

Grameen Technology Center MTN villagePhone Project in Uganda

Status report for the quarter ended December 31 2004

Key New Developments

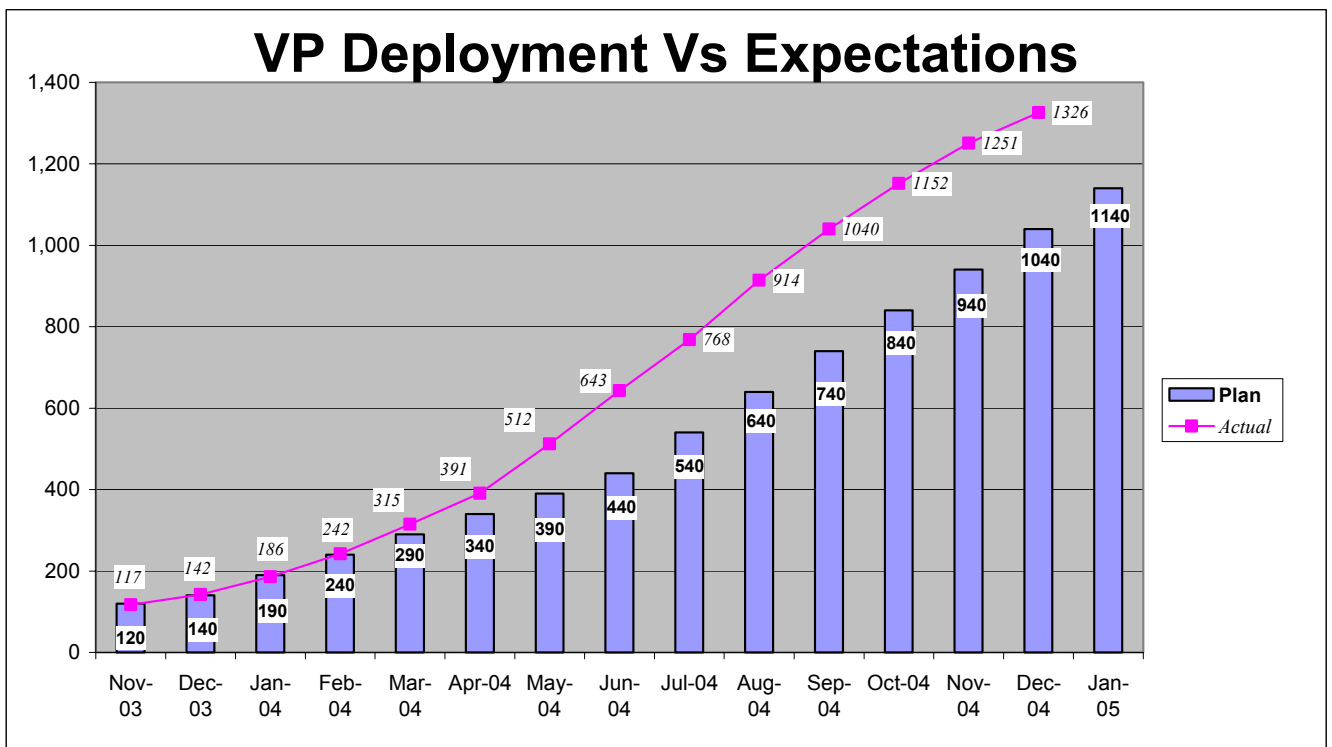
- One-year anniversary celebration for MTN villagePhone was held at Nadangira Primary School in Wakiso district. Top performing VPOs from each MFI received a bicycle and all VPOs received a water can – all courtesy of MTN Uganda (see photos below).
- 2004 ended with a total of 1326 Village Phone businesses deployed – over 300 ahead of plan. Village Phones can now be found in 49 of Uganda's 56 districts, including 11 in the northern district of Arua which remains an active conflict zone in the ongoing 'war' between the Government of Uganda and the Lords Resistance Army.
- MTN villagePhone has become a victim of its own success – but this is a good thing. MTN villagePhone has shown that the rural areas and the poor villagers are in fact a viable market for telecommunications services. This epiphany has catalyzed the other Telecom operators to enter this market and they have introduced competitive products to Village Phone. Uganda Telecom has introduced a product called "Telesaver" with very competitive tariffs. This CDMA based system is available in seven districts, primarily around district capitals. This implementation of CDMA has an effective range of around 10km (compared to 35km for GSM), so this does not impact the deep rural areas. However, some Village Phone Operators are feeling the impact of the new competition. MTN villagePhone will be responding with new pricing in Q1 2005.
- Our MFI partners have requested that the "2km rule" be removed (no two Village Phone operators within 2km of each other). A pilot test was conducted with 20 VPOs in November with very positive results. This 2km deployment restriction will be removed effective January 2005. We expect a positive impact on deployments as well as operational efficiency for MTN villagePhone (vetting new applications to check for proximity to existing VPOs has been one of the operational bottlenecks).
- Significant effort has been put into lowering the cost of the "Village Phone starter kit". New suppliers have been identified for signs and antennas, and a new inexpensive Motorola phone (the C115) has been field tested with positive results. We also reduced the amount of airtime included in the starter kit from 100,000/= to 40,000/=. Collectively, these changes have brought the cost of the starter kit down to 390,000/= (approximately US\$220).
- A trial program is currently underway in partnership with UltraPower to test a solar panel recharging system. These systems combine a solar panel with a rechargeable battery which is used to recharge the mobile phone battery. Results from the trial are expected in Q1 2005. The solar recharging system is about twice as expensive as the lead acid battery solution currently in place – so may not be a viable long-term solution (the systems are being provided free of charge to VPOs during the trial) – but we expect good lessons learned from field deployment.
- The "Me2U" program was launched, allowing MFIs to transfer airtime balances to their Village Phone Operators remotely (without the sale of a physical airtime card).
- A detailed evaluation framework was established so we can measure the impact that the Village Phone program is having on Village Phone Operators and their communities. Plans for a full-scale evaluation are being prepared for Q1 2005.
- Additional trainings conducted were for Village Phone Operators. At the FINCA training, 80% of the FINCA Operators were in attendance and the VPOs expressed themselves freely and provided valuable input. Throughout the training events, it was evident that most equipment

