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Keeping Cell Phones Affordable:

Regulating the Private Sector's Contribution to Development

*by Rachael Moshman**

Introduction

One of the targets of Millennium Development Goal Eight, "Develop a Global Partnership for Development," is to cooperate with the private sector to "make available the benefits of new technologies – especially information and communications technologies."[1] International development professionals, such as Jeffrey Sachs, have listed numerous benefits that can be brought to the developing world through cell phone technology, including communicating with long-distance family members, increasing communication between different villages, finding employment opportunities, having more options in emergency situations, allowing fisherman and farmers to check market prices before leaving the village, and allowing quick and easy transfer of funds.[2] Cell phones may also eventually help bring internet into developing countries' villages and homes.[3]

The Growth of the Cell Phone Market

From 1999 to 2004, cell phone usage in Africa increased from 7.5 million to 76.8 million users, and one in eleven Africans is now a cell phone subscriber.[4] In South Africa, the number of cell phone users jumped from zero to ten million between 1993 and 2003, and the percentage of this cell phone use in lower-income markets has increased with time.[5] The market has grown enormously in the last decade, but there is still plenty of available market left to access. Though 77 percent of the world's population is in range of a cell phone tower, only 25 percent are cell phone subscribers.[6] Commentators agree that more people will use cell phones than fixed land lines for future telecommunications.[7]

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Customers buy prepaid cards for their cell phones from a *sari-sari* store in the Philippines.

One reason that cell phone use may be so popular is that with a low-income budget it is easier to manage a pre-paid phone card than to pay for a fixed phone line. Pre-paid cards were made available in South Africa starting in 1997. By 2003, fourteen percent of households making two dollars per head per day had cell phones.[8] Though the lowest cost handset is currently around forty dollars, handsets can be purchased second hand for much less, and some major chain stores, in South Africa for example, sell cell phones on credit.[9] Costs may also continue to go down for consumers. Phillips, a semiconductor manufacturer, noting that there is an untapped customer base worldwide of 3.3 million people, has announced plans for a handset that will cost less than twenty dollars.[10]

Cooperation Means Regulation

However, as the cell phone market grows wider in the developing world, encouraged by the development goals of the United Nations, how will the "cooperation with the private sector" help fulfill Millennium Development Goal Eight? Motorola recently won a contract to provide six million cell phone handsets to developing markets. While they noted that profit margins for these inexpensive phones would be "single-digit," they justified this move based on their intention to make greater profits from the developing markets in the future: "Motorola will use the ultra low tier to attract consumers to its brand and eventually sell up more expensive models."[11] This inevitable reach for greater profit margins is exactly why the private market should be regulated by governments as cell phones are distributed, and come to be relied on, in developing countries.

According to World Bank figures, the gross national income average for low-income countries is $510, with some 64 countries included in that category.[12] Proponents of distributing cell phones to low-income countries tout a recent study by the London Business School that found that increasing cell phone ownership by ten percent in the typical developing country boosts gross domestic product growth by 0.6 percent.[13] However, when a family is only making $510 per year, a 0.6 percent growth means only about three dollars extra per year—this is not enough to allow one to upgrade their cell phone. Without regulation, it cannot be guaranteed that private companies will continue to provide affordable access to the cell phone market.

Tied directly to the need for regulation, another reason that people may be using cell phones in South Africa and

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other parts of Africa is because the privatization of the telecom industry has made fixed line phones unaffordable. Since privatizing the phone company in South Africa in 1997, two million people have had their phone lines cut because they could not afford to pay for their services.[14] A strong regulatory system implemented by governments to ensure the private sector's cooperation with development goals can reduce the risk that basic services, such as a cell phone, become unaffordable to those who rely on them.

