

South Asia: Challenges of the Budget Telecom Network Model

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Convergence India

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10,000-sample, 6-country Teleuse@BOP survey in 2008 found that most poor people had . . .

Used a phone in the last 3 months

	Bangladesh	Pakistan	India	Sri Lanka	Philippines	Thailand
% of BOP (outer sample)	95%	96%	86%	88%	79%	77%

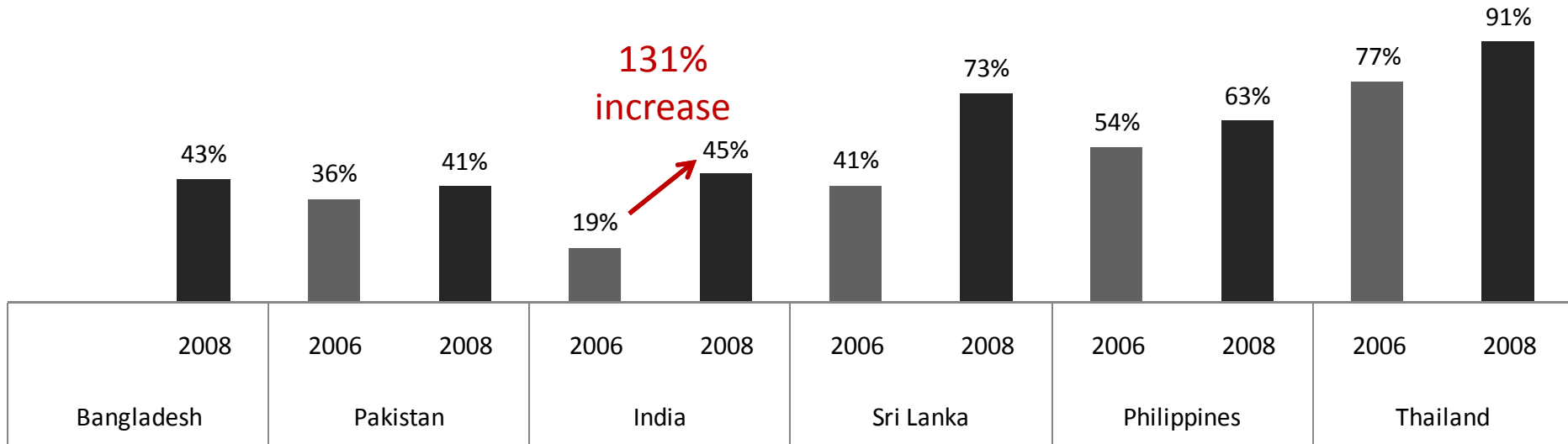
Used a phone in the last week

	Bangladesh	Pakistan	India	Sri Lanka	Philippines	Thailand
% of BOP (outer sample)	82%	66%	65%	77%	38%	72%

Caused by SMS reliance

Largest % growth in Indian total BOP phone ownership at household level

Total BOP phone ownership: 2006 vs 2008 (% of BOP teleusers)



