Written Submission to the United Nations Group on the Information Society (UNGIS) Open Consultations on Financial Mechanisms for Meeting the Challenges of ICT for Development, to be held 8-9 October 2009, at Palexpo, Geneva, Switzerland

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The Tunis Agenda for the Information Society recognized that the issue of Financial Mechanisms for Meeting the Challenges of ICT for Development was a significant issue for developing countries. APC was represented on the Task Force on Financial Mechanisms (TFFM) whose report provided the basis for discussion. We feel it is a good time to review progress on financing ICTD since 2005 and welcome the initiative of the UNGIS to hold open consultations on the matter. We would also like to thank UNGIS for the opportunity to make a written submission.

Regional backbone infrastructure & broadband capacity

Paragraph 23 of the Tunis Agenda sought to delineate a number of areas in need of greater financial resources[1]. Among others these included:

- Regional backbone infrastructure, regional networks, Network Access Points and related regional projects, to link networks across borders and in economically disadvantaged regions which may require coordinated policies including legal, regulatory and financial frameworks, and seed financing, and would benefit from sharing experiences and best practices.
- Broadband capacity to facilitate the delivery of a broader range of services and applications, promote investment and provide Internet access at affordable prices to both existing and new users.

Since 2005, a concerted effort was made by governments, the private sector, civil society and international development finance institutions to support the development of regional backbone infrastructure on the east coast of Africa. Initially this focussed on the East African Submarine Cable System (EASSy) but this initiative was shortly followed and overtaken by two more submarine cable initiatives, Seacom and TEAMS (The East Africa Marine System) that was supported by the Kenya government. Seacom became operational in August, TEAMs will become operational later this year and EASSy is expected in 2010. The gap in international cable connectivity was discussed during the WSIS process and it is fair to say that one of the outcomes of the focus on financial mechanisms was a change in the World Bank's position of leaving major infrastructure development to the private sector[2]. The private sector consortium behind the EASSy initiative was not fully funded and the World Bank agreed to fill the financial gap provided EASSy was undertaken on an open access basis. This was an important public policy condition because the experience of the SAT3/WASC/SAFE cable on the west coast of Africa showed how a club consortium could monopolise the price of international connectivity and keep prices high[3]. Governments in East and Southern Africa supported the open access principle and included it in the Kigali Protocol. However, tensions between the

[1] Tunis Agenda for the Information Society, 2005 http://www.itu.int/wsis/documents/doc_multi.asp?lang=en&id=2267|0

[2] David Souter: Whose Summit? Whose Information Society?, Association for Progressive Communications, 2007, p56. http://www.apc.org/en/pubs/manuals/governance/all/whose-summit-whose-information-society

[3] Abiodun Jagun: The Case for "Open Access" Communications Infrastructure in Africa: The SAT-3/*WASC* cable, Association for Progressive Communications, 2008. http://www.apc.org/en/pubs/research/openaccess/africa/case-open-access-communications-infrastructure-afr

various parties caused a rift leading to four initiatives emerging – EASSy, TEAMS and Seacom and a NEPAD ICT Broadband Network for Africa. Seacom is privately financed and the irony of the EASSy initiative is that dithering by governments and state-owned telcos created space for private sector market entry and a more competitive outcome. The upshot of this is that there will be a significant increase in the supply of international bandwidth in East Africa.

The question that arises is whether this will lead to a decrease in prices and an increase in affordable broadband. There is an opportunity here of improving our understanding of supply and demand in changing markets in order to focus investment more effectively. As David Souter has pointed out, serious analysis of the impact of the new East Africa submarine cables on East African telecoms bandwidth availability, traffic, pricing, usage, relationship with national and land-border infrastructure would be very useful. A great deal could be learnt from this, not just at the point of first landing, but at each stage in the development of a competitive market. It has been suggested, for example, that the first cable is leading to lower wholesale prices but not lower retail prices, as ISPs prefer to offer more bandwidth to their customers instead. On the demand side, how much do we really know about how different bandwidth/pricing outcomes will be used - e.g. the impact on telcos, network-dependent businesses (ISPs, M-PESA), large non-communications businesses, SMEs, singleton enterprises, individual subscribers, non-subscribers. Investment strategies need to be so informed if they are to be optimised by telcos and their partners.

