AFRICA FINTECH TODAY

This commentary is based on a report compiled by Lantern Comitas and Miranda Partners who are leading Strategic Communication Advisors for Emerging Markets in Africa and Latin America.

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Financial exclusion rates and population boom accelerate African fintech

Despite talk of an overcrowded market and funding retreat, fintech is proving its mettle in the African markets, serving as a lever to financial inclusion and increasingly bringing innovative solutions to market that are uniquely designed for the heterogeneity of the African population.

Capital providers are buoyed by predictions of steady population growth and opportunities to reach unbanked, undeserved segments.

According to recent data, 71% of adults in developing economies had a bank account at a bank or regulated institution, with the associated expense, a lack of knowledge and geographical isolation having been flagged as key inhibitors to financial inclusivity. In Sub-Saharan Africa, around 62% of unbanked adults in the region are rural dwellers, while 31% consider distance a barrier to entering the formal banking system.

Meanwhile, the African population is expected to double to 2.5 billion by 2050, with much of this growth in urban centres, presenting a growing market for fintech innovation.

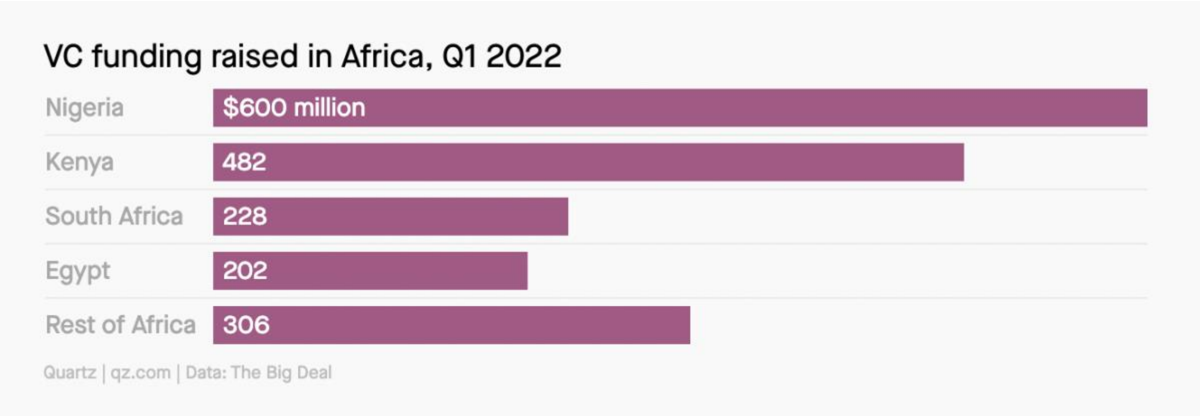
While financial inclusion rates on the continent are low, there is steady improvement. The World Bank outlined in its Global Findex Database report for 2021 that the share of adults making or receiving digital payments in developing economies grew from 35% in 2014 to 57% in 2021, adding that mobile money has become an important enabler of financial inclusion in Sub-Saharan Africa.

Africa resilient amid global capital retreat

According to CBInsights, global fintech quarterly funding dropped to USD 20.4 billion in the second quarter of 2022, its lowest level since Q420. Despite a global *"fintech funding winter"* in the first half of 2022, Africa remains the region least hit by the venture capital (VC) retreat due to the opportunity posed by the increasing size and maturity of African economies.

Prominent fintech Flutterwave, tripled its valuation following a USD 250 million Series D funding round in February, while contemporaries Wasoko, Interswitch and MFS Africa also banked hundreds of millions of funding in the first six months of 2022. As a result of this activity, total VC investment in Africa reached USD 1.8 billion in the first quarter of 2022 alone, a 150% increase compared with the same period in 2021, according to data from Africa-focused database The Big Deal.

Kenya attracted more venture funding in the first three months of 2022 (USD 482 million) than it did in all of 2021 (USD 412 million).



