COMMUNICATIONS COMMISSION
OF
KENYA
(CCK)

ANNUAL REPORT
OF
THE BOARD
FOR THE FINANCIAL YEAR
2000/2001

BOARD OF DIRECTORS

Karanja Kabage

Chairman

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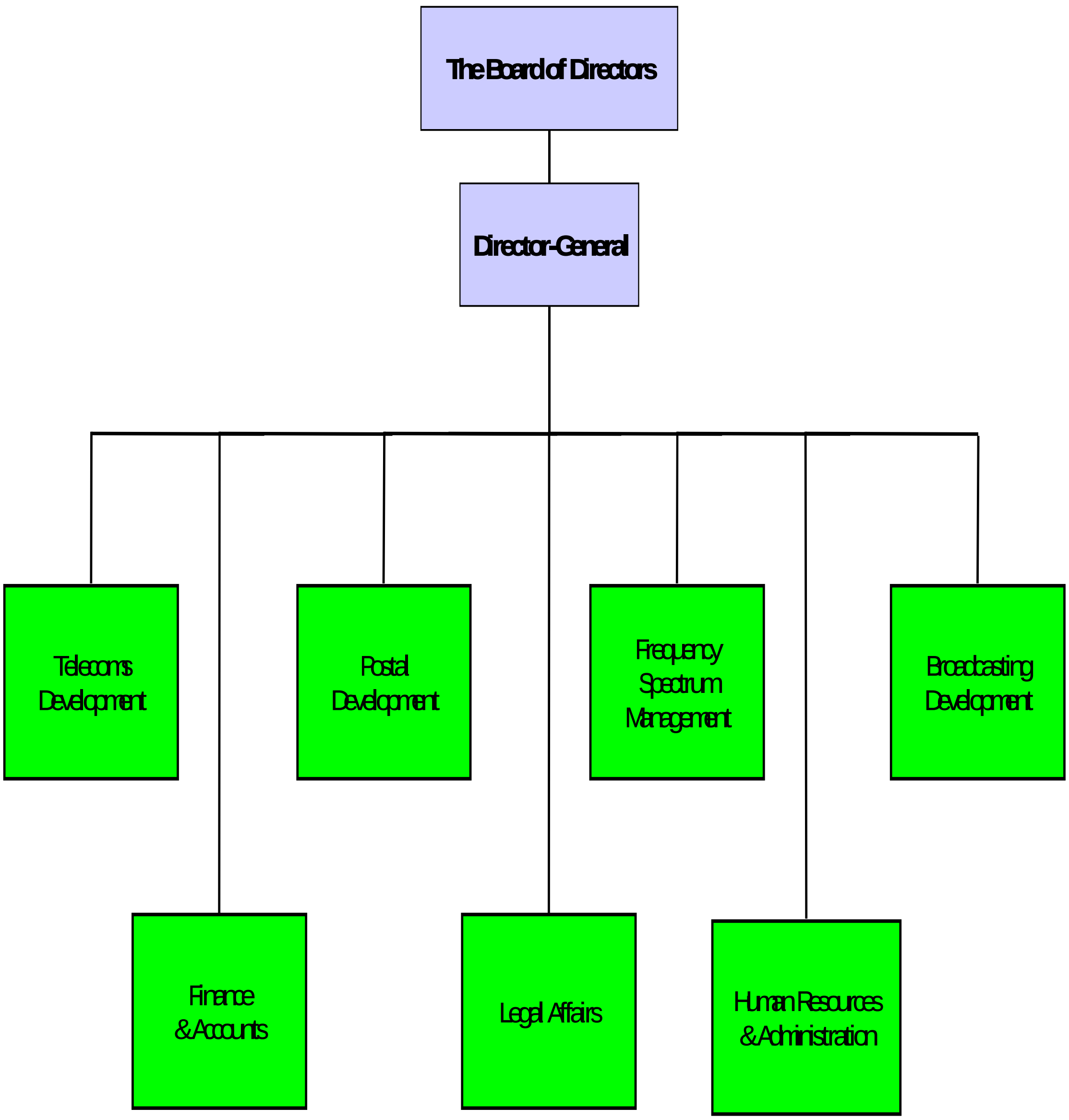
CCK ORGANISATIONAL STRUCTURE



CHAIRMAN'S FOREWORD

It is a great pleasure for me to present the annual report of the Communications Commission of Kenya (CCK) for the year ended 30th June 2001, as required by Section 22(1) of the *Kenya Communications Act 1998*.

The Commission in line with its mandate to regulate the info-communications sector accomplished its objectives for the year as presented in this report.

At the close of the year, the Board had approved the licensing of 23 Internet Service Providers (ISPs), 12 Paging Service Providers and 20 Courier Operators. The licensing process of the three Regional Telecommunications Operators is expected to be completed in the next financial year.

The Board visited Portugal and Sweden with the objective of learning and sharing experiences on postal regulatory issues.

The Board recognises the important role played by the Commission's staff in the realisation of its objectives. The report highlights steps taken by the Commission to enhance staff capacity, improve the work environment and systems in to order increase their productivity.

This report outlines the achievements accomplished during the year. The report also highlights the challenges encountered and outlines the way forward. However, our expectations for a brighter future in the info-communications sector can only be realised if all industry players work in concert towards that goal. I must say that such joint efforts enabled us make remarkable strides in the year under review. It is my hope that all interested parties will sustain their support in the coming financial year and in future in the interest of putting Kenya more prominently on the world communications map.

