

**Perceived Myths that have led to calls for OTT
Taxes vs “Truths”:**
[misunderstanding the Internet Value Chain]

Prof H Sama Nwana
Managing Partner, Cenerva Ltd
July 2021

Disclaimer

The Views expressed in this presentation are those of Cenerva Ltd, a boutique and **objective** London-based Training-Led Regulatory Consultancy targeting emerging markets.

Cenerva is working with some other organisations in order to pioneer evidenced-based and principled to regulating in the Digital Economy

**This presentation uses much data
from Cenerva Partner - Research
ICT Solutions (RIS)
Stork & Esselaar (2019)**

<https://blog.mozilla.org/netpolicy/files/2019/11/Regulatory-Treatment-of-OTTs-in-Africa-1.pdf>

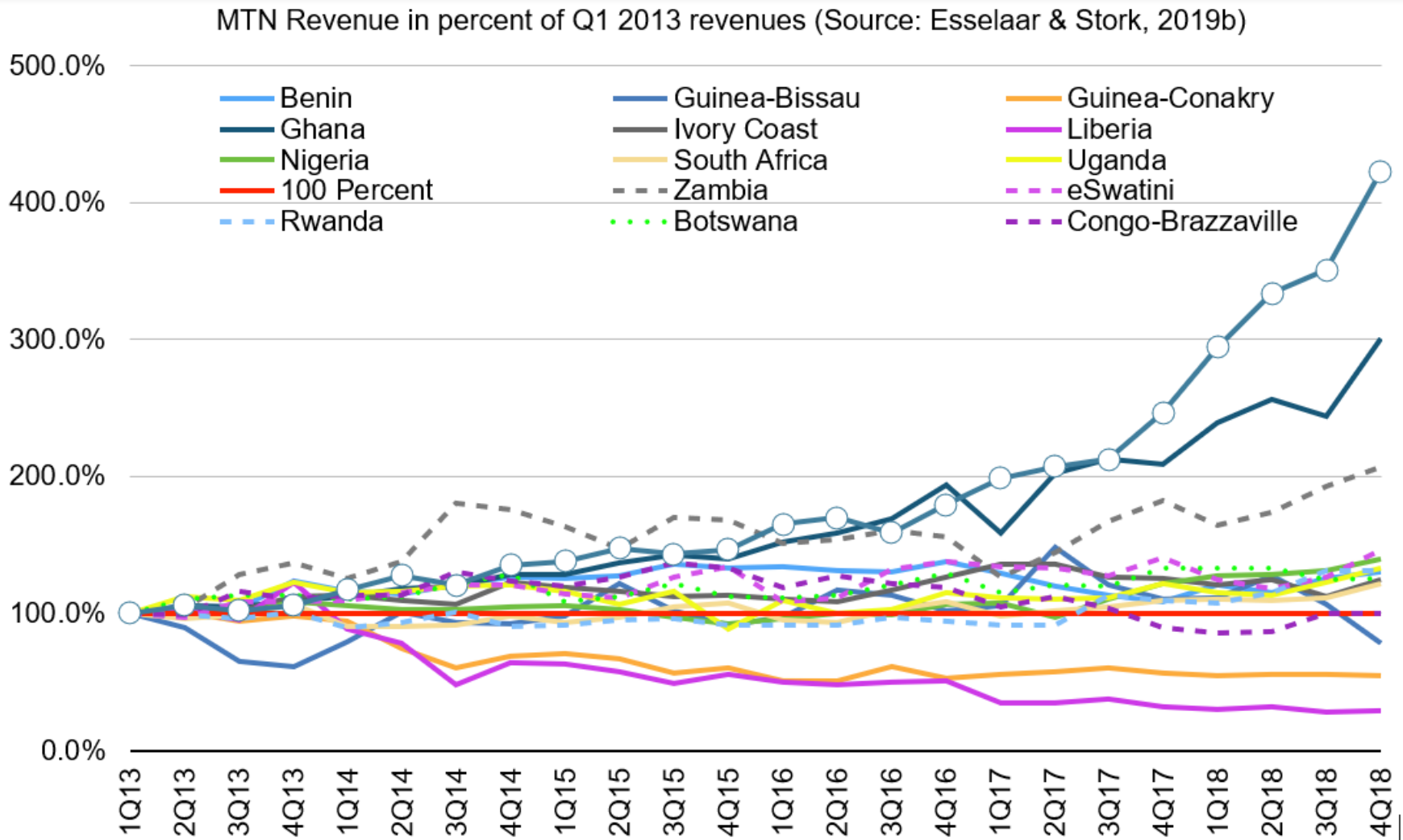
[Missed the Cenerva OTT Applications, the Internet Value Chain & COVID-19, Webinar?](#)
[It's not too late to see the video and download the free report. - Cenerva](#)

