

Africa Prepaid Mobile Price Index

2012: South Africa

Among 46 African countries studied, South Africa ranks poorly for prepaid mobile telephony affordability. Ranked 30th out of 46 African states, South Africa is now far behind countries where the regulator, unlike in South Africa, has enabled competition by enforcing cost-based mobile termination rates. The resulting competition has in many cases driven down prices for consumers. Not long ago, South Africa and Namibia shared the same mobile termination rates and had similar end-user prices. Today, Namibia enjoys amongst the cheapest mobile prepaid prices in Africa, as a result of the slashing of its termination rates close to cost, which pressured the incumbents towards cost-based pricing, thereby increasing demand and remaining highly profitable.

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SA ranks 30th

Mobile prices are cheaper in over 30 African countries than they are in South Africa with prices in Kenya, Mauritius, Egypt and Namibia only a fraction of the price of even the lowest priced services in South Africa.

Neighbouring countries several times cheaper

South African prepaid mobile prices are three times more expensive than in Namibia.

Lack of pass-through of price reductions to end-users

In South Africa, even the modest reductions imposed on termination rates have generally not been passed on to end-users.

Cell C and 8ta

Two relatively late market entrants, Cell C and the most recent entrant 8ta, have attempted to introduce cheaper mobile prepaid products, but these products have not forced down the general price level.

SA operators do not compete for price

The dominant mobile operators, Vodacom and MTN, have been able to withstand the pricing pressure from price cuts by later entrants, and all operator's prices have settled around the levels set by them.

Introduction

Pricing is the key indicator of the competitiveness of markets. Yet in South Africa there is very little pricing transparency to allow for any meaningful assessment by consumers or even the regulator of mobile communication prices. Operator tariffs are filed with the regulator, ICASA, without any process of assessment or objection and lowest-price tariff calculators, set up by regulators and consumer groups in countries such as the UK, do not yet exist in South Africa. With more than 100 voice products currently on offer in the market, no South African consumer can readily determine the best-priced package for her/his purposes.

Prepaid Mobile Prices across Africa

Table 1 illustrates the potential weakness just described by comparing the cost, based on the OECD 2006 low-user basket calculation, of the cheapest product available in a country with the cost of the cheapest product from the country's dominant operator. The sixth column compares these two costs and shows the difference between the cheapest lower-user product of the dominant operator and the cheapest low-user product across all operators in that country. Where the price of the dominant operator's cheapest low-user package is significantly higher than the cheapest low-user package in the country, then this should indicate an absence of pricing pressure on the dominant operator in that market.

However, several of the countries surveyed in Table 2 which are in actual fact experiencing high levels of competition have low-user packages much cheaper than the dominant operator's cheapest low-user package – thus misleadingly suggesting a lack of competition, and showing the potential weakness of the basket method. In Kenya,

for instance, Orange Kenya cut both on-net and Orange-fixed off-peak prices between May 2011 and June 2011, while the dominant operator, Safaricom, which dominates both the voice and data market with market shares of 75.9% and 92.18% respectively (CCK, 2011, September 2010 data), increased both on-net and off-net tariffs between September 2011 and October 2011.

Also in Tanzania, Rwanda and Uganda, the state-owned operators are the cheapest in the country. In Tanzania, TTCL is the cheapest operator and it managed to keep its prices at a lower level than the dominant operators (Airtel and Vodacom) throughout 2011. Also, since January 2011 Rwandatel has been the cheapest in Rwanda, and it further reduced its tariffs in August 2011.

In Uganda, Uganda Telecom has the lowest tariffs in the country and has kept the same tariff plan throughout the year. In South Africa, new entrant 8ta, which is the mobile arm of Telkom South Africa, the partially state-owned incumbent fixed operator, kept its prices at a lower level compared to its competitors until August 2011, when Cell C introduced its ZAR 0,99 on-net rates, a drop from ZAR 1,50, thus becoming the cheapest operator.