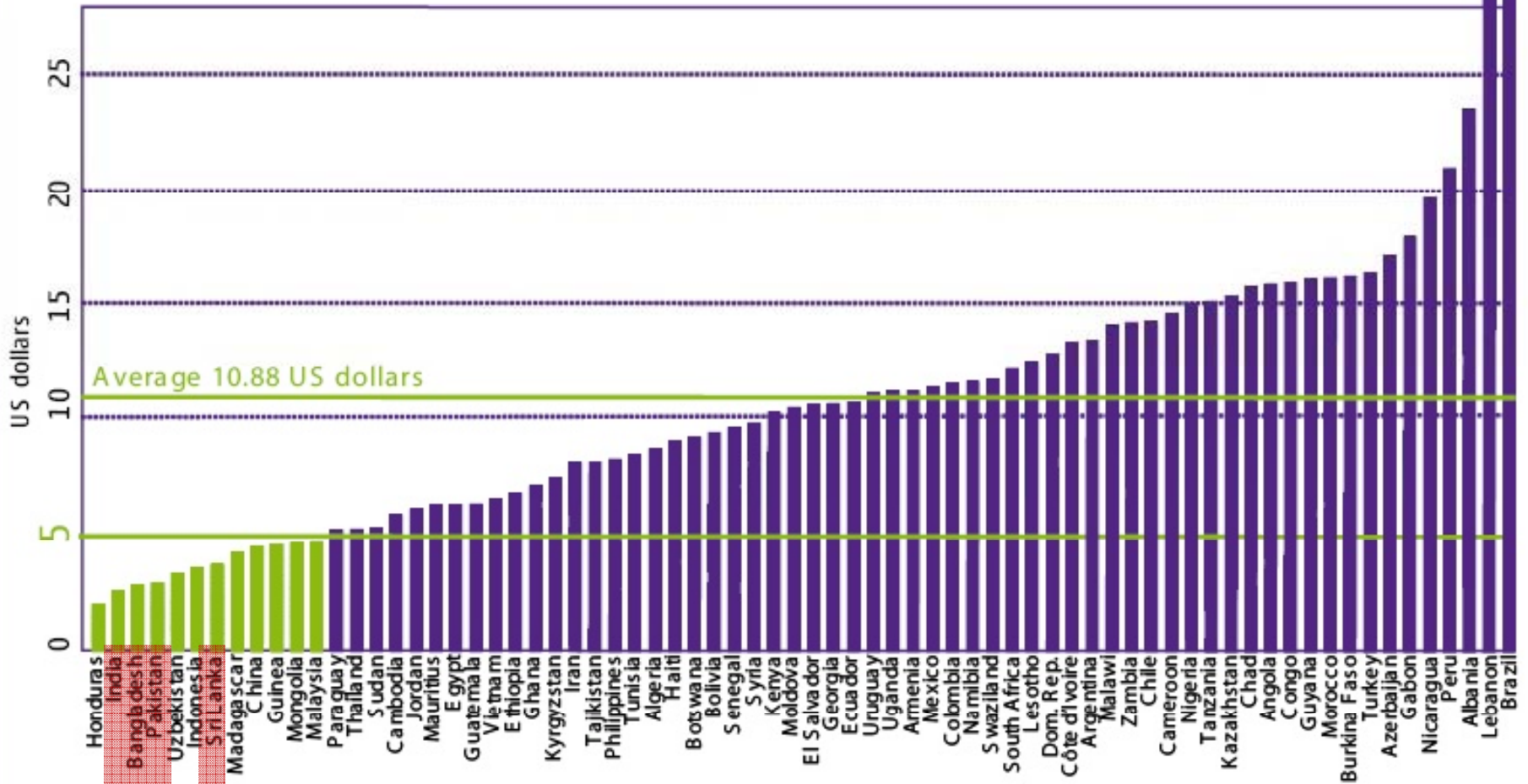
The cause: Budget Telecom Network Business Model

How were this many poor people connected electronically?

- “Budget Telecom Network Model” that allowed South Asian telcos since 2005-06 to make excellent (if highly volatile) returns by serving “long-tail” markets of poor people by
 - Dramatically reducing transaction costs primarily through prepaid
 - Allowing poor people to pay for services when they need it and when they have money (as opposed to fixed monthly payments)
 - Controlling operating expenses through business-process innovation
 - Focusing on revenue-yielding minutes rather than ARPUs
- Akin to Budget Airline Model that allows Air Asia to make profits while conventional airlines flounder
- Downsides
 - Patchy quality of service for consumers
 - Volatile returns; increased risks for suppliers

