Annual Report 2004/05

Communications Commission of Kenya

Vision

Enable access to reliable communications services by all Kenyans.

Mission

To ensure that the communications sector contributes to the country's overall development through efficient and enabling regulation and public participation.

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(CHAIRMAN)

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(DIRECTOR-GENERAL)

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Organization Chart

Chairman's Foreword

Joseph N. Kagau
Chairman

On behalf of the Communications Commission of Kenya (CCK) Board, it is my great pleasure and privilege to present to you the Commission's Annual Report for the year ended 30th June 2005. The release of this report is in compliance with Section 22(1) of the Kenya Communications Act, 1998.

In the just-ended financial year, the Government reconstituted the CCK Board. The new Board has already settled down to business and has been busy discharging its statutory mandate since its constitution in May 2005. I am pleased to report that the new Board has infused a new vitality into the Commission's activities given the rich and diverse expertise of its members.

The communications sector has been undergoing a dynamic transition since full liberalization in 2004. Consequently, the Commission has moved towards a more open licensing structure, which has translated into more licenses in the previously restricted sub-sectors of the industry. The increase of players in the various licence categories has led to increased competition, which has resulted in a transition towards less intrusive regulation through increased self-regulation by the industry players.

With the enhancement of competition, prices of various services have continued to decrease significantly, particularly in the segments hitherto reserved for Telkom Kenya such as National long-distance and International fixed services, Internet access and satellite connectivity. The Commission has also introduced two new categories of service providers known as Document Exchange and Call Centre operators respectively, to keep up with industry trends and developments. The number of applications for Call Centre licences has been surging since the first licence was issued in the last financial year. Call Centres are enhancing the country's profile as an outsourcing destination ready to compete with outsourcing market powerhouses such as India and Pakistan. This has led to more employment opportunities for Kenyans.

The Commission conducted a tender process for the Third GSM Licence, which culminated in M/s Econet Wireless being chosen as the winner of the Licence. Since then, the matter has experienced a number of legal suits all relating to the issue of the licence. These suits have slowed down the Government's objective of further liberalisation of the mobile telecommunications market. Nevertheless, I am happy to report that most of these cases have been concluded and those left are nearing final disposal by the Courts.

Last year the Commission completed a study funded with assistance from the International Development Research Centre (IDRC) of Canada to develop a strategy and mechanism on the provision of universal service, universal access/obligations and funding alternatives. The Commission is in the process of implementing the study's recommendations.

The Commission, being aware of the changes within the sector, also recognises that the law needs to keep in step. In this respect, the Commission has made proposals for amendments of both the Kenya Communications Act (KCA), 1998, and the Kenya Communications Regulations (KCR), 2001, which have already been forwarded to the Ministry of Information and Communications for consideration. Included in the proposals are issues of licensing and enforcement, interconnection and price regulation, numbering, consumer affairs, universal access, and postal services.

Following the expiry of Telkom Kenya's exclusivity period in June 2004, the Commission formulated a new regulatory strategy for the now liberalized communications sector. The Commission is awaiting the release of the National Information and Communications Technologies (ICT) Policy to attune the strategy to the Government's policy objectives.

In closing, I would like to express my heartfelt appreciation to the Government of Kenya, our licensees and the public at large for their support in assisting the Commission carry out its mandate. Additionally, I would like to thank my Board colleagues for making my job easy, through their insight and dedication, which has translated into this level of success. Lastly, a word of thanks goes to the Commission staff, through whose efforts, the Commission has remained focused on its goals and vision.

Joseph N. Kagau
Chairman

Director - General's Review

Eng. John Waweru
Director-General

The year under review was a defining moment in the history of the communications sector in Kenya. It marked a radical shift from the era of limited competition to a new epoch of full liberalization. The transition was driven by the government's operationalization of Section 5 (5) of the Kenya Communications Act, 1998, which effectively ended Telkom Kenya's five-year exclusivity in the provision of certain telecommunications services such as Local and International services. Subsequently, the Commission developed a new communications regulatory strategy to enhance competition and innovation, and to expand the penetration of ICT services in the country. I am pleased to report that the strategy has elicited good investor response to the benefit of consumers. By the close of the year, the Commission had licensed additional players in virtually all market segments hitherto reserved for Telkom Kenya. The Commission shall continue to improve the regulatory environment in line with market demands and realities, and in conformity to international best practice.

The ICT industry witnessed yet another year of growth. During the year under review, mobile network connections grew by 81%. Total subscription levels rose from 2.5 million to 4.6 million over the same period. Overall teleaccessiblity (mobile and fixed) improved from 8.8% in the previous year to 14.7%. The penetration of community phone services provided using mobile technology also increased. The contribution of the transport and communications sector to GDP rose to 10.3% from 9.9% in the previous year. Fixed lines, however, registered a downward subscriber growth trend for the second year running. The ongoing efforts at privatization of Telkom Kenya are expected to turn the situation around with the infusion of capital for network growth and modernization.

In the postal sub-sector, the Commission licensed 16 new courier operators, increasing the number of licensees to 90. The Commission also stepped up inspections to ensure compliance. The number of post offices, however, decreased due to closure of non-profitable post offices mainly in rural areas by the public postal licensee, Postal Corporation of Kenya (PCK). However, the implementation of the universal access strategy is expected to ameliorate this situation.

In an attempt to meet the ever-increasing demand for broadcast frequencies, the Commission modified the national plan for FM broadcasting. The exercise saw the introduction of an additional 23 FM frequencies in the Plan, facilitating the assignment of 64 FM sound and 17 television frequencies during the year under review. The Commission also initiated a comprehensive revision of the national table of frequency allocations in line with national priorities and in conformity with international agreements. These changes enabled the country to access new spectrum in various frequency bands especially for mobile and fixed telecommunication services. The Commission also intensified radio monitoring activities to guard against disruption of essential services.

To promote mutual understanding with industry stakeholders and improve the regulatory process, the Commission subjected key regulatory initiatives carried out in the year to a process of public consultation. The comments and representations were critical in the making of regulatory decisions on the issues subjected to consultations. This approach shall be sustained to enhance stakeholder participation in the regulation of the sector.

During the year under review, the Commission also embarked on a process of enhancing consumer education and protection. This process is expected to lead to the enactment of regulations designed to specifically assist consumers and to increase awareness with regard to their rights. Consumer education and protection are going to remain key priority areas for the Commission in light of the opening of the ICT sector to full competition.

The universal access project that began in 2003/4 financial year was completed during the review period. A five-year universal access strategy for the country is under formulation, which among other things will support the establishment of community access points, public payphones, ICT training centres, and Internet points of presence in the underserved parts of the country. The implementation of the strategy is expected to expand the reach of communication services in all parts of the country.

To build the competence and flexibility required to regulate the dynamic communications sector, the Commission continued to sponsor staff on various training programmes locally and overseas. Staff training and development activities will be sustained in light of the understanding that the human resource remains the most important asset for the success of the Commission.

