



CHAIRPERSON'S *overview*

It is an honour to present the second Annual Report of the Independent Communications Authority of South Africa ("ICASA") to Parliament and other stakeholders. The year under review was a challenging one for us. In an ideal world, a better option for ICASA would have been to halt all the operations and concentrate on restructuring and consolidating the merger between the then Independent Broadcasting Authority ("the IBA") and South African Telecommunications Regulatory Authority ("SATRA"). However, this is a luxury that neither the economy nor we can afford. By all accounts, we have done a fairly decent job of maintaining the delicate balance between change management and delivering on our mandate.

As an output of the restructuring process, we have delivered a new organisational structure merging the operations of the IBA and SATRA; and have filled at least 80% of positions in the management echelon. Equally important has been our determination, as part of the change process, to re-orientate ICASA's institutional focus and entrench a business cultural ethos and *modus operandi*. As I have already said, not only did we manage to effect structural changes to ICASA during the preceding year, but have also produced a number of regulations and policy positions that impact on the communications sector - and issued several licences.

What instantly comes to mind in this regard is the release in February 2002, of the Position Paper and Regulations on South African Music and South African Television Content. ICASA sees this regulation as one of the necessary pillars to fulfil its mandate towards the empowerment of a locally creative industry as well as bolstering the economy. This it achieves through its stated aim to develop, protect and promote a national and provincial identity, culture and character and to create vibrant, dynamic, creative and economically productive local industries. Other broadcasting policies, initiated during the year under review, include the inquiry into sports rights for broadcasting; the review of statutory limitations on ownership and control as well as the status of existing commercial radio licences. The review of the ownership and control rules will be critical to establish certainty subsequent to the debate occasioned by the ICASA ruling in the Kagiso/Nail merger case. Regarding Public Broadcasting Services, I want to note that ICASA has developed an issues paper that will guide it in overseeing the restructuring of the South African Broadcasting Corporation ("the SABC").

On the Telecommunications side of our business, the challenges were phenomenal. Many of the challenges in Telecommunications were prompted by Government's determination to gradually liberalise South Africa's telecommunications market, starting on 7 May 2002. To achieve this, there had to be legislative reform in the telecommunications environment and ICASA, as with many other stakeholders, assisted Parliament when it considered amendments to Telecommunications Act 103 of 1996 ("the Telecoms Act"). The Telecommunications

Amendment Act was signed into law on 30 November 2001 and ICASA was galvanised into motion to develop a number of policy instruments to create an environment for competition as South Africa moved closer to the process of licensing a Second National Operator ("SNO"). The regulatory policies introduced for this purpose included regulations for the Chart of Accounts/Cost Allocation Manual ("COA/CAM"); Carrier Pre-Selection; Supplementary Facilities Leasing; Supplementary Interconnection Guidelines and Universal Service Fund Contributions.

Possibly the most eagerly-awaited telecommunications licensing process in the history of South Africa's communications industry is the licensing of the SNO. This process started in December 2001 when the Minister of Communications ("the Minister") decided that the SNO licensing process would be managed in three separate phases. The first phase would involve the determination of the winning bid for the 19% equity stake set aside by the Minister for the empowerment of historically disadvantaged persons. The second phase would focus on the award of the 51% stake to the Strategic Equity Partner (including either domestic or international investors or both) and the third phase would cover the allocation of the Eskom-Transnet 30% Equity Interest. At the time of writing this report, ICASA had already made a recommendation to the Minister on the winning bid for the 19% BEE stake.

The next and decidedly challenging phase of the SNO licensing process is the 51%. The expectation, both in circles of government and the market, is that the holder of this stake will bring expertise and resources to mount effective competition to the incumbent operator. The jury is still out whether - in this globalising world - this is a realistic expectation given the downturn in telecoms stocks, which have been exacerbated by the collapse of major telecommunications corporations and concomitant accounting scandals. Then there will be the integration of the three major shareholders in the SNO, that is, the 19%, the 51% and the 30% stakes into a corporation or venture that forms the SNO.

There is, however, the stubborn hope - which characterises South Africans - that going ahead and licensing the SNO at all costs will be the required elixir for the ailing markets, and could be an impetus for a cycle of future growth. ICASA is charged with the task of licensing the SNO and has put in place all struts to meet this responsibility.

The foregoing might at first glance seem daunting, but ICASA takes all that in its stride, with the understanding of the Government's policy of managed liberalisation - and that this unique period in our history possibly requires equally unique solutions.



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(Chairperson)

