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FINAL ASSESSMENT

The Polish Telephone Training Project
(EUR 180-0032-A-00-1028-00)

Submitted to

Emergency and Humanitarian Division (ENI/HR/EHA)
Bureau for Europe and the New Independent States
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Attention

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Executive Summary

Since 1990, the National Telephone Cooperative Association (NTCA) has been carrying out a program to introduce member-owned cooperative and municipal-based telephone companies in Poland. Three centrally-funded AID grants enabled NTCA and its local counterpart organizations to

- Create four cooperative and municipal telephone companies with an additional 10 companies to be operational soon
- Successfully carry out policy dialogue which changed the Polish telecommunications law and regulations to permit independent operators (70 licenses have been issued) and to make interconnection and revenue sharing arrangements of mutual benefit for the state monopoly (TP SA) and financially strong new companies
- Establish a national training center and self-sustaining foundation to promote this grassroots rural telephone approach in Poland, Bulgaria and other Central European countries based on the unique U S self-help model, not present anywhere else in the world

Three previous evaluations of this NTCA program have been highly positive. This assessment reviews the third AID grant (EUR 180-0032-A-00-1028-00) that expires on September 30, 1996. Impacts include

- Establishment of two additional private municipal companies (a total of four). Interviewees said that without NTCA assistance, these companies would not exist. The grant helped increase rural telephone service from 3,000 to 17,000 customers, two thirds of all telephone service provided by independent operators. In contrast, other more confrontational efforts to privatize TP SA failed.
- Creation of the Foundation for the Promotion of Telephone Cooperatives which is entirely self-supporting. The foundation carried out extensive training programs for over 500 community leaders and telecommunications experts in 19 training modules, prepared 35 telephone design and business plans, introduced three new telephone technologies, and introduced a pilot project of telephone service for the disabled and poor creating subsidies exceeding \$100,000.
- The three AID-funded projects together have directly leveraged \$28 million in U S investments (a multiplier of 28 to one), including the purchase of \$2.7 million in U S telephone equipment and services. In two years, this total investment in NTCA-assisted companies will rise to \$100 million and serve over 100,000 customers.

Economic impacts of telephone service in the four communities with new companies has been dramatic. The longest operating telephone system has been the catalyst for approximately 100 new businesses and for increased incomes in the region by over 30%. Quality, digital telephone service has attracted American investors such as Goodyear, Igloo (food processing), Amway, Rainbow (vacuums), POLAMPACK CANPACK (a canning factory with 1,000 employees) and Biocom (medical production). Additionally, thousands of small businesses have been created or prospered with improved telephone service, and small farms have increased production with better access to inputs and timely marketing.

The initial success of telephone companies, founded by local gmina mayors and councils, has directly led to additional municipal services of over \$10 million in sewage treatment plants (based on U S technology), solid waste collection systems, and natural gas pipelines for households.

Telephone service is particularly important for women who usually manage household finances, work in the service sector and manage greenhouses where telephones help save time and money as well as increase business efficiency. A negative impact of telephones is less face-to-face socializing in small villages.

The grant enabled NTCA to share the Polish telephone experience with other Central European countries, especially Bulgaria. As a result, the NTCA project

- Helped create the first two telephone cooperatives in Bulgaria and gained assurances from the regulatory body (CPT) that they will issue operating licenses.
- Carried out policy dialogue and grassroots training that gained an understanding of cooperatives as socially-oriented businesses that are more politically and legally acceptable than investor-owned telephone companies at this time in Bulgaria.
- Selected a pilot location in Ravda on the Black Sea where Polish and U S experts will prepare a comprehensive technical and business plan, necessary for an operating license, revenue sharing arrangements and financing.

The major recommendations are

- AID and NTCA should consolidate the success in Poland through the creation of a trade association of private telephone companies. The association would carry out advocacy, negotiate with the state monopoly on key issues, expand the grassroots telephone movement, identify funding sources, provide legal and technical assistance, promote

training and new technologies, and link the independent Polish systems with similar U S companies and suppliers

- In Bulgaria, NTCA should prepare a technical and financial plan for the Sea Gull Telephone Cooperative in Ravda and submit it to the Bulgarian-American Enterprise Fund or other funding sources within the remaining time of the grant
- USAID/Poland and USAID/Bulgaria should consider modest additional grant support for NTCA to complete this highly successful program Since all three NTCA grants have been centrally funded, these projects have not been fully integrated into the missions' strategies and portfolios
- AID/Washington should share this NTCA experience and lessons-learned widely as part of the New Partnership Initiative (NPI) The NTCA program combines all three NPI elements small business formation, NGO strengthening and local governance

Lessons-learned include

- The project confirms the theory on the conservation and mobilization of social energy in that initial and repeated community efforts met with many failures, but eventually succeeded with persistent grassroots leadership
- The rapid success of telephone service builds public confidence in local governments which, then, were able to mobilize community resources for other municipal services
- The NTCA project in Poland and Bulgaria demonstrates the advantages of the U S multi-provider system as an attractive methodology to promote competition and help privatize state monopolies NTCA convinced key authorities of the mutual benefit for them to allow independent operators who increase revenues for the monopoly (which must give up its exclusive authority) and achieve political and social objectives of telephone services to less populous areas Hundreds of local rural leaders in these countries now see the U S model as a means to gain telephone service given the national priority to rebuild the entire telephone infrastructure of large cities and towns
- Finally, the NTCA project suggests that policy dialogue and actual operating models are a powerful combination to introduce telecommunications reforms and demonstrate the relevance of the U S multi-provider telephone system These efforts also require a specialized, self-supporting NGO/foundation, located preferably next to an operating system, which can exclusively promote telecommunications for rural areas

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List of Interviewees
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List of U S Telephone Equipment and Services Purchased

Final Assessment
The Polish Telephone Cooperative Training Project
(EUR 180-0032-A-00-1028-00)

I Purpose of the Activities

In 1990, the National Telephone Cooperative Association (NTCA) initiated an AID-funded program to create model cooperative telephone companies in Poland. As a result of this first grant, NTCA helped draft language for the initial Telecommunications Act of 1990 that permitted the creation of independent telephone companies and established a plenipotentiary to the government for rural telecommunications. The initial grant also supported the creation of the first two independent telephone companies (Tyczyn & WIST). The U S multi-provider system of rural telephone systems is unique in the world and Poland has decided to follow this U S model.