Universal Access Funds and Universal Service Obligations

The TFFM made this recommendation about Universal Service Funds:

> 10. National Universal Service/Access Fund and other mechanisms to lower costs of delivery to under-served markets and promote community access can play an important role in helping to address ICT access gaps, but require substantial institutional and implementation capacity to succeed.

The TFFM observed that:

> More than sixty countries have begun to establish Universal Access Funding mechanisms as a core component of their ICT development policies, to bring together financial resources in support of extending access beyond the market frontier. Successful models of UAFs introduced in Latin America and elsewhere have indicated that, when properly implemented in a competitive environment, these mechanisms can play a critical role in leveraging market forces to expand access to public telephone service, multi-purpose community telecenters, and other ICT facilities. Experience to date is mixed as this trend is very new in much of the developing world, and most countries are just beginning to address policy, regulatory, governance, institutional, and capacity issues required for successful management of these Funds. There are also possibilities for scaling up these funds through innovative financial mechanisms and schemes. Periodic assessment and evaluation of these mechanisms, together with other Universal Access development programs, can help define their future role in the sector within many countries.[4]

The track record of Universal Access Funds has been rather uneven in the last few years. Perhaps it is too soon to tell if they will be effective. Anecdotal evidence suggests that they are not spending the funds they levy from operators. This has led the GSM Association to argue that:

[4] The Report of the Task Force for Financial Mechanisms for ICT for Development, 2005, http://www.itu.int/wsis/documents/doc_multi.asp?lang=en&id=1372|1376|1425|1377

– The US$4.4 billion that has been accrued by universal service funds and has not yet been disbursed should be invested in mobile coverage rollout. This should be complimented by the reduction of other barriers to mobile usage, such as tax, as a matter of priority.

– Universal service funds should only be used as a short to medium term policy tool, which should be phased out over time. [5]

In the APC network, there are a number of views on Universal Service Funds and Universal Service Obligations:

- Al Alegre from the Foundation for Media Alternatives notes that in a developing country like the Philippines where rent-seeking is so entrenched, funds such as a UAF tend to become "honey pots" which attract all sorts of predators/raiders, and in the end it becomes a milking cow for unscrupulous bureaucrats and their partners in the business sector (suppliers, providers, etc.) In the end the funds are not used strategically, projects are not implemented professionally, and the underserved communities targeted still do not have substantial access.
- Sylvie Siyam of Protege QV in Cameroon points out that in research into universal access in six countries in Central and West Africa undertaken by the GOREeTIC ICTD network[6], there is a similar problem of the fair allocation of resources for universal access. She argues that it would be better to enjoin private operators, on the basis of their verified income statements, to reduce the costs of basic telecommunications services.
- John Dada of the Fantsuam Foundation is of the view that the Universal Service Provision Fund (USPF) in Nigeria has not met expectations. The spread of USPF-sponsored centres is problematic because the transparency that would legitimize such allocation is absent and the monitoring and impact assessment of funds spent so far has no stakeholder inputs so that powerful vested interests make most of the vital decisions.
- Al Alegre thinks that telcos in the Philippines should commit a graduated amount of funds to set up community access centres in the most underserved communities of the country (mostly in rural areas). Government and civil society could participate with the carriers in deciding on where these communities are, and telcos would provide support to a number of community access centres commensurate to their income.

Seán Ó Siochrú in an APC Pro-Poor ICT Access Resource Toolkit[7] argues that ICT policy makers and regulators can influence pro-poor developments by deploying universal access policy and regulatory measures that directly target poor people and communities. He takes the view that:

> The use of UAFs to provide internet access has in most cases proved more commercially challenging as the service lacks the same degree of pent-up demand and potential income is far less. However, internet provision is now an accepted component of universal access and has spread in some places to including access in schools, NGOs, health centres and other social services. Recent approaches to universal access are going further. They are, for instance, funding broadband services, experimenting in technology-neutral approaches (eliminating restrictions on technology, such as VoIP, that can be

