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# Driving Financial Inclusion in Africa

Insights from the INCLUSIVE FINTECH FORUM™ | 20-22 JUNE 2023

Strategic collaboration between Elevandi and Kigali International Financial Centre

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# Contents

# Foreword

A cornerstone of the advancement of the African continent —where a large proportion of the population remains unbanked or underbanked —financial inclusion is defined as the availability and equality of access to financial services regardless of personal net worth or company size.

Progress has been made in recent years due to the influx of new financial technology (FinTech) platforms, which have stepped in to overcome the hurdles faced by traditional financial services. The emergence of mobile money solutions is promising, but there is still a long road ahead. For full financial inclusion to be realized, sustainable business models must be established across payments, lending, and insurance —many of which will need to be digital first so as to reach the expanding African population —in order to provide the financial stability and opportunities for the African population to thrive.

The Inclusive FinTech Forum in Kigali, Rwanda, held June 20–22, 2023, brought together leaders, investors, and FinTechs together to participate in impactful dialogues and meetings on these topics. This report highlights some of the key takeaways from these sessions as well as BCG perspectives on how to further advance financial inclusion in Africa.

It is a joint initiative of Boston Consulting Group (BCG) and Elevandi. The authors would like to thank the members of BCG and Elevandi for their contributions to the development and production of the report. In addition, the authors are extremely grateful to one-on-one and panel discussion participants whose contributions to the report were invaluable.

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# A Successful First Wave Accelerated Financial Inclusion

**Financial Inclusion and the Payments Industry**

The roots of FinTechs driving financial inclusion in Africa arguably can be found in Kenya where, in 2007, Kenyan mobile network operator Safaricom (affiliated with Vodafone) noticed that customers were using prepaid airtime as currency. This led to its development of M-PESA (m for mobile, pesa meaning money in Swahili) and thus the mobile money industry was officially born.[1]

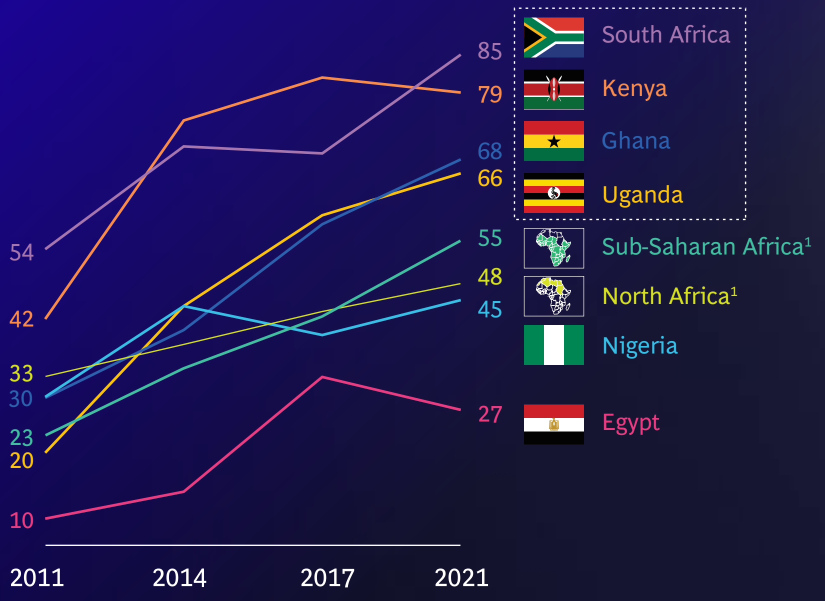
M-PESA quickly found traction providing a viable alternative to Kenya's inefficient and unreliable banking system by offering broader access to financial services. As other Telco providers in Africa took notice of M-PESA's great success, the concept quickly spread to other African countries such as Uganda (MTN) and Ivory Coast (Orange Money) and overseas to India, Eastern Europe, and China—with China now the undisputed industry leader with two players (WeChat and Alipay) dominating the market.[2] Even with new entrants in larger markets, Africa still accounts for roughly half the mobile money accounts in the world.[3]

1. See BCG's report "Five Strategies for Mobile-Payment Banking in Africa" for more detail.
2. Source: GSMA and company information.
3. GSMA.