Karanja Kabage
Chairman
COMMUNICATIONS COMMISSION OF KENYA

DIRECTOR – GENERAL'S REVIEW

Activities of the Communications Commission of Kenya in the financial year 2000/2001 were as focused as they were positive. Despite the daunting challenges and hurdles experienced, the results were encouraging and served as eye-openers to opportunities in Kenya's info-communications sector.

While our first year of operations concentrated on liberalizing the sector, the year under review focused on stabilizing the regulatory framework. Of significance was the gazettement of the Regulations in respect to telecommunications and postal services. The Commission will continue to consult with the industry to ensure that these regulations remain relevant in meeting the evolving needs of the sector.

The telecommunications market experienced exciting developments particularly in the mobile networks and the Internet, which promise even faster growth rates in the coming year. The number of mobile cellular subscribers increased to a staggering 330,000 surpassing the fixed network subscribers by over 10,000 within a period of one year. Remarkable growth was noted in internet service provision and further, the Commission licensed the first Premium Rate Service provider. It is also expected that the licensing of the three Regional Telecommunications Operators (RTOs) will lead to an explosive growth in fixed lines as well. Given the unprecedented growth in the sector and the government's commitment to set up an Information and Communications Technology (ICT) policy in Kenya, I believe the industry will soar to even greater heights.

Another area that the Commission continued to focus its attention was in the management of frequency spectrum, which is a scarce national resource. The Commission has taken the necessary steps to address this situation through the review of the current national frequency spectrum usage for optimal utilization. This process will be complemented by the ongoing computerisation of the licensing process and the intended acquisition of a new frequency spectrum monitoring system. In response to the evolving trends in the market and convergence of technology, the Commission also established a Broadcasting Division for effective regulation of this sector.

The Commission continued to promote the growth of postal/courier market in the country. To encourage investment in the sector and foster compliance, the Commission reviewed the postal licence fees downwards for two major categories of operators. Twenty (20) firms were licensed in the year, doubling the number of postal/courier operators licensed since the Commission was established. I believe that the postal/courier market shall continue to grow especially after the government's review of the Telecommunications and Postal Sector Policy Statement.

Under the Universal Service Obligation (USO), the Commission continues to ensure that the licensees meet this obligation in line with the provisions of their licences in order to improve the lives of Kenyans through the provision of quality services that are reasonably priced and available to all citizens. The RTOs are expected to complement this process and enhance the availability of services in the rural and underserved areas of the country.

In the endeavour to increase effectiveness and efficiency in delivery of service, the Commission initiated training among other measures to enhance staff capacities. To diversify communication channels, the Commission refurbished its website to make it more interactive and established an internal electronic bulletin board.

Pursuant to globalisation, the Commission continues to commit itself to building partnerships with international and regional organisations. In this regard, the Commission continued to participate in a number of key fora and seminars to keep abreast with new developments that are shaping the communications landscape.

As part of our social responsibility and to complement government efforts, the Commission participated in the implementation of the National HIV/AIDS Awareness Campaign and in drawing up of the Poverty Reduction Strategy Paper (PRSP), and contributed financially to the National Disaster Fund.

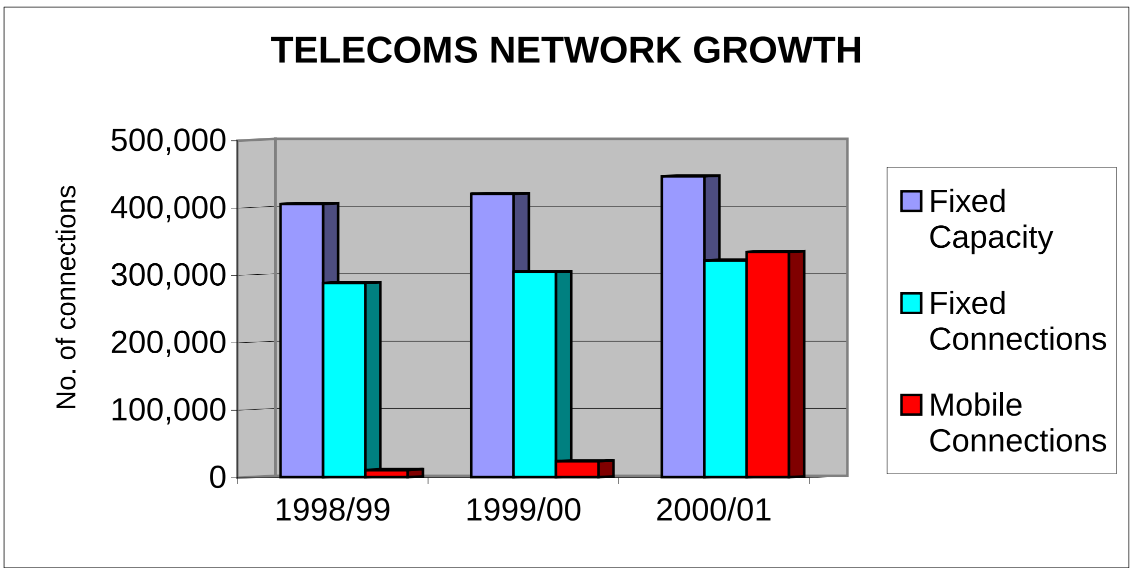
In overall terms, the objectives set for the year 2000/2001 were met. However, this was not without challenges. Difficulties in enforcement of licence and regulatory requirements were experienced, partly due to technology convergence and ignorance of operators of the legal requirements. Challenges were also met especially with regard to the use of VSAT equipment/technology, the establishment of the Internet Exchange Point and Voice over Internet (VoIP) enforcement. Other setbacks experienced were illegal installations, non-payment of licence fees and reluctance by some operators to be brought under the regulatory regime. In the area of frequency spectrum management, the existing monitoring equipment has proved inappropriate to cope with the complex spectrum management and monitoring requirements of modern technologies in radio system being deployed in the market. The Commission has taken measures to address these challenges, and will continue to consult with the relevant parties with a view to overcoming them.

