

Universal Service. Should the funds be folded? What are the options?

A researcher practitioner dialog

Executive Course on Telecom Reform
Singapore, 12 June 2008

Harsha de Silva
Lead Economist, LIRNEasia



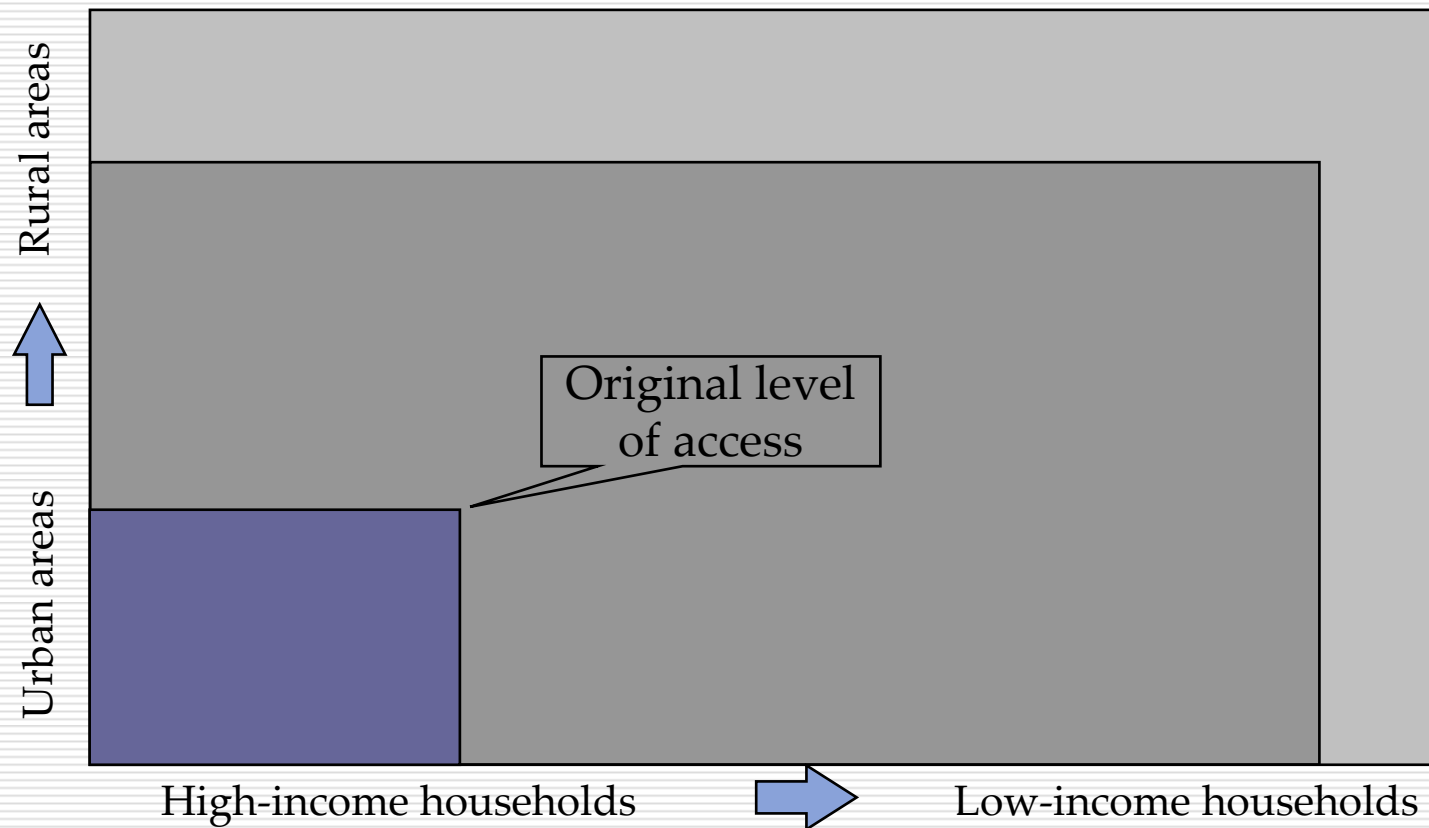
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Learning Initiatives on Reforms for Network Economies

