GLOBAL PERSPECTIVE

Southern African Regional Telecommunications—

Addressing the Challenges of the 21st Century

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The 12 nations of the Southern African Development Community (SADC) face a formidable challenge in keeping pace with the evolving global telecommunications sector. Rapid sector development in SADC countries is essential if the region is to avoid being marginalized in an increasingly technologically oriented and integrated global economy.

In spite of—or perhaps because of—this challenge, the Southern Africa regional telecom market is beginning to attract attention from international telecom players, both large and small. In comparison to the rapidly-growing markets of Southeast Asia and the former Soviet Union, the SADC offers substantial untapped potential. SADC boasts a combined population of 130 million and an aggregate GDP, excluding Angola, in excess of $134 billion in 1993. Telecom revenues of national carriers totaled over $3 billion for the same year, and are steadily rising in the majority of SADC countries.

Anticipated sector reforms during the next five years will lead to rising GDP and telecom revenues, as well as provide ever-increasing opportunities to forward-looking foreign investors. The specific nature and extent of such foreign participation will be a major determinant in the final performance of the region in the global economy of the 21st century.

While improving, basic SADC regional coverage and performance remain among the poorest in the world. For instance:

- In 1993, teledensity was 1.6 main lines per 100 inhabitants or roughly 15% of the global average and only 3% of the average for industrialized nations.
- Call completion rates remain under 40%.
- Telecom sector employees per 1,000 main lines is roughly 42 for the regional compared with a global average of nine (see Table 1).

Current sectoral inefficiencies inhibit the flow of information in such vital regional sectors as agriculture, health, education, and tourism. More broadly, the generally underdeveloped and unreliable telecom infrastructures in the region constrain business ventures and impede broad-based social and economic development.

SADC, however, is not a homogeneous group of countries. South Africa, Botswana, and Mauritius, for example, possess comparatively advanced telecommu-

Table 1
SADC Telecom Indicators

Country	Main Lines/ 100 Pops.	Waiting Lists	Telecom Revenue (US$ millions)	Telecom Investment (US$ millions)	Telco Staff/ 1,000 Main Lines	Total Telco Staff
Angola	0.5	NA	16.7*	NA	39.6	2,110
Botswana	3.5	24,786	68.9	38.2	32.6	1,645
Lesotho	0.6	8,346*	12.5*	NA	66.3*	796*
Malawi	0.3	21,715	26.2*	22.6**	120.9	4,002
Mauritius	11.7	43,838	67.8	33.5	11.32	1,465
Mozambique	0.4	23,754	64.3	4.6**	42.3	2,418
Namibia	4.5	3,489	61.8	19.6	29.4*	2,050
South Africa	9.5	135,566*	2,715.0	785.9	15.2	58,793
Swaziland	2.1	15,381	22.7	15.3	24.5	456
Tanzania	0.3	144,968	70.1	3.3	53.8	4,752
Zambia	0.9	73,357	80.2	16.2	36.8	2,934
Zimbabwe	1.2	107,587	122.0	49.1	40.0	5,392

* 1993. All other data from 1994.
** 1992. All other data from 1994.

Source: International Telecommunications Union

nications infrastructure and exhibit higher levels of performance.

Despite variations among countries, the primary issues in telecom sector reform facing SADC member states are common to all. Existing policy and regulatory frameworks impede private sector participation and competition. Ownership and management structures have resulted in the misallocation of resources, inadequate reinvestment of profits, and an inability to respond to customer demand. Finally, the requisite investments and repairs have not been made, resulting in poor coverage in rural and secondary urban areas.

Reform Is Underway

SADC countries have almost uniformly recognized the need for sweeping telecom reform if they are to be competitive in the 21st century. Although state-owned monopolies dominate the Southern African telecom landscape, the majority of countries have taken the first step toward reform. The initial task of separating the posts and telecommunications functions has been completed in every country except Malawi, Swaziland, and Zimbabwe.

To complement and build upon this separation, many countries have moved to the next level by establishing independent regulatory bodies. Recently created regulatory authorities include:

- Instituto Nacional das Communicadoes de Mozambique.
- Tanzania Communications Commission.
- Zambia Communications Authority.

As part of ongoing sector restructuring efforts, a new regulatory regime is anticipated in Swaziland, and a major reorganization of the regulatory authority is forthcoming in South Africa. Beyond these first steps rest the ultimate objectives in the sector reform process: privatization and the introduction of competition.

Cellular—Sowing the Seeds of Private and Foreign Participation and Competition

Cellular is emerging as the first competitive sector in the Southern African telecommunications sector, as well as an entry point for private and foreign firms. Cellular, as a technology, is attractive because it carries a relatively lower fixed network cost than wireline networks, especially in low-density areas. In addition, potential new market entrants are buoyed by the knowledge that the enormous unmet demand in the region means users will typically be willing to pay higher rates than currently charged by the national operator.

As in most sectors, the Republic of South Africa (RSA) is setting the pace in the cellular arena. In September 1993, the South African cellular market was opened to limited competition with the award of service license to two private, RSA-based consortiums, Vodacom and Mobile Telephone Networks (MTN).

By mid-1995, both licenses were providing service over competing GSM-based networks. At year-end 1995, the number of cellular subscribers in South Africa had exceeded expectations, reaching almost 450,000. Today, the overall cellular market is valued at approximately four billion Rand (US$1.1 billion). The phenomenal rate of market expansion to this point has led to a proposal for the issuance of a third license by the end of 1998.

