Commonwealth Finance & Investment Forum for ICT 2012

Commonwealth Finance and Investment Forum for ICTs
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Organisers

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Final Event Report: Commonwealth Finance & Investment Forum

2012

"Critical opportunities for investment, where and how can you achieve a ROI?"

EXECUTIVE SUMMARY

The Commonwealth Finance and Investment Forum 2012 organised by The Commonwealth Telecommunications Organisation, was devoted to the theme "Critical Opportunities for Investment, where and how can you achieve an ROI?" During the two days, presenters and discussants exchanged views on the micro and macro financial dimensions of the theme, from the emerging microfinance initiatives to the complexities of constructing large telecommunications infrastructure financing deals. eWorldwide Group and BroadGroup were knowledge partners in the workshop and conference, respectively.

The presentations and discussions on the first day were focussed on microfinance and universal access funds. There were several case studies of micro finance initiatives (MFIs) that are doing extremely well in helping to redress egregious poverty levels, but more importantly, also helping in the process of empowering women. It was revealed that many of the MFIs are pursuing a strategy of devoting the larger portion of their time and resources to building capacity and training of their clients in basic business management so that they are in a position to make the best possible use of the loans that they receive. Additionally, some are also lending exclusively to groups of women in an innovative attempt to leverage social capital to assure high levels of repayment, but also to create a system of support and camaraderie among the clients and communities.

Presenters and discussants on universal access funds painted a dismal picture of the current operation of universal access funds globally, with few exceptions. More than half of UAFs globally are underperforming, and this is attributable to poor governance and political influence. A particularly strong view came out that perhaps the model of funding UAFs should also be reconsidered since the benefits of a digitally-connected society benefits all sectors in an economy and for that reason, constitute a public good, to which everyone in the society should contribute.

The second day of the conference was devoted to the 'big' finance issues. In terms of funding major telecommunications infrastructure projects, two dominant themes emerged: the first is that development agencies such as DFID are redoubling their efforts and commitment to help facilitate major investments to build out telecommunications infrastructure in developing countries and also to facilitate investments in other complementary infrastructure such as electricity. The other main point is that public-private partnerships continue to be crucial instruments to accomplish very expensive communications investments in developing countries.

In conclusion, and perhaps not unexpectedly, strong and robust legal and regulatory systems remain crucial for attracting major investments in the communications sector of developing countries. If investors feel that private property rights are respected and that their investments can be taken over and appropriated, then they will not invest. It is on account of the import of this

crucial condition that DFID has established a fund to help developing countries strengthen their regulatory and legislative environment.

SECTION I: OVERVIEW AND RECAP OF PRESENTATIONS

Day One: Microfinance and Universal Access Funds

Keynote Address

Peter Ryan, CEO and founder of the Microloan Foundation, UK, delivered the keynote address on the topic 'Serving Rural Communities'. He made two substantive points in his brief presentation: the first is that micro-finance initiatives (MFIs) must now develop strategic models and innovative organisational forms so that they may offer their services to people in spaces beyond urban boundaries. In other words, MFIs should trek into the rural hinterlands; for it's there that such services are most needed. Ryan's point comes against the background of the status quo in which microfinance businesses are disproportionally represented in urban town centres.

Ryan's second point addressed the mission, vision and objective of microfinance businesses. He notes that all MFIs should be aware of the core drivers of their business; in particular, that they are 50% business and 50% social. That peculiar combination arises since over the years, poor people have not been able to have their financial needs addressed within the formal banking and financial sector. This creates an important opportunity for microfinance institutions to enter and breach the chasm separating poor rural people from formal financial services and institutions.

Panel - The Case for Microfinance: Pros and Cons

This interactive panel was moderated by Dr. Salma Abbasi, Chairperson & Chief Executive Officer of the eWorldwide Group. The goal of the panel was to facilitate a debate on the critical elements that impact on the success or failure of MFIs. Five panellists were present:

- Ms. Anne-France Kennedy, Director, Foundation for International Community Assistance
- Dr. Janet Momsen, Professor Emerita of Geography, University of California, Davis, USA
- Mr. Peter Ryan, Chief Executive Officer and Founder, Microloan Foundation, UK
- Mr. Tom Sanderson, Managing Director, Five Talents, UK
- Mr. David Vincent, Director, Cochabamba Project Ltd, UK

This panel provided some useful insights about the inner mechanics of microfinance institutions. In particular, panellists were vocal and strident in their examination of the role of microfinance institutions in achieving the MDGs, empowering women and averting or minimizing negative

outcomes that may stem from MFIs - for example 'Grameen suicides' that happened because clients could no longer afford to service their loans.