issues were due to improper use. We also heard many stories of the automobile batteries being used for multiple purposes such as lighting and televisions.

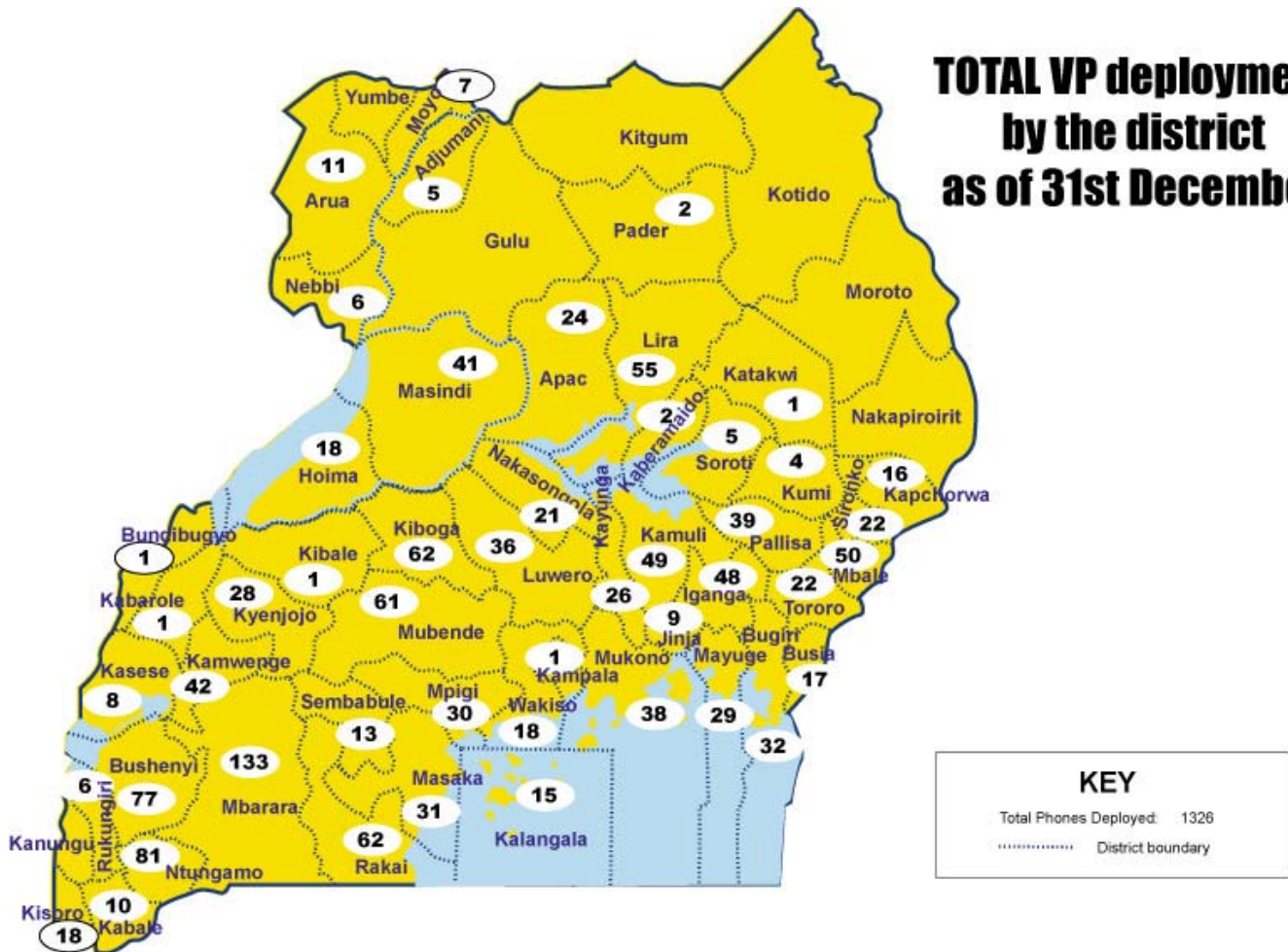
- The Village Phone Uganda program was highlighted during presentations around the globe, including: Tech Museum Awards in San Jose, CA; World Resources Institute’s “Eradicating Poverty through Profit” conference in San Francisco CA; the Microcredit Summit in Amman, Jordan; and Engineers without Borders conference in Madrid, Spain.
- The MTN villagePhone board of Directors met and discussed issues of competition, tariffs, and deployment.
- A radio advertising campaign was run in Uganda which had a positive impact on both use and applications.
- The issue with sporadic and incomplete call usage data appears to have finally been addressed. Regular usage reports are coming on a weekly basis from MTN and the data appears to be accurate.