Currently, the private sector is busy setting up more cell phone towers in remote parts of the developing world.[15] They are also lobbying countries to remove barriers to industry development, such as taxes. Some countries are taxing imported handsets, as well as placing high taxes on telecom operators and users. It is simple to point to government regulations, such as Turkey's 25 percent special communications tax, as interfering with the growth of the market and impacting consumers as well as the private companies.[16] However, there are other government regulations that can contribute to development goals without stunting the growth of the market. South Africa currently, for example, has required cell phone operators to contribute to a Universal Access Fund, community call centers, and free SIM card offers as conditions for licensing their cell networks.[17] Other regulations could include monitoring equitable sector development, and proportional to income customer fees.

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Offering access to cell phones does present many advantages to people in the developing world. The push to multiply that access through the growth of private markets, however, cannot be done at the expense of the government-centered regulatory system needed to guide the private sector long-term and cooperatively toward meeting the goals of development.

Endnotes:

[1] United Nations, Millennium Development Goals, (2005), *available at* http://www.un.org/millenniumgoals/#, (last visited Nov. 4, 2005).

[2] *See* Jeffrey D. Sachs, The End of Poverty: Economic Possibilities For Our Time, 232, 234, 264-65 (Penguin Books, 2005).

[3] *See e.g.*, Rhett Butler, *Cell Phones May Help "Save" Africa*, Mongabay.com, July 2005, *available at* http://news.mongabay.com/2005/0712-rhett_butler.html (last visited Nov. 4, 2005).

[4] Sharon LaFraniere, *Cellphones Catapult Rural Africa to the 21st Century*, N.Y. Times Aug. 25, 2005, A1.

[5] David Porteous, The World Bank, *Making Financial Markets Work for the Poor*, at 52 (Oct. 2004), *available at* http://info.worldbank.org/etools/docs/library/128740/Making%20financial%20market%20work%20for%20the%20poor.pdf, (last visited Nov. 4, 2005).

[6] Press Release, Phillips, Phillips Launches Global Initiative to Develop Solutions for Ultra Low-cost Mobile Phones (June 29, 2005), *available at* http://www.semiconductors.philips.com/news/content/file_1173.html (last visited Nov. 4, 2005).

[7] Allison Gillwald, *Transforming Telecom Reform for Development*, paper for "ICTs for Poverty Reduction: When, Where and How?" (Sep. 2003), at 5, *available at* http://link.wits.ac.za/papers/ag20030920.pdf (last visited Nov. 4, 2005). Already, the number of cell phone subscribers almost triples the number of fixed land line subscribers in South Africa. *But see,* Porteous *supra*, note 5, at 53, who notes that some predict that the South African market will peak out at 60 percent of the total population (24 million customers) by 2007.

[8] *See* Porteous, *supra* note 4, at 52, fig. 2.1. *See also* LaFraniere, *supra* note 4, referring to one Nigerian woman who spends $1.90 per month for five minutes of pre-paid phone time.

[9] Porteous, *supra* note 5, at 53.

[10] *See* Phillips, *supra* note 6.

[11] *Motorola Wins Deal for Low Cost Cell Phones*, Reuters, Sept. 27, 2005, *available at* http://www.msnbc.msn.com/id/9502612/, (last visited Nov. 4, 2005). The contract was awarded by GSM Association, which promotes the use of GSM, the primary cell phone standard.

[12] World Development Indicators Database, The World Bank, *GNI Per Capital Income 2004, Atlas Method and PPP* (table), (July 3-4, 2005), at 1-4, *available at* http://www.worldbank.org/data/databytopic/GNIPC.pdf, (last visited Nov. 4, 2005).

[13] *Calling an End to Poverty*, The Economist, Jul. 7, 2005, *available at* http://www.economist.com/business/displayStory.cfm?story_id=4157618, (last visited Nov. 4, 2005), [hereinafter Calling an End].

[14] *See* Gillwald, *supra* note 7, at 5.

[15] *See* LaFraniere, *supra* note 4, noting that constructing networks for cell phones in Nigeria costs two and a half times as much as it did in South Africa because there is no pre-existing infrastructure.

[16] *See* Calling an End, *supra*, note 13.

[17] *See* Porteous, *supra* note 5, at 53.