

Analyzing Banking & Financial Services - East Africa



As the world attempts to move past the health and economic debacle caused by the COVID-19 pandemic, global economies are gearing up to adapt to the hybrid new way of life. Growth momentum has dampened on a worldwide scale but now, the developing economy of East Africa is looking at a remarkable recovery and consistent economic turnaround, buoyed by the launch of the 2021 African Continental Free Trade Area. Before the pandemic, East Africa was the continent's quickest growing region boasting an average growth of 5% and, if not for the unprecedented scale of COVID, the region's economy was expected to grow above 5% in 2020. However, with the positive momentum in the wake of mass vaccinations and herd immunity, East Africa is likely to get back on track for economic recovery in the near future, contributing to the development of Africa as a whole.

News reports state that three East African countries made it into the list of world's top ten fastest-growing economies in 2020. The three frontrunners, Ethiopia, Rwanda, and Tanzania, have shown remarkable growth over the last years, with Ethiopia averaging a 10.3% growth rate between 2007 and 2017. Rwanda followed close behind at an average growth rate of 7.5% in the same period. Now, with the launch of the free trade area agreement, the World Bank estimates that Africa can generate an economic gain worth 450 billion dollars by 2035. The pact will connect 1.3 billion people across 55 countries and exhibits the potential to lift 30 million Africans out of extreme poverty.

Financial Institutes Supporting Development

Economic growth in the African continent is backed by development financial institutions which have acted as lenders of last resort, gateways to international capital and collaborators with commercial creditors for the African economy. The financial institutions have played a starring role in Africa's development, offering consistent support through crises, commodity crashes as well as economic volatility. Even during the global pandemic which left economies struggling to power through long-term lockdowns and health crises, the development financial institutions in Africa managed a robust response. In March 2020, the African Development Bank committed to creating a 10 billion dollar COVID response facility aimed at empowering African governments and the private sector and the African Export-Import Bank announced a 3-billion-dollar pandemic trade impact mitigation facility to enable African regions to better tackle the economic and health fallouts from COVID. Further, these financial institutions also create appetite among investors when it comes to parking funds in the developing African economy, creating an investor base for the region's developing private sector.

The development financial institutions are also taking efforts to match the need for intervention across both public and private sectors. With a strong product mix and steady macroeconomic records, the institutions remain attractive to foreign investors on the lookout for high yields in developing economies. Given the strong demand for their products, the African DFIs have managed to raise capital through both loans and the debt capital market, in an effort to boost the economy. Indeed, these institutions can now be considered the most relevant to the continent's economic recovery post COVID.

Growth Trends in Financial Services

The free trade agreement in Africa is also expected to offer a boost to financial technology services in the continent. The region has recently transformed into a hotbed for financial technology ventures, with a FinTech magazine report stating that venture capital funding for African fintech startups had risen by 51% in early 2020, led by virtual banking projects, consumer credit checks and finance apps. In the first quarter of 2020, new African fintechs are pegged to have raised almost 350 million dollars.

As the home to 1.2 billion people and the world's largest trade area, Africa is forging a path to sustained development and fintech players are expected to power economic growth. With low internet penetration and a slew of unbanked individuals, East Africa has offered new age fintech players the opportunity to cater to services such as loans, savings, payments and financial management. The last decade has shown rapid development in East Africa's fintech sector, with Kenya and Tanzania at the forefront of the race towards technological empowerment. The region's fintech prowess is driven by a combination of mobile adoption and technology innovations and the movement is only set to accelerate in the post-pandemic ecosystem. Indeed, fintech players are consistently creating the right technology solutions for banks and empowering the ecosystem to better serve East Africa.

The intrepid startups have disrupted traditional financial services by designing robust digital systems, and offering seamless infrastructure and innovation to the banking sector. Their prowess is especially visible in specialized areas such as payments, lending, investment, and insurance but these are set to diversify with the growing demand for high tech solutions.