[5] GSM Association: Universal Access, http://gsmworld.com/our-work/public-policy/regulatory-affairs/policy-recommendations-for-developing-countries/universal_access.htm#nav-6

[6] Recherche sur "le Financement du Service Universel au Bénin, Mali, Niger, Congo, Cameroun et Sénégal" , GOREeTIC, 2009 http://www.goreetic.org/index.php?option=com_content&view=article&id=53&Itemid=50

[7] Seán Ó Siochrú: Pro-Poor ICT Access Resource Toolkit: Policy and Regulatory Issues Module, Association for Progressive Communications, 2009 http://access.apc.org/index.php/Pro-Poor_ICT_Access_toolkit_documents#Policy_and_Regulatory_Issues_Module:_Overview

used), and encouraging experimentation in low-cost delivery platforms such as broadband wireless access networks.

Rohan Samarajiva of LIRNEasia suggests in a recent paper that explores the success of the 'budget telecom network mode' in South Asia that 'the idea of making universal service transparent by creating universal service funds ...was a good idea in its time ..but experience suggests that it is an idea that has run its course'. He identifies two problems:

> Billions of dollars of universal levies lie unspent in government accounts. Where money has been disbursed it has generally gone to fixed network operators, mostly incumbents. All the while, people in un- and underserviced areas are being connected, not by the subsidized fixed line operators but by the mobile operators, whose poor customers are paying to support the inefficiencies of the incumbents.[8]

As the range of views presented here suggests, the problem with Universal Service Funds derives from two main factors: a) that USFs were designed in an earlier period of network expansion, when the nature, scale and dynamics of markets were different, as were technology and service options; and b) bureaucratic and other misuse of funds. Allocation mechanisms are difficult. Reverse auctions probably only work when there are more than two serious potential applicants, i.e. when there is genuine competition for resources from the fund. Assessment of costs for bureaucratic selection is at best challenging and often easily manipulated, so that the fund may end up being used to finance infrastructure (or, worse, operational costs) where additional funding is not actually required. For these reasons, David Souter has argued that the concept of USO/USF needs revision for current technology, market and service circumstances, including the broadband environment; and that a much better understanding of current and likely future demand for services, as well as accurate assessment of current and future costs, is required for this.

APC thinks that that a review of Universal Service Funds and Obligations is needed and such a review should look closely at the use of these funds to support 'village telco' models[9] , and other forms of community owned networks[10].

In conclusion

In addressing the question of financial mechanisms for meeting the challenges of ICT for Development, APC feels that funding is needed to address a number of 'overarching' activities in order to get the best value out of investment in infrastructure development.

- **An ICT finance research agenda** – this includes research into ICT supply and demand in changing markets in order to focus investment more effectively, research into business models for public private partnerships to ensure they are developed, implemented and governed in the public interest, research into business models that ensure open access and affordability in different contexts and research that reviews the role of Universal Service Funds and Universal Service Obligations.
- **The development of policy coherence** between different policies and plans related to infrastructure development, e.g. national and regional broadband, spectrum policy in the context of increasing reliance of wireless infrastructure. One way of addressing

[8] Rohan Samarajiva: How the developing world may participate in the global Internet Economy: Innovation driven by competition, Report for Joint Workshop on "Policy coherence in the application of information and communication technologies for development", organised by the OECD and infoDev, World Bank, 10-11 September 2009, Paris, France.

[9] Steve Song describes the village telco in the township of Orange Farm in South Africa initiated by Dabba.co.za http://manypossibilities.net/2008/03/dabba/

[10] Seán Ó Siochrú & Bruce Girard: Community-based Networks and Innovative Technologies, UNDP http://www.propoor-ict.net/content/view/26/48/

this would be support for regional Communications Policy Forums in regions where steps are being taken to harmonise communications policy, law and regulations with regard to cross-border infrastructure, e.g. the plans of the East African Economic Community to harmonise communications policy and law in the region.

- **The participation of multiple stakeholders**, particularly of business, civil society, consumer groups, and different sectors of government in infrastructure development initiatives. The planning processes for infrastructure development also need to support stakeholder participation to ensure they are inclusive, transparent, and receive input from all relevant stakeholders.