# UNIVERSAL ACCESS FUNDS

## INTRODUCTION – UNIVERSAL ACCESS VS. UNIVERSAL SERVICE

Although the terms "universal service" and "universal access" are closely related concepts and are sometimes used interchangeably, they hold different meanings.

Universal service policies are more commonly found in developed countries. Universal service is aimed at increasing the number of individual residences with telecommunications services and providing telecommunications services to *all households within a country*, including those in rural, remote and high cost locations. Universal service policies also focus on ensuring that the cost of telephone services remains affordable to individual users or to targeted groups of users (e.g. low-income families, people living in uneconomic areas).

While universal service is a realistic policy objective in many industrialised countries, universal access is a more practical goal in most developing countries. Universal access policies work to increase *access* to telecommunications services on a shared basis, such as on a *community or village-wide level*. Universal access programs typically promote the installation of public payphones or public call offices in rural or remote villages or low-income urban areas with the aim of providing a basic and initial connection to the public telecommunications network.

Whereas those two terms focused initially on the provision of basic telecommunications, they increasingly encompass value-added services and Internet services/access.

In this report, Intelecon mainly focuses on examining the funds that are used to promote ***universal access*** in developing countries and emerging markets.

## EMERGENCE OF UNIVERSAL ACCESS FUNDS

Telecommunications services are increasingly considered by governments around the world as a basic necessity of citizens, essential to full participation in the 'new information economy'. In the past, monopoly operators had to assume the costs of meeting the country's universal access objectives. These operators had to finance the delivery of essential telephone services to uneconomic regions mainly through cross subsidies, which flowed from profitable market segments (e.g. international, long-distance, business users, urban) to less profitable market segments (e.g. domestic, local, residential users, rural).

While cross-subsidies served their purpose in monopoly environments, they create problems in newly competitive environments. In particular, cross-subsidies have been known to distort market signals and place an unfair burden on certain operators. To finance their access objectives in a competitively neutral and transparent manner, an increasing number of countries are now turning to universal access funds.

## FUND FEATURES

Universal access funds receive finance from various sources and provide targeted subsidies to encourage the provision of telecommunications services by private operators in otherwise uneconomic regions. These funds can be distinguished on the basis of three key features:

- ***Sources for funding***. Universal access funds can be distinguished by their sources for funding. Depending on the country and its particular situation, the sources for funding have included national budgets of governments, charges on interconnecting services, levies on subscribers (e.g. on access lines) and levies on operator revenues. Funding from international development agencies is also an option. Universal access funds today tend to collect their revenues from government sources or operator levies on a widely based range of telecommunications services (as opposed to only from specific "high margin services", like international long-

distance). Broad based revenue collection mechanisms are favoured because they have less of a price distorting effect on the marketplace.

- ***Fund management***. Universal access funds can differ in their management. While some funds (e.g. Colombia) are administered by government ministries, other funds are administered by the regulators (e.g. Peru, Chile) or special agencies (e.g. South Africa). The common perception is that funds administered by independent regulators and agencies are less likely to be influenced by government or political interest.

- ***Type of services***. Thirdly, universal access funds can also be distinguished by the types of services they support. Developing country funds in the past have placed greater emphasis on ensuring basic public access (i.e. voice-grade fixed access to the public telecommunications network). With the growing importance of the Internet to national economies, however, many of today's newer funds also support public access to value-added services, including Internet access. In Chile, the government has redefined its fund, which has been successful in extending basic telecommunications to rural and low-income areas, to support telecentre projects. The Fund is expected to soon launch a national telecentres program. The intial phase will be a pilot project involving the development of five self-sustaining community telecentres in various lower income urban and rural areas of Chile. An initial target is to install telecentres in each of about 90 municipal headquarters towns with over 8,000 rural inhabitants. By 2006, there would be telecentres in all 341 municipalities.

The table below provides a brief summary of some of the telecommunications funds that are either planned or have been implemented in developing countries and emerging markets.