An important distinction was made between consumption and investment-oriented loans. A group structure and approach goes a long way in assuring the sustainability of the business and places some degree of normative pressure on members to honor repayment obligations. Ryan reminded the workshop that 2012 was 'The United Nations Year of the Cooperatives.' The cooperative model seems to work as the repayment rate hovers at about 98%. The big question going forward, Ryan believes, is a matter of how to make those social enterprises sustainable or profitable.

Dr. Janet Momsen suggests that the Grameen Model be revisited in view of some negative outcomes that are now emerging. One issue in particular is Grameen's employment practices as it relates to women. She proposes alternative models to the Grameen, in particular the Rotating Savings and Credit Association (ROSCA) approach. She presented the case of one Colombian ROSCA that is doing particularly well. This ROSCA consists of over 200 women entrepreneurs who have organised themselves into a community bank in one of the most impoverished areas of Colombia. The main aim of the association is women empowerment, camaraderie and training. A major prerequisite for joining the association is mandatory training in good business practice.

Anne-France Kennedy indicated that FINCA operates in 21 countries and has been in existence for 27 years. A defining feature of the FINCA model is the faith the organisation reposes in the claim that 'the poor are very intelligent and reliable people' with whom significant business can be done. There is an important distinction to be made between mission-driven microfinance and profit-making microfinance. In the former, the notion of financial education is very important. FINCA also lends to groups of individuals as a way of handling and mitigating risks.

Challenges Facing Universal Service Funds

Michael Hardt, from PricewaterhouseCoopers, was the chairperson for this session and he opened the discussion with a series of important thoughts and questions.

Among the insights he shared are that the total corpus of universal service fund amounts to USD 6 billion, about 75% of which is unspent. An additional 380 million subscribers could be provided with telecommunication services with the unspent USFs.

He cited examples from India, Brazil and Colombia. This withdrawal of billions from an enabling sector without actually re-investing the sums is quite wasteful. So what are the impediments?

- Lack of expertise in attracting people with telecoms background;

- Sub-optimal projects
- Lack of control
- Outdated constraints prescribing certain technologies

Universal service funds represent an opportunity to generate gains for society. So what is needed to make this happen? Education - PWC is administering a fund of £300 million for DFID to fund education of girls in 22 African and Asian countries. Country teams monitor the implementation and control is critical.

Keynote Address –Lynne Dorward: Challenges facing Universal service funds

Lynne Dorward, Head of International Relations, Telecommunications Management Group, begins by noting that USFs have three main goals: enabling availability, affordability and accessibility of telecommunications services. An important question therefore is whether governments are actually achieving these goals?

What is the current environment?

First there is significant inertia, inactivity and non-use. The reason for this is because of significant administrative and operational issues; only a limited number of these funds (1/3) actually have articulated targets. There are some funds that have started off properly but have fizzled out. Regulatory and policy environments sometimes constrain the USFs from achieving their main objective. There are significant challenges in using the USF for broadband particularly in Africa; USFs still favour fixed-line solutions.

What are the specific challenges facing USFs?:

- The underlying frameworks and regulations do not work. For example, in Brazil, 4 billion USD have been earmarked specifically for fixed line applications.
- Inadequate or misguided strategy for example in Czech Republic and India;
- There are unfavourable local conditions for instance in Afghanistan and Pakistan;
- Absence of primary infrastructure for deployment, for example in Afghanistan and Colombia;
- Inadequate skills level, for example in Indonesia (topographical challenges, illiteracy and ignorance). In South Africa there is failure to take into consideration skills training;
- Complex and inefficient decision-making for example in Nigeria, where the National Assembly needs to give its approval and in Peru where there are several approval processes;

- There are structural flaws in terms of the relationships with other bodies that are needed to administer the fund. For example in Indonesia there is ambiguity about how powers are to be interpreted. And Nepal Ministry and regulator at odds;
- Another major issue is that USFs sometimes lack sufficient power, for instance in Argentina;
- Money from operators not forthcoming for example in Mozambique (lack of competition) and Tanzania (failed tenders; technical problems);
- General managerial and operational and capture issues, this happens for instance in Pakistan and France.

