

BUSINESS**Mobile telecoms****Halfway there**

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How to promote the spread of mobile phones among the world's poorest

SOMETIME in the next few months, the number of mobile phones in use will exceed 3.3 billion, or half the world's population. No technology has ever spread faster around the globe: the mobile phone took less than two decades to reach this degree of penetration. But the ever-restless wireless industry has already set its sights on getting the other half connected. Two recent reports analyse how to add the "next billion" to the subscriber list.

In practice, that means finding ways to make mobile phones more affordable to people in the developing world, since most people in the developed world already have phones. The single largest barrier for would-be mobile subscribers, according to a report by Portio Research, a market-research firm, is the cost of a handset. So the industry has been doing its best to cut prices, with Motorola, an ailing American equipment-maker, taking the lead. Its cheapest phones now cost less than \$30. John White of Portio believes that prices for simple, voice-only handsets could fall to \$10 in five years.

But affordable phones are only part of the picture. Operators in developing countries have been inventive in their efforts to reach rural customers. In Bangladeshi villages "telephone ladies" rent out their handsets, one call at a time. China Mobile, the world's largest operator by subscribers, offers rural customers an agricultural-information service alongside the ability to make calls. Smart Communications, an operator in the Philippines, sells text messages for as little as \$1.80 per 100 messages, and allows subscribers to pass airtime to phone "buddies" at a cost of less than \$0.03 per minute.

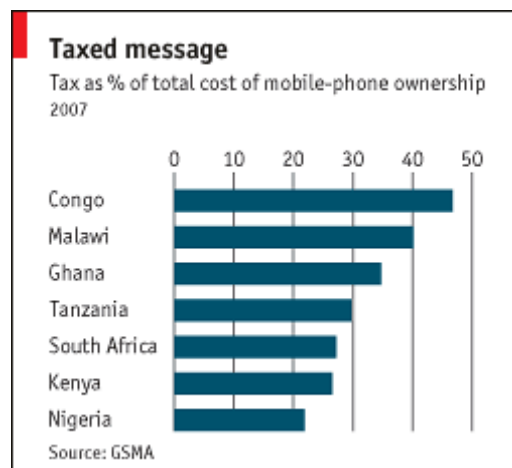
For operators to make a profit at such low prices, network infrastructure must be cheap to install and operate. That is prompting innovation in base-stations as well as handsets. Operators have found ways to share network infrastructure to cut costs; equipment-makers have developed small, low-cost base-stations specially for use in the developing world.

There are also new business models, such as having a local entrepreneur run a base-station and provide services, including billing and handset maintenance. This is the idea behind "Village Connection", a project launched by Nokia Siemens Networks, an equipment-maker. Ericsson, a rival company, meanwhile, has teamed up with Idea Cellular, an Indian operator, to use biofuel to power base-stations.

Yet even as the industry strives to make handsets and services cheaper, governments keep adding costs—mainly by levying taxes and customs duties. And these are particularly high in sub-Saharan Africa, according to a report released this week by Frontier Economics, a consultancy, at the behest of the GSM Association (GSMA), an industry lobby. The average ratio of tax payments to operator revenues is 30%. On average the mobile industry, which accounts for 4% of GDP,

contributes 7% of national tax revenue.

This enthusiasm for taxation is easy to explain: governments have to tax something, and mobile phones are an easy target, since operators' billing systems do all the hard work. But treating mobile phones as a cash cow is shortsighted, says Gabriel Solomon of the GSMA, because mobile-specific taxes reduce demand. If governments did away with them and charged only VAT, tax revenues from the mobile industry would be around 3% higher by 2012, the report found, and the average penetration rate would increase from 33% to 41%. (Studies have found that in a typical developing country, an increase in mobile penetration of 10% boosts GDP growth by around one percentage point.)



Whether or not finance ministers are not convinced by such calculations, operators seem to be. Some have offered to guarantee tax revenues if mobile-specific levies are scrapped.

Even without this sort of measure, Portio predicts that global mobile penetration will reach 75% by 2011. A device that was a yuppie toy not so long ago has now become a potent force for economic development in the world's poorest countries. But more can be done to exploit it. Most governments say they are in favour of economic growth and broader access to communications. By cutting back on mobile-specific taxes and tariffs, they can help to promote both of those things.

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