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side event:

Building an economic justice playbook for WSIS+ 20 - An expert-led dialogue

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Contribution by
Association for Progressive Communications

Innovative financing mechanism to bridge the Digital Divide

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"This is a shortened extract of a report that will appear in an upcoming special edition of Global Information Society Watch, titled *WSIS+20: Reclaiming a people-centred information society – priorities for the global South."*

Since the start of the WSIS process, after more than 20 years of deployments in developing countries, and despite the increase in investment from public funding sources, traditional telecommunication and mobile network operators have yet to meet universal access goals, even for basic voice connectivity[1]. The continued inability to meet universal service aspirations amply demonstrates that ensuring the WSIS vision of "a people-centered, inclusive and development-oriented information society where everyone can create, access, utilize and share information"[2] cannot be left solely to telecommunication incumbents to solve, as the absence of a business case that meets the profitability requirements of traditional commercial operators continues to pose significant challenges for these players to offer services that can bridge the digital divide in remote and rural areas with small populations. Public funds channeled through traditional USF models also seem insufficient as operators find the return on investment insufficient to justify the cost of offering services and maintaining their infrastructure in these areas, and the mechanisms created as part of the WSIS follow-up process do not appear to have had a significant impact.

Even where sufficient numbers of users exist to justify the infrastructure investment, statistics from GSMA, the association representing mobile operators globally, show[3] that in rural areas traditional operators are only able to provide traffic-capped mobile data services which are unaffordable for the general population in those areas. Hence, the absence of a clear business case for offering affordable, uncapped high-speed services in areas with low ARPU continues to pose a significant hurdle. This reality highlights the need to transition from financing mechanisms based on models that meet universal coverage targets included in the SDGs, to those which meet the meaningful connectivity ones established by the Office of the United Nations Secretary-General's Envoy on Technology and the ITU.[4]

Given that traditional strategies are failing to close digital gaps in the global South, multitudes of national and international workshops and discussions have taken place which have now begun to consider the role of innovation in financing mechanisms for addressing the digital divide. In particular additional sources of finance are needed from non-traditional funders using innovative and flexible financial mechanisms, along with a regulatory environment that allows many more complementary network operators to emerge that are socially focused on bridging the digital divide, as opposed to solely focused on profitability. Ultimately, to improve the balance between profit maximisation and the goal of reaching universal access, the time has come to fully review where socially driven investments are made and how effective they are at addressing digital inclusion.

Within this context, the critical role community-centred connectivity providers are gaining increasing attention as strategies to close the digital gap. These providers are driven by completely

1 The State of Mobile Internet Connectivity Report 2023 https://www.gsma.com/r/somic/?ID=a6g1r000000xnptAAA&JobID=1709262

2 https://www.itu.int/net/wsis/docs/geneva/official/dop.html

3 The State of Mobile Internet Connectivity Report 2023 https://www.gsma.com/r/somic/?ID=a6g1r000000xnptAAA&JobID=1709262

4 https://www.itu.int/hub/2022/04/new-un-targets-chart-path-to-universal-meaningful-connectivity/

different investment imperatives, bringing unique assets to the economic calculus of deployment[5], they have the added advantage of bringing many important social and economic benefits to the community.[6] They are part of the ecosystem of micro, small, and medium businesses that are the lifeblood of so many economies around the world, especially in the developing world, but have been neglected for a long time in the telecommunications sector used to building large networks.

While there have been some examples of innovative financing mechanisms to support community-centred connectivity providers, the financial resources currently available are insufficient to help them scale up. Engagements with financial institutions that invest in traditional communications infrastructure in order to increase the options for financing community-centred operators have surfaced three difficulties that need to be addressed: their limited scale, their high real and perceived levels of risk, and their lower returns on investment.

To address these constraints, there is a strong need to create an enabling and flexible policy, regulatory, and financing environment that encourages the emergence of more innovative local and regional investment models for community-centred connectivity providers, and allows them to expand and operate more cost-effectively.[7]

This aligns with the findings and conclusions from Task Force on Financial Mechanisms that were incorporated into the Tunis Agenda, which recommended "(h)elping to accelerate the development of domestic financial instruments, including by supporting [...] networking initiatives based on local communities". [8] In addition, Community networks were recognized in 2019 in the UN ECOSOC resolution on the "Assessment of the progress made in the implementation of and follow-up to the outcomes of the World Summit on the Information Society."[9], as well as in the World Telecommunication Development Conference in 2022 (WTDC-22) where Resolution 37 (Rev. Kigali, 2022) resolves to instruct the Director of the Telecommunication Development Bureau (BDT) to "continue supporting Member States, where requested, in developing policy and regulatory frameworks that could expand and support the engagement of telecommunication/ICT complementary access networks and solutions in bridging the digital divide".[10] Several countries, in their telecommunication regulations have started to create enablers for community networks, notably creating specific licensees categories with lower economic and bureaucratic burdens[11].

