CANTO

RESPONSE TO

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 disbursal 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-africacom/

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