At the national level, the Commission took an active role in initiatives geared towards advancing the cause of ICTs. In this regard, the Commission was a member of the National Taskforce on e-government, and is currently taking part in an e-health project spearheaded by the Ministry of Health. As part of its corporate social responsibility initiatives, the Commission is one of the founder trustees of the Kenya Information and Communications Technology Fund. The fund aims at mobilizing funds for setting up computer laboratories in all Kenyan schools.

On the International front, the Commission continued to discharge its role as the designated government representative to various intergovernmental organizations dealing with communications. The Commission served as the chair of the Council of the International Telecommunication Union (ITU). Under the troika system, the Commission will continue to play an active role in the ITU Council in the future.

During the year under review, Kenya won the bid to host the 24th Universal Postal Union Congress in Nairobi in 2008, during the 23rd UPU Congress held in Romania. Kenya was also re-elected vice chair of the Postal Operations Council (POC) of the UPU. Hosting the congress will raise the visibility of Kenya in the global postal map, and earn the exchequer foreign exchange from the estimated 3000 delegates expected to attend the event. CCK is playing a central role in the preparatory organs mounted in readiness of hosting the Congress.

The aforementioned achievements would not have been realized without the support of staff, government and industry players. I wish to take this opportunity to thank Commission staff for their unflinching dedication in the discharge of our statutory mandate. I also wish to thank the Board of Directors for their dynamic articulation of the Commission's general policy and strategic direction. The Ministry of Information and Communications has also been very supportive. Lastly, I wish to express my gratitude to the industry and particularly the private sector for the commendable roll out of communications infrastructure and services in the country.

Eng. John Waweru
DIRECTOR-GENERAL

POSTAL/COURIER

Postal/Courier Network Development

During the period under review, the number of postal and courier outlets grew modestly from 1283 in 2003/2004 to 1300 by the end of 2004/2005. The increase was attributed to private operators as growth of post offices, especially sub-post offices generally continued to depict a declining trend. However, departmental post offices operated by the PCK went up marginally. These trends signify the growing competition in the postal/courier market as well as the potential the market has.

As shown in Table 1, the total number of post offices operated by the public postal licensee declined from 873 in 2003/2004 to 861 in 2004/2005, a trend attributed to the closure of uneconomical offices. This scenario is not in line with the Commission's USO requirements to provide basic services to all citizens throughout the country as it generally affected sub post offices, which normally serve peri-urban and rural localities. This, therefore, calls for need to expedite the Universal Access financing arrangements to ensure that the basic postal services are guaranteed throughout the country.

While the overall number of postal outlets declined, the total number of private letterboxes installed grew by 3,156 from 396,511 in 2003/04 to 399,667 in 2004/05. The uptake of private letterboxes rose marginally from 74% to about 76% in 2004/05. It is to be noted that most of the vacant letterboxes are found in the rural areas where effective demand is relatively low. It is envisaged that with the finalization of the USO support mechanism the Commission will have to review the targets regarding accessibility of letter boxes, which are currently the main outlets for receiving letters in Kenya.

As depicted in Table 1, during 2004/2005, the licensing of more operators and expansion of the networks of the already licensed operators resulted in a 6.6 % growth registered on private operators' networks.

Table 1: Postal Network Indicators

Network		2000/2001	2001/2002	2002/2003	2003/2004	2004/2005
Postal Corporation of Kenya						
Total Post Offices		900	891	890	873	861
Departmental Offices		479	482	484	486	494
Sub-Post Offices		421	409	406	387	367
Private Letter boxes	Installed	388,281	394,121	397,731	396,511	399,667
	Rented	317,861	322,744	298,671	295,160	305,458
	Unlet	70,420	71,377	99,060	101,351	94,199
Letter Posting Boxes		1,366	1,137	1,138	1,065	1,049
Public Counter Positions		1,356	1,429	1,394	1,368	1,377
Stamp Vending Licences		4,061	3,650	4,466	3,730	4,088
Private Operators' Outlets		296	320	330	410	437
Total Outlets (Post Offices + Private operators outlets)		1,196	1,211	1,220	1,282	1,298

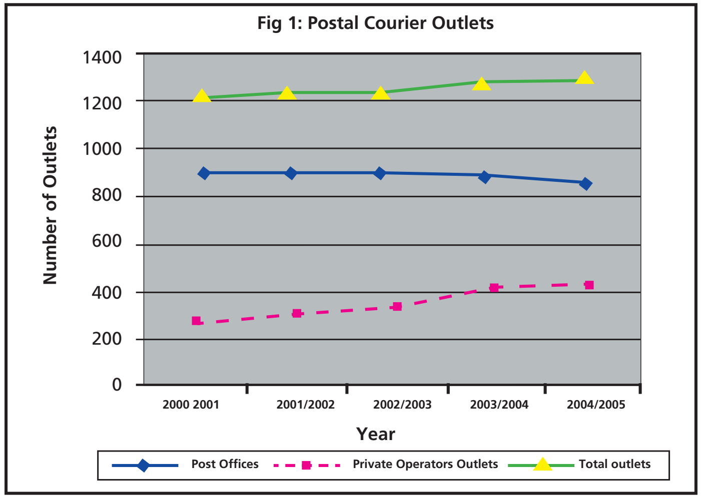
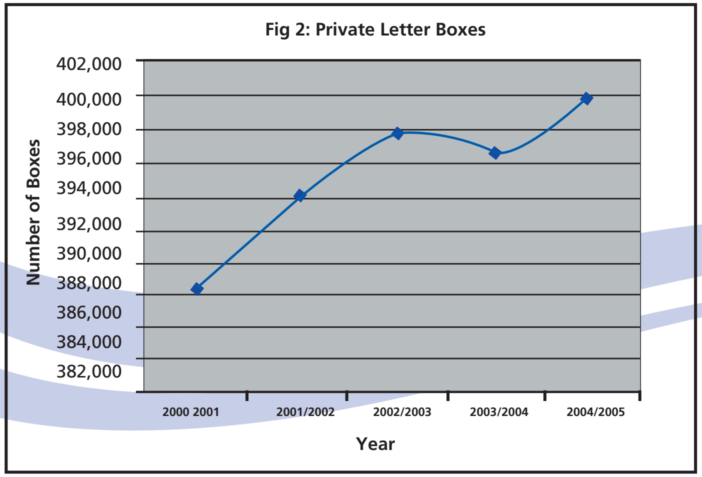


Figure 1 shows the growth in postal courier outlets between the years 2000/2001 and 2004/2005, while Figure 2 indicates the growth in private letterboxes, which has continued to increase in terms of boxes installed.



Tariff Review

During the period under review the Commission awarded tariff increases of between 2% and 19% to PCK for various categories of postal services whose tariffs are regulated. In awarding the increases, the Commission took into consideration the quality of service and the cost of providing the services as influenced by the consumer price index to ensure that consumers get value for money.

