

## Africa, market round-up

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In the opening quarter of 2008, cellular connections in Africa passed 280 million, adding 70 million connections compared to the previous year. In 2007, growth of 38% made it the fastest growing region in the World, ahead of the Middle East (33%) and Asia-Pacific (29%). In early 2008, Africa is set to overtake North America in terms of the number of cellular connections.

The majority of the fastest growing markets are located in Northern and Western Africa which represent altogether 63% of the total connections in the region. Most of the highly competitive markets though include Nigeria, Zambia, Tanzania, Congo (Kinshasa), Kenya, Algeria, Tunisia, Ghana and South Africa. In 2008, operators main areas of focus are expected to be:

- Capex increase – GSM network coverage improvement, as well as roll-out of WCDMA and WCDMA HSPA networks
- Opex increase – re-branding and new product offerings including high-speed services, as well as customer loyalty and retention programs
- Distribution – increase in number of point of sales, resellers
- Price competition – voice and data services (roaming, on-net calls and data bundles)

In 2008, we expect the market growth to continue and pass the 300 million cellular connections mark in June. African sub-regions are at varying level of market development and maturity, depending on the level of network coverage and wealth. In some markets, operators are facing a number of key challenges underpinned by limited urban infrastructure, high unemployment and low GDP per capita, high inflation and informal distribution. In those cash economies, sustaining credit payments for postpay users is also a challenge which is slowing down the adoption of high-speed services.

We value your comments and feedback, so please do drop us a line if you want to share your thoughts on Africa's cellular market or any other topics.

Regards,



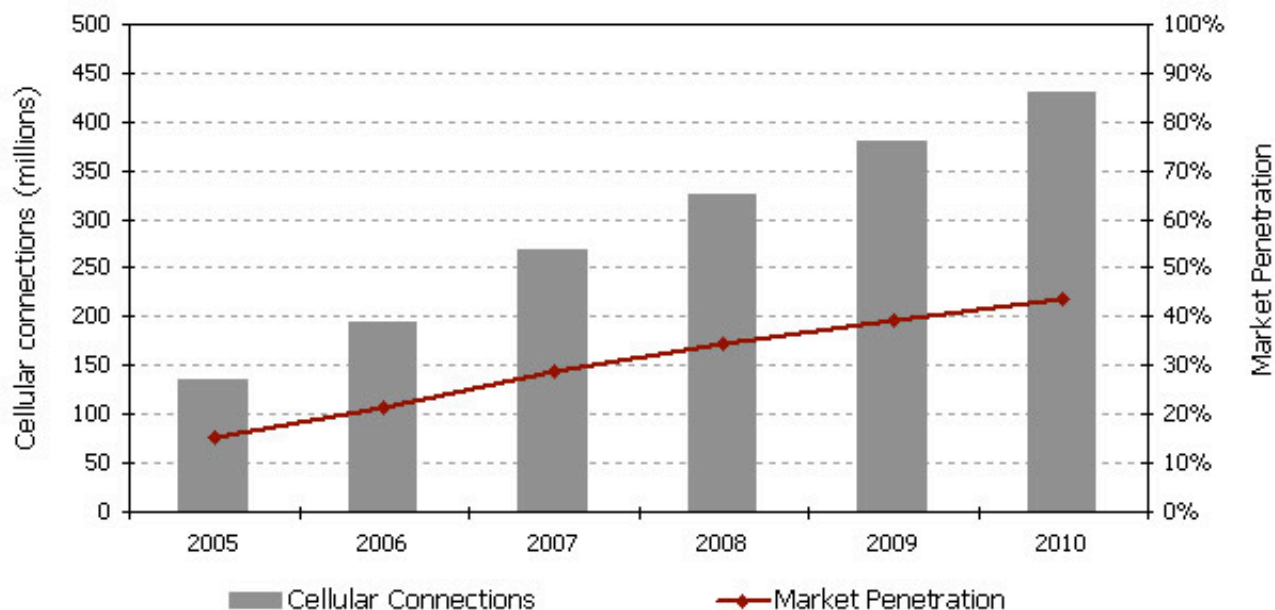
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## Africa, the fastest growing cellular market in the world

Two thirds of the country cellular markets in Africa are in their early phases of development with penetration rates below 30% at the end of 2007. Those markets represent 28% of the total connections in the region over the same period, adding up to 75 million connections. In contrast, most European markets have market penetration rates close to or higher than 100%. In percentage terms, Africa is the fastest growing market in the World and also the second smallest in terms of cellular connections after the Middles East. In Q1 2008, Africa's connections base is expected to reach more than 280 million which will take over the US & Canada set at 277 million connections.

*Figure 1: Africa, Total Cellular Connections vs. Market Penetration*



In 2007, the countries that followed a growth rate above 40% represent 54% of the total connections in Africa and average 30% penetration rate. The markets with yearly growth between 20-40% represent just below 30% of the total connections (27%) and average a higher penetration rate of 60%.

The average penetration rate in Western Africa is 35% against 60% in Northern Africa by end of last year. These two sub-regions have the largest connections base which combined add up to 168.5 million which represents around two third of the total connections in Africa.

