

Universal Service Policy in Africa, Asia

Investments in a financial crisis

Helani Galpaya
ITS, Perth, Aug 2009



Some thoughts : limited to South Asia

- Investment continues in crisis, but allocation may change
 - higher expected RoR
 - Incentive to go to high/fast growth markets (Asia, Africa: huge untapped markets)
- South Asia: profitable market
 - Previous EBITDA of 50 – 60% (~1.5 years ago)
 - Now lower but still attractive (35% Bangladesh; 28% Sri Lanka; 37% India etc.)
- Even if investors from the global north (developed countries) face credit crunch...
- Asian/African investment into telecoms is:
 - Internally generated (e.g. India)
 - Regionally generated (from Asia itself, or the middle east)

EBITDA margings v. high previously (50%+). Now more in line with EU/USA. But still attractive

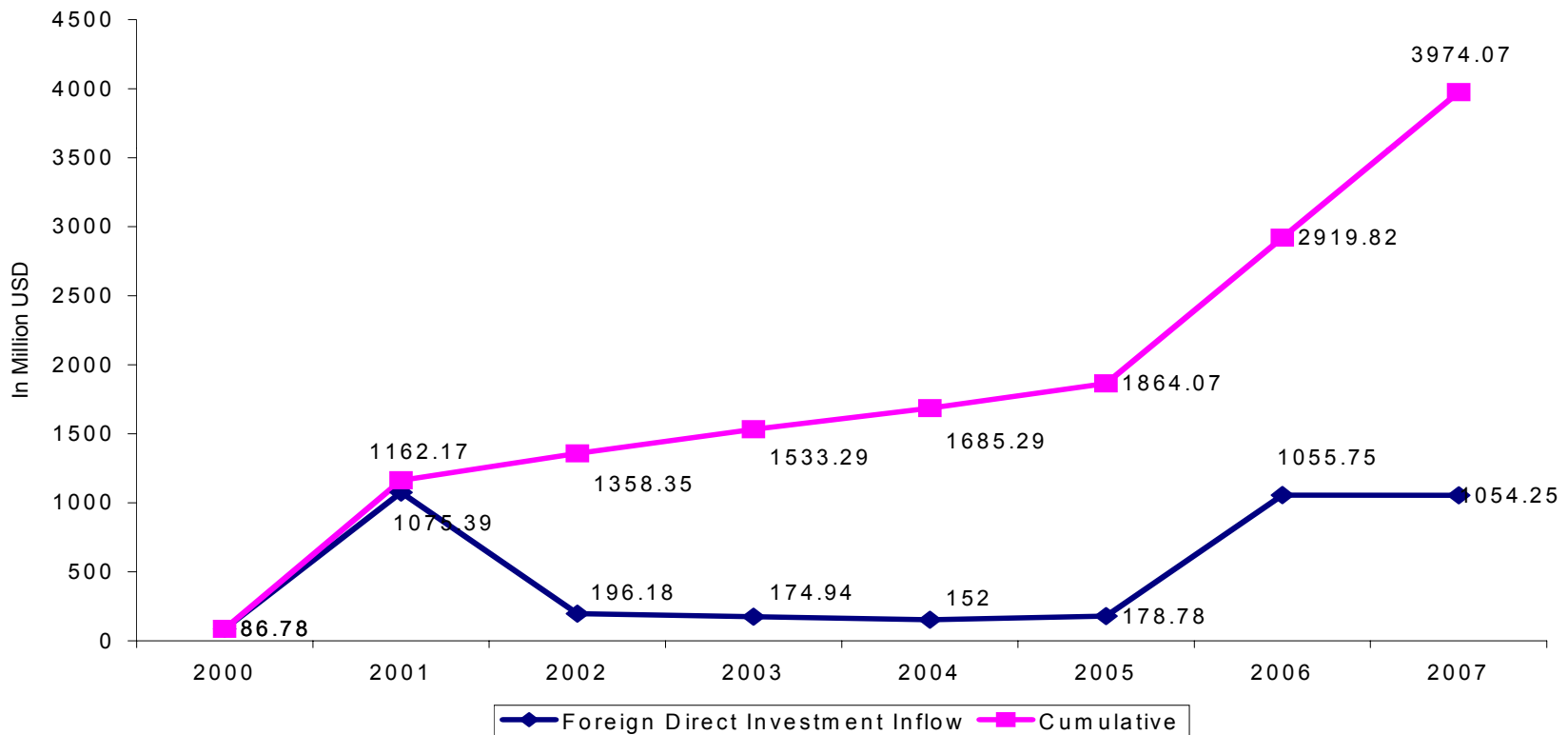
	EBITDA margin (2008)
Bangladesh ₁	35%
Sri Lanka ₂	28
India ₃	37

	EBITDA margin
T-Mobile Mobile (Europe) - 2008	35%
T-Mobile Mobile (USA) - 2008	28%

Untapped markets + ability to leapfrog → attractive available.

