

BOTSWANA TELECOMMUNICATIONS AUTHORITY

CONSULTATIVE WORKSHOP ON LIBERALISATION

SUMMARY OF PROCEEDINGS ON DAY 2 (1 FEBRUARY 2005)

Day Two of the BTA workshop saw a gathering of around 300 stakeholders in the ICT sector to address the issues raised in the draft report on further liberalisation of the sector. The draft report has been prepared for BTA by Ovum, a UK-based consultancy. The large attendance indicates the interest in the way the ICT sector will develop in the future.

Overview of the Botswana ICT Market

The proceeding began with an overview of the ICT market situation in Botswana, by David Lewin, Managing Director of Ovum consultants. He indicated that there has been strong growth in the demand for mobile services compared to fixed lines in the past five years. Presently, the number of mobile subscribers served by the two privately owned mobile operators, Mascom and Orange, is about 600,000 and, with fixed lines at 137,000. Additionally there are 22 licensed Internet Service Providers (ISPs) and eleven data service providers in Botswana. These figures show growth of about sixteen times more connections to telecommunications services than it was five years ago, an indication of positive impact on economic and social development.

Although the telecommunications industry is, in some ways, already liberalised, mobile operator i.e. Mascom and Orange still have to buy international wholesale voice services from Botswana Telecommunications Corporation (BTC). They cannot provide their own transmission facilities for their network or buy from a third party unless BTC is unable to do so. However, both fixed and mobile operators have exclusivity over voice services and others services providers are prohibited from running Voice Over Internet Protocol (VOIP) nationally or internationally.

In general, from 1996 to date, there has been an improvement in telecommunication services in Botswana, but there are some problems; these include fixed line penetration levels are low and limited although prices are relatively high and out of line with costs. International and long distance call prices are well above the cost. Line rentals are well below their cost. The quality of transmission services is poor. There have been numerous complaints from stakeholders.

Botswana experiences low levels of Internet use despite its relative wealth and high levels of literacy. The low levels of Internet connectivity, use and uptake can be attributable to the high cost of access to the internet; low levels of knowledge on Information Technology (IT) and Internet literacy as well as

low levels of personal computer ownership in homes, and lack of power supply in many rural and peri-urban areas.

The BTC View

Following the Ovum overview, the Chief Executive of Botswana Telecommunications Corporation (BTC), Mr V T Seretse, provided the corporation's perspective on the ICT market in Botswana. He pointed out that, as a parastatal BTC is limited in its transactions. It is restricted by the Government of Botswana from exercising full commercialisation. BTC is looking forward to exercising full commercial freedom in a competitive environment, encouraging new products and service innovation and operating to full effect, together with better services to customers.

The BTC CEO said that as Botswana is vast and most areas sparsely populated, BTC's mandate to reach out to as many villages as possible has been difficult to satisfy. Today BTC has invested in the *Ntelelsa* programme. 'We have been required to invest in areas, which are economically viable and at the same time are inundated with demands to provide services to commercially unviable locations. A lot of villages have not been reached. The obvious challenge for the fixed line business in the environment of Botswana is that telephone costs are inversely proportional to population density' said Mr. Seretse.

According to Mr. Seretse, the BTC lost subscribers heavily (which had an impact on the financial status and public image of BTC) with the arrival of the mobile operators. This was a wake up call for BTC and it has since been able to win back some of its customers. Four years ago BTC faced another challenge when they lost a lot of income due to the billing system crisis. It has however gone over the problem and improvement in performance has started to show. There has also been a transformation process of the organisation spearheaded by IDI consultants. BTC is planning to add a range of new services to its product portfolio such as the roll-out of broadband networks and Introduction of Next Generation Network (NGN) upgrade. BTC supports liberalisation that is managed and is technology neutral. BTC also wants privatisation to precede further liberalisation stated the CEO of BTC.

Mascom Perspective

Jose Antonio Ferreira, CEO, Mascom, gave a mobile operator's perspective of the market. He indicated that there is competitive pressure on the prices and independence exists between the players in the market. He said over the past seven years, Mascom has offered the needed and viable services, and customers in Botswana are enjoying equivalent services to those offered in other competitive markets. Mascom has used pricing as a differentiation tool, which has kept prices low despite inflation. Prices have fallen at about 11.3% per annum on average in Botswana, which is the opposite of rises in cost of living. The mobile sector's competitiveness is responsible for having created

over 20,000 jobs in shops, for payphone operators and scratch card dealers, to mention a few.

He said that Mascom is very competitive in a regional and international comparison, however, there are some constraints that mobile operators suffer due to the monopolistic nature of BTC, the costs of international calls did not decrease, as they should have. For example BTC charges P5.00 per minute for calls internationally while the true cost was about P1.00 – P3.00 per minute. Service quality is an issue that must be considered. Mascom will continue to improve products, services but there is an urgent need for the market playing field to be levelled so that all have equal access and opportunities.

