



# Universal Service Funds

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Latin America Plenary Meeting #42, Quito



# Agenda

- What are USFs and what problem do they aim to solve?
- What do we know about the effectiveness of USFs around the world?
- What does USF 'best practice' look like?
- What alternatives to USFs could be more effective?

# Most of the world is already connected

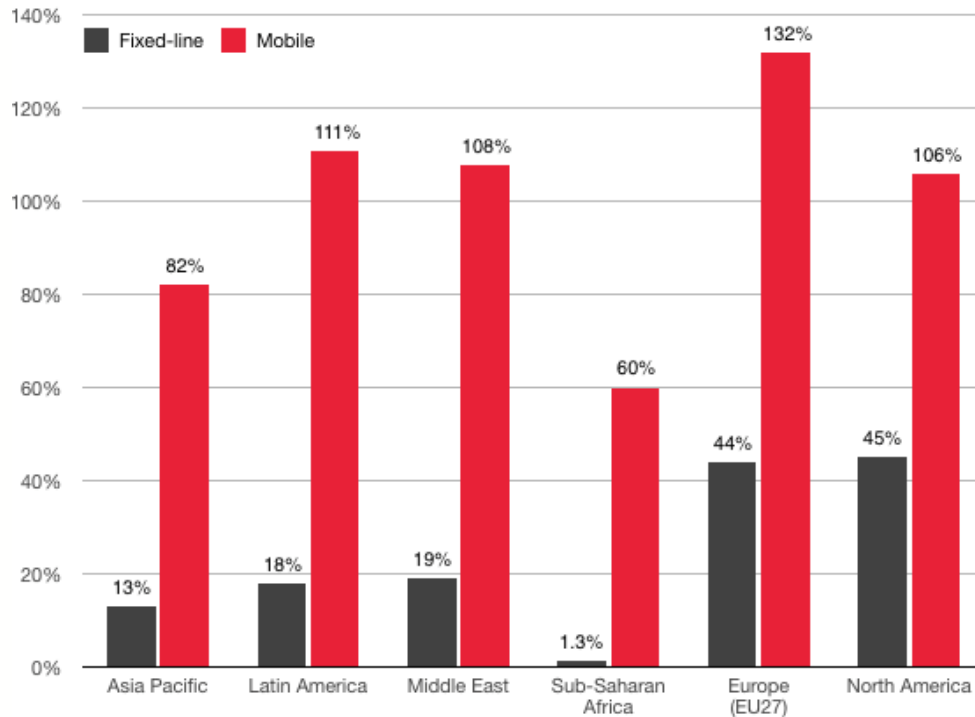
Competition in the telecoms market has been hugely successful in extending connectivity to most of the world's population.

- The liberalisation of telecoms markets and the promotion of competition have succeeded in extending access to communications services to most of the world's population.
- Mobile has played a huge part in this — the number of mobile subscribers currently stands at around 3.6 billion, meaning nearly half of the people in the world now use mobile communications.



Source: <http://www.gsma.com/newsroom/gsma-calls-for-re-evaluation-and-reduction-of-the-universal-service-fund-levy/>

