Strategies and Special Needs for Regulators for Transition to IMT 2000: A Kenyan Response

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Agenda

- Introduction
- What drives FMC?
- Evidence of response to FMC
- What opportunities does FMC present?
- African's Telecom Landscape: An opportunity for FMC
- Regulatory needs and Strategies
- The case in Kenya
- Way forward: The future shape of regulation

Introduction

- **No one definition for convergence** :
  - It is not just about **technology**…..
  - It is about **services** and
  - New ways of doing **business** and
  - **Interacting** with society.
- Getting the regulatory framework right is of crucial however…….

  No one solution exists as the ultimate regulatory response!

  Sofie Madens (TMG, May 2005)

What drives FMC?

- **Consumer demand** for and service:
  - **Convenience**: New technologies give subscribers one number, one handset, one bill..
  - **Affordability**: Comparative Fixed mobile pricing resulting Fixed mobile call substitution
- **Wireless services**:
  - High penetration of **mobile telephony**
  - Proliferation of **Wireless LANs**

What drives FMC? ...cont'd

- **Operators**:
  - Opportunities for reduced CAPEX through network level integration
  - Opportunities for reduced OPEX: Mergers and Acquisitions

Evidence of response to FMC

- Cross-product and cross-platform development
- Cross-sector shareholding
- Cross-jurisdictional operations
- Change of consumer behaviour
- Heavier branding by operators

What opportunities does FMC present?

Numerous….

- New services to consumers
- New ways of doing business
- Potential for innovation and creativity
- New routes to reaching the citizen
- Promotion of consumer choice
- Market growth and transformation
- Increased competition in national and global markets
- Potential to improve quality of life.

Africa's Telecom Landscape: An opportunity for FMC

Fixed Line Telephony:

- Dominance of state-owned monopolies being replaced by competitive provision of services
- Convergence: A key **disruptive force** therefore…..

  …..Operators will be looking to recover from the impact of mobile displacement and substitution

Africa's Telecom Landscape: An opportunity for FMC ...cont'd

Mobile Telephony:

- **High mobile concentration**:
  - Mobile lines surpass fixed line connections: 65million with penetration of 6.5%,
  - Most GSM-oriented market outside Europe and
  - Majority pre-paid

Africa's Telecom Landscape: An opportunity for FMC ...cont'd

- **Pan-African mobile operators**:
  - Convergence: A key **sustaining force** therefore ......

.......Operators will be looking to:

- Reduce costs,
- Improve quality and
- Potentially differentiate their service offerings

Africa's Telecom Landscape: An opportunity for FMC …cont'd

- Relatively **new regulatory frameworks**
  - Flexibility in adopting as FMC still in formative stages
- FMC provides opportunities to provide **enhanced services**:
  - Improve commercial opportunities
  - Improve life (Health and education)
  - ***Information as an empowerment tool!***

Regulatory Needs and Strategies

- Technology neutral licensing framework
  - Elimination of licence conditions specifying specific technology
  - Modification of service definition for flexibility
  - Enhancement of existing licences
- Clear and predictable regulatory framework
  - Clear and sound policies: Eliminate uncertainties
  - Consultation and cooperation with stakeholders on timing and preparedness for transition to IMT 2000

Regulatory Needs and Strategies..cont'd

- Simplified frequency spectrum management :
  - Optimal and flexible frequency allocation
  - Consideration of number and eligibility of operators and services
- Meet public interest objectives:
  - Whilst recognising the need to promote investment particularly in new services
  - Consumer protection
- ***Regulation should facilitate full participation by citizens in the information society!***

Ultimately…..

Regulators should be: Proactive, Responsive and Flexible!

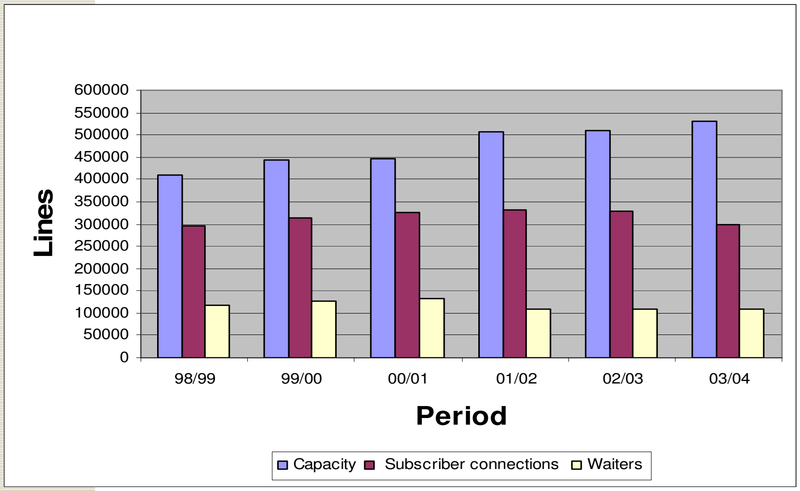
The case in Kenya

- Government owned and controlled prior to 1999
  - Kenya Post & Telecommunications Corporation
- Kenya Communications Act of 1998
  - Sector-specific legislation
  - Liberalization and creation of a regulator
- Sector Policy Statement : issued in April 1999, revised in Dec 2001
  - Technology specific policy and market segmentation