Finally, I must sincerely thank the Commission's Board, the Government, our customers, staff and the public at large for the confidence shown in us during the past year. This gives us the courage to forge ahead into the new financial year with a renewed customer–oriented focus, supported by competent staff and a consultative approach. Let me also reaffirm our commitment to foster an environment that promotes the growth and development of this sector for the benefit of the people of Kenya through private and public participation.

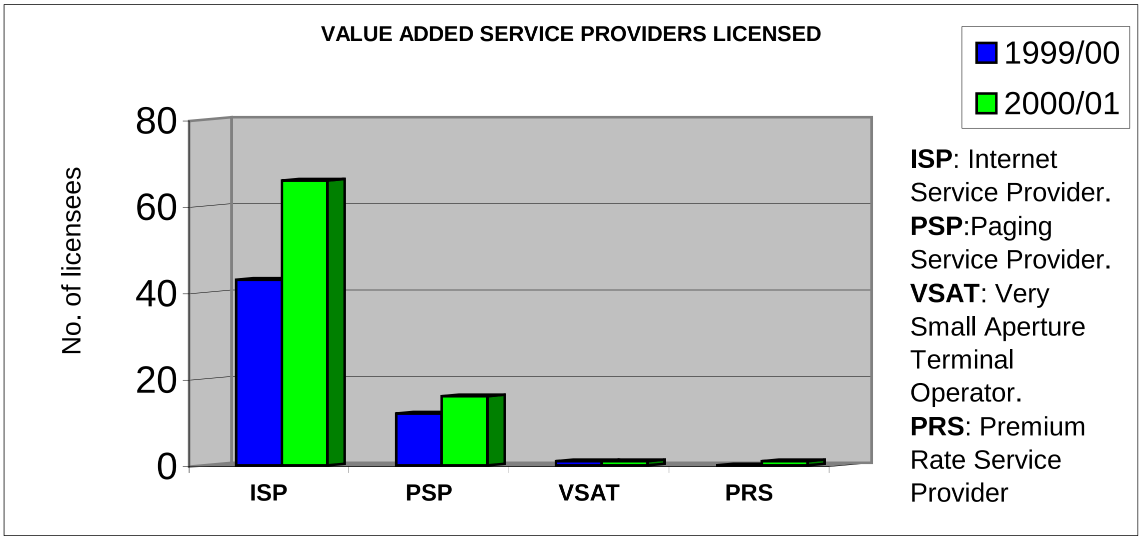
Samuel K. Chepkong'a
Director -General

SECTION 1: TELECOMMUNICATIONS SERVICES

The year under review has been very eventful for the Commission. The liberalization of the telecommunications sector has resulted in an unprecedented growth of this industry in Kenya, with a higher growth rate predicted in the future. With the entrance of KenCell Communications Limited and the conclusion of a joint venture between Telkom Kenya Ltd and Vodafone Airtouch U.K., an overwhelming growth has been noted in the mobile cellular market from 20,000 connections in 1999/2000 to 334,146 connections by the end of June 2001. The number of cellular lines connected rivaled the fixed lines, which stood at 321,482 connections. Other areas of notable growth include the Internet service provision and paging services. Below is a chart illustrating the growth in telecom networks and subscriber base respectively.



The use of modern communications technology also gave rise to unprecedented growth in the number of Internet Service Providers licensed. The number of licences issued for Paging Services remained low due to close substitution of services and competitive prices offered by cellular operators. The chart below depicts Value Added Services (VAS) licences issued.



Some of the incentives that contributed towards the rapid growth in the above market segments include introduction of competition, development of comprehensive licensing procedures and reduction of licence fees.