- E.g. untapped rural markets
 - India rural penetration ~14% per 100 population
- Install newer (cheaper) technologies without legacy investment issues

Investment Internally generated. E.g. Largest market (India) mostly "Indian" investment



FDI matters, but regional investors (from Asia, Middle East) dominate

Foreign Direct Investment in Pakistan's Telecom Sector (in US\$ millions)			
Year	Total FDI	FDI in Telecom Sector	Telecom Sector's Contribution in Total FDI (%)
2001-02	484.7	6.1	1.26
2002-03	798	13.5	1.69
2003-04	979.9	207.1	21.14
2004-05	1524	494.4	32.44
2005-06	3521	1905.1	54.10
2006-07	5124.9	1824.3	35.61
2007-08	5152.8	1438.6	27.91

- **China Mobile** acquired 100% of Paktel
- **Orascom** increased stake in Mobilink to 100%
- **SingTel** purchased 30% Warid Telecom
- **OmanTel** purchased 60% of World Call

Asian Companies investing in Asia

*..and soon in Africa?
(Airtel in talks with MTN)*

Regional Investor/Operator	Invested in (company)	Located in...	Stake
Axiata (Malaysia)	TM International (Bangladesh) Limited (Aktel)	Bangladesh	70%
	Spice Telecom	India	39.2%
	Multinet Pakistan (Private) Limited	Pakistan	100%
	Dialog Telekom PLC	Sri Lanka	84.81%
SingTel (Singapore)	Citycell	Bangladesh	45%
	Bhathi Airtel	India	30.4%
	Warid Telecom	Pakistan	30%
	Globe Telecom	Philippines	21.5%
Bharti Airtel (India)	Bhathi Airtel	India	Not stated
	Airtel Sri Lanka	Sri Lanka	100%
NTT DoCoMo (Japan)	TM International (Bangladesh) Limited (Aktel)	Bangladesh	30%
	Tata Teleservices	India	26%
	Philippine Long Distance Telephone Company	Philippines	20%
Maxis Communications Berhad of Malaysia	Aircel Limited	India	74%
	Axis (PT Natrindo Telepon Seluler)	Indonesia	44%
Hutchison Telecom (HK SAR)	Hutch	Sri Lanka	100%
	3	Indonesia	60%
Tata Communications Ltd (India)	Tata Teleservices	India	74%
	United Telecom Limited (UTL)	Nepal	26.66%
China Mobile	Zong(Paktel)	Pakistan	100%

Middle-eastern companies investing in Asia, Africa

Regional Investor	Invested In		Share
	Company	Country	
Q Telecom - Qatar	Qtel	Qatar	100%
	Nawras	Oman	55.60%
	AsiaCell	Iraq	30%
	Wataniya	Kuwait	52.50%
	Tunisiana	Tunisia	26.25%
	Nedjma	Algeria	46.30%
	Wataniya	Palastine	29.90%
	Bravo	KSA	29.20%
	Wataniya	Maldives	52.50%
	Wi Tribe	Jordan	78.00%
	Wi Tribe	Pakistan	78.00%
	Liberty	Philippines	40.00%
	Navlink		38.00%
	Indosat	Indonesia	40.80%
	LTC	Laos	6.00%
	Shinawatra	Cambodia	12.00%
Starhub	Singapore	12.00%	

Regional Investor	Invested In		Share
	Company	Country	
Etisalat	Etisalat	UAE	Not Stated
	Etihad Etisalat (Mobily)	KSA	
	Thuraya	UAE	
	Atlantique Telecom (AT)	West Africa - majority shares in mobile operators in Benin, Burkina Faso, Gabon, Niger, Togo and Cote D'Ivoire	
	Canar	Sudan	
	Etisalat Misr	Egypt	
	Etisalat	Nigeria	
	Zantel	Tanzania	
	Etisalat	Afghanistan	
	PTCL	Pakistan	
	Exelcomindo	Indonesia	
	Swan Telecom	India	
Abu Dhabi Group - Warid Telecom	Warid Telecom International LLC	UAE	Not Stated
	Warid Telecom (Pvt) Limited	Pakistan	
	Wateen Telecom (Pvt) Limited (Warid Pakistan)	Pakistan	
	Warid Telecom International Limited	Bangladesh	
	Warid Telecom Uganda Limited	Uganda	
	Warid Congo SA	Republic of Congo	
	Have Investments in Non GSM operations		

