Leapfrogging

Leapfrogging in the financial sector: Fintech revolution in Africa

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Last updated 24 March 2024 using IFs v7.84

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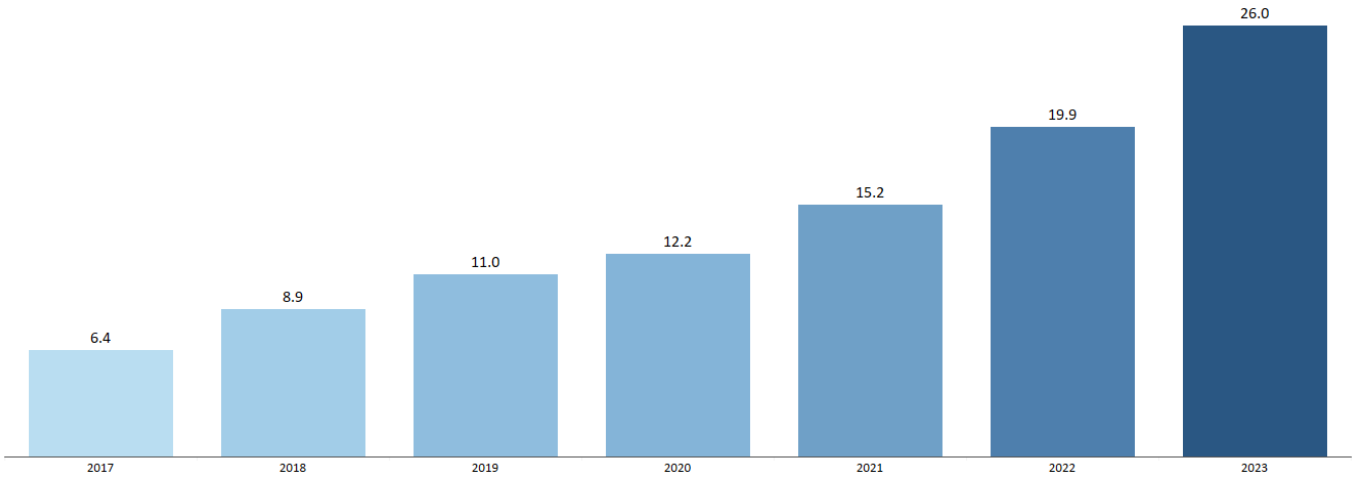
It is notoriously difficult to obtain credit in Africa, even for qualified borrowers, partly because currencies and markets are vulnerable and also because many institutions lack the capacity or resources to run large-scale lending operations to many poor users. Mobile telephony allows people who formerly had no access to bank accounts to transfer and withdraw money, including peer-to-peer payments, and take out loans or insurance. Today, mobile money has become a significant driver of social inclusion. Much of it started with M-Pesa (*pesa* means money in Kiswahili, widely spoken in East Africa).

In 2020, sub-Saharan Africa was responsible for almost half of mobile money activity in the world, with a transaction value of US$490 billion.

By the end of 2022, M-Pesa had 50 million customers across seven African countries and processed almost 20 billion individual transactions annually, as shown in Chart 5.[2] Its success has created an entirely mobile banking industry. In Uganda, one of many countries to seize the subsequent opportunities, the digitisation of utility services such as water and sanitation has followed, among others, benefiting from the rapid growth in mobile access.

Chart 5: M-Pesa transaction volume, 2017–2023



Source: IFs 7.84 initialising from ITU data

Mobile money and the ability of digital solutions to coordinate a range of public, private and civic stakeholders are driving inclusion and enabling informal sector workers to climb up the formality stairway to which we turn below. For example, Uganda's National Water and Sewerage Commission Services have digitised their utilities, including water, sanitation and electricity. In Kampala, 94% of the city does not have waterborne sewage and relies upon pit latrines, septic tanks and a bucket system. Today, the Kampala city platform combines a call centre with a mobile application that allows for the payment and scheduling of services. Pay-as-you-go solar is also expanding.

Internet-enabled technologies have also reduced consumption poverty and increased incomes. A 2016 study from the Massachusetts Institute of Technology estimates that M-Pesa has lifted nearly 200 000 households out of poverty since its inception, and that number would have increased substantially thereafter. The improvements were more significant for female headed-households and helped about 185 000 people move from agriculture to some other business venture. Access to mobile money helped borrowers navigate uncertainties caused by drought, adverse health conditions or other unforeseen events.[1]

The mobile money service also drove an increase in savings rates of more than 20% because a more secure method of storing money instils confidence in people that the future is worth investing in.[2]

While national mobile payment systems are seeing rapid progress, cross-border payments are often slow, expensive, opaque, cumbersome and inaccessible to many. Although technology has ushered in a new era of innovation in payments, linking the plumbing up between countries—by directly linking existing payment systems across borders—is still at an early stage. In 2021, IMF Managing Director Kristalina Georgieva pointed to the importance of getting the incentives right, using the regional payments system of the Southern African Development Community (SADC) as an example. The platform now includes 74 commercial and eight central banks across 15 countries.

