McKinsey & Company

Fintech in Africa: The end of the beginning

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The rise and rise of African fintech

African financial services are undergoing a structural shift:

~10% of transactions in **Africa are digital**

$4-6 billion
Fintech revenues in 2020; **3-5% fintech penetration** (excl. SA) in line with global leaders

Fintech solutions up to **80%** cheaper and savings returns **3X higher**

4 challenges facing African fintechs:

- Reaching scale and profitability
- Navigating an uncertain environment
- Managing scarcity
- Building robust corporate governance foundations

Market leaders share 6 characteristics:

1. Match their value proposition to market
2. Acquire a large base of active users quickly
3. Have clear monetization strategies and roll these out effectively
4. Manage lower expected revenue-per-customer
5. Understand and solve for Africa's offline market
6. Actively engage, align, and work with regulators

Fintech revenues could **grow by 8X to** reach **$30 billion** **by 2025**

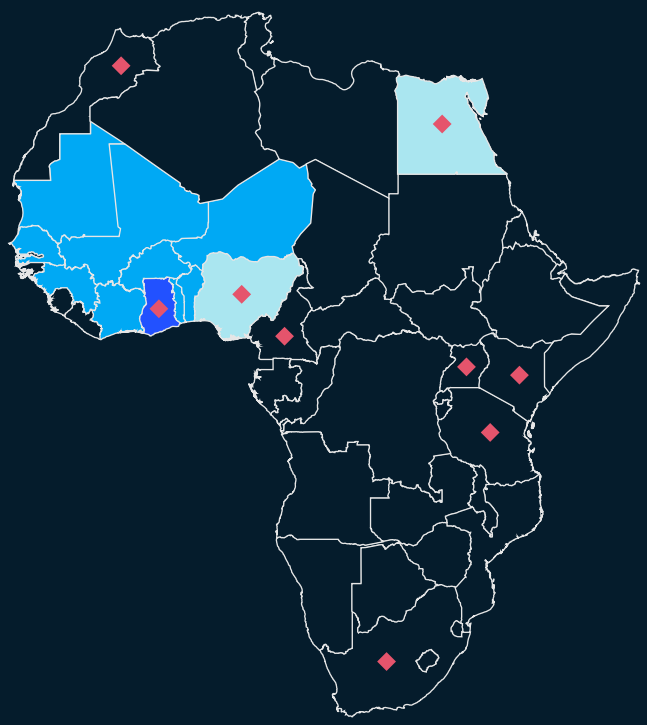
Fintech growth across Africa's 54 countries will not be uniform:

Fastest growth p.a. :

15% Ghana

13% Francophone West Africa

12% Nigeria and Egypt



◆ **11 key markets = 70% of Africa's GDP and 50% of population:**

Nigeria, Egypt, South Africa, Morocco, Ghana, Kenya, Tanzania, Uganda, Côte d'Ivoire, Cameroon and Senegal

Opportunities

Traditional banking countries	South Africa & Morocco	In smaller pockets eg B2B lending
Mobile money specialists	Kenya, Tanzania, Ghana, & Uganda	In innovative solutions rather than formal financial services
Disrupted markets	Nigeria & Egypt	For B2C businesses to scale
Crossroads markets	Côte d'Ivoire, Cameroon, & Senegal	To influence the shape of financial innovation

With the right **incentives** and **support,** the next marvel of **African unicorns** is just **waiting to emerge.**

Executive summary

Africa's financial technology (fintech) industry is coming of age. In the face of political and economic challenges and a global pandemic, fintech on the continent is booming. Between 2020 and 2021, the number of tech startups in Africa tripled to around 5,200 companies. Just under half of these are fintechs, which are making it their business to disrupt and augment traditional financial services.[1] McKinsey analysis shows that African fintechs have already made significant inroads into the market, with estimated revenues of around $4 billion to 6 billion in 2020 and average penetration levels of between 3 and 5 percent (excluding South Africa).[2] These figures are in line with global market leaders.[3]

One industry leader we spoke with commented that rather than a "fintech disruption", the continent is experiencing a "fintech eruption", and local and international investors are taking notice. African fintech is emerging as a hotbed for investment, with average deal sizes growing and the proportion of fintech funding in Africa increasing over the past year, bringing jobs and growth to African economies. And the story is only just beginning. As fintech matures, financial services on the continent are at an inflection point, and several African countries have a significant opportunity to capitalize on the momentum of recent years to unlock further potential in the sector.

Despite a slow down in funding in line with global trends, we expect significant growth and value creation to lie ahead for the fintech industry on the continent. Cash is still used in around 90 percent of transactions in Africa, which means that fintech revenues have huge potential to grow. If the sector overall can reach similar levels of penetration to those seen in Kenya, a country with one of the highest levels of fintech penetration in the world, we estimate that African fintech revenues could reach eight times their current value by 2025.

African financial services are undergoing a structural shift

McKinsey analysis estimates that Africa's financial services market could grow at about 10 percent per annum, reaching about $230 billion in revenues by 2025 ($150 billion excluding South Africa, which is the largest and most mature market on the continent). Nimble fintech players have wasted no time in carving out a share of this expanding market. As the fastest growing startup industry in Africa, the success of fintech companies is being fueled by several trends, including increasing smartphone ownership, declining internet costs, and expanded network coverage, as well as a young, fast-growing, and rapidly urbanizing population.[4] The COVID-19 pandemic has accelerated existing trends toward digitalization and created a fertile environment for new technology players, even as it caused significant hardship and disrupted lives and livelihoods across the continent.

$230 billion

Estimated African financial services revenues by 2025

Our analysis shows that fintech players are delivering significant value to their customers. Their transactional solutions can be up to 80 percent cheaper and interest on savings up to three times higher than those provided by traditional players, while the cost of remittances may be up to six times cheaper.

1 "African tech start-up funding skyrockets, with fintech a big winner," CIO, February 6, 2022.
2 As measured by the percentage of banking revenues.
3 *McKinsey Global Banking Annual Review*, McKinsey, December 1, 2021.
4 *2018 revision world urbanization prospects*, United Nations Department of Economic and Social Affairs, 2018.

Taken together with an influx of funding and increasingly supportive regulatory frameworks, these factors could signify that African fintech markets are at the beginning of a period of exponential growth if, as expected, they follow the trajectory of more mature markets such as Vietnam, Indonesia, and India.

However, growth in financial services across Africa's 54 countries will not be uniform. While the lion's share of value in the market (approximately 40 percent of revenues) is currently concentrated in South Africa, which has the most mature banking system on the continent, Ghana and francophone West Africa are expected to show the fastest growth, at 15 percent and 13 percent per annum respectively, until 2025. Nigeria and Egypt follow, each with an expected growth rate of 12 percent per annum over the same period. Overall, we anticipate that the growth opportunity in fintech is likely to be concentrated in 11 key markets: Cameroon, Côte d'Ivoire, Egypt, Ghana, Kenya, Morocco, Nigeria, Senegal, South Africa, Tanzania, and Uganda, which together account for 70 percent of Africa's GDP and half of its population.

Given the varying levels of digital maturity across these countries, the opportunities in each market will be different. Economies with more mature financial systems and digital infrastructure, such as South Africa and Nigeria, are likely to see more innovation in advanced financial services, including B2B liquidity and regulatory technology such as anti-money-laundering (AML) and know-your-customer (KYC) compliance. Markets where financial systems and infrastructure are still growing, such as Egypt, are likely to see advances in financial services such as underwriting, servicing, claims, and assessments in insurance; banking-as-service (BaaS) and embedded finance in operations and infrastructure; and buy-now-pay-later services in retail and small and medium-sized enterprise (SME) lending.

With digital becoming a way of life in Africa, the stage is set for the next phase of fintech growth. African fintechs and other stakeholders, including governments and investors, have an opportunity to consider how the sector can achieve sustainability in the long term. Despite all the activity seen on the continent, Africa has only produced a handful of unicorns—startups with a $1 billion valuation—and the profitability of many ventures is precarious. This suggests that much work remains to create the necessary conditions to unlock the sector's potential.

70%

African GDP concentrated in 11 key markets

Four challenges African fintechs may face in their next stage of growth

The African fintech space is growing exponentially, but the development of the fintech ecosystem is still in its early stages. While fintechs have made significant inroads in Africa—notably in wallets, payments, and distribution—there is still plenty of room for expansion. As the market matures, unique white spaces are identifiable in almost all areas of financial services. But fintech startups in Africa are facing four key challenges on the road to sustainability: reaching scale and profitability, navigating an uncertain regulatory environment, managing scarcity, and building robust corporate governance foundations.

1. Reaching scale and profitability

While the opportunity across the African continent for fintech growth is significant, in certain regions the total addressable market (the relevant category of viable customers) is limited by infrastructure constraints. These typically include weak mobile and internet penetration in some markets, lack of identification coverage, and limited payment rails—the backbone of all digital transfers of money. Across Africa, just three countries have real-time payments and the necessary payment rail infrastructure in place.

Fintechs aiming to scale across the continent may need to take this geographic variability into account and tailor their approach to each country based on its inherent characteristics, infrastructure, regulatory frameworks, and varying customer needs and habits.

Achieving scale is also just one part of a successful growth journey. Lower disposable income and lower customer loyalty in Africa make it harder for fintechs to build viable and profitable business models through customer monetization, even with a large customer base, and thus finding ways to lower customer acquisition cost is vital. Assuming similar investment levels per customer, it is almost four times harder to achieve profitability in Africa than it is in Latin America, and 13 times harder than it is in the European Union.[5]

2. Navigating an uncertain regulatory environment

In addition to uneven infrastructure across markets, fintechs in Africa also have to contend with a fragmented financial regulatory framework. Different countries are evolving at different paces. While regulatory bodies in some countries are starting to support the development of an enabling environment—for example, by creating fintech sandboxes, updating licensing requirements, and implementing digital KYC regulations—in general, complex and variable regulations, including license approval processes, can make it difficult for fintechs to ensure business continuity and compliance across markets.

Fintechs may find that they can't adapt fast enough in some markets to keep up with regulation, which, along with the degree of enforcement, can sometimes change quickly. In other markets, fintechs may find they are moving faster than the regulators, which creates a whole new set of challenges. Furthermore, entrepreneurs and investors can be exposed to fluctuating exchange rates and strict foreign-exchange control in some countries, which make it harder to maintain consistency.

3. Managing scarcity

Businesses don't run on infinite resources. Time, money, and people need to be managed effectively to launch and sustain growth. After record-breaking fintech investment in 2021, funding is slowing down, especially for later-stage startups, but with incumbents starting to catch up with disruptors, fintechs can't afford to slow down their progress. This suggests that African fintechs will likely have to tighten their belts to adjust to a new venture funding reality.[6] Y Combinator (YC), a US-based technology startup accelerator, has advised its community of over 7,000 founders to expect and plan for the worst, cut costs, and extend their runway

[5] Based on analysis of data from the World Bank on adjusted net national income per capita.
[6] Kevin Kelleher, "Unicorns are finding it harder to run with the pack as valuations tumble," *Fortune*, May 9 2022.

because "during economic downturns even top-tier VC funds slow down their deployment of capital. This causes less competition between funds for deals which results in lower valuations, lower round sizes, and many fewer deals completed".[7] As a result, it may be necessary to find ways to boost local participation in venture financing. Currently, about 70 percent of fintech start-up deals are financed by investors headquartered outside of Africa, most of them in North America. Additionally, most locally financed deals are for early-stage startups.

Successful fintechs will likely need an ambitious strategy to attract, develop, and retain the very best talent. According to some estimates, about 50 percent of Africa's software developers are based in just five countries (South Africa, Nigeria, Morocco, Kenya, and Egypt).[8] What's more, this concentrated pool of talent is in demand not just in Africa, but globally. The World Bank estimates that there is a significant brain drain of ICT professionals from low- and middle-income countries every year as they seek better employment opportunities and higher wages in countries where the digital sector is more developed.[9] Successful fintechs will need to navigate these twin challenges of scarcer capital and increasing competition for talent to thrive going forward.

4. Building robust corporate governance foundations

Ensuring world-class corporate governance is likely to be a critical factor in enabling fintechs to navigate this uncertain and fragmented terrain, manage scarcity, and successfully reach scale and profitability. An effective governance structure can help to build a strong, positive organizational culture that provides stability, clarity, and direction—even in difficult times.

There are three broad characteristics of a healthy corporate governance model: strong culture building, productive stakeholder engagement, and a clear talent strategy to build the organization's capabilities. While matching a fintech's value proposition to the right market may be a critical first step in building a successful startup, to maintain momentum it is necessary to define routines, norms, and processes that are shared and understood by everyone in the organization. In today's world of hybrid working, this is even more critical than before. And because fintechs can evolve rapidly, it is vital that they have a well-developed compliance foundation to actively manage regulatory change and avoid falling foul of regulators—a challenge many are starting to face.

While matching a fintech's value proposition to the right market may be a critical first step in building a successful startup, to maintain momentum it is necessary to define routines, norms, and processes that are shared and understood by everyone in the organization.

[7] Manish Singh, "YC advises founders to 'plan for the worst' amid market teardown," *TechCrunch*, May 19,2022.
[8] *e-Conomy Africa 2020 - Africa's $180 Billion Internet Economy Future,* Google and IFC, a member of the World Bank Group, 2020.
[9] *World Development Report 2021: Data for Better Lives*, World Bank, 2021.

Africa's leading fintechs share a set of winning characteristics

Fintechs operating in Africa will know that there are no quick wins on the continent. In overcoming the common obstacles in their path, our analysis shows that the most successful African tech startups share six characteristics with features that mirror those of successful global companies, and have also adapted their business models to the unique economic realities and customer needs of Africa.