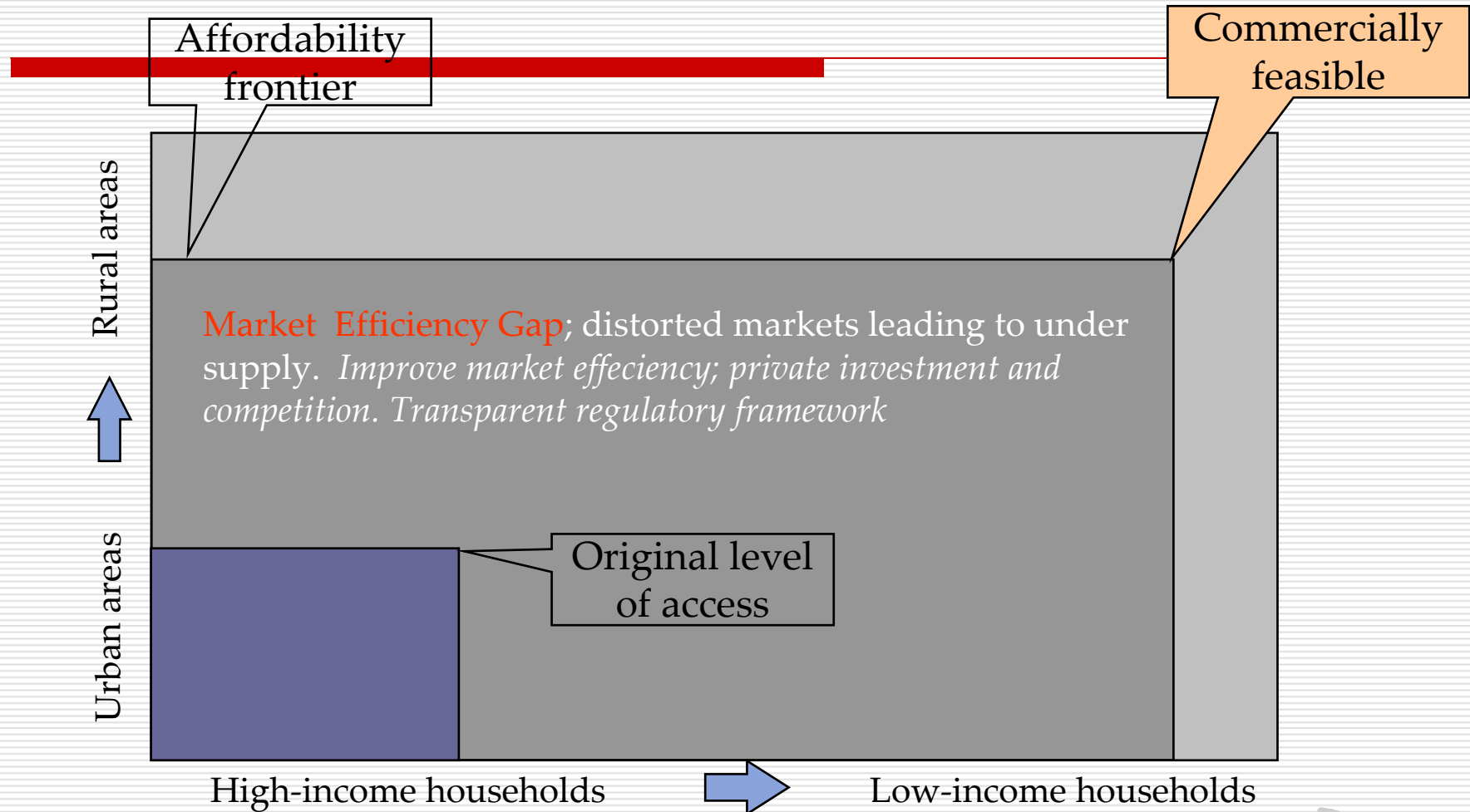
Why Universal Service Funds?