But there is a need for start-ups to remain vigilant in this unpredictable economic environment and refocus on creating sustainable, long-term business models, as venture capitalists start to present far stricter funding terms. Investors are also paying more attention to start-ups operating in ancillary industries that support fintech, such as logistics, blockchain, education, and green energy.

The biggest deals of 2022 YTD:

	Company	Round Amount	Round Date	Round Valuation	Select Investors	Country	% of Total Funding
1	**KuCoin**	**$150M**	**Series A** 2022-05-10	$10.0B	Jump Crypto, IDG Capital, Matrix Partners China, Circle Ventures	Seychelles	40.8%
2	**Paymob**	**$50M**	**Series B** 2022-05-09	N/A	Clay Point Investors, Kora Management, PayPal Ventures, A15, FMO	Egypt	13.6%
3	**BVNK**	**$40M**	**Series A** 2022-05-12	$340M	Tiger Global Management, Avenir Growth Capital, Base Capital, Concentric, Kingsway Capital Partners	South Africa	10.9%
4	**Jambo**	**$30M**	**Series A** 2022-05-10	N/A	Paradigm, Alameda Research Ventures, Brevan Howard, Coinbase Ventures, Delphi Ventures	Congo, Republic of the	8.2%
5	**Mara**	**$23M**	**Seed VC** 2022-05-11	N/A	Alameda Research, Coinbase Ventures, Day One Ventures, Distributed Global, Huobi Ventures	Kenya	6.3%
6	**valU**	**$12M**	**Private Equity** 2022-06-20	$249M	Alhokair	Egypt	3.4%
6	**Union54**	**$12M**	**Seed VC** 2022-04-18	N/A	Tiger Global Management, Vibe Capital, Earl Grey Capital, Not Boring Capital	Zambia	3.3%
8	**ZirooPay**	**$11M**	**Series A** 2022-04-05	N/A	Zrosk Investment Management, Inventure, Fedha Capital, Tellimer	Nigeria	3.1%
9	**valU**	**$10M**	**Corporate Minority** 2022-05-16	N/A	Amazon	Egypt	2.7%
10	**LifeCheq**	**$3M**	**Series A** 2022-05-31	N/A	Naspers	South Africa	0.9%
10	**IdentityPass**	**$3M**	**Seed VC** 2022-05-11	N/A	MaC Venture Capital, Y Combinator, Soma Capital, Sherwani Capital	Nigeria	0.8%
10	**BetaStore**	**$3M**	**Seed VC** 2022-05-31	N/A	500 Global, Beta.Ventures, Loyal VC, VestedWorld	Nigeria	0.7%

Source: CBInsights

2021 a year of mega-deals

Fintech enterprises in Africa remained in the crosshairs of investors in 2021, with the continent seeing at least USD 2.2 billion injected into 564 fintech start-ups by the end of the year (this figure varies according to different reliable sources). The average deal size more than doubled on 2020 figures, increasing from over USD 1,7 million to USD 3,8 million in 2021, Disrupt Africa outlines in its African Tech Funding Report 2021.

The number of funded start-ups grew by 42.1% on 397 in 2020, and the funding grew 206.3% on the USD 701.46 million banked the previous year. VC funds based in Europe, the US and the UK continue to scout for viable investment targets and are most interested in financial service providers that have incorporated fintech in their offerings.

Equity funding remains dominant, with the bulk secured during seed, pre-seed, pre-Series A and Series A rounds. This is due to the fact that most funded start-ups launched in the last three years.

However, many start-ups and SMEs in sub-Saharan Africa fail to secure loans or funding because they are unable to provide key information about their businesses to capital providers including clear financial statements, detailed business plans, market studies, credit profiles and tangible track records.

Several development funding facilities have also emerged in response to fintech growth, with the likes of the African Development Bank's Africa Digital Financial Inclusion Facility working to address systemic barriers to the growth and uptake of digital financial services *"by making strategic and catalytic investments in the ecosystem throughout Africa"*.