First, given the variability between African markets, it is important that fintechs match their value proposition to the market they are entering. Globally, we have seen fintechs evolving to achieve scale through three major routes. Some start out as a distributor of unique non-financial consumer products and evolve into a fintech, while others start with a specific financial B2C or B2B product and evolve into a digital bank. A third option is to start with a payment infrastructure solution and evolve into a national digital platform. In Africa, infrastructure constraints have meant that the continent's oldest fintechs—for example, Fawry in Egypt, M-Pesa in Kenya, and Interswitch in Nigeria—entered markets by building infrastructure specific to a single country and are now the market leaders as a result.

Second, to achieve sustainable growth, companies that have a long history of operating on the continent have built their success on rapid customer acquisition. Africa's fast-growing population of more than 1.3 billion people offers a large potential market for fintechs, but actually acquiring customers can be challenging because of factors such as infrastructure constraints and low customer purchasing power. Leading players have had to take steps to overcome such constraints by, for example, leveraging pre-existing physical networks or by employing aggressive pricing strategies to offer cheaper fees and charges than competitors.

Third, once having acquired customers, leading fintechs have found a sustainable way to translate this into clear monetization strategies. Such strategies have one of two things in common: they either have a repeatable and healthy revenue source coming from core activities, such as card switching for Interswitch or serving merchants with point-of-sale (POS) for Yoco, or they have multiple monetization strategies, such as having a B2C arm for a B2B company or vice versa. For example, M-Pesa and MTN both have a strong lending component in addition to their wallets while Paga has leveraged its strong position in wallets to expand into merchant acquiring.

Fourth, a key marker of success in Africa has been the ability to adapt to the reality of low average revenue per user (ARPU), both in the consumer and micro, small, and medium-sized enterprises sectors. GDP per capita in Africa is the lowest of any continent and fintechs have adjusted to this by, for example, using scale to reduce the cost of serving customers, as M-Pesa has done, or changing the business model to pay-as-you-go to service businesses that can't afford advance payments, as Yoco has done.

Fifth, another African reality is that, with 90 percent of all transactions on the continent still cash based, successful fintechs have had to find ways to reach clients offline. Key strategies here have included building agent networks or using pre-existing infrastructure such as physical shops for delivery of financial services. For example, South Africa's first digital bank, TymeBank, overcame infrastructure challenges through a strategic alliance with major retailers. This has enabled the bank to place account-opening kiosks in retail stores across the country, bypassing the need for a physical branch network.[10]

Finally, with regulators increasingly active in Africa, fintechs are required to pay attention to and comply with regulation. Many successful fintechs including OPay, M-Pesa, and Fawry have, after reaching significant scale, chosen to proactively engage with regulatory stakeholders so that they are able to move forward together.

The most successful African tech startups share six characteristics with features that mirror those of successful global companies, and have also adapted their business models to the unique economic realities and customer needs of Africa.

[10] "TymeBank reaches 3m customers, 700 retail kiosks," *ITWeb*, 31 March, 2021.

Unlocking the potential of fintech in Africa

All the signs point to the culmination of African fintech's first phase of development. Fintechs have become major players in the African financial services sector (in some instances rivaling traditional banks in terms of size and value), funding has increased, and value is being generated. In fact, the number of high-valued fintechs is increasing exponentially. Additionally, consumer access is at an all-time high.

A growing fintech industry has the potential to create jobs, skills, opportunities, and wealth across the continent. An IFC study estimates that over 230 million jobs in sub-Saharan Africa will require digital skills by 2030, creating opportunities in adjacent industries too, notably training.[11] The fintech eruption in Africa is seeding an ecosystem that could bring a number of social benefits as well by, for example, improving access to healthcare and insurance at scale and increasing access to lending in key sectors such as agriculture. The newcomers are also proving instrumental in driving financial inclusion, particularly among women.

To scale up these benefits, stakeholders, including governments, investors, the traditional financial services sector, and fintechs, have a critical role to play in creating the conditions for sustainable growth and in supporting innovation.

Regulators, for instance, could consider taking steps to formalize data systems, promote predictable regulation, and keep pace with changes in the fintech landscape, while investors could look to expand local opportunities, educate African investors on potential opportunities on the continent, and focus on the tangible value added by startups rather than just on their sale valuation. As Jumanne Mtambalike, CEO of investment firm Sahara Ventures commented: "Whether we call them 'Zebracons' or 'Camels' we need to find a way to make African startups look more like African businesses and not vehicles created to be sold to the highest bidders in the private investor and stock markets."[12]

Fintechs and incumbents could focus on building talent and training for the future as well as looking to build partnerships—with each other and with regulators—to build out the ecosystems necessary to support fintech growth alongside national development priorities.

Today's leaders have built the payment rails, effectively laying the foundations upon which the industry can grow, but tightening market conditions suggest that in their next phase of development, fintechs may need to adapt their focus as they look to consolidate and formalize to achieve enduring success. But if stakeholders can work together to build on the momentum gained in recent years, the prospects for African fintech are strong; and the next marvel of African unicorns is ready to emerge.

[11] *Digital Skills in Sub-Saharan Africa Spotlight on Ghana*, International Finance Corporation 2019.
[12] Jumanne Rajabu Mtambalike, "A sweet big lie told to African startups," *Afruturist*, March 26 2022.

"In bank-led countries, building partnerships with incumbents is critical for success. Go-to-market is faster than if you had to build your own systems. You can benefit from their tech infrastructure, and it reassures the regulator."

Fintech entrepreneur, Morocco.

300 million

The number of Africans who came online for the first time between 2010 and 2019

1. Laying down the path

All signs are pointing to the maturation of Africa's fintech sector. For decades, Africa's inclusion in the world of traditional finance has been limited, with many countries suffering from a lack of access to banking, insurance, and credit services. As a result, cash is still king on the continent, with only about 10 percent of transactions made digitally.[13]

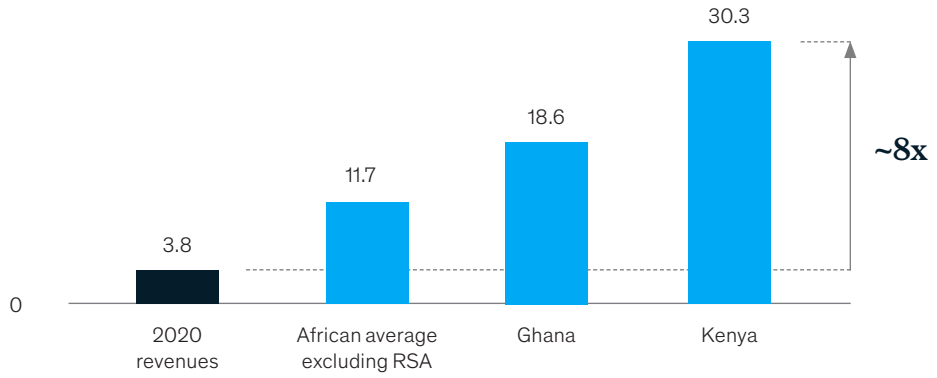
However, a clear structural shift is now underway. Unprecedented growth in the fintech sector—boosted by technology advances, lower data costs, and improved regulatory frameworks—is changing the way people bank, shop, do business, and live on the continent.

These shifts have the potential to drive both social and economic gains. Our analysis points to the likelihood that if the sector overall can reach similar levels of penetration as seen in Kenya, a country with one of the highest levels of fintech penetration in the world, fintech revenues could reach eight times their current value by 2025 (Exhibit 1).

Exhibit 1

Revenue opportunity for fintechs could grow by up to 8x if penetration levels reach those of market leaders.

Total fintech revenue potential, $bn



Estimated penetration[1], %

2020 revenues	African average excluding RSA	Ghana	Kenya
2.5	5	8	13

[1] Based on financial services revenues of $150 billion in 2020.

Source: McKinsey panorama FinTech, McKinsey Global Banking Annual Review, 2021

[13] McKinsey Global Payments Database

Fintech innovation is delivering an all-access pass to financial services

Fintech is the fastest growing startup industry in Africa, garnering 54 percent of known startup funding in 2021, according to Africa: The Big Deal—a database listing all funding deals of $100,000 and more secured by startups in Africa. Agile technology startups are innovating to meet the needs of large and diverse markets. Africa's total GDP is approximately $2.4 trillion, and its population around 1.3 billion, yet around 65 percent of Africans remain unbanked or underbanked.[14]

As a result, the adoption of payment solutions, notably digital wallets, has been growing steadily across various African markets for several years. This trend appears to have accelerated during the COVID-19 pandemic as physical distancing measures encouraged consumers to move away from cash and led merchants to prioritize acceptance of new payment tools.[15] Across the continent, platforms like Piggyvest and Cowrywise are giving millions of customers—up to 70 percent of whom are first-time savers—access to savings vehicles, often with cheaper fees and charges than traditional banks are able to offer, while innovative lending products like Fuliza, a digital mobile overdraft facility, enable access to credit relief for those left out of the formal banking sector. These new platforms have addressed a finance gap of more than $400 million to date.[16]

McKinsey analysis reveals that new technology-based solutions for everyday requirements such as buying airtime, transferring funds, and paying bills are now available to lower-income households for up to 80 percent less than these services would cost with traditional banking players. Fintechs also offer customers greater convenience and value; for example, interest rates on savings could be up to three times higher than those provided by traditional banks in some markets, while the cost of remittances may be up to six times cheaper.

Our analysis shows that fintech disruptors are actively developing innovative financial products in eight out of nine product areas.[17] Novel solutions in wallets, accounts, payments, remittances, wealth management, insurance, and lending that are tailored to meet the unique needs of customers on the African continent are rapidly gaining ground and challenging incumbents.

For instance, digital wallets that combine a no-frills bank account with a payment gateway preclude the need for a traditional transactional account, allowing customers to load virtual money they can use to make payments. Businesses like EcoCash and Mukuru not only provide their customers with remittances at reduced rates, but also facilitate near-instant transactions, overcoming customers' dependency on informal remittance systems that may lack security, require physical agents, and can take up to several weeks to fulfil.

Along with the convenience they offer, fintechs also create jobs, develop talent in specialized areas such as software development, increase access to lending in key economic sectors such as agriculture, and provide access to healthcare and health services through micro-insurance (Exhibit 2).

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[14] *Africa investment report*, Briter Bridges, 2021.

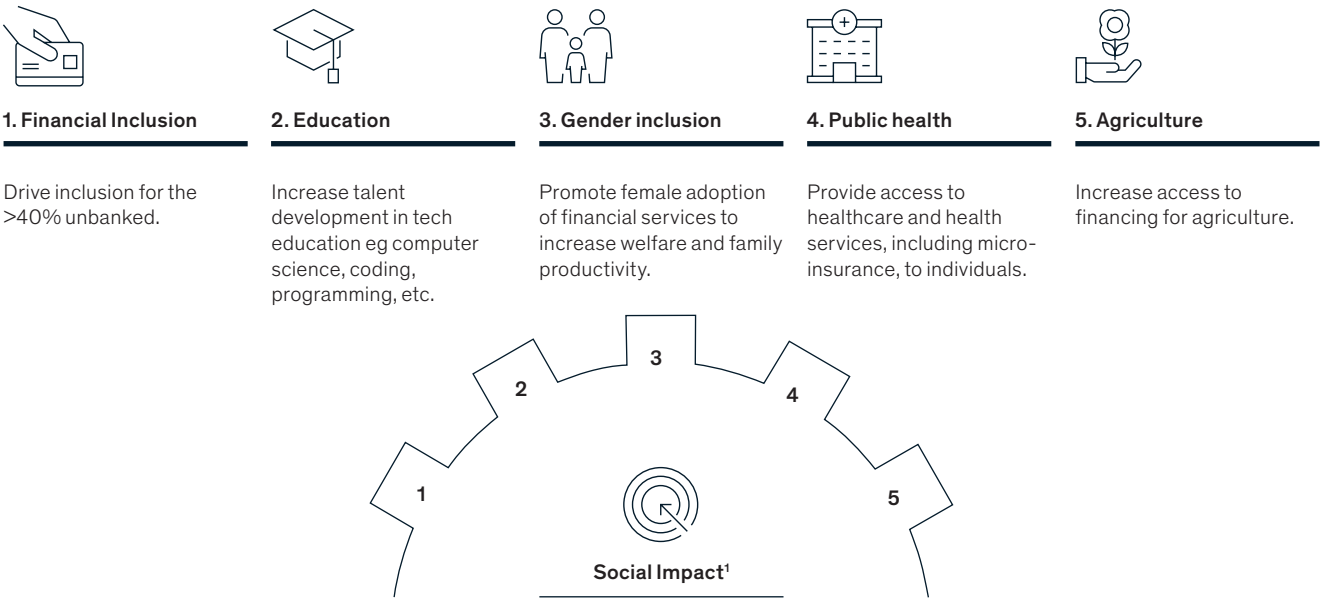
[15] "How COVID-19 has pushed companies over the technology tipping point—and transformed business forever," McKinsey Survey, October 5, 2020.

[16] *MSME Finance Gap: Assessment of the shortfalls and opportunities in financing micro, small and medium enterprises in emerging markets*, International Finance Corporation, 2017.

[17] These comprise account management, wallets, payments, remittances, retail/SME lending, insurance, wealth management, and blockchain/crypto.

Exhibit 2

Fintech growth will drive social benefits over time.



[1] Potential impacts identified here are not an exhaustive list.

Source: *Digital Finance for All: Powering Growth in Emerging Economies*, McKinsey Global Institute, 2016; EFInA

Additionally, the fintech industry is playing a vital role in enabling financial inclusion across gender lines. Research has shown that in Niger, women who received government subsidies through mobile money instead of cash have greater power in household decision-making, while in Kenya, women-led households that adopted mobile money saw an increase in household savings.[18] Direct cash transfer programs have also proven a valuable way to reach vulnerable households during times of crisis. For example, in Togo, the government's Novissi platform delivered contactless emergency support to households in the greater Lomé area during a COVID-19 lockdown, and registered more than 300,000 beneficiaries in just one week.[19]

By innovating with products that meet the needs of people across cultures, genders, technology, and geography, fintech is helping to reframe African financial services, creating new opportunities for populations as well as for investors. This could be a game changer for the continent.

