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## Region in Focus

# Sub-Saharan Africa, Q1 2020

## Covid-19: a mixed impact for the digital ecosystem

June 2020

The GSMA represents the interests of mobile operators worldwide, uniting more than 750 operators with nearly 400 companies in the broader mobile ecosystem, including handset and device makers, software companies, equipment providers and internet companies, as well as organisations in adjacent industry sectors. The GSMA also produces the industry-leading MWC events held annually in Barcelona, Los Angeles and Shanghai, as well as the Mobile 360 Series of regional conferences.

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# Key takeaways

**Strong revenue growth from data and mobile money**

- Operators in Sub-Saharan Africa reported strong consolidated revenue growth in Q1 2020. Data and mobile money remain the top growth drivers across the region; operators reported double-digit growth for both in Q1 2020.

- Covid-19 will have a mixed impact on the revenue outlook. While increased data use due to social-distancing measures such as working from home and virtual schooling may support data revenue growth in subsequent quarters, mobile money revenue growth will likely take a hit from actions introduced to reduce reliance on cash, such as cuts in transaction fees.

**Vodacom takes first 5G leap**

- Vodacom has launched commercial 5G mobile and FWA services in South Africa, formally launching the 5G era in Sub-Saharan Africa. The service is initially available in several big cities, including Johannesburg and Cape Town, with plans to expand to other regions. With 4G adoption still below 30% in South Africa, Vodacom’s 5G service will likely target niche market segments in the early stages.

- 5G trials have been conducted in several other markets in the region. However, with significant unused 4G capacity, the focus for operators is to increase 4G adoption and usage. This involves strategies to make 4G devices more affordable and the provision of relevant digital content.

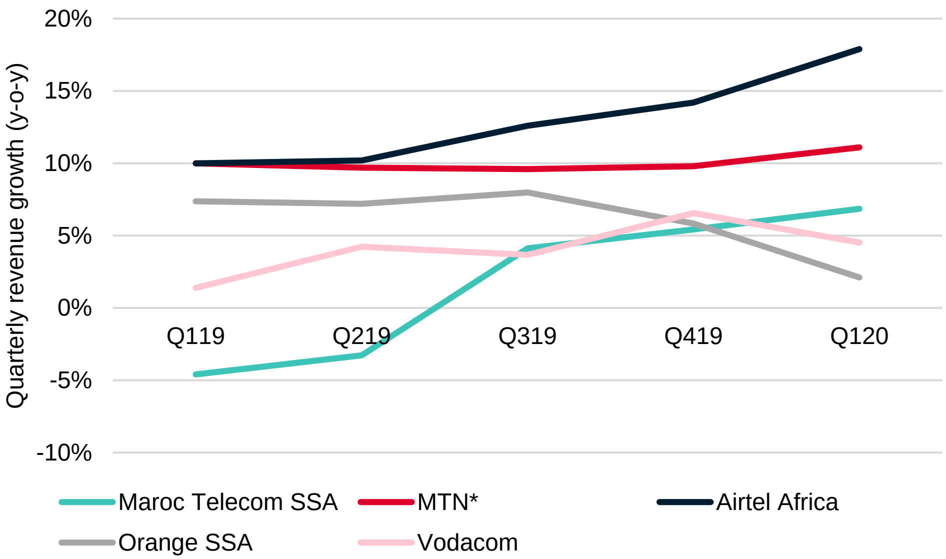
**Covid-19 impacts digital ecosystem**

- As of 31 May 2020, there were 87,470 confirmed cases and 1,779 fatalities in the region, according to figures provided by local disease control agencies. The International Growth Centre estimates that containment measures in the region, in their current forms, have pushed an additional 9.1% of the population into extreme poverty, with significant implications for consumer spend.

- The socioeconomic impact of Covid-19 and the social-distancing measures introduced to curb its spread will be felt considerably across the connectivity, e-commerce and tech startup landscapes. Over the coming years, mobile operators and other stakeholders will need to mitigate the challenges as well as seek to maximise any opportunities that could result.

