

Inclusive Business Case Study: Millicom

Location: Latin America, Africa Sector: Telecommunications and Mobile Financial Services IFC Investment: Over \$325 million in debt and equity

COMPANY BACKGROUND

Millicom is a leading international telecommunications and media company dedicated to emerging markets in Latin America and Africa. Millicom sets the pace when it comes to providing digital lifestyle services to the world's emerging markets, giving access to the world, primarily through mobile devices. Operating in fourteen countries, Millicom offers innovative and customer-centric products. Millicom employs more than 10,000 people and provides mobile, cable, broadband, TV content, online and financial services to over 50 million customers. Founded in 1990, Millicom is headquartered in Luxembourg and listed on NASDAQ OMX Stockholm.



MILlicom's INCLUSIVE BUSINESS MODEL

Operating primarily under the Tigo brand name, Millicom offers mobile telephony in 12 of its 14 operating countries in Latin America and Africa.¹ Its services reach a broad swathe of customers across different income levels. Millicom is expanding to unconnected, remote locations in addition to serving urban areas. In Chad, for example, Millicom expanded service coverage to 82% of the population by the end of 2013.

Mobile Telephony and Value-Added Services

Pre-paid services can be purchased in small denominations as low as \$0.1 with pricing per second rather than per minute, making mobile voice, SMS, and data services affordable for customers with low and irregular incomes. Millicom's customers spent, on average, around \$8 per month on mobile phone services in 2013. Nearly two-thirds of customers brought an average monthly revenue of less than \$5 in 2013.

Value-added services are a key component of Millicom's customer offering. In countries with low smartphone penetration and data availability, customers access the internet, social media, and various applications through SMS-based menus and services. A popular value-added service is the "Lend Me Balance" product family through which customers may borrow for an urgent call or text message if they don't have money on-hand to top-up their accounts. In 2013, 40% of Millicom's customers used these products.

Mobile Financial Services

First launched by Millicom in 2009 in Tanzania and Paraguay, Millicom Mobile Financial Services (MFS) reach millions of previously financially excluded and underserved customers. These services operate under the brands Tigo Money in Latin America and Tigo Cash in Africa.²

The Millicom MFS portfolio includes a wide range of services such as person-to-person money transfers, international remittances, payments (including utility bills, salaries for small and medium businesses, micro credit loans, insurance, merchant payments at stores or online) and financial aid disbursements. These services together create an ecosystem in which customers can utilize electronic money on a daily basis and avoid the challenges of cash such as security risks and travel to make and collect payments.

Millicom has brought several first-of-their kind services onto the mobile financial services market. In 2014, Millicom launched Tigo Wekeza (Swahili for Tigo Invests) in Tanzania. With approval from the regulatory authority, this service will provide a

quarterly return to customers based on the average cash balance in their Tigo Pesa accounts. It will reach 3.5 million mobile money customers in Tanzania. Millicom also offers the first cross-border mobile money transfer service featuring integrated currency conversion between Tanzania and Rwanda. And it launched a mobile money interoperable service in Tanzania enabling mobile money transfers to Airtel.

Other examples of innovations include partnerships with financial institutions in Paraguay to offer micro-credit through mobile phones and development institutions like the World Food Programme in Chad for the disbursement of financial aid. In Honduras, Millicom works with Habitat for Humanity, enabling unbanked individuals to repay debt to through Tigo Cash and the organization to save up to 50% in loan collection costs. Partnerships are also being developed with corporations to facilitate electronic payments by distributors and suppliers, including cocoa and rice farmers. In Ghana, thousands of women traders who sell basic goods and services at open air markets use Tigo Cash Susu to save as well as to pay their suppliers.

Another innovation is in micro-insurance. The Tigo Family Care Insurance product is offered in Ghana, Honduras, Senegal, and Tanzania providing access to insurance for low-income customers.³ The product offers free life insurance for mobile phone subscribers and a family member ranging from \$104-\$520.

Distribution

As of mid-2014 Millicom had over 700,000 points-of-sale across 12 countries offering mobile telephony. Small mom-and-pop retail stores play a vital role in this network, reaching customers who frequently visit these stores to buy basic necessities. While some agents focus on signing-up mobile phone subscribers and selling airtime, others are qualified to provide MFS.

Knowledgeable agents are essential to help customers have a positive experience. Beyond registration, agents educate customers about new and unfamiliar products. In 2012, Millicom launched the Tigo Sales School program. Freelancers—individuals who exclusively sell Tigo's services—as well as some point-of-sale agents receive basic sales training and are educated about Tigo offerings. The program has reduced agent turnover, creating value and careers for trainees while increasing customer activations and revenues. The Tigo Sales School diploma, earned at the end of an 8-week training, is often the first professional qualification the trainees have ever received.

¹ Mobile phone services provided in Bolivia, Colombia, Paraguay, El Salvador, Guatemala, Honduras, Chad, the Democratic Republic of Congo, Ghana, Senegal, Rwanda, and Tanzania. Millicom also invests in online services in 34 countries and operates cable services under the brand Tigo Star in 7 countries, including Costa Rica and Nicaragua.

