

COMMUNICATIONS COMMISSION OF KENYA

Consultative Paper No.02/09

Implementation of the Universal Service Fund

1. Purpose and Overview of the Consultation Paper

Part IX of the Kenya Communications Amendment Act, 2009 provides for the establishment of a Universal Service Fund (USF) to be managed by the Commission. The aim of the fund is to facilitate the rapid achievement of national policy goals for universal access to Information and Communication Telecommunications (ICTs).

Access to affordable and reliable communication services has been recognized as a fundamental human right that every government should strive to provide. The liberalization of the sector has addressed the market efficiency gap while the true access gap still remains in areas that may be considered uneconomic thereby making availability and accessibility of ICT services difficult for many. The Universal Access study of 2004 identified close to 90 administrative divisions in the country that had no access to any other form of communication except radio.

As illustrated in Table 1, the current population coverage by mobile operators is more than 80 per cent. This means that close to 20 per cent of the population has no access to voice telephony. Likewise, even among the 83 percent of the population covered by the operators, not every person is connected as only about 16 million lines are connected and, in most cases, individuals have multiple lines (SIM cards). Whereas the voice telephone service within the mobile sub-sector has recorded an impressive performance, the same cannot be said about the Internet market. The current estimate of Internet users in the country is about 3.4 million people, of which 80.7 percent are in Nairobi and 9.4 in Mombasa. This illustrates that 90% of Internet users are based in urban areas. This low consumption of service and uneven distribution of customers could be attributed to ICT illiteracy, lack of services and the high cost of connectivity.

As illustrated in table 1, the indicators of the universal access/service shows that the achievement of universal access to ICT services is still a long way off. The USF is designed to address these concerns.

Table 1: Key Indicators of Universal Access/Service in Kenya (2006-2008).

Indicator	2006	2007	2008
Population (Million)	36.10	37.20	38.30*
Fixed Teledensity	0.86	0.90	1.60
Effective Teledensity	20.33	30.75	42.39
Mobile Penetration	21.62	33.65	43.64
Number of Fixed Payphones	7,913	5,805	5,210
Number of Community Mobile Payphones	29,888	20,822	13,980
Mobile Population Coverage	65%	77%	83%
Mobile Land Coverage	19%	27%	32%
Connectivity to Villages (Schools)	Minimal	Minimal	Minimal
Community Access Points (Telecentres)	-do-	-do-	-do-
PWDs access points (Telecentres)	-do-	-do-	-do-
Number of Internet Users	1,054,920	1,423,546	3,359,552
Internet penetration	Less than 1%	Less than 1%	1%
Number of Post Offices	734	725	733
Number of Courier Outlets	538	598	608

Source: CCK Database, CCK Annual Report and Economic Survey 2009.

* Provisional.

The fund seeks to contribute to national economic and social development by enhancing the universal accessibility and availability of ICT infrastructure and services to all, particularly to rural residents and economically and physically disadvantaged populations. The USF will achieve this by leveraging infrastructure investments in high cost areas, promoting technological

innovation and supporting the establishment of efficient, self sustaining market- oriented businesses which will continue to expand access to ICTs on their own initiative, requiring the minimum amount of USF financing.

The purpose of this consultative paper is to provide stakeholders a foundation document that will stimulate and focus the discussions on a USF that will be held at various consultative fora. It also gives the stakeholders an opportunity to comment on the proposed framework in order to foster a common understanding on the implementation of the USF as provided for under the Act.

The Commission therefore wishes to seek the views of the industry as part of the process of developing the requisite regulatory framework for the Fund and ensuring its establishment.

The Commission invites comments on the service penetration levels in rural areas in particular

2. Background

The rapid and continuing growth and development of information and communications technologies (ICTs) is transforming the ways in which we live and work. ICTs have become a pillar of modern society and communication services have been accepted as a means to empower communities to participate and contribute to national development. Consequently, every person is entitled to affordable and accessible wide range of ICT services to enable them participate fully in all aspects of economic, social, cultural and democratic life. Universal Access to essential ICTs is therefore recognized as a principal policy objective in the development of an 'information society'.

The Universal Service Fund is recognized globally as the best option to funding and realizing Universal Access objectives. In countries where the USF is a well established mechanism, it has enabled penetration and utilization of communication services. Annex 1 provides benchmarking of some selected countries that have successfully implemented the USF.

