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Social and Business Objectives of Telecommunications Policy

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Social and Business Objectives of Telecommunications Policy

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Abstract

Speech given at Session 2: World Communication: Where is Technology Leading Us? Mr. Wellenius focused on the social objectives of telecommunications policy and how these objectives fare in a privately led, increasingly competitive business environment. The social and business objectives of telecommunications policy largely coincide. Gaps, however, are likely to remain in meeting social objectives. Closing these gaps costs rather little, much less in fact than had been assumed in the past. Small subsidies go a long way if they are allocated using market mechanisms.

SOCIAL AND BUSINESS OBJECTIVES OF TELECOMMUNICATIONS POLICY

*Bjorn Wellenius**

I have been asked to focus on the social objectives of telecommunications policy and how these objectives fare in a privately led, increasingly competitive business environment. There is one message that I would like to convey, and it runs along the following lines. The social and business objectives of telecommunications policy largely coincide. Gaps, however, are likely to remain in meeting social objectives. Closing these gaps costs rather little, much less in fact than had been assumed in the past. Small subsidies go a long way if they are allocated using market mechanisms.

Telecommunications policy-makers increasingly accept privatization, new entry, and competition as the tools of choice for accelerated growth, modernization, innovation, and efficiency gains in developed and developing countries alike. It is worth noting that, when we organized a seminar in 1991 at Georgetown University in Washington, D.C. on lessons from implementing reforms in telecommunications, we invited several colleagues from Africa. The only comment they had was: "This is not for us. We're too poor. We don't have the people." Today, there are more than twenty-five countries in Sub-Saharan Africa that are well on the way towards a major restructuring of their telecommunications sector along the lines of greater private participation, new entry, and competition, with the government shifting away from ownership and management to policy and regulation.

As this movement has caught on, policymakers still often worry that this approach might leave out important segments of the population. Particular concern is expressed about those living in poor and rural areas and low-income people in cities. The experience so far, however, suggests that this concern is to a large extent unfounded.

On the one hand, flexible pricing and packaging of service elements results in commercially viable products that are affordable to low-income individuals. Let me tell you one little story.

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This is a very old one; you may have heard it. Already in the 1980s, *Compania Peruana de Telefonos*, operating in Lima and Callao in Peru, had started to experiment with attended public telephones in the peripheral quarters of Lima. This was a system in which you could go and make telephone calls. But, you also have the attendant receive calls and leave the keys in your pigeon-hole for your collect answer calls. You could be in the telephone directory listed with that number, even if you could not afford to have a telephone yourself. Very low-tech, but it meant that plumbers, carpenters, gardeners, and maids could be accessed through telecommunications, although there was no way in which this could be done in the traditional manner.

A more elegant version of this, of course, is the virtual telephone, which is a combination of pay phones, voice mail, and radio paging facilities — a sort of “poor man’s cellular.” You can find this system being tried in several emerging economies as a way of reaching a larger number of people without in fact having to invest or make them pay for the full cost of a private telephone line.

Developed countries are also experimenting with packaging, repackaging, and flexibility in pricing. In the case of the United Kingdom, for example, there is a whole list of products being suggested by Oftel, such as lifeline service, basic service, pay-as-you-go, and phone cards, which have two features: a minimum access at a very low price, plus the means for the user to control the pace at which they spend in addition to that. This seems to be a powerful element. In fact, in the U.K. and in Sweden and several other countries, one hears the argument quite frequently nowadays that reaching the low-income people in areas that have service is not a problem that requires governmental intervention. It can be done on the basis of more economical pricing.

A second line of argument that suggests that the concern about underserved or unserved areas is manageable has to do with new technologies. Technologies are continuously reducing costs, particularly in terms of the costs of processing, transmitting, and storing information. These costs are being halved roughly every eighteen months, and this has been happening for about thirty years and there is no end in sight.

