

Private Investment in Telecommunications: The Cases of Iraq and Afghanistan

December 19, 2008

Kelly Cameron
Cameron Telecom Law

kcameron@camerontelecomlaw.com

+1 (301) 768-7263

Demand for Telecom Services is High Post-Conflict

- ◆ Extremely Low Levels of Teledensity
 - Iraq: about 800,000 phone lines
 - Afghanistan: 25,000 phone lines – none connected to the outside world
 - History of state-ownership
- ◆ Poor Transport Infrastructure
- ◆ History of Political Repression
- ◆ Society and Commerce Suffered

Importance of Telecom to Economy

- ◆ Telecom Is an Important Input to Any Modern Economy
- ◆ In Afghanistan Telecom Is the Largest (Legal) Private Employer
- ◆ The Largest Investor and Taxpayer
- ◆ The Telecom Sector Can Provide a Model Legal Environment

Importance of Telecom to Society

- ◆ National Identity Is Weak
 - Afghans and Iraqis identify more strongly with tribes or ethnic groups
 - Media are especially crucial to fostering national identity but telecom important too
- ◆ Ability To Communicate Greatly Facilitates Personal Life As Well As Commerce, Boosts Productivity
- ◆ Modernizes Society

What Has USAID Done?

◆ Iraq

- Funded Regulatory Assistance Through Coalition Provisional Authority and Embassy Baghdad
 - ◆ Established Communications and Media Commission
 - ◆ Drafted law and regulations
 - ◆ Assisted in setting up regulator

What Has USAID Done?

◆ Iraq

- In addition, Congress appropriated hundreds of millions of dollars for reconstruction of Iraqi telecom infrastructure (mainly ITPC) in the aftermath of the invasion of Iraq
 - ◆ Other development sources promised as much as \$1.5 billion more.

What Has USAID Done?

◆ Afghanistan

- Funded regulatory assistance through contract with BearingPoint
- Proposal to fund fiber optic ring with USG funds not adopted
 - ◆ GOA has funded partial construction of fiber ring with other donor money
 - ◆ Ownership of fiber ring likely to be with Afghan Telecom, the state-owned fixed line operator
 - This raises several concerns

What Has USAID Done?

◆ Afghanistan

- Most Important – Encouraged Private Investment in Telecom Sector

◆ Results:

- MoC claims 7.9 million GSM subscribers (4.5 million probably more accurate)
- MoC claims 45,000 landlines
 - ◆ This despite having invested in various build-out projects around the country
- Lesson – private investment vastly more efficient in expanding telecom infrastructure

Regulatory Elements that Promote Private Investment

- ◆ Transparency
- ◆ Predictability
 - Clear rules, consistent application
- ◆ Trustworthy Institutions
 - Especially for dispute resolution
- ◆ Economic Factors
 - Ability to repatriate profits
 - No expropriation

Observations on Conditions on the Ground

- ◆ Iraq and Afghanistan don't measure up
 - Lack capacity in regulator
 - No stable legal system
 - Public corruption
- ◆ But still the money flows – why?
 - Higher risk premium
 - High revenues
 - Limited services and slower build out

Summary

- ◆ Telecom Is a Key Sector in Post-Conflict Economies
- ◆ Private Investment Indispensable
- ◆ The Investment Has Flowed, So Far
 - - Effects of global financial crisis yet to be seen
- ◆ But . . .

Summary

- ◆ Transparent regulation promotes private investment and increases benefits to society
- ◆ Direct Investment in Infrastructure Not as Successful To Date (Financial Crisis May Necessitate Investment)
- ◆ Transparent Regulation Can Promote Broader Rule of Law Objectives
 - This promotes further development

Summary

- ◆ Problems of Regulators
 - Lack of capacity
 - Tenuous governmental control of national territory
 - Resistance to change
 - Corruption

Questions?

◆ Thank You!

Kelly Cameron
Cameron Telecom Law

kcameron@camerontelecomlaw.com

+1 (301) 768-7263