# Mobile networks reach far more people than fixed networks



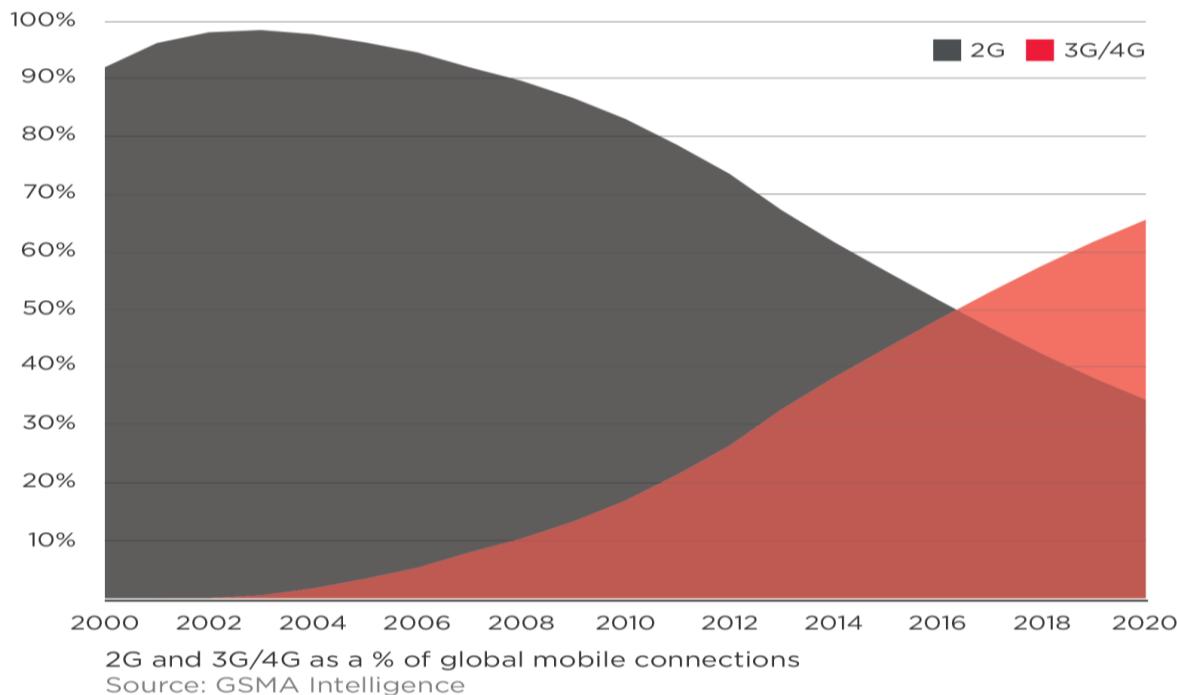
- In every region around the world, mobile penetration is far higher than the penetration of fixed networks
- Due to the lack of fixed-line infrastructure in many developing countries, mobile will be the enabling technology for getting the vast majority of unconnected people online in the future

Fixed-line vs mobile penetration based on connections, 2012

Source: GSMA Intelligence, ITU

# Mobile networks are also going through significant changes

Penetration of 2G mobile networks will never reach 100 per cent of the world's population, as operators adopt 3G and 4G technology.