New technologies are also reducing the barriers to entry,

and there are a number of opportunities for new providers to get into the business of providing services in underserved or unserved areas. Let me mention an example that is going on in both Ghana and Kenya. The World Bank is supporting an experiment in using quite modern cellular equipment adapted to stand-alone rural telecommunication operations. Although this is a partnership in which the government takes some of the risk, it actually is being driven by local entrepreneurs. The notion is that these little stand-alone operations are likely to be viable in areas which a year or two ago everybody said would not make money.

Although one can go a long way towards meeting everybody's needs on a commercial basis, some gaps are likely to remain, however. Consider the example of Chile. The country has about fifteen million people and a GDP per capita of about US\$4,000, so it is an upper-middle-income, smallish country. Chile has been leading among the emerging economies in privatization and the opening up of markets, and particularly, the combination of the two. The last year before the full impact of privatization was felt was probably 1988. The last year for which we have statistics is 1996.

The main telephone lines went from about 500,000 at the time of privatization to about 2.2 million last year. The growth rate accelerated from about a five percent trend to almost twenty percent. Telephone density jumped from four to fourteen. The proportion of households with telephones increased from thirteen percent to more than half. The proportion of the population with telephone access is about ninety percent now. This is a country that has done very well, but note, for example, that last statistic — ninety percent of the population having telephone access. That means that ten percent of the population of Chile, about 1.5 million people, still live in villages that do not have even one public telephone. So there is a problem there: how, in an otherwise very successful market-driven environment, can one accelerate what one could call "universal access" to service.

Experience suggests that the cost of closing this sort of gap, if the service reforms are defined commensurately with the level of development of the network, is fairly low. In Chile, we are talking about basic access, a public telephone in every village. Obviously, in most of Europe, and certainly the traditional practice in the U.S., is to aim at a telephone in every household. You

can go to very high levels, as well, to the idea of Internet access in every school, health center, and library. So each country sets its objective target for this universal service in terms of the level of its network.

How much does it cost to meet those objectives? It is in the order of one percent of the gross operating revenues of the telecommunications sector. This is not big money. Consequently, if it is that small, there is a number of rather simple ways, if one starts from scratch, in which one can generate those monies.

It is interesting to note that these costs can be kept down, using market mechanisms to determine and allocate any subsidies. Let me give you an excellent example. I will tell you the little story about the Chilean Fondo de Telecomunicaciones. It was created in 1994 to fund small amounts of subsidy for the extension of public telephones to villages that did not have them. The purpose was to provide a first public telephone in each of identified rural localities. It provides a one-time subsidy to catalyze private investment. It doesn't pay the full cost, but it 'tops up the market,' so to speak. It is a small fund, only about US\$4 million dollars a year, in a country that has a turnover of about US\$500 million in telecommunications. It has a limited duration of four years. It is funded by the central government — not the operators. Assumptions in technology were used just to package the localities into more or less sensible projects. Simple cost-benefit analysis was used to determine the maximum subsidy that the government should be prepared to offer for these projects. Existing and new operators were invited to bid for these subsidies and licenses which would be awarded to whoever required the least subsidy.

The results are quite interesting. In the 1980s, the government had installed about 500 public telephones by paying the incumbent operators about US\$20,000, on average, per telephone. The Fund, in its first run in 1995, only needed to commit about US\$1,600 of subsidy for each telephone provided. This means that the subsidies were tremendously leveraged. In total, US\$2.1 million in subsidies mobilized US\$40 million of private investment — that is a twenty to one ratio. That does not mean that the cost of providing the service went down, but it did mean a very modest amount of topping-up was needed for the enterprises themselves to provide this service properly. That is less than 0.5 percent of the gross revenues of the telecommuni-

cations sector. The lesson there is that market forces can be used to determine and to allocate subsidies that go a long way.

In short, let me summarize again what my little story says. It says that social and business objectives largely overlap. There are gaps, however. These gaps can be closed at a modest cost. A small subsidy can go a long way with market mechanisms. Thank you very much.