Finance

Sector Report, Africa: February 2025

WABS Warwick African Business Society

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Industry Overview

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Sector Overview:

This month, Africa's finance sector indicated adaptability and strong persistence in bolstering financial stability, deepening capital markets and accelerating digital transformation. The African Development Bank (AfDB) reported that Africa's real GDP growth is expected to reach 4.1% in 2025, with key drivers including rising intra-African trade, strengthened financial integration, and growing investments in critical infrastructure.

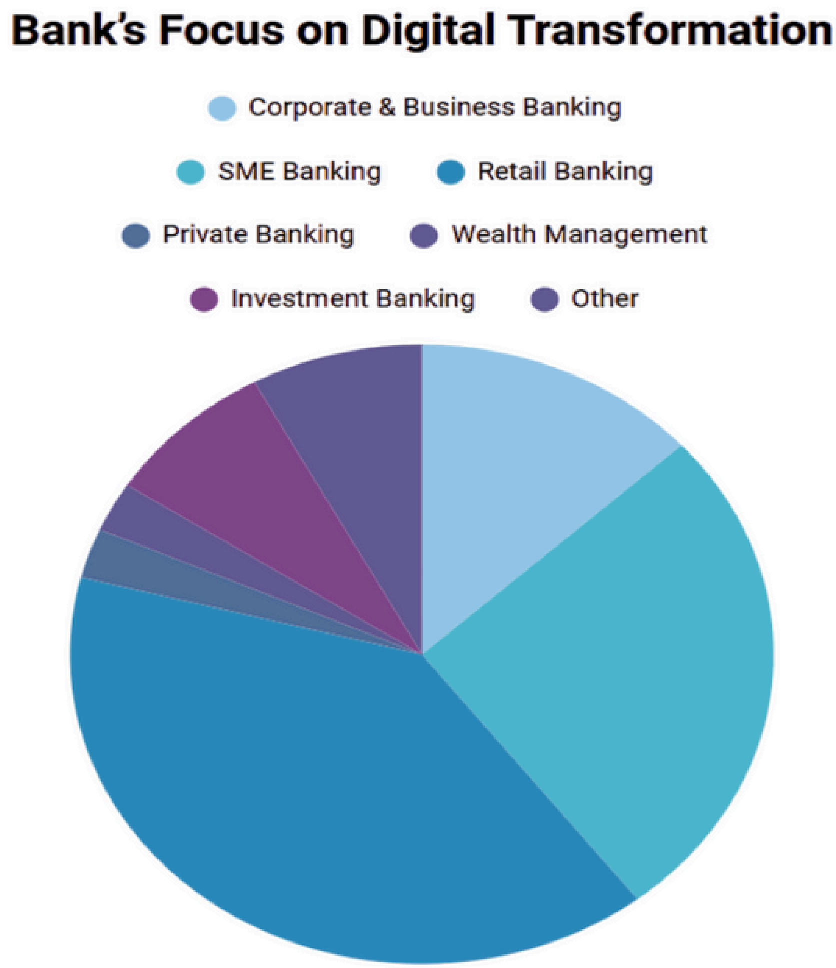
Key trends shaping Africa's finance industry:

Banks focus on Digital Transformation:

- Digital transformation is rapidly reshaping the financial sector in Africa, driven by a mix of strategic partnerships, regulatory backing and demand for more accessible financial services.
- For instance, the partnership between Bank of Africa and Visa exemplifies how digital transformation is being used to enhance financial services.

Financial Inclusivity:

- Digital transformation is unlocking new opportunities to expand financial inclusion, particularly for underserved communities.
- In regions like Sub-Saharan Africa, mobile payments dominate nearly 70% of digital transactions, showcasing the continent's pioneering role in mobile money adoption. Rapid growth in financial access has been accompanied by efforts to close gaps in gender, income and education throughout the continent.



Industry Milestone 1

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African Leaders Approve Creation of Financial Stability Fund :

On 18 February 2025, African leaders endorsed the establishment of the African Financial Stability Mechanism (AFSM). This initiative aims to prevent potential debt crises by enabling African nations to use a unified credit rating to borrow on international capital markets. The AFSM is projected to save African governments $20 billion in debt servicing by 2035.

