Evaluation report of the pilot voucher scheme project

## Project description

The Department of Electronic Communications piloted in 2019 the implementation of a voucher scheme aimed at accelerating broadband penetration. The implementation started in April 2019 and was completed at the end of 2020. The main features of the project were the following:

1. A subsidy of 30 % of the cost of the connection for a period of up to 12 months subject to a monthly limit of EUR 30.
2. Minimum speed of the connection of 100Mbps.
3. The connections were eligible irrespective of any accompanying services such as telephony, pay TV or mobile telephony (1/2/3/4 play bundles).
4. The maximum amount that each provider could absorb was EUR 200 000 for the entire duration of the project (De Minimis Regulation, 1407/2013/EC).

All 4 providers (CYTA, CABLENET, PRIMETEL, EPIC) active in Cyprus, with 29 commercial products approved by DEC, participated in the voucher scheme. The total budget of the project was EUR 800 000.

## Results, conclusions and proposals

The first grant voucher was for a contract starting on 13 April 2019 and the last voucher was for a contract dated 10/12/2020, so the actual useful duration of the project was around 20 months.

A total of 3134 vouchers were issued corresponding to an equal number of contracts. The amount corresponding to these vouchers is EUR 616 855. The summary data on the take-up of vouchers and amounts per provider is presented in the following Table:

Since 3144 vouchers were issued during this period, it is concluded that around 3 out of 4 subscribers who activated new connections at speeds of at least 100Mbps did so using the voucer scheme. In addition, those subscribers accounted for approximately one third of all subscribers with connections of at least 100Mbps over that period. The outcome of the pilot project could therefore be seen as totally positive.

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|  | 2019 | | 2020 | | Total | |
|  | Amount | Vouchers | Amount | Vouchers | Amount | Vouchers |
| CYTA | EUR 182 196 | 796 | EUR 0.00 | 0 | EUR 182 196 | 796 |
| Cablenet | EUR 123 937 | 721 | EUR 48 483 | 332 | EUR 172 420 | 1053 |
| Primetel | EUR 16.098 | 79 | EUR 183 666 | 836 | EUR 199 764 | 915 |
| EPIC | EUR 12.575 | 70 | EUR 49.900 | 300 | EUR 62 475 | 370 |
|  |  |  |  |  |  |  |
| Total | EUR 334 806 | 1666 | EUR 282.049 | 1468 | EUR 616 855 | 3134 |

From the end of the first quarter of 2019 until the end of the third quarter of 2020, for the duration of the voucher scheme, the proportion of fixed broadband subscribers connected to speeds of at least 100Mbps in Cyprus increased from 2.7 % to 3.7 %, that is to say, an increase of around 4000 subscribers.

Obviously, in order to obtain a complete picture, the results of the project will have to be evaluated after a reasonable period has elapsed until the end of 2021, showing how many users eventually managed to maintain or even upgrade their contracts and under what conditions, or finally chose to return to more economical programmes.

Most vouchers (but not the highest amount of aid) were realised by Cablenet with Primetel and CYTA following them in comparable sizes. EPIC failed to keep pace with the other three. The number of vouchers and the amounts ultimately benefitted by each provider are shown below:

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The respective market shares per provider in 2 inthe first half of 2020 were CYTA:60.6 %, CABLENET:26 %, PRIMETEL:13 % and EPIC: 0.4 %. As the project had a maximum cap of EUR 200 000 per provider, it is not possible to make comparisons with the corresponding take-up rate of vouchers.

At this point it is worth noting that CYTA used more than 90 % of its allocation in 2019 i.e. in the first 7 months from the start of the programme. In 2020, it did not take any steps to redeem vouchers as it apparently considered that for the remaining amount there was no reason to mobilise the relevant sales and recovery procedures for the grant.

The four providers involved followed different trade policies. In particular:

CYTA chose to offer only basic internet access products (1Play) without telephony, without pay TV or mobile telephony. However, it allowed higher speeds up to 300Mbps.

Cablenet chose to offer exclusively two products at 120Mbps speeds. One product included a fixed telephony service (2Play) and another also pay TV (3Play).

