



ASSESSING THE EFFICIENCY, COMPETITIVENESS, AND EFFECTIVENESS OF DIGITAL MARKETS IN MALAWI

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2 PRESENTATION OUTLINE

1. INTRODUCTION
2. METHODOLOGY
3. FINDINGS
4. RECOMMENDATIONS

INTRODUCTION

- **DIGITAL MARKETS** broadly encompass:



- Non-physical platforms** which involve the online marketing of and payment for goods and services,
- electronic** and **software** products that facilitate them.
- Collectively, these are markets based on digital technologies that enable and conduct the trade of and payment for goods and services through the use of electronic options in commerce (i.e., **e-commerce**), using the **internet** and/or platforms enabled by cellular network technologies constitute the digital economy (Oprescu & Eleodor, 2014).



4

INTRODUCTION CONT'D

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- The **DEGREE OF COMPETITION** in connectivity markets is mostly determined by direct and indirect network effects and switching costs.
 - As a consequence of **indirect network effects**, platform markets may be more **concentrated** than other industries.
 - However, this does not imply that every digital platform market is automatically highly concentrated.
 - Therefore, the **presence of indirect network effects is by no means sufficient for a monopoly** or even high levels of market concentration to emerge.

INTRODUCTION CONT'D



At the **infrastructure level**, two competition issues have received most attention, namely:

- a) (a) **price- or margin-squeeze** cases where incumbent network providers charge retail prices for internet and mobile connectivity access that make it unsustainable for competitors to operate in the market, given the incumbent's retail prices, and
- a) (b) the debate surrounding net neutrality and the risk that network operators or internet service providers would engage in **price and/or quality discrimination** with respect to different content providers or types of content (Staucap and Stuhmeier, 2015).

INTRODUCTION CONT'D

STUDY OBJECTIVES

- ❑ To establish the levels of competition in various digital markets in Malawi.
- ❑ To understand the regulatory environment for the digital markets.
- ❑ To draw recommendations to necessitate actions that would improve competition and consumer protection in the digital markets.

7

METHODOLOGY

A semi-structured questionnaire was administered to players in various digital markets.

- The questionnaires were administered ***physically***,
- and others were sent and responses received through ***email***.

FINDINGS

THE STRUCTURE OF DIGITAL MARKETS IN MALAWI

- (a) **CARRIERS OF CARRIERS (COCS)/ BANDWIDTH SERVICE PROVIDERS/UPSTREAM PROVIDERS:** operate optic fibre backbones that deliver IP transit (point to point bandwidth) to Malawi over fibre cables from coastal landing stations in South Africa, Tanzania, Angola and Mozambique.
- (b) **INTERNET SERVICE PROVIDERS (ISPS):** involved in the retailing of internet connectivity typically procured from CoCs. ISPs include **internet**; **VPN** connectivity; Unstructured supplementary service data (**USSD**) platforms for banks to help them connect to customers; **Bulk SMS**; and **voice session initiation protocol** (SIP) trunk services;
- (c) **MOBILE NETWORK OPERATORS (MNOS):** provide or support digital financial services using internet and cellular network technologies; and
- (a) **DIGITAL FINANCIAL SERVICE (DFS) PROVIDERS:** **banks** and **non-bank operators** that provide digital financial services. **MNOs** tend to offer their own such services directly or through affiliate companies.

FINDINGS

KEY DIGITAL MARKET PLAYERS IN MALAWI

| SUBSECTOR | KEY PLAYERS AND MARKET SHARES | KEY REGULATOR | OTHERS KEY PLAYERS |
|--|-------------------------------|---------------|--------------------|
| Carriers of carriers | Airtel Malawi | MACRA | |
| | ESCOM | | |
| | Globe Internet | | |
| | inq. | | |
| | OCL | | |
| | MTL | | |
| | Simbanet | | |
| Internet service providers | Afrimax | MACRA | CFTC FIA |
| | Airtel Malawi | | |
| | Computech | | |
| | Globe Internet | | |
| | inq. | | |
| | MTL | | |
| | TNM | | |
| | Simbanet | | |
| Mobile network operators | Access Communications | MACRA | |
| | Airtel Malawi | | |
| | TNM | | |
| Digital financial service providers | All banks | RBM | |
| | Airtel Money | | |
| | TNM Mpamba | | |