Some OTT Fallacies and more... *by Cenerva Ltd*

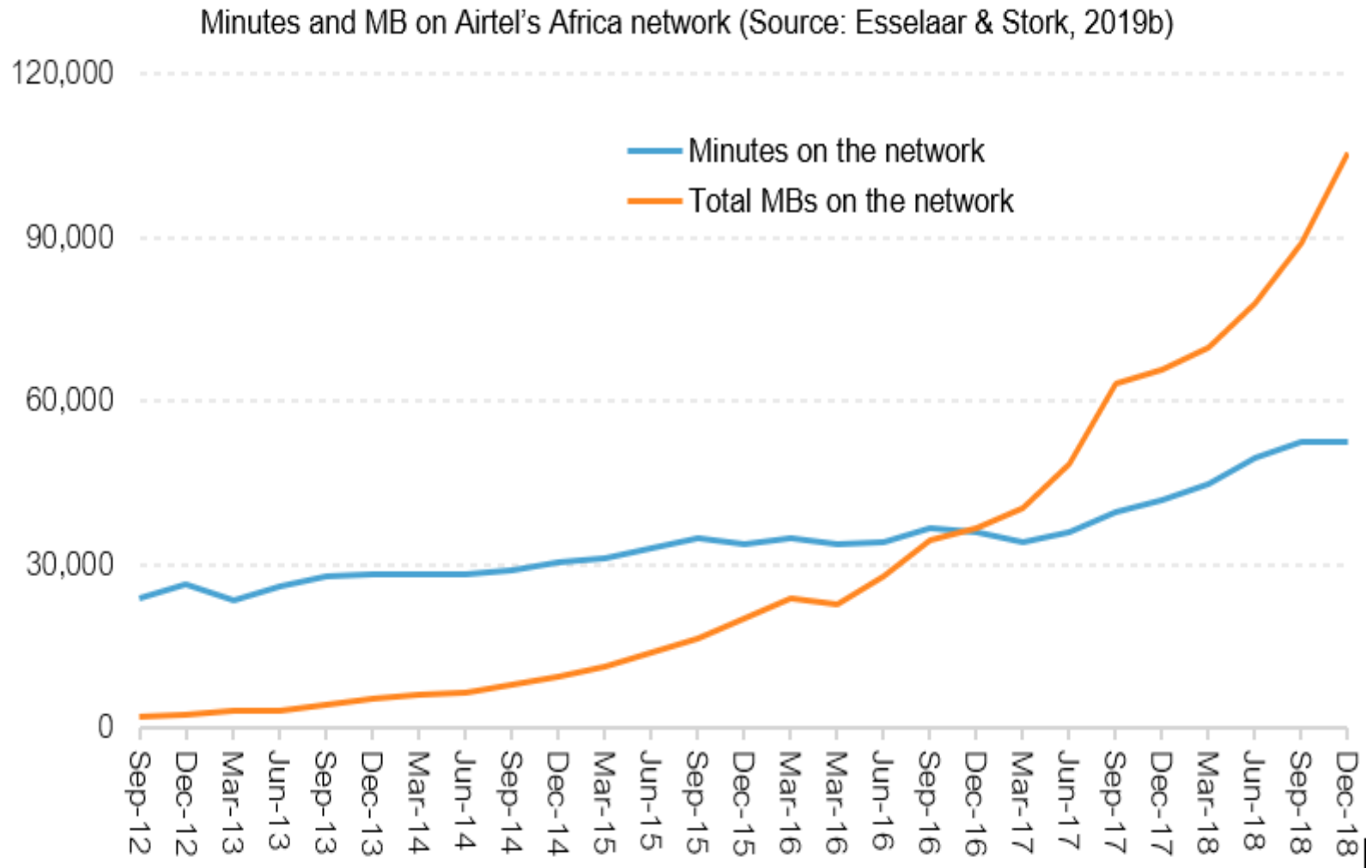
1. OTTs and Falling MNO/Carrier Revenues: real or simplistic? *Simplistic*
2. OTTs and the “free rider problem”: *No – UGC/Social media explodes Mobile Broadband Usage*
3. OTTs: causing Taxes, Universal Service Funds’/Govt Revenues to fall? *No*
4. Sad, Governments/Regulators typically miss the new Internet value chain
5. ... So Governments Start Taxing Social Media *and quickly get into trouble*
6. But ... Evolving Business Models’ Pains are the real challenge
7. ... and Social Media Taxes are very Regressive (Uganda, Benin, etc.)
8. and they disenfranchise Women, Rural inhabitants, etc.(Tanzania, Uganda)
9. plus they slow down an economy leading to less tax receipts (Benin)
10. Frankly, ICT Taxes are generally NOT good (let us revisit Guinea)

