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Replicating Village Phone from Uganda and Bangladesh

Telecommunications and information and communication technologies can reduce poverty in underserved areas of the world. In 2003 MTN Uganda, Uganda's leading telecommunications company, joined Grameen Foundation USA, an arm of the Bangladesh microfinance institution Grameen Bank, to create MTN Village Phone. Village Phone brings telecommunications services to isolated communities by providing members with mobile telephone equipment and training them to become Village Phone operators, who sell phone services to other residents.

The International Finance Corporation (IFC) was an investor in the original GrameenPhone project in Bangladesh. It provided technical assistance to Village Phone in Uganda and to MTN in Nigeria, where a Village Phone pilot has been carried out and full-scale implementation is being considered. And it funded an evaluation of the projects in Nigeria and Uganda and produced a report and a learning note that assessed best practices for future Village Phone replications.

Experience in Uganda, Nigeria, and Bangladesh suggests that the IFC and the World Bank are in a unique position to replicate Village Phone around the world. But they will need to prepare for this role and recognize that the approach may vary from country to country given local circumstances. In 2005 the IFC contracted an independent consulting firm, Intelecon Research and Consultancy Ltd., to review the replication of Village Phone in Uganda and provide recommendations on how the IFC should replicate the model in other countries.

Comparing projects in Bangladesh and Uganda

The Bangladesh and Uganda Village Phone projects differ in several respects:

Partnerships. In Bangladesh the partners are all interrelated. Village Phone is owned by the main national telecommunications carrier, GrameenPhone, which is owned partially by Grameen Bank, the largest microfinance institution in Bangladesh. In Uganda Village Phone is a joint venture between Grameen Foundation USA and MTN Uganda and involves nine independent microfinance institutions that serve as its channel to market.

IFC
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50 YEARS

There are many ways to establish and deploy Village Phone

Target clientele. By February 2006 the Bangladesh program had more than 196,000 Village Phone operators, 96% of them women. The MTN Uganda model was originally projected to grow to 5,000 operators—there are now more than 36,000, 55% of them men and 45% women.

Channel to market mechanisms. Both models assume that rural microfinance institution members will accept small loans to buy Village Phone equipment kits, which enable them to become Village Phone operators. In Uganda, however, the institutions can bypass loans, offering kits to members and nonmembers for cash.

Competitive environment. In Bangladesh GrameenPhone dominates the market in rural areas but faces increasing competition. MTN Uganda deals with a competitive and dynamic sector that brings new products on the market. Other developments include a 25% reduction in tariffs, reduced prices for equipment kits, relaxed selection criteria for operators, and controls to reduce local competition among operators.

Four models for replication

The variations between the Bangladesh and Uganda Village Phone models demonstrate the many ways to establish and deploy Village Phone. Evaluation of the experiences in each market indicates that future operation models could be configured in several ways:

- *Legacy* focuses on microfinance and female entrepreneurs, operates in a market with one dominant operator, and involves funding partners interested in financing gender-specific programs.
- *Broadband* works with operators and microlenders and operates in a market with one dominant operator and little competition.
- *Virtual* works through an independent commercial operator and operates in a competitive environment where intermediary partners are not involved.
- *Light* is a commercial variation controlled by a mobile operator and operates in a competitive environment as a standalone product for resale, but may also fall under the operator's corporate social responsibility program.

Identifying an appropriate model

While each of the proposed Village Phone program models supports the goal of universal access, the means to achieve that goal vary considerably. Some issues to be considered when choosing between the models:

Program objective. Specific approaches will vary according to the objectives of funding agencies and the interests of partners. While the project in Uganda shared with its Bangladesh predecessor the goal of delivering telecommunication opportunities to rural communities through microfinance institutions and their members, unlike the earlier program it did not ultimately focus on women. Because of the highly competitive nature of markets in most countries, limiting an entity's opportunities by serving only one gender group could place the development objectives of a program in conflict with the business objectives of the operator.

Cost of Village Phone operator equipment kits. The kits were not meant to be a source of profit for the project. Competition in Uganda's telecommunications market (for example, availability of secondhand sets) has forced Village Phone to offer clients the option to purchase the kits outright rather than take out six-month loans. If the cost of the kits provided through microfinance institutions becomes uncompetitive or prohibitive when compared with other products available on the market, the business model should be reassessed.

