

# Despite reduction in mobile data tariffs, data still expensive in South Africa

- ❖ **This policy brief presents the data tariffs which have been reduced by MTN and Vodacom in South Africa from R149 per one GB to R99 per GB with effect from 1 April 2020.**
- ❖ **The two companies reduced data prices in response to the Competition Commission's threat of prosecution and not, as the impression may have been created, as a response to the COVID-19 pandemic.**
- ❖ **Due to lack of regulation and an inherently imperfect market, even after the reduction, prices remain anti-poor.**
- ❖ **The price reduction also does not provide any relief to the nearly half of South Africans that remain offline. Any strategy to reduce prices has to be accompanied by one to bring the unconnected online.**

## Introduction

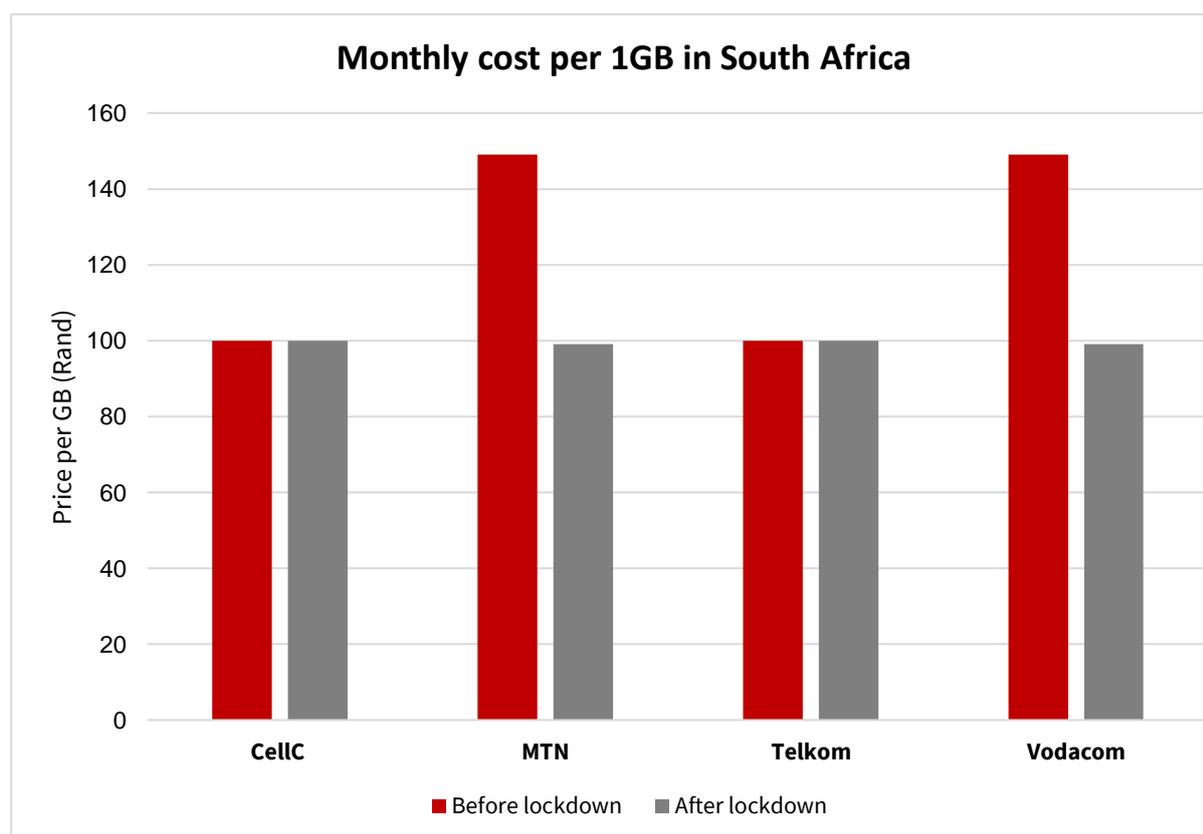
Despite recent mandatory data price reductions by the dominant operators, data pricing in South Africa remains high. According to [The State of ICT in South Africa](#) report, most South Africans cannot afford to go online due to data costs, lack of internet-enabled devices and digital literacy, all of which are associated with poverty, are the main barriers to getting online. Research ICT Africa's [Retail African Mobile Pricing \(RAMP\)](#) Index, shows that South Africa performs poorly amongst other African countries, ranking 33<sup>rd</sup> out of 46 countries in terms of data per gigabyte (GB) costs, as at 2020Q1. Since we do not expect altruism by mobile network operators, it is therefore important to understand that the reduction in mobile tariffs was not in response to the COVID-19 pandemic, but a compliance to the [Competition Commission Data Services Market Inquiry](#).

