

The background features a collage of African national flags and a zebra. The flags are arranged in a grid-like pattern, with some plus signs between them. The zebra is positioned in the lower half of the image, facing right. The entire background is in a light, monochromatic color scheme.

Researching Access

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What not to do: Lessons on USALs from SA

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Policy reform

- 2001 Telecommunications Amendment Act
- Introduction of smaller-scale participants to provide services in under-serviced areas.
- Policy goals – universality and SMME/HDI
- The licence areas defined as those with less than 5% teledensity and to be determined by the Minister.
- Minister declared 27 areas under-serviced and identified 10 for licensing in the first round (11 identified in first ITA, currently further 10).
- Process has been dogged by controversy

Licensing process

- 2001 December – draft ITA
 - No funding framework
 - Heavy weighting on financial bid
 - Relatively high application and licensing fees
 - Consumer protection only 5%
- 2002 December – ITA
 - Core funding issue still not addressed
 - Financial offer removed
 - Ownership and control and empowerment constitute 40% of total evaluation criteria
 - Technical, business plans and experience – 40%
 - Additional features – 5%
 - Consumer protection improved to 15%

Licensing process (cont)

- Jan 2003 Draft Licence for USALs
- R1 access fee to allocated frequencies
- Rollout guarantees (but not funding support) R10 000 effective penalty per phase.
- Licence fee of 0.1% of revenue which can be waived if roll out exceeded
- Directories
- No licence transfer without regulatory approval.
- Price filing subject to Rate Regime
- Preparation of accounts – COA/CAM
- Facilities provisioning
- Pay phones

International models



- Examples:
 - Competitive subsidies/Reverse bid (Chile)
 - Telecom co-operatives (USA/Scandinavia)
 - BOTs/BTOs/BOOs (Thailand, India, Ghana)

Lessons learned

- Supported by funding model
 - reverse subsidies, low or no interest loans or state guarantees to leverage external investment
 - Competitive allocation of resource in simplest fashion
 - Areas unprofitable for large scale telco can be profitably serviced with more cost effective technologies and leaner operations
 - Financial assistance should be linked to rollout
 - Flexible regulatory environment but key regulatory interventions required
 - Regulation should be geared at market failure and challenging traditional non-cost based pricing.
 - State support always like to be required for most marginalised

What to do in SA?



- Dual purpose:
 - to overcome the problem of areas that have not been served by incumbent due to high cost of expanding network together with low purchasing power
 - Entry of SMME and HDI traditionally excluded from the sector
- Key to sell this and ensure that it is a viable business proposition

Challenges

- Areas traditionally underserved by incumbent due to high cost of expanding network together with low purchasing power
- No exclusivity – compete with two PSTN and three mobile operators.
- Capital intensive nature of business (\$1000 a direct exchange line – only 5000 subscribers require \$5million)
- Exceed SA legal and financing conceptions of SMMEs.
- To induce venture capital into licences in global recession and limited national interest from finance houses.

Ways of overcoming challenges

- Use USF ideal for competitive subsidy, or at least no, low interest loans to anyone who secures a licence.
- Reduce risk profile and cost of capital for licences by indicating in advance a low transaction cost, clear regulatory framework – minimal tariff filings, no COA/CAM, national directory requirements etc.
- Sharing and aggregation of USAL operator facilities and service.
- Rights to share and lease existing facilities at cost based price.
- Cost-based asymmetrical termination charges

Interconnection guidelines for USALs

- Termination charges on USAL network is greater or equal to 15% on the highest prevailing termination charge on a PSTN
- Termination of USAL calls on other networks shall be not more than best prevailing termination charge on MCTS and PSTS

Facilities sharing

- Reduce network capital cost by permitting a shared platform (network and operating systems) *
 - converts major capital cost into incremental capital cost and incremental lease cost.
 - Efficiencies from economies of scale and scope

