

Is the Grameen mix of telecom and microfinance replicable?

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LIRNEasia

Learning Initiatives on Reforms for Network Economies

Context

- *Diversifying Participation in Network Development (WDR 2005)*
 - Innovative solutions for network development have emerged
- 'Grameen approach' as an example
 - 'Unpack' factors contributing to success
 - What can be learnt?

Methodology & Limitations

□ Methodology

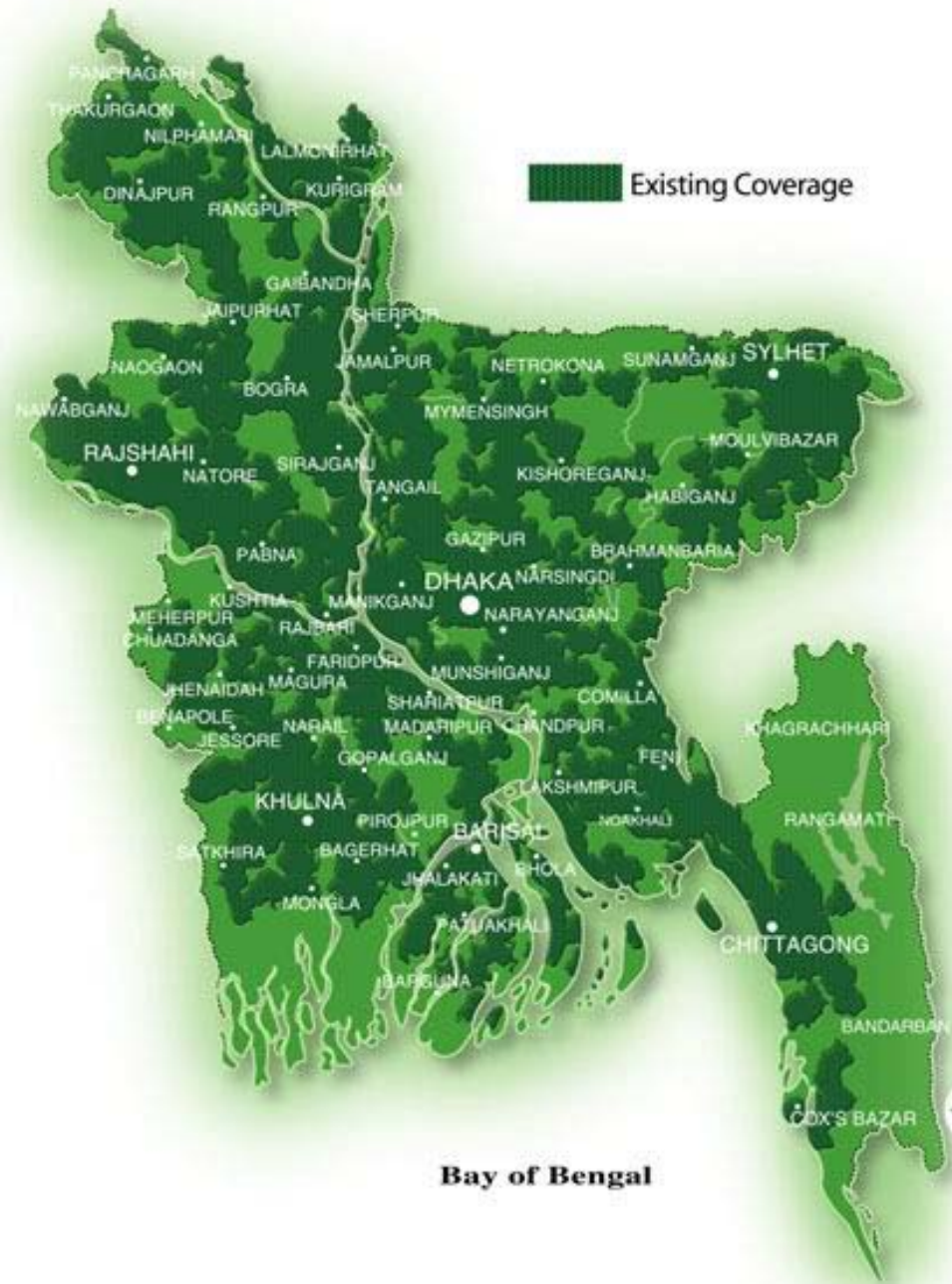
- Qualitative: extensive literature review & in-country interviews with key stakeholders

