Another False Messiah: The Rise and Rise of Fin-tech in Africa

In both the global investment community and the international development community one of the most talked-about issues today is fin-tech (financial technology). Defined as 'computer programs and other technology used to support or enable banking and financial services', the last decade or so has seen the rise of a new global fin-tech industry, a development that is widely regarded to be positively changing the world in a variety of ways. Thanks to almost daily reports of major new investments, especially in Africa, many investment professionals are of the opinion that something akin to a new 'gold rush' is clearly underway. At the same time, the fin-tech model is also touted as an innovation that will greatly benefit the global poor, with enthusiastic supporters claiming that a new golden age of 'inclusive capitalism' is upon us.

By far the most well-known example of the fin-tech model to date is Kenya's M-Pesa – the agent-assisted, mobile-phone-based, person-to-person payment and money transfer system. M-Pesa is widely seen as the first fin-tech institution to conclusively demonstrate that it is possible to make a profit while also very meaningfully improving the lives of the poor. Taking inspiration from M-Pesa, many in the international development community now regard the fin-tech model as a potentially game-changing private sector-funded driver of development and poverty reduction in the Global South.

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In the academic community the apparent combination of poverty reduction with profit generation proved to be a very seductive pro-capitalist narrative that many mainstream economists were only too willing to engage with. The most well-known academic economists examining the impact of M-Pesa are Tavneet Suri, based at MIT, and William Jack, based at Georgetown University. With extensive funding from Financial Sector Deepening (FSD) Kenya and the Gates Foundation, since 2010 Suri and Jack have produced a series of outputs extolling the benefits

of M-Pesa. Suri and Jack's generally positive findings have resulted in mainstream media attention and large numbers of citations. This has played an important part in galvanising the international development community into supporting the fin-tech model as a development and poverty reduction intervention.

In particular, their 2016 article published in the prestigious journal Science, entitled 'The Long-run Poverty and Gender Impacts of Mobile Money' has played a considerable role in sparking the imagination of the international development community. This is mainly because of its sensational claim that 'access to the Kenyan mobile money system M-PESA increased per capita consumption levels and lifted 194,000 households, or 2% of Kenyan households, out of poverty.' According to this article, M-Pesa was not just making profits, but the evidence seemed to show it was also making an astonishing 'bottom-up' development and poverty reduction contribution. This poverty reduction claim, often cited in full in media articles, quickly became the centrepiece of the evidence used by many in the international development community to justify its increasingly strong support for, and investment in, the fin-tech model.

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Unfortunately, all that glitters is not gold. As we write in a Briefing just published in the ROAPE Suri and Jack's hugely influential signature article actually contains a surprising number of errors, omissions, poor logic, and methodological flaws. Crucial labour market evaluation parameters, such as business failure (exit) and the impact of new businesses on existing ones (displacement), were entirely overlooked. The core issue of individual over-indebtedness, which in Kenya is now approaching crisis levels and which has a clear and direct link to the operation of M-Pesa, was not even mentioned as a possible downside of the fin-tech development model. For such an important and well-financed project, the methodology was also weak, diverging from many of the standard 'best practices' in the impact evaluation field. The important issue of causation was also raised, but in a way that we found to be questionable at best. In many ways, therefore, Suri and Jack's analysis appears to misrepresent and vastly over-state the development impact of M-Pesa.

Fin-tech represents a new form of resource extractivism

One of the most disturbing aspects of Suri and Jack's flawed analysis, however, is that they completely bypass the crucial equity and distributional issues that arise from the operation of M-Pesa and other similar fin-tech corporations. This is inexcusable because there are clear warning signs today that the fin-tech model possesses the potential to extract immense value from the poorest communities in the Global South, with potentially calamitous long-term consequences. Like the gambling, sub-prime mortgage and payday loan industries in the United States and UK that before *and* after the financial crisis of 2008 were able to grow rich by expertly extracting massive amounts of value from the communities of the poor, one might argue that Kenya's poorest communities are also being drained of much of their needed collective wealth.

M-Pesa has essentially perfected a form of 'digital mining' that captures and extracts a small tribute from each and every one of the growing number of tiny financial transactions made by the poor through the platform (which has become ubiquitous and very difficult to avoid). This includes microloans, money transfers, grant disbursement, credit card usage, pension payments, and so on. One simply cannot escape from the fin-tech 'net' that is gradually being lowered on to the poor. As more and more governments and elites are brought in as allies by the fin-tech industry, this value extraction process is only likely to speed up and intensify, with cash transactions being increasingly jettisoned and ever more transactions being mediated by fin-tech organisations.

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By the same token, given the profit motive at play, it is inevitable that a range of services and products will end up being pushed on to the poor even though they largely do not need them, are not able to productively use them, or do not have any means to repay debt associated with them. The value realised through such 'digital mining' techniques is then extracted from the local community and deposited into the hands of the fin-tech entity's owner(s). However, with so many fin-tech entities backed by foreign capital from the Global North, the chances are that a large proportion of this 'digitally mined' value will head abroad to the

world’s leading investment locations.

What we have here, therefore, is a value extraction process that contains the potential to progressively undermine the development process in local communities in the Global South. It does this in two important ways: first, it denies the local community an extremely valuable aggregate amount of local spending power, which is instead appropriated by wealthy individuals and institutions, many of which are located abroad. This renders an important endogenous growth trajectory inactive, since it is rising local demand that often provides the initial impetus for local enterprises to emerge in order to meet this demand. Second, fin-tech institutions also starve the local (re)investment cycle by siphoning value out of the community, and thus make it more difficult for local businesses to access the meaningful amounts of capital needed to establish sustainable commercial operations. Experiences in Asia with local banking from 1945 onwards, for example, show that reinvesting/recycling the bulk of locally-generated value back into the local economy has significant potential to kick-start economic growth.

