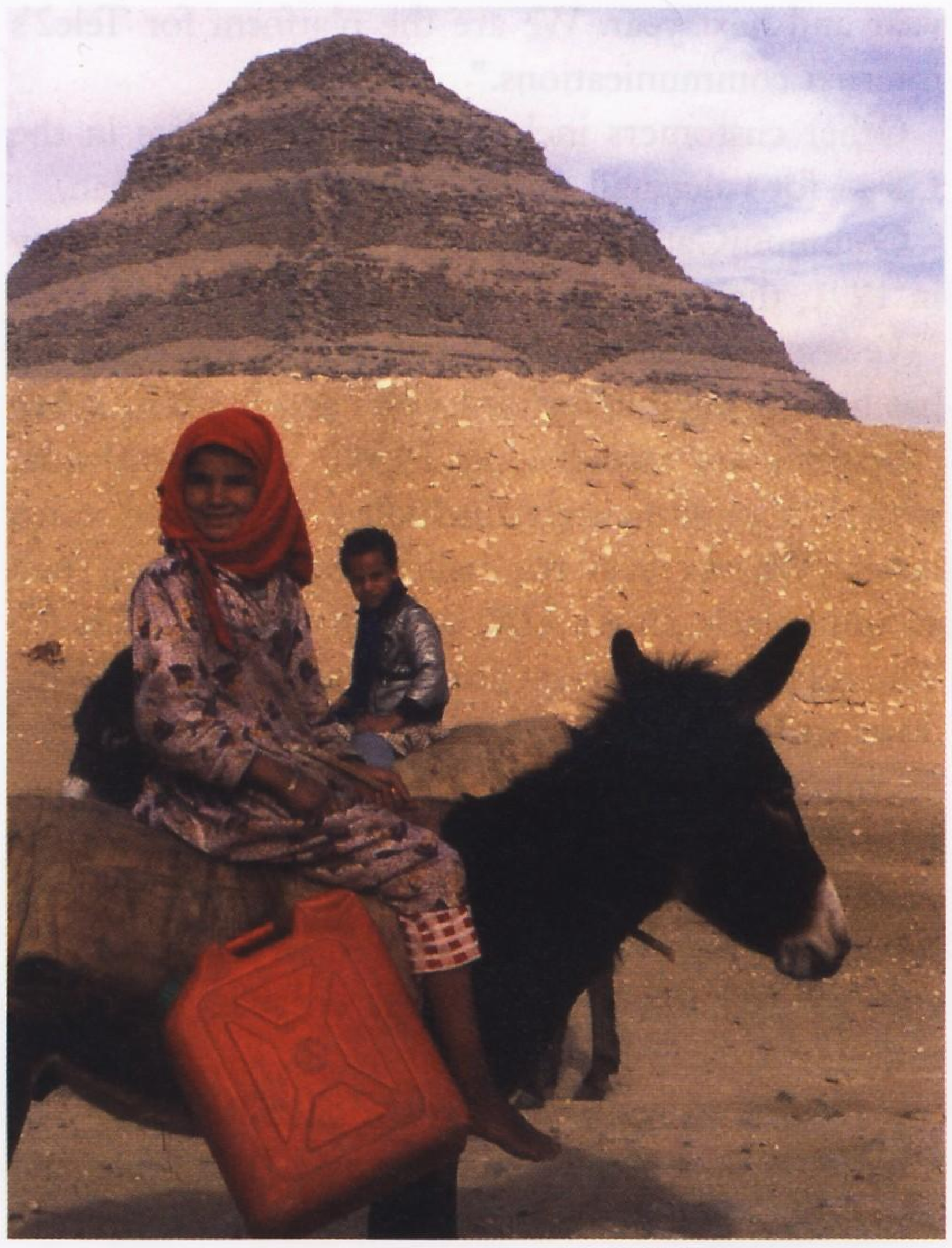
North Africa, encompassing Egypt, Libya, Algeria, Tunisia, Morocco, Sudan and Ethiopia, is widely regarded as the next frontier for mobile communications, attracting record levels of inward investment from around the world. Barry Mansfield takes a look at recent activity in the region

Blueprint for African success



Following a bond issue and a share flotation, Telecom Egypt is planning to upgrade its fixed network to an all-IP NGN

Following a tumultuous period for European operators whose debt problems had forced them to shelve their previous expansion plans in the region, all eyes are once again on the north African telecoms market.

