

TELECOM INVESTMENTS INTO AFRICA

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The general contours of telecom expansion in emerging/developing economies tend to look more or less similar, though not identical. Comparison between India and Africa is but natural given the similarities in terms of market environment, size and demographic profile. While similarities abound in terms of long term potential, the markets – one a continental market consisting of 54 odd individual markets, and the other a single national market – however vary greatly in terms of their internal dynamics. They no doubt appear similar in shape but definitely differ in details.

While entering the African market five years back, acquiring fifteen of Zain Telecom's assets in the continent, we were obviously looking more at the similarities of the markets than the not so-obvious differences in details. We were also perhaps a little obsessive about the potential of a possible replication of our business model based on outsourcing, which had changed the telecom landscape in India decisively. No doubt, the model had not only helped ensure one of the lowest mobile tariffs in the world but had made India the fastest growing telecom market in the world. The model had evolved to prove its versatility across other geographies as well.

Though relative merits of Bharti Airtel's entry into Africa continues to be debated by global investors in view of the challenges facing our operations therein, the enormous long term potential of the African market remains incontrovertible.

Recognized as one of the fastest growing regions in the world, Africa is clearly the last bas-

tion of growth. Having grown at 8.7% CAGR in real GDP terms between 2000 and 2010, the region was the second fastest growing continent in the world only behind emerging Asia largely propelled by China. Some estimates forecast Africa to grow at 5.5% CAGR to 2017 making it a priority economic region for global investors to enter.

Like other emerging economies, exponential growth of the middle class lies at the heart of economic expansion in Africa. Rapid GDP growth is positively impacting private consumption in the continent. While the number of people in Africa's middle class grew by 130 million between 2000-2010, according to African Development Bank (ADB) at least 100 million more are likely to enter the middle class by 2020. Rapid expansion of the middle class is likely to have a powerful impact on the growth of the service sector. Telecommunications in particular is likely to remain at the center of economic growth in both India and Africa in the coming decades. The sector has transformed fundamental aspects of social life and business processes. According to a recent Deloitte and GSMA research, a 10% increase in mobile penetration in developing countries is likely to increase productivity by 4.2%.

Fuelled by improved economic condition, the last five years have seen Africa experience the fastest telecom growth worldwide. Though subscriber growth has already started slowing in mature markets like South Africa and Egypt, there is still enough headroom for growth in other markets. Given its relatively low penetration level, the Sub Saharan Region has significant scope for growth. As per a study by

Ericsson, the region can have mobile penetration by another 300 million between 2014 and 2019.

According to a study by Informa Telecoms & Media, the overall African mobile telecom market is likely to grow from a combined value of over US\$60 billion in 2013 to a value of almost US\$234 billion in 2020, with a compound annual growth rate (CAGR) of 21.27%. In terms of mobile subscriptions, Africa is expected to grow from 778 million in 2013 to 1.2 billion by end-2018. Like India, urban markets in Africa are maturing; consequently, future subscriber growth in the continent is likely to depend largely on expansion in rural coverage.

Voice realizations continue to be the primary driver of operator revenues in developing/emerging markets. But it is by and large clear now that voice is increasingly getting commoditized. As competition increases and operators reach out to the bottom of the pyramid in search of new customers, voice ARPUs are bound to see further decline in the future. Unfortunately, unlike in India, demand has not responded to price declines as much as was desired in many African markets - creating some pressure on operator revenues.

At the same time though, Telecommunications is clearly undergoing a tectonic shift from a voice centric consumption scenario to a data dominant play in an accelerated manner. The pace of change is almost similar in both India and Africa. Backed by youthful population and rapid smartphone penetration, both India and Africa are clearly poised on the cusp of a mobile data boom. As 3G and 4G deployments gather pace and more affordable handsets enter the market, pace of data consumption is expected to accelerate further in the days to come. The study by Informa also indicates that Telecoms & Media annual mobile data revenues in Africa are expected to rise from US\$8.53 billion (14.3% of total revenues) in 2012 to \$23.16 billion (26.8% of total revenues) in 2018. Today, data contributes nearly 20% of Airtel Africa's quarterly revenues.