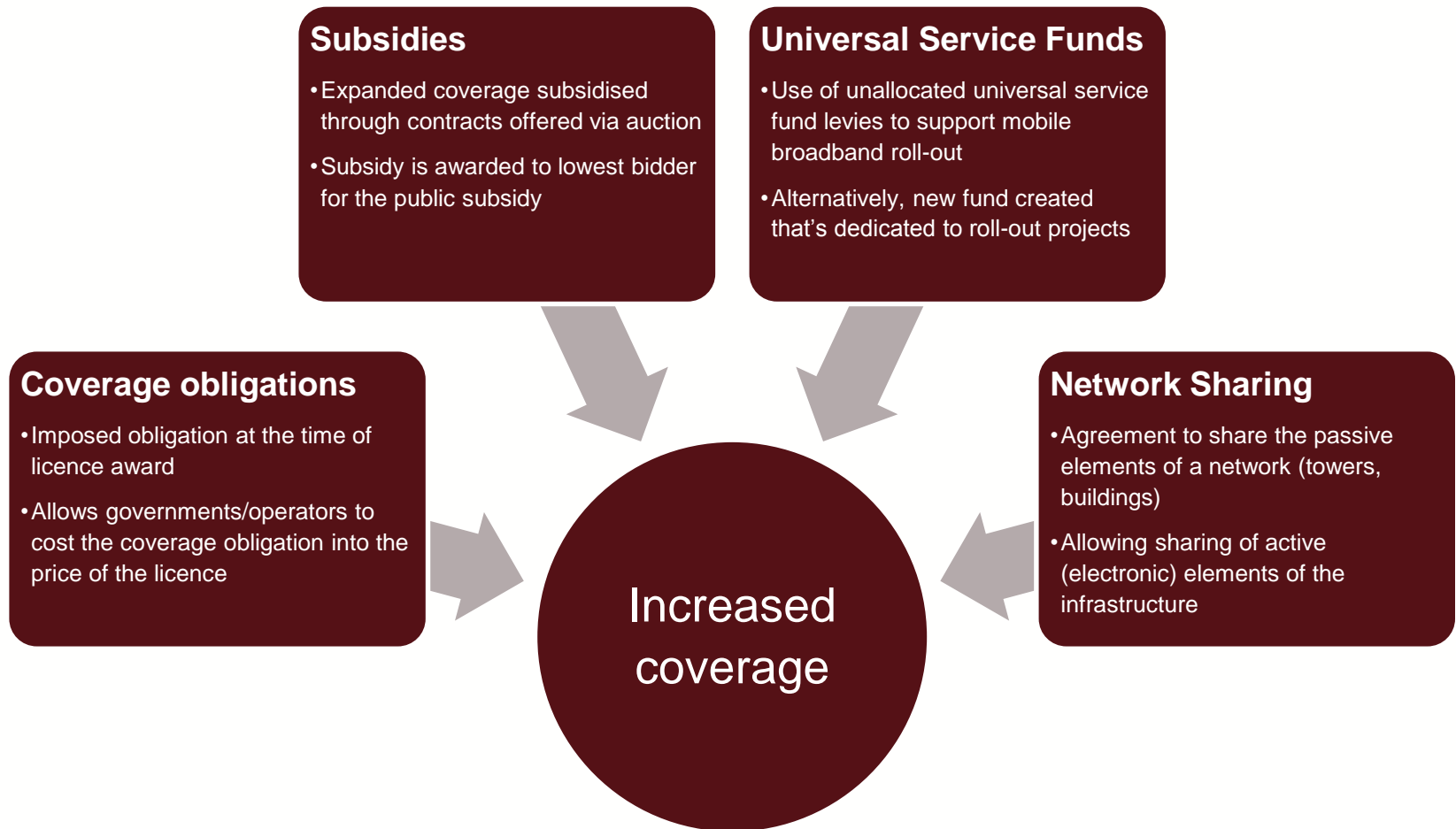
**40%**  
of mobile connections  
in the developing  
region will still be  
running on 2G  
networks by 2020,  
compared to  
less than  
**10%**  
in the  
developed region



# There is still a connectivity gap

Despite the success of competition in extending access to vast numbers of people around the world, there are still many people who remain digitally excluded.

# A range of policy options



# What is a universal service fund?

Universal Service Funds (USF) have become an increasingly common approach to achieve the universal service goal.

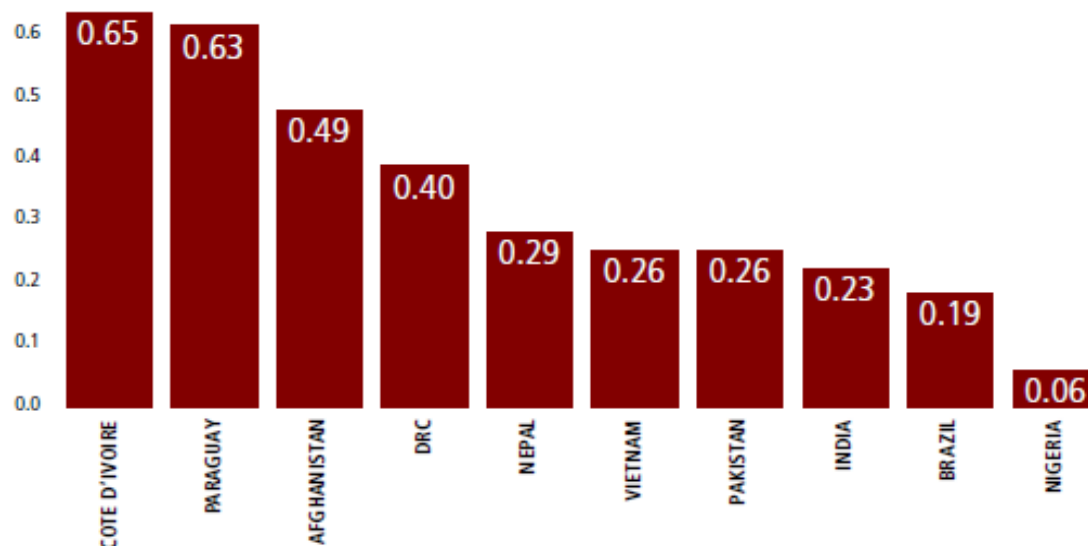
- Intended to give **financial incentives for operators** to provide universal service
- Financed through **contributions from telecommunications service providers**
  - Fixed monthly, quarterly or annual fees
  - Charges calculated as a percentage of gross revenues
  - Or, in some countries, the USF fee is raised as part of a regulatory or licensing fee
- There may be **other sources** of funds such as proceeds from spectrum auctions, licence fees, direct government contributions and private industry contributions.



