

USO & USF



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Universal service?

- Universal Service is defined by ITU as:

“the long-term objective of making communications facilities available to every member of society on an individual or household basis”

- Universal Service in USA

- Term “Universal Service” was first coined by AT&T President Theodore Vail in a 1907 speech: “one system, one policy, universal service.”

- Preamble of the Communications Act of 1934, declares that the purpose of the Act is:

“to make available, so far as possible, to all the people of the United States, a rapid, efficient, Nation-wide, and world-wide wire and radio communication service with adequate facilities at reasonable charges.”

How is Universal Service achieved?

- ❑ In most developed economies, simple effect of market forces may suffice
 - ❑ In most countries, however, public policy direction is required to ensure provision of services to all groups
 - ❑ Funding may well be required to support
 - initial roll-out of services or, in liberalising markets especially, to ensure that neither incumbents nor new entrants are unreasonably burdened by obligation to offer socially important but financially unremunerative services
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Responsibility for Universal Service

- Historically, responsibility for providing Universal Service lay with incumbent operators, and was frequently funded by cross-subsidisation between services and/or by contributions from national budget
 - Liberalisation and political forces demand change to this:
 - Stringent Universal Service requirements may prove excessively onerous to new and smaller competitive operators and so constitute a barrier to market entry
 - Costs of being only designated Universal Service Provider may prove to be an unfair burden on incumbent
 - Build-out of new networks and services to underserved and economically deprived areas is a social and economic objective for many countries, but one that is frequently difficult to justify in terms of resulting increases in operator revenues
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Shared Funding of Universal Service

- Many countries agree that costs of providing Universal Service should be shared across the market in one form or another
 - Those most able (or willing) to provide essential communications services are able to do so without being forced to bear unreasonable burdens
 - Other participants in and beneficiaries from the market contribute to a centrally administered resource which can be used to remunerate operators
 - for net costs of providing essential networks and services, and
 - to support communications development goals – the Universal Service Fund
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Worldwide Use of USF

- About 120 governments worldwide have officially defined elements of telecom Universal Service within their countries
 - Usual requirement for a Universal Service offering is basic voice telephony service, but may be joined by other supplementary elements such as
 - access to public payphone, Internet, directory enquiry, and special services for vulnerable users
 - Of these 120 countries, around 50 have implemented a Universal Service scheme whereby operators can apply for subsidies to offer essential service, or intend to do so in near future
 - A small number of others allocate USOs on a competitive basis, with operators submitting tenders to provide service
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Types of Universal Service Funding

