



Black Sub-contractors and Aspirant Independent Tower Operators (BAITO) Forum –

BAITO Forum's Input to ICASA-published Information Memorandum on the criteria for the licensing process of the high-demand spectrum –

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Executive Summary

The release of the long-awaited high-demand spectrum, licensing process and the public invitation to make inputs to the published Information Memorandum by the *Independent Communications Authority of South Africa (ICASA)* together are inspiring in terms of the expected transformation of the telecommunications sector. The *Black Sub-contractors & Aspirant Independent Tower Operators (BAITO)* Forum is hopeful to stake out market share of both –

- The upgrading of the existing towers and the construction of additional towers; and also –
- Positioning aspirant BEE *independent tower operators (ITOs)* to become ‘preferential entities’ in the competitive bidding for the acquisition of the incumbent network operators’ regulatory compliance to offload non-core towers whilst retaining their core provisions of mobile network operation service.

This submission makes a case for the transformation of the SA telecommunications sector’s value chain from the perspective of varying and multiple contexts-specific entrepreneurial struggles and experiences of the low-end tier of black sub-contractors to established *engineering, procurement, construction and management (EPCM) service providers’* construction of towers and aspirant black industrialists to become BEE ITOs. **BAITO Forum** is of the view that the licensing process’ transformative criteria for the

allocation of high-demand spectrum should, in particular, to facilitate the low-end tier of sub-contractors to the (established and dominant) 1st tier suppliers of EPCM services for the construction and maintenance of base-station infrastructure – base stations, and also aspirant BEE ITOs – i.e. to become positioned for incumbent network providers’ expected eventual unbundling and disposal of non-core base stations/ phone-masts/towers. The supply value chain – construction and maintenance, and ownership of base stations - phone-masts/towers, required for the upkeep network operations, may need standard sub-sector classification which will help establish the combined market capitalization – separate from but ancillary to the provision of cellular connectivity, and BAITO Forum is putting forward. Establishing the telecommunications sector’s supply value chain – i.e. EPCM, maintenance and ownership of base stations, will be useful to determining; for example –

- The comparative extents of market share between established EPCM service providers and BEE sub-contractors in the construction and maintenance of base stations on one hand and also –
- Ownership of towers between (i) incumbent network providers and (ii) established and dominant ITOs – including the entry of multinational independent tower operators in the SA telecommunications industry’s wireless tower sub-sector, and (iii) aspirant BEE ITOs’ starting-off from comparative low base relative to established ITOs.

Making such distinction could be helpful to affirm aspirant BEE ITOs to become included and be the preferred bidders to acquire incumbent mobile network operators’ offloading of non-core towers.

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BAITO Forum's Input contribution to ICASA-published information memorandum on the high-demand spectrum licensing process –

1. Background –

In her public statement during the release of **Policy on High-demand Spectrum and Policy Direction on the Licensing of a Wireless Open Access Network (Woan)** the Minister of Communications - Stella Ndabeni-Abrahams, emphasized on the transformation of the telecommunications sector to bring in **new entrants** by implementing the Electronic Communications Act **(ECA) Empowerment requirements –**

- 1.1 Although not having statistics regarding the market capitalization of the SA telecommunications' wireless towers sector, it is believed it is sizeable market capitalization which is poised to grow relative to the development of requisite infrastructure for universal connectivity coverage and transitioning (the national economy) to digitally-connected economy – i.e. *Fourth Industrial Revolution (4IR)* connectivity for SA 's modern and connected life -
- 1.2 Following informal conversations amongst some black sub-contractors and aspirant EPCM service providers for the construction of tower-connecting facilities it was felt necessary to use individual

and collective entrepreneurial probity for business opportunities, tier-level systemic challenge of barrier to entry and their individual contexts-specific struggles and experiences which led to formation of BAITO Forum as platform to lobby and advocate for the collective 's aspirations and interest – including the provision of EPCM services for the construction of cellular tower facilities and maintenance and also becoming BEE *independent tower operators* (**BEE ITOs**).

1.3 In the anticipation of the SA Parliament 's now approved and Dept. of Communication & Digital Technology published Policy on High-demand Spectrum and Policy Direction on the Licensing of a Wireless Open Access Network (Woan) there has been notable market activity in the SA telecommunications industry -

Some of such notable market activities – and there might be others, which BAITO Forum considers as being indicative of some of SA telecoms' already self-initiated unbundling and disposal of ownership of cellular tower assets; notable –

1.4 Telkom SA having established divisional company – namely, Gyro Group, dedicated to house, among others, its cellular tower facilities;

Telkom Group's 100%-owned Gyro holds Telkom's cellular tower assets -

1.5 The MTN SA 's initiated restructuring programme which resulted in the reported sale of its equity stake in (the Lagos-based) IHS Towers –

Whilst BAITO Forum is hopeful of the potential opportunities likely to be opened up by the licensing process for the allocation of high-demand spectrum to integrate BEE enterprises' mainstreaming of in the construction of cellular towers as **1st tier suppliers** of engineering project management services and also market entry into participating as BEE ITOs.

