



CANTO

RESPONSE TO

**PROPOSED CHANGES TO THE UNIVERSAL SERVICE
FUND IN THE ECTEL MEMBER STATES**

February 22, 2016

CANTO Response

ECTEL's Consultation on 'Proposed Changes to the Universal Service Fund in the ECTEL Member States'
February 22, 2016

1. INTRODUCTION

- 1.1. CANTO welcomes the opportunity to respond to ECTEL's Consultation Document on **'Proposed Changes to the Universal Service Fund in the ECTEL Member States'**, (the Document) published December 4, 2015.
- 1.2. CANTO is recognized as the leading trade association of the ICT sector for shaping information and communication in the Caribbean. Founded in 1985 as a non-profit association of eight (8) telephone operating companies, CANTO has now grown to over 120 members in more than 34 countries.
- 1.3. CANTO's vision is to be the leading authority in shaping information, communication and technology in the Caribbean Region and the Americas. Our mission is to Influence the innovation and development of ICT solutions for the benefit of members by developing, navigating and leveraging relationships with all stakeholders. To advocate for policies, legislation and rules which advance the creation of an environment which facilitates the deployment of services and technologies around the region.
- 1.4. A Board of Directors appointed by the membership directs the policy of the Association. Those policies are implemented by the staff of a permanent Secretariat based in Trinidad and Tobago. Learn more about CANTO and its membership at www.canto.org.
- 1.5. This response is made on behalf of CANTO's members.
- 1.6. The matter of the management of Universal Service funds has been under discussion at CANTO's Regulatory & Emerging Technologies Committee and so this consultation provides a timely and welcomed opportunity for CANTO to make its contribution.
- 1.7. CANTO's response will focus on the management of the Universal Service Funds in ECTEL member states. Accordingly failure to address any issue raised in the Consultation Documents does not necessarily signify CANTO's agreement in whole or in part with any position taken on the matter by ECTEL or the NTRCS. CANTO reserves the right to comment on any issue raised in the Consultation Document at a later date.

1.8. CANTO's response includes Appendix I, which is a policy paper previously circulated to ICT minister in the region titled '*Incentivising Investment in Broadband in the Caribbean*'.

1.9. All responses to this document should be sent to:

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2. MANAGEMENT OF UNIVERSAL SERVICE FUNDS

NTRCs Ineffective in Advancing Universal Access/ Universal Service

2.1. ECTEL comes to the industry proposing an increase in the annual USF contribution from 1% to 2% over the next four (4) years and the creation of a reserve fund . Yet ECTEL has not demonstrated the effectiveness of the management of available funds nor has ECTEL demonstrated the need for additional funding. In fact, ECTEL has not identified the problem that this consultation is intended to resolve. ECTEL merely stakes a claim to wanting more of the industry's revenues. Nor does ECTEL recognize that there are always capital constraints – operators cannot make all the investments they would like because of capital constraints so how then can the regulator expect to have no restraint in funding projects.

2.2. At appendix 1, section 2, ECTEL sets out a table for illustrative purposes, which shows the implementation rate of USF for fiscal year 2014. At line 3 in this table, ECTEL has the line item '*Total Funds Committed on Current or New Projects*' providing little supporting

information of what the current or new projects are. Based on the table ECTEL assesses that the rate of implementation is 100% for St. Vincent and the Grenadines; 56% for Commonwealth of Dominica; 53% for St. Kitts & Nevis; 30% for St. Lucia and 17% Grenada.

