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Nigeria's telecommunications industry: Looking back, Looking forward

All applicable regulators must make conscious effort to evolve and adapt to the game-changing sequences in this sector to avoid unintended regulatory failure or upsets

Prior to 2001 when the Nigeria's telecommunication sector was deregulated, Nigeria had about 700,000 lines, which could not meet the growing demand for telecommunications services by Nigerians. Access to information technology was also limited as a result of failed operations by the Nigerian Telecommunications Limited (NITEL). The liberalization of the sector ushered in the first Global System for Mobile Communication (GSM) operator and the award of the first Digital Mobile License (DML) in 2001.

Since then, the sector has witnessed an unprecedented surge in investments (with over $18 billion in investments from 2001 till date) and growth. The entry of new operators has also deepened the competition in the sector with the teeming subscriber base being better for it. Initiatives like number portability have also enriched consumer experience by limiting hassles to accessing better services on a preferred network.

With less than twelve months to the expiration of the DML issued by the Federal Government to first generation of GSM operators, there has been some focus on what has become of the mobile telecommunications industry and what the future holds for operators in the industry. Have there been gains or losses? Would providing the traditional services be sustainable in the future?

Based on information from the Nigeria Communications Commission (NCC), there are over 140million active subscribers riding on the GSM technology in Nigeria, each of which subscribes for voice or data services and contribute to the over N1.9 trillion revenues jointly reported by the GSM operators in this industry. This is not a coincidence.

An examination of the recently rebased Gross Domestic Product (GDP) figures showed that the telecommunications industry accounted for 8.69% (N6.97 trillion) of the total GDP. The bulk of this

revenue is alleged to emanate mainly from voice services – a service line which has slowed down (per user) in the last decade. This means that to remain relevant it would appear that operators in this sector must focus on providing other services apart from voice. This state of affairs naturally forces the question: what are the potentials in this sector?

Driving the huge potentials for operators in the sector are the current trends in information technology (IT) usage – the explosion of the Internet, the internet of Things (IoTs) and the consequent impact of growing device drivers (e.g. smart phones, watches etc.).

There is now a growing trend for "things" to communicate and interact seamlessly with each other without human interference (e.g. devices are able to deliver hot or cold water as soon as the morning alarm sounds). There is also a lot of communication happening vide the internet and outside the purview of the telecommunication operators (e.g. voice and video calls originating and terminating on technologies like Skype are on the increase).

Simply, there is now a steady shift from communication via the traditional platform of the telecommunication operators to communication via the internet and only operators who are equipped to play in this space would survive.

There is going to be increased competition for the customers' wallets. Customers are continually going to demand for new products and services whilst operators would need to continually innovate and update their business offerings in order to stay relevant and survive.

It is therefore no surprise that some of the operators have delved into retailing (vide sale of content), financial services (vide borrowing of airtime) etc. and divested ownership of network infrastructure in order to focus on the "core" business. Regulatory and tax authorities would need to be mindful of these changes. As operators opt for new business models, regulatory and tax authorities need to monitor and follow the dynamics of these changes. There is a need to understand the dynamics of the market place and adjust regulations, policies and practices as applicable. The following change requirements immediately become visible:

i. In the light of potential changes in the industry, how does the NCC expect the future to play out? What impact would their assessment have on license renewal fees? How much would be charged – more or less than the $285 million paid in 2001?

ii. Would operators qualify for tax incentives after renewal/purchase of new licenses (the 2.6 GHz spectrum is expected to be up for sale in 2015 and it appears operators are keen to buy this license in view of the broadband benefits)? This becomes a touching point in light of the uncertainty around breakeven revenues.

iii. With operators now selling and leasing back their network infrastructure, who enjoys tax allowances due on these assets (especially the one-off allowances like investment allowance)? What would be the tax issues from the sale of content (music, videos etc.)? Are there any peculiar tax issues to be faced by providing financial assistance?

iv. Where operators delve into businesses that are regulated by bodies outside the NCC, what would be the likely impact? Would they be required to get approvals? What fees are going to be applicable? Are operators prepared to expose their businesses to multiple regulators? Would the likely debate around multiple taxation continue?

All applicable regulators must make conscious effort to evolve and adapt to the game-changing sequences in this sector to avoid unintended regulatory failure or upsets. And to adapt Dick Armey, if we are to create tomorrow's jobs and ultimately increase government take from Nigeria's telecommunications sector, operators, regulators and advisors cannot remain frozen in yesterday's system or dynamics!

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