Licensing

The year under review saw the entry of 16 new courier operators into the regulatory regime, bringing the total number of licensees to 90 as depicted in Figure 3. The Commission also introduced a new category of operators known as Document Exchange Operators to cater for operators who facilitate exchange of mail and documents between professional firms in urban areas. This service is mainly used by legal practitioners to exchange documents within urban localities.

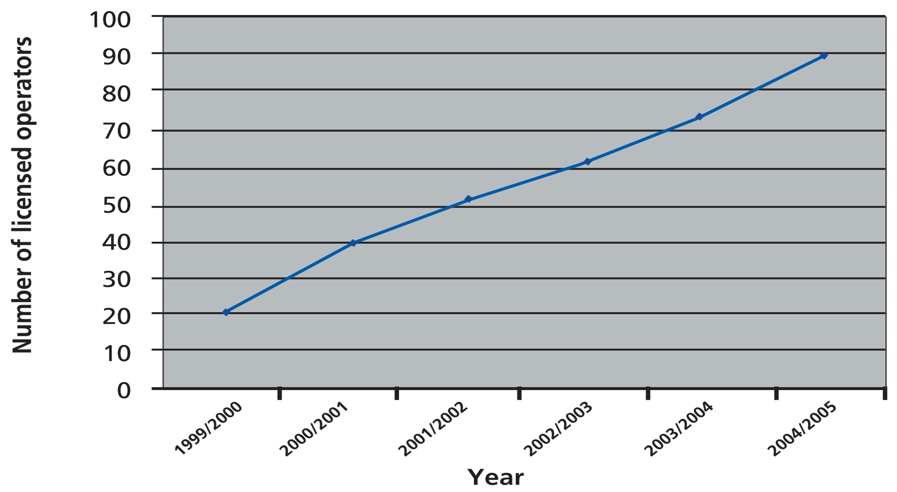
Enforcement

During the year under review, legal action was initiated against violators of postal rules and regulations after warnings went unheeded. About 20 illegal postal operators were taken to court most of who pleaded guilty and were fined. The exercise brought to the fore the need to review the law to enhance current penalties on illegal operators, which are seen to be too lenient. Surveys to determine compliance to set PCK service standards were also carried out countrywide.

The Commission stepped up inspections of licensed postal and courier operators with emphasis on the Public Postal Licensee to whom shortcomings in quality of service were pointed out and remedial action assured by the licensee.

Customer surveys conducted by the Commission in the year under review brought into light increasing customer demand for modernization of postal services and the need for the post to be customer sensitive and focused. According to the survey, areas requiring improvement include, customer service, speed and security of mail and access to other services.

Fig 3: Growth in number of licensed courier operators



TELECOMMUNICATIONS

Network Growth

During the year under review, significant results were recorded in the areas of network growth. The overall contribution of the Transport and Communications sector to GDP continued its upward growth trend, rising from 9.9% in 2003/04 to 10.3% in 2004/2005.

The sector also saw unprecedented growth of the mobile networks with the number of installed GSM transceivers rising from 6,428 to 10,674, a growth of about 65 % by the end of June 2005. Consequently, total installed capacity rose from 3.9 million to 6.8 million in the period under review. Total subscription levels also rose from 2.5 million to 4.6 million over the same period. These subscriber trends, which had been increasing at a decreasing rate since 2001/2002, registered an exponential growth of about 81% during the year under review, while the SMS service continued to assume increasing importance in communication with 355 million messages sent from both mobile networks in 2004/2005.

Fixed line services, which had registered a downward subscriber growth trend of 8.9% in the previous period, declined by a further 6.8 % from 299,225 in June 2004 to 278,867 by June 2005. This downturn, as reported by the operator, was due to termination of subscribers, who had given up service but were listed as subscribers under the "Temporary out of Service" status for a long period. The main possible reason, however, may be attributed to the availability of mobile services, which offer a more convenient and readily available substitute to fixed line services.

As shown in Table 2, fixed line teledensity levels suffered further declines owing to subscriber connection decreases, while rural subscriber connections stagnated at 5% as in the previous year. Payphones, which are the main indicator of universal access to fixed services in rural areas declined further by 9% and hence severely affected rural access. However, overall teleaccessibility (mobile and fixed) improved from 8.8% in 2003/04 to 14.7% during the period under review as a result of the remarkable growth in mobile subscriptions as shown in Figure 4.

Table 2: Telecommunications Indicators

	2000/ 2001	2001/ 2002	2002/ 2003	2003/ 2004	2004/ 2005
Population (Millions)	30.2	30.8	31.5	32.2	33.3*
GDP at market prices (Ksh Million)**	967,838	1,025,918	1,038,764	1,141,780	1,273,716
Gross Fixed Capital Formation (Ksh million)**	161,714	185,186	177,781	179,248	208,248
Fixed Telephony:					
Capacity	446,302	490,000	508,000	531,442	531,806
Connections	321,482	328,116	328,358	299,225	278,867
Urban Connections*	303,996	309,878	309,070	284,264	264,509
Rural Connections*	17,486	18,238	19,288	14,961	14,358
International Outgoing Traffic (Minutes)	21,035,000	26,298,000	26,496,000	29,699,445	42,558,605
International Incoming Traffic (Minutes)	56,298,000	36,235,000	121,832,000	146,945,828	157,836,403
Traffic to Mobile networks (Minutes)	80,000,000	160,000,000	230,000,000	209,994,354	163,324,095
Pay phones	9,135	9,264	9,264	9,798	8,915
Tele-Density (%)	1.1	1.1	1.0	0.9	0.84
Teleaccessibility (%)	2.2	4.1	6.1	8.8	14.7
Price of 3 mins call (Ksh)	4.71	5.61	6.50	7.40	8.60
Price of Long-distance call (Ksh)	21	20	17.8	17.40	12.00
Price of International call (US$)	1.65	1.48	1.31	1.20	0.9
Capacity	640,000	1,500,000	2,000,000	3,935,000	6,900,000
Connections	340,731	944,128	1,590,286	2,546,157	4,612,010

* Estimates for 2000/2001 - 2002/2003 ** Data in calendar years.

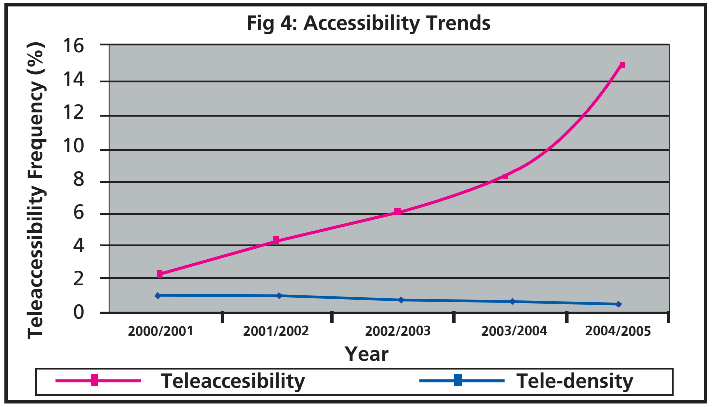


Fig 4: Accessibility Trends

Complimented by a rising network of private telephone equipment dealers, mobile operators also continued extending their community phone services through agencies and franchises. The services, known by the brand names "Simu Ya Jamii" for Safaricom and "Simu Ya Wananchi" for Celtel, have gained immense popularity due to their ease of access. However, the high pricing levels associated with these services have rendered them less effective as a universal access tool.