Incentive schemes were tried, rejected, and adapted all along the way

Incentives for Village Phone operators and their support institutions. In Uganda airtime sales incentives were introduced to give microfinance institution partners a percentage of the cost of airtime they sell to their Village Phone operator members. While this allows partners to earn revenue, there is no incentive for Village Phone operators to purchase airtime from their microfinance institution field officers rather than from private distributors who are flourishing throughout much of the country. Furthermore, while microfinance institutions charge small, one-time handling fees for the cash sales of equipment kits, cash transactions deprive them of interest revenue they would otherwise earn from the loan mechanism. The challenge of aligning each party's incentives could jeopardize the role of microfinance institutions in the long term.

In Uganda the business model was under constant evolution in response to competitive pressures and implementation and operational challenges. Incentive schemes were tried, rejected, and adapted all along the way. In Uganda the project created a successful business in a difficult environment by adapting to the market.

Funding future Village Phone projects

The Uganda project raised $800,000 in grants, loans, and investments from many institutions and funding agencies. A review of its operations suggests two funding challenges in replicating the program in other markets: funding predeployment—which consists of country identification and assessment, relationship building, and company formation—and funding operational activities. Unlike predeployment, operational activities mean the potential to generate returns on investment and is thus more attractive for investors. In fact, to fund operational activities at least one in-country partner of the investment has to be identified or confirmed after predeployment has been completed.

The sources and levels of investment required for a Village Phone program depend on circumstances. For example, the Virtual or Light models, which do not depend on microfinance institutions, theoretically require much less investment for capacity building and financial support than models that depend on intermediary development partners. Similarly, if equipment kits are sold for cash, Village Phone partners might not need lines of credit—the amount of required investment could be substantially less than that required in Uganda.

IFC opportunities

The IFC should consider several options as it thinks about its next steps for involvement with Village Phone:

Identifying potential program models. An agency, institution, or project office could define and promote various Village Phone models and value-added services that could be deployed in Africa and other developing countries.

Producing a brief guide. This would inform potential partners and investors on different business models, risks, and opportunities. It could be distributed to potential stakeholders, operators, and civil society organizations. (This guide is distinct from the "how-to" replication manual developed by Grameen Foundation USA.)

Assessing the appropriateness of the various models in different operating environments. Helping Village Phone proponents determine which proposed model would be most appropriate for a given operating environment could minimize risks for new replication efforts.

Ensuring that financial incentives and mandates are established to promote Village Phone sustainability. Future replication models should have

Village Phone models for replication

	Legacy	Broadband	Virtual	Light
Operation model	Focuses on microfinance and female entrepreneurs and involves funding partners who are interested in financing gender-specific programs	Works with a broad range of operators and microlenders	Marketed through an independent commercial operator as a separate service	Marketed within a mobile operator, using commercial channels only (marketwide product)
Preferred telecom operating environment	Ideal for a monopoly, could operate in an environment with up to two mobile operators (telcos), better with one dominant operator	Ideal for a monopoly, but could be adapted for a more competitive environment	Ideally suited for a competitive, dynamic environment with two or more strong telcos	Ideally suited for a competitive, dynamic environment with two or more telcos
Need for attractive, preferential wholesale tariffs	Definitely required to protect operators who take loans from nonloan competitors	Definitely required to protect operators who take loans from nonloan competitors	Important to Virtual operators, but less crucial if network is based on nonborrowing operators	Less crucial if network is based on nonborrowing operators
Distribution/ management mechanism	Loans to female clients	Loans to men and women, plus cash-only sales	Cash only, plus loans for microfinance institutions (if required)	Cash only and no loans, to general public
Training	Training program plus manual	Training program plus manual	"Slim" manuals, possible fee-for-service training for microfinance institutions	"Slim" manuals only
Revenue streams	Operator: airtime Village Phone: operators and total airtime Microfinance institution: airtime sales, credit payments Telco: airtime sales and branding	Operator: airtime Village Phone: operators and total airtime Microfinance institution: airtime sales, credit payments, equipment sales' handling fees Telco: airtime sales and branding	Operator: airtime sales Village Phone: equipment kit sales, airtime sales Telco: bulk airtime sales to VP virtual operator and possibly branding	Telco: franchise package fee, airtime sales, and branding Franchisee: airtime sales
Airtime distribution	Via preferential incentives with microfinance institutions (prepaid cards and virtual top-up system) and some private dealers	Via microfinance institutions (prepaid cards and virtual top-up system) and private dealers	Via private distributors (prepaid cards) and microfinance institutions	Via private distributors (prepaid cards) and virtual top-up system (could include microfinance institutions)
Funding process	Funding required for country assessments, microfinance institutions relationship building, and operating budget	Funding required for country assessments, microfinance institution relationship building, operating budget	Start-up capital required for telco sensitization and dealmaking, microfinance institution sensitization and operating budget	Start-up capital required for telco sensitization and operating budget

a clear and fair incentive-reward scheme so that partners can be sure they will receive the rewards. In Uganda there is a concern that the future viability of the program may be challenged because of the absence of financial incentives for Village Phone operators to purchase airtime from microfinance institutions. Without such incentive rewards, the microfinance institutions' reduced revenues could impact their willingness to remain in the program. An open and accessible resource center could sensitize stakeholders to the importance of incentives.

