Good intentions, poor outcomes: SA telecom reform in review

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i-week, 2 September 2009 Johannesburg

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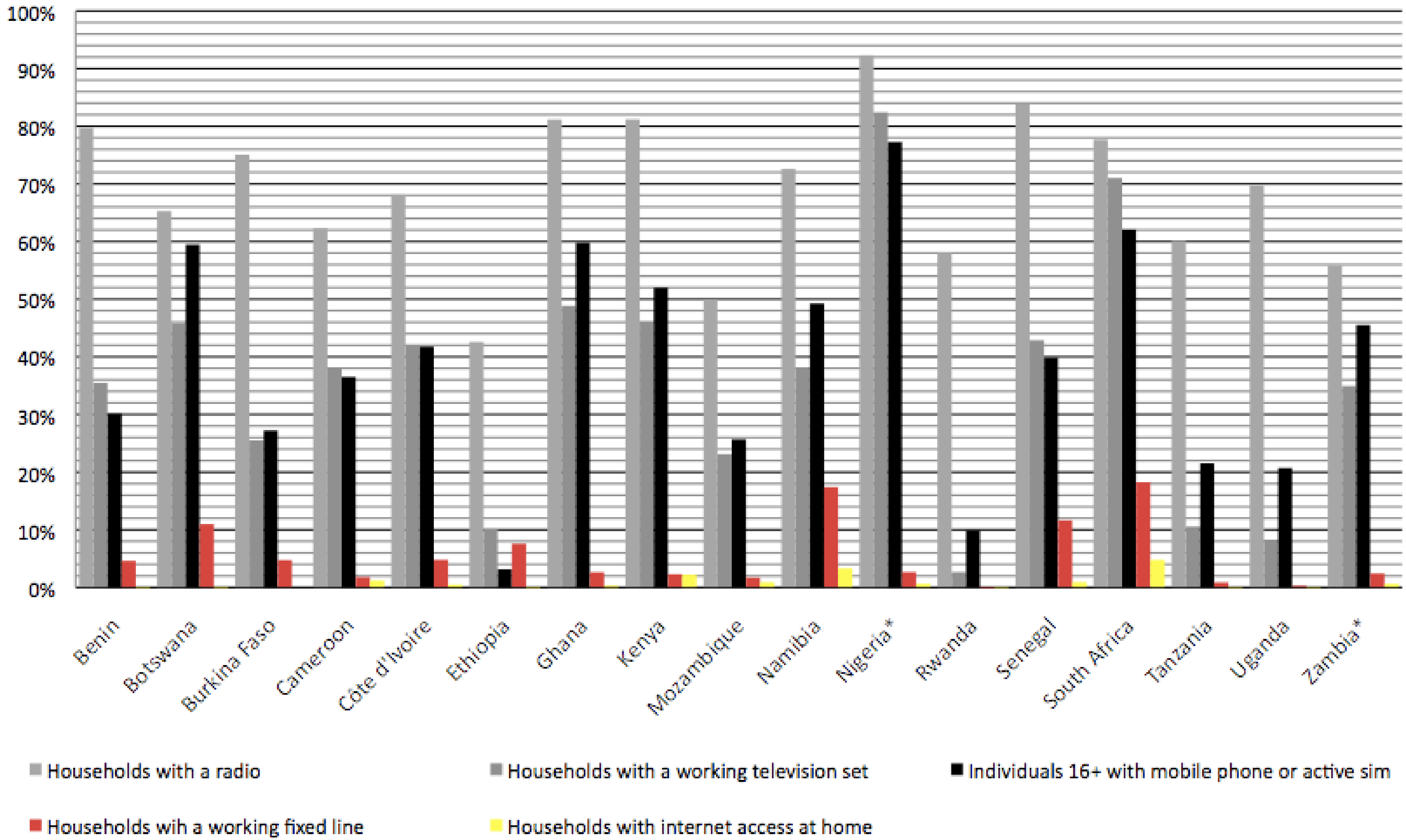
Research ICT Africa

- Network of researchers conducting ICT policy and regulatory research in 20 African countries across the continent in the absence of data and analysis required for evidence based policy
- Policy research based on series of supply and demand side research undertaken by 20 country African research network which is triangulated with a telecommunications regulatory environment survey

Household communications ownership



* Results for Zambia and Nigeria are extrapolations at the national level but are not nationally representative

RIA 2007/2008 Household and Individual User Survey

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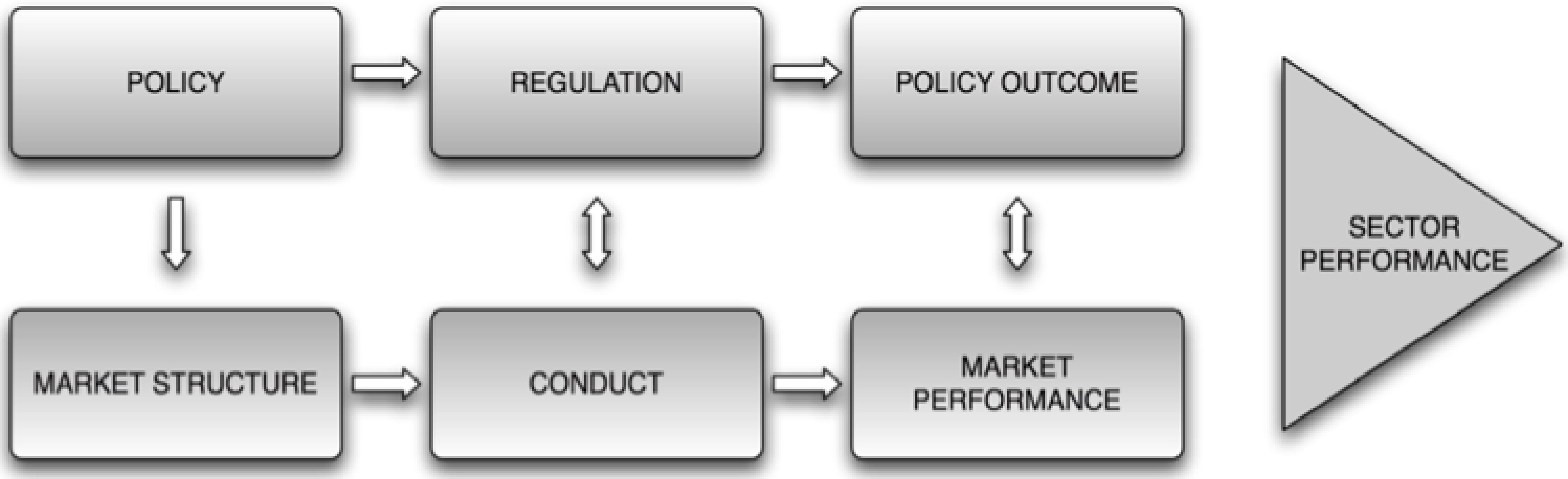
Policy, regulation, market linkages

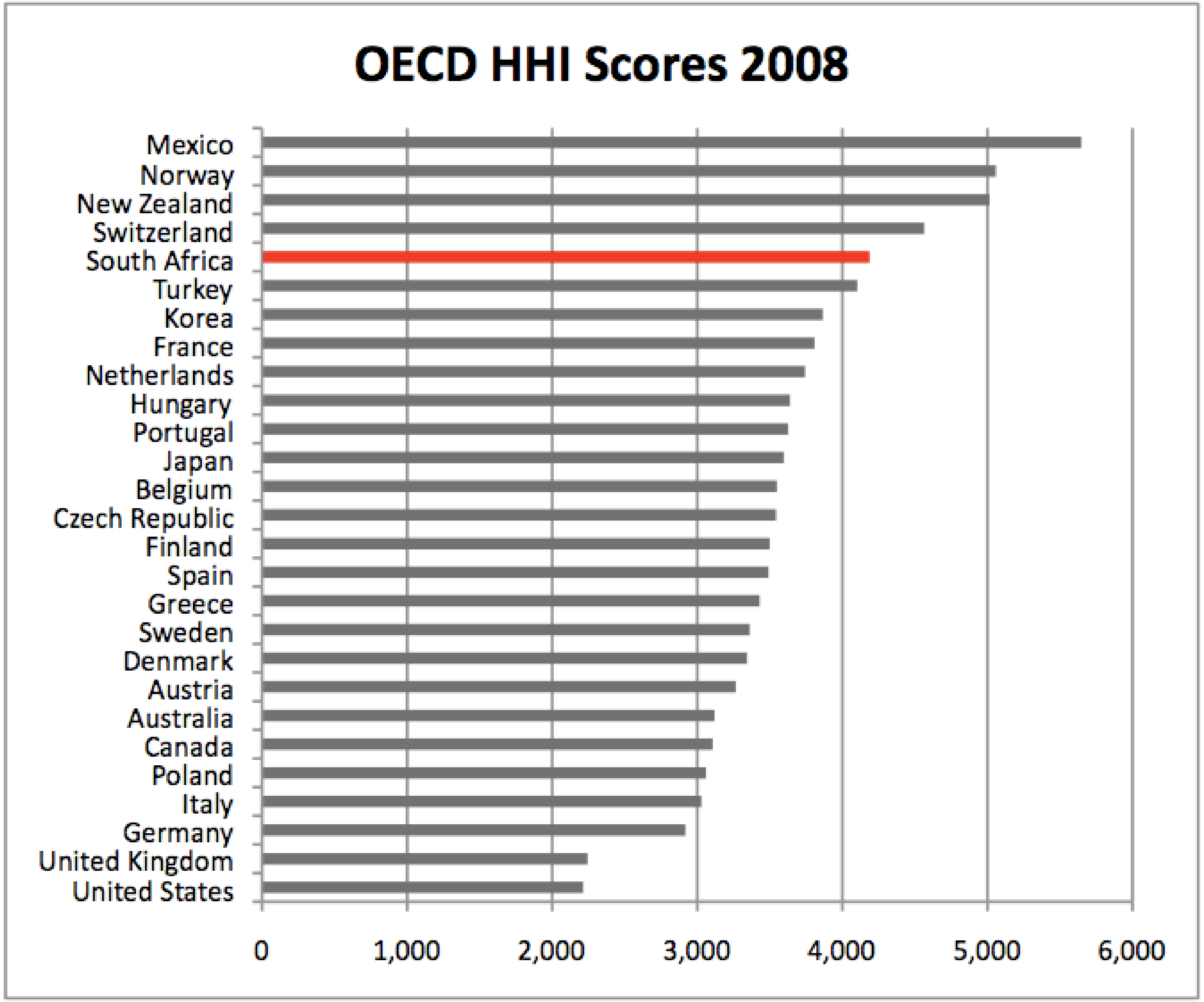


Policy/Law

- ECA - no guiding policy, no vision for sector
- ICASA Act - Ministerial veto power removed but Council appointment powers
- Extension of state state ownership and conflicts of interest
- Ministerial directives
- Relief from the courts -Altech declarator but regulatory bottlenecks may nullify gains

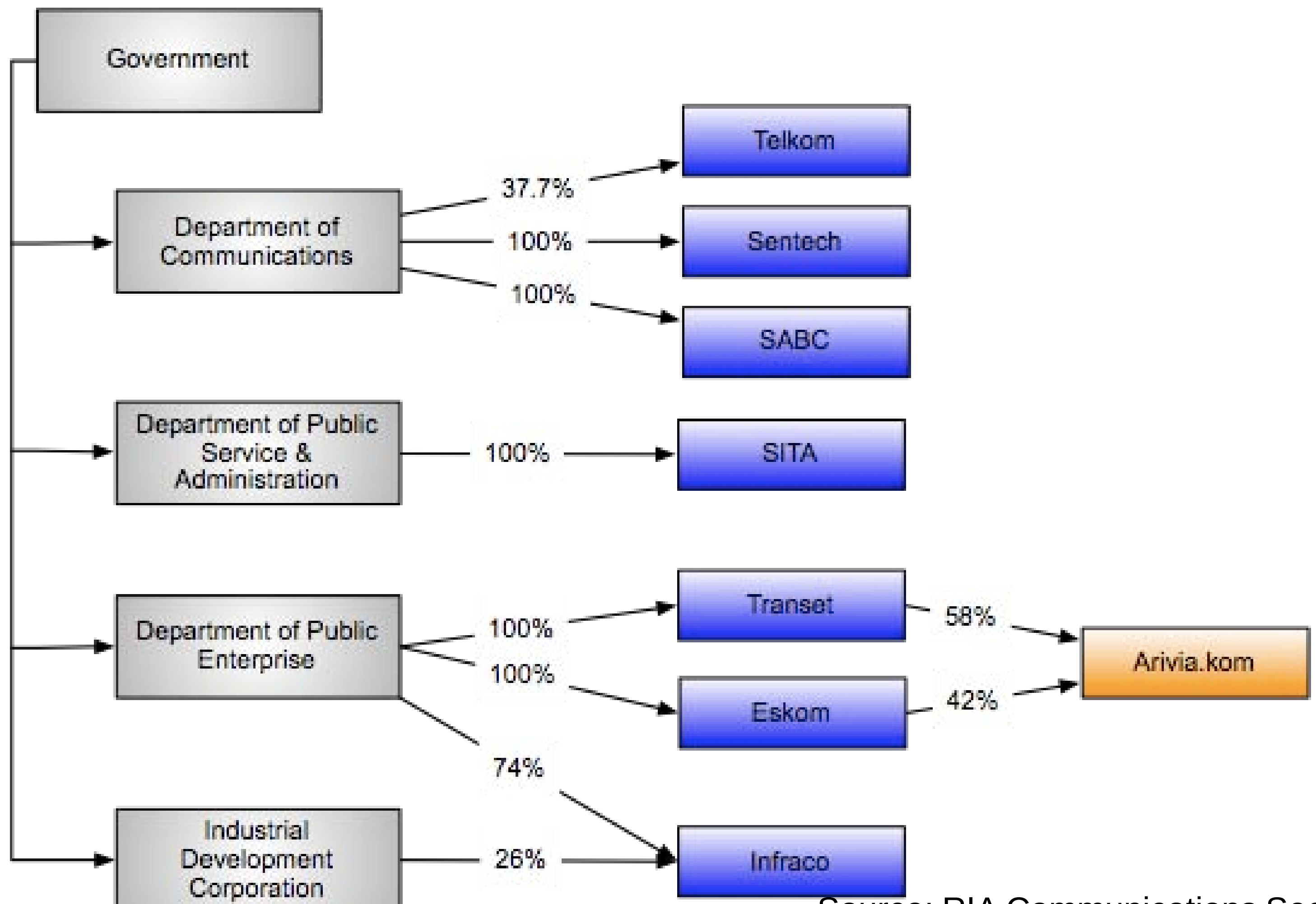
Market structure/conduct

- Despite horizontal licensing regime, operators remain vertically integrated with same patterns of dominance
- Anti competitive incentive in market remain requiring constant adjustment by regulator
- Regulator largely ineffectual due to constraints on authority and lack of competencies.



