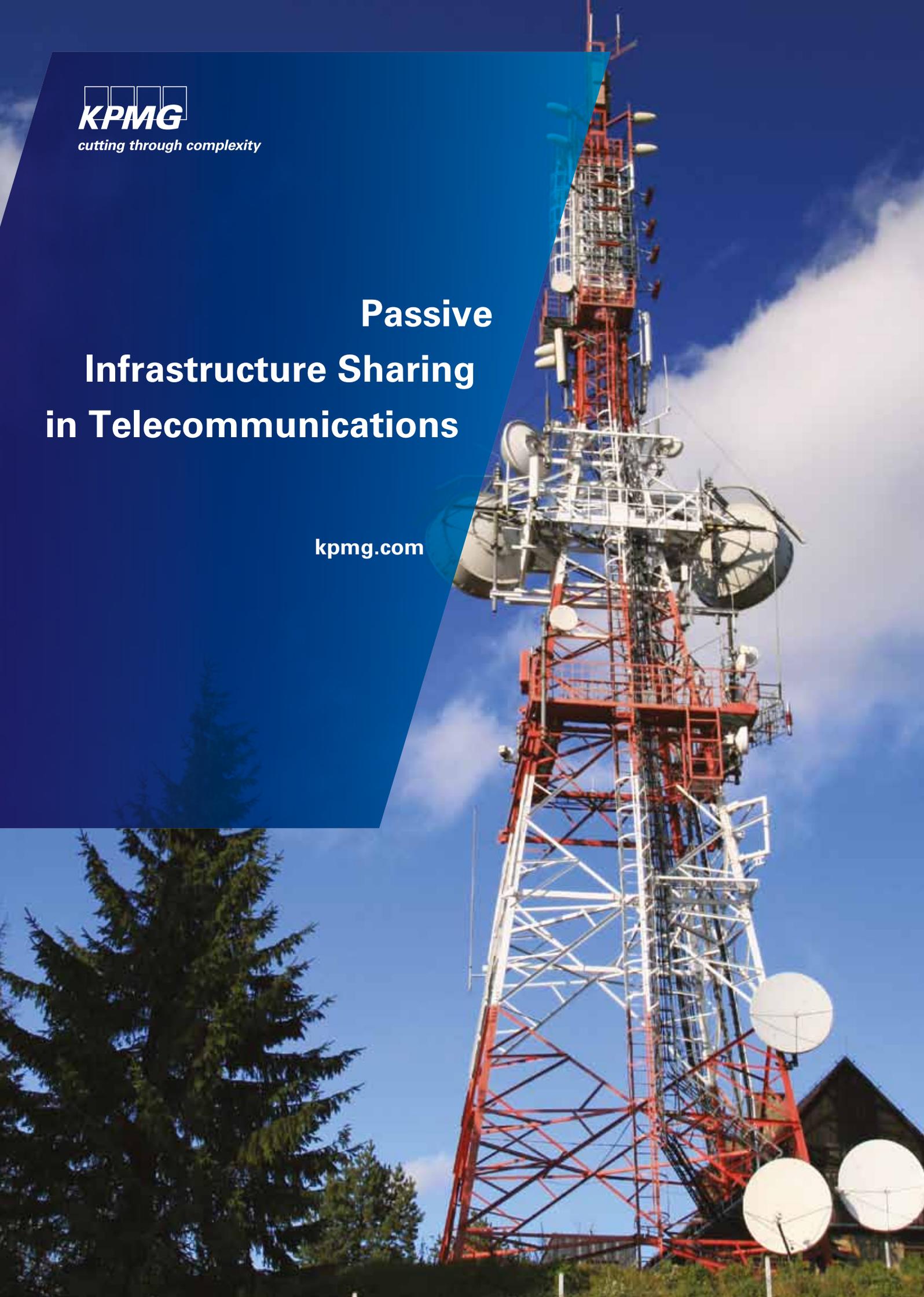




*cutting through complexity*

# Passive Infrastructure Sharing in Telecommunications

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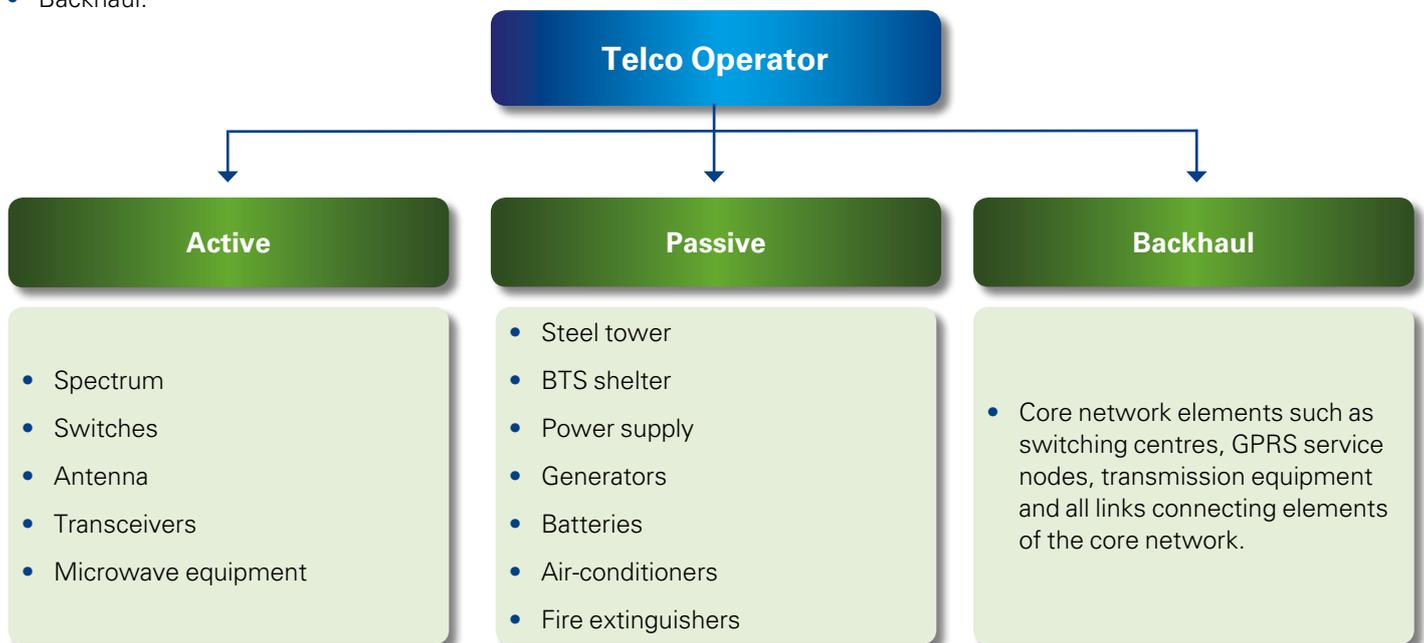
# Tower Company landscape changes in Africa and the Middle East

Telecom operators' aggressive pursuit of lean business models has led to an evolution, with many now turning to tower sharing as a viable option. Tower sharing has been a feature in the Americas and Europe over the past decade. Furthermore, with several multi-billion dollar deals in India, the tower sharing business model has asserted its value proposition in the delivery chain of telecommunications even in the emerging markets.

Increasing competition, along with investments in ever-changing technology, has been pushing telecom operators towards new ways of maintaining margins. Considering that building and operating infrastructure is a significant cost for operators, it is the ideal way to find quick wins. The estimated Capex savings resulting from tower sharing in the Middle East and Africa region amount to USD 8 billion<sup>1</sup>.

Telecoms infrastructure for operators primarily consists of:

- Active infrastructure (such as spectrum, switches, antennae)
- Passive infrastructure (such as towers, BTS shelters, power)
- Backhaul.



