

13 January 2003

Chief Executive Officer
Lesotho Telecommunications Authority
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P.O. Box 15896
Maseru 100, Lesotho

Dear Sir,

Ref:VCL/7.10

COMMENT TO THE LESOTHO TELECOMMUNICATIONS AUTHORITY'S CONSULTATION DOCUMENT: A UNIVERSAL ACCESS/SERVICE STRATEGY FOR LESOTHO

Vodacom hereby encloses its comment to the Consultation Document: A Universal Access/Service Strategy for Lesotho. We appreciate the consultative spirit in which the invitation to comment was issued.

1. POLICY GOALS AND STRATEGIES

1.1 THE NEED FOR A UNIVERSAL SERVICE POLICY

African countries needs an increasing range of services to be delivered to an increasing number of customers in an increasing number of places. Governments have to guide the balanced achievement of universal service and access for urban and rural individuals, households and communities, and the delivery of high-level services and technologies to the economy.

In Section 3, the Consultation Document states that the rationale for creating universal access and universal service policies is based on the premise that the market alone will not make essential services available to all of the Lesotho population, due largely to the need for operators and service providers to make a profit, and some services, taken alone, are not profitable. While one cannot argue with the basic logic, Vodacom has proven in its operations, that extending coverage to places that do not initially appear to be commercially viable often pays off, and that, by way of introducing pre-paid service, incoming-only service, and Vodacom's commercial offering of People's Phones phone shops which provide public payphone services (hereafter known as "People's Phones"), affordable service can be offered to more people and households than analysts imagine.

Vodacom also submits that the statement that operators "do not have entire economy in mind" (see page 8) when making investment decisions is ill-informed. While the telecommunications industry cannot serve as the sole economic upliftment vehicle, mobile operators are well aware that the commercial success of their operations relies on general economic performance in the country. Indeed, mobile operators often structure their operations to promote economic development, e.g. by implementing joint economic development programmes featuring SMME development by way of operation of People's Phones and dealerships.

1.2 DEFINING UNIVERSAL SERVICE AND UNIVERSAL ACCESS

As stated in Section 2 of the Consultation Document, Lesotho needs a dynamic definition of and approach to universal service and access in which investors and operators can find acceptable risk and reward. The following framework can be useful in conceptualising universal service and access in a dynamic manner.

	Universal Access	Universal Service: Personal	Universal Service: Household	Universal Service: Priority Customer (Institutional)	Service to Business
Voice					
Fax and Data (narrow band – email)					
Internet (broadband)					
Service Delivery (broad-band) e.g. E – Govt.					

The third dimension of the framework (not shown) is the spatial or urban/rural dimension.

Efforts at achieving universal access and service should first be focussed on basic voice telephony. Over time, or in specific areas, e.g. priority institutional customers, the government and industry should attempt to offer more extensive services. Universal access, which is a priority issue in most countries, should initially be defined (in terms of distance, time and population) in a manner that is achievable given the state of the economy and the market of operators. That is, Government, LTA and industry should agree to “move the goal posts” in terms of the definition and scope of universal access and service strategies.

1.3 SETTING INITIAL GOALS

Policy goals must be reasonable. Telecommunications definitely promotes economic development, but the telecommunication industry cannot be expected to perform at a level far beyond the general state of the economy. Goal-setting (particularly population or geographical coverage) must be reasonable in the light of general economic conditions and in particular the state of development of the telecommunications market.

1.4 TOWARDS A STRATEGY

1.4.1 Playing Proper Roles

Section 4 discusses strategy, but does not initially address the proper roles of the various players in the telecommunications industry. Vodacom takes the view that the key role players in the telecommunications sector are

- Government (including the minister and ministry/department);
- National regulatory authority (NRA);
- Investors and operators;
- Labour, and
- Consumers.

The role of Government and the NRA is to act as facilitator and coordinator of the delivery of telecommunication services by properly structuring, populating, monitoring and managing the market. The Government and NRA are responsible for encouraging the private sector to achieve the state's vision and goals, and giving them incentives to do so (commercially or as a matter of public service commitment). The private sector should focus on innovative commercial and community service offerings that meet these demands and needs as efficiently and effectively as possible. Obviously, in an enabling environment, service delivery by the private sector should be closely monitored and gaps in delivery should be brought to the attention of operators. Where necessary, state operations and funding may need to be applied as discussed further below.

The role of investors and operators is to obtain and employ capital in an efficient manner so as to provide the maximum amount and quality of services at an affordable price to the consumer. Private investment in telecommunications is preferred; public investment should be carefully tailored to achieve goals or meet needs that private investment may not address.

In telecommunications, infrastructure and equipment are produced to global specifications, are efficient, and are available at competitive prices. A policy of technological neutrality is important to allow competition to provide the best products and services. Human resources are unique, operate at varying degrees of efficiency, and are in short supply. Investors and operators simply have to invest in human resource development, but should receive tax incentives to do so. Labour has to face the reality that the development of new skills must keep pace with the development of new technologies; bursaries, training grants and the like should be regarded as a valuable element of a total remuneration package.