2. Current Scenario: Vertically-integrated structure of telecoms sector –

South Africa's telecommunications industry - fixed-line and wireless network providers, reportedly has geographical spread of (the already built) 30 000 towers and of which about 10% is owned and operated by the independent tower operators whilst the rest are owned by the incumbent network providers – namely, Telkom, Vodacom – which is majority-owned by UK's Vodafone, and MTN SA – which in 2018 announced the sale of its equity holding in IHS Towers as part of its (MTN Group 's) then phased-in restructuring programme.

2.1 The existing concentrated ownership (representation) of tower assets by incumbent fixed-line and mobile network providers – and coupled with multinational independent tower operators' acquisition of controlling stakes in some of SA ITOs, under-scores the market dominance by established ITOs to the disadvantage of aspirant BEE ITOs in their entrepreneurial quest to want to participate in the telecommunications sector as ITOs –

It is the structural inequality – between the incumbent network providers and established ITOs on one hand and aspirant BEE ITOs on other, which BAITO Forum is of the view that the (high-demand spectrum) licensing process should respond to by way of; essentially –

- 2.1.1 Using the licensing process to effect empowerment enablement of aspirant BEE ITOs to gain entry-level opportunities to participate in the ownership and operations of base station facilities;
 - 2.1.2 Implement policy instruments – e.g. the Competition Amendment Act’s provisions to require incumbent mobile network providers to unbundle and dispose of their underlying non-core/ancillary tower assets thereby –
 - 2.1.3 Open up opportunities for BEE business interests’ entry into participating in the (telecommunications sector’s) operation of cellular network connectivity infrastructure – i.e. as BEE ITOs to participate in the leasing of cellular tower facilities to electronic communications network service licensees.
- 2.2 SA telecoms’ extended ownership of the tower facilities is **representation of monopoly value chain** in terms of the **Competition Amendment Act** and the criteria to qualify for allocation of high-demand spectrum licensing should include requiring, in this case –
- 2.3 Incumbent mobile network operators to unbundle and dispose of non-core tower facilities in compliance to the Competition Amendment Act for the benefit of; in particular –
- 2.3.1 Aspirant BEE ITOs’ preferential acquisition – of disposed tower facilities; in which case –
 - 2.3.2 BAITO Forum proposes that one criterion for the licensing process for the allocation of high-demand spectrum to include that incumbent network operators unbundle and dispose of the non-core cellular towers based on **‘BEE Preferential Access Provision’**.

Aspirant BEE ITOs’ participation is hoped to enable ownership of lease-able tower facilities as tradable assets with which to transact with and thereby leasing out towers to electronic communication network service licenses – i.e. including leasing to the 400 license holders awaiting the allocation of the released high-demand spectrum.

3. SA ‘s Policy Environment: Transformation & Inclusive Growth -

The SA Govt. – the 6th Administration’s signature economic transformation and inclusive growth to turn-around the SA economy is instructive to use the high-demand spectrum licensing process as Parliamentary-originated and deliberative process to use the allocation of high-demand spectrum as advantage transform the telecommunications industry and include aspirant BEE ITOs - also lead the inclusion of e.g. rural and township communities’ empowerment groups – as part of ICT consumer market, to participate in the equity ownership of unbundled tower facilities. That is, in which case to use such acquired cellular towers to stake out market share of mobile network operators’ capital expenditure on the leasing of cellular towers owned and operated by BEE ITOs-led consortiums -

3.1 Telecommunications Sector Transformation –

How can the high-demand spectrum licensing process be leveraged to open up empowerment opportunities for both black sub-contractors ((engineering services suppliers) to become preferred providers of EPCM solution for the construction of additional cellular towers and also prioritize the inclusion of BEE enterprises to become ITOs – i.e. in the bidding process for the acquisition of incumbent network providers’ unbundling and disposal of underlying cellular towers?