To fund access gap **only**

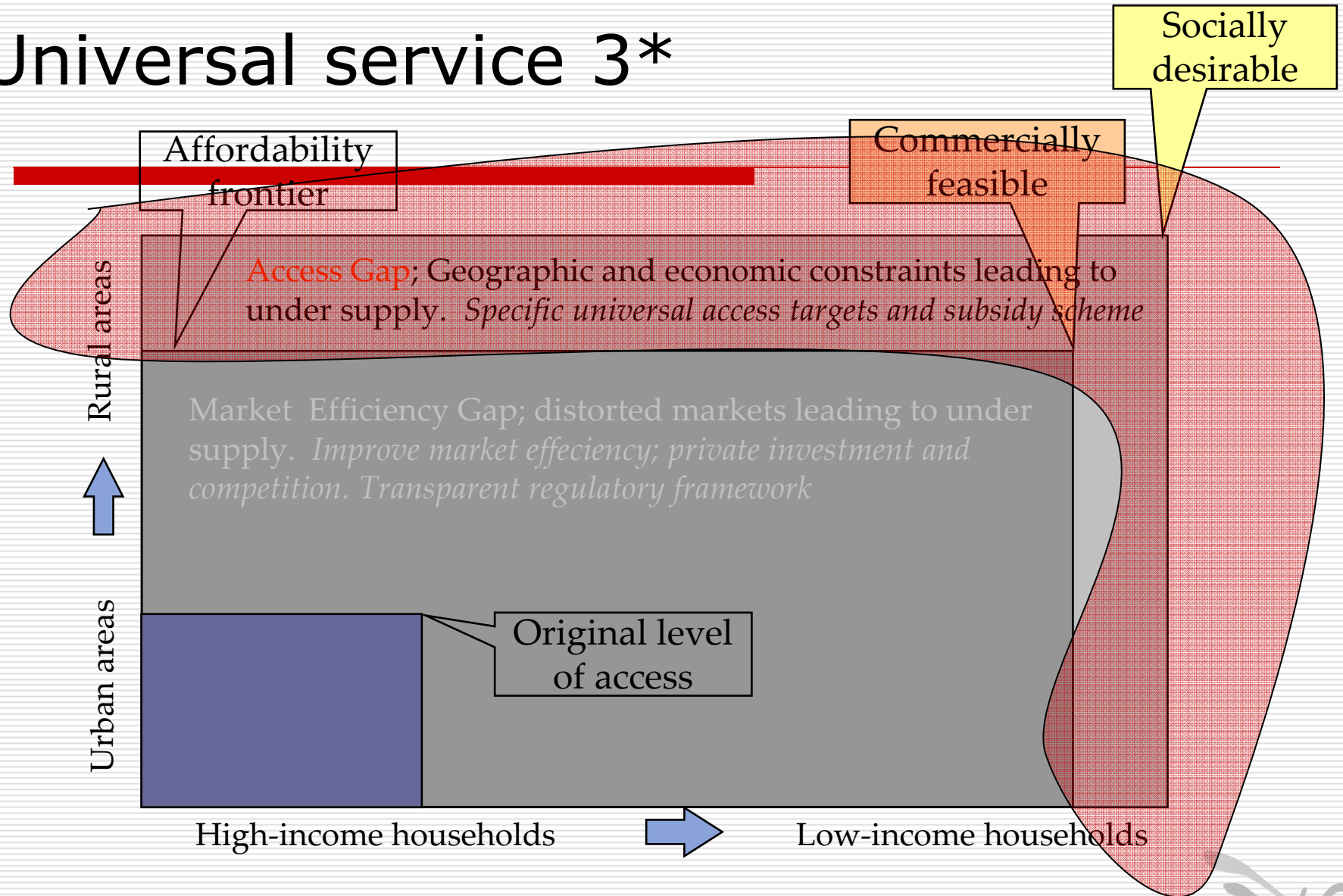
Universal service 1



Universal service 2



Universal service 3*



Outcomes have been mixed

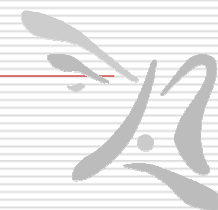
The South American experience

positive, particularly in Chile, the pioneer

Country	Name	Source of Finance	Period	Localities served	Max. subsidy available (US\$m)	Subsidy granted (US\$m)	Subsidy per locality (US\$)
Chile	Fondo de Desarrollo de las Telecomunicaciones	Government budget	1995-97	4,504	24.2	10.2	2,256
			1998-99	1,412	14.4	9.8	6,919
			2000	143	1.9	1.8	12,727
Peru	Fondo de Inversión en Telecomunicaciones (FITEL)	1% Operator levy	1998	213	4.0	1.7	18,800
			1999	1,937	50.0	11.0	5,700
			2000 (1)	2,290	59.5	27.8	12,100
Colombia	Fondo de Comunicaciones (Compartel)	Operator levy & Gov. contribution	1999	6,865	70.6	31.8	4,600
Guatemala	Fondo para el Desarrollo de la Telefonía (FONDETEL)	Spectrum auctions	1998	202	n/a	1.5	7,587
			1999 (2)	1,051	N/A	4.5	4,282
Dominican Rep.	Fondo de Desarrollo de las Telecomunicaciones (FDT)	2% Operator levy	2001	500	3.8	3.4	6,800

Notes: (1) Implementation delay due to subsidy winner disqualified & subsidies awarded to second bidders.

(2) Actual fund disbursements, excluding subsidies won but network not implemented due to operator failure



Success factors

□ Design

- **Competition**
- Attractive licenses [Chile; 1,800 → 18,000]
- **Demand study** and clear targets
- Supplier market interests

□ Implementation and sustainability

- **Good regulation**; particularly interconnection
 - Cost-based **asymmetric interconnection** regime
 - Chile, at the time: on average cost 18.7 times more to terminate a call on a rural network than on an urban network



Challenges and risks

□ Design

- Participation **eligibility** and competition [India]
- Consequence of low bidding
- Operational experience of bidders
- Problem of **most marginal** communities

□ Implementation and sustainability

- **Bad regulation**; particularly incumbent bias, **interconnection issues** and sustaining competition



Nepal

USD 12 million subsidy. 534 VDCs, 1,068 public access lines. **USD 21,250 per VDC**

Screaming **disaster**. What went wrong?

Low income rural households

ideal recipients for US funds



But, badly designed LCS auction*

VSAT solution by VSAT manufacturer at VHighPriceTag



No competition, only 1 bidder. Coverage auction winner's prerogative. At end of 18 months, not a single location in the mountains!