Significance:

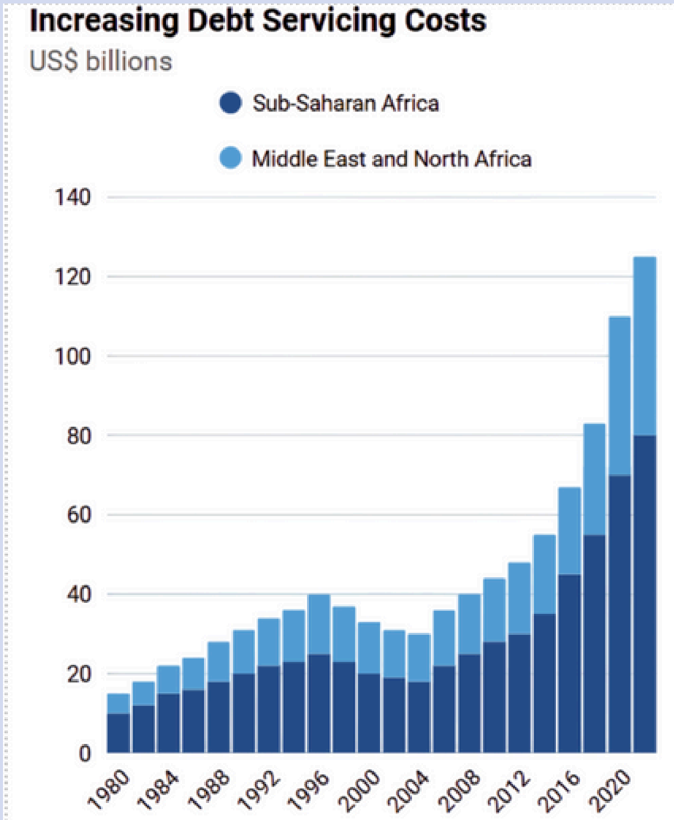
This marks a transformative step towards strengthening Africa's economic resilience and financial independence. By providing a collective financial safety net, the fund enhances investor confidence in African markets, reduces dependence on external creditors, and promotes long-term economic stability (Reuters, 2025). By reducing reliance on external creditors, African nations can negotiate better loan terms and avoid the debt traps that have historically hindered economic progress. The stability can also lead to higher sovereign credit ratings for African countries, making borrowing more affordable and sustainable long term.
These effects can mitigate economic volatility in the continent and position Africa as a stronger and more self-sufficient player in global financial markets.

Key Beneficiaries:

- **African Governments:** The creation fund can enable governments to access financial support during economic downturns without resorting to costly external debt. This helps stabilise national economies and ensures continued funding for essential development projects.
- **Local Businesses and Communities:** With greater financial stability, governments can invest more in infrastructure, social programmes and job creation, thus fostering economic growth and improving the quality of life for many people in Africa.
- **Investors and Financial Institutions:** A unified credit rating system will improve investor perception of African economies, leading to lower borrowing costs and higher investment inflows into infrastructure and development projects (Africafc.org, 2025). This increased investment inflow will create a more stable financial environment and reduce risk perception associated with African markets. This will mean African banks and firms can gain more access to affordable financing, enabling them to provide better lending terms to local businesses and stimulate further economic growth.

Relevant Data:

- Africa's external public debt surpassed $1 trillion in 2023, highlighting the urgent need for financial stability mechanisms.
- The AFSM is expected to save African governments up to $20 billion in debt servicing by 2035



Industry Milestone 2

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African Startups Secure $119 million:

