Sub-Saharan Africa – Universal Service Fund study

EXECUTIVE SUMMARY

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Report prepared for GSMA by Ladcomm Corporation

Important Notice

Executive Summary

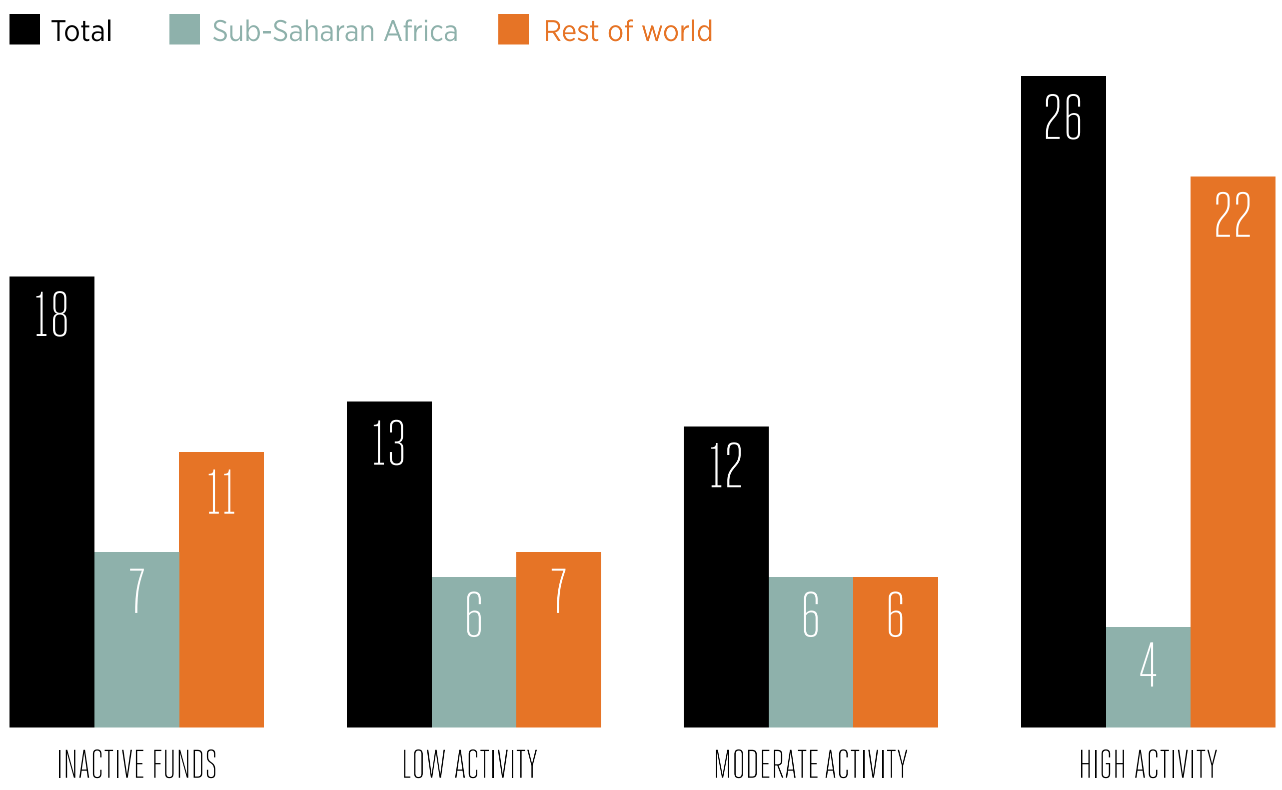
The following report examines Universal Service Funds ('USFs') in 23 Sub-Saharan African ('SSA') countries These USFs are examined in a global context i.e., taking into account their characteristics and performance when measured against an additional 46 USFs in the Arab States, the Americas, Europe and Asia Pacific (an overall total of 69 countries studied). The report draws on information used to prepare global USF overview reports for both the GSMA and the International Telecommunication Union (ITU) over the last two and a half years.

In general, there are significant deficiencies in fund structure, management and operation throughout the SSA region. In fact, if it is not possible to disband the majority of the funds and return the monies collected, then these USFs will require significant reform and restructuring in order to be transformed into functional and effective investment support vehicles for unserved and underserved areas in SSA.