Total cost of mobile ownership in 77 emerging economies

Monthly TCO by country



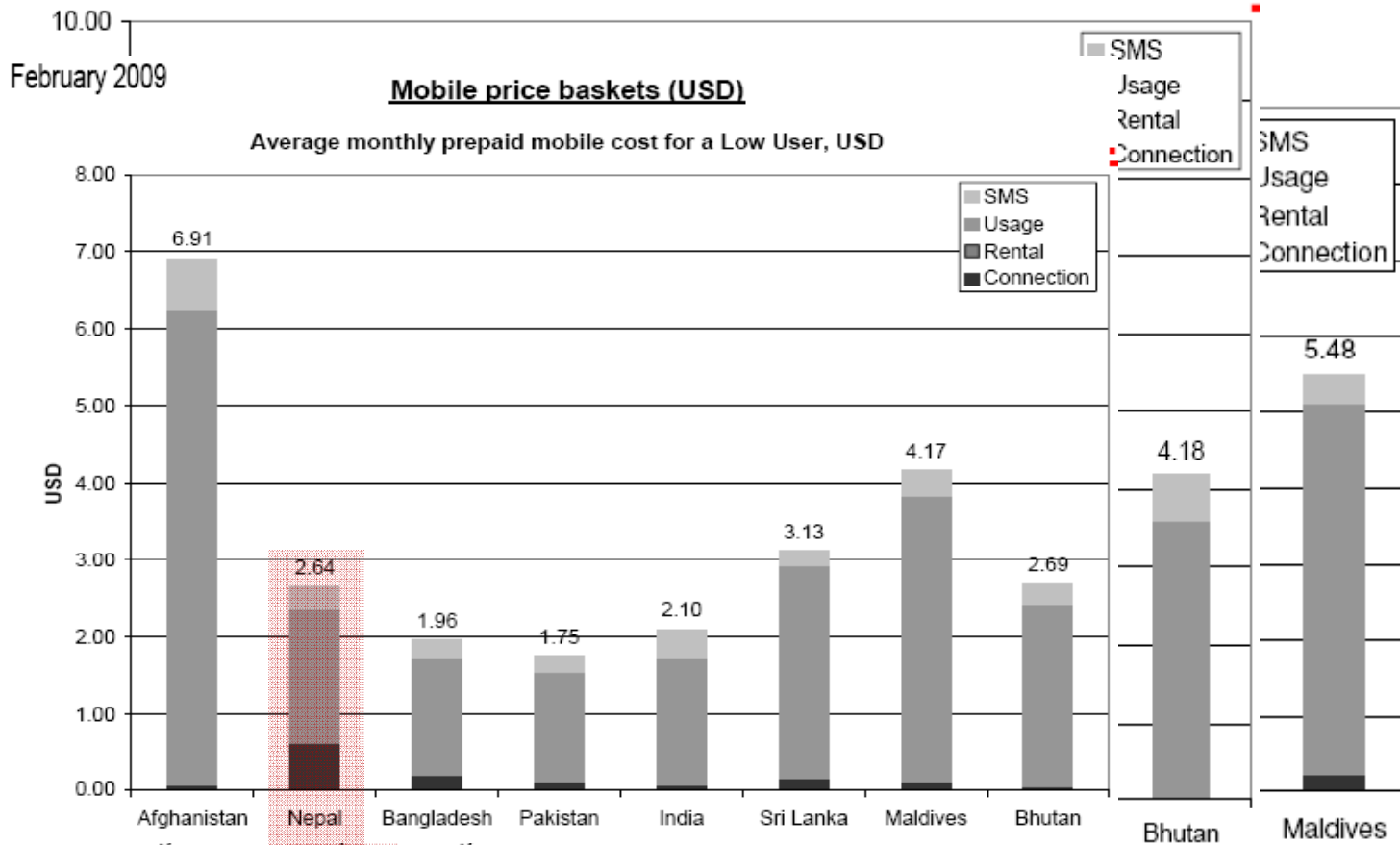
Competition as the necessary condition

- Despite being similar to Bangladesh, India, Pakistan and Sri Lanka, Nepal had high prices until 2009
 - Backdoor entry to mobile space by “fixed” CDMA operators was the explanation for prices dropping in 2009

October 2008

Mobile price baskets (USD)

