HOW PRIVATE EQUITY

Can help boost the Development of Fintech in Africa

In a region where only a minority of the population has access to a bank account and SMEs struggle to get financial help from traditional banks, Albert Alsina, CEO and Founder of Mediterrania Capital Partners, explains how the PE industry is becoming a catalyst for the African Fintech ecosystem's development, enabling large-scale banking and supporting entrepreneurs and SMEs in their expansion plans

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According to the World Bank Global Findex 2017, only 34% of all Africans more than 15 years old have access to a bank account, 16% have access to formal savings and 6% have access to formal borrowing. Furthermore, more than 70% of all businesses in Africa have difficulty in obtaining medium- or long-term financing, according to the African Development Bank.

The lack of access to financial services in African countries, as in other developing nations, is mainly due to insufficient financial services for low-income segments and small and medium enterprises. This is explained by the high prices of financial services (many existing financial institutions do not have enough knowledge or suitable systems for evaluating and monitoring the projects of SMEs, and they compensate for this by demanding highly costly guarantees), expensive distribution networks with low capillarity, and the use of risk methodologies unsuited to the realities of developing countries.
Furthermore, the regulatory frameworks observed in most of these countries do not favour the emergence of efficient distribution models for financial services.

THE DIGITAL FINANCIAL SERVICES MODEL

These problems can be addressed via Digital Financial Services (DFS). These services are business models that distribute low-cost financial services and so increase competition in the sector, using prepaid platforms, mobile phones and agents within the applicable regulatory framework.

According to the GSM Association[1], over half of the 277 mobile money services operating worldwide in 2017 are in Sub-Saharan Africa. Nowadays, there are 100 million active mobile money accounts representing 49% of all active money users in Africa.

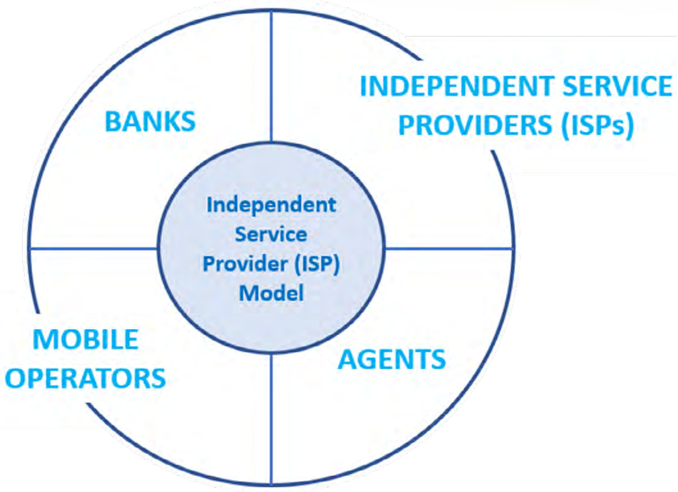
But, despite being at the forefront in Digital Financial Services, Africa's share of global VC/PE-backed Fintech remains very low, amounting to USD 119 million in Fintech and USD 14 million in Insurtech in 2017[2]. Those figures represent only 0.8% of total worldwide Fintech/Insurtech investments, worth USD 16.6 billion in 2017[3].

The low levels of Fintech investment in Africa can be explained by the fact that the business models are not yet delivering the expected results for the investor community. In Africa, mobile operators are driving most DFS implementations, although they may face regulatory problems in the long term, possibly jeopardising their strategies. The banks, on the other hand, are lagging behind, mostly due to legacy systems and unsuitable business models. Lastly, collaborative business models have proven to be difficult to manage due to the conflicting interests of mobile operators and banks. Despite all these challenges, however, there are still plenty of opportunities for PE in the sector.

THE CASES OF CASH PLUS AND GROUPE COFINA

Through Mediterrania Capital Partners' funds, we have invested in two financial services companies operating via an Independent Service Provider (ISP) business model. The injection of capital has enabled these companies to refocus their strategy, enhance their IT systems, increase their geographical reach and expand their services while strengthening their governance.

Through these two cases, we have seen that the ISP business model, when successfully implemented, offers long-term sustainability and so will attract more private investments.



> *"The ISP business model, when successfully implemented, offers long-term sustainability and so will attract more private investments*
>
> - Albert Alsina

The Independent Service Provider model involves **banks**, which bear the legal responsibility for deposits; **independent service providers**, which bear the reputational risk, because their brand is the one most visible to the public; **agents**, which give access to the deposits; and **mobile operators**, which carry the payment instructions.

Operating via an ISP model, our portfolio companies Cash Plus (the leading money transfer company in Morocco) and Groupe Cofina (the leading meso-finance institution in West and Central Africa) have developed new technologies that, although based on different financial services, both resolve the challenges mentioned earlier through prepaid platforms and mobile phones and using agents within an adapted regulatory framework.