Meanwhile, in Mauritius, Namibia, Egypt, Sierra Leone, Libya, Congo Brazzaville, Senegal, Sao Tome & Principe, Madagascar, Mali, Mozambique, Chad, Cote d'Ivoire, Togo, Central African Republic, Angola, Malawi and Cape Verde, the dominant operator is the cheapest.

Table 1 shows that in Namibia, Chad, Congo Brazzaville, Mali and Senegal, the cheapest product available from dominant operators, using the OECD 2006 low-user basket calculation, decreased in 2011 by between USD 0,7 (in Senegal) ar



Table 1: January 2012 OECD Low User Basket costs in USD

Country Name	Cheapest product from Dominant Operator		Cheapest product in country		% cheaper than dominant
	Rank	US\$	Rank	US\$	
Mauritius	1	2,39	5	2,39	Dominant is cheapest
Ethiopia	2	2,61	7	2,61	na
Namibia	3	2,74	8	2,74	Dominant is cheapest
Kenya	4	2,85	1	1,90	33,4%
Egypt	5	2,91	9	2,91	Dominant is cheapest
Sudan	6	3,53	6	2,46	30,5%
Ghana	7	3,87	11	3,28	15,1%
Libya	8	3,90	14	3,90	Dominant is cheapest
Rwanda	9	4,28	3	2,16	49,4%
Guinea	10	4,62	2	1,93	58,1%
Sierra Leone	11	5,04	13	3,88	23,1%
Uganda	12	5,51	10	2,94	46,6%
Congo Brazzaville	13	5,63	17	5,63	Dominant is cheapest
Tanzania	14	5,82	12	3,75	35,7%
Algeria	15	6,21	4	2,28	63,3%
Tunisia	16	7,24	18	6,46	10,9%
Senegal	17	8,11	24	8,11	Dominant is cheapest
Botswana	18	8,16	20	7,66	6,0%
Sao Tome & Principe	19	8,21	25	8,21	Dominant is cheapest
Nigeria	20	8,40	16	5,22	37,8%
Madagascar	21	8,45	27	8,45	Dominant is cheapest
Mali	22	8,78	29	8,78	Dominant is cheapest
Burkina Faso	23	8,88	28	8,53	4,0%
Benin	24	9,10	22	7,92	13,0%
Mozambique	25	10,00	33	10,00	Dominant is cheapest
Chad	26	10,14	34	10,14	Dominant is cheapest
D.R. Congo	27	10,37	19	7,62	26,5%
Côte d'Ivoire	28	10,41	36	10,41	Dominant is cheapest
Cameroon	29	10,44	35	10,28	1,5%
South Africa	30	11,07	32	9,83	11,2%
Togo	31	11,18	38	11,18	Dominant is cheapest
Zambia	32	12,05	26	8,22	31,8%
Niger	33	12,30	31	9,77	20,6%
Central African Republic	34	12,33	39	12,33	Dominant is cheapest
Angola	35	12,50	41	12,50	Dominant is cheapest
Swaziland	36	12,87	44	12,87	na
Malawi	37	13,01	45	13,01	Dominant is cheapest
Zimbabwe	38	13,48	43	12,67	6,0%
Morocco	39	13,56	42	12,53	7,6%
Gabon	40	16,11	30	9,09	43,5%
Lesotho	41	16,51	40	12,43	24,7%
Cape Verde	42	18,15	46	18,15	Dominant is cheapest
Gambia	43	na	15	4,33	na
Mauritania	44	na	21	7,77	na
Liberia	45	na	23	8,09	na
Seychelles	46	na	37	11,04	na

Note: na = not applicable.

The most dramatic shift in prices was that of Namibia – the result of aggressive price reductions by the dominant operator MTC following systematic interconnection rate reductions towards cost-based termination rates. In June 2011, MTC launched a NAD 0,38 campaign for calls across networks with 100 free SMSs a day, subject to recharging of at least NAD 5 (ZAR 5).

Togo, which is a duopoly market, and Egypt, which has a market

structure relatively concentrated with two dominant operators (Vodafone and Mobinil) and a third small operator (Etisalat), increased prices, although the dominant operator in these two countries is also the cheapest. The cheapest product available from the dominant operators increased by USD 0,5 in Togo and by USD 0,6 in Egypt.