Source: RIA Communications Sector Performance Review 2009

State ownership



Source: RIA Communications Sector Performance Review 2009

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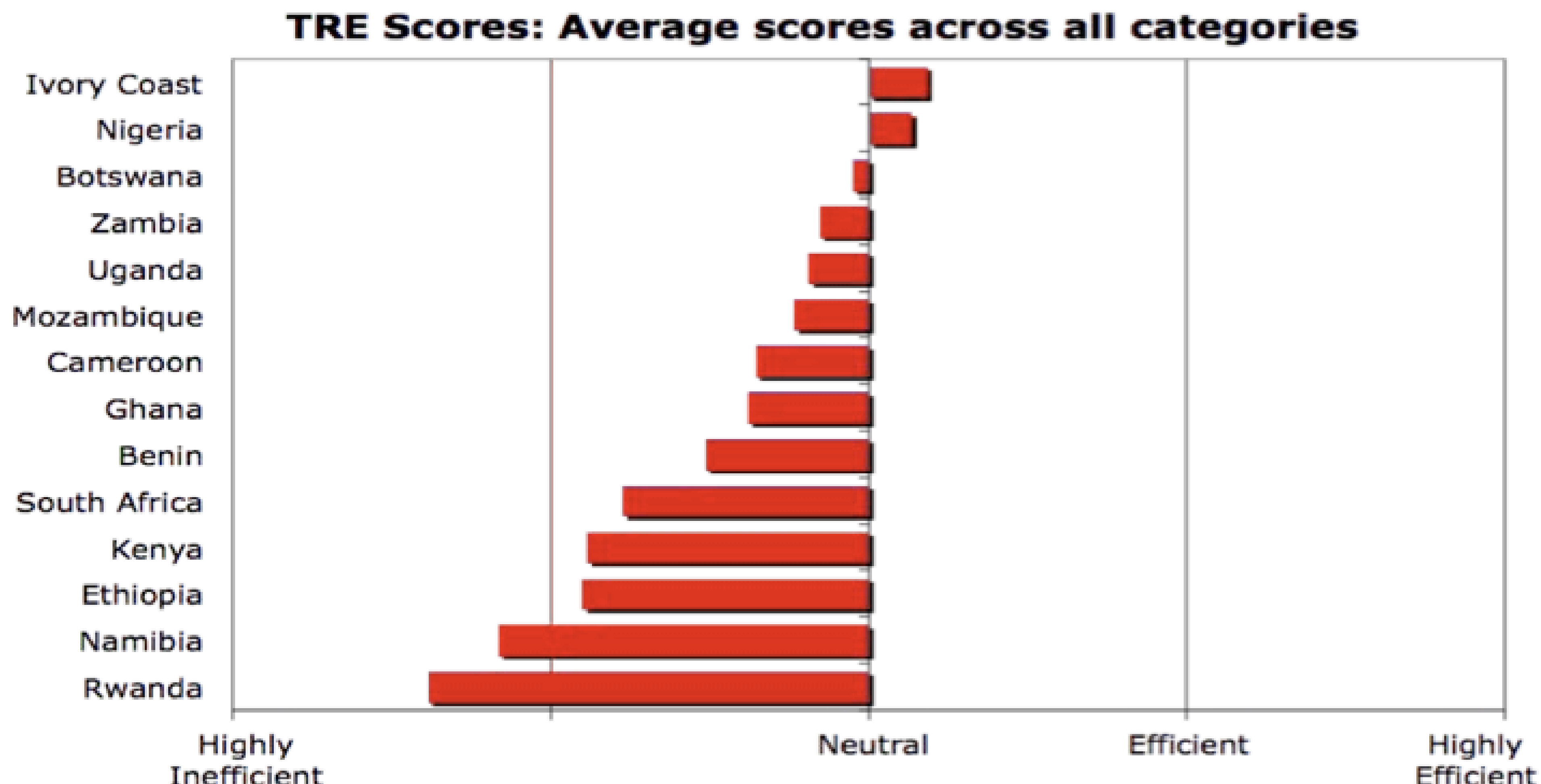
Regulation

- Resource intensive access regulation
- Human capability and institutional capacity constraint
- Independence and accountability
- Information asymmetries

Telecommunications regulatory environment (2006/7)



RIA 2006/2007 Telecommunications Regulatory Environment survey

Telecommunications regulatory environment

Fixed line sector	
Market entry	Ineffective
Access to scarce resources	Ineffective
Interconnection & Facilities	Ineffective
Regulation of anti-competitive practices	Ineffective
Universal service obligations	Ineffective

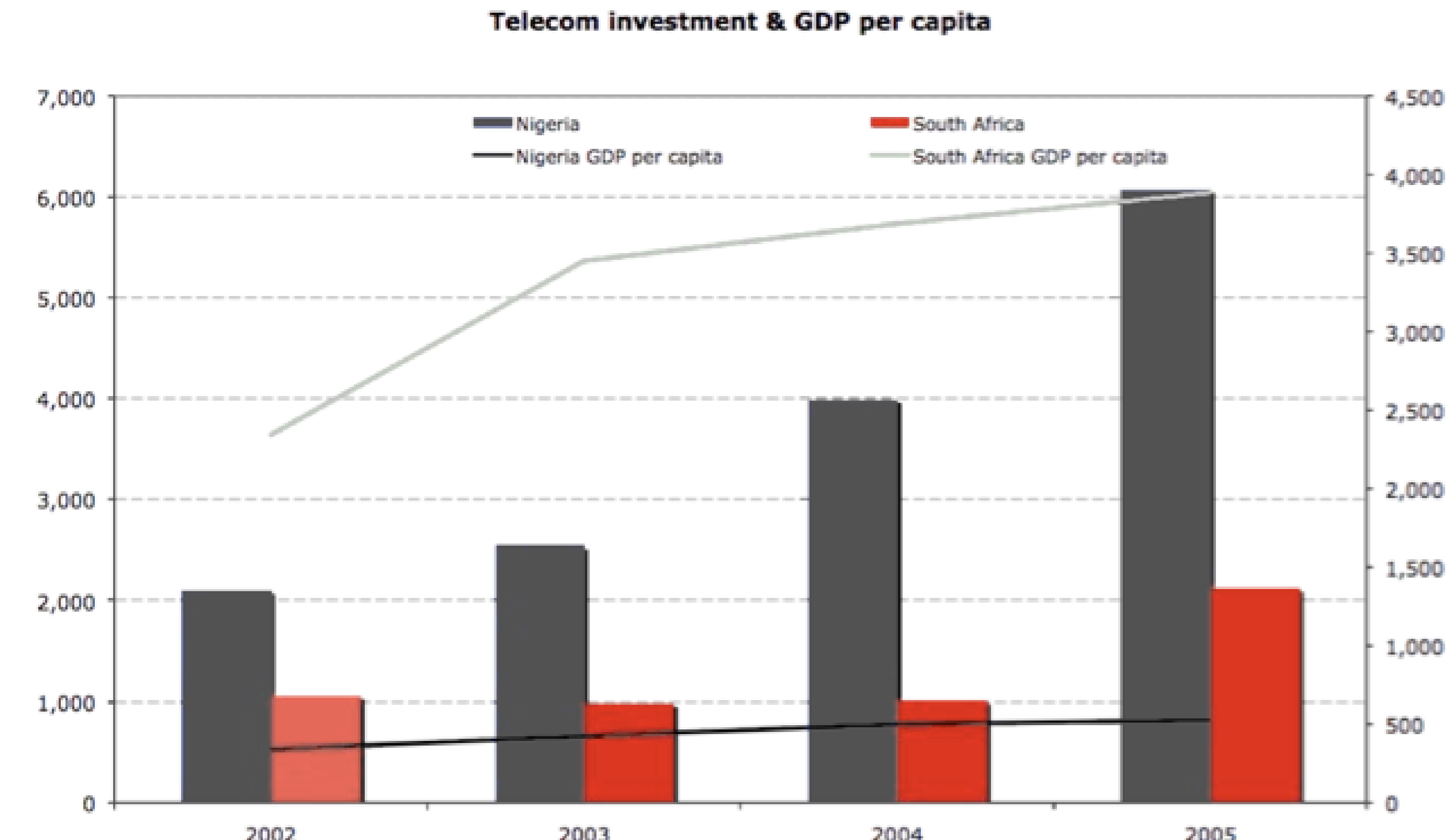
Mobile sector	
Market entry	Neither effective nor ineffective
Access to scarce resources	Ineffective
Interconnection & Facilities	Ineffective
Regulation of anti-competitive practices	Highly ineffective
Universal service obligations	Neither effective nor ineffective

Vans sector	
Market entry	Ineffective
Access to scarce resources	Ineffective
Interconnection & Facilities	Ineffective
Regulation of anti-competitive practices	Ineffective
Universal service obligations	Ineffective

Institutional design and delivery

- Statutory process and delays
- Licensing - some resolution in the courts
- Interconnection - not concluded - Chap 10
- Essential facilities - Hearings March 2008
- Spectrum - revised band plan delayed
- LLU - delayed resume in November

Comparative FDI: SA vs Nigeria



Source: RIA Communications Sector Performance Review 2006

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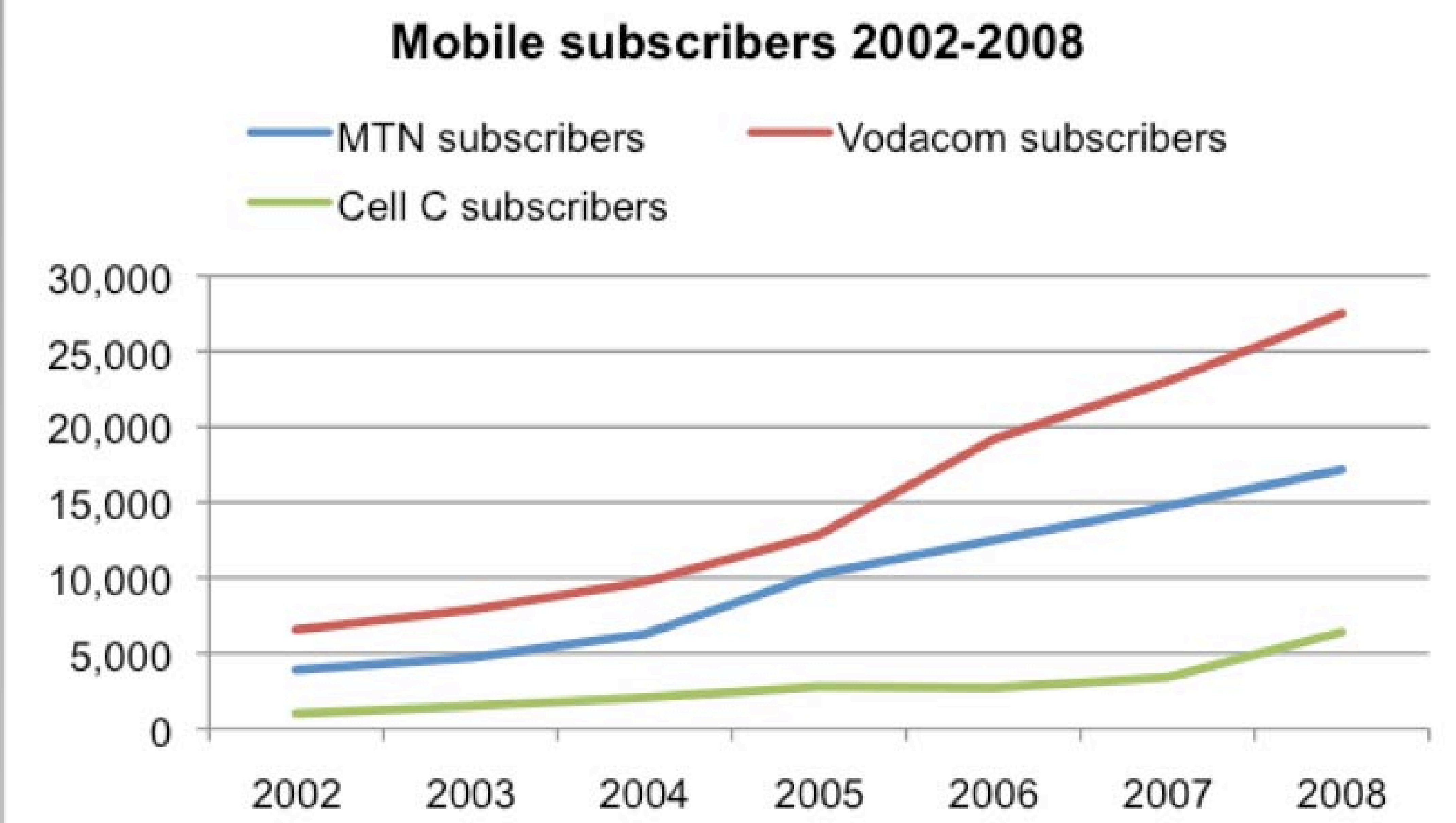
Market performance as policy outcomes