Progress in relation to making funding available has been slower, despite exceptions such as Argentina's Enacom's Roberto Arias Programme[12]. Recent reports from the Broadband Commission[13] [14] recommend that community networks should be beneficiaries of USFs for extending affordable broadband access to commercially challenging rural and remote areas, to women, and low-income users. This trend is expected to continue following the ITU's inclusion of community networks as one of the innovations recommended in its Universal Service Fund 2.0 Training Kit.[15] Beyond support from USFs, the Broadband Commission report on financing models proposes that community networks should be beneficiaries of other types of support from public sources, at the national and international level.[16] In recent years international financial institutions

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5 Chapter " Funding Bottom up Connectivity: Approaches and Challenges of Community Networks to Sustain Themselves" Available at: https://comconnectivity.org/wp-content/uploads/2021/12/Community-Networks-Towards-Sustainable-Funding-Models.pdf

6 https://www.apc.org/sites/default/files/bottom-up-connectivity-strategies_0.pdf

7 https://www.apc.org/en/pubs/expanding-telecommunications-operators-ecosystem-policy-and-regulatory-guidelines-enable-local

8 https://www.itu.int/net/wsis/docs2/tunis/off/6rev1.html

9 https://unctad.org/system/files/official-document/ecosoc_res_2023d3_en.pdf

10 https://www.itu.int/dms_pub/itu-d/opb/tdc/D-TDC-WTDC-2022-PDF-E.pdf

11 https://www.apc.org/en/pubs/community-network-regulation-around-world

12 https://enacom.gob.ar/multimedia/noticias/archivos/202106/archivo_20210625022117_4017.pdf

13 https://www.broadbandcommission.org/Documents/working-groups/DigitalMoonshotforAfrica_Report.pdf

14 https://broadbandcommission.org/publication/21st-century-financing-models/

15 https://www.itu.int/itu-d/reports/regulatory-market/usf-financial-efficiency-toolkit/

16 https://broadbandcommission.org/publication/21st-century-financing-models/

such as the World Bank, Inter-American Development Bank,[17] the Asian Development Bank ,[18] and other regional financial initiatives such as the European Commission's Global Gateway, have now also begun to show interest in these types of small local providers.[19] However, financial solutions from these institutions have yet to materialise, partly due to the relatively recent emergence of community connectivity providers.

We believe that now is the time that those participating in the WSIS process recognise that community-centred models are not receiving enough attention, and there needs to be more proactive engagement in supporting these complementary solutions that are critical to ensuring the inclusion of marginalised groups such as women and indigenous communities, as well as the most financially disadvantaged. In particular, to unlock financial mechanisms for digital inclusion and solidarity, it is crucial to ensure community-centred approaches to digital inclusion are featured more prominently in events where financing for development will be discussed. This includes processes such as the Global Digital Compact, where the role of community-centred approaches requires more explicit attention in order to balance the prominent role that multinational companies have in the debate, whose profit-maximising needs are in conflict with the needs of those excluded from the information society.

Based on the above discussion, the following key recommendations can be made to inform the WSIS +20 process going forward:

- The Commission on Science and Technology for Development (CSTD) should convene a series of workshops to help multilateral development banks and other public finance institutions better understand community-centered network providers and explore financial mechanisms within their mandate to support community-centered connectivity solutions.

  A potentially important venue for this could be as part of the preparations for the Fourth International Conference on Financing for Development scheduled to take place in Spain in 2025[20]. This includes the Summit for the Future, where linkages between the Global Digital Compact and the Reforms to the International Financial Architecture should be established as part of the long-term financing of sustainable development[21]. The workshops should result in a clear action plan that goes beyond high-level recommendations and to include a minimum testing of some of the solutions already suggested in the reports from TFFM, GIGA or the Broadband Commission, with a particular focus on countries where the regulatory environment is already conducive to these approaches.

- In parallel, policies and regulations need to be adapted to provide a more supportive enabling environment for community-centred connectivity providers.

  This includes streamlining licensing process and reducing license fees, making spectrum available and minimising reporting burdens.

- Incentivise more local and regional socially driven impact funds that financially supports new complementary network providers focused on digital inclusion.

