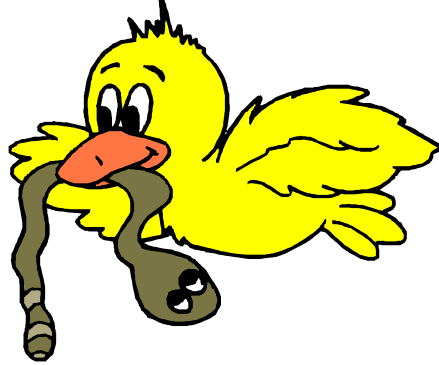
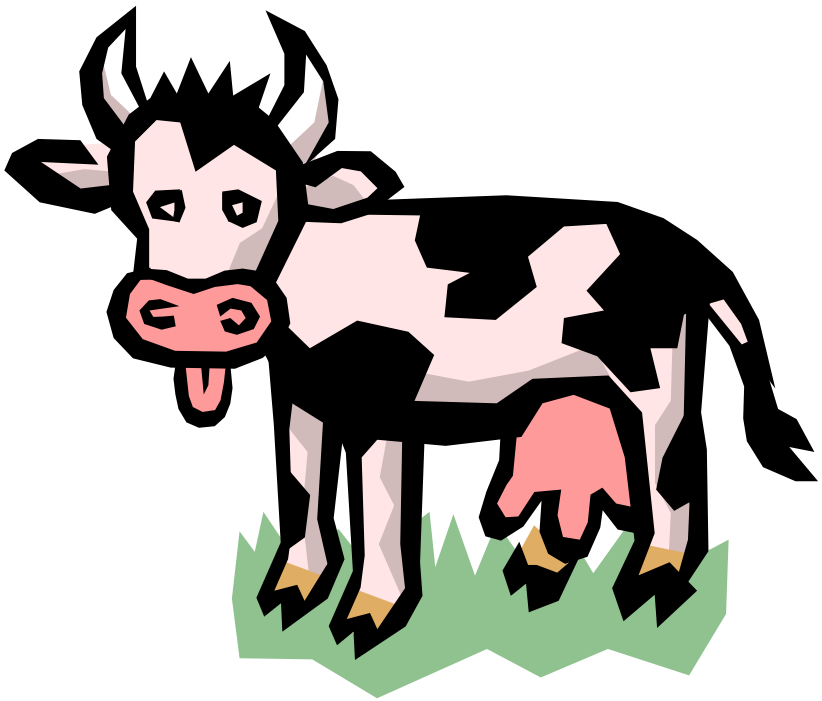
Connecting Bangladeshi Villages

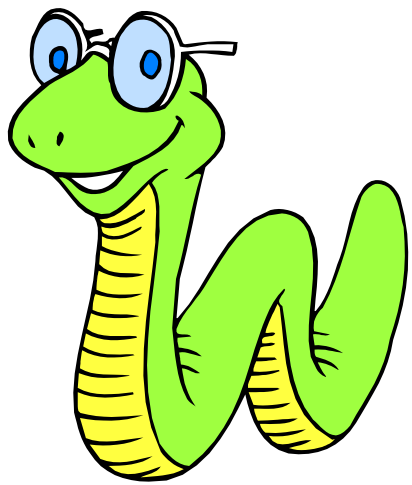


Presentation by

Iqbal Z. Quadir

December 3, 2003





FINANCIAL TIMES
USA $1.00 Canada C$2.00 B
Tuesday September 9 2003

WORLD BANK STUDY

Arab world 'held back by poor governance'

By Roula Khalaf in London and Gareth Smyth in Beirut

The World Bank yesterday warned that accelerating the Arab world's disappointing economic growth will require more transparent and accountable regimes that allow greater participation in decision-making.

In its first study to tackle the relationship between poor economic performance and authoritarian political systems in the Middle East and North Africa (Mena), the bank said the region ranked at the bottom of the index of overall governance quality, when compared to countries with similar incomes and characteristics.

"Development in Mena – economic, social and human – is being handicapped by weaknesses in the quality of public governance, in which the region lags behind the rest of the world," said the report. "At the root of Mena's growth gap is its governance gap."

The linking of economic prosperity to political reforms will strike a particularly sensitive chord in the Arab world. Many regimes pride themselves on being good students of multilateral institutions and justify their absolute power on the grounds that they are best suited to provide economic and social development.

But the bank's report notes that income growth per head averaged a mere 0.5 per cent in the Middle East and North Africa from 1985-2000. Military spending in the region remains the highest in the world at 6 per cent of GDP.

Charles Humphreys, the report's lead author, said at its launch in Beirut yesterday there was a "unique convergence" in Mena of three factors used to resist accountability: a preponderance of natural resources used to "buy allegiances"; a "real or perceived" threat of conflict that puts countries on a war footing; and the support of "foreign powers" wanting to preserve stability in a strategically vital area.