- Inefficient and expensive
- Lack of access to full range of service
- High cost of services
- High input cost to business
- Not globally competitive

Mobile subscribers - 65 million



Source: RIA Communications Sector Performance Review 2009

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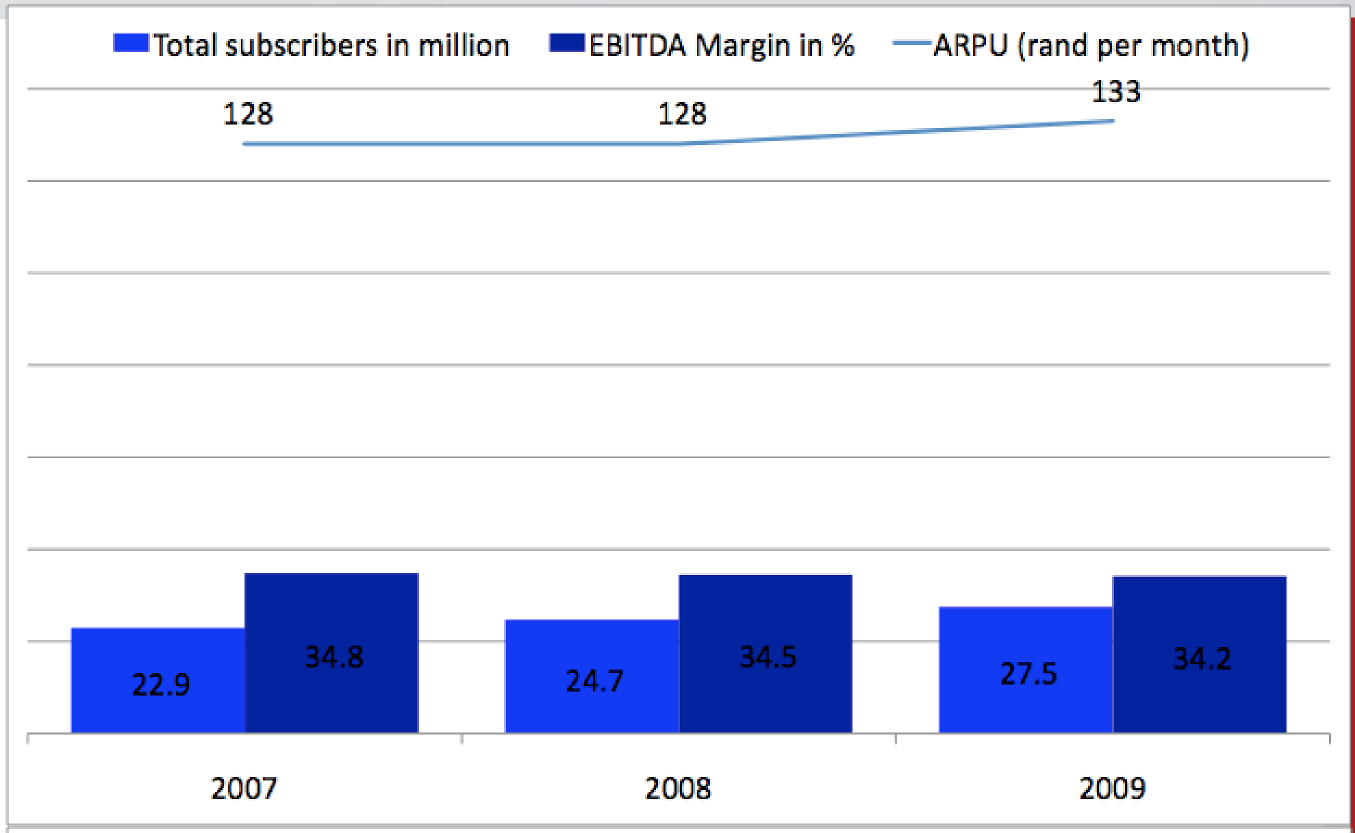
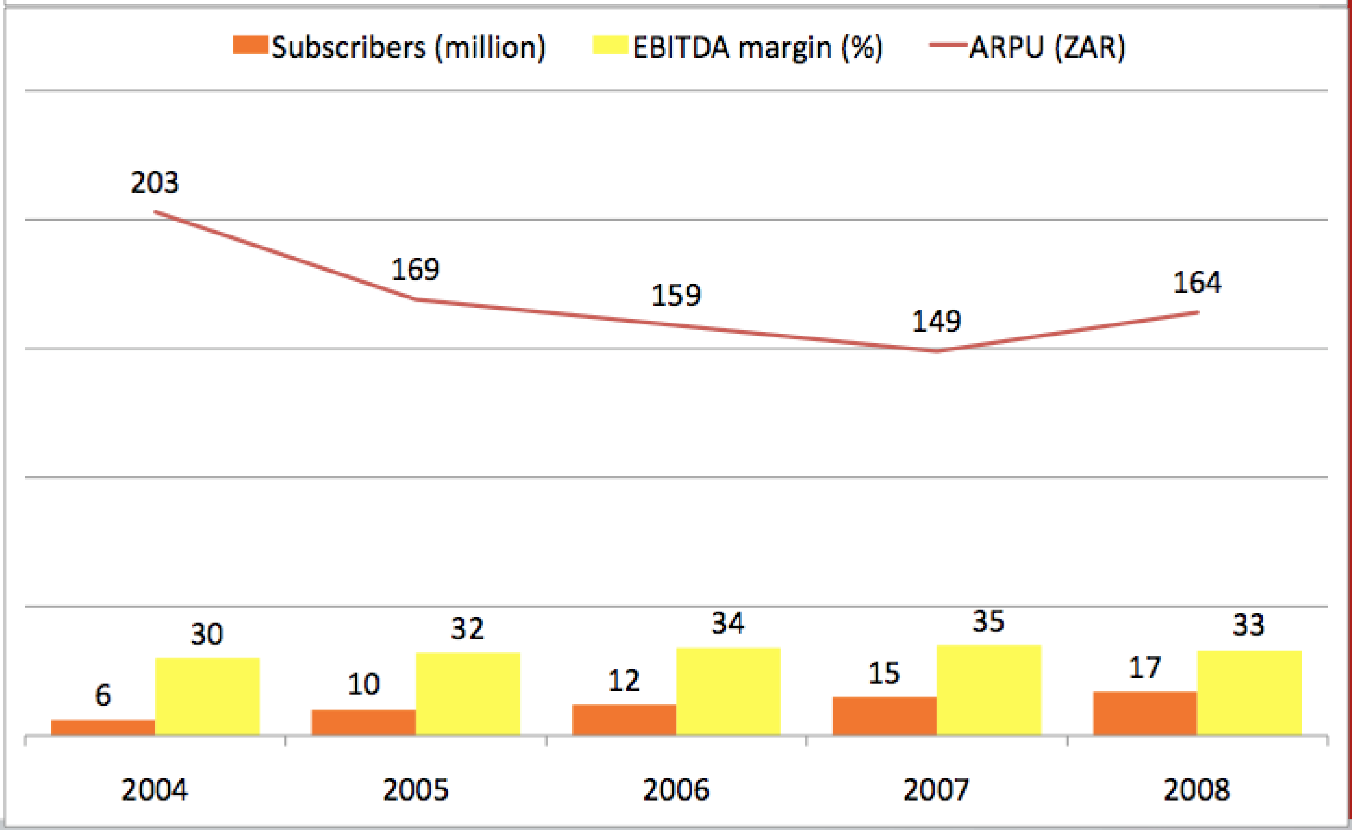
Vodacom South Africa



MTN South Africa



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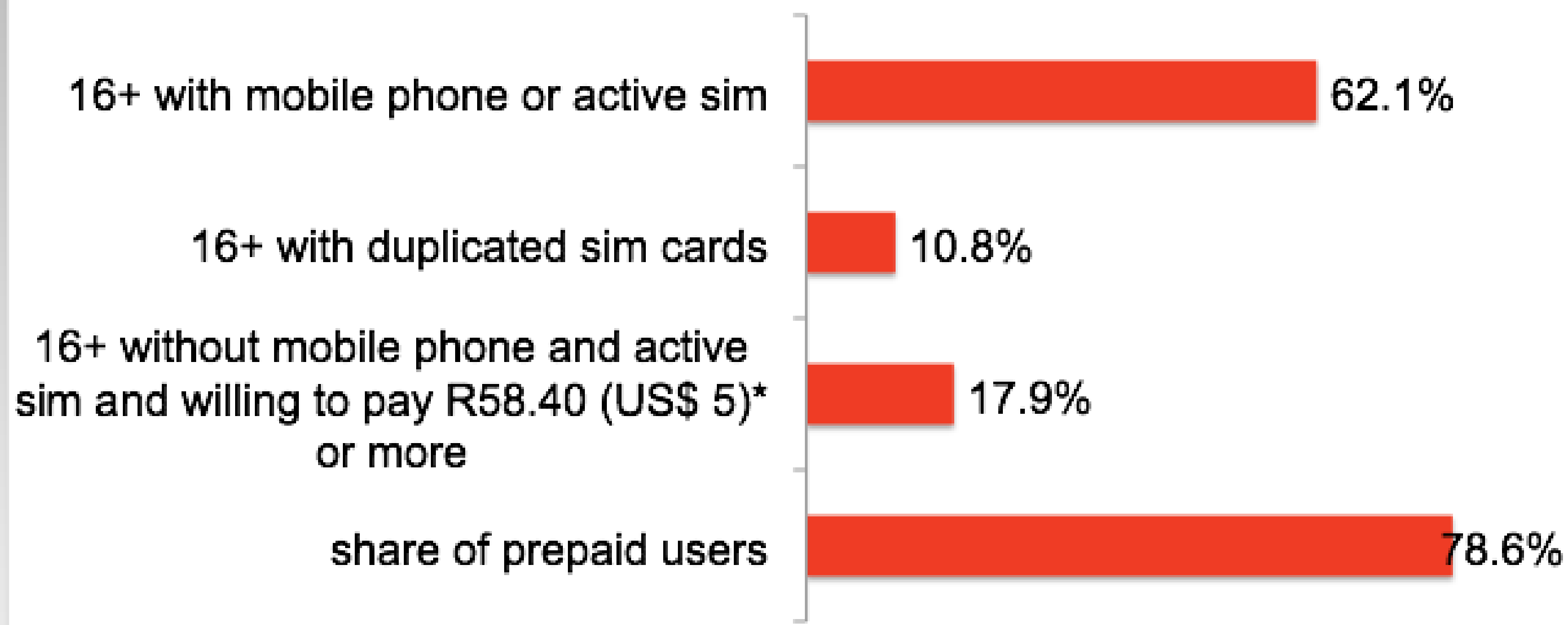
Mobile phone users