Following a [decision](#) by the Competition Commission in December, that pricing in South Africa was unacceptably high, MTN and Vodacom were instructed to reduce their prices by 30- 50%. After discussions with the Commission, Vodacom reduced its prices by 34% to R99 per one GB, the lowest mobile virtual network operator (MVNO) price in the market on 1 April 2020 after Telkom and Cell C at R100 per one GB. MTN soon followed suit. This coincided with the start of the lockdown, which was implemented on 27 March 2020 and certainly assisted users to manage the increased home usage that the lockdown precipitated. In many cases operators continue to charge subscribers their contracted fees, but they received additional bandwidth.

Due to lack of regulation and an inherently imperfect market, even after the reduction, prices remain anti-poor.

This, together with the requirement by the Competition Commission that operators remove the iniquitous ‘poverty premium’ on low volume bundles and the disaster management requirement on operators to zero rate public and educational services, has undoubtedly assisted price sensitive users.

But this does not provide any relief to the nearly half of South Africans that remain offline. The main barrier to internet access in South Africa is the price of a smart device. Any strategy to reduce prices has to be accompanied by one to bring the unconnected online - with universal access policies over the past 25 years having largely failed. Figure 1 below shows the cost per GB for all four operators in South Africa before and after lockdown.

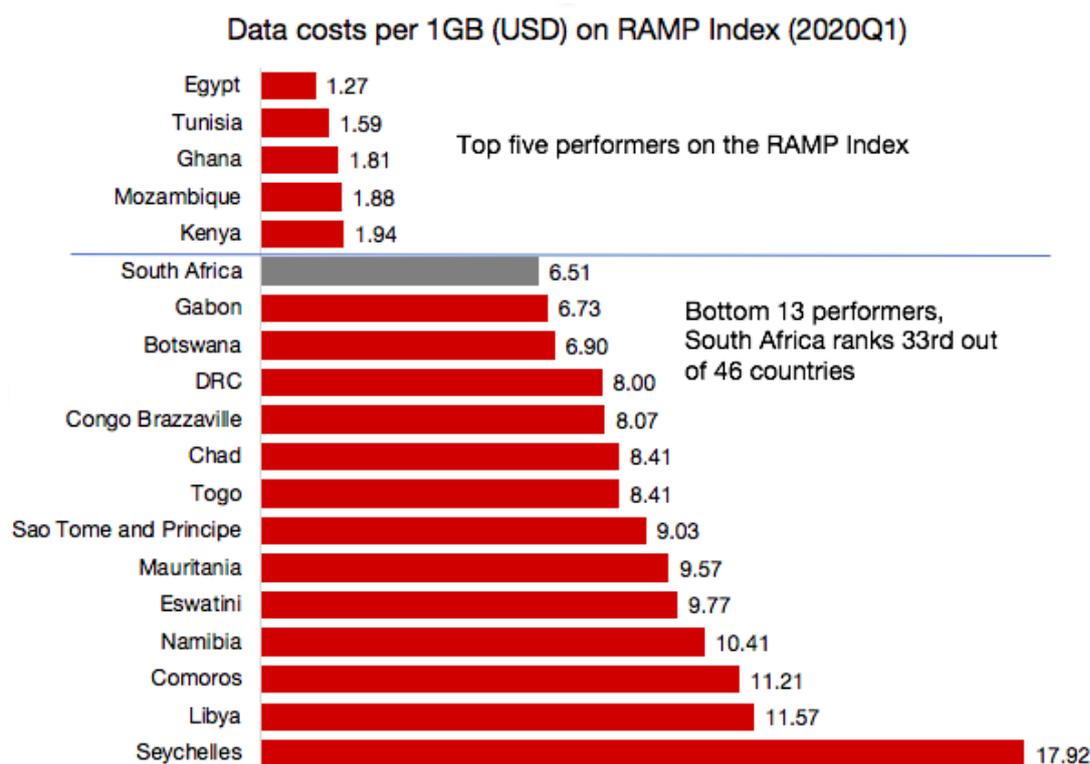


**Figure 1: Prices per 1 GB in South Africa**

Source: Research ICT Africa RAMP Index 2020Q1-Q2

## Price reduction?

Why does this data pricing relief not improve South Africa’s ranking on the RAMP Index? The ranking of countries by price considers only the operators that offer the least expensive monthly package - in this case, previously Cell C and Telkom at R100 per GB. We do not consider Rain in our analysis because it does not cover all the parts of South Africa and is mainly available in metro areas. Given that MTN and Vodacom now offer the cheapest 1GB at R99, this is the price, which we now consider comparing with lowest prices in other countries. Across Africa, the currencies are converted to USD for standard comparison’s sake and recent fluctuations in currencies due to COVID-19 may claim some differences in ranking, but not necessarily that the data has become cheaper. It turns out that South Africa still remains a poor performer in price rankings (see Figure 2 below). South Africa has not moved from its previous position of 33<sup>rd</sup> out of 46 countries, where data is available.



