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GENERAL NOTICE

NOTICE 1570 OF 2003



UNIVERSAL SERVICE AGENCY

NOTICE OF DRAFT POLICY IN RESPECT OF SUBSIDISATION OF THE UNDER-SERVED AREA LICENCEES BY THE UNIVERSAL SERVICE FUND IN TERMS OF SECTION 66 (f) OF THE TELECOMMUNICATIONS ACT (NO. 103 OF 1996), AS AMENDED

The Universal Service Agency (hereinafter referred to as "the Agency") hereby gives notice that it has developed a draft policy in respect of the Subsidisation of the Under-Served Area Licencees, in accordance with Section 66 (f) of the 1996 Telecommunications Act, as amended.

The Agency invites written and oral submissions from all interested parties in respect of the draft policy.

SAM GULUBE

CHIEF EXECUTIVE OFFICER

UNIVERSAL SERVICE AGENCY

1. INTRODUCTION

The Universal Service Agency was established by the 1996 Telecommunications Act, as amended. The said Act mandates the Agency to manage the Universal Service Fund, while Section 66 outlines the applications of the money in the Universal Service Fund.

Section 66, subsection (f) of the 1996 Telecommunications Act prescribes that the Agency "subsidise small businesses and co-operatives to acquire and construct infrastructure to provide telecommunications services;".

The Agency has developed a draft policy for the subsidisation of USAL Licencees which has been published for public comment .

2. BENEFICIARIES FOR SUBSIDISATION

2.1 Subsidies shall be available to each USAL Licencee that so requests, such assistance.

2.2 Information in respect of the process of subsidisation will be published by way of Government Gazette, and will be available on the website of the Agency at www.usa.org.za.

3. MECHANISMS FOR SUBSIDISATION

The Agency has developed a two-pronged model for the subsidisation of the Under-Served Area Licence Licencees. The subsidy is intended to create an enabling environment for empowerment groups in the leveraging of funding.

3.1 Liquid Equity Loan

A low interest equity access loan is fiscally more prudent than a straight grant. "Low Interest Quasi Equity for the Disadvantaged (LIQUID) equity loans"

This is intended to be a direct subsidy to the equity contributions of the Historically Disadvantaged Individuals / Groups (HDI/Gs) by the use of specialised financial instruments. ZAR 5 million will be available at an extremely low interest rate (0.5% pa) and long term (10 years), with 50% being a direct subsidy and 50% that needs to be repaid. Once the 50% has been repaid, full title to the shares shall be transferred from the Agency to the registered owners of the USAL. The LIQUID equity loans will allow the Agency to retain some element of prudent financial control and oversight over the "grant" component of the subsidised equity contributions.

These could more accurately be described as "Subsidised interest, long term, significantly subordinated, ZAR 5 million, quasi equity loans with a 50% fully subsidised grant component for severely economically disadvantaged potential shareholders".

This loan is specifically designed to have specific characteristics as to be deemed "quasi equity" by other lending institutions. It is also intentionally designed to be a loan, so as to ensure that the Agency has senior security over the assets of the USAL. It is also intended that, until it is repaid, the Agency will have the right to appoint a Director to the Board, so as to ensure that the Agency retains a degree of financial oversight into the operations of the USAL.

The proposed principal terms of the "LIQUID" loan are itemised below:

- Amount ZAR 5 million
- Interest 0.5% per annum
- Term 10 years
- Grace period 5 years
- Repayment 50% of the loan, in equal instalments, over 5 years, from the sixth year of the project onwards
- Equity "grant" 50% of the loan will be "waived" after the first 50% has been paid in full
- Subordination The interest and principal repayments will be fully subordinated to the principal and interest repayments of the other lenders to the USAL
- Security The loan will participate pro rata and with equal seniority to other lenders in the securities offered to other lenders to the project for the duration of the loan
- Representation The Agency will immediately grant "ownership representation rights" on a pro rata basis to 50% of the shares that are purchased with its ZAR 5 million for those Historically Disadvantaged Groups and Individuals. Until the 50% of the loan is repaid, the Agency will retain the title to the remaining 50% of the shares in the USAL company that are to be purchased for the ZAR 5 million on behalf of the "designated" owners. Once 50% of the loan has been repaid, the balance of the shares will be distributed on the same pro rata basis, and the

Agency will cease to have any "representation rights" on the Board of Directors of the company.