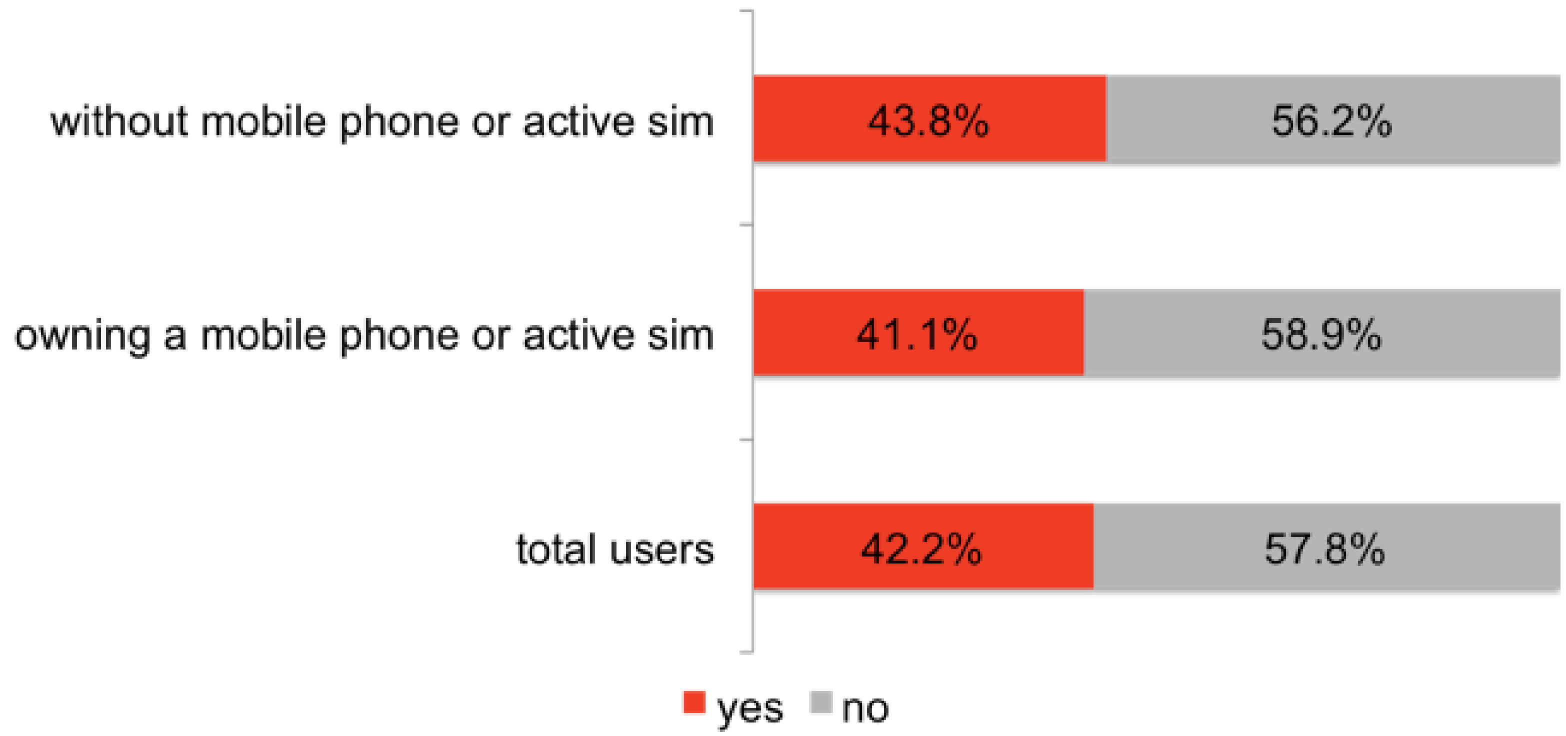


Average monthly WTP for mobile expenditure of non-users that would be interested in getting a mobile phone - R 46.70 (US$ 4.40)*

* At Dec 2007 prices and exchange rates

RIA 2007/2008 Household and Individual User Survey

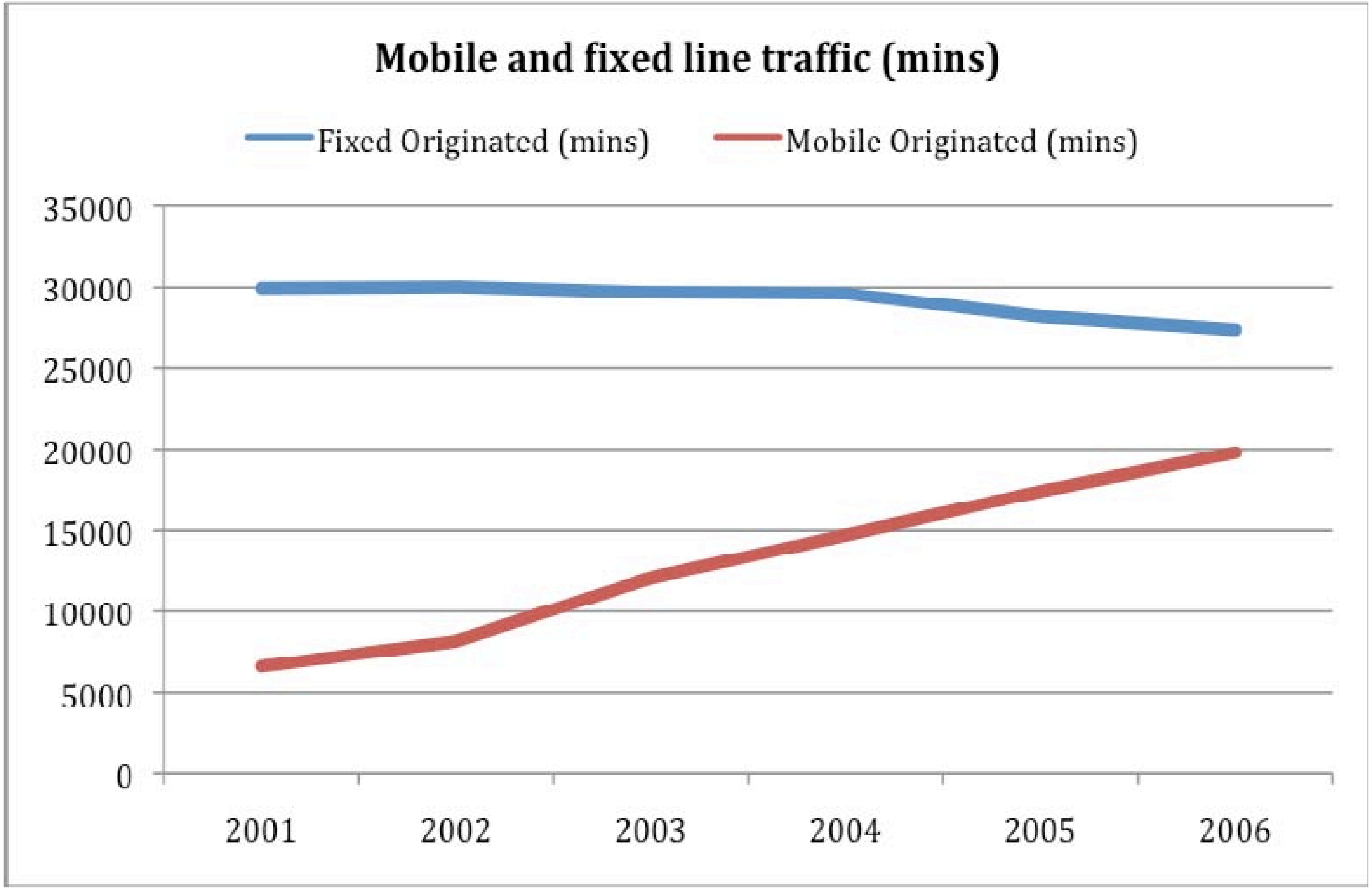
Have you used a public phone in the last three months?



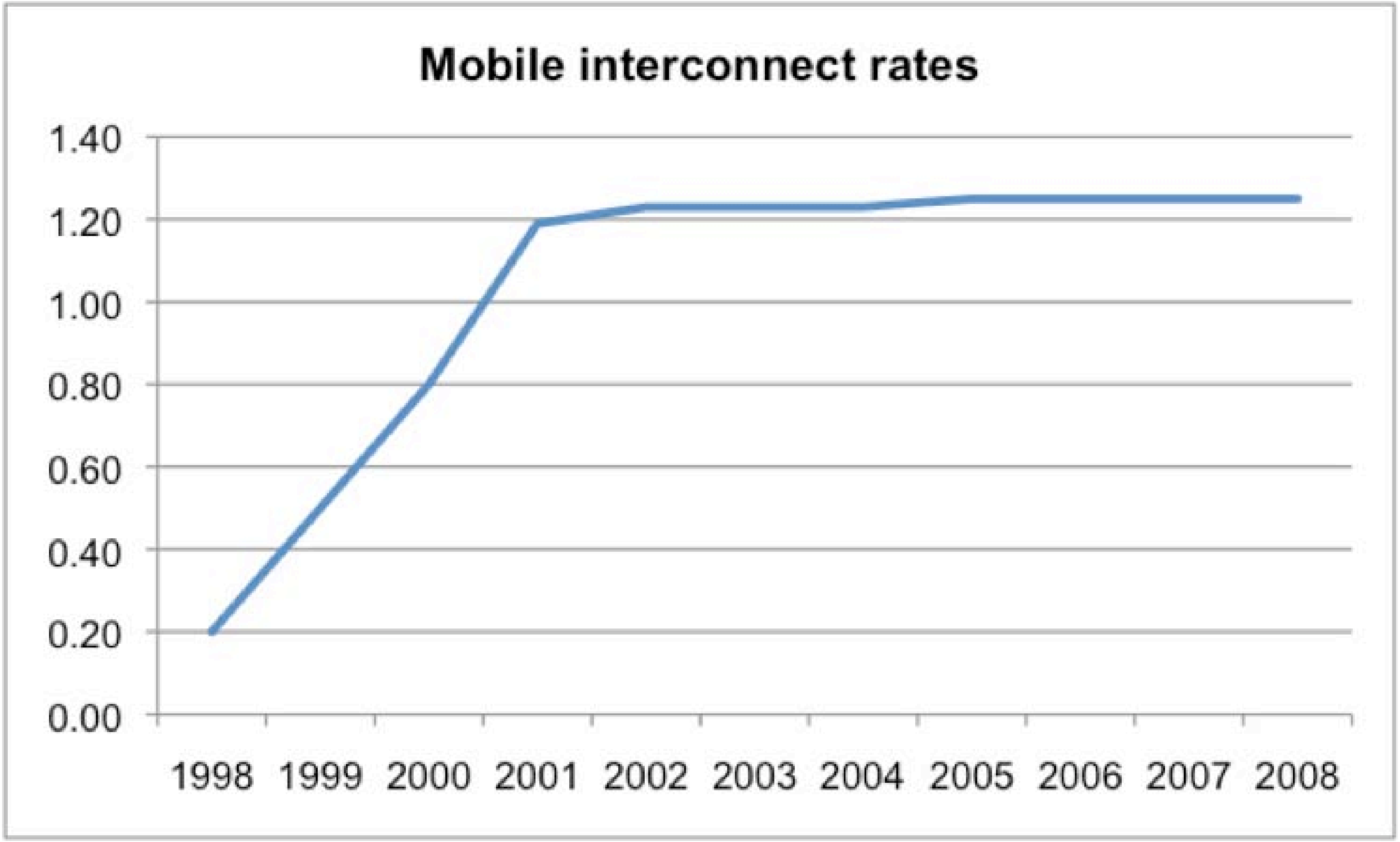
Average monthly public phone expenditure – R 34.82 (US$ 3.24)*

