withdrawal from the market place.

### Role of Operators

- Delivery of qualitative and competitively priced services & products.

VISION 20: 2020 – Framework for Action
CONCLUSION

- The above challenges need to be addressed as a matter of URGENCY to ensure that telecommunications-specific targets under VISION 20: 2020 are achieved.

- **Telecom** Operators are committed towards developing effective public-private partnership especially towards designing and implementing the economic reform programme and give effect to the specific goals under VISION 20: 2020.

- **Telecom** Operators remain committed towards increasing investment and accelerating network development thereby positively impacting National economic development.