Locally, the need for a fund is articulated in the Universal Access Study (2004) which proposed the institutionalization of a USF that will facilitate mechanisms of extending communications services to un-served areas, support local content development, build ICT capacity and promote innovation.

Since the completion of the study, the Commission has successfully implemented some of its key recommendations. Firstly, it has promoted the institutionalization of the Fund through the establishment of a legal framework in the Kenya Communications Amendment Act No 1 of 2009. Secondly, the Commission provided seed money for the implementation of Universal Access pilot projects whose successful implementation has provided a useful framework towards implementation of universal access strategies in Kenya. The pilot projects have also gone a long way in achieving some fundamental Universal Access objectives. Lastly, the Commission has established a Statistical section and equipped it with relevant software including ArGIS mapping and SPSS data management systems. The section has been instrumental in informing the identification and selection of un-served and underserved areas, communities and schools for Universal Access Funding as well as informing other regulatory interventions.

The Commission invites comments on the need for a USF in Kenya.

3. Legal Framework

The Universal Access Study recommended that a legal and regulatory framework be put in place to enable the attainment of Universal Access objectives. Consequently, the KCAA 2009 provides a legal framework for the establishment of a USF that will be administered by the Commission through a Universal Service Advisory Council.

The Commission therefore wishes to seek the views of the industry as part of the process of developing the requisite regulatory framework for the Fund as well as the operational guidelines.

4. Key Issues of the Universal Service Fund

4.1. The rationale for the Fund

The traditional regulatory strategy of imposing Universal Service Obligations on incumbent operators has proven to be largely ineffective particularly where the penetration is low and the burden of achieving Universal access is tremendous. This model was used in Kenya for many years with modest results as evidenced by low growth in fixed line telephony and postal outlets penetration rates.

Since liberalization and the subsequent mobile revolution, rural service expansion has become more commercially attractive due to cost effectiveness and deployment advantages of wireless technologies. While there has been aggressive roll out in rural areas in Kenya, it would take some time for the market to create enough commercial incentives to bring connectivity to high cost remote regions and low income households. Consequently, some form of funding is necessary to finance gaps which still exist between the market's commercial boundaries and the targets that the regulator and the government wishes to achieve in order to ensure that all Kenyans have access to communication services.

The Universal Service Fund is a complementary initiative that is geared towards bringing about effective investment in ICT services and successful up-take beyond the low cost markets. The Commission plans within the next financial year to undertake an access gap study to determine the commercially unviable locations in the country and the subsequent funding requirements.

With the increasing importance of advanced ICT services, the Fund is also necessary in provision of Internet services, access to computers and other devices, provision of postal and courier services as well as training support in rural areas. These activities are necessary to stimulate demand and utilization of ICT services in the country.

It is therefore expected that with effective and fair utilization of the fund, there shall be increased focus in boosting telecom penetration in remote areas, improving Internet penetration and advancing the enhancement of e-services both in rural and in urban areas of the country.

4.2. Objectives of the Fund

The objective and purpose of the fund is to support widespread access to communications services, support capacity building and promote innovation in ICTs. In using the Fund to promote Universal Service the Commission shall;

- (a) Encourage efficient access to and use of information and communications networks and service throughout the Republic of Kenya, with special focus on rural, remote and under-served areas with a goal of promoting social, and economic development;
- (b) Ensure reasonable availability and affordability of basic and advanced information and communications services at the community, household and individual levels, particularly where the market may be unable to deliver independently such services in a financially viable manner.
- (c) Promote skills development in ICTs
- (d) Promote technological innovation in the communication sector.
- (e) Provide support for the introduction and expansion of communication services to schools, health facilities and other organizations serving public needs
- (f) Facilitate development of and access to a wide range of local and relevant content; and
- (g) Promote reasonable availability and affordability of basic information and communications services to persons with disabilities.

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| <ul style="list-style-type: none">a) <i>What other fundamental objectives should the USF strive to achieve?</i>b) <i>What other functions should the fund undertake in promoting ICT development in Kenya?</i>c) <i>Given the wide range of possible interventions through the Fund, what, in your opinion, should be priority areas of intervention and implementation?</i>d) <i>What are some of the effective ways to stimulate ICT capacity building, especially for underserved communities in Kenya</i>e) <i>Propose some specific interventions that the USF can support in the broadcasting sub-sector.</i> |
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4.3. Funding Mechanism

Pursuant to the KCAA 2009, the USF will be financed through funds received from licensed operators as well as from government and other partners. This approach is based on best practice, benchmarking and recommendations of the Universal Access Study.