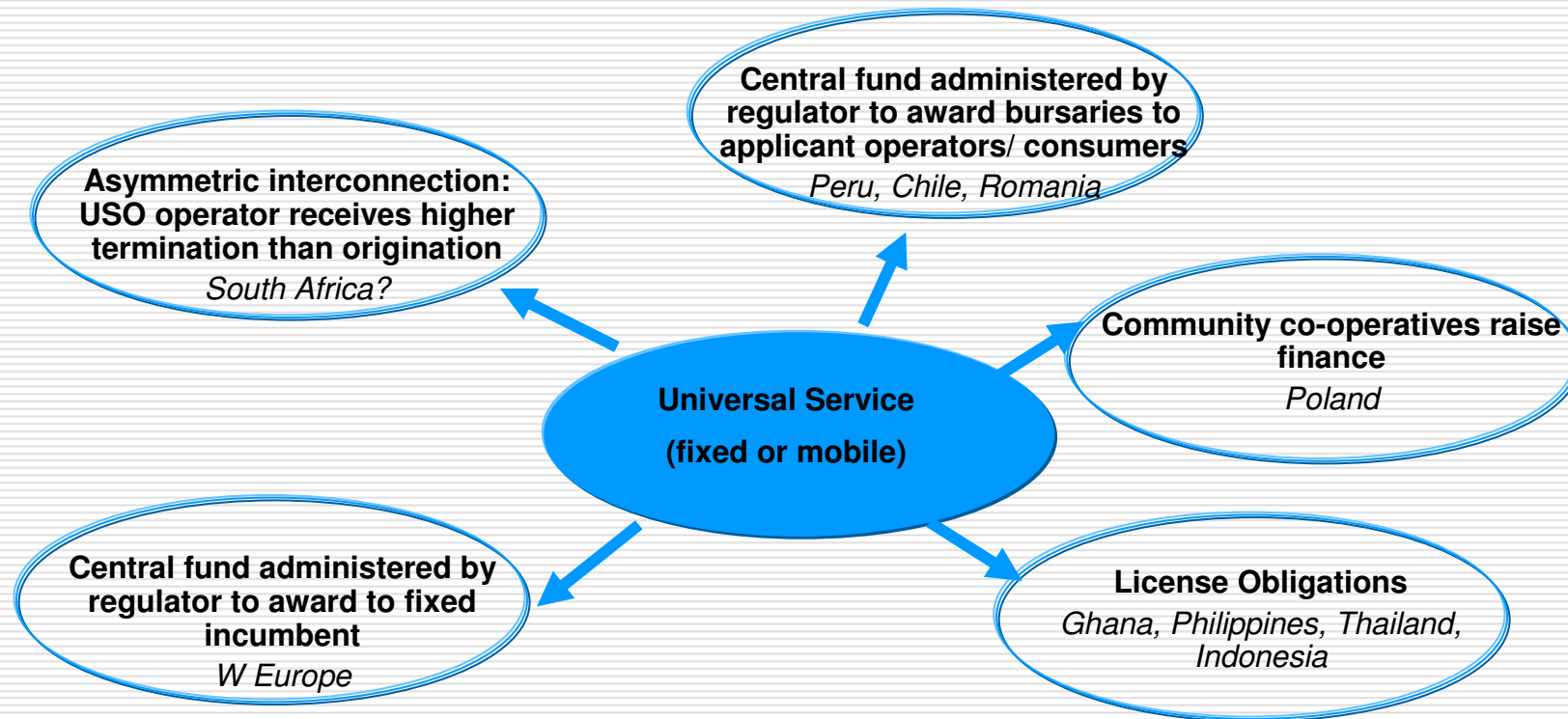
- There are a number of ways in which Universal Service Provision can be funded:
 - **Universal Service Fund (USF)** – a public fund supported by taxes or levies on communications activities and administered by government or national regulator, from which Universal Service Providers can draw subsidies
 - **Internal Cross-Subsidies** - Universal Service Providers are permitted to provide essential services at or below cost by subsidising them from other more profitable activities
 - **Direct Subsidy** – payment of sums from national budget or international donors to subsidise Universal Service
 - **Competitive Provision** – Operators receive an agreed amount for providing Universal Service elements, with contracts allocated through a negative bid auction process
 - A combination of two or more of the above
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Adoption of USF Models

- There are numerous examples available of adoption of four principal methods of universal service funding mentioned previously:
 - **Universal Service Fund (USF)** – widely used, with around 60 in operation or under implementation worldwide, although around 25% of those in existence are available for funding the incumbent only
 - Countries with USFs available to Other Licensed Operators (OLOs) include Australia, Bulgaria, Canada, Ecuador, Hungary, South Korea, Morocco, New Zealand, and Spain
 - **Internal Cross-Subsidies** – chiefly used by incumbents, but by some OLOs as well, often in conjunction with direct subsidies or balancing USF payments from government
 - Examples include Austria, China, Estonia, Japan, South Africa and the USA. Some countries – e.g. Ireland, Liechtenstein, and Sierra Leone - use a Self-Financing model where Universal Service is financed by receipts from interconnection access payments
 - **Direct Subsidy** – in Botswana, the Czech Republic, Iran, Kuwait, Mexico, Nepal and Vietnam, the national government has directly funded the provision of Universal Service
 - **Competitive Provision** – adopted in Angola, India, Niger, Oman, and Sri Lanka amongst others. In Germany, operators bid competitively for meeting Universal Service Obligations but are expected to fund at least a measure of the resulting costs through internal cross-subsidy
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USF Models

A number of alternative Universal Service Funding structures have emerged around world



USF Subsidy Models

- ❑ Reverse bidding model
 - ❑ CAPEX and OPEX subsidy
 - ❑ Mandatory access to other operators through national roaming
 - ❑ Geographic clusters separating regions requiring basic telephony services and those in need of more advanced data services
 - ❑ Flat subsidy and infrastructure sharing
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USF in Pakistan – Policy objectives

- Telecom and ICT services for un-served and under-served areas throughout country
 - Coverage
 - Affordability
 - Broadband
 - E-services
 - Funding source
 - 1.5% from licensed operators' revenues, net of PTA/FAB charges and net inter-operator charges
 - APC to Mobiles
 - Spectrum auction proceeds
 - International donors
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USF – Who will manage it?