Telecom Licensing

In June 2004, the Government operationalized Section 5 (5) of the Kenya Communications Act effectively ending Telkom Kenya's monopoly in the provision of various telecommunication services including local, long distance and international voice services. As a consequence, the Commission unveiled the post exclusivity regulatory strategy in September 2004, which introduced three broad licence categories: Network Facilities Providers, Applications Service Providers and Content Service Providers.

Table 3: Annual Licensee Growth

LICENCE CATEGORY	NUMBER OF ADDITIONAL LICENSEES					
	1999/ 2000	2000/ 2001	2001/2002	2002/ 2003	2003/2004	2004/2005
Vendors & Contractors	184	556	43	30	75	24
Technical Personnel	30	41	37	31	43	35
Cyber Cafes/ Telephone Bureau	-	-	-	51	19	20
Internet Service Providers	43	23	6	4	2	1
Internet Exchange Point Providers	-	-	1	1	-	-
Paging Service Providers	14	2	-	-	-	-
Value Added Service Providers	-	1	-	2	14	7
Public Data Network Operators	1	-	-	3	2	6
Public Switched Network Operators	1	-	-	-	-	-
RTO	-	-	-	1	-	-
Commercial VSAT Hub Operators	1	-	-	1	-	5
Local Loop Providers	-	-	-	2	2	5
VSAT Terminal Licences	36	20	19	65	206	277
IBGO	1	-	-	-	-	6
GMPCS	-	-	-	-	1	0
Call Centres	-	-	-	-	-	1

This strategy opened up the market to full competition and also allowed infrastructure operators such as Internet Backbone and Gateway Operators, Broadcast signal distributors and Public Data Network Operators (PDNOs) to carry any form of multimedia traffic, including Voice over Internet Protocol (VoIP).

Notable new entrants during the year under review were five Internet Backbone and Gateway operators and four Commercial VSAT Hub operators. Table 3 gives a summary of the number of service providers licensed each year under each licence category.

Enforcement and Network Standards

During the year under review, the Commission inspected broadcasters, network operators and VSAT operators to determine compliance with licence conditions and to ascertain network deployment by new licensees. The Commission also investigated over 40 reports of unlicensed service providers in the market resulting in the prosecution of the people behind the illegal operations.

The Commission also expanded its certification committee

Table 4: Equipment Type Approved

Cases Handled	2001/ 2002	2002/ 2003	2003/ 2004	2004/ 2005
Data Routers	3	3	-	1
Least Cost Router	-	-	-	2
Switches/PABX	8	7	1	12
Wireless Terminals/Systems	6	10	7	11
Transceiver-VHF/UHF	25	19	3	14
Transceiver- HF	13	14	4	8
Transceivers-CB	-	-	-	8
Low Power Wireless Terminals	-	1	3	2
Satellite Terminals	-	1	6	1
Alarm Transmitter	2	-	1	2
Broadcast Equipment	5	8	9	10
VSAT Equipment (Transceiver, BUC, HPA, etc)	3	4	4	4
GSM Interface	-	-	3	8
VOIP Terminals	-	-	-	2
Telephone Sets	20	13	4	11
Pay phone	1	2	-	5
GSM mobile phone	-	7	2	1
CDMA Telephone sets	-	-	-	2
Fax	4	1	-	-
Accepted	71	72	43	98
Rejected	19	18	4	6
Total Cases	0	90	47	104

to include industry players. The Committee participates in inspection and certification of new installations connected to public networks.

Of the 339 installations inspected during the year, 171 were accepted while 178 were referred back to the contractors for rectification in order to maintain acceptable installation standards.

As part of its standardization activities during the year under review, the Commission type approved several types of equipment in order to safeguard the integrity of communications networks in the country. The number of cases handled by the Commission is shown in Table 4 on the previous page.

Telecommunications Numbering

The Commission recognizes the need to develop an advanced information society based on a full range of modern telecommunications. Equally, issues of addressing and convergence need to be supported by a range of operational frameworks such as national numbering plans, which operate as enablers for the information age. Numbers, as a scarce national resource, are required to facilitate access to new products and services. Since liberalization in 1999, the demand for numbering resources has continued to increase mainly as a result of public telecommunications networks expansion, modernization and new customer subscription.

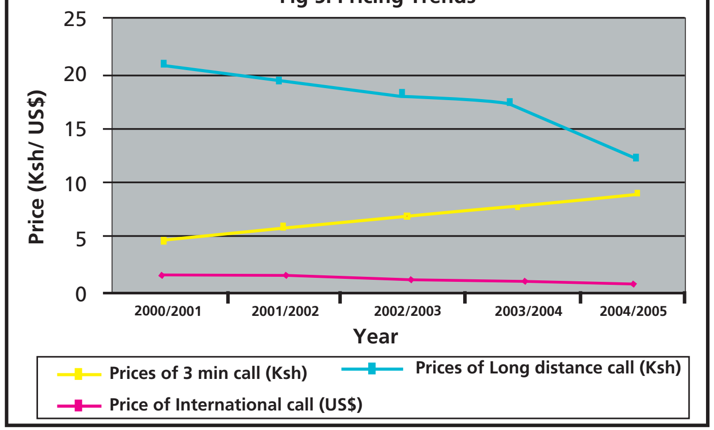
During the year under review, demand for numbering resources continued to increase mainly as a result of public telecommunications networks expansion, modernization and new customer subscriptions. Consequently, the Commission assigned 440,000 numbers to fixed line operators, 3,000,000 numbers to mobile, 100 numbers to premium rate service providers and also assigned 11 signalling point codes to local loop operators and premium rate service providers.

Further, the Commission participated in the harmonization of network colour codes for the East African region. The Commission held public consultations on the introduction of number portability and commenced a study on the implementation of Electronic Numbering (ENUM) in the country.

Price Regulation and Tariff Changes

During the year under review, the Commission effected the final phase of Telkom Kenya's tariff rebalancing obligations. The rebalancing exercise necessitated a progressive increase in local call charges and a proportionate reduction in long-distance and international call charges. Effectively, this resulted in a 20% rise in local call usage charges over the five-year rebalancing

Fig 5: Pricing Trends



period compared to a 16.3% decrease in long-distance call charges. In respect of international services, call charges within the COMESA region fell by 14.4% while those to Europe, North America, Australia and Non-COMESA Africa decreased by 18.3% over the rebalancing period. Despite the progressive price reductions on both the national and international service streams, fixed line service traffic and revenue levels have continued falling as depicted in Figure 5.