The second AID grant trained officials of the Ministry of Telecommunications and TP SA (the state telephone company) on how to organize a modern telephone system with multiple local independent companies. More than 280 officials were trained under this grant which resulted in greater understanding and limited support for a mutually beneficial multi-provider system. After attending NTCA seminars, for example, local TP SA officials in Rzeszow restructured the interconnection agreements with the two telephone cooperatives so that both entities have more favorable revenue sharing arrangements.

The third AID-funded NTCA grant, that is being assessed under this evaluation, was designed to spread this U S rural telephone model to other areas of Poland and in Central Europe. The project helped establish and strengthened the Tyczyn Telephone Cooperative Training Center for carrying out general and technical training in community-based telephone systems. It created the Polish Foundation for the Promotion of Telephone Cooperatives as a local self-sustaining NGO to share the experience of the two model telephone cooperatives throughout Poland and to carry out specialized programs to provide telephone service for the disabled and disadvantaged. Finally, the project shared the Polish experience with other Central European countries, with particular emphasis on Bulgaria.

None of these three grants can be adequately evaluated in isolation since they are reinforcing. The purpose of this assessment is to review progress as the current grant runs out at the end of September 1996, and to provide guidance to AID and NTCA on methodologies and future steps.

This is the fourth evaluation of the NTCA projects in Poland. All three of the earlier evaluations have been highly positive.

In 1992, a midterm evaluation of the first grant found the project was on track and exceeding its objectives. It noted that "NTCA has responded well to unexpected developments in the evolving telecommunications environment in Poland including impacting national legislation and participation in a national commission to resolve impediments to rural telephone cooperatives." It concluded that "telephone cooperatives serve as models for bringing telephone service to rural areas and as member-owned, democratic business organizations." The evaluation went on to say that the state monopoly was strenuously opposing the introduction of competition and constantly placed roadblocks to independent operators despite the recently enacted telecommunications legislation. The evaluation suggested that NTCA carry out additional programs to educate senior leadership at TP SA.

A second evaluation in March 1996 for the second grant concluded that the "targeted education program" for the management of TP SA (the national telephone monopoly) and the Ministry of Telecommunications had been effective. Again, the NTCA project design was flexible in fitting into the overall plans and strategies of recent telecommunications reforms. Through "raising the consciousness" of key employees of the state monopoly and the Ministry of Telecommunications, the project contributed to the overall success of the government's restructuring process that paved the way for the introduction of independent telephone cooperatives and community-based operators.

A third evaluation in April 1996 found that the NTCA Poland projects, and NTCA's central cooperative agreement with the Office of Private and Voluntary Cooperation, had been "completed successfully, resulting in the establishment of two viable telephone cooperatives." The evaluation noted that modest AID funds had resulted in \$2.7 million in the procurement of U.S. goods and services, a multiplier effect of 16 to one. The evaluation concluded:

- The project has been effective in assisting local groups develop successful independent telephone companies, including cooperatives and for-profit entities,
- It has good project leadership and effective home office and association (NTCA) member support,
- The project warrants continued technical and financial support if donors believe in the value of providing reliable telephone communications to rural people who currently lack such service, and
- There may be limited opportunities for future cooperative telephone organizational development in Poland and neighboring countries, unless the local organizations can

raise adequate funds from its subscriber members to overcome difficulties in obtaining capital from outside sources

II Purpose of Assessment and Methodology

The major goal of the NTCA Telephone Cooperative Training Project is to create an environment in Poland that is conducive to replicating the U S rural telephone cooperative model and to expand it to other regions. The importance of telecommunications for broad-based economic growth has been of increasing interest to development agencies and represents one of the fastest U S overseas markets. Given the lack of telephone service in many developing and newly democratic countries, self-help, consumer-based systems are a promising approach to provide telephones to rural and other unserved people.

In Central Europe, the entire telecommunications infrastructure needs to be modernized which means that rural areas and small towns have little prospects for gaining telephone service anytime soon from either monopolies or newly privatized companies. In restructuring state telephone monopolies, the cooperative model (and similar community-based systems) for local service appears to be particularly attractive, since it increases overall demand for the network and retains the benefits in the community.

Small local communities, municipal governments or cooperatives can apply for licenses and create their own systems rather than rely on private investor-owned companies which are more interested in heavily developed areas with higher profits (i.e., major urban centers). Since these consumer-owned and community-based approaches are little understood in many countries, NTCA is endeavoring to examine different methodologies for their promotion and replication.

In order to achieve their objectives, NTCA is working with a variety of stakeholders: local and central government leaders, NGOs, international financiers, training institutions, government-owned monopoly telephone systems, government regulators, local citizens and cooperative leaders.

Thus, the major goals of this assessment are to

- Investigate lessons-learned in order to strengthen NTCA's capacity to promote telephone cooperatives in other countries and regions
- Develop and perfect methodologies and approaches applicable to privatization efforts involving consumer-owned telephone networks
- Perform an assessment of NTCA's methodologies in replicating the Polish experience in Bulgaria, and

- Identify ways of expanding the linkages with outside financing sources, including the World Bank, IFC and other private funding sources

In addition, the assessment is intended to review the project in terms of meeting the strategic objectives in the U S assistance strategies for Poland and Bulgaria. More specifically, the assessment examines

- How the project has influenced telecommunications policies regarding independent telephone operators in Poland and Bulgaria,
- The impacts that telephone cooperatives and community participation have on rural development issues, specially gender (access, leadership and usage), social benefits of telecommunications outside of economic enhancement and local governance,
- The economic benefits of rural telephones to a community,
- The multiplier effect that rural telephone development has on American investment and the purchase of American goods and services, and
- The sustainability of the NGO created under the project

Finally, the assessment will develop lessons learned for USAID

The assessment methodology included a review of all recent evaluations of the project activities, quarterly reports, goal and mission of Tyczyn Cooperative Training Center and its training activities, and strategic objectives of the USAID missions in Poland and Bulgaria. The consultant traveled to Bulgaria and Poland from July 11-25, 1996 and interviewed NTCA partner organizations (including two telephone cooperatives in Bulgaria and four telephone cooperatives and community telephone companies in Poland), trainees, mayors, cooperative board members, managers, local NTCA representatives, ministry officials and USAID mission staff. A list of those interviewed is attached.

