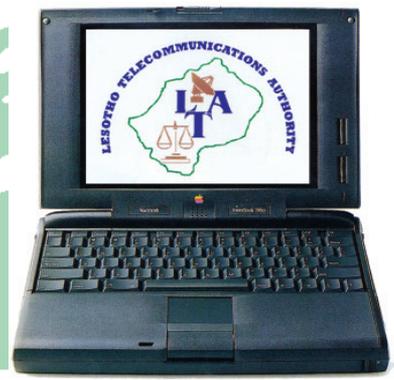
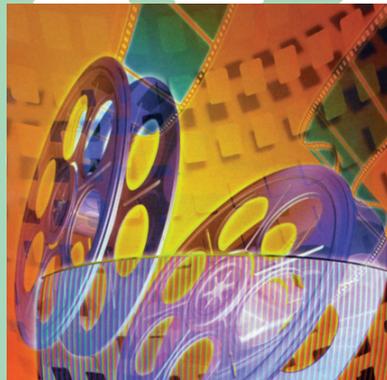
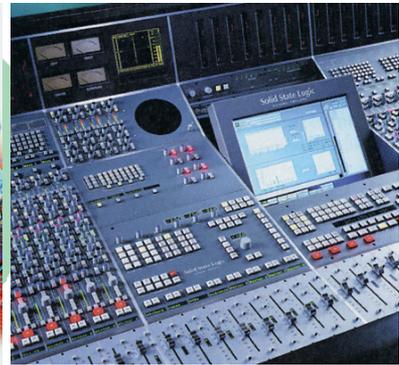


Annual report 2001-02

Lesotho Telecommunications Authority

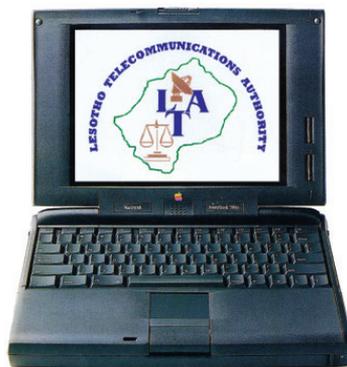


Geared for high performance

in relation to maintaining all oversight on the
network operators and **service providers**

within the
telecommunications sector

in Lesotho



Lesotho Telecommunications Authority

from telephony to ICT and multimedia

Moposo House, 6th Floor, Kingsway Road, P.O. Box 15896, Maseru 100, Lesotho
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Contents & LTA vision, mission, values statements & motto



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VISION, MISSION, VALUES STATEMENTS

Vision

We shall strive to be:

- An efficient and financially sustainable telecommunications regulator recognised for excellence nationally, regionally and internationally for a regulatory framework that meets consumer, investor and Government expectations.

Mission

We are committed to:

- Ensuring the development and provision of affordable and reliable ICT services throughout Lesotho on a sustainable basis,
- Promotion of free and fair competition through effective regulation that strives to strike a balance between business /investment promotion and guarding against uncompetitive business practices. We shall therefore endeavour to create an environment that is conducive to business investment within the telecommunications sector;
- Promotion of local human resource capacity within the telecommunications sector, particularly with regard to women and the disabled, with an aim of increasing and preserving the wealth of knowledge and expertise within the sector;
- Striking the best deal for the most important, and yet most vulnerable player in the market - the consumer.
- Ensuring an affordable, reliable and high quality ICT service delivery to the Lesotho consumers.

Values

We shall be guided by the following principles:

- Being resolute at all times and maintaining professionalism and integrity in all our dealings.
- Fairness to all and allegiance to none.

Motto

- From Telephony to ICT and Multimedia

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Lesotho Telecommunications Authority organisational structure

BOARD OF DIRECTORS

Chairperson
Teboho Kikine ¹

Chairperson
Mochekonyane Sebatane ²

Directors
M. Phakoe
Moliehi Khabele ³
Tseko Bohloa ⁴

CEO & Secretary
Taelo Khabele

1 - up to November 2001
2 - from December 2001
3 - up to June 2001
4 - from November 2001

MANAGEMENT

Chief Executive Officer

Director
Technical Division

Director
Strategic Planning Division

Registrar/Director
Regulatory Telecom Services

Director
Corporate Division

DEPARTMENTS

Internal Auditor

Technical Services Division
Manager
Frequency Management
Manager
Technology & Standards
Chief Technicians - 3
Technicians - 2
Secretary

Strategic Planning Division
Manager
Telecom Development
Manager
Finance

DEPARTMENTS

Manager
Information Communication
& Technology
Secretary

Regulatory Telecom Services Division
Manager
Telecom Services
Manager
Broadcasting
Manager
Legal Services
Service Providers Officer
Customer Services Officer
Broadcasting Services Officer
Legal Officer/Examiner
Secretary

Corporate Services Division
Manager
Human Resources
& Administration
Manager
Accounts
Human Resources
& Administration Officer
Accountant
Secretary
Messenger/Driver

Head Office:
Moposo House
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P.O. Box 15896
Maseru 100

Tel.: +266 22 325595/326784
Fax: +266 22 310984
Email: lta@lta.org.ls
or admin@lta.org.ls
Website: www.lta.org.ls

Disclosure of interest:

The Authority is a government telecommunications regulatory establishment with no shareholding. The directors do not hold any financial interest in the Authority.

Auditors appointment:

In terms of the Lesotho Telecommunications Authority Act No. 5 of 2000 (as amended), the Auditor is the Auditor General.



The mandate of the LTA & executive summary

MANDATE OF THE LTA

The LTA maintains all regulatory oversight on the network operators and service providers within the telecommunications sector. The independence and autonomy accorded the LTA is reflective of current practice in both regional and global regulatory environments. Among other responsibilities of the LTA the following are worth pointing out:

- LTA is designed as an autonomous and independent regulatory body with supervisory responsibilities over all aspects of telecommunications service delivery in the country. In this regard, we see our primary role as that of acting as a surrogate for an effectively functioning competitive market as we facilitate the development of an effective market place where one does not exist. Our immediate responsibility has been to oversee the operations of a newly privatised fixed-line operator and a hitherto still monopolised cellular industry. In the near future, the LTA's responsibilities will include supervisory responsibilities over the broadcasting sector.
- **Dispute resolution.** The Administrative Rules of Practice, Procedure and Service Provision provide essential procedural elements necessary for effective dispute resolution. The basis of these rules is fairness and transparency.
- **Consumer Protection.** One of the immediate challenges of the Authority is to protect that important, and yet often abused, player in the market; the consumer. This can be done by inducing, to all service providers, a customer focused service delivery.
- **Management of Scarce Resources.** Management of scarce resources such as the radio frequency spectrum, rights of way and numbers can be a determining factor of the effectiveness of the role that the telecommunications sector can play within the broader macro-economy. For instance, the scarcity of spectrum can result in high tariffs to the consumers while mismanagement of numbering resources can result in a lot of lost business by service providers. The LTA has been mandated with the task of managing these critical resources and we therefore intend to put the public interest at the forefront as we undertake this mandate. Other technical issues that form the core of the Authority's responsibilities are type approval of telecom equipment.
- **Competition and Interconnection Issues.** As a regulator, LTA assumes certain basic roles on matters related to competition and "antitrust". Interconnection issues, on the other hand, relate to establishing a framework for cost-based, non-discriminatory interconnection charges between telecommunications service providers □

EXECUTIVE SUMMARY

The report is divided into three sections, namely, the statement of the Chairperson of the Board, the statement of the Chief Executive Officer and the audited financial statements along with the auditor's report.

The Chairperson's statement mainly focuses on broad issues such as the progress made in implementing government policy. In this respect, a report on dispute resolution activities and the issuance of major licenses are specifically addressed.

Furthermore, progress made with respect to cooperation with regional and international administrations is also addressed and, in this context, cooperation with the South African Regulator is specifically highlighted.

The Chairperson also reports on administrative developments within the Board over the reporting period. Leaving the details for the CEO, the statement also highlights the overall reorganisation that was necessitated by the amendment, in the course of the year, of the Act to include broadcasting within the ambit of the LTA.

The Chief Executive report's, on the other hand, focuses mainly on specific administrative and sector development issues. As such, the report presents in relatively more detail the reorganisation of the staffing situation within the Authority and other specific actions, such as the development of the LTA Act during the reporting period.

Perhaps more importantly, the statement reports on the performance of the fixed network operator, Telecom Lesotho, in meeting its rollout targets as articulated in its licence while also reporting on the development trends within the entire info-communications sector.