**Figure 2: Prices per 1 GB for top and bottom performers**

Source: Research ICT Africa RAMP Index 2020Q1-Q2

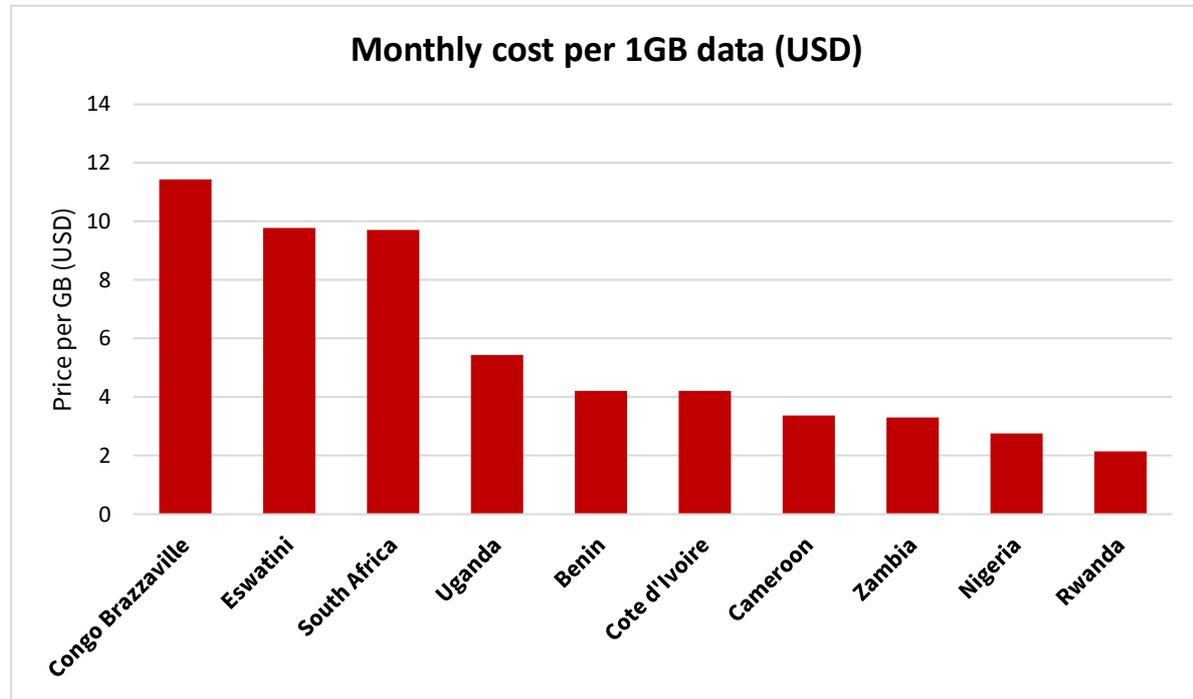
## MTN and Vodacom prices across Africa

Figures 3 and 4 below show that South Africa has prices that are higher than those for other countries where MTN has operations. South Africa ranks eighth out of nine countries in terms of cheapest data. Vodacom South Africa has the most expensive data, while Lesotho has the lowest price. The justification for these price disparities is that there is a difference in the conditions under which they operate in different jurisdictions. The price paid for the license, spectrum fees, corporate taxation, the physical terrain, local input costs, complementary infrastructure (e.g. power and roads) that may require construction to facilitate rollout, currency volatility and duties on imports, together with license requirements, such as universal services obligations, all affect the cost of the product. Only proper costing studies can determine the differential impact of these costs.

