

Universal Service Funds (USFs)

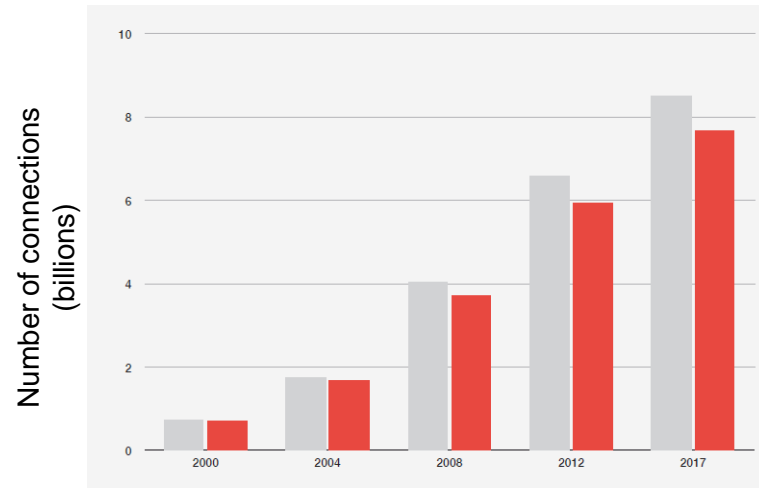
Time for a re-think of USF Levy

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Mobile telecoms: Connecting billions of people