  Innovative funding mechanisms include blended finance catering to the scale and perceived risk level of community-centered solutions. These innovative instruments are run by socially driven funds which assess risk and impact differently from the traditional project viability or credibility assessment schemes that institutional funders are acquainted with. New specialised funds which invest in small scale infrastructure are already emerging and

17 https://publications.iadb.org/en/development-national-broadband-plans-latin-america-and-caribbean
18 https://www.adb.org/publications/last-mile-connectivity-affordability-frontier
19 https://fpi.ec.europa.eu/news-1/new-report-released-open-internet-opportunities-eu-africa-partnership-2022-10-24_en
20 https://undocs.org/en/A/C.2/78/L.59
21 https://www.globalpolicy.org/sites/default/files/download/Briefing_Reforms%20to%20the%20global%20financial%20architecture.pdf

successfully supporting community-centered solutions. Examples include Connectivity Capital and Connect Humanity. They have leaner structures and understand the local context better, resulting in lower transaction costs than more traditional funds in the telecommunications industry. This means these new initiatives can support a variety of small-scale and community-centered approaches, showing that making these types of investments is a viable strategy. Many other regional, national or local social impact funds, such as FISIQ and Angels of Impact, could be encouraged to follow these examples and invest in community-centred connectivity providers with the support of the international fund as grants or guarantees for instance.

An additional advantage that is provided by these impact actors is that they can disburse and manage funds in amounts that can be effectively absorbed by community-centred providers, something that is much more difficult for the instruments of DFIs and other large investors which are designed to manage multi-million dollar disbursements. It is important to note that specialized intermediaries are already pervasive in many other sectors of development finance and financial assistance and there is an opportunity to incentivize them to add digital inclusion to their portfolio with support from public finance.

National governments can in turn support these funds via tax incentives as well as through direct investment from USF (see below) or other government mechanisms as well as using tools such as guarantee pools, first loss investments, and other credit guarantees. This will allow new social investors to expand the range of their integrated capital mechanisms to be more effectively applied here.

- Review current financing mechanisms and strengthen existing funding interventions

  Considering the multiple voices requesting revision of USF models to encompass support for community-centred approaches, the recommendation to act on this swiftly is an obvious one. USF funds should flow either directly to community-centered network providers or through new or existing social impact investors, thereby creating more effective incentives to channel investment for public-private partnerships, tax breaks for donations, and the modification of public procurement guidelines. Community networks can also participate, and conditional funding from MDBs can also be used to create enabling frameworks. There are already mechanisms for this such as the World Bank's Development Policy Financing (DPF).[22] Providing guarantees so that local banks can also offer financing products to these providers would be helpful too.

  In addition to the role of government and multilateral funding agencies, the potential role of philanthropy in unlocking supporting funds should not be underestimated. Although it has been observed that their role in the ICT sector is currently relatively small,[23] with only 0.05% of U.S Philanthropy going to digital equity related projects, [24] some charities are starting to take much-welcomed action,[25] and could play a more central role in addressing digital exclusion. While philanthropic dollars have traditionally been used to support digital skills, it can be used as catalytic investments to USF or to social impact funds, to support investments into community centered network providers.

- Ensure replication of solutions by raising awareness of community access solutions in rural communities as well as among policy makers and financiers

  For the above recommendations to be successful, awareness raising is needed among the rural communities that could become community-centred connectivity solutions providers. It is also critical to raise more awareness among policy makers and financiers about

22 https://ieg.worldbankgroup.org/topic/development-policy-financing-dpf
23 https://forum.effectivealtruism.org/posts/H6GhXkbfAy949xhGf/open-philanthropy-shallow-investigation-telecommunications
24 https://connecthumanity.fund/research-philanthropic-giving-to-digital-equity/
25 https://www.usaid.gov/digital-development/gender-digital

community-centred connectivity as the best positioned models to end the digital divide.

- Build rural communities' capacity to access financial mechanisms

  Building the human capacity, not only technical but also financial, of those who wish to take advantage of these new mechanisms is equally critical. As such, there is a need to provide technical assistance to increase the investment readiness of community-centred connectivity providers and thereby build a pipeline of investment opportunities for the financial products mentioned above. This assistance can be provided by the social impact funds mentioned above in partnership with local civil society organizations.

  Working with structurally marginalised communities as internet service providers differs significantly from the traditional operation of the telecommunication sector. In this context, it is encouraging to see local civil society organisations supporting community-centred connectivity providers access operators[26]. They are more familiar with the ecosystem and can thus better evaluate potential opportunities, aggregate needs, provide legal and administrative support, and so, can be partnered with to offer customized skills needed.

If we want to make progress from WSIS on digital inclusion, we need to do something more. We should take this opportunity to reflect back from WSIS and recognize that traditional players and traditional financing mechanims have not solved the problem. That includes the incapacity of their business models to offer affordable, uncapped high-speed services in areas with low ARPU, which in turn prevents them from meeting the meaningful connectivity targets established by the Office of the United Nations Secretary-General's Envoy on Technology and the ITU, The problem requires innovative business and financial models that can better leverage public, private and philanthropic finance to reducing digital exclusion. We should therefore take a broader view how best to support new and innovative socially driven investors who can better support community-centred connectivity providers focused on bridging the digital divide.

26 https://www.apc.org/en/grants-local-implementation-apcs-strategic-plan-2022#Altermundi