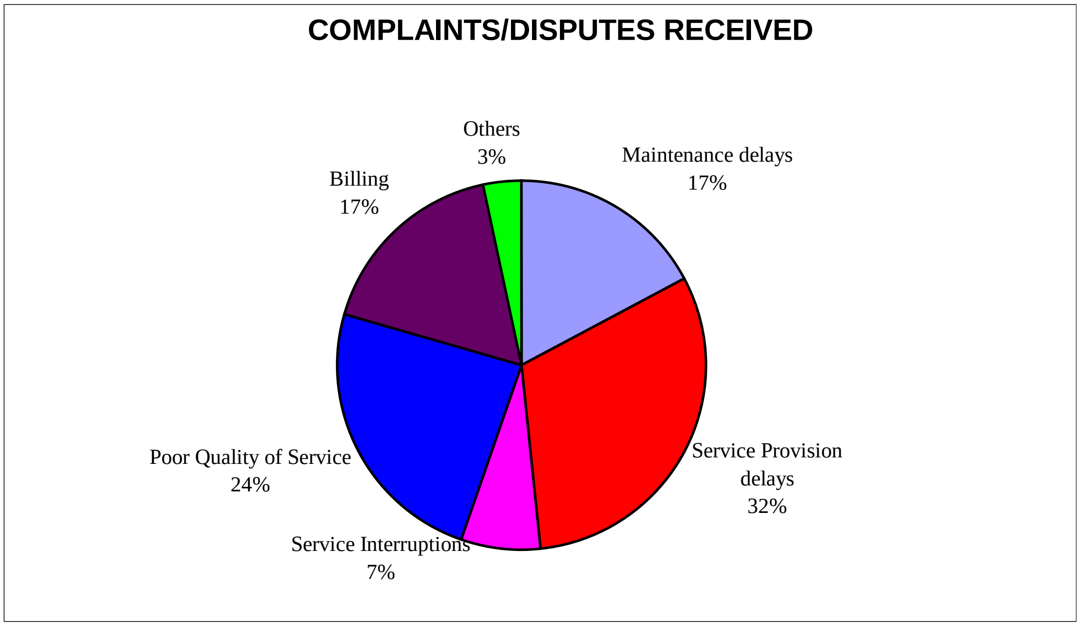
In an effort to increase teledensity and ensure access to basic telecommunication services, the Commission has been negotiating the license terms and conditions with the three successful bidders of the Regional Telecommunications Network Operators (Telair, Bell Western and Safitel). The negotiations are now at an advanced stage and it is expected that three companies shall be licensed in the next financial year.

To ensure efficient use of scarce radio frequency spectrum, the Commission initiated a process that will lead to licensing of two Commercial Trunked Radio Operators (CTRO). This will significantly reduce the number of private radio networks and make it not only cheaper but also more secure for radio users in the country.

In the area of tariff regulation, the Commission oversaw the implementation of the second phase of the tariff-rebalancing program for Telkom Kenya Limited as provided for in their licences. In order to have a firm basis of determining the appropriate costs, the Commission intends to undertake an exhaustive cost study for future use in determination of network costs.

As part of its mandate to ensure that licensees comply with agreed industry standards, the Commission received a number of enquiries and disputes from users. Majority of the complaints were from Internet Service Providers and were in respect to service provision delays.

The Commission took up the complaints with the operators and 34% of the cases were resolved. Other measures being taken to resolve pending cases include service level agreements and independent surveys to ascertain industry compliance. It is expected that these measures will minimize complaints of this nature in future. The distribution of the enquires and disputes is shown in the chart below:



Enforcement of policy, regulations and licence conditions continued to be a critical preoccupation for the Commission and culminated in the seizure of illegal Very Small Aperture Terminal (VSAT) installations and Voice over Internet Protocol facilities.

Engineering Standards

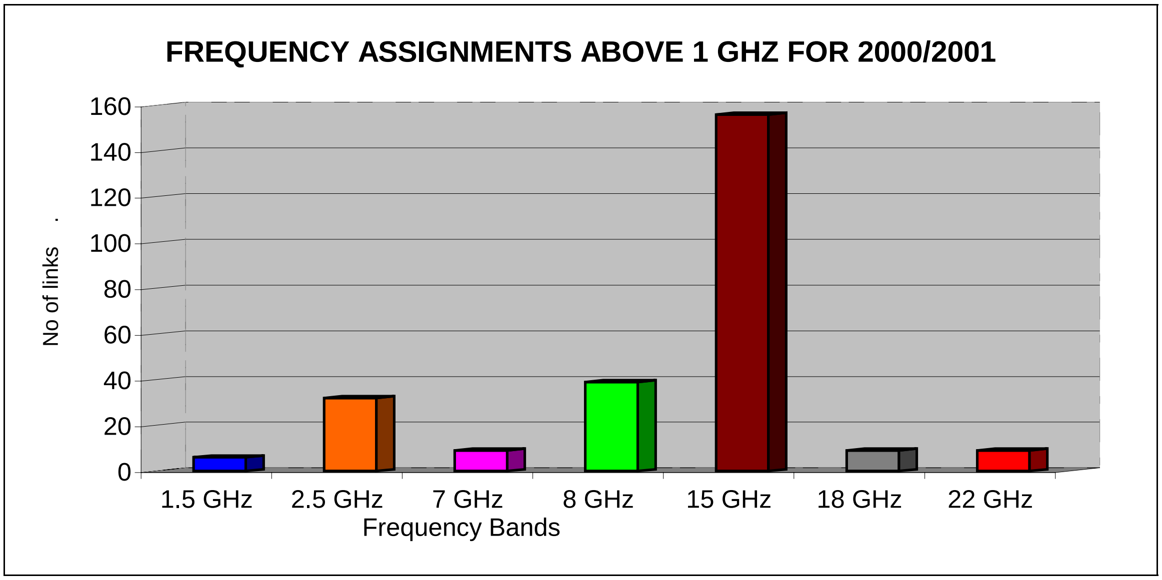
The Commission carried out and completed extensive consultations with the major telecommunications operators in respect to the proposed numbering plan. It is expected that the plan will be concluded and adopted in the next financial year. In addition, the Commission finalised development of standards for internal wiring and terminal equipment installations. Also, the Commission developed ten new specifications for telecommunications equipment. The total number of Type Approval applications processed within the year stood at 109.

