



Republic of Malawi

RURAL TELECOMMUNICATIONS POLICY

2002

THIS POLICY IS AN INTEGRAL PART OF THE
NATIONAL SECTOR POLICY STATEMENT 1998

FOREWORD

STATEMENT BY THE MINISTER OF INFORMATION

The Government of Malawi recognises the importance communications is playing in the development of the country. Consequently a process was initiated in the nineties to deregulate the communications sector, introducing privatisation and competition. We have since seen a positive development of telecommunications services. The incumbent, the National Telecommunications Operator, the Malawi Telecommunications Limited, (MTL), is being developed into a modern commercially oriented organisation before being privatised, and mobile telecommunication services are also expanding rapidly.

The commercially oriented Telecommunications Operators are not, however, expanding into the remote rural areas because it is perceived not profitable to operate the networks and the services in those areas.

The long-term objective of this policy is to enable all Malawians to have access to all forms of modern information and communications technologies in the rural and underserved areas. Telecommunications are also recognised as one of the most important tools in the poverty reduction struggle for the rural population. This would support the economic, social and political development of the country and its integration into the global information society.

Government will encourage the development of telecommunication services in the rural areas to promote rapid socio-economic development. Furthermore, our educational institutions will be afforded access to basic and advanced telecommunications services in order to enhance and sustain educational standards nationwide. It is therefore the Government's objective to work toward a better balance of the services between urban and rural areas, and to assign the highest priority to initiatives that will support a positive development.

An important step in the right direction is the '**Rural Telecommunications Policy**' now being adopted. On the basis of this policy document, it is the objective of the Government to keep continued focus on the sector, and to follow up the progress.

Government will support all stakeholders who will be engaged in the development of Rural Telecommunications. It is my hope that the rural population will soon get their fair share of the advantages of the information age.

Finally, I would like to recognise and thank the Royal Danish Government for funding the entire project; the stakeholders for their invaluable contributions during the workshops; the Consultants, Arnfinn Svennevig and his Telnor Consult As. team of Norway for their commitment, expertise and for coordinating the consultation process; and officials of the Malawi Communications Regulatory Authority (MACRA) i.e. the MACRA Board, Management and Staff for their invaluable contributions and input to the policy, administrative and technical support during the development and preparation of the rural telecommunications policy.

1st December 2002
Ministry of Information
Lilongwe3

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Minister of Information

EXECUTIVE SUMMARY

The objective of this Rural Telecommunication Policy Statement is to clarify how the Government intends to provide access to basic telecommunications for the rural population of Malawi and the underserved areas. In particular, the statement concerns those areas where it is considered not profitable to build and operate telecommunications services.

It is recognised that access to basic telecommunications services is a basic right of the population of Malawi. It is also recognised that telecommunications is one of the most important tools in the struggle to reduce poverty in rural areas. An important element in providing access for the entire population is the use of affordable public telephones located in strategic locations so as to be accessible.

In order to provide new momentum in rural telecommunications services, the issuing of local operating licences in accordance with the National Communication Policy Statement of 1998 was proposed. In furtherance to issuance of local licences, general licences to operate Public Call Offices (PCO), Multi-purpose Community Telecentres (MCT) and Community Access Centres (CAC) are proposed.

A number of new initiatives are described in this policy statement in order to achieve the following objectives:

- i. Establishment of a Rural Telecommunication Forum (RTF) to oversee the rural Telecommunication development; and
- ii. Establishment of a Rural Telecommunication Development Fund (RTDF).

The tariffs to be charged for rural Telecommunication services must satisfy two critical interests, namely:

- (a) Affordability to the users; and
- (b) Profitability to the Operator/Service Provider.

The most important element in satisfying the requirement of affordability is the provision of public telephones whereby many users carry the cost of one telephone line. It is proposed that the tariffs should not be subsidised for rural areas. However, the tariffs may be allowed to vary from area to area and as a function of time within a general tariff basket to be approved by the Malawi Communications Regulatory Authority (MACRA).

The local licensee shall have the right to interconnect its local network with the networks of the Telecommunications Operators (fixed and mobile).