- 2.3.** The Telecommunications (Universal Fund Contribution) Order became effective January 1, 2008. The Order sets out the USF contribution which now stands at 1% of Gross Annual Revenues. This means that providers would have been contributing to the USF for seven (7) years and so the total funds collected by the NTRCs would have been the funds and interest on the funds accumulated over that period. It also means that the NTRCs had close to a decade to source out projects to fund.
- 2.4.** Unfortunately because ECTEL did not choose to do an assessment of the performance of the USF over the seven-year period, which it should have, its table with just a snapshot of 2014 obfuscates, save for St. Vincent, that the rate of implementation of USF in the ECTEL countries is appalling.
- 2.5.** After seven (7) years of collections, Grenada has disbursed less than 1% of funds; St. Lucia has disbursed 4%; Commonwealth of Dominica 15%; St. Kitts & Nevis 15.5% and St. Vincent and the Grenadines 76%. Given these rates of disbursement over the past seven (7) years, it is incredible that in fiscal year 2015 only, Grenada's utilization will jump from less than 1% up to 2014 to 16.5% according to line 3 of ECTEL's table; the same can be said of St. Lucia moving from 4% utilization to 27%; Dominica moving from 15% to 49%; St. Kitts moving from 15.5% to 45%. It then suggest that the sudden, projected soar in utilization post 2014 is meant to distract from the poor performance of the USFs in Grenada, St. Lucia, Commonwealth of Dominica and St. Kitts and Nevis over the past seven (7) years.
- 2.6.** Because St. Vincent has been using up its funding and because of the smaller amount of funds remaining compared to the other ECTEL countries, it is conceivable that St. Vincent will use up the remaining available funds.
- 2.7.** Save for St. Vincent, the rate of disbursement of the USF in the ECTEL countries over seven (7) years have demonstrated that the NTRCs have been ineffective in advancing either universal access or service. And since past performance is the best indicator that

CANTO has of future performance, there is no indication that more funding will cause the NTRCs to be any more effective. Yet the proposed increased levy will lessen the ability of providers to roll-out service.

2.8. Perhaps it is that because there are no penalties for NTRCs sitting on funds and there is not yet a requirement to refund operators any unused funds there is no incentive for the NTRCS to fund projects. Sadly, this is despite the need for more and more unconnected person to connect to networks to fuel economic growth.

2.9. Below, LIME has inserted in ECTEL’s Table 1, two line items, labelled ‘% **Funds Disbursed from 2008 to 2014**’ and ‘% **Funds Committed to New Projects Post 2014**’ which reflects the discussion in paragraph 2.5.

Table 1: Implementation rates for fiscal year 2014

	DOM	GND	SKN	SLU	SVG
(1) Total Funds collected	\$4,109,000	\$8,019,872	\$4,199,577	\$9,143,460	\$7,620,502
(2) Total Funds Disbursed on projects	\$616,000	\$41,300	\$651,111	\$385,432	\$5,835,176
% Funds Disbursed from 2008 to 2014	15%	<1%	15.5%	4%	76%
(3) Total Funds Committed on current or new projects	\$1,700,000	\$1,319,465	\$1,585,677	\$2,365,244	\$1,780,710
% Funds Committed to New	49%	16.5%	45%	27%	100%

Projects Post 2014					
(4) Total Funds Available for future projects	\$1,793,000	\$6,659,107	\$1,962,789	\$6,392,784	\$4,616
Implementation Rate	56%	17%	53%	30%	100%

Source: ECTEL/NTRCs

All Capital Funding is Limited

2.10. At paragraph 6.4, ECTEL floats the idea that the proposed increase in the Universal Service Fund Contribution levy would reward those USF that make effective use of the fund. This should not be the case.

2.11. Firstly, funding of projects from the USF is not a competition. Each NTRC receives a predictable envelope of funding totaling 1% of the Annual Gross Revenue of operators in its country. Each NTRC is expected to support any number of projects that can be accommodated by the funding. The reward for effectively using the funding available is not more money but the achievement of the stated objectives for Universal Service.

2.12. Funding is limited for the NTRCs as it is with operators. There is no unlimited purse. Projects must match funding available not funding to match projects, which are potentially unlimited. Following the logic of ECTEL's proposal could mean that USF levy could be any percentage so long as projects can be found to gobble up the funding. Indeed this is exactly what ECTEL is doing when it proposes increasing the USF contribution to include, inter alia, market surveys, consultancies, studies, grant funding and increase in administration fees.