Dorward concludes that 50% of USFs do not engage in public reporting of financial data and notes further that it is very difficult to get data about actual monies in the funds or sums spent. The reluctance to divulge information raises important questions about whether these funds have been depleted.

Dr Mani Manimohan, public policy director at GSMA, then addressed the conference on the topic 'Universal Service Funds Levy: Time for a rethink'. He notes that mobile telecoms are becoming increasingly important to billions of people globally; this industry also has tremendous economic value. There is an important need to stimulate demand side of telecoms. He questions whether universal funds are fit for that purpose or whether it is time to rethink?

Dr Manimohan went on to further explain some emerging alternative funding models: first, he notes that there is an economic argument that general taxation could be used to fund USF since mobile inclusion is a social good; spectrum could also be used; PPP/NGOs could be used to fund underdeveloped areas for example in Finland.

Other out-of-the-box ideas:

- Broaden the funding base and the number of operators included in the model;
- Governments have a role to play in reducing the level of taxation on the industry- Ugandan USF is a good example of fund allocation;
- Governments help to improve support in infrastructure;
- Government must also help to stimulate the uptake in communications services.

Is it time to rethink this method of funding USF?

Panel Debate – Universal Service Funds Best Practice

This panel was chaired by Dr Michael Hardt and consisted of the following persons:

- Ms. Rachel Alwala

- Lt.Col. Rakibul Hassan
- Mr. Peter Mbengie

The Chair of the panel asked a series of questions to direct the minds of the panellists and the audience. To get the discussion started, he asked three questions initially:

1. How do you prioritize the projects to fund from USFs that your country needs?
2. What are your thoughts on the scale of the project to be funded?
3. How can projects implemented under USFs remain sustainable?

Peter Mbengie started off by noting that there are 13 members that sit on the USF Board and it is the Board that recommends projects to the minister, who in turn then makes a recommendation to the president. This is the context in Cameroon. He further indicated that both questions (2) and (3) that the Chair asked are interconnected and which the government is addressing by developing an optical ring.

Rakibul Hassan notes that Bangladesh has not yet started its USF. However, backhaul is poorly developed in Bangladesh hence those projects are prioritised; as it relates to questions (2) and (3) the country is in dialogue with PPP to ensure sustainability of USF- funded projects.

Rachel Alwala then offered a general recap of how telecoms investments have been pursued in Kenya, since the Kenyan USF has not yet been implemented.

A general discussion ensued in which it was noted that it is important to define access gaps as a critical first step in considering USF-funded projects, to ensure their ultimate success, reach and sustainability. As scale matters, it is important to consider a manageable portfolio of projects; projects don't need to be sustainable as long as there are commitments to replenishing them. Over time, they would be sustainable.

The Chair then asked the final two questions:

4. In the context of USF, what is the biggest hurdle faced in funding projects?
5. What about the biggest success story?

Rachel Alwala indicated that the backbone project in Kenya is a major hurdle. The operators contend that the quality is not up to par as designed by the Chinese contractors; less than 20% are actually using the back bone. Among the successes, she pointed to growing strength in institutional strengthening; setting up ICT Board and funding of software developer communities to contribute development applications.

Peter Mbengie also indicated that the backbone network was a major issue in Cameroon. Cameroon doesn't have a good network structure; therefore they are trying to connect upwards of 15 government ministries onto this network. Both access gaps and the improperly designed project are lingering nightmares for the Cameroonians.

Hassan notes backhaul and last mile projects. Government is attempting to hand over fibre to private partners at a nominal price which could lead to greater efficiencies.

Hugh Cross (presented by Bashir Patel)

Jamaica's USF began operation in June 2005 and its mandate is to ensure universal internet access and services, specifically island-wide broadband. The core projects being undertaken by the Fund include community multimedia access points; broadband network; post offices; libraries and schools e-learning programme.:

Several very important points were raised during the presentation of the case studies. The first is that governance of Universal Access Funds is critical to their success, especially since political influence is always looming in the background irrespective of the model of governance.