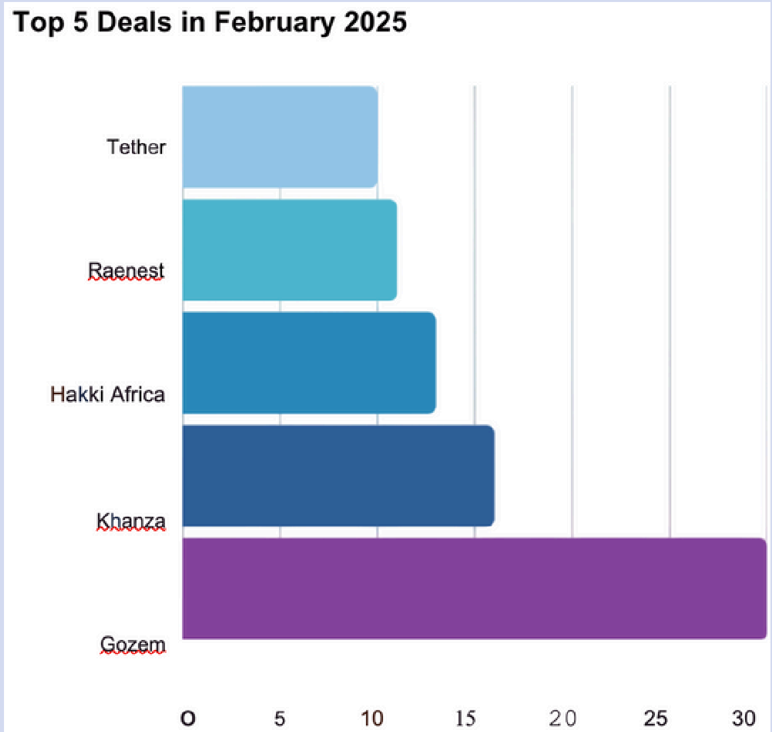
African startups raised a sum of $119 million, bringing the year-to-date funding to $408 million. Although the number of deals exceeding $100,000 was lower than in previous months, the total funding surpassed the $302 million recorded during the same period in 2024. Notable transactions included Togo-based Gozem securing $30 million, Egypt's Khazna raising $16 million for expansion into Saudi Arabia, and Nigeria's Raenest closing an $11 million Series A round (TechCrunch, 2025).

Significance:

The rise in startup funding highlights growing investor confidence in Africa's fintech, e-commerce, and logistics sectors. Despite global economic uncertainties, African startups continue to attract international venture capital, reflecting the continent's growing digital economy and potential for scalable solutions. These will provide startups with the necessary capital to scale their operations, enhance digital payment solutions, and expand financial inclusion across underserved regions. The increase in funding levels reinforces Africa's position as an emerging hub for innovative solutions, particularly in sectors like fintech and logistics. Additionally, the funding inflow signals more attention to scalable business models that address the continent's unique challenges, creating greater potential for socio-economic development. Furthermore, the continuous support for African startups establishes a positive feedback loop where successful ventures can raise more capital, hire local talent, and become leaders in regional and international markets.

Key Beneficiaries:

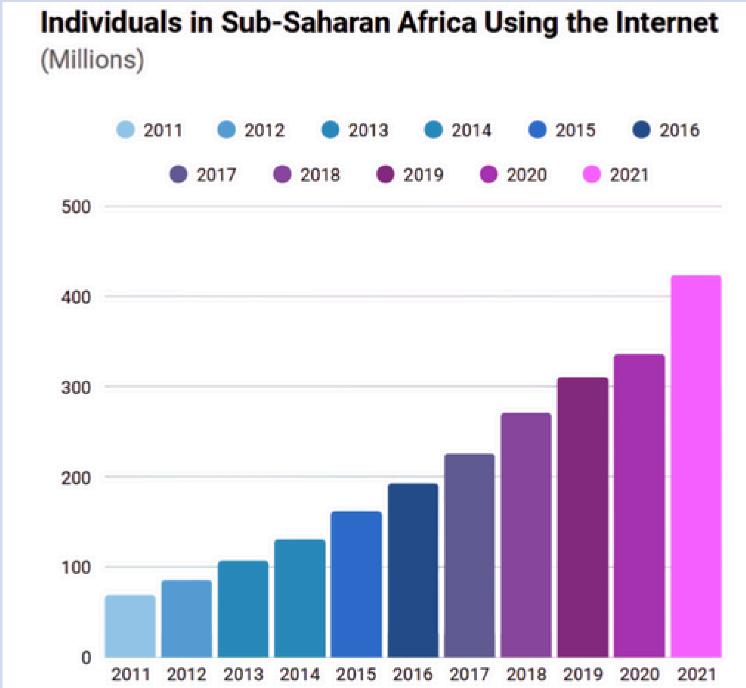
- **Startups and Entrepreneurs:** Increased funding enables African startups to scale their operations, improve technology infrastructure and enhance product offerings. This ultimately fosters innovation, competitiveness and economic growth in Africa's startup ecosystem.
- **Investors:** With higher funding rounds and a maturing startup ecosystem, investors are seeing improved returns and long-term growth opportunities in Africa's digital economy. Increased capital injection also boosts investor confidence in emerging markets.
- **Local Communities and Workforce:** Startups receiving funding will create employment opportunities, particularly in technology, logistics and fintech sectors. This will lead to skill development, higher income levels, and improved economic stability within communities.