FINDINGS

10

REGULATORY ENVIRONMENT FOR DIGITAL MARKETS

- ❑ **The Communications Act, 2016:** regulates the provision of services in the electronic communications, posts, and information sector; and provides for the establishment of the Malawi Communications Regulatory Authority (MACRA), *inter alia*.
- ❑ **Electronic Transactions and Cyber Security, 2016.**
- ❑ **The Banking Act, 2010:** provides for the regulation of the business of banking.
- ❑ **The Reserve Bank of Malawi Act, 2018:** The RBM has an overall supervisory and regulatory authority in all matters relating to banking and non-bank financial business in the country; **licences** and **supervises** the operations of electronic funds transfers; **reviews prices** that service providers are charging customers.
- ❑ **The Financial Services Act, 2010:** provides for the supervision and regulation of financial institutions.
- ❑ **The Payment Systems Act, 2016:** provides for the operation, regulation and supervision of payment, clearing and settlement systems, payment instruments, remittance service providers, electronic money transfers, card issuers, and travellers' cheque agencies.



FINDINGS



COMPETITION IN MALAWI'S DIGITAL MARKETS

COMPETITION IN IP TRANSIT, ISP AND MNO SERVICES

- ❑ MACRA's **Converged Licensing Framework** (CLF) – provides for four different types of licences – to facilitate competition by lowering the cost of investment there is growing competition in the bandwidth, ISP and MNO spaces.
- ❑ An operator need only obtain a license for a specific digital market product, while collaborating with other investors through backward or forward linkages. Nonetheless, a single operator can obtain several of the four licenses issued by MACRA.
- ❑ However, the **licensing fees are considered by some to be on the higher side** (For example, licenses for international connectivity services and national MNOs were at US\$50,000 and US\$100,000 respectively, renewable every two years); and a deterrent to entry.
- ❑ New entrants are also required to satisfy **capital requirements** and other **minimum requirements**.
- ❑ Obtaining USSD addresses also requires MACRA approval in order to avoid clashes.
- ❑ New entrants also face **prohibitive costs to ride on towers** owned by existing operators. In some cases, tower operators are not responsive to applications to use their towers by new entrants.

FINDINGS

COMPETITION IN IP TRANSIT, ISP AND MNO SERVICES ...

12

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- ❑ The **limited competition in the MNO space** is a big challenge.
 - *2 MNOs accounting for 99% of the market share, the duopolistic nature of the market creates the **risk of collusion** which has far-reaching effects on the affected products across the country, as well as consumer welfare.*
 - *Provision of integrated products (internet, hardware, customised applications) has been a key strategy used to cope with growing competition and declining tariffs. MNOs are equally doing integration – e.g., selling phones together with data packages.*
 - ❑ **Discriminatory restrictions imposed by some local councils create barriers to entry.** Lilongwe City Council once had an arrangement that restricted the erection of poles for cables. This required some ISPs to procure this service from their competitors. The decision was **rescinded**.

FINDINGS

13

COMPETITION IN DIGITAL BANKING SERVICES



❑ There are **no formal restrictive regulatory provisions** in the digital banking space.

❑ However, banks tend to have natural competitors determined by size and capital sources.

❑ Indications of leader-follower tendencies in tariff setting may be attributed to the absence of distinct product differentiation, and/or collusion.



❑ While setting tariffs independently, **the industry displays oligopolistic tendencies** that are only checked by bank-specific differences, notably differences in their capital costs.

FINDINGS

COMPETITION IN DIGITAL BANKING SERVICES...

- ❑ Recent trends in the banking sector have seen a limitation in competition through **mergers and acquisitions** in the commercial banking space.
 - *FDH Bank acquired 80% shareholding in Malawi Savings Bank in 2015;*
 - *The National Bank of Malawi acquired Indebank in 2015*
 - *MyBucks Banking Corporation acquired 50% of New Finance Bank Malawi in 2017 and 100% shareholding in Nedbank Malawi Limited in 2019*
 - *First Merchant Bank (Now First Capital Bank) acquired 100% shareholding in Opportunity Investment Bank Malawi in 2017.*

- ❑ These acquisitions mean that there are fewer banks now than would have otherwise been the case, hence competition has been reduced.

