FinTech Regulation and Africa's Growth Post Covid-19

By:

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The Covid-19 crisis is impacting different countries in different ways. Based on the recent research published by the World Health Organisation (WHO) there would be a lower rate of transmission and viral spread across the African continent than elsewhere, resulting in fewer deaths than Europe and US because of its younger population and other lifestyle factors. Nonetheless, the economic toll is likely to be severe for a long time in comparison to Europe and the US.

The reasons for this include: (1) weak healthcare systems and infrastructure to deal with a pandemic of this magnitude which is likely to make the impact of the pandemic generally worst and recovery from it very slow; (2) slow growth in some of the largest economies on the continent in months preceding the pandemic such as oil-exporting country, Nigeria, whose economy has been significantly impacted by drop in oil prices; (3) many African economies are heavily indebted and grappling with implementing their budget; (4) African labour markets are largely driven by imports and exports and with the

lockdown still in place in most parts of the world, their economies are stagnated with huge implications on jobs; (5) a drop in international remittance to Africa from the West as the resulting unemployment from the West would significantly reduce such flows, according to the world bank there would be a drop by 23.1% to $37 billion in remittance figure in 2020.

Financial Technology (FinTech), which is the use of technology to facilitate the delivery of financial products and services can play a great role both during and after the crisis to set African economies on a path to recovery. One of the benefits of FinTech is that it enables financial inclusion which is a process of enabling poorer people and businesses who would otherwise have been excluded from financial services due to the relatively high cost of a bank account which require minimum balance, service charges, fulfilment of Know-Your-Customer (KYC) requirements, and travel time to a branch. With about 60% still unbanked in Africa, there is still a lot of ground to cover and more so as part of the broader post Covid-19 recovery strategy. Examples of these products and services include mobile money, crowd funding and cryptocurrencies.

Perhaps the clearest and most successful example of this on the African continent is the launch of mobile money, M-Pesa, in Kenya through Safaricom in 2007. Mobile money services enable people to use their mobile devices (such as mobile phones) to store and receive money and make payment. It is a service usually provided by mobile network operators to their customers which enables them to: credit their mobile money account through local retailers; use such funds to make payments; transfer such credit to friends and loved ones' phones; and recipients can then cash the money through a local retailer. These services operate through the network of agents (local retailers) registered with the mobile network company serving as cash in or cash out agents. As these services can also involve partnerships with regulated banks and can facilitate the transfer of funds between bank accounts and mobile money accounts and vice versa using mobile devices, it inevitably includes the financially excluded into the formal banking system.

There have, however, been mixed reactions to these developments on the African continent. So while these services are of a significant size in East

African countries through favourable regulation, with Kenya recording every 3 in 4 persons having a mobile money account, other parts of sub-Saharan Africa has not experienced such growth. So, although mobile money services are now increasing in West Africa, for a long time, for example, the largest economy in the entire region, Nigeria, did not grant permission for their operation, and even now has not granted the largest network operator, MTN, the required Payment Service Banks (PSB) licence that would make mobile money fully operational. On the other hand, countries like , Ghana and Cote d'Ivoire where MTN the license to offer full mobile money services, the company was able to launch its Homeland remittance service in 2019, facilitating money transfer between Europe and Africa.

In the context of the drying up of international remittance to Africa due to the fall outs of covid-19 in the West, this is surely the direction all African countries want to be heading. Suffice also to mention that after WHO linked the spread of the virus to the use of dirty notes, African governments have begun to promote more the use of mobile money for payments than cash as part of the broader response to the pandemic.

Other FinTech services include crowdfunding which gives people and small and medium sized enterprises (SMEs) the opportunities to raise finance through online platforms without having to comply with stringent KYC requirements. These services are, however, largely unregulated in Africa and regulation can play a huge role in their growth particularly as potential financers of SMEs may fear exposure to losses to their investments using these unregulated platforms.

Cryptocurrencies are another type of FinTech product. They are convertible virtual currencies not issued by a central administrative body such as a central bank, but are convertible to fiat currency. Powered by distributed ledger technology (blockchain) and characterised by their accessibility to anyone and their ability to be used to transfer digital representation of value on a peer to peer basis, they are deemed to facilitate financial inclusion and have also been described as the future of money. Although originally frowned upon for their links with financial crime, these services are receiving recognition in African countries such as Zimbabwe and Kenya who have now opened their minds through announcements by regulators to trial out new cryptocurrency business

ideas in a controlled environment (regulatory sandbox). In fact South Africa indicates they would comply with international standards FATF aimed at preventing their use for money laundering purposes while other have been less receptive – such as Nigeria which still discourages citizens to transact with them.

As these FinTech services are known to enable the poor and SME access finance - which constitute the largest percentage of population in Africa - these services can significantly facilitate economic activity post the Covid-19 crisis. With potential access to raising finance in a larger regional market in the context of the African Continental Free Trade Area, the opportunities - if all goes well with African Continental Free Trade Area agenda - can be a game changer for intra-African trade.

Nonetheless, as all the services carry the risk of financial crime such as money laundering and terrorism financing and risks to users (investors such as those investing through crowdfunding) regulation is key. Rather than regulate them out of existence, however, African economies should embrace a regulatory friendly approach to their operation which would be vital to: provide SMEs and individuals access to finance; kick start economies; create jobs and set Africa on the trajectory of growth again post the Covid-19 crises.

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