Average monthly prepaid mobile cost for a Low User

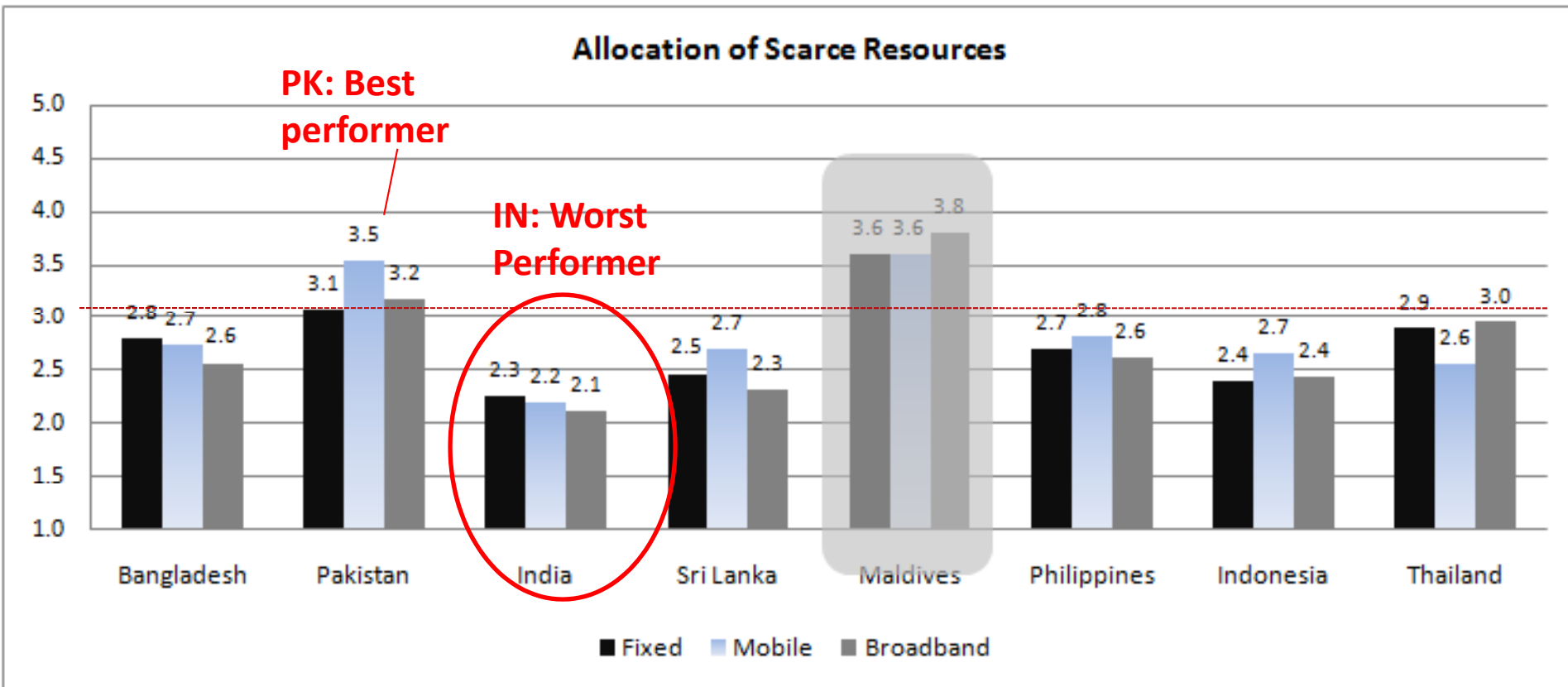


Policy & regulatory challenges

Policy & regulation to leverage BTNM

- Uncertainty surrounding license renewals must be reduced
 - Pakistan has solution; Bangladesh and Sri Lanka need one quickly
- Market entry and spectrum management, including refarming, have not been given highest priority
 - India has been extremely slow
 - Only Sri Lanka has done significant refarming, but even that was 5 years ago
- More emphasis needed on availability of, and wholesale access to, “fat pipes” than termination rates per se
 - Nothing to talk about anywhere
- Greater attention needed re anti-competitive practices, especially vertical price squeeze

Spectrum: PK fast response gives certainty. India's bungles of 3G and 2G spectrum issuance creating negative impact