There are also needs to be some method for determining or measuring the impact globally of UAF, perhaps a global index of USF impact. There must be clear objectives and continued monitoring and evaluation frameworks. USF cannot be designed by principally technical solutions or approaches only. Perhaps there is also need for a conceptual move to "best practices" versus "appropriate practices". This gives the feeling of localization. Three big issues across all USFs:

- Legislative and regulatory framework;
- Operationalizing and identifying gaps and selecting bidders;
- Monitoring and evaluation of those projects.

At the conclusion of the workshop, there was consensus among participants that it would be useful to produce a document or toolkit of global best practices for USFs in terms of approaches to the management and governance of USFs globally.

DAY TWO

Professor Unwin opened Day Two of the conference. He made four main points. The first is that there is no mutual exclusivity between the aims for continued wealth creation in developed and developing countries and the achievement of serious development in developing countries. That is,

the two are not mutually exclusive. The second main point is that market will take care of the majority; however that dictum doesn't give us much insight about how large the majority will be. The third point, which is a corollary of the previous, is that there is the requirement of new alternative models of funding ICTs development, and an indicative path forward is the multi-stakeholder partnerships. He concluded his presentation by noting that mutual understanding is necessary for the entire system to function effectively - regulators, players and international partners. The CTO is committed to achieving all these objectives.

Minister Ahoueke, Minister of ICT in Benin then gave a brief overview of the approach to ICT development in Benin. He indicated that the goal of Benin is to make Benin the natural hub of West Africa for ICT-related services, that is, to make Benin the digital district of Africa. Owing to the geographical location of Benin, no less than 4 African countries conduct business in the country (Nigeria, Burkina Faso, Togo, and Mali). The Minister notes that there are significant business opportunities in Benin, and public-private partnerships is the leading model of cooperation in Benin. That is in major projects the government accounts for 45% of the investments and private players accountable for 55%.

The plenary address came from Gavin McGillivray on the topic 'Financial models for creating the information ecosystem'. McGillivray indicated that the 2002 UK Development Act established DFID, which mandates DFID to focus exclusively on reducing poverty in poorer countries of the world; he noted that private enterprise development is an integral dimension of that overall goal. He notes that DFID defines private enterprise in very broad terms ranging from mega multinationals, banks to small land owning farmers; DFID works with private enterprises to accomplish two main goals in developing countries: (i) more investments in sectors of highest relevance and significance; (ii) improve basic services.

DFID is primarily aimed at making markets work for the poor and poor countries. Private enterprises and their services impinge on the welfare of the poor. But the question is a matter of how do we reach the poor? It is here that ICTs play an extremely important role. The new Secretary of Economy for DFID is keen on leveraging technology for development. DFID has been building key capabilities in staff on use of technology and potential of these technologies in redressing development challenges. There are five main areas in which DFID is focussing on using technologies to make in-roads in reducing poverty and enabling sustainable development:

1. Access to financial services;
2. Farming;
3. Tracking diseases and medicine;
4. Education;
5. Political participation.

McGillivray gave some examples of technology-based projects that DFID supported that are now helping to redress some key development challenges. *I*-cow is one example. This is where SMS messages are sent to farmers with key information about best practice related to cow farming and a specialized diary of each cow that each farmer owns. *M*-Track is another application used in the health sector to track medicine levels and generate reports on low stocks.

McGillivray then asked, "what is holding back private sector innovation in ICT infrastructure?" DFID research in 2001 found that the binding constraint was that there was no long term debt/finance especially in Sub Saharan African (SSA). Against this background, DFID in association with other private infrastructure development groups established the Emerging African infrastructure Programme (EAIP) initially seeded with £100m from DFID and the other partners providing an additional sum of approximately £200m. The goal of these infrastructure projects is really to make markets work for all in those emerging African states. DFID believes that if it can lead in making finance available, then the private sector/lenders will follow. As evidence of this, there is another program in which DFID has played a leading role, and which embodies a PPP approach: Public Private Infrastructure Programme (PPIAF) is a fund that helps to finance the update of laws and regulation in developing countries. The PPIAF began on the basic premise that legacy regulatory environments are also binding constraints on investments; it is not just the overestimation of risks by private investors. DFID established in 2003 the Challenge Fund, which gave birth to M-Pesa in Kenya. It is the regulatory framework that is holding back the spread of mobile money in many developing countries; as regulators evolve they should address real risks but not squash innovation.

