



FinTech: An Inclusive Pathway to Economic Recovery

By Victor Murinde and Efthymios Rizopoulos

Summary

African countries share important aspirations with the global community, arising from the UN 2030 Agenda for Sustainable Development and the G20 High-Level Principles for Digital Financial Inclusion. Both highlight the need to harness the potential of financial technology (FinTech) to increase financial inclusion and reduce long-standing inequalities, such as in health and education, now exacerbated by the COVID-19 global pandemic. African countries implementing e-government platforms and policies that incentivize the use of FinTech as part of their economic recovery strategy from COVID-19 are highly likely to achieve digital financial inclusion for households and firms. The existing e-government and mobile-government concepts, enhanced by FinTech applications, have demonstrated incontrovertible advantages in quickly delivering government intervention packages to households, firms, and banks during the pandemic.

Thematic Context

In Africa, the COVID-19 pandemic has impaired traditional financial solutions to household and business needs such as microfinance for small and medium enterprises (SMEs) due to lockdown of economic activities. It has also threatened the rapid growth of indigenous cross-border pan-African banks. FinTech has the potential to meet the financing needs of households and businesses by addressing important issues such as speed, cost, transparency, access, and security in the provision of financial services. African countries that adopt FinTech for their economic recovery strategies are highly likely to achieve digital financial inclusion for households and firms.

Globally, the FinTech revolution is in full swing. In Africa, four countries are in the top 100 FinTech hubs—Ghana, Kenya, Nigeria, and South Africa—but FinTech is gradually gaining pace across the continent. There are varying levels of diffusion across countries, depending principally on consumer needs, financial and technological infrastructure, level of development, regulatory framework, and available capital for the required investment. East Africa leads other regions in mobile money, both in terms of adoption and usage, and FinTech investments inflow. Southern and Central African countries, despite the increase in the provision of financial services through digital channels, could do more. West Africa is gradually getting prepared to benefit from the digital technologies, although penetration in the area is not at the levels that would impact financial inclusion significantly. Apart from differences across countries, there are also some noticeable digital divides within countries, primarily in the form of income and gender gaps.

Innovation's Contribution

The relevance of FinTech to the COVID-19 recovery in Africa is that FinTech is distinct from previous technological innovations. This is because FinTech transforms the expeditious flow of funds between the financial services sector and the real economy, making it a potential medium for

revolution rather than evolution.¹ It contributes to the financial ecosystem by providing solutions that address the current gaps in the provision of financial services.

According to Global Findex 2017, 1.7 billion adults, mainly in developing countries, remain unbanked, 56% of them are women and 40% coming from the poorest households, while only 43% of adults save and 44% borrow funds. Furthermore, the International Finance Corporation (IFC) estimates that 40% of SMEs (approximately 65 million firms) in developing countries have an unmet financing need of \$5.2 trillion every year (equivalent to 1.4 times the current level of the global SME lending), and approximately half of formal SMEs do not have access to formal credit. FinTech has the potential to meet the needs of economic agents—households, firms, governments, banks, and regulators—more efficiently and inclusively and kick-start economic activities as a pathway to economic recovery.

In Africa, FinTech has emerged as an engine of growth, not only reforming the financial services value chain, but also promoting financial inclusion and stimulating development in key sectors such as agriculture and infrastructure. With mobile penetration increasing in the region, reaching 77% in 2019, with 45% attributed to unique mobile subscribers, and 44% of the users owning a smartphone³, mobile money and mobile wallets are driving change in the way financial services are delivered. African countries are global leaders in the innovation, adoption and usage of mobile money.

Kenya is a good example of the way FinTech, as part of the e-government and m-government concepts, can potentially help governments raise funds, through bond sales and other financial measures, and improve social welfare, protect market stability, and boost the economy. M-Akiba, the first mobile-only government bond in the world, is a novelty that allows the Kenyan government to deepen its access to capital markets. During 2020, despite the pandemic, the Kenyan government raised money via M-Akiba, while the number of bond buyers increased. Also, throughout 2020, the Central Bank of Kenya rolled out a mobile-based application, Treasury Mobile Direct, complementary to M-Akiba service, to facilitate further the investment in Treasury bills and bonds. The mobile application allows investors to place a bid, receive auction results, payment notifications, and other information upon request for their Central Depository Settlement account and the securities on offer.

Recommendations

- **Prioritize hard and soft infrastructure for a favorable FinTech ecosystem.** African governments must prioritize hard (technology) and soft (regulation) infrastructure for FinTech applications, as part of the e-government and m-government concepts, to deliver government financial interventions that reach households, firms, and banks post-COVID-19. According to GSMA, internet penetration in Africa, at 39%, is below the global average of 59% and mobile internet connectivity in Africa is also relatively low, with just 26% of the population having mobile internet access. Closing this digital gap by focusing on access to connectivity, in particular to broadband and 4G networks, and driving investment in more resilient digital infrastructure should be a priority. At the same time, policy to construct the appropriate regulatory frameworks addressing issues including consumer protection and personal data security is of vital importance, together with training to establish and maintain broadband networks, build users' skills and local content foundations.
- **Attract Big Tech.** In the wake of the COVID-19, African governments need to work with local firms to attract Big Tech firms so they can provide a variety of services across the financial services value chain. Due to their digital nature, their services can be provided at almost zero marginal cost—they are largely “non-rivalrous”. These firms are now an important feature of the FinTech ecosystem, with the provision of financial services and products, including payments, money management, credit, and insurance.

- **Migrate to RegTech.** Central banks and financial services practitioners in Africa need to quickly migrate to the use of regulation technologies (RegTech). This includes the development of new supervisory practices for novel FinTech applications not only to inspect and alleviate micro-prudential and macro-prudential risks, but also to check cyber-fraud and introduce supervisory technology (SupTech) to leverage the data that is gathered from regulated entities.

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About the Series

Policy experts and researchers from the [African Center for Economic Transformation \(ACET\)](#) and the [Development and Economic Growth Research Programme \(DEGRP\)](#), in partnership with [ODI](#), explore the critical role of innovation in Africa’s recovery from COVID-19. Essays identify areas in which innovation can contribute to effective responses and offer high-level policy recommendations.

Endnotes

1. Victor Murinde and Efthymios Rizopoulos, “[The FinTech revolution: What are the opportunities and risks?](#)” (Centre for Global Finance working papers, No.12/2020).
2. Ayse Demir, Vanesa Pesque-Cela, Yener Altunbas, and Victor Murinde, “Fintech, financial inclusion and income inequality: A quantile regression approach” (The European Journal of Finance, 2020).
3. [The Mobile Economy Sub-Saharan Africa 2020](#) (GSM Association, 2020).

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