Interconnection

- Impact on direct cost of outgoing calls and revenue stream from incoming calls.
- Requires recognition of :
 - USALs as public operators with associated benefits of wholesale pricing;
 - Asymmetrical cost of terminating calls in low density, high costs area to ensure business case for roll-out (minimise costs or become niche player).
 - Need for a substantial differential to make business case (Rhodes Island 38% in peak 35% in off-peak; Chile 18 times higher in peak and 10 times in off-peak.);

Virtuous cycles of sustainability

- Increased revenues form termination fees → origination fees to be reduce → price competition → greater demand for services → greater roll-out → greater revenues.
- Service innovation and business opportunities eg. Induce ISP to relocate or setup on basis of marginal incentive payments for traffic terminated on USAL network.
- Direct access to international gateway further improve viability, were it permissible.

Ownership and control

- Strong public interest but regulatory restraint which increase cost of capital
- Network economies still critical – as much as 50% of network costs duplicated in each USAL
- Any ownership restraints should be offset against flexibility in sharing of facilities amongst USALs
- controlling interest in one licence and non-controlling interest in not more than nine USALs (up from one other originally)

Licensing

The background of the slide is a collage of various national flags and crests, including the flag of the United Kingdom, the flag of the United States of America, the flag of the European Union, and the flag of the United Arab Emirates, among others. The collage is arranged in a grid-like pattern, with some flags appearing larger than others.

- Once in a life time opportunity for many in designated areas – make it as risk free and inexpensive as possible.
- To make process as objective as possible and terms of licence unequivocal – the rights and obligations of licensees, together with undertaking made against the evaluation criteria, should become terms of licence (Morocco).

BID

Business Plan
Ownership and Control (designated groups)
Consumer Benefits Tariff and quality of service
Network Coverage

EVALUATION GRID

Business Plan
Ownership and control (designated groups)
Consumer benefit
Network coverage
Coherence of offer

LICENCE TERMS

Licence description
Rights
Obligations
<input type="checkbox"/>
<input type="checkbox"/>
<input type="checkbox"/>
<input type="checkbox"/>

Conclusions



- Entry of multiple small players into the market under favourable regulatory conditions able to fulfill number of public interest objective and invigorate the market.
 - Improve access to services to those currently without
 - Provide choice to those who do
 - Drive down prices
 - Multiplier effects within remote communities

Conclusions continued

- Responsibility of policy makers to create conditions under which new entrants can make an effective business case
 - Funding to leverage external investment (USF)
 - Guarantees that there will be timely, cost based interconnection and access to incumbent facilities
 - Pre-licensing asymmetrical termination charges with a significant differential in order to demonstrate business case to investors and reduce the cost of capital
 - Low regulatory transactions costs
 - High level of collaboration, including facilities sharing be permitted among USALs
 - Transparent, simple and objective licensing process.

About Research ICT Africa!

Why a network of researchers?

- To satisfy the growing demand for information and analysis needed for appropriate policy formulation and effective regulation
- To provide a coherent research database on the African continent that informs policy-makers
- To establishing the needs of countries and groups within them, and to conceptualise approaches that are likely to be effective in resolving country-specific problems
- Research focus on ICT policy and regulation
- Supported by the Canadian IDRC
- Phase 1 2003 - 2005; Phase 2 2005 -2007

Towards an African e-Index

- Supply side sector performance review
- Demand side household and individual user access and usage survey
- Demand side SME (Enterprise) access and usage survey
- Government access and usage challenge

E-Access & Usage Index

- What the E-access & Usage Index seeks to do is measure what is happening in the ICT sector from the lens of users, consumers and those marginalised from services and to analyse access, demand and usage patterns in response to services delivered as a result of operators' responses to policy and regulatory frameworks

Our Research Agenda

Year	Research title	No African countries
2003	ICT Sector Performance Review	7
2004	Household e-Access & Usage Survey	11
2005	SME e-Access & Usage Survey	14
2006	ICT Sector Performance Review	18
2007	Household e-Access & Usage Survey with focus poverty	20

Objectives of the SME study

- Look at the impact of ICTs on economic growth and employment creation from the demand/user side
- Identifying obstacles to ICT usage that SMEs face in their daily business activities
- Providing guidance in the formulation of policy that will induce economic growth and employment
- Stork C and Esselaar E (ed) *Towards and African e-index: SME access and usage in 14 African Countries*
www.researchICTafrica.net

Why SMEs?



