



# **Safeguarding the Funding Pipeline for FinTechs in Africa**

## Abstract

*The fintech sector in Africa is growing rapidly, driven by increased demand for financial inclusion, digital innovation, and economic development. To support this expansion, a strong funding pipeline is crucial for nurturing new startups and strengthening the existing continent's financial ecosystem. However, securing funding involves challenges such as complex regulations and market fluctuations. This article explores the current state of fintech funding in Africa, highlights key challenges for startups and investors, and offers recommendations to improve financial support mechanisms for fintech in Africa.*



# Introduction

In recent years, Africa has emerged as a vibrant hub for fintech innovation, with a burgeoning ecosystem of startups leveraging technology to transform financial services across the continent. From mobile payment solutions and digital lending platforms to blockchain applications and financial inclusion initiatives, African fintechs are addressing local challenges and gaining global recognition for their impact and potential. However, as this sector continues to grow, securing sustainable funding remains a critical concern which is one of the reasons for the insolvency of numerous fintech startups.<sup>1</sup>

In 2023 and 2024, some fintech companies including Zazuu, Cova and Lazerpay were forced to shut down owing to a lack of

capital. In contrast, others opted for survival strategies including salary cuts, layoffs, business pivots, pricing rises, and discontinuation of certain product lines.<sup>2</sup> Since external capital remains limited or internal cash flow negative, many fintech startups may have to make even more drastic reforms to secure their existence. Apart from the low level of large-scale funding posing obstacles to the full potential of the African fintech market, regulatory bottlenecks also pose a threat to the sector's expansion. Amidst a myriad of challenges, the fintech sector is projected to remain dynamic and inventive as new solutions and services emerge to satisfy changing consumer expectations.

# Current State of FinTech Funding Landscape in Africa

In recent years, Africa has seen a surge in fintech investments, driven by the increasing adoption of digital financial services and the rising demand for innovative solutions. According to Afrilabs, a pan-African network supporting innovation and entrepreneurship, Fintech startups across the continent have attracted significant venture capital funding, with notable investments from local and international investors<sup>3</sup>

In 2023, African fintech companies collectively raised \$1.55 billion in equity and debt, with \$900 million of this amount coming from equity funding. However, a significant portion of three-fourths of the equity raised was concentrated among a few companies, including MNT-Halan (Egypt), TymeBank (South Africa), Moove (Nigeria), and CashPlus (Morocco), M-Kopa (Kenya), Lula (South Africa), LemFi (Nigeria), Peach Payments (South Africa), Nomba (Nigeria) and Stitch (South Africa).<sup>4</sup>

Also, the fintech sector continued to dominate African startup funding in 2024, securing 47% of the total capital raised over \$1 billion out of the \$2.2 billion raised through equity, debt, and grants.<sup>5</sup> This marked an increase from the 42% share in 2023. However, the first half (H1) of 2024 saw a slowdown, with fintechs raising only 22% (\$158 million) of total funding, a sharp decline from the 50.12% (\$852 million) raised in H1 2023.

Although, despite the decline in funding in H1 2024, Africa's fintech sector experienced a significant rebound in Second Half (H2) 2024, with four of the continent's ten

largest startup funding rounds in 2024 going to fintech companies.<sup>6</sup> Notable deals included:

- **MNT-Halan (Egypt) which raised \$157.5 million in July 2024.**
- **Moniepoint (Nigeria) secured \$110 million in Series C funding in October 2024, bringing its valuation to \$1 billion.**
- **TymeBank (South Africa) raised \$250 million in a Series D round, increasing its valuation to \$1.5 billion and making it Africa's ninth unicorn.<sup>7</sup>**

Notably, two fintech unicorns Moniepoint and TymeBank emerged in 2024, bringing the total number of fintech unicorns in Africa to eight (8) out of the continent's nine (9) unicorns.

Remarkably, the continued investment activity suggests that investors still recognize the potential in Africa's fintech sector and are willing to explore the opportunities. Thus, access to capital remains vital for fintechs to innovate, address significant financial gaps and offer essential services. In this regard, maintaining a robust funding pipeline for fintechs in Africa is crucial for nurturing innovation and scaling successful ventures. Venture capital, private equity, grants, and other forms of financial support are essential drivers of growth, fostering competition, and expanding access to financial services across the continent.



# Challenges Facing the Funding of Fintechs in Africa

As earlier noted, African fintech has experienced significant growth. However, this growth has come with several challenges that hinder its potential which include:

## 1. Lack of Comprehensive Regulatory Frameworks:

The fintech sector in Africa faces a significant challenge due to the absence of comprehensive and clear regulatory frameworks. Many African countries have yet to establish detailed legal guidelines for fintech activities, particularly in new areas like cryptocurrencies. This regulatory uncertainty creates a risky environment for fintech businesses and their customers. Although there have been positive moves in recent years, such as the introduction of the Nigeria Startup Act in 2022, which offers incentives like tax exemptions and access to funding for tech startups, its benefits primarily cater to businesses under 10 years old. South Africa has also taken steps, launching a Regulatory Sandbox in 2020 and finalizing the Conduct of Financial Institutions (COFI) Bill. These efforts, while beneficial, highlight the varied regulatory landscape across Africa. The regulatory fragmentation makes cross-border operations difficult for fintech firms and hampers scalability. A unified, continent-wide regulatory approach could address this challenge, making it easier for fintech companies to expand and support financial inclusion across Africa.