SECTION II FREQUENCY SPECTRUM MANAGEMENT

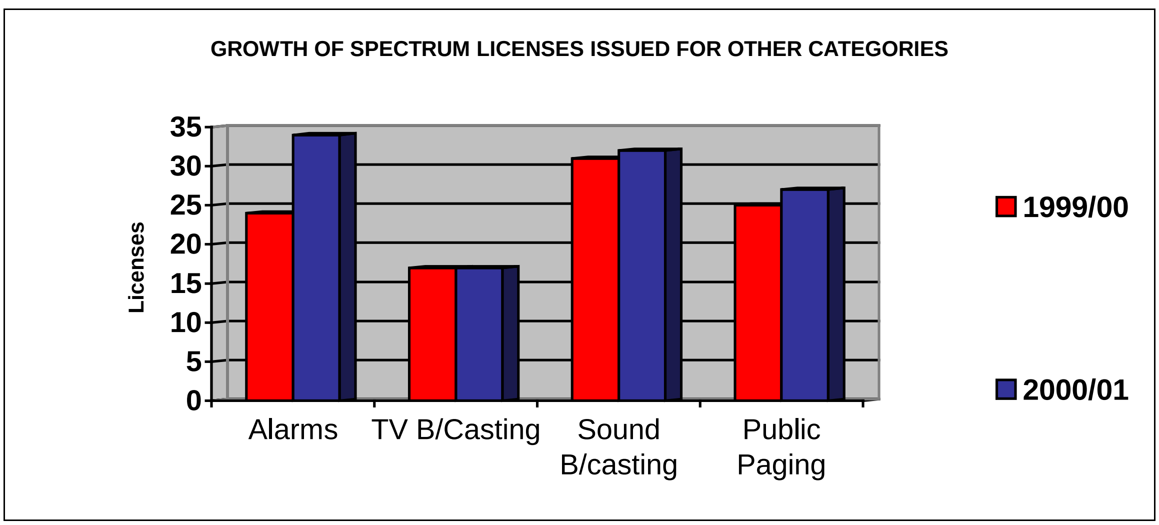
The Commission continued to manage the radio frequency spectrum resource by implementing measures that encourage efficient utilization of the scarce resource. Emphasis was therefore laid in the area of broadcasting where the industry demand had not been meet due to unavailability of the required spectrum. In this respect, out of the 11 FM frequencies and 3 television frequency applications, only one FM frequency was assigned. To alleviate the situation, the Commission initiated a review of the existing national FM and TV broadcast plans. The proposed plans were forwarded to the International Telecommunication Union (ITU) to undergo the mandatory regulatory processes.

The Commission formulated a new spectrum charging methodology for frequencies used by cellular transmitters and reviewed that used for terrestrial links. The review in charging methodology for terrestrial links is expected to encourage operators to migrate from highly congested lower frequency bands to higher frequency bands. The process involved discussions and consultations with the major telecommunications operators, which resulted in a frequency charging methodology widely accepted in the industry.

The frequency spectrum demands from major radio networks significantly increased due to the extensive deployment of microwave approach links by the cellular operators and the modernization of the various Government networks. During the year under review, the frequencies were assigned as indicated in the chart below.



With respect to frequencies below 1GHZ, there was an increase in the number of VHF/HF private networks from 3272 in 1999/2000 financial year to 3507 in the year under review. The figure below indicates the growth in other categories of radio users below 1GHZ.



Frequency Monitoring and Inspection

In an effort to keep the spectrum free from interference, the Commission enhanced its frequency monitoring and inspection activities. Consequently, over 90% of the interference cases reported were resolved. The Commission continued to address the problem of growing numbers of illegal radio operations by instituting legal action against offenders.

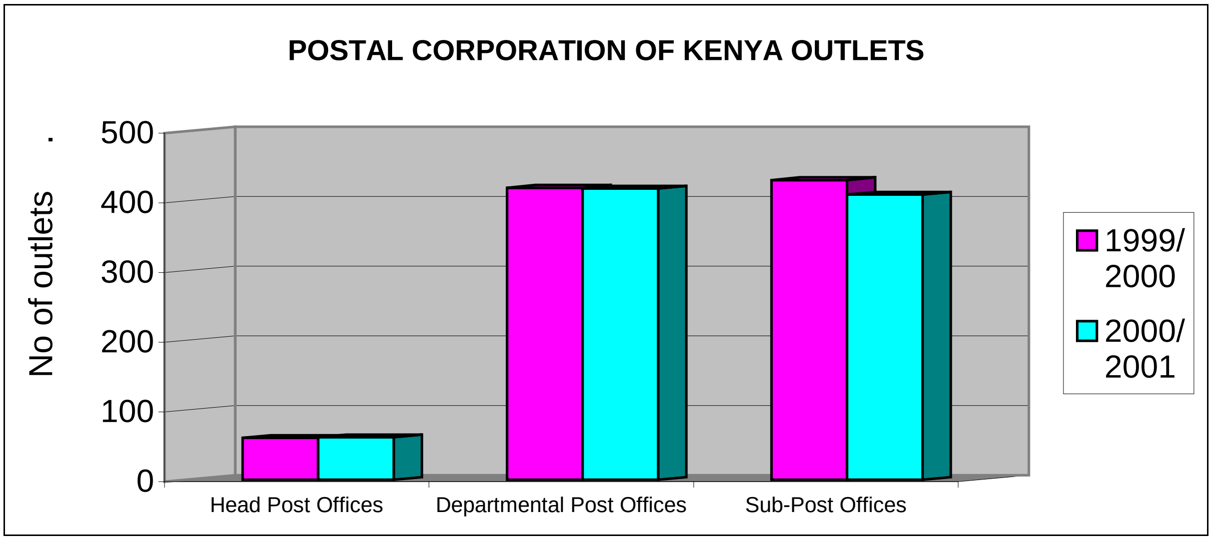
The existing manual frequency management process and technical limitations of the radio monitoring system have greatly hampered the delivery of quality services to the Commission's clientele. In order to address this setback, the Commission is planning to acquire a modern frequency management and monitoring system. With this system in place, the Commission will be able to effectively participate in the international monitoring and inspection programmes.