The following provides a brief snapshot of the current state of USFs in SSA. A detailed analysis is provided in the full report.

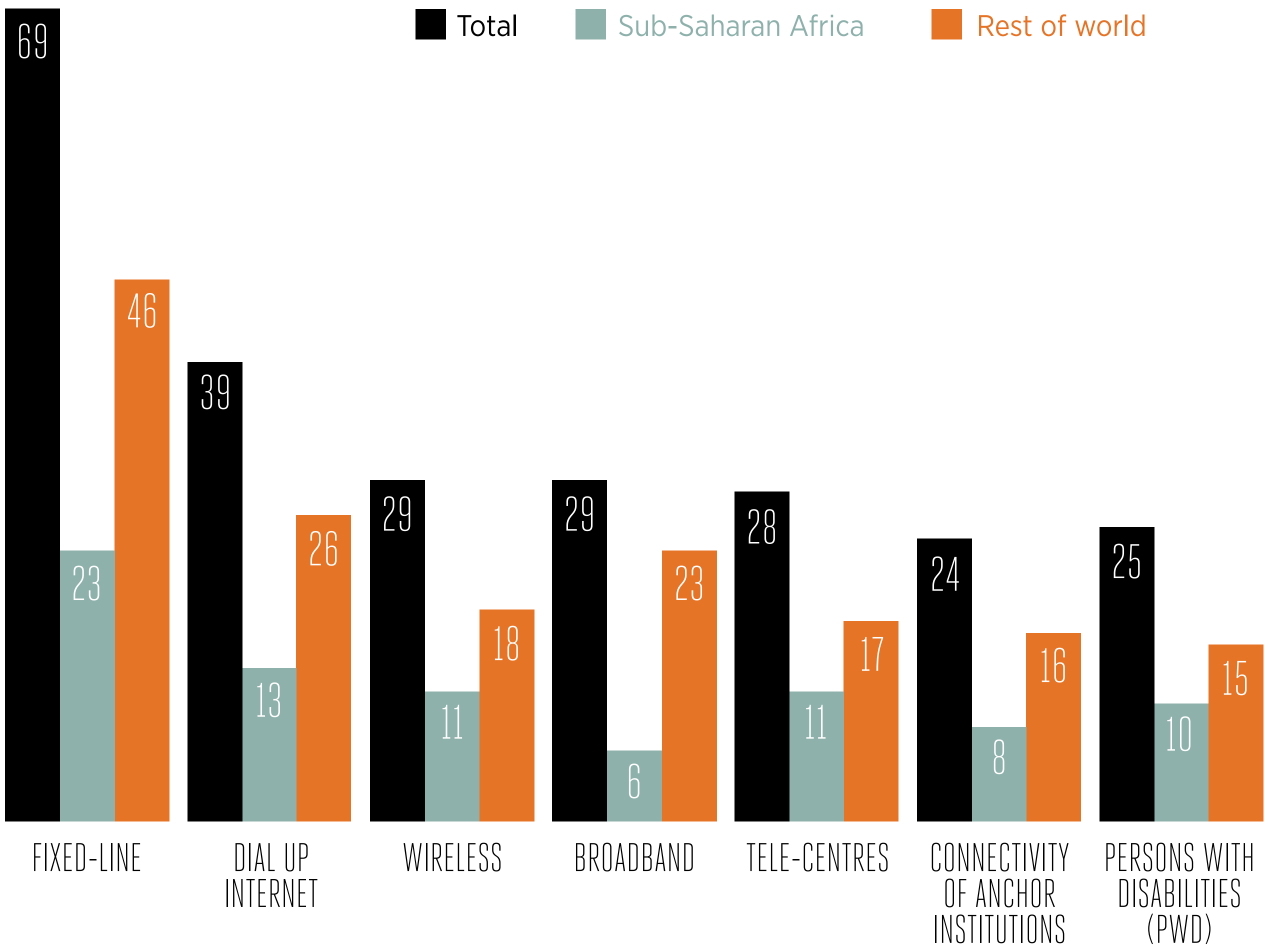
- More than half the funds (12 out of 23) apply levies of 2% or more of operator revenues.
- There does not appear to be any correlation between the levies collected and the actual universal service funding requirements i.e., no in-depth needs assessments or project forecasts are carried out.
- Just over half of the inactive funds within the 69 countries studied are based in SSA as depicted below.