Terrible regulatory-politico regime

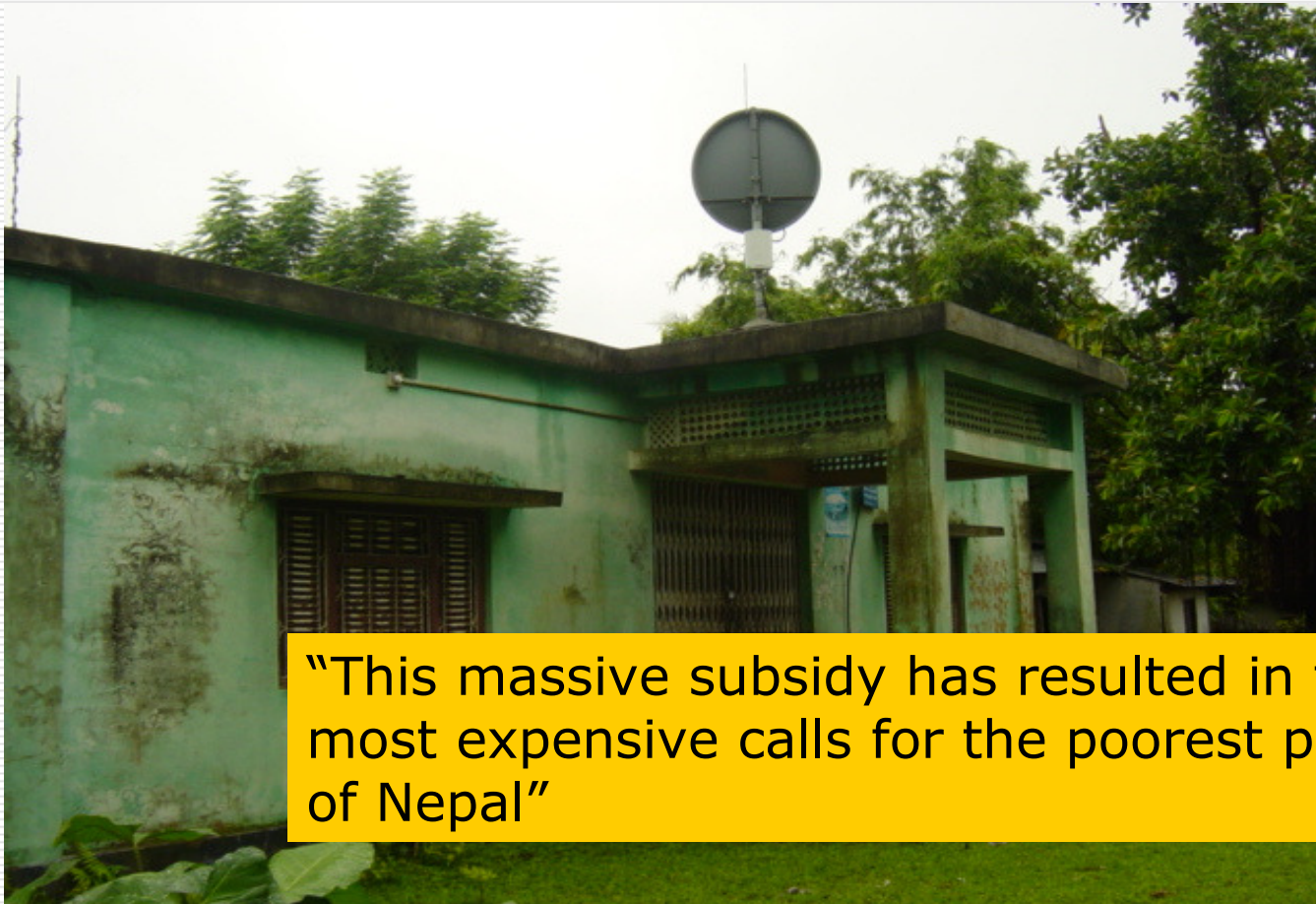
just a flavor of challenges

- ❑ Anti-competitive practices by incumbent
 - Exclusivity conditions violated
 - ❑ 100+ [of 534 locations] in first year
 - Arbitrary interconnection charge of 55% of stupendously high 'VSAT tariff'
 - ❑ NPR 9 per min. vs. NPR 1 per 2 minutes
- ❑ Sleeping regulator
 - Do nothing to stop incumbent
 - Promised ISD license delayed, delayed, delayed...
- ❑ Authoritarian ruler
 - Changing the location list with no regard to the business plan



Flop*

The heavily subsidized public access lines are justifiably closed. Access gap remains



“This massive subsidy has resulted in the most expensive calls for the poorest people of Nepal”