"This is a region that isn't sure it likes transparency and isn't sure if it trusts civil-society organisations to act in the public interest," he said. Mr Humphreys estimated that poor governance cost the region 1 percentage point on annual growth. "Given that most countries have rates of growth of under 1 per cent, this means good governance could at least double growth."

> 'At the root of Middle East and North Africa's growth gap is its governance gap'

The report included a veiled criticism of western policies: "Even today, as external forces call for better governance in the region, some find a strong convergence of interest with regimes that provide secure access to strategic assets and that offer convenient alliances." The study emphasised the negative impact of oil wealth on the region's political progress.

"Exceptionally high oil and gas revenues have accrued directly to government coffers, thereby reducing the incentives of incumbent regimes to strengthen mechanisms of external accountability."

It said that at a time when population growth rates remained high and unemployment was rising, no country in the region had been able to move on a sustainable growth path.

"The gap in economic development, coupled with the gap in aspirations, puts progress in the region at risk," said the report. But it warned that the challenge was not selecting the "right" leaders or prescribing the "right" economic or social policies.

"It is ensuring that the process of choosing, renewing and changing leadership, as well as conceiving, debating, designing, adopting and implementing such policies will give all the people – both citizens and clients – an opportunity to express their preferences, to participate in the dialogue and to hold the government accountable for acting in their best interest."

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The second-quarter gross domestic product figures for the eurozone are out today. For your chance to discuss whether the UK should join the euro, log on to **www.ft.com/ukeuro**

Financial Times, September 9, 2003

Arab world ‘held back by poor governance’

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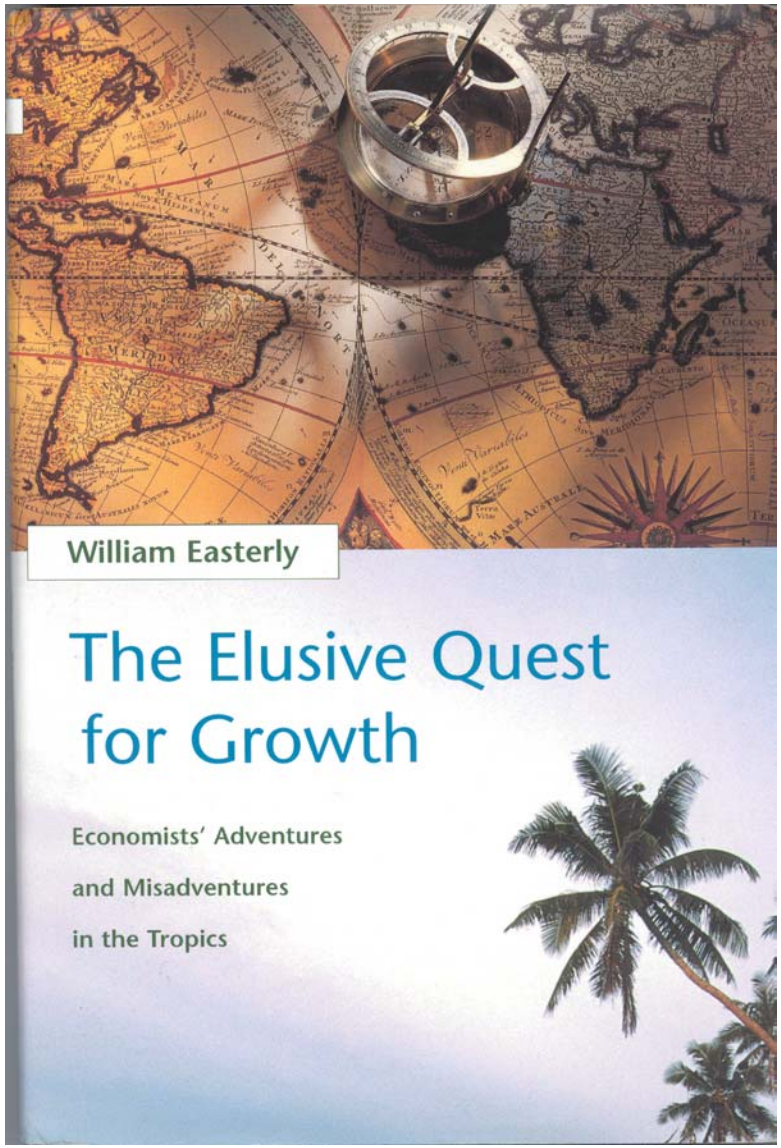


Last fifty years

- **Foreign aid to fill the gap between "necessary" investment and savings**
- **Education to accumulate "human machinery"**
- **Population control.**
- **Loans for policy reforms.**
- **Finally, debt forgiveness.**