Fin-tech could, therefore, be seen as a revised version of the natural resource extraction paradigm that was largely responsible for under-developing Africa and other colonised countries over the last four centuries. The ‘resource’ increasingly being extracted from Africa today might no longer be a physical one – such as diamonds, gold, platinum, or silver -and the process might not require slavery, the employment of ultra-exploitative waged labour, or involve horrendous working conditions, but the eventual negative outcomes of ‘digital mining’ could very well be the extension and continuation of under-development.

M-Pesa thus provides us with a valuable case study of how contemporary platform capitalism operates in neoliberal Africa and how ‘digital mining’ might actually affect Kenya’s potential growth and development. In recent years, Safaricom (M-Pesa’s parent company) has become far and away Kenya’s largest company, now accounting for a massive 40% of the total stock market valuation on the Nairobi securities exchange. Safaricom is also famous for its spectacular profits. In 2019 it set a record by registering profits of around US$620 million, which would be an impressive result in even the richest countries of the Global North. To put this into perspective, this figure is slightly more than the Kenyan government spends on the entire healthcare system in the country. However, along with an additional bonus paid out in 2019 to shareholders amounting to around US$240 million, a

large percentage of this US$620 million in profit was paid out as dividends to foreign shareholders. The main beneficiary was the majority shareholder (at 40%) of Safaricom, the UK multinational corporation Vodafone. Other beneficiaries are a variety of mainly foreign investors located in 'tax-efficient' locations (the Caribbean mainly) and who hold a 25% stake. The Kenyan government also holds a further 35% stake in Safaricom.

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This demonstrates that significant value is being created by M-Pesa based on the tiny transactions of the poor, but most of it is spirited abroad via dividend payments to foreign shareholders. This helps explain why M-Pesa has become a beacon for global investors and financial institutions all seeking their own spectacular fortunes in Africa while framing their thirst for profits as altruism. Indeed, by embedding the fin-tech model in Kenya, the international development community is complicit in the establishment of a high-tech extractivist infrastructure similar to colonial-era equivalents.

'Digital mining' in Kenya and the foreign appropriation of the wealth generated by those languishing at the bottom of the pyramid is a less directly brutal undertaking than the value extraction process carried out in colonial times. However, the extractivist logic, the wealth transfer, and the determination to accumulate on the back of the poor have a similar character to colonial-era economic regimes, and similar potential to seriously damage socioeconomic development in the long-term.

Furthermore, as in colonial times, a local elite has been allowed significant freedom to manage this 'digital mining' on behalf of the foreign owners. As with Capitec Bank in South Africa, it is no secret that the CEO and senior management at Safaricom have been able to use the company as a vehicle through which to extract fantastic rewards for themselves, enjoying Wall Street-style levels of remuneration in recent years and with several becoming multi-millionaires as a result. However, this also provides the obvious incentive to grow Safaricom as fast as possible because in that way the personal rewards attributable to those at the top are maximised. As a result, Safaricom's CEO and other senior

management have pushed growth to the limits and are now encountering problems in several areas on account of reckless over-expansion, including with regard to the company's wilful engagement with gambling. In addition, in the early stages of M-Pesa's growth, certain still unidentified members of the local Kenyan elite were able to secure for themselves a sizeable shareholding in Safaricom, which they later sold off for massive capital gains. Pointedly, the impact on inequality in Kenya arising from these narrow elite enrichment mechanisms has been very significant.

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In short, an effective value extraction process involving 'digital mining' has been established in Kenya, which has been misleadingly framed by many in the international development community as contributing to 'bottom-up' development. This process has ensured the stratospheric enrichment of a narrow group of foreign investors, Safaricom's own senior managers, and a section of the Kenyan elite. However, this value has effectively been appropriated from M-Pesa's overwhelmingly poor clients via their growing bundle of tiny fin-tech-mediated financial transactions.

Despite the benefit that some individuals in poverty undoubtedly enjoy as a result of M-Pesa's services, universal financial inclusion has come at a very high longer-term price for Kenya's poor overall. Safaricom appears to have become a classic example of the 'cathedral in the desert' syndrome – a vastly profitable entity that exists only by ignoring the impoverishment it is helping to create in its wake. As fin-tech spreads across Africa, it is likely we will see similar deleterious extractionist scenarios emerging.

Might we not then consider M-Pesa to be the canary in the coalmine?

Parallels with the failed microfinance revolution?

Our analysis of Suri and Jack's hugely influential 2016 article shows that it simply does not stand up to scrutiny. One might conjecture that this has something to do with the fact that much of the funding for their work over the past decade has come from FSD Kenya and the Gates Foundation, two of the world's leading

advocates for the fin-tech model.

In this context, it is interesting to recall how the now largely discredited microfinance movement got a game-changing boost back in the 1990s thanks to a study by two high-profile World Bank economists – Mark Pitt and Shahidur Khandker – claiming that microfinance in Bangladesh was generating major poverty reduction benefits for women Pitt and Khandker's work was much later shown to contain many serious errors and its conclusions were unsound. Nevertheless, Pitt and Khandker's work more than served its immediate purpose, which was to galvanise support within and around the international development community for an intervention that the World Bank desperately wanted to see go forward on ideological grounds. We might therefore pose the obvious question here with regard to the misrepresentation of M-Pesa's impact: are Suri and Jack the new Pitt and Khandker?

Editors Note: *This article was first posted in the Review of African Political Economy (ROAPE)*