# Regional trends: data and mobile money drive revenue growth

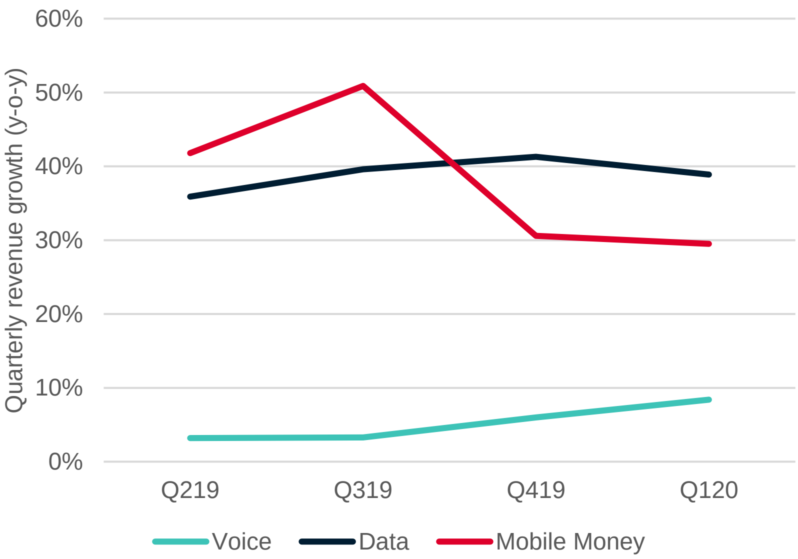
**Revenue growth remains in positive territory across the board**




*MTN includes MENA, which accounted 6.6% of group revenue in Q1 2020.
Source: GSMA Intelligence, operators

- Revenue growth remained positive in Q1 2020, albeit it to varying degrees, with Airtel Africa and MTN reporting double-digit growth year-on-year.
- Data and mobile money remain key revenue growth drivers. Maroc Telecom attributed strong performance over the last year to both services, while MTN Group reported 26.4% and 26.0% growth year-on-year in data and fintech revenue, respectively, in Q1 2020.

**Airtel Africa: data and mobile money stand out, voice still growing**




Source: GSMA Intelligence, company reports

- 4G adoption is accelerating as consumers switch to faster data speeds and devices become more affordable.
- Despite the growing uptake of data and IP-based services, voice revenue continues to grow in some markets, rising to 8% year-on-year in Q1 2020 for Airtel Africa.

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# Regional trends: 4G adoption reaches double digits on average