In terms of policy outcomes what can be assessed is how the prices in countries correlate to the achievement of national policy objective. Thus, South Africa has, by far, the highest internet penetration rate of 53% in Sub-Saharan Africa and certainly of the countries in the [2018 After Access Survey](#). Earlier [quality of service studies](#) also showed that MTN and particularly Vodacom have the highest broadband quality levels.

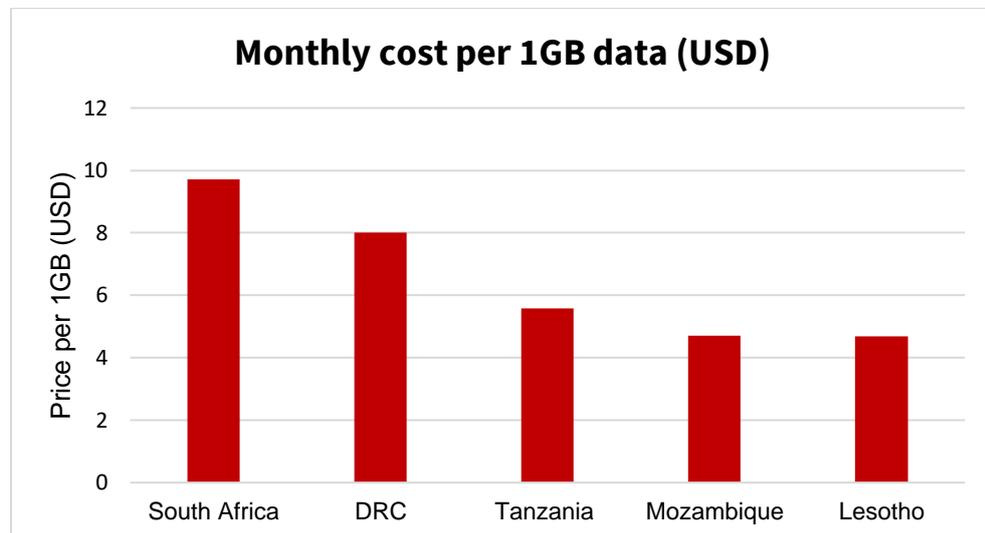
These changes remain the same during the lockdown, and they will be available upon Q2 data collection, a process that is still ongoing at the time of writing. It is also important to note that due to ineffectual regulation and the Independent Communications Authority of South Africa's (ICASA's) failure to complete a market review, for more than a decade, to constrain MTN and Vodacom's dominance, they have managed to charge higher prices for

so long. Since these companies are for profit making, it is not up to them to regulate themselves. Meanwhile they have also invested billions back into network extension, highlighting the need for wholesale regulation to open up their networks.