| Country | Fund Status | Funding Source | Fund Administrator | Disbursement of Funds |
|---|---|---|---|---|
| Argentina | Planned | 1% of all operators' gross revenues | Operators (virtual fund) | Government to determine based on its goal to increase fixed teledensity to 0.35 and mobile teledensity to 0.20 |
| Brazil | Operational | 1% of service providers' gross operational revenues earned from the provision of telecom services | Anatel, regulatory agency | - |
| Chile | Operational | Government's budget | Subtel, regulatory agency | Subsidies distributed through competitive bidding (lowest bid wins) |
| Colombia | Operational | 5% of national and long distance operators' revenues plus funds from license fees | Ministry of Communications | Subsidies distributed through competitive bidding (lowest bid wins) |
| Ghana | Planned | 1% of fixed operators' net revenues | - | - |
| India | Operational | 5% of all operators' revenues | DoT, Department of Telecommunications | - |
| Malaysia | Operational | Fixed and mobile network operators contribute 6% of their weighted revenue from designated services to the Fund | Malaysian Communications and Multimedia Commission (CMC), regulatory agency | During interim period (1999 to 2002), Telekom Malaysia was the only operator with access to funds. Starting July 2002, other operators were invited to submit proposals for USP and be compensated from the fund through a competitive process. The CMC's goal for 2004 is to connect 84 unserved areas at a cost of over US$ 200 million. |

| Country | Fund Status | Funding Source | Fund Administrator | Disbursement of Funds |
|---|---|---|---|---|
| Mexico | Planned | - | - | - |
| Nepal | Operational | 2% levy on the revenues of the incumbent operator, ISPs and mobile operators. | NTA (Nepal Telecom Authority) | Subsidies distributed through competitive bidding |
| Peru | Operational | 1% of all operators' and CATVs' gross revenues | OSIPTEL, regulatory agency | Subsidy goes to lowest bidder |
| Philippines | Planned | - | Government, Department of Transportation & Communications | - |
| South Africa | Operational | 0.16% of all operators' revenues | Universal Service Agency, specially created unit to manage fund | Subsidies mainly awarded to telecentre projects and areas of greatest need |
| Uganda | Operational | 1% levy on all sector participants including telecom operators, the postal service, couriers, ISPs | Uganda Communications Commission, regulatory agency | Subsidies distributed through competitive bidding (lowest bid wins) |

## OVERVIEW OF SELECTED UNIVERSAL ACCESS FUNDS

| **Country:** | **PERU** |
|---|---|
| Name of fund / program: | Fondo de Inversión en Telecomunicaciones (FITEL) |
| Web address: | http://www.osiptel.gob.pe/Index.ASP?T=P&P=2674 |
| Year established: | 1993 |
| Fund description: | FITEL was established in 1993 to finance new public access telephones (pay phones) in rural areas.<br><br>To realise its universal access policy, the government issued the FITEL Regulation in September 1998, which sets out the administrative procedures for FITEL's operations. The regulation also establishes the criteria for selecting the localities that will receive funding for service expansion. Priority localities include:<br><br>• rural towns (with a population of more than 400 inhabitants and less than 3,000 inhabitants);<br>• district capitals; and<br>• towns in high social interest areas (as determined by the government).<br><br>Under the regulation, FITEL is required to create a list of projects that are eligible for subsidies, by determining which projects have the greatest social benefit. FITEL cannot allocate funds to areas that already have access to telecommunications services. Funds are allocated through a competitive bidding process for the projects. |
| Fund administration: | FITEL is administered by the regulator OSIPTEL |
| Source of funds: | OSIPTEL collects 1% of gross revenues from the telecommunications sector to finance FITEL. Although collection began in 1994, the first project was not funded until 1998. |
| Projects / services supported: | Public access centres (pay phones). Access centres may now include internet access.<br><br>Peru has defined universal access as access to a set of essential services that includes voice telephony, low-speed fax and data, and free emergency calls. |

| **Country:** | **CHILE** |
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| Name of fund / program: | Fondo de Desarrollo de las Telecomunicaciones (FDT) |
| Web address: | http://www.subtel.cl/servlet/page?_pageid=58&_dad=portal30&_schema=PORTAL30 |
| Year established: | 1994 |
| Fund description: | Fondo de Desarrollo de Telecomunicaciones (FDT) was established by a 1994 amendment to the telecommunications law of 1982. All operators were eligible to receive funds, which subsidise the installation of public telephones in the marginal, low-income rural and urban areas.<br><br>The original goal for the Fund was to provide public telephone service to about 6,000 unserved localities – a target that was met over the 5 year period between 1995-1999.<br><br>Once a year, the regulator SUBTEL collected requests for payphones from regional and local authorities, neighbourhood associations, telecommunications companies, and the general public. The requests were then grouped into projects, each typically consisting of 20-50 localities. Projects considered desirable (as determined by a detailed cost-benefit analysis) for the general economy, but unlikely to be commercially viable on their own were added to the pool of eligible projects.<br><br>Subsidies were then distributed through competitive bidding. The bid evaluation emphasised the lowest proposed subsidy for a particular project combined with the commitment to short delivery time.<br><br>For an evaluation of FDT, refer to Bjorn Wellenius' paper, "Closing the Rural Communications Access Gap: Chile 1995-2002" available on the Internet at: http://www.infodev.org/library/WorkingPapers/chile_rural/ |
| Fund administration: | The Fund is administered by the regulator SUBTEL. |
| Source of funds: | The Fund is financed from the Chilean national government budget. |
| Projects / services supported: | After the Fund achieved Chile's social telephony objectives, the government redefined the Fund to support telecentre projects. The Fund intended to launch a national telecentres program in 2002. An initial target was to set up telecentres in about 90 municipal headquarter towns with over 8,000 rural inhabitants. By 2006, there would be telecentres in all 341 municipalities. |