Eleven countries are currently at the heart of the fintech opportunity in Africa

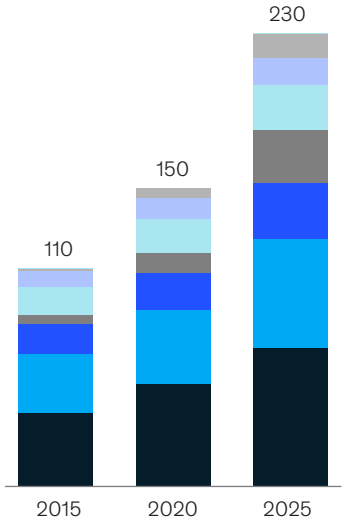
McKinsey analysis of multiple data sources shows that, as of 2020, the financial services market in Africa that is addressable by fintech companies—including both fintech and formal banking—was worth $150 billion. These revenues were primarily driven by insurance and retail and SME lending, which made up about 60 percent of total revenues. This market is likely to grow by 10 percent per year to reach approximately $230 billion by 2025. Within this, excluding blockchain and crypto, payments and wallets are likely to grow fastest, both at around 20 percent CAGR from 2020-2025 (Exhibit 3).

[18] "Women's Digital Financial Inclusion in Africa," Bill and Melinda Gates Foundation, 2019.
[19] Kartik Jayaram, Acha Leke, Amandla Ooko-Ombaka, and Ying Sunny Sun, "Finding Africa's path: Shaping bold solutions to save lives and livelihoods in the COVID-19 crisis," McKinsey, April 27, 2020.

Exhibit 3

Financial services revenues are expected to grow by 10% p.a. until 2025, with payments and wallets being the fastest growing products.

Growth rate of financial services market revenue[1] by product in Africa, $ bn



CAGR 2020-25 by service type, %

Blockchain/Crypto	50
Wallets	20
Wealth Management	8
Remittances	6
Payments	20
Account Management	10
Insurance	8
Retail/SME lending	6

1. Financial services revenue streams that can be targeted by fintechs, not current market size of fintechs.

Source: Mckinsey analysis, World Bank Group

While the lion's share of value in the market (approximately 40 percent) is currently concentrated in South Africa, which has the most mature banking system on the continent, the market is expected to grow fastest in Ghana and Francophone West Africa, by 15 percent and 13 percent per annum respectively, over the next three years.[20]

Overall, we anticipate that, as fintech accelerates on the African continent, 11 key countries are likely to be at the center of the market's evolution. These countries, Cameroon, Côte d'Ivoire, Egypt, Ghana, Kenya, Morocco, Nigeria, Senegal, South Africa, Tanzania, and Uganda, together account for 70 percent of Africa's GDP and half of the population of the continent.[21] They also offer fintechs and investors a favorable environment, including increased digital readiness and higher mobile and internet penetration. Mobile penetration is more than 100 percent in most of these opportunity markets, with Nigeria and Ghana seeing the highest growth in smartphone usage in the world, but internet penetration lags behind, at below 50 percent in most markets.[22]

Digital penetration is likely to increase steadily as historical barriers to mobile and internet on the continent continue to be dismantled. Data costs fell by around 15 percent per annum between 2015 and 2019, while fixed broadband subscribers per 100 people grew by around 11 percent in the same time period.[23] Between 2010 and 2019, over 300 million people in Africa came online for the first time, with the continent showing the highest growth in internet use, mobile-cellular telephone subscriptions, international bandwidth, and 3G (or better) mobile coverage globally.[24] The COVID-19 pandemic has accelerated these shifts, and by 2025, the International Telecommunication Union (ITU) anticipates that the number of smartphone connections in the region will more than double.

[20] McKinsey Global Banking Pools.
[21] This analysis excludes Ethiopia, Sudan, and DRC. While these regions may have potential opportunity, they generally have more challenging operating environments.
[22] *The Mobile Economy: Sub-Saharan Africa 2021*, GSM Association, 2021.
[23] Ibid.
[24] *World Telecommunication, ICT Indicators database 2021 (25th edition)*, ITU, December, 2021.

Key trends driving digital expansion in Africa

Globally, increased availability of data and the impact of the COVID-19 pandemic have been among the major factors that have driven structural change in the financial services market, alongside technological advancements, the globalization of consumer demands, favorable regulation, and infrastructure voids stimulating innovation. In Africa, a similar pattern is unfolding, although the shift is also being driven by uniquely African trends (Exhibit 4). For example, African governments and financial institutions are taking action through policies and product development to broaden financial inclusion for populations still largely reliant on cash. This presents fintechs with a significant opportunity to migrate Africa's sizeable population of cash-based customers to new solutions.

Exhibit 4

Seven trends are helping accelerate the growth of fintech in Africa.

Key characteristics and descriptions

1. Push for financial inclusion

Governments and financial institutions are taking action to cater to the financially excluded through policies and the development of innovative products and solutions.

Regulators are taking steps to level the playing fields for fintech innovation and build an enabling fintech ecosystem.

2. Dethroning cash

With less than 10% of transactions made via electronic payment, Africa has the largest opportunity globally to migrate from cash.

3. Increased availability of funding for innovation

Capital is becoming more readily available as investors take notice of and support rapid innovation of African fintech companies. Despite a drop off in global funding in 2022, African fintechs raised the same amount of funding in the first 5 months of 2022 as they did during the whole of 2021.

4. Fast growth in spending

African private consumption expenditure (PCE) was growing at 4.8% before the COVID-19 pandemic, and it is expected to continue growing at 4.8% CAGR to 2025.

5. Young, fast-growing, and urbanizing population

Africa has the world's highest population growth rate at 2.7% as well as the youngest median age (20), and more than 1bn people are expected to live in urbanized areas by 2045.

6. Increasing digital penetration

Digital penetration in Africa has accelerated faster than other regions. Over 300 million people in Africa gained access to the internet between 2010 and 2019 and the barriers to connectivity are constantly shrinking (eg high data prices, high device prices, low fixed broadband penetration, slow internet speeds).

7. COVID-19 acceleration

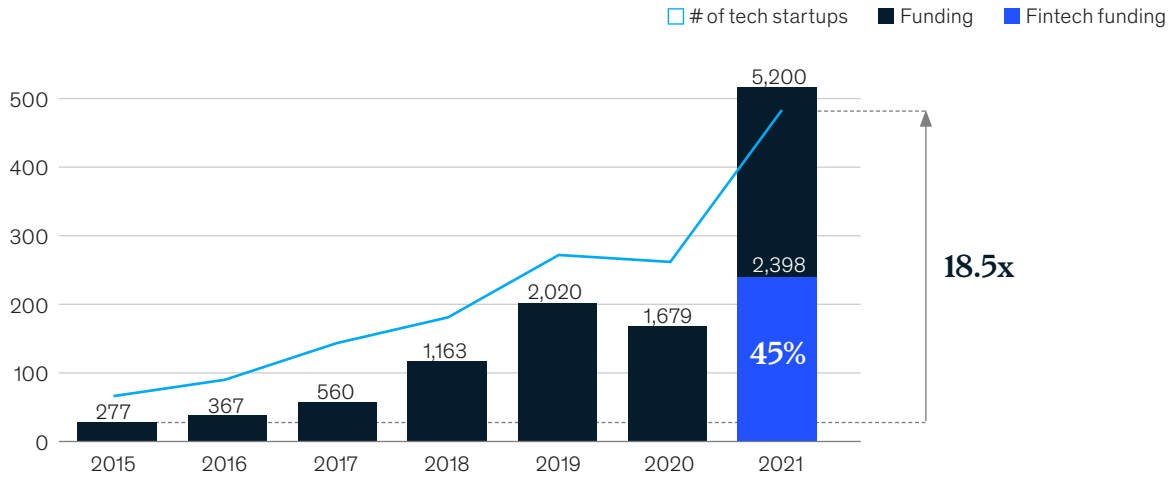
COVID-19 has positively accelerated digitalization trends.

Source: Mckinsey analysis, World Bank Group

Exhibit 5

Funding for African startups has grown 18.5x over the last six years, 45% of which was attributable to fintech.

Number of tech startups securing funding and total funding amount #, $m, 2015 - 2021



Source: Partech (2015 – 2019); Maxime Bayen and Max Cuvellier (2020 – 2021); Joanne Carew, "African tech start-up funding skyrockets, with fintech a big winner", CIO, February 6, 2022; Joanna Glasner, "Here's What's Driving Latin America's Rank As The World's Fastest-Growing Region For Venture Funding", Crunchbase News, January 21, 2022

Other unique features driving Africa's structural shift include rapid population growth and urbanization. Africa's population is growing faster than any other region in the world, at a rate of 2.7 percent, more than double that of both India (1 percent) and China (0.4 percent), and the median age on the continent is just 20 years old.[25] To put this in context, India's median age is 28, and that of China and Europe is 37. Our World in Data reports that, based on the UN's medium growth scenario, Africa's share of world population will rise from 17 percent (1.3 billion) today to 40 percent (4.3 billion) by 2100.[26]

As the continent's population grows, so too does urbanization, and by 2045 it is estimated that more than 1 billion people in Africa will live in urbanized areas.[27] At the same time, the amount of money individuals spend on goods and services will also increase. And while personal consumption expenditure (PCE) in Africa is currently low, at $1,505 per capita harmonized (compared to $5,433 in Latin America and $49,423 in North America), it is forecast to grow steadily at 4.8 percent CAGR between 2020–2025.[28]

This new generation of young, urbanized African consumers represents a large market of digitally-savvy individuals who have grown up in a time when digital technologies are flourishing. They provide a fast-growing customer base that is primed to adopt digital solutions to meet their financial needs.

Given these favorable tailwinds, the continent has become an attractive opportunity for foreign investors, and this is adding further fuel to the industry. Startup funding in Africa is growing faster than any other market, increasing by over 200 percent between 2020 and 2021 (compared to 90 percent globally) (Exhibit 5). Notwithstanding a drop in venture capital funding in 2020 due to COVID-19, African technology startup funding grew by more than 18 times over the last six years—twice the speed at which total start-up funding globally grew in the last year.

[25] Max Roser, "Future population growth," Our World in Data, November 2019.
[26] Ibid.
[27] Hannah Ritchie and Max Roser, "Urbanization," Our World in Data, September 2018.
[28] McKinsey analysis based on IHS Markit data.

More than 45 percent of this is attributed to fintechs, which have enjoyed exponential growth in funding for three years in a row. Funding of African-based startups also grew across all levels of funding type. While Series A–D funding made up the majority, at around $2.2 billion between 2019 and 2021, venture and seed funding also rose, making up almost 25 percent of total funding.[29]

In 2021, ten companies, most of them located in South Africa, Nigeria, Egypt, and Kenya, raised more than $1.6 billion from investors. Of these, four have achieved 'unicorn' status, the term given to startups valued at $1 billion or more: OPay, Flutterwave, Chipper Cash, and Wave.[30] And despite a sharp drop off in global funding in recent months, African fintechs have raised the same amount during the first five months of 2022 as they did during the whole of 2021.[31]

Shifting regulation is also playing its part in supporting and sustaining fintech growth on the continent, with many African regulators taking steps to level the playing fields for fintech innovation and build an enabling fintech ecosystem to facilitate innovation. Several countries have introduced detailed data protection guidelines in the last three years to create clarity for new entrants, offset future regulatory risk, and set up regulatory sandboxes as a way to stimulate risk-free innovation in the fintech space. For instance, Nigeria, Ghana, and Uganda have set up programs to stimulate financial inclusion and reduce physical cash transactions, and others are taking steps to drive digital adoption with innovations. The JSE in South Africa is issuing debentures—a medium- to long-term debt instrument used by large companies to borrow money at a fixed rate of interest—under a digital ledger, while Ghana and Nigeria are implementing proposed central bank digital currencies (the e-Cedi and e-Naira).

In addition, positive regulatory policy agreements, notably the African Continental Free Trade Area (AfCFTA), which will create the largest free trade area in the world, and the planned roll out of the Pan-African Payment and Settlement System (PAPSS) may open new avenues of growth for fintechs by increasing cross-border payments and trade. Fintechs are well-positioned to provide digital solutions that solve cross-border payment challenges and lay the groundwork for migrating the continent away from cash to digital transaction platforms.

Taken together, these trends in digital transformation have placed African markets at the beginning of an exponential growth trajectory if, as expected, they follow the path of mature markets like Vietnam, Indonesia, and India, who are ahead of them on the curve.

African fintech is primed to expand into more advanced financial services

Although fintechs have made significant inroads in Africa—notably in wallets, payments, and distribution—there is plenty of room for expansion. As the market matures, unique white spaces are identifiable in almost all areas of financial services (Exhibit 6). Given the inherent variability in markets across the continent, opportunities will differ across each, with advanced economies such as South Africa and Nigeria seeing more white space in advanced financial such as B2B liquidity and regulatory technology such as anti-money-laundering (AML) and know-your-customer (KYC) compliance. Burgeoning fintech markets such as Egypt are likely to see more innovation in financial services such as underwriting and servicing claims and assessments in the insurance vertical; banking-as-a-service (BaaS) and embedded finance in operations and infrastructure; and buy-now-pay-later services in retail and SME lending.

[29] Africa: The Big Deal (a monthly updated database listing all $100K+ funding deals secured by startups in Africa).
[30] Dealroom.co (a global data platform for intelligence on startups, innovation, high-growth companies, ecosystems, and investment strategies).
[31] Ibid.

Exhibit 6

White spaces are emerging across the market, typically in distribution, acquisition, lending, and advanced infrastructure.

