The Role of the AfCFTA in delivering the promises of the Fintech industry in Africa

By:

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From Lagos to Nairobi to Cape town, Fintech businesses are thriving across the African continent and processing billions of dollars in transactions monthly; boldly announcing the birth of the digital banking era in Africa. In the last decade, the Fintech industry has deployed technology to deliver cutting-edge banking and financial services on the African continent. This state of affairs has influenced the provision of core financial services to millions of people on the continent who had no access to them from the brick-and-mortar financial service providers, thus, positioning the sector as the major driver of economic growth across the continent.

As the waves of disruption continue to move across the African market, a careful study of the market will reveal that the paradigms of economic growth being introduced by the Fintech industry are unprecedented. With an estimated 330 million adult Africans lacking access to formal financial services; the

Fintech industry has the potential to positively influence various sectors of the African economy and governance. The potentials of the sector are heightened by the projected estimate of about 525 million smartphones in Sub-Saharan Africa by 2020; thus positioning the financial transactions to grow at a rate of knots and contribute about 150 billion dollars to Africa's GDP by 2022. It is no surprise that Fintech startups claimed about 86 million dollars in funding, in Nigeria, in 2018. The potentials are increased with established tech companies like Facebook and Google, participating in and leading the race to improve internet access across the rural parts of the continent. The combination of these factors reasonably sets the Fintech industry up for being the main driver of employment and economic growth in Africa. The industry currently employs about 3 million peopledirectly and indirectly on the continent. Undeniably, the mind-blowing potentials expressed above lends credence to the fact that the services being provided by the Fintech businesses across the continent are an important feature of the modern economy and they help to grow the African markets by making world class financial technological services available. They are also set to replace traditional banking in Africa. This spate of growth also increases the necessity for cross-border regulation in order to ensure; a financially healthy continent, sustain the socio-economic growth being fostered by the industry, maintain the industry's credibility globally, and also ensure that the end-user of the financial technological services is protected. A lack of coordination and regulation of the sector across the continent could limit the growth of the businesses operating in the sector. This argument is supported by the fact that there are conflicting legislations across the continent that are yet to fully understand the changing paradigms and potentials in the industry.

There are also limiting regulatory bottlenecks being imposed by national governments and this accounts for why M-Pesa thrives in Kenya but failed when it was introduced in South Africa. If we learnt anything from the last global financial crisis, it is the importance of regulating and understanding innovative financial services. A common front in the regulation of the industry in Africa could forestall a financial crisis in the continent which could come from failure to effectively regulate the sector, thereby causing businesses to fail and causing the end-users to be financially vulnerable. Our best bet to avoid these and enhance the prospects of the businesses in providing banking services to the millions of unbanked Africans is the *African Continental Free Trade*

Agreement (AfCFTA). The AfCFTA is in line with the continental goals and aspirations expressed in the Agenda 2063. It proposes a single market framework in Africa and is driven by the potential to create a market place of 55 African nations, an estimated 1.2 billion people and a market size of about 3 trillion dollars. It is history's largest trade agreement and it is hinged on an economic liberalization policy which facilitates cross-border African trade with little or no tariffs, free access to the market and market information. This will make it easy for the Fintech businesses currently operating within national markets to expand their customer base across countries in the single market framework and ease the process of investing in innovation. The unified market policy and harmonization of the market structures will lead to the lifting of restrictions on FDI and inevitably cause investors to flock into the African continent. The influx of capital can also stimulate the growth of the banking systems which will in turn lead to more investment and consumer lending. The single market framework, while creating a unified regulatory framework for the Fintech services industry, could also pose serious problems for the sector if certain potential problems are not addressed.

A potential problem for the industry would be the theft of Intellectual Property rights as many African countries lack a robust legal framework that can cater for patents, inventions and new processes. This could negatively impact businesses in the Fintech industry and reduce the morale for investment in innovation. This will not augur well for the ease of doing business in the sector, if national governments introduce IP-rights-protection policies that are very dissimilar. Another potential problem lies in the heterogeneity of the African markets which could lead to uneven economic development and unfair competitive policies. This could cripple growth and frustrate the unified market structures that AfCFTA will be putting in place. Ancillary to this problem is the fact that foreign Fintech businesses are beginning to court the African market as can be seen in Alipay's expansion to Africa. If the investment policy is not properly regulated; these businesses (with their large capital base and technical capacity) would cause indigenous Fintech businesses to phase out due to their inability to effectively compete. Interestingly, AfCFTA presents commendable solutions to these problems. The solutions are embedded in the items placed on the agenda for Phase 2 of the negotiation stage for AfCFTA as stated in *Articles 4(c) and 7 of AfCFTA.*The items are; investment, intellectual property rights and competition policy; and are to be negotiated upon after the adoption of the Agreement by the Assembly and are to be undertaken in successive rounds. Thus, apart from creating a unified competitive policy framework which would help Fintech businesses to thrive, Countries also reserve the right to regulate their national competition policy in line with the express conferment of that power in *Article 8.* Additionally, the adoption of an investment policy which prevents foreign Fintech businesses from dominating the African market is also important. Furthermore, the second phase of the negotiations gives African countries the opportunity to negotiate the IP agenda of the AfCFTA. The best strategy in this regard would be to create a unified IP rights protection framework (built on an effective multilateral agreement) which allows the protection of the rights within a single framework; with similar requirements and duration, as well as instant protection across national markets within the single African market. In conclusion, the smooth and effective running of the AfCFTA and proper negotiation in the second phase of negotiations could help in the attainment of the continent’s most daring and ambitious goal yet. This is the creation of a single African market characterized by digital, financial and social inclusion; with our very own cities (Lagos, Nairobi, and Cape Town) competing to be the Fintech hub of the continent and the globe!

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