Beyond the Policy Debates: ICT and the National Development Plan

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The opening up of the moribund ICT policy environment by the both the National Development Plan and the Department of Communications National Information Communication Technology (ICT) Colloquium needs to be seized.

If the ICT sector is to make the contribution it should be making to economic growth, job creation and the deepening of democracy it is important that these public policy processes get ICT back onto the national agenda. For too long the sector has been stifled by policies that have not been evidence-based and have resulted in a series of unintended policy outcomes. Specifically, the high price of all telecommunications services together with the poor penetration of broadband services, have meant that the majority of South Africans do not have access to the full range of services and information required for effective participation by all in the economy and polity.

Industrial-age legacies haunted policy review

Positive as these developments are, it is critical that their starting point is that the root causes of past failures are identified and challenges innovatively tackled. The National Planning Commission's Diagnostic Report, which preceded the National Development Plan, attempted to do so in its far too short review of the ICT sector. The polite references to South Africa, the challenges that continue to face the sector, and poor international indicators in the discussion document gazetted for the Department's policy Colloquium earlier this year, did not go nearly far enough in what has gone wrong in order to understand what needs to be done it fix it. Arguably of more concern, was the lack of imagination in the disturbingly industrial-age framework it created for the Colloquium. While it is impossible for policy to be future-proof in this dynamic and innovative sector, reading the document left one feeling lost in some time warp.

The legacy of the flawed policy of 'managed liberalisation' permeates through the policy review. This nearly two decade-long policy - that neither liberalised nor managed the market - left the country without the benefits of competitive markets that could have driven down prices and met pent up demand for communication services across the continent and globe. Neither did it provide a feasible alternative state strategy for the provisioning of these services. The result was that South Africa has plummeted down global ICT indices.[1]

The Colloquium itself seems to have resulted from a conflation of the policy process set in motion by the Department of Communication to develop an integrated e-strategy as proposed in the National Development Plan, with the industry forum set up by the former Minister, the late Roy Padayachee. After years of failure to engage effectively with the operators as the drivers of growth within the sector, the attempts by the Ministry to engage with industry, particularly around job creation, was generally welcomed.

If the difficulties of entering into a pact with industry on job creation while asking for significant price reductions, was not evident to the Ministry, it was evident to those looking in on these developments, with a number of civil society groups and smaller service providers demanding inclusion. But other stakeholders (other than the regulator who was subsequently invited to participate in the industry task groups that were established subsequently) were never drawn into this consultative process.

The conflation seems to have occurred when the external consultant, who was used to engage with the industry forum, was then commissioned to prepare the discussion document for the Colloquium and to organise the colloquium. While some co-ordination between these activities by the Department was essential, what appears to have happened is that the industry task groups were used to structure the Colloquium. While the commitment of their expertise and resources to this process is critical to building a consensual vision long absent from the sector, the conflation of these processes has resulted in the process now being industry-led at a time when the regulator, ICASA, appears particularly ineffectual and South Africa's growth is being constrained by the high input costs of communication into business and the constrained take up of broadband services by South Africans, largely as a result of affordability issues.

The issue is not a principled matter of policy and regulatory capture – but far more fundamentally – of whether the country is generally on the right track. The sector has not just been stationary for a long time; it has been on the wrong track entirely as our declining position on continental and global indices referred to above indicates. The danger of this process, the discussion paper that informed it and the resulting structure of the Colloquium was that it served as the basis for the division of commissions into old-fashioned, vertical broadcasting, telecommunications, postal silos with parallel commissions on content, and investment.

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Without reference to the converged reality in which we now live, these commissions struggled to address the questions before them (indeed to find the right questions to ask) and to find answers that resonated with the innovative and dynamic world they experienced as the communication elite in the country and which, rhetorically at least, is the policy objective for all citizens.

ICT ecosystem

The National Development Plan, on the other hand, strikes a different cord. Although limited to the chapter on economic infrastructure, it provides conceptual liberation from the industrial silo-ed former conventional wisdom of broadband as big pipes, or just infrastructure. Instead, broadband is understood as an ecosystem of interrelated networks, services, applications and contents.

From this starting point an integrated policy can then deal with the diverse production needs of each of these layers and seek to align them with the investment, the human resource and skills development, and the research and development required to extend these to all South Africa's citizens. With appropriate policy incentives and penalties, such an approach has the potential to create a virtuous cycle of demand and production that enables the flow of information that enhances the efficiency, accountability and transparency required for appropriate and sustained development of a modern economy and society.

