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Driving African growth

The role of telcos and fintechs in enabling small business success

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Setting the scene

African telcos have been on a quest to diversify revenue streams away from voice for some years. As the mobile phone market has become increasingly saturated, particularly in urban areas, revenue growth from voice has declined.

As internet penetration has increased among African households, telcos have faced competition from streaming and other internet-based communication service providers. In response, telcos are experimenting with innovative approaches to diversify revenues.

One growing revenue stream has been in the enterprise business, traditionally targeting larger organisations. However, small and medium-sized enterprises (SMEs) also form part of this market, remaining underserved and with a growing need for these services.

This article contends that successfully tailoring traditional and non-traditional services to African SMEs' needs, in partnership with players such as financial technology companies (fintechs), will not only enable telcos to sustain enterprise business growth, but also economically enable a crucial business segment in Africa.

"Small and medium-sized enterprises (SMEs) have a growing need for traditional and non-traditional services."

Africa's small businesses are poised to drive growth, but face constraints

Small businesses are the cornerstone of many African economies. In South Africa, Nigeria, and Kenya, for example, SMEs account for more than 90% of businesses, provide 80-90% of employment, and produce 30-40% of national GDP.[1]

SMEs, entrepreneurs, start-ups, and informal micro-enterprises are also expected to create most of the new jobs required by Africa's young and fast-growing population – the continent's population is estimated to double by 2050.[2]

However, constraints that deter scaling, hinder business continuity, and hamper the growth of these small and often informal businesses will need to be overcome to create jobs and drive sustainable growth across the continent.

One of the most significant and long-standing business constraints SMEs face in sub-Saharan Africa (SSA) is access to finance.[3] An estimated one in three small businesses in SSA experiences credit constraints, cannot obtain loans from banks, and is unable to meet funding needs. In South Africa alone, the SME funding gap is estimated at US$20 billion per annum,[4] increasing to over US$300 billion per annum for Africa as a whole.[5]

Besides access to financial services (such as loans, microloans, and overdrafts), SMEs need affordable business services (such as payments, insurance, payroll, enterprise resource planning, cash flow, legal, and other back-office support). They also need connections to regional and global markets (such as access to consumers and cross-border payments).

Together with access to broadband and internet connectivity, telcos are well-positioned to provide a suite of services that can assist the small business sector.

"Telcos are well-positioned to provide a suite of services that can assist small businesses with access to financial services, business services and markets."

Telcos have served businesses well, while driving innovation

Indeed, telcos are already playing a role in this regard. With the evolution of mobile technology, digital ecosystems, and a greater focus on financial and digital services, telcos have been providing (usually larger) enterprises with traditional services such as mobile and fixed connectivity, as well as access to other business and financial products and services. These include ICT-based or cloud-based services, managed security, Internet of Things (IoT), and work-from-home solutions.

Mobile money was a notable early breakthrough that set the scene for many more innovations. Kickstarted by Kenya's Safaricom with M-PESA in 2007, the innovation has revolutionised money transfer and payment services for those without access to formal financial services. While well-known for its success for person-to-person (P2P) remittances, M-PESA has driven financial inclusion at the base of the pyramid (BoP), while also serving smallholder farmers, entrepreneurs, merchants, and small businesses.[6]

The rapid adoption of mobile phones at the time – mobile phone penetration tripled between 2005 and 2009[7] – made financial services such as mobile payments and saving products viable in both urban and remote areas, without the dependence on physical banking infrastructure. This paved the way for other financial services for this market segment.

"The rapid adoption of mobile phones made financial services viable in both urban and remote areas."