DFID itself is advancing with the use of technology in advancing its own transparency; DFID's analysis of why ICTs don't penetrate in developing countries: (i) regulations and policies and (ii) costs, which is a very real constraint. How do we make ICTs available to all especially in developing countries at affordable prices, is a fundamental question going forward.

Financial Advisor's Panel: Prioritising the Investment Requirements

This panel was devoted to understanding the issues fund-seekers need to keep in mind when prospecting for funding of their projects. The panel kicked off with panellists introducing themselves and the remit of their companies: Torsten Thiele, Roland Janessens, Zarif Imam, Jacek Krauze, James Dodd and Radhika Dil.

There were some general ideas coming through from the panellists, including the following main ones:

- Role of political risks and their negative effects on attracting financing in developing countries
- Also the importance and absolute importance of providing the business case for using a specific technology;
- So-called 'dot com' crash still has a lingering effect on global ICT pace of development;
- End-user device costs tumbling is cause for optimism for future and continued development of the global ICTs
- Spectrum is a source of wealth for emerging markets
- Emerging market debts are becoming far more attractive than developed country debt
- Projects that make life better are attractive for financiers such as DFID
- Projects with stable long term, predictable, cash flow easier to attract funding.

Following the opening remarks, there was a question about using bilateral treaties as a mechanism for reducing political risks. Some companies use this mechanism to insure against losses, but are usually used on very large long-term ICTs investments. Analysis is critical in this issue, not only quantitative but also qualitative assessment of political and market risks.

Investor Presentations

The first to present was Dr.Girish Pathak from Trinidad and Tobago. He presented on a project about Caribbean IXP, which is a Tier III data center. He is seeking equity funding to build and subsequently operate a carrier-neutral Tier III Data Center in Trinidad. It will be carrier neutral/works with TATT to facilitate all carriers. The project has the potential to create upwards of 2000 high paying jobs. There is no other such facility in the Caribbean, may tap into a USD 400 million market; requires US $44 million in capital.

Comments from Panellists

Data centres have become very attractive for investments and those companies have attracted high valuation. The equity portion of the investment is likely to come from nearer to Trinidad and Tobago, such as an 'anchor tenant'. A panellist questioned whether the project is scalable to the cloud, and it was revealed that it is the precise intention of the project.

Miss Gilleta Mouyabi

From Benin, she indicated that the country is seeking funding for three main projects:

1) CMC -- which seeks to integrate Government offices electronically
    a. National broadband infrastructure (USD 200 million already provided by Chinese Development Bank)
2) Cyber City -- implementation of national and strategic policy on telecommunications and ICTs. To drive knowledge-driven society with specific emphasis on Western African nations; a free zone
    a. Data center for Enterprises (3500 USD)

Panellists Reaction:

- Adequate regulatory environment ;
- EU approach or framework to rural development could be useful to the Government of Benin;
- Export credit agencies maybe suitable candidates to approach for potential financing an
- Appoint an investment bank to manage the process given the number and range of projects, since each may require different information memoranda etc;

Mr Armand Lichambamy

Presented a project on the Cybercity of Mandji Island. This project aims to transform Gabon into a truly connected and knowledge based economy by building a high-tech connected city. The project requires €6.5 billion investment. [A video was presented that states the vision of the project and architectural models of what the city will look like].

Panellists Reaction:

- Projects of this nature have been done in Qatar, Mauritius etc;
- May need to get pre-agreed rental agreements ;

Mr. George Mulumula

DTBI is an incubator for high-tech start-ups in Tanzania. It currently has 9 companies; wants to scale up operations and currently operating on less than £120,000 per year. The presenter gave some examples of companies that are presently operating under the company. One such company is developing mobile parliament platform (Mgila Firm); another provides real time back-up (Aim Firm). The incubator is therefore seeking £1,400,000.