In Malawi, TMN was the cheapest operator in January 2011, but it increased its peak tariffs in February 2011 and July 2011. As a result, the cheapest product available in the country increased by USD 5,7 (OECD 2006 low-user basket) between January 2011 and January 2012. This is an example of a state-run fixed-line operator trying to compete with the dominant mobile operator (in this case Airtel) by challenging on price, but failing to sustain it over time.

Ethiopia's low prices reflect politically determined, below-cost pricing by the single state-owned operator. The negative outcome of such low prices, because they are not cost-based, is that they do not generate sufficient surpluses to invest in the extension of the network. As a result, while Ethiopia has amongst the lowest prices in Africa, it also has the lowest penetration rate on the continent, with the service primarily available to the urban elite.

South Africa is ranked only 32nd out of the 46 countries for which mobile pricing data was available on the web in Africa for prepaid mobile. Even its small neighbour Namibia is much cheaper. The cheapest product available in South Africa is 3.6 times more expensive than the cheapest product available in Namibia.

South African prepaid mobile prices

South Africa has five mobile operators: 8ta, Cell C, MTN, Vodacom and virtual network operator Virgin Mobile. Fourteen prepaid products were analysed by RIA over the period January 2011 to January 2012. 8ta was the cheapest operator in the country until August 2011, when Cell C introduced its ZAR 0,99 tariff, a dramatic reduction in on-net prices from ZAR 1,50, making Cell C the cheapest operator in the country.

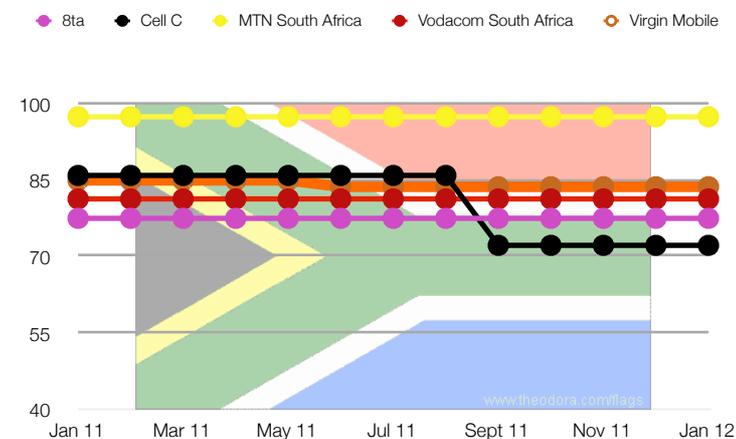


Figure 1 South Africa, Low User basket in ZAR

MTN Zone products, which are dynamically priced, were estimated at 70% of retail prices. Using the OECD low-user basket measure, Vodacom kept its prices at the same level throughout 2011, slightly above 8ta's price after 8ta adjusted its prices moderately following the termination rate reduction imposed by the regulator ICASA in March 2011. Virgin Mobile, which operates virtually on the Cell C network, primarily kept its tariffs at the same level as that of Cell C until August 2011 – when Virgin Mobile did not reduce its prices in line with Cell C's reduction. MTN is the most expensive operator, and its cheapest product remained at a constant level during advertised rates. (The actual average price that consumers pay is not stated by MTN and may change from call to call based on cell traffic.)

Average Prices

Although Cell C and 8ta sought to undercut the prices of other operators with lower pricing of their cheapest packages, the average prices remained unchanged. The average is calculated as the average of per-minute prepaid call rates for peak, off-peak and off-off-peak rates for on-net, off-net and fixed-line calls in local currency (ZAR). 8ta's prepaid voice service had the lowest average rates due to its ZAR 0,65 call rate to fixed-line phones.

