

Speech by Joakim Reiter

Group External Affairs Director, Vodafone Group

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Session 1: Developing countries' investment needs

– Role of investment in connecting to GVCs, linking to the digital economy and building productive capacity that is internationally competitive

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Ministers,

Excellencies,

Ladies and Gentlemen,

Investment drives transformation.

And infrastructural investments arguably hold the greatest promise of long-term transformation, upon which the future success of the Sustainable Development Goals depends.

The achievement of Agenda2030 will require massive investment in hard infrastructure, ranging from water, sewage and sanitation, to electricity, transport and communications networks, as well as in soft infrastructure – such as financial services, health and education – just to name a few areas.

World Bank has rightly framed this important step-change as going from “billions to trillions”. And UNCTAD has estimated the current annual investment gap to meet the SDGs at 2.5 trillion USD, in developing countries alone.

So it makes utter sense, indeed it is absolutely essential, to get infrastructural investments right. Delivered in the right way, infrastructural investments can become game-changers for whole economies and, thereby, whole societies. Hard and soft infrastructures constitute the different components of the backbone of a better functioning economy and more inclusive society.

Digital connectivity is one of the most important parts of that backbone.

Despite some persistent misperceptions, it changes the lives of many, not just the the few. As the steam engine drove industrialisation and maritime links drove global trade integration, information and communication technologies, which now are at the forefront of digitalisation, have transformed global value chains and underpinned the rise of factory Asia. All of this significantly have contributed, over the last 2-3 decades, to the fastest reduction in the number of people living in absolute poverty in the history of mankind.

Digital technology is **changing what we all produce, how we produce it, and how we engage in commerce between ourselves.**

The societal benefits are immense. Research commissioned by Vodafone many years back demonstrated that a 10% increase in mobile penetration correlates to a 0.6% increase in GDP, and the World Bank has later found that a 10% increase in internet access correlates to a 1.2% increase in GDP. This is a revolution that enhances livelihoods as well as lives.

Mobile technology also has a profoundly democratising effect as the smartphone becomes every citizens' primary route to the internet. There is now an entire, complex ecosystem of apps focused on the needs of developing countries, in healthcare, financial services, education, agriculture and other fields.

Allow me to give three examples:

First financial services: as you may know, Vodafone created the world's leading mobile money service, M-Pesa, first launched in our subsidiary in Kenya 10 years ago. M-Pesa has brought simple, safe and secure financial services to millions of people on very low incomes without access to conventional banking. Recent research by MIT found that M-Pesa has lifted almost 2% of Kenyan households out of poverty.

Second agriculture: new services via mobile can offer higher earnings, higher yields, reduce waste and improve go-to-market-options. We worked with Accenture to identify six key mobile-based services by Vodafone and other companies to improve the situation of farmers

in India. We found that these services should be able to benefit some 70 million Indian farmers by 2020 and generate additional farming incomes of 9 bn USD annually.

Finally, education. A smartphone or tablet is a powerful tool to teach new skills to young minds with limited or no access to conventional schools. Mobile is also very effective in helping adults lacking the skills to prosper in the modern world. Vodafone Egypt runs an adult literacy programme that has enhanced the life skills of 500.000 people, the vast majority of them women. In South Africa, our Vodacom e-Schools are already benefitting some 215.000 students. Our philanthropic arm, the Vodafone Foundation, is delivering an advanced education up to high school level, via mobile, to 7 refugee camps across sub-Saharan Africa. The Foundation aims to reach 3 million refugee children by 2020 as well as a further 5 million children across Africa with poor access to conventional schooling.

Therefore, digital connectivity – with its significant economic and social benefits – is already proving fundamental to international competitiveness and for attracting investment across all sectors. And we are only seeing the beginning of this development.

So far so good, but what's the catch?

Well, to begin with, governments don't have the available money needed to move from "billions to trillions" on infrastructural investment. To be clear, hardly any country does. But the financing gap is all the greater in developing countries. Being poor inherently implies being less capital-endowed. And the first step of any investment is, in the end, capital expenditure. We all need to have money to invest.

As a result, developing countries, more than other countries, are – and will continue to be – more reliant on private investment, as well as more reliant on private foreign investments, or FDIs.

