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Investment in broadband and the emerging market structure in South Africa

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ABSTRACT

This research study investigates the investments that have been made in broadband infrastructure in South Africa, with special focus on the impact on the broadband market made by ECA 2005 and subsequently the Altech judgement of 2008 (which unblocked infrastructure investment bottlenecks by ruling that Value Added Network Services (VANS) licensees were entitled to ECNS licences to build their own build infrastructure).

The Altech judgment was a defining development of the South African telecoms sector, as it sounded the death knell to the dependence by VANS and other firms on wholesale infrastructure from the incumbent Telkom. The judgement, based on provisions of the ECA, was followed by heightened investment as firms, both MNOs and VANS, stepped up investment in self-provisioning infrastructure, thereby creating a period of intense facilities-based competition. The post-ECA and Altech judgement period coincided with the significant global market shift of fixed-to-mobile substitution, thereby dictating that the market structure that emerged in South Africa would be tilted towards the growth of mobile telephony, the latter becoming the foundation of mobile broadband through the emergence of next generation technologies of the smartphones and 3G and LTE.

Through application of interpretive methods and qualitative analysis of published data and interviews with sector experts, research observations confirm that firms have lapped up the self-provision benefits of the post-2005 licencing regime and developed significant supply-side vertical capacities that have led to infrastructure duplications and competing network externalities. The resultant market structure appeared inefficient, with a high degree of concentration and equally high barriers to entry. This research used the investment calculus by Bauer (2010) as the applied method of analysis in order to develop a systematic analysis of investment decisions and firm behaviour. Due to significant capital outlays and expectations of return on investment (ROI) by firms competing in the broadband market, it follows that they have entrenched a rigid, costly wholesale interconnection market that has been immensely profitable for the firms, but has not passed benefits to new entrants and consumers. Whilst supply-side firms have refined capital investment strategies through application of real options, the subsequent market structure has been made less competitive due to inefficient regulatory interventions by ICASA, and the slow implementation of recommendations of SA Connect, the national broadband policy, leading to market inefficiencies and a widening digital divide.