

**Box 2.2: Improving Payphone Access in Chile<sup>21</sup>**

After six years of successful liberalization in Chile, the number of households with fixed connections increased from 16 per cent in 1988 to 40 per cent by 1994. Building on that success, the Chilean government decided to create a subsidy scheme to provide access to the 15 per cent of the remote rural population that did not have access even to a payphone. The government employed an innovative “reverse auction” scheme that let new companies and established operators bid to provide payphone service. The winning bidder was the company that could provide the service using the lowest amount of subsidy. Chile succeeded in reducing the percentage of its population excluded from payphone access to around 1 per cent by 2001.

**Box 2.3: Payphone Subsidies in Sri Lanka<sup>24</sup>**

In the course of investigating problems with the supply of payphone services, the staff of the Telecommunications Regulatory Commission of Sri Lanka made the following findings:

- In 1998 Sri Lanka had only 0.2 payphones per 1000 inhabitants, compared with 1.57 per 1000 inhabitants in other lower-middle income countries.
- The entry of several new payphone providers into the market as resellers resulted in significant growth (payphones per 1000 population increased from 0.03 in 1992 to 0.2 in 1998) but most payphones were being installed in urban areas.
- Revenue per payphone was not reported to be significantly lower outside urban areas.
- The distance-based charges levied by the incumbent for new connections and the additional costs incurred to secure payphones against theft of service – particularly in locations distant from exchanges – contributed to the reduced rollout of payphones outside urban centres.

Based on these findings, the Commission advised the government to adopt a payphone subsidy policy, with a goal of installing 100 new payphones in each district. The recommendation included a proposed subsidy amount of about USD 750 (less than half of the estimated cost of installing a new payphone in a rural area) and an upper limit of 25 on the number of payphone subsidies each operator could receive in each district. The cap was intended to create incentives for quick rollout by the five operators active at that time and to prevent one operator from gaining the entire subsidy.

The Commission also pointed out that the addition of approximately 2,300 new payphones would bring Sri Lanka up to the average level of performance for lower-middle income countries.<sup>25</sup> The proposal included a “sunset” provision to end the subsidies once targets were achieved. The government accepted the Commission’s advice and directed the Commission to implement the payphone subsidy policy using its own funds.<sup>26</sup> The first funds under this scheme were disbursed in 2000.

research and development capabilities, contributing to disaster preparedness and recovery, and ensuring national security. Australia, Canada, the Nordic countries and a few others succeeded in achieving one or more of those stated objectives through the maintenance of monopolies. But in a majority of countries – especially developing countries – monopolies did not attain these socio-political objectives. In many countries, there were no serious efforts made to meet them.

The shock of reform has given rise to a surge of interest in these socio-political objectives. Reform opponents have brought them to the fore of policy discussions, arguing that reforms could harm efforts on behalf of universal service, national security and other valued goals. The proponents of reform have not only pointed out the failure of the *status quo* to achieve the socio-political objectives, but have also included specific provisions in reform packages to achieve them. The separation of functions and the making explicit of implicit responsibilities have also created better conditions for implementation of reform provisions pertaining to socio-political objectives.

Agencies seeking legitimacy have tended to latch on to issues such as universal access. Multilateral and bilateral international finance agencies have also tended to include specific

universal access performance targets in their credits and grants. For their part, the operators have responded to competitive pressures and to the incentives and penalties written into their licences and regulatory directives to pursue socio-political objectives. The opening up of the policy process and the supply of telecommunication services to new players has unleashed significant innovation and creativity. For example, it is fair to say that the 1990s witnessed a qualitative increase in research, advocacy and deliberation on universal service,<sup>20</sup> and more progress was made in extending service to excluded groups in that decade than in any other.

Since socio-political objectives tend to involve the redistribution of resources, it may seem most appropriate to set them through the political process, rather than by the action of an expertise-based regulatory agency.<sup>22</sup> But economic regulation is not purely objective and, in practice, many social and political objectives are embedded in economic regulation.<sup>23</sup> One approach may be to set socio-political objectives at the political, governmental level, but to task the regulatory agency with devising the best ways to achieve those objectives.

Box 2.3 illustrates the role that an agency can play in implementing a policy to achieve a socio-political objective. As a light-