

Telecom Lesotho (Pty) Ltd

Response to LTA Consultation Document

“A Universal Access / Service Strategy for Lesotho, dated 12 December, 2002.

Invitation to submit comments on the intended Universal Access / Service Strategy.

Submission arising from the discussion document and a presentation of the LTA at a workshop of the 10th December, 2002.

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1. Preamble

Telecom Lesotho is the licensed fixed line telecommunications operator in Lesotho, that has been given exclusivity over the provision of these services for a period of five years commencing in February, 2001. Other licensed operators include the two mobile network operators of VCL and Econet Ezi-Cel, and three commercial ISP service providers, namely, LEO, Square One and Adelfang. Telecom Lesotho is currently the only licensed operator that has been committed to universal access targets that are prescribed under its licence.

Telecom Lesotho is obliged in terms of its licence obligations to 25,000 lines by February, 2003, and 30,000, 40,000 and 50,000 in the subsequent years respectively.

2. Context of Comments

- 2.1 Telecom Lesotho recognises the strategic importance of telecommunications for Lesotho, not only as an important social responsibility, but also as a key enabler for growth and job creation in other sectors. We recognise particularly the importance of widespread, affordable telecommunications to all sectors of the community in this country.
- 2.2 We note that the lack of sufficient investment capital has hitherto constrained development of telephony in Lesotho. This has left many people and communities especially those outside of the town centres, with no access to telecommunications services.
- 2.3 Finally, we recognise the need to establish a clear policy and regulatory environment, as a basis for future telecommunications investment and also to ensure access by the majority of the people of this country to telecommunication services.

3. Comments

3.1 Section 2: Definition of Universal Access and Universal Service

- 3.1.1 The terrain of this country is mostly highland with plateaus, hills and mountains, with the mountainous area accounting for more than 60% of Lesotho's total geographic coverage, with less than 23% of Lesotho's population residing in this area¹. Lesotho's population density as a whole is very low with less than 61 persons per square kilometre.

¹ Lesotho Statistical Reports 1996:

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70% of the population is classified as being employed, but this employment figure is skewed as it includes subsistence farming which constitutes 72% of the employment figure. The population of the country is estimated at 2.207,954 million. It has a marked inequity of the income distribution as 49% of the population is living below the poverty line.² 37.5% of the population earns less than M500 per month, while 21.3% of the population earn between M500 and M999 per month. Thus, nearly 60% of the population earn less than M1 000 per month. International findings show that consumers on average spend less than 10% of their disposable income on telephony.

The primary drivers of the economy are agricultural farming, (livestock, agriculture) estimated at 18%, industry at 38% comprised of small manufacturing base primarily for textiles, milling, brewing, and services 44 % inclusive of the mineworker remittances.³ Because of the nature of the economy, settlements have tended to concentrate around the areas of activity in the country. As a result are concentrated around the town centres and rural communities scattered across the country.

- 3.1.2 In order to determine the appropriate criteria for determination of universal access, it is our belief that the proposed measures of time, population and distance are relevant. We believe that these should be related to the activities in the areas that will be able to support the service in the long run, such as population density and income distribution. It is important that universal access is supported by the appropriate affordability level in order for telephony services to be financially viable in the long term. Furthermore, it is our belief that it is absolutely critical to study household incomes, and spread as well as their telephony needs requirements in order to establish the affordability levels of the potential users of telecommunication services in the country, and to define amongst others the appropriate telephony solutions and targets for the defined areas.

It is therefore recommended that a market survey be carried out to inform the decisions that may be made in this regard. This would be a condition precedent for determination of what approach would best respond to the requirements of the marketplace.

- 3.1.4 We support the concept of universal access as opposed to universal service as proposed.

We further propose that in view of the competition provided by the Mobile operators, penetration needs to be defined in terms of both mobile and fixed customers if it is to be used as one of the criteria of determining the universal access strategy.

² Source: UNDP – Human Development Report 2002

³ Source: UNDP – Human Development Report 2002

3.2 Universal Access / Service Strategy for Lesotho

3.2.1 NATIONAL COVERAGE

- 3.2.1.1 In a market such as Lesotho, where there is a rudimentary system of telecommunications infrastructure, there is need to emphasise building the infrastructure. However, availability of investment capital to finance the costs of building the network as well as universal access service at the same time may not be simultaneously achievable in the near future.
- 3.2.1.2 The topography of the country poses a significant challenge to services roll out in the country. This has also affected other services such as electricity on which telecommunications services rely. While the fixed line teledensity is currently at 26,246, (1.2%)⁴ for the country access to electricity stands at 30,000 connections countrywide, and is also concentrated around the town centres and selected rural communities.

Where there is sufficient coverage of the copper network, the lack of electricity does not necessarily affect the provision of customer connections. The existing copper network of the company covers the urban areas only, as a result where alternative technologies are deployed such as the WLL and FCT's the lack of electricity is a serious threat to the spread of telecommunication services as the cost of connections becomes too high. This has been noted in the current WLL and FCT projects.
CONFIDENTIAL INFORMATION PRESENTED.

3.2.1.3 CONFIDENTIAL INFORMATION PRESENTED

- 3.2.1.4 To ensure that equitable development goals are met and that services will be provided on a sustainable basis, a reasonable balance has to be struck for the simultaneous achievement of the two key objectives, for network roll out and universal access. A review of the targets taking account of the existing and available infrastructure, taking cognisance of the available resources and the experience over the current year of operations has to be carried out. This review has to take into account the impact of supporting infrastructure where applicable, competing services and licences and their effect on the revenue base as well as their support to investment on network development.