'Imagine,' Ms Georgieva noted, 'a virtual marketplace where payment providers across countries can meet to transact according to common rules and procedures and a common technical infrastructure. Or a platform that allows households and firms to send central bank digital currencies directly to each other, immediately and without going through multiple costly intermediaries.' There are, of course, significant risks given the 'tension between open and interoperable cross-border payments—a technical objective—and countries' policy objectives to manage capital flows, limit volatility, and retain control over monetary policy and exchange rate regimes.' That, she mentioned, underlines the importance of macro-financial stability to underpin such cross-border systems. Most associated challenges will be overcome as part of implementing the African Continental Free Trade Area , examined separately.

Beyond their direct impact on economic growth and prosperity, Internet access and mobile phones have also become tools for social transformation. For example, Public Expenditure Tracking Surveys (PETS) have been widely adopted as a tool for tracking the flow of resources for a particular good or service to asses whether the funds reach the intended beneficiaries. For example, a 1996 PETS survey of public schools in Uganda showed a leakage rate of 87% in Uganda's education spending, which fell to 20% after the publication of the findings: in Tanzania, a 1997 PETS found 57% leakage in education and 41% in health spending. In Ghana, a 2000 PETS found 50% leakage in education and 80% in health. Digitization can potentially reduce corruption and leakages in program delivery.

However, mobile money also serves various nefarious activities. Following the 2021 terror attacks in Palma, Northern Mozambique, during which the terrorists from Ahlu-Sunnah wal Jama'a (ASWJ), supported by Islamic State in Mozambique, managed to rob and destroy two banks, the Southern African Development Community (SADC) established a technical mission to assess the nature and capabilities of the group ahead of a regional military intervention. One of the preliminary findings of the mission was that ASWJ receives funding through mobile money transfer platforms like M-Pesa, M-Kesh, and e-Mola from sympathetic individuals and private organisations from various countries across the region. Currently, mobile money transfer services generally fall outside the purview of national financial regulations ensuring the continuation of poor monitoring and oversight.

The impact of Internet access and mobile phone technology on elections, government accountability and potentially the spread of democracy has been profound. For example, after no candidate received the required 50% in the first round of presidential elections in Ghana on 7 December, 2008, in the runoff between former Foreign Minister Nana Akufo-Addo and former Vice-President John Atta Mills three weeks later, fewer than 31 000 votes separated the winner from the loser (a margin of less than 0.4%, with 73% of registered voters voting). Despite a history of coups and social turbulence in Ghana, the country and the region accepted Mills' victory. The tradition was maintained when, in December 2020, Nana Akufo-Addo won with 51% of the valid votes.

The reason for this was that civil society had been able to harness mobile phones and the Internet to place thousands of trained election monitors armed with mobile phones and an SMS-based coding system to check, report and tabulate results. In this manner, a parallel civil society system could verify official tallies and ensure a credible result.[3]

This pattern has been emulated in various forms across the continent, reducing the ability of incumbents and special interest groups to manipulate and distort results to their advantage—although not always successfully so.

Endnotes

1. A Leke, M Chironga and G Desvaux, *Africa's business revolution: How to succeed in the world's next big growth market*, Brighton: Harvard Business School Press, 2018.
2. A Leke, M Chironga and G Desvaux, *Africa's business revolution: How to succeed in the world's next big growth market*, Brighton: Harvard Business School Press, 2018.
3. H Dugmore, The impact of new media on recent sub-Saharan Africa elections (and African Democracy in general), PowerPoint presentation shared with the author on 26 November 2010. Dugmore is MTN chair of media and mobile communications at the School of Journalism and Media Studies at Rhodes University, South Africa.

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Cite this research

Jakkie Cilliers (2024) Leapfrogging. Published online at futures.issafrica.org. Retrieved from https://futures.issafrica.org/thematic/09-leapfrog/ [Online Resource] Updated 24 March 2024.

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Dr Jakkie Cilliers is the ISS's founder and former executive director of the ISS. He currently serves as chair of the ISS Board of Trustees and head of the African Futures and Innovation (AFI) programme at the Pretoria oce of the ISS. His 2017 best-seller Fate of the Nation addresses South Africa's futures from political, economic and social perspectives. His three most recent books, Africa First! Igniting a Growth Revolution (March 2020), The Future of Africa: Challenges and Opportunities (April 2021), and Africa Tomorrow: Pathways to Prosperity (June 2022) take a rigorous look at the continent as a whole.

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