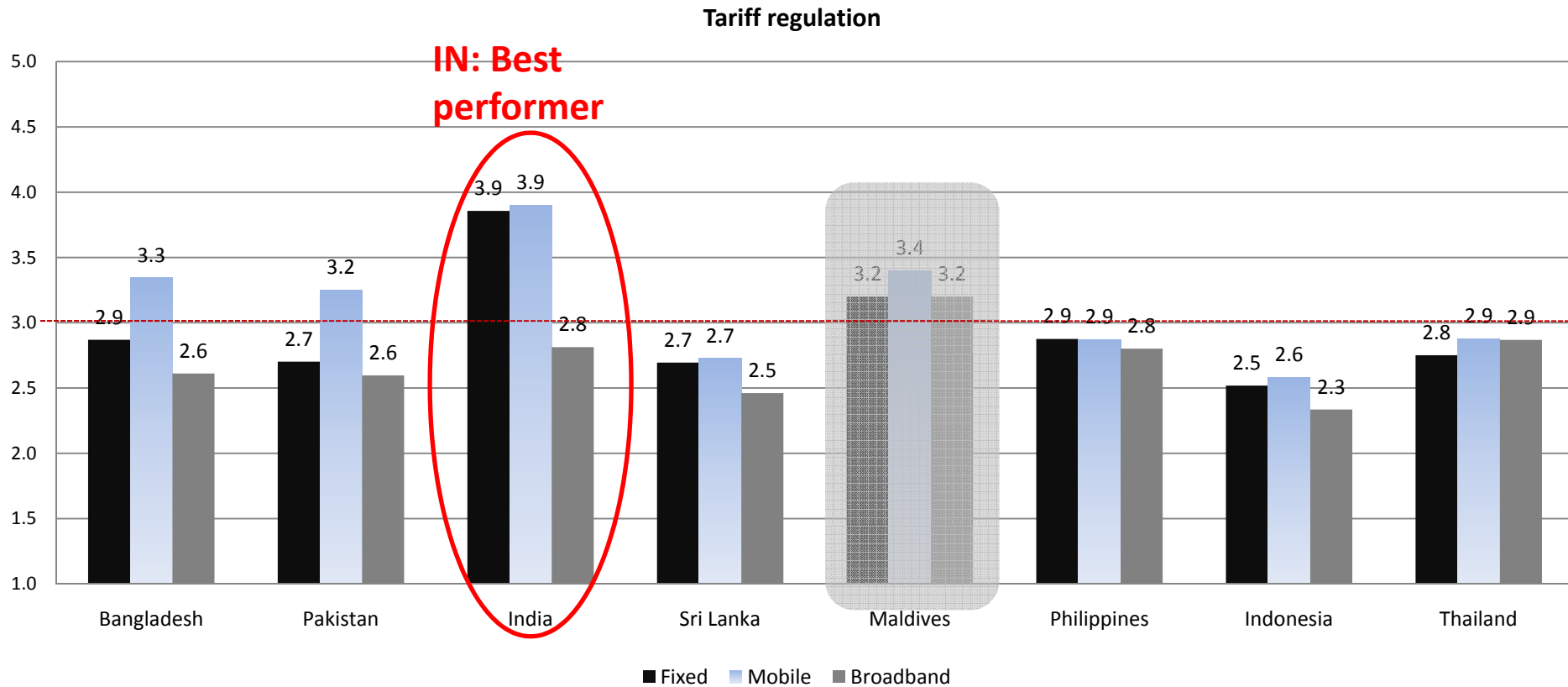


Policy & regulation to leverage BTNM

- Old style price regulation must be replaced by forms of forbearance, if necessary bounded to address competition concerns
 - Only India has it
 - Others have de facto forbearance, but has not reduced uncertainty
- Quality of Service (QOS) regulation must focus on truth in advertising, allowing different price-quality bundles so poor are not shut out
- Urgent need to phase out universal-service levies and rationalize taxes
 - Pakistan has high taxes but PTA has taken initiative to reduce
 - Become an election issue in Sri Lanka

India: some of the lowest tariffs in the world.