**Figure 3: MTN prices per 1GB in selected countries**

Source: Research ICT Africa RAMP Index 2020Q1



**Figure 4: Vodacom prices per GB in selected countries**

Source: Research ICT Africa RAMP Index 2020Q1

Other interventions implemented by the mobile network operators are generally recommendations made by the Competition Commission based on the fact that there is restricted competition in South Africa’s concentrated market. It is no doubt in response to the Competition Commission’s threat of prosecution that the two companies reduced data

prices. However, due to lack of regulation, as indicated earlier and an inherently imperfect market, even after reduction, the prices remain anti-poor. It is also important to verify if operators managed to improve transparency to every subscriber on a monthly basis since the beginning of lockdown for consumers to understand the “effective price for all data consumed” as recommended by the Competition Commission.

In line with recommendations by the Competition Commission and ultimately due to the outbreak of the COVID-19 and lockdown measures to combat it, MTN and Vodacom have implemented a zero-rating approach to content from learning institutions and organizations that provide public services. Zero-rating will be able to help consumers and non-income earners, such as students, to access material online. Some of the recommendations were for the operators to provide relief packages for low-income earners as well as provide a platform for better mobile pricing competition. However, the universal data access proposal from the Competition Commission creates a free rider problem for all those who can afford to get it, this will push up prices and requires a complimentary strategy to bring online those who are unconnected. MTN has provided data on a lifeline package of daily free data to ensure that internet users remain connected continually. Telkom, regardless of charging the lowest data prices, was also asked to reduce costs by the Competition Commission.

The recommendations made by the Competition Commission last year provide a sound basis for analysing the trend in pricing. Measures to improve connectivity during the lockdown period such as emergency spectrum allocation are also welcomed. It is essential to understand that the recommendations were made before the COVID-19 pandemic, and therefore, prices could go down specifically in response to COVID-19. However, from a policy and regulatory outcomes in business and market economy perspective, we should expect effective regulation and not institutional failure, as shown by the ICASA, until the Competition Commission had to chip in.

## Conclusion

This policy brief presents the data tariffs which have been reduced by MTN and Vodacom in South Africa from R149 per one GB to R99 with effect from 1 April 2020. This was directly in response to the call by the Competition Commission in December 2020, after a long-time failure by ICASA to regulate the “duopoly” created by MTN and Vodacom. By converting these prices into a single USD for comparison according to the RAMP Index, South Africa still performs poorly in terms of providing cheap data, with Egypt offering the cheapest package at USD 1.27 per GB and the most expensive being in Seychelles at a price almost three times that of South Africa in USD terms.

In territories where MTN and Vodacom have operations, South Africa still ranks among the most expensive with respect to data charges. Broadband quality as well as spectrum fees, corporate taxation and local input costs, among other reasons, explain why this is the case.

It is therefore crucial to note that despite the need to maintain connectivity of consumers during the COVID-19 lockdown period, ICASA still needs to improve regulation to bring South Africa’s prices in line with that of other African countries. Campaigns for data prices to be reduced such as #DataMustFall should take into account applicability and regulatory strategies in place to bring approximately half of the population online, which is currently not connected.

Any strategy to reduce prices has to be accompanied by one to bring the unconnected online.

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**Author**

Tapiwa Chinembiri

Enquiries

[info@researchictafrica.net](mailto:info@researchictafrica.net)

409 The Studios, Old Castle Brewery, Beach Road, Woodstock, Cape Town

T: +27 214476332

W: [www.researchictafrica.net](http://www.researchictafrica.net)