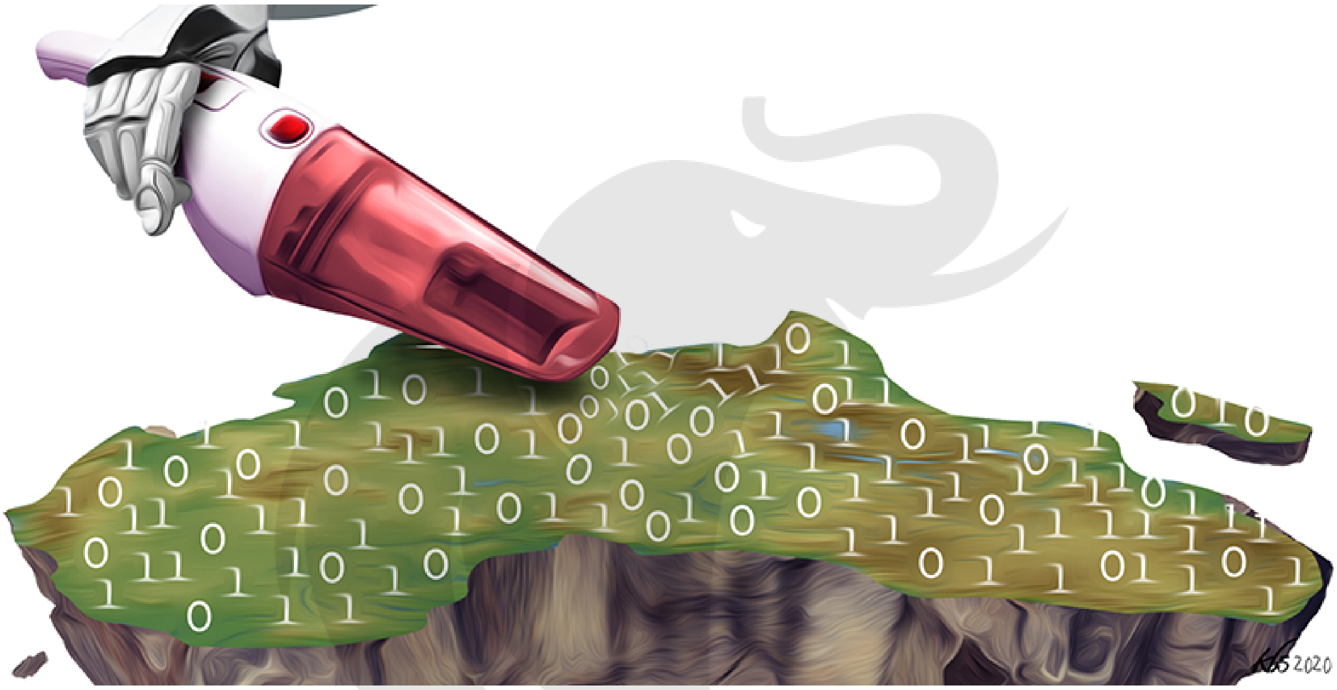
Another False Messiah: Why Fin-Tech Isn’t the Panacea for Africa’s Development

By Milford Bateman



Financial technology, or ‘fin-tech’, has been defined as, ‘Computer programs and other technology used to support or enable banking and financial services.’ The pioneering fin-tech that so many development experts love is M-Pesa, Kenya’s agent-assisted, mobile phone-based, person-to-person payment and money transfer system. M-Pesa’s origins lie in a project funded by the UK’s Department for International Development (DFID) in 2000 to encourage the private sector to improve access to financial services. M-Pesa was launched in March 2007 and expected to specialise in providing microcredit, but it was found that clients were more interested in the transfer of money, and so this became the focus of its activity. M-Pesa operates through a network of agents that allow clients to put cash into their account and take it out. By changing cash into ‘e-balances’, it is possible to send cash to another account via an SMS message. M-Pesa is owned by Kenya’s largest and most profitable company Safaricom, which in turn is majority owned (including through its South African subsidiary) by the UK telecoms multinational Vodafone plc.