□ Limitations

- Lack of credible data on discounts
- No interviews with certain stakeholders

GrameenPhone, Bangladesh

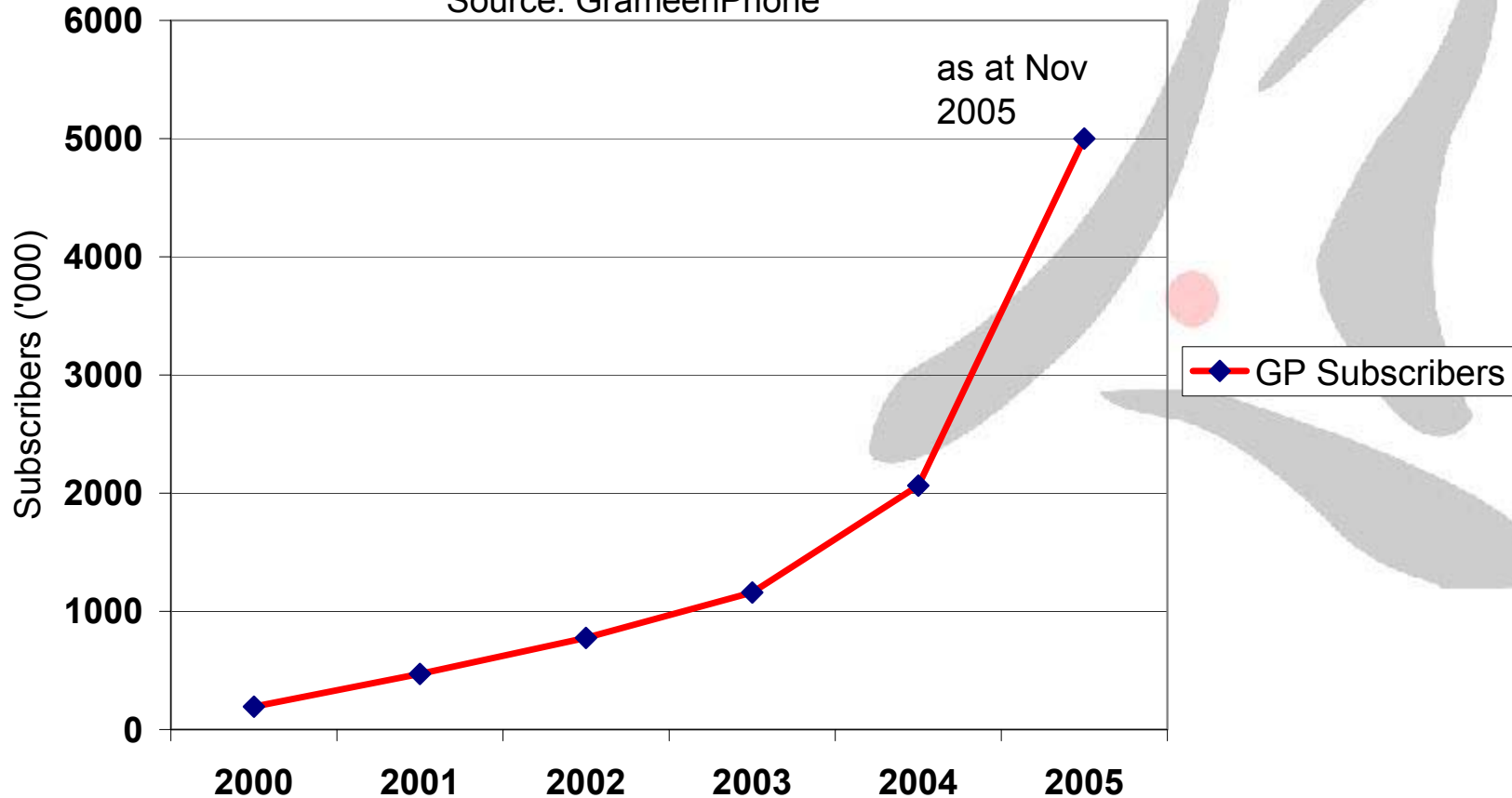
- ❑ For-profit company, licensed in 1997
- ❑ Offers commercial service to over **5 million subscribers**
- ❑ Offers connections to 'village phones'
- ❑ August 2005: 165,000 VP connections
- ❑ Covers 64 million rural Bangladeshis: **approx. 45% of population**



Rapid growth in GP subscribers

GrameenPhone subscribers (2000-Nov.2005)