.....Look before you leap .. With OTT/OSPs

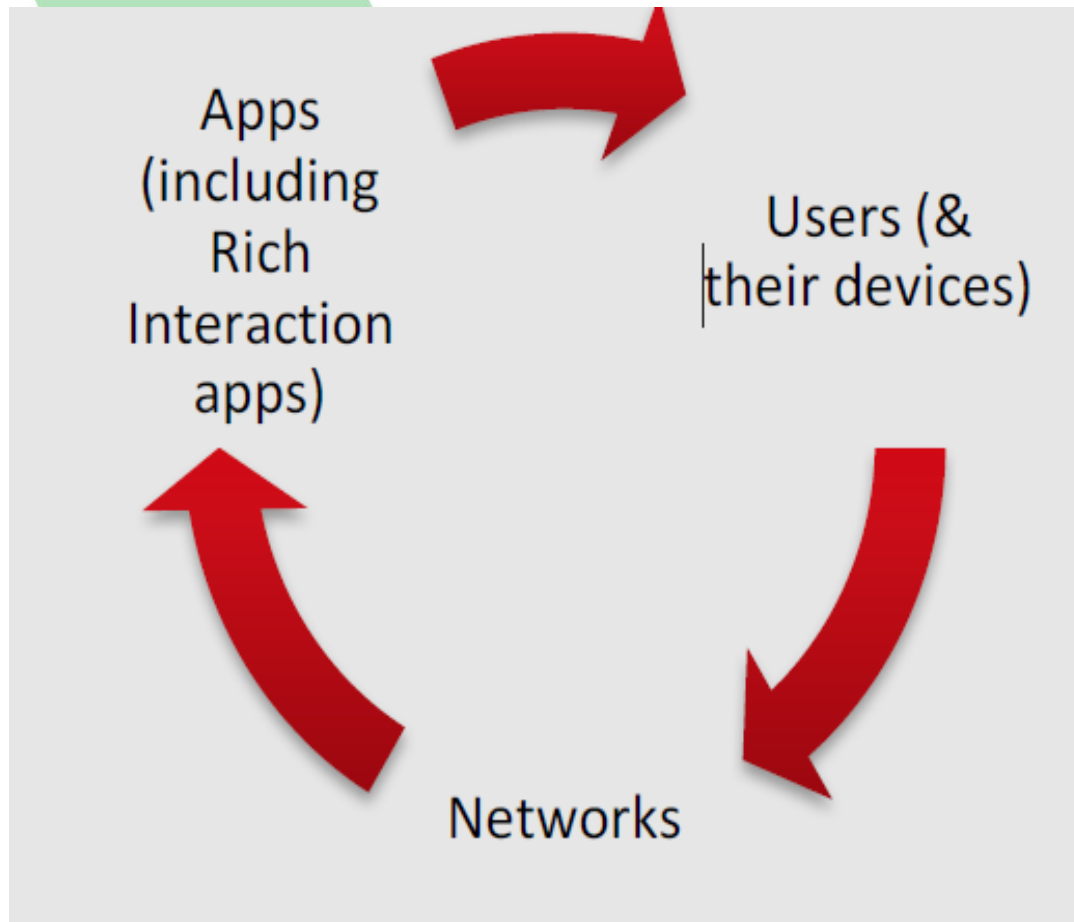
1. OTTs and Falling MNO/Carrier Revenues: real or imaginary?



1. OTTs and Falling MNO/Carrier Revenues: real or imaginary?



2. OTTs, Content and Data Consumption: the “free rider problem”

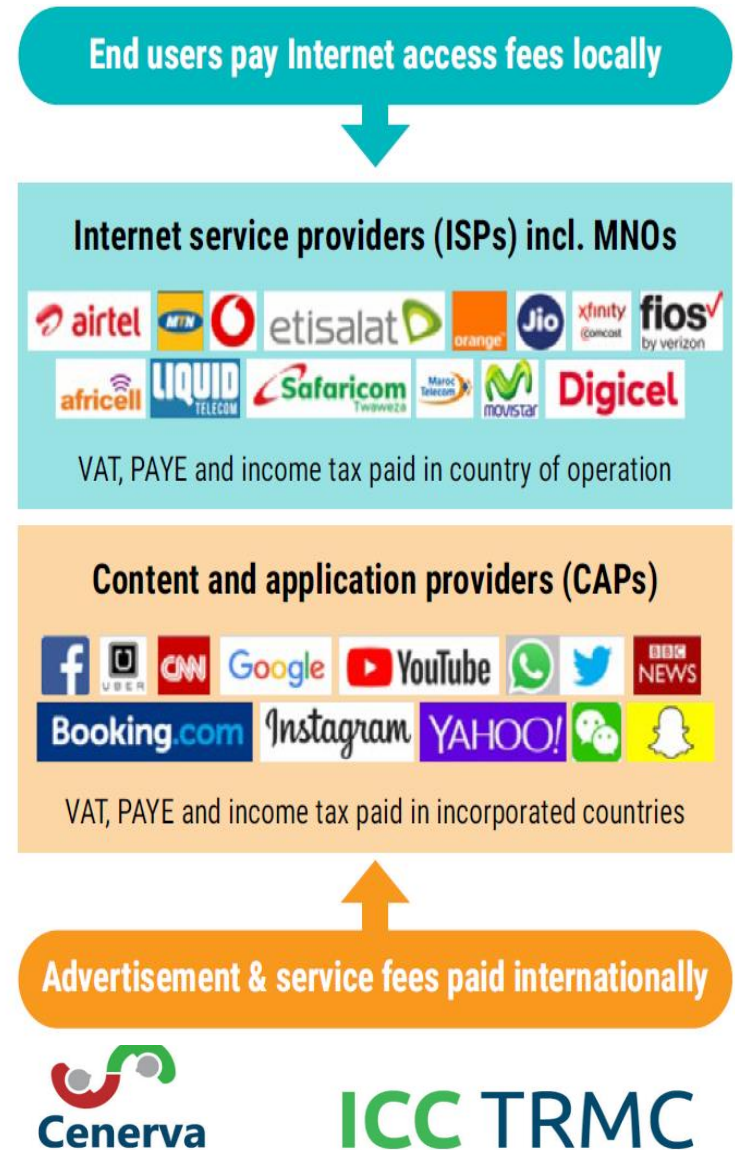


A virtuous circle, not a “free” rider problem (Source: Williamson, B, 2017) **Williamson, Brian (2017),** *Deconstructing the “level playing field” argument – an application to online communications, Communication Chambers,* <http://www.commcham.com/pubs/2017/5/26/deconstructing-the-level-playing-field-argument-an-applicati.html>