# USFs have limited impact

A 2013 report commissioned by the GSMA that surveyed 64 USFs found most were inefficient and ineffective.

TOP 10 USFs WITH FUNDS HELD > \$30 MILLION AS A % OF GDP



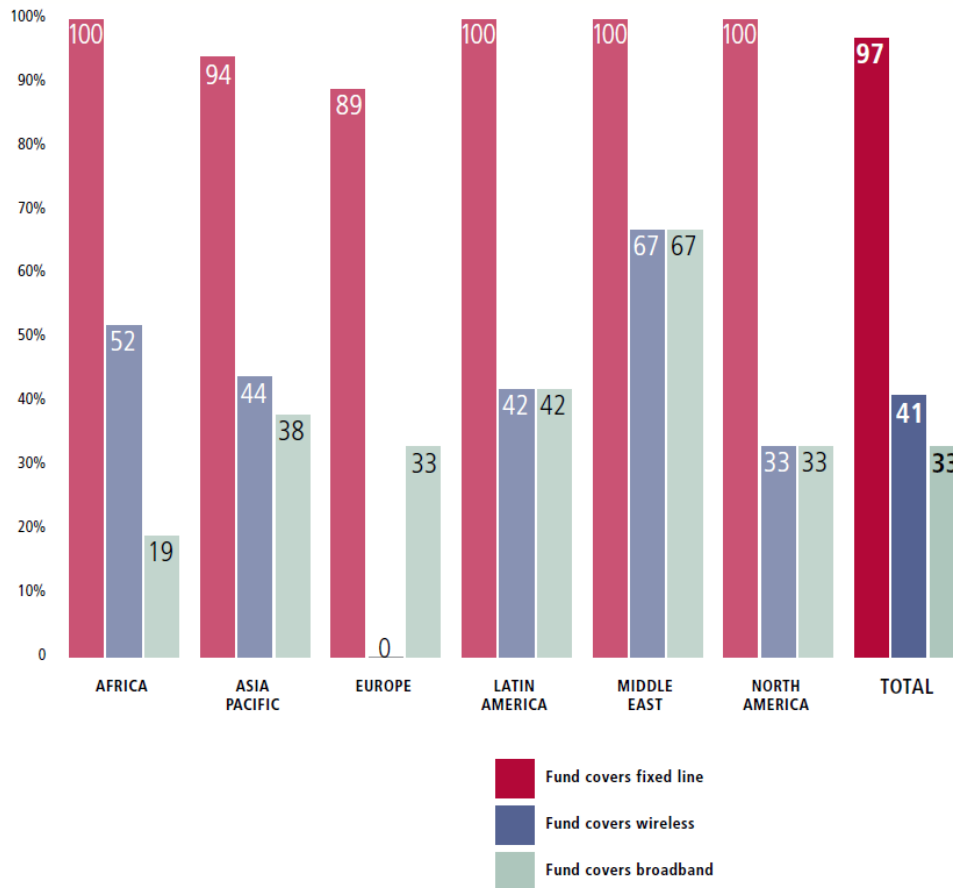
- The USFs had more than \$11 billion waiting to be disbursed
- More than a third had not distributed any of the levies collected
- Very few funds appeared to disburse everything they collected
- The money held represented a lost opportunity for countries seeking to stimulate economic growth as the money is effectively taken out of circulation

# Reasons why USFs fail

- Levies established with no analysis of the funding needed
- Poorly-conceived underlying legal frameworks means many USFs are not technology-neutral or service-flexible
- Political intervention or interference affect their performance
- Poor or inefficient administration or use of funds
- Targets fail to take into account issues related to training, maintenance, power sources and other sustainability concerns
- Project and financial reporting (transparency) for most funds is extremely inadequate