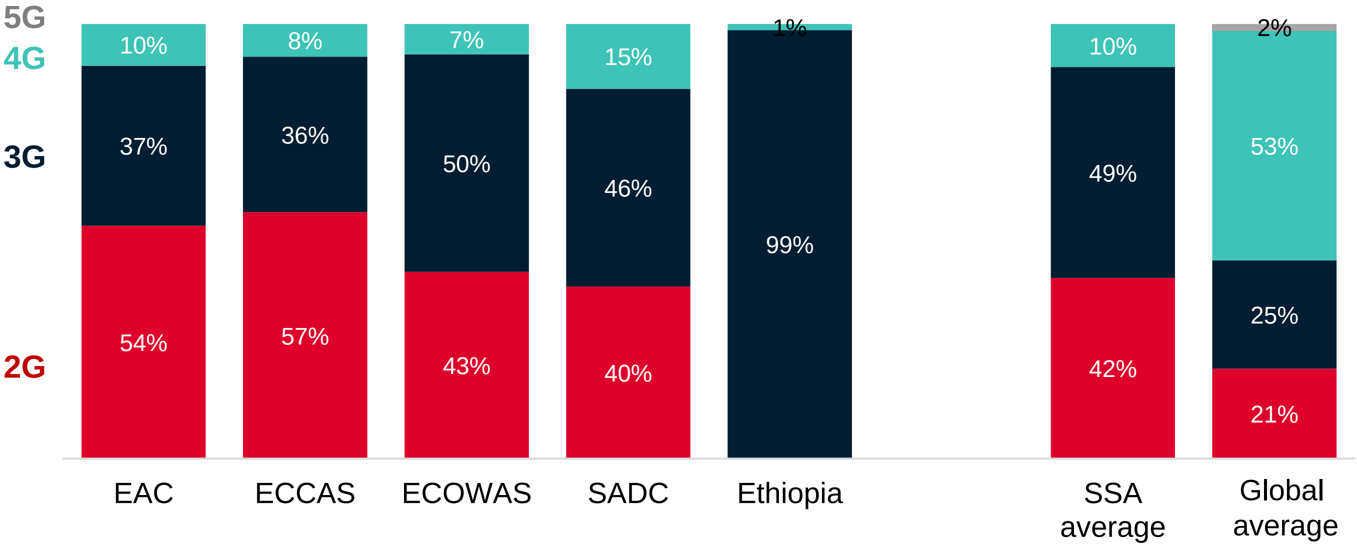
Sub-Saharan Africa: total connections

**826.1m**

Connections penetration

**77.6%**

### Technology mix: percentage of total connections, Q1 2020




| | EAC | ECCAS | ECOWAS | SADC | Ethiopia | SSA average | Global average |
|---|---|---|---|---|---|---|---|
| **Subscriber penetration** (% population) | 44% | 41% | 49% | 45% | 32% | 45% | 66% |
| **Mobile Internet users** (% total subscribers) | 22% | 23% | 29% | 27% | 19% | 26% | 49% |
| **Smartphone adoption** (% total connections) | 41% | 43% | 47% | 50% | 40% | 48% | 66% |

Source: GSMA Intelligence, company reports

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# Recent developments

## Technology

**5G:** Vodacom has launched commercial 5G service in South Africa, using 50 MHz spectrum in the 3.5 GHz band. The network supports both mobile and fixed wireless services, making it the first 5G mobile service in Africa.

In January 2020, Liquid Telecom announced that it was building a wholesale 5G network that would be available in 2020, using its share of the 3.5 GHz spectrum. The company, which owns and operates extensive fibre infrastructure, said it would allow other operators to roam on its network.

**Undersea cable:** Facebook and operators including MTN Global Connect, Orange and Vodafone are collaborating to build a 37,000km undersea cable that will interconnect 16 countries in Africa with Europe and the Middle East. The cable has a design capacity of 180 Tbps and is expected to be operational by 2024. Increasing capacity on the shores bode well for the region, but the lack of terrestrial infrastructure to move that capacity inland remains a challenge.

## Regulatory

**Uganda:** MTN Uganda has agreed to pay $100 million to renew its licence for a further 10 years. The decision follows more than a year of negotiations during which the operator relied on a series of temporary permits. MTN is the largest mobile operator in Uganda.

**Côte d'Ivoire:** The government of Côte d'Ivoire plans to implement interoperability of financial services by the end of 2020. This would enable users to transact with other users irrespective of their provider. The country's three biggest operators – MTN, Orange and Moov – all provide mobile money services.

**Niger:** In April 2020, the government awarded a 15-year licence for the operation of a 4G network to Zamani Com, the new owner of mobile operator Orange Niger. The operator's existing 2G and 3G licences were also renewed for a further 15 years. Orange will pay a total of XOF12 billion ($19.7 million) for the 4G licence, while the price of renewing its 2G and 3G concessions has been set at XOF28.4 billion. In November 2019, Orange Group completed the sale of its 95.5% stake in Orange Niger to Zamani Com.