Delivering socio-economic benefits



Source: Wireless Intelligence

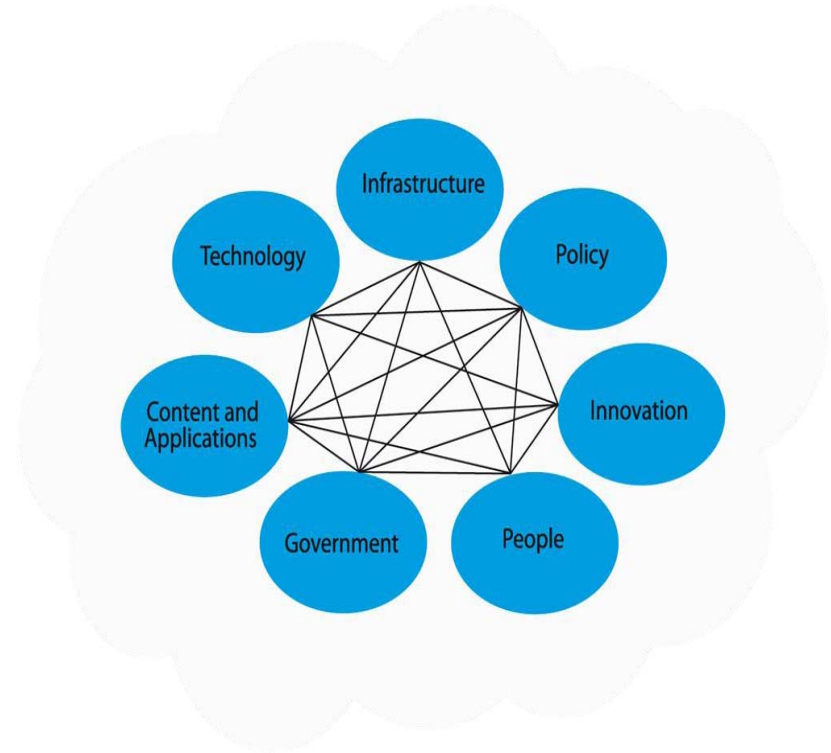


Source: Safaricom



Source: BBC

Stimulating demand and supply



Source: Broadband Commission

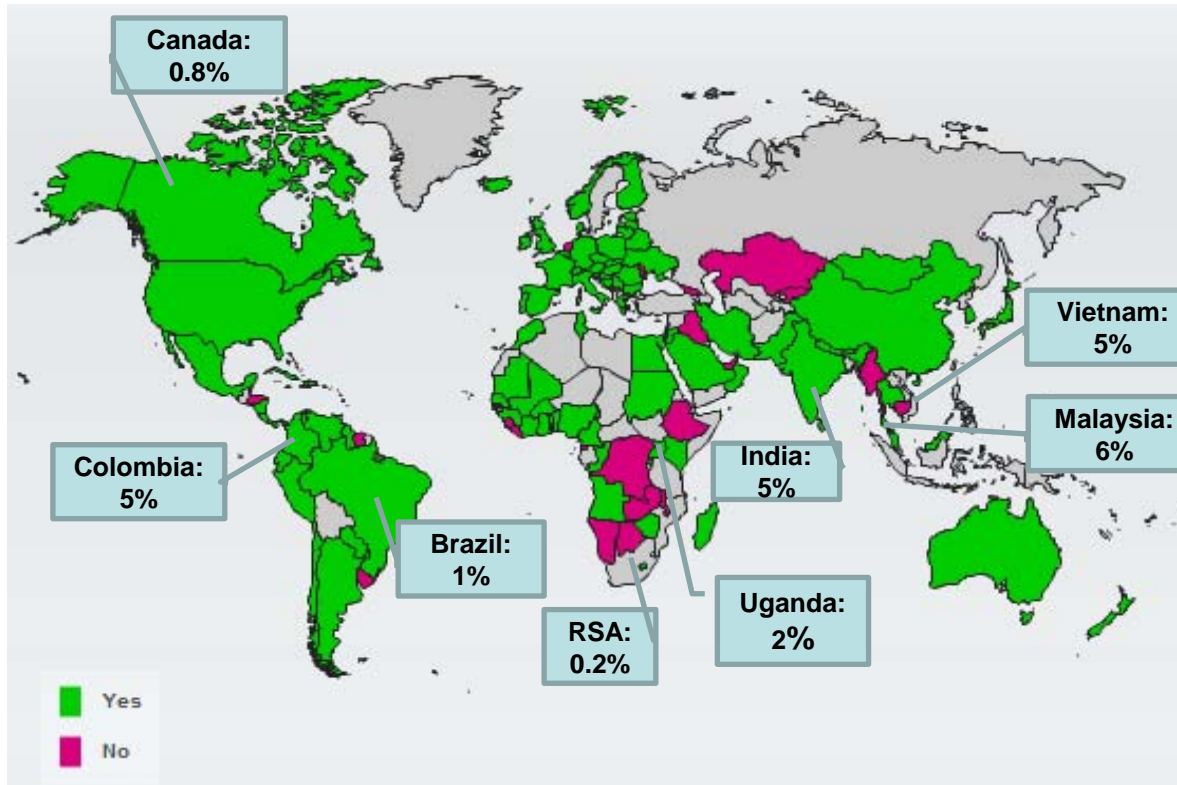
An increase of 10% in mobile penetration can raise the annual GDP growth rate by 1.2% in a developing country.

Source: US Aid



USF Levy: Another levy on operators

USF levy (approximate) as a percentage of operator revenue in selected countries



Sources: ITU 2010, Does your country have a universal service policy?; GSMA USF Survey 2012

Funding Sources

- Operator levy
- National budget
- Share of spectrum proceeds
- NGO funds
- State Aid

..is this levy efficient and necessary?



Expected characteristics: Objectivity, transparency, accountability, flexibility, ...



Source: Teliasonera



“Despite receiving Rs 6,000 crore of USOF subsidy from July 2008 to July 2011, the quality of BSNL's rural landline operations had declined over the years as it had failed to grapple with competition from private telcos.”

- USOF Administrator, The Economic Times, May 2012

RULES

1. YOU CAN....
2. YOU CAN'T...
3. YOU CAN...
4. YOU CAN'T



Levies are collected; funds are not disbursed

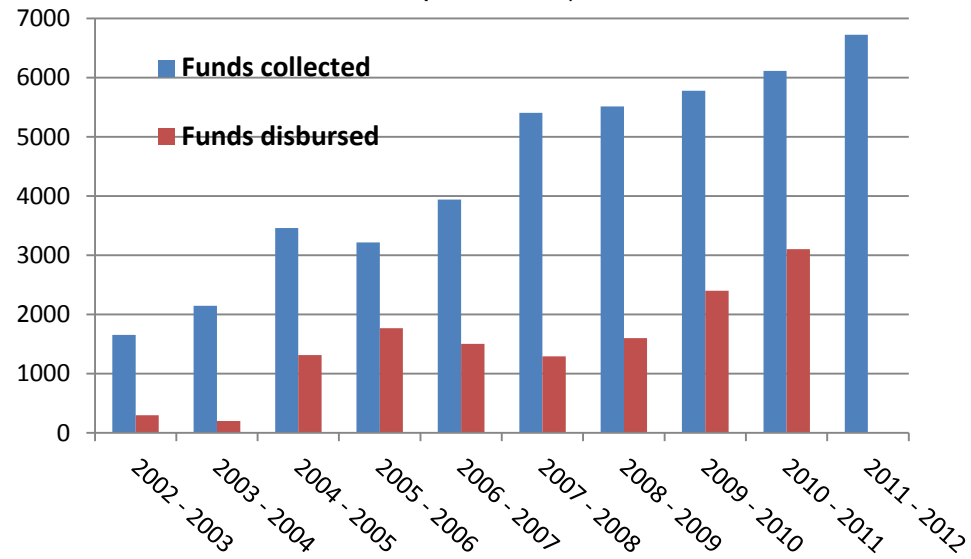
~USD 11 billion
waiting to be disbursed



~34%

Indian USOF distributed as a proportion of collected

Case Study: Indian USOF funds collected vs. disbursed (in Rupees Crore)



Source: USOF, India



Allocation process is not always neutral

■ Competitive neutrality?