Panellists Reaction:

DFID would be interested in a project such as this, but needs to draw-out more the development aspects of the project. One commentator from the floor asked about where the value of the incubator exists. To this question Mr Mulamula indicated that there are two sources (i) technical know-how and (ii) partial ownership of the intellectual property rights (IPR). There are also different forms of IPR; they could be patent, trademarks etc. These in themselves could become sources of financing.

Mr Latfullah Khan

Mr Khan indicated that his company focuses exclusively on banking and provides end-to-end intelligent banking system. Requires USD 3.4 million in financing.

Panellists Reaction

Based on the revenues that the company is currently generating, it should look to list on the Junior Stock Exchange. Additionally, the panellists believe that Mr Khan should keep an open mind about the valuation of the company in particular the percentage to be offered to investors. Receivables can be used to raise short term capital.

Mr Andrew Marsh

He presented on the HOIP Telecom project, which is geared towards establishing or facilitating a doctor-patient communication channel. The project provides an economical wealth hub in the home. The project involves the following range of products:

- SOS tag
- Multi IMSI sim
- One to one doctor call on service
- SMS based medical services

The company is seeking £4 million over 4 years.

Panellists Reaction

Soft-venture capitalist situation, people in Oxford maybe interested; broker negotiations with those people to negotiate and iron out concerns especially over the emerging market aspects of the project.

Ms Jerusha Kimani

Ms Kimani presented on the IDC-G Group's project to build data centres in Kenya. They want to establish a vendor-neutral data center.

Panellists Comments

The panellists note that the aspirations are great to have high functioning ICT sectors, but there will be a natural sorting order of who can offer what in the African region. Additionally, each country in Africa can in fact have its own data centre and the positive aspiration of each nation should be encouraged. It is essential part of each nation's infrastructure so it may not be a good strategy to leave it to their neighbour to take care of it.

VENDOR FINANCING AND PPP MODELS

Dr. Salma Abbasi presented first on this panel. She spoke about innovative multi-sector, multi-stakeholder partnerships for scalability and sustainability. These approaches reveal that there are several global challenges to financing telecommunications infrastructure, such as: financial, human resources, knowledge, infrastructure, risks, vision, skills and access (mainly physical).

Dr. Abbasi gave a useful case study in Pakistan about a telemedicine project which was accomplished notwithstanding a plethora of challenges precisely because a multi-stakeholder

model of development was used. This model included disparate actors who would not normally have collaborated naturally on a single project. For instance a fertilizer company, a phone company and the government's IT centre.

Ms Mazaud presented next via a Skype call.

Dr Cosmas Zavazava on the topic of *Accelerating Infrastructure and Revenue Growth*notes there is significant lack of capacity in LDCs. In particular: skills development, economic vulnerability, absorptive capacity and GDP per capita. The next financial opportunity lies in ICTs, but all have one thing in common "the mobile". Specifically mobile broadband. MDG goal 8 is of particular importance and significance especially in relation to ICTs.

Next to present was Nicholas Topham. He suggests the telecoms operators' business model is under attack. He noted that shared infrastructure development might actually be unsustainable (e.g. Orange and Vodafone in Spain). Innovation is critical to survival- network operators not really innovating.

Public private partnerships are a sustainable method for increasing/accelerating growth in mobile infrastructure. Finally John Tysoe, noted that growth in the developing world gives great insights into the movement and direction of the market; better public provision of private firm data is critical to better forecasting.

Policy/Regulatory Frameworks and Legal risks and Barriers

This session involved Armand Lichambany, Stephanie Liston,), Mike Conradi, and Timothy Cowan. There were some general ideas which emerged from this session, including:

- Getting operators onto private land is fundamentally problematic. That is, the law can be a major inhibiting factor on investments ;
- Regulators have certain limitations to their powers to mandate access (private) if such decisions would contravene the constitutional rights of citizens;
- Ex-post regulation should become more fashionable in telecommunications regulation;
- Research at BT found that there is strong correlation between regulatory predictability and investment levels;
- Ability to take action under a bilateral investment treaty is critical to attract international investments. These treaties provide investors with assurance of redress and protection from expropriation.