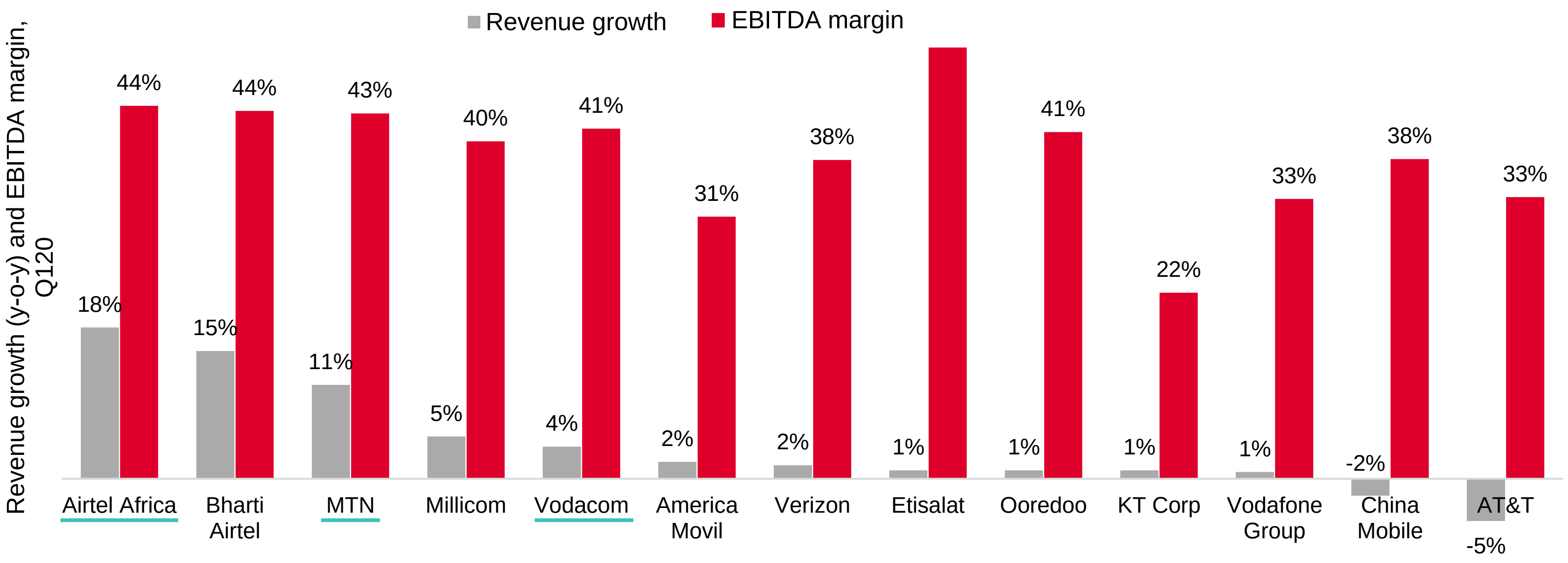
## Competition

**Africa:** Safaricom and Vodacom Group completed the acquisition of the M-Pesa mobile money brand, product development and support services from Vodafone Group through a new joint venture. M-Pesa is operational in DRC, Kenya, Tanzania, Lesotho, Ghana, Egypt and Mozambique. The venture will look to expand M-Pesa's footprint as well as develop a broader range of products to meet growing demand for fintech services across the region.

**Tanzania:** Tigo Tanzania has extended its mobile money service across East Africa. Tigo Pesa subscribers can now send or receive money to or from M-Pesa in Kenya, MTN MoMo in Uganda and Airtel Money in Rwanda, enabling cross-border remittances.

**Angola:** Africell has been awarded a licence to provide telecoms service in Angola. The country is currently served by mobile operators Unitel and Movicel, and fixed-line incumbent Angola Telecom. As of March 2020, there were 15.2 million unique mobile subscribers in Angola – a penetration rate of 46.5%.

# Global financial benchmarking: strong performance by Sub-Saharan Africa operators




Source: GSMA Intelligence, company results

- Sub-Saharan Africa operators reported some of the highest revenue growth rates globally in Q1 2020, driven by continued subscriptions growth and increasing data and mobile money adoption.
- EBITDA margins in Sub-Saharan Africa remain above 40%. In addition to strong revenue growth, operators' cost rationalisation efforts, including cell tower divestments, are having a positive impact on the bottom line.

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# Covid-19 impact: renewed focus on connectivity

- Covid-19 and the social-distancing measures introduced by governments to tackle the spread of the disease have brought to the fore the importance of connectivity to society's social and economic wellbeing.

- This is evidenced by the shift in internet traffic from business to residential locations, as stay-at-home policies have accelerated broadband usage for work, learning, entertainment and other online activities in the home.

- The sharp increases in mobile data traffic in Sub-Saharan Africa, relative to other regions, reflect low fixed broadband penetration in residential locations. Operators in countries with a higher reliance on mobile connectivity, such as Nigeria and Ghana, recorded the most growth in traffic.

| Increase in data traffic during lockdown: | | |
|---|---|---|
| MTN Nigeria: **156%** | MTN Ghana: **181%** | MTN South Africa: **85%** |

- Operators report that their networks have remained resilient throughout the lockdown, despite the surge in data traffic. This reflects the considerable investment in network infrastructure by operators across the region.