## 2. Decline in Customer Trust:

Another major hurdle for the fintech sector is the decline in customer trust. This is primarily

fueled by concerns over data security and privacy, alongside an uptick in online fraud and cyber-attacks. While countries like Nigeria have passed important laws such as the Nigeria Data Protection Act (NDPA) 2023 and The Cyber Crimes (Prohibition, Prevention, Etc.) (Amendment) Act 2024 to tackle data security, a significant number of fintech companies are still failing to comply with these regulations. This lack of adherence to legal frameworks further erodes trust and exacerbates the challenge of attracting new customers.

## 3. Challenges in Securing Early-Stage Funding:

A critical challenge faced by early-stage fintech startups across Africa is the difficulty in securing seed and pre-seed funding. Many investors view these startups as high-risk ventures and often demand proven traction or scalability before committing capital. This funding gap presents a barrier to innovation, stalling the development of fintech solutions that could potentially drive financial inclusion. This challenge is particularly acute for startups targeting underserved communities, where the potential for impact is high but often lacks the necessary funding to develop and scale their solutions. An innovative solution could involve developing localized investment vehicles or incubators specifically designed to support fintech startups that focus on financial inclusion in emerging markets. This would enable such businesses to gain the necessary support to overcome early-stage funding challenges.

# Strategies for Safeguarding and Enhancing the Fintech Funding Pipeline

## 1. Regulatory sandboxes to encourage investment in financial technology:

African countries around the continent are enhancing their regulatory framework in fintech by supporting innovations. Many of them are doing so by enacting stricter data protection laws and sandboxes allowing fintech startups to test their innovations in a controlled environment under regulatory supervision.<sup>8</sup> The creation of regulatory sandboxes might accelerate the ability of regulators to respond to financial innovation, as well as ensure there is greater proportionality in any future regulation needed to regulate a particular financial service or product.<sup>9</sup>

Across Africa, regulatory sandboxes have been established to support fintech innovation and enhance financial inclusion. For instance, Nigeria's Central Bank introduced its sandbox in 2021 to engage fintechs while ensuring consumer protection. Similarly, the Securities and Exchange Commission (SEC) introduced the Accelerated Regulatory Incubation Program (ARIP) in June 2024 for the onboarding of Virtual Asset Providers (VASPs) and Digital Investment Service Providers (DISPs). The ARIP provides a temporary regulatory framework for virtual asset entities seeking to operate in the Nigerian capital market, offering guidance on

compliance requirements while allowing the SEC to assess their business models and refine regulations to enhance market integrity, investor protection, and supervision.<sup>10</sup> Likewise, Kenya's Capital Markets Authority launched its sandbox in 2019, allowing fintechs a 12 (twelve) month period for regulatory testing. Rwanda's National Bank followed suit in 2017, updating its regulations in 2022 to promote innovation and manage associated risks. Lastly, Ghana's Central Bank, the Bank of Ghana also began its sandbox in 2022 to explore new digital financial services.

These sandboxes reduce regulatory uncertainty, create networking opportunities, and enable real-world testing of concepts, making fintech startups more appealing to investors by mitigating risks and validating their potential. However, the mere existence of a sandbox is not enough; its effectiveness in fostering innovation and managing risks is key to its success.

## 2. Fraud Prevention Strategies

In Africa's growing fintech sector, effective fraud prevention and anti-money laundering (AML) strategies are crucial due to increasing financial crime. In Nigeria, fintech startups saw a 325% rise in fraud losses from 2022 to 2023, highlighting the need for robust measures to detect and address fraud in real time.<sup>11</sup> Such strategies not only protect users but also bolster investor confidence, which is vital for securing funding. Startups with strong fraud prevention and AML frameworks attract investment by demonstrating regulatory compliance and lower risk, whereas those with weak measures may struggle with capital acquisition. The Fintech Association of Nigeria is addressing this by establishing the Fraud Prevention and Risk Management Sub-association to enhance the security and trust in Nigeria's digital financial sector.

## 3. Diversifying funding sources

It is advisable for Fintech companies to adopt a diversified funding strategy that combines traditional venture capital and private equity with alternative financing options such as revenue-based financing, crowdfunding, and partnerships with impact investors. Additionally, securing government-backed grants and concessional funding from development banks can provide essential support. Attracting investors experienced in emerging markets and fintech is also crucial, as they offer not only capital but

also valuable strategic guidance to navigate the industry's unique challenges.

## 4. Mergers and Acquisition as a rescue tool.

In emerging markets like Africa, M&A offers fintech companies' significant opportunities for growth by providing increased access to capital, resources, and extensive networks. These deals can enhance a fintech's valuation and funding prospects, making them more attractive to investors. High-profile M&A transactions also boost investor confidence, accelerate innovation by combining complementary technologies and expertise, and provide lucrative exit strategies for founders and early investors.

## 5. Local Participation and Investment

The rise of African fintech unicorns like Flutterwave, Interswitch, Moniepoint and OPay underscores the continent's innovation potential, with significant investments from global firms like Visa and SoftBank. However, African investors have largely been absent from these funding rounds, missing opportunities to secure returns and strengthen the local fintech ecosystem. By investing in local fintech startups, African investors could enhance innovation, integrate new solutions, and ensure the benefits of fintech growth are more widely distributed across the continent. Strengthening local investment is key to maintaining a robust fintech funding pipeline.



# Conclusion

The fintech funding pipeline in Africa has grown significantly over the years, posing significant potential and challenges as well. When navigating around the market, it is crucial for fintech startups and investors to adapt to evolving regulatory landscapes, mitigate risks associated with market fluctuations, and leverage strategic partnerships

to ensure sustainability. Thus, by fostering investment, improving extant regulatory frameworks, and addressing infrastructural needs, stakeholders can create an environment that not only safeguards but also enhances funding for fintech across the continent, ultimately driving increased investment and long-term growth within the sector.



# Endnote

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