This Rural Telecommunication Policy Statement is mainly concerned with the provision of access to basic Telecommunication services but, however, the local licensee may provide any other Value Added Services. The tariffs for value added services may be set by the licensee on commercial basis.

MACRA is considered as an important player in the development of telecommunications in the country. MACRA shall be the co-ordinator between the users and RTF, and shall develop the licence conditions for the local licences in co-ordination with the RTF.

The provision of information to the rural population concerning the advantages of telecommunications is important. The intention of the Government is to see that general information on telecommunications, as well as information concerning specific projects is available to the general public.

It is the intention of the Government that the initiatives described in this policy statement are implemented as soon as possible.

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1. INTRODUCTION

The Government has come up with a number of development programmes and initiatives, which are intended to promote development of the rural areas. These include the following:

- i. The Poverty Eradication Plan
- ii. Universal Primary Education
- iii. Rural Electrification Project
- iv. Plan for modernisation of agriculture
- v. Health Improvement and Delivery

The policy on rural telecommunication development is intended to supplement government's efforts in the above programmes by directing the development and delivery of communication services in rural areas, which will bring about socio-economic development in these areas.

2. OBJECTIVES OF THE RURAL TELECOMMUNICATIONS POLICY

The telecommunication sector in Malawi is witnessing fundamental changes. The sector is deregulated and competition introduced with a view to encouraging investment and improving the services offered to the public. However, there is need to bridge the differential between the demand of public services and the services currently being offered, in particular, public networks which are not being expanded into the rural areas. As greater reliance is placed on commercial incentives, there is concern that the rural is disadvantaged in access to public telecommunication services.

The prime objective of the rural telecommunications policy is to ensure that the entire population of the country has access to telecommunication services; and as a first step, the Government will ensure that at least 80% of the population shall have access to a telephone service within a distance of maximum not more than 5 km within 10 years. The rural Telecoms policy sets out the strategies that the Government will use to achieve the objective.

By access to basic telephone services, we do not mean providing a fixed telephone line to every household. That type of provision is appropriate in urban areas, but the needs of rural areas are different. It is in this context that access to telephone mean ability to reach a useable telephone as a means of communication. Accordingly, different methods of providing access to services need to be developed. If access were provided by means of payphones, then an average of 1500 public telephones would need to be installed each year for ten years to meet the objective. In addition, of course, the public network will need to be extended into the relevant areas.

The longer-term objective is that a rural family should not have to walk 5 kilometres to make a phone call if having a telephone in the house is sufficiently affordable to the rural family.

The basic telephony services offered in the rural areas should provide the same reliability and availability as for the rest of the country. The equipment used in the rural network shall

represent the best technology available at the time of installation, adapted to the rural environment.

The tariffs charged for rural telecommunications will normally be the same as in urban areas, but may vary if necessary to ensure the viability of rural networks. MACRA will have powers to ensure that tariffs charged are not excessive in relation to two critical criteria:

- i. Affordable by the general public; and
- ii. Reasonable to cover costs of operations.

A Rural Telecommunication Development Fund (RTDF) will be established. The fund will be used to assist in financing some operations in the development and expansion of telephone services in rural areas. In these areas, the Fund will contribute to the capital cost of local network equipment and facilities but will not be used to subsidise operations.

To ensure the strategy for expansion of rural Telecommunications is implemented, a Rural Telecommunication Forum (RTF) will be established. The Forum is an advisory body for the Government and MACRA, and will be drawn from various stakeholders.

3. INITIATIVES NECESSARY TO ACHIEVE THE OBJECTIVES

It is widely recognised that access to basic telecommunication services is a key enabler of development and contributes to the reduction of poverty. The Communications Act of 1998 enshrines as a principle that the entire population of Malawi has a right of access to basic telephone services. As society in general becomes more and more dependent on communications, the gap between the connected part of the population and the population is not connected is rapidly becoming wider.

In urban areas, the new regulatory environment and the competitive forces that have been unleashed are already achieving a rapid expansion of Telecommunication services. The licences issued to Malawi Telecommunications Limited (MTL) and the Cellular Operators contain coverage and roll-out obligations that will ensure improved availability of services in some rural areas as well. In order to achieve a better balance of provision of telecommunications services between urban and rural areas, the Government considers it necessary to take further initiatives to improve access in the rural areas.