- Mobile operators invested nearly $16 billion in their networks over 2018/2019, equivalent to a fifth of total revenues over the same period. 4G networks reached around half the population in Sub-Saharan Africa as of March 2020.

- 4G adoption remains low at just 10% across the region. MTN reported data network utilisation rates of 68% and 73% in Nigeria and South Africa, respectively, as of March 2020.

- Increasing 4G adoption and utilisation by addressing barriers to uptake, such as 4G device affordability, will be a key part of operators' strategy going forward.

**Implications of renewed focus on connectivity**

- **Spectrum** – Mobile networks require sufficient spectrum in the right bands to support network resilience and expansion. In April 2020, the governments of the DRC, Ghana, South Africa and Zimbabwe granted additional spectrum to mobile operators to cope with rapid increases in data traffic. Beyond short-term measures, there is a need for positive long-term spectrum frameworks to support timely and efficient deployment of mobile broadband networks.

- **Devices** – 2G accounts for more than 40% of mobile connections in Sub-Saharan Africa. Affordability of smartphones, especially 4G-enabled devices, remains a key barrier to mobile broadband adoption. Safaricom's launch of a 4G smartphone package – in partnership with Google and aimed at customers currently on 2G – is an example of emerging financing models to accelerate the transition to 4G.

- **Coverage expansion** – OpenRAN solutions for rural deployment in Ghana and commercial approval for Google's Project Loon in Kenya and Mozambique point to a renewed drive by governments to close the coverage gap. In Nigeria, several state governments plan to reduce right-of-way fees for laying fibre-optic cables by up to 95%. Airtel reported a six-fold increase in data usage in rural areas in FY19/20, highlighting a growing opportunity for operators in those regions.

- **Fixed wireless access (FWA)** – FWA will be crucial in providing household broadband connectivity, given the challenge of fibre deployment in most countries. In South Africa, Telkom's 4G FWA subscriber base has doubled over the last two years. With 5G on the horizon, FWA will be a key use case, as demonstrated by Vodacom South Africa's commercial 5G FWA offerings.

- **Content** – As more people are connected, there will be more demand for relevant digital content. Operators can benefit from this opportunity through partnerships with established content providers or by investing in their own digital content services.

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# Covid-19 impact: e-commerce renaissance on the cards?

- 2019 was a challenging year for e-commerce in Sub-Saharan Africa; Jumia and Safaricom's Masoko were among the e-commerce providers that scaled back operations. However, e-commerce services are seeing growing interest from consumers due to the social-distancing measures to limit the spread of Covid-19.
- Jumia reported a fourfold increase in items sold in the last 15 days of March 2020 compared to the same period in 2019. This indicates a notable shift to online shopping during lockdown, potentially changing entrenched traditional shopping habits and helping consumers build trust in online channels.
- In May 2020, South African on-demand grocery delivery startup Zulzi raised ZAR30 million ($1.6 million) in funding to grow its team and expand operations. Zulzi and many other e-commerce providers in the country have seen an increase in daily orders due to the social-distancing measures.
- E-commerce presents a significant opportunity for operators to generate incremental revenue from digital payment services. But this requires partnerships with those in the e-commerce ecosystem, notably digital payment providers.
- In April 2020, Safaricom partnered with Visa, connecting M-Pesa's 24 million accounts and 173,000 local merchants to Visa's global network (61 million merchants and 3 billion cards). In October 2019, Airtel Africa partnered with MasterCard, enabling Airtel Money customers to make payments to local and global online merchants.
- Beyond established global payment providers, the emerging fintech ecosystem can also play a complementary role to mobile money services, enabling new payment features. In 2019, fintech startups across Africa raised $836 million, equivalent to 41% of total venture-capital funding according to Partech.
- Fintechs could provide an opportunity for operators to introduce innovative features to existing mobile money capabilities and better serve new use cases, such as e-commerce. In April 2020, Nigerian fintech firm Flutterwave launched an online portal Flutterwave Store, underlining the prospect for fintechs to enable e-commerce.
- That said, e-commerce still faces significant headwinds in the region: poor logistics infrastructure and services continue to push up home delivery costs, while Covid-19 has exacerbated supply chain bottlenecks in some markets. Operators will need to monitor developments in these areas as they evaluate the potential of e-commerce.