III Findings and Conclusions

A Poland

1 Overall Impacts

This AID grant directly resulted in the establishment of two additional community-based telephone companies (a total of four independent operating systems) that were formed by local gminas

(elected governments that roughly correspond to counties in the U S) Ten additional systems will soon be operating

Over three years, the grant helped increased telephone service from 3,000 to 17,000 individuals who live in rural areas (mostly small villages) This represents two-thirds of all telephone service provided in Poland by independent operators

The project expanded the number of gminas served with telephones from six to 29 Through its training and promotional activities, the project directly involved 100 gminas and reached out to over 400 gminas throughout Poland These local gmina mayors and councils form the foundation of Poland's new democracy and represent dynamic leadership for expanding local businesses, joint ventures with foreign investors and improved municipal services NTCA assisted these local leaders in seeing the U S self-help cooperative model as a means to provide rural telephone service based on successful local development strategies

In effect, the three AID-funded NTCA grants have created a national grassroots movement among local leaders to establish a network of independent, community-based telephone companies

The Foundation for the Promotion of Telephone Cooperatives, created under the grant, is self-supporting with an expected annual revenue of \$60,000 (exclusive of AID funds) beginning in 1997 The Foundation does not rely on outside grants, rather its revenues come from fees for services and income generating activities, principally through the provision of specialized computer software services to community telephone companies (e g , billing) and to local gmina governments for all kinds of municipal services from land and property records and taxes, car registration, job banks, etc The foundation has no permanent staff and relies on volunteers from the cooperatives, local university and others

The foundation

- Supports training activities at the Tyczyn Telephone Cooperative Training Center,
- Assists local gminas in the formation of telephone companies, including establishment of the soon-to-be operating Midwest Polish Telephone Company that has three licenses and a potential of 120,000 lines,
- Prepares community-based telephone designs and business plans (already it has completed 35 telephone technical network designs and business plans),

- Supports services for the disabled and poor, including the creation of a pilot project, based on U S. experience, at one of the telephone companies that will generate \$100,000 for services for the disabled and poor (i e ,TTY phones, free services to hospitals and subsidized telephone hook ups to the poor), and
- Makes presentations at national fora on the advantages of locally-owned telephone companies and collaborates with other NGOs in supporting such efforts

Under the grant, the training center trained over 346 people in a variety of telecommunications areas (a total of over 517 people including earlier grants) In addition to these formal training sessions, the center provided informal training to hundreds of mayors, visitors and others who have shown an interest in forming independent telephone companies Twenty-eight NTCA volunteers from its member systems have provided training in Poland and helped create training modules for local trainers In addition, 75 NTCA volunteers have participated in training programs provided for Polish participants in the U S

The center and the NTCA grant resulted in the preparation of the following 19 training modules

Marketing

Customer services

Business management for telephone companies

Value-added services (e g , call waiting)

How to start a telephone cooperative

History of Telephone cooperatives in the U S

Global information infrastructure

Separation, cost allocation and interconnection principles

Benefits of telephone cooperatives in rural areas

Principles of regulation

Cable TV operations

How to write a business plan for telephone companies

How to negotiate an agreement with TP SA

Wireless local loop system

Transmission systems

Legal aspects of telecommunications

History and principles of interconnections and telecommunications

Telecommunications for the disabled

The training center prepared seven articles for the Telecommunications Review, the most important telecommunications monthly in Poland The foundation conducted eight national seminars and participated in two national agricultural trade shows in Poznan

The center has also introduced new U S and foreign technologies to Poland

- A recently installed fiber-interloop that makes possible interactive TV,
- Suspended optical cable from telephone wires which are cheaper than under grounding, and
- Two pilot wireless systems one for large loads such as apartments and the other for small loans

An example of successful NTCA volunteer training was that carried out by Mary Boyles in customer service (March 1996) and Rex Pasko in marketing (May 1996). The evaluator visited two telephone companies where recent trainees were putting into practice what they learned. In both cases, the independent operators are competing with TP SA for customers and each has adopted similar promotional programs to encourage subscribers to shift to their system. The printed advertisements point out the advantages of the private companies (i.e., free service among subscribers in the local network) and specialized services (i.e., faxes, E-mail). One of the Polish telephone companies expects the promotion will result in obtaining 60-70% of the TP SA's business. Examples of these promotional materials are attached.

An example of successful U.S. training was discussed with one of the telephone company managers who visited a U.S. system that operates a business center and sold telephones, fax machines and other equipment. He created a similar center in March 1996 which now generates \$3,000 in revenues monthly with a 15% profit.

In addition, the grant provided for sharing the community-based telephone model with other Eastern European countries with delegations from Moldova, Ukraine, Slovakia and Bulgaria visiting the training center. For example, five senior Bulgarian telecommunications officials were trained at the center.

NTCA worked closely with the Central European Telecommunications Investment (CETI), that combines resources from the International Finance Corporation of the World Bank and American pension funds, to financially support five community-based telephone companies (two now operating and three about to begin operations). NTCA provided training to managers and boards of directors of these five companies which was critical to their ability to attract CETI and other outside financial support. The NTCA project also helped overcome administrative and technical issues with TP SA. As one manager of these new systems told an earlier evaluator, "Without assistance from NTCA and the Tyczyn Telephone Cooperative Training Center, Telekomunikacja Debicka would not be in business today."

The project has directly leveraged \$28 million in U.S. telecommunications investments (CETI and Export-Import Bank). As of 1996, the multiplier effect of AID funding (about \$900,000)

for this private investment is 28 to one, including \$2.7 million in U.S. equipment (summary of U.S. equipment and services is attached). The total investments through CETI alone are projected to rise to \$100 million over the next two years.

Because of the success of these community-based telephone companies, local municipalities have been able to mobilize community support and financing for three sewage treatment plants (at over \$10 million in investments, two of which use U.S. state-of-the-art, biological technology) and several solid waste systems (estimated at \$160,000 each) that were promoted and created by the same local mayors that sponsored the telephone systems.