Primetel provided the largest variety of combination programmes 1/2/3/4Play (in total 16) but all of them related to speeds of 100Mbps.

Finally, EPIC offered 7 different 1/2/3Play programmes with speeds ranging from 100Mbps to 500Mbps.

The strategies chosen by the providers were to a certain extent expected in the sense that CYTA, as the dominant provider with the highest coverage, chose to promote its most basic programmes by focusing on subscribers who would choose them with the main incentive to acquire a basic and economic internet connection without being interested in focusing on subscribers with the intent and ability to pay more expensive packages of services. In other words, it used the voucher as a tool for “financial” support for the most conservative subscribers and as a tool for upselling.

On the contrary, the other providers offered a greater variety of programmes, trying to obtain subscribers with higher added value.

It is not possible to assess to what extent the commercial policies of the providers affected the way in which subscribers chose products, but 82 % of them chose 1/2Play packages, i.e. relatively low-cost packages.

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Even if CYTA subscribers who did not have access to 3/4Play products were removed, only 22 % of the others opted for TV or mobile packages. According to DESI data for 2020, the share of subscribers with 3/4Play services in the Cypriot market was above 35 %, i.e. almost 60 % higher.

The above conclusions could be used to design a broader demand-enhancing action in the following directions:

* Directing vouchers to as many final beneficiaries as possible.
* Possibly prioritising the provision of vouchers to vulnerable social groups
* Disconnection of the voucher from any high value-added products such as 3/4Play with a definition of a single low payment of EUR 25 per month regardless of the amount of the final amount of the assistance

1. Could you please describe the programme? (name, year of implementation, area of deployment)

The main challenge for Cyprus is to promote investments in Ultrafast networks and encourage take-up of high speed and very high speed broadband connectivity, which is Influenced by factors such as pricing, a lack of stronger content and low digital literacy. To address pricing issues, Cyprus announced in April 2019 a pilot voucher scheme, which subsidised new subscriptions (or upgrades) for speeds of 100 Mbps and above for a duration of 12 months. The intension was to cover around one third of the annual costs, which amounts to a subsidy of EUR EUR 360, the maximum per subscription per year. The total budget was initially estimated at EUR 800 000, originating entirely from national funds. The scheme was expanded for another year till December 2020 since two of the major operators didn’t enough have network coverage to offer Ultrafast connectivity to their customers during 2019. This was a pilot program and each of the four main operators could benefit a maximum of EUR 200 000 according to the de minimis regulation of state aid. Therefore no state aid notification was needed and the procedure was straight forward.

1. How many households (or subscribers) did it serve and with what speeds?

A total of 3134 vouchers were issued for an equal number of contracts. The exact amount corresponding to these vouchers was EUR 616.855. Most of the contracts were at 100 and 120 Mbps with some minor cases at 200 and 300 Mbps. It is very important to identify that while the voucher scheme was running, the percentage of fixed broadband subscribers associated with speeds of at least 100Mbps in Cyprus, increased from 2.7 % to 3.7 %, an increase of about 4000 subscribers. Given that 3144 coupons were issued during this period, it is concluded that around 3 out of 4 subscribers who activated new connections at speeds of at least 100Mbps, did so using the voucher program.

1. Was there a need for such a scheme and why was the scheme significant for Cyprus? Why did Cyprus implement this project? (Trying to reach the EU connectivity targets for 2025?)

While the availability of a broadband infrastructure is a prerequisite for the possibility to SUBSCRIBE to the service this could, in some cases, not be sufficient to ensure the development of high-performing services, due to the end-users’ relatively low propensity to concentrate and more money on broadband services.

In Cyprus there is a big difference between coverage and take-up especially in Ultrafast broadband. According a recent study of OCECPR, income plays an important role in broadband take-up. The lowest income decile has a take-up rate for fixed broadband of just 58 % as opposed to 100 % in the highest income decile. For that reason and following the best practices from other member states presented by the BCO Support Facility, we have decided to run a pilot voucher program in order to encourage and promote Ultrafast connectivity.