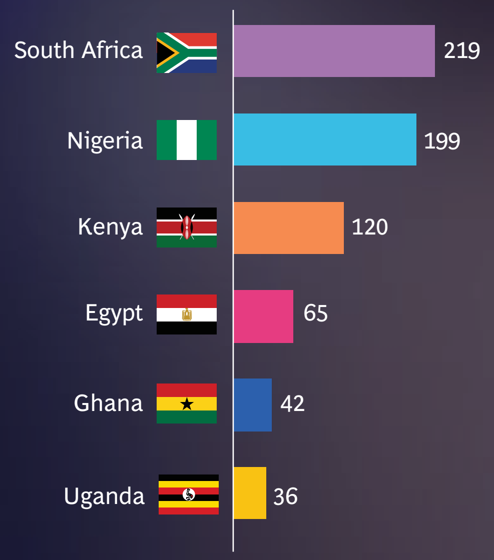
**Exhibit 1**

## The top African FinTech hubs have seen substantial growth in financial inclusion, with 4 countries surpassing regional averages

### Financial Account Holders as Percentage of Population, age 15+




### Top 6 African FinTech hubs, # of companies



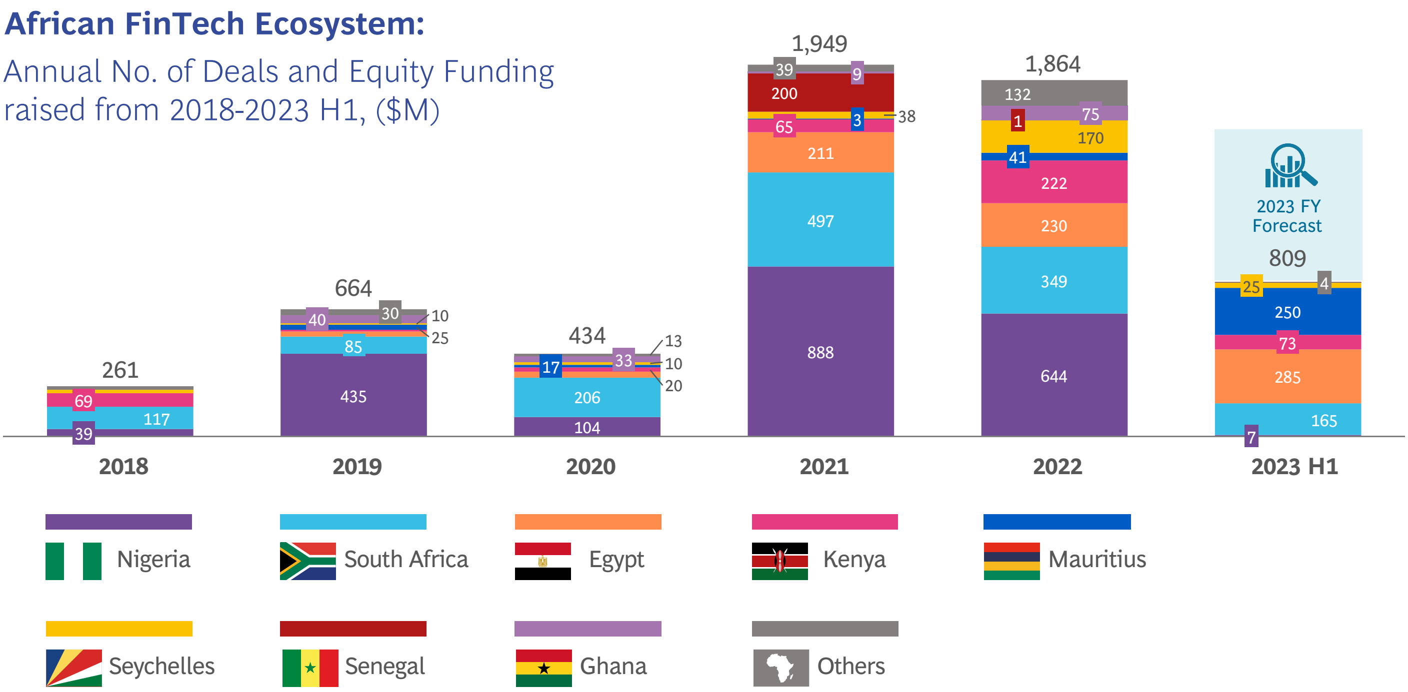

1. Regional average, excluding high income

**Source:** World Bank Global Findex database, BCG FinTech Control Tower

The impact on financial inclusion has been profound. Let's return to the birthplace of mobile money: Kenya. In 2011, 42% of the Kenyan population over 15 years old had an account with a financial services provider, FinTech, or traditional bank (vs. 23% in Sub-Saharan Africa and 51% globally), which by 2021 had increased to 79% (vs. 55% in Sub-Saharan Africa and 76% globally); 69% had a mobile money account (vs. 33% and 10% respectively) and 78% had made digital payments (vs. 50% and 64% respectively).[4]