According to Eastery, "None of these elixirs has worked as promised…"

All these approaches looked at poverty

- **in a top-down way (bird's eye view dealing with the lives of worms)**
- **as if the poor is a target, not a resource**
- **as if wealth (better life) is something to be provided to the poor**
- **overlooking how economies actually evolved historically in developed countries.**
- **overlooking the fact that engaging poor people in commerce contributes to strengthening of democracies**

Instead of seeing two billion mouths to feed,

we need to think what we can do to make those

- ***two billion brains*** ***to think for themselves***
- ***four billion eyes and ears*** ***to keep watch on governments***
- ***four billion hands and legs*** ***to move things***

page 20

FINANCIAL TIMES MONDAY OCTOBER 13 2003

Nigeria's phone challenge

Sector faces court dispute over Econet/Vodacom deal, write **Michael Peel** and **John Reed**

Nigeria's fast-growing mobile phone sector is in flux amid a legal dispute over an attempt by Vodacom of South Africa to take over Econet Wireless Nigeria, the country's second-largest mobile telecommunications company.

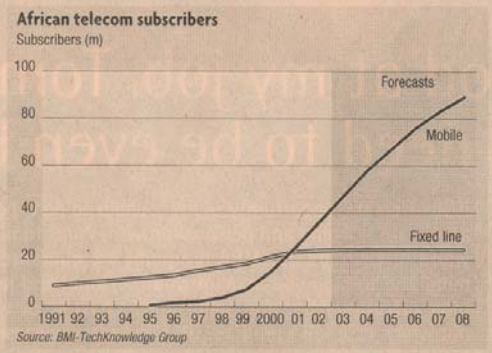
Econet faces a court challenge to its decision last week to sell a controlling stake worth about $230m to Vodacom, the continent's largest mobile telecoms company in terms of subscribers.

The bid and its repercussions have highlighted the pan-continental ambition of southern African mobile phone companies and their growing interest in Nigeria, the continent's most populous nation.

"We can keep going in Africa for the next 15 years at a rate Europe never enjoyed," says Alan Knott-Craig, Vodacom group chief executive officer. "Within three to five years, Africa should be generating a third to a half of the profits of the group."

Econet, controlled by Nigerian investors, is being sued over a decision by more than 90 per cent of shareholders at an extraordinary meeting last week to sell a shareholding of just over 50 per cent to Vodacom.

The two-stage deal would involve Vodacom investing $150m in fresh equity that would account for about a third of the expanded share capital, according to an Econet official. Vodacom would then buy out the interests of some existing shareholders to take its stake above 50 per cent. The deal would make available more than $300m of debt financing, Econet said.



The legal challenge relates to a dispute between Econet Nigeria and Econet Wireless Limited, which is controlled by southern African investors and won the original operating contract for the Nigerian network. Econet Wireless holds 5 per cent of the Nigerian company's shares and claims it has a pre-existing deal to increase its stake to about a third.

Strive Masiyiwa, the Zimbabwean entrepreneur who chairs Econet Wireless, said he expected Nigeria's high court to hold a hearing today on whether it had jurisdiction to decide if the Vodacom deal should be stopped pending arbitration on the complaint.

Econet Nigeria says it will contest the legal action and a separate dispute involving First Bank of Nigeria, one of the country's leading banks, which claims it has been prevented from exercising an option to convert loans made to Econet Nigeria into shares.

If Vodacom completes the Econet deal, it would for the first time bring it into direct competition in a foreign market with MTN, another South African mobile company and the continent's second biggest operator in terms of subscribers.

MTN paid $285m in 2001 for a Nigerian mobile phone operating licence and already has more than 1m subscribers in the country, which has an estimated 128m people but is thought to have well under 1m working fixed telephone lines.

The Nigerian experience highlights how mobile phone companies in Africa have profited from market deregulation and the shortage of telephone infrastructure in many countries after decades of poverty, economic underdevelopment and state corruption.

BMI-TechKnowledge, a Johannesburg research group, estimates that Africa's total number of mobile phone subscribers could jump to about 64m by the end of this year, from about 36m in 2002.

MTN now operates mobile licences in six African countries while Orbicon, its satellite division, is active in 10. MTN International, grouping its non-South African businesses, generated 36 per cent of the group's 2002 revenue of R19.4bn ($2.8bn).

Vodacom, whose biggest shareholders are South African fixed-line operator Telkom and Vodafone of the UK, was slower than MTN to expand overseas but now sees most of its future growth coming from outside South Africa.