FUND ACTIVITY LEVELS



- In regards to USF project funding capabilities, the following chart illustrates the technologies and services that can be supported by USFs; of particular note is that less than 50% of the SSA USFs are able to fund wireless technologies and just over 25% of the SSA USFs permit funding of broadband.

SERVICES/TECHNOLOGIES SUPPORTED



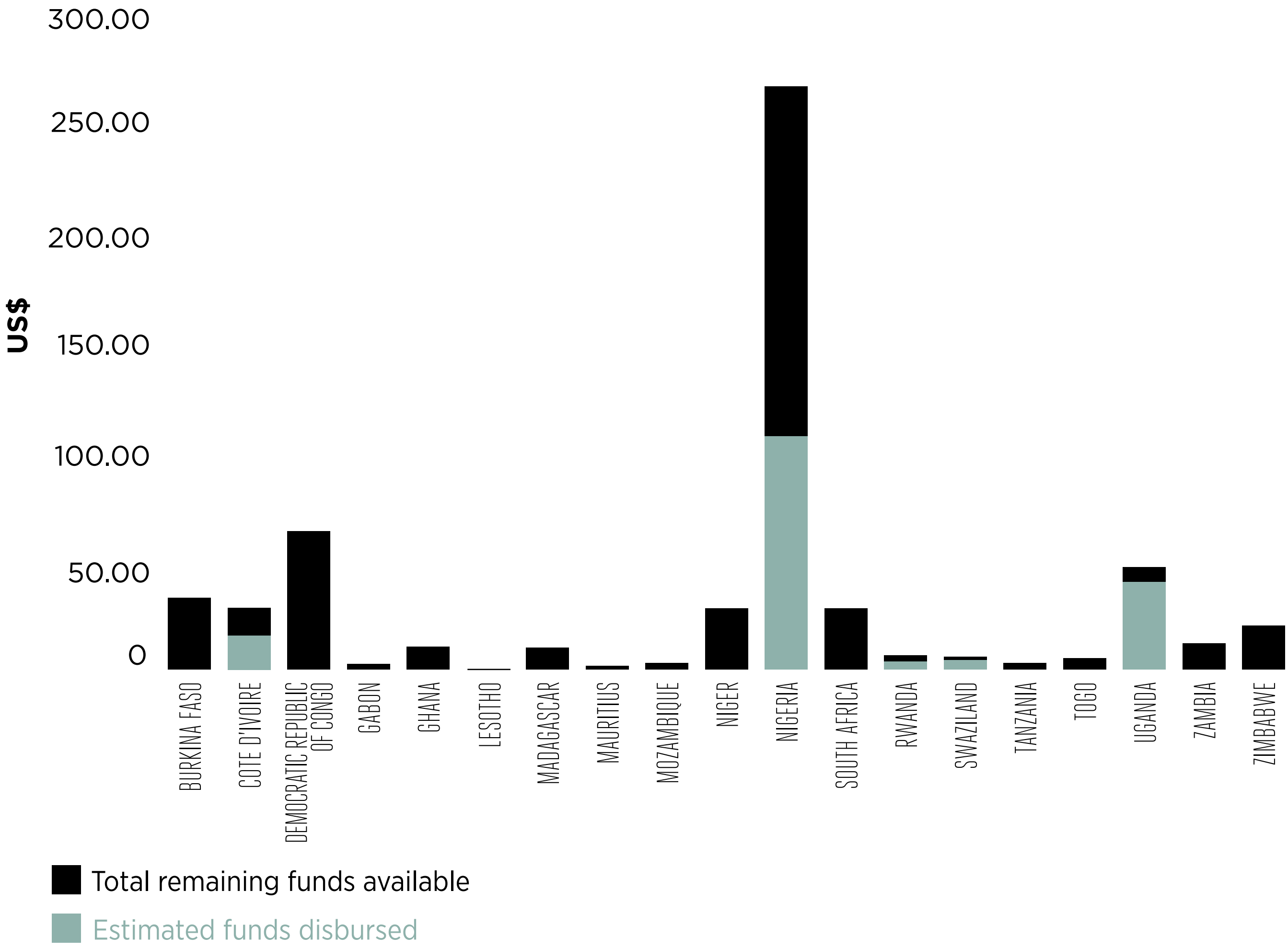
- 11 funds permit the financing of tele-centres or community centres (the only area in which SSA is better positioned than other regions).