The four NTCA-supported operating companies now provide telephone service to 17,000 customers and this number is expected to rise within two years from just these companies to over 100,000 customers. The provision of high quality, digital telephones has resulted in dramatically increased economic activity, especially in attracting foreign-owned investors. It also increased the efficiency of farms and small businesses that now can use the telephones to acquire supplies, market products and carry out other activities. These direct benefits will continue to mount as the systems grow and new systems come on line.

2 Specific Impacts

a Municipal Services

The four independent operating telephone systems, helped by the NTCA, are community-based, founded by local mayors and locally elected councils. The mayors chair and serve on each of the four boards of directors. Since several gminas are served by the telephone companies, more than one mayor serves on these boards.

The success of the telephone companies has directly led to other community projects. Since telephone service is highly desired and quickly delivered, it led the way for more difficult, costly and longer-taking projects. At Tyczyn, the community built a \$6 million water sewage treatment plant that uses U.S. technology from Lemna Corp. The initial telephone system cost \$2 million with each household contributing \$500 per phone. With the treatment plant, each household must pay a \$1,100 connection fee. The community is now prepared to support additional community projects, such as natural gas lines to households, because of the initial success of the telephone company.

As a result of these new municipal services, Tyczyn has attracted outside investment because of its good telephone service and cleaner environment, according to the mayor who founded the telephone cooperative. He is now planning to develop a \$12 million mineral water plant.

Success at Tyczyn in municipal services had a multiplier effect in that the nearby communities served by the WIST telephone cooperative have initiated an identical waste water treatment plant from the same U S company

Another community of four gminas within the Tyczyn telephone service area and whose mayor also serves on the telephone cooperative board initiated an award-winning solid waste disposal program and obtained \$160,000 for the project with half the funds raised locally. Again, this local community effort is a direct outgrowth of the success with the telephone cooperative, according to the local mayor

At the telephone company of Brzeskie, a similar impact in community services took place where the municipal government has now successfully developed a water supply facility, waste water sewage plant and natural gas lines for households

b Economic Impacts

In Tyczyn (the largest and longest operating of the four systems), telephones have been the catalyst for approximately 100 new businesses and for increased incomes by over 30%. For example, Tyczyn attracted two major outsider investors: a siding company that uses U S technology, and a joint venture for making insulation building materials. A flour mill cooperative, formed with VOCA support, also became profitable because of new telephone service that was critical for its marketing, according to the manager. Other examples of new businesses in the Tyczyn area include a private meat processing plant, agro-tourism at three local farms and a dairy plant.

At the Debica, the availability of telephones was critical to attracting a large joint venture with two U S firms: Goodyear (investor in large local Polish tire plant) and Igloo (food processing). Other new investments include meat processing, freezing, paints & varnishes, plastics and a poultry plant, which were all attracted to the town because of its improved telephones. As the local mayor said about these new businesses, the first question that American and other investors ask: "Do you have good phone service?"

At the WIST telephone cooperative, over 100 small, home-based furniture companies have prospered. Two recently-established American telemarketing firms, Amway and Rainbow (vacuum cleaners) were attracted to locate there because of good phone service as well as a meat processing plant and Biocom (an American medical production firm). The telephone cooperative also serves the regional airport and municipal bus garage. With the addition of a newly purchased Nortel switch to their system, WIST will increase its subscribers from 2,700 to 3,700 by the end of September 1996 to serve additional customers.

At the Brzeskie telephone company, the impact of telephones resulted in attracting a new large production plant a U S - Polish joint venture (POLAMPACK CANPACK) that employees 1,000 people and fabricates cans for the entire Central Europe region. The local mayor and chairman of the telephone board said that telephones resulted in an increase in small business formation from 500 in 1990 to 2,000 in 1996.

c Gender and Social Impacts

The only women mayor in the region around Tyczyn and a board member of the telephone cooperative said that phones make life easier for women. She said women use phones more than men and are better able to fulfill both family and work obligations. She said that women usually manage household finances and use the phone to economize on household expenses. In this traditional area, there are few women professionals. However, the phone is important for women who work in the service sectors such as teachers, nurses and shop keepers. On the farm, women manage greenhouses, grow the vegetables and raise small animals where the telephone is important for purchasing inputs and selling to local stores and brokers.

A customer relations manager said that her clients for new phones were evenly divided between men and women. However, it was her opinion that women make the decision on acquiring a telephone. She said that women use the phone more than men for both social and business purposes. Men tend to be more reluctant to use telephones and use them mostly for business activities, she said.

Both men and women interviewed by the evaluator said that telephones had adversely impacted face-to-face socializing in the villages. This was viewed as a negative impact on village life. They said that phones were seen as "modernizing" influences that made village life similar to that in towns. However, phones did strengthen local organizations, clubs and informal groups where communications made scheduling of activities much easier.

Respondents noticed that children used phones more readily and more frequently than adults. While older people were less supportive of the private telephone companies since they expected the government to provide such services, one interviewee said that phones eased their isolation. For example, older people in the village use the phone frequently for "call in" programs by a religious radio broadcaster. Another interviewee reflected that telephones are very personal, especially in rural areas, and resulted in greater self-confidence and a willingness to undertake other new types of activities necessary for a market economy.

Several mayors indicated that phones increased the number of people who complain about community services and that citizens

tend to be more abrasive on the phone than when complaining in person

Another phenomenon observed by the evaluator was that conversations stop abruptly when the telephone rang. Since most people are not used to having telephones, each phone call causes a degree of excitement with the need for immediate response. Thus, phone etiquette has not yet developed.

B Bulgaria

1 Impacts on Telecommunications Policy

A major purpose of the project was to transfer the successful Polish experience to Bulgaria. Unlike the situation in Poland, NTCA was not able to change telecommunications legislation to permit the establishment of independent telephone companies. In fact, there have been no recent changes in Bulgarian telecommunications law and little government pressure on the Bulgarian Telecommunications Corporation (state monopoly) to open up the market to other providers. Bulgaria has been slow to adopt market-based initiatives and only recently has decided to initiate a program of mass privatization.

NTCA's approach in Bulgaria was to attempt to educate senior telecommunications officials on the advantages of the U.S. and Polish self-help model of local telephone companies to reach unserved or poorly served small villages and towns. Like other Central European countries, the entire urban telephone infrastructure needs to be replaced and few resources, if any, are available to small towns and villages.