- 3.2.1.5 We recognise that VOIP is a technology being deployed by other licensed operators to the detriment of our operations. Some licences have been issued by the LTA authorising VOIP under a "Calling Card Licence". This feature coupled with the fact the Lesotho

⁴ Source: TL Statistics. 2002

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is leasing bandwidth capacity from South Africa which is presently prohibiting the use of VOIP, affect relations of Telkom SA as the supplier of bandwidth and Telecom Lesotho which is itself, prohibited from using the technology to carry voice over the leased lines of Telkom. These service licences do not only impair the revenue base for Telecom Lesotho but also impair the capabilities for Network development as the revenue base to support network development is eroded by these competing services that do not necessarily contribute to the development of the network.

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3.2.2 ACCESS TO INTERNET FOR ALL REGIONS

Some of the technologies already employed to meet existing roll out targets, may with some limitations support data and fax as their original scope was to provide basic telephony services (voice not data).

Some pilot projects such as the Leland Initiative in partnership with Telecom Lesotho have sponsored selected 10 schools with free internet access for a whole year. The sustainability of such projects beyond the project phase may require policies and strategies to support such projects.

In addition Telecom Lesotho will be launching low internet tariffs to encourage usage.

Telecom Lesotho is in the process of taking the internet to the community by means of communication outlets (internet cafes), that provide both voice and data services. Telecom Lesotho would support provision of these services through establishment of tele-centres at the identified sites. The sites for such centres are to be agreed with the LTA.

3.2.2 UNIVERSAL BASKET OF SERVICES

Some of technologies such as FCT's and or WLL may with certain limitations support internet/ fax etc. If data services are included in this basket there will be certain adjustments that may be necessary to support these services. These may require some grace period for the existing installations to be upgraded to the new requirements. Further the definition of universal access for which the initial roll out by Telecom Lesotho was bound provided for specified customer connections without necessarily specifying as a requirement "basic data" as defined in the licence to be an integral part of the service.

3.2.3 ACCESS TO PUBLIC PAY PHONES AND TELEBUREAUS

TL has committed itself to aggressively grow the payphone business, however, recognises that if the current rollout targets are maintained, viability of this business diminishes.

3.2.4 QUALITY OF SERVICE TARGETS

It is our view that the quality of service targets may need to differentiate between the rural and urban areas, to take account of infrastructure constraints in the respective areas.

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3.2.5 AFFORDABILITY

Determination of the affordability levels is critical. The income generating activities are concentrated around the towns and urban centres, this implies that provision of services in the areas beyond these places may require at least in the initial stages, some form of cross subsidisation for sharing of the costs of services. Proposals such as a country wide national tariff are recommended for consideration by the Regulator.

Some initiatives have been taken by Telecom Lesotho to introduce some correlations between the services offered and the associated costs thereto, and accommodate the needs of the lower end users. These measures include proposals tabled for the 2003 tariff submission which is in accordance with international trends of:

- Increased rates for monthly rental and local calls;
- Lower rates for long distance; and
- Lower rates for leased line.

TL has therefore proposed different packages which take cognisance of the various segments telephony requirements.

3.2.6 TIMEFRAME

While we agree that the time frame for introduction of the interim measures such as licence targets i.e. 2003 April, to 2005, we remain uncertain as to whether in light of the concerns raised for the market surveys, the proposed commencement period is practicable.

It is therefore proposed that at the time of preparation of the licence targets the impact of the penetration realised through competing mobile services through which large parts of the country are aggressively being covered will be taken into account.

3.2.7 FUNDING STRATEGIES FOR UNIVERSAL ACCESS

We agree with the proposal for the interim funding for universal. However, our view would be to propose that the operators and the LTA agree the areas to be subject to the universal access targets, evaluate the costs for provision of the services and a strategy to be informed by the consultative decisions reached by all the relevant parties.

4. RESPONSES TO SPECIFIC QUESTIONS

4.1 DEFINITION OF REASONABLE ACCESS

See item 3.2.4 see 3.1.1 above

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4.2 BASKET OF UNIVERSAL SERVICES

See item 3.2.2 above

4.4 QUALITY OF SERVICE TARGETS

see 3.2.4 above

4.5 OPTIONS FOR FUNDING OF UNIVERSAL ACCESS

see item 3.2.8

4.6 GOVERNMENT'S ROLE

Government is to facilitate timely dissemination of information on plans for future development in order that the developments in all the sectors can be able to complement and support each other for co-ordinated development of the economy.

Government's active role to develop policies and measures not only to attract foreign investment but to support investments made in the country. An example may be seen in regard to the investment incentives developed to attract investment in the manufacturing sector and measures developed to support them. Similar policies may be considered to support investment in the selected areas, and services where the prospects for recovery of investment costs on the infrastructure are non existent or below the reasonable levels of return.

5. Conclusion and recommendations

- 5.1 A market survey be carried out to determine the needs of the market and what it services it can effectively sustain.
- 5.2 Where a need that is not sustainable has been identified, policies and strategies to support the services be developed in consultation with the operators, the public and the government in order to implement policies that will have the buy in and commitment of all the relevant parties.
- 5.3 The Pilot project proposed be implemented only after the public consultations with the private and public sector stakeholders affected by the projects have been carried out.
- 5.4 LTA to facilitate cohesive approach for network development by all operators that would provide a seamless and complementary contribution by all operators to ensure national coverage not duplication of the network in the specific areas. This would support efficient use of the networks and the available funds for capital investment on the network.

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- 5.5 To maximise on the economies of scale we would therefore recommend that backbone traffic remain the responsibility of TL and the other carriers focus on providing access equipment/technology.