☐ White space

Account management
- Store of value, account maintenance
- Card maintenance
- PFM/BFM[1]
- Deposit float interest

Wallets
- P2P[2] transfers
- Airtime purchases
- Bill payments
- Cash-in / Cash-out

Payments
- Online merchant acquiring and gateways / aggregation
- Offline merchant acquiring
- Payment processing
- Payment issuing

Remittances
- Outbound/inbound international transfers
- First and/or last mile
- Cash pre-funding and facilitation
- Foreign currency exchange

Retail/SME lending
- Obligation and distribution
- Digital lending on balance sheet
- Buy-now, pay later
- B2B liquidity (revenue nancing, cash advance, etc.)
- Consumer liquidity (airtime advance, overdraft, etc.)

Insurance
- Customer acquisition and distribution
- Underwriting and servicing
- Claims and loss assessment

Wealth management
- Trading platform and investment
- Advisory and portfolio management
- Digital asset management

Blockchain/crypto[3]
- DeFi/Web3
- Exchanges and tokenization
- Remittance
- Asset management
- Lending

Operations/infrastructure
- BaaS[4]/embedded finance
- API ecosystem/open-banking
- Payment infrastructure and aggregators
- AI/big data risk assessment and credit scoring
- Reg tech AML/KYC[5]
- Collections
- Agency banking
- AI/machine-learning-based operations

Note: List of services is not exhaustive.
1. Personal Finance Management / Business Financial Management.
2. Peer to peer.
3. Individual countries have different regulatory requirements, and this was not considered when assessing white spaces.
4. Banking as a service.
5. Anti Money Laundering/Know Your Customer.

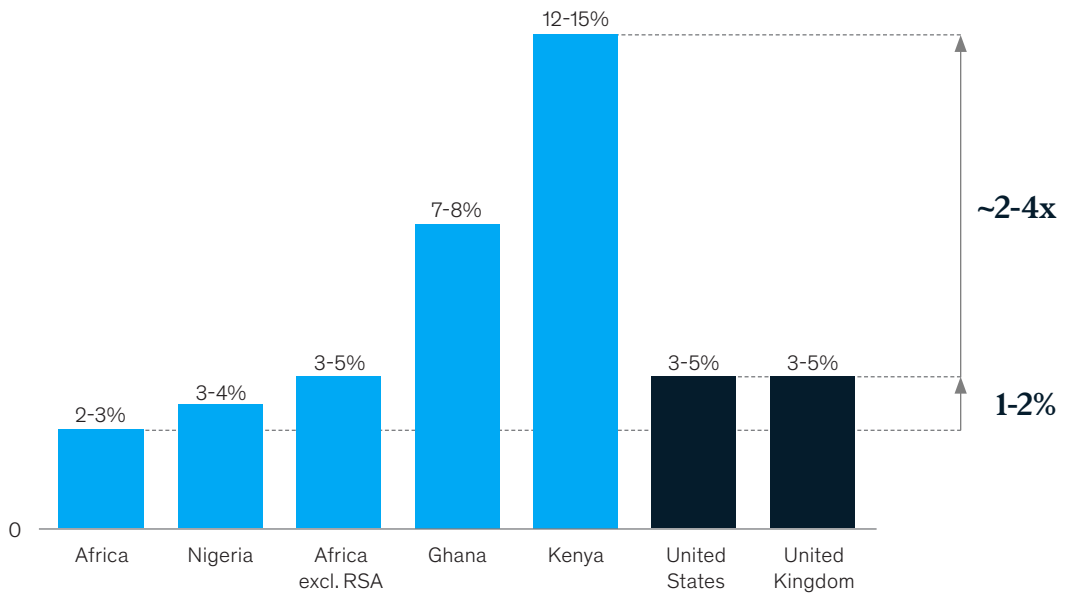
Globally, blockchain technology and cryptocurrency are still in the early stages of adoption, but they are also growing fast. In fact, Africa was the fastest growing cryptocurrency market in the world, with an increase of 1,200 percent between July 2020 and June 2021, with Kenya, Nigeria, and South Africa among the top ten countries in the world in terms of cryptocurrency adoption.[32] Yet, when looked at in terms of the overall value of trades in the same period, the continent lags significantly behind the rest of the world.[33] Given the apparent interest in this area, combined with the preponderance of mobile devices and an underdeveloped financial infrastructure, the opportunity for using blockchain to enable foreign exchange and remittance payments could be strong.

[32] Bitange Ndemo, "The role of crypto-currencies in sub-Saharan Africa," Brookings, March 16, 2022.
[33] Seth Onyango, "African countries are adopting crypto faster than their global counterparts," *The Africa Report*, September 28, 2021.

Exhibit 7

Fintech penetration in some African markets exceeds global benchmarks.

Fintech revenue penetration,[1] 2020



[1] Share of total financial services market revenues, based on McKinsey GBAR 2021 estimates for benchmark (penetration as % of banking revenues). Nigeria fintech figures based on the revenues of the top available fintechs, extrapolated assuming they contribute 66% to 75% of the market; Kenya assumes M-pesa contributes 80-85% of the market and Ghana assumes MTN contributes 75-80% of the market.

Source: McKinsey Panorama FinTech; McKinsey Global Banking Annual Review, 2021; SnL Deal Room; Crunch Base (March 23rd, 2022)

The stage is set for growth, but questions remain

The opportunity for fintech growth in Africa is there, with pockets of excellence cropping up across multiple regions. However, questions around profitability and sustainable value are not yet fully resolved. Despite the funding boom for fintechs in Africa, the continent is trailing other regions in terms of the number of unicorns it is producing relative to funding received. Our analysis indicates that Asia (excluding China) has produced 138 unicorns, while Africa has produced just ten (including embedded telco fintechs).[34] When measuring the number of unicorns against population, Brazil leads with 84 per billion people. Latin America, excluding Brazil, produced 54 unicorns per billion people and South-East Asia 49 unicorns per billion people. In contrast, Africa has produced only eight defined unicorns for every billion people on the continent.

However, Africa is gaining ground on Latin America and South-East Asia, both of which are a couple of years ahead of Africa in terms of fintech evolution. In 2021, our analysis found that African fintech startups were able to raise funding equal to that raised by both regions between 2019 and 2021, with the number of deals in Africa growing at a more rapid rate than that seen in the other two regions.[35]

African fintech revenues are between $4.5 billion and $6 billion, compared to financial services market revenues of $150 billion, with penetration below that of developed countries (2 to 3 percent compared to 3 to 5 percent globally). However, as fintech disruption is primarily

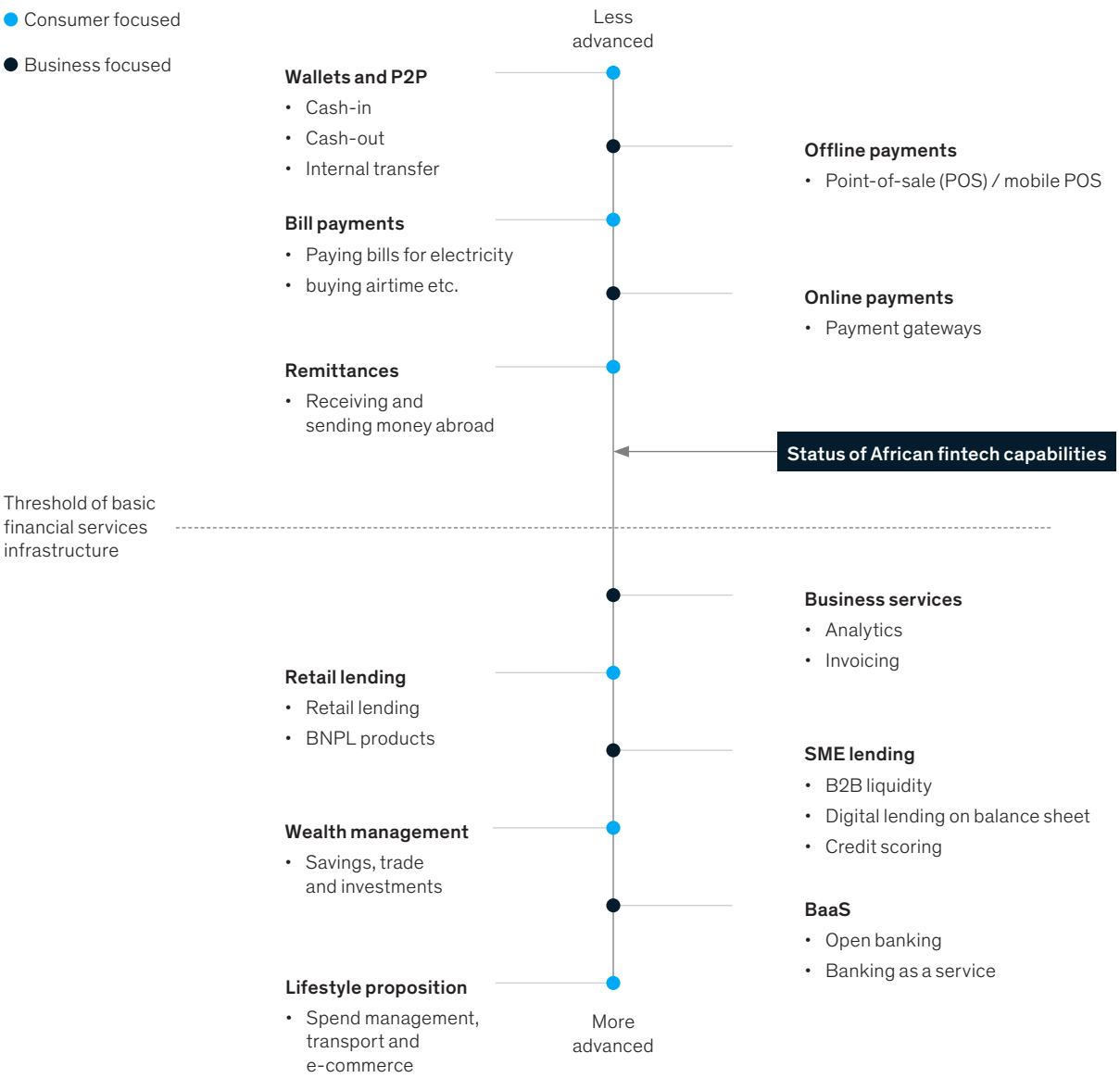
[34] McKinsey analysis based on data from Dealroom.co and Worldometer.
[35] McKinsey analysis based on data from Dealroom.co.

concentrated outside of South Africa, when excluding this country from the mix, fintech penetration in Africa is in line with global markets. And in leading markets like Kenya and Ghana it is up to double that of global benchmarks (Exhibit 7).

These signs point to the culmination of African fintech's first phase of development (Exhibit 8). Fintechs have become major players in the African financial services sector (in some instances rivaling traditional banks in terms of size and value), funding has increased, and value is being generated. In fact, the number of high-valued fintechs is increasing exponentially. Additionally, consumer access is at an all-time high. Today's leaders have built the payment rails, effectively laying the foundations upon which the industry can grow, but tightening market conditions suggest that in their next phase of development, fintechs may need to adapt their focus as they look to consolidate and formalize to achieve enduring success.

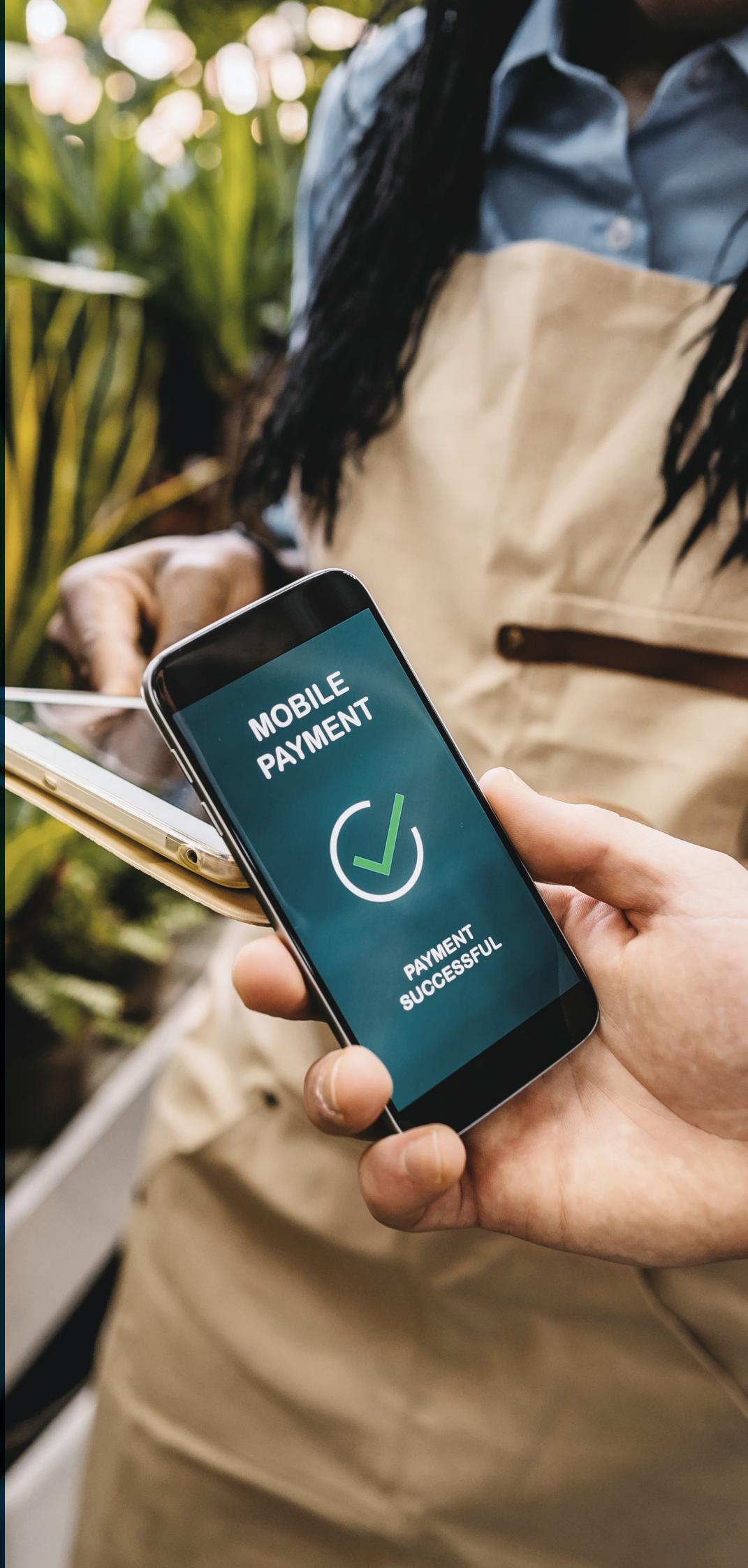
Exhibit 8

Today's players have laid the foundations and the next stage of the journey is beginning to unlock.