With respect to the latter, a critical analysis of the development of the sector is presented as a basis for underscoring the challenges that lie ahead.

Finally, the report presents the audited financial statements of the Authority and the annual audit report of the accounts □



Statement by the Chairperson

The development of the Information and Communications Technology (ICT) sector and socio-economic development are inextricably linked. In cognisance of this, the leaders of our African continent, under the auspices of the New Partnership for Africa's Development (NEPAD), enacted in Lusaka in 2001, recognised the centrality of the ICT sector as a tool for socio-economic development. In Lesotho, the scourge of poverty continues to worsen as currently, according to the UNDP Human Development Report of 2002, approximately 49% of Basotho are below the poverty line. Even worse, is the indication that 43% of Basotho are regarded as destitute, for example, those surviving on less than US \$1 per day.

This status of poverty situation in the country calls for a concerted effort by all sectors of the economy. As correctly identified by the NEPAD initiative on an Africa-wide scale, ICTs have a major role to play in ensuring the success of the government's poverty alleviation strategy. This is a challenge that we, as the ICT sector, should face head on. The recent trend of liberalisation of the ICT sector in the region is predicated on a firm belief in the role that the private sector can play in bettering the lives of the local citizens who are currently ravaged by poverty. Indeed, being the only SADC country that has divested majority shares in the local telecom company to the private sector, Lesotho is expected to set an example to the rest of SADC of the importance of ICTs to socio-economic development.

It is in the midst of these great challenges that I present to you this second annual report on the operations of the Lesotho Telecommunications Authority (LTA), together with its audited financial statements and the audit report for the financial year 2001/2002. It is perhaps worth pointing out that the birth of the LTA in 2000 came as a result of the broader liberalisation of the local Information, Communications and Telecommunications sector.

Following from the privatisation of the Lesotho Telecommunications Corporation (LTC), the Authority was formed with the enactment of the LTA Act of 2000 which mandates the Authority to, inter alia, promote, develop and supervise the provision of efficient local, national, regional and international telecommunications services in Lesotho.

This being the second year in the life of the LTA, it is important to give an update on the progress made in

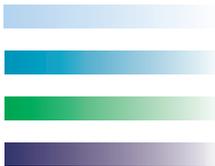
Government policy and, therefore, the LTA Act. We further dedicate some time to also report on the developments within the sector. The CEO in his report covers the latter more broadly.

One of the major developments in the course of this year relates to the amendment of the LTA Act of 2000 by including the regulation of broadcasting content under the list of services to be regulated by the LTA. This followed from the realisation by the Government of Lesotho (GoL) that recently, due to the convergence of broadcasting, telecommunications and computer technologies, there is need to consolidate all regulated services and therefore redefine the mandate of the LTA to relate to what has come to be known as the Info-Communication Technology sector. As such, the Authority's mandate with respect to the broadcasting sector is no longer confined to the allocation of the airwaves, the so-called frequency spectrum, but now also extends to what is uttered on those airwaves, for example, content.

Evidently, this extension of the LTA's mandate called for some reforms of both the business and structure of the Authority. In this respect, the Board approved the amendment of the LTA organisational structure to accommodate these changes. For instance, the Regulatory Telecommunications Division (Registrar's) saw the creation of a new section exclusively responsible for broadcasting-related issues whereas a new section, ICT and Multimedia, was created under the Strategic Planning Division.

During the period under review, the other activities of the Authority centred on consolidating the establishment of the LTA. Of these, the most notable is the successful completion and implementation of the Authority's first Business Plan which defines both the LTA's strategy towards bringing Government policy into fruition and its concomitant action programme. A notable philosophy entailed in this plan is the consciousness of the Authority to the challenge posed by poverty to the Basotho nation and therefore the role that the ICT sector can play in poverty alleviation.

One of the major responsibilities of the Authority is dispute resolution. Within the ICT sector it is not uncommon for disputes to arise between either the operators or operators and their subscribers. More often than not, the issues being contested relate to fair competition and





► wholesale pricing arrangements such as interconnection. During the period under review, the Board was called upon to arbitrate in a case of fair competition. In this case, the telebureau operators were contesting a licence application by FDM Lesotho, a locally registered foreign company that intended to own and operate a network of telebureau centres through a franchise system. The main bone of contention was with respect to the fact that FDM was a wholly foreign-owned giant, which, if granted a licence, would spell doom to the small Basotho telebureau operators. Furthermore, the fact that it was foreign-owned meant that, in accordance with the Board's decision to exclusively retain telebureau business for Basotho, FDM could not be issued a telebureau licence.

Following from the petitions submitted to the authority by the complainants, the Board invoked the LTA Rules of Practice, Procedure and Service Provision, which called for a public hearing. The hearing was thus held on the 7th March 2002 and, consequently, the Board resolved to issue the licence to FDM under the understanding that the company would introduce, over and above public phones services, more complex services such as Internet access and sale of telecommunications products which, up to then, had not been provided by the local telebureau operators.

With respect to interconnection, there were no disputes submitted to the Board. To avoid the occurrence of any in the future, the operators were encouraged to open the channels of communication among themselves to come up with a mutually satisfactory interconnection agreement. Once finalised, this agreement will be submitted to the Authority for approval.

In an effort towards ensuring the efficient management of the frequency spectrum - one of the most important objectives of the Authority - the Authority focused its efforts more towards eliminating the GSM signal spill-over into the country from South African cellular operators. To this end, the major achievement has been the constant interaction with the South African regulator which culminated in the signing of a Memorandum of Understanding by Mr J. M. Sebatane, on behalf of the LTA, and Mr. Mandla Langa, Chairperson of the Independent Communications Authority of South Africa (ICASA).

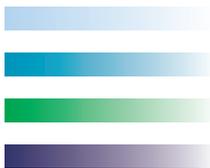
In cognisance of the fact that our destinies are inextrica-

bly linked, the ICASA-LTA MoU is basically aimed at inculcating a spirit of cooperation between the two regulators. The MoU is therefore meant to harmonise relations between our respective sectors by specifically avoiding any altercations between our operators. To this end, the question of the GSM signal spill over is very high on the agenda and following the signing of the MoU, technocrats from both countries had to meet to address the issue.

Furthermore, to enhance the LTA's ability to manage the nation's airwaves, the Authority kick-started the process of procuring frequency spectrum monitoring equipment for both fixed and mobile use. Funds for the equipment were secured by GoL from the World Bank under the Lesotho Utilities Reform Project (LURP). Based on the progress made at the end of the year, it is reasonable to conclude that the equipment will be procured in the course of the financial year 2002/2003.

With respect to issuing of licences, the Board, in pursuit of its policy of job creation through telebureaus, issued 465 fixed and mobile telebureau licences out of a total of 495 licences in various categories. However, in cognisance of the fact that too many licences issued in this class may lead to market saturation and therefore the demise of a number of small players in the market, the Board has had to adopt a licensing criteria that ensures, inter alia, a 20 metre distance between telebureaus. As such, telebureaus continue to offer jobs and entrepreneurial opportunities to a sizeable number of Basotho. Of the licences issued during the period under review, most notable are those issued to Tele-com Lesotho's subsidiary (Tele-com Mobile or Econet Ezi-Cell for operating a GSM cellular network and the one issued to Bethlehem Technologies (BTL) for the international broadband Internet access and broadcasting signal carriage. The issuing of the second cellular licence followed from the expiration, in June 2001, of the exclusivity period accorded Vodacom Lesotho (VCL) and the agreement between GoL and Mountain Communications (MC) that, along with the acquisition of 70% shareholding in LTC, MC would be given first preference to a GSM licence should they wish to apply for it. Indeed, MC did apply for the licence and the Authority was bound to award them the Licence.

The licence issued to BTL is actually ushering a new era into the Lesotho ICT sector. It authorises the operator to own and operate an international gateway for the provi-



► sion of international bandwidth for Internet and broadcasting. It is important to note that, to protect the exclusivity rights of Telecom Lesotho, BTL's licence excludes the carriage of basic voice and basic data into and out of the country and within the country.

With the bandwidth capacity provided by BTL, a lot of business opportunities in Internet, multi-media and broadcasting are going to be possible as bandwidth becomes more affordable and the speed of the Internet will increase exponentially. As at the end of the financial year, BTL had started preparing for the launch of their services which was expected to happen in the course of the financial year 2002/03.