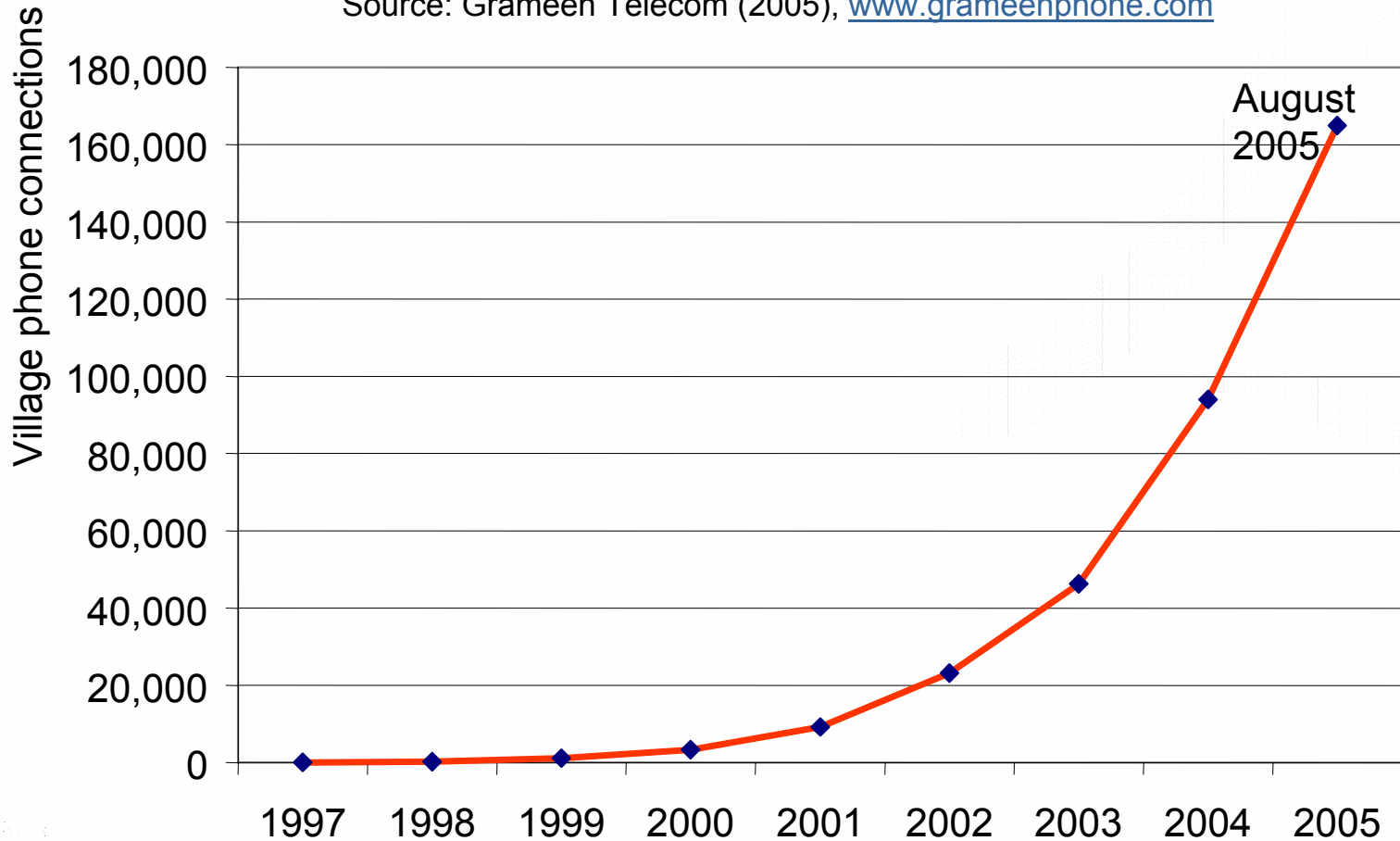
Source: GrameenPhone



Rapid growth in village phones

Growth in Village Phone Operators (1997- Aug.2005)

Source: Grameen Telecom (2005), www.grameenphone.com



The Village Phone program...

□ **Grameen Bank** - MFI

- Selects new VPOs from borrower pool; provides borrower with USD133 loan to buy a cellular phone with GrameenPhone network; GB manages VP program at village level (service fee: 7.5%)

□ **GrameenPhone** – MNO (for profit company)

- owns & operates network, provides airtime at 50% discount and issues single bill to VP program

□ **Grameen Telecom Company** - rural telecom company (not for profit)

- sells handset to VPO, provides training, translates and issues bills to GB branches (service fee: 7.5%) (38% shareholder in GP)

□ **Village Phone operators** – local resellers (selected GB clients)

- resells telecom services to villagers



Grameen Phone
(network operator)