Africa's consumers need to get informed and get organized. Only in this manner can they have their appropriate influence on the behaviour of operators in their market and politicians and officials in their policy and regulatory environments. Government need to encourage formation of consumer associations, and to consult with them on a regular basis.

1.4.2 Commercial Service Offerings

Mobile cellular networks are making significant contributions to the achievement of universal service and access (contributions that the state-owned fixed line operators have not been able to deliver for decades). Thus, the regulatory playing field can no longer be slanted so as to artificially favour the operations of the government-owned PSTN fixed line operators. In meeting commercial demand and social need, he who can must be allowed to perform; he who cannot must simply stand aside. It may be helpful at this point to note that, given technological convergence, the traditional distinction between fixed and mobile service is becoming increasingly irrelevant. Various operators and technologies can meet market demands and socio-economic development needs.

	Universal Access	Universal Service: Personal Mobile	Universal Service: Household	Universal Service: Priority Customer (Institutional)	Service to Business
Voice	Fixed or mobile	Mobile	Fixed or mobile	Fixed or mobile	Fixed or mobile
Fax and Data (narrow band – email)	Fixed or mobile	Mobile	Fixed or mobile	Fixed or mobile	Fixed or mobile
Internet (broadband)	Fixed or mobile	Mobile	Fixed or mobile	Fixed	Fixed or mobile
Service Delivery (broad-band) e.g. E – Govt.	Fixed or mobile	Mobile	Fixed or mobile	Fixed	Fixed or mobile

In order to achieve universal access and service, Vodacom submits that the goals should be focussed on the result rather than the method, i.e. Government and LTA should discuss the objectives with the industry and, as far as possible, let the operators compete to satisfy commercial demands and co-operate (with regulatory co-ordination) to satisfy social needs.

The provision of basic voice telephony service and access still remains critical, especially for rural communities, and should be placed as a high priority. The potential role of mobile and satellite operators in providing personal mobile (and, indirectly, household) universal service should be taken into greater consideration by Government and LTA, particularly when considering issues such as spectrum pricing. Mobile operators can assist in providing voice/fax/data connectivity to a certain number of priority customers, i.e. health, educational and safety/security institutions and their employees, at reasonable rates, if sufficient spectrum is available. Internet and e-government service delivery in those areas should involve partnering with the fixed line and Internet service providers (ISPs). Fixed and mobile operators, and ISPs can also focus their efforts on developing People's Phones shops into telecentres (i.e. by adding fax and data services) and ultimately multi-purpose community centres, all of which should operate commercial rates. Fixed line operators can offer high-speed Internet access to priority institutions. Though not listed, the role of satellites in providing universal service and access is being totally underestimated and under-utilized throughout Southern Africa.

1.4.3 Pay or Play

Preferably, commercial incentives should encourage the delivery of fax, data and increasingly bandwidth-hungry services to an ever-widening range and number of customers. Where necessary, pay or play commitments should be negotiated with operators.

Vodacom generally prefers that Universal Access/Service Fund pay obligations are preferred. It clearly sets and identifies the amount and value of the obligation. Given the mobile business case, and the ability of mobile telephony to penetrate to the low end of the market, the Universal Access/Service Fund fees should initially be set at 0.5%.

Play options, in lieu of pay options, take two forms:

- bidding for a funded project (competitive tendering); or
- offering to perform a project in lieu of paying.

In either event, the cost of playing should not exceed the cost of paying.

2. VODACOM'S BASIC SUBMISSION

2.1 OPTIONS 1, 2 & 3

Neither Vodacom nor any other operator should be asked to commit to non-commercial rollout at this time. Indeed, it would be legally resisted. Thus, Options 1 and 3 in Section 5 are not acceptable to Vodacom insofar as they envisage coverage "obligations". In particular, a goal that terrestrial networks "cover" Lesotho by the end of 2005 is simply not economically feasible; policy "aggression" (see page 10) cannot and will not change that.

Vodacom submits that Lesotho's market has only recently become competitive. The results of competitive rollout and service provision will not be clear until 2005/6 at the earliest. Until that time, attempts by a regulator to "co-ordinate" rollouts are misguided. It is tantamount to eliminating coverage competition. However, where operators can see commercial advantage for themselves and their customers in, for example site and infrastructure sharing, that should be allowed.

In the meantime, neither paying nor non-commercial playing is feasible. By 2005/6 perhaps the market and the size of the subscriber base/industry should be large enough to allow for paying and/or playing.

2.2 INNOVATIVE SERVICE OFFERINGS AND PUBLIC ACCESS TELEPHONES

Vodacom believes that commercial activities of the existing operators (including ISPs) should focus on the following:

	Universal Access	Universal Service: Personal Mobile	Universal Service: Household	Universal Service: Priority Customer (Institutional)	Service to Business
Voice	Fixed or mobile	Mobile	Fixed or mobile	Fixed or mobile	Fixed or mobile
Fax and Data (narrow band – email)	Fixed or mobile	Mobile	Fixed or mobile	Fixed or mobile	Fixed or mobile
Internet (broadband)				Fixed	Fixed
Service Delivery (broad-band) e.g. E – Govt.				Fixed	Fixed

Vodacom broadly accepts that “Voice” and “Fax and Data” includes the services outlined in Section 4.3 of the Consultation Document, provided that “operator services” does not mean value added information services.