The experience of other developing countries around the world has shown that the success of rural telecommunications development depends on three main factors:

- i. The encouragement of alternative methods of provision of services adapted to rural conditions;
- ii. The willingness to contribute funds to cover the non-profitability factor; and
- iii. The attractiveness of the licence terms and conditions to potential operating and financial partners given the underlying economics of rural areas.

The initiatives set out below are based on learning the lessons of this international experience, and applying them, with modifications where necessary, in Malawian conditions.

3.1 Initiative 1: Universal Service Obligations (USO)

MACRA has ensured that individual licences to provide public telecommunication services contain specific commitments to expand coverage of fixed and mobile services as far as are commercially feasible. These telecommunications operators are obliged to meet these commitments to a timetable without recourse to any subsidy. These strategies will continue.

3.2 Initiative 2: Payphones in rural areas

The provision of payphones has already been liberalised. To encourage the provision of payphones in rural areas, a new form of licence will be issued enabling the establishment of independent local telephone networks in rural areas. It is envisaged that these networks will primarily install and operate payphones, but they will be free to provide a full range of fixed services including subscriber lines, Telecentres, etc.

The local network licences will not convey any exclusivity. An operator may choose to install and operate payphones, bureaus, community phones or telecentres in his area, or contract with other service providers. Resale service providers will need to obtain a standard resale licence from MACRA.

MACRA will organise a competitive tendering process for the award of the local network licences. In addition to licensing commercial operators, MACRA will consider applications from non-profit making organisations of a community in question, including co-operatives, to establish and operate telephone networks serving rural communities.

A model of how the local network licence will look is provided in Annex 1.

3.3 Initiative 3: Identifying target rural areas

As part of the rural telecommunications policy study, a model has been designed for determining if an area is capable of being served profitably or not. MACRA will use the model, and other information, to identify the rural areas that will need specific financial assistance to assure access to basic telephone services. This information will provide the factual basis for the Rural Telecommunication Development Fund.

3.4 Initiative 4: Rural Telecommunication Development Fund

The Government has decided to establish a Rural Telecommunication Development Fund (RTDF) to promote improved access to services in areas that cannot be served by commercial interests. The Fund will contribute to the capital cost of local network equipment and of facilities such as telecentres; it will not be used to subsidise operations. The RTDF will be administered by MACRA.

The major sources of funding will come from the following sources:

- i. Co-operating partners;
- ii. Government (commercial lending programs (with government guarantees));
- iii. Telecommunication Operators whose modalities will be determined by MACRA; and
- iv. MACRA.

Where there are differences between RTDF's established procedures and those proposed by the donor or co-operating partner, appropriate measures shall be taken to ensure that the primary goals are still maintained through implementation with modified procedures for the case in point.

Obligatory contributions to finance the rural telecommunication policy by the telecommunications operators shall be administered in a transparent, non-discriminatory, and competitively neutral manner, and shall be applicable to, and imposed on all participants in the relevant market segment.

Government shall ensure that MACRA simplifies licensing and regulation procedures to encourage rapid inflow of private investment.

The transactions of the Fund shall be audited on a yearly basis by an independent auditing firm.

3.5 Initiative 5: Rural Telecommunication Forum

In order to maintain a continuous focus on rural Telecommunication development, the Government has decided to establish a Rural Telecommunication Forum (RTF). The Ministry of Information shall be responsible for describing the framework for the activities of the Forum. This framework shall include the following tasks for the Forum:

- i. Review the implementation of rural network plans;
- ii. Propose priorities for new policy initiatives;
- iii. Advise MACRA on the use of the resources of the RTDF;
- iv. Promote contributions to the Fund; and
- v. Report to the Minister of Information on a yearly basis.

The Forum will meet at least twice a year in public session. The Forum shall have no more than 6 members appointed by the Minister of Information. MACRA will provide secretarial and administrative support for the Forum.

4. GOVERNMENT INCENTIVES

To assist the establishment of the local networks, the Government will consider providing incentives to investors to enable them grow rapidly and efficiently.