NTCA hired the ARC Fund for policy dialogue with the Bulgarian Telecommunications Company (BTC) and the Committee for Post and Telecommunications (CPT), the regulatory body, to attempt to replicate the Polish cooperative experience. In 1994, the project sponsored a visit of Bulgarian BTC officials to see the Polish telephone cooperatives in southeast Poland, but these officials did not move ahead with approving a model program. For two years, little progress was made.

In September 1995, NTCA organized a seminar in Sofia on the benefits of telephone cooperatives. In January 1996, another seminar took place in Zlatograd. The seminar was tailored to the needs of local people and focused on how to start a telephone cooperative. The two seminars trained approximately 40 people.

In March 1996, NTCA sponsored an observational tour of U.S. telephone cooperatives for Veselin Yordanov, the vice president of BTC, Tzvetan Tzvetanov, the former lawyer for the Committee for Post and Telecommunications (CPT), and Nikolay Badinski of ARC. As a result of this trip, Yordanov gained an understanding of the U.S.

multi-provider system which includes about 500 small cooperative and private telephone companies that are NTCA members. He began pushing within BTC to allow NTCA to initiate a pilot program.

In April 1996, NTCA terminated its contract with the ARC Fund and hired Tzvetan Tzvetanov as their representative and immediately progress began on the project. On May 31, 1996, NTCA arranged a major symposium, conducted by three NTCA volunteers, for about 55 officials from BTC and local communities. As a result of the symposium, three communities began to organize telephone cooperatives.

On July 11, 1996, the courts formally recognized two telephone cooperatives in the communities around Pernik and Ravda. These are the first such cooperatives formed in Bulgaria, an action that took weeks rather than the usual year.

In a meeting with NTCA during this assessment, Simeon Tzenov, the vice president of CPT, expressed frustration with the limited progress, urged rapid action, and indicated that CPT would issue licenses to the recently registered telephone cooperatives.

Thus, the project succeeded in a major breakthrough in establishing independent telephone cooperatives and gaining assurances from CPT and BTC that it would issue operating licenses to the cooperatives. In the absence of new legislation, CPT is willing to permit telephone cooperatives, but not investor-owned systems. Cooperatives are seen as acceptable community-based telephone systems that provide social benefits. Another advantage of cooperatives is that they have a five year tax holiday, unlike other types of businesses.

2 Impact of NTCA Training

The NTCA representative (Tzvetan Tzvetanov) participated with the BTC Vice President Veselin Yordanov in U.S. training and they visited U.S. telephone cooperatives in Tennessee. He said that cooperative customers were pleased with service and that the cooperative approach had a good image. He said that the telephone cooperatives were a link with the world and met both social and revenue goals. As a lawyer, he said, that telephone cooperatives in Bulgaria can be formed on a similar legal basis as in Poland.

The local representative of the Bulgarian Telecommunications Company (BTC), the mayor and other officials participated in the NTCA symposium held on May 31, 1996 that was organized by Tzvetan Tzvetanov and NTCA. They said that the seminar provided them with a "ready answer" on how to address their lack of telephones. They learned that a community-based, telephone cooperative could serve low density areas.

Participants said that they learned how telephone cooperatives work in the U S and that it is the "right of each person to be a subscriber " "It changed our way of thinking - that a solution is possible when people unite in cooperatives, rather than rely on the state," a participant said They learned about how telephone networks can serve villages Another participant said that "fresh ideas" came from the symposium such as creating a cooperative for water supply as well Another participant said she was impressed by the way of voting in the telephone cooperative one vote per member with each subscriber having rights She said that telephones are a moral right not a luxury The local mayor and officials were very committed to forming a telephone cooperative and met with NTCA officials after the conference to discuss it further

The local BTC official said he learned at the symposium that we need competition in telecommunications (not a monopoly) and need some regulation of a multi-provider system He was amazed that the U S worked from same law (1934) for so many years We need a similar law that is optimal The law should allow possibilities of telephone development so that Bulgaria is not isolated from the growing "information society," he said

3 Assessments of the Two Sites

a Pernik

From July 11-19, 1996, the evaluator jointed NTCA representatives (Halina Salamonik and Tzvetan Tzvetanov) and an NTCA experienced international volunteer (Bill Crownfield) in carrying out a preliminary assessment of the two pilot sites After consultation with USAID/Bulgaria and given the short time frame remaining on the grant, the team decided to select only one site for the pilot project effort Experience in Poland indicated that an operating pilot system was essential in testing the monopoly provider approach in terms of licensing, interconnection agreements and revenue sharing, and establishing a viable model cooperative for wider replication

The first site in the Pernik area of the "McGahan Telephone Cooperative" includes a major town (Breznik) and 35 villages with a permanent population of 10,000 (half in town, half in villages) The region is mostly agricultural (grain, sheep and dairy) with some industrial enterprises in ferromagnetic, refrigeration and clothing The region has 2,258 subscribers with analog switches Many apartment blocks in the town have no telephones Twenty seven villages have no telephones The penetration rates in Breznik is 60% and in larger villages ranges from 50% down to 15% (about 25% on average)

The telephone cooperative was registered by the courts on July 11, 1996 The first cooperative in Bulgarian was founded here in 1921 and about 30 private cooperatives currently are active in the

region The Breznik mayor said that cooperatives were a "forgotten form of economic activity, but well learned " The mayor said the main help in forming the cooperative came from the local BTC and NTCA representatives He indicated that most businesses have telephones and the greatest need is in the villages and on cooperative farms Many villages have no telephones and some have only one at the local mayor's office BTC has no plans to extend service in the area over the next ten years The mayor said they were inspired by the idea of a cooperative because it is "socially directed "

The NTCA team and evaluator visited three villages (Slakovcy, Sopitsa, Uoevi) There was little economic activities evident and few cars The area is very hilly We met a large farmer who is the only one in the region with a cellular phone which works poorly from Sofia, about 30 miles away

The NTCA team decided that a pilot project in this region would be

- Technically difficult (hills, diverse pattern of villages, no nearby connection to a modern switch thus requiring a microwave to Sofia), and
- Financially difficult (the higher load areas have service from BTC and the telephone cooperative would serve rural villages, little economic activity and small businesses were observed in the villages)

On the positive side, the political leadership and local BTU officials showed strong community spirit, determination and initiative, and they were all reformers With more time and resources, the site could be further explored for possibly a wireless system

b Ravda

The NTCA team and the evaluator met with the appointed deputy mayor with responsibility for telephones in Ravda, the locally elected mayor and president of the new telephone cooperative known as "Sea Gull" and members of its board, all consisting of businesspeople

Ravda is a resort town on the Black Sea Two private businessmen decided to form a cooperative They heard about NTCA symposium but could not attend These businessmen realized that without improved telephone service, they can not further develop their businesses

The permanent population of the county (Nesebar) is 18,000 (half in county and half in city) Ravda has a permanent population of 2,000 and 15,000 during resort season Total population for the proposed service area is about 35,000 during resort period (April through October) The total number of phones is 8,284 with no available space on the current analog switch (model A-29) There

are no plans for expansion of the system. A new fiber optic line to Sofia is one mile away. BTC has a training facility at Ravda. The cooperative has office space and switch room that is ready to be connected to cables. This site is the preferred location of BTC officials.