The need to ensure that every Mosotho has access to basic telephony, as contained in GoL policy to achieve universal service, is still one of the most important duties of the Authority. This is coupled with an increasingly important objective of Universal Access to ICT services such as Internet and broadband access. These, the Authority recognises, can only be achieved in concert with all other stakeholders such as the Ministry of Communications and the operators. As at the end of the year, the Authority was finalising the hiring of a resident consultant financed under the Lesotho Utilities Reform Project (LURP) who, in his/her two-year contract period, is expected to, inter alia, harmonise the views of all stakeholders in coming up with a recommended Universal Service/Access Strategy.

On the administrative side, the Board generally functioned well. The biggest challenge has however been the delay in the nomination of replacements into the Board following the expiration of the terms and resignations of some members. The problem nearly threatened the operations of the Authority. Indeed, the Board operated for a better part of the year without a full complement of five members. This clearly denied the Board the desired multiplicity of skills as indeed the Act requires.

Over the last twelve months, a number of changes took place in the composition of the Board. The term of Ms. Moliehi Khabele ended in June 2001 and Mr. Tseko Bohloa only replaced her in October 2001. Hardly a month following the nomination of Mr. Bohloa, Mrs. Teboho Kikine, who was then chairperson, had to leave the Board for personal reasons. Her term with the LTA Board was therefore officially terminated at the end November 2001. As

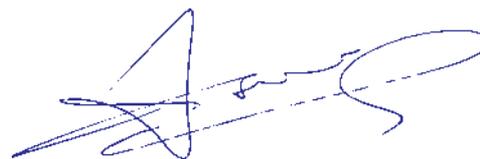
at the 1st of December 2001, Mr. Mochekonyane J. Sebatane was appointed to the position of chairmanship. As at the end of the financial year, that is, March 31st 2002, a vacancy remained. Mr. Taelo Khabele continued to be the CEO of the Authority and Secretary to the Board.

As necessitated by establishment processes, the Board, in addition to the quarterly meetings, held a number of special meetings. During the financial year 2001/02, the Board held seven special meetings and three ordinary meetings bringing the total to ten meetings. Compared to the preceding year when the Board held three ordinary meetings and four special meetings, this indicates that the Board has been slightly busier than the year before.

Trends in the telecommunications sector in Lesotho continue to be of great interest in the SADC region in which the private sector has majority shares. So far, it can be said that the future looks promising for the sector as a result of liberalisation of the sector, as seen with the introduction of the second mobile operator and the growth in the telebureau market.

Licences continued to be a source of finance for the Authority during the 2001/2002 financial years. Another important source of funding came as a result of the completion of negotiations between the World Bank and the African Development Bank under the Lesotho Utilities Reform Programme. Through this programme, which started working in May 2001, the Authority received assistance for capacity building.

The LTA not only has a responsibility of promoting competition in the sector but also that of protecting the legalised monopoly boundaries that were granted to the strategic investor in TCL as part of exclusivity provisions deemed necessary to attract the investor. Therefore our role as the regulator over the last year has been to strike a balance between facilitating competition in some services as well as ensuring expansion of basic services on exclusivity basis □



Chairperson - Mochekonyane Sebatane



Report by the Chief Executive



The Info-communications Technology sector in Lesotho has certainly had an interesting twelve months. This has been despite the deepening of the dot.com crisis on the global level. The effects of this crisis on the global ICT sector has been a sharp decrease in new investments, especially foreign direct investment into the developing world, and massive lay-offs. A unique feature of the crisis is that it has affected the highly liberalised markets of the developed world than those in the developing world thus underscoring the need to tread carefully as we liberalise our ICT markets.

In the course of the last twelve months, the consolidation of the establishment process of the LTA continued in earnest. During this period, the Authority focused its attention on mapping the way forward through engaging in a business planning process. This task was achieved with the full involvement of the staff to ensure an effective buy-in into the whole process. The product, a Business Plan for the next three years, prescribes a very tight action plan for LTA activities based on identified objectives.

The important message entailed in the LTA Business Plan is to emphasise the role that the ICT sector can play in bettering the lives of the Lesotho people. Indeed, it is often not very easy for policy makers in other sectors of the economy such as agriculture to visualise the crucial role that ICTs can play in enhancing the performance of such sectors. In the case of Lesotho, which is gearing to market itself to the rest of the world in a bid to diversify the economy through promotion of tourism, the importance of a sound ICT sector cannot be overemphasised. In this era of information, the education system and international commerce cannot thrive without an effective and efficient ICT sector.

Parliament amended the LTA Act of 2000 to formally integrate broadcasting, both content and spectrum regulation, into the ambit of the LTA. A major prerequisite for the effective undertaking of this additional mandate was identified as the restructuring of the Authority's organogram. To this end, two new sections, Broadcasting and ICT & Multimedia, were created in the Regulatory Telecommunications Services and Strategic Planning Divisions respectively. Consequently, preparations were made to man these sections such that by the end of the year, two positions in both sections were filled at Mana-

gerial level. As at the end of March 2002, the LTA organisational structure stood as shown in page 2.

As will be evident from the organogram by the end of the last financial year, the position of Director- Corporate Services was vacant. This followed from the untimely death, in January 2002, of one of our members of Management, Mr. Ben Nteso who had very ably served in this position since 2000. May the Lord rest his soul.

Apart from staff reorganisation, the amendment of the Act also had implications for licensing. The LTA now had to start to effectively undertake a task of regulating broadcasting content. The first step undertaken in this direction was the licensing of both radio and television stations. It is noteworthy that this step was, however, preceded by a major workshop that was held for all broadcasters with an aim of putting them up to speed with the new requirements of the Act.

In order to avoid confusion, a decision was taken to develop separate rules for broadcasting operators as opposed to integrating them into the already existing ones for all other operators. In the spirit of transparency, the preparation of both broadcasting rules and licences was done in consultation with all affected parties and, as at the end of the financial year, the process was nearing the end. It is therefore safe to conclude that the process will be finalised in the early part of the next financial year.

The licensing of Econet Ezi-cel Lesotho, the second mobile operator, and Bethlehem Technologies, the first international bandwidth access provider, marked a new era in Lesotho's ICT sector. Through the arrival of these two licensees, it is expected that not only the local ICT sector but the entire economy - particularly the rural economy where the majority of the people reside- will experience positive spin-offs.

Apart from these two major licences, the Authority continued to issue many other small licences in various categories of the ICT sector. Most notable of these are those issued for resale of ICT services following the hitherto successful Telebureau model. In Lesotho, the telebureaus have undoubtedly provided jobs and entrepreneurial opportunities to people who have either been always unemployed or just laid off following privatisation or retrenchment from the South African mines. It is in cognisance of



► this important role that they play in empowering locals that the Board has continued to issue more licenses in this category than any other. Figure 1 below depicts the number of licensees per category as at March 31st 2002;

the ratification of all conventions of all international bodies to which our government is a member and, secondly, ensuring that all subscriptions to these organisations are brought up to date.

Figure 1: Total licences issued as at end of 2001/2002

Class	Licences as at end of 2000/01	Additional Licences as at end of 2000/01	Licences as at end of 2001/02
Telebureaus	112	353	465
Customer premises equipment	10	7	17
Broadband access providers	-	1	1
Internet service providers	3	-	3
Mobile network operators	1	1	2
Broadcasting - sound	-	6	6
Broadcasting - television	-	2	2
Radio amateurs	-	3	3
Two way radios	-	4	4
Fixed network operators	1	-	1
Grand total	127	377	504

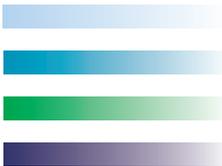
To this end, ratification of conventions of, and updating of subscriptions to International Telecommunication Union (ITU) and the Commonwealth Telecommunications Organisation (CTO) were effected. Consequently, the Authority represented the country in meetings and conferences of these and many other organisations. Moreover, the Authority received various fellowships from these organisations for staff to attend workshops and conferences. Given the low financial base of the Authority this assistance was invaluable to ascertain Lesotho's participation in the global ICT arena. By the end of the financial year, preparations were underway to ascertain the ratification of the African

It is worth pointing out that, the Board continued with its policy of encouraging resale of ICT services through issuing more and more telebureau licences. Despite this relatively higher numbers of telebureau operators, there still remains a lot of room for improvement within the telebureau market since almost all licensees have thus far only offered only basic voice services. As such, the Authority plans to mount a strategy of encouraging the inclusion of other value added services such as Internet access into these phone shops so as to qualify as telebureaus. The licensing of a broadband access provider is expected to bring about a significant drop in Internet access costs hence the promotion of the Internet throughout the country. Given the currently low teledensity levels, resale service providers have a major role to play in delivering Internet services to the nation at large.