With specific reference to the period under review, local usage charges fell by 15.6% compared to 31% for long-distance calls and about 33% for international calls. Charges for calls from fixed to mobile fell by 7.4% over the same period. Insignificant price changes were witnessed in national mobile call charges. However, Safaricom Ltd effected an overall 28% reduction in international call charges. The general effect of these price adjustments across the networks has been a combined growth in teleaccessibility by 6.8 percentage points; from 8.8% in the previous period to 15.6 % during the year under review.

Further, with the expiry of Telkom Kenya's exclusivity and licensing of additional Internet backbone providers, Internet bandwidth charges fell by almost 50% during the year under review.

During the financial year 2004/05, the Commission undertook a number of initiatives aimed at making telecommunications services more affordable and accessible. One of these initiatives was the formulation of a cost study to be undertaken during the next financial year. In order to redefine and make its price regulation role more effective, the Commission finalized the Terms of Reference (ToRs) for the study. The objective of the cost study is to provide a scientific basis for determining both retail and interconnection charges for telecommunications services in Kenya. This is expected to both promote effective competition in the market as well as increase service affordability for consumers.

Despite the tremendous growth trends recorded in the telecommunications sector, it was noted that no real tangible fiscal incentives had been extended to the sector since the advent of liberalization. For example, customs duty on most telecommunications equipment stood at 25% while excise duty on mobile telephone airtime was pegged at 10% of the per-minute price over the review period.

To sustain and increase the sector's growth trends while maximizing on the benefits of convergence, the Commission made a number of proposals to the Government, for consideration during the 2005/06 budget, aimed at reducing and harmonizing a number of existing taxes on ICT equipment and services to single digit units while providing incentives to investors in the sector.

Consumer Protection

During the year under review, the Commission embarked on a process of enhancing consumer protection, which will result in the enactment of regulations designed to specifically assist consumers where their rights as consumers have been compromised. This resulted from the realization that it may

take a while for effective competition to take root in the market.

Complaints on quality of service on the cellular mobile networks continued to rise as subscriptions to the networks increased. The Commission is in the process of acquiring quality of service measurement equipment, which will be used to undertake those measurements on the various communication networks. This is expected to enable the Commission to verify returns from operators in addition to carrying out periodic measurements to ensure that acceptable quality of service levels are maintained.

During the year under review, the proportion of complaints on fixed line services stood at 45% of the total complaints received. Given that the fixed line subscribers account for approximately 7% of the total subscriber base, the number of complaints recorded are too high, pointing to a continued decline in TKL's infrastructure or alternatively to poor customer care provided to their clients. A breakdown of the number of complaints handled by the Commission is provided in Table 5.

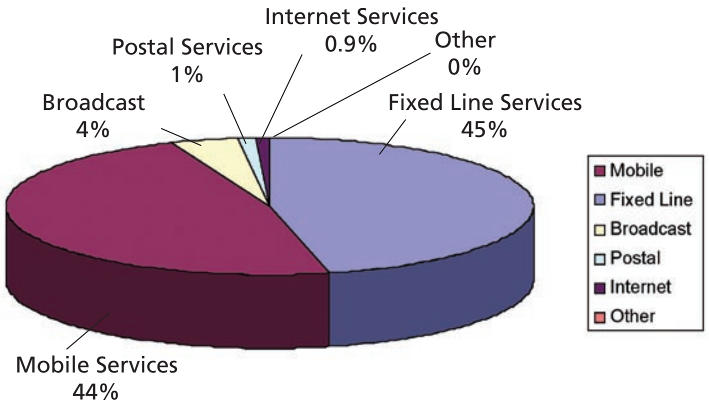
An illustration of the distribution of complaints received by type of service is also shown in Figure 6.

An examination of the distribution of the complaints received during the year under review, by type of complaint, shows that billing complaints featured prominently for both the fixed and the mobile networks while poor quality of service took up a sizeable proportion of complaints on mobile services. Attempts by the Commission between September 2004 and January 2005 are yet to yield the desired results with regard to poor quality of service on the mobile networks, mainly characterized by congestion. As can be seen from the foregoing, the larger proportion of complaints received mainly featured practices that can mostly be dealt with through the promotion of effective competition in the market. The distribution of complaints by complaint type is depicted in Figure 7.

Table 5: Complaints received

Complaint Type	Number
Billing	7
Tariff	4
Service Provisioning Delays	3
Maintenance Delays	2
Quality of Service	4
Other	7
Total	27

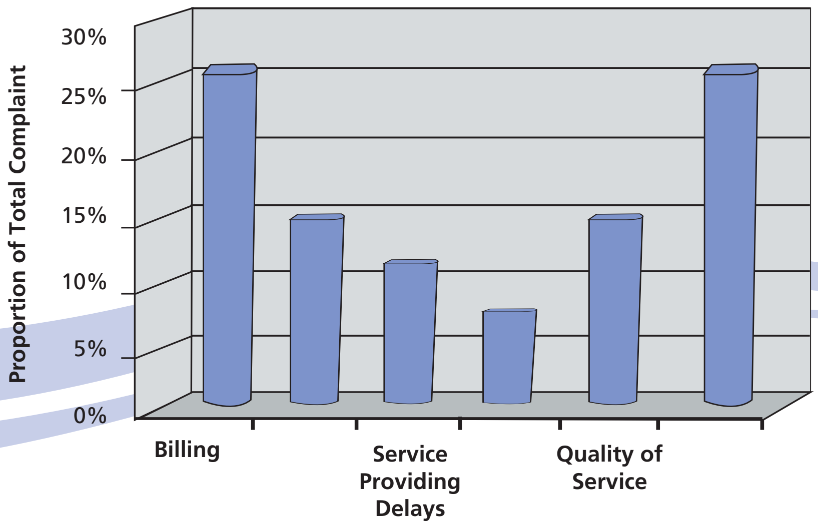
Fig 6: Complaint Distribution by Service Type



It is expected that the proposed introduction of number portability will stimulate competition, which, to a large extent, will deal with these types of complaints.

During the year under review, the Commission enhanced its consumer education efforts by posting some educational information on the Commission's website. This strategy has been adopted to assist consumers make informed choices and in the process enhance competition by challenging service providers to perform better. It is recognized, however, that due to the poor reach of the Internet, especially with regard to poor and remote or rural communities where access infrastructure is still insufficient, other channels for educating and informing consumers must be used. Consequently, plans are underway to increase the content available to consumers as well as diversify the means of delivering such information.

Fig 7: Complaints received - By Complaint Type



SECTION III

UNIVERSAL ACCESS

UNIVERSAL ACCESS

The Universal Access project that began in 2003/2004 financial year was completed in November 2004. The study came up with the following recommendations:

- The establishment of a Universal Access Development Unit within the Commission;
- The establishment of Universal Access Development Fund (UADF) to be supported by stakeholders;
- Amendment to the Kenya Communications Act 1998, and the Kenya Communications Regulations 2001, to facilitate the implementation of Universal Access Strategies and mechanisms;
- Implementation of Forward Looking Long Run Incremental Cost (FL-LRIC) interconnection model through a telecommunication network cost study;
- The reduction or zero rating of duty and other taxes on equipment and applications for rural operators;
- Carrying out of pilot projects in four divisions before the full implementation of the strategy;
- The formation of consumer organizations.