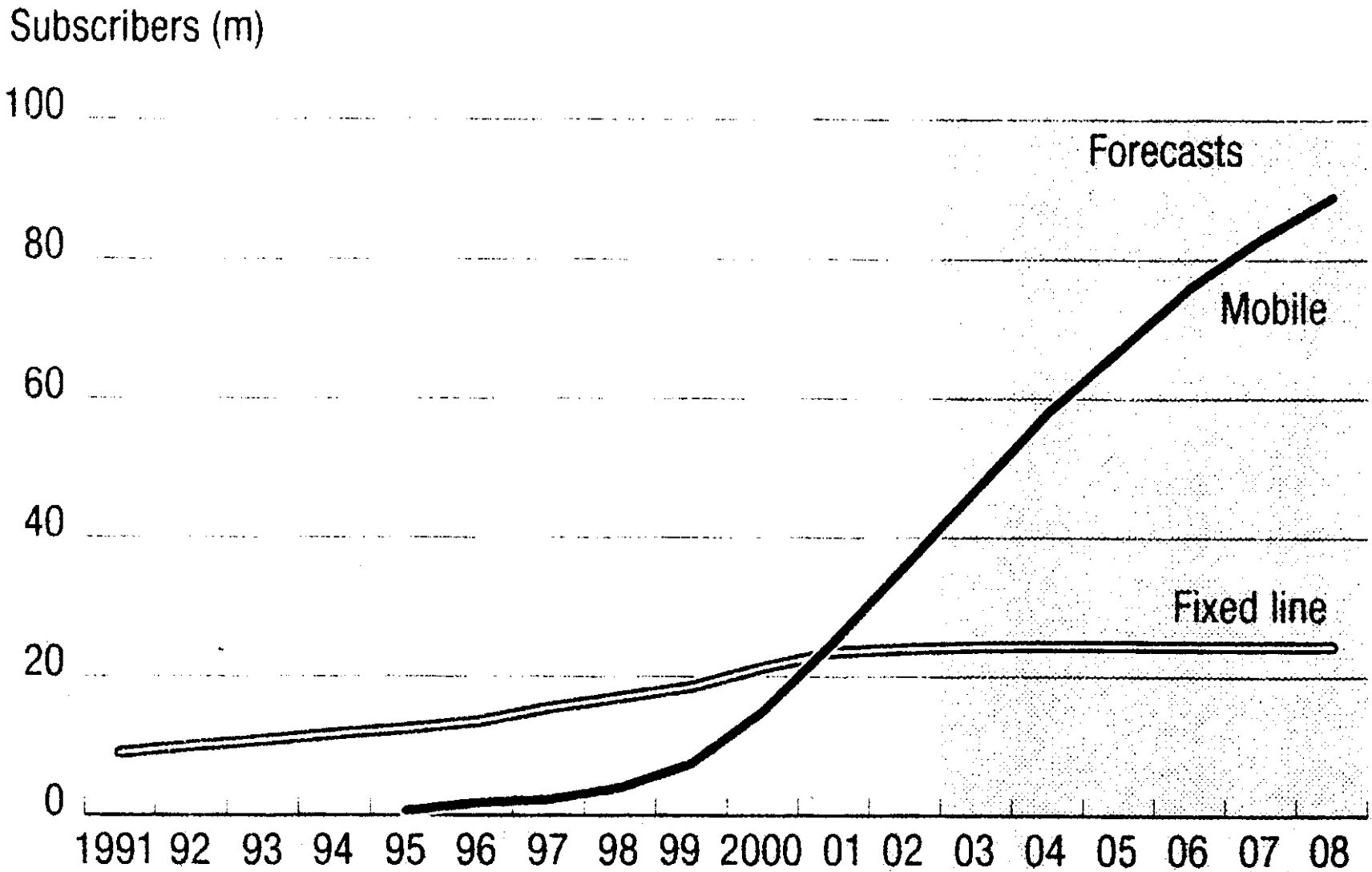
The company, buoyed by a fall in foreign investment costs due to the strengthening rand, recently launched in Mozambique, to add to its operations in Tanzania, Lesotho and the Democratic Republic of Congo.

Expansion within Africa sometimes requires heavy investment to make up for decrepit infrastructure.

However, the long-term question for the South African mobile companies is whether the continued rapid expansion will create a cap on further growth, by causing big wireless operators from outside Africa to reconsider their strategies of decreasing engagement with the region.

MTN, which says it is exploring further investment opportunities in countries such as Ghana, Kenya and Angola, claims its performance "has signalled to the European players that it is profitable to be on the continent and that it would be unwise to divest."

African telecom subscribers



Source: BMI-TechKnowledge Group

How Africa joined the new wireless world
By David White
Financial Times; Nov 27, 2003

The explosion has come late but has been dramatic. Commercial, social and even political habits are being shaped by it. Until …late 1990s ..mobile phones were the status symbols of a small, moneyed elite. Now they have become an essential tool for taxi-drivers, newspaper vendors, motor mechanics, second-hand clothes dealers, sex workers and electoral agents. Farmers rely on them to track market prices and save themselves costly transport. Small businesses across the [African] continent emblazon cell phone numbers on their signboards.