It is MTN SA’s disposal of its equity stake-holding in IHS Towers is expected to result in both MTN SA also disposing of other towers and also that Vodacom and Telkom will embark on restructuring initiatives to unbundle and offload underlying cellular tower facilities and it is hoped that the (high-demand spectrum) licensing process will hasten the incumbent network operators’ offloading/sale of underlying cellular towers -

- 3.1.1 Foreign direct investment (FDI) by multinational independent tower operators such as; notably -
- 3.1.2 UK-headquartered Helios Tower’s entry into SA cellular tower sector by acquiring controlling stake in both SA Towers and Vulatel which; together
- 3.1.3 Have advantaged Helios Towers in terms of the combined portfolio of (SA Towers and Vulatel’s) both existing base stations and pipeline of prospective sites for the construction of, reportedly, additional 1000 cellular towers -

Reportedly, Helios Towers has committed investment to construct about 1000 towers in SA whilst having positioned itself – by having acquired controlling majority stake in both SA Towers and Vulatel, to also in competing for (resultant) opportunities to acquire the incumbent network providers’ expected unbundling and sale of their underlying either 100%-owned or holding equity stakes in the ownership of cellular towers noting that Telkom, Vodacom and MTN SA are currently dominant in the ownership of SA’s footprints of cellular towers.

- 3.2 There are other ITOs owning and operating number of towers in SA such as, notably, American Tower Corporation (ATC) SA, Eaton Towers, Atlas Towers etc.
- 3.3 Some industry reports point out that there is market opportunity for the construction of additional 7000-to-10 000 towers across SA landscape to achieve universal connectivity coverage and this means that SA telecommunications industry has the potential to have combined number of cellular towers to the maximum of 40 000 towers to keep up with the transition to 4IR connectivity – i.e. resulting in increasing digital connectivity growth and data traffic.
- 3.4 The incumbent mobile network providers - Vodacom and MTN SA, have come up with investment programmes to upgrade existing towers and construct additional towers – built-to-suit (B2S) wireless towers, across the country – including under-serviced areas such as rural landscapes.

NB: *Reportedly, Vodacom's capital expenditure budget for its Rural Coverage Acceleration Programme is R9 billion whilst MTN's Network Modernization Programme is R40 billion.*

3.4.1 Electronic Communications Act (ECA) –

BOITA Forum is of the view that the ECA empowerment requirements be considered as criteria for the licensing process for the allocation of high-demand spectrum.

3.4.2 Competition Amendment Act –

That the Competition Amendment Act's provisions establish the basis for the transformation of the telecommunications sector – i.e. incumbent network providers' regulatory compliance to the provisions of the Competition Amendment Act by unbundling and disposing of [their] non-core and underlying subsidiary ownership of network connectivity infrastructure – namely, base-stations.

3.4.3 BBBEE Amendment Act: On Preferential Procurement score-card element –

That the public sector – the three spheres of cooperative governance and state-owned enterprises (SOEs), 's combined procurement of ICT service could be used as advantage to require - that the Dept. of Small Business Development (DSBD)-championed, 30% Set-Aside provision be used as baseline in which case mobile network providers preferentially allocate 30%-plus worth of EPCM contract work to black EPCM supplier enterprises for the construction and maintenance of base stations.

3.5 Restructuring monopoly value chains –

The high-demand spectrum licensing process presents the opportunity to use policy instruments like Competition Amendment Act, BBBEE Amendment Act and others to transform telecommunication sector's monopoly value chains. Telkom (SA) and the incumbent mobile network operators – Vodacom and MTN SA, 's combined ownership and control of 90% of SA's footprints of base-stations represent incumbent mobile network operators' monopoly ownership structure. BAITO Forum is of the view that the licensing process needs to seek the Competition Commission's advisory in relation to how to align both incumbent mobile network providers' application for allocation of high-demand spectrum on one hand and also that the incumbent network providers open up to disposing of their extended ownership of cellular towers and such restructuring is to unlock opportunities to include benefitting aspirant black industrialists seeking opportunities to participate in the telecommunications sector as *independent tower operators* (ITOs)–

3.5.1 SA telecoms' extended ownership of towers/phone-masts/base stations –

That is, as outlined in Item.2 above.