# Lack of technology neutrality

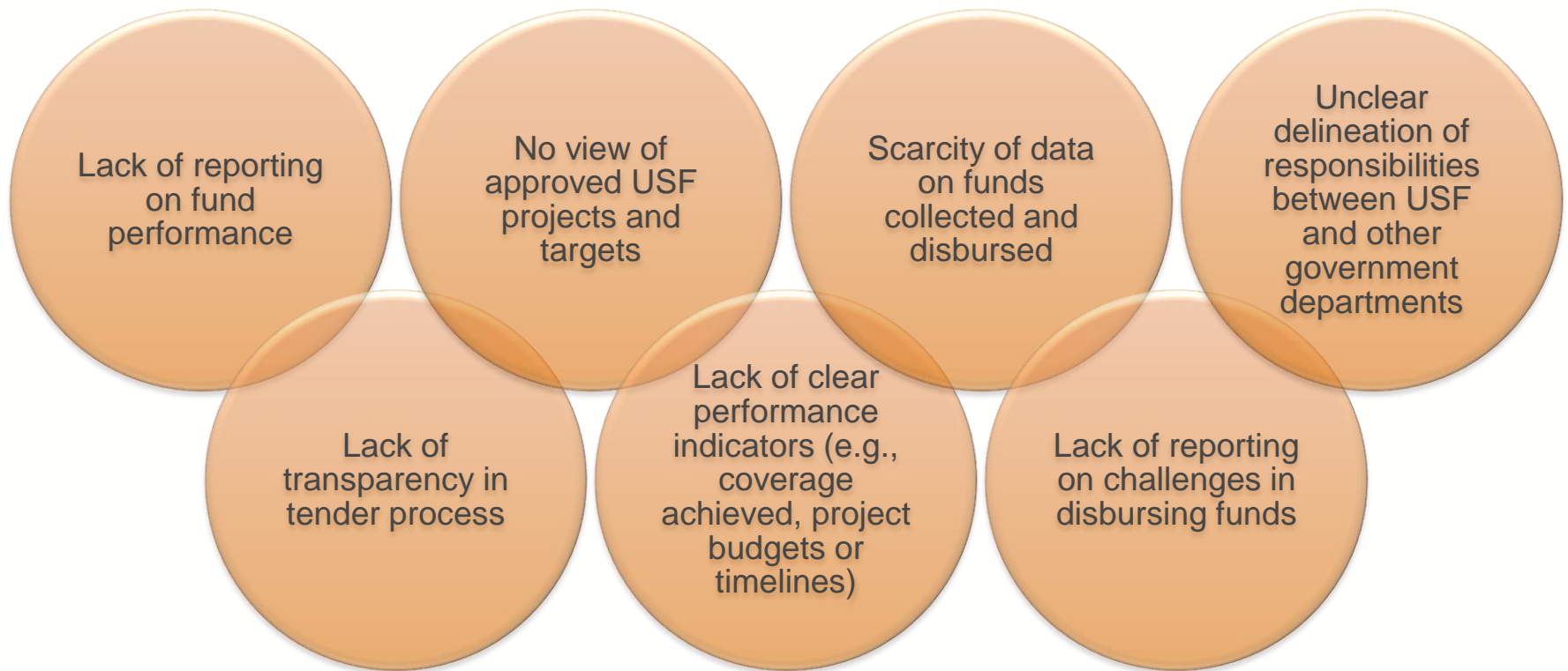
Scope of USFs by region



- According to research for the GSMA, funds are still heavily skewed towards fixed-line solutions and less than half of those surveyed currently permit wireless solutions.
- Only 21 of the 64 USFs surveyed (approximately one third) currently allow use of the funds for broadband deployment.
- The lack of technological flexibility in how the funds can be utilised may be one of the underlying reasons for the generally large gap between the levies collected and the typically minimal disbursements.