- ❑ USF managed by Federal Government
 - ❑ To ensure fairness and transparency - separate corporate model
 - ❑ USF (Guarantee) Limited
 - Government owned
 - Not for profit
 - ❑ USFGL will manage:
 - project prioritisation
 - auctions of universal service contracts
 - enforce contract performance
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USFCo Board of Directors – composition

- Minister of IT (Chairman)
 - Secretary IT & Telecom Division (Vice Chairman)
 - Chairman PTA
 - Member (Telecom) IT&T Division
 - Rep of Fixed-line licensees
 - Rep of Cellular licensees
 - Rep of data licensee
 - Consumer group
 - Chief Executive Officer
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USF – Eligibility to bid for subsidy

- All licensees who USF contributors are eligible to apply:
 - LL, LDI, Mobile operators (Under 2004 license template)
 - Data/ISP/broadband operators
 - Any other contributing licensees (Infrastructure)
 - Consortia allowed
 - Non-contributing voice licensees not eligible
 - Special Projects
 - companies may apply to develop e-Services
 - non-licensee eligible where license is not required
 - Infrastructure projects
 - Networks of tele-centres
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USF – What is funded?

- Universal Service Contracts
 - covering specified geographic areas and services/infrastructure
 - 10-year contracts, 5-year roll-out & services period
 - Special projects for required e-services, infrastructure
 - 'Negative Auction' of Contracts, which include coverage, services and Payphones/Telecentres
 - Services to be provided:
 - Basic telephone services, Internet service, Broadband access, Emergency services
 - Training and user support for Internet, ICT
 - Facilities for persons with disabilities
 - MoIT to review services to be provided from time-to-time to keep in-step with market developments
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USF – Geographic Areas

- Selection of qualifying geographic areas:
 - priority for rural, remote, and small town and urban areas, which are un-served or under-served
 - Areas identified from combined coverage maps of operators, including planned coverage
 - Maximum size of contract area Region, minimum village
 - Priority
 - Unserved population, low teledensity and distance to existing facilities important
 - Social, economic, and development factors
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USF – Access points and locations

- Shared Access Points
 - Telecentres – telephone, Internet access, access to e-Government, e-Services, training, etc.
 - Payphones/PCO – fixed, WLL or mobile telephone, optionally Internet kiosks
 - Possible locations for shared access points
 - Civic centres
 - Post office
 - Schools
 - Health centres
 - Public Libraries
 - Commercial premises
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USF – Method for distribution of funds

- ❑ Definition of lots
 - ❑ Minimum bi-annual auction
 - ❑ 'negative' auction of lots compensating participant licensees for **net cost** of providing specified coverage/service, including all required network elements:
 - Continuing operational subsidy only in specific limited situations (e.g. where satellite phone is only option)
 - ❑ Special Projects
 - if deemed useful for unserved or underserved areas, USF shall also be used to fund development and delivery of e-Services, infrastructure, networks of Telecentres or other related items
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Selected references

- ❑ Universal Service Fund Policy and related documents
 - Available on-line: <http://www.usf.org.pk/content.asp?linktype=law>
 - ❑ Elements and Principles of the Information Society by Claudia Sarrocco
 - Available on-line: <http://www.itu.int/osg/spu/wsis-themes/Access/BackgroundPaper/IS%20Principles.pdf>
 - ❑ Federal Communication Commission on Universal Service
 - Available on-line: http://www.fcc.gov/wcb/tapd/universal_service/
 - ❑ Universal Service in ICT Regulation Toolkit
 - Available on-line: <http://www.ictregulationtoolkit.org/en/Section.2097.html>
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