Regional Investor	Invested In		Share
	Company	Country	
Orascom Telecom Holding S.A.E	OTA	Algeria	96.81%
	Mobilink	Pakistan	100%
	Mobinil	Egypt	28.75%
	Egyptian Co. For Mobile Services	Egypt	20.00%
	Orascom Telecom Tunisiana	Tunisia	50%
	Banglalink	Bangladesh	100%
	Koryolink	North Korea	75%
	Globalive (To be launched at the end of 2009)	Canada	?
	Telecel (Telecel Global)	Central African Republic	100%
	Cell One (Telecel Global)	Namibia	100%
	U Com (Telecel Global)	Burundi	100%
	Telecel (Telecel Global)	Zimbabwe	60%

Increasingly fewer "western" investors left

- Exceptions: Vodafone, Telenor, C&W

Investor	Country	Invested in	Company	Share
Cable and Wireless	UK	Maldives	Dhiraagu	45%
		Afghanistan	Roshan - Monaco Telecom International (MTI)	Monaco owns 36.75%
Telenor Group	Norway	Bangladesh	Grameen Phone Limited	62%
		Pakistan	Telenor Pakistan	100%
		India	Unitech	Not stated

- Others moving out
 - Tigo (Millicom) selling most Asian operations

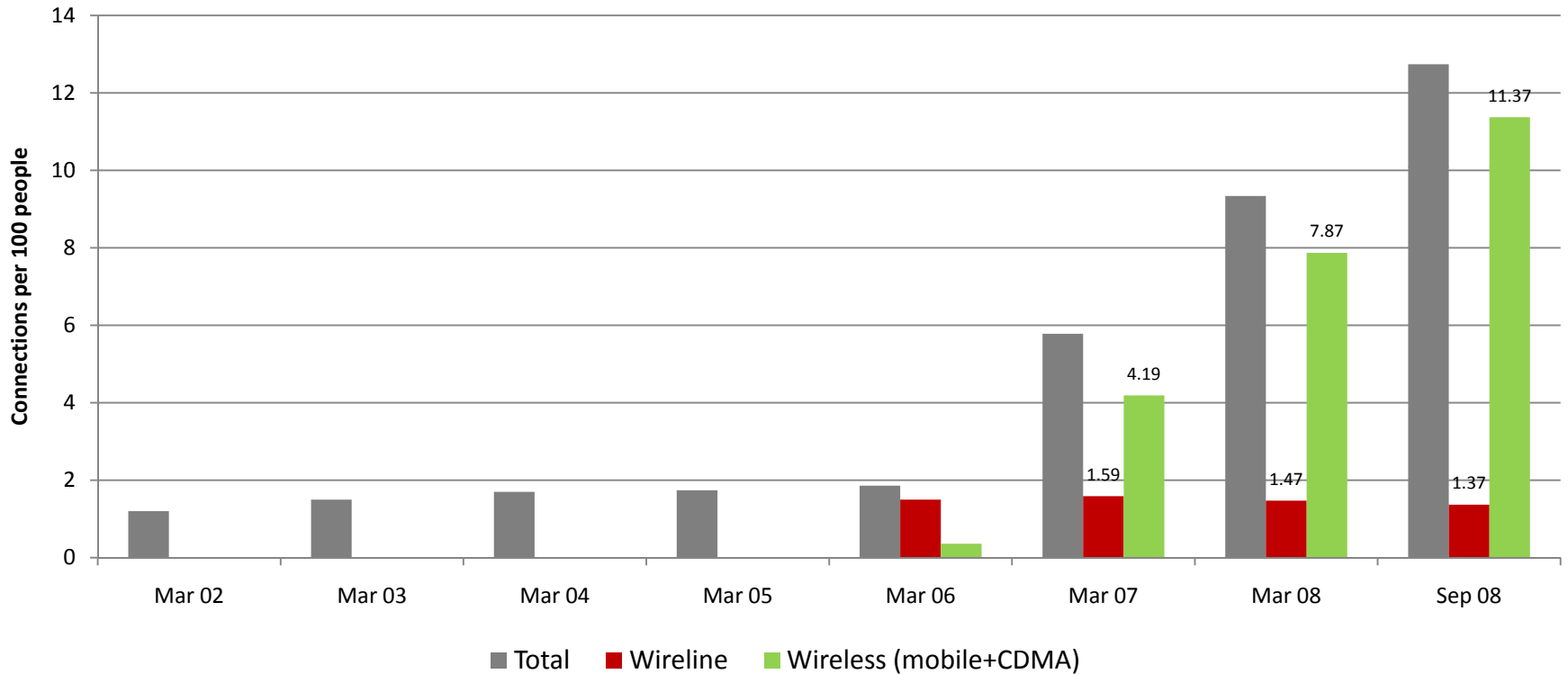
Those who do invest find business models suitable for South Asian markets: e.g. "budget telecom model"