2.13. From the Universal Service Fund Annual Report 2014 and the Universal Service Operating Plan 2015 published by the NTRC St. Vincent, CANTO notes that the NTRC,

St. Vincent has seven (7) ongoing projects, from 2014 and there were nine (9) outstanding projects from 2014 that were carried into 2015. Further in 2014, the NTRC St. Vincent said it decided not to sign any new contracts for additional projects so that it could ensure that projects previously undertaken could be commissioned. The NTRC St. Vincent also observed that less contributions to the USF were being received.

- 2.14.** It is good that the NTRC St. Vincent is focused on its objective of achieving Universal Service. However, it does appear that the NTRC St. Vincent has more projects than it has the resources or funding to accommodate. Being over-extended and over-budgeted is not good governance and is certainly not a premise for proposing an increase in the contribution by operators from 1% to 2%.

OTTs Erode USF Funding

- 2.15.** For several years, CANTO's members have identified that Over-the-Top (OTT) providers will whittle away at operators revenues and this will impact funding available for the USF. The NTRC St. Vincent has noticed a reduction in funds available and so should the other NTRCs.
- 2.16.** ECTEL and the NTRCs have insisted on an interpretation of Net Neutrality which gives OTTs unfettered access to the network of providers in the ECTEL countries. These OTT providers are not licensed in the ECTEL countries, they pay no taxes, make no payments to the licensed operators in the ECTEL countries for the use of their network and make no contribution to USF. Yet they earn from customers in ECTEL countries.
- 2.17.** Having known this for some time and having made it clear that it has no intention to do anything to affect the status quo with the OTTs, it would be unacceptable for ECTEL to seek to recoup reduction in USF from licensed operators through increased contribution or the addition of a reserve fund. Accordingly CANTO's expectations is that ECTEL will either accept that the existence of OTTs will result in dwindling funds for USF or make up any shortfall in funding the USF from OTTs..

Transparency and Accountability Deficient

2.18. Part IV of the Telecommunications (Universal Service Fund) Regulations require the NTRCs to prepare budgets for each upcoming financial year and to prepare an annual report which must include:

- i. Audited financial statements of the Fund
- ii. Details of activities Supported By the Fund
- iii. Details of awards of contract

2.19. To the best of CANTO's knowledge only St. Vincent and St. Lucia publish any kind of budget for USF and NTRC St. Vincent, in particular, has been diligent in providing details of activities supported by the Fund. However neither NTRC reports on the details of awards of contracts. While CANTO has not seen audited financials for 2014 and 2015 is perhaps not yet ready, review of the financials for earlier years demonstrate that the NTRCs have been providing audited financial statements of the Fund.

2.20. There remains then that all NTRCs must publish budgets for each upcoming financial year and details of awards of contracts must be provided by all NTRCs.

Connectivity is Still Key

2.21. ECTEL is proposing that the scope of universal service be expanded to include access devices, ancillary services and infrastructure equipment. CANTO recognizes that over time the definition of universal services will evolve. The danger in ECTEL's proposal is that less people are connected to the network because of an outsized focus on ancillary services and infrastructure equipment. The whole purpose of the USF is to connect people to networks so that they can extract the benefit from being connected.

2.22. A November 2015 report out of Africom states: ¹*“Ultimately, connectivity is the biggest enabler for startup innovation,” concluded Facebook’s Markelainen. “Once you can get connected, everything else can follow.”*

¹ <http://telecoms.com/453502/ultimately-connectivity-will-drive-innovation-says-panel-at-africom/>

2.23. Attached for the consideration of ECTEL is a paper written and circulated to governments in the region titled '*Incentivising Investment in Broadband in the Caribbean*' which proposes a public / private partnership to advance the roll-out of broadband services in the region.

3. CONCLUSION

3.1. CANTO recognizes that over time the definition of universal service will evolve. Even within this evolution, the focus of universal service and funding must always be to connect the unconnected to the network and this objective should never become secondary to incidental ancillary services and infrastructure equipment.