# Lack of transparency

Project and financial reporting for most funds is extremely inadequate. Problems typically include:



# Case study — Brazil

Coverage obligations produce desired effects in Brazil

- Brazil's USF has been fraught with legal and functional difficulties, leading to a massive accumulation of funds and little practical value created.
- As an alternative approach to the USF, the government imposed more stringent coverage obligations when it issued 3G licences to mobile operators in 2007.
- Winners of the profitable licences covering the São Paulo metropolitan area were obliged to provide service in the unprofitable northern states.
- In 2012, Brazilian regulator Anatel reported that mobile operators were providing service to 5,564 municipalities, a population coverage level of 99.9 per cent — all without the benefit FUST funds.

**Fund: FUST**

**Accumulated:** \$4.7b

**Levy:** 1% of all telecoms revenues

**Yearly draw:** \$485m

**Projects funded:**

- Fixed-line phone services for the deaf

**Characterised by:**

- Fixed-line projects are favoured despite the levy affecting MNOs
- Conflicting legal interpretations of fund parameters
- Allegations of fund misappropriation

# Case study — Argentina

Bureaucratic hurdles and a mismatch with country's need

- The Fondo Fiduciario del Servicio Universal (FFSU) was created in August 2000. However, due to political and economic circumstances, the levy was not collected until 2008.
- Objective: Promote digital inclusion for those who are deprived of access for geographical, social or economic reasons.
- Until 2009/2010, no projects were funded.
- In 2010, two projects were put out to bid, to provide internet service to 4,900 schools and 790 libraries. However, 80% of the schools were already receiving service from the winning bidders. The libraries project was still not awarded as of our report date (April 2013)

**Fund:** FFSU

**Accumulated:** \$220m

**Levy:** 1% of all telecoms revenues

**Yearly draw:** Approx \$72m

**Projects funded:**

- None until 2010
- Provide VoIP and internet access to ~400 small communities
- No outcomes to date

**Characterised by:**

- Bureaucratic hurdles
- Very low activity
- Unlikely to see a substantial increase in fund usage in the near term



# Case study — Colombia

Best example of a well-run USF

- FONTIC sets itself apart from other USFs because it has been structured to be financially autonomous and is highly transparent in how funds are awarded.
- For example, it uses a four-year planning cycle for projects. This makes it clear which schemes are currently being financed, and where money will be spent in the near future.
- Projects are awarded via a public bidding process that is open to all interested parties. Projects are delivered in a timely manner.
- It makes use of nearly the entire sum of contributions to the fund every year. This is uncommon, not only for USFs in Latin America, but also those around the rest of the world.

**Fund: FONTIC**

**Levy: 2.2%** of all telecoms revenues

**Accumulated: \$53m**

**Yearly draw: \$384m**

**Projects funded:**

- 13K fixed line access points serving
- Country-wide telecentres
- User education and digital skills
- Providing access to 5.2 million 'hard to serve' citizens

**Characterised by:**

- Independent agency
- Full use of funds year on year
- Open planning and bidding

# Best practices for managing USFs

- Strong, but flexible legal and regulatory framework and independent fund structure
- High levels of transparency and regular reporting on performance of fund
- Guidelines for working with other funding sources and separation from government agencies
- Clearly articulated policy with measurable objectives and focus on ongoing sustainability
- Fair process to allocate subsidy and provide incentives for efficient deployment
- ‘Pay or play’ where operators can choose if they want to participate



# Alternatives to USFs

Coverage obligations

Network competition


Commercial network sharing

Public-private partnerships

Single wholesale networks

# Coverage obligations

Coverage obligations are usually imposed when licences are being awarded. They are now a common feature of competitive processes for awarding new mobile licences.