Consistent with technological convergence that has blurred the distinctions between technologies and services, it is expected that all licensed network operators and service providers including postal operators shall contribute to the USF.

The Commission recognizes that the Fund could pose a certain degree of challenges to start-ups and small companies and, therefore, considers a threshold for contributors. The criteria could be based on a minimum annual gross turnover of Ksh. 10,000,000.

4.3.1. Contribution Level

In coming up with the levy, the Universal Access Study embraced a consultative approach that incorporated stakeholder opinions as well as international benchmarks to derive an acceptable and reasonable contribution. Following this process the study recommended a levy of 0.5% of annual gross revenues for telecommunications network and service providers. This levy shall also apply to the broadcasting operators. For the postal and courier operators, they will be expected to contribute an additional 20% of existing annual fees.

We wish to underscore that the proposed 0.5% is among the lowest levels of contribution in comparison to other existing funds across the globe which range anywhere between 1% and 6% (See Annex 2).

- a) *Should all the licensed operators contribute to the fund?*
- b) *Who should be exempted from paying the levy and why?*
- c) *What should be the minimum threshold on the licensed operators to contribute to the fund?*
- d) *Should CCK and the government also contribute to the Fund?*

4.3.2. Review of Levy Charge

The legislative framework provides for the revision of the levy when need arises. We propose that as UA objectives are met or as targets are changed or the growth and revenues available in the sector change, the level of contribution shall be re-evaluated and adjusted from time to time. This process shall be undertaken in consultation with the industry.

4.4. Administration, Management and Oversight for the Fund

The Commission shall manage the Fund on a day- to-day basis under the guidance of an advisory council. The role of the advisory council is expected to be:

- (a) Provide recommendations on the policy direction of the administration and management of the fund to the Commission's board
- (b) Assist in the development of the appropriate socio-economic criteria to identify the geographic areas, population groups, institutions and organizations that may be eligible to benefit from the fund projects
- (c) Advise the formulation of annual Operating Plans.
- (d) Assist in the development of criteria for evaluating project proposals for funding by the Fund
- (e) Oversee the monitoring and evaluation of the fund projects; and

The CCK board shall be responsible for approving the operating plans and budget of the USF.

The advisory council is expected to have representation of relevant stakeholders with its members having knowledge and experience in broadcasting, telecommunication, postal systems, information technology or finance. It is expected that operators' interests shall be articulated through representation in the advisory council.

The daily administrative functions of the USF shall be undertaken by a USF secretariat in form of a fully dedicated department within the Commission responsible for the design of UA strategies, policies and monitoring their implementation.

Though the USF will be a portfolio unit under the Commission, the operation of the fund shall be an autonomous function. Subsequently, the department shall be fully equipped with staff possessing the requisite skills for the management and administration of the fund. The department shall therefore be structured to include the following sections:

- **Funding and Subsidy:** Responsible for efficient management of the financial resources including financial planning, budgeting and fund disbursement.
- **Policy and Strategy:** Responsible for policy analysis as it relates to the fund, conceptualizing strategic and operational plans for the fund, incentive design, economic and impact assessment of various projects, demand access gap analysis, research and studies.
- **Project and Monitoring:** Responsible for implementation and monitoring of all USP projects and ensuring compliance with set standards.
- **Legal and Board services:** Responsible for the USF's legal and secretarial matters, ensure statutory compliance and responsible for all contracts and legal documents.

- a) Comment on the proposed governance and management structure and its adequacy to implementing the USF in Kenya?*
- b) Any other proposed key skills to be included in the USF structure and administration?*
- c) How can the sector be represented in the USF fund management?*

4.5. Bidding and Selection Process

The methods of bidding and selecting beneficiaries for subsidies, loans or grants under the UA program shall be in line with the Public Procurement Act. Additionally the principles of the Public Private Partnership guidelines (2009) shall be adopted to govern the partnership and project management elements between the UA Fund and the beneficiaries.

