

Challenges Facing Universal Service Funds

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Lynne A. Dorward

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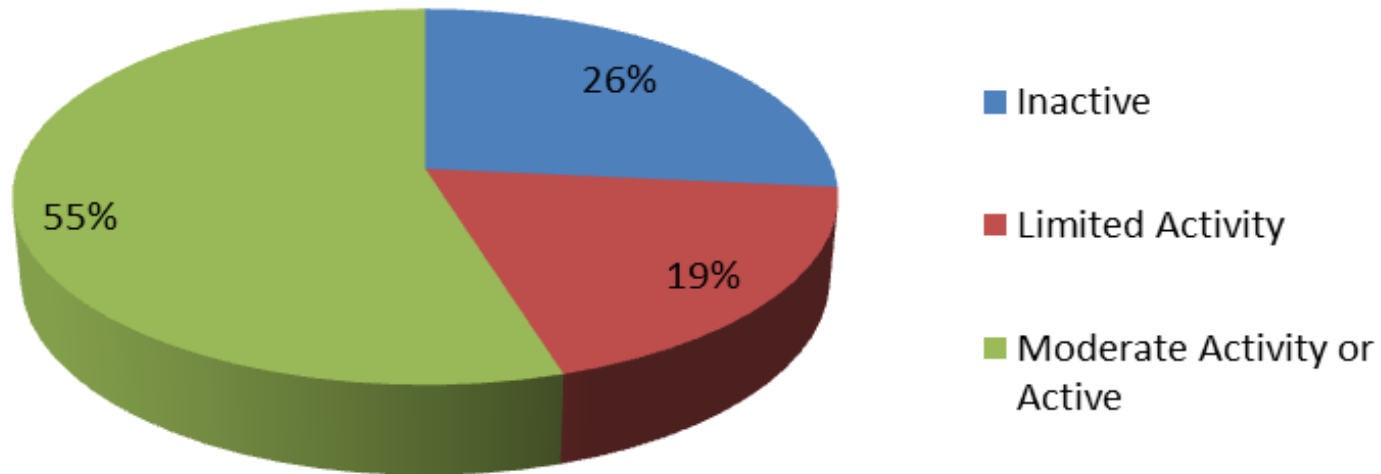


The Basic Tenets of Universal Service

- **Availability:** the level of service is the same for all users in their place of work or residence, at all times and without geographical discrimination
- **Affordability:** for all users, the price of the service should not be a factor that limits service access
- **Accessibility:** all telephone subscribers should be treated in a non-discriminatory manner with respect to the price, service and quality of the service, in all places, without distinction of race, sex, religion, etc.

The Universal Service Fund – Current Environment

Total





The Universal Service Fund Challenge

- In a recent global study covering more than 60 countries, it was evident that the majority of USFs face significant operating and administrative challenges
- Very few funds are achieving their objectives (if fund objectives are even stated)
- In many instances, funds that initially showed promise have stalled and/or failed to deliver
- The majority of funds are constrained from providing broadband and/or mobile broadband
- Although many of the challenges have been in existence for years, in many cases, there appears to be a lack of political will to effect change



The Challenge in Using USF to Enable Broadband

- In the recent study, only 21 funds of those surveyed (approximately one third), currently allow use of funds for broadband deployment
 - The permitted use of USFs to fund broadband is the least prevalent in Africa (18%) followed by Europe (33%) and Asia Pacific (40%)
- Funds are still heavily skewed towards fixed line solutions and less than half of those surveyed currently permit wireless solutions

Most Commonly Encountered USF Challenges and Pitfalls (1)

- USF underlying framework and rules do not support or permit use of the funds for the services required (e.g., wireless, broadband)
- Inadequate or misguided articulation of Fund strategy and objectives impeding effective administration
- Local conditions that impede or endanger full deployment of approved projects
- Absence of adequate primary infrastructure and facilities which will impede or preclude project deployment (e.g., accessible transmission backbone)
- Inefficient or excessively complex decision making, approval and governance processes

Most Commonly Encountered USF Challenges and Pitfalls (2)

