Infrastructure sharing: new partnerships needed in SA

By Eckart Zollner   11 Jun 2014

In South Africa, it's not surprising to see a street dug up in quick succession by three different telecoms network providers, all laying their own fibre optic cables. There's no sharing here, not even of installation costs. Dark fibre is very expensive to install, pricing reflects that cost.

On top of that, network providers add high margins, which makes broadband prices very high - too high for most. But even if it was affordable, the lack of broadband infrastructure beyond the metros makes access impossible.

The upshot: in South Africa, fixed broadband penetration is at 2.2% - we rank 111 out of 183 countries globally. While mobile broadband penetration is better at 26%, research puts individuals using the internet in South Africa at just over 16 million individuals (41%). However, only 25.5% of households have internet access. The upshot: in the midst of Information Age, our data travels (for the most part) not along superhighways but ox-waggon trails. We lag behind in terms of connectivity, with everything that implies for economic growth, empowerment and opportunity loss.

It is something we can ill afford. While the march of technology continues globally, unemployment remains high in South Africa and our growth rate is slowing. Officially, unemployment is at 25%, but broader unemployment is closer to 40%. With a young, fast-growing population, more young people are entering the job market all the time and youth unemployment is thought to be over 50%. Gross domestic product (GDP) growth is stagnant at between 1.5 and 2%. An increase in broadband penetration can help change this. The World Bank has found that in low- and middle-income countries every 10 percentage point increase in broadband penetration accelerates economic growth by 1.38.

A wake-up call is needed

Globally, but especially in Europe, telecoms infrastructure sharing is the norm. Tier-1 players "rent" infrastructure to Tier 2 telecoms providers. As these providers do not have to recoup the costs of acquisition, installation and maintenance, pricing becomes more affordable. With more players in the market, competitiveness increases and prices come down. In addition, smaller players may well be more interested in servicing niche markets, creating services and tailoring products to suit different market sectors, making pooling resources to install technology in remote areas that connects to the grid more feasible.

In the present telecoms market, this scenario will only be possible if major players can shift their focus from short- and medium-term profiteering, collaborating to create a more sustainable long-term business model that expands broadband access - geographically and demographically - to grow the market and the economy, creating a future for their businesses, the country and all stakeholders.

Where we stand: The players

The big network providers in South Africa: MTN, Vodacom, Cell C, Telkom and Neotel have shareholders. They are commercially driven. When legislation was passed allowing them to build their own networks, there were no clauses that obligated them to expand infrastructure to underserved areas. This has been left to NGOs and the academic community, complemented by some weak attempts by the public sector. Is this a responsibility government should be addressing? Most certainly.

Blurred lines

The challenge for the government is that it retains a sizable investment in Telkom, which, in turn, maintains a stranglehold

on infrastructure, most particularly the gateway that local loop unbundling will provide to greater connectivity. While the Department of Communications is planning various programmes to drive connectivity, the government is perceived to be playing both sides, and a confused message is being sent to the market.

While the obvious response is to lay the challenge of network expansion and modernisation across rural and remote areas of South Africa at ICASA's feet, the reality is that political will alone won't move this mountain. Money talks.

Waiting is not a strategy

Waiting for the market to mature and pricing to drop sufficiently for it to become feasible to roll out infrastructure to rural and remote areas of South Africa is not a strategy. Our neighbours on the continent (Kenya, Tanzania and Namibia) understand the urgency, as do India, China and other emerging economies.

Finding a solution

What is needed is a single infrastructure layer with a stack of services layered on top, accessible via a number of service providers. While a semblance of this model exists in South Africa - witness Telkom's rental of infrastructure to Tier 2 players, and similar agreements struck between the bigger cellular network providers and Tier 2 players - there has been no clear distinction made between wholesale and retail offerings. Tier 2 players must compete with Telkom's retail offering and that of the other network providers. This makes competing difficult, which slows market growth.

New models are arriving to fill the gap.

Big players taking fibre to the curb

MTN, Vodacom and a number of ISPs, in collaboration with technology providers, are circumventing Telkom's domination of the local loop by rolling out fibre-to-the-home (FTTH) and fibre-to-the-business (FTTB). These solutions, aimed at gated communities and in business parks, respectively, are designed to maximise returns. They service high-demand, high-income market segments; they do not reach those who most need connectivity.

Smaller players are rolling (out) their own

In Europe, smaller players are building infrastructure and renting it out. Thus, we find shopping malls, office block and business parks owning their own infrastructure and renting it out to network and service providers, which offer their services to tenants. This is also beginning to happen in South Africa.

Here, ownership is driven by expediency: mall and facility owners do not relish network providers crawling through ceiling space and disrupting business, or being held to ransom by underperforming service providers. Infrastructure ownership also offers the opportunity to attract tenants, earn additional revenues and drive up service levels. While infrastructure owners cannot operate the networks they build if they do not have a licence, they can rent the networks out to those with licences.

New relationships

In the metropoles there is currently huge duplication of infrastructure, some of which is fully utilised, some not. There is opportunity in rural and remote areas to limit duplication and grow reach. Collaboration between Tier 1 players, or between Tier 1 and Tier 2 players, or even between these players and other private sector and non-governmental organisations could see some innovative and potentially disruptive solutions brought to market.

While it will take a considerable mind shift for these players to work together, a common objective could assist these organisations to develop appropriate business models, laying the groundwork for success. This approach is backed by a globally emerging trend that sees businesses from different sectors address development sector issues through the creation

of partnerships that leverage the strengths of each role player to deliver mutual benefit. Another driver is the shift to integrated reporting and disclosure. Listed companies - and the big telecoms players are all listed in South Africa - can be called to task by investors. That is you and I.

New technologies to drive opportunity, new business models

As Telkom dominates the "copper", wireless is becoming the new access technology, assisting customers to get onto networks. For backhaul, expensive microwave and fibre-optic technologies remain necessary, however. New technologies may provide a means to overcome expensive fixed infrastructure investment.

LTE technology is being piloted by all the major players in South Africa with services available in the metros. As spectrum is released, the opportunity to install the movable and more affordable LTE towers in outlying areas will arise. Again, however, release of spectrum holds up the process.

The government's National Broadband Policy

In a recent speech, the Minister of Communications noted that it was moving on broadband, but needed to be faster. We agree. It is holding a conference on the faster implementation of the SA Connect Policy, which includes its Broadband Implementation Plan. This plan aims to ensure that:

- By 2016, 50% of the population has 5Mbps access;
- By 2020, 90% has 5Mbps access and 50% has 100Mbps access; and
- By 2030, 50% of the population has 100Mbps access.

If you are committed to doing business responsibly, we challenge you to be ready to participate.

Moving forward

The opportunities in this market are tremendous. The smart visionary moves forward with a solid business case, however. While this opportunity will require traditional players to step out of their comfort zones and strike up dialogue with organisations and role players not previously considered, common ground can be found - and the prize is nothing less than a better future for their companies and the country.

Jasco delivers telecommunication solutions to enable core, access and last-mile communications. The company delivers solutions to many Tier 1 and Tier 2 players in the telecommunications sector, and delivers innovative solutions to enterprise customers, enhancing their communications.

ABOUT ECKART ZOLLNER

Head of New Business Development at New Telco SA
▪ What 4IR means in the context of South Africa - 20 Aug 2019

- The year IoT comes into its own - 27 Feb 2017
- Microwave technology - improved and useful - 4 Nov 2016
- Connectivity is key to building a progressive nation - 7 Oct 2016
- Effective carrier communities are key to digital equality - 8 Mar 2016

View my profile and articles...

For more, visit: https://www.bizcommunity.com