All the leading FinTech hubs in Africa have seen substantial improvements in financial inclusion since 2011 because of FinTech growth. South Africa, Kenya, Ghana and Uganda are leading the way, rising well above the regional levels of account ownership to parallel the global average of 76% (see exhibit 1). However, an overwhelming amount of funding has also been going to these hubs. Therefore, to truly advance financial inclusion across the continent, the ecosystem must expand across markets. In line with this, 2021-2023H1 has seen an increasing share of investment in other African countries as their FinTech ecosystems mature (see exhibit 2).

## **Exhibit 2**- Investment into African FinTechs has boomed since '2021 with 2021-2023 seeing more diverse investment across countries as new players enter




**Note:** : Total number of companies doesn't match, as founded year for some smaller FinTechs not available

**Source:** BCG FinTech Control Tower

One country that is emerging as a new FinTech hub is Rwanda. The Rwandan government partnered with the United Nations Capital Development Fund (UNCDP) and among others to set up a FinTech hub that aims to address the various needs of FinTech startups (such as skills, access to capital, navigating the regulatory environment). Although this partnership is still relatively new, the first FinTechs to benefit from these measures have emerged in Rwanda.

4. Findex Database as of 2021.

In a speech at the Inclusive FinTech Forum (IFF) in June 2023, **Rwandan president, Mr. Paul Kagame** emphasized the enormous strides that have already been made and also responsibilities that must be met going forward: “Not that long ago, many Africans still had to go to the post office and fill in forms to send even a few dollars to somebody. Now, we can do it from our mobile phones, which is much quicker and safer. FinTechs have been and are continuing to be the driving force for the digital transformation and it is our responsibility going forward that all people can reap its benefits. This is not a zero-sum game and has potential to benefit all on the continent.”

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>
> ***Paul Kagame,***
> *President of Rwanda*

**Urgency, New Tech, and Connectivity Drove the First Wave**

The two most prevalent and ubiquitous underlying drivers of the FinTech boom have been the presence of clear pain points and the rapid development of technology in parallel.

While the many disadvantages of an almost entirely cash-based economy had become apparent, with people in rural areas largely excluded from the financial system and transactions taking longer while also being more expensive and unable to effectively be tracked, technology was rapidly evolving, relieving the burden of connectivity for many people.

On top of the infrastructure created in the first wave, greater adoption of smart-phones, even better connectivity, and cloud adoption in front-running countries will be instrumental to the second wave of growth.


# Established Platforms Will Enable Continued Growth

The first wave created the foundations on which other solutions can grow. For example, the payments industry greatly increased accessibility to financial tools, eased payments and collection of data (such as transaction history), and laid the foundation for KYC. From these advancements, two types of platforms emerged: (1) ecosystem platforms offering a variety of services and (2) more targeted platforms focusing on specific segments.

M-PESA is a great example of the first type (starting in payments and now offering a host of services), while Hero is characteristic of the second type (starting in food delivery and moving into banking services).

There will still be an important role for smaller players and new entrants as they can partner with larger players, benefitting from their strong foundations to further create value.

One company that has established such partnerships is Nomanini, which has connected the disparate ecosystem around informal retailers by using mobile technology to help these retailers offer electronic products and banking services to their communities. Nomanini's merchant wallet connects thousands of merchants across Africa to distributors and banks that the company has partnered with.

**SPOTLIGHT #1**

## M-PESA

M-PESA was launched back in 2007 by Safaricom as a P2P payments solution. It quickly found a strong customer base, attracting more than a million users in it's first eight months of operation. This base continued to grow, and in 2008, the company partnered with Western Union to allow money transfers from the U.K. to it's then five million-plus users. As of 2023, it's user total surpassed 51 million.

To retain this market share, M-PESA quickly evolved. In 2009, it enabled its users to store money in a virtual account. M-PESA then expanded from P2P payments to start enabling payments for in-store purchases, and in 2016, Carrefour fully integrated M-PESA for in-store payments.