Currently the most commonly shared infrastructure among operators is passive infrastructure, as it is easier to contract its set-up and maintenance. Sharing passive infrastructure only, means that newer operators still need to set up their own transceivers and other transmission equipment. This limits the advantage for new operators, which means existing operators save in the long term, and still protect their interests in the short term.

<sup>1</sup>Tower sharing in the Middle East and Africa: Collaborating in competition – Delta Partners 2009

**Passive infrastructure sharing** (commonly referred to as tower sharing) has attracted significant interest from both operators and tower companies. Companies like Helios Africa, American Towers and Eaton Telecom are already working to gain first-mover advantage by pursuing tower acquisitions in the region. Over the next three to four years, the tower business is all set to grow into a fully-fledged industry in Africa and the Middle East.

In December 2010, it was announced that American Tower Corporation (ATC), the listed US-based owner, operator and developer of broadcast and wireless communications sites, would acquire a stake in 1 876 of MTN Ghana's transmission towers. The structure of the transaction will see ATC and MTN establishing a joint venture company in Ghana, TowerCo Ghana. ATC will own a 51% stake and MTN the remaining 49%. ATC will be responsible for managing the joint venture assets. MTN Ghana will be the anchor tenant on each of the joint venture towers.

The purchase consideration is estimated to be USD218.5 million for ATC's stake.