There are lots of small businesses and new construction going on everywhere. Many summer homes (\$35,000 for an apartment, up to \$100,000 for a house) are being built. Over 70 small hotels in the proposed service area and most small shops and restaurants lack any phone service or have one phone at most. These businesses require phones for their customers as well as to reach their workers in nearby villages and obtain fresh produce for their restaurants.

The NTCA team visited the nearby resort town of St. Vlas where dozens of new small hotels have recently been built with either one or no phones. The permanent population is 3,000, and in summer, 12,000. Only 500 phones are there at present. It is hard to reserve rooms. The church, school and clinic in town have one phone each. About half of the 30 small shops and restaurants have a single phone and the others, no phones.

The team visited four nearby agricultural villages that would be served by the telephone cooperative. Kosharitsa with a population of 1,500 and 120 phones, Tankovo with a population of 1,000 and 160 phones, and Orizake with a population of 1,200 and 630 phones. The villages have small restaurants, health clinics and other businesses and were tied into large and prosperous agricultural cooperatives that produce grains, sunflowers, vegetables, other crops and raised cattle.

All of the villages, the NTCA team and evaluator visited, were more prosperous than in Pernik. Many private cars were evident and houses were being constructed or improved. The villages are linked economically to the Ravda and other nearby resort areas. Most are about 6-7 km distant with the furthest, about 10 kms, thus, representing a fairly compact territory for an independent telephone system.

NTCA concluded that this site is an excellent location for a pilot project. It has strong needs for telephones and support from business leaders. Local finance appears to be available. NTCA indicated that an initial system could cost \$1 million and 40% should be raised locally. The rest could be financed from the Bulgarian-American Enterprise Fund, other funders or local banks. While it is important to provide training to the cooperative board and a manager, this is difficult during summer season. A seaport (Burgas) is nearby for the possible delivery of donated U.S. digital switch.

IV Principal Recommendations

A Poland

The senior officials of the four operating telephone companies supported by the NTCA project were asked by the evaluator what the next steps are required to accelerate the progress in rural telephone systems in Poland. All of them responded with the need to strengthen the current informal network among private telephone companies through forming a trade association, similar to NTCA in the United States.

The leaders of these independent operators commented that they had succeeded in working with TP SA (despite many difficulties) and had established independent telephone systems while other investor driven efforts had failed, including initiatives to privatize and break up the state monopoly. Yet, despite this cooperation with TP SA, they also competed for its subscribers and had to negotiate on-going issues such as interconnection and revenue sharing agreements. They said they needed to act as a single body in negotiating with TP SA rather than as separate entities.

The second major concern was for advocacy and reform of the telecommunications and other legislation that affects their ability to compete and deal with regulatory issues such as right-of-ways and limited service territories. Next year the parliament is scheduled to consider legislation that would create an independent regulatory body for telecommunications. In addition, they could lobby for a telephone revolving fund similar to that in the U.S. The association could bring together the political clout of the gmina mayors and councils who established the community-based telephone companies.

There are currently 10 independent telephone companies operating in Poland. It is estimated that there will be 30 to 35 independent telephone companies operating by the end of 1998. Since there are approximately 70 private licenses that have been granted to other companies, this represents a potentially strong association with common problems and emphasizes the need to work together on legislation, regulation and other issues.

The purpose of the trade association would be to strengthen the private rural telephone movement. It would formalize the current informal association of companies, their managers and boards of directors as well as other groups (consulting firms, equipment manufacturers) who support private community-based telephone companies. The association would be financed by both dues and services. Priorities, interviewees mentioned for the association (in order), were negotiations with TP SA, advocacy, legal and administrative support, technical training, and training of board of directors.

Since NTCA is the only association of small cooperative and private telephone companies in the world and has unique resources to support the Polish association, it would be the counterpart for on-going advice and technical assistance to the new association. NTCA would also link the association with U S and other manufacturers, suppliers and consulting firms. In addition, through the association, NTCA could create a sister-to-sister program for permanent relationships between individual U S and Polish telephone companies.

The activities could include

- Advocacy for private, municipally-owned telephone companies including efforts to modify legislation such as in telecommunications, right-of-way, construction and administrative permits for frequency spectrum allocations
- Negotiate as a group with TP SA on interconnection, revenue sharing and other regulatory issues (including creating a single TP SA committee to negotiate agreements with independent systems)
- Support community-based telephone committees want to create and operate independent companies
- Identify funding sources for independent telephone companies
- Provide legal advice and support (the systems need a single source of legal assistance in forming a cooperative or private company, obtaining an operating license, preparing agreements with outside investors, negotiations with TP SA on legal issues, etc)
- Provide technical support(e g , engineering plans, new systems, accounting)
- Encourage information exchange including a newsletter and other publications
- Create an association training committee to identify and initiate a comprehensive training program at the Tyczyn Telephone Cooperative Training Center. In particular, support additional training for boards of directors
- Affiliate the association with the Foundation for the Promotion of Telephone Cooperatives to fund-raise in support of private, municipal telephone companies, especially for special services such as for the disabled, Internet for schools, etc
- Promote greater use of phones in member systems such as special and value-added services, customized services and

Internet access

- Carry out shared-services (e g , billing, joint financing, group purchasing)
- Analyze, introduce and promote benefits program (i e , mutual insurance, bonding)
- Become a permanent institutional linkage with NTCA, other trade associations and U S telecommunications companies including exchanges of leaders at annual meetings, exhibits, sister-to-sister relationships

USAID/Poland should consider financially supporting the creation and development of this trade association. This support would be consistent with USAID/Poland's strategic objectives in supporting the private sector, strengthening local municipalities (the boards of directors of the telephone companies consist of local mayors), and establishing a legal, policy, regulatory framework for independent telephone companies. It would further consolidate one of AID's most successful projects in Poland based on a unique U S model of multi-provider independent telephone companies.

