

FINANCING UNIVERSAL ACCESS

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The funding of the information society: and what about the State?

The issue of funding is at the hub of the preparations for the second phase of the World Summit on the Information Society (WSIS) that will take place in Tunis in November 2005. The central elements of this debate are the definition of the actors and the most appropriate solutions to achieve the objectives proclaimed in Geneva in 2003. Is it to be the private sector, seen as a miraculous solution to the digital divide? Or public-private partnerships - the new obsession of decision-makers? Or local stakeholders (microfinance, local communities) whose importance has been confirmed by the reports of the Task Force on Financial Mechanisms (TFFM)? This search for new solutions, no doubt a positive one, has the disadvantage of forgetting one essential stakeholder: the State. Traditionally a leader actor in telecommunications, the State now plays a very secondary role due to the changes that have taken place over the past 20 years.

From the omnipotent State to the market model

Technological progress has developed a new commercial vision of goods linked to information and communication, leading up to the privatization of the telecommunication sector in the United States in the 1980s. The giants arising from this development have seen international markets open up before them, benefiting from their governments' pressure in this respect. An assessment of the 1990s shows a generalized privatization of the old state monopolies as well as the liberalization of the sector on a world scale.

The International Monetary Fund (IMF) and the World Bank have played a decisive role in this process, given that in many developing countries both institutions have strictly conditioned their support in communication affairs to the reforms undertaken in this sector. The incorporation of telecommunications to the rules of the World Trade Organization (WTO) has both accompanied and precipitated the process. Thus, the first liberalization commitments undertaken by some countries came into force in 1995 with the General Agreement on Trade in Services (GATS). In February 1997, the Agreement on Basic Telecommunications Services (IV GATS Protocol) was signed by 69 governments and a Reference Document¹ was prepared, establishing the definitions and principles to be applied in regulation on a national level (safeguarding of competition, interconnection rules, the right to impose obligations for universal access, transparency requisites, independence of the sector's regulation). Currently telecommunications are still on the WTO's agenda, in the framework of negotiations on services, opened in January 2000.

Scant swing margin for the State

Over the past 20 years, the telecommunication sector has been radically transformed. From a monopolistic scheme in state hands supplying a public service, it has taken on a commercial

¹ See www.wto.org/spanish/tratop_s/serv_s/telecom_s/telecom_history_s.htm

rationale in which numerous operators wage ferocious competition. The rules that applied to the sector which was of exclusive state responsibility, are now established in the framework of an international organization, the WTO! From being an all-powerful decision-maker, the State has seen its scope increasingly reduced. Cees Hamelink puts it well *“The international governance system for communication operated during the past hundred years mainly to coordinate national policies that were independently shaped by sovereign governments. Today’s global governance system to a large extent determines supra-nationally the space that national governments have for independent policymaking.”*²

The new rules established on an international level have signed the death warrant of instruments traditionally used by the State to finance universal access, based on, for example, tax redistribution. However, in spite of the limitations pointed out, it would be false to affirm that the State no longer has any available swing margin. New mechanisms have appeared: universal service obligations included in the concessions and licenses granted to operators, taxes on asymmetric interconnections favouring rural operators and, particularly, universal access funds. They all have in common the fact of being neutral from the standpoint of competition and therefore, compatible with WTO rules.

Two elements of this evolution should be highlighted. In the first place, the disappearance of international solidarity on which the system of tax redistribution was based, in favour of the reassignment of resources on a national level by these new mechanisms. Secondly, the radical transformation suffered by the idea of public service. Public service is only considered as a part of the final delivery, regardless of the status of the actor providing it. This new perception certainly has implications for financing. It is no longer public telecommunication companies that are financing the extension of their networks thanks to the benefits obtained from international communications, but rather - and what a paradox! - state subsidies to private companies that commit themselves to guarantee these deliveries.

Steps forward

Turning back would seem to be impossible in the present context. It would also be false to ignore the significant progress made over the past few years in the struggle against the digital divide, thanks at least partially to the implementation of some new solutions (private investment, public-private partnerships, etc.). However in this economic climate it is necessary to:

Reassign a more important role to the State

Private investment is not enough to ensure universal access, particularly in rural and isolated areas. The same applies to the creation of local contents or appropriate applications to promote development, to promote open and democratic media, etc. There is nothing new in this affirmation; in fact, this situation has been amply recognized, even at official level.

What is now needed is the demonstration of a real political will to remedy the situation. Thus the State’s right (even its duty) to intervene to cover these divides must be clearly reaffirmed by those participating in the Summit.

The new mechanisms that enable the State to fulfil its mission must be carefully followed-up and assessed at international level. Their implementation must be promoted and supported by the

² Hamelink, Cees J. (2003), “The global information society: visions, people and power” in *Annuaire Suisse de Politique de Développement 2003, Société de l’information et coopération internationale: development.com*, Vol. 22, Institut Universitaire d’Etudes du Développement (iuéd), Geneva, November.

international community through, in particular, capacity-building regarding regulation mechanisms in developing countries.