ATC announced in November 2010 that it has agreed to acquire 1 400 towers from Cell C (Pty) Ltd, the South African-based telecommunications company. Cell C provides, inter alia, mobile voice and internet services.

In October 2010, GSM operator Vodafone Ghana agreed to outsource the operation and management of its 750 cell towers to Eaton for 10 years. This is expected to reduce Vodafone Ghana's costs and improve and widen its coverage, while Eaton is investing USD80 million in the cell sites over the period of the contract. Eaton will also be able to lease spare capacity to other operators in Ghana, improving efficiency in that market.

The other major player eyeing a big piece of this market is Helios Towers. Nigeria-based Helios Towers has already signed deals with Millicom Ghana and Tigo DRC.

Recently, on signing the tower sharing deal, Phutuma Nhleko, former CEO of the MTN Group, said that infrastructure sharing makes absolute sense.

"We have in the recent past looked at various permutations to reduce our infrastructure roll out costs and the ongoing costs of operating our passive infrastructure in our key markets."

### **Role of the big telecom operators in the change of landscape**

Major pan-region operators such as Bharti Airtel, Millicom, MTN and Vodafone have already made their presence felt in the tower sharing arena. With the entry of Bharti Airtel, tariff wars look imminent and operators will need to look at rationalising their cost structures. Central to Bharti Airtel's cost cutting strategy would be outsourcing, with Bharti Infratel, the tower arm of the group, expected to make inroads in the African market.

Tower sharing initiatives in the region have seen limited activity to date. There have only been deals in a few countries by a few operators, since the region has not hosted big multi-country deals featuring any major player. All activities are focused on just a few markets. With increasing competition and growing regulatory pressure, it will be interesting to see if operators become more prone to striking large multi-country deals.

Other operators have been looking at tower sharing with a lot of interest. Just before the conclusion of the sale of its assets in Ghana to Helios, Millicom is understood to have been looking out for buyers in at least two other countries.



## Conditions that promote tower sharing

Market conditions that make tower sharing more likely are:

- **Mature networks:** Network maturity is a very important aspect that drives tower sharing. In countries where the war to gain a customer is still being fought on the grounds of better network coverage, operators will not be willing to share tower assets as it would mean giving away the advantage of a wider/better network
- **Growing market:** Growing markets mean an ever-increasing need to expand network for the operators. If operators have the ability to share towers, they will typically be able to roll networks out much faster
- **High cost regional/rural areas still being rolled out:** Operators tend to have a rollout obligation as part of their licenses. This could mean several unprofitable investments as certain sparsely populated rural areas might need every operator to set up a network. Tower sharing can be a good option for such rollouts as all operators can rely on a single set of infrastructure for their network
- **New entrants looking to build scale:** Because towers take time to build, new entrants can increase their speed of network rollout by sharing towers with existing operators
- **Pressure on costs:** In an increasingly competitive market, low cost is the key to profitability, and operators can save on Capex and Opex by sharing towers.

## Benefits

Low market penetration and decreasing profit margins for telecom operators in the emerging markets have made tower sharing an attractive proposition. National regulators in countries like Bahrain have gone a step further in supporting infrastructure sharing by publishing a range of tower sharing template agreements on their websites. The major benefits of sharing passive infrastructure for operators are:

- **Infrastructure spending:** Allows operators to cut down on capital expenditure. Infrastructure cost for operators is estimated to decline by 16% to 20%. The tower companies, on the other hand, derive regular annuity income. Tower sharing can be instrumental in allowing a number of operators to enter remote regions that would normally have very high rollout costs. Ever-increasing demand to roll out 3G/Wimax/LTE networks has been putting a lot of pressure on the infrastructure spending of operators. Reduced costs of infrastructure can allow more money to be spent on enhancing infrastructure
- **Network operation cost:** Results in rationalisation of operational cost due to reserves produced by sharing site rent, power and fuel expenses
- **Enhanced focus on service innovation:** Alleviates pressure of network rollout and cost management from operators, allowing them to focus on customer service in a highly competitive and customer-centric industry. This becomes especially important in a regulatory environment demanding fast rollout of services
- **Lower entry barrier:** Active and passive infrastructure sharing will result in lower entry barriers, allowing smaller players to penetrate the market.

## Possible negative impact

Although, tower sharing enables new entrants to scale-up faster, it exposes established players to the risk of market share loss. Furthermore, the challenges of monitoring network performance and quality will increase as control over network roll out and equipment maintenance decreases.

But these challenges are controllable through appropriate contract governance structures and well-defined service level agreements.