While the Embassy and AID have decided not to continue projects in the telecommunications field possibly because of assistance failures not associated with NTCA, association formation and strengthening municipal governments are at the heart of its current democracy program.

Since all three of the NTCA projects have been centrally funded from Washington D C (two from BHR's Office of Private and Voluntary Cooperation and one from EUR), these projects have not been integrated into the USAID/Poland project portfolio. The projects have received four highly favorable evaluations (including this one) and are cited in the 1997 Congressional Presentation.

Thus, USAID/Poland should work with NTCA and its local partners to continue to support this highly successful program of community based telephone systems. Today, Poland has one of the lowest penetration rates of telephones in Europe. This lack of telephones represents a major barrier to broad-based economic development and outside investment.

B Bulgaria

The NTCA team and evaluator discussed the technical and financial conditions for an independent telephone cooperative with senior BTC officials and local representatives of the Ravda telephone cooperative, Sea Gull. The following points were agreed to for follow-up by NTCA and the local cooperative:

- The cooperative would require its own territory including the high volume telephone areas of Ravda and St Vlas. There could be a swap of existing service from BTC from these areas to the cooperative. This would free up the current switch for expanded service in its territory.
- The cooperative must be completely independent from BTC though it may be located in the same facility where the cooperative already has an office and space for a new modern digital switch. The cooperative would tie into the fiber optic line to Sofia.
- The cooperative would begin service in Ravda and St Vlas and gradually extend services to nearby villages. The cooperative will require an operating license from CPT that should detail all of the arrangements including territory and interconnection agreements.
- The business community must raise substantial funds (up to 40%) to make a loan to the cooperative as part of a financial package. A preliminary estimate is that the cooperative would require \$1 million in capital (a lesser amount is possible with donated equipment and a smaller start up).
- NTCA will contract with Polish and other experts to prepare a full technical and financial plan for the cooperative as soon as possible.
- NTCA will attempt to locate a surplus digital switch and other equipment (i.e., remotes) and explore transportation arrangements. NTCA will work with the switch manufacturer to modify the U.S. switch to European standards. The switch would not be provided until after detailed technical and financial planning and a license had been obtained. All other materials (trunk line, cables, handsets, etc.) would be obtained locally. NTCA will explore the possibilities of purchasing a new switch wherein a manufacturer would help with substantial financing.
- NTCA will assist the cooperative in attempting to arrange financing with the Bulgarian-American Enterprise Fund and other sources. NTCA would provide technical assistance to the new company as well as encourage support from the Polish Telephone Cooperative Training Center in order to transfer the successful Polish model to Bulgaria.

The evaluation recommends that USAID/Bulgaria mission should wait for the technical and financial plan for the Sea Gull Telephone Cooperative and the issuance of an operating license prior to foreclosing providing some modest support to NTCA. This pilot project could represent a major break-through in telecommunications in Bulgaria that can serve as a community-based model for

replication throughout the country, similar to the NTCA experience in Poland

C New Partnership Initiative

The NTCA experience in Poland and Bulgaria fits into the New Partnership Initiative (NPI) because communications is essential to build civil societies and the program contains all three NPI elements: small business formation, a self-sustaining foundation and strengthened local governments through better municipal services.

AID/Washington and leading edge missions should study the lessons-learned from the NTCA projects as an example of an integrated NPI approach. At present, most missions focus independently on one or more elements of the NPI initiative. This project suggests that integrated efforts involving telecommunications can combine all elements. It raises the concept that a single project by an implementor can reach all of the NPI objectives simultaneously.

In addition, the project leverages U.S. telecommunication investments, one of the fastest growing overseas markets. It demonstrates that NPI can also help create U.S. jobs while strengthening civic societies overseas.

V Lessons Learned

A Mobilization of Social Energy

Professor Albert Hershman, a pioneer in grassroots development, postulates a theory on the conservation and mobilization of social energy. It states that once a community was mobilized around an activity, even though it might initially fail, the community would continue to work on the issue until it succeeded. This idea fits the adage of "try and try again until you succeed."

The Brzeskie Telephone Company is a classic example of this theory. Six local rural communities tried four times in 1989 to obtain phones but failed because the state monopoly (PPTT) was short of money. The telephone committees paid for telephone lines and other preparations, but were unable to get PPTT to install a telephone switch. While discouraged by this failure, the core of volunteers turned to the town in 1990 and tried to work with them to obtain a switch, and again failed. In 1991-92, they applied for a French assistance program for installing telephones and failed (in fact all of the French efforts failed). In May 1994, these community leaders learned about the NTCA program in Poland and requested assistance. In August 1995, they formed their own company and began looking for local investors. NTCA volunteer Bill Crownfield helped them prepare a business plan for a \$5 million system, but there were insufficient local funds. Finally, they were able to obtain financing from CETI, an American investment company,

purchased a switch, and started their operations in March 1996

There is a Polish slogan that when something impossible happens, cacti will grow in Poland. This slogan was repeated often when the local leaders kept meeting failure after failure. Today, the Brzeskie Telephone Company has a flower bed of cacti growing in its customer service area to prove that the impossible happens.

B Municipal Services

In a similar vein, success breeds success. Each of the four operating telephone companies was founded by local mayors who chair their boards of directors. Because telephone service was highly desirable and expected to be provided by the state, these mayors' success in bringing telephone service to their communities bred additional confidence for initiating other self-help municipal services.

The installation of telephones is relatively rapid compared to other more costly and time-demanding projects such as the provision of natural gas lines to homes and sewerage waste treatment facilities. Yet, in each of these four areas (groups of villages) where telephone companies were formed, telephone service directly led to the ability to mobilize the community for other municipal services.