Table 2 Average prices in ZAR

Operator	Product	Jan-11	Jan-12	Price Change
8ta	Prepaid Voice	1,22	1,22	0,00
Cell C	Easychat 99c		1,33	na
	Easychat allday	1,50	1,50	0,00
	Easychat per second	1,82	1,82	0,00
	Easychat standard	1,67	1,67	0,00
	R0.99		1,33	na
MTN	Call Per Second	1,76	2,04	-0,28
	Call Per Second Peak	1,86	1,99	-0,13
	Muziq	2,83	2,83	0,00
	One Rate	1,75	1,75	0,00
	Zone	1,98	1,98	0,00
Virgin Mobile	Prepay	1,66	1,49	0,17
Vodacom	4U Prepaid		1,72	na
	Big Bonus Voucher		1,51	na
	Prepaid AllDay per minute	1,40	1,40	0,00
	Prepaid AllDay per second	1,70	1,77	-0,07
	Vodacom 4 less	2,79	2,79	0,00
	Day saver		1,75	na

na = not available
blank = website did not provide any information on this product at the time

Mobile Termination Rates

There is overwhelming international evidence that regulatory imposition of cost-based termination rates encourages competition and more affordable pricing. Cost-based termination rates remove market distortions and provide efficient investment incentives. However, the benefits appear to only strongly manifest themselves once prices are nearing cost, and not at the point when the reduction still leaves the price far above the cost of an efficient operator. The net effect of fairer competition is lower cost of communication, better services, and more equitable returns on investment for all operators.

Call termination is a monopoly: while call origination can be made competitive in numerous ways, there is simply no alternative to terminating a call on the network of the operator who owns the number a caller is trying to reach. Termination rates should thus be based on the cost of an efficient operator.

ICASA, through its termination rate regulations effective March 2011, has introduced a tariff glide path towards a March 2013 termination rate of ZAR 0,40, but even this rate will be above what is globally considered to be the cost of an efficient operator. In Namibia, by comparison, mobile termination rates were cut from NAD 1,06 to NAD 0,30 (ZAR 0,30) in less than two years.

On net off-net price differentials

A reduction in mobile termination rates (MTRs) in South Africa in March 2011 by the regulator, ICASA, represented a real reduction in the total cost of off-net calls, and as such should have resulted in a

reduction of off-net call prices for consumers.

Table 5 displays the average difference between off-net and on-net rates in South Africa in the period January 2011 to January 2012.

Virgin was the only operator that passed the MTR cuts on to end-users, and only in the off-peak tariff, which dropped from ZAR 1,99 to ZAR 1,30. However, it increased off-net peak prices from ZAR 1,99 to ZAR 2,60 and in January 2012 it had the highest on-net/off-net differential of ZAR 1,61.

There was no change to the pricing of Cell C's existing services, but new products were introduced at a lower on-net price than the existing services. While Cell C, which enjoyed (via ICASA's March 2011 regulations) asymmetrical termination rates, had previously had the same rates for off-net and on-net calls, its new on-net products were ZAR 0,51 less than off-net.

In the case of MTN, in June 2011 its Call Per Second on-net peak tariffs decreased by ZAR 0,30, while its off-net peak tariffs decreased by ZAR 0,10. Its off-net off-peak tariffs, however, increased by ZAR 0,20 and its off-net off-off-peak tariffs increased by ZAR 0,11.

Vodacom increased its off-net off-peak tariff by ZAR 0,10 for its All Day Per Second product.

Table 4 Off net differential in ZAR

Operator	Product	Jan-11	Jan-12	Price Change
8ta	Prepaid Voice	0	0	0
Cell C	Easychat 99c		0,51	na
	Easychat allday	0	0	0
	Easychat per second	0	0	0
	Easychat standard	0	0	0
	R0.99		0,51	na
MTN	Call Per Second	0	0,17	-0,17
	Call Per Second Peak	0	0,00	0
	Muziq	0,50	0,50	0
	One Rate	0	0	0
	Zone	0,35	0,35	0
Virgin Mobile	Prepay	1,00	0,74	0,26
Vodacom	4U Prepaid		0,18	na
	Big Bonus Voucher		0,26	na
	Prepaid AllDay per minute	0	0	0
	Prepaid AllDay per second	0	0,10	-0,10
	Vodacom 4 less	0,29	0,29	0
	Day saver		1,75	na

Conclusion

The regulation in March 2011 by ICASA of the termination price that operators charge each other to terminate calls on each other's networks has not had the intended outcome of creating a fairer competitive environment and a reduction in prices for consumers. With the introduction of 8ta into the market in October 2010, there were some price fluctuations, with 8ta prices the cheapest in the market (for the OECD low-user basket), just below Vodacom. Cell C, which together with 8ta now enjoys asymmetrical termination rates, undercut 8ta's prices in September 2011, becoming the cheapest in the market. However, the other operators have withstood this pricing pressure and retained their prices at relatively static levels.