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Having been a contributor to the ICT section of the Plan, I would contend that the conceptualisation of ICT in the Plan did not go nearly far enough. While it allowed for a broader conceptualisation of broadband, it remained within the confines of the chapter on economic infrastructures rather than being threaded through the report from economic growth, to building a capable state, and creating viable health and education systems as the means for connecting the citizenry in new public spheres.

While the widespread endorsement from ICT commentators of the proposed plan for the ICT sector is encouraging as a basis for moving forward, that this approach has been received in several quarters as novel and innovative, is a reflection of how mired we have become as a country in old paradigms and how disengaged we are from international policy discourses in which such 'next generation' concepts and approaches have been commonplace for nearly a decade.

No such thing as a free market

Some of the accolades bestowed on the National Development Plan in relation to ICTs by some industry commentators, delightedly, but erroneously I would argue, see it as "free market" position. This seems an important misconception to correct and it is not just a matter of semantics but is at the core of some of the policy choices that need to be made for the sector and the country. As it is for the country, so is the underlying policy challenge of inequality and poverty. The Arab Spring is testimony to the policy outcomes of relatively high access and usage of ICT in countries with high levels of political and economic inequality.

Nowhere is this starker than in the area of information and communication. Information is power. As we move into information societies and knowledge economies the inequities between those who can afford access to the full range of services and content and those that cannot, is amplified. If democratic governments are committed to redressing this, its interventions have to be pro-poor. They have to address the yawning gap between those with access to the World Wide Web and those limited to expensive voice calls - often because those they want to communicate with are illiterate or not e-literate enough to send a much cheaper SMS.

Of course there has been rhetorical commitment to this, and it has been the rationale for the retention of state assets in the sector and the establishment of new ones as well as an agency dedicated to universal service, now USASA. Wracked by waves of governance crises over two decades and sitting on unspent billions, the poorly implemented or unimplemented universal service strategy represents a double whammy for the underserved poor.

In the first instance, universal services levies, especially when they are unspecified at the time of licensing, are not conducive to investment. Unless this disincentive is overcome, these costs generally contribute to the higher cost of business and are transferred on to consumers, inflating prices and, especially in the early years when companies have not broken even, are written off against potential taxes. This write-off contributes to the efficiency gap in the market that would be better overcome by lower prices, driving greater uptake and profitability, which provides a greater contribution to the general tax base from which resources can be dedicated to really uneconomic areas requiring intervention and relieving the system of free-riding associated with current interventions.

These regulated market reform models have driven uptake, driven down prices and underpinned economic growth in many emerging and developing economies and continue to do so.

The retention of state interests in the incumbent service provider has also not had pro-poor outcomes, despite its protection over the years on these grounds. Not only has it not serviced the poor, it has lost value as a strategic asset and a tool for effective state intervention – at the very least an open access backbone on which to run competitive services. In fact, Telkom stands today as a shell of its former self: First bled by a strategic equity partner and, as the outcome an inexperienced State, failed in a privatisation exercise intended to extend services to the people; second, it was stripped of its key assets to cover misadventures in foreign markets and sectors in which it has no expertise; and third, it returned as an underdog to the mobile sector in which it was once the 50% shareholder of the dominant operator. Haemorrhaging from every pore it reels from anti-competitive penalties and the rejection by Cabinet, on unclear grounds - certainly no clear alternative strategy - of its foreign investment strategies to stop the blood loss.

With a significant state holding, it is neither an effective private competitor nor a national champion. Its critical broadband function as a state entity was undermined by the establishment of a state-owned broadband company, presented by the Department of Public Enterprises as a *fait accompli* in 2007, without any consultative policy process or reference to the regulated sector in which it was to operate. This left the sector stranded between contradictory, or at the very least, uncoordinated strategies, without the potential benefits of either. The long term effect has been that South Africa benefitted neither from comprehensively or effectively implemented, regulated market reform models nor from a strong and viable alternative vision. These regulated market reform models have driven uptake, driven down prices and underpinned economic growth in many emerging and developing economies and continue to do so.

Getting Policy Right

Evidence ignored in policy formulation in South Africa over the last three decades indicates that for policy to be pro-poor – the primarily policy objective being affordable access to the full range of communication services - it needs to drive competition within the market. One only has to look at the opening up of mobile markets in the communications sector which has brought more access to basic voice communications in two decades than in the previous century of dysfunctional colonial, neo-colonial and apartheid, and post-apartheid state. This is not an ideological argument: it is evidenced in the proliferation of mobile phones and services that have been resulted from the shift from monopoly to market provisioning of these services. It is true that these services are unevenly distributed and used. That they are extortionately expensive also reflects the fact that they have been delivered by the market, and particularly by an essentially duopoly market with all its characteristics of price matching and poor quality of service.