“Despite recent growth in internet connectivity in Africa, data penetration is still low, around 50 percent on average; only half of the population can download an application. If you don’t think of USSD (Unstructured Supplementary Service Data) as a channel, you might be cutting off half of the cake.”

Aminata Kane, OMEA executive and board member and former CEO of Orange Sierra Leone



-15%

Annual fall in data costs in Africa 2015-2019

2. All things excellent are as difficult as they are rare

It is already evident that African fintechs are facing some challenges in their ability to scale and grow, with some having to re-imagine their target audiences or adapt and change to alternative revenue streams as their new primary source of income. Many fintechs are also struggling to monetize their customer base as, having used low pricing or free services to attract customers, they are discovering that their revenue repeatability is limited.

At a corporate governance level, ongoing investigations around fintechs' working cultures are clouding the horizon, and it is becoming a concern that fintechs appear to have limited capabilities to manage risk frameworks around multiple regions.

Our analysis of the African landscape highlights four hurdles that fintechs are likely to face in the next phase of their development:

1. Reaching scale and profitability, locally and further afield, with current infrastructure and market constraints.
2. Navigating an uncertain and complex regulatory environment and currency controls across different markets.
3. Building robust corporate governance foundations to ensure sustainable growth as each business matures.
4. Managing scarcity through securing and retaining the right talent and funding through the development cycle.

How businesses, policymakers, and investors navigate these four areas will determine the extent to which the potential in the fintech space is realized.

Reaching scale and profitability

Success in any given environment largely depends on how an entity adapts to its unique characteristics, and in Africa, which consists of multiple playing fields, this is by no means straightforward. While there may appear to be significant opportunities for fintechs across the African continent, in certain regions the total addressable market (the relevant category of viable customers) is limited by infrastructure and market constraints. For example, in Côte d'Ivoire, Cameroon, Tanzania, Uganda, and Nigeria, more than 40 percent of the population are technically unregistered, without formal identification.[36]

[36] Vyjayanti Desai, Anna Diofasi, Jing Lu, "The global identification challenge: Who are the 1 billion people without proof of identity?", *World Bank Blogs*, April 25, 2018.

On top of this, internet penetration in these countries was below 50 percent in 2020 and payment rails are limited; across the 11 priority markets we've identified in Africa, just three (Egypt, Ghana, and Nigeria) have a real-time payments system and the payment infrastructure necessary to enable rapid scale-up of fintech services. Aminata Kane, OMEA executive and board member and former CEO of Orange Sierra Leone, comments: "Despite recent growth in internet connectivity in Africa, data penetration is still low, around 50 percent on average; only half of the population can download an application. If you don't think of USSD (Unstructured Supplementary Service Data) as a channel, you might be cutting off half of the cake."[37]

A further challenge confronting fintech startups is that, in certain markets, incumbents and telcos generate the majority of fintech revenues. In Kenya, Safaricom alone generates almost 100 percent of mobile money consumer revenues.[38] Telcos are already generating significant revenues from their fintech operations in Africa thanks to the fact that mobile phone penetration far exceeds access to banks. Telcos also benefit from having both low-cost operating models and a wealth of customer data, which they can use to assess risk when approving loans or offering other services—a decided advantage on a continent where most markets lack credit bureaus.[39]

[37] Expert interview.
[38] "Safaricom takes 99.9pc of mobile money market," *Business Daily Africa*, Mary 18, 2022.
[39] Nqobile Dudla et al. "Pandemic spurs Africa's mobile telcos to ramp up banking bid," *Reuters*, September 29, 2020.

This gives fintechs limited bargaining power. The situation has led one fintech entrepreneur in Morocco to comment: "In bank-led countries, building partnerships with incumbents is critical for success. Go-to-market is faster than if you had to build your own systems. You can benefit from their tech infrastructure, and it reassures the regulator."

This discrepancy between regions in Africa highlights the importance of tailoring different approaches to different regions depending on their inherent characteristics. We have identified four broad market clusters across the 11 key markets identified, each with a discrete pathway and requiring a bespoke approach (Exhibit 9). Fintechs in South Africa and Morocco, which have relatively mature traditional banking systems but relatively low mobile payment penetration, can look for opportunities in specific areas, notably B2B. Fintechs in mobile-money specialist markets like Kenya, Uganda, Tanzania, and Ghana, that are characterized by high penetration of mobile money services and an enthusiastic adoption of products such as payments and digital wallets, are likely to prosper by offering innovative solutions rather than formal financial services.[40]

Nigeria and Egypt, meanwhile, are disruption-ready markets. In Egypt, for example, a sizeable chunk of the population remains unbanked, and existing banking processes tend to be slow, with loan approvals often requiring days and multiple face-to-face engagements.[41] In such markets, fintechs that offer streamlined onboarding and digital processes are well placed to take advantage and disrupt the financial services status quo, increasing penetration and services.

Côte d'Ivoire, Cameroon, and Senegal, where mobile money is still in the early stages of development and usage, are characterized by a high proportion of cash transactions, usually involving an agent. As such, they represent an opportunity for fintechs with cheaper, faster, and more convenient financial service options. However, investors that move into these markets will need deep local knowledge to understand how to drive customer adoption.

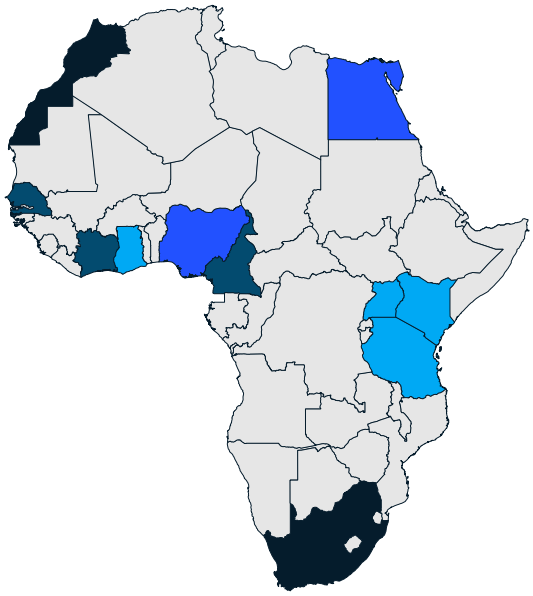
In Côte d'Ivoire, Cameroon, Tanzania, Uganda, and Nigeria, more than 40 percent of the population are technically unregistered, without formal identification. On top of this, internet penetration in these countries was below 50 percent in 2020 and payment rails are limited.

[40] John Mutua, "Safaricom takes 99.9% of mobile money market', *Business Daily,* March 18, 2022.
[41] Stephen Gilmour, "Egypt's banks increase focus on consumer opportunity," *Euromoney*, March 31, 2021.

Exhibit 9

African markets can be clustered into four discrete archetypes to achieve scale.

Market expansion considerations[1]



Archetype	Countries	Detail	Market considerations
1. Traditional banking countries	South Africa & Morocco	Banking-led countries, with very low mobile payment penetration	Opportunities likely in smaller pockets eg B2B lending
2. Mobile money specialists	Kenya, Tanzania, Ghana, & Uganda	Mobile payment-led countries, with lower banking penetration	Successful fintechs are likely to be in innovative solutions rather than formal financial services
3. Disrupted markets	Nigeria & Egypt	Payment rails are in place, high-levels of fintech activity, rapidly evolving market	Opportunities for B2C businesses to scale
4. Crossroads markets	Côte d'Ivoire, Cameroon, & Senegal	Payment infrastructure not fully in place; starting to attract attention	Fintechs can still influence the shape of financial innovation

[1] Eight criteria were used to assess market potential: 1. Internet penetration, 2020, %; 2. Mobile penetration, 2020, %; 3. Urbanization rate, 2020, % 4. Banking penetration, 2020 %; 5. Banking concentration, 2020 % assets; 6. Mobile money transactions as a % of GDP, 2020; 7. Ease of doing business, 2019; 8. Instant payment banking system.

Achieving scale is also just one part of a successful growth journey. A large customer base provides potential, but unless those numbers translate into meaningful monetization, this potential will remain untapped. Lower disposable income and lower customer loyalty in Africa—given that fintechs typically use a "freemium" model to attract customers—makes it harder for fintechs to build viable business models through customer monetization.

In this environment, finding ways to reduce customer acquisition costs is vital. Assuming similar investment levels per customer, it is almost four times harder to achieve customer monetization in Africa than it is in Latin America, and 13 times harder than it is in the European Union.[42] Yemi Lalude, Partner and Head of Africa TPG Growth Investment, sums up these challenges: "Spending a ton of money to acquire customers is a fool's errand—there is virtually no customer loyalty. Most people in Africa have more time than money—there is no inertia that will stop people from changing to a cheaper product."[43]

[42] McKinsey analysis of World Bank data, Adjusted net national income per capital (current US$).
[43] Expert interview.

Navigating a complex regulatory environment

While some African countries are taking steps to create more enabling environments for the development of fintechs, an unharmonized regulatory framework—meaning that legislative rules and guidelines are fragmented across different regions, increasing the risk of exposure to exchange rate fluctuation and strict foreign exchange controls—could impact the speed with which individual companies can grow across geographies.

Regulatory bodies have a complex role to play in protecting the rights of consumers and creating a supportive environment in which business can thrive and grow. As things stand, the 11 key countries identified in this report are at different stages in their journey towards strengthening the environment to help ensure that fintechs can provide their services to customers and businesses (Exhibit 10). For example, in Egypt and Tanzania, the operations and infrastructure for open banking to enable secure interoperability in the banking industry are still being defined, but for other countries, such as South Africa, Morocco, Nigeria, and Ghana, this space is either not regulated or restricted. Cryptocurrency wealth management is only defined and allowed in South Africa and Uganda, while Morocco, Kenya, Nigeria, and Tanzania do not allow cryptocurrency wealth management. In Ghana cryptocurrency is unregulated and in Egypt it is restricted. And while most countries allow digital authentication regulations, in Egypt and Morocco these are still being developed.

Exhibit 10

African countries are at different stages in their journey towards creating an enabling environment for fintech.

Market expansion considerations

Unregulated | Restricted (crypto) / Not enforced (open banking) | Defined / Allowed / Enforced | Not allowed | Still being defined

Country[1]	Existence of a Fintech Sandbox?	Licensing Tier licensing	Financing Crowdfunding for SMEs	Identification/ authentication Digital KYC	Wealth management Crypto	Operations & infrastructure Open banking
Nigeria	Defined / Allowed / Enforced	Defined / Allowed / Enforced	Not allowed	Defined / Allowed / Enforced	Not allowed	Restricted (crypto) / Not enforced (open banking)
Egypt	Defined / Allowed / Enforced	Defined / Allowed / Enforced	Still being defined	Still being defined	Restricted (crypto) / Not enforced (open banking)	Still being defined
South Africa	Defined / Allowed / Enforced	Not allowed	Defined / Allowed / Enforced	Defined / Allowed / Enforced	Defined / Allowed / Enforced	Restricted (crypto) / Not enforced (open banking)
Morocco	Not allowed	Defined / Allowed / Enforced	Defined / Allowed / Enforced	Still being defined	Not allowed	Restricted (crypto) / Not enforced (open banking)
Kenya	Defined / Allowed / Enforced	Defined / Allowed / Enforced	Defined / Allowed / Enforced	Defined / Allowed / Enforced	Not allowed	Restricted (crypto) / Not enforced (open banking)
Tanzania	Not allowed	Defined / Allowed / Enforced	Unregulated	Defined / Allowed / Enforced	Not allowed	Still being defined
Uganda	Not allowed	Defined / Allowed / Enforced	Unregulated	Defined / Allowed / Enforced	Defined / Allowed / Enforced	Restricted (crypto) / Not enforced (open banking)
Ghana	Defined / Allowed / Enforced	Defined / Allowed / Enforced	Defined / Allowed / Enforced	Defined / Allowed / Enforced	Unregulated	Restricted (crypto) / Not enforced (open banking)

[1] Data was not available for all 11 opportunity markets identified in this report.

Source: World Bank; Central Banks; Thomson Reuters; "What's Next for fintech? Agriculture, healthcare + a raft of industry-specific regulations and legislation," Enterprise Ventures LLC, April 10, 2022

With such variability in regulatory progress and differences in approach, running a fintech company across diverse geographical areas can be difficult. As Dare Okoudjou, founder and CEO at MSF Africa told us, "in scaling across markets, the difficulty compounds."[44]

Ultimately, the uncertain regulatory framework suggests an imbalance between how a business needs to operate and the most efficient means by which it can operate and creates a number of compliance challenges for fintechs across Africa.

This imbalance may be caused by the fast pace of digital innovation led by fintechs outpacing any reasonable timeframe for regulatory evolution. In some cases, however, regulators may act with speed, changing legislation that impacts a business's operating environment, leaving little time for fintechs to adapt. Fintechs may have to pivot depending on the evolution of the regulatory framework, and may potentially have to dedicate entire teams to engaging with regulators to ensure compliance.