The final report further outlines a five-year Universal Access strategic plan for the country. The fund will support the establishment of Community Access Points, Public Payphones, ICT training Centres, Internet POPs in various parts of the country and the development of local content in broadcasting and Internet.

The initial stage will involve the development of a Geographic Information System (GIS) for the communication sector in the country and implementation of pilot projects in various parts of the country. The GIS will guide the Commission and other stakeholders in implementing universal access strategies and other service delivery mechanisms. The International Development Research Centre has accepted to fund the development of the GIS at a cost of US$ 47,701.

Radio Licensing

The acquisition of a modern spectrum monitoring facility resulted in the detection and resolution of interferences, leading to an increase in the number of licences issued between 2004 and 2005. This was an upturn from the period 2001 and 2004 which registered a decline in the number of HF licences, which was attributed to frequency interference experienced by licensees from cross-border emissions. The status of radio networks is shown in Table 6.

Table 6: Annual Radio Station Licensee Growth

RADIO NETWORK TYPE	STATION TYPE	NEW RADIO STATIONS			
		2001/ 2002	2002/ 2003	2003/ 2004	2004/ 2005
VHF/UHF	Fixed	216	127	132	167
	Mobiles/ Portables	417	595	720	737
	Total	633	722	852	904
HF	Fixed	155	93	41	106
	Mobiles	235	195	120	94
	Total	390	288	161	200

Fig 8: HF Licence issued

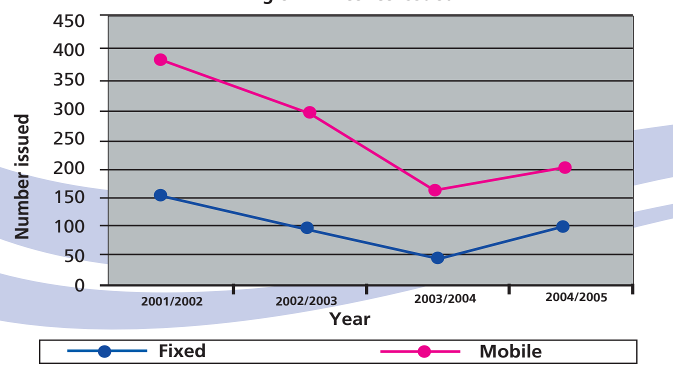
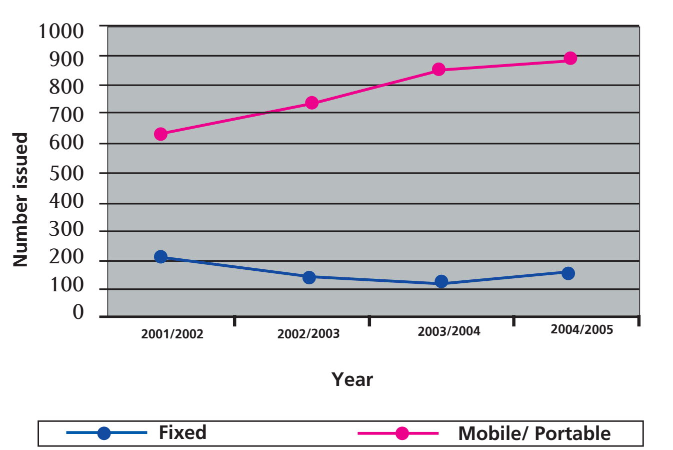


Figure 8 shows HF licences issued during the years 2001 – 2005. It will be observed that despite the declining trend in the initial years, the number of licences issued picked up during the year under review.

In terms of VHF licences issued, the growth has continued to show a positive trend, especially for mobile/portable, which has remained higher than those for fixed.

Fig 9: VHF Licences Issued



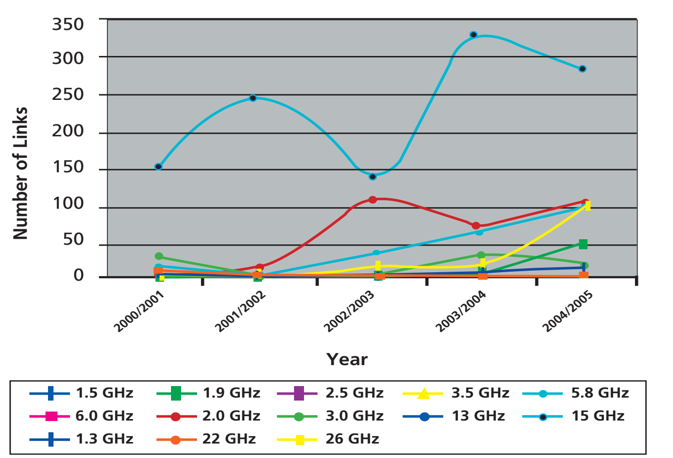
For fixed UHF/VHF radio networks, the decline in the number of licences issued between 2002 and 2004 was due to the fast growth in mobile cellular services, which were initially deemed cheaper. On the other hand, the growth in the number of mobile and portable VHF/UHF networks was attributed to an increase in demand for frequencies by security and tour firms.

During the year under review, the licensing process for amateur radio operators and citizen band radio users were reviewed as a result of which licences under this category are now being issued on a walk-in-walk-out basis. The Commission duly informed the public of these developments.

Broadcasting Frequencies

During the year under review, the Commission modified Kenya's Plan for FM broadcasting by introducing new broadcast frequencies in an effort to meet the demand for broadcast frequencies. To this effect, a total of 23 FM frequencies were introduced in the Plan and facilitated the assignment of 64 FM sound, 17 television, four Outside Broadcasting (OB) and five Studio Transmitter Link (STL) frequencies during this period.

Fig 10: Fixed links allocated



The Commission also recalled 10 FM frequencies and one TV frequency due to non-utilization.

Fixed Links

Spectrum demand for fixed links continued to increase mainly as a result of rapid expansion of public telecommunications networks. During the year under review, the Commission assigned frequencies for fixed links to telecommunications operators such as Telkom Kenya, GSM operators, LLOs, PDNOs as illustrated in Figure 10.

Review of the National Table of Frequency Allocations

During the year under review, the Commission initiated a comprehensive revision of the Table of frequency allocations. This process took into consideration national priorities and most of the changes arising from the decisions of WRC-03. This included incorporation of new country footnotes for Kenya. These changes have enabled the country to access new spectrum in various frequency bands especially for mobile and fixed services, and the opening up of the 2.4 GHz and 5 GHz bands for wireless access systems specifically targeting Wireless Access Services (WAS).