**Potential impact of Covid-19 on e-commerce**

**Consumer attitudes** – With physical shops closed, some consumers are relying on online shopping to buy essentials. This could initiate a change in shopping behaviour that could last beyond the pandemic and social-distancing measures.

**E-commerce funding** – In 2019, e-commerce startups in Africa received $134 million or just 6.6% of total funding, according to Partech. This could change in 2020 and beyond, should the trend seen during the lockdown continue.

**Small retailers move online** – Small retailers in particular have been hit hard by social-distancing measures. A growing number are now exploring online channels, including social commerce, as a means to reach existing and new customers.

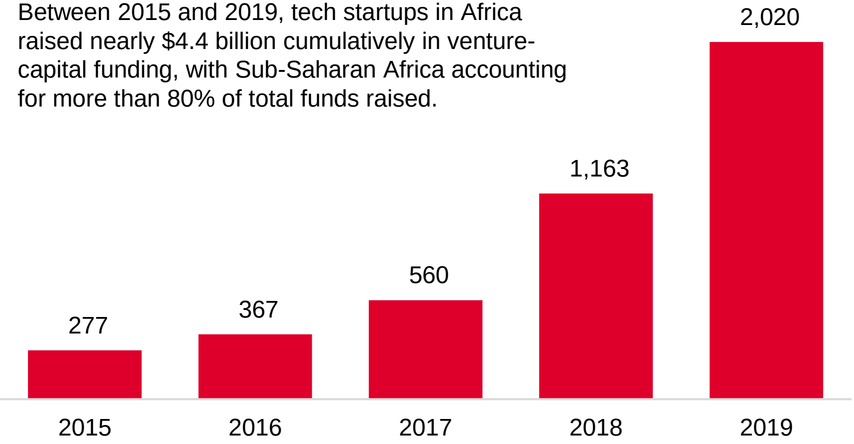
**Logistics in focus** – Lack of efficiency and cost-effective last-mile delivery services remain a key barrier to e-commerce growth in the region. As demand for e-commerce grows, there could be a renewed effort to explore new ways of delivering to consumers. Operators could play a role here by leveraging their extensive agent networks to serve as e-commerce distribution and pick-up points.

# Covid-19 impact: mixed outlook for tech startups

- Tech startups play an increasingly important role in Sub-Saharan Africa's mobile ecosystem; they help create a wide range of locally relevant digital content and services that in turn drives digital inclusion in the region.
- The region's tech startup ecosystem has expanded rapidly over the last five years, as evidenced by the volume and value of funding deals as well as significant increases in the number of tech hubs and entrepreneurs across the region.
- The impact of Covid-19 on the tech startup ecosystem is varied, both in terms of service usage and funding. Startups in the travel and hospitality sectors have been hit hard by social-distancing measures and travel restrictions. Online travel agency Wakanow reported near-zero bookings in April 2020, for example.
- Conversely, digital health, edtech and fintech startups will likely ride out the crisis, with growing interest from governments, businesses and users. In May 2020, mPharma – a Ghanaian startup that streamlines last-mile delivery of prescription drugs – raised $17 million in new funding, while Nigerian startup Helium Health raised $10 million to support its operations in West Africa and expansion into East and North Africa.
- The consensus among investors is a decline in startup funding due to increased risk aversion among international investors amid growing prospects of a deep global recession, and concerns about demand in certain sectors in a post-pandemic world.
- Startup accelerator AfricArena anticipates that a further slowdown in funding in Q2 and Q3 will cause startup funding across Africa to drop by as much as $800 million in 2020.

**Total annual VC funding in Africa ($ million)**

Between 2015 and 2019, tech startups in Africa raised nearly $4.4 billion cumulatively in venture-capital funding, with Sub-Saharan Africa accounting for more than 80% of total funds raised.




Source: Partech, GSMA Intelligence

**Potential impact of a post-Covid funding decline in the tech startup ecosystem**

- Increased reliance on local and diaspora investors to meet some of the funding shortfalls from retreating international investors.
- Rapid pivot by startups in severely affected service areas to other areas likely to see accelerated growth post pandemic.
- Consolidation among startups to build scale and create synergies in a more competitive funding landscape.

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