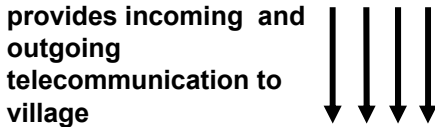
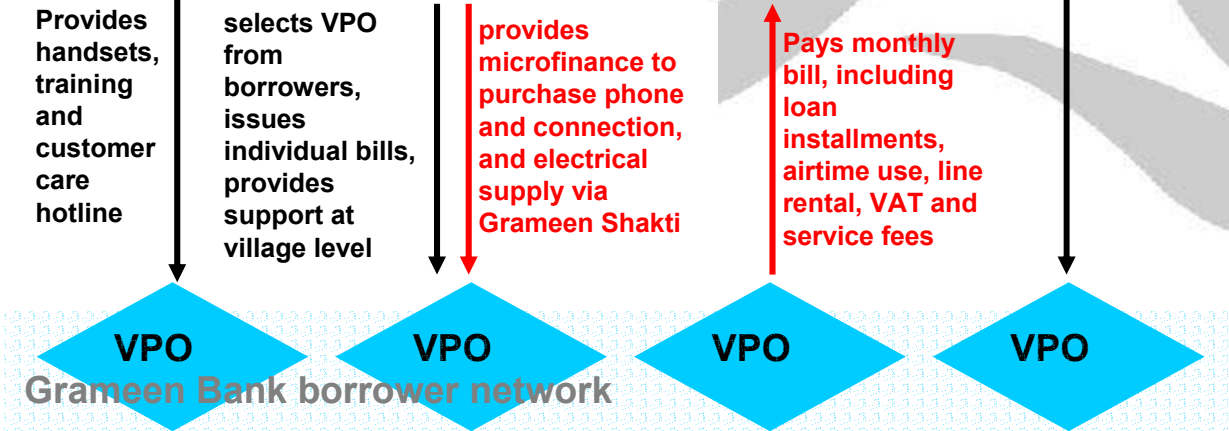
Debt financing:
IFC, ADB,
CDC, NORA
Equity investment:
Telenor (62%)
GTC (38%)



Grameen Telecom
(rural telecom company)
retains 7.5 % service charge



Grameen Bank (village branches)
(micro-finance institution)



'win-win' situation for all...

- ❑ GP earns revenue from volume sales to VP program; CSR profile is enhanced
- ❑ GTC extends rural telecom, covers costs (% on airtime + share dividends)
- ❑ GB gets loan income + % on airtime; promotes poverty alleviation
- ❑ VPOs earn income via viable business; recognition, empowerment, etc.
- ❑ Previously unserved rural villages are served; save on travel time and cost

Why have others not replicated this in Bangladesh?



VP program makes it profitable for GP to serve rural customers:

□ Dramatically reduced costs

■ Costs of billing

- VP program is **one** customer (16% of GP revenue)

■ Reduced risk of non-payment

- Selection process
- Monitoring of borrowers
- Social capital
- Livelihood ensured

■ Costs of advertising & marketing

□ Discounted airtime (50%)

□ Demand is aggregated

■ Shared access model

■ 4% of connections gives 16% of revenue



Infrastructure is key

*"[The VP Program] offers a framework to extend rural telecommunication service to the rural poor in countries **where an investment has already been made in mobile phone infrastructure**" (UN ICT Task Force, 2005)*

- E.g. Uganda replication
- GP has exclusive access to 1800km of fiber optic network along railway lines
 - hostile interconnection conditions from incumbent →incentives to build own backbone
 - GP has rolled out rapidly, and extensively along railway



GP network coverage and Bangladesh Railway network

Source: GP coverage map: www.grameenphone.com; Rail network adapted from www.mapsofworld.com
NOTE: this map is not drawn to scale and is only indicative. (2005)



1998



2001



2004



2005



Which elements are needed for replication?

Element of model	Necessary condition?
Infrastructure coverage	YES
Airtime discount	YES
Micro-finance for start-up of VPO business	NO; <u>handset</u> costs are falling; USD20 by early 2006, USD15 by 2008
Grass-root organization (MFI)	YES, for day-to-day management of program
<p>'Middle man' organization:</p> <ul style="list-style-type: none"> ■ Payment collection ■ selection of VPOs at village level ■ Training and handset provision ■ Coordination 	<p>NO; prepaid approach circumvents this issue</p> <hr/> <p>NO; pre-paid approach circumvents</p> <hr/> <p>NO; can be undertaken by MFI</p> <hr/> <p>YES, IF many organizations involved</p>

Falling handset costs



Handset cost evolution: Cost of lowest priced handset to end-user.

Source: NOKIA (2005) *Towards a more affordable mobile experience*, lead story, New Horizons, Q3 2005. Available at http://www.nokia.com/nokia/0_56489_00.html

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Should it be replicated?

- ❑ Yes, but with modifications
- ❑ Key to sustainability is profitability
 - Network operator should not make a loss
 - Necessary conditions
 - ❑ Cost-effective infrastructure
 - ❑ Grass-root organization
 - ❑ Airtime discount