- Low ARPU's
 - Average ~USD 5 (Bangladesh USD 2 for some operators)
- Mostly (over 80%) prepaid
 - low cost of serving (no bills, electronic re-load, no 1-800 customer care)
 - low customer acquisition cost (~USD 3.5)
 - low/no credit risk (pre-paid)
 - Regional negotiations for equipment
- Low Quality
 - “acceptable” call drop rates x2 of US/EU

USO: most have got it wrong. E.g. India

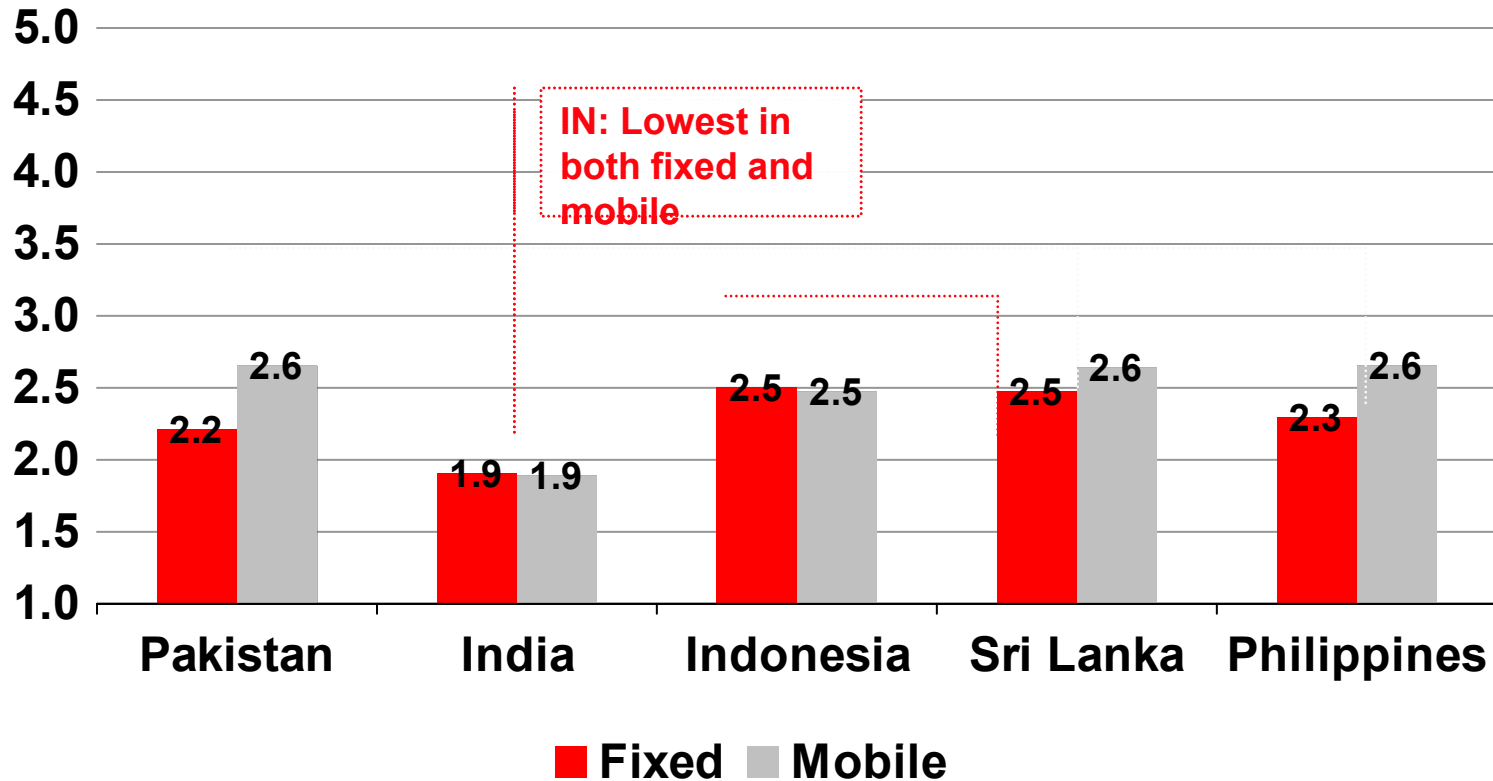
- USO policy (then)
 - Charge 5% of gross revenues from operators
 - Funds given to installing rural FIXED PHONES
 - Mobile not eligible for USF (conditions of auctions)
- But rural fixed penetration negligible (even declining recently)
 - But only mobile penetration growing rurally (without any help)
- By 2006, India has USD 4 billion in a undisbursed USF