SECTION III BROADCASTING

In its endeavour to remain relevant to the evolving needs of the broadcasting sector, the Commission established a division to handle broadcasting services on 21st May 2001. The new division is responsible for the establishment of a regulatory framework for broadcasting. In addition, it will also be responsible for setting and enforcing broadcasting standards such as type approval and the regulation of broadcast content. With this framework in place, the Commission will be in a position to co-ordinate broadcast licensing of this important sector and be more responsive in enforcing compliance.

SECTION IV POSTAL SERVICES

The postal sector recorded a tremendous improvement. Notable was the 28% increase in the number of private letter boxes. The number of outlets for private operators increased as a result of liberalisation of the sector. However, outlets for the Postal Corporation of Kenya (PCK) - the Public Postal Licensee - declined as a result of commercialisation that dictated the closure of non-economic outlets. This information is depicted in the figure below.



The table below shows the number of outlets and other facilities availed by the public postal licensee, and other postal/courier operators during the year under review.

	1999/2000	2000/2001
Postal Corporation of Kenya		
Private letter boxes	302,595	388,281
Letter posting boxes	1168	1134
Public Counter Positions	1373	1356
Stamp vending licenses	3,719	4061
Private Operators	185	296

During the year, the Commission reviewed the postal operators' licence fee downwards for international and regional/intra-country operators. This reduction was aimed at fostering compliance and encouraging investment in the sub-sector. Twenty (20) additional firms were licensed bringing to 40 the number of operators licensed by the end of the year.

In this period, the Commission oversaw the implementation of the final phase of the Postal Corporation of Kenya tariffs on reserved services that started in the 1999/2000 financial year. The new tariffs were intended to cushion the public postal licensee against the increased cost of providing the service and to act as a compensatory measure for providing universal postal services. This will ensure that basic postal services of reasonable quality and price are available to majority of the people in the country irrespective of their status and geographic locations.

The Commission also initiated a survey on the postal/courier market aimed at developing base data and information for enhancing regulation of the sector. The results of the study are expected in the next financial year.

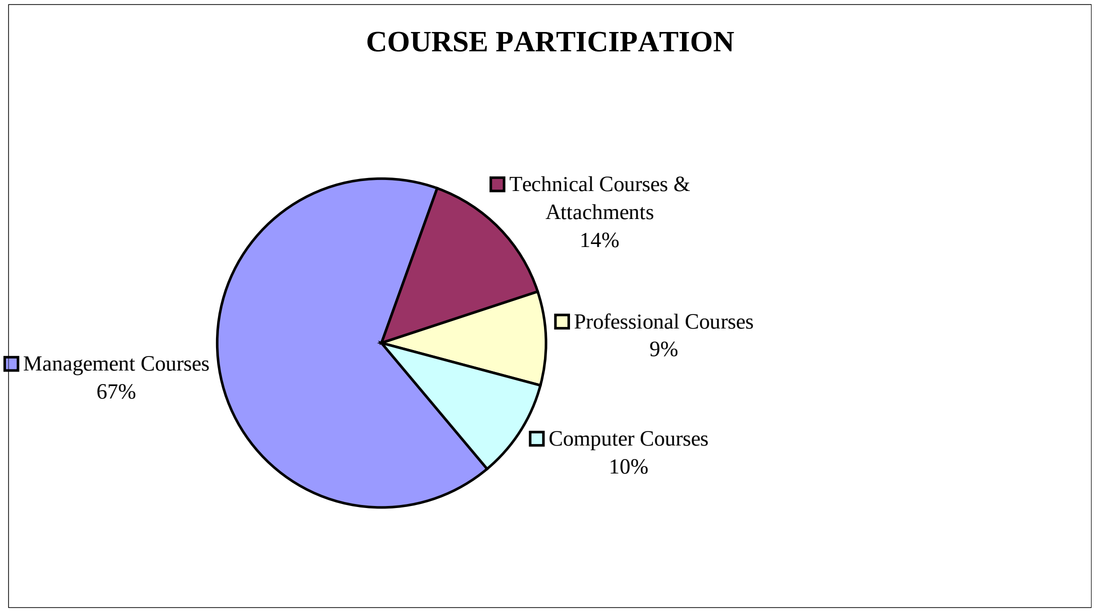
SECTION V HUMAN RESOURCES AND ADMINISTRATION

The year under consideration saw the Commission review its organizational structure and harmonized job titles to reflect the Commission's distinct role in the communication industry. The Broadcasting Division was created during the year under review. The total number of staff as at 30th June 2001 stood at 118.

As part of capacity building, the Commission continued to train staff, both locally and internationally, to enhance skill development and to keep abreast with challenges within the dynamic info-communications sector. This was done after carrying out an in-depth training needs analysis. Some of the areas in which staff was trained include:

- Team and management skills development,
- Technical skills,
- Professional training,
- Information technology.

This information is illustrated by the pie chart below:



Attachment and visits to experienced Regulatory Organizations were undertaken by the Commission's staff.