The Commission shall develop suitable methods to establish criteria to determine projects that are eligible for funding. In determining Fund projects, clear and transparent procedures will be applied which may include public consultation. The funds may only be used to finance projects that are fully defined in advance of invitations for bids including all anticipated terms and conditions, timeframes and eligibility criteria.

The Commission shall ensure that the project terms of reference shall not unduly favour any particular person, nor shall they require specific technological solutions but be structured in a manner that permits the greatest innovation and creativity by bidders.

In order to ensure that beneficiaries implement projects in accordance to the agreed terms and conditions of the contract, sanctions are proposed for non compliance. This may include requiring a beneficiary to compensate the amounts of the fund paid including any administrative and legal costs incurred.

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| <ul style="list-style-type: none">a) <i>Who should potentially qualify for Fund support and why?</i>b) <i>What types of projects should qualify for fund allocation?</i> |
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4.6. Financial Management

All finances shall be in line with international financial best practices including independent audit, publication and annual reporting of financial statements. They shall also be governed according to the UA's Annual Operating Budget. The USF shall establish its own separate account independent from the Commission's regular accounts.

5. WAY FORWARD

Based on the comments in response to this consultative paper, the Commission will develop appropriate guidelines and operational requirements to facilitate the successful implementation of the USF.

The industry and stakeholders are requested to submit their inputs and views on this paper to the address below before the close of day 7th September 2009.

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ANNEX 1: BENCHMARK OF LICENCE AND USF LEVIES

Region ¹	Country ²	Percentage Contribution by Operators	Type of Program Financed (US = Universal Service; UA = Universal Access)	Annual licensee fees
Africa	Uganda	1% (All licensees)	UA	Fixed USD 500 - 1000
	South Africa	0.50%	UA	1.5%
	Nigeria	40% of annual license fees	UA	2.5%
	Tanzania			1%-1.5%
	Burkina Faso	2.00%	UA	n/a
	Rwanda	2% (40% contribution) Government budget 60%	UA	1%
Asia	Malaysia	6.00%	US & UA	0.5%
	India	5.00%	US & UA	6% – 10%
	Mongolia	2.00%	UA	n/a
Latin America	Chile	Government Budget	UA	Varied Fixed
	Peru	1.00%	UA	n/a
	Colombia	5% (Plus Government contribution)	UA	n/a
	Guatemala	Spectrum auctions	UA	n/a
	Dominican Republic	2.00%	UA	n/a
Europe	Russia	2.00%	UA	n/a
North America	United States of America	Less 4% (Plus state levies)	US	Depends on technological and regulatory aspect as well as approved budget.
	Canada	1.5% (Plus federal contributions)	US	n/a

¹ In development countries, the fund generally promotes public access to telecommunications and the Internet and the contributions required from the operators gross revenues are most typically in the range of 1-2% of the those revenues.

² Note that the countries are chosen depending on the data availability and to represent regional practice and the various stages of development.

ANNEX 2: USF BENCHMARKS

Most countries around the world have implemented the Universal Service Fund which involve levying fees ranging from 1% - 6%. But in few cases such as Nigeria the fund is financed through an allocation of 40% of the annual operating fee while some like Chile rely on government funding.

As illustrated in the following cases below, Universal Service Funds include programs that aim at ensuring that rural areas and other high cost areas benefit from communication services; communities, schools, health centres and libraries have access to ICT services as well as capacity building.

1. SOUTH AFRICA

The Universal Service Fund was established in 1997 by the Telecommunications Act of 1996. The Fund is jointly administered by the Department of Communications, and the Universal Service and Access Agency of South Africa (USAASA). The USAASA was established under the Electronic Communications Act No. 36 of 2005, to promote the goals of universal access and universal service in the under serviced areas of South Africa. Under the Act, the Fund is authorized to;

- a) Provide direct subsidies to needy people to defray the higher cost of telecommunications services due to rate rebalancing
- b) Subsidize the cost of network expansion to underserved areas by operators
- c) Enhance media diversity
- d) Promote community broadcasting
- e) Training local production
- f) ICT capacity building

All communications licensees including broadcasters must pay annual contributions of up to 0.5% of their annual revenue to the Fund as stipulated in the 2001 Telecommunications Amendment Bill

The Fund has provided financing to set-up 133 telecentres, it has also provided subsidies to E-school Cyberlabs, ICT Telecontainers, community radio stations and Community Digital Hubs etc. Currently there is an ongoing debate to determine whether the USF should be used to subsidise the cost of set up boxes for poor citizens upon migration to digital broadcasting.

