Mobile money in Africa: Orange is looking south for sources of innovation in Europe

by

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Overview

A housewife pays for her shopping at the market in Bamako, Abidjan or Dakar using her portable telephone. After a simple phone call from her son in Paris, she receives a money transfer from him, and can instantly withdraw the sum at a shop on the street corner. This series of events has become a way of life for people in Africa for years. So how is it that in France payment using Smartphones is struggling to get started? This observation prompts us to re-evaluate some popular – and slightly patronising – misconceptions about Africa. The spectacular success of Orange Money throughout the African continent is primarily due to the work of one man in the field and his teams spreading simple ideas and pragmatic methods which were particularly adapted to local, social and cultural realities. A decade after its creation, the lessons learned from this unlikely 'reverse innovation' are being used as a benchmark in Europe for progress in multiple sectors.

Report by Pascal Lefebvre • Translation by Rachel Marlin

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I come from the Savoie region of France. I currently work for Orange, but before that I taught management at the ISEOR (*Institut de socioéconomie des entreprises et des organisations*: Institute of socio-economic management for companies and organisations) in Lyon. I was also in charge of the Les Arcs ski resort, and the deputy manager of an audio-visual company before Orange Group appointed me 'Mr. Africa', a position I held for about twelve years before I initiated the creation of Orange Bank. For the past eighteen months, I have been in charge of Orange Group's investment activities for start-ups.

My talk discusses 'reverse innovation'; This refers to innovations which we have carried out in Africa, and how the experience gained from this helps us to innovate in Europe, and in France in particular.

Africa does not exist

It is important to understand that Africa, as a single entity, 'does not exist' because the African continent, which has a population of 1.22 billion people, is a patchwork of 54 countries, all with very different sizes, cultures, religions, standards of living, demographics and forms of democracy.

There are more differences between Senegal and Mozambique than between Greece and Ireland. However, important international companies like Google and Facebook tend to talk about Africa as if it is a homogeneous entity. Consequently, they often appoint a 'Mr. Africa', which makes little sense, because what happens in Dakar is light years away from what happens in Johannesburg!

Today, one in every two Africans is less than 20 years old, and uses – or will use – new technologies, including communication technologies. Rural exodus in Africa has increased dramatically and consequently the continent's urban development is rapid: there are currently 15 cities each with a population of more than 3 million inhabitants, as well as huge urban conglomerations like Cairo, Johannesburg, Kinshasa and Lagos whose individual populations exceed that of Paris.

Almost the entire African population is currently connected by telephone as a result of the Global System for Mobile Communications (GSM) which covers most of the continent apart from the desert areas. Connection to the Internet has also greatly expanded, however there are some important local variations. It is striking that the moment will come when everyone will own a basic Smartphone whose current price is significantly lower than US$50. All telecommunication activities are growing very rapidly, and, strictly speaking, the mobile phone industry currently accounts for 7 % of the entire GDP of sub-Saharan Africa, in other words €110 billion.

Finally, Africa is much larger than we see it when it is displayed on a flat, paper map as this format over-represents the polar regions and, by contrast, under-represents the equatorial regions, both for technical and geopolitical reasons left over from the colonial era. Africa has a huge surface area: it could contain the United States, China, India and the 27 countries of Europe with space left over! Distances are considerable, and Mali alone is larger than France, Italy and England put together. The idea of installing fibre optic cables everywhere, providing electricity to the entire continent and undertaking other grandiose projects is simply not realistic in view of the physical size of the African continent.

An ecosystem which is taking form

Today, despite the poverty and lack of infrastructure (among other things), change is taking place rapidly. Tech hubs (communities which foster innovation for technology start-up companies) are emerging almost everywhere, and all the capitals of countries whose leaders are quite open to the outside world can pride themselves on being the technological centre of something. This is true for Tunisia, Senegal, South Africa (which is a *de facto* tech hub), Mauritius (which is like a cyber-island), Nigeria (which has the continent's largest economy) and Egypt (even though it is orientated towards the Middle East) for example. Ecosystems are emerging everywhere involving hundreds of people, many of whom contact Orange in our Paris head office or in our local headquarters for advice. Contrary to industrial or agricultural sectors where the size of infrastructure is an obstacle to the entry of new participants, digital technologies break down these barriers because software can be developed equally well in Abidjan, Bamako or Paris.

In 2016, the venture capital industry invested approximately US$300 million in African start-ups. This sum rose to US$500 million in 2017, and US$1 billion in 2018. In absolute terms, these figures are small compared to the US$70 billion invested in Asia or the US$100 billion invested in the US the same year, but their growth is spectacular. When a start-up is created, it can disrupt an economy very quickly, both because of its activity and its visibility with regard to public authorities, and as a result it may appear to 'shine more brightly' in economic terms than it should because of its size.

About one hundred venture capital investors support the development of African technology and play a part in each of the three stages of development. In the earliest, 'seed' stage, it is often the case that the start-up does not yet exist, and that its developer (who has the innovative idea) may be trying to find a €100,000 investment. The investor's approach is based generally on a large number of processes, and therefore this stage may take a great deal of time. Orange focusses on providing technical and human support and, as an investor, is therefore rarely present at this stage.

The second stage, the 'early' stage, is often characterised by a small, established entrepreneur whose project is accompanied by a PowerPoint presentation, a business plan draft (explained in one or two Excel spreadsheets) and a product which is already commercialised with a small turnover. Many investors put themselves in this niche, but this situation is subject to change because all the important groups, such as Total, Danone and Orange, are already well established in this stage, preferring to work with well-defined projects rather than ones still in the 'seed' stage which include a degree of uncertainty and lack clarity.

The last, 'growth' or 'late' stage involves established companies which may sometimes still lose money but are capable of dynamic growth. Some of them, one day, will become unicorns (start-ups valued at more than US$1 billion). There are fewer investors in this stage, primarily because of constraints of compliance. For members of the CAC 40 (French stock market index), investing in Africa raises a number of questions about the workings of companies in this stage, their ability to operate despite the constraints, the involvement of our business in the field in Africa, and so on. All these factors, essential for success, require a great deal of negotiation – or even compromise – with the authorities in place, and this may create situations which are difficult to accept.

The size of investments in African tech is substantial. Investments are on the increase and are quite concentrated. Three countries receive the majority of investments. They are Kenya, Nigeria and South Africa, and they alone represent two-thirds of all investments on the African continent. Orange's investments are concentrated in French-speaking countries in western and northern Africa. Only two of these – Egypt and Senegal – are among the top 10 receiving foreign investment.

The sectors which are sources of innovation are also quite concentrated. The first is the Fintech (financial technologies) sector, involved notably in global payments and their by-products; secondly is the off-grid (energy) B to B sector; and, finally, e-commerce, in particular with recently emerging Chinese companies.

All the traditional industries, including those associated with rubber, pineapples and cars, have their own innovations. Over the past few years, two trends have appeared which are common denominators with regard to innovation. The first is the emergence of 5G, because our world is a world of mobile phones and in countries on the Asian or African continents, activity can only develop from mobile phones and Smartphones. Portable computers consume too much energy, are expensive to buy, and are too complicated to maintain in environments which often present a challenge for their use on a large scale. Therefore, the future is the mobile phone, whether we like it or not! The other trend is the growth of artificial intelligence (AI). Nevertheless, as far as dynamic growth, content and significant progress are concerned, Africa lags far behind the US, Asia and Europe.