Return to true international solidarity

The reduction of the digital divide is in itself a global public good and consequently, its funding must be ensured supportively by the entire international community. The participants in the Summit must thus strongly reaffirm the importance of international solidarity for the construction of the information society. In order to go beyond simple declarations of intent and to put into effect this solidarity, complementary mechanisms to those already installed at local and national level must be implemented.

The path to achieve these two objectives is, in particular (but not exclusively), through an especially promising mechanism: that of universal access funds. For the international community, this involves encouraging States to establish such funds on the one hand, and on the other, studying the possibility of establishing a universal access fund on a world scale.

National universal access funds

Appearing in 1994 in Latin America, universal access funds have seen a rapid expansion as a consequence of the success they achieved in Chile, Peru and Colombia. Presently, these funds exist or are being planned in close on 60 developing countries or countries in transition. Their objective is to enable communication services in the hands of private companies to be established in rural and/or isolated regions, by granting a subvention to cover the high initial investment and costs.

Although the very recent nature of these mechanisms and the variability of the results do not enable an in-depth assessment to be made, some aspects have proven to be very promising. In particular:

- The innovative and original method of granting subventions placing companies in competition through a system of inverse bids. This allows considerable savings as the bidder requiring the lowest subvention is the winner. The mechanism appears on the whole to be very effective, and in general the projects have been assigned for less than half the amount available.
- The great potential of the model, which has been applied not only to infrastructure projects but also to e-health projects, distant learning (e-learning), creation of contents, initiation to information technologies, etc.
- The definition of projects by a single entity, making it possible to have a vision of the whole and coherence at national level. Indeed, initially a needs assessment is carried out, often in collaboration with local authorities and civil society. On this basis the projects are put up for bids (for example the installation of 10 telecentres in 10 medium-sized cities in the country).

What should be done?

Recorded successes prove that this model can operate. Thus it is the international community's duty to:

Proceed to make an assessment of existing experience

This assessment is necessary in order to establish guidelines of best practices in this matter and make recommendations to remedy the weaknesses detected in existing funds.

Promote the adoption of these mechanisms

For this purpose, technical assistance for installation and management must be provided by creating and strengthening the capacity of the responsible national authorities. Efforts made in this respect, particularly by the International Telecommunications Union (ITU), should be continued and stepped up.

These recommendations must be based on the following elements:

- *Funding.* Collection of fees on the sector's income should be encouraged (for example, a percentage of the benefits of all the telecommunication operators) and not the use of funds from government budgets. The recent contributions made by bilateral and multilateral donors and by international financing institutions could be multiplied in the future. In particular, a change in IMF and World Bank policies is necessary. As set out in the TFFM report, their assistance is presently aimed at supporting the private sector and at establishing appropriate legislative reforms to attract investment. This support must be redirected towards infrastructure and universal access projects.
- *Mission.* Beyond the coordination role assigned to them in the TFFM report, it is important that universal access funds remain faithful to their primary mission: to provide additional financial resources to fund universal access and not be limited to a better channelling of existing funds.
- *Capacity-building and transparency.* In some cases, problems have arisen relating to bureaucracy or to the dynamics of implementing these funds. These problems can be solved by the international community making available the necessary technical assistance. Both the ITU and the international financing institutions should play a central role in this matter. South-South collaboration must be developed in order to replicate the knowledge acquired in Chile, Peru or Colombia. In order to ensure transparency, national civil society must be involved in fund management and strict criteria for technological neutrality must be established.
- *Broadening subventions.* Some of the funds, as in the case of South Africa, encountered major difficulties related to the scant durability of the financed projects. Even though in this case poor management would also seem to be part of the failure, there are indeed some projects that do not offer any prospect of profitability, even in the long term. Although it has pushed back further the frontier to access, the model as currently practiced does not provide solutions for the most marginalized zones. Therefore, the possibility of a subvention that is not limited to the initial phase of the projects warrants serious study. It would also be advisable to favour projects proposed by local communities and civil society, which show a lower rate of failure (with a rate of profitability required by the stakeholders being lower than that demanded by private companies).

A universal access fund on a world scale?

We have already mentioned it: it is the international community as a whole that must contribute to funding a fair and equitable information and communication society. There is no doubt that a

means to achieve this international solidarity in deeds would be the implementation of a universal access fund on a world scale.

A global fund of this type would be complementary to national universal access funds. It could be used to contribute with the financing of certain large scale projects at national level which costs would be too high to be entirely covered by the local fund. It could also be used to improve regional and even continental infrastructure.

This body would take on the establishment of national regulation authorities and the development of their own capabilities for the creation and management of national universal access funds and other mechanisms aimed at promoting universal access and the use of information and communication technologies at the service of development. Follow-up and assessment by the international community of these new tools would also be entrusted to this global fund. Finally, in those countries that have not established universal access funds, it could be called to launch and directly finance these projects.

The possibility of financing a fund of this type exists and has been set out in various papers.³ To follow this path is basically a matter of political will: beyond the speeches - is access by all to the information society what we really want to ensure?

3 Accuosto, Pablo and Niki Johnson (2004), "Financing the Information Society in the South - A Global Public Goods Perspective", prepared for APC by the Instituto del Tercer Mundo (Uruguay).
<http://rights.apc.org/documents/financing.pdf>