Regulators should consider the competitive advantage that sharing of towers could provide in their respective markets. However, what they have to bear in mind is the fact that new and smaller operators will be incurring lease payments as an operating expense with relative lower risk, whilst the large and incumbent operators are still recovering the capital expense incurred in erecting the towers.

## Telecom tower industry in India – a case study

The Indian telecom tower industry evolved from a 100% operator-captive model in 2006 to an 85% operator-independent model as of 2010.

Historically, operators saw captive towers as offering a strategic advantage. The need for monetisation of assets, focus on customer acquisition and efficient Capex utilisation lured operators to hive off their tower assets to other entities in order to secure the advantages of infrastructure sharing.

The change in tower ownership unfolded on the back of a series of actions undertaken by the regulator and the industry. Towards the middle of the last decade, the Indian telecom regulator laid out the detailed contours of the regulatory regime governing infrastructure sharing and the role of independent tower companies. Initially, operators viewed the independent tower model with suspicion, given the need for high site uptime and the lack of a proven independent tower company model.

In early 2006, when two independent tower companies proactively built tower sites and leased these to multiple operators, they overcame this challenge and proved the efficacy of their model. A few operators then began a carve-out process, setting up separate divisions that controlled their tower assets. This allowed operators to value their tower assets in isolation and either bring in financial investors or sell their assets to independent tower companies. The effectiveness of these steps in releasing funds for further network rollout and reduction in operating cost without affecting subscriber acquisition, forced remaining operators to follow the first movers.

Today, the model has evolved to a high level of maturity. Operators focus on subscriber acquisition and customer service, instead of tower infrastructure operations and management. Largely because of sharing, operators managed EBITDA margins in the range of 25% to 35% in 2010. For operators in India, tower sharing came at the right point of heavy competition where the ARPM dropped from 0.01USD to 0.005 USD.

Similarly, independent tower companies have focused on passive infrastructure through innovative process management, ensuring cost-effective high uptime for the tower sites. On the back of successful hosting of multiple tenants on their sites and cost-efficient operations, independent tower companies enjoy EBITDA margins in excess of 50%.

To conclude, the Indian telecom tower industry offers several interesting perspectives to countries wanting to replicate their model of cost-effective service rollout. Understanding these perspectives and the strategic planning for implementing them can immensely aid the transition from an operator-owned to an independent-owned model.



### **Tower sharing – various business models**

The telecoms scenario in Africa and the Middle East is highly competitive. Some countries have as many as 11 operators and a highly price-sensitive subscriber base. Clearly, there is a case for growing the tower business by allowing operators to focus on customer service, while helping them cut their costs.

Tower businesses can be structured in several ways. There are two main business models:

#### **Inter-operator tower sharing**

Operators generally use bilateral arrangements to execute Inter-operator sharing of passive infrastructure. Typically, bilateral agreements are on an 'in-kind' basis, with no payments made between the parties. The two parties agree to install BTSs on each other's towers. Inter-operator sharing is an operational method adopted to cut down on network costs. This makes network operations more economical by:

- Reducing network deployment costs
- Reducing time for roll-out
- Creating the potential for generating additional income through rentals earned from other operators using the towers (depending of the structure of the contract).

We note that these types of deals tend to benefit operators who already have established networks.

This model does not typically help new entrants.



### Third-party tower companies

Independent companies assume responsibility for tower deployment and maintenance, entering agreements with operators that allow them to install their BTSs on the towers. In this model, the ownership of passive infrastructure equipment lies with the tower company. The decision to outsource tower operations to third-party tower companies typically involves a strategic shift to focus on service innovation and improving customer experiences. This aspect becomes critical in highly competitive telecom markets.

A separate company focusing on the passive infrastructure business results in savings through several other means, as has been observed in geographies as disparate as the United States and India.

Third-party tower companies can be one of two types:

- Joint ventures between operators
- Third-party vendor tower companies.

### Suitability

These business models have shown varying degrees of success. Regional operators need to evaluate their strategic direction to determine which of the two suits them best. Here, we present a snapshot of the pros and cons of each.