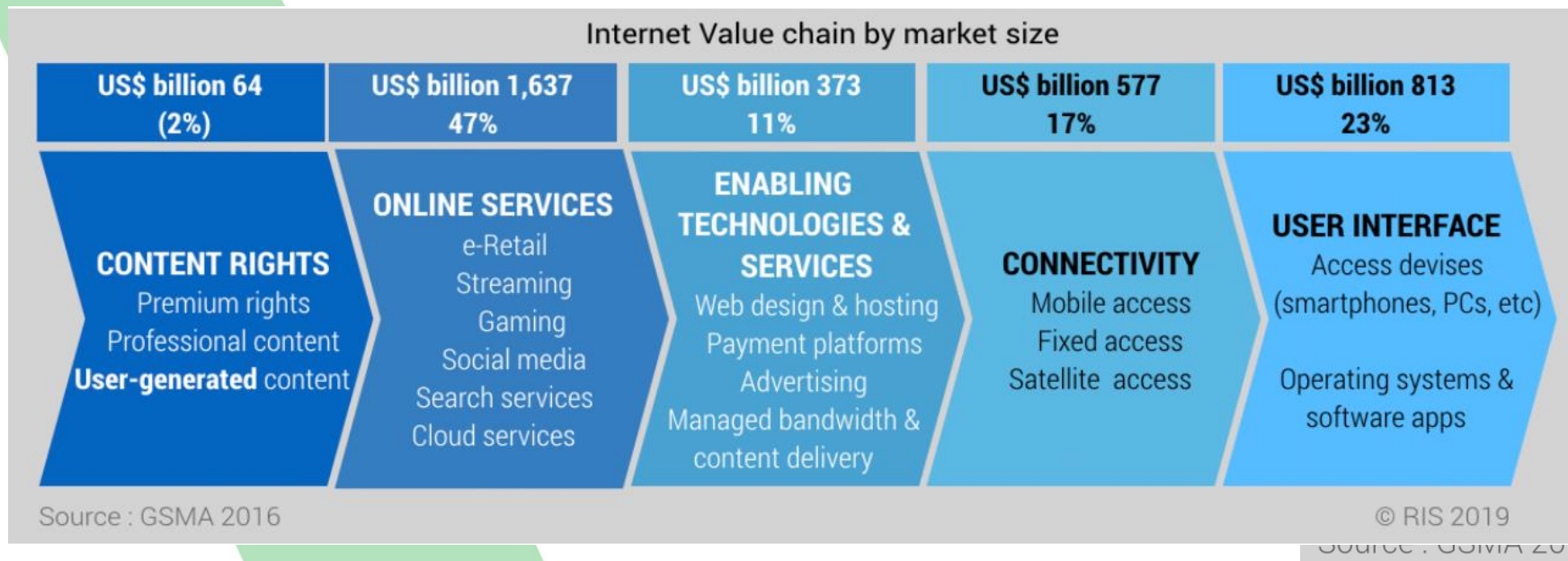
3. OTTs: causing Taxes, Universal Service Funds'/Gov't Revenues to fall?

- If revenues have generally been growing despite phenomenal growth of OTTs – how can this be true?
- *USF payments are typically % of revenues or % of profits – all generally growing?*
- ISPs (including MNOs) pay VAT, PAYE, income taxes and other taxes in country of operation
- Content and App Providers (CAPs) do ditto
- Yes, advertisement and service fees are paid internationally
- But OTTs “grow the pie” of the sector in general

A virtuous circle, not a “free” rider problem (Source: Williamson, B, 2017) **Williamson, Brian (2017)**, Deconstructing the “level playing field” argument – an application to online communications, Communication Chambers, <http://www.commcham.com/pubs/2017/5/26/deconstructing-the-level-playing-field-argument-an-applicati.html>



4. Sad that Governments/Regulators typically miss the new Internet value chain



Equipment Suppliers-----> Network Operators-----> Customer Services Provision
(e.g. Huawei, Ericsson) (e.g. MNOs) (e.g. Voice, SMS.)

- The Data World ushers in the Internet Value Chain, and Mobile Internet Access Providers. Leadership in having economically valuable information on subscribers is VERY key.
- OTTs sit in a totally different segment compared to MNOs' connectivity segment – with their own investment requirements, revenues, taxes, etc.
- The Internet value chain rules ...

5. ... So Governments Start Taxing Social Media *and quickly get into trouble*

AFRICA

Benin repeals social media tax after protests

Fatima Moosa 25 Sep 2018 12:28



On Friday, the activists hosted peaceful sit-ins all around the city. They used the hashtag #TaxePasMesMo (Don't tax my megabytes). (Twitter)

Anger at Uganda's tax on social media

2 July 2018

f b t e Share



Ugandans have taken to Twitter to complain about the imposition of a 200 Uganda shilling [\$0.05, £0.04] tax on the use of social media.

