A4AI Submission to the Competition Commission of South Africa - CALL FOR SUBMISSIONS 20 September 2017

1. Introduction

The Alliance for Affordable Internet (A4AI- a4ai.org) is the world's broadest technology sector coalition working to drive down the cost of internet access in less developed countries. Comprising over 80 member organisations from across the private, public and not-for-profit sectors, A4AI works through a blend of international advocacy, evidence-based research and direct engagements with selected countries to support policy and regulatory reforms proven to help reduce industry costs and improve broadband affordability for all. In this submission we shall be providing solutions to the guideline questions in the TOR: *9.1, 9.3, 13.1,13.2, 14.1 and 14.2* with additional contributions based on our experience and expertise.

We wish to thank the Competition Commission for taking a transparent stakeholder approach to discuss this issue further and hope the full submission below will help achieve this aim.

This submission is a continuation to our September 29, 2016 submission on the #Datamustfall campaign, where we showed that **tens of millions of South Africans do not find the internet affordable.** At first glance, based on research by A4AI, South Africa seems to come close to meeting the "1 for 2" broadband affordability target (i.e., the price of a mobile prepaid broadband plan should be 2% or less of average monthly income). The most recent available data indicate this price was 2.35% of average monthly income in 2016 — an improvement over the 2.48% in 2015.[1] While this figure comes close to the "1 for 2" affordability target, **the reality in South Africa is one of high income inequality.** Using income distribution data from the World Bank (from 2011), we calculated that **the poorest 20% of South Africans would have to spend 19% of their monthly income for just 1GB of data, while the top 20% of income earners spend less than 1% of their monthly incomes**. This means that tens of millions in the country remain unable to afford access to the life-changing potential of the internet, even if the richest 20% enjoy very affordable access.

2. Background *(Q9.1)*

South Africa is one of the largest economies and best connected societies in Africa and while approximately 54% of South Africans report using the internet (ITU, 2016) only 35% have a mobile broadband subscription (GSMA, 2016). Thus, we ask if internet prices in the country truly affordable to all citizens? Research ICT Africa's RAMP pricing data shows that a 1GB data bundle is cheaper in 15 African countries than it is in South Africa. Similarly, our research shows that **South Africa is lagging behind many of its peers, both on price and policy.**

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[1] A4AI calculations, 2017

Using the methodology established by the International Telecommunications Union for determining the most affordable broadband plans, we identified the mobile prepaid broadband (1GB) plan with the lowest price in 2016 at US$10.75. When compared to other countries in Africa, this price was more expensive than the price found in 19 other countries. When we compare affordability (i.e., price/income), we find that 12 other African countries have more affordable mobile broadband. This lack of affordability is compounded by the that fact that South Africa's income inequality is more severe than many other countries in the region.

3. The state of data prices in South Africa / Comparing data prices in SA *(Q9.3)*

A4AI's own Affordability Drivers Index (which measures policies in place to drive affordability), ranked South Africa 22nd out of 58 countries globally, and 7th on the African continent. The Index assesses countries across two main areas: (1) **infrastructure** (i.e., the extent to which ICT infrastructure has been deployed as well as the policy framework in place to encourage future infrastructure expansion); and (2) **access** (i.e., current broadband adoption rates as well as the policy framework in place to enable equitable access). In the case of South Africa, the country ranks 9th out of 27 African countries in terms of access; it ranks 6th out of 27 in terms of infrastructure. This suggests that overall improvements are needed in both areas, with a particular need in terms of infrastructure.

This means there is scope to use policy more effectively to drive prices down. Income disparity makes a serious case for looking at the affordability drivers even more closely. Other causes for higher data services costs include the cost of deployment of ICT infrastructure (e.g., multiple trenching costs, permitting bureaucracy and fees). More factors include limited infrastructure sharing, a lack of public access solutions targeting low-income consumers, a lack of innovative new technologies to bring competition to the market as highlighted in A4AI's 2017 Affordability Report.[2]

Recommendations:

1) Develop policy solutions and programmes to enable access for all (including low-income groups). From our income inequality analysis it is clear that market-driven solutions (via mobile network operators) will not be sufficient. There must also be a focus on public access solutions to complement existing connectivity options, including community networks and the allocation of spectrum for such networks, where feasible.

2) While there is currently no available gender-disaggregated data on access and affordability (pointing to an opportunity for government intervention), it is important to note that globally there is a gender gap in access and that this gap is widest in Africa. Thus, the government

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[2] http://a4ai.org/2017-affordability-report/

should be proactive in collecting appropriate data and ensuring that its ICT policy interventions are gender-responsive.

(3) Remove bottlenecks for the rollout of broadband infrastructure, which includes interaction with multiple permitting agencies to obtain right of way or siting of base stations or public access centres. Having a one stop shop or single window for all applications will reduce associated costs. One such example is the establishment of a single window for infrastructure permits by Portuguese regulator ANACOM and its management of a Centralised Information System.