- The sector in which most of the world's poor are working
- The sector exceeds the average economic growth of national economies in many developing countries
- Contributes significantly to economic growth and employment

Methodology



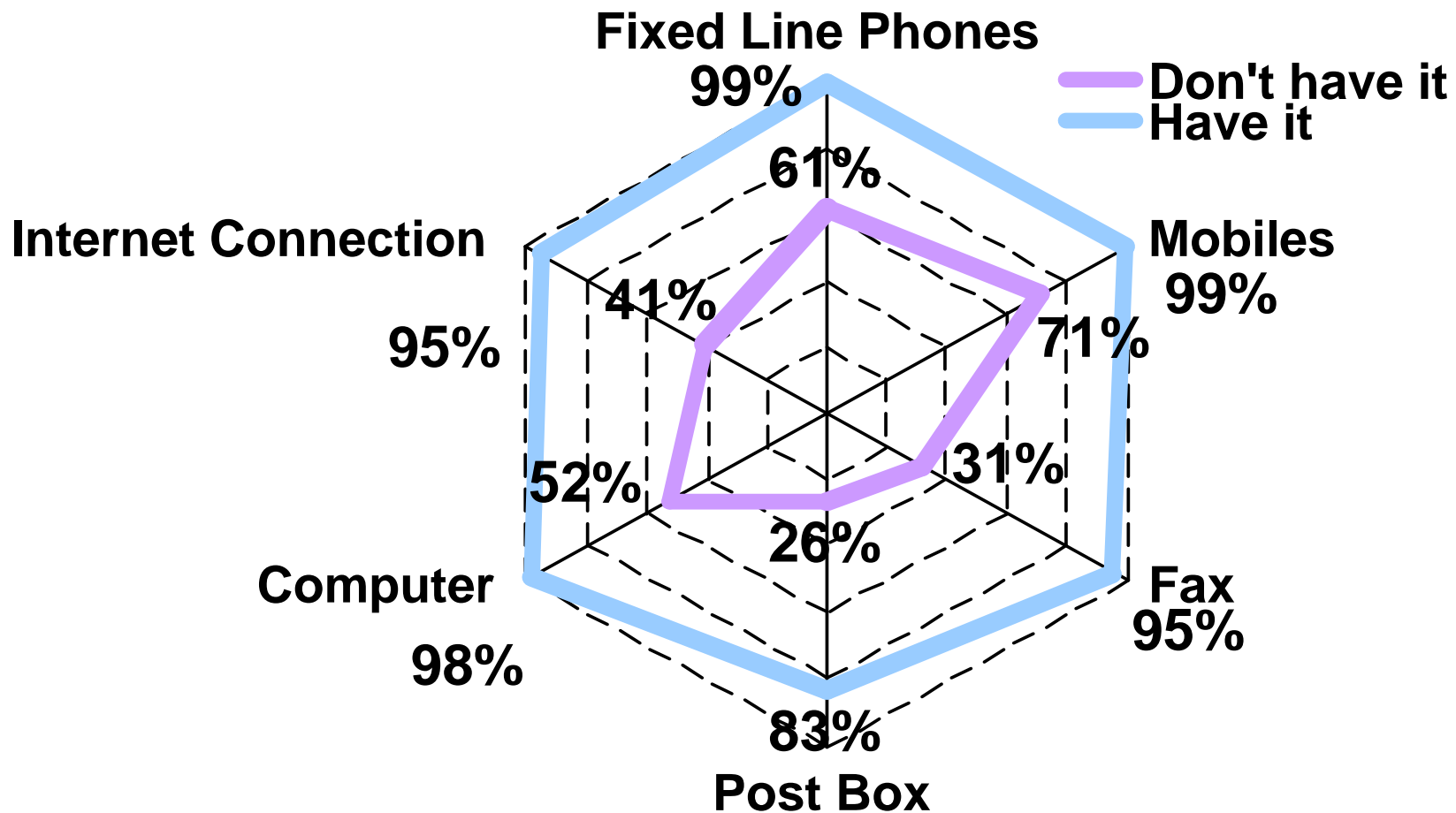
- No random sampling (280 qualitative interviews per county)
- Classification of SMEs by International Standard Industrial Classification (ISIC)
- Classification of SMEs by Formality (Informal, Semi-formal and Formal) :
 - Form of ownership
 - Registration for income tax and VAT
 - Whether a business uses written employment contract
 - Separation of business and personal finances
 - Bookkeeping