Rapid increase in data subscriber base will also mean an expansion of digital reach in the continent. In many African countries Governments acknowledge and realize the opportunity of expanding the reach of broadband, which continues to be extremely low. In fact according to ITU figures just one in five people in Africa use the Internet today, compared to almost 2 in 5 people in Asia-Pacific, and 3 in 5 people in the CIS. For African Governments, India's Digital India initiative, which seeks to connect the 2,50,000 village panchayats is a great example to emulate. The scale of these initiatives will need Governments and the private sector to collaborate and find new innovative ways to fund these programmes using the PPP mode. All stakeholders will have to work jointly and effectively to enhance digital literacy so that the citizens may participate in digital revolution.

A niche category in itself, Mobile money services are clearly revolutionizing the payments landscape both in India and Africa. This is more pronounced in African markets because of a conducive regulatory environment and absence of a well-developed banking infrastructure. The success of mobile money in the Sub-Saharan Region in general and the Kenyan market in particular is a great example for other countries to emulate. According to GSMA, Sub-Saharan Africa has the highest level of mobile money penetration in the world. By December 2014, 23.0% of mobile connections in Sub-Saharan Africa were linked with a mobile money account, whereas smartphone connections only represented 16.4% of total mobile connections in this region. In East Africa, the contrast is even starker with almost one mobile money account for every two mobile connections, compared to a smartphone penetration of only 12.5%.

Besides being a powerful emerging revenue stream for operators, mobile money is proving to be an extremely effective instrument of financial inclusion as well. With over 7 million Airtel Money customers, Airtel Africa is well on course to become a major mobile com-

merce service provider in the continent.

Despite the undisputed potential, as elaborated above, there are some operational challenges, in addition to the issues of infrastructure, regulatory environment, and stability of African currencies that pose some concern for foreign investors. The primarily commodity driven economies have experienced enormous pressure on their currencies over the last one year in the midst of rapid decline in global commodity prices. Some of the currencies have depreciated by as much as 20 to 30 percent impacting foreign investors' revenues adversely. Therefore, managing currency volatilities is assuming increasing importance for foreign telecom operators in the continent.

High operating cost, particularly running telecom towers in remote locations has traditionally proved to be a big drain on telecom operators, who have over time fallen back on tower sharing to contain outgo. Although infrastructure sharing and outsourcing in Africa started quite late as compared to India, it has gathered momentum in the continent quite well, helping operators to manage their operating cost better. Airtel Africa has already divested bulk of its towers in the continent to specialized tower companies like Eaton Towers, American Towers and IHS Holdings. Releasing value through tower divestment has proved to be great option for African operators to generate capital for investments in networks, while at the same time lowering operating cost by sharing these towers.

Given the small size of many of the markets, where not more than 2-3 operators can survive in the long run, in-country consolidation appears inevitable. Over the years, Airtel Africa has acquired small operators in countries like Uganda, Congo Brazzaville and Kenya. Such consolidations will not only enable small unviable operators to exit but help improve the financial health of acquiring companies by ensuring cost rationalizations.

Given the fact that telecom is an asset heavy

industry where networks and spectrum spends need to be made ahead in time, a congenial financing set up for telecom companies is very essential for a long term, orderly development of the industry. Governments not only need to categorize telecom as 'infrastructure' but help the industry access capital at concessional rates. Access to capital through tax free bonds could be an ideal option. Presently in most markets the scope of tax free bond is limited to infrastructure companies. Alternately, Governments could create National Telecom Financing bodies which can raise finance by issuing tax free bonds with sovereign guarantee. The National Body in turn can fund telecom infrastructure spends by individual companies at nominal rates.

As a telecom investor with a footprint in twenty countries across South Asia and Africa and having watched the mobile industry evolve from its infancy in India, I have closely followed the impact of mobile telephony on society and economy in general. The empowering impact is going to be increasingly visible in these markets in the coming years as reach of new generation networks extends to new regions and more people move into the networks. India and Africa will not only remain the last bastions of telecom growth but the epicenter of empowering mobile innovations.