In Northern Africa, Egypt, Libya and Sudan have experienced growth above 40% in 2007 with Algeria and Morocco growing between 20-40%. Algeria and Tunisia are the only two markets in the sub-region with a high market penetration rate of around 80%. Last year, Tunisia has been growing at a slower pace than Algeria: 13% year-on-year in 2007 compared to 33%. Areeba Sudan, Mobinil Egypt and Wataniya Algeria are the top 3 fastest growing operators in Northern Africa in 2007 with growth rates of, respectively, 96%, 63% and 52% year on year.

In Western Africa, all markets grew by more than 40% from 2006 to 2007 with the exception of Togo, Benin and Senegal which had growth rates between 20-40%. Three of Celtel operations are in the top 10 fastest growing operators in the sub-region with Celtel Burkina Faso (77%), Celtel Nigeria (74%) and Celtel Niger (68%). Celtel is a subsidiary of Zain, formerly known as MTC, which saw most of its high growth last year coming from its operations in Africa. Celtel Nigeria is second largest operator in the country and represents 26% of its total connections base. Celtel's growth in Nigeria has been driven by an increase in number of point of sales and improved network coverage.

Figure 2: Africa, Fastest Growing Markets, 2007 yearly growth range



Tanzania and Kenya are the two largest cellular markets in Eastern Africa with 8.3 and 9.5 million connections respectively in Q4 2007. Tanzania is expected to reach 26% penetration rate by end of this year passing the 10 million connections mark by Q4 2008. Competition in the market is intense with Millicom growing its installed base by 56% and Celtel by 65% through 2007. Celtel attributes the growth in Tanzania to improved network coverage and an improved economic situation of the country. Zambia is also growing quickly and had a market penetration of 21% at the end of 2007. MTN Zambia increased its installed base by 40% in 2007 to reach 11% market share but Celtel is the clear leader passing the 2 million connections mark in early 2008 with 82% market share.

In Central Africa, the average market penetration is expected to reach 30% by end of 2008. Congo (Kinshasa) is the 10th biggest cellular market in Africa and represents one third of the total connections in Eastern Africa (6.3 million connections by Q4 2007). Congo (Kinshasa) has grown by 44% through 2007 and is a highly competitive market. Celtel and Vodacom are competing head to head with both operators representing 87% of the total connections in the market by end of last year. Celtel has been improving network coverage and now claims that it is covering 271 towns, ahead of Vodacom, the biggest operator in the country with 3.2 million connections.

Central Africa is the smallest sub-region and represents only 7% of the total connections in Africa. Added together, Central and Eastern Africa represent 20% of the total connections in the region.

In Southern Africa, the biggest market is South Africa that represents 93% of the total connections in the sub-region and average around 85% penetration rate. Vodacom owns 57% of the market and passed 24 million connections by end of 2007 which is about 10 million more connections than MTN, with 34% market share. In South Africa, all three operators have launched their WCDMA networks and we estimate that the total WCDMA connections have passed 1.2 million connections by end of last year. WCDMA HSPA is set at around one percent of MTN and Vodacom total connections. MTN has announced that data traffic in South Africa is becoming significant and has claimed that non-SMS revenues represent 37% of its total data revenue in Q4 2007. Vodacom and MTN are expanding their WCDMA network coverage and introducing product offerings such as data bundles which increase data pricing competition.

## Africa, slow adoption of high-speed services

The adoption of WCDMA services is expected to be slow although operators are more efficient at deploying their high-speed networks than the first network launches between 2003-2005. In Africa, there are 19 WCDMA networks in service today and six planned. There are also 14 WCDMA HSPA networks in service, three planned and five in deployment. We have estimated that the total WCDMA cellular market (WCDMA + WCDMA HSPA) has passed the two million connections mark in early 2008 and it is expected to double by end of year. WCDMA HSPA connections alone are expected to pass the one million connections mark by Q4 2008.

Network coverage and handset affordability are the main two technical barriers to a faster adoption of high-speed services. However, on top of that, operators are facing other important challenges linked to limited urban infrastructure, uncertain market environment, low GDP per capita and a low contract market. For instance, in Zimbabwe, Econet, the largest operator, had to introduce in early April a pre-payment system to its postpaid customers to limit the impact of inflation on credit payments. From now on, postpaid customers have to pre-pay their monthly bill one month in advance.

MTN has also reported that content as a percentage of total data revenues average five percent in the emerging markets it operates in, against 20 percent in developed markets. In South Africa, MTN and Vodacom pricing plans are aligned on packages offering more than 500MB of data download. On top of their contract, users are being charged 24USD per month for 500MB broadband offer, 37USD for 1GB and 49USD for 2GB. The cost of an extra megabyte out of the allowance package is 0.15USD. Both operators are offering USB modem and datacards as well as a large number of handsets available from seven manufacturers. They also rely on their portal such as Vodafone Live! to push and deliver content. In Morocco, Meditel has launched high-speed services offers without contract. Users are being charged 2.5USD per day, 10.8USD per week or 27.2USD per month (USB modem offer). On Meditel portal, IMedia, browsing is free for the first twenty minutes then users are charged 0.1USD every five minutes or 1.3USD per download. In contrast, Maroc Telecom has introduced an 'unlimited' data plan with USB modem or datacard. Users can be charged 95 USD per month without contract for download rate up to 3.6Mbps.

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