Kenya stands at the front of the fin-tech movement thanks to M-Pesa and M-Shwari – a lending application also within the Safaricom group. But, thanks to the support of the international development community, the fin-tech revolution is spreading right across Africa. Digital payments are being introduced in many African countries, while fin-tech savings and loan platforms are expanding very rapidly indeed. One of the leading examples is MyBucks, the South African-owned (but registered on the Frankfurt Stock exchange) financial institution. MyBucks has been purchasing non-profit microcredit institutions and other 'bricks and mortar' lending operations all across Africa in order to turn them into hugely profitable fin-tech platforms, not least expecting to benefit by significantly upping the amount of expensive microcredit it can make available through a mobile phone.

However, it is largely thanks to M-Pesa in Kenya that the international development community now argues that a new digital utopia has arrived in Africa, i.e. that the further introduction and growth of fin-tech applications will play a major role in addressing the pressing need for meaningful poverty reduction, job creation and sustainable local economic development.

Unfortunately, the debate over the real value of fin-tech, including M-Pesa, is hopelessly one-sided since the fin-tech lobby itself is leading it. By this I mean the World Bank and its International Finance Corporation arm, USAID and DFID. These international development agencies also work in conjunction with a range of other private institutions with a keen self-interest in seeing the fin-tech model spread across the Global South, centrally including many of the major financial institutions (CitiGroup especially), leading Silicon Valley tech investors and investment funds, the two major digital payments companies (Visa and Mastercard) and a handful of high-profile Silicon Valley philanthro-capitalists (especially Bill Gates through his Gates Foundation). This effort is then further backed up by a plethora of fake 'astro-turf' NGOs, such as the Better than Cash Alliance (BTCA), that were set up by the private institutions noted above and which quietly do their bidding while presenting themselves to the world as if they are really all about 'helping the global poor'.

The interests of all of the above parties are patently clear. For the international development agencies, it is about promoting an ideologically preferable 'pure' market-driven form of financial intermediation, while also benefitting American and British multinationals. For the multinationals and investors involved, the prospect of fantastic profits in a growing under-regulated market is more than enough to wet their appetites.

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The power of the US-based philanthro-capitalists here should also be considered. Some analysts see them as neutral bodies when it comes to promoting interventions designed to assist the global poor, always being careful to choose 'what works best'. However, this is simply not so. Look carefully and one can find that they are actually primarily engaged in validating and extending the system that conferred upon them their great wealth and power at the expense of many around the world, especially the poor; they have no interest in trying to change this system at all. Philanthro-capitalists support the fin-tech model to *preclude* any fundamental challenge to African capitalism. The neoliberal model of capitalism supremely validates and celebrates their achievements, and they have no wish whatsoever to change this. Fin-tech is a useful innovation to support because it provides the appearance of great things for the poor, but no substance.

As Anand Giridharadas points out, 'American elites generally seek to maintain the system that causes many of the problems they try to fix — and their helpfulness is part of how they pull it off. Thus their do-gooding is an accomplice to greater, if more invisible, harm … What their "change" leaves undisturbed is our winners-take-all economy, which siphons the gains from progress upward.' Like microcredit the US government-led fin-tech movement involves significant downsides for the poor, and keeps off the table alternative pro-poor development models and institutions, while it provides a whole array of ideological and financial gains for global elites.

What is the real development impact of fin-tech on the ground?

Alarmingly, the driving force behind the fin-tech revolution in Africa – market fundamentalist ideology and the aggressive drive for profit – are the very same two noxious components in the US financial sector that gave rise to the multiple frauds that created the global financial crisis in 2008. This fact alone is more than enough to suggest extreme caution. But emerging facts on the ground confirm that extreme caution is very much warranted.