Rise of financial stability:

Driving Factors:

- **Technological Partnerships:** Collaborations between financial institutions and technology providers have become pivotal in driving digital transformation. For instance, the partnership between Bank of Africa and Visa focuses on accelerating payment digitisation in Morocco, enhancing electronic payment solutions for customers. This effort is backed by clear market demand. A Visa-commissioned study revealed that nearly two-thirds of small merchants in Morocco prefer digital payments, many reporting an increase in foot traffic and revenue as a result. The partnership reflects a broader trend of African banks turning to global tech firms to scale their digital capabilities, streamline operations, and offer more inclusive financial services.



- **Regulatory Support:** Governments and regulatory bodies are increasingly endorsing digital initiatives, creating conducive environments for digital transformation. The African Development Bank's approval of a $160 million loan to support AXIAN Telecom's expansion aims to enhance digital access and financial inclusion across the continent. This deal also has a strong social impact component. Over $10 million is earmarked to support gender-inclusive finance, including access to credit and digital tools for over 34,000 women-led businesses in Madagascar, Tanzania, and Senegal. The initiative aims to support women entrepreneurs in scaling their businesses and integrating into the formal economy. AfDB Vice President Solomon Quaynor stated that this investment aligns with the bank's long-term strategy to accelerate digital inclusion and inclusive economic growth across the continent.

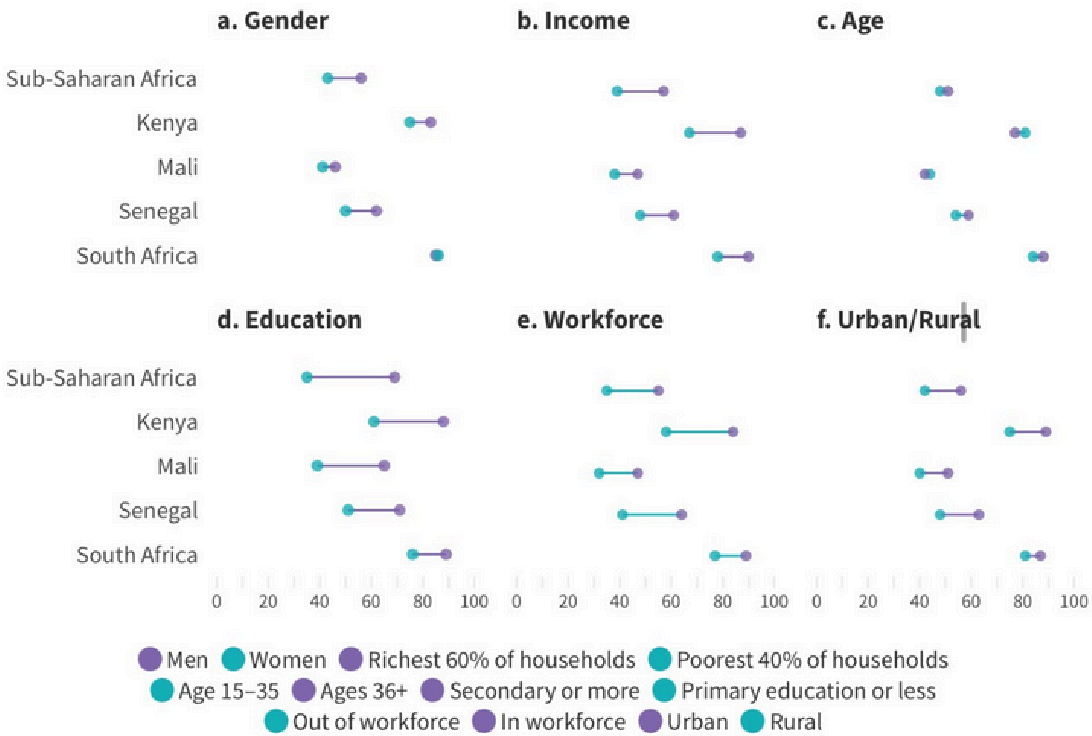
Challenges:

- **Infrastructure Limitations:** Inadequate internet connectivity and digital infrastructure in many African regions hinder the widespread adoption of digital financial services. These limitations pose significant barriers to implementing advanced digital solutions. The high cost of mobile data exacerbates the issue. A report by the Cherie Blair Foundation for Women reveals that in developing countries, 45% of women entrepreneurs lack regular internet access due to expense and connectivity issues, impeding their ability to engage in digital financial activities
- **Regulatory Diversity:** The diverse and sometimes fragmented regulatory environments across African countries present challenges for financial institutions operating across borders. According to the Carnegie Endowment for International Peace, issues such as data localisation requirements and a lack of clear cloud adoption guidelines complicate the digital financial landscape, making it difficult for institutions to implement standardised digital solutions across multiple jurisdictions. Navigating these varied frameworks requires substantial effort and resources.