Operating Model	Advantages	Disadvantages
<b>Inter-operator tower sharing</b>	<ul style="list-style-type: none"> <li>• Simple to implement</li> <li>• Tower ownership still lies with the operator leasing out the space.</li> </ul>	<ul style="list-style-type: none"> <li>• Normally limited to sharing of towers owned by the respective operators</li> <li>• Dependency of lessee on lessor.</li> </ul>
<b>Joint Venture (JV) (for assets) between operators</b>	<ul style="list-style-type: none"> <li>• Reduces operational risk and provides full visibility to working of tower companies</li> <li>• Easy to finance as operators only need to transfer assets into the JV</li> <li>• Margins of tower companies less of an issue.</li> </ul>	<ul style="list-style-type: none"> <li>• Difficulties in coordinating operations teams (both companies have equal representation on JV, which makes all the purchase decisions)</li> <li>• How to coordinate and agree rollout of new towers</li> <li>• Typically not suitable for more extensive sharing (eg, radio access network transmission and backhaul).</li> </ul>
<b>Vendor-led network sharing and operations and maintenance outsourcing</b>	<ul style="list-style-type: none"> <li>• Higher savings from consolidation of assets, operations, and teams</li> <li>• Vendors typically guarantee a certain level of savings from outsourcing and from enabling sharing</li> <li>• Transformation risk transferred to vendor</li> <li>• Third party can provide objective avenue for resolving issues.</li> </ul>	<ul style="list-style-type: none"> <li>• Reliance on third-party vendor</li> <li>• Reduced control</li> <li>• Partners must share savings with vendor</li> <li>• Simultaneous outsourcing and sharing can destabilise organisations during transition.</li> </ul>

## Accounting considerations

The accounting treatment for infrastructure arrangements would depend on the model applied and the structure of the transaction. Accounting for these arrangements could be complex and a detailed analysis of the substance of the arrangement is required. Operators could:

- Retain the infrastructure assets on their books (typically if risks and rewards of ownership are retained)
- Derecognise the infrastructure assets (typically if risks and rewards of ownership are transferred to the third-party tower company)
- Recognise a portion of the assets (typically if there is joint control over the asset).

The potential accounting implications for the different models is discussed below.

### Third-party vendor tower company

Under this model, operators sell their passive network infrastructure to an independent third-party tower company. Then, the operator 'leases' allocated tower slots from the tower company based on its operational needs. Alternatively, independent third-party vendors construct the passive infrastructure and lease allocated tower slots to operators.

The accounting treatment varies depending on whether the arrangement between the operator and tower company is legally structured as a lease, contains a lease element or is for the rendering of services. The contract contains a lease element (and the parties are required to account for all or a portion of the arrangement as a lease) if the arrangement is dependent on the right to use a specified asset<sup>2</sup>. A key issue in assessing whether the arrangement is dependent on a specific asset is whether the space leased on the towers is considered a separately identifiable asset or not. Where the space is a separately identifiable asset, this is a separate unit of account. It is treated as a lease as long as the arrangement is also dependent upon the right to use the applicable asset<sup>3</sup>.

Where the right to use the space cannot be separated from the physical infrastructure, and does not represent a separate unit of account, these arrangements would typically be accounted for as service contracts.

<sup>2</sup>IFRIC 4, Determining whether an Arrangement contains a Lease, par 6

<sup>3</sup>IFRIC 4, Determining whether an Arrangement contains a Lease, par 1, 3 and 9



**Lease accounting**

Where the arrangement is accounted for as a lease, (even where it is not structured as a lease) the accounting treatment for the operator and the third-party tower company is driven by whether the lease is classified as a finance lease or an operating lease. A key determinant in the accounting is who bears the risks and rewards of the infrastructure assets or a portion thereof<sup>4</sup>. Finance leases are distinguished from operating leases because finance leases transfer all the risks and rewards incidental to ownership to the lessee.

The following summarises the accounting in a lease arrangement:

Third Party Leasing		Operator (lessee)		Third Party Tower Co (lessor)	
		Operator (lessee)	Third Party Tower Co (lessor)	Operator (lessee)	Third Party Tower Co (lessor)
Operating lease	Operating lease receivable/ payable due to straight-lining	✓			✓
	Recognition of towers as an asset				✓
	Gain or loss on derecognition of asset	✓			
	Depreciation of asset				✓
Finance lease	Recognition of towers as an asset	✓			
	Finance lease receivable				✓
	Depreciation of asset	✓			
	Finance lease liability	✓			

Where the arrangement is accounted for as a finance lease, the lessee would recognise a finance lease liability at the present value of future lease payments<sup>5</sup> or fair value of the assets (whichever is lower). This will result in a gross-up on the statement of financial position, due to recognition of infrastructure assets as property, plant and equipment and the finance lease as a liability, and may affect certain ratios.

In a finance lease arrangement, the third-party tower company would reflect a lease asset, being the receivable from the operator<sup>6</sup>.

<sup>4</sup>IAS 17, Leases, par 8-12

<sup>5</sup>IAS 17, Leases par 20

<sup>6</sup>IAS 17 Leases par 36

### Service arrangements

Service arrangements are accounted for in a manner similar to operating leases. If the contract is considered to be a service arrangement, income or expenses are typically treated as operating income/expenses<sup>7</sup>.