The question

How can we adopt “the worm’s eye-view”?

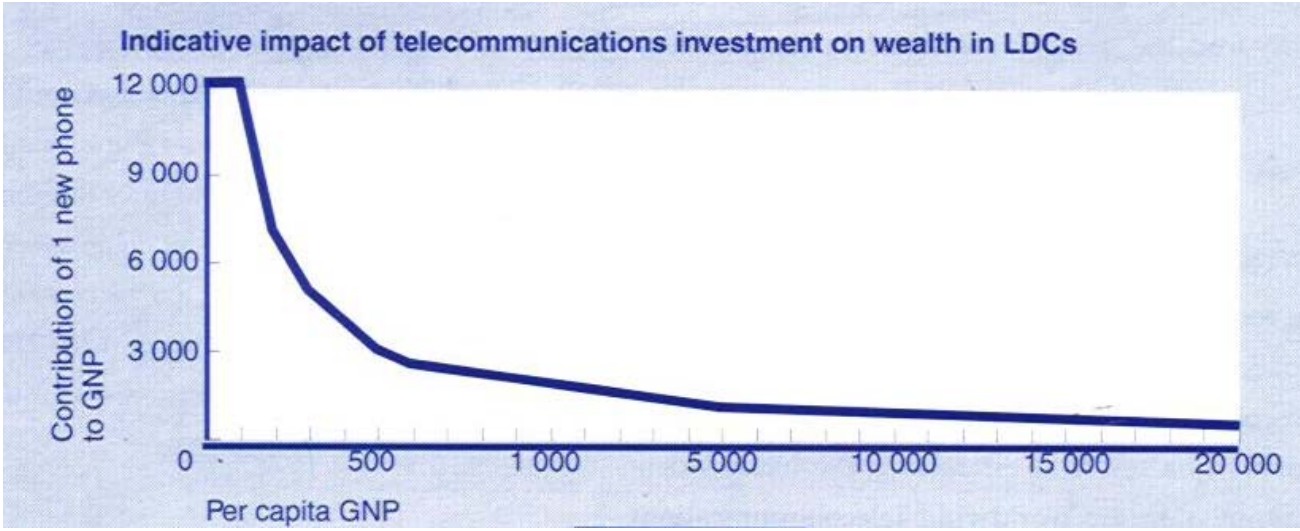
I learned a thing or two from Grameen Bank in terms of seeing things with worm’s eye view.

1993

1971

Connectivity is productivity

ITU research:



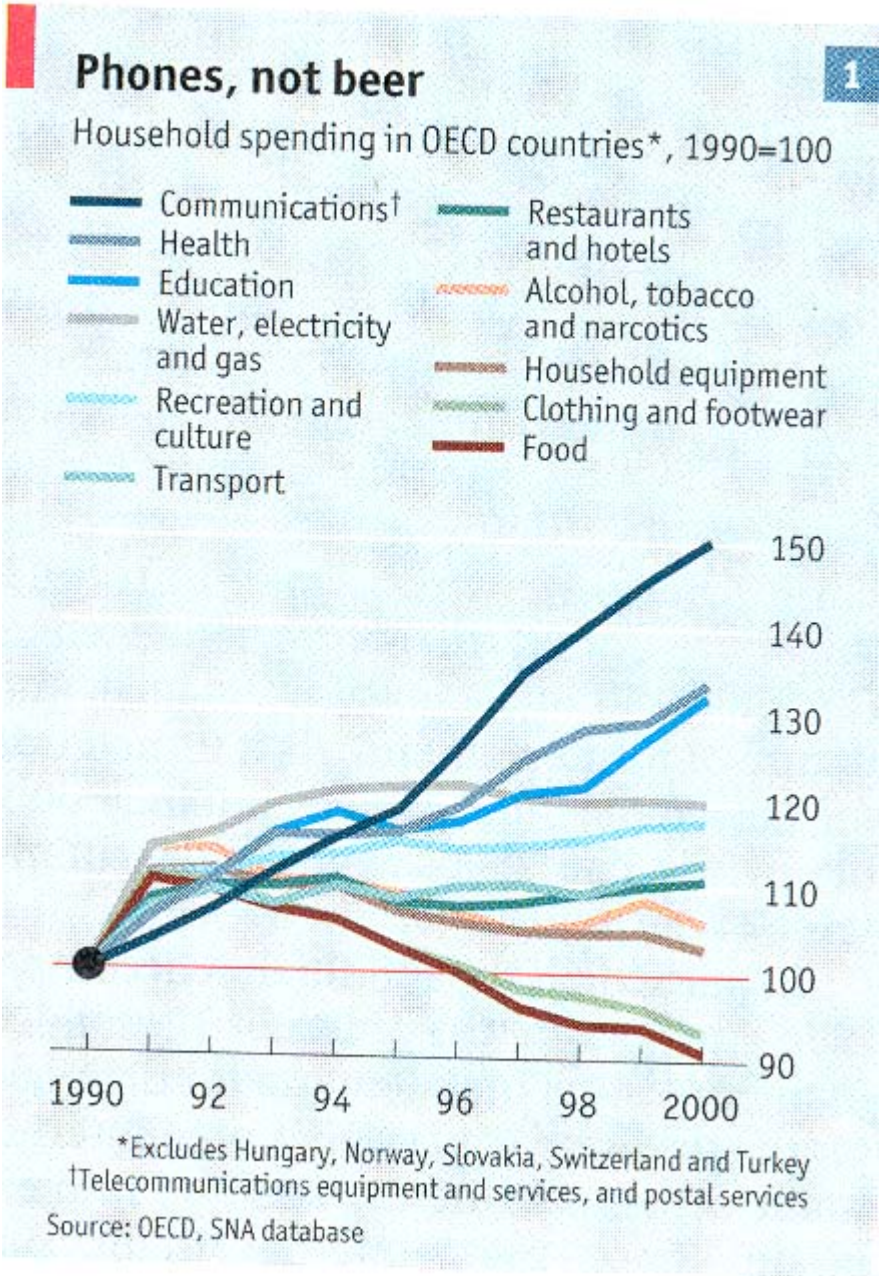
Adam Smith: Specialization → Productivity