C Grassroots Privatization

The classic development approach by multilateral agencies to improve telephone service in developing and newly democratic countries is through privatization: sale to a large international company or breaking up the monopoly into separate companies. On the other hand, large manufacturers want to sell modern digital equipment to monopolies in these countries and enlist their government assistance efforts in accessing these large potential markets. In effect, the use of assistance funds to promote equipment manufacturers reinforces the monopolies. Large telecommunications conglomerates work with assistance agencies to try to break up the state monopolies since they see great opportunities for profitable operations. These assistance efforts failed in Poland and other Central European countries and the monopolies used as their models for "change", the successful state monopolies in other Western European countries.

State telephone monopolies are very powerful with entrenched staff spread throughout the country. The monopolies also may be one of the few profitable state-owned companies. Assistance efforts that directly confronted these monopolies generally failed.

The U.S. multi-provider system represents a distinctly different approach based on self-efforts by rural communities who had to build their own systems since investor-owned companies showed

little interest in serving these areas. Ironically, these smaller U S cooperative and private telephone companies generally proved to be highly profitable with modern technology.

Thus, NTCA applied this different approach in Poland and Bulgaria. They argued that small community-based telephone systems in rural areas and small towns were mutually beneficial in generating revenues for both the monopoly and the local company. NTCA worked with and educated the staff of the state-owned telephone systems in Poland and Bulgaria to see the advantages of allowing private operators to reach less desirable service areas and to achieve social benefits (and respond to political pressure from rural regions), while the monopoly could concentrate on modernizing the large urban areas. These local efforts did not cost the monopoly anything (resources were raised independently), but they did have to give up "some of their control," not an easy endeavor.

NTCA remained independent from telephone equipment manufacturers and distanced itself from more confrontational privatization efforts. NTCA gained a reputation for being objective and did not try to impose solutions on the state monopoly. Yet, NTCA helped draft Polish legislation that permitted private operators and helped negotiate interconnection agreements that were essential to the viability of small systems. In Bulgaria, NTCA gained acceptance of private telephone cooperatives as acceptable independent operators within existing legislation that does not permit investor-owned approaches.

The major constraint in the growth of small systems is financial. NTCA also worked with the American investment firm (CETI) that provides venture capital for start-up operations and accompanies funds with hands-on management assistance. Once companies are established they have few problems attracting additional investment. Most investment funds seek only to place their funds in profitable operations, rather than take the risk and start up new companies. Since telecommunications can be highly profitable, early risk-takers have the greatest potential for large returns.

AID should closely examine this community-led model for privatization which is more consistent with its grassroots development experience than large privatization efforts that are better left to multilateral donor agencies.

D Other Lessons

Experience in Poland suggests that policy dialogue and new approaches to telecommunications must be grounded in actual practice. Training should be conducted by volunteers who carry out the activities they present in workshops. A training center should be located next to an operating independent system (not at a university).

NTCA's experience in Poland and Bulgaria indicates that it is better to create a new foundation for specialized activities to promote rural telephones systems. NTCA has worked with six different foundations that, in most cases, were helpful, but more progress took place when a single-purpose foundation was created that focused solely on rural telecommunications. Given the business nature of successful telephone cooperatives in Poland, the foundation was designed to rely on fee for service and income generating activities and does not receive donor funds. It also relies on highly motivated volunteers thus keeping its overhead at a minimum.

List of Interviewees

Bulgaria

Veselin Yordanov, Vice President, Bulgarian Telecommunications Company (BTC)
Simeon Tzenov, Vice President, Committee of Post and Telecommunications
Georgji Michalylov, Mayor of Breznek
Mr Stefanov, BTC Director, Breznik region
Ms Radiboslka, telecommunications engineer, Pernik
Tzvetan Tzvetanov, NTCA representative
Mr Radev, Deputy Mayor, Nesebor
Albena Kolodeeva, President, Sea Gull Telephone Cooperative
Atanas Berbatov, Mayor, Ravda
Georgejjev, Mayor, Nesebor
William R Crownfield, NTCA volunteer
John Tennant, USAID Representative, Sofia
Brad Fujimoto, USAID Project Officer, Sofia
Halina Salamonik, NTCA International Projects Officer

Poland

Kazimierz Jaworski, Tyczyn Telephone Cooperative Manager, Director of Training Center
Stanislaw Kruczek, Technical Manager, Tyczyn Telephone Cooperative
Tadeusz Kozak, Manager of Kozak Four Mill Cooperative
Mayor, Gmina Blazowa
Tadeusz Sliz, Manager, WIST Telephone Cooperative
Jon Tomoka, President, WIST Telephone Cooperative
Jozef Slisz, former Vice Marshal, Polish Senate
Stanislawa Beben, Mayor and Tyczyn Cooperative Board Member
Jan Tomoka, Mayor and WIST Board Member
Tadeusz Kensity, Director, Foundation for Rural Cooperatives
Andrzej Gruca, President, Telefony Brzeskie
Piotr Pilch, President, Telekomunikacja Debica
Zygmunt Zabicki, Mayor of Debica
Boguslaw Tolask, Mayor of Brzesko
Wanda Prus, Treasurer and Board Member of Telefony Brzeskie
Andrzej Gruca, President, Telefony Brzeskie
Kornel Wydro, TP SA Board Member and Telecommunications Professor
Stanislaw Sonta, Chief Advisor to Minister Zielinski
William Frej, USAID Acting Representative, Warsaw
Dan Craun-Selka, NTCA International Projects Manager
Janusz Lato, NTCA Representative, Poland
Krzysztof Lato, CETI Representative



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U S Goods and Services Purchased by the Tyczyn and Wist Telephone Cooperatives
(as of March 1, 1996)

Tyczyn

NT DMS-10 (2 switches and 4 remotes)	\$1 292,000
Installation	80,000
Documentation (Manuals, plans, etc)	45,000
Transmission Equipment	320,000
Computers	20,000
Software (include switching software)	60,000
Printers	20,000
Training	<u>8,000</u>
	\$1,845,000

Wist

NT DMS-10 (switch and remote units)	\$530,000
Installation	30,000
Documentation	25,000
Transmission Equipment	216,000
Computers	10,000
Software (include switching software)	30,000
Printers	5,000
Training	<u>8,000</u>
	\$854,000

This is an increase from the amount quoted in May, 1995 because both cooperatives have purchased additional switching and transmission equipment during the last year



K Jaworski
O S T Tyczyn