| **Country:** | **COLOMBIA** |
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| Name of fund / program: | Compartel Program |
| Web address: | www.compartel.gov.co |
| Year established: | ----- |
| Fund description: | The Compartel Program throughout its three different stages, aims to afford coverage to every municipality in Colombia through the provision of community use telephones and Internet community access centres.<br><br>Compartel auctions social telephony projects across various regions of the country. The Program guarantees the operation and maintenance of the telephones for 10 years. Winning bidders are selected on the basis of meeting technical requirements with the smallest subsidy requested.<br><br>For Phase 1 in 1999, Gilat subsidiary Global Village Telecom won a contract and has finished installing 6,745 telephones and 670 Internet access points.<br><br>Compartel Phase 2 has run into some obstacles. Only one company – US-based Forbes Telecom Americas – placed a bid in the first Compartel Phase 2 auction in December 2000. Forbes bid for the northern zone, where the government was asking for installation of 21,500 residential lines and 61 community Internet centres by April 2002. The Communications Ministry later declared the auction deserted after finding various anomalies and omissions in the information supplied by Forbes.<br><br>The Communications Ministry held auctions for the next stage of the Compartel program rural telephony program in 2002. The latest Compartel program is a modified version of the Comparatel Phase 2 social telephony project that the government tried to auction in December 2000. The latest Compartel project provides for the installation and operation of 3,000 rural telephones over a 6 year period in all departments, as well as 500 Internet, long-distance and fax centres in the town halls of communities with less than 2,000 inhabitants. Gilat won the contracts for both the rural telephones and the telecentres. Installation of the telecentres has commenced. The rural VSAT network was expected to be operational by Q4 2003. |
| Fund admin: | Ministry of Communications. |
| Source of funds: | TELECOM, Empresa Nacional de Telecomunicasciones, the national operator and other long distance operators pay 5% of their revenues to the social development fund. Revenues generated from license fees are also placed into the Fund. |
| Services supported | Community telephones and community Internet access centres. |

| **Country:** | **SOUTH AFRICA** |
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| Name of fund/program: | Universal Service Fund |
| Web address: | www.usa.org.za |
| Year established: | 1997 |
| Fund description: | The Universal Service Fund was established by the Telecommunications Act of 1996. Under the Act, the Fund is authorised to:<br><br>provide direct subsidies to needy people to defray the higher cost of telecommunications services due to rate rebalancing; and<br>to subsidise the cost of network rollout and expansion to underserved areas by operators, including the incumbent Telkom, whose licenses impose such obligations.<br><br>The development of telecentres has been given high priority by the Fund. The USA is working in partnership with communities and donor agencies to establish these telecentres. The USA has especially encouraged NGO's, entrepreneurs, women and disabled people in rural areas to operate community telecentres. To date, the USA has set-up around 90 telecentres, however, the majority operates extremely sub-optimally: out of a sample of 47 telecentres only 23% actually offered telephone service. |
| Fund administration: | The Fund is jointly administered by the Department of Communications, and the Universal Service Agency (USA). The USA is a statutory body established by the Telecommunications Act of 1996 to promote universal telephone access for all. |
| Source of funds: | All telecommunications licensees must pay annual contributions to the Fund.<br><br>In the most recent financial year, operators licensed to provide public switched telephone services (including access, local and log distance services) and mobile cellular services were required to contribute 0.16% of their annual revenue from the provision of the corresponding telecommunications services. Value-added network services and private network licensees were also required to make contributions to the Fund. The 2001 Telecommunications Amendment Bill limits annual contributions to the fund to 0.5% of revenue. |