Consider first that in the last decade or so conventional microcredit institutions had already begun to create a worrying level of indebtedness in Kenya. Reckless lending became a pervasive feature of virtually all maturing microcredit sectors across Africa. The arrival of fin-tech has clearly begun to exacerbate this over-indebtedness problem. This was almost inevitable when, for instance, many fin-tech lenders advertise their services with the claim that it is now possible to obtain a new microloan 'at the touch of a few buttons on your mobile phone'.

Even one-time microcredit advocates are now sounding the alarm bells. Perhaps the most notable of these voices is that of Graham Wright, the founder and Group Managing Director of Microsave, one of Africa's most successful financial inclusion consultancy companies. Microsave has succeeded down the years by advising governments and the international development community on the need to embrace the commercialised microcredit model and then, when it began to become clear that the microcredit model had failed, how to promote the new financial inclusion agenda. Launched by the World Bank, the financial inclusion movement is an effort to protect and hide the failed microcredit model by incorporating it into a new and wider agenda that argues the poor now need a whole range of market-driven financial instruments in order to better cope with their poverty.

Perhaps one of the worst aspects of the current over-indebtedness problems, however, is the impetus fin-tech has provided for the serious gambling problem currently afflicting Kenya and neighboring countries such as Rwanda, Uganda and Tanzania. Microcredit becomes the chance to be 'in it to win it' for so many of East Africa's poor, offering them the hope of instantly escaping their poverty predicament, or at least a little excitement in an otherwise desperate daily struggle to survive. Young people are particularly susceptible to the allure of gambling, with all too many able to instantly access cash via M-Pesa and then sending it on to one of the many gambling sites. Entry inevitably starts with small sums, but regular gambling can result in major losses for those unable to quit.

Consider also those who choose to use their digitally-acquired microcredit for what it was originally intended – to create new microenterprises. This can only be good, right? Sadly, no. Rather than strengthening the local economy, such a trajectory often undermines it. For one thing, the sheer paucity of local demand means very many new enterprises simply cannot survive for very long; as many as 46 per cent of MSMEs in Kenya fail within a year after their establishment.

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Worse still, even if enough new entrants are successful, their success will inevitably eat into the local demand that existing microenterprises were counting on to survive. This forces very many of these already struggling incumbents to contract or fail. Economists call this 'job churn', a highly unproductive entry and exit phenomenon that creates very few net sustainable jobs and generally makes the local economy structurally weaker. Further compounding the problem created, the ultra-competitive local market structure created by fin-tech lending helps to force average incomes down to the subsistence level. More of the poor might therefore be more active in their own new microenterprise, but *all* microenterprises in the community will tend to earn less on average, meaning that they are in work but poorer than ever. This was a huge problem in South Africa, when over 1997-2003 microcredit helped create many new informal microenterprises and some jobs, but this additional competition helped depress average incomes by a crushingly large 8 per cent per year. With the current high growth rate of fin-tech lending in Kenya and new fin-tech lenders emerging just about every day, it seems unlikely that such a negative scenario can be avoided there.

Academic Economists and Fin-Tech

But some academic economists say great things about fin-tech. By far the most talked-about contribution to date has been that by US-based economists Tavneet Suri and William Jack. Almost every article on the issue of fin-tech now quotes their astonishing headline claim that up to 194,00 households in Kenya (2 per cent of the total) were able to escape poverty between 2008 and 2014 thanks to their use of M-Pesa.

Unfortunately, this headline-grabbing claim by Suri and Jack is largely unfounded There are a surprisingly large number of defects in the work by Suri and Jack, which is somewhat surprising given that the two economists hold high academic positions in reputable US institutions. So where have they gone wrong?