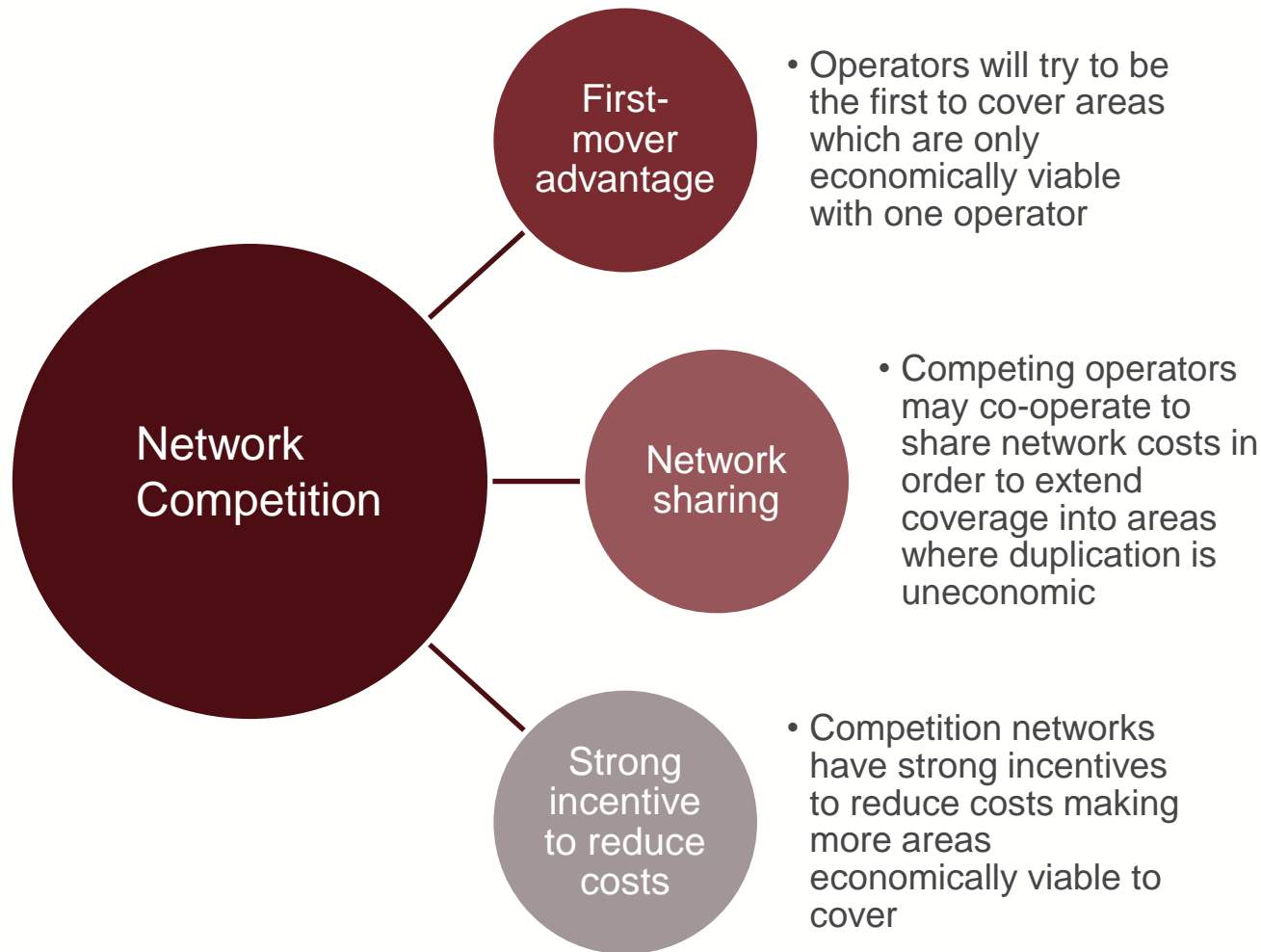


Coverage obligations set out the scope of coverage and the timescales on which it is to be achieved

Policymakers face a trade-off between coverage and licence prices, as licensees will pay more for a licence with less extensive coverage obligations

This difference can be seen as the amount the government is willing to contribute to roll-out services in underserved areas