OVER THE TOP

To protect big telcos, Zambia wants to tax calls made over social media apps

By Lynsey Chutel • August 28, 2018

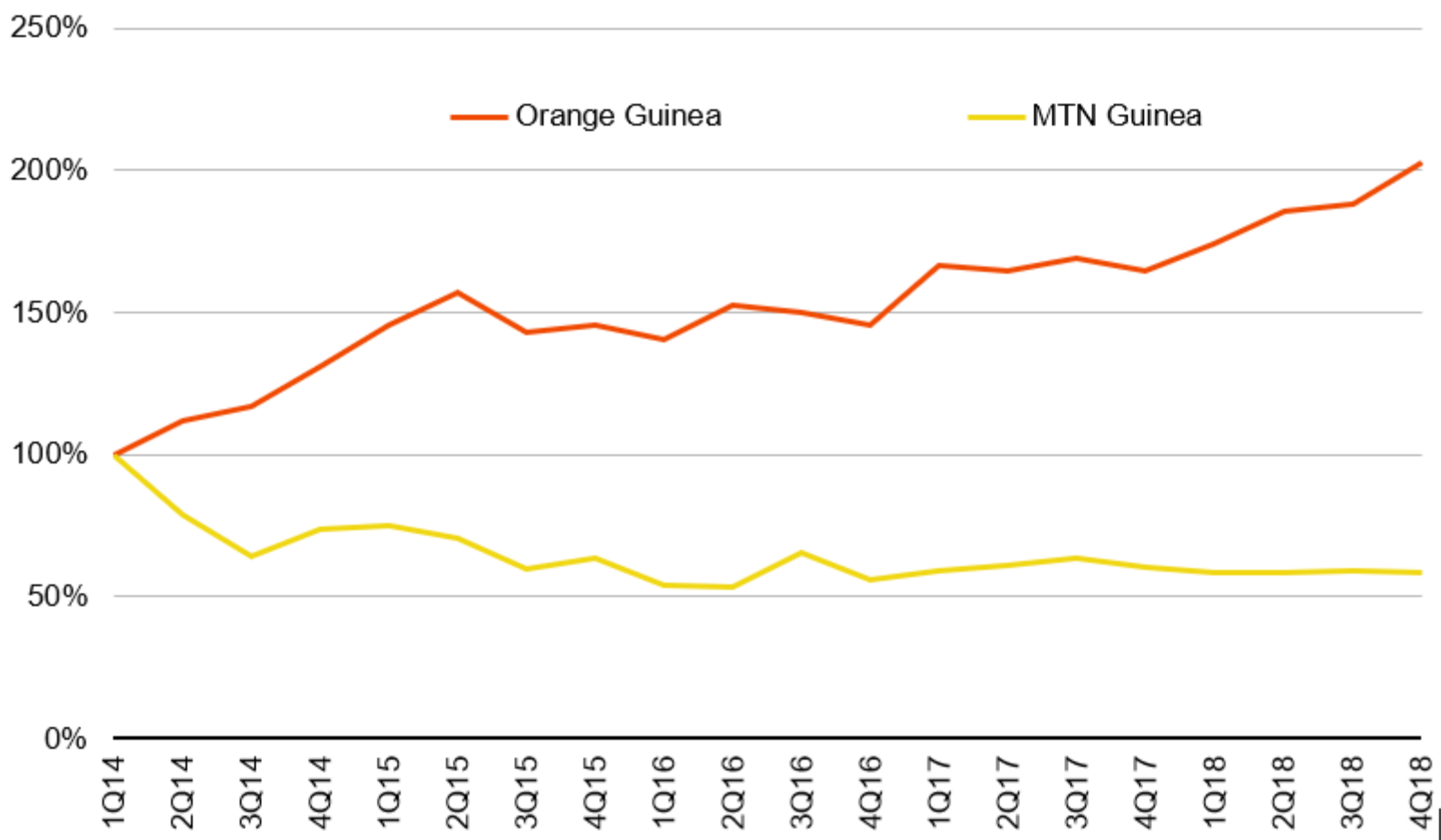
Benin: CFA 5 (\$0.8 cents) per Mbyte + 5% on texts/calls

Uganda: "boost Gov't revenue"

Zambia: "raise funds ...protect .unregulated competition"

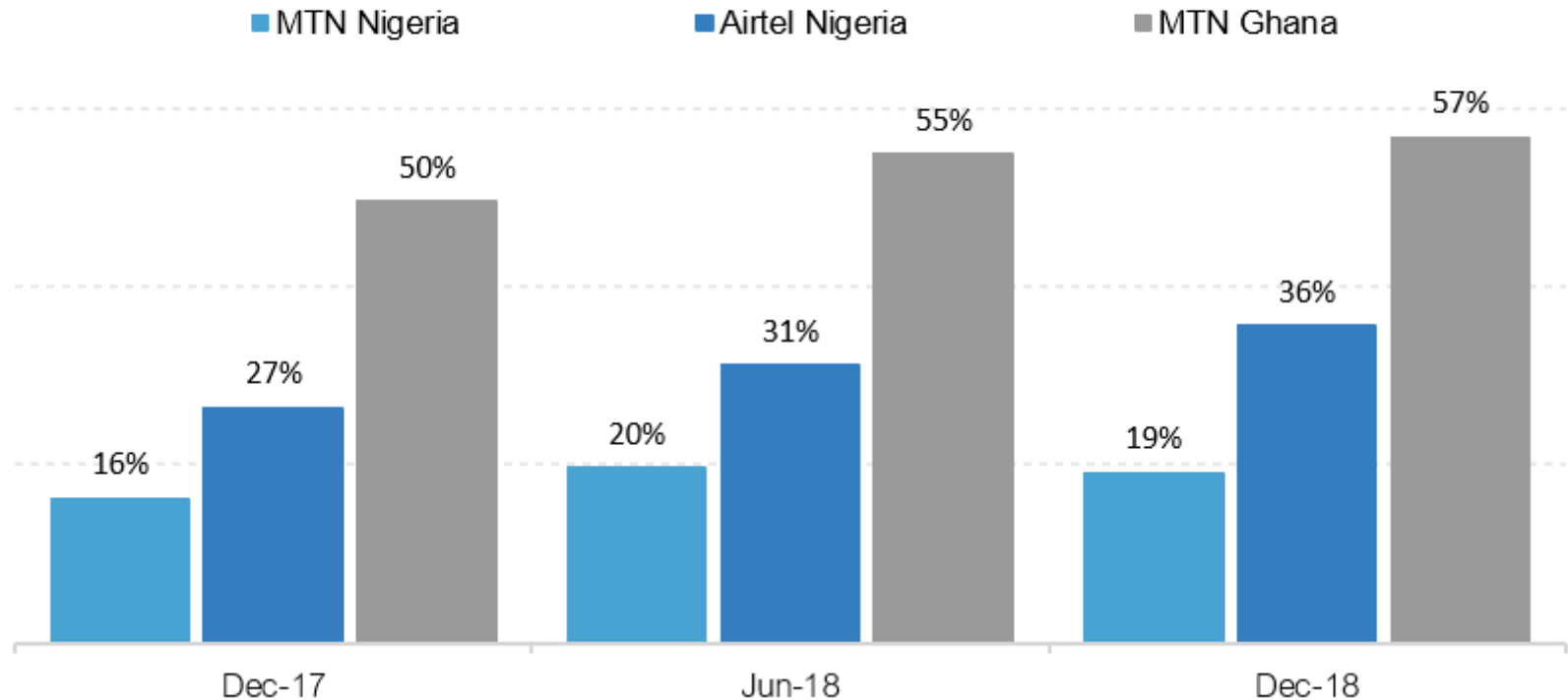
6. Evolving business models pains allows players to compete differently