Regulator does not regulate prices

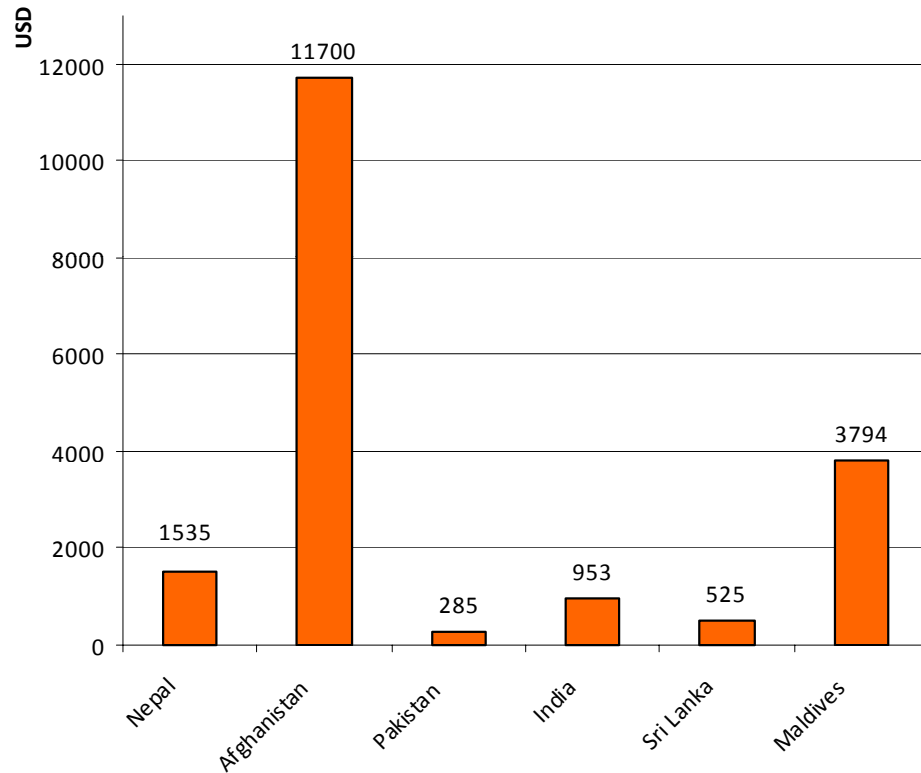


Broadband is the future

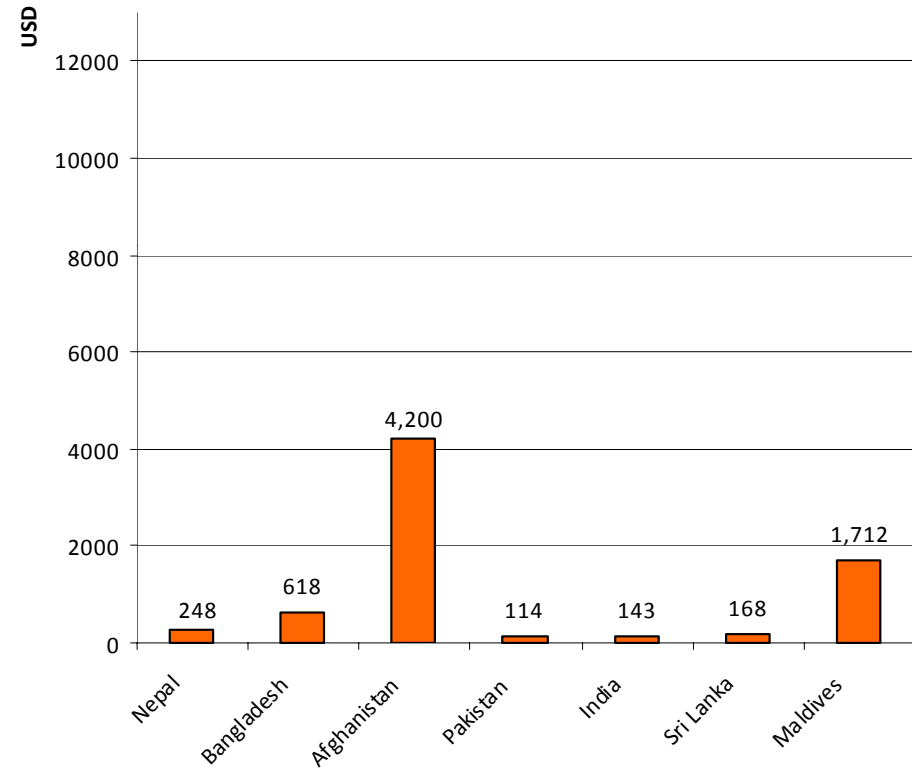
Signs of the times

- “Sri Lankan mobile market leader Dialog Mobile on Thursday signalled that its mobile broadband products would be the company's key driver for the next few years, especially considering that revenues from its ‘voice’ category continued to dry up over the last two years.” --Dialog Mobile CEO as reported on 7 March 2010