* Exchange rates at Dec 2007

RIA 2007/2008 Household and Individual User Survey

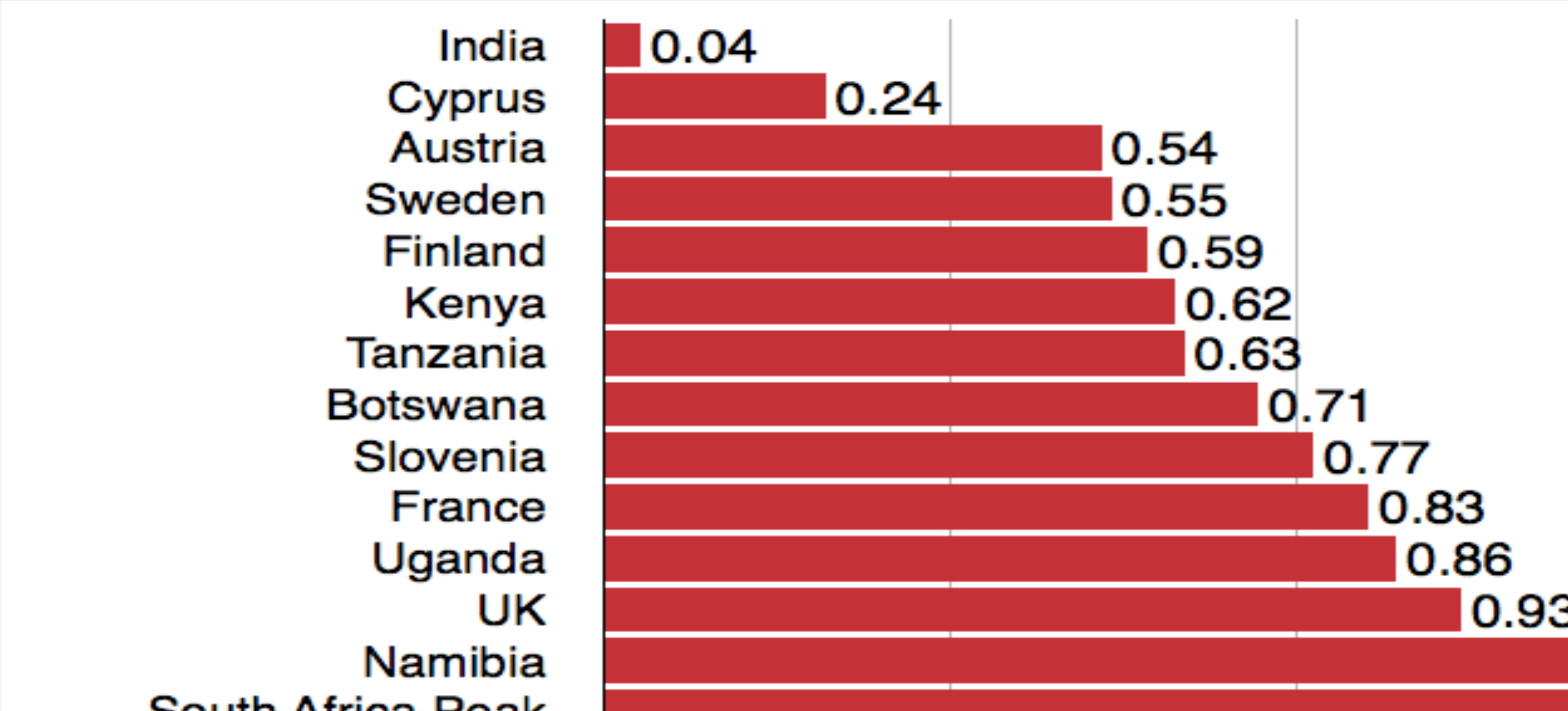


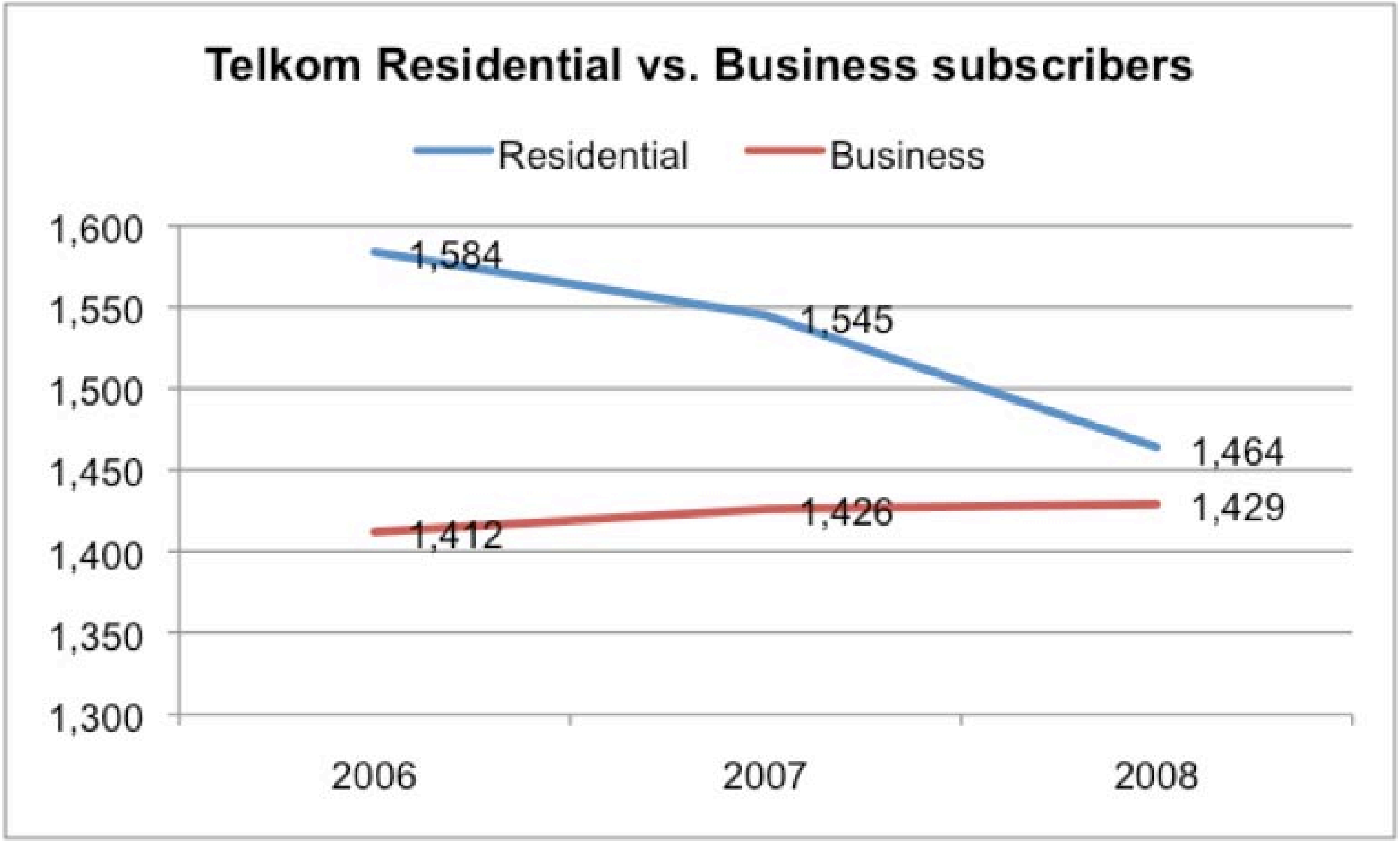
Mobile and fixed line traffic (mins)
Fixed Originated (mins)
Mobile Originated (mins)
35000
30000
25000
20000
15000
10000
5000
0
2001
2002
2003
2004
2005
2006



Source: RIA Communications Sector Performance Review 2009

Termination Rates April 2009





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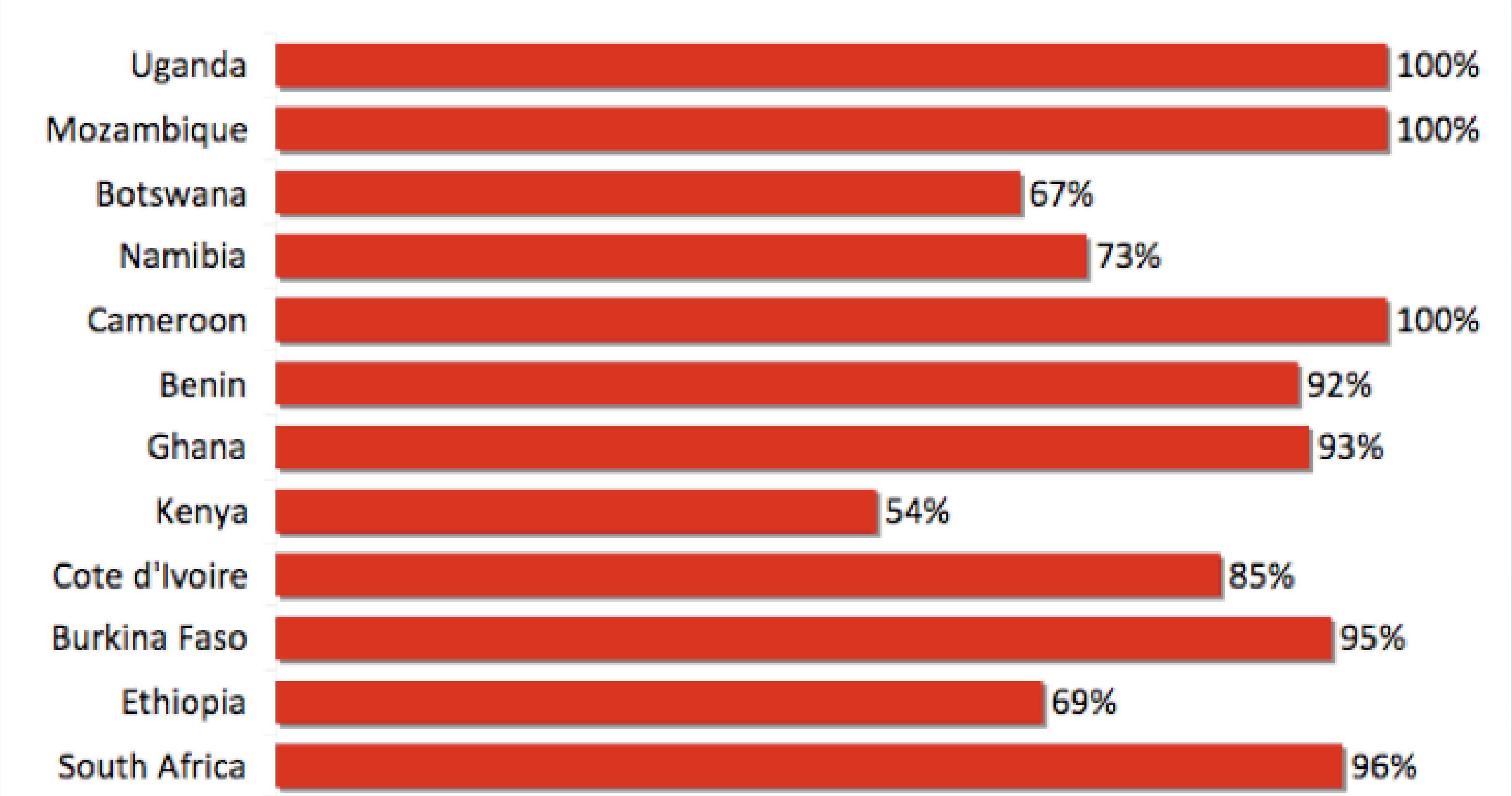
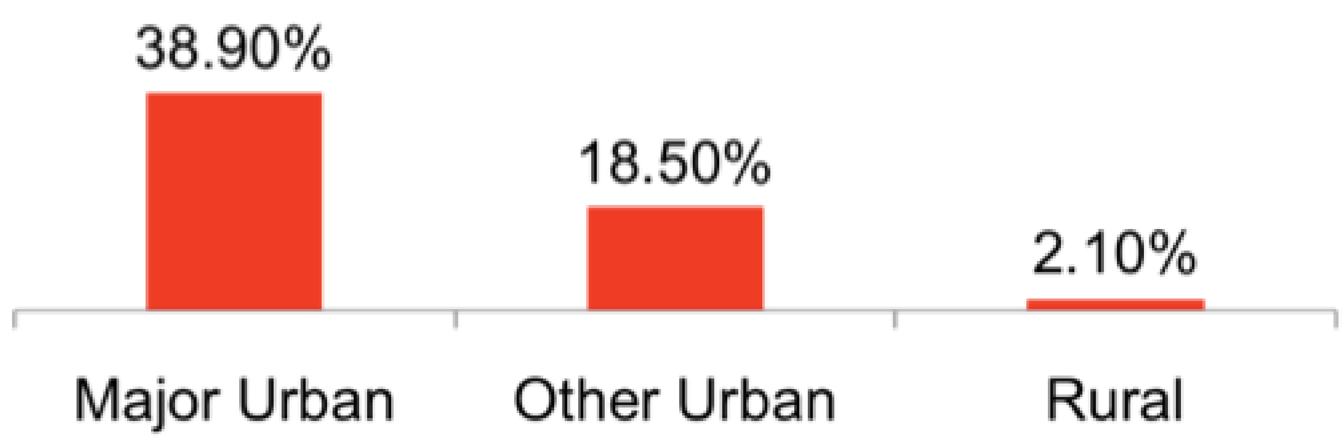
Urban share of residential fixed lines