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| Projects / services supported: | Telecentres (which typically consist of a number of telephones, fax, and photocopy machines, personal computers and Internet access). In exchange for access to 1800 MHz GSM spectrum, mobile providers agreed to additional obligations, which include supplying 250,000 free phones and numbers to public emergency services over five years, providing internet and phone links including computers at schools, and public pay phones in accessible places in rural areas and multipurpose community centres. In addition, four million free SIM cards would be issued over five years. |

| **Country:** | **MALAYSIA** |
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| Name of fund / program: | Universal Service Provision Fund |
| Web address: | http://www.mcmc.gov.my/mcmc/what_we_do/usp/usp.asp |
| Year established: | 1998 |
| Fund description: | The Universal Service Provision Fund was established in 1998. When the Fund was created, incumbent Telekom Malaysia was the sole universal service obligation (USO) operator (only one with access to the Fund) for an interim period of 2 years with cost recovered from a USO charge on all interconnecting traffic. The interim period was subsequently extended to January 1, 2002 to enable the Malaysian Communications and Multimedia Commission to finalise the new policy framework.<br><br>Contributions by all service providers commenced at the end of 2002. Each fixed and mobile operator is required to contribute to the USO fund in proportion to its share of network revenues, which is weighted by the types of services offered.<br><br>The Commission's system for universal service provision affords access to both basic telephony services and Internet services. The system also defines objectives for both collective access and individual access to services**.** |
| Fund administration: | The Fund is controlled and operated by the regulator, the Malaysian Communications and Multimedia Commission. |
| Source of funds: | Fixed and mobile licensees annually contribute 6% of their weighted annual revenue from designated services (including local, national long-distance, international long distance, mobile, IP telephony) to the Fund. In 2003, the Fund collected over US$ 100 million from the operators. |
| Projects / services supported: | Basic telephony and Internet access; public payphones in rural areas.<br><br>At a later point, universal service will not be confined to the telecommunications industry, but extended to broadcasting and information technology. |

| **Country:** | **UGANDA** |
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| Name of fund / program: | Rural Communications Development Fund (RCDF) |
| Web address: | http://www.ucc.co.ug/rcdf/about.html (link to the RCDF page of the Uganda Communications Commission web site) |
| Year established: | ----- |
| Fund description: | The RCDF is established to support the development of a commercially viable communications infrastructure in rural Uganda in order to promote social, economic and regional equity in the deployment of telephone, Internet and postal services.<br><br>To utilise the resources of the Fund efficiently, subsidies are awarded through a competitive process and only available to geographical areas and to services that are in definite need of assistance. Specifically, funds are only available to areas where service provision is not feasible or unlikely to be provided by operators within the next 1-2 years without subsidy. |
| Fund administration: | The RCDF is administered by the Uganda Communications Commission, the regulatory agency. |
| Source of funds: | All sector participants (including telecom operators, the postal service, couriers, ISPs) are required to contribute 1% of revenues to the RCDF. The Fund now has sh10b (US$ 5.78 million), of which local telephone operators, namely MTN Uganda, Uganda Telecom and Celtel Uganda, contributed sh3.5b (US$ 2.02 million). The World Bank has provided an additional $5 million. |
| Projects / services supported: | The RCDF is considering financing a selection of the following:<br>• Universal access telephony in all 154 sub-counties not served by the major operators;<br>• Special equipment that would extend the reach/coverage of existing telecommunications networks into rural and remote areas;<br>• Internet points of presence and wireless access systems at district centres;<br>• A national Internet exchange point (IXP) to facilitate inter-ISP traffic;<br>• 'Vanguard' Internet access projects for schools, NGOs, small-scale commercial telecentres and Internet cafes at sub-district level; and<br>• Pilot content creation projects in telephony and Internet areas. |

| **Country:** | **NEPAL** |
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| Name of fund / program: | Rural Telecommunications Special Program (see below) |
| Web address: | www.nta.gov.np (Nepal Telecommunications Authority website) |
| Year established: | 2000 |
| Fund description: | The main objective of His Majesty's Government (HMG) of Nepal is to provide at least two telephones in each Village Development Centre (VDC) in the country. A Rural Telecommunications Special Program has been initiated to offer subsidies for rural service rollout.<br><br>In 2000, a tender was issued to offer a rural service subsidy competitively for one operator licence in Eastern Nepal. Although a tender was awarded and a subsidy agreed in 2001, the procedure was halted due to the political turmoil in the country causing the winning bidder to withdraw. The regulator planned to retender this license in 2003.<br><br>Currently, disbursements from the Program have been delayed for 1-2 years due to lack of financial resources. |
| Fund administration: | The Program is administered by the Nepal Telecommunications Authority, the regulatory agency. |
| Source of funds: | A 2% charge is levied on the revenues of the incumbent operator, ISPs and mobile operators. |
| Projects / services supported: | Public access telephones. |