In addition, Vodacom broadly agrees with the quality of service criteria outlined in Table 4.5, except that:

- No. 1 - order completion for mobile is too short, and should be set at seven days for pre-paid and a billing month for contract; and
- No. 9 - information dissemination is too long, and should be set at thirty days (i.e. a billing month for contract and ample time for pre-paid).

Vodacom rejects the notion that the tariffs for commercial services should in any way be set or altered (e.g. discounted) by the LTA, or that technologies should be dictated. They must be set and chosen commercially. Competitive technology choices, product/service offers, and customer care approach should be allowed to play in the market. It is regrettable that the LTA is currently busy raising telecommunications fees and asking for maximum operator investment in infrastructure rollout at the same time it is considering capping and perhaps even lowering retail and/or wholesale prices by regulation. This is a disincentive to investment by new operators; it is an incentive to disinvestment by existing operators.

Furthermore, while Vodacom generally supports the entrance of new players in any national market, given the size of the population and market in Lesotho, it is unlikely that more than two fixed and two mobile operators could feasibly obtain investment capital to rollout meaningful infrastructure and compete in the country. That is, even if a third mobile licence were offered, there may not be any takers. The market is simply too small.

Vodacom and other operators can, until 2005/6, use monies not contributed to the Universal Access Fund (i.e. 0.5% of net operational income) to help finance enhance the development and launch of innovative services and to help finance the rollout of People's Phones in as many areas as possible on a commercial basis. As Vodacom has indicated in previous submissions to the LTA, Vodacom hopes to deploy on a commercial basis up to 2,000 People's Phones payphones in various forms in the next few years. Through the People's Phones service, Vodacom will offer at least basic voice (including e.g. emergency and directory services), and hopefully fax and narrow band (email) Internet services over time. It may be possible to arrange development financing mechanisms to support SMME operations.

2.3 ESTABLISH THE FUND BUT OBTAIN NON-OPERATOR FUNDING

As stated above, mobile operators should put all available funds into commercial rollout, innovative service offerings and People's Phones rollout, and plan to pay 0.5% into the fund from 2005/6. Once the total number of mobile subscribers exceed 500,000 mobile operators should pay 1% of NOI into the Fund.

In the meantime, however, the Fund should be established and funding should be solicited from aid agencies and other charitable organizations to be used for user-side subsidies for the disabled, etc. and producer-side subsidies to go areas or provide services that are well beyond the commercial business of terrestrial networks. Indeed the proposed district capital LTA telecentres (which may be operated on a satellite basis) should be funded by aid agencies.

In 2005/6, the operators should start paying in 0.5% into the Fund. A review of coverage, penetration rates etc. should be performed, and the funds should be used for user or producer side subsidies or competitive tenders to meet needs of particularly needy persons and still-underserved areas. This is when the true pay or play option will need to come into operation (i.e., a choice for the operator between (i) paying into a fund or (ii) rolling out network coverage and services to areas an operator would not normally go into for commercial reasons).

Over the next few months, the working group should, on the basis of agreed statistics, start to discuss the population, distance and time criteria to be used to define and evaluate universal access requirements that will be used in 2005/6 to evaluate the commercial performance of the industry, as well as the performance of projects that may be funded by aid agencies and other parties through the Universal Access/Service Fund, e.g. Internet telecentres in district capitals and perhaps other priority institutions. Vodacom takes the view that the LTA has taken a step in the right direction by separating out universal access to payphones, telecentres, and People's Phones from personal and household (universal) service. The LTA and the industry critically need to create and maintain a full and accurate set of maps showing:

- universal access points;
- mobile personal penetration;
- household universal service penetration maps;
- priority institution penetration; and
- the socio-economic profile of potential customers/users in these areas.

These will enable a full assessment of the economic and socially relevant factor of "teledensity" in Lesotho. Creating these maps should be one of the primary tasks of the working groups. Vodacom believes that the phone/population recommendations in Section 4.4 are overly optimistic and will need to be revised based on the criteria mentioned above.

2.4 WORKING GROUPS

Vodacom generally supports the creation of industry-LTA consultation and working groups. However, the working groups must not be allowed to constrain competition. They should function to enhance commercial cooperation, where possible. They should also serve as a forum to discuss other matters, such as taxation, which affect operator's abilities to achieve maximum commercial coverage and service offering. For example, this body could lobby government (in turn the Customs Union) to remove the 7% ad valorem excise duty on cell phones and any other duties on telecommunication service equipment.

3. CONCLUSION

Vodacom thanks the LTA for the opportunity to comment, and is looking forward to further consultation on the LTA's proposed strategy for universal access and service in Lesotho. We would welcome the opportunity to further outline our views in an oral hearing with the LTA.

Yours faithfully,

**ANDY MOQHALI
MANAGING DIRECTOR**