RIA 2007/2008 Household and Individual User Survey

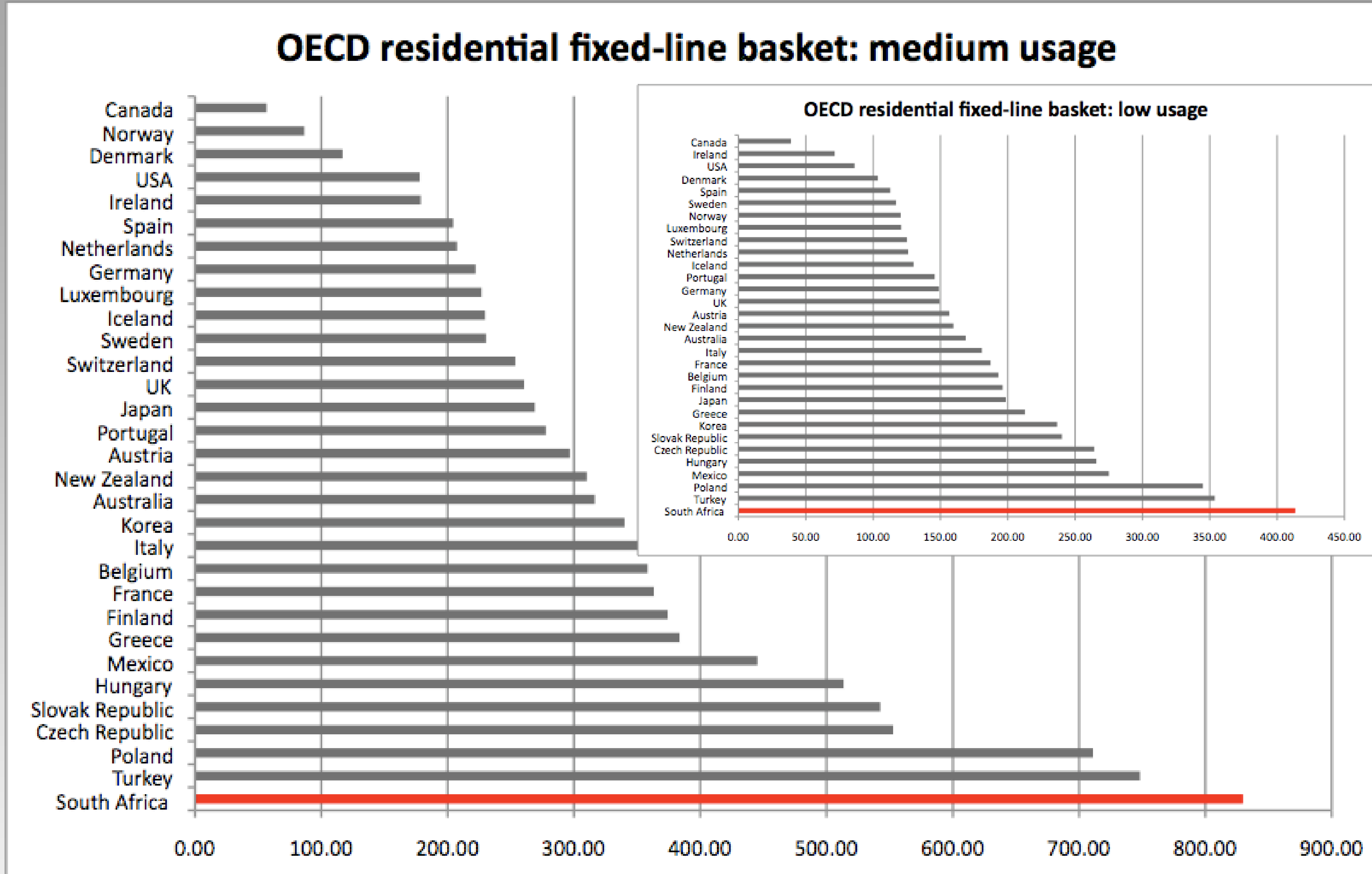
Households with a working fixed line



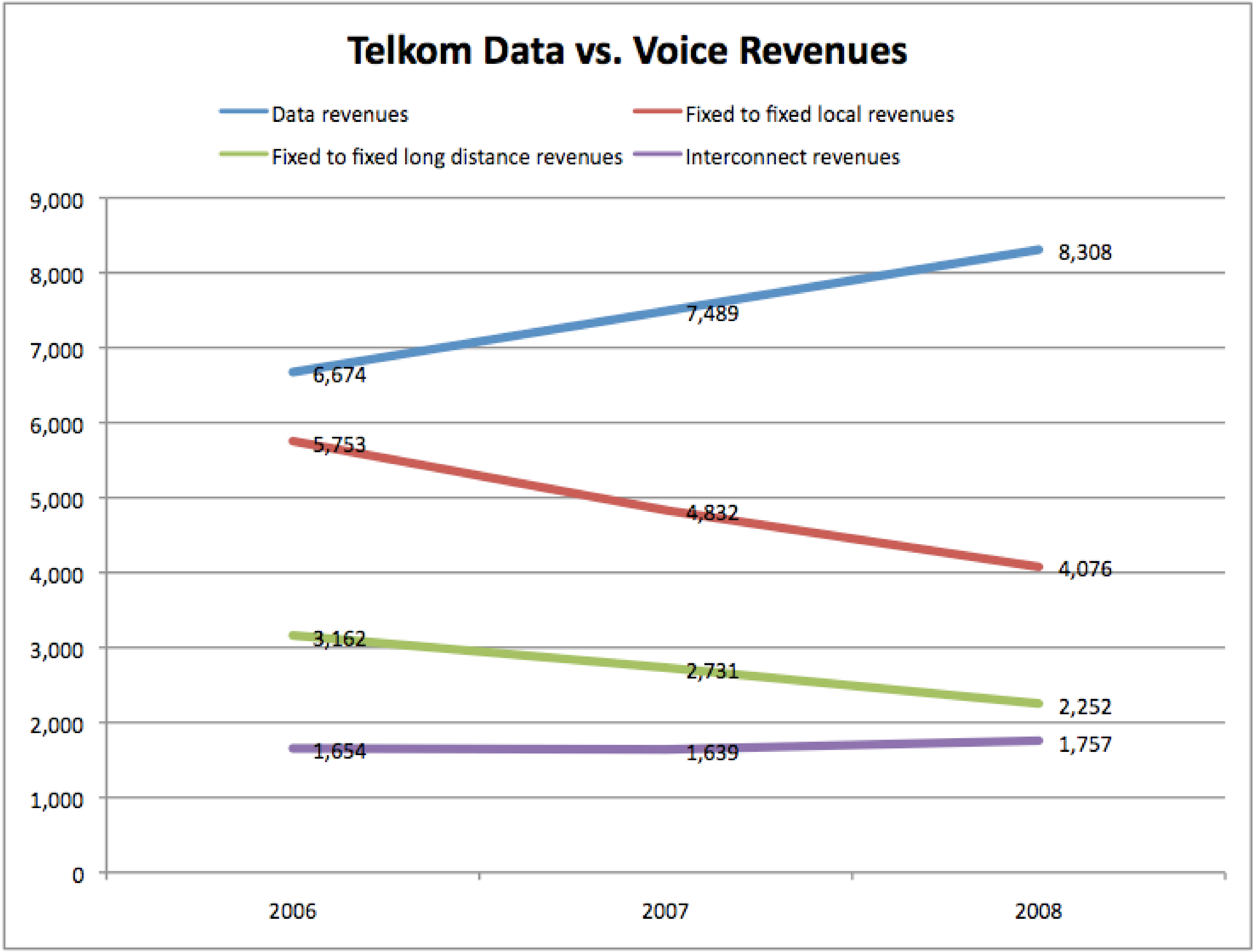
- Households with working fixed line – **18.2%**
- Urban share of total working fixed lines – **95.7%**

- Average monthly fixed line expenditure – **US$ 31.31**
- Average monthly price a household without fixed-line is willing to pay for the service – **US$ 3.05**

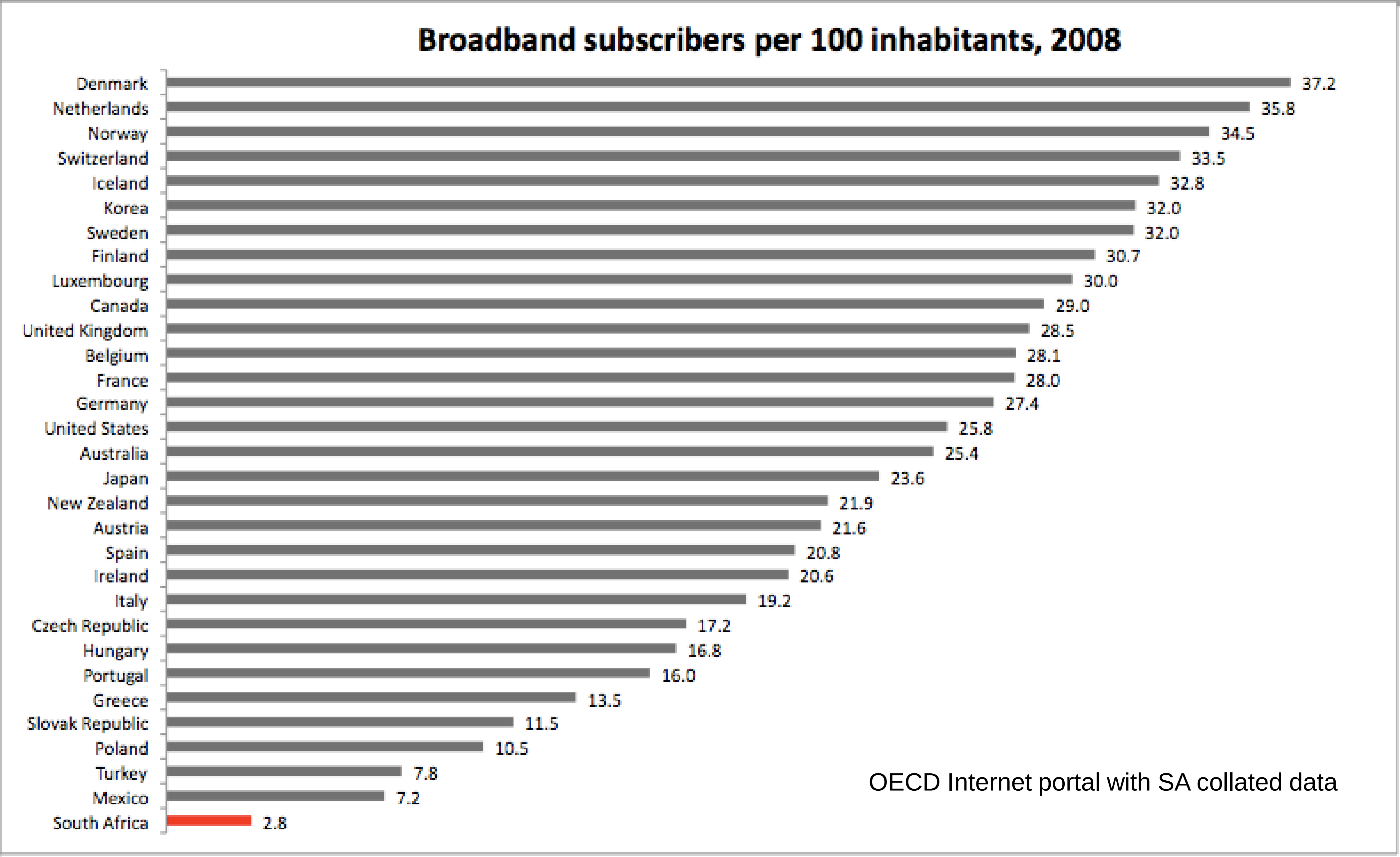
RIA 2007/2008 Household and Individual User Survey



Source: RIA Communications Sector Performance Review 2009



Source: RIA Communications Sector Performance Review 2009 - Telkom Annual Reports



