



OVUM Report on Economic Benefits of Mobile Services in India

A Case Study for the GSM Association • January 2005

Benefits and Barriers

Benefits

According to a study conducted by the reputed international agency, Ovum on “The economic benefits of mobile services in India” the Indian mobile industry is a major contributor to the social and economic growth of the country, in terms of employment generation, revenues to the Government, GDP growth and rural development. The Ovum Report has assessed the contributions of the Indian mobile industry as below:

Employment

- 3.6 million jobs generated directly or indirectly
- Ovum has also estimated that employment dependent on the industry is expected to rise by at least 30% over the next 12 months.

Government Revenues

- Rs. 145 billion per annum generated by Mobile industry for the Government through License Fees, Spectrum Fees, Import Duties, Taxes, etc.

GDP

- The mobile services industry generates an annual GDP contribution of Rs. 313 billion

Rural Development

- Research shows that having access to telecommunications would substantially improve the social and economic conditions of people living in rural areas by improving access to family, education, health and financial

services and by enabling the development of non-agricultural economic activity.

- Government has set a target of 20% for rural mobile coverage by the end of 2004 and 75% by the end of 2006.

Taking the OVUM findings as the base, COAI has tried to estimate the benefits from mobile communications for the future years. The benefits listed by OVUM are for a subs base of 48 million in January 2005. Pro-rating the data on a simplistic estimate (assuming a conservative 70% realisation of the potential benefit), at a mobile subs base of 200 million in 2007, the industry would contribute:

- 10 million jobs
- Rs 50,000 crores annual revenue to the Government

Barriers

However, there are major barriers to India maximising the economic and social benefits, which the mobile services industry can deliver. The Indian industry generates relatively little cash - with earnings before interest, depreciation and amortisation (EBIDTA) margins at 23% compared with international norms of 40% to 50%.

The scope for the Indian industry to invest, expand and grow into rural areas is limited because of the lower cash flow generation. There is thus a danger that, while current prospect for expansion are excellent, growth will not be sustained. The three main causes for the above are:

- The high levels of industry specific taxes levied through license fees, spectrum charges, import duties, etc.
- The major cross subsidy (of R60 billion per year) from the mobile to the fixed operators through interconnect charging arrangements and access deficit charge.
- The inadequate margins (free cash flows) resulting from high levels of competition and churn, which raise sales and marketing costs.

Recommendations by OVUM

In order to maximise economic and social benefits the Government should consider the following three measures:

- To reduce industry specific taxes, which currently account for more than 20% of the industry cost base, to be more in line with international best practices.
- To remove the cross subsidy from mobile to fixed operators by introducing cost based interconnect, removing ADCs, and funding rural development from a separate universal service fund.
- To promote infrastructure sharing to facilitate expansion of mobile networks in rural areas.

There is one further problem facing the Indian industry. Currently 53% of the revenue generated by the industry is exported in payments to terminal and network equipment suppliers. If the Government wants to maximise the economic benefits from the industry then it should consider what steps it can take to establish an indigenous terminal and network equipment and component supply industry, as has happened in China.