Telecommunications Union (ATU) convention. The Authority represents the country in the Administrative Council of ATU.

On a regional perspective, the Authority played a pivotal role within the Telecommunications Regulators Association of Southern Africa (TRASA), a regulators agency of SADC. The SADC Protocol on Transport Communications and Meteorology directs all member states to develop regional guidelines on the regulation of the ICT sector. The current LTA Act of 2000 and the policy benefited a lot from this regional harmonisation process. Currently TRASA has produced two sets of guidelines on interconnection and on tariffs respectively. Over the last twelve months, the process of preparing guidelines on Universal Access/Universal Service, Wholesale Pricing and Competition has been going on. LTA officers were members of the committees tasked with the role of developing the guidelines. In fact, as at March 31st, the Authority was co-chairing the committees tasked with the latter two sets of guidelines. Furthermore, the Authority was honoured with election to the vice-chairmanship of the TRASA ex-

One of the major responsibilities of the LTA is to represent the Government in all international forums relating to ICT. During the period under review, the Authority undertook this mandate through first of all ensuring, in close cooperation with the Ministry of Communications,



► executive committee during the last AGM held in Zambia.

On the domestic front, a number of activities were undertaken by the Authority to inculcate the spirit of cooperation among our operators. Of these, the celebration of the African Telecommunications Day on the 7th of December 2001 deserves mention. Under the theme of “Sustainable Development Through Info-Communications Technology: A Challenge for Africa”, all stakeholders within the local ICT fraternity converged at the Convention Centre for celebrating the day.



Further developments in the sector relate to the filing of tariffs by both the mobile operator (VCL) and the fixed network operator (TCL). VCL lodged a new tariff structure on the 7th September 2001 that entailed an average tariff increase of 1.7%. Since this was regarded as the first tariff filing by VCL, and not a revision, after seeking justifications and ensuring compliance with the LTA rules, the Authority noted the filing. As such, any subsequent revisions will be regarded as tariff reviews and will therefore be subjected to the tariff regulation regime that will be in place. TCL, on the other hand, already had tariffs that they were supposed to implement for the first year of operation as prescribed by their licence.

The TCL licence further prescribed a tariff regulation methodology; a price-cap model that takes into account, inter alia, the impact of inflation and exogenous factors. TCL filed a tariff review on 25th January 2002. Although the negotiations on the sale agreement had proposed 6 lisente per minute for local charge, LTC had increased it to 18 lisente in September 2000 before new proprietors took over in February 2001. The proposed tariff review was an average increase of 5% except for a local call charge which was 150% (from 18 lisente to 45 lisente). The application for the review necessitated the revoking of all rules and licence conditions relating to tariff review. To that end, the prescribed process of public consultation was started and at the end of the financial year the process was still on course.

Following from the award of a five-year exclusivity period, TCL was given rollout targets for each of the five years. For the year under review, the operator was supposed to build a network with a capacity for connecting 40,000 new lines. It is important to note that this target refers only to capacity and not actual connections. Along

with this target, TCL also had to install 450 public phones and to establish Internet capability in the main commercial centres of the country by the end of the first year.

As at the end the first twelve months in operation, the operator reported to the Authority their success in meeting the target of 40,000-line capacity. With respect to public phones, the operator installed a total of 498 public phones. The Government of Lesotho also achieved the target relating to Internet capability in all commercial centres particularly with the persuasion and support of the LELAND initiative project sponsored by United States Government whereby a Memorandum of Understanding was signed in May 2000 between the governments of Lesotho (GoL) and that of the United States.

The first Lesotho's National Internet Hub (LNIH) was put in place on the 20th October 2000. The LNIH provides for 512 kilobits per second (kb/s) link to the South Africa Internet Exchange (SAIX). The hub provides connectivity to ISPs wherein each ISP has 128 kb/s in a channelised E1 thus enabling enhancement of TCL's capability to ensure Internet access in Lesotho. This has further been complemented by TCL's provision of a dedicated data network operating on Martis system extended to all major centres of the country. With this infrastructure, it is therefore possible for an ISP to have a point of presence in any major commercial centre.

To ensure the success of the liberalisation of the entire utilities sector, GoL secured funding from both the World Bank (WB) and the African Development Bank (ADB). The telecommunications component of this project, known as the Lesotho Utilities Reform Project (LURP), entails some assistance to the LTA in the form of training of staff and procurement of frequency monitoring equipment for both mobile and fixed networks. The project continues to offer invaluable support in exposing the Authority staff to the new fraternity of regulation through attending courses and training workshops. Moreover, the purchase of the monitoring equipment, to be effected in the course of next year, will also empower the Authority to effectively undertake its mandate.

Sector developments

The convergence of technologies, the sharing of networks, ensuring affordability of services and industry structure



► changes have proved to be big challenges to the Authority. This section reports on developments in the sector, specifically in terms of consumer issues, numbering plan, tariffs and the telecommunications market in general.



Financial performance

The two network operators being, Telecom Lesotho (PTY) Ltd, a fixed line operator and Vodacom Lesotho (PTY) Ltd, a mobile operator have both shown Net Profits: Telecom with a nine month (financial year changed) profit of M8, 309,383 from a previous year's loss of M41, 466,593, and Vodacom Lesotho with a profit of M7, 011,000 from previous year's profit of M7, 425,000. Both TCL and VCL increased their assets base by M5, 972,765 and M25, 724,000 respectively, this being mainly for plant and machinery, indicating increase in exchange capacity. It is expected that the assets additions will increase profitability in the subsequent years. Vodacom has not increased its equity capital, but Telecom has share-calls to the tune of M59, 129,735. The increasing capital is expected to translate into wider network expansion.

The sector has generated a total of M15, 320,383 and invested in assets of M31, 696,765, plus injected equity capital of M59, 129,735. Bethlehem Technologies (PTY) Ltd, the recently licensed bandwidth access provider, had not commenced operations, it is expected that operations will commence in the subsequent year together with Econet Ezi-cel Lesotho. Given the expected growth in the sector, it is expected that the sector will generate more than M265, 194,000 in turnover in the subsequent year against the current total turnover of M127, 144,117.

Consumer issues

In the year 2000/2001, a series of workshops were held to educate consumers about their rights with regard to quality of service. The focus was mainly on telebureau operators. The two major network operators, Vodacom Lesotho and Telecom Lesotho also participated in the workshops.

Numbering plan

Cognisant of the fact that the demand and variation of telecommunications services is increasing, the Authority introduced a new numbering plan with eight digits

replacing the one with six digits. This new numbering plan is due for implementation in the next financial year of 2002/2003.