In the area of staff welfare, the Commission embarked on the registration of the staff pension scheme and facilitated the formation of staff Savings and Credit Co-operative (SACCO) Society.

The Commission actively participated in the national campaign against HIV/AIDS. Subsequently a HIV/AIDS awareness programme for staff was implemented.

The Commission implemented the Exchequer and Audit (Public Procurement) Regulations, which are geared to ensure that public procurements are conducted in a fair and transparent manner. The guidelines served to streamline the open tendering system, which encouraged competition among suppliers/contractors in the organization.

The Commission continued to experience constraints in the area of office accommodation. To address this problem, it is in the process of putting up a headquarter building at Kabete, along Waiyaki Way. The construction is expected to commence in the next financial year.

SECTION VI LEGAL AFFAIRS

The Commission remains committed to the implementation of the *Kenya Communications Act* and other international instruments that impact on policy, legal and regulatory issues in the communications sector.

The *Kenya Communications Act* provides that the Minister, in consultation with the Commission, may make regulations generally with respect to telecommunication services, radio communication and postal affairs. During the year under review, appropriate consultations were made in this regard. The consultations culminated in the Minister drafting the *Kenya Communications Regulations* which were duly gazetted in May, 2001. This substantive legislation is expected to enhance regulation of the Communication sector.

Pursuant to its mandate, the Commission facilitated the setting up of the National Communications Secretariat (NCS) and the Appeals Tribunal.

During the year under review, the Commission was involved in twenty-one court matters, most of which are still pending. Half of these (50%) matters were carried over from KP&TC and involve accident claims, employment and lease disputes. As these cases were not addressed in the Vesting Orders, their progress has stalled awaiting direction from the Ministry as to which of the three predecessors of KP&TC should take over the matters. Other criminal and civil matters were instituted in a bid to enforce license conditions. Some of these cases touched on salient communication principles of frequency spectrum management, broadcasting and type approval of communication equipment.

The ***Royal Media*** and the ***Nation Media Group Cases,*** in particular, articulated at length on these issues and judgment is yet to be delivered. These cases in their resolution will greatly contribute to the jurisprudence of communication law in developing countries. They will also be a pointer on the development of the law in response to technology advancement and the need to enforce regulatory mechanisms.

For as long as communication issues remain the heartbeat of the development agenda worldwide, the Commission, like other regulatory authorities globally, will continue to face the exciting challenge of reconciling competing interests through regulation of the industry and at the same time promoting innovation in order to provide better communication choices for Kenyans.

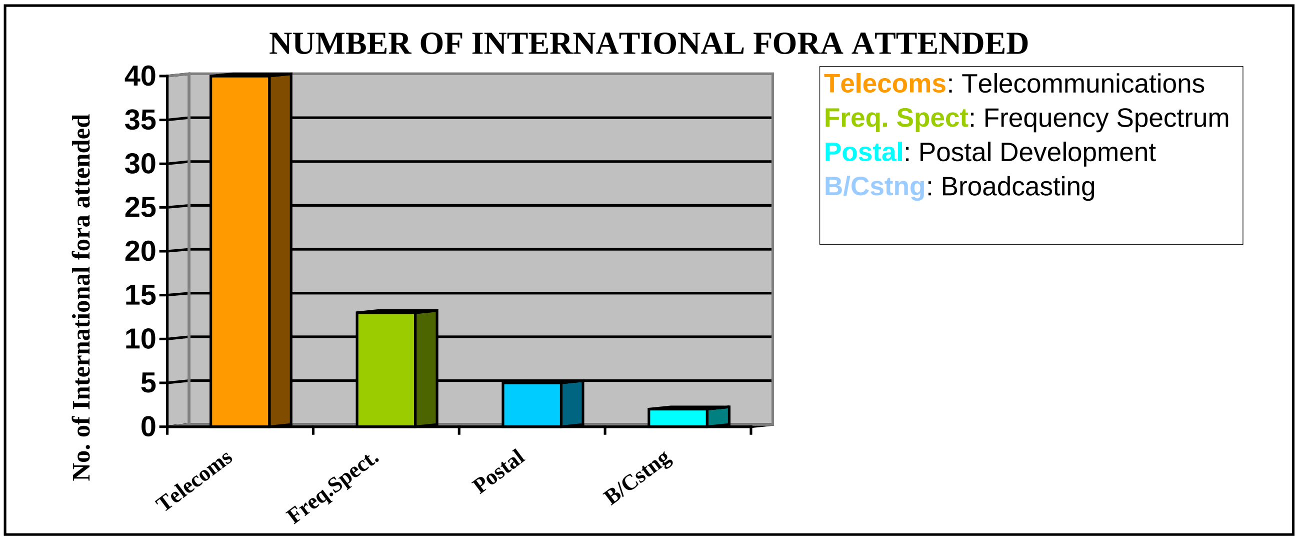
SECTION VII PUBLIC AND INTERNATIONAL AFFAIRS

Effective communication channels were established to adequately address the emerging demands from the wide range of the Commission's publics. Information was constantly relayed through the various media to enhance understanding of the Commission mandate, activities and to respond to enquiries arising from its actions.

In an effort to share information and build consensus on pertinent issues, the Commission facilitated consultative meetings with the industry players. In addition, the Commission hosted the World Telecommunications Day observed on 17th May.