The biggest growth trend in East African fintech is mobile adoption, with almost all the financially included individuals in the region having access to mobile money accounts. According to recent reports, Tanzania is home to 16.5 million mobile money subscribers transacting over 27 billion dollars in value while Uganda has 25.5 million mobile money subscribers transacting funds worth over 18 trillion dollars. Some of the fintech segments seeing strong growth include lending, peer-to-peer transactions and non-banking financial institutions that offer unique solutions and services to East African customers.

In the banking space, there is also visible expansion in the consulting vertical. With major multinational stakeholders offering consultancy services in the sector, there is significant scope and potential for scale in East Africa. With the ongoing cohesion of consultancy and fintech solutions, the segment is only set to grow further, offering East Africans the best of both the industries.

Developments in the Ethiopian Landscape

As the country at the forefront of economic development in East Africa, Ethiopia has a strong history to live up to. The country's financial ecosystem is gearing up to bolster the economy and power Ethiopia into a fintech enabled future of steady growth and inclusion. Reports suggest that, currently, the country's financial services sector consists of 19 commercial banks, around 18,000 savings and credit cooperative groups and over 12 mobile money services. The economy does not feature access to credit cards yet but has around 14 million debit cards and around 3,000 ATMs largely located in Addis Ababa. With an economic ecosystem primed for change, fintech players are finding ample opportunity in Ethiopia. Given the current government's interest in liberalising the financial segment, and the requirements of 110 million individuals in Ethiopia, there is a strong possibility of fintech disruption in the landscape as attested by the recent launch of the mobile money service TeleBirr.

Launched in May by Ethiopia's only mobile operator Ethio Telecom, TeleBirr is expected to help the operator maintain market dominance in the digital finance sphere before the arrival of new telecom players. The service will allow customers to send, receive and store money on their mobile devices, enabling them to easily pay for cash-in-cash-out (CICO) services, as well as goods and services such as utility bills. The mobile service will also allow users to receive money from abroad without any hassles or delays. The report further mentioned that the TeleBirr wallet can link bank accounts and offer savings and loans services and, given its varied benefits, Ethio Telecom aims to gain 21 million users within the first year. Attesting to the need for fintech services in Ethiopia, over a million people signed up for TeleBirr services within a week of its launch.

Separately, the month of May also saw the Ministry of Finance and the telecoms regulator, the Ethiopian Communications Authority (ECA), award a new telecom license to the Global Partnership for Ethiopia. The partnership is a private consortium featuring major global players such as Safaricom, Vodafone Group, Vodacom Group, CDC Group and Sumitomo Corporation. The events in May indicate the administration's vision for economic growth and prosperity led by digital transformation and financial inclusion. Given the high turnaround from companies vying for a slice of Ethiopia's fintech pie, there is no doubt that the region is primed for steady economic growth in the years ahead.

Outlook for East Africa

Following the pandemic, the region remains affected by inconsistencies in income distribution, inflation and poverty and it is imperative that East Africa implement policies that use available resources and boost economic growth through every possible channel. Structural transformations, investment in human capital and further strengthening of the macroeconomic policy are required to bolster the region to reach its growth potential. Even as the administration and development financial institutions take stringent efforts to empower the region, the upcoming financial innovations and inclusion is also expected to empower East Africa and propel its economic recovery in the years ahead.

Considering the fact that a majority of the region's population falls under the millennial category, there is an urgent need for digital and fintech transformation in East Africa. Big reforms are already underway, aimed at bringing the population into the era of banking and financial inclusion and the administrations are creating ample opportunities for the same, including the proliferation of regulatory sandboxes to boost innovation and digitisation. Take the instance of Ethiopia, the model country for East Africa. The National Bank of Ethiopia recently issued a new Payments Instruments Issuers Directive enabling local non-bank players, including mobile network operators, to provide mobile money services. The Digital Ethiopia 2025 plan has also been approved by the administration and the plan's agenda seeks to embrace cutting edge technologies to enable economic growth and social development in the region. The future is, indeed, bright for East African countries that are working steadfastly to create a strong presence in the global economic arena.



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