3.5.2 Multinational Independent Tower Operators -

BAITO Forum is supportive of foreign direct investment (FDI) - i.e. by multinational ITOs, and the Forum proposes that the criteria to qualify to benefit from spectrum allocation to include; namely –

3.5.2.1 Empowerment enablement measure(s) such as; for example –

- (i) Minimum threshold percentage to support and *advantage* the aspirant and affirmable BEE ITOs' entry-level market participation in telecommunications sector in general and the subsector of independent tower operations; in which regard –
- (ii) To shift ownership and operation of cellular towers to include aspirant BEE ITOs-led consortiums by becoming positioned as preferred bidders to acquire (incumbent network providers') expected unbundling and disposing of underlying ownership of cellular tower facilities – i.e. similarly like MTN SA 's (reported) sale of its equity stake in IHS Tower, in compliance to qualify for the assignment of high-demand spectrum as deliberative process to facilitate aspirant black industrialists' entry into telecommunications sector in the ilk of; in particular –
- (iii) The national *Dept. of Small Business Development (DSBD)*-championed **30% Set-Aside Preferential Procurement** – i.e. but in this case BAITO Forum proposes for 70% Set-Aside Preferential Procurement of EPCM services from BEE engineering service providers.

3.5.2.2 That 70% of (incumbent network providers') unbundling and disposal of tower assets be ring-fenced for BEE acquisition – i.e. similarly that the Policy and Policy Direction on the Licensing of a Woan has ring-fenced 70% ownership of allocation of high-demand spectrum to South African interests.

NB: That is noting that 'Woan will be a consortium with at least 70% South African ownership, comply with ECA empowerment requirements and include diversity of ownership to ensure meaningful participation of all entities involved to prevent monopolistic behaviour' - Source: Engineering News Online article dated July 29, 2019.

3.6 BAITO Forum: Business interest –

There two focus areas that BAITO Forum's constituency is targeting and these are, NAMELY-

3.6.1 Black sub-contractor suppliers: Aspirant EPCM service providers –

The 4IRSA Initiative – which led to held inaugural Digital Economy Summit for the development national response to 4IR, advocates for investment in the development of quality network infrastructure –

- (i) It is the development of such network infrastructure – including e.g. MTN SA and Vodacom ‘s initiated upgrading of existing footprint cellular towers and construction of additional cellular towers across under-connected areas to achieve universal network coverage, that is already resulting in market activity by Vodacom and MTN SA to have initiated the construction of additional towers to improve connectivity coverage across the country e.g. under-served rural communities; and
- (ii) Black contractor suppliers have been providing sub-contracting services to the established EPCM suppliers’ construction of the (country ‘s) already built 30 000 base stations over the years and accumulated experience and technical competencies to become suppliers of EPCM solutions for the construction of base stations.

Black sub-contractor engineering supplier enterprises have been sub-contracting for a long time and are ready to be considered as ‘preferred EPCM suppliers’ in the current conjuncture of market transformation and the restructuring of the telecommunications industry – i.e. particularly in the environment of incumbent mobile network operators’ – Vodacom and MTN SA’s, roll-out construction of additional cellular towers to achieve universal coverage and growth in ICT connectivity and usage.

3.6.2 Maintenance of base stations –

The demand for (technical) maintenance services of base stations – including replacement of infrastructure parts and supplies of consumables like .g. base-stations’ energy storage batteries, is expected to grow relative to construction of additional towers across under-served and rural areas to; more importantly -

3.6.2.1 Open up opportunities for aspirant BEE ITOs’ integration into participating in the mobile network operators’ supply value chains; and also –

3.6.2.2 The training of local people – i.e. to constitute local content contribution to the (upkeep) maintenance of locally-based towers (infrastructure network).

ICT consumers across rural and township communities’ growing demand for ICT services such as their combined purchase airtime and data-bundles is considered as establishing the basis to make a case for inclusion in the (high-demand spectrum licensing’s) restructuring of the telecommunications to also empower and benefit ICT consumer market across rural and township localities to gain entry-level market participation in the tower assets’ equity ownership of locally-based and lease-able tower facilities (to mobile network operators). Interestingly, it is BAITO Forum’s view that low-end and most-deserving affirmable tier of ICT consumer market’s participation in the equity ownership of (locally-based footprints of) base-stations will result in accrual dividends year-on-year to boost local consumers’ buying power to stimulate the affordability of purchasing airtime and data-bundles thereby (gainfully) participate in the digital economy – not only as consumers but also as equity stake-holders for the ownership of cellular towers. The value proposition for broad-based black economic empowerment (BBBEE) model (construct) is being developed in this regard.

3.6.3 Aspirant BEE ITOs –

BAITO Forum - aspirant BEE ITOs' expectation is that the high-demand spectrum licensing process will be instrumental to level the playing-field by transforming the vertically-integrated structure of the incumbent mobile network operators' ownership control/representations of both being mobile network operators and also owning the underlying cellular towers.

4. Conclusion

The high-demand spectrum licensing process represents the opportunity to transform the monopoly value chain in the telecommunications industry in order to create opportunities for the inclusion of aspirant BEE ITOs.