

The UK could be more ambitious on African fintech - but this is a good start

Blog post by Senior Associate Desné Masie, 19 September 2018

On her visit to sub-Saharan Africa a few weeks ago, UK prime minister, Theresa May, set out an ambition for the UK to become Africa's biggest G7 investor by 2022. The announcement came alongside some £4 bn in foreign direct investment (FDI) commitments announced during the visit. This was the first visit by a British prime minister to Sub-Saharan Africa in five years, and the first to Kenya in thirty - and fits with a broader narrative about the key role Africa will play in the UK's post-Brexit economic and trade strategies.

A closer look at May's announcements during her visit reveals that several of the "new" partnerships and programmes she set out were largely a roll call of existing initiatives. And while £4 bn is undeniably a considerable sum, especially when considered as a proportion of UK GDP, it is small in contrast to commitments announced by the EU (£35 bn) and China (£46 bn) in September.

The UK's effectiveness in Africa will obviously come down to how and where it invests, as well as how much. In this respect, it was interesting to see the UK put an emphasis on the potential in fintech and to set up the first UK-Africa Fintech Partnership. This is a good example of an area where scale may matter less than a smart leveraging of the UK's unique advantages in financial services, fintech, start-ups and the regulation of all three.

The idea behind the UK-Africa Fintech partnership is to connect African entrepreneurs with British fintech investors and business mentors to access the finance and advice needed to start and grow their companies. The UK's Financial Conduct Authority (FCA) will work with its regulatory counterparts in Africa. A dedicated fund worth up to £2m will support Nigerian start-ups.

This is a good mix of tools and approaches. The British government has form in this space, with the Department for International Development (DFID) proving instrumental in the success of Kenya's mobile-based finance services MPesa in 2007. MPesa has provided access to finance to over 20m users and facilitates transfers on mobile phones worth more than half of Kenya's GDP. DFID invested alongside matching seed funding from Vodafone and worked closely with the Central Bank of Kenya to help make digital currencies, like those provided by MPesa, a reality.

The MPesa example points to where the UK needs to be focusing if it wants to do more than just joining the growing crowd interested in African fintech. Nigerian-based start-up Pystack just raised \$8m with help from Visa and Tencent. And London-based Payments firm, Azimo, recently announced \$20m in funding from Japanese firm Rakuten. The diaspora remittance flows passing through Azimo's \$600 bn mobile platform and its capacity to reach 5 billion customers, give a sense of the potential.

However, the UK should be focused on areas like financial inclusion, market depth and liquidity and other areas where the potential is to genuinely develop the financial ecosystems of these economies. £2m may not sound like much, but it is twice the amount DFID turned into a genuinely transformative investment with MPesa. The UK can and should multiply the potential of the UK-Africa Fintech Partnership by working with venture capital companies to coordinate more ambitious rounds of seed-funding. But it should remain focused on investments that widen financial inclusion and deepen capital markets, as this is what will, over time, really facilitate genuine scaling up in institutional and venture capital flows.

The parallel investment in regulatory diplomacy also makes sense. There is plenty of transferable experience and expertise between UK regulators who have pioneered concepts like sandboxes and their African peers who have experience of seeing these technologies rolled out in African markets. The FCA can and should bring a major African regulator into the UK-led Global Financial Innovation Network sandbox. This would implicitly recognise Africa's important role in the global fintech ecosystem, where it is not just a norms-taker but also a norms-maker.

This strategy could arguably be more ambitious. But it is a useful and interesting development. Most importantly, it focuses on practical partnerships and genuine UK strengths, rather than just deep pockets.