4. Telecommunications regulation and spectrum allocation *(Q 13.1, 13.2)*

The interlinkage between spectrum allocation and broadband access has been documented extensively. Spectrum is an essential resource underpinning the operations of the mobile industry but in order to bridge the digital divide, allocations must be carefully thought through. Coverage to rural areas and unserved communities should be a priority, with a mix of options beyond the traditional licensed spectrum to include unlicensed spectrum (e.g., WiFi, TV white spaces, etc.) and other emerging technologies. The high cost of many spectrum auctions or sales can increase the cost of operations for mobile network operators and, in some cases, may prohibit the rollout of services, as operators prioritise areas where costs can be recovered quickly. Rural areas, peri-urban and poor urban communities/shanty towns are therefore negatively impacted. Our research in Nigeria and Ghana showed the high cost of 4G auctions could only be afforded by the one operator (MTN), resulting in a lack of competition in the market. In 2011, Ghana's auction of spectrum in the 2.6 Ghz band to three Broadband Wireless Access (BWA) companies failed to expand data services as needed, as the initial costs associated with the purchase of spectrum and the rollout of services became prohibitive when passed on to consumers in a crowded and price-sensitive market.[3] Further research by the GSMA and NERA shows a correlation between countries with lower spectrum costs and lower consumer prices for data.[4]

Forward-looking policy and spectrum regulations therefore have a key role to play in ensuring an even and competitive playing field for spectrum, fair and reasonable pricing, with priorities for coverage realistically set to include marginalised communities. Regulations and policies guiding allocations should:

1. Facilitate the setting of reasonable/fair market prices for spectrum, that encourage competition and are not prohibitive for operators and users.
2. Encourage innovative use of spectrum, such as unlicensed spectrum, to close coverage gaps to advance affordable access, whether by supporting community networks or partnering to develop new technologies.

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[3] Ghana, Affordability Report Highlights 2017 .www.a4ai.org
[4]GSMA (2017). Effective Spectrum Pricing: Supporting better quality and more affordable mobile services
https://www.gsma.com/spectrum/wp-content/uploads/2017/02/Effective-Spectrum-Pricing-Full-Web.pdf

3. Challenge operators to share infrastructure both within and outside the sector (e.g., share with the power, energy, and transportation sectors) with objective, transparent and fair guidelines.
4. Encourage flexibility in the use of spectrum (i.e. spectrum trading or refarming but with greater emphasis on ensuring efficient utilisation of the spectrum without compromising on the quality of service to consumers).
5. Monitor that efficiency gains made by low spectrum prices are transferred to consumers in the pricing of data, with targeted affordable options aimed at low-income groups, or marginalised communities, where possible.
6. Finally, the South African government must ensure there is a detailed plan for allocating spectrum sufficient to meet projected increases in demand, with a clear timeline for implementation.

5. Adequacy of data supply quality and coverage (*Q 14.1, 14,2)*

Data supply quality and coverage (14.1)
In addition to access to affordable internet, quality of the connection (as measured by speed) is just as important. South Africa maintains an average internet speed of 4.8mbps compared to the global average of 6.1mbps — ranked as the second highest in Africa following Kenya. Globally, South Africa still ranks quite low. Internet speed is connected to a country's economic productivity; for example, a study conducted by Ericsson in 2011 showed that doubling broadband speed can contribute significantly to economic growth, with increases of up to 0.3% GDP, valued at US$126 billion in the OECD region.[5] Broadband access and quality are therefore important economic drivers with potential for significant impact in economic transformation. There are vast disparities in the quality of service in well-built cities (e.g., Johannesburg, Capetown, Durban) vis-a-vis their neighboring townships; the quality of service further worsens as one travels to rural areas. Disparities in speed, availability of data at affordable cost, and poor connectivity affect many townships areas due to congestion and old and inadequate investments in infrastructure.

Impact of data service challenges on consumers (low income, under-developed, rural areas) (14.2)
According to a report produced by World Wide Worx and Dark Fibre Africa (DFA), income disparity remains the greatest disparity in access. South Africans earning R30,000 or more per month have an 82.4% chance of enjoying internet access — similar to their peers in the developed world. Those who earn between R14,000 and R18,000 per month have a 61.3% chance; those between R3,000 and R6,000 have a 42% chance; for those earning less than R2,500, access drops to below 30% — essentially locking lower income earners out of the digital economy. The majority of South Africa's citizens live in poverty — 30.4 million out of a

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[5] Ericsson (2011), New Study Quantifies Impact of Broadband Speed on GDP. Press Release. 27.09.2011. www.ericsson.com/news/1550083

population of 55 million citizens.[6] In addition to racial inequalities that continue to define poverty as predominantly black African, women, children, the elderly and those living in rural areas, particularly in the Eastern Cape and Limpopo, remain among the most vulnerable.

Making mobile data affordable is one key part of the affordability puzzle; another important component is making devices affordable and accessible to those looking to come online. The A4AI-Mozambique Coalition argued, in a study done on the country's existing ICT taxation regime, that reducing custom duties on handsets (as well as other devices and equipment) could increase GDP by approximately US$443 million over four years. Colombia — the top-ranking country on the 2017 Affordability Drivers Index — has a programme that recognises this reality by subsidising both data and devices for low-income populations.

7. Conclusion

Smart policies that encourage more competition and innovation in key areas, such as spectrum, infrastructure, and last-mile connectivity, can help South Africa pave its way toward affordability. These policies should be grounded in a new, more ambitious affordability target of "1 for 2"— 1GB of data for no more than 2% of income — that enables more income groups to afford to connect. Noting the recent UN declaration on the importance of internet access, and South Africa's strong commitment to human rights, we urge the Committee to consider access as a right — not a privilege — and to take urgent steps to ensure all South Africans can benefit from connectivity. We encourage the Committee to also: (1) ensure that policies are aligned with A4AI's Policy & Regulatory Good Practices; (2) prioritise public access programmes while also working to reduce prices; (3) take urgent action to promote infrastructure and resource sharing; (4) investigate innovative solutions, such as community-owned networks; and (5) ensure that gender equality is considered in all policies. This means involving women, gender advocates and experts in the planning, development, and review of ICT policy to ensure policy development that is by and for women.

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[6] Statistics South Africa (2017). Poverty Trends in South Africa: An Examination of Absolute Poverty Between 2015. http://www.statssa.gov.za/