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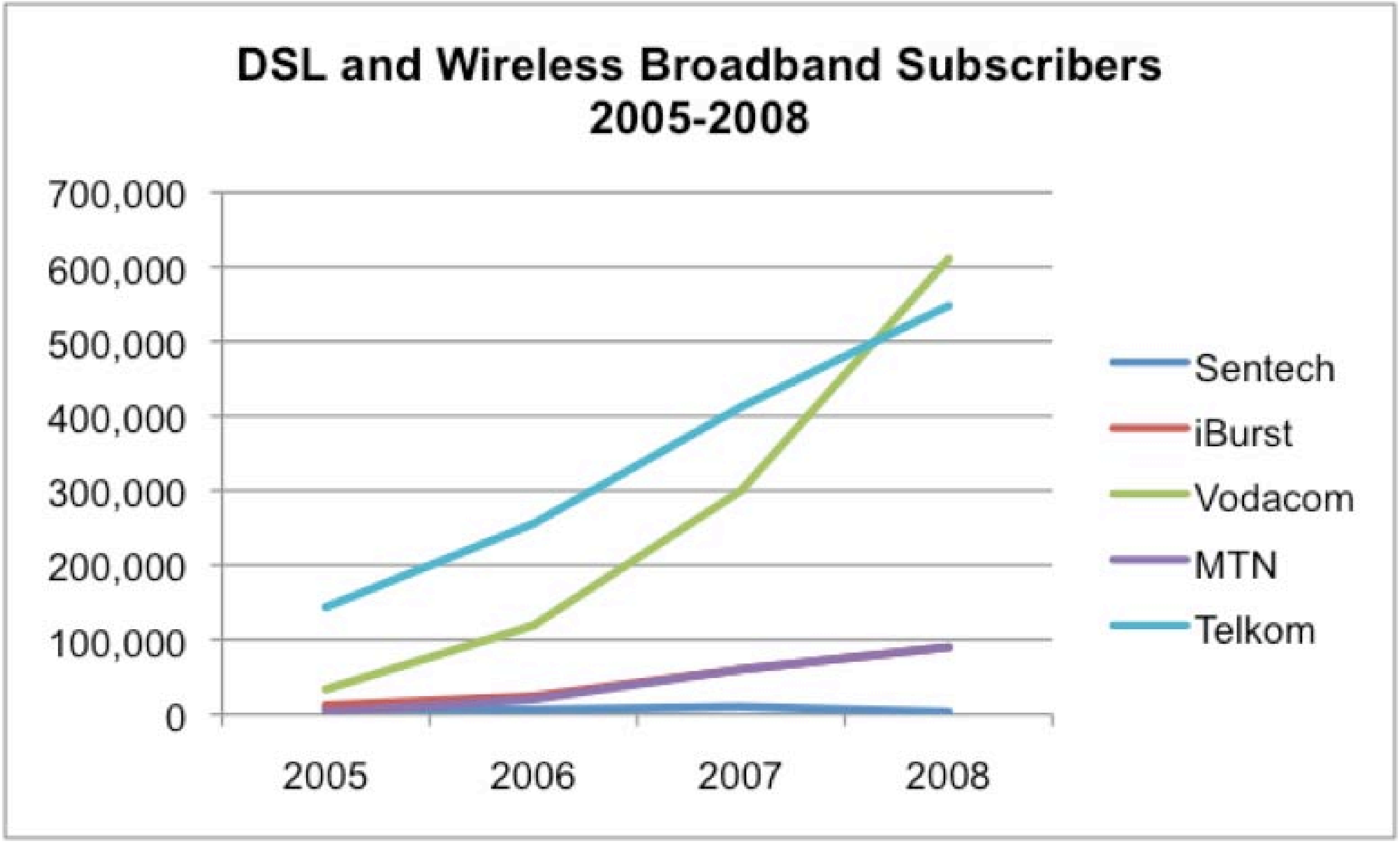
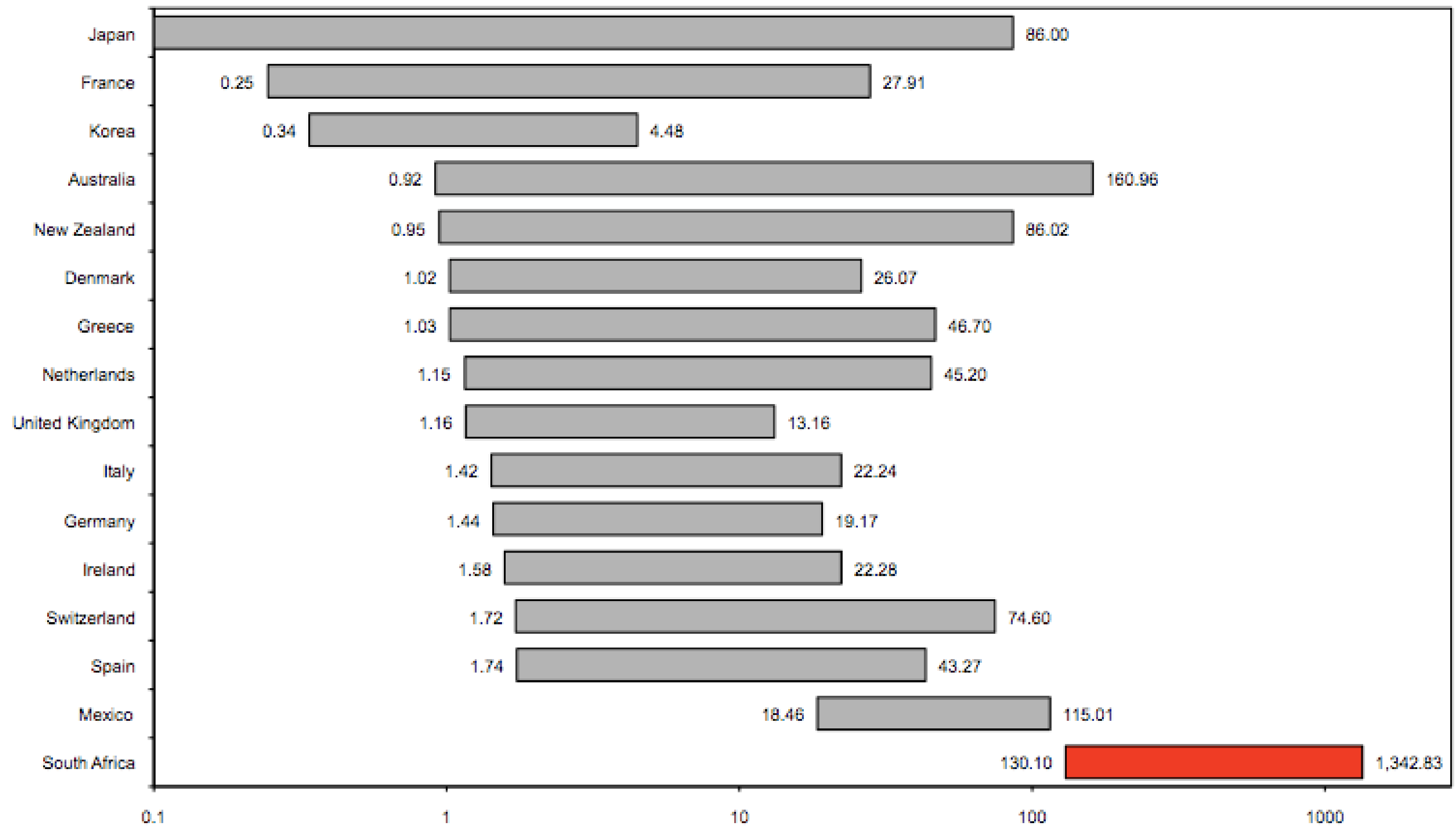


Source: RIA Communications Sector Performance Review 2009 - Annual Reports, World Wide Worx

Range of OECD broadband (Sep 2008) and SA ADSL prices (Aug 2009) per megabits per second of advertised speed, in USD PPP

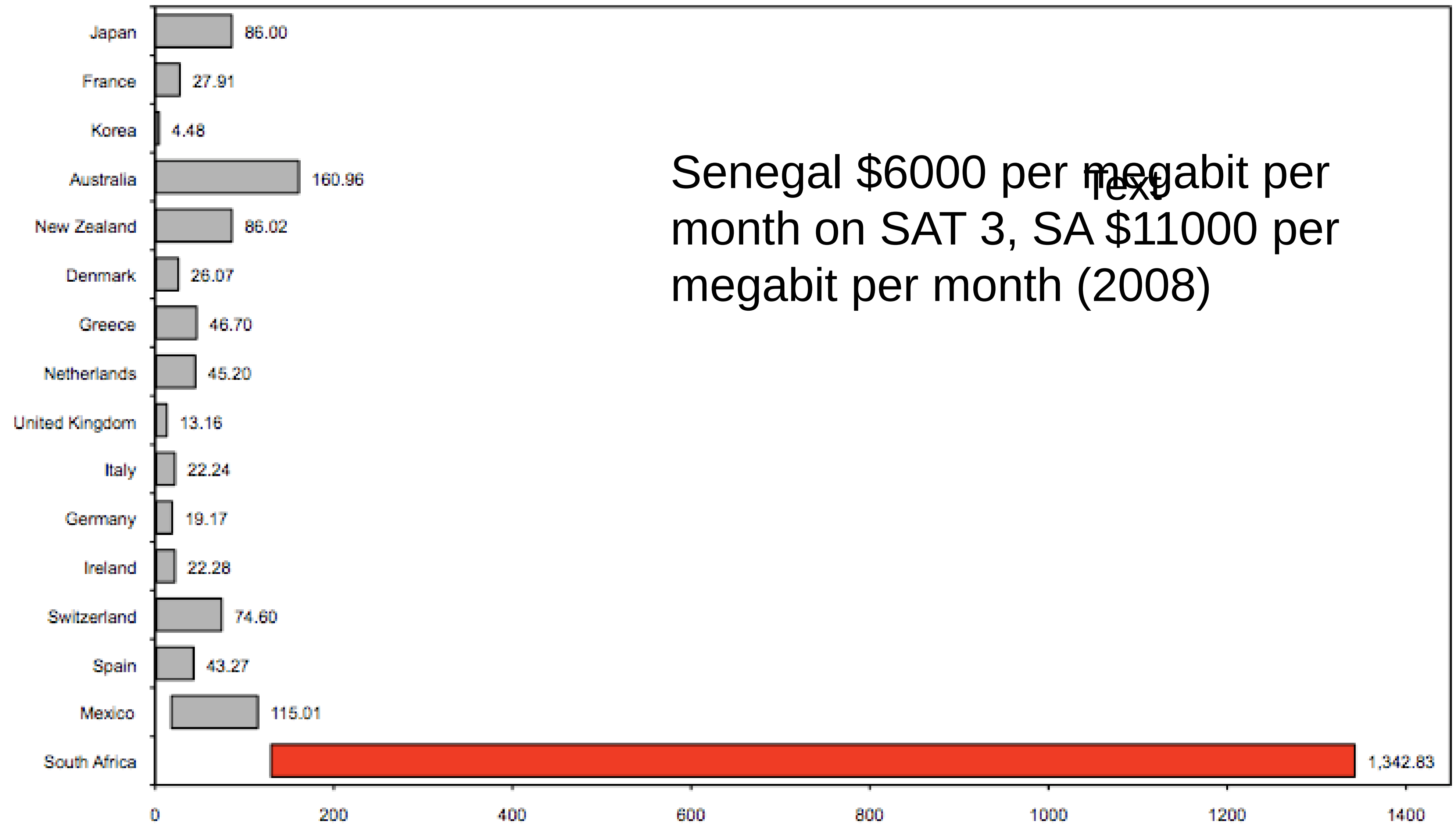


US$ per megabit, logarithmic scale

Data from OECD Communications Outlook, SA pricing data from Hellkom.co.za

Source: RIA Communications Sector Performance Review 2009

Range of OECD broadband (Sep 2008) and SA ADSL prices (Aug 2009) per megabits per second of advertised speed, in USD PPP



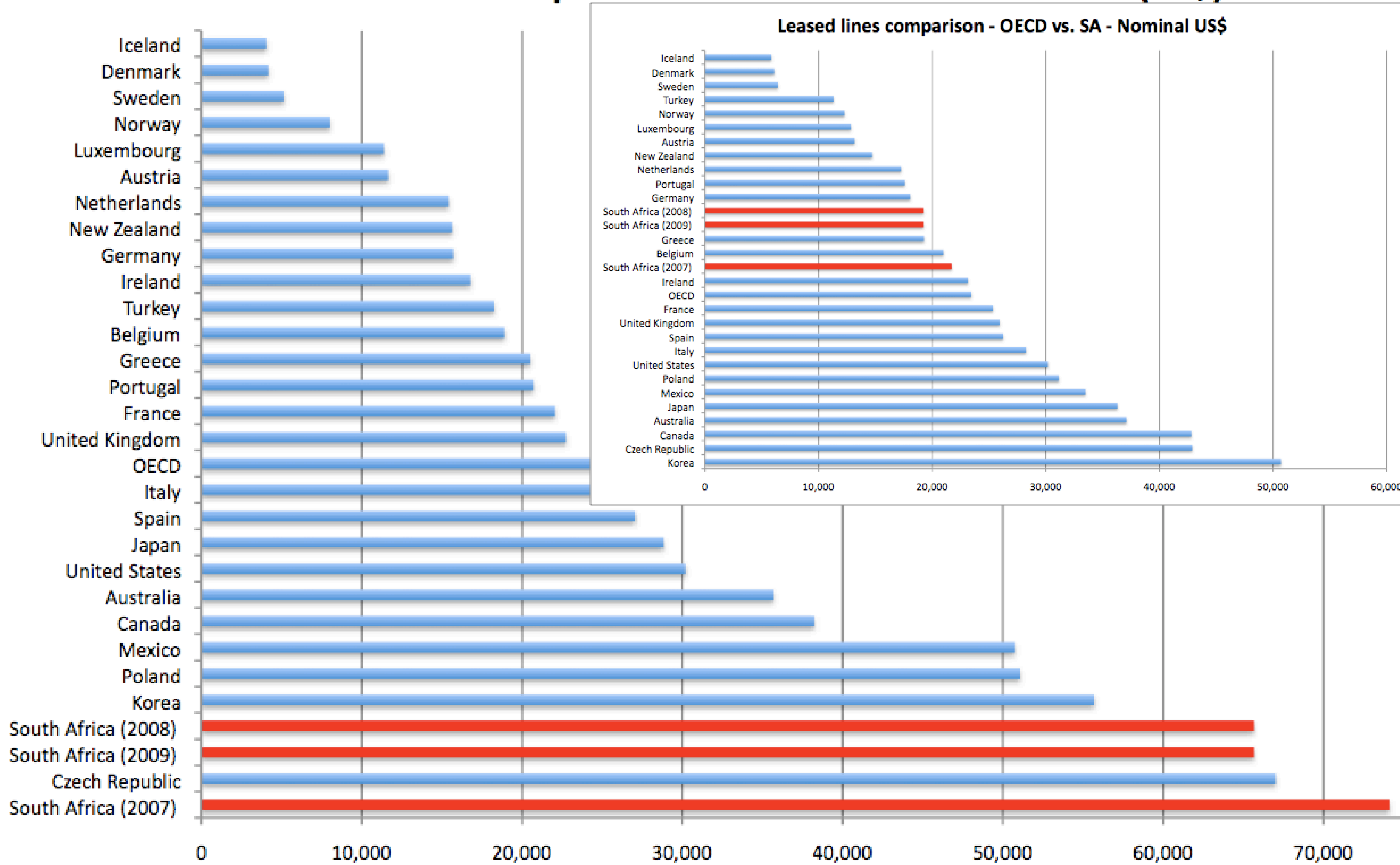
Senegal $6000 per megabit per month on SAT 3, SA $11000 per megabit per month (2008)

Text

US$ per megabit

Source: OECD Communications Outlook, SA pricing data from Hellkom.co.za

Leased line comparison - South Africa vs. OECD - PPP(US$)