Operating and maintenance (O&M) related payments included in the arrangement might be priced separately or included in lease payments. These O&M payments should be accounted for separately from the lease (regardless of how structured). This separation is usually done by reference to the relative fair values of each element<sup>8</sup>.

The various accounting models would result in different impacts on the profit and loss of the various entities involved, and would have differing impacts on EBITDA, as follows:

	Operating lease	Finance lease	Service arrangement
<b>Operator (lessee)</b>	<ul style="list-style-type: none"> <li>Operating lease payments recognised on a straight line basis (resulting in a lease accrual or pre-payment on the balance sheet)</li> <li>If the assets are sold at fair value, any gain or loss on the asset disposal is recognised in profit or loss *</li> <li>Any excess above or below the fair value is generally deferred and recognised in profit or loss over the expected period of use of the asset .*</li> </ul>	<ul style="list-style-type: none"> <li>Depreciation charge</li> <li>Interest charge (on the liability)</li> <li>Excess of the sales proceeds over the carrying amount of the assets sold is deferred and amortised over the lease term. *</li> </ul>	<ul style="list-style-type: none"> <li>Service charges (including O&amp;M) recognised based on the stage of completion</li> <li>Gains or losses on disposal would be recognised in profit or loss *.</li> </ul>
<b>Third-party tower company (lessor)</b>	<ul style="list-style-type: none"> <li>Operating lease receipts recognised on a straight line basis</li> <li>Depreciation charge.</li> </ul>	<ul style="list-style-type: none"> <li>Interest on the receivable from the operator.</li> </ul>	<ul style="list-style-type: none"> <li>Service revenue (including O&amp;M) recognised based on the stage of completion.</li> <li>Depreciation charge</li> </ul>

\*In the case where assets are sold by an operator to Towerco

### Transfer to a separate entity

Under this model, two or more operators enter into an arrangement to transfer their existing towers to a newly formed or existing entity, or other operation.

The operators may establish a relationship over the newly formed or existing entity or operation.

### Accounting by the operator

The operator should determine whether it has control, significant influence or joint control over the new or existing<sup>9</sup> entity . The operator may also be deemed to control the tower entity where it is a special purpose entity (SPE), and in substance, the operator has control over the SPE<sup>10</sup> .

<sup>7</sup>IAS 18, Revenue, par 20

<sup>8</sup>IFRIC 4, Determining whether an Arrangement contains a Lease, par 13

<sup>9</sup>IAS 27, Consolidated and Separate Financial Statements, IAS 28, Investments in Associates, and IAS 31, Interest in Joint Ventures

<sup>10</sup> SIC 12, Consolidation – Special Purpose Entities

The following table provides a high level illustration of the impacts of control, joint control or significant influence in the operators consolidated financial statements.

Control (including SPE)	Joint control	Significant influence
<ul style="list-style-type: none"> <li>The tower entity will be consolidated by the operator<sup>11</sup></li> </ul>	<ul style="list-style-type: none"> <li>The operator will reflect its interest in the jointly-controlled entity by applying proportionate consolidation or equity accounting</li> <li>Where the arrangement is in the form of a jointly controlled asset or operation, the operator will recognise its share of the assets (and related income and expense) or operations<sup>12</sup>.</li> </ul>	<ul style="list-style-type: none"> <li>The operator will incorporate its interest in the tower entity using equity accounting<sup>13</sup>.</li> </ul>

In the consolidated financial statements of the operator, transactions with the tower entity, whether in the form of leases or rendering of services, should be eliminated on consolidation or equity accounting, as appropriate, depending on the interest in the separate entity. The lease and revenue accounting principles discussed under the preceding model will apply to any lease or service arrangement entered into between the operator and separate entity. There may be certain limits on disposal gains recognised by the operator on assets transferred to a separate tower entity.

Deferred tax implications are likely to arise where the tax and accounting treatment differs. Please refer to our publication, *"Insights into IFRS"*, for more information.

### **The new standards on consolidated financial statements (IFRS 10) and joint arrangements (IFRS 11)**

These standards introduce a new model to assess control of an investee. Application of this new model may impact the existing control assessment. Where the separate entity or arrangement is subject to joint control, the new standard will require re-assessment of the type of joint arrangement (either as a joint venture or joint operation.) Proportionate consolidation is no longer permitted for joint ventures. These standards are effective for periods commencing on or after 1 January 2013. Please refer to our publications *"First Impressions: Consolidated Financial Statements"* and *"First Impressions: Joint Arrangements"* for more information"

### **The new Exposure Draft (ED) on leases**

The International Accounting Standards Board (IASB) is developing a new model for the recognition of assets and liabilities arising from lease contracts, from the perspective of both the lessee and lessor. This is still an ED and is subject to deliberation and discussion but could have major accounting implications.