Rearrangement of GSM Cellular Frequencies

During the year under review, the Commission initiated the process of rearranging the GSM spectrum assigned to the existing mobile cellular operators. It is envisaged that this spectrum re-arrangement exercise will result in efficient

Table 7: Frequency Monitoring Activities			
	HF Band	V/U/SHF Bands	TOTAL
Frequency Clearance	289	92	381
Interferences Resolved	10	47	57
Frequency Occupancy Tests	37	16	53
Inspections	59		59

utilization of the limited spectrum by the operators as well as facilitate the introduction of data services such as GPRS. This exercise is expected to be completed in the next financial year.

Frequency Monitoring and Inspection

The Commission intensified its radio monitoring activities using its newly acquired Radio Spectrum Management and Monitoring System (RSMS). This was critical because interference to radiocommunication services may result in disruption of essential communications services such as emergency, telecommunications and broadcasting. Frequency clearance and interference resolution were carried out in various frequency bands in order to avail clean spectrum for radiocommunication services.

The Commission, in the year under review, continued to undertake monitoring activities as summarized in Table 7.

In the area of broadcasting, the Commission continued weekly surveillance of TV and FM broadcast frequencies. This was due to intermittent incidences of non-compliance exhibited by some broadcasters.

Cross-Border Signal Spill-over Guidelines

During the year under review, the Commission convened an EARPTO task force meeting that formulated draft guidelines on the use of radio systems within border areas, with the aim of resolving signal spillovers and interferences along borders of the three East African countries.

Preparations for the Regional Radiocommunication Conference 2006 (RRC-06)

During the year under review, the Commission submitted to ITU the draft national digital broadcasting requirements for the first planning exercise for the RRC-06 conference. The Commission also carried out data validation and correction of errors following the first processing and publication of the input data by the ITU.

Further, the Commission initiated discussions with neighbouring countries with a view to coming up with a common standpoint on digital broadcasting.

SECTION V

CORPORATE AFFAIRS

CORPORATE AFFAIRS

During the year under review, the Commission continued to enhance its close working relationship with the media and other stakeholders. Engagement with the media was aimed at ensuring that the wider public and interested groups are constantly briefed on the goings on at the Commission. Towards this end, the Commission held an open day for the press to update the media on the status of ongoing events at the Commission. The Commission shall in future hold an open media day at least once every year to improve the accuracy of reporting on the Commission and the ICT industry.

Public Consultations

As a means of promoting mutual understanding with industry players and thus improving the regulatory process, the Commission subjected its plans to make changes on its licensing strategy, introduction of VoIP and number portability, among others, to a process of public consultation. This was followed by a consideration of all the comments before the Commission made its decisions on the matters considered. This approach shall be sustained in the interest of enhancing stakeholder participation in the regulation of the ICT sector.

To ensure that the corporate website remains a key platform for disseminating information to a wide array of users, the Commission's website was redesigned and its content enhanced. As a result, traffic to the website has increased. The Commission shall continue to enhance the website with relevant information to ensure that the facility becomes a choice resource for anyone looking for ICT information on the country.

On the international plane, the Commission continued to discharge its role as the designated government representative to various intergovernmental organizations dealing with communications. The Commission also served as the chair of the Council of the International Telecommunication Union (ITU).

During the year under review, the Commission participated in key meetings and conferences dealing with ICTs and postal matters. Of particular note are the 23rd Universal Postal Union (UPU) Congress held in Bucharest, Romania, the 2005 session of the ITU Council held at the ITU headquarters in Geneva, Switzerland and the World Telecommunications Standardization Assembly (WTSA) in September 2004 in Brazil.

The Commission also participated in various preparatory meetings of the Tunis phase of the World Summit on Information Society (WSIS) scheduled to take place in November 2005. The Commission further participated in the 6th Ordinary Session of the Administrative Council of the African Telecommunications Union (ATU) held in Khartoum, Sudan, and the 2nd Annual General Meeting (AGM) of the Association of Regulators of Information and Communication in Eastern and Southern Africa (ARICEA) held in Nairobi. During the latter meeting, Kenya was elected Chair of ARICEA for the next one year.

Arising out of the goodwill cultivated over the years, Kenya won the bid to host the 24th Universal Postal Union Congress in Nairobi in 2008, during the 23rd UPU Congress held in Bucharest, Romania. At the same time Kenya was also re-elected vice chair of the Postal Operations Council (POC) of the UPU. Hosting the Congress will raise the visibility of Kenya in the global postal map, and earn the exchequer foreign exchange from the estimated 3000 delegates expected to participate in the event. The Government has launched the preparatory organs in readiness for hosting the Congress. The Commission is playing a central role in this process.

Kenya Electronic Health (E-Health) Initiative

In recognition of the Commission's central role in the advancement of ICTs in the country and its role in the establishment of KENIC, the Ministry of Health invited the Commission to take part in a new E-health initiative. The initiative is expected to facilitate the use of Modern Diagnostics and Information and Communication Technology (ICT) to enhance delivery of health care to those in the rural areas.

The Kenya Information and Communications Technology (ICT) Trust Fund

As one of its corporate social responsibility activities, the Commission agreed to a request by the Ministry of Education, Science and Technology to be one of the founder trustees of the Kenya Information and Communications Technology (ICT) Trust Fund. Other trustees of the fund are drawn from the public sector, private sector and the civil society.

The main objective of the trust fund is to mobilize funds for the sole purpose of setting up computer laboratories in all Kenyan secondary schools.

Kenya Network Information Centre (KENIC)

The Commission, in conjunction with other ICT stakeholders, facilitated the formation of Kenya Network Information Centre (KENIC) to administer Kenya's Country Code Top-Level Domain (dot ke ccTLD). KENIC was established to ensure proper coordination, harmonization and self-sustenance in administering dot ke domain names registration in the country.

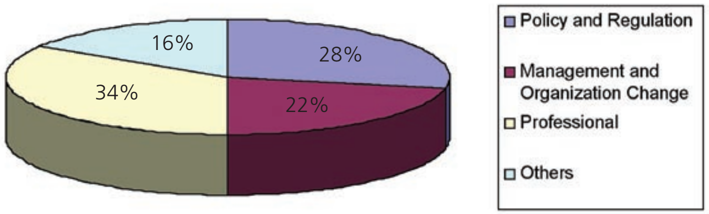
The Commission, being the designated Government body in-charge of KENIC's public policy oversight, continued supporting KENIC. KENIC has continued to grow in strength with a total of 3400 domains registered under the dot ke (.ke) domain by the end of the year under review compared to about 2000 at launch in 2003. KENIC also continued attracting benchmarking missions from other countries seeking to establish their own national DNS registries. It is estimated that KENIC will be self-sustaining within the next 2-3 years.

Human Resources and Administration

The Commission takes cognizance of the importance of maintaining highly qualified staff that is constantly learning. The Commission's training programme is tailored to inculcate the competence and flexibility required to regulate the dynamic communications sector efficiently. During the year under review, the Commission sponsored several staff members on various training programmes locally and overseas.