2. NIGERIA

The Federal Government of Nigeria established a Universal Service Provision Fund (USPF) in 2006 to facilitate the rapid achievement of national policy goals for universal access to telecommunications, information and communication technologies (ICTs). The USPF is financed primarily through an allocation of 40% of the 2.5% annual operative fees.

The fund is targeted towards supporting the following projects:

- Backbone Transmission Infrastructure including the deployment of Optic fibre cable and microwave and satellite wireless infrastructure in major towns and cities and then small towns and villages in Nigeria.
- School access program which provides connectivity to government schools libraries and public institutions in undeserved, underserved and rural areas.
- Rural broadband Internet project to facilitate broadband network rollout in undeserved, underserved and rural areas.
- Community communications centres designed to extend voice, Internet, ICT training and other services to unserved communities.
- Accelerated mobile phone expansion project which is a vehicle for facilitating roll out of mobile phone services in unserved areas by enabling communities, NGOs and private entrepreneurs to build and operate mobile telephone infrastructure (Base transceiver station, communication towers etc)

The USF is administered by the regulator, Nigeria Communications Commission through a Universal Service Provision Fund department which operates autonomously.

3. UGANDA

Rural Communications Development Fund (RCDF) was established in 2003 to support the development of a commercially viable communications infrastructure in rural Uganda to promote social, economic and regional equity in the deployment of telephone, Internet and postal services.

To utilize the resources of the Fund efficiently, subsidies are awarded through a competitive process and only available in 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.

All licensees in the sector (including telecom operators, the postal service, couriers, ISPs) are required to contribute 1% of revenues to the RCDF. By 2007, the fund had collected over US\$ 12 million, including World Bank funding of US\$ 5.0 million.

The RCDF is financing the following:

- a) Telephony in all 154 sub-counties not served by the major operators;
- b) Special equipment that would extend the reach/coverage of existing telecommunications networks into rural and remote areas;
- c) Internet points of presence and wireless access systems at district centres;
- d) A national Internet exchange point (IXP) to facilitate inter-ISP traffic;
- e) Vanguard' Internet access projects for schools, NGOs, small-scale commercial telecentres and Internet cafes at sub-district level; and
- f) Pilot content creation projects in telephony and Internet areas.

The 154 underserved sub counties of Uganda have been divided into 3 Universal Access Areas as follows;

- a) Universal Access area A comprises 44 underserved sub counties in the East and North-East. Network construction in these sub counties is ongoing and 390 payphones are expected to be installed;

- b) Universal Access area B includes 50 underserved sub counties in the Central and North-Central regions. 521 public payphones will be deployed;
- c) Universal Access area C consists of 60 underserved sub counties in the West and North-West. The project includes network construction and installation of 618 payphones

The total project costs for all three regions under the telephony component was estimated at around US\$ 11.7 million and the total subsidy awarded was US\$ 5.2 million. The subsidy had originally been estimated at US\$ 8.6 million.

In tendering for 32 Internet POPs, MTN was awarded a US\$ 685,000 subsidy for 22 POPs and UTL was awarded 10 POPs, for a subsidy of US\$ 295,000. The two bids combined amounted to about 73% of the maximum subsidy available for Internet POPs.

4. PERU

The Fondo de Inversión en Telecomunicaciones (FITEL) in Peru was established in 1993 to finance new public access telephones (pay phones) in rural areas. To realize 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.

The fund is administered by the communications regulator, OSIPTEL, which collects 1% of gross revenues from the telecommunications sector to finance FITEL. In November 2006, the fund reportedly had US\$ 143 million in resources.

Peru has defined universal access as access to a set of essential services that includes voice telephony, fax and data, and free emergency calls. By January 2005, over 6,500 rural villages had at least one public telephone financed through FITEL.

In addition to telephony, FITEL also funds Internet and information system projects. In 2007 FITEL funded connectivity services in 3,010 communities providing Internet service in 2,840

locations and telephony in 1,535. More recently Fitel funded fixed and wireless broadband networks in earmarked locations in Peru.

