Antelope Consulting

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DFID Internet Costs Study

Appendix L: Study Terms of Reference

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1 Aim

To carry out case studies in five developing countries which will provide evidence of the international factors which affect the cost of Internet pricing.

2 Background

There is a growing consensus in international fora such as the UN-ECOSOC High Level Segment and the G8 Summit in Okinawa, that the international digital divide is a major issue that must be addressed. Both fora have highlighted the potential of the new ICTs to transform lives, and the importance of building local capacity and liberalising markets to reduce access costs and to attract the private sector investments needed.

But it appears the cost of accessing the Internet in most emerging and developing countries is well above that in the developed world and prohibitively high for most potential local consumers. This is considered by many developing countries to be one of the key barriers to tackling the digital divide.

The G8 IT Charter, which was supported by all the G8 Heads of State in July 2000, specifically charges the G8 Dot.Force to look for ways to take concrete steps on a number of priorities, including:

- Working on ways to reduce the cost of connectivity for developing countries;
- Ensuring that the "rules of the game" as they are emerging are consistent with development efforts, and building developing country capacity to play a constructive role in determining these rules.

It is generally agreed that the bulk of the cost savings will come from developing countries liberalising their telecoms markets (both national and international) and we have activities in hand to help facilitate this process. Entry into their market of more Internet service providers and increased competition between them are other important factors in reducing user costs.

But no-one appears to have taken a serious analytical look at how the current international rules of the game affect the affordability of Internet

access in developing countries, and the likely impact that this will have on the international community's efforts to bridge the digital divide.

Many developing countries complain of a lack of competition between international operators for transit traffic on low-volume routes. They also identify a problem with having to pay for both half circuits of International Private Lines (IPLs) for Internet traffic exchange.

The majority of APEC members agreed a set of principles on international charging arrangements for Internet services at May's Cancun ministerial on the telecommunications and information industry in Mexico. Drawing from these principles, a Recommendation has been submitted by TAS grouping in the ITU and will be voted on in WTSA in September 2000. The analysis to date has not looked seriously at how the proposed changes would affect developing countries.

As a first step towards better understanding the real impact on developing countries of the international dimension of the Internet market, it will be useful to conduct a number of case studies of individual countries.

3 Scope of Work

Five case studies will be produced, each one focusing on a different developing country and aiming to identify:

1) The main sources of user cost differences between countries, e.g. charges levied by domestic ISPs and telecom providers, and charges levied by international providers of market-related telecom services;

2) Whether there are anti-competitive practices in the existing international market structure and charging arrangements and if so what policy interventions could deal with them;

3) Whether, in conditions of open competition, policy interventions would still be required to reduce internet access costs to an acceptable level and;

4) The likely long term effects of applying the proposed APEC principles.

The studies should consider in particular:

a) The total cost breakdown (national, regional and international) of accessing the internet for a typical end user (where appropriate, consider both business and consumer users and both rural and urban locations);

b) Cost breakdown for the ISPs operating in that country;

c) Peering and international call charging arrangements of the local ISPs and other parties involved in international link (as far as can be assessed, recognising that many of these arrangements are subject to secrecy clauses);

d) The transparency of the various arrangements and negotiations;

e) Level of understanding and strength of negotiating position of local stakeholders;

f) The range of options available to local ISPs (both in terms of alternative communications links and prospective suppliers of international bandwidth);

g) What is the level of private sector interest in investing in increased international communications links to the country or other relevant private sector issues (e.g. peering arrangements with local ISPs, etc.)?

h) Any existing analysis or empirical experience on the expected rise in the number of people accessing the Internet if access costs dropped and elasticity of this relationship;

i) The country's current degree of liberalisation;

j) Competition in the market for international leased lines;

k) Competition for alternative means of delivery i.e. satellite, cable etc.;

l) The country's expected degree of liberalisation and effective competition in the national and international communications markets in 2003 (based on an intelligent assessment of the government's commitments/progress to date);

m) Expected growth in Internet usage of each country, given current local market conditions.

The developing countries selected should represent a good cross section, from early adopters to latecomers and from developing countries with more competition and greater traffic density to smaller, poorer countries with low penetration (suggestions could include: Uganda, South Africa, Ghana, Nepal, Botswana, Sri Lanka, Malaysia, etc.). The consultants should suggest suitable countries (with appropriate justification) but the final decision will be DFID's (in consultation with DTI).

4 Outcomes and Deliverables

Draft initial findings.

Five case study reports in Word format, each with a two page executive summary.

5 Management & Reporting

The DFID project manager will be David Woolnough, with support from Adrian Pinder at DTI.

A suitable contractor will be selected on the basis of a competition.

6 Timing

The work will start as soon as possible after contract award. Deliverables will be due as follows:

By end of month three: Draft case study reports;

DFID will provide comments within four weeks of receipt of draft report;

Within one month of receipt of DFID's comments: Final case study reports.