<sup>11</sup> IAS 27, Consolidated and Separate Financial Statements, par 12 and 18

<sup>12</sup> IAS 31, Interest in Joint Ventures, par 15, 21 and 30

<sup>13</sup> IAS 28, Investments in Associates, par 13

## Tax considerations

The potential tax consequences of tower sharing will vary from country to country. As such, the tax implications must be considered on a case-by-case basis. This will ensure compliance with the applicable tax legislation of the country where the actual tower is situated, and the countries of residence of the parties concerned.

In general, the following areas should be considered when determining the tax treatment of tower sharing:

### The potential taxes applicable to a transaction:

The different taxes that would need consideration for each country include income tax, value-added tax/sales tax, capital gains tax and withholding taxes in respect of certain cross-border transactions. Whenever cross-border transactions occur, it should be determined whether double taxation agreements are in place between the countries concerned.

This determines which country has taxing rights and whether any tax relief is available.

**Basis of taxation:** The basis on which taxation is levied according to the specific country's tax act should be considered to identify where and when tax is payable. Certain countries levy tax on the worldwide income of residents as well as on non-residents' income from a source in the country. Careful consideration should be given to when an entity becomes liable for taxes in a specific country. If tax is payable in more than one country, the existence and application of potential double taxation agreements should be evaluated. In addition, the existence or creation of a permanent establishment and the potential tax consequences thereof should be considered in detail regardless of where the infrastructure is situated.

### Inclusion and exclusion in determining taxable income:

As there is no generically applicable tax answer in all African and Middle Eastern countries, we set out below some high-level comments on the treatment of leases and the rendering of services in general. The various business models described in this document could result in the following:

- Finance lease arrangement between parties
- Operating lease arrangement between parties
- Rendering of services between parties.

In general, the above arrangements from a tax perspective would give rise to taxable income and expenses incurred to generate such income. The expenses incurred to generate the taxable income should qualify for a deduction for tax purposes, if not deemed capital in nature or non-deductible.

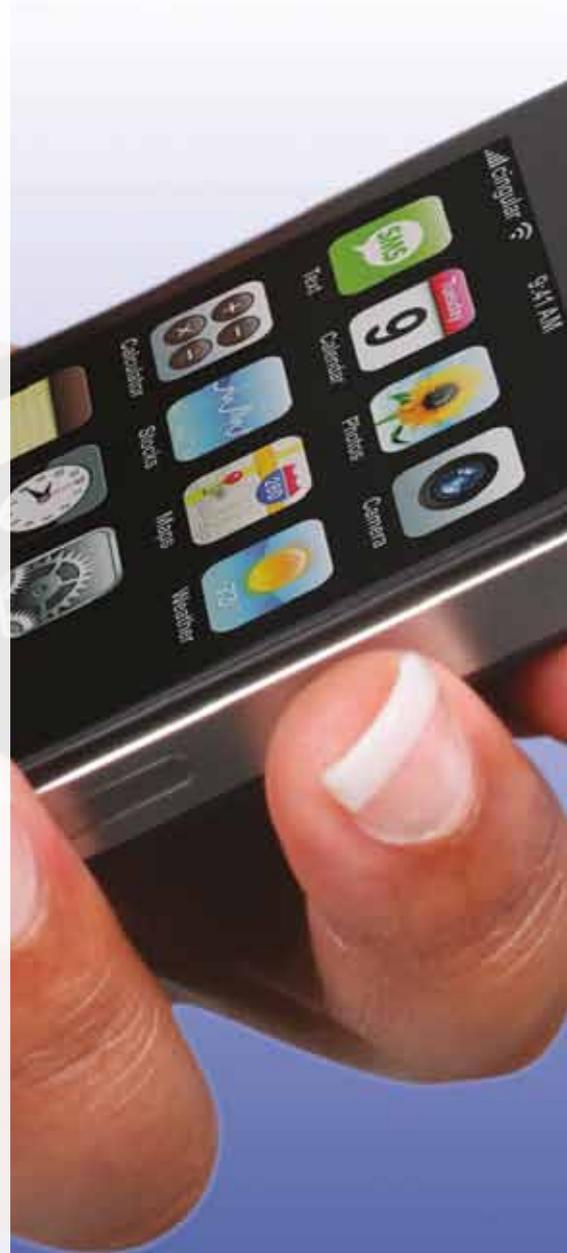
In most instances, it is anticipated that the party paying the finance lease instalment, operating lease payment or the service charge would qualify for a deduction against the rental/services income included in taxable income.