Having to confront the reality of saturated markets at home, France Telecom has openly expressed an interest in returning to the region for new acquisitions — it already runs Egyptian mobile provider Mobinil in a joint venture with Egypt's Orascom — and it is this admission that has brought the coastal countries from Egypt to Morocco back into the spotlight, with much speculation over expected acquisition activity in 2007.

And there is good reason for the speculation. North Africa is home to some of the most developed telecom markets on the continent and features some of the world's fastest growing fixed-line markets in Sudan and Egypt. All countries in this group, except for landlocked Chad, have steadily improving fixed-line infrastructures and direct access to international submarine fibre optic cables, and all but Chad and Libya are among the few African countries offering commercial ADSL services.

When western operators retreated as a result of their debt problems around five years ago, several operators in the region saw their opportunity to build up strong businesses and have thrived since. The pan-African Celtel, for example, was acquired in 2005 by Kuwait's MTC in a $3.4 billion all-cash deal.

The incumbent Telecom Egypt announced a two billion bond issue in 2004, which was followed by a flotation on the London Stock Exchange at the end of 2005. This turned out to be the largest international equity offering out of this region to date, with the extent of interest and demand for shares in Egypt, across the Middle East, Europe and the US resulting in the offering being oversubscribed many times. According to analyst Hot Telecom, Egypt's telecom revenue now represents an estimated 4.0% of its GDP.

The opportunities are clearly there, but there is still caution as the big European players have remembered their experiences at the start of the decade: "Remember that we have to come up with big investments," declared Thierry Breton, CEO of France Telecom. "Now the situation is much better. But we are moving step by step. We are not going to do it the crazy way."

Interestingly, while European operators prepare their tentative return to the region, providers and equipment makers from even further afield have been busy cultivating a strong customer base there.

Chinese giant Huawei has long considered the Middle East and North Africa as key markets and has invested considerable resources to establish a strong network and consolidate its presence in the region. It is now one of the top three fixed network solution providers in the area and has deployed UMTS trial networks in Tunisia, Saudi Arabia, Bahrain and Algeria.

In late 2006 it was announced that Etisalat had chosen Huawei to deploy the largest HSPA network in the region, in the UAE, suggesting that the Chinese vendor would have a role to play in further deployments of 3G in north Africa.

"The UAE HSPA network has a significant strategic implication to Etisalat," says Nasser Salim, Etisalat's general manager for network planning. "It sets the ground for global expansion of our 3G development."

In north Africa, where fixed line access — despite its recent growth — is traditionally very low, mobile networks have made a notable impact. In the last few years, mobile has accounted for a significant rise in the teledensity of a number of developing countries. Not only are mobile networks relatively cheap and fast to build, mobile telecoms easily allows for pre-paid billing, which is better suited to low-income subscribers without access to credit.

North African operators are looking to European and US telecommunication companies in the drive to upgrade to next generation networks. For example, Telecom Egypt has chosen Ericsson — in cooperation with Cisco — to upgrade its fixed network to a carrier-class internet protocol next generation network.

The solution allows Telecom Egypt to migrate its PSTN to a voice over IP network with minimal risk while building a platform for new IP-based services.

With this contract, Telecom Egypt is taking the first step towards establishing a single IP core network, including interoperability between softswitches and the consolidation of carrier-class services.

Dawlat El Badawi, deputy chairman for planning at Telecom Egypt, explains: "Upgrading our network to IP will give us the ability to deliver new and innovative services to our customers and to increase our competitiveness in the market while re-using our existing infrastructure."

While European operators are demonstrating more than just a passing interest in the north African telecoms market, leading providers from the region have ideas of their own — and, quite surprisingly, it is the more saturated markets of Europe they are looking to for new revenue opportunities.

Orascom, founded in 1998, has expanded into the 2G business of Hutchison International and has a 19.3% stake in the company. It has also extended its operation into Belgium through subsidiaries that are developing WiMax technology.

In 2005 Orascom bought the Italian operator Wind — the third largest mobile provider in the country after TIM and Vodafone, with 67.8% of its shares at a reported €12.1 billion. Orascom's subscriber base expanded to 15 million users by the end of 2004 and it now has subsidiaries in Algeria, Pakistan, Tunisia and Iraq.