Orange View point

Yannick Bourdeu, Chief Executive Officer, Orange, provided another view of the Botswana market. He said the mobile market penetration for Orange is at 35% and is expected to have 50 – 55% of the mobile market by 2010. Population density is low but Orange covers all the major areas in Botswana. Orange customers are made up of 95% pre-paid and 5% contract customers. The disparity between the two packages is caused by the low level of access to bank accounts by the population, unlike in Europe.

Particular issues and concerns faced by both mobile operators include high cost and availability of leased lines as the license requires using BTC lines and neither Orange nor Mascom is permitted to build its own. The leased line is the most important cost to mobile operations. There is also heavy reliance on BTC's quality of operations, which has proved to be poor, for example there is very slow delivery of transmission links and the international gateway can be unreliable. If BTC fails Orange also fails.

ISP's Viewpoint

Following on from the three main network operators, a view from the private sector Internet service provider segment of the ICT market was provided by John Foley of Bytes Technologies, which provides a number of internet services including Info Botswana and Global Internet. He outlined some of the constraints including BTC's 'abuse' of its power, a situation rectified to some degree by positive action from BTA. He suggested that the lack of a local peering arrangement for ISPs add costs to Internet usage and this should be addressed by all ISPs in Botswana. A further constraint to growth in Internet is the lack of a glut of fibre-optic network capacity.

Discussion on the Market

There was an extended discussion on issues raised by the presentations on the market situation. These included fixed and mobile networks coverage, the criteria used for network roll-out, prices, service reliability and quality.

Mr David Lewin, an OVUM Consultant, outlined the reasons for further liberalisation, and also defined the concept of liberalisation to mean the removal of legal barriers to competition. He further stated that the commercial barriers remain despite the liberalisation and liberalisation does not automatically lead to competition. Mr Lewin then gave the unique characteristics of the Botswana market and indicated that it is uncertain whether competition will emerge. He then deliberated on the benefits of liberalisation, which among others include, the overall fall of prices for the end users or consumers, cost efficient telecommunication industry, better customer services as operators will compete on products and services, wider range of price packages to choose from, greater innovation and product functionality, more people using the telecommunication facilities as evident from the mobile operators and there will be economically efficient prices which reflect the true cost of service provision.

Mr Lewin further indicated that costs on liberalisation. These he said would include: duplicated investments which lead to lower economics of scale and surplus capacity; the profit maximizing industry will not necessarily supply the services required by government to support the ICT Policy voluntarily. The immediate liberalisation will undermine the financial viability of BTC, and therefore, BTC needs an opportunity for further rebalancing its prices before the liberalisation is complete.

A number of proposals were put forward that Botswana should move to full liberalisation of its telecommunication as fast as possible, given the need to minimise the potential costs. The benefits from increased competition would be substantial and the industry which competition produces would be better placed to support the government's ICT policy than the current partially liberalised industry as it is in Botswana. The other proposal on liberalisation is that Botswana should adopt a policy of infrastructure-based competition for the first three years of full liberalisation. Such a policy means that BTC should only be required to sell network components and services to rivals when it is clear that replication is viable. Under the structure-based competition, rival operators compete for customers using service running on their own network; under the alternative or service based competition, rival largely resell network services sold by the incumbent. It is therefore clear that infrastructure based competition generate much greater benefits than service based when it is viable.

Another consultant from Ovum, Robert Hall, deliberated on the further international liberalisation services. Amongst them was the issue of licenses to mobile operators, which means that Mascom and Orange will be able to provide their own international services in competition with BTC. The other option is the issue of an international license to a fixed operator alone. It is anticipated that a significant price reduction and quality of service improvement will occur. However, in this option, there is a danger that a single alternative carrier would simply share the supernormal profits from international facilities services with BTC. The consultant recommended that BTA and BTC should agree on a programme for further rebalancing of retail

prices as soon as possible. The BTA would permit a period in which BTC could carry out rebalancing before full liberalisation is implemented.

He further spoke on liberalising national fixed voice services and proposed three main options which are; full liberalisation in which any operator is free to enter the market, self provision of facilities by mobile operators for mobile but not fixed services and licensing a second operator rather than full liberalisation. These three options were discussed, and it was recommended that the BTA should issue an unlimited number of licenses for fixed voice services at some point during three programmes for further rebalancing. It should permit licensed mobile operators to provide their own network infrastructure for their mobile services as soon as possible. It was also suggested that there may be a room for a third mobile operator, which could best ways to maximise competition between the three incumbent operators being BTC, Orange and Mascom.

He further identified three main options for further liberalisation of mobile services in Botswana, being: issue a third mobile license with substantive roll out conditions, and these should enable the BTA to meet the objective of maximizing gross platform competition between BTC and mobile operators; issue a third license without the roll out conditions and mandate the MVON access to the network services if the two existing network operators. He recommended that BTA should consider issuing the invitation to tender for a third license without the roll out conditions, but with no commitment to issue the license. After that there was a lively debate by various stakeholders on issues raised.