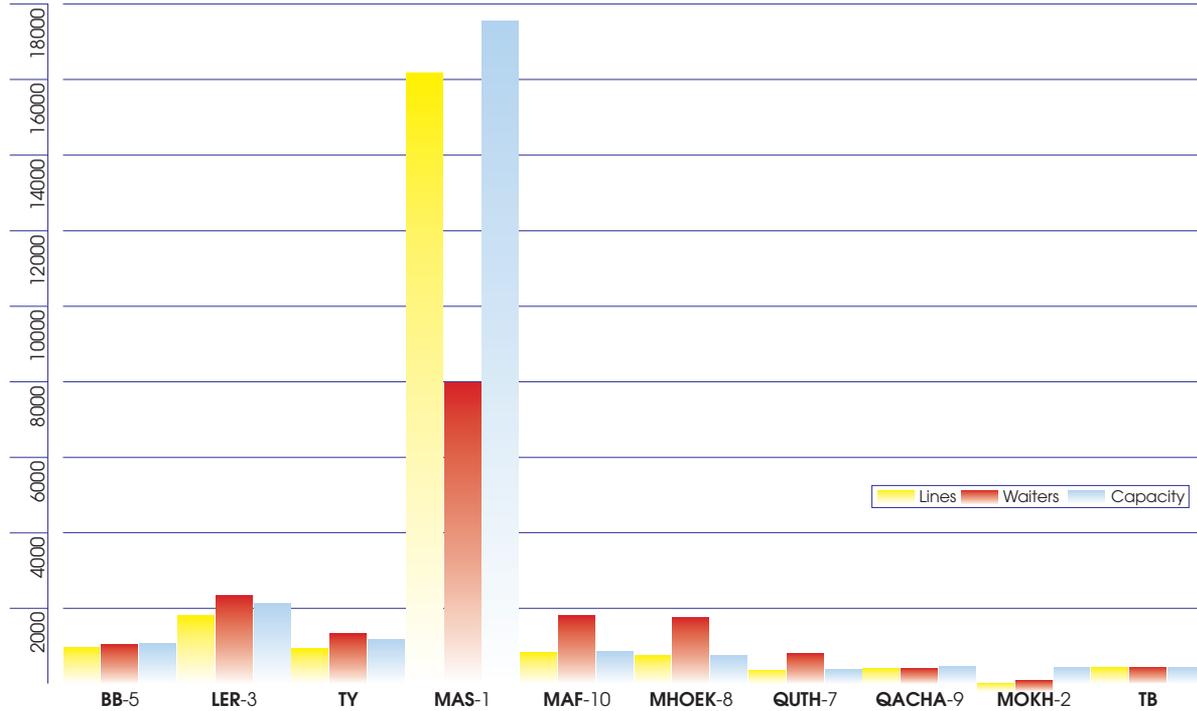
The Lesotho ICT sector

Fixed network. With a tele-density of one line per hundred of population by the time of privatisation, Telecom Lesotho inherited a fixed network sector that was still in its rudimentary stages of development. The main drawback to the development of the fixed network telephony in Lesotho has been lack of adequate infrastructure to meet the demand coupled with high inefficiency in utilising the already existing network. The infrastructure problem is evidenced by figure 2 below, which clearly shows that, despite a lot of demand for service as depicted by the waiters, the network had reached full capacity in most districts as at June 2001, four months after the privatisation of LTC. A particularly interesting observation is that, with the exception of Maseru, there were generally more waiters than serviced customers in the other nine districts. This is more evident in Mafeteng, Mohale's Hoek and Quthing where the waiting list doubles both the existing lines and capacity.

It is in cognisance of this dismal performance that following the privatisation of LTC, the new private owners of the operator were given a specific target, as a licensing condition, of extending network capacity by an extra 40, 000 lines by the end of the financial year 2001/2002. As already indicated, this target was met by the operator through upgrading of switching capacity. As such, it is expected that the operator will very easily meet the roll-out target of connecting a minimum of 25,000 direct exchange lines by the end of the second year. Meeting these targets would essentially address the backlog of expressed demand as evidenced by the long waiting lists in all districts.

By the end of the year under review, TCL's subscriber base, at 19,005, had dwindled to the lowest level compared to the rest of the year. The March 2002 waiting list had also reduced to a lowest level of 18,481 compared to the 20, 241 recorded a month before. This evident drop in demand for fixed-line services, depicted in the figure below, is believed to vindicate the substitution effect that comes with the growth of the mobile sector. This was complemented by the cleaning up of the network as TCL

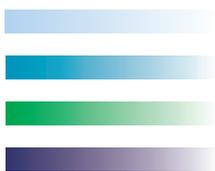
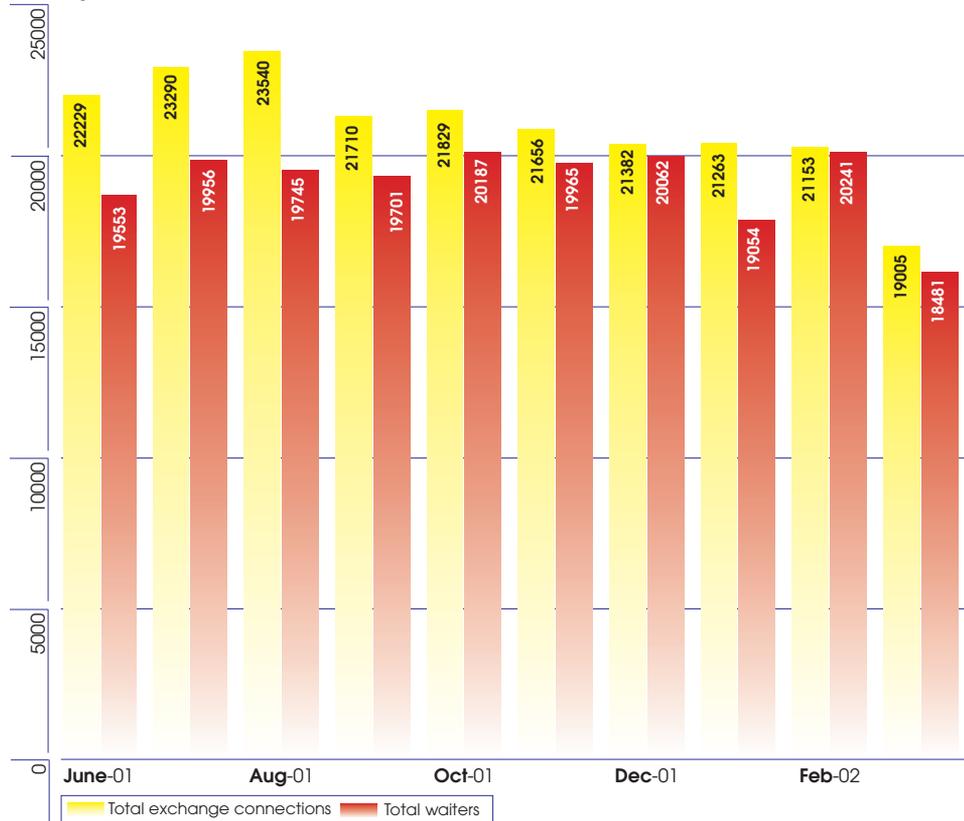
Figure 2: Landline waiters and capacity by district



disconnected owing customers in preparation for overhauling the entire network.

As earlier indicated, the average fixed-line tele-density in Lesotho was 1% over the last twelve months. This, compared with those of Botswana and Swaziland at 8% and 3% respectively, is significantly low thus underscoring the challenge posed to all stakeholders in the sector. An even higher challenge is posed by the fact that few as they are, approximately 70%

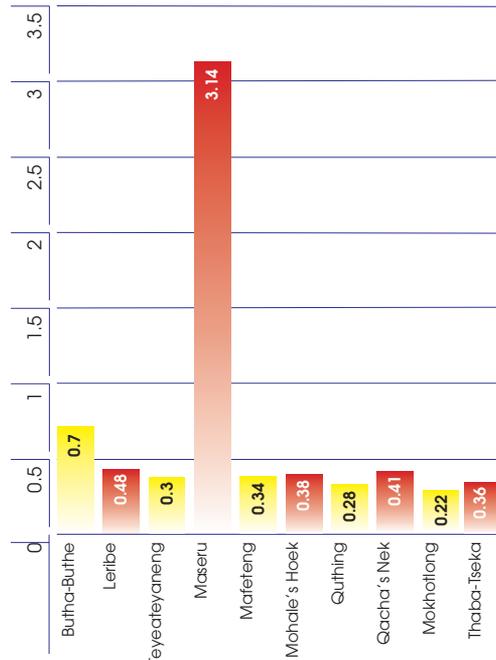
Figure 3: Lesotho total connected customers and waiters





of TCL's direct exchange lines are concentrated in Maseru alone. To substantiate this point, the figure below shows the distribution of tele-density by district as at the end of the year.

Figure 4: Lesotho landline teledensity by district - March 2002



This trend clearly underscores the need to rigorously pursue rural connectivity through appropriate universal access and universal service models. As depicted on the figure, a lot needs to be done to extend services to all other towns outside Maseru. It is for this reason that the Authority shall be engaging a consultant in the next financial year to look into the modalities of delivering universal service and universal access. This will be worked out in consultation with all stakeholders in the sector.

On a regional basis, Maseru region was, as expected, in the lead with 14,659 connections. The North Region followed with 2,432 while the South Region was the least connected, with merely 1,914 telephones. The figure below shows this regional skewness of landline connections.

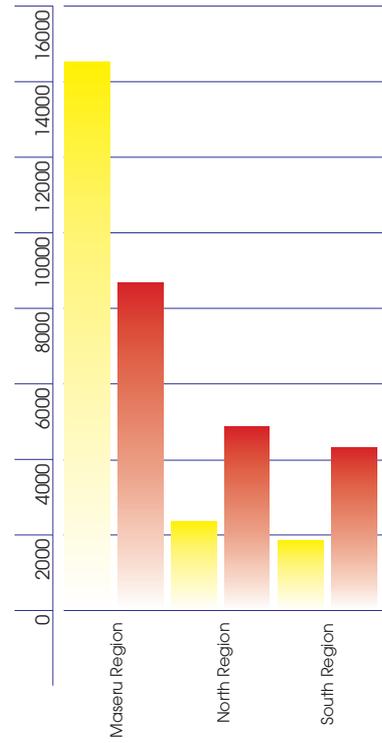
Cellular network. Currently there are two licensed mobile operators in Lesotho, namely

Figure 5: Connections by region as at March 2002

Total exchange connections
Total waiters

Vodacom Lesotho and Econet Ezi-Cel Lesotho. By the end of the financial year, Econet Ezi-cel Lesotho had plans to start operating in the following financial year 2002/2003.