M-PESA has built an extensive payment ecosystem from which it has expanded its service offerings to multiple financial and non-financial services (for example, lending, wealth management, APIs, and in-app advertising), both by developing it's own offers and by partnering with incumbents/FinTechs.


# Payments and Lending Will Be the Drivers of Further Financial Inclusion

As the backbone for all successful platforms is a strong payments system, the payments segment was responsible for the initial growth of financial inclusion but has yet to reach its full potential. Next to this segment, we expect lending to experience significant growth. The payments segment addresses businesses and customers, while lending is centered in the B2b (larger businesses to smaller businesses) segment.

Lending growth will be centered around microfinance, a great enabler of financial inclusion. Local businesses need basic credit for day-to-day activities and capital investments but often don't have the tools/credentials to go through traditional channels. For FinTechs, it makes sense to focus on this small to medium-sized enterprise (SME) segment due to the sizes of loans, broader scale, and financial transparency. It is important to develop appropriate data management capabilities to assess credit worthiness, as data quality/availability is lower compared to developed markets or to larger enterprises.

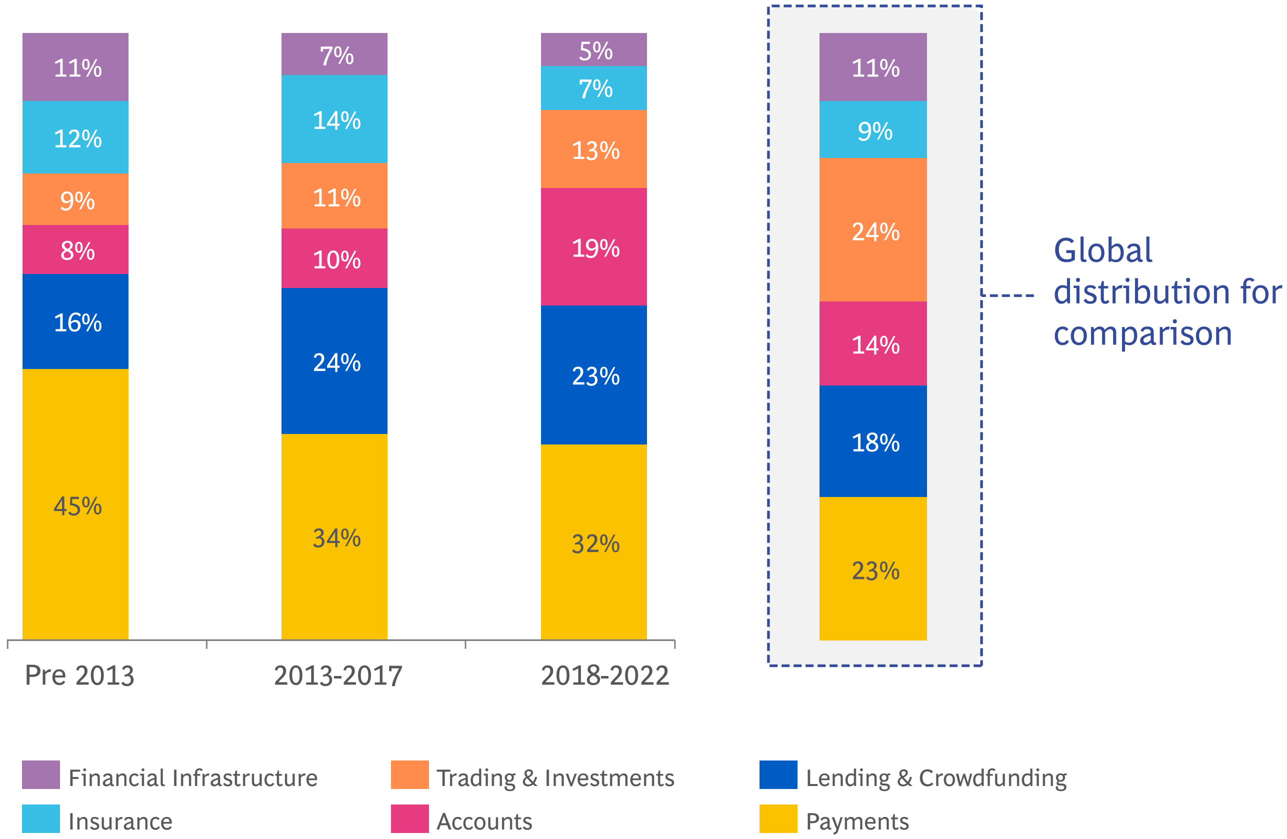
JUMO World is an inspiring example of successful microlending, building banking infrastructure with a focus on assessing the credit worthiness of SMEs. In 2021, it partnered with MANSA bank and MT Mobile Financial Services to introduce a short-term credit product to SMEs in Ivory Coast.