Perhaps the most pointed regulatory challenge facing fintechs is the issue of licensing, which determines whether a business can operate within a given jurisdiction. The harmonization and streamlining of licensing requirements, potentially across borders, could go a long way toward enhancing the speed and scale of fintech growth.

Fintechs wanting to expand regionally also risk exposure to volatile exchange rates and restrictive exchange controls. From a startup perspective, currency volatility exposes African entrepreneurs to the exchange rate risks of converting sales in other countries to local currencies and delivering on debt obligations denominated by US dollars, making it more expensive to operate using local currencies. Additionally, strict foreign exchange controls enforced by many African central banks to restrict the transfer of cash out of a country, can mean that hedging strategies—that balance these risks through cash management—are limited.

While currency stability is not exclusively an African problem, these risks disproportionately impact entrepreneurs and businesses on the continent from an operational perspective and affect their ability to attract investment. Private equity and venture capital investors often carry significant currency risks. Balancing multi-year investment horizons and illiquid assets makes managing risk exposure a delicate process.

The harmonization and streamlining of licensing requirements, potentially across borders, could go a long way toward enhancing the speed and scale of fintech growth.

[44] Expert interview.

36%

Proportion of African investors in seed investment rounds

Managing scarcity

Businesses don't run on infinite resources. Time, money, and people need to be managed effectively to launch and sustain growth. Finding the right talent and securing enough funding for ongoing development in the face of intense competition, including from incumbents, is a challenging path to have to walk.

Despite recent gains, Africa still lags behind the rest of the world when it comes to attracting sufficient investment to finance scale-up growth. And despite recent successful exit stories, African startups are still perceived as illiquid assets compared to other markets due to limited exit opportunities. While there were more than 126 initial public offerings (IPOs) on the London Stock Exchange in 2021 and more than 55 in Latin America, there were only eight in the whole of Africa in the same period.[45]

At the same time, there is evidence that the funding boom of the past year is drying up, putting further pressure on fintechs to do more with less. Y Combinator (YC), a US-based technology startup accelerator, has advised its community of over 7,000 founders to expect and plan for the worst, cut costs, and extend their runway because "during economic downturns, even top tier VC funds slow down their deployment of capital. This causes less competition between funds for deals which results in lower valuations, lower round sizes, and many fewer deals completed".[46] African fintech companies are more vulnerable to global funding fluctuations largely because the local investor market is comparatively weak. Approximately 70 percent of fintech startup deals are financed by investors headquartered outside of Africa, most of them originating from North America (39 percent).[47] This means fintech founders not only need to know their businesses inside out, but also need to understand the venture capital ecosystem abroad, and know which investors are focused on Africa and have a special interest in financial technology companies.

Fintech companies could position themselves optimally to attract funding throughout the funding cycle by targeting specific investors depending on the relevant investment stage. Seed funding rounds—usually smaller, riskier investments—can be raised locally, as African investors represent more than 36 percent of seed investment rounds. Later-stage funding to scale up effectively after demonstrating proven growth will likely be more easily raised internationally. Only 10 percent of series C and D rounds between 2019 and 2022 were raised with Africa-based investors (Exhibit 11).

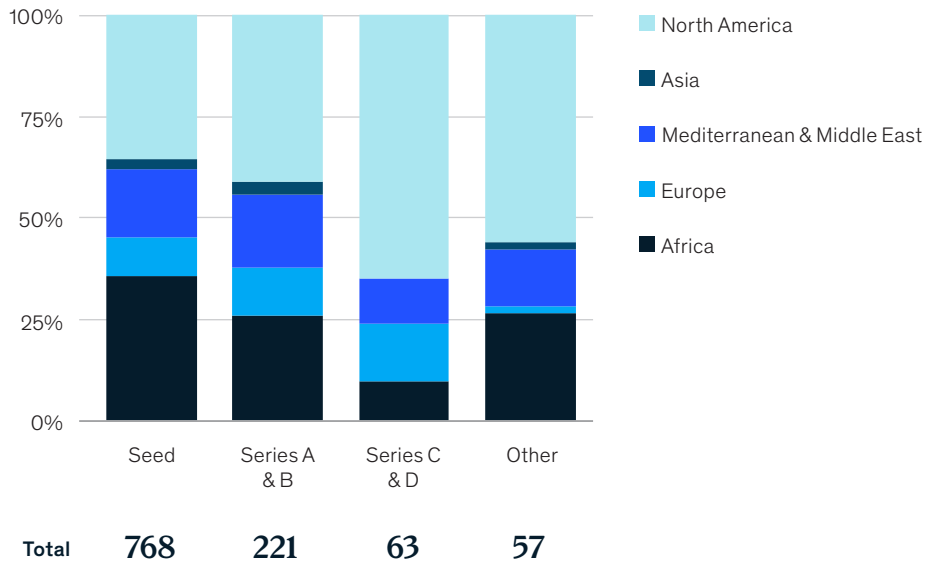
The promising news is that Africa proportionately receives more funding for female-led businesses than the United States and Europe combined. Despite this, however, and although the trend is improving—the proportion of total funding raised by female CEOs in Africa climbed from 2.4 percent in 2020 to 6.5 percent in 2021—there remains a major capital allocation gap between men and women.[48]

[45] McKinsey analysis of stock exchange data.
[46] Manish Singh, "YC advises founders to 'plan for the worst' amid market teardown," *TechCrunch*, May 19, 2022.
[47] McKinsey analysis of data from Africa: The Big Deal.
[48] Ibid.

Exhibit 11

African investors play a key role in seed funding, while late stages are led by non-African investors.

Source of funding, Africa-based Fintechs, # deals, 2019 - 2022



Source: Africa the Big Deal Report

As African fintechs work to tighten their belts in the face of a slower funding environment, making sure they are able to attract and retain the best talent will add additional cost pressures, but could become a key differentiator. The Allianz Risk Barometer 2022 ranks a shortage of skilled talent as one of the top ten risks facing business around the world. And in Africa, this challenge is exacerbated because 50 percent of Africa's software developers are based in just five countries: South Africa, Nigeria, Morocco, Kenya, and Egypt.[49] This concentration of talent could translate into significant potential for emerging fintech players in those countries. But it is also a risk. In a global world, each of these countries is not just competing with its neighbors for talent, but is competing with the rest of the world.

Additionally, although Africa holds nearly 17 percent of the global population, the continent's science, technology, engineering, and mathematics (STEM) capabilities lag behind the rest of the world.[50] Of those who do graduate with STEM capabilities, many are seeking opportunities abroad. The World Bank reports that a mismatch between supply and demand for ICT professionals in low- and middle-income economies prompts outward migration toward better employment opportunities in countries where the digital sector is more developed. Even where skilled data workers have opportunities in low- and middle-income countries, wage differentials could be a driver of migration.[51] Data from the International Labour Organization ILOSTAT Database show that low- and middle-income countries experienced a net outflow of talent of around 70,000 workers every year from 2015 to 2019. This has prompted Junaid Dadan, Co-founder and CPO at Stitch—an African API infrastructure company—to comment, "Africa has lots of talent, but they are very underpaid. You need to be willing to pay your talent properly."[52]

[49] *Africa Developer Ecosystem 2021: Creating opportunities and building for the future,* Google & Accenture, 2021.
[50] "STEM Education in Africa: The past, present and future," *STEMpedia*, December 2, 2019.
[51] *World Development Report 2021: Data for Better Lives,* World Bank, 2021.
[52] Expert interview.

Building robust corporate governance foundations

As a fintech business matures, a critical contributor to ongoing success and sustainability is to have a world-class corporate governance structure in place to help build a strong, positive organizational culture that provides stability, clarity, and direction even in difficult times.

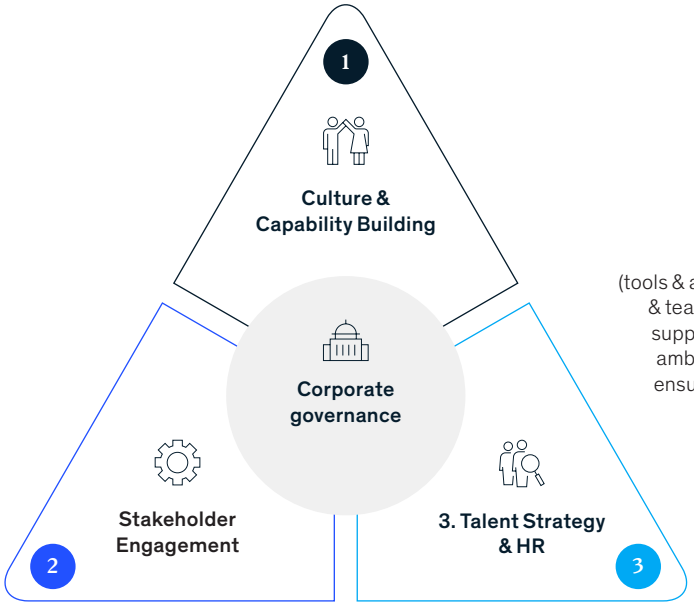
There are three broad constitutive parts to a healthy corporate governance model: strong culture and capability building, productive stakeholder engagement, and a clear human resources and talent strategy (Exhibit 12).

Exhibit 12

Three interrelated factors underpin a strong corporate governance system.

A strong, positive culture can enable a rapid and healthy scale-up. Management needs to role-model the entrepreneurial attitude it expects from talent and ensure that everyone is committed to the company's unique culture.

Regulatory engagement can ensure that the company is compliant with legislation while expanding its offering and entering new countries. Regular stakeholder reporting is needed.



Scaling HR processes (tools & automation, organization, & team performance) can help support growth. Designing an ambitious talent strategy can ensure top talent is attracted, developed, and retained.

Key stakeholders

Customers

Regulators

Investors

Talent

Employees

Board

Shareholders

While product-market fit is important to establish and grounds a successful start-up, a business culture that builds organizational capability is what keeps the fire burning. A strong, positive culture can help enable rapid growth in line with a manageable and sustainable scale-up. Management may want to act as a role model for the entrepreneurial attitude it expects from talent, and to ensure that everyone is committed to the company's clearly defined culture. This may be especially important within the modern context of hybrid working, where defined routines and norms are important to provide ethical and operational guidelines. A robust talent strategy and clear HR processes are a critical part of world-class capability building and would enable fintechs to build resilient automated organizations that foster personal growth and performance and attract and retain top talent.

Looking beyond the organization, it is vital that fintechs have robust stakeholder engagement processes in place, including systems to report regularly to shareholders and actively manage regulatory change to ensure the company is compliant, especially while expanding its offering and entering new countries. In short, the pace of innovation needs to be balanced with regulatory compliance.

There are several factors driving an increasing need for tech firms that are scaling up to manage risk and compliance effectively, and three stand out as particularly important. First, rising interest rates and potentially volatile geopolitical and macro-economic environments may lead to unstable market conditions and risk valuations. Second, there are intensified expectations from regulators and customers, resulting in increasing requirements for due diligence before customers can buy products and services. And third, as firms evolve to larger corporations, risk management becomes a greater statutory responsibility, which means that fintechs can no longer rely solely on their experienced management teams to avoid risk.

For fintechs walking the line between managing scarcity and navigating uncertain environments, scaling and reaching profitability are likely to require a degree of dexterity and good planning. In moving forward, African fintechs may need to explore new ways to create value and secure the necessary funding and resources to forge a sustainable growth path. For this, they can look to today's market leaders for inspiration.

A robust talent strategy and clear HR processes are a critical part of world-class capability building and would enable fintechs to build resilient automated organizations that foster personal growth and performance and attract and retain top talent.

"Africa has lots of talent, but they are very underpaid. You need to be willing to pay your talent properly."

Junaid Dadan, Co-founder and CPO at Stitch—an African API infrastructure company

50%

of Africa's software developers are based in just 5 countries

3. African fintech's winning formula for long-term success

As digital transformation accelerates across the continent, Africa's population has shown itself eager and ready to adopt emerging financial technologies. However, for fintechs entering the market, there are no quick wins on the continent. When it comes to building a sustainable business and creating long-term success, African fintechs may need to be prepared to play a long game. Not only is the African market highly fragmented—consisting of 54 countries with varying levels of financial literacy and internet penetration—but variable digital infrastructure, low consumer purchasing power, complex and inconsistent regulations, and a competitive playing field can all hinder sustainable growth for fintechs. Succeeding in Africa takes a special blend of talent, perseverance, and strategic ability.

While it is still early days and, as Idris Bello of LoftyInc Capital Management points out, "hard to call anyone a winner because the race has just begun," we think that there are some clear signs of what's driving success in African markets. Our analysis shows that the most successful African fintechs tend to share a common set of characteristics, with features that mirror those of successful global companies, but also with adaptations to their business models that recognize the unique economic realities and customer needs of Africa (Exhibit 13).

1. Match value proposition to the market

Successful fintechs seek first to understand the market, including customer needs and where the specific market stands on its infrastructure development journey. Once established in the market, they expand their offering with a raft of tech-based B2B and B2C products and solutions that address specific financial needs and plug gaps in the local financial services industries.

Globally, the market evolution for fintech companies has typically proceeded according to one of three scenarios (Exhibit 14). The first route to scale echoes the strategies of companies such as the Alibaba Group, a multinational technology company based in China, which amassed 150 million users before launching Alipay, a payment super app and digital wallet. This strategy sees companies set out as unique distributors of non-financial products, with the intention of growing their customer base. Having established themselves, they expand their offering to include basic financial products such as digital wallets and payment technology, before adding more complex financial services such as lending or savings, and ultimately evolving their own digital financial ecosystem or super app.

Exhibit 13

Market leaders share six characteristics.