3.2. There is no unlimited envelope. There will always be capital and budgetary constraints for providers and for the NTRCs. The proposal to increase the contribution of operators to the USF from 1% to 2% is in effect seeking to create an unlimited envelope. This is unrealistic. However ECTEL and the NTRCs plan to go forward with the USF it must operate in the context of 1% contribution of annual gross revenues.

3.3. The track record of the NTRCs, save NTRC ST. Vincent, in disbursing funds for universal service projects is dismal. With the exception noted, none has over the past seven (7) years disbursed as much as 20% of funds available. Clearly there is no need for additional funding. And while NTRC St. Vincent is to be commended for its good work in advancing universal service, it seems over-extended and over-budgeted which is the other extreme. Operators provide a reliable, predictable source of funding so all NTRC must budget for projects in accordance with the 1% funding that they know will be available.

3.4. CANTO suggest that ECTEL engages with stakeholders such as CANTO to develop strategies which ensure that the existing USF is managed to maximize the benefits of the contribution that Licensed operators already make.

APPENDIX 1

Incentivising Investment in Broadband in the Caribbean

(see attached)

END

CANTO POLICY PAPER 2013/2/No.1

Executive Summary

Title: **Incentivising Investment in Broadband in the Caribbean**

Objective: **To Support Governments in Facilitating Economic Development through Connecting its Citizens.**

1. Desirable Characteristics of Broadband Incentives

- a) All broadband networks eligible
- b) Time Bound
- c) Geographically focused to the extent possible
- d) Capable of supporting innovation and new services
- e) Targeted at initial capital costs in particular

2. Specific Possible Incentives

- a) Import Duty Relief
- b) Consumption Tax Relief and Tax Credits
- c) Reduced Licence Fees or Licence Fee Waivers for a specific period
- d) Use of Universal Service Funds
- e) Resourcing
- f) More Government Services Online

CANTO Policy Paper 2013/1/No.1

Incentivising Investment in Broadband in the Caribbean

CANTO POLICY PAPER 2013/1/No.1

Title: Incentivising Investment in Broadband in the Caribbean

Objective: To Support Governments in Facilitating Economic Development through Connecting its Citizens.

Introduction: At the Caribbean Association of National Telecommunication Organisations (CANTO) conference in July 2012, the Ministerial Panel requested that the industry provide guidance on how Caribbean government could incentivize operators to accelerate investment in broadband networks.

The request of the Ministers is timely in the context of global acceptance of the transformational effect of broadband and the findings of the recent ² *Global Information Technology Report 2012'* (the Report) in which several CANTO member countries were included and ranked out of a total of one hundred and forty two (142) countries.

The rankings were as follows:

Ranking of CANTO Members in the Global Information Technology Report 2012

COUNTRIES	NETWORK READINESS INDEX	SUBINDEXES			
		Environment	Readiness	Usage	Impact
Barbados	35	29	51	34	36
Trinidad & Tobago	60	76	43	52	91
Jamaica	74	62	62	79	82
Guyana	90	86	81	92	101
Belize	119	121	112	123	124

² [http://www3.weforum.org/docs/Global IT Report 2012.pdf](http://www3.weforum.org/docs/Global_IT_Report_2012.pdf)

Suriname	121	131	114	114	131
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With regards to the Caribbean, the Report summarises that³ '... *Latin America and the Caribbean continues to suffer from an important lag in adopting ICT and technology more broadly. This is reflected in the rankings, as no country manages to reach the top 30three shared reasons for this lag can be identified: these countries all exhibit an insufficient investment in developing their ICT infrastructure, a weak skill base in the population because of poor educational systems that hinder society's capacity to make an effective use of these technologies, and unfavorable business conditions that do not support the spur of entrepreneurship and innovation. Addressing these weaknesses will be crucial for improving the region's competitiveness and shifting its economies toward more knowledge-based activities...*'

The ITU Report⁴ *Impact of Broadband on the Economy* published April 2012 states that:

'...according to Koutroumpis' research, in countries with low broadband penetration (under 20%), an increase of 1 per cent in broadband adoption contributes to 0.008 per cent of GDP growth, while in countries with medium penetration (between 20% and 30%), the effect is of 0.014 per cent and in countries with penetration higher than 30 per cent, the impact of 1 per cent adoption reaches 0.023. The implication of this finding for developing countries is quite significant. Unless emerging economies do not strive to dramatically increase their penetration of broadband, the economic impact of the technology will be quite limited.....The economic impact of broadband manifests itself through four types of effects ...The first effect results from the construction of broadband networks. In a way similar to any infrastructure project, the deployment of broadband networks creates jobs and acts over the economy by means of multipliers. The second effect results from the "spill-over" externalities, which impact both enterprises and consumers. The adoption of broadband within firms leads to a multifactor productivity gain, which in turn contributes to growth of GDP. On the other hand, residential adoption drives an increase in household real income as a function of a multiplier. Beyond these direct benefits, which contribute to GDP growth, residential users receive a benefit in terms of consumer surplus, defined as the difference between what they would be willing to pay for broadband service and its price. This last parameter, while not being captured in the GDP statistics, can be significant, insofar that it represents benefits in terms of enhanced access to information, entertainment and public services.'

Note that '...', *broadband has a stronger productivity impact in sectors with high transaction costs, such as financial services, or high labour intensity, such as tourism and lodging. and that '...the economic impact of broadband is higher when promotion of the*

³ http://www3.weforum.org/docs/Global_IT_Report_2012.pdf, pgs.22,81

⁴ http://www.itu.int/ITU-D/treg/broadband/ITU-BB-Reports_Impact-of-Broadband-on-the-Economy.pdf
Pgs. 6,3,2

technology is combined with stimulus of innovative businesses that are tied to new applications....'

Caribbean Industry Proposal: Following is the proposed framework of the Caribbean telecommunications industry regarding the incentives, both fiscal and regulatory (enabling environment) that governments should establish to encourage the rollout of broadband networks throughout the region.

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1. Desirable Characteristics of Broadband Incentives

a) All broadband networks eligible

Incentives should, as far as possible, be technology neutral. The prevailing thinking, on increasing the penetration of broadband services, is that all types of technology will have to be utilized to reach citizens. This however does not mean that governments are compelled to support, by way of incentives, any operator or any technology where such will not, cannot or does not deliver on the governments' objective for broadband rollout.

Where it exists for any technology, there should be regulatory relief from having to offer broadband services under certain conditions or at certain prices. Competition from various technologies will cause broadband to reach more customers sooner and removing asymmetric regulation will encourage greater competition among the technologies and spur investment.

b) Time Bound: Incentive Windows

Operators should be given incentive windows. Time windows should be coherent with the schedule for the rest of the regulatory framework. For example if new spectrum is being made available from

a certain date then the window for incentives should relate to the network rollout period required to utilize that spectrum.

c) Geographic Targeting

It is usually more difficult for operators to make a business case to expand networks in the more rural areas. Therefore governments may want to focus incentives for investing in these areas including providing support for training persons to use the technology for social and business needs. This should facilitate driving demand for services. The proposed approach, in this respect, is to relate the total subsidy to the level of losses that risk being incurred in respect of rollout in rural areas.

Governments may be concerned about the possible incentives that operators may have to overstate costs and understate revenues in order to make the loss threshold appear lower than is actually the case. One approach to minimize this outcome is to determine the cost base required to achieve particular coverage targets by requesting quotes from the respective equipment manufacturers. Each quote would be provided on a confidential basis to respective governments. Revenues would be based on agreed forecasts which would be adjusted on a forward looking basis to take account of actual revenue.

d) Capable of Supporting Innovation and New Services

Operators should be allowed to test and trial new types of broadband services with minimal administrative process. It also means that where policymakers have to make decisions, the decision making process has to be accelerated to support innovation in the market so that the countries can enhance their ability to compete in the international market.

e) Targeting Capital Costs

The capital cost necessary for network development typically represents the largest potential barrier to network rollout. A commercial case has to be made for the investor to get a fair return in a reasonable timeframe. Incentives aimed at the initial capital costs would encourage more operators to upgrade their networks to deploy the latest technologies. For example LTE on mobile facilitates the provision of a wider array of broadband services and improved quality of service. These technological developments are fundamental for the diffusion of broadband usage throughout Caribbean societies. Specific possible incentives to encourage network development are:

2. Specific Possible Incentives

a) Import Duty Relief

Import duties can represent a significant barrier to potential investors especially where these are particularly high as they represent a large proportion of capital costs. It is therefore proposed that

time limited exemptions from import duties on equipment required to deliver broadband services should be considered.