## Exhibit 3

African FinTech Ecosystem: Share of companies founded by primary product offering

Payments FinTechs were the first movers in the African market. Recent years have seen growth of investments in Lending and Accounts

**African FinTech Ecosystem:**
Share of companies founded by primary product offering




**Note:** Total number of companies doesn't match, as founded year for some smaller FinTechs not available

**Source:** BCG FinTech Control Tower

**Insurance Has Significant Growth Potential Through Its Incumbents, While Wealth Has Only Limited Potential**

The insurance industry is complex, offers products that require higher levels of financial literacy, is highly regulated, and is capital intensive. Hence, a full stack disruptor model is unlikely to prove successful; however, playing in the right segments with the help of incumbents can stimulate growth and financial inclusion. Particularly the P&C segment could prove to be a fruitful investment area, as it deals with individuals and its products have a shorter duration. Other segments, such as life insurance (and pensions), have long cycles and are even more complex. Health insurance products must overcome trust issues and network requirements and are therefore also likely to be challenging to penetrate. Inclusivity Solutions is one company that has been successful in the insurance industry having leveraged partnerships with major African Telco's to offer microinsurance products to those without financial access to traditional insurance companies.

The third main segment, wealth, is typically concentrated in a small minority of the population, which is particularly so in Africa where many of the countries with the greatest wealth disparities are found.[5] Penetrating this segment as a newcomer is difficult, as this segment more than any other relies on trust and existing relationships. In Africa, the segment is typically served by large, institutional players. Offering specific services to their platforms might be a way in, but it will take significant effort and a very strong value proposition.

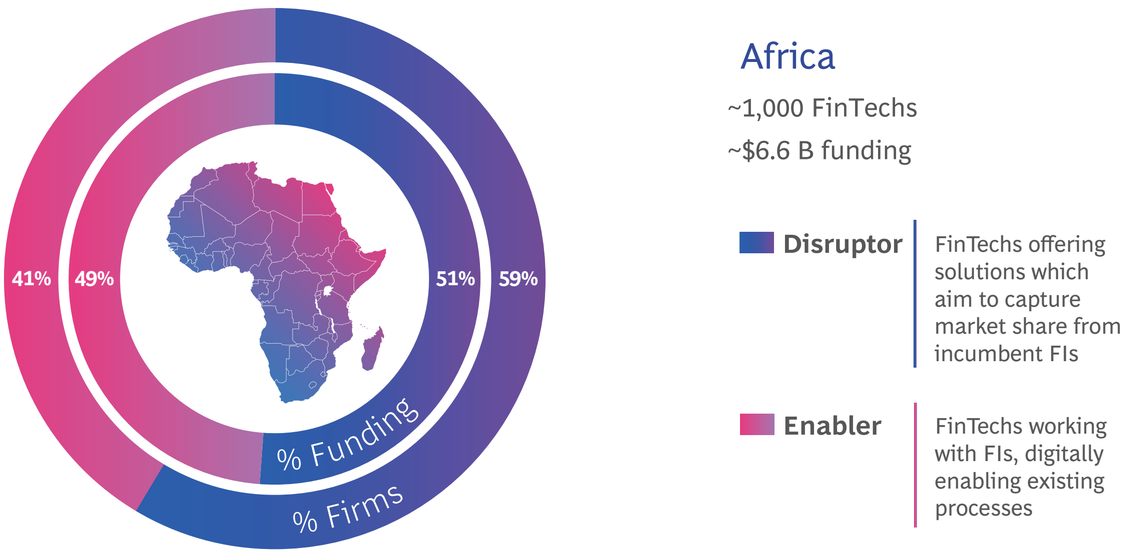
**Enabling Incumbent Financial Institutions**

Currently, the lion's share of FinTechs in Africa have adopted disruptive business models, building solutions to capture the unbanked and underbanked, directly competing with incumbent financial institutions' market share. On the other hand, there is a cohort of FinTechs within Africa that is working directly with financial institutions to enable their digital transformations. A larger share of funding goes to these enabling solutions, which indicates a shift in the ecosystem (see exhibit 4).