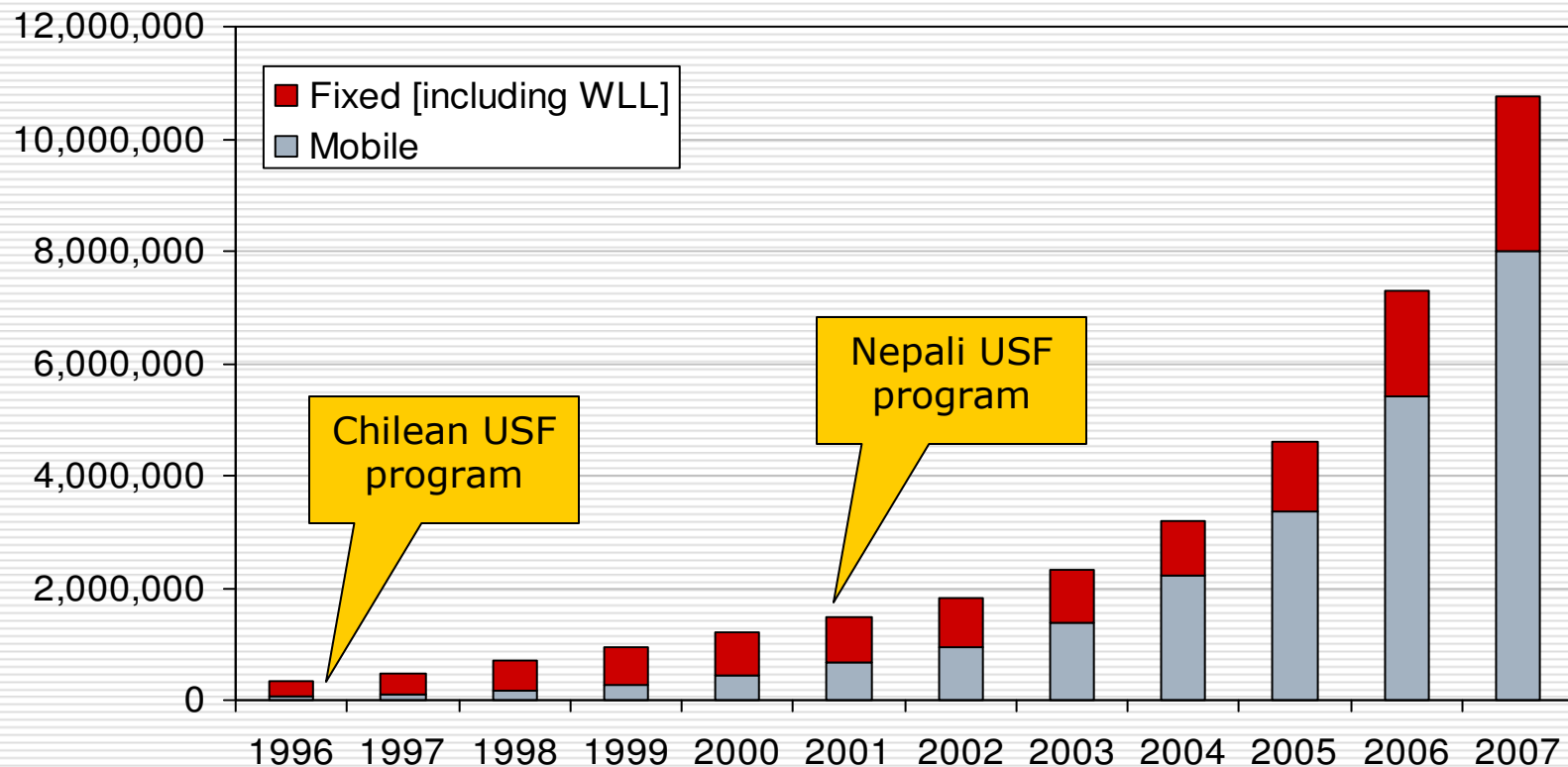


Are USFs still needed?

LIRNEasia T@BOP2 survey in 2006 in 6 emerging nations in Asia found over 90% had 'universal access'

Everyone has access to a phone? **

Sri Lanka population is 20m. 4.5m households



A new business model is in place

reaping the benefits of reform

- USF detrimental to 'budget telecom' model
 - Distorting the market
- India
 - USF is 5% of revenue. **USD 2,500m unspent**
 - ADC was a mistake, since 2003, now stopped
 - Mobile operators to save at least USD 200m/yr
 - Give USD 450m to BSNL from USF for 2-3 years [ADC]
- Globally, USD 6b collected only USD1.6b spent
 - **Brazil USD 2,000m+ unspent**
- Only 7% mobile; 93% on fixed!



Way forward?*

- Rethink the entire US model
 - Only 'most marginal' communities
 - Even then why fixed?
- Change priority
 - Backbone capacity, electric power [to further reduce the cost of mobile rollout]

Are Universal Service Funds, as they are currently structured, making affordable access easier or more difficult?



Harsha de Silva
desilva@lirne.net