# Network competition

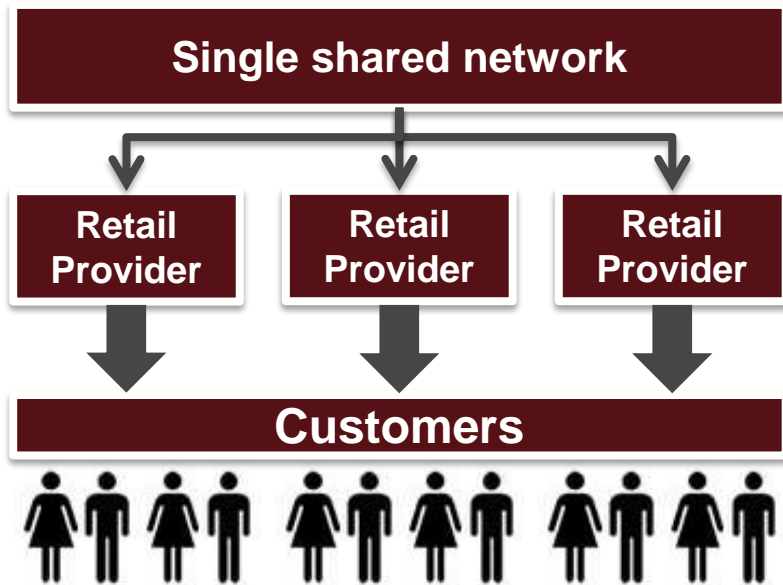


GSMA research revealed that population coverage was up to 21% higher in countries with network competition compared to countries served by a single network. Coverage also increased three times faster in countries with network competition.

# Single wholesale networks

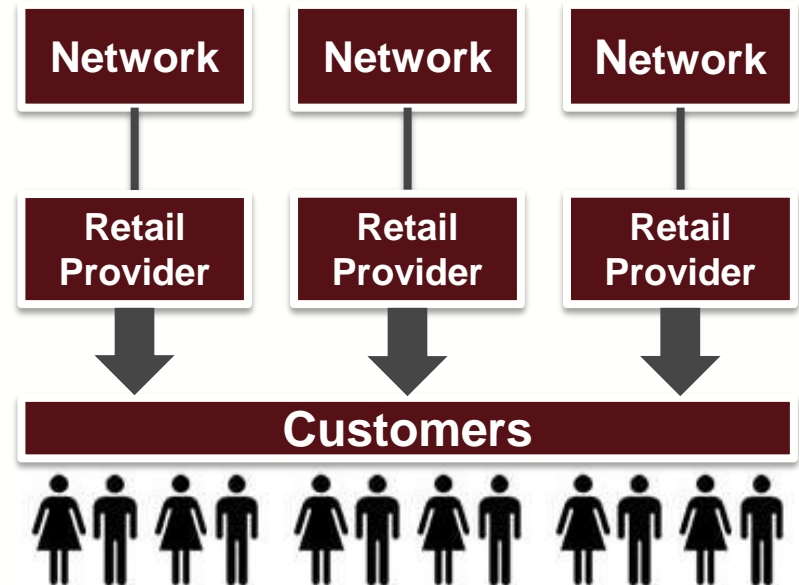
## SWN

- One wholesale network is used to supply all retail providers
- Wholesale network is initiated by government
- Requires regulation and targets



## Network competition

- Operators use their own networks to provide services to customers
- Competition occurs at both the network and retail levels
- Infrastructure is duplicated across networks





# Public-private partnerships

Public-private partnerships are likely to produce better results than USFs or SWNs for extending communications to rural and remote areas.

- Under the public-private model, the government works closely with operators to facilitate network rollout to underserved areas.
- Both partners collaborate to identify the problem — remote regions that lack coverage due network build costs, for example — and find solutions to address the issue.
- Sometimes the government provides a grant to make the build of the network more attractive to private investors.
- At other times the government may provide support for the project through revenue subsidies — including tax breaks — or by guaranteeing revenues for a set period of time.
- These types of partnerships allow the public sector to benefit from the expertise and efficiencies of the private sector when it comes to building large infrastructure projects.
- The funding structure of Australia's National Broadband Network conforms to the public-private model, although the build was more of a public undertaking.

# Do USFs have a future?

- There is little evidence that USFs are an effective way to achieve universal service goals
- Many USFs have been counterproductive, because they tax communications customers, including those in rural areas, and therefore raise the barrier to rural investment
- There is strong evidence that governments can better achieve their objectives by phasing out universal service funds and discontinuing the collection of USF levies
- Existing USFs can be improved somewhat by making them more targeted and time-bound, while increasing the transparency of their management
- Existing funds can work better if they're allocated in a competitive and technically neutral way, in consultation with the industry

THANK YOU