As Bertrand Grau, senior consultant at Analysys, explains: "When investing outside your domestic market there are two different approaches. The first is to evaluate opportunities on a case-by-case basis. The second approach, which has been adopted by Orascom, is location-specific."

Its plan it to build a dominant presence in the Mediterranean region, says Grau. "These markets are not quite as lucrative but they are certainly less risky for the operator and there is still the benefit of steady growth. You could say Orascom has more of a global strategy."

Dominic Lowndes, organiser of the Telecom Finance 2007 conference in London, says: "All the countries have good development prospects. However, it's important to remember that some of these markets are quite heavily regulated and it's not always that easy to get a licence."

He expects "interesting things" to happen in Algeria. "The government there has just announced the planned offering of a fourth mobile licence, and there has been much talk about the possible privatisation of Algeria Telecom. Broadband internet also has many possibilities for growth in north Africa. It's far from reaching the penetration levels we have seen in Europe, and the major business centres will surely want to have access to this kind of service."

Lowndes adds that he would not be surprised to see north African or Middle Eastern companies moving to acquire UK-based alternative network operators such as Kingston and Thus.

Indeed, privatisation looks set to become a trend as the World Bank has been vocal in its support for the break-up of state monopolies in the region. Mohsen Khalil, director of ICT at the World Bank, also believes that public-private partnerships are an ideal way to fund ICT deployments in Africa: "The main challenges are how to improve access for the poor, how to deal with the convergence of technologies and how to mainstream these technologies as a cross-cutting enabler to improve the efficiency of business and government," he says.

"To achieve this, we believe governments should bring an end to existing monopolies across the ICT sector and open them up to competition. This is because of the benefits of competition we've seen in the cellular markets."

He wants governments "to remove factors that keep prices artificially high like unnecessary taxation on handsets" and his third factor "is to reduce the cost of service by lowering the cost of equipment" including handsets and infrastructure equipment. "We still see in many African markets that operators are providing services at monthly revenues of around $40, but in other parts of the developing world operators are making a profit on monthly revenues of just $10," says Khalil.

He says that with increasing demand it should be possible to provide services for less than $10, and perhaps even as low as $5 a month.

"I think we are going to see a time when the cost of access per se will come to a negligible level and operators will be under pressure to provide value-added services to make their money," he says.

"Public-private partnerships are a good way of deepening penetration of access and connectivity to lower income segments of the economy. Market forces will take you so far, but how do you provide services to remote areas and bring down the high cost of internet services?" he asks.

"There are still market gaps and market failures. Governments may have to intervene to provide highly targeted subsidies to the private sector to close these gaps."

Undeterred by the disappointing show of 3G in Europe, operators are willing to part with great sums in order to secure 3G licences in the region; Vodafone Egypt is still in talks for the acquisition of a licence, for which it will have to pay a rumoured $580 million, while Etisalat paid $2.9 billion to the Egyptian government for its licence; Algeria has announced that 3G licences will be made available in 2007; and Maroc Connect, which recently rebranded itself as Wana, has launched a 3G network in Morocco.

Industry analysts, however, are sceptical. "I'd be wary about the hype around 3G adoption by operators in Africa," Grau warns. "If you look at the European experience, we've seen that operators must consider additional investments very carefully or they can walk away with their hands badly burned."

In North Africa it is only cost-effective to deploy a 3G network if you are a brand new operator building your infrastructure from scratch, he says.

"We're not really seeing established operators making a drive to upgrade to 3G outside the commercial centres because, quite honestly, there is no business case at the present time. It is possible that mobile internet has a greater role to play in future, but it will most likely be in the form of WiMax, which is a particularly powerful technology for countries with no existing telecoms infrastructure."

There is also a word of caution from Guy Deslondes, head of European telecoms at credit rating agency Standard and Poors: "With Africa the difficulty for new investors is mostly down to a lack of predictability with regards to regulation and tax rules going two or three years into the future. We are still talking about relatively risky investments here."

It is now possible to work with local banks to moderate financial exposure," says Deslondes. "Of course, investors can also use their liquidity and take greater risks if they so choose." ■