There are a range of ways in which such relief can be applied, from the administratively simple to the administratively complex.

- The simplest approach is to permit complete relief from import duties for a time limited period. The relief would be provided in respect of any network equipment used to deliver broadband services. For example, the time limit could relate to the period required to achieve national objectives for broadband coverage.
- Another approach could be to make the relief subject to meeting specific rollout objectives.
- A more complex approach would be to provide relief on equipment after certain threshold coverage requirements have been met.
- Customers also face capital costs when they are adopting a new technology, in the form of handset prices, PCs and modems. Blanket relief from import duties might only appear to benefit some people who could afford the devices. Accordingly governments might wish to consider time limited exemptions in this regard and/or enabling relief for the most basic handsets, PC and modems which would still facilitate access to the newest, relevant technologies.

b) Consumption Tax Relief and Tax Credits

The ability of customers to afford handsets, PCs and modems is also affected by consumption taxes that are levied on these devices. The easing of consumption taxes would make it more affordable for customers to connect to broadband service.

Governments should also consider tax credits for operators where operators have met certain agreed targets.

c) Licence Fees

Licence fees, and especially spectrum fees, are an ongoing operational cost which raises the hurdle that operators must clear in order to make an investment viable. Accordingly, any relief in terms of licence fees can lead to economic and consumer benefits. In this regard, governments are encouraged to employ administrative pricing in pricing spectrum allocated to broadband service. With the rapid evolution of technologies operators are faced with a combination of uncertainties: which type of networks to invest in; when to invest in them; and how long they will have to maintain existing networks before they can move all customers fully onto new networks. Operators are also faced with having to maintain parallel networks for some period of time. Consequently operators are forced to seek multiple licences, pay for multiple sets of spectrum fees to run those existing networks, as well as to anticipate and look to purchase what spectrum might be needed in the future. The continual need for network operators to enhance and improve their networks

increases their risk and dampens investment particularly when faced with high licence and spectrum fees for multiple networks. Consequently, it is suggested that Governments give consideration to phased in or reduced fees where multiple networks have to be maintained.

d) Use of Universal Service Funds

A universal service fund would be a potential vehicle through which to manage geographically targeted incentives. In this regard governments need to ensure that legislation expands the definition of universal service to include broadband services.

e) Resourcing

There is a relatively small pool of engineers with deep experience in newly emerging technologies. Experienced engineers are needed to deploy new technologies successfully and in a timely fashion. It may be necessary for operators to look internationally for such persons. Restricting the pool of people from which operators can draw, even if that includes several large countries, would stymie attempts to rollout networks as well as the ability to pass on those skills to local engineers. From time to time as well, other professionals are required.

A flexible resourcing policy which allows operators to initially employ persons from other Caribbean operations or from further afield is necessary. Approval of these hirings can, of course, be made contingent on requirements to transfer knowledge and skills to local employees. This would effectively support the development of the competencies of local employees.

Governments could also consider approaching Caribbean tertiary institutions to develop relationships with some leading broadband network manufacturers so that the skills can be developed within the degree programmes.

f) More Government Service Online

Creating the demand to use broadband services is a critical element in incentivizing customers to want to connect to broadband services. This in turn stimulates demand for operators' service and makes it more persuasive for operators' to build an economic case to develop their networks. The slow rollout of government e-services was also highlighted in the Report. Governments are therefore encouraged to make more and more of their services accessible to the public online. This will fuel the diffusion of broadband services since most persons will need to access mandatory government services.

