

5.4 ROLE OF GOVERNMENT FUNDING

Government financing of public access networks can take a variety of forms. These include equity investment, grants, loans, and guaranteed purchase of services. The most common form of financing is through the use of loans, normally in the form of government bonds. Government grants have been used in Europe, but are less common in the United States. An option open to governments to attract a public service provider to fund and operate a local access network is by leveraging their purchasing power for telecommunications services

Of all the available funding mechanisms, the most potentially contentious are government grants. This is less of a problem in underserved areas where the telecommunications and cable operators consider them to be uneconomic to serve or there is little or no existing infrastructure. Programmes designed to address these issues, such as the Broadband for Rural and Northern Development Pilot Program in Canada^[xi] or European structural funding for economically disadvantaged member states do not generally attract much criticism from the perspective of their policy objectives.

Government grants and, for that matter, any type of public financing become more problematic when the intended use is to develop local access networks in municipalities that having existing carrier networks. Although the municipal network may be more advanced and provide open access to all service providers, this type of initiative is often characterised by incumbent operators as the use of public funds to distort the market. National jurisdictions vary so much in their approach to this type of issue that there are no standard guidelines.

There are a number of examples in the United States where local government access networks have been built to directly compete with existing carrier and cable networks. This has resulted in a number of states enacting legislation that would restrict or severely curtail these activities, but there is no common approach.

In the case of the European Community, State Aid rules are designed to ensure that there is no public funding of projects that duplicate market initiatives or provide service already available, as they are deemed to potentially distort competition. However, the case law is not well developed and it is unclear what its position will be on the build out by local governments of FTTH networks in cities that have existing suppliers providing community-wide coverage.

An effective approach that has been used in local access deployment is the guarantee of a certain amount of government telecommunications traffic. In effect, the local government acts as an anchor tenant that justifies the investment by the private sector in funding and operating a network. This is the approach that has been adopted in the Wireless Philadelphia initiative, Knysna UniFi Project, and the City of Johannesburg.

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References

[xi] Canada has two programmes, Broadband for Rural and Northern Development Pilot Program and the National Satellite Initiative.

<http://www.broadband.gc.ca/pub/program/index.html>