Such Government incentives will include:

- i. Permitting the rural non-business subscriber home to be a shareholder in the licensee as permitted in the cooperative models used in the rural areas of such countries as Poland and the United States, thereby bringing the majority of the families of Malawi into the mainstream economy of the country. In addition, thereby addressing the issue of poverty alleviation;
- ii. Exemption of customs duty and taxes on equipment to be used in local network in rural areas;
- iii. Exemption of income tax on net income from operating local telecommunication services in rural areas;
- iv. Simplification of procedures and requirements for the importation of rural telecommunication equipment;
- v. Granting of pioneer status to qualified investors in the telecommunications sector; and
- vi. Providing as an incentive the right to provide service in the urban area when 50% of the rural area has been served.

5. STANDARDS OF RURAL TELECOMMUNICATION SERVICES

The requirements for operational performance of a rural telecommunications network are more stringent than for ordinary telecommunications network. The reason for this is that the environment and operational conditions are more severe. The requirement for continuous operation is also higher since there are few alternative means of communication. The vast geographical areas covered by rural networks and the long distances between points of connections also make maintenance and repair more difficult. The service levels, functionality and technical performance of the network shall comply with the recommendations of the ITU and associated organisations.

Nevertheless, the success of rural telecommunications services will rely on the sustained economic viability of the licensee. For these reasons innovative technical standards are necessary to ensure the objectives, including affordability, are encouraged.

The technology that may be applied are left up to the licensee, and includes, but not limited to, the use of Voice over the Internet Protocol (VoIP) in order to increase affordability and to take advantage of the network reliability associated with the inherent redundancy and robustness of IP networks.

6. THE COST OF RURAL TELECOMMUNICATION SERVICES

The price to be paid by the public for rural Telecommunication services has to satisfy two critical criteria, namely:

- i. Be affordable to the users; and
- ii. Cover the operator's costs

Capital costs comprise the largest part of operators' costs. The capital cost of establishing a rural network is generally higher than in urban areas. Also, the revenue per line in rural areas is very much lower than in urban areas. The Rural Telecommunication Development Fund

has been proposed as a means of offsetting this difference. In this way, rural telecommunications operations can be given financial assistance without undermining incentives to be efficient.

Proceeds from the fund should not be used for the subsidisation of tariffs or operating costs. In principle, the rural tariffs shall be the same as the tariffs in other parts of the country. The tariffs should however, be allowed to be different from area to area, to reflect differences in costs.

In the case where access to public telecommunication services is offered via the cellular network, the handsets shall primarily be stationary if unattended. In the case of an attended non-stationary cellular handset, the public shall be informed of its whereabouts.

The tariffs for public services provided via the cellular network should be similar to tariffs for services provided via the fixed network.

The most important contribution towards ensuring affordability of telephone services is the provision of a public telephone available to a high number of people. In this manner, many users can carry the cost of one telephone line. In the case of dedicated telephone subscriptions by institutions and the industry, the ordinary installation fee and subscription fee shall be charged.

Experience has shown that incoming traffic is substantially higher than outgoing traffic in rural areas. Incoming traffic to public telephones can be relayed to the called party by a messenger service or by retaining a telefax transmission for the called party. The service provider shall be responsible for establishing this service.

7. INTERCONNECTION BETWEEN NETWORKS.

MACRA recognise that:

- i) Provision of telecommunication services in the rural places will require “unique” marketing strategy in order to make it viable;
- ii) Rural telecommunication business presents new opportunities, especially to MTL, the incumbent, and any fixed telecommunications operator; and
- iii) Fair revenue sharing is crucial for sustainability of rural communication services providers.

As a policy therefore MACRA shall adopt the principles of special interconnection where rural telecommunication is concerned. This basically means that a fair sharing mechanism will be established, during negotiations of the interconnection agreement, which will ensure that Rural Telecommunications Operators (RTOs) are fairly compensated for the part they play in making the service reach its final destination in the rural areas.

Furthermore, MACRA recognises that some international voice traffic may be routed as VoIP by international service providers overseas to the rural licensee destined for Malawi, for

termination on the network of the licensee and the national operators, and this will constitute another contribution to the economic viability of the rural licensee.

In following the principle of no cross-subsidization, calls to rural places will not be priced higher as a result of the “special interconnection” agreements with other telecommunications operators.