This is not news for anyone in my industry. **Digital infrastructure investments have been private-sector led in most parts of the world for more than a generation – and FDIs account for a significant proportion.** My company is one of the largest investors in Africa –

with capital investment of around 850 million US dollars last year alone. And we're also the largest foreign investor in India, accounting for 14% of all FDI in that country since 2014.

What is clear from these examples is also that, **within digital infrastructure, investments are never one-off**. Data-driven economies - in Africa and India, now, as much as any other region - demand continuous cycles of investment. Each new technology cycle brings new requirements for capital: in new infrastructure, new spectrum, and new services (such as mobile money and the Internet of Things).

What this means for governments is that maximising the future contribution from the private sector is critical. Without investment – of a scale and frequency beyond the reach of the state alone – the infrastructure necessary to underpin the digital economy will falter and fail. Many governments recognise this. For example, in India, where “Digital India” offers a powerful vision for a digitally empowered society and knowledge economy, the Government’s own plans envisage that 93% of the investment needed to realise this vision will come from the private sector.

The second challenge is more complicated. Governments need to understand that betting on improvements to status quo, with uncertain future rewards, is risky under all circumstances. And it is all the more risky for infrastructural investments, where the investment is significant, when it is long-term and with few options to de-invest in the process.

In case of digital infrastructure, added to the mix is the need to constantly re-invest as well as that communications networks, far more so than other assets, are also faced with extremely rapid capital depreciation, at a pace of almost three times that of other utilities. If you build a railway, your assets will depreciate in 75 years or more; a road, perhaps some 25 years, at least; in communication networks, 7-10 years, perhaps less.

This puts incredible strain on profitability, which – ultimately – plays a huge role in investors’ decisions.

And that puts the onus on governments to ensure they create the best possible conditions for investors in digital infrastructure.

Specifically, governments need to do four things:

First, ensure there is a sustainable commercial environment within which the private sector to flourish. Securing the investment needed also means paying attention to the financial health of the industry. Short-term consumer benefits of drastic price decreases will also have to weighed against long-term citizens' interest in infrastructural deployments. Healthy competition must exist in all steps, from investment to retail, not just the last one. Creative solutions, like co-investment and sharing of sites in less profitable areas, should be facilitated.

Second, ensure stability and predictability of the policy environment. Radical or unexpected government interventions within well-functioning markets, or sudden shift in policy that undermine competition have seriously harmful effect on international investor sentiment. Similarly, actions that appear to discriminate against foreign investors or to reduce their protection under national and international laws will have immediate negative consequences. Also – for the avoidance of doubt – any attempt to induce investment through improper means would close the door completely, for Vodafone certainly and for many other companies with strong anti-bribery principles.

Third, adopt regulatory best practices wherever possible. Delays in spectrum allocation or bureaucratic obstacles that slow down network rollout directly impact our ability to deliver digital services to businesses and consumers and, therefore, harm activity across the economy as a whole. Same goes for preventing access to other existing infrastructure that could improve the speed and cost-efficiency of connectivity infrastructure investment. Governments also need to understand various trade-offs involved: for example overcharging for spectrum directly undermines private investors' ability to invest in connectivity for more isolated rural areas.

Fourth, and finally, stimulate the demand for digital solutions, starting with itself. Uptake of new technologies is rarely automatic. Yet, digital offers huge advantages in terms of administrative efficiency, resilience and ubiquity of access for all citizens. There is also much that government can do to support local digital applications and content service development and promote digital skills across the population as a whole.

One other important point: **communications networks are *always* inherently local, no matter the nationality of the owner or the origin of the technology deployed.** Foreign investors are making a multi-year – often, multi-decade – commitment to a local market when they decide to build digital infrastructure. Their leadership teams, employees, customers, partners and – in many areas – suppliers – are largely or almost entirely local. Their business become part of the local business landscape, developing and sharing skills and contributing directly to the communities and wider society around them. It is strange, therefore, that the owners of these very local subsidiaries should be treated worse than domestic investors.

To conclude, communications networks are the highways of the future – essential to the economic development of nations. Such infrastructural investments can be the tide that raise all boats, whereas other more sector-specific investments are the waves that carry one or a few boats closer to the shore.

And governments have a key role to ensure healthy conditions to investments in this infrastructure.

At stake is the digital access of all citizens, everywhere. And with digital now permeating every aspects of the economy that means what is at stake is their future.