The party receiving the finance lease instalment, operating lease payment or payment for rendering of service would be required to include the receipt in taxable income.

**Depreciation of the infrastructure:** It should be considered if any tax allowances are available, in respect of which an amount could be claimed against the taxable income generated by the use or rental of the tower/infrastructure. This will vary from country to country and according to the type of infrastructure used/owned in that country. Special consideration should also be given to whether any investment incentives exist in the country where infrastructure is to be erected, or not.

**Transfer of ownership:** In the event of the transfer of assets from one company to another, it should be considered whether it would constitute a disposal for income tax, value-added tax/sales tax and/or capital gains tax purposes for each tax regime. In addition, any potential relief measures should be evaluated.

**Implications of different tax rates:** Based on the above it is imperative that all taxes in the various countries are considered before entering into any of the proposed tower sharing arrangements.



### Challenges for tower companies

As passive infrastructure business has evolved into a separate industry around the world, many tower companies in the telecom industry face several challenges. These include:

- **High capital requirement:** Tower deployment is a highly capital-intensive activity. The installation of each tower requires an investment of USD40 000 to USD60 000. Thus, tower companies the world over end up being highly leveraged
- **Regulatory clearances:** The first step should be to ensure that the regulatory authority is in favour of infrastructure sharing. Projects may stall because of delays in regulatory clearances. Apart from dealing with telecom regulators, tower companies also have to deal with other governmental bodies such as municipalities, forestry departments and environmental departments.
  - Hurdles in obtaining clearance from a multitude of governmental bodies are often cited as reasons for delays in several site installations across developing nations. Since most of them are regional in nature, tower companies have to deal with quite a few governmental offices scattered across the country
- **Operational cost optimisation:** Although operational costs such as power and fuel are generally passed on to the operators, these are usually subject to agreed maximum limits. Thus, tower companies must work towards building controls to limit operational costs. Tower companies also face the problem of finalising the cost-sharing percentage and building a technology road map
- **Handling of local issues:** Tower deployment and operation involves dealing with location-specific issues, including dealing with the landlord and local authorities, and running operations across a variety of geographies and terrains.

## Conclusion

Being developing economies, Africa and the Middle East are likely to witness a significant development of infrastructure, requiring operating companies to enhance their coverage. With the evolution of mobile telephony, operators also come under pressure to provide services such as mobile broadband, mobile TV and several other value-added services.

With a density of 43% as of October 2010<sup>14</sup>, mobile operators in Africa can expect significant additions to subscribers over the next five years, especially with so many operators trying to establish their presences in Africa. The cost of providing services to these additional subscribers and the likely onset of price wars among new and old operators are likely to put tremendous pressure on operators' margins. Signs of these price wars are already visible in Kenya, Uganda and Nigeria.

Low fixed-line penetration in Africa and the Middle East could mean significant reliance on mobile for broadband services. This could provide mobile phone operators with a chance to increase their portfolio of services, but would also require them to invest in technology to provide these services. It is imperative that operators find solutions to manage costs and ensure profitability. Access to the resources to manage the continuously changing technological environment is also important.

Passive infrastructure sharing provides a significant cost savings opportunity, which is placed at USD8 billion on Capex and USD1 billion on Opex annually<sup>15</sup>. It also provides operators with an opportunity to leverage their balance sheets, which can help them obtain funds to invest in the telecoms industry's ever-changing technology. If operators deploy every tower independently, savings will reduce, for this reason it merits a cost saving initiative such as infrasharing.

With regulators increasing the number of operators in some economies and pushing for sharing of infrastructure, it is inevitable that many other countries will follow suit. Operators should consider taking such initiatives even before regulators can force them to, as money saved through such initiatives can be allocated to innovations to acquire and retain customers.

While regulators in many countries are supportive of tower sharing (particularly passive sharing), some are still resistant to these commercial initiatives, fearing a lessening of market competition. In these markets, strong arguments can be mounted that commercial and public policy interests are aligned in this area. In particular, tower sharing can lead to lower roll-out costs, the potential for faster roll-out of new and innovative services and promotion of competition by lowering barriers to entry for new operators. In some markets, where the incumbent sees no competitive advantage in tower sharing, the other operators may need to proactively lobby the regulator so as to help bring the incumbent to the negotiating table. In addition, there is also widespread precedent across a range of countries where regulators have been active (and proactive) in promoting and supporting such infrastructure sharing initiatives.

<sup>14</sup>ITU, Oct 2010

<sup>15</sup>*Tower sharing in the Middle East and Africa: Collaborating in competition* – Delta Partners 2009

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