Revenue developments of MTN and Orange Guinea in percent of Q1 2014 revenues
(Source: Esselaar & Stork, 2019b)



6. Evolving business models pains allows players to compete differently

Data as % of voice revenues (Source: Esselaar & Stork, 2019b)



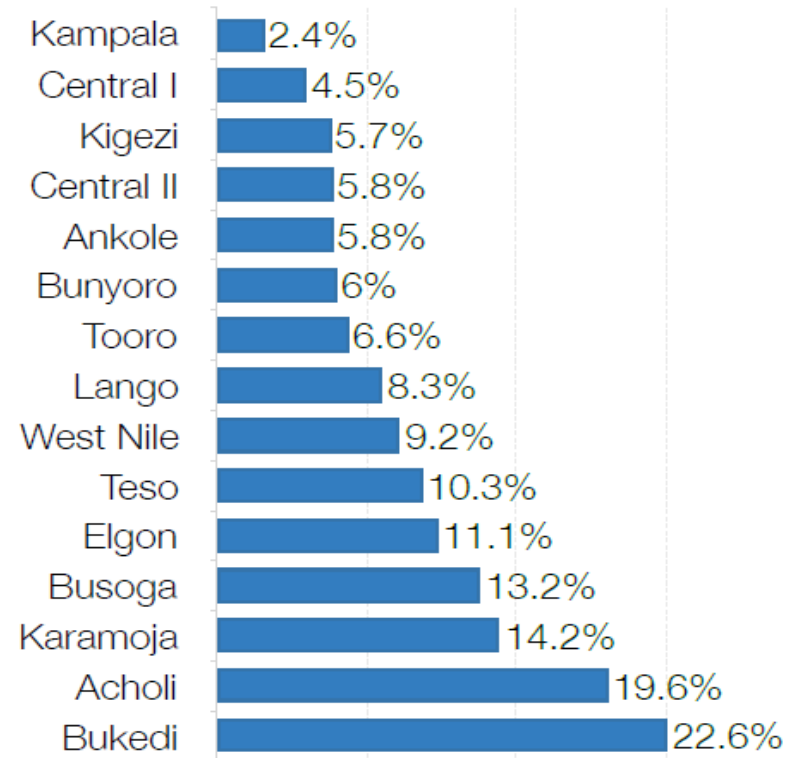
7. ... and Social Media Taxes are very Regressive (Uganda)

Uganda's excise duties on ICT Sector violate best practice principles

- Not broad-based: single out ICT sector
- Penalise positive externalities
- New taxes are not simple and enforceable
- New taxes significantly affect competition
- Regressive not progressive tax