Specialization needs dependability

Dependability needs connectivity

Connectivity → Dependability → Specialization → Productivity

Connectivity → Productivity



…

Beyond the bubble
A survey of telecoms
The Economist, Oct 11, 03
Survey page 3

Telecommunications in Bangladesh as of 1993

- Only 2 phones per 1,000 people
- Virtually none in rural areas, leaving 100 million unserved
- $500 connection fee — and 5-10 years waiting period
- Most phones were analog and did not work

Myths, facts and solutions

Myths	Facts	Solutions
Lacking buying-power, the poor provide no market.	Production tools **create buying power**.	**Value** (if higher than costs) can get people ahead.
Initial individual buying power may be too low	Shared-access **reduces costs** for everyone.	**Community** is the customer.
Meet primary needs first	A rise in income helps **people meet primary needs**.	**Ownership** empowers.

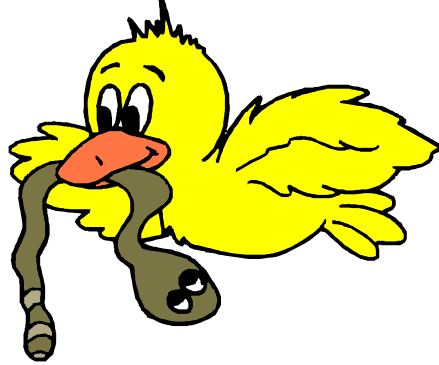
The real problem :
A lack of other infrastructures

Not Enough

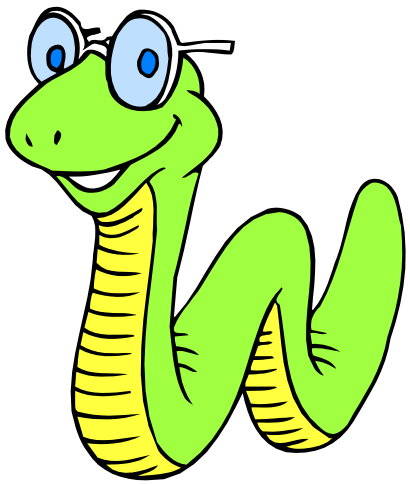
- Records for credit checks.
- Roads for Repairman.
- Contact points for customer service.
- Banks to collect bills.
- Schools for children of workers.

Grameen Bank

- 1138 Branches.
- 12,801 employees.
- 2.3 mill. borrowers.
- 39,172 villages covered.
- $33 mill. lent monthly.
- 94% borrowers female.