Fixed Services

- Telkom Kenya Limited licensed on 1st July 1999 providing fixed local, national and international services
- With the end of exclusivity new licence issued for local access and data services

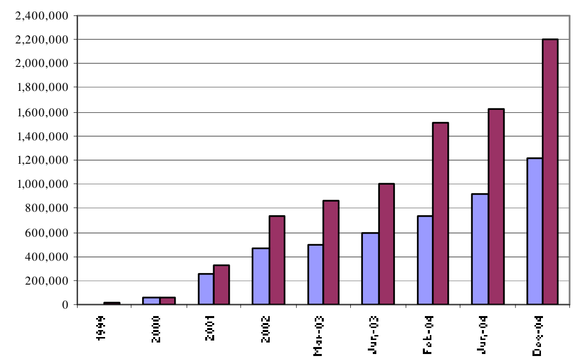
Fixed Services: Capacity, Connections and Waiters



Mobile Services

- Two operators licensed for countrywide coverage using GSM technology
  - **Safaricom Limited** licensed on 1st July 1999
  - **Celtel Ltd** (previously Kencell Communications Ltd) licensed on 28th January 2000

Mobile Subscriber Growth

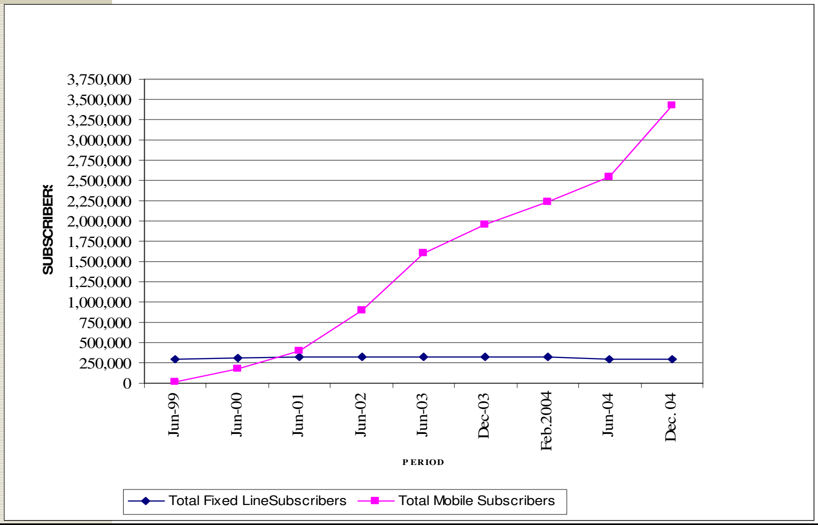


Fixed-Mobile Comparison

Type of Service	Kenya
Fixed Line Operators	1
Fixed Line Subscribers	299,255
Mobile Cellular Operators	**2**
Mobile Cellular Subscribers	**3,421,343**

Source: Communications Commission of Kenya (Dec 2004)

Fixed-Mobile Comparison ..cont'd



Mobile Telephone Demand Forecast

Total number of households(National)	6,371,370
Households above absolute poverty line	1,593,789
%Households above absolute poverty	25
Population above absolute poverty line	7,875,000
Served	1,600,000
Children below 7 and adults above 90	1,500,000
Difference	4,775,000
Current demand	4.7M-9.4M

* Source: Economic Survey - 2003

Demand Forecast : Analysis

- The unmet market demand for telephony in Kenya is between **4.7 and 9.4 million**
- **Expected economic growth** will enhance both qualitative and quantitative demand
- Mobile telephony is poised to meet this demand
- Need to re-assess the regulatory framework

Kenya's Response

- Views convergence as an opportunity
- Willingness to understand it
- Need for change

1. Licensing

- Licensing framework: Encourage investment and foster competition
  - **Phase 1**: Technology specific licensing guided by Market structure 2002
  - **Phase 2**: Unified technology neutral licensing proposed in the post exclusivity licensing framework 2004

2. Regulations

- **Phase 1**: Kenya Communications Regulations 2001
- **Phase 2**: Kenya Communications Regulations 2005 proposed to cover:
  - Number portability
  - Universal service
  - Competition
  - Consumer protection

3. Initiatives

- Initiative driven by convergence include:
  - **ENUM**: Seamless connectivity between IP and PSTN networks
  - **Network cost study**: Cost based interconnection and retail tariffs
  - **X-border interconnection**: Pan-African mobile operators operating in East Africa and EA Internet Exchange (EAIX)

Way forward: The future shape of Regulation

- Appropriate regulatory Framework:
  - **Stable and predictable market entry requirements**: Deal with regulatory barriers and transitional needs
  - **Technological neutrality licensing**:Optimise and complement opportunities of convergence
  - **Transparency, clarity and proportionality** in licensing and allocation of resources effective
  - Application of **appropriate competition rules** and **interconnection**

Way Forward…… ..cont'd

- Focus on consumer protection
  - Reconcile public interest and competition considerations
  - Appropriate design for universal service provision: Should scope of USO be widened ?
- Regulatory harmony for x-jurisdictional operations
  - Initiatives under COMESA, WATRA, ARICEA

CONCLUSION

- Convergence is the way of the future
- Embrace it and run with it or else you will be a museum piece tomorrow

Thank you!!