Opportunities:

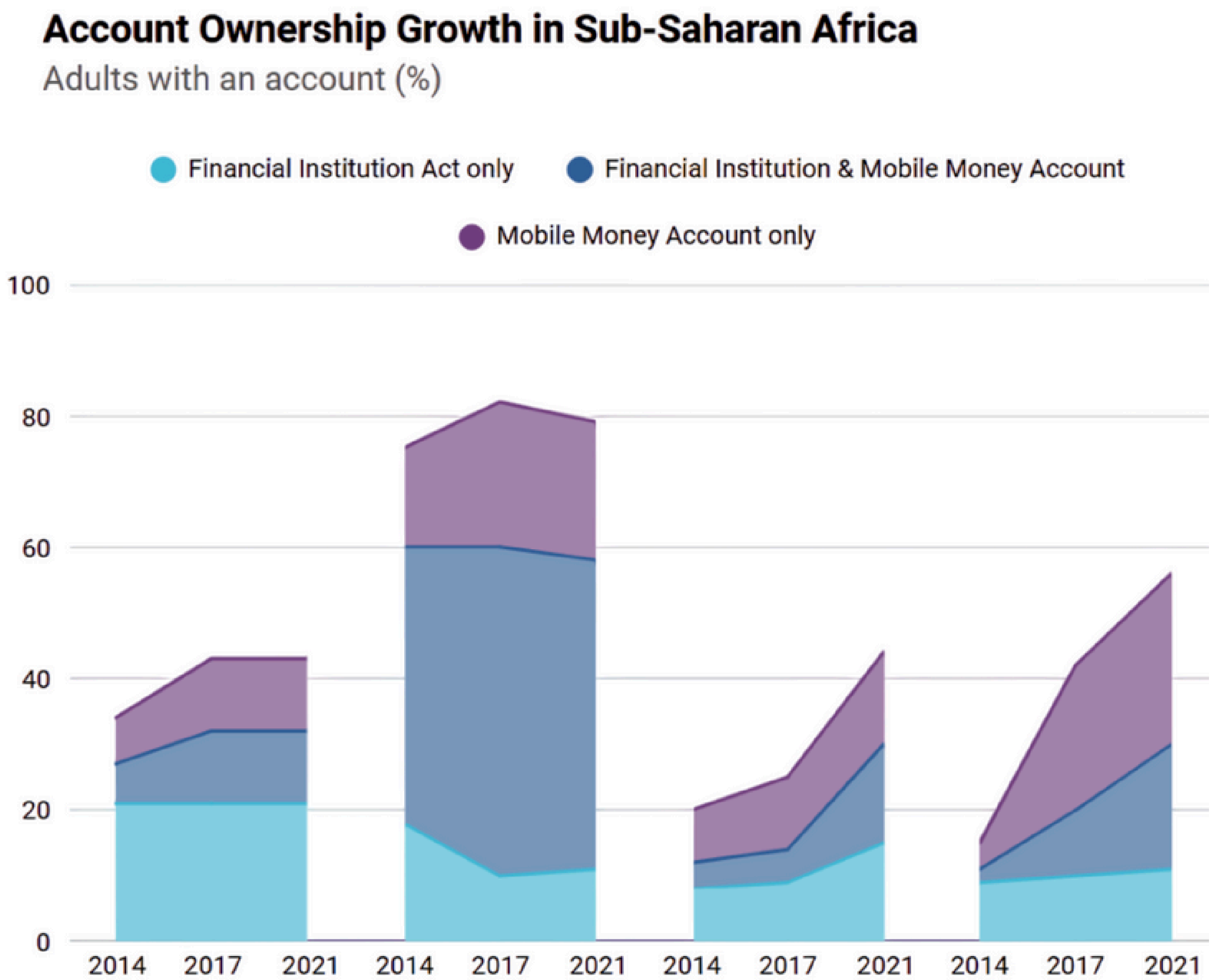
- **Financial Inclusion:** Digital