At this point, I learned to adopt the worm's eye view from Grameen Bank



Money

Money

Money

Milk

Money

Money

Money

Service

Mobilizing resources: 1993 - 1999

FINANCIAL STRUCTURE

- Grameen Telecom
- Telenor
- Marubeni CORPORATION
- Gonofone

Equity (ordinay shares) : USD 55 million

Total Financing : USD 55 million

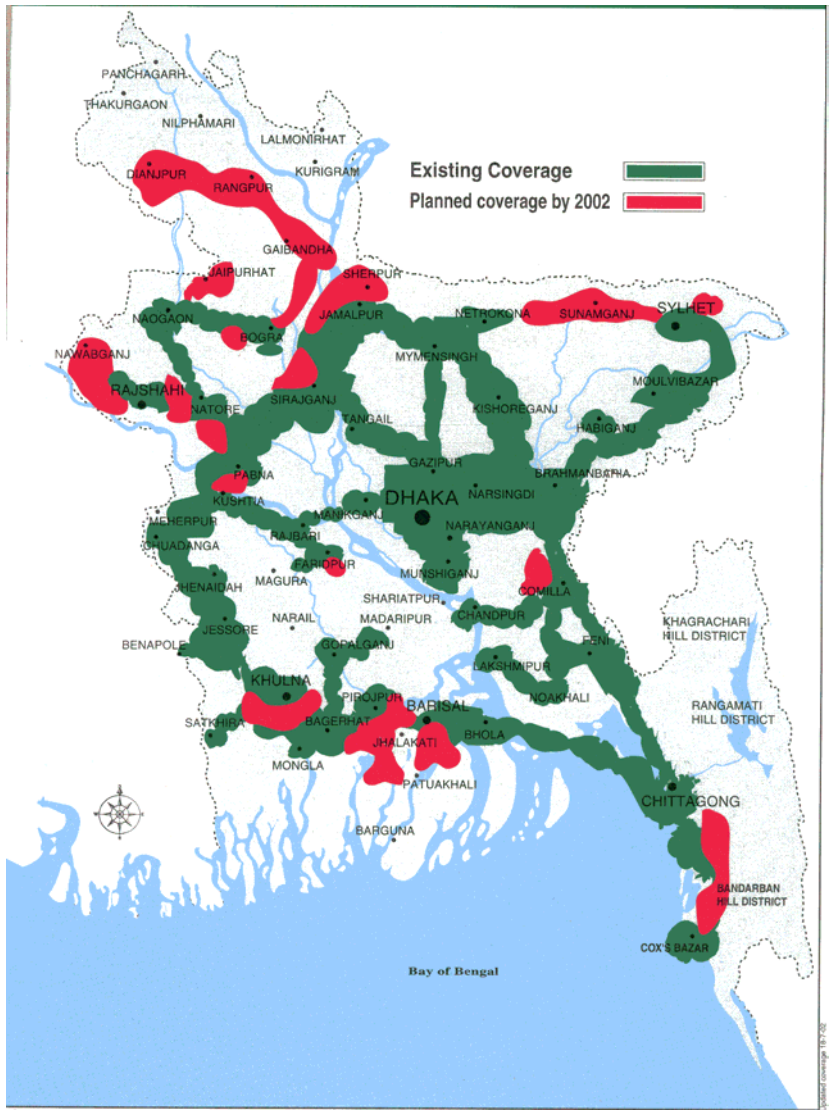
Loans : USD 50 million
Equity (pref. shares): USD 5 million

- International Finance Corporation
- Commonwealth Development Corporation
- ASIAN DEVELOPMENT BANK