Phone deployment

At the end of December, we had deployed a total of 1326 Village Phone businesses. Average minutes sold has dropped to 17 minutes per day primarily due to competitive pricing pressures in some markets. The queue of approved applications has declined significantly because of concerns about competition. Both of these issues are being aggressively addressed with a tariff reduction plan and removal of the 2km exclusivity zone.



TOTAL VP deployment by the district as of 31st December



Challenges

- The single greatest challenge facing the business at the moment is competitive pressure from UTL's Telesaver product in some districts. The Telesaver product is available to any individual who can afford to purchase the equipment (and use more than 500 minutes per month) and the rates to end-user customers are 300/= per minute (vs. 400/= per minute for Village Phones). The response from MTN villagePhone will be three-fold:
 - 1) a reduction in the retail price to 300/= per minute
 - 2) a relaxation of the deployment constraints, allowing Village Phone operators to locate their businesses wherever they would like – This puts them on an even playing field with other operators who have no such constraint.
 - 3) lower price-point for the Village Phone starter kit to reduce the loan obligation for Village Phone Operators. This will be achieved through a lower-priced handset, a newly negotiated lower price for the antenna, and a reduction in the initial amount of prepaid airtime included in the package

A considerable amount of work with MTN Uganda will need to be done to determine precisely how the tariff reduction will be achieved. We need to minimize the impact on Village Phone Operator sustainability, the cash flow requirements for MTN villagePhone, and the microfinance institutions incentives to drive the business. A solution is expected to be implemented in Q1 2005.

Field Stories and Testimonials

Mbabazi Justine and Tweyogyenre Didas

Mbabazi Justine is a FINCA borrower from Mbarara who started her Village Phone business in April 2004. With consistent income from Village Phone, Justine is now able to send her two kids to school and has bought land worth US\$ 800,000. Justine's success does not end at home; Justine also feels that she now fulfills her social responsibility to her community through her village phone.

Justine's village phone is a phone booth in the centre of Kabergo trading centre in Mbarara district. The phone booth is operated by Tweyogyenre Didas. He opens at 7:00 AM and works until 9:00PM, 7 days a week.

Didas enjoys his job as a Village Phone Operator. Serving 30 clients a day on average, he is busy and is having fun. He recalls having a customer who was so excited using the phone for the first time, that the customer started talking even before he was actually connected.

In just 6 months, Justine has completed payment on her first village phone. Justine received prizes at the One-Year celebration as one of the "best performing" VPOs.



Didas with a Village Phone customer

Asiimwe Richard (039941061)

Richard is a UFT client in the Kakindo Kyangyenyi Sheema Bushenyi District. He is a veterinary assistant with a veterinary drugs shop at the trading center where the phone is located and is married with three children. Richard was attracted to the Trust by the loan services and the village phone was his first loan. He is among the VPOs with highest phone usage of an average of 90 minutes per day.

UFT Loan officer of the quarter:

Name: Mr. Arinanye Samuel
Branch: Ishaka
Phones disbursed: 17 phones

Samuel was one of the first officers to deploy the phone without the MTN field staff and has deployed phones in areas as far as Kasese. He has maintained regular contact with all his operators. None of the operators he mobilized has missed his/her monthly loan installment.

Village Phones Transfer Money.

One UFT client is using his Village Phone as a money transfer tool through text messaging. In the rural county of Buhweju in Bushenyi district, where transport from the villages to the town centers is limited, the Village Phone has facilitated a number of transactions. The Operator is based at a rural secondary school and has become the major means through which school fees and money to students for the pupils is paid. The parents buy airtime from the U-Trust branch and send the access number as a message to the operator who then pays the airtime cash equivalent to the school or gives the money to the pupils.

Photo Gallery



A "Best Performer" Village Phone Operator receives a new bicycle at the One Year Anniversary Celebration of MTN villagePhone



A Village Phone is put to good use by a Ugandan Government official at the One Year Celebration