Most recently, in April 2022, the ADFI announced a fourth round of financing of USD 54.8 million, which will benefit almost 69,000 women entrepreneurs in developing economies with access to digital technology and finance.

In July 2022, the International Finance Corporation (IFC) announced an investment in mobile money provider Wave Mobile to spur financial inclusion and support economic growth in Senegal and Côte d'Ivoire. Growth capital for overall start-up investment in Africa is emerging primarily from investors in the UK and US, many with headquarters in South Africa and Mauritius.

Meanwhile, exit and acquisition activity continues to rise across the continent. In 2021, 32 African start-ups were acquired over the course of the 12 months. The more developed African markets lead the way – South Africa saw nine acquisitions in 2021, while Nigeria saw three acquisitions, Egypt seven, Morocco three and Kenya two.

These include South Africa's Skynamo (which acquired UK's mSeller), Nigeria's Autochek (which acquired Cheki's Kenya and Uganda businesses), Ghana's mPharma (which bought a bricks-and-morter pharmacy business), Nigeria's CribMD (which acquired a pharmaceutical company), Nigeria's Helium Health (which bought UAE-based Meddy), and Egypt's Minly (which acquired UAE-based Oulo).

Regulatory sandboxes leading African policy development

Policymakers are being encouraged to look beyond the potential benefits of fintech in the financial sector to consider the possible impact of financial technology applications on employment and productivity, the digital economy, and more broadly, the scope for structural transformation.

Emerging as the most popular regulatory entity in Africa are regulatory sandboxes, which are supervised environments created by regulators that allow innovative businesses to test new products and solutions prior to their full implementation. These sandboxes target a variety of entities and financial products. As a result, underlying sandbox rules tend to be broad enough to encompass most fintech businesses.

The University of Cambridge has identified ten fintech regulatory sandboxes in place in Sub-Saharan Africa (SSA), with a further six in the planning stages. South Africa, Nigeria and Kenya lead the pack. These initiatives facilitate engagement between regulators and fintech firms, streamline authorisation processes and reduce the time it takes for firms to reach the market. Some 63% of fintech firms in SSA surveyed by the University of Cambridge say they *"urgently need"* faster authorisation and/or licensing processes for new activities, and over half indicate they require streamlined product and service approval.

According to the University of Cambridge, 35% of sampled jurisdictions in SSA have a framework that regulates peer-to-peer (P2P) lending (a key element of mobile money and online payments), with a further 15% of jurisdictions planning to introduce such a framework. This lags that of the Middle East and North Africa (58%) or Asia-Pacific (72%) regions. Although four SSA sampled jurisdictions regulate P2P under an existing framework, only two jurisdictions have bespoke frameworks for P2P lending in place.

Meanwhile, the African Financial Industry Summit Advisory Board has argued for the establishment of a pan-African regulatory platform to bring together central banks, fintechs, traditional banks and insurers to harmonise licensing rules in Africa, develop financial inclusion and better protect consumers.

Most in-demand fintech services

In terms of the most in-demand financial services, the digital payments space has posted remarkable growth in Africa in recent years and has attracted novel and innovative fintech payments solutions. Adults making or receiving digital payments now outpaces account ownership, with the number of adults making or receiving digital payments in developing economies growing from 35% in 2014 to 57% in 2021, bolstered largely by the impact of Covid-19.

According to the World Bank, hundreds of millions of unbanked adults receive payments in cash – such as wages, government transfers, or proceeds from the sale of agricultural goods. Transitioning these payments to financial institution or mobile money accounts could create an entry point for increasing account ownership among the unbanked.

Digital payments include the use of a mobile money account, a debit or credit card, a mobile phone, or the internet to make a payment, receive money, or send money from an account.

The full report can be found at: https://www.linkedin.com/posts/lantern-comitas_africa-fintech-today-aug-2022-activity-6965753086321528833-62Tk?utm_source=share&utm_medium=member_ios