- Obtaining accurate financial reports (or any reports at all) regarding funds collected and disbursed is possible in only a few countries (e.g., Ghana, Uganda); even in countries where the telecommunications regulatory environment is advanced and the fund guidelines are clear, the reports simply do not get issued:
  - Only two funds currently have formal annual reporting procedures in place.
  - Some other funds provide intermittent reports on project allocations.

- Overall transparency levels are low to extremely low (e.g., Mauritius, Sudan, Zimbabwe) with only a few exceptions such as Ghana and Uganda but with significant transparency improvements expected in Nigeria and South Africa.

- Both the total levies collected as well as the levels of undisbursed funds cannot be accurately ascertained due to this lack of timely and transparent reporting.

USF ACTIVITY: FUNDS DISBURSED AND AVAILABLE



Sources: derivations from annual reports, reports from fund web sites, operator reports, etc.[1]

As can be seen from the illustration above, 19 of the 23 USFs covered in this report contained more than US$400 million waiting to be disbursed at the end of 2011 but this is likely significantly understated in most cases due to the lack of reliable reporting and information. Of those funds studied, many have not disbursed any money. In fact, of those USFs where levies are currently being applied and collected, it is estimated that only 60% of these same USFs have carried out some level of disbursement or reported that some disbursements have been made. In other words, more than one third of the USFs in this study have yet to disburse any of the levies collected and **none** of the funds would appear to disburse all that they collect. In the majority of the cases in which USF levies and taxes have been established, no substantive analysis has been carried out by the fund policymakers or administrators regarding the actual service funding/subsidy levels needed versus the amounts collected. It is possible, although difficult to confirm concretely, that 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.

The underlying legal frameworks for many SSA funds were not well conceived

1. Excludes countries where no financial reporting whatsoever is available (e.g., Cameroon, Mali, Mauritania and Senegal)

from the outset (e.g., not technology-neutral or service-flexible, excessively bureaucratic, insufficient oversight, etc.) and this has resulted in a high number of ineffective or inactive funds than the global median. Inappropriately-conceived legal frameworks also pose a major obstacle to the introduction of rural broadband (whether fixed or mobile) in SSA through the use of the USF mechanism.

Even in funds where there is a degree of autonomy and independence, there are many cases where political intervention or interference from other government agencies affect the fund's performance or its ability to function at all (e.g., Mali) resulting in extensive delays in decision making. At the same time, many USFs suffer from, or have been accused of, poor or ineffective administration/use of funds (e.g., South Africa, Nigeria and Zimbabwe) with a number embroiled in disputes between the fund administrators and the operators.

In many instances, the programmes and targets established for the deployment of tele-centres and community information centres (an area in which SSA has shown commendable focus from a policy but not an execution perspective), for example, have failed to take into account issues related to training and education, maintenance, power sources and other sustainability concerns. Overall, project and financial reporting (transparency) for most funds are extremely inadequate.

Out of all the funds surveyed within SSA, Ghana and Uganda appear to be the countries that come the closest to reflecting best practice in the development and administration of USFs. To its credit, Nigeria has recognised the need for a major restructuring and re-orientation of its USF and is in the process of effecting major changes. In the same vein, South Africa put a halt to the gross mismanagement of its USF and has also engaged in a positive major overhaul.

Still, alternative approaches to achieving universal service are often more effective than USFs. In fact, increased availability of telecommunications services has generally been accomplished through alternate solutions, such as the imposition of licence conditions on operators, the establishment of new plans or funds that are separate from the existing USF, or private/public partnerships (e.g., Brazil and Finland).

In summary, based on the general USF approach and performance to date, USFs in SSA do not appear to be the most appropriate mechanism for providing universal access and service and furthering social and economic improvement in a pro active, cost effective and transparent manner. Consideration must be given to four possible directions going forward:

- Where feasible, in the case of completely inactive funds, disband inactive funds and return the remaining monies to the operators who paid the levies in the first place.
- Where the previous option is not feasible, gradually reduce the levy collected for either inactive or low activity funds and gradually phase out the funds.
- Major improvement programmes to deal with the current defects in fund structure and administration.
- Exploration and use of alternative methods to achieve universal service.

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