THE PE OPPORTUNITY

In the cases of Cash Plus and Groupe Cofina, the small density of bank branches and the high prices of financial services are addressed by distributing low-cost financial services via an ISP business model. The low efficiency of the current risk analysis methodologies is addressed by creating new institutional and methodological processes that include the informal economy.

The growing importance of migrant remittances, particularly for low-income segments, demands a distribution model of low-cost services that optimises the impact of these remittances. Lastly, the banking processes require efficient technological platforms and organisational structures. In the DFS sector, this scale can easily be reached through network structures with a coordinating node that provides services to a wide range of markets.

Cash Plus and Groupe Cofina represent proof that the ISP business model is a very interesting solution bringing financial inclusion in developing countries. The growth potential of such companies is enormous, and PE investors that can identify the companies best positioned to answer the increasing demand for low-cost financial services will reap the benefits of the growing Fintech industry in Africa.

Note: This article is based on the white paper "The Independent Service Provider Business model of Digital financial services as the catalyst for Fintech investment opportunities in Africa" co-written by Professor Francesc Prior and Albert Alsina, Mediterrania Capital Partners' CEO and Founder.

[1] The GSM Association is a trade body that represents the interests of mobile network operators worldwide.

[2] According to Partech Ventures.

[3] According to CB Insights.

ABOUT MEDITERRANIA CAPITAL PARTNERS

Mediterrania Capital Partners is a Private Equity firm focused on North African and Sub-Saharan countries which specialises in growth capital investments in SMEs and mid-cap companies. The hands-on implementation of the firm's unique value creation model with a focus on sustainability factors is helping its portfolio companies deliver year-on-year double-digit Sales and EBITDA growth and build their foundations for long-term development.

Mediterrania Capital Partners is a regulated financial investment manager licensed by the Malta Financial Services Authority (MFSA) and the Financial Services Commission (FSC) in Mauritius.

More information on Mediterrania Capital Partners' portfolio companies at www.mcapitalp.com/investments/

CASH PLUS

Founded in 2004, Cash Plus is Morocco's leading independent money transfer and low-income financial services provider. The company enables its clients to access a comprehensive portfolio of inclusive financial products through its growing number of points of sale and its transactional mobile application.

After Mediterrania Capital Partners entered Cash Plus' equity in 2014, the company expanded their points of sale from 400 to 1,300 and developed their own ERP system and Web applications.

Cash Plus bases its Independent Service Provider strategy on its product platform and agent network. Its platform has been developed internally and currently offers money transfer services and low-income banking services such as IBAN issuance, own cards issuance, etc. enhancing its clients' financial inclusion. The company offers both international and national money transfers. For transfers within the Moroccan territory, Cash Plus has developed its own national money transfer offer under its own brand, charging highly competitive fees. This service allows its customers to send money from one point to another quickly. International transfers are offered through more than 15 partnerships with major international money transfer players, allowing Cash Plus customers to receive international money transfers sent through these partners to Morocco and soon Mali across its network.

Low-income banking services include payment accounts, prepaid debit cards, utilities and e-government services. Cash Plus has developed a multi-support range of payment accounts, benefiting from regulatory changes and offering alternatives to traditional banking accounts. The company provides prepaid debit card solutions granting access to electronic payments, wire and funds withdrawal as well as payment terminals and mobile accounts. Cash Plus has also entered into partnerships with major utility providers as well as the Moroccan government in order to allow its customers to pay their bills and taxes via its points of sale or its mobile application.

The savings that financial institutions obtain from using electronic platforms such as Cash Plus enable them to offer low-cost financial services profitably. These savings are especially important for financial institutions operating in developing countries where efficiency ratios are much lower than in developed countries. Low efficiency costs oblige financial institutions to charge high prices in order to reach their equilibrium point, making large-scale banking difficult in developing countries.

GROUPE COFINA

Groupe Cofina is a Côte d'Ivoire based pan-African group specialising in providing meso-finance and transactional financial services in West and Central Africa. Created in 2014, the Group operates two divisions: COFINA, which develops financing solutions to support SMEs in their development, credit granting and other meso-finance products; and CPS (Cash Point Services), which provides a complete range of products and services to access banking facilities such as savings, credit granting, local and international cash transfers, etc.

With more than 1,000 employees and managing 135,000 clients across its 80+ points of sale, Groupe Cofina has positioned itself as the "missing middle" assisting entrepreneurs and SMEs whose financing needs have outgrown microfinance institutions but whose entrepreneurial structure is still considered insufficiently formal for traditional commercial banks.

Cofina bases its strategy on its risk analysis methodology. The company uses the NAFA microfinance software package, one of the leading information systems dedicated to decentralised financial organisations. It helps the company offer personalised customer services and track all its accounts. As standard, NAFA includes management reports, accounting and financial statements upgraded to new standards, portfolio tracking tables, client tracking for following up customer requests, and HR management.

Groupe Cofina shows that Digital Financial Services offer a real opportunity for meso-finance institutions, enabling them to serve new customers and broaden their service offerings and so achieve economies of scale and greater risk diversification.