The monopoly period of VCL came to an end on the 30 June 2001, and was given a new Licence that adheres to the LTA Act of 2000. At the time when the mobile market opened to competition there were approximately 27,000 subscribers connected to VCL network.



VCL introduced new services and expanded their network coverage to include new places. This resulted in subscriber base increasing by more than 100%, from 27,000 to 56,549 mobile subscribers by the end of the year. Figure 6 shows the etymology of cellular subscriber base over the last year with a comparison between pre-paid and post-paid customers.

As the figure shows, the domestic cellular industry continued to grow at an exponential rate. However, it is interesting to note that since the introduction of the pre-paid service in April 2001, the post-paid (contract) subscriber base started to decline sharply thus indicating a clear substitution effect between the services. That is, the success of the pre-paid service came at the expense of the post-paid service. This profile of the local subscriber base is not unique to Lesotho as indeed in some African countries virtually all customers are on pre-paid basis. This underscores the need for the local industry to be innovative and come up with solutions that meet the needs of the local market.

To add more value to the cellular service, the sector saw



▶ the introduction of new value added services such as voice mail and short message service (SMS). With the global wave of new services that utilise the 1800 MHz spectrum, more sophisticated multimedia services are expected to flood our domestic markets in the foreseeable future.

The success of the mobile industry in Lesotho compared to the fixed network is an indication of the need to explore the role that cell phones can play in delivering universal access/service. Making the mobile operators an integral part of the universal access/service strategy calls for the re-definition of the very concepts of universal service and access. This is imperative in a country with the topography and sparse population distribution as Lesotho. In preparing the Universal Access Strategy in the following year, we shall therefore endeavour to involve the cellular operators as much as the fixed-line operator.

Broadcasting

With the latest review of the LTA Act, Broadcasting has been included as one of those services that the Lesotho Telecommunications Authority has to regulate. The sector is dominated by radio broadcasting. Currently, there are six licensed radio stations and two television stations. According to the Bureau of Statistics (1996), about 57.8% of households in Lesotho own a radio receiver. There is no updated statistics.

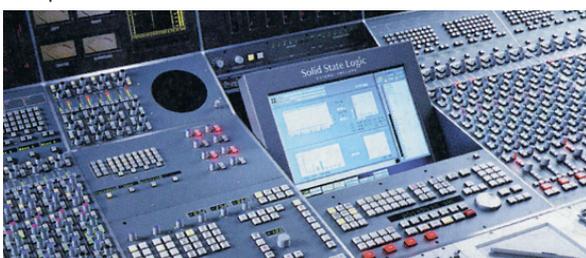


Figure 6: Cellular subscriber base for 2001-02



The low level of development of the broadcasting sector places more emphasis on the need to integrate this sector into Universal Access/Service Policy. In its three-year business plan, the Authority has worked out appropriate strategies and associated action plans aimed at ensuring the growth of this sector. It is, however, worth pointing out that with respect to the regulation of content, the Authority's efforts will be enhanced by the finalisation of a national media policy.

Internet service provision

Growth in the use of the Internet seems to be stagnant. TCL has been providing a wholesale Internet access service to local ISPs since 2000. Since then, Lesotho has had a total of 612kbps international Internet connection. This comprises a 512kbps link to SAIX in South Africa by TCL,



- ▶ and a 128kbps connection to University of Orange Free State through Uninet by the National University of Lesotho.

The number of Internet Service Providers is three, namely, Square One Comnet, Leo (Pty) Ltd. and Adelfang Computing. Internet penetration is generally low, and so is the quality of service provided. A portion of the market is served by telebureaus.

By the end of the year, Internet access was still limited to Maseru. This state of affairs is expected to improve as local entrepreneurs take advantage of recent improvements on the fixed-line network to enable Internet capability in all major towns.

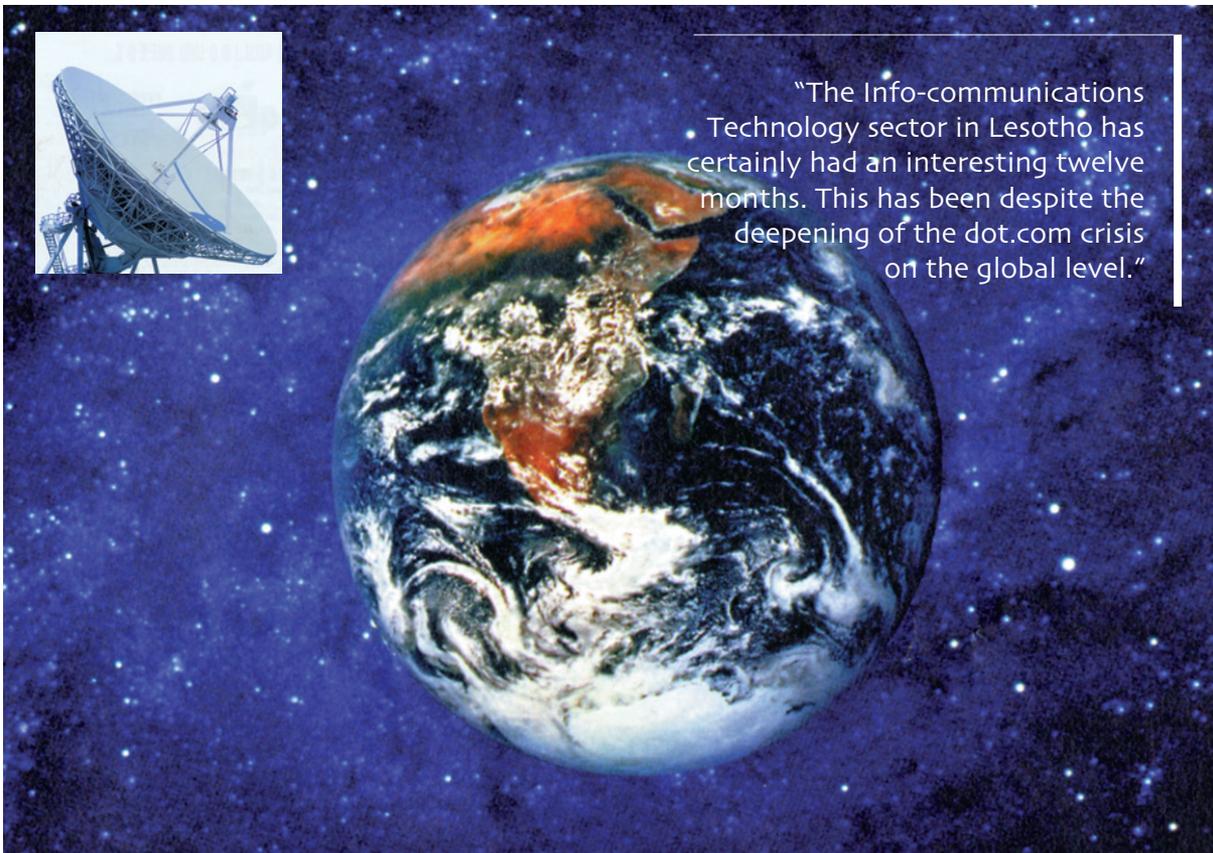
The low Internet penetration is largely due to the low level of computerisation in both the public service and private sector. This is exacerbated by the high cost of computer equipment and international bandwidth. The former problem is due to complex and broader macro-economic issues, while the latter problem is expected to be addressed by the licensing of a bandwidth access pro-

vider. Indeed, with the sector liberalised, the next challenge to all stakeholders in the local ICT sector is to significantly enhance Internet penetration in the entire country. In this day and age when the ICT revolution is sweeping across the entire African continent, we cannot afford to fail.