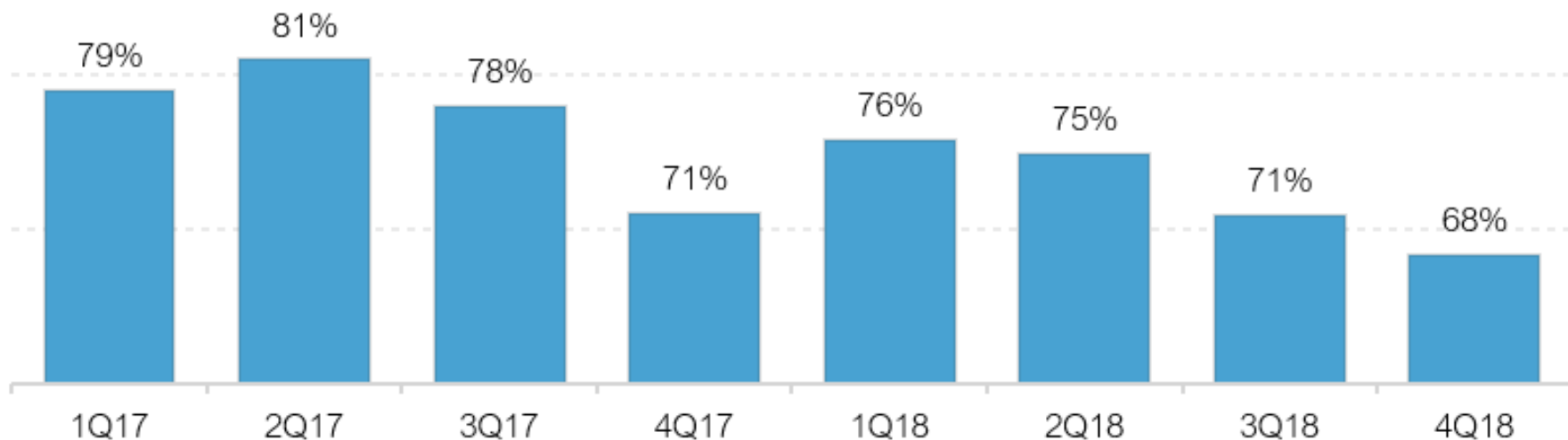
RESEARCH ICT SOLUTIONS

Social media tax of UGX 6,000 per month as % average individual income



7. ... and Social Media Taxes are very Regressive (Uganda)

Social Media Tax as % of MTN Uganda's ARPUs (Source: Esselaar & Stork, 2018a)



RESEARCH ICT SOLUTIONS

8. and they disenfranchise Women (Tanzania)

Country	Internet Users (% of population)	Gender Gap (% difference in access between men and women)
Tanzania	13%	113%
Uganda	22%	18%
Zambia	25%	32%

Source: Economist Intelligence Unit (2019), Alliance for Affordable Internet (A4AI) (2019)

+ Internet taxes introduced in Tanzania

Tanzania	<p>Online Content regulations introduced to Tanzania in 2018 mandate that online content creators, including bloggers and those running online radio stations and video (TV) services, are <u>licenced</u>.</p> <p>The initial application costs 100 Tanzanian shillings, with a 1 million Tanzanian shilling annual license free — roughly 435 US dollars (<u>Mumbers, 2018</u>).</p> <p>Those who do not comply face fines of at least 2,200 USD, a minimum 12 month jail term, or both (<u>Ng'wanakilala, 2018</u>).</p>
----------	---

Taxes can prevent people with a low-level of digital literacy from using the internet.

"[The] impact of taxes to such kind of women who already have limited skills ... will eventually make it even harder for them to be able to ... access information; there will be limited market reach, [and] limited communication because of these taxes..."

- Woman Civil Society Leader from Tanzania

9. plus they slow down an economy leading to less tax receipts (Benin)

— RESEARCH ICT SOLUTIONS

1:

ICT taxes in Benin would have slowed economy down and let to net tax loss

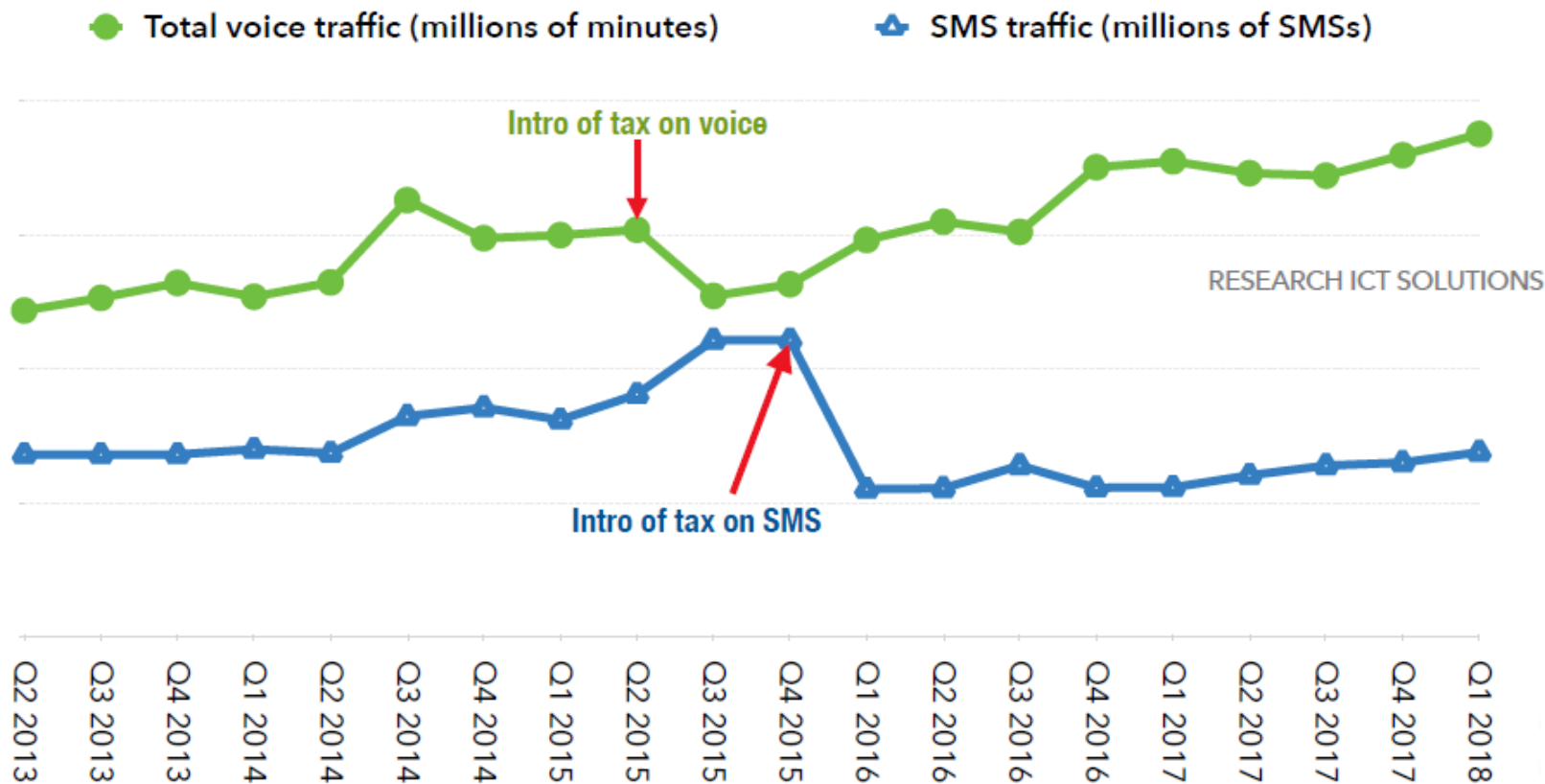
- Tax introduced on the 25th of July 2018
 - 5% of the pre-tax price for all services (voice, SMS, Internet)
 - 5 CFA tax, per megabyte
- Taxes were withdrawn on the 22nd of September 2018 after a meeting between the President and mobile operators

