STRATEGIES FOR MOBILE INFRASTRURE
& REGULATORY ENVIRONMENT
IN AFRICA:
An economic analysis of the strategic options to implement mobile platforms while maximising consumer surplus and contestability of markets

by

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1. The focus of this paper is on how to maximize the following metrics:
a) consumer surplus
b) contestable markets
c) access for local content producers
d) elimination of barriers to entry for local enterprises.

It will also be shown that this model maximizes the e long run profit of the mobile phone sector (though not necessarily the long run profits of any particular operator).

Consumer Surplus

The greatest increase in consumer surplus will come from extending coverage to 90% of rural areas (due to network effects), and moving the industry to long-run cost curves. Currently short term profit maximising renders extending coverage unattractive to mobile telcos.

Access for Content Producers

Mobile telcos control access for content in an African context that amounts to monopolistic restraint. The consumer surplus in allowing content producers easy access to mobile platforms is very great. Though the potential revenue stream may be relatively negligible the cost to mobile telcos may be zero! At present mobile telco's restrict access on the basis that a profit opportunity may emerge int he future i.e. unwilling to grow the market.

Access for Local Enterprises

Oligopolistic behaviour will eventually lead to collusive behaviour to bar entry to local enterprises. The social costs would be enormous and be borne by society not by mobile telco's.

Proposed Solution

Publicly owned infrastructure managed by competing private enterprises, leased to an 'regulated open market' with licensing conditions ensuring open access to content producers and license renewal programme ensuring potential entry for local enterprises. Public infrastructure to be funded by income stream from licensing.

Consumer Surplus

With publicly funded but privately managed infrastructure development 90% coverage of rural areas can be achieved with cross subsidy built into the business plan for infrastructure development. Once competition over capital expenditure is eliminated, competition will move to quality, reliability and innovation thereby increasing the consumer surplus.

Contestable Markets

With a liberal licensing regime, entry and exit will be relatively open thereby ensuring contestable markets and opportunities for innovators to enter the market.

Access for Local Enterprises

At present capital expenditure becomes a barrier to entry. With a licensing model, local enterprises will be able to enter smaller market segments and test their product before obtaining larger capital infusions for expansion.

Long Term Cost Curves

The infrastructure managers will be in position that their capital injections is based on their long term licensing income and therefore will of necessity be committed to long term cost curves. With infrastructure maximising long term profitability and with licensees maximising profit through increased development of the market, quality, reliability and innovation total profits for the particpants will be maximised as will be the consumer surplus.

Our current unregulated market produces:
a) unnecessary duplication of capital expenditure in dense urban areas,
b) starvation of investment in rural areas,
c) excessive investment in barriers to entry,
d) restrictions in access/ entry and therefore reduced innovation,
e) excessive focus on short term profits.