Establishing funding mechanisms to support Village Phone replication. While some future

Choosing a model: pros and cons

	Pros	Cons
Legacy	Continues the Grameen model exclusively for women via microfinance institutions. Provides microfinance institutions with a new loan product and an opportunity for future revenue streams. Microfinance institution involvement provides rural channel to market.	Focus on women could leave potential male operators looking for another product from another telco. Focus on microfinance institutions and need for credit mechanism increases the value of the equipment kits for operators. Within a competitive environment will be less effective as a universal access mechanism due to operator gender selectivity. Slowest channel to market option of the four due to relationship building, capacity building, and so on.
Broadband	Meets existing demand for rural phones from microfinance institutions and general public. Provides microfinance institutions with a new loan product and an opportunity for future revenue streams. Microfinance institution involvement provides rural channel to market. Business objective offers whatever services are required to remain viable/relevant in the market.	Not exclusively focused on maintaining a business focus on women. Focus on microfinance institutions and need for credit mechanism increases the value of the equipment kits for operators. Within a competitive environment will be less effective as a universal access mechanism due to operator selectivity owing to microfinance institution–only membership.
Virtual	Demand driven with a possible social component via the microfinance institutions. Opportunity for small and medium enterprises focusing on rural telecom operations. Telco offers support as required via existing help lines and the like. Offers a low-cost equipment package for place phones in more rural localities.	Operating budget required to support the Virtual company operations, thus less profit. Is more of a universal access initiative than a social development initiative. Possibility of management not having a presence in rural areas could jeopardize the sustainability of the network.
Light	Demand driven, low overhead, and relatively little revenue sharing required. Product sold as any other product by the telco. Telco offers support as required via existing help lines and the like. Offers a low-cost equipment package for place phones in more rural localities. Fastest channel to market of the four options.	A purely universal access initiative with few traditional, donor-driven development themes. Possibility for little attention to the strategy of the program beyond its launch (program management?). Few dedicated staff to manage. Lack of rural microfinance institution involvement and the possibility of management (field offices) not having a presence in rural areas could jeopardize the sustainability of the network.

replication initiatives need not cost as much as the MTN Uganda program (the investment portion of Village Phone start-up costs are likely to be $500,000 or less), funding remains a stumbling block to Village Phone replication. An international Village Phone fund and coordinating unit would:

- Coordinate and distribute assessment studies and reports.
- Coordinate or facilitate partnerships between international donors and commercial investors for Village Phone–style rural telecom and development initiatives.
- Serve as a liaison between international donors and funding agencies on the one hand and local, in-country Village Phone proponents on the other. The coordinating unit would help identify funding opportunities for predeployment activities, training and capacity building, program evaluation, start-up microloan financing, and Village Phone working capital. Because of the diversity of activities that may require support, the fund would need to comprise a range of donor partners who would focus on their respective areas of interest and a discrete division that would offer equity or loan capital in partnership with commercial partners.

Next steps

The window of opportunity to take action and support the evolution of Village Phone across Africa, Asia, and other continents is changing rapidly due to the intense competition within the telecommunications sector. The IFC should take the following actions without delay:

Refine and expand the four operational models. The IFC can become a leader in Village Phone by commissioning a rapid, detailed study of the operating models and the countries where each would be appropriate.

Quickly develop how-to replication manuals corresponding with each of the viable operating models.

Ensure a fast route to market for the Village Phone model. To accelerate the implementation and testing of the Village Phone operating models the IFC should approach mobile operators in which it has a stake, assess their interest in Village Phone, and help steer them toward the most appropriate model based on individual country conditions and demand.

Establish a central Village Phone resource Web site. Content could include information for investors, program evaluations and best practice case studies, rural telecommunication demand studies, model assessments, questions and answers for prospective stakeholders, and a contacts page that proponents can use to develop their opportunities further.

Establish a Village Phone operational fund. The IFC should bring together donors and other funding agencies interested in Village Phone with local in-country proponents who have expressed a need for funding assistance and capacity support. The role played by the IFC could range from simply bringing different partners together to creating a funding channel for new initiatives.

Monitor

Monitor shares key findings from in-depth reviews of technical assistance programs and projects conducted by external evaluators. These reviews address the relevance, efficiency, effectiveness, and sustainability of technical assistance programs.

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