- Inadequate skill levels available for rural rollout and ongoing maintenance, sustainability
- Structural flaws in setting up Fund and its relationship with the various other institutional bodies involved in oversight or policy making
- Lack of sufficient power/authority to effectively carry out Fund management (e.g., lack of enforcement with operators)
- Lack of qualified and/or interested vendors to bid on USF projects, flawed design of economic incentives for vendors to bid
- General managerial, operational and capacity issues



Specific Examples of USF Challenges (1)

Common Pitfall	Country	Comments
USF underlying framework/rules do not support or permit use of the funds for the services required	<ul style="list-style-type: none">▪Brazil▪Philippines	<ul style="list-style-type: none">▪Fund permits only fixed line deployment▪Government simply closed down the Fund through decree issuance and no advance warning
Inadequate or misguided articulation of USF objectives and strategy	<ul style="list-style-type: none">▪Czech Republic▪ India	<ul style="list-style-type: none">▪Unable to properly set targets and level of levies for previous years' Funds; subject of multiple legal disputes▪Guidelines encouraged urban rather than rural network rollout
Unfavourable local conditions that impede or endanger full project deployment	<ul style="list-style-type: none">▪Afghanistan▪ Pakistan	<ul style="list-style-type: none">▪Hostile terrain, climactic conditions and ongoing threats by Taliban▪Civil unrest and insurgents in western Pakistan
Absence of adequate primary infrastructure and facilities which will impede or preclude project deployment	<ul style="list-style-type: none">▪Afghanistan▪Colombia	<ul style="list-style-type: none">▪Lack of roads or alternate access for some of remote service areas▪Lack of suitable access roads resulted in cancellation of major satellite project




Specific Examples of USF Challenges (2)

Common Pitfall	Country	Comments
Inadequate skill levels available for rural rollout and sustainability	<ul style="list-style-type: none">▪Indonesia▪RSA	<ul style="list-style-type: none">▪Illiteracy and general ignorance amongst many segments of poor rural population▪Failure to take training and education into account when rolling out tele-centres and school cyber-labs
Inefficient or excessively complex decision making, approval and governance processes	<ul style="list-style-type: none">▪Nigeria▪Peru	<ul style="list-style-type: none">▪Delays in budget approval by National Assembly affects Fund's capacity to operate; carry out projects▪Before funds can be deployed, require multiple approvals from different committees and government organizations
Structural flaws in setting up Fund and its relationship with the various other institutional bodies involved in oversight or policy making	<ul style="list-style-type: none">▪Indonesia▪Nepal	<ul style="list-style-type: none">▪Ongoing conflict between telecom regulator and Treasury Ministry regarding how funds can be allocated and utilized▪Unresolved issues between the NTA and the Ministry of Telecom



Specific Examples of USF Challenges (3)

Common Pitfall	Country	Comments
Lack of sufficient power/authority to effectively carry out Fund management (e.g., lack of enforcement with operators)	<ul style="list-style-type: none">ArgentinaTogoEcuador	<ul style="list-style-type: none">Limited recourse to force payment from operators refusing to contribute to FundUnable to collect all contributions owed by operatorsCurrently attempting to define how the Fund can collect monies owed by various operators
Lack of qualified and/or interested vendors to bid on projects, flawed design of economic incentives for vendors to bid	<ul style="list-style-type: none">MozambiqueTanzania	<ul style="list-style-type: none">Market domination by limited number of operators mean they feel no pressure to bid/be more competitiveFailed tender due to inadequately set maximum subsidy and lack of technical and infrastructure support rendering incentives economically unviable
General managerial, operational and capacity issues	<ul style="list-style-type: none">PakistanFrance	<ul style="list-style-type: none">Senior Fund management in the process of being replacedCalculation methods and application of requirements successfully challenged in court



Resistance to Transparency – Food for Thought

- In the recently conducted survey, of the more than 60 countries surveyed, over 50% did not engage in any sort of open and public financial reporting
- Although it is often possible to calculate/deduce the amount of money collected, obtaining accurate information regarding the level of funds available or the amount disbursed is difficult and often guarded as closely as state secrets
- This reluctance to reveal information raises major questions regarding transparency and the actual state of the funds



Thank you for your kind attention

lynne@tmgtelecom.com

+16138317472

+1613 7240127