FINDINGS

COMPETITION AND IN NON-BANK DIGITAL FINANCIAL SERVICES

❑ Competition in the non-bank digital financial services space is at least as stiff as in other digital markets.

❑ Comprises:

Big Operators:

TNM Mpamba
Airtel Mobile Commerce

Smaller Operators:

Wealthnet Finance



❑ The **licencing fees** charged by MACRA, currently in the region of **MK0.5 billion to MK2 billion** for MNOs, are payable every two years as part of the renewal process.

❑ These are debatably considered by some to be on the higher side, and a **barrier to entry** into this space.

FINDINGS

RISKS TO PRODUCERS AND CONSUMERS OF DIGITAL MARKET PRODUCTS

- ❑ **Fraud** is the biggest challenge facing digital products, and there has been a rise in cases.

This is because digital markets require sharing of enormous personal information, which puts both the information and money at risk. Enabling factors include low literacy levels and rising criminality.

- ❑ **Cyber security** risks is a great concern in the industry. The most common form of attack is **social engineering** or **identity theft** where scammers obtain PINs and their phone numbers through sim swap to effect transactions on their account.

- ❑ Some of the **MEASURES** being employed by operators to mitigate these risks include increasing **civic education** by banks and MNOs and ensuring that there are proper controls on the digital products by, among others, **investing in anti-hacking** and **other preventive solutions**.



RECOMMENDATIONS

- i. The **consumer protection law needs to be reviewed** to strengthen the CFTC's mandate to protect consumers of digital services in general, and DFS users in particular.
- ii. The **implementation of the Communications Act should be strengthened** to enhance the regulation of internet protocol (IP) transit and ISP infrastructure.
- iii. The law should either **prohibit the practice of wholesalers doubling or trading as retailers**, or require such companies to separate their wholesale and retail businesses, and to ensure that the commercial terms offered to third parties are the same as those offered to their internal retail arms.
- iv. **MACRA should be more responsive to public concerns** and consumer welfare considerations in setting tariffs, while ensuring the generation of normal profits by service providers

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- v. The process of developing outstanding **regulations** in support of the implementation of the **Electronic Transactions and Cyber Security Act, 2016**, should be given due attention.
 - vi. MACRA should begin to compile comprehensive market share data for IP transit, IPS and MNO services, allowing disaggregation at the level of products or services provided. In this regard, MACRA should obligate operators to provide the necessary data in line with the law.
 - vii. Because it has multifaceted connections, consideration should be made for the **digital market to be regulated as a unique service** that combines the financial and communication services. The law should appreciate the complex nature of the digital market, and formulate an acceptable regulatory strategy that gives confidence to stakeholders, allowing flexibility and plurality.
 - viii. **The duopolistic MNO market structure requires a much stronger regulatory framework to mitigate welfare-dampening collusion.** Consideration should be made to promote service competition by allowing **new MNOs to ride on existing towers** at strictly regulated prices in order to avoid the duplication of infrastructure investments, which is a key barrier to entry.

RECOMMENDATIONS CONT'D

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- ix. The Government should consider **legislating overhead or satellite options** as well as other options that would eliminate the need for multiple trenching by various upstream internet operators
 - x. The Government should champion the enhanced creation of an effective **cloud-based Malawi Internet Exchange** based in Lilongwe, and own the facility as a carrier-neutral manager. In addition to minimising the risk on the security of national information (particularly national security information and information that facilitates money transfers), having locally stationed servers through centralised cloud internet infrastructure would speed up digital transactions.
 - xi. The regulatory framework should ensure that banks and other providers of platforms for digital payment systems are able to **resolve failed transactions** within seconds unless fraud is suspected, and develop robust dispute settlement regimes that the public will be made aware of.

20

THANK YOU
VERY MUCH
FOR YOUR ATTENTION

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