3.2 Loan "Capital Guarantee"

The Agency will directly support the USAL Licencee's ability to borrow money from the Development Fund Institutions (DFIs) and commercial banks by taking upon itself the "capital risk" of the first ZAR 10 million of borrowings by each USAL Licencee. Under this option, after a period of five years, the USAL would repay to the lending institutions the first ZAR10 million of any capital loss incurred in the event of the USAL Licencee becoming insolvent. The guarantee would be limited to ZAR 10 million per USAL. It would apply only to repayment of the principal, not to interest or other financial charges or penalties. After a five year term, the capital guarantees would fall away, in the event the USAL was not in liquidation. The Agency shall have senior security against the assets of the USAL in the event of its failure, and oversight in the disposal of the assets of the USAL.

The same amount of "LIQUID equity loans" and "basic capital guarantees" would be offered to each of the winners of USALs, regardless of the overall size of the concession area or the total amount of the specific project financial plan.

These could more accurately be described as "Subsidised, medium term, significantly subordinated, term limited, amount limited, ZAR 10 million capital guarantees to development finance institutions and commercial banks".

This capital guarantee is specifically designed to reduce the risk exposure of the lenders to any USAL project for the first ZAR 10 million of their capital exposure to any USAL project. It is anticipated that this will enable every USAL project to be able to obtain a loan of at least ZAR 10 million dependent upon the quality of the business case of the specific USAL. It is also intended that until the capital guarantee falls away after five years, the Agency will retain a security lien for the full amount of the guarantee over the assets of the USAL parri passu with the senior lenders to the USAL. The purpose of this security for the Agency, is to enable the Agency to retain some continuing role in the disposal of the assets of the USAL in the event of its liquidation.

The proposed principal terms of the "Capital Guarantee" are itemised below:

- Amount ZAR 10 million
- Fee 0.5% per annum
- Term 5 years
- Cover This will guarantee the lender or lenders, on a pro rata basis, the repayment of the first ZAR 10 million of capital exposure to the project in the event of the liquidation of the USAL at any time in the five year

period of the guarantee. This cover is for the capital amount only and specifically excludes interest, fees, penalty charges or any other financial charges

- Security

The capital guarantee will be deemed to be equivalent to a loan and will participate parri passu and with equal seniority to senior lenders in the securities offered to the lenders to the project for the duration of the guarantee.

4. APPLICATION PROCESS

4.1 Submission of application by USAL Licencee to the Agency

An application for subsidy must be made directly to the Universal Service Agency to validate their interest and to be considered for the benefits proposed.

The format for application will be provided by the Agency in due course.

5. AMENDMENTS TO POLICY

The policy in respect to the subsidisation of the USAL Licencees may be amended from time to time, with due regard to circumstances and attitudes prevailing.

6. WRITTEN SUBMISSIONS

The deadline for written submissions is 12h30 on 6 June 2003. Written submissions may be e-mailed, faxed, posted or hand-delivered for the attention of:

Ms Katharina Pillay

E-mail: katharinap@usa.org.za

Tel: +27 11 877 6634

Fax: +27 11 877 6623/13

Potsal Address:

Private Bag X73

Braamfontein

2070

Physical Address:

20 de Korte Street

2nd Floor Everite House

Braamfontein

Copies of written submissions shall be available from the Braamfontein offices of the Universal Service Agency on 9 June 2003 from 8h00 – 16h00. The Agency reserves the right to levy a charge on copies requested.

7. PUBLIC HEARING

A public hearing shall be held on 10 June 2003. The interest to make an oral submission must be expressed in writing no later than the closing date for written submissions.

Venue: ICASA

Block C

Pin Mill Farm

164 Katherine Street,

Sandton

Time: 9h30 – 17h00

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