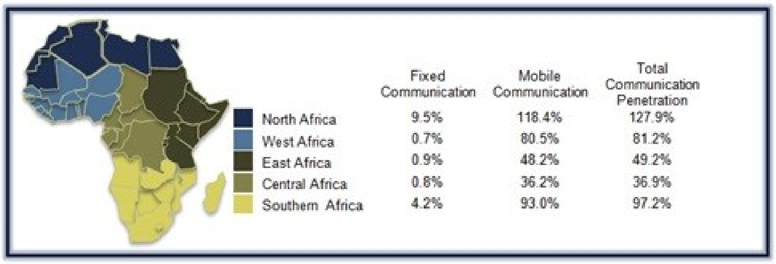
Africa: Communications forecast to 2018

By Naila Govan-Vassen

10 Dec 2014

The communications market in Africa has been characterised as "highly competitive". Information and Communication Technologies (ICT) infrastructure is now more developed in urban areas and the voice market is rapidly reaching maturity. The demand for fast internet and data services is also beginning to increase.

Frost & Sullivan estimated that, by the end of 2013, the telecommunications penetration in the African continent was 74.8%; largely dominated by mobile connectivity, which accounted for 96.6% when compared to 3.4% for fixed communication. Communication penetration in North Africa was highest, at over 100%, followed by Southern Africa at 97.2%, and West Africa at 81.2%.



	Fixed Communication	Mobile Communication	Total Communication Penetration
North Africa	9.5%	118.4%	127.9%
West Africa	0.7%	80.5%	81.2%
East Africa	0.9%	48.2%	49.2%
Central Africa	0.8%	36.2%	36.9%
Southern Africa	4.2%	93.0%	97.2%

Fig 1: Telecommunications Penetration, African Continent per Region, 2013, Africa

Africa Telecoms Forecast to 2018

Mergers and acquisitions, infrastructure sharing and market liberalisation, are expected to reshape the telecommunications landscape.

Communication markets will become more liberal, especially in countries where governments understand the correlation between Information and Communications Technologies (ICT) development and economic growth. This will drive infrastructure sharing agreements, which are expected to take place as a measure to bring down investment costs and increase reach away from urban areas. With this, new market entrants will emerge in Africa, which will either tap into unexplored markets (for example, the case of Movitel in Mozambique) or strategically acquire a company.

With the entrance of the international submarine cables, investments on the backhaul to last mile infrastructure will begin to increase. Even land locked countries are beginning to benefit from the submarine cables and are decreasing their dependency on the satellites. Countries such as Uganda, Rwanda and Botswana are some examples.

Mobile banking and payments are growing in the continent, and with this new business models integrating communications with other sectors are developing - eEducation, eHealth, eAgriculture and eGovernance initiatives, for example. The ICT convergence with verticals will drive demand for fast, reliable and affordable broadband.

Mobile Network Operators (MNOs) are expected to expand services beyond the traditional core business by strategically entering the digital space such as e-commerce.

The African continent also presents huge opportunities for e-commerce. With the market still unexplored, it is estimated to reach $50bn by 2018, compared to just over $8bn in 2013. Some of the biggest e-commerce companies on the African continent are: Jumia and Buy Correct in Nigeria, Kenya's Kiosk, Botswana's Craft, Kasoa in Ghana, Go Shop in Sierra Leone, and Bid or Buy and Yuppiechef in South Africa.

Overview of the fixed communications in Africa

The fixed line market is controlled by the state owned companies (SoC), which are known to have limited funds for infrastructure development and investments. Lack of competition within the fixed line market has resulted in little motivation to improve services, and customers therefore choose to communicate through mobile devices rather than fixed line modes.

Tanzania, Ghana and South Africa, are some of the exceptions, where two national operators exists:

- **Tanzania:** Tanzania Telecommunications Company (SoC) and Zanzibar Telecom owned by Etisalat Group.
- **Ghana:** Airtel and Vodafone Ghana are the two fixed line operators.
- **South Africa:** Telkom SA and Neotel.

Most fixed operators have entered the mobile communications market either as a fully state company or in partnership with a private Mobile Network Operators (MNO). Orange, the French telecommunications company for example has been one of the preferred partners for the SoC:

- **Ivory Coast:** There were two fixed line operators namely Côte d'Ivoire Télécom (SoC) and Orange S.A. until 2010, when a merger between these two companies took place and the fixed line operator was renamed to Orange Côte d'Ivoire. Orange is also the biggest MNO in the Ivory Coast.
- **Senegal:** The market was liberalised in 1997 when Sonatel was privatised by Orange.
- **Uganda:** Orange S.A. owns 40% of the state owned MNO.

- ## Kenya: Telkom Kenya (MNO) partnered with Orange S.A. Although this partnership may come to an end, due to the competitive nature of the Kenyan telecommunications market, 70% of Orange's share may be bought over by Viettel the Vietnamese MNO.

Overview of the mobile communications in Africa

The top five international MNOs present in the African continent are MTN, Airtel, Vodacom, Glo Mobile and Orange, which are present in more than two countries and account for combined share of 37% of the population in Africa.

Given the competitive nature of the market, markets in some regions are beginning to consolidate as a measure to increase market share, infrastructure portfolio, customer base, develop new services, and above all, drive a sustainable growth.

The mergers and acquisitions are taking place between and within MNOs, state owned operators, system integrators and managed services. Here are some examples:

- **2008: Vodafone Group acquired 70% of Ghana Telecom's shares with the Ghanaian government retaining 30% of shares. Ghana Telecom was then rebranded as Vodafone Ghana.**
- **2010: Orange Côte d'Ivoire and Côte d'Ivoire Télécom decided to strategically engage in an operational merger within the fixed communications market.**
- **2010: Infrastructure sharing between Movitel (Vietnamese company) and the Mozambique's Energy Department - a strategy to quickly deploy fibre technology from North to South of Mozambique, thus enabling Movitel to have connection in the rural and urban areas.**
- **2013: Airtel Uganda acquired Warid Telecom which gave Airtel Uganda the competitive advantage of becoming the second-largest mobile operator after MTN Uganda.**
- **2014: Orange Uganda planning to sell 53% of its shares to Africell.**
- **2014: In South Africa, many mergers and acquisitions deals are waiting to take place, such as the Vodacom and Neotel, Telkom and BCX and MTN, and the Telkom infrastructure sharing strategy.**

Frost & Sullivan concludes that with fixed and mobile operators strategically tapping into one another's market space, the African telecommunications market will become a highly competitive space. Market consolidation will act as a key driver for the MNO to ensure a sustainable growth in the long run.

ABOUT THE AUTHOR

Naila Govan-Vassen is an ICT Industry Analyst at Frost & Sullivan.