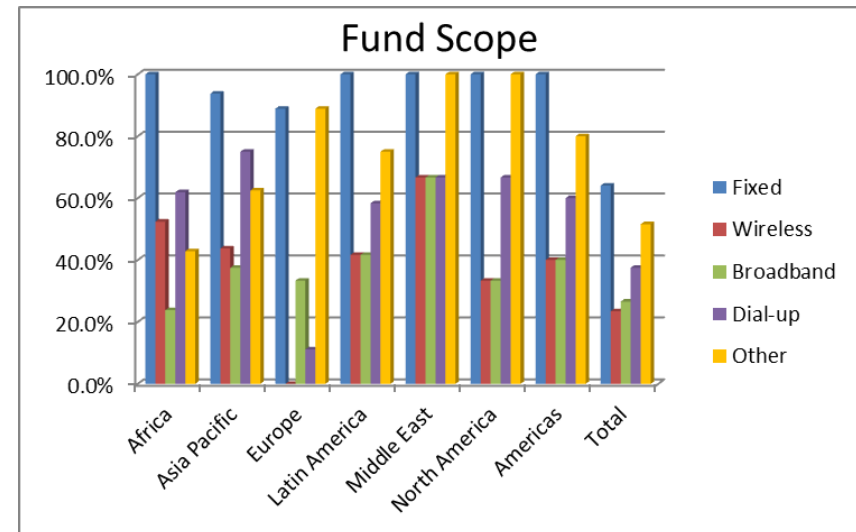
- Not always competitive open tenders

■ Technology neutrality?

- Funds solely/predominantly allocated to fixed network projects
- < 1/2 of those surveyed currently permit wireless solutions

■ Funding burden?

- Contributions are collected only from licensed network operators



Case study: Vietnam USF levy

3%: Fixed line operations

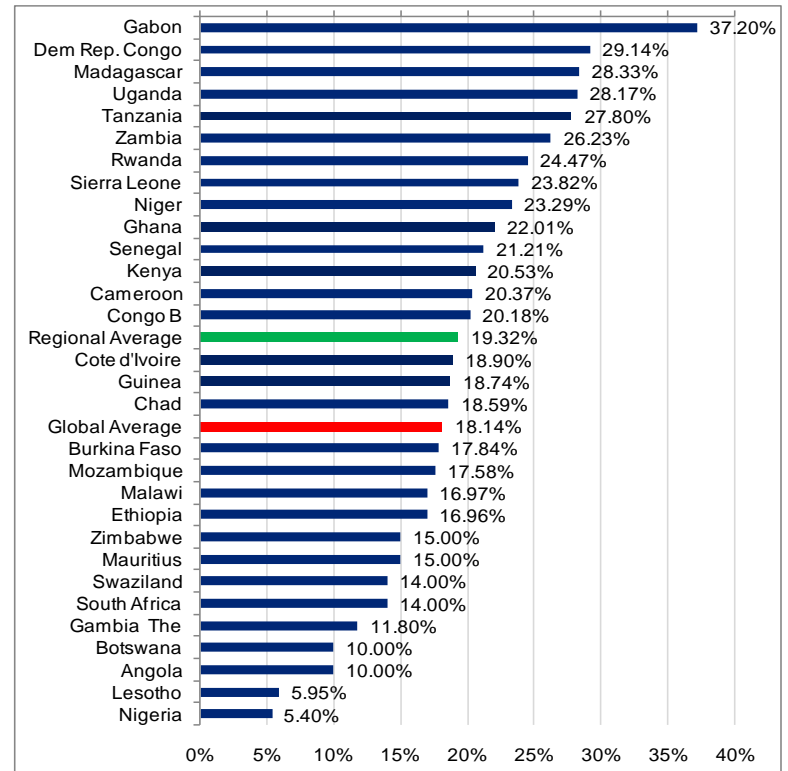
4%: International operations

5%: Mobile operations

Aligning policies and stimulating demand



Tax as a proportion of total cost of ownership in some countries are above global average



Time for a rethink...

- There is little evidence that supports USF as an effective and efficient instrument to deliver universal service goals
 - Alternative mechanisms often result in better outcomes
- To achieve access goals, governments should look at other incentives such as:
 - Removing sector-specific taxes
 - Stimulating demand
 - Supporting infrastructure roll out