**EXHIBIT 4**

## FinTechs enabling financial institutions are receiving more funding on average than disruptive propositions

African FinTechs predominantly adopt disruptive business models, with 59% disrupting incumbent FIs. However, enabling FinTechs capture a significant share of funding.




**Note:** Number is for active FinTechs. Equity funding is across 2000-2023 H1 & is based on FinTech HQ location

**Source:** BCG FinTech Control Tower

5. Ranked by Gini-coefficient by World Bank.


# The Next Wave Will Be Led by Four Winning Strategies

The emergence of platforms has enabled access to customers either at large scale or in specific segments. Companies have started offering a broad range of services through partners in a symbiotic relationship (trading scale and fee benefits) or via development of their own offerings (for example, WeChat in China expanding far beyond its payments origins, or M-PESA [see spotlight]). In this context, we see four winning strategies for incumbents and new entrants alike.

**Providing Specific Services via Existing Platforms**

Specific benefits this strategy enables include lower customer acquisition costs (leveraging existing customers of partners), lower perception of price (add-on pricing vs. standalone), larger data access (partners' data sets), and scalability (using network/infrastructure from partners). A FinTech receives these benefits while the platform's solutions are strengthened and client satisfaction increased, while at the same time capturing fee revenues.

The lending segment is one that could see great application in this space. The key success factor here is the ability to identify how to extract value from the data captured by the platform. Ride-hailing is an industry in which FinTechs could partner with existing players for vehicle financing and insurance by leveraging historical driver income. E-commerce is another example. Hero (food delivery) has started offering lending to merchants, leveraging historical performance. Neem is another example of a firm that has leveraged data to enable microlending. During IFF, its **CEO and founder, Mr. Nadeem Shaikh**, highlighted Neem's approach to leveraging data and platforms: "FinTechs have become indispensable in the financial system. While they still rely on large players for funding, they can offer specific services to these partners they cannot offer themselves. At Neem, we found that, using data available from the platform, we were able to speed up go-to-market time versus incumbents by leveraging the right data points to assess credit worthiness and provide loans with very low default rates."

### Distributing a Full-Fledged Solution Via Existing Platforms

Another avenue to improve financial inclusion is to partner up for the sake of distribution, education, and/or literacy, which incumbents have successfully been adopting for some time (see spotlight #2 for the example of EjoHeza, a Rwandan pension fund).

Prudential Ghana is another player that has leveraged this approach offering insurance products to customers of its partner and collecting daily deductions from wallets or charging fees for airtime.

Community financing is another opportunity to offer a full-fledged solution to low-income and hard-to-reach people. Ethiopia is a great example, as it is largely organized in burial societies. Insurers there were able to partner with some of the local communities to distribute insurance and build trust. They also relied on the community support to avoid fraud as a necessary component of keeping premiums affordable. This helped to include larger communities in the financial ecosystem while at the same time opening them up to a variety of tools.

### Creating a New Platform Starting in Niche Segments

The key to creating a platform is to start from a smaller niche and solve a clear pain point, which eases moving into adjacent segments afterward. This is how M-PESA, the first mobile money company, grew— and other FinTechs have been adopting this approach as well. One of the existing pain points of the payment industry is the inability of many Africans to pay for purchases or transfer money due to living in remote areas. Offering a system to relieve this burden by including alternative payment options is one way to overcome this hurdle. Some players have used this to set up a business model and then expand to different services and create a full ecosystem of offerings.

Halan is a prime example of how this approach can lead to a big success over the long run. It started as an independent ride-hailing app and has transformed into a 'super app,' thereby achieving "unicorn" status (valuation of greater than $1 billion). Yoco is another example of a FinTech that grew into a platform by developing a proposition to provide POS-acquiring services to small business and leveraging its strong position by expanding to hardware and software payment services within its target niche segment.

### B2B Solutions

B2B solutions can also provide an avenue for FinTechs to further support financial inclusion on the continent. FinTechs have been developing solutions to enhance efficiency of incumbents and other FinTechs, lowering their costs and enabling new value propositions to reach new markets. Areas such as claims management and data analytics are ripe for this construct. Imisanzu in Rwanda is one FinTech that has exploited this. The company digitized the whole value chain for claims and processing and as a result lowered the average settling time from 80–90 days to just 15 days, with a notable number of cases resolved in less than three days. This improvement not only allows for a cheaper solution, but more importantly, has built customer trust in the financial institution.