In conclusion, I wish to express my sincere gratitude to the LTA Board, Management and Staff for their unwavering support and hard work amidst the turbulence of the first two years of setting up a new organisation; Lesotho's first utility regulatory authority. The support rendered by GoL has also been invaluable in attaining the success of the entire utilities reform project to which the LTA is a key element □



Chief Executive Officer - Taelo Khabele



Audit on the annual financial statements of LTA for the year ended 31 March 2002

FINANCIAL STATEMENTS



GOVERNMENT OF LESOTHO

Audit Report on the Annual Financial Statements of

Lesotho Telecommunications Authority

For the year ended 31 March 2002

Auditor General
Government Complex III
P.O. Box 502
Maseru 100
Lesotho
Southern Africa

Tel.: +266 22 323904/321090
Fax: +266 22 310366

ACCOUNTING POLICIES

Basis of Accounting:

The principal accounting policies of the Authority, which are set out below, have been consistently followed in all material respects and comply with International Accounting Standards. These financial statements have been prepared on the historical cost basis.

Fixed assets and depreciation

Fixed assets are stated at cost less depreciation. Depreciation is calculated on straight-line basis from the time they are available for use, so as to write off their cost over their expected

DIRECTOR'S APPROVAL

The Financial Statements set out on pages 15 to 21 were approved by the Board of Directors of 18th September 2002 and signed on their behalf by:

Director

Director

AUDITOR'S REPORT

I have examined the records and books of account of the Lesotho Telecommunications Authority for the period ended 31 March 2002.

I have obtained all the information and explanation which to the best of my knowledge and belief were necessary for the purpose of the Audit.

ACCOUNTING POLICIES

useful lives, taking into account their residual values, at the following rates:

Fixtures & Fittings	20%
Office Equipment	20%
Computer Equipment	33.33%
Monitoring Equipment	25%
Motor Vehicles	25%
Office Furniture	20%
Office Building	4%

Consumable items are written off in the period of purchase.

Licence Fees

Income comprises service and licence fees charged to telecommunications operators, and radio

AUDITOR'S REPORT

The Audit had been carried out in accordance with International Auditing Standards and the requirements of Section 21 of the LTA Act. No. 5 of 2000.

The management of Lesotho Telecommunications Authority is responsible for the financial statements. It is my responsibility to form an independent opinion, based on my Audit of these statements.

In my opinion the financial statements set out on page 15 to 21 reflect a true and fair view of the state of affairs of Lesotho Telecommunications Authority at 31 March 2002 and the deficit for the period ended on that date. The accounts have been prepared in accordance with International Accounting Standards □

Auditor General
D.M. Lepitikoe

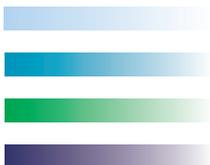
20 September 2002

ACCOUNTING POLICIES

licence fees. Initial fees charged in relation to the issue of new licences are recognised as deferred income and are transferred to the income and expenditure on the basis matching them with related costs over the licence period to which they relate.

Grants

Revenue grants are recognised in the income and expenditure on receipt. Capital grants are recognised in the income and expenditure on the basis matching them with the related costs for which the grants are intended to cover. They are amortised over a period of five years □



Financial statements for the year ended 31 March 2002: **income & expenditure & balance sheet**

INCOME & EXPENDITURE

	Notes	31.03.02	31.03.01
		Maloti	Maloti
Income			
Government Subvention		740,944	960,315
Licence Fees		6,071,906	1,417,219
Other Income		12,943	439
Amortisation of Capital Grant		134,337	43,609
Interest Received		16,311	-
Total		6,976,441	2,421,582
Expenditure			
Staff Costs		3,382,893	1,209,471
Depreciation		521,686	76,898
Directors' Emoluments		76,310	99,830
Audit Fees		30,000	30,000
Other Costs	1	3,420,729	1,381,859
		7,431,618	2,798,058
Deficit for the period		-455,177	-376,476

BALANCE SHEET

	Notes	31.03.02	31.03.01
		Maloti	Maloti
ASSETS			
Non Current Assets		1,863,770	2,229,573
Fixed Assets	13	1,863,770	2,229,573
Current Assets			
Accounts Receivable	2	6,953,580	917,173
Cash at bank and on hand	3	214,291	486,235
		7,167,871	1,403,408
Total Assets		9,031,641	3,632,981
Funds and Liabilities			
Capital Fund	4	1,646,622	1,646,622
Accumulated Fund		-843,490	-388,313
Capital Grant	5	493,740	628,076
Total Funds		1,296,872	1,886,385
Non-Current Liabilities			
Deferred Income	6	6,808,333	-
Current Liabilities			
Accounts Payable	7	926,436	1,746,596
Total Funds & Liabilities		9,031,641	3,632,981



Financial statements for the year ended 31 March 2002: Cash flow statement

CASH FLOW STATEMENT

	31.03.02	31.03.01	
	Maloti	Maloti	
Net cash inflow/outflow from operating activities	-6,924,394	486,235	
Returns on investments and servicing of finance			
Interest received	-	-	
Interest paid	-	-	
Investing Activities			
Air conditioner for motor vehicle	-9,800	(5,955)	
Purchase of furniture	-50,892	349,959)	
Purchase of office equipment	-4,091	87,713)	
Purchase of computer equipment	-88,052	(151,898)	
Purchase of fixtures & fittings	-3,048	(76,161)	
Net cash flows from investing activities	-155,883	(671,686)	
Financing			
Government capital grant receipts	-	671,686	
Initial licence fees	6,808,333	-	
	6,808,333	671,686	
Cash & cash equivalents	-271,944	486,235	
● Reconciliation of operating profit to net cash inflow from operating activities			
Operating profit	-455,177	-376,476	
Increase in debtors	-6,036,406	-917,173	
Increase in creditors	-820,160	1,746,596	
Depreciation	521,686	76,898	
Transfer from capital grant	-134,337	-43,609	
	6,924,394	486,235	
● Cash and cash equivalents			
	31.03.02	31.03.01	Increase/Decrease
Petty cash	352	768	-416
Nedbank current account	203,877	85,467	118,410
Nedbank call account	10,062	400,000	-389,938
	214,291	486,235	-271,944

Financial statements: Changes in funds & Notes to the financial statements

CHANGES IN FUNDS

	Notes	Accumulated	Accumulated
		Funds	Funds
		31.03.02	31.03.01
		Maloti	Maloti
Balance as at 31 March 2001		-376,467	-
Prior-Period Adjustments	12	-11,837	-
Adjusted Balance as at 31 March 2001		-388,313	-
Surplus for the year		-455,177	-
Balance as at 31 March 2002		-843,490	-

NOTES TO THE FINANCIAL STATEMENTS

	31.03.02	31.03.01
	Maloti	Maloti
1. Other Costs		
Medical Aid	55,743	10,914
Gratuity	66,150	47,250
Staff Refreshments & Welfare	11,266	6,262
Fringe Benefit Tax	313,222	58,295
Bank Charges	12,831	1,705
Telephone	155,119	33,291
Postage	2,619	1,363
Stationery	127,166	50,828
Repairs to Equipment	11,067	500
Office Maintenance	19,237	1,841
Water and Electricity	35,121	199
Office Rent	388,450	270,000
Insurance	28,973	5,193
Other Expenses	52,075	69,136
Books and Journals	9,092	1,186
Fuel	17,496	4,027
Housing	163	-
Car Running	2,257	317
Uniform	8,713	-
Subscriptions	617,883	607,187
Travel and Accommodation	1,100,543	209,366
Staff Training	311,711	-
Withholding Tax	-90	2,889
Subsistence Allowance	4,114	110
Cleaning & Security	6,000	-
Public Relations	57,968	-
Consultancy Fees	5,840	-
Total Expenses	3,420,729	1,381,859



Financial statements for the year ended 31 March 2002: Notes to the financial statements

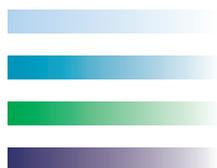
NOTES TO THE FINANCIAL STATEMENTS

2. Accounts Receivable	31.03.02	31.03.01
	Maloti	Maloti
Petrol Deposit	500	500
Electricity Deposit	6,000	6,000
Insurance Prepaid	43,654	6,025
Government Subvention owing	-	83,842
TCL Licence owing	6,885,397	13,720,806
Less: Provision for Doubtful Debts	-	-12,900,000
Accountable Advance	529	-
Salary Advances	17,500	-
	6,953,580	917,173
3. Cash at bank and in hand		
Petty Cash	352	768
Nedbank Current Account	203,877	85,467
Nedbank Call Account	10,062	400,000
	214,291	486,235

4. Capital Fund

The Government of Lesotho transferred office furniture and Equipment and the assets together with the Zozo building at Ha Matala Monitoring Station as part of establishment of LTA and the costs of those assets were capitalised to Capital Fund.