Table 8: Staff Training Activities		
Category	Number of Staff Trained	
	2003/2004	2004/2005
Policy & regulation	80	41
Management & Organizational Change	51	50
Professional	16	29
Other Courses	78	25
Total	225	145

Fig 11: Staff Training Activities Course



A comparative analysis of the training and development activities undertaken is illustrated in Figure 11.

Policy and Regulatory courses accounted for 28 % of all the courses while those on Management accounted for 22%. Professional and other courses accounted for 34% and 16%, respectively. Table 8 gives a summary of the number of staff members trained in each category.

During the year under review, the Commission recruited four additional members of staff, bringing the total number of employees to 131.

Welfare

The Commission has continued to revitalize its efforts and show its commitment in support of the Government's strategies on the fight against HIV/AIDS. During the year under review, the Commission's staff attended a peer educator programme that advocates behaviour change. This is an ongoing initiative, which the Commission intends to support by holding future programmes as well as counselling, continuous monitoring, evaluation and implementation of HIV/AIDS activities and networking with others involved in fighting AIDS.

Pension

The staff pension scheme held its Annual General Meeting in March 2005, which was well attended, with representatives from the Retirement Benefits Authority and the scheme's actuary. At the close of the review period, the scheme's total active membership stood at 128. The scheme has six pensioners, three of whom joined the pension ranks in the course of the year under review.

FINANCIAL

Annual Budget Estimates and Revised Budget

In accordance with Section 19 of the Kenya Communications Act, 1998, and the provisions of the Exchequer and Audit Regulations, the estimates of revenue and expenditure of the Commission for the year 2005/2006 were prepared and submitted to the Ministry of Information and Communications.

Annual Accounts for Financial Year 2003/2004

In compliance with the financial requirements as set out in relevant legislation and in various Government financial guidelines, the Commission's Annual Accounts were prepared, approved and submitted to the Controller and Auditor General for statutory audit.

The Annual Accounts for the financial year 2004/2005 are under preparation in readiness for submission to the Controller and Auditor-General on or before 30th September 2005. The un-audited balance sheet for the financial year 2003/2004 is reproduced overleaf.

SECTION VI

FINANCIAL INFORMATION

Communications Commission of Kenya
Balance Sheet as at 30th June 2004

	2004	2003
ASSETS	**Kshs '000**	**Kshs '000**
Non Current Assets		
Property, plant and equipment	1,570,374	1,186,627
Current Assets		
Debtors	1,377,123	1,029,168
Cash and cash equivalent	281,000	908,549
	1,658,123	1,937,717
TOTAL ASSETS	**3,228,497**	**3,124,344**
EQUITY AND LIABILITIES		
Capital and Reserves		
Owners equity	741,415	740,069
Revaluation reserve	161,138	161,138
Retained surplus	2,197,540	1,538,256
	3,100,092	2,469,463
Current Liabilities		
Corporation tax for the year	43,069	229,371
Creditors	85,335	425,510
	128,404	654,881
TOTAL EQUITY AND LIABILITIES	**3,228,497**	**3,124,344**

The accounts were approved by the Board of Directors on 8th September 2004 and were signed on its behalf by:

Maj. Gen. (Rtd) Peter Morris Kariuki
Board Chairman

Sammy K. Kirui
Director-General

FUTURE OUTLOOK

During the next financial year, the Commission expects increased activity in the info-communications sector. It is expected that the opening up of the VoIP market and the anticipated release of requisite guidelines on VoIP service provision will result in an increase in service usage and lower prices of international calls.

On similar token, the licensing of the five additional Internet Backbone and Gateway Operators will lead to an increase in the supply of Internet bandwidth. This will in turn result in additional investments in the sector, reduced charges for bandwidth and access and hence lead to more Internet diffusion for business and social services.

Once the government releases the anticipated ICT policy, it is expected that the proposed amalgamation of broadcasting under a converged regulator will provide new and exciting challenges to the Commission, which will require new approaches in regulation.

It is also expected that once the proposed universal access legislative framework, operational strategy and funding mechanisms are put in place rural areas will benefit from provision of new services and hence make them more economically viable in attracting additional investments in other economic activities.

ANNEX

Communications Statistics							
		1999/ 2000	**2000/ 2001**	**2001/ 2002**	**2002/ 2003**	**2003/ 2004**	**2004/ 2005**
Fixed Telephony:	Capacity	420,370	446,302	490,000	508,000	531,442	513,820
Connections		296,400	321,482	328,116	328,358	299,225	278,867
Pay phones		9,000	9,135	9,264	9,964	9,798	8,915
Mobile	Capacity	24,000	640,000	1,500,000	2,000,000	3,935,000	6,800,000
Telephony							
	Connections	23,757	340,731	944,128	1,590,286	2,546,157	4,879,375
	Pay phones	-	-	805	814	2,955	14,240
Postal Services:	Total Postal Outlets	909	900	891	890	872	861
Private Letter boxes		351,441	388,281	394,121	397,731	395,811	399,667
Letter Posting Boxes		1,168	1,136	1,137	1,138	1,120	1,049
Public Counter Positions		1,373	1,356	1,429	1,394	1,378	1,377
Stamp Vending Machines		308	296	299	4,466	3,733	4,088
Private Operator Outlets		185	296	320	330	341	437

* Includes Community pay phones

Key Economic Indicators, 2005						
Indicator	1999	2000	2001	2002	2003	2004*
Population (Millions)	29.5	30.2	30.9	31.8	32.7	33.6
Growth of GDP at Constant Prices (%)	-	0.6	4.4	0.4	2.8	4.3
GDP per capita (Current) (Kshs)	21,736.6	32,771	33,743	33,186	35,432	38,393
Consumer prices, Annual Average						
[Index numbers 1982=100]	112.7	123.9	131.0	133.6	146.7	163.7
Kenya Inflation Rate [June] (%)	5.8	10	5.8	2	9.8	11.6

* Provisional

Source: Economic Survey, 2005

Statement of Values

Integrity and Fairness

CCK will ensure that it applies impartially, transparency and accountability, internally and externally, while carrying out its mandate in an honest and responsible manner.

Disclosure and good Corporate Governance

CCK will conduct its affairs in a progressive style that will direct and control the organization to excel and attain its objectives as well as promote the communication and dissemination of all appropriate information.

Quality and Value for Money

CCK will endeavour to consistently provide quality services and an enabling environment to all interested parties in order to assure its self-sustenance to ensure that Kenya is efficiently exploiting its communication resources.

Innovation

CCK will regulate the communications sector in a manner that will encourage creativity.

Competence and Motivation

CCK will ensure that it puts in place a Human Resource strategy that attracts, develops and retains individuals with relevant competencies.

Waiyaki Way, P. O. Box 14448, Nairobi 00800 Tel: 254 20 4242000 Fax: 254 20 4451866
Email: info@cck.co.ke   Web: www.cck.go.ke