Sample distribution

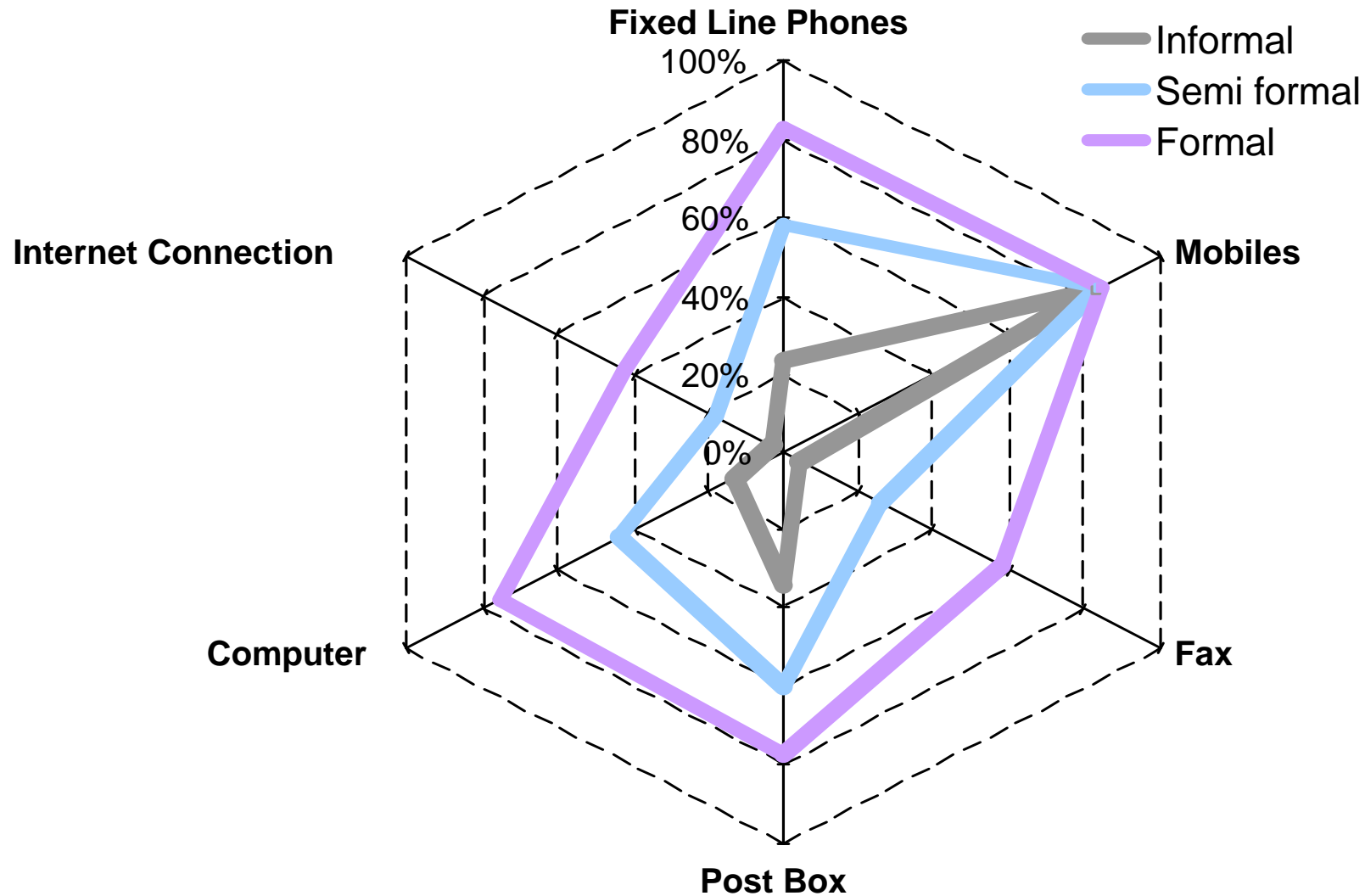
ISIC Tabulation	Total
D: Manufacturing	728
F: Construction	232
G: Wholesale and retail trade; repair of motor vehicles, motorcycles and personal and household goods	1325
H: Hotels and restaurants	317
I: Transport, storage and communications	429
J & K: Financial intermediation & real estate, renting and business activities	436
M & N & O: Education, health, social work, other community, social and personal service activities	500
Total	3967