5. Capital Grant	31.03.02	31.03.01
	Maloti	Maloti
Amount received	671,686	671,685
Amortisation of Capital Grant	-177,946	-43,609
	493,740	628,076



Financial statements for the year ended 31 March 2002: Notes to the financial statements

NOTES OF FINANCIAL STATEMENTS

6. Deferred Income	31.03.02	31.03.01
	Maloti	Maloti
This are initial licence fees for 15 & 20 years respectively:		
Bethlehem Technologies	1,933,333	-
Telecom Mobile	4,875,000	-
	6,808,333	-
7. Accounts Payable		
7.1 Creditors		
Quadrant Computers	4,565	18,055
Licence prepaid	-	316,750
Application fees to be refunded	7,425	13,775
	11,990	348,580
7.2 Other Payables		
Provision for Fringe Benefit Tax	79,283	58,295
Provision for Long Service Gratuity	113,400	47,250
Provision for Audi Fee	60,000	30,000
Provision for Severance Pay	82,600	-
Retention	1,500	-
P.A.Y.E	1,400	306,337
Rent	293,510	270,000
CEO Salary	-	14,466
Communication	19,924	30,651
Stationery	25,233	5,288
Fuel	400	680
Subscriptions	177,925	607,187
Other Expenses	900	-
Housing	264	25
Directors' Fees	-	570
Repairs to Equipment	-	500
Withholding Tax	-	2,889
Insurance	-	2,821
Publicity ad Public Relations	40,000	-
Advertisement of posts	18,107	21,057
	914,446	1,398,016
Grand Total	926,436	1,746,596

NOTES OF FINANCIAL STATEMENTS

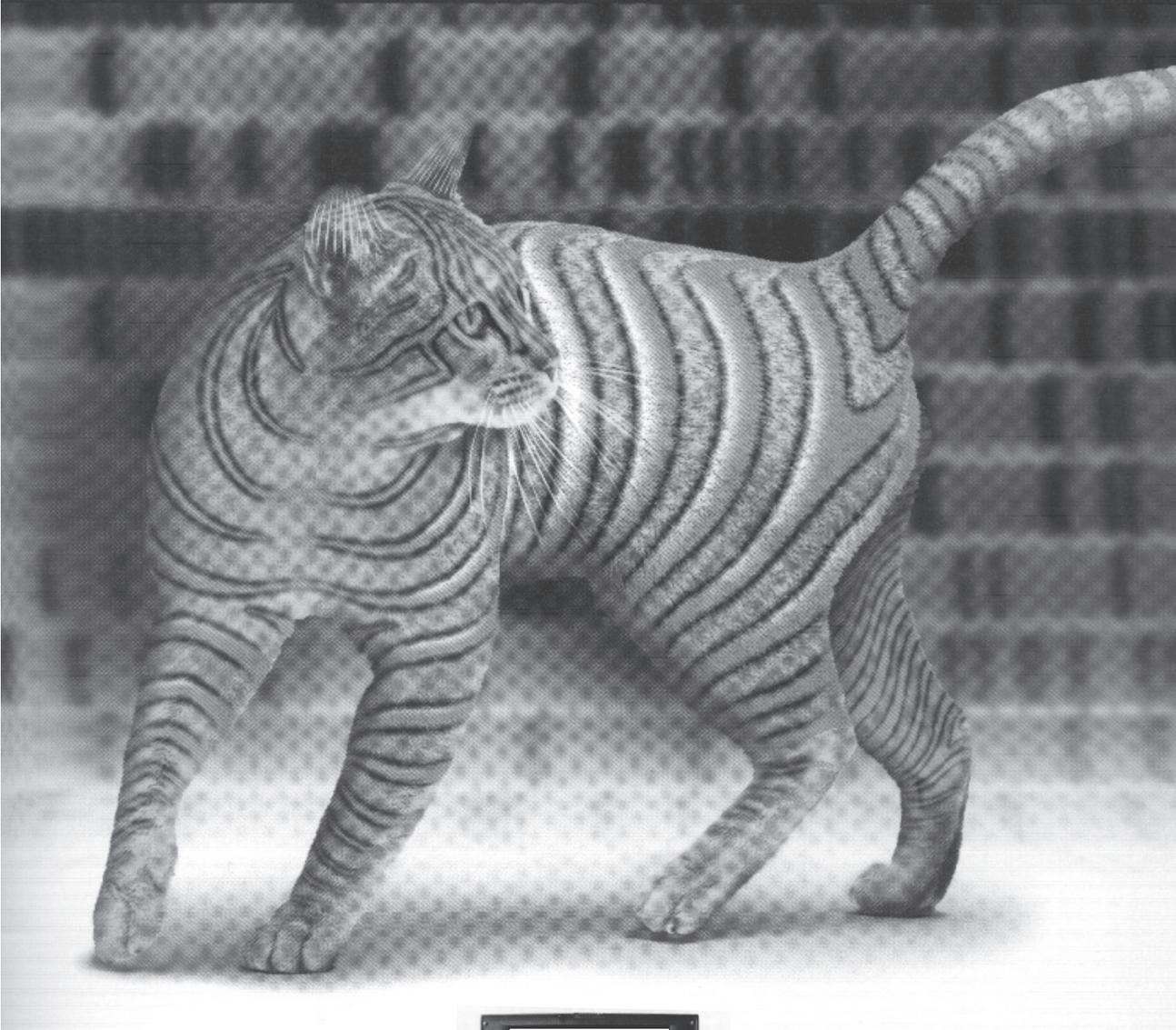
8. Valuation of Assets		
Valuation of property at Ha Matala station was done by Oxbow Land & Property Consultants at 31.03.01 and the assets have been disclosed in the Balance Sheet at the valuation values less depreciation charge for the year.		
9. Contingent Liabilities		
The Authority is contingently liable to Nedbank Lesotho in respect of vehicle loan provided by the bank to its employees which amount to M454,471.22 at 31 March 2002.		
10. Pension Scheme arrangements		
The Authority operates a defined contribution pension scheme with effect from 1 July 2000 for its eligible employees to which the Authority contributes 8% and 7% of members' pensionable salary for employees who are already members of the scheme and for employees who are in the scheme respectively. The Scheme is administered by Lesotho National Life Assurance Company.		
11. Long Service Gratuity		
The Authority provides for CEO's Gratuity at 25% of every monthly salary which payable at the end of three years.		
12. Prior Period Adjustments		
Licence Fees	12,900,000	
Provision for Doubtful Debts	-12,900,000	
Office Equipment		-3,892
		-7,945
		-11,837

Financial statements for the year ended 31
March 2002: Notes to the financial statements

13. FIXED ASSETS

	Cost at 31.04.01	Cost at 31.04.01	Prior Period Adjustments	Adjusted Cost 01.04.01	Additions	Cost at 31.03.02	Dep'n 31.03.02	Prior Period Adjustments	Adjusted Dep'n 01.04.01	Charge this year	Dep'n 31.03.02	NVB 01.04.01	NVB 31.03.02
Maloti	Maloti	Maloti	Maloti	Maloti	Maloti	Maloti	Maloti	Maloti	Maloti	Maloti	Maloti	Maloti	Maloti
Fixture & Fittings	76,527	-	-	76,527	7,400	83,927	5,050	-	5,050	16,680	21,730	71,477	62,197
Office Equipment	89,262	-	-	89,262	4,091	93,353	7,088	370	7,458	18,380	25,838	81,804	67,515
Computer Equipment	214,133	-3,892	-	210,241	83,700	293,941	22,270	7,575	29,845	96,474	126,319	180,396	167,622
Motor Vehicles	65,507	-	-	65,507	9,800	75,307	12,283	-	12,283	16,471	28,754	53,224	46,553
Office Furniture	430,814	-	-	430,814	50,892	481,706	30,207	-	30,207	89,268	119,475	400,607	362,231
Office Building	25,000	-	-	25,000	-	25,000	-	-	-	1,000	1,000	25,000	24,000
Monitoring Equipment	1,417,065	-	-	1,417,065	-	1,417,065	-	-	-	283,413	283,413	1,417,065	1,133,652
	2,318,308	-3,892		2,314,416	155,883	2,470,299	76,898	7,945	84,843	521,686	606,529	2,229,573	1,863,770

Set to transform the
telecommunications sector
into a non-discriminatory sphere.



Lesotho Telecommunications Authority
from telephony to ICT and multimedia

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