While perfect markets present the mechanism best suited to the efficient allocation of resources in some sectors, the inherent bottlenecks in infrastructure industries has long been and is globally acknowledged, as requiring regulation. In fact, the 'paradox of de-regulation' is that as communications markets have liberalised and innovated and become increasingly complex they have required more - certainly more sophisticated - regulation.

The need for such autonomous agencies to eliminate or manage potential conflicts of interest in environments is amplified where the state is still a player in the market and while it is responsible for policy that effects its determination of the conditions under which its competitors operate.

Markets require this to create a level playing field for new entrants to be able to come into highly entrenched incumbent markets. Markets need to create conditions for the co-ordination required between competitors in infrastructure industries to seamlessly service their customers making calls to their competitors networks, to deal with anti-competitive practices, and the failure of the market to reach or equitably service uneconomic areas as noted above.

The need for such autonomous agencies to eliminate or manage potential conflicts of interest in environments is amplified where the state is still a player in the market and while it is responsible for policy that effects its determination of the conditions under which its competitors operate. This is essential to avoiding the structural conflicts of interest that have plagued key policy instruments such as the licensing of new operators that have resulted in delays and unintended outcomes.

If one accepts this rationale for the delegation of certain democratic prerogatives of the state and central power to specialised agencies of the state, one is better able to understand an enabling role for the state in the sector. The state creates the necessary institutional arrangements and market structure that relieves it of both investment risk in an economy where public money could be spent better elsewhere, and draws on the specialised expertise outside of the sate required to regulate the sector effectively.

Regulators independent of government and industry are required to provide the continuity between electoral cycles and administrations, to provide certainty to investors and consumers. In markets in which incumbents have been operating for centuries – or decades in newer mobile and wireless environments – regulators need to demonstrate a willingness to act as a proxy for competition, check the historical dominance of public investments in the sector, and ensure their availability to new entrants and fair access to scarce national resources such as spectrum and numbers. Without regulatory certainty, countries do not attract the massive long-term investments required to build out the new networks and services.

This is not, and cannot, be a free market. A free market would result in the consolidation of ownership to which there are inherent tendencies in advanced capitalism and in the communications sector, in particular. In a free market, the historical dominance of incumbents, monopolies, duopolies and cartels, are associated with the absence of network extension, with innovation but also with price matching, extractive rents, poor quality of services - precisely the characteristics of ineffectually regulated markets would go unchecked.

Policy and regulatory failures that induce these conditions produce equally negative, indeed similar, outcomes. Indeed, it is the lack of institutional capacity to reform monopoly and duopoly markets adequately and to regulate them effectively, that has undermined many of the reform initiatives within the communications sector in South Africa. Capricious behaviour by regulators is as damaging, arguably more so, than market abuses.

The National Development Plan

The National Development Plan acknowledges that South Africa faces challenges in all these areas suggesting that the decision-making powers be retained by the State until the institutional challenges facing regulators are addressed. This, however, assumes sufficient capacity within the state, which does not exist. In fact, it brings us full circle as it was generally acknowledged that the state did not have the specialised knowledge to regulate this globally competitive sector effectively; that it delegated these powers.

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Likewise, the proposed retention of the decision-making discretion by the state assumes that it has the capacity to regulate this dynamic, liberalised sector in which it has extensive interests and in which it has a history, like so many states, of being very poor at choosing winners and losers. It has been demonstrably incapable of doing the right things, not least of which, as a result of the structural conflict of interest, it has by virtue of its multiple roles within the sector.

The National Development Plan acknowledges the imperfect nature of infrastructure markets, with their high barriers to entry, inherent bottlenecks, and market failure in uneconomic areas. The importance of effective regulation of the markets is highlighted in a dedicated section on the role of regulators in the chapter on Economic Infrastructures. "Regulation works best where there is sufficient political will to support it; where regulators are legally independent, publicly accountable, and their decision making is transparent and where the regulator is backed by adequate institutional and human capacity." (National Development Plan 2012:16)[1].

This leaves the Plan with somewhat of a conundrum on the issue of regulation. The Plan acknowledges that capacity building remains a core challenge, requiring sustained training to improve leadership and technical capabilities. And, as the Plan points out, the quality of regulation, however, is not just about the regulator. "The state itself must have adequate capacity and capability to formulate effective policies; support the design, establishment, review and improvement of regulators; and respond to issues identified by capable regulators. A capable state (chapter 13), with functioning, well-run utilities, departments and municipalities, will help ensure efficient regulation."