Across SAARC – Business packages



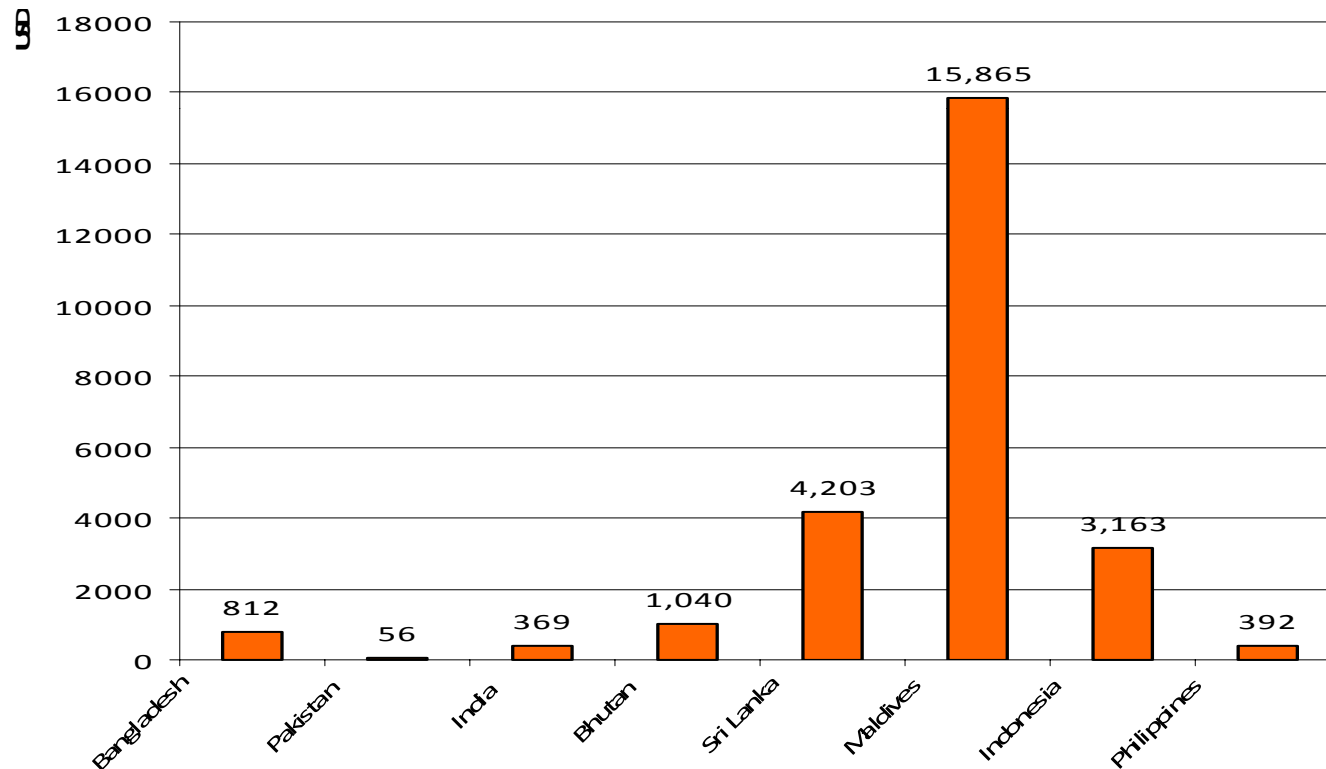
Annual cost, 2Mbps Broadband business connection
(unlimited download)



Annual cost, 256kbps Broadband business connection
(unlimited download)

Leased lines: Basic input for broadband supply

- Micro states, Sri Lanka and Indonesia out of line



In summary

- South Asia pioneered the Budget Telecom Network Business Model
 - But policy and regulation yet to adapt to and reinforce what is a great public policy success
 - In actual fact, working at cross purposes
- Business challenges aplenty
 - Coping with the volatility of returns
- As regional operators emerge (Bharti in IN, LK and BD; Axiata in BD, LK, IN, etc.) will we begin to see the region being seen as a series of articulated markets as Zain saw its African markets?