Source: RIA Communications Sector Performance Review 2009

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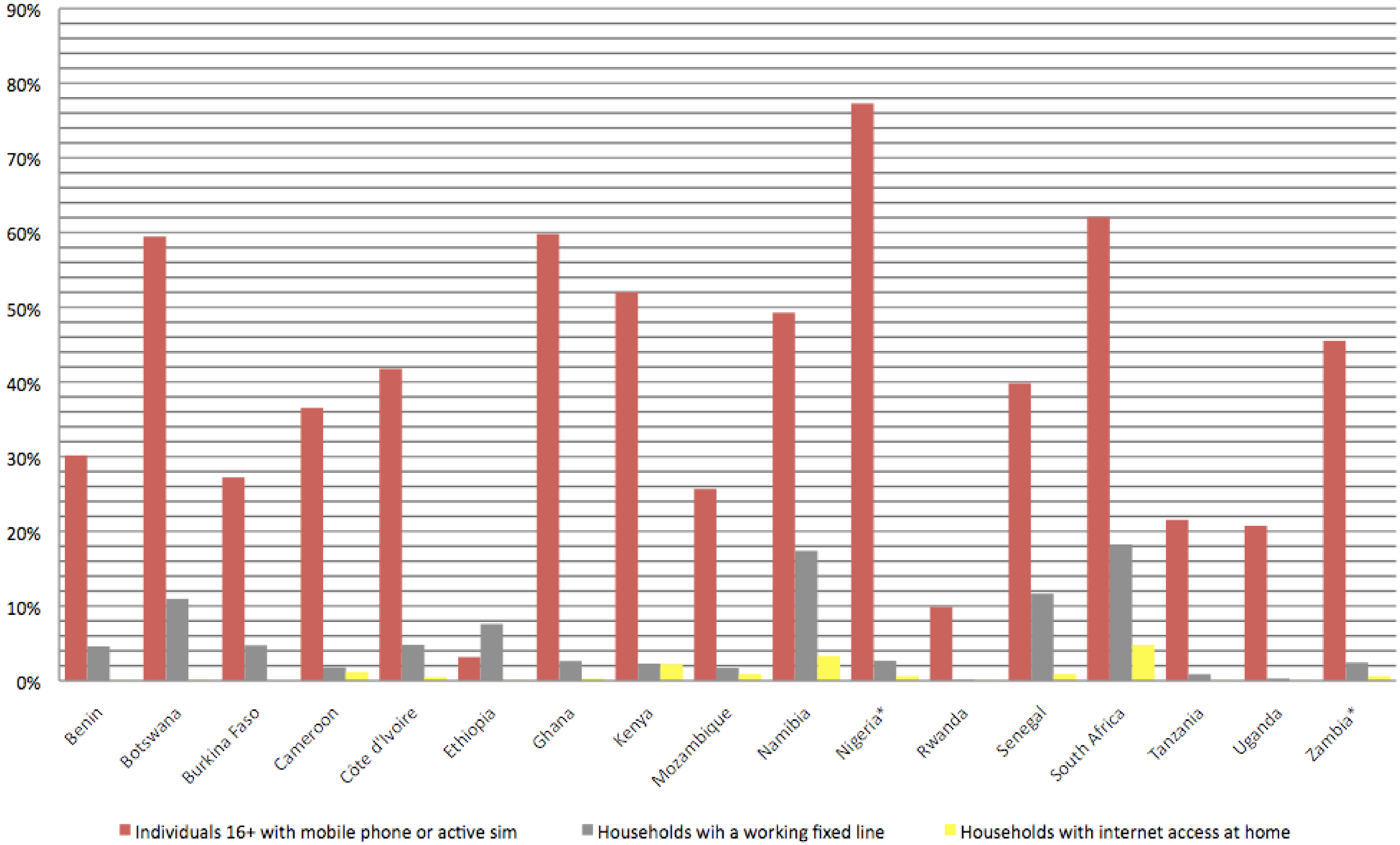
Telecom ownership



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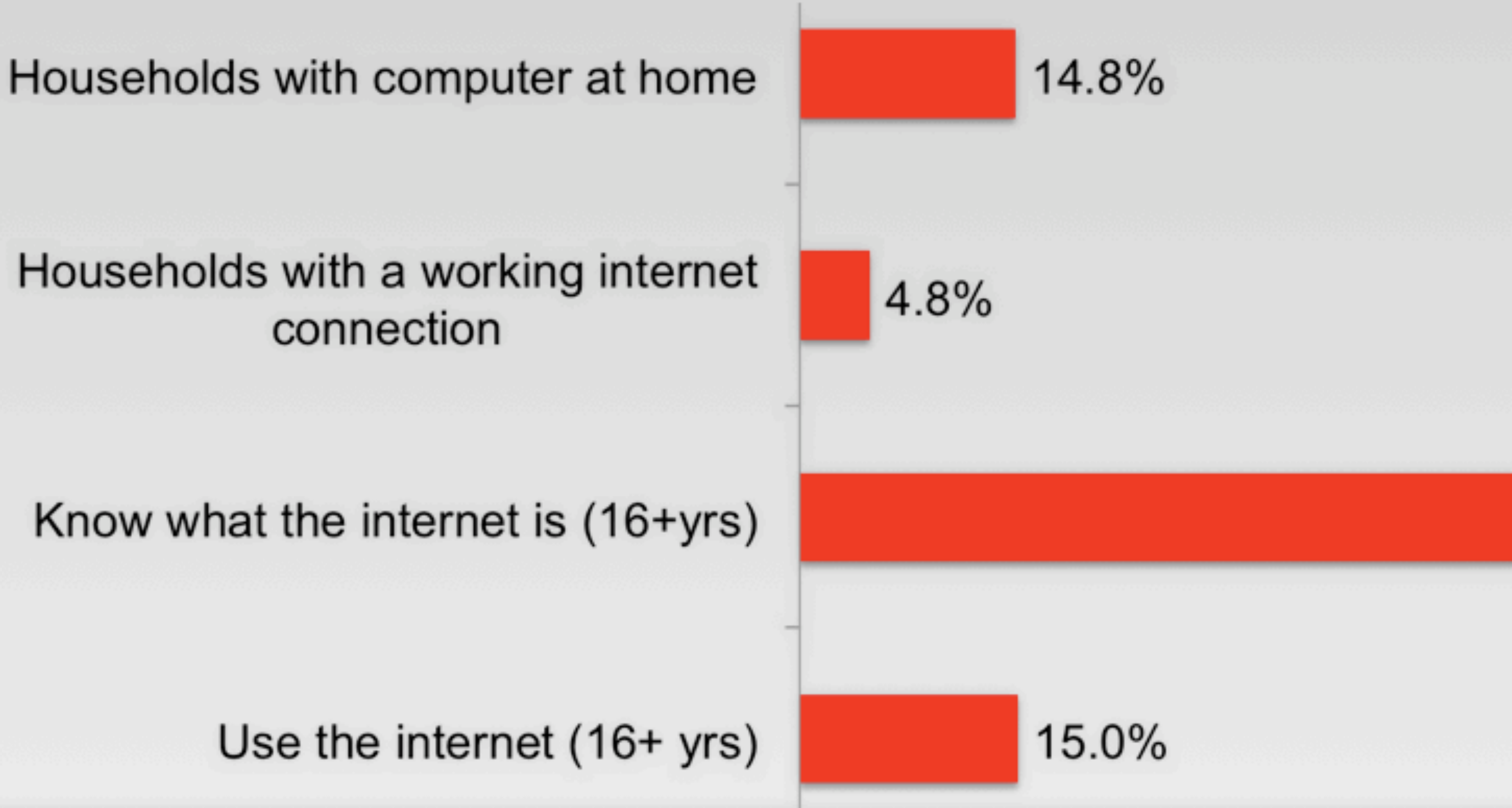
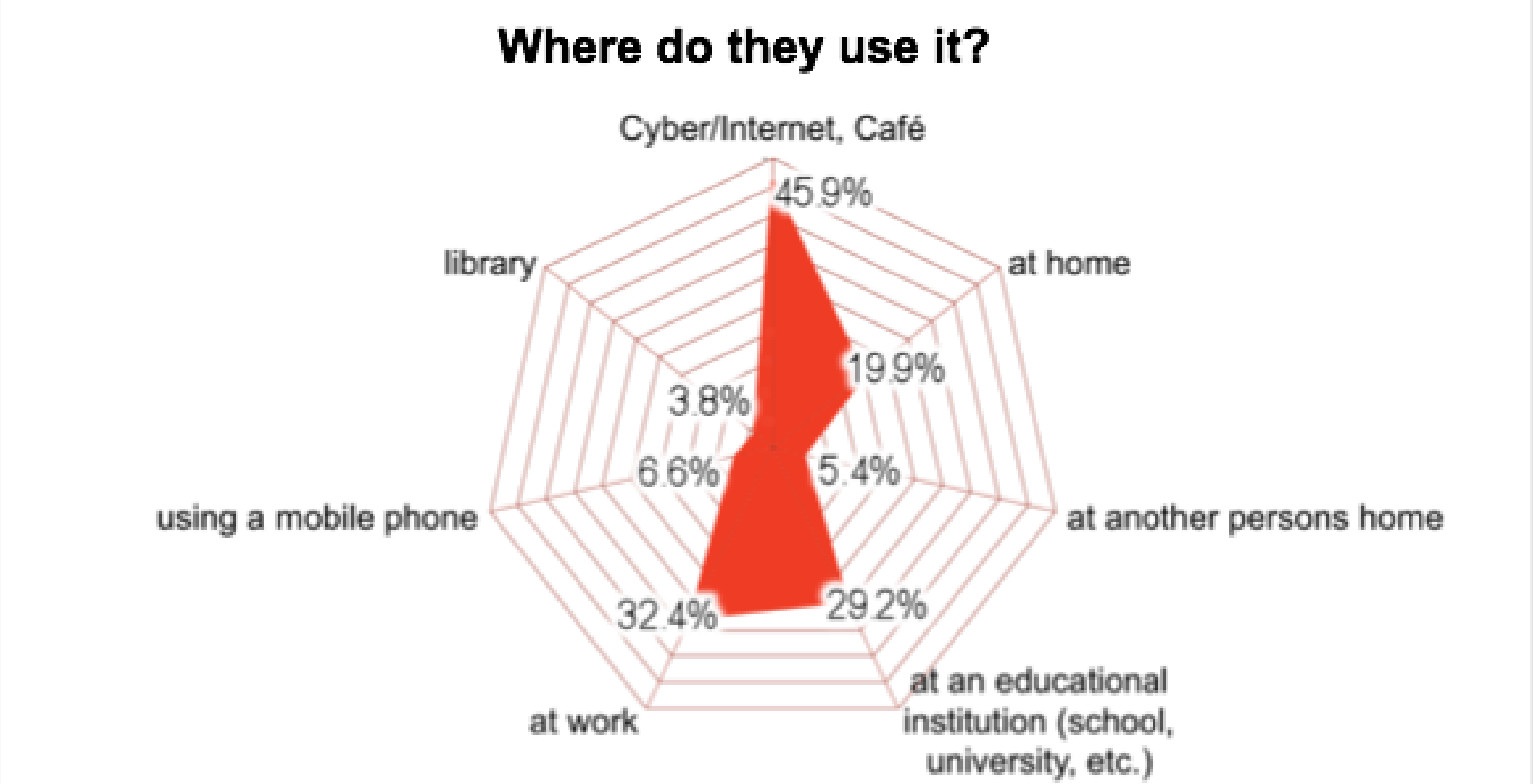
SA Internet access, usage and familiarity



Internet usage

50% know what the internet is, but only 5% use it



RIA 2007/2008 Household and Individual User Survey

Outcomes - Presidential reviews

- Policy failure - strategies of state ownership/ protection - privatisation, SNO, Infraco, effective duopoly in mobile.
  - Remedy: increased competition but requires more effective regulation OR effective access regulation
- Regulatory failure: bound by onerous statutory requirements demands/time-spans, absence of capacity and disabling law
  - Remedy: Capacitate regulator, amend law
- Market failure: Fixed, no competition, no access mobile no effective regulation of effective duopoly, high prices
- Remedy: enable entry of low ARPU revenue, low margin, high volume models.
- Services Internet: no adequate backbone investment/pricing
  - Remedy: Enable market entry with service neutral licensing, open access networks.

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Conclusions

- Review of bottlenecks in ECAct.
- Policy review - market structure - state ownership - broadband
- Institutional arrangements - remove conflicts of interest
- Institutional design - reduce number on Council and professionalise, increase regulatory staff/skills
- Create conditions conducive to investment through accountable capacitated institutions, certain regulatory environments and flexible policy frameworks
- Remove protectionist strategies, open markets to competition to meet pent up demand, while developing strategies for backbone investment
- Create enabling regulatory environments through removal of barriers to entry, service neutral licensing, cost-based \ (removal of artificial priced asymmetrical termination), prevention of abuse of market dominance
- Open access regime for optimal use of networks and facilities and spectrum to enable entrepreneurship and innovation
- Development of dedicated human capital strategies for sector institutions
- Targeted, competitively implemented universal services strategies rather than scattergun approach

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