These are not challenges that are addressed swiftly. The problem is what happens in the meantime?

The Role of the State

Assessing the appropriate role for the state in this sector is one of the primary policy challenges in South Africa. Rather than a blanket response to state sector relations evident in references to the idealised 'developmental state', what is required is a far more nuanced response by the state, aware of its own limitations, to different sectors as a result of the differing production requirements and modes of governance, particularly in as dynamic a sector as ICT.

South Africa cannot afford to wait any longer for the institutional crisis in the sector to be resolved. Without strong technocratic capacity to regulate this sector, it will continue to grow, introducing cutting edge services, despite Government rather than because of it, and it will also continue to be characterised by early ICT adoption by a small elite who can afford to pay premium prices while the mass of South Africans have limited access and use basic services no different from some of the least developed economies in Africa.

In the context of building a capable state, the introduction of the National Planning Commission with its emphasis on the improved coordination and integration of state planning suggest in fact a deepening of the role of the state.

If we are to reverse the negative, unintended policy outcomes of the last decade, the ideological baggage of unfettered markets and direct state control of services that have polarised sector debate over the last decade and half, will have to be shaken off and a more evidence-based approach to sector policy adopted. A lot of the evidence suggests that the key to sector success is getting the right combination of state and market.

It is not a matter then of state involvement in the sector or not, but the nature of its involvement that will determine the success of the sector. The appropriate question then is not 'how much state' so much as 'what kind'? This also means not wishing into being a kind of state, which historical legacies, current capacities or competencies, or any other political and economic realities, prevent from being realised.

In the context of building a capable state, the introduction of the National Planning Commission, with its emphasis on the improved coordination and integration of state planning suggests a deepening of the role of the state. But what of its scope - particularly in relation to the communications sector?

It is clear that each sector presents distinctive constraints and opportunities for state involvement. While there are certain distributional functions that are better performed by a capable state with sufficient institutional endowments, there remains considerable evidence of the role of well-regulated markets in efficiently allocating resources in the ICT sector in the context of this administration's recommitment to participatory and consultative processes.

Understanding the role that the state can effectively perform as a result of the differing production requirements and modes of governance within sectors cannot be overemphasised. The success or failure of the reform and development strategies will be influenced not by whether the state is involved, but by the nature and quality of its involvement.

Those calling for unfettered markets often fail to acknowledge the complex mechanisms that have developed to ensure working markets successful ICT sectors. In modern regulatory states with the shift to an alternative mode of delivery in which the ownership and risk of infrastructures was placed in private hands, public control was not relinquished.

The conduct of private owners was instead subject to rules enforced by specialised agencies capable of managing this complex and dynamic sector. The result was to separate public ownership and public control. This is because while markets increasingly became the preferred mechanism for the allocation of resources in the telecommunications sector, unfortunately, like other infrastructure industries, they are less than perfect.

The imperfect nature of the telecommunications market with its high barriers to entry, the inherent bottlenecks, and the required co-operation among competitors for seamless communications, has made the case for social and economic regulatory intervention indisputable and underpins any policy which has, at its heart, rights to communication, the consumer welfare, fair competition and mechanism to deal with the market failure associated with the delivery of services to uneconomic areas.

Conclusion

As proposed in the National Development Plan what is required is a fundamental policy review that will produce a national e-strategy for the country that acknowledges the significant contribution of the sector to the national economy, but also as a critical input into all other sectors of the economy, particularly the services sectors. While the sector might provide direct opportunities for manufacturing, service provision and job creation, its significant contribution to economic development is to enhance communication and information flow that improve productivity and efficiency. It is the cross-cutting nature of ICT within a modern economy that increasingly compels it to be understood as a general purpose technology. Without more even access, the extreme inequalities that exist within the country will exacerbated.

If South Africa is to meet the needs of a modern economy, fulfil its developmental objectives, build equitable participation in the espoused information society and knowledge economy while becoming globally competitive, it will need to address these challenges in a frank acknowledgement of the failures of the past, clear strategies for the future and the restitution of ICT on the national agenda from which it has been absent for too long.

NOTES

1 South Africa has fallen to 97th in ITU Development Index 2010 from 77th in 2002 and continues down the World Economic Forum e-readiness Index to 78 in 2012, down a further 10 places from 20