First, Suri and Jack completely ignore the ‘job churn’ and lower average income effects just noted above. In spite of the clear evidence that failure rates of microenterprises are extremely high in Kenya, as everywhere in the Global South, they chose to assume that every women in Kenya who starts a tiny microenterprise with the help of M-Pesa must have succeeded. There is thus no need to explore in their analysis any of the familiar downside problems associated with the failure of a microenterprise. Of course, that is not to say that there are no positive impacts of new microenterprise entry in Kenya, but without looking at the impact of exit as well as entry we simply cannot tell. Inevitably, Suri and Jack also chose to ignore the displacement impacts affecting incumbent microenterprises. They conjured up instead a Disneyland-style world of perfect competition in which the local economy is sufficiently elastic to absorb any number of new microenterprises supplying lots more simple goods and services without creating any problems for anyone. It is not just sociologists and anthropologists, like Mike Davis, who well understand that such a rose-tinted model is fundamentally wrong, many development economists do too (notably the late great Alice Amsden).

Suri and Jack then compound their problematic analysis by also choosing to ignore the issue of the destructively high rates of individual over-indebtedness that now exist in Kenya. When it is evident to many economists (including surely their local researchers?) that M-Pesa has significantly extended this very serious problem, this is another major omission. And when leading financial analysts such as Graham Wright are vociferously arguing that the over-indebtedness situation is creating a huge problem, it is difficult to see why and how such a serious downside can be missed in any analysis of the development and poverty impact of M-Pesa.

Finally, as economists working in the neoclassical tradition, Suri and Jack dutifully refuse to consider issues related to the operations of power and imperialism in the sector and how they might shape markets in order to benefit above all one – the most powerful – side of any market transaction.

Accordingly, they have nothing to say about the fact that the majority owner of M-Pesa – the UK multinational telecoms giant Vodafone – is generating massive profits from its stake in M-Pesa, value that is ultimately harvested from the tiny and often desperate financial transactions and tiny business operations of Kenya's poor. This profit stream is being repatriating back to already wealthy shareholders in the UK and in other global financial centres, just as in previous centuries, in fact, when mining and other activities allowed the UK's colonial elites to extract significant wealth value from the country's many colonial possessions.

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All told, one really has to wonder if Suri and Jack's work was ever meant to be a genuine effort to assess the value of fin-tech and M-Pesa. Or was it perhaps simply an output that was designed to provide a headline-grabbing claim that could then be used by the US-led international development community – notably the World Bank – to convince African governments into embracing fin-tech regardless of the hugely problematic impact it will have on their poor? We should remember that there is a track record of just this underhand tactic being used by certain sections of the international development community with regard to microcredit. In giving an unfeasibly positive view of the impact of microcredit in Bangladesh, two World Bank economists, Mark Pitt and Shahidur Khandker, nevertheless achieved the World Bank's strategic goal of instantly validating microcredit in the eyes of the world, thus opening the way for its rapid expansion. When Pitt and Khandker's analysis was later on largely debunked, this did not matter: its expansion around the Global South had been secured in the meantime and many financial corporations and investors in the leading financial centres in the rich countries were soon doing very well indeed from their profit flows originating in the Global South. So, are Suri and Jack the new Pitt and Khandker perhaps?

There is no doubt that fin-tech has the potential to liberate enormous value that could make the lives of the global poor immeasurably better; for example, allowing member-owned financial cooperatives and credit unions to provide better and cheaper services for their members while redistributing any profits from the operation right back to them. But the problem as it stands in Kenya – and wider still in Africa and the world – is that the bulk of the value being released by fin-tech is not designed to go to the poor, who will most likely be worse off: it is very clearly designed to go up into the hands of a narrow global financial-digital elite that are the main forces behind the fin-tech 'revolution'.

The 2008 global financial crisis showed the world that an exciting new innovation said to be of huge benefit to America's poor minority communities – sub-prime mortgages – was actually expressly designed to enrich a narrow Wall Street financial elite. If a similar deception is not to be perpetrated in Kenya and across Africa, then those genuinely committed to poverty reduction and social justice, must urgently take concrete action.

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