5. MALAYSIA

The Universal Service Provision (USP) Fund in Malaysia was established in 1998. When the Fund was created, incumbent Telekom Malaysia was the sole universal service obligation (USO) operator (the only operator with access to the Fund) for an interim period of 2 years with costs recovered from a USO charge on all interconnecting traffic.

The interim period was extended to January 1, 2002 to enable the Malaysian Communications and Multimedia Commission (MCMC) to finalize the new policy framework. 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. 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. The funds can be used to provide infrastructure and services in areas with penetration levels of 20% below national averages.

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. The 6% weighted revenue is roughly equivalent to 2% of gross revenues. On average, the fund collects in the range of US\$ 178 – 207 million annually.

Service supported by the fund includes basic telephony, Internet access, public payphones in rural areas and broadband. At a later point, universal service will not be confined only to the telecommunications industry, but extended to broadcasting and information technology.

As of April 2007, 40,000 individual phone lines and 2,500 payphones had been installed in under-served areas financed by the fund. The fund has done four rounds of funding, with a fifth

round in the planning stages. Phase 1 started in 2002. The fund financed service and maintenance for 5 years at 220 schools – 110 in Sarawak and 110 in Sabah.

Phase 2 started in 2003 and provided funding for 50 rural clinics rural clinics and 176 rural libraries. Phase 3 commenced in 2004. Projects to extend service to 309 rural clinics and 187 rural libraries received funding. Phase 4 started in 2005 and funded the connection of 147 rural and district libraries. All four phases incorporated funding for training.

The government has given approval for MCMC to use the USP Fund for rolling out broadband services in underserved areas and communities. Work is currently being conducted by MCMC to amend the USP framework to better address the goals laid out in the National Broadband Plan.

6. MONGOLIA

Universal Service Obligation Fund (USOF) was established in 2006 with the objective of establishing communications centres at each District, to provide a range of services including telecommunications and Internet. The fund is managed by the Communications Regulatory Council and all operators are expected to contribute 2.0% levy on taxable revenue.

The USOF plans to support a range of initiatives aimed at extending access to telephony and Internet services, including:

- a) Satellite-based public access telephony service for the herder community – one terminal would be provided for each group of approximately 100-150 herder families, located at or in the vicinity of Bagh headquarters. The project would provide a total of 1,500 terminals at a cost of US\$ 6.0 – 8.0 million.
- b) Competitive voice and data services through wireless access points – the service would be provided to residents and businesses in commercially viable District centres, average 100 lines per District. Up to 200 systems would be provided at a cost of US\$ 4.0 – 8.0 million.
- c) Internet public access centres (PAC) – one PAC per District would be built, located at a school, bank, telecom service provider, small business or other publicly available locale, including initial training and support. The project would finance up to 200 PACs at a cost of US\$ 3.0 million.

- d) Internet in schools – Internet support would be provided for 3 years in vanguard schools in District centres. The project would finance up to 200 schools at a cost of US\$ 3.0 million.
- e) Public mobile (e.g., GSM or CDMA) service – service would be available to residents within line of sight of one base station located at or in the vicinity of the District centre. A total of 30 base stations would be installed at a cost of US\$ 2.0 – 3.0. Million.

The total cost of the above initiatives is US\$ 18.0 – 25.0 million.

7. CHILE

The Fondo de Desarrollo de Telecomunicaciones (FDT) was established by a 1994 amendment to the telecommunications law of 1982 and is financed from the Chilean national government budget. All operators are eligible to receive funds, which subsidize the installation of public telephones in the marginal, low-income rural and urban areas. The original goal for the Fund was to provide public telephone service to about 6,000 unserved localities – a target that was met during the period from 1995-1999

Once a year, the regulator SUBTEL collected requests for payphones from regional and local authorities, neighbourhood associations, telecom operators 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. Subsidies were then distributed through competitive bidding. The bid evaluation emphasized the lowest proposed subsidy for a particular project combined with a commitment to short delivery time.

After the Fund achieved Chile's social telephony objectives were achieved, the government redefined the Fund to support telecentre projects. Projects and programs financed by the fund since 2002 include:

- a) The telecentre program for all 341 municipalities;

- b) Internet subsidies for 667 rural schools;
- c) Internet centres in 200 neighbourhood selected by the local housing ministry.
- d) Fibre optic backbone extension project, which includes funding for a WiMAX installation;
- e) Extension of mobile service into unserved areas