As a representative of the Government of Kenya, the Commission met its financial obligations to regional and international organisations to which it is designated in matters relating to posts and telecommunications. It also participated in a number of key seminars, conferences, meetings and other fora where important issues in the sector were discussed.

The table below illustrates the number of international fora in which the Commission was represented.

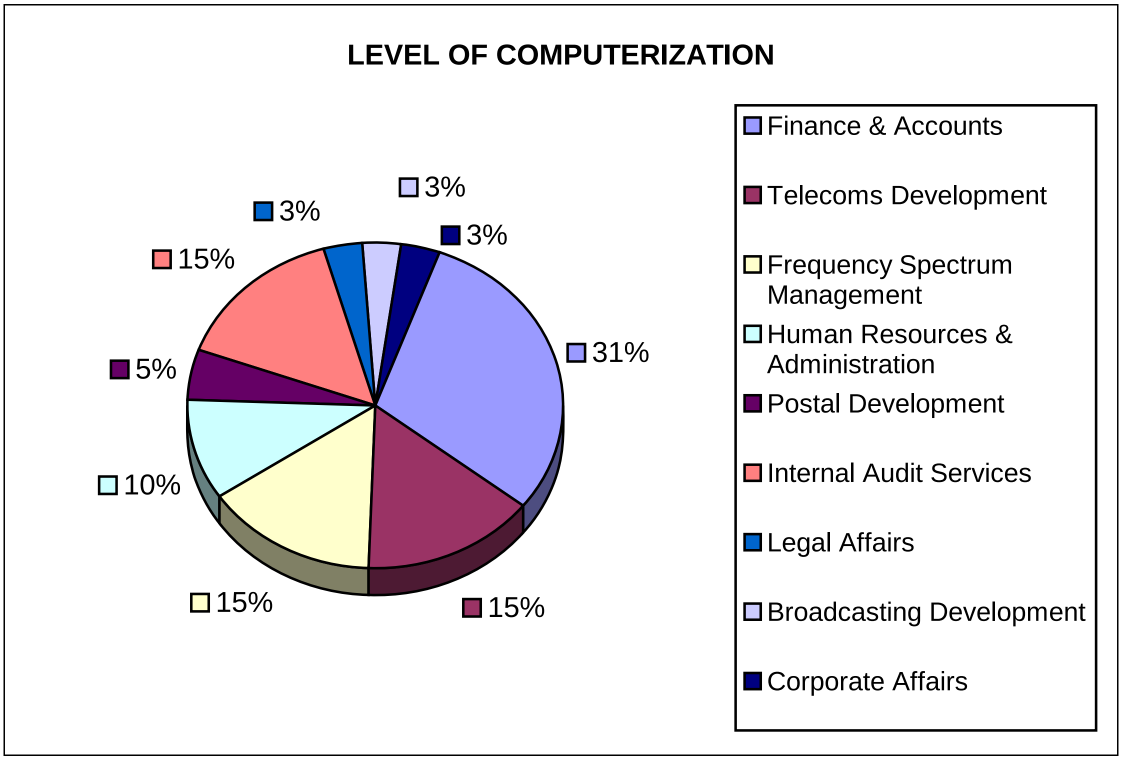


The Commission staff were closely involved in a culture re-engineering initiative. The revision of the Commission's vision and mission was done collectively with a view to developing participatory approaches to decision-making and ultimately create a sense of ownership among staff.

SECTION VIII: INFORMATION SYSTEMS

The Commission continued in its commitment to automate its processes in order to improve the delivery of service to clients. Computer Local Area Networks (LANs) were installed to enhance information and resource sharing.

The Commission has put in place Internet and Electronic Mail services for its staff, and is currently in the process of installing a leased line to enhance access to these services. The Commission is currently undertaking a number of computerization projects. The chart below depicts the level of computerization within the Commission's departments.



SECTION IX FINANCE AND ACCOUNTS

Annual Accounts and Statutory Audit

In compliance with the financial requirements as set out under the *Kenya Communications Act*, the *State Corporations Act*, the *Exchequer and Audit Act*, and Government Financial Circulars, the Commission's Annual Accounts for 1999/2000 financial year were prepared, approved and submitted to the Auditor-General (Corporations) for statutory audit. The statutory audit has since been concluded and the audited Balance Sheet as at 30 June 2000 is reproduced here below:

Communications Commission of Kenya
Balance Sheet as at 30 June 2000

	Kshs. '000
ASSETS	
Non Current Assets	
Property, plant and equipment	775,672
Current Assets	
Debtors	427,934
Cash and cash equivalent	153,991
	581,925
TOTAL ASSETS	1,357,597
EQUITY AND LIABILITIES	
Capital and Reserves	
Owners Equity	709,122
Revaluation Reserve	161,138
Retained Surplus	463,767
	1,334,027
Current Liabilities	
Creditors	23,570
TOTAL EQUITY AND LIABILITIES	**1,357,597**

The audited accounts were approved by the Board of Directors on 8 June 2001 and were signed on its behalf by:

KARANJA KABAGE - CHAIRMAN

SAMUEL K. CHEPKONG'A - DIRECTOR-GENERAL

The annual accounts for the current financial year have been finalized and forwarded to the Auditor-General and will be reflected in the next financial year.

In order to ease revenue recognition, the Commission changed its annual billing date for all licensees to the month of July every year to coincide with its financial year.

The Commission automated its accounting processes and procedures in an effort to streamline its accounting system. This will greatly enhance the systems and controls, making the management of the Commission's finances more effective.