The broadband voucher main objective was to address a demand/take-up deficiency, by reducing the cost of broadband access for the end-users to encourage take-up of broadband services. These type of schemes can help Member States pursue key European Union connectivity objectives: Digital Agenda for Europe “...50 % or more of European households SUBSCRIBE to Internet connections above 100Mbps” and Gigabit Society 2025 “...all European households should have access to 100 Mbps connections by 2025, with the possibility to upgrade these networks to reach much higher speeds”.

1. What was the total cost of the project and how did the European Commission help in developing such a project (maybe mention here the de minimis state aid?)

Answered above

1. Do you consider this as an example of the European Commission actually supporting Cyprus to reach out and directly help end users?

European Commission should support these initiatives since coverage is not always the problem for reaching the EU connectivity targets for 2025. Broadband vouchers may not be an appropriate tool to address a coverage deficiency but will definitely encourage Telecom Providers to invest more money in the broadband market and expand their networks since more end users will use Ultrafast broadband services.

1. Why were these users not connected? (Where they located in rural areas?)

According to Digital Economy and Society Index (DESI) 2020, Cyprus lags behind in Ultrafast broadband coverage, fast broadband uptake and Ultrafast broadband uptake and the broadband price index. In all these categories, it ranks among the lowest (23 rd for Ultrafast broadband coverage and 27th for the other three indicators). While fixed broadband coverage is among the factors sharing Cyprus’ ability to benefit from the digital economy, the main challenge remains to encourage take-up of Ultrafast broadband. Take-up is Influenced by factors such as high pricing (broadband price index 66 %), lack of stronger content with many e-government projects still under implementation, low digital literacy with only 50 % of citizens having basic digital skills and low Ultrafast broadband coverage (53 %).

Pricing is high because Cyprus is an island and international connectivity is maintained by submarine cables which add extra cost to the existing prices offered by Telecom providers. Another reason is the lack of competiveness and monopoly, mainly in Suburban and rural areas where Telecom most operators hesitate to invest because of the low population density in these areas.

It is obvious that a digital divide persists in Cyprus, even though some progress has been made the last few years. According to DESI, most digital indicators for Cyprus are slightly improved every year but this improvement is rather slow. One of the ways to help reduce the digital divide and accelerate digitalisation is to Spur competition between providers which in turn will lead to lower prices, making the Ultrafast internet more affordable for the subscribers. Therefore, the Government has to intervene to expand the Ultrafast broadband coverage in areas where there are no private investments and at the same time to increase the demand (take-up) in Ultrafast broadband services by applying demand side measures. Market players seem Keen to invest in new networks and launch 5G services. A new Broadband Strategy and Plan, setting concrete targets and actions in line with the European Gigabit Society and the 5G Action Plan may be a catalyst in this direction.

1. Some more talking points

In order to accelerate investments in very high capacity connectivity, so as to reach the EU’s 2025 Gigabit and 5G connectivity objectives, it is also necessary to address underlying root causes that may result in delays and/or extra costs, prevent smooth rollout of investments and efficient take up of connectivity services by households and businesses.

The new National Broadband Plan which will include concrete measures to reach the EU’s 2025 connectivity objectives, is already under preparation (funded by national sources) and will address reforms and investments in line with State aid rules. The Broadband Plan will provide a consistent framework of all actions to be undertaken by the public sector to facilitate private investments (including the assignment of the 26 GHz radio spectrum for 5G networks under investment-friendly conditions) as well as as all public interventions in areas beyond the interest of private investors.

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The new Cyprus Broadband Plan sets the following strategic objectives for 2025:

1. Gigabit connectivity for all main socio-economic drivers
2. All premises in organised communities (urban or rural) to have access to internet connectivity offering a download speed of at least 100Mbps, which can be readily upgradable to 1 Gbps
3. 100 % of the population living in organised communities (urban or rural), and all major terrestrial transport paths to have integrated 5G coverage with a download speed of at least 100 Mbps
4. 70 % of households to have an internet connection (take-up) with a download speed of at least 100Mbps