India rural penetration



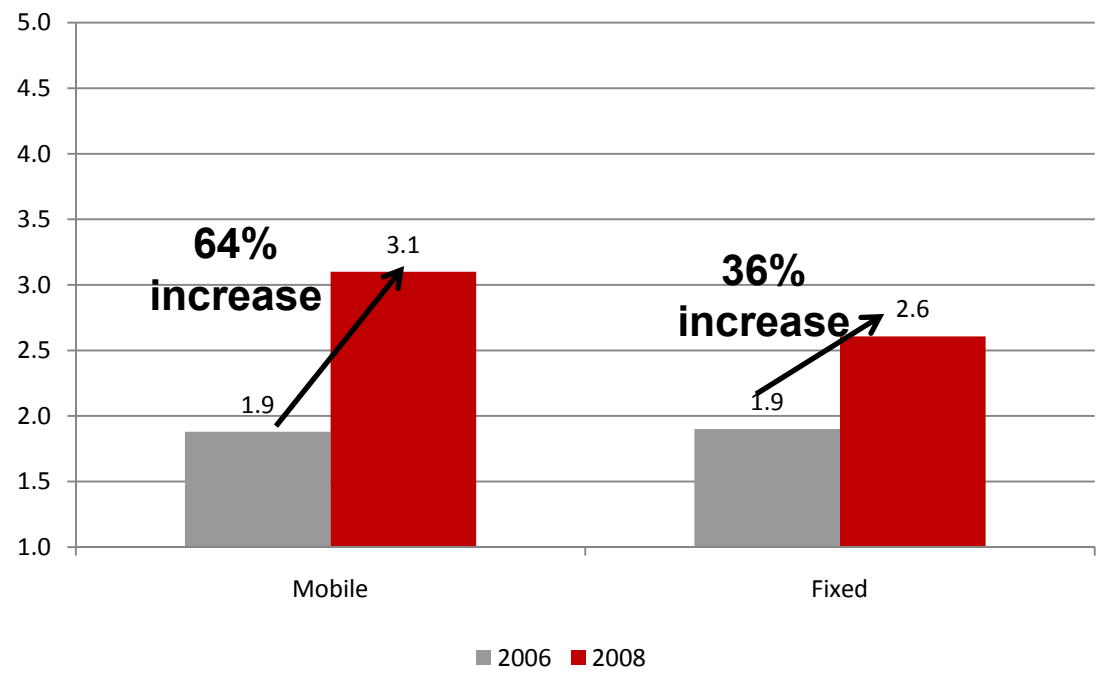
Stakholder unhappiness as revealed by LIRNEasia's TRE survey

TRE scores for Universal Service Obligation - 2006



- Policy changed in March 2007
 - Mobiles made eligible to receive
 - Perceptions improve (TRE jumps 64%)
- BUT, still ~4 billion undisbursed
 - TRE Scores barely above average of 3.0
- No subsidies needed?
 - Passive infrastructure auctions

India - 2006 vs. 2008 TRE for USO



Other examples too (e.g. PH).

**Bottom line: USO policy is hard to get "right".
Increasingly unnecessary. And certainly makes no
sense in badly regulated environments.**