■ Global characteristics ■ African-specific characteristics

1 Match their value proposition to the market

Select the right market entry based on country's infrastructural development journey and then expand product offering

2 Acquire a large base of active users quickly

Acquire active customers at any cost through unique value propositions (price, product, and / or service)

3 Have clear monetization strategies and roll out effectively

Have multiple clear monetization strategies—who will pay and who will use—(different approach for B2C and B2B services)

4 Manage lower expected revenue-per-customer

Adjust service offering for low-income population and micro-enterprises' expectations and demands

5 Understand and solve for Africa

Guarantee customer reach through offline channels (eg, agent network to reach consumers or addressing POS needs for merchants) that would help to deliver cash and engage on transactions

6 Align with and work with regulators

Take regulation seriously and constantly align with regulatory policies. Act as a partner with regulators and help them achieve their vision for the country

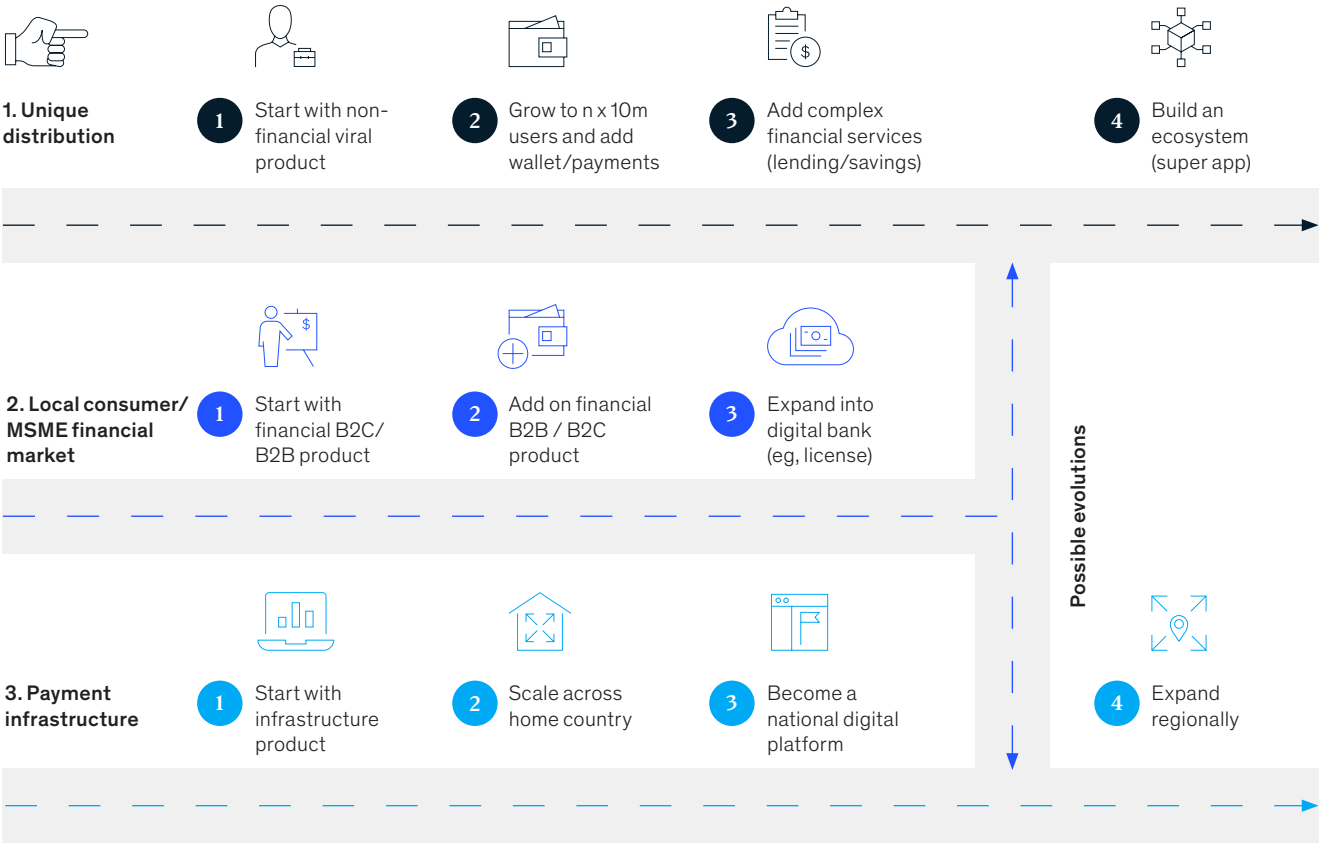
Like Alipay, in Africa, Safaricom and Vodafone established large and successful businesses with thriving customer bases before collaboratively launching M-Pesa as a mobile-based digital wallet targeting unbanked pre-paid mobile subscribers in Kenya. M-Pesa's services have since expanded to include payments, lending, and savings, enabled through the M-Pesa network. Today, M-Pesa customers can also access a wide array of financial and lifestyle services, such as airtime, transport, health, and money-management tools.

A second strategy sees fintechs choosing to launch directly into the financial services market with a specific B2B or B2C financial product that bridges an infrastructure gap or meets an urgent merchant or customer need before expanding into other services and regions, and ultimately transforming into a licensed digital bank. While wallets and super apps are typical entry products, fintechs have also found success launching lending products as a market-entry strategy. In Kenya, Tala first launched its mobile application to offer credit and collateral-free loans to consumers, and to date has disbursed loans of more than $2.7 billion.[53] Although credit remains its flagship offering, Tala continues to gain traction, and has evolved to provide savings and money management tools, and has even expanded to other regions, including the Philippines, Mexico, and India. FairMoney, launched in Nigeria in 2017, followed a similar pathway. Starting out as an online lender offering instant loans and bill payments, it now also provides a bank account with free transfers and a debit card and holds a microfinance bank license from the Central Bank of Nigeria. In 2020, FairMoney disbursed loans worth $93 million to over 1.3 million users through more than 6.5 million loan applications.[54]

[53] Company website.
[54] Tage Kene-Okafor, "With over 1.3 million users, Nigerian-based fintech FairMoney wants to replicate growth in India," *Techcrunch*, February 18,2021.

Exhibit 14

Fintechs have typically evolved through 3 different scenarios.



A third strategy sees fintechs focusing on the development of infrastructure that considers the unique circumstances and needs of the country in which they operate (Exhibit 15). For example, Interswitch established Nigeria's first transaction and switching infrastructure in the country between 2002 and 2007, paving the way for payment acceptance across the country and enabling it to pioneer Africa's largest card scheme—Verve—with payment acceptance in Nigeria and over 185 countries globally. Interswitch has since expanded its capabilities and geographic footprint.

Because African countries are still developing economies with considerable gaps in financial infrastructure, the continent's oldest fintech companies—including Interswitch and Flutterwave in Nigeria and Fawry in Egypt—all started out by building financial infrastructure to serve the market, and are now the industry leaders. Followers started to build more complex B2B and B2C products that address specific financial needs, starting with mobile money.

There are currently more than 250 million registered mobile money accounts across Africa.[55] Historically under-banked African countries have seen mobile money become a fiercely contested space, with the digital wallet space growing increasingly crowded as technology innovation looks to shake cash from its position as the most common mode of transaction.

[55] McKinsey Global Payments Map.

Although fintechs have a significant market share of mobile money, telcos still lead this space, and newcomers face pressure when attempting to establish themselves. In Cameroon, for example, the mobile money service YUP recently announced it would be shutting down operations just five years after launching. This can be attributed in part to the existence of the country's two main mobile operators (MTN and Orange) that entered the local market almost ten years before YUP and have had the opportunity to establish networks that make it more challenging for new ventures to enter.

While competition for wallets and mobile money customers is intense, lending and saving services, together with digital banks, remain a key growth opportunity in markets where payment infrastructure is already established such as Kenya and South Africa, but few players have reached significant scale.

Credit penetration on the continent remains low compared to global indicators and lending in Africa focuses on relatively low-risk customers, B2B lending, infrastructure tasks, on-demand access to wages, and buy-now-pay-later (BNPL) credit in partnership with online and offline retail stores. The global average credit card penetration is 19 percent, eclipsing African countries like Kenya (6 percent), Egypt (3 percent), and even South Africa (9 percent).[56]

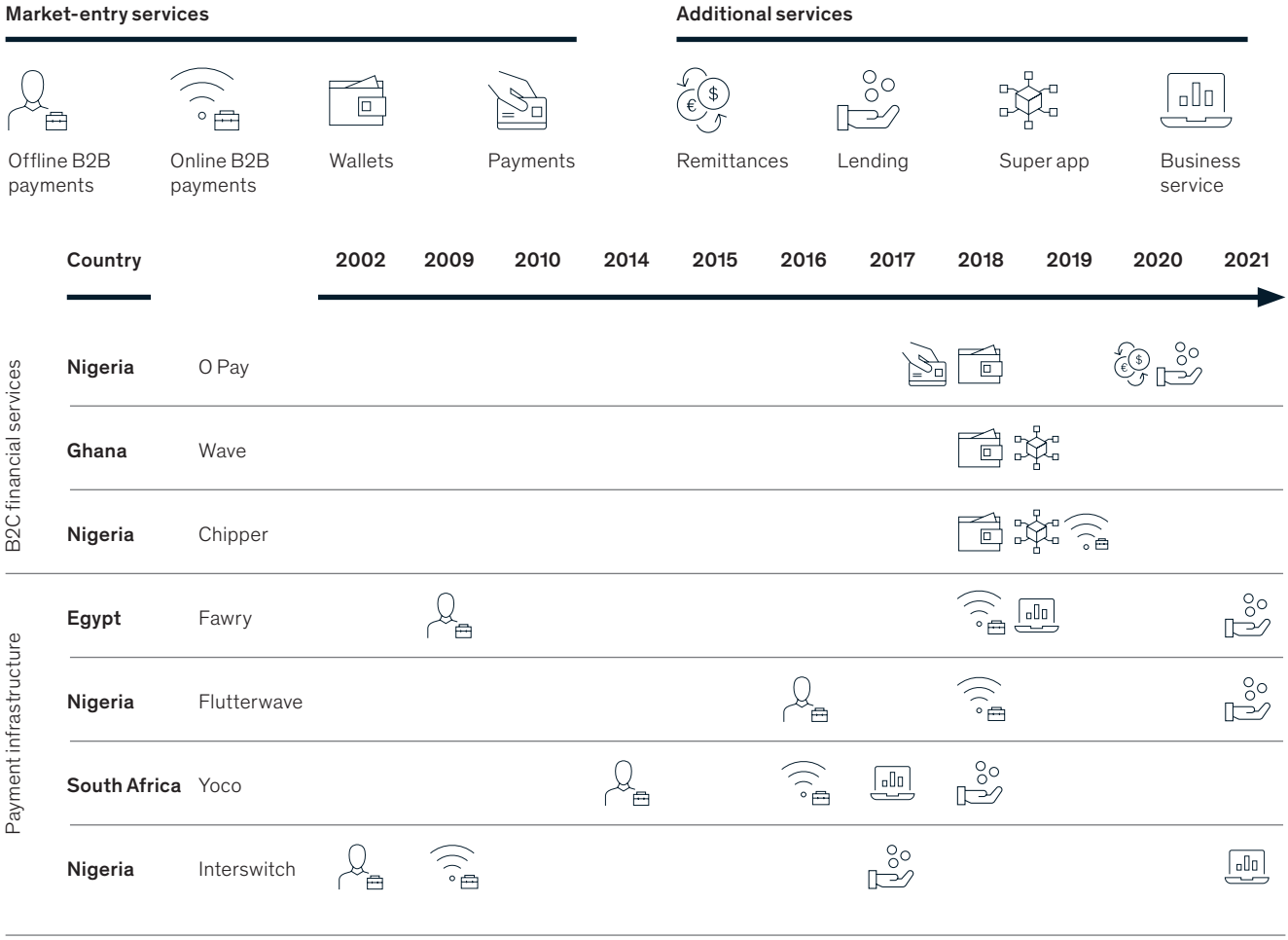
As of 2018, only 11 percent of Africa's population had their credit information recorded by private credit bureaus, compared to 17 percent in emerging Asia and 79 percent in Latin America.[57] Since traditional banks rely on consumer credit models to evaluate risk and credit bureau coverage remains low, large swathes of the population are excluded from the world of credit. By contrast, fintechs have been able to onboard customers rapidly, offering sleek customer experiences and unsecured loans that do not require collateral or face-to-face conversations, with credit scoring backed by data derived from payment and other transactions. In Kenya, the fintech Tala's credit-led approach to digital banking is enabled through leveraging users' phone data and activities (for instance, the frequency and timeliness of paying phone bills) to generate credit scores. Similarly, in South Africa, Jumo facilitates digital financial services such as credit and savings, leveraging an unconventional digital credit model that does not require customers to have prior financial account ownership or a credit history. Loan decisions are automated and the digital credit application process happens over a mobile device with no need for in-person interactions.

As of 2018, only 11 percent of Africa's population had their credit information recorded by private credit bureaus, compared to 17 percent in emerging Asia and 79 percent in Latin America.

[56] *Payments & E-Commerce Report: Middle East & Africa*, PPRO, 2019/2020.
[57] Mutsa Chironga, Luis Cunha, Hilary De Grandis, Mayowa Kuyoro, "Roaring to life: Growth and innovation in African retail banking," McKinsey, February 2018.

Exhibit 15

Large African fintechs have entered the payments market by solving infrastructure needs across their home market.



Source: Company websites

2. Acquire a large base of active users quickly

Africa's fast-growing population of more than 1.3 billion people offers a large potential market for fintechs to connect with. However, customer acquisition and sustainable growth may be hampered by infrastructure constraints and low customer purchasing power. Fintech leaders in Africa have typically adopted one of two client acquisition strategies—pricing or physical network distribution—to enable them to scale their number of customers and grow more quickly than incumbents.