Mobile prepaid pricing in South Africa in the period January 2011 to January 2012 demonstrate that the dominant mobile operators, MTN and Vodacom, are sufficiently entrenched in the market so as to not be affected by the price-cutting efforts of later entrants Cell C and, most recently, 8ta. Unlike MTN and Vodacom, Cell C slashed its

prices to compete with 8ta. This, however, had little impact on the incumbents who, having reduced only their on-net prices marginally, have kept their other low-user basket prices constant over the last year at nearly a third more than Cell C and 8ta.

MTN has had the highest prices for the low-user basket, at between ZAR 95,05 and ZAR 96,04, while Vodacom has stayed constant at ZAR 81,26. By the end of 2011, the average price of the low-user basket was ZAR 81,91, with 8ta at an average of ZAR 77,45 and Cell C at ZAR 72,15.

MTN has constantly been the most expensive in the low-user basket. In the high-user category, MTN's price was ZAR 57 a month higher than its rival Vodacom and ZAR 84 more than 8ta. Cell C, meanwhile, was ZAR 31 less than 8ta. From September 2011, these price levels have remained stable.

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Authors

Prepared by Enrico Calandro, Alison Gillwald and Christoph Stork.

Enquiries: Phone:021-4476332

e-mail: agillwald@researchICTafrica.net

cstork@researchICTafrica.net

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Methodology: OECD 2006 Baskets

To overcome comparative pricing complexities at least partially, the Organisation for Economic Co-operation and Development (OECD) has developed a "price benchmarking baskets" methodology. This OECD basket methodology was used to generate the price comparisons in this paper. The mobile usage baskets defined by the OECD in 2006 are displayed in Table 5. Basket methodologies have strengths and weaknesses. Strengths include the ability to compare the products of a single operator, to compare the cheapest products across multiple operators, and to compare the cheapest products available across several countries. Basket methodologies thus allow benchmarking of countries, operators and products.

There are, however, two main potential weaknesses in the OECD methodology. The usage baskets are calculated based on usage of dominant operators, i.e., the usage baskets of each country's two largest operators, provided these two operators have between them at least 50% market share. This can be problematic because price reductions following regulatory interventions tend to come from smaller operators attempting to gain market share. However, in support of this aspect of the OECD methodology, it can be argued that the prices charged by dominant operators better reflect what people actually pay, and that focus on the prices of the cheapest products available in countries would be misleading in the frequent cases where the cheapest services are being used by only a small fraction of the population.

Table 5: OECD mobile basket Definition 2006: Monthly call distribution, minutes and SMS

Destination	Time	Low	Medium	High
Fixed	Peak	4,75	12,29	28,56
	Off Peak	2,48	5,90	9,04
	Off Off Peak	2,67	6,39	10,00
On-Net	Peak	11,98	31,80	80,60
	Off Peak	6,24	15,26	25,52
	Off Off Peak	6,74	16,54	28,21
Off-net	Peak	5,24	15,19	44,60
	Off Peak	2,73	7,29	14,12
	Off Off Peak	2,95	7,90	15,61
SMS On-Net		21,45	32,50	35,75
SMS OFF-Net		11,55	17,50	19,25

Another potential weakness of the OECD basket methodology is that it does not take into account the numbers of people on various packages and the actual minutes of use for each package. In reality, there is never a truly average user, and consumption patterns of actual individuals thus tend to be poorly reflected using the OECD basket methodology. In addition, the same basket is applied to all operators, in spite of the fact that subscribers to smaller operators are likely to have a different off-net/on-net ratio than subscribers to larger operators.