This partial liberalization of the RSA cellular market has led to the first major equity investment by a U.S. service provider in a Southern African provider. SBC Communications invested $90 million in MTN and a related venture during the third quarter of 1995. Other major international equity holders in the South African cellular sector are U.K.-based Vodaphone and Cable & Wireless.

Simultaneous to gaining representation on both the operating and holding companies' boards of MTN, SBC entered into a joint venture with New African Investments Limited (NAIL). NAIL is South Africa's largest black-controlled, publicly-traded company, and the parent company of MTN equity partner NAFTEL. In addition to targeting the vibrant South African market, the new venture will explore opportunities throughout the SADC and elsewhere on the African continent.

Beyond the South African borders, networks are cropping up across the region and private sector, including foreign, participation is becoming the norm. Foreign participants include Millicom, Telekom Malaysia, Telecom de Portugal, Telio of Sweden, and Vodacom. In addition, local private firms are seeking to participate in their home markets, most notably Zimbabwe-based Retrofit Holdings, Ltd.

While Southern Africa has long been a feasible market for U.S. and European equipment suppliers, the torrid pace of cellular expansion will present ever-increasing investment opportunities to firms seeking early entry into latent markets, as well as continue to fuel the spread of competition throughout the region.

Next Steps

Recent cellular developments point to the future of telecom sector restructuring in the region. While specific next steps will differ from country to country, foreign participation, privatization, and the introduction of competition across the sector remain the ultimate tasks in the reform process. Currently, such sweeping, sector-wide reforms are underway in Zambia and South Africa. The commitment to reform by the Republic of South Africa, considered the regional engine of growth, and Zambia will serve to stimulate further the process of change in the other SADC countries.

SADC

The Southern African Development Community is an organization of 12 countries committed to increased cooperation and coordination in support of advanced development throughout the African sub-continent.

The organization maintains numerous sector-specific commissions, including the Southern African Transport and Communications Commission (SATCC). This commission is charged with coordinating regional activities in support of improvements in the telecom sector.

In 1994, SATCC joined with the U.S. Agency for International Development (USAID) to launch a five-year initiative in the telecom sector.

The resulting Regional Telecommunications Restructuring Program objective is to help ensure that SADC member states realize the significant economic and social benefits of a modern information infrastructure and have the resources, both technical and financial, to develop it.

SADC countries are:

Angola	Namibia
Botswana	South Africa
Lesotho	Swaziland
Malawi	Tanzania
Mauritius	Zambia
Mozambique	Zimbabwe

In South Africa, a "white paper" outlining the national sector reform policies and building upon the principles of the country's Reconstruction and Development Plan (RDP) was issued in March 1996. The advance draft of the plan called for phased sector liberalization over the next seven years with a major emphasis placed on providing for universal access. During the first four years of the restructuring period, Telkom S.A., the national carrier, is to be provided exclusivity in several areas, including long-distance services, local loop, international services, and switching services. In other market segments, competition will be permitted. For example, limited competition is already flourishing in cellular, and customer premises equipment will be immediately opened to competition.

The question of ownership of Telkom S.A. is still under debate and ultimately is subject to the state assets' restructuring process in the Ministry of Public Enterprises. However, the capital needs of Telkom during the restructuring period, largely dictated by universal service requirements, lead to the conclusion that earlier reports indicating that a minority stake in Telkom would be offered to a strategic investor will hold true.

In conjunction with an overarching national privatization strategy, the Zambian telecommunications sector is also in the midst of reform. The government is currently considering the privatization of ZamTel, the national carrier, and fixed network competition.

In three additional SADC countries, more limited reforms are currently underway. Swaziland is taking a cautious approach and is currently considering a plan to offer for tender a cellular license and national operator management contract to a strategic investor. In Zimbabwe, as a result of a successful lawsuit by Retrofit Holdings, Ltd., the government issued new regulations for the cellular sector. These regulations call for the establishment of a "technical committee" to consider and make recommendations for the issuance of cellular licenses. In broader terms, the developments surrounding the Retrofit lawsuit have thrown wide-open the future of telecommunications in Zimbabwe. Finally, the government of Botswana is considering a range of sectoral reforms.

Conclusion

The SADC is clearly moving toward a more modern and competitive telecommunications sector. In concert with internal reform efforts, foreign sector participation will play a vital role in overall sector development. The accompanying technology transfer and capital infusion are essential to a region in need of both.

It remains in question, however, which region or individual company will exert the greatest influence and subsequently reap the rewards of doing business in this emerging and largely untapped market. While SBC Communications, AT&T, Motorola, and several smaller U.S.-based firms are actively exploring regional business opportunities, so too are the Europeans. Alcatel, Ericcson, and Cable & Wireless represent the largest European interests, while Telia of Sweden and Telecom de Portugal are also active. An additional player from the Pacific region is Telekom Malaysia. Of these non-U.S. companies, Cable & Wireless, currently in merger talks with British Telecom, represents the most aggressive challenger.

Regardless of corporate origin, as in the case of SBC's entry into the regional market, we can expect the Republic of South Africa to be the main attraction for potential investors in the near term. From this jumping-off point, forward-looking companies can be expected to expand into an increasingly liberal regional market. This increased participation will add to international corporate profits, while contributing to the overall economic and social development of a region committed to success in the 21st century. NTQ