For instance, some of the biggest players across the continent have overcome infrastructure challenges by leveraging pre-existing physical networks to reach their customers and build their base. OPay in Nigeria has grown its business by building a vast agency network of more than 300,000 agents to counteract the lack of infrastructure in that country.[58] PalmPay has taken a different rout, pre-installing their application on selected smartphone devices to encourage usage.[59]

[58] Company website.
[59] "PalmPay to Pre-Install App on 20 Million Tecno, Infinix & Itel Mobile Phones," *Fintech Africa*, November 18, 2019.

$20

Average customer acquisition cost vs $7 revenue

Digitally enabled fintechs have also frequently chosen to employ aggressive pricing strategies to drive rapid customer acquisition and market-share growth, offering cheaper fees and charges than traditional banking systems. Zero-cost bank accounts and reduced or free transfer costs have led to a shake-up in the mobile money industry. In Senegal, Wave's aggressive pricing strategies, which apply a fixed transaction fee of 1 percent, influenced Orange, the largest telco in the country, to lower its prices to remain competitive. According to Aminata Kane, this trend is likely to continue: "The landscape is driving local transfer transaction prices towards almost zero—it's a matter of time until what happened to Senegal . . . will happen across Africa."[60] Indeed, other experts we have spoken to agree that aggressive pricing strategies have helped at least four digital players on the continent (OPay, Wave, Palmpay, and Chipper) to gain customer share rapidly over the past three years.

However, strategies such as these may come at a cost, as customer loyalty is not guaranteed. Fintechs that wish to build long-term sustainability may also need to focus on customer retention and supporting healthy revenues by diversifying their offering to offset the risk of customers leaving for businesses that offer similar services at even lower prices.

3. Have clear monetization strategies that are rolled out effectively

Globally, B2C fintech companies tend to invest heavily in customer acquisition, putting growth-at-scale ahead of profits. But to convert a large customer base into reliable revenues, fintechs need to develop strong and effective monetization strategies.

Companies that have a long history of operations in Africa have either had a repeatable and healthy revenue source that comes from a core activity, for example card switching for Interswitch or serving merchants with point-of-sale (POS) for Yoco, or they have developed multiple monetization strategies, such as adding a B2C arm to a B2B company or vice versa. For example, OPay has now diversified its services to include airtime, bill payments, remittances, and lifestyle services, as well as merchant services like payment gateways, merchant POS, and lending, in order to retain its customers and support healthy revenues going forward.[61] McKinsey estimates that in Africa, customer acquisition costs for fintechs are significantly higher than revenue earned per customer, with some companies spending as much as $20 for every customer acquired while generating just $7 revenue.

To cover costs, African B2C fintechs tend to focus on doing business at scale, a strategy that will ultimately reduce their per-customer acquisition costs and enable them to reap the rewards. Second, a key source of revenue for B2C players comes from the fees charged to merchants when they accept payments from users' digital wallets or cards. Merchants' acceptance of a fintech company's wallet or card is usually decided by the size of its customer base and how widespread its usage is. To secure additional revenue sources, most fintechs that started out as consumer-facing businesses are now also expanding to serve merchants by, for example, introducing multi-purpose payment gateways for merchants, engaging merchants to accept payments from their wallets, or offering offline payment services through POS and mobile POS. For example, Paga has launched a business platform, Doroki, to target small-to-medium businesses that enables merchants to collect and reconcile payments seamlessly.

B2B players, by contrast, tend to have significantly better unit economics, monetizing their merchant customer base and generating revenues early without sacrificing profits. In fact, McKinsey analysis finds that revenues generated by African B2B businesses are almost comparable to global fintechs, both in terms of absolute revenue and in terms of revenue per customer, with some companies seeing a return on investment nearly double their average investment per customer.

[60] Expert interview.
[61] Company website.

To generate new revenues, leading B2B players are now looking at ways to add B2C services to their portfolio by, for example, increasing revenue from consumers directly, as Interswitch is doing with its B2C wallet, or by increasing fees from merchants that accept payments from customers using wallets and cards they have introduced.

4. Manage lower expected revenue per customer

Africa has the lowest-income population on the planet, with personal consumption expenditure (PCE) that may be up to ten times lower than that of North America and five times lower than in Europe. Since low PCE levels can limit the potential revenues per customer for African B2C fintechs, products, services, and operating models are being adjusted to take this into account. The African micro, small, and medium-enterprise sector also creates much less value compared to North America and Europe, which similarly limits B2B service revenues.[62]

Leading fintech players are employing a variety of strategies to adjust to this environment, including using scale to reduce costs of serving customers, reducing operating costs by offering low-priced products to customers through the use of cloud-based technologies, adjusting business models, and developing alternative data sources and scoring to enable customers to access lending services. For instance, TymeBank is using innovative technologies and cloud platforms to reduce operating costs, while FairMoney and Tala are using non-traditional data sources to assess credit risk, enabling them to offer instant loans in countries where credit bureau data is scarce. Meanwhile, Yoco has adapted to a 'pay-as-you-go' business model, only charging fees for actual transactions, which allows them to serve businesses that can't afford advance payments for pricey POS devices.[63]

[62] McKinsey analysis of data from IHS Markit.
[63] Ibid.

5. Understand and address Africa's offline market

Most African countries are far behind developed countries when it comes to penetration of bank branches and formal ATMs. In Nigeria, for example, there are only four bank branches, 17 ATMs, and 147 POS devices for every 100,000 people compared to North America, which has 25 branches, 210 ATMs, and a vast network of nearly 3,000 POS systems for every 100,000 people.[64] Since reaching clients offline is a key ingredient for success in Africa, fintechs are overcoming this challenge in a variety of ways.

One strategy is to utilize pre-existing infrastructure to increase penetration into the market. TymeBank, in South Africa, has taken advantage of an existing retail store infrastructure by partnering with two major retail chains that enjoy a wide footprint in the country at over 700 stores.[65] Not only has TymeBank been able to eliminate the need for physical branches while maintaining a national physical presence, it has also been able to reduce its operating costs. This saving is passed on to their customers, providing millions of unbanked South Africans with low-cost financial access.

Using pre-existing networks such as a mobile network, as M-Pesa did, or pre-installation of apps on smartphones, as PalmPay did, could be another way to sidestep the infrastructure challenge.

The development of agent networks as a substitute for brick-and-mortar environments has become a key growth strategy for fintechs on the continent. Nigeria, for instance, has a network of over 700 mobile money and banking agents for every 100,000 adults, with 43 agents for each ATM in the country. In Kenya the numbers are even higher, with 1,322 agents for every 100,000 adults and 189 agents per ATM. Agent networks enable fintech players to grow their customer base, facilitate transactions, onboard merchants, and build trust in the brand. They also represent a prime job-creation opportunity, especially for young people. GSMA estimates that the mobile industry in sub-Saharan Africa directly employed 1.2 million youth in 2018, and this number is expected to grow to 1.5 million by 2025.[66]

Nigeria has a network of over 700 mobile money and banking agents for every 100,000 adults, with 43 agents for each ATM in the country. In Kenya the numbers are even higher, with 1,322 agents for every 100,000 adults and 189 agents per ATM.

[64] McKinsey Global Payments Map.
[65] "TymeBank reaches 3m customers, 700 retail kiosks," *ITWeb*, 31 March, 2021.
[66] *Powering Youth Employment through the mobile industry in sub-Saharan Africa by 2025: Spotlight on Ghana, Senegal and Nigeria,* GSMA Mobile for Development, January 2020

Telcos, fintechs, and banks are all significant players in the agency banking landscape, each with their own strengths and weaknesses. Telcos like M-Pesa and MTN have the advantage of a large pre-existing network of agents (600,000 agents and 800,000 agents countrywide respectively).[67] Banks' agent networks are smaller, ranging from 15,000 to 100,000; however, they benefit from being able to leverage their physical branches to facilitate training and management.[68] Of the three players, fintechs have the largest pool of financially trained agents. OPay has approximately 300,000 agents, while in Egypt, Fawry had 166,500 active agents.[69]

6. Actively engage, align with, and work with regulators

Fintechs building sustainable businesses are constantly aligning with regulatory policies, and having reached significant scale, they work with governments to move in a unified direction and gather support on a national level. Due to underdeveloped financial infrastructure, fintech startups may often play a critical role in enabling the economic development of African countries, helping to drive financial inclusion, fight poverty, and increase financial literacy.

Leading fintechs throughout the continent engage with governments around regulation to gain sustainable growth potential with the support of the government. This partnering comes in many forms, from associating with government programs, as Fawry has done in Egypt, to providing solutions to state governments that enable the collection of internally generated revenues and taxes, as is the case with Interswitch. In Kenya, Safaricom—the owner of M-Pesa—is 35 percent owned by the Kenyan government. The Kenyan Government, Central Bank of Kenya, and Safaricom have effectively worked together to build public trust through well-aligned initiatives that benefit Kenya's citizens.

Companies that neglect to work with regulators and the government could be negatively impacted by changing regulations. For example, in March 2022, the Ghanaian government ordered the payment firm Dash to cease operations after the regulator noted that the Dash app was offering services, including cross-border payments, wallet creation, and bill payment services, without approval from the Central Bank.[70] Board Member at the Africa Fintech Network and investor, Ali Hussein Kassim, believes it is therefore critical for fintechs with serious long-term ambitions for scale to partner with regulators and help them to achieve their vision for a particular country or region.

[67] Company website, Vodafone; Samson Akintaro, "MTN's fintech customers hit 10.7 million," Nairametrics, May 16, 2022.
[68] Expert interviews and company annual reports.
[69] *Investing for Growth Deal Book: Portfolio company cases from fund managers across Africa, Asia, Emerging Europe, Latin America, and the Middle East, 2021,* EMPEA, 2021.
[70] Gabriel Enjinwa, "Ghana: Central Bank stops Dash operations," *Inclusion Times*, March 15, 2022.

"Rather than a fintech disruption the continent is experiencing a fintech eruption."

Industry leader

$30 billion

African fintech revenue potential by 2025

4. Let there be digital: Building Africa's fintech future

Successful African fintechs are laying down the path for others to follow. And as digital adoption accelerates in Africa, the fintech sector is poised for further growth. To capitalize on the momentum of the past few years, all stakeholders have a critical part to play. We believe a set of tangible, pragmatic steps could help unlock the next wave of growth.

Regulators: A focus on predictability, flexibility, and scalability

Given the impact of the regulatory environment on both fintech growth and financial inclusion, it is likely to be in the interest of all—consumers, policymakers, and the industry—to work with fintechs and financial service incumbents to promote predictability and keep pace with the fast-changing flow of information on emerging technologies, while also building uniform regulatory policies across regions and the whole continent to enable smooth cross-border transactions and stimulate economic growth.

Regulators may also help to increase the flexibility and scalability of fintech services and infrastructure by encouraging digital reporting and data mastery and developing formal data systems that are centralized and protected.

Fintechs and incumbents: A focus on partnerships and talent

Fintechs and incumbents both play a pivotal role when it comes to the long-term growth of the sector, particularly with regard to driving engagement with regulators to help create alignment and mitigate operational risks. Partnerships could be critical for long-term success, not just with regulators, but also with each other to enable a shared economy. Fintechs' ability to respond quickly to market needs and their strength in product development and rapid innovation could be complemented by incumbents' experience in navigating regulatory environments, their wide range of products and capabilities, and better brand awareness and trust with consumers.

Fintechs and incumbents could also both take an active role in supporting the development of a skilled pool of talent necessary for growth and innovation at scale. While there is currently a shortage of sufficient experienced local talent in Africa to grow the market, a large, young, digitally-native African population offers significant potential. By supporting the growth of training and skills development through informal technological education programs and training opportunities and focusing on recruiting and rewarding talent with strong IT and data capabilities, fintechs and incumbents could develop the skills and expertise they need from local populations to help drive growth.

A focus on reducing cost and increasing access is also likely to be critical. In this, incumbents can leverage their existing infrastructure and networks, including branches, ATMs, and agents, to expand their service offering to reach underserved populations while fintechs, with their tech-led models and lower operating costs, are well positioned to reach SMEs in particular, but they may have to consider venturing offline to acquire them. Underserved SMEs remain an open opportunity for financial services. In South Africa, more than 95 percent of SMEs are micro enterprises with less than ten employees, and more than 80 percent of these are informal or unregistered businesses.[71]

Investors: A focus on value over valuation

The role of investors is equally vital, particularly when it comes to identifying opportunities for further growth and expansion. Investors could contribute by focusing locally for the next set of opportunities and educating African investors about opportunities they identify. Second, investors could focus on the actual value added by startups rather than just their market valuation by identifying sustainable investments, assisting in developing positive unit economics, and investing in portfolio ecosystems instead of large one-off bets.

Fintechs that achieve sustainability in the next phase are likely to have a clear value proposition and be disciplined and well run. As Jumanne Mtambalike, CEO of investment firm Sahara Ventures, writes: "Whether we call them 'Zebracons' or 'Camels' we need to find a way to make African startups look more like African businesses and not vehicles created to be sold to the highest bidders in the PE and stock markets."[72]

***

Fintech players in Africa have much to be bullish about. The industry has reached the end of its beginning. Strong foundations have been laid; infrastructure is in place, funding has been growing, value is being generated, and people are coming online at a faster pace than ever before. Now is the time to consolidate and push further. There are still many white spaces and underserved opportunities in all 11 opportunity markets identified in this report. However, the path ahead will not be without its challenges; a tightening funding environment, ongoing challenges with fragmentation, and a scarcity of talent are just some of the factors that will likely put pressure on Africa's nascent fintech sector in the months ahead. Nevertheless, thanks to the momentum that has been built over the past several years, the prospects for African fintech have never been better. With the right incentives and support, the next marvel of African unicorns is just waiting to be released.

[71] How South African SMEs can survive and thrive post COVID-19," McKinsey, July 10, 2020.
[72] Jumanne Rajabu Mtambalike, "A sweet big lie told to African startups," Afruturist, March 26 2022.

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