² In Tanzania, Millicom MFS operate under the Tigo Pesa brand. MFS are available in all countries in which the company offers mobile phone services other than Colombia.

³ CGAP. 2013. "Freemium: Spawning an Insurance Market in Ghana" <http://www.cgap.org/blog/freemium-spawning-insurance-market-ghana> (accessed May 30, 2014)

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DRIVERS FOR MILLICOM'S INCLUSIVE BUSINESS MODEL

- Market opportunity to deliver traditional mobile voice and text message services
- New growth opportunities in mobile data and value-added services
- Mobile financial services key to maintaining competitiveness in many markets

In 2005, fixed-line telephone subscriptions were 1.5 per 100 inhabitants in Africa, while mobile phone subscriptions were 12.4 per 100 inhabitants.⁴ Between 2008 and 2012, Latin America and Africa accounted for 20% of new mobile phone connections worldwide.⁵ With low fixed-line telephone subscriptions in many countries where Millicom operates and growing demand for mobile phone services, the company has a strong business opportunity to deliver affordable mobile voice and SMS services to low-income customers. This continues to be a key business driver in Africa.

As voice and SMS services become more widespread, Millicom sees a market opportunity in delivering an affordable digital lifestyle through a host of value-added

services to meet customers' changing needs and preferences. Key among value-added services is MFS. In many markets, especially in Africa, offering these services is a great opportunity for Millicom to remain competitive and grow given limited banking penetration. For example, 24.1% and 39.2% of the adult population (ages 15 and above) have an account at a formal financial institution in Sub-Saharan Africa and Latin America respectively. These figures are particularly low in some countries: 29% in Ghana, 28% in Bolivia, 22% in Guatemala, 17% in Tanzania, 13% in El Salvador, and 9% in Chad.⁶

RESULTS OF MILLICOM'S INCLUSIVE BUSINESS MODEL

- Over 90% of Millicom's customers have pre-paid mobile phone accounts
- As of 2014, the company had 7.4 million mobile financial services customers with the majority in Africa
- Almost one million customers in Ghana have gained access to micro-insurance for the first time

As of Q2 2014, Millicom had more than 52 million mobile subscribers in Latin America and Africa, of which over 90% were pre-paid customers. In 10 out of 12 of its mobile markets, Millicom is either the number one or two player in terms of market share. The company has 7.4 million MFS customers of which nearly five million are in Africa. In Millicom's MFS markets, at the end of 2013, one in six of its mobile phone customers used MFS representing 15.8% of all its mobile phone customers. MFS customers also grew by 50% between 2012 and 2013. At the end of 2013, Millicom's strongest markets for MFS were Tanzania (54% of customers), Paraguay (31% of customers), and Rwanda (38% of customers).

The insurance product Tigo Family Care reaches almost one million customers in Ghana, of whom 93% have no access to insurance. Around 22% of these customers

earn less than \$100 per month while 80% earn less than \$300.⁷ A similar product in Senegal, Tigo Kiiray, is reaching more than 10% of Tigo customers and is one of the largest insurance programs in the country.

Millicom's total revenue has grown from \$666 million in 2004 to \$3.9 billion in 2010 to \$5.1 billion in 2013. Mobile phone services—voice, data and SMS— contributed 47% to the company's revenue growth in 2013 while mobile financial services contributed 14%. Millicom's EBITDA was \$1.9 billion and net profit was \$205 million in the same year.

IFC'S ROLE AND VALUE-ADD

- IFC has invested in Millicom since the early 1990s, providing financing of over \$325 million on its own account for around 15 projects: Telcel Bolivia, Telemovil El Salvador, Millicom Costa Rica, Cedetel Mexico, Celtel Honduras, Paktel Pakistan, Millicom Laos, Telecel Paraguay, Telefonica Cellular de Bolivia, Millicom Cambodia, Millicom Democratic Republic of Congo, Tigo Colombia, and Millicom Chad
- Over the years, IFC has also mobilized additional financing for Millicom through syndications
- IFC's financing has supported Millicom's expansion of telecommunications including improving mobile phone service coverage in underserved areas of many countries



IFC's Investment:

Over \$325 million in long-term debt finance and equity (includes closed projects)

Investment Year:

1990s to 2014

4 Key ITC Data for the World 2005-2014. <http://www.itu.int/en/ITU-D/Statistics/Pages/stat/default.aspx> (accessed on June 16, 2014)

5 GSMA and AT Kearney. 2013. The Mobile Economy 2013

6 All regional and country data from The Global Financial Inclusion (Global Findex) Database. 2012. http://siteresources.worldbank.org/EXTGLOBALFIN/Resources/8519638-1332259343991/LDBFinIncl_Apr16.pdf. (accessed on June 17, 2014)

7 CGAP. 2013. "Can Phones Drive Insurance Markets? Initial Results from Ghana" <http://www.cgap.org/blog/can-phones-drive-insurance-markets-initial-results-ghana> (accessed on June 27, 2014)