There is an opportunity to expand on innovations for SMEs

Competing mobile money platforms have helped to drive the evolution of this innovation ecosystem to include other non-traditional services, such as microfinance and credit services, insurance, payroll, and innovative financial services for small businesses. These services – provided through collaboration between telcos, fintechs, and banks – have changed how SMEs transact, make payments, and invest.[8]

For example, MTN's Mobile Money (MoMo) wallet allows customers to transact, despite having insufficient funds in their MoMo wallet, through a revolving credit model; this has been a game changer for SMEs unable to afford insurance.[9]

Further innovations are leveraging online platforms and digitally enabled ecosystems. These range from low-cost instant payment solutions such as FNB eWallet and PayShap, to instant messaging platforms such as Ayoba, helping merchants and small businesses with market access, reaching customers, and growing sales.[10]

Other services include enterprise resource planning (ERP) software for SMEs. Kenyan-start-up Eneza Telecom, for example, lets SMEs manage their businesses from anywhere, through cloud-based, affordable, and easy-to-use ERP systems.[11] Digital platforms, like Hello Tractor, provide SMEs with access to equipment or assets on a pay-per-use basis, without the associated ownership costs.[12]

Digital and online payment platforms have enabled the next-generation ecosystems to provide financial services to and enhance financial inclusion for SMEs. Fintech start-up Jumo, for example, partners with telcos and banks to provide reliable mobile loans, business cash advances, and savings products.[13] Another fintech start-up, Yoco, assists SMEs with card payments at point of sale or via its online payments gateway and facilitates advanced daily cash-based loans.[14]

> "Competing mobile money platforms have helped to drive the evolution of the innovation ecosystem."

Africa's fintechs have also developed cross-border payment solutions for SMEs. Nigerian fintech turned unicorn, Flutterwave, offers payment processing, payment collection, invoicing, e-commerce sales, and cross-border payments infrastructure and services for small to large African businesses. Its partnership with global online payment giant PayPal and its pan-African infrastructure allows international customers to make payments to African merchants through its "Pay with PayPal" feature.[15] This gives African businesses access to over 430 million active PayPal users globally.[16]

Another such example is OPay, which provides a one-stop mobile-based platform for payments, transfers, loans, savings, and other essential services, while affording access to markets and customers for SMEs.[17]

NuPay offers microfinance to businesses. Additional services include payment and collection solutions that help businesses manage their cash flow, reduce cash handling risks, allow real-time reporting, easy and convenient debit orders, account verification, and tailor-made card payment solutions.[18]

As these services mature alongside Africa's fintech market, the application of technologies to overcome information barriers, such as using alternate data sources (e.g., mobile data and behavioural analytics) or tools like machine learning and proprietary credit scoring algorithms, will see increasing avenues for extending credit and lending services to small businesses. Branch is one such digital lending platform that uses data-driven algorithms to assess creditworthiness, providing SMEs with quick loans without collateral or a traditional credit history.[19]

"Digital and online payment platforms have enabled the next-generation ecosystems to provide financial services to and enhance financial inclusion for SMEs."

A win-win-win for telcos, fintechs, and small business in Africa

For telcos to sustain growth trajectories and invest in Africa's future connectivity needs, the innovation and diversification of portfolios and revenue streams are vital. When collaborating with cutting-edge fintech innovation, telcos can add substantial value to small enterprises in Africa. In turn, telcos remain attractive partners for fintechs, given the levels of mobile phone and, increasingly, smartphone penetration across Africa.[20]

Telcos also have access to massive amounts of customer data that can be extracted to deliver better customer insights, power algorithms behind microfinance and lending services, and drive better customer service.[21]

African telcos have started experimenting and diversifying, often opting for a multi-strategy approach. But substantial mutual benefit can be created by the intersection of innovative digital-technology-powered traditional and non-traditional financial services for SMEs – and underpinned by an enabling and progressive policy and regulatory environment. Together with fintechs, this "win-win-win" ecosystem approach will not only unlock and diversify new revenue streams for telcos but also enable Africa's economic development through financially empowering SMEs.

"When collaborating with cutting-edge fintech innovation, telcos can add substantial value to small enterprises in Africa."

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