The common denominator between all these companies is their emphasis on building on existing platforms, viewing the opportunity through a lens of collaboration, and aiming to create solutions for obvious pain points.

**SPOTLIGHT #2**

## EjoHeza

EjoHeza is a long-term savings scheme sponsored by the government of Rwanda. It started in 2017 as a defined contribution scheme, established on a voluntary basis by opening a savings account with a scheme operator.

To get to scale and appeal to a larger part of the population, it partnered with Mobile Money Rwanda (MoMo) which already had 4.5million customers, 300k merchants, and 65k agents aligned to them. The merchant network was an effective way to solve the literacy issue, the broad MoMo network gave access to a large audience, and the MoMo solution allowed for easier collection and communication with clients.

Additionally, EjoHeza's success was enabled by aligning to government objectives that supported awareness campaigns and contribution matching. And it clearly worked, as more than 3.2 million people are currently registered to the scheme.


# Policy Makers Can Support Advancements

Policy makers can be a huge catalyst to the FinTech industry by developing the infrastructure and favorable regulatory environment, as discussed during the CMPD sessions at IFF.[6] **Mr. Ravi Menon, chairman of the Monetary Authority of Singapore**, articulated this very clearly doing one of the fireside chats: "We need to be very clear on what policy makers can and cannot do, and innovation is something they cannot do. They are, however, responsible to create conditions for innovation to flourish. This should entail sound, risk-appropriate regulation that does not stifle innovation but enables it, as well as other levers that government can pull by leveraging its scale and reputation." When it comes to specific applications for improving financial inclusion, they can further support advancements by acting in four areas.

> **We need to be very clear on what policy makers can and cannot do and innovation is something they cannot do. They are, however, responsible to create conditions for innovation to flourish.**
>
> ***Ravi Menon,***
> *Chairman of the MAS*

6. BCG/Elevandi report on "Future of FinTech in Africa."

### Awareness Campaigns to Increase Literacy

Consumers typically have limited knowledge regarding the importance of products—especially on long-term products such as insurance and pension savings. Governments are uniquely positioned to develop this awareness and educate people through large-scale awareness campaigns, as they have both the means and trust of the population at large.

### Institutional Support and Investment

Institutions such as pension funds and DFIs can support FinTech's development by providing seed capital (funding investments) or volume (creating demand for services). An example can be found in South Africa, where the International Finance Corporation (IFC, a sister organization of the World Bank) invested in Amethis to help close a significant funding round for impact investing in mid-sized companies on the African continent. Further capital injections from institutional investors are likely, for example, from South African state-owned energy player Eskom, which recently announced that its pension fund will expand into venture capitalism.

Finally, institutional support can also come from overseas. The British International Investment DFI has invested in multiple African FinTechs and hence proves that the African continent can be attractive to investors from all over the world.

### Launching Data-Sharing Platforms (Domestic and International) to Lay the Foundation for Platforms

Data storing and sharing can be a huge enabler for financial inclusion as FinTechs and large institutional players can build upon both. A comprehensive data platform could form the foundation on which digital products could be built. Applications to agriculture, for example, are already of huge value in rural Africa.

### Unlocking Funding Also Fosters Financial Inclusion

Apart from these four levers, the five unlocks for funding (digital infrastructure, policy harmonization, policy clarity, developing capital markets, and talent retention) will also aid advancements in financial inclusion in different ways.[6]

6. BCG/Elevandi report on "Future of FinTech in Africa."

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## About Elevandi

Elevandi is set up by the Monetary Authority of Singapore to foster an open dialogue between the public and private sectors to advance FinTech in the digital economy. Elevandi works closely with governments, founders, investors, and corporate leaders to drive collaboration, education, and new sources of value at industry and national levels. Elevandi's initiatives have convened over 350,000 people to drive the growth of FinTech through events, closed-door roundtables, investor programmes, educational initiatives, and research. Elevandi's flagship product is the Singapore FinTech Festival alongside fast-rising platforms, including the Point Zero Forum, Inclusive FinTech Forum, Elevandi Insights Forum, The Capital Meets Policy Dialogue, The Founders Peak, and Green Shoots.

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