8. ACCESS TO RADIO FREQUENCY SPECTRUM

In its role as Manager of the radio spectrum resource, MACRA will in all its plans endeavour to cater for rural communication systems bearing in mind the freedom of choice of technology by the operator. Specifically:

- a) MACRA shall, in all its national radio frequency plans endeavour to anticipate the needs for spectrum use in rural areas and make the necessary reservations. The plans shall take into account the developments in technology;
- b) In general, assignments for rural service provision shall be made on an “as-required” basis to meet the requirements for utilization of the most cost-effective and appropriate technology;
- c) Spectrum in a rural area that is assigned to a fixed line or cellular operator, but that is unused, may be re-assigned by MACRA after consultation with the affected operator, to a rural licensee who needs it for rural service provision; and
- d) MACRA may consider waiving, in part or in full, its normal frequency fees in case of rural service provision.

9. VALUE ADDED SERVICES.

The main purpose of the rural Telecommunication policy is to lay down the Government’s objectives and strategies to provide basic telecommunication services to the rural areas. ***Basic in this context means access to the public network designed for the transportation of voice communication.*** The local network operators may provide value-added services on a commercial basis. Examples of value added services are:

- i. Telefax
- ii. Internet connection
- iii. E-mail service
- iv. Data-transmission

The fees for value added services shall be set by the service provider on a commercial basis.

10. THE ROLE OF MACRA

The driving forces of the rural telecommunications development are:

- i. MACRA's licensing policy;
- ii. The Rural Telecommunication Development Fund (RTDF); and
- iii. The Rural Telecommunication Forum (RTF).

MACRA shall work closely with RTF in the implementation of the rural telecommunications policy. MACRA's main concerns regarding rural telecommunications development shall include but not limited to:

- i. The preparation of an implementation plan that covers and co-ordinates all the initiatives outlined above;
- ii. The USOs of national operators in respect of rural areas;
- iii. The preparation of Local Network Licences and the organisation of a competitive tender to issue them;
- iv. The monitoring of adherence to licence conditions;
- v. The initial identification of areas and activities that need support from the RTDF within priorities agreed with the RTF;
- vi. Administration of the RTDF; and
- vii. Providing information on status for development and opportunities in rural telecommunications and civic education to cover but not limited to the following:
 - (a) General information on the benefits of Telecommunications;
 - (b) Specific information in connection with a forthcoming project; and
 - (c) Specific information on rural initiatives to target population.

ANNEX 1

ELEMENTS TO BE INCLUDED IN A LOCAL NETWORK LICENCE

Subject to the decision of the Board of MACRA, a Local Network Licence will be based on the following framework:

- i. The Licence will be issued for a clearly defined area. The size of the geographical area can vary;
- ii. The requirements put on the Licensee should be clearly specified in the invitational documentation;
- iii. The Licence Fee charged for a local licence shall be a maximum of seventy-five percent (75%) lower than the lowest fee charged for an operating fee in a profitable area;
- iv. The invitation to potential licensees shall be made public. The selection of a successful licensee shall be open and transparent. The existing national operator, as well as the cellular operators shall be especially invited to bid for a local licence. Normally, the bidder requiring the least amount of contribution from the Fund will be issued the Licence;
- v. A local license shall be issued for a period of fifteen (15) years. The licensee shall have the option for prolongation of the licence upon successful completion of the initial period;
- vi. The licence conditions shall include the following:
 - a) Required service level as concerns availability, reliability, transmission quality, fault correction time, spare parts availability etc.,
 - b) A tempo plan for rolling out the network;
- vii. The licensee shall have the right to interconnect to the national networks and to other regional networks. Interconnection agreements to be made shall be subject to MACRA's approval. Where the licensee has chosen to use VoIP technologies, the licensee shall have the right to interconnect their IP traffic directly onto the international digital superhighway with sufficient bandwidth to minimise jitter and latency on the network;
- viii. The licensee shall keep payphone tariffs within limits to be specified by MACRA (a price cap);
- ix. The contribution required from RTF as specified in the offer from the successful bidder shall be paid to the licensee upon verification that the network is operational in accordance with requirements. Dispensations from this can be granted under special conditions; and
- x. MACRA is responsible for monitoring the performance under the licensee.