	Informal	Semi-formal	Formal	Total
Botswana	50	64	142	256
Cameroon	184	69	27	280
Ethiopia	152	83	47	282
Ghana	92	106	82	280
Kenya	137	90	50	277
Mozambique	70	109	101	280
Namibia	107	108	92	307
Nigeria	146	75	44	265
Rwanda	182	59	38	279
South Africa	102	76	112	290
Tanzania	65	104	94	263
Uganda	151	139	61	351
Zambia	102	95	79	276
Zimbabwe	66	57	158	281
Total	1606	1235	1126	3967

ICT perceptions: Is important or very important



Access to ICTs by formality



ICT usage indices

- Formal SMEs own more and use more ICTs than semi-formal ones, who in turn possess more and use more than informal SMEs
- However, informal SMEs use the few ICTs that they have (primarily the mobile phone) more intensively for business transactions

ICT -Usage and Profitability?

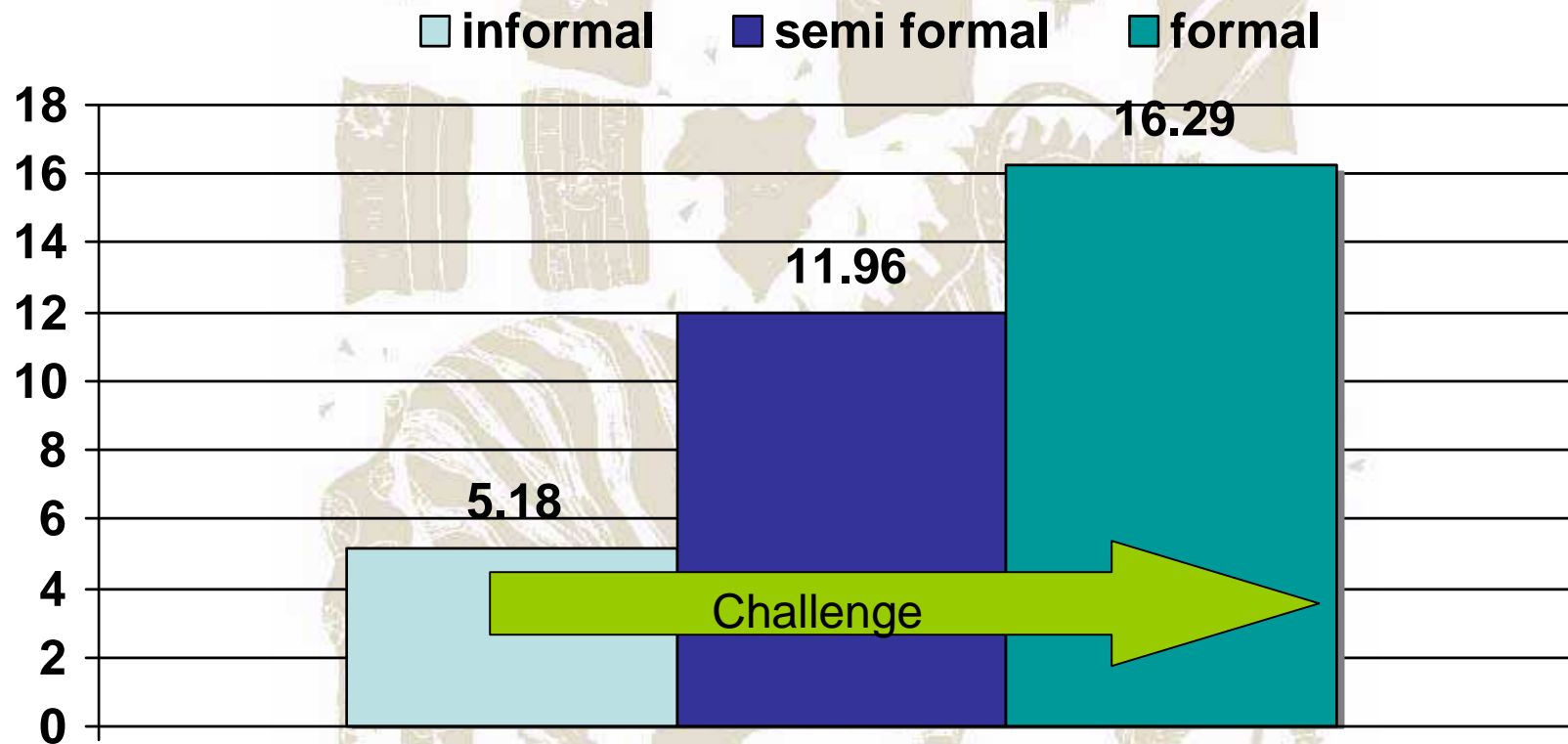
- Informal businesses have higher profitability than formal businesses
- Failure to distinguish between formal and informal businesses would lead to wrong conclusions since informal businesses possess less ICTs but are more profitable
- ICT expenditure is a significant factor in turnover generation for formal, semi-formal and informal businesses

Main Obstacle to ICT adoption

	informal	semi formal	formal	average
Network Problems / Unreliable Infrastructure	11.3%	11.7%	10.5%	11.2%
Lack of Financial Resources	10.6%	4.5%	7.3%	8.0%
Lack of Awareness & Knowledge of ICTs	10.3%	8.4%	10.5%	9.7%
High Cost, Too Expensive	55.6%	60.8%	58.8%	57.9%
Lack of Skills & ICT illiteracy	2.8%	7.4%	6.9%	5.1%
No Need	9.5%	7.2%	6.1%	8.0%

High costs are hitting informal businesses hardest since their ICT costs relative to other costs are the highest!

Create employment and alleviate poverty?



Average number of individuals deriving a livelihood from the business (employees & owners)

Conclusions from the Survey

- Informal businesses are more profitable in terms of capital employed than semi-formal and formal-ones
- ICTs are significant input factors for both formal and informal SMEs and contribute positively to revenue generation
- Mobile phones are the most used tools in supporting the running of SMEs
- The main constraint to ICT usage remains high investments and / or usage costs
- Hence, effective regulations and policies that enable a competitive ICT environment will facilitate economic growth, employment and social inclusion - in particular for the poor

Recommendations

- Bringing down the costs by enhancing competition
- Designing mobile financial applications to integrate informal SMEs into the formal economy (for example formal financial services)
- Improving the conduciveness of the business environment, (Forcing informal businesses to become formal will not create more jobs, helping them to grow and consequently become more formal will)

A collage of African flags and a zebra with a decorative harness. The flags are arranged in a grid-like pattern, with some flags separated by plus signs. The zebra is the central focus, facing right, and is adorned with a detailed, patterned harness. The entire image has a light, textured background.

Thank you...

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