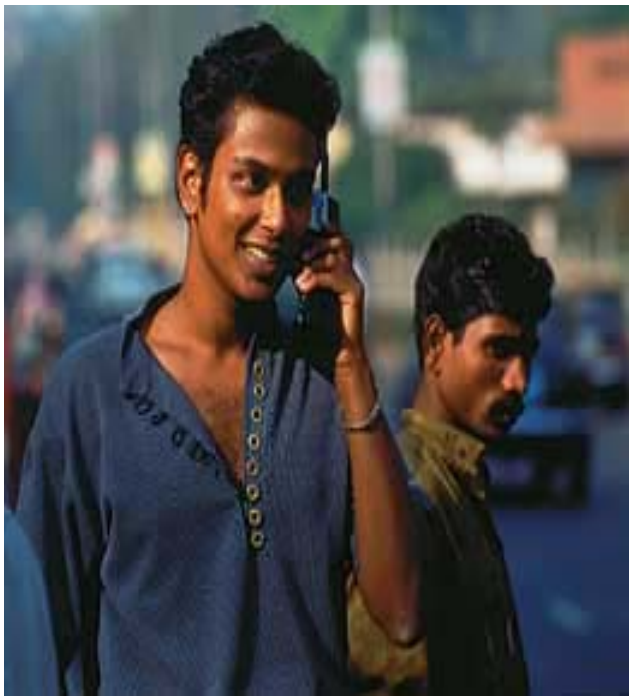
Loans : USD 10 million

NORAD

Current coverage of GrameenPhone

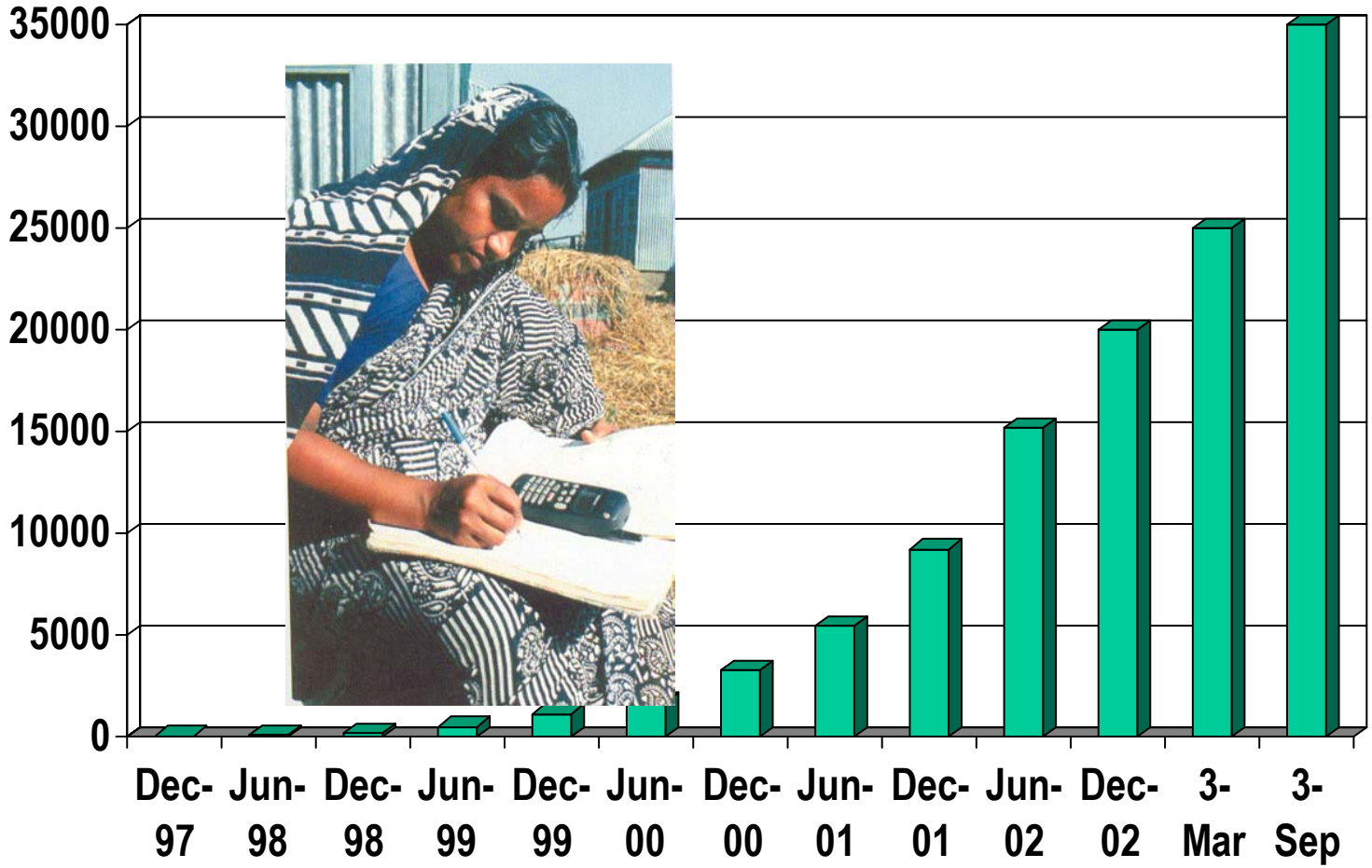


Summary results of GrameenPhone



- Approaching $300 million in investment
- The 2002 net income (earnings after tax) was $44 million
- Largest telephone company in Bangladesh with 1,000,000 urban subscribers
- 37,000 villages served, giving telephone access to 50 million people in rural areas.
- These 37,000 village phones are equivalent to 400,000 regular phones in terms of usage.
- Revenues $100/month per village phone
- Profit of $2/day/phone, more than twice the per capita income

Growth of Village Phones



Increasing Incomes / Improving welfare

- **Increasing incomes**
  - generating profits for local entrepreneurs
  - farmers can get market information and better prices for crops
  - deals are being made over the phone

- **Improving welfare**
  - ability to call a doctor
  - can connect with urban or overseas relatives
  - substitutes for costly trip into capital city

Involving citizens makes the difference

- **Prior perceptions**
  - The poor is seen as the recipients
  - Too expensive to provide services to the poor
  - Enhancing skills is seen as a separate expensive project
- **Post implementation**
  - Poor people is a resource
  - Reduced cost of the service
  - Skills of the poor enhanced