Business Outlook

Competition. As digital finance expands into loans and insurance, data reinforces lock-in. Providers with long transaction histories can price risk better and offer improved terms. New providers, without that data, must lend less or charge more. Users are penalised not for being risky, but for switching.

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Africa digital finance success hiding a competition problem

BY DEOGRATIUS WAMALA

Africa's digital finance story is often praised as one of the continent's biggest successes, and that is because mobile money, agent banking, and digital wallets have brought tens of millions into formal finance for the first time.

In countries where banks barely reached beyond cities, digital services reshaped daily life. People could send money across long distances, pay bills, receive wages, save small amounts, borrow in emergencies, and buy basic insurance, using simple mobile phones.

But beneath this success lies a growing problem. In many African countries, digital finance expanded faster than competition. Markets look inclusive on the surface, but underneath, they are becoming concentrated. Economists understand that when competition weakens, inclusion becomes fragile. Prices stop falling, innovation slows, and people at the margins—rural households, women, informal workers, small traders—are left with fewer real choices.

The challenge today is no longer account ownership, but whether the systems people enter remain open, competitive, and responsive. Competition was central to early growth. Telecom companies and FinTechs challenged banking systems that had long served a small elite. Digital delivery removed the need for branches and ATMs. Agent networks pushed finance into places banks had never reached. Costs fell, and products improved.

Telecom-led mobile money was especially powerful. Built on USSD and SMS, it worked on basic phones. Services like M-Pesa in Kenya, MTN Mobile Money in Uganda and Ghana, and Airtel Money across East and Southern Africa scaled quickly by using existing telecom customers and agent networks. Over time, these platforms added savings, small loans, insurance, and remittances, embedding themselves in daily economic life.

"Digital finance markets tend to reward scale," economist Sha'ista Goga says. "The bigger a platform becomes, the cheaper it is to operate, the more products it can bundle, and the more attractive it becomes to new users. Over time, this pushes markets toward dominance; not because of bad behaviour, but because of how the market itself works."

Mobile money shows this clearly. A payment service becomes more valuable as more people use it. Early movers that reach scale first gain a lasting advantage, especially when systems do not interoperate or when off-network payments cost more. Kenya illustrates this best. Safaricom's dominance in mobile networks translated directly into mobile money dominance, allowing M-Pesa to control more than 80 percent of users for many years. Even after competitors entered, switching was hard.

Uganda followed a similar path. Early telecom entrants, MTN and Airtel, built mobile money services first and still dominate the market. Later entrants like Orange and K2 Telecom struggled and eventually exited.

"Most users do not compare fees or terms. They rely on trust, familiarity, and what people around them already use. In low-income settings, avoiding risk matters more than saving a few shillings," Goga notes.

Switching costs deepen this effect. A mobile money wallet becomes the centre of daily life, linking family support, wages, savings groups, rent, school fees, and utilities. Leaving one provider can mean losing an entire network. That is why price cuts alone often fail.

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"This dominance does not harm users immediately," Goga explains. "Leading platforms often keep prices low at first. The damage appears later, when firms focus on the most profitable customers."

People make transactions at mobile money booths in Kampala. In many African countries, digital finance expanded faster than competition. PHOTO/FILE

> **Issue.** Digital finance markets tend to reward scale. The bigger a platform becomes, the cheaper it is to operate, the more products it can bundle, and the more attractive it becomes to new users.
> – Sha'ista Goga, economist.

Exclusion often comes through control of infrastructure. Many providers rely on systems they do not own: USSD channels, SMS confirmations, payment switches, and agent networks. When access is delayed, restricted, or overpriced, competitors are quietly squeezed out.

Kenya's USSD case is instructive. Safaricom was found by the Competition Authority of Kenya to have charged unfair prices for USSD access, harming competitors serving non-smartphone users. After intervention, prices fell. Uganda offers an even starker example. MTN blocked a licensed fintech, VAS Garage, from using its network and deleted its customer database while promoting its own services. The High Court ruled this unlawful and anti-competitive, ordering MTN to pay damages worth Shs11.3b.

Agent exclusivity works the same way. When dominant firms lock agents into exclusive contracts, rivals cannot scale. Kenya banned agent exclusivity in 2014, improving competition. Ghana, Uganda, and Nigeria followed.

"Digital finance relies on layers; connectivity, data, agents, platforms, licenses. Control at any layer can become a bottleneck. That is why competition policy cannot focus only on prices or products. It must focus on access to the plumbing," Goga observes.

Dr Anthea Paelo, a Ugandan economist focused on financial inclusion, adds: "If you're the first into the market, you deserve to get first mover advantages. The challenge is knowing when that advantage turns into a barrier that locks others out."

From inside regulation, Dr Amira Abdel Ghaffar, a former vice chairperson of the Comesa Competition Commission frames this as responsibility. When a firm is dominant, she says, "the competition is already reduced by his very presence," meaning it must be "very careful about market conduct."

The correction

Many competition economists now agree that Africa does not need to choose between financial inclusion and competition. It needs to get the order right. In the early days of digital finance, scale is essential. Providers must invest heavily in systems, agent networks, and trust, while serving populations spread across large countries where most transactions are small.

Without scale, mobile money does not work. At this stage, regulators often need to allow firms to grow quickly. But once digital finance reaches scale, as it now has in many African countries, the regulatory priority often needs a shift from expansion to openness. If that shift does not happen, early success hardens into permanent control.

Where regulators adjusted, competition followed. Ghana and Tanzania introduced e-money licences that allowed non-bank providers to operate under central bank oversight. Nigeria created Payment Service Bank licences, enabling MTN and Airtel to scale quickly. Rwanda simplified FinTech licensing so start-ups could offer multiple services under one framework.

As Goga explains, these reforms "removed unnecessary barriers that had been holding competition back." But speed matters.

Beatriz Marquez, a competition expert at the OECD Competition Division, warns that "these markets tip." That is why authorities are moving toward proactive enforcement, acting "before markets have potentially irreversibly tipped."

This is where interoperability proved decisive. Tanzania moved early, first mandating agent non-exclusivity, then supporting wallet-to-wallet interoperability, and eventually building shared infrastructure.

Kennedy Komba, director of financial deepening and inclusion at the Bank of Tanzania, describes the shift as moving from agreements to systems. The Tanzanian Instant Payment System (TIPS), he explains, forced all players onto the same messaging standard and centralised clearing and settlement at the central bank.

Interoperability alone, though, is not enough. Pricing matters. Rwanda's experience shows why. Providers agreed on a flat fee per transfer, regardless of size. Because most transactions are small, this made low-value payments expensive in percentage terms and hurt services aimed at poorer users.

Even then, competition can stall if data remains locked inside dominant platforms. As digital finance expands into credit and insurance, transaction history becomes critical. If customers cannot share their own data, switching carries a hidden penalty.

Market studies in countries like Kenya and South Africa have helped regulators track entry and exit, concentration, switching behaviour, and affordability before dominance becomes permanent. The goal is not to punish, scale or dismantle successful systems. It is to ensure that early success does not become long-term exclusion.