Universal Access Funds – bringing telecommunications to the rural area

Universal Access Funds are a valuable tool. Their subsidies give private-sector operators incentives to provide telecommunications services to unprofitable rural areas. To be effective, they rely heavily on legal and institutional frameworks, as well as on the capacities of national regulatory bodies.

The telecommunications sector is growing fast in many developing countries. Large sections of the population now have access to telecommunications. However, the rural areas benefit little from this trend – they are largely ignored by market mechanisms. For instance, the number of mobile phone users in Africa rose from 16 million in 2000 to 198 million in 2006 (Connect Africa Summit 2007), but nonetheless only 7 percent of rural households are mobile phone customers (ITU 2007).

Rural communities usually have very limited incomes. Also, the cost of installing and maintaining networks in sparsely populated, inaccessible regions (mountains or rainforests) is higher than in metropolitan areas. The price per user exceeds the purchasing power of most people, making it uneconomical to provide the service. This problem is particularly severe in Sub-Saharan Africa, where two thirds of the population live in rural areas (ITU 2007). Government intervention is therefore required.

Photo: J. Boethling

UAFs encourage the private ICT sector to invest in rural areas.

UAFs and smart subsidies – are they the answer?

In this context Universal Access Funds (UAFs) coupled with "smart subsidies" are considered a way forward (World Bank 2002, ITU 2003). Such funds allow minimal government intervention combined with the advantages of private sector activity. According to OECD figures, UAFs have been implemented or are in the planning stage in 60 nations.

Practical experience of UAFs varies with respect to their effectiveness and the level of subsidies needed. In Peru, the latter amounted to only US dollar (USD) 2,250 per location to be supplied, compared with USD 18,800 in Chile (ITU 2003). Nevertheless, Chile is considered a success story, because the proportion of people without access to telecommunications was reduced from 15 percent to only 1 percent (Wellenius 2002). However, significant difficulties were experienced elsewhere, such as in Brazil and Nepal (UN 2004).

Institutional and regulatory settings

The success of UAFs is largely dependent on the prevailing insti-

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How do Universal Access Funds work?

UAFs provide subsidies to ensure universal access to telecommunications services in rural areas. The funds are used to subsidise private sector companies to operate in regions where the market alone would not justify their presence. Licences are put out for tender to provide telecommunications to rural areas which are deemed unprofitable and not yet connected to the Internet. Usually, the licences define the regions to be served and the type of service to be provided.

In Peru, for instance, 5,000 unserved settlements were nominated, in which local, long-distance and internet connections were to be provided for 20 years.

To keep government subsidies as low as possible, the licences are assigned to those bidders who can provide the required services with the least public support. A maximum subsidy level is also stipulated in advance. Applying the paradigm of output-based aid, the subsidies are paid only if the provider complies with its contractual obligations.

Various sources may be tapped to fund UAFs, including levies on the providers, funds from the national budget, proceeds from licence auctions and donor funds.

tutional and regulatory conditions. Besides making the necessary funds available is often not the only problem – it can also be difficult to allocate them. Frequently, the money accumulated in UAFs is not be used at all, or only after a considerable delay. For example, although funds were collected in Peru from 1994, the first project was not funded until 1998. Also, only 32 percent of the assembled USD 143 million in resources had been allocated by November 2006. The root of the problem was bureaucratic inefficiency (Intelecon 2007).

The level of the subsidies is also influenced by the institutional context (regulatory processes, rule of law, etc.). Where the institutional environment is inadequate, investment is plagued with insecurity. As a result, network providers are requesting high subsidies – as a kind of risk premium – or else they will not submit a tender at all.

The enforcement of contractual obligations and regulatory conditions is crucial to the success of UAFs. If requirements are not met, the supply of the rural areas can be compromised. The state-owned telecom operator in Nepal, for instance, disregarded its obligation to interconnect networks, so that the UAF concessionary networks were frequently disconnected – without any penalty from the authorities.

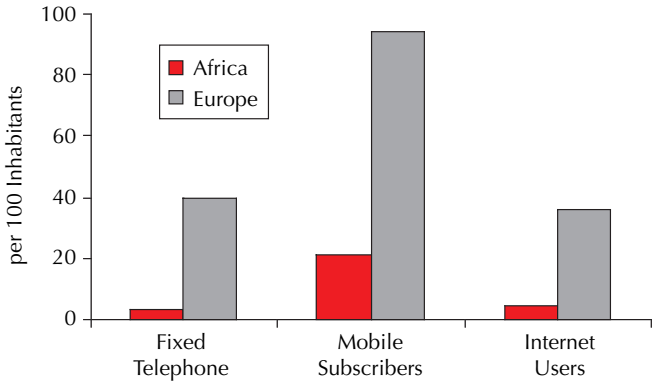
Conclusion

UAFs have the potential to provide rural areas with telecommunications. But they are no panacea. The institutional context deserves special attention. Also, telecommunications by means of UAFs can only be provided on a sustainable basis where a reliable legal and regulatory framework is in place and relevant institutions have adequate capacities.

The German Federal Ministry for Economic Cooperation and Development (BMZ) recognises the importance of this, and is supporting German partner nations in Sub-Saharan Africa to enhance their regulatory setting of the ICT sector.

A full list of references can be obtained from the author.

Telephone and internet access for Africa and Europe, 2006



Source: ITU; ICT Indicators Database 2007

Zusammenfassung

In vielen Entwicklungsländern verzeichnet der Telekommunikationssektor hohe Wachstumsraten. Ländliche Gebiete profitieren davon nur bedingt – sie werden über den Markt nicht oder nur unzureichend versorgt. Staatliche Intervention ist nötig. Universal Access-Fonds in Kombination mit *smart subsidies* sind ein sinnvolles Instrument, um ländliche Gebiete zu versorgen, dabei notwendige staatliche Interventionen zu minimieren und mit den Vorteilen des Privatsektor-Engagements zu kombinieren. Von besonderer Bedeutung für die Effektivität und Effizienz sind die rechtlichen und regulatorischen Rahmenbedingungen, sowie die personelle Ausstattung der Regulierungsbehörden.

Resumen

En muchos países en desarrollo, el sector de telecomunicaciones muestra altas tasas de crecimiento. Sin embargo, las regiones rurales sólo se benefician limitadamente con este desarrollo, porque el mercado no las abastece o lo hace en forma insuficiente. Es necesaria la intervención del Estado. Los Fondos de Acceso Universal, en combinación con subsidios "inteligentes", constituyen un instrumento apropiado para abastecer las zonas rurales, pues minimizan las necesarias intervenciones estatales y las combinan con las ventajas de un compromiso del sector privado. Los marcos legales y regulatorios son de especial importancia para la eficacia y eficiencia de estas medidas, al igual que la dotación de recursos humanos de las instancias regulatorias.