Tax for different types of monthly data consumption in MB

	100	500	1,000	2,000	5,000	10,000
Tax at 5 CFA per MB in CFA	500	2,500	5,000	10,000	25,000	50,000
Tax at 5 CFA per MB in USD	0.868	4.34	8.68	17.36	43.4	86.8

10. Frankly, bluntly applied ICT Taxes are generally NOT good (let us revisit Guinea)

After introducing new taxes, ICT revenues are likely to continue to grow, but from a lower base.
Example Guinea:



10. Frankly, bluntly applied ICT Specific Taxes are generally NOT good – the link between broadband penetration and GDP growth is well established

International results on impact of 10% increase in broadband penetration on GDP growth.

Authors	Countries	GDP growth
Czernich et al 2009	OECD, 1996-2007	0.9-1.5%
Koutroumpis 2018	OECD, 2002-2016	0.82-1.40%
OECD 2011	EU countries, 1980-2009	1.1%
Qiang et al 2009	Low income countries 1980-2006	1.4%
Scott 2012	Low income countries 1980-2011	1.35%
Source	Esselaar & Stork 2018a	

RESEARCH ICT SOLUTIONS

Myths



OTTs cause falling tax receipts



OTTs cause lower revenues for MNOs



OTTs aren't subject to the same regulations as MNOs



OTTs don't pay taxes



OTTs don't pay for the infrastructure they use

FACTS

1

MNO revenues are increasing and so is VAT from airtime

2

OTT applications stimulate broadband adoption and thus economic growth and tax receipts

3

Voice traffic is still growing and OTTS drive data revenues

4

Network investment in the last 15 years has been in faster data networks

5

MNOs and OTTs are in different parts of the global Internet value chain

6

ICT regulators' jurisdiction is limited to national boundaries

7

OTTs pay taxes wherever the company is incorporated

8

ICT sector is often taxed excessively

9

Each segment of the Internet Value chain comes with its own risks, opportunities, regulatory obligations and investment requirements

DATA

VOICE

© RIS 2019

Source: Stork, Nwana, Essellar & Koyabe (2020)



COMMONWEALTH
TELECOMMUNICATIONS
ORGANISATION

Over The Top (OTT) Applications & the Internet Value Chain

Recommendations to Regulators, Policy
Makers and Tax Authorities



Authors

Christoph Stork, H. Sama Nwana, Steve Esselaar and Martin Koyabe

About Cenerva

Publish objective
Ofcom-type regulatory
analyses

Train regulators,
operators, Ministries,
Banks, etc.

**A TRMC Training -led
Consultancy**

TELECOMMUNICATIONS, MEDIA & TECHNOLOGY (TMT) FOR DEVELOPING ECONOMIES

How to make TMT Improve
Developing Economies in
Africa and Elsewhere
for the 2020s



H. SAMA NWANA

**Cenerva acquired ICC-UK TRMC
Assets in June 2018**



**Blockchain Technologies & Mobile Financial
Services for Developing and Emerging Markets –
Piloting Blockchains for Success**



As of June 2021 ...

- Boutique Training-led consultancy based in London, UK
- Owner of Telecoms Regulatory Master Class (TRMC)
- Managing Partners: Professor H Sama Nwana and James Wild
- 8 Consultants, including 3 ex-Ofcom
- 3 non-exec/exec advisors
- 80+ top associates worldwide
- 2020 combined revenue of £1.3M
- Blue chip clients incl. World Bank, ICASA, BOCRA, NCC Nigeria, LCA Lesotho, Facebook, Ofcom, Microsoft, MPT (Myanmar) etc.
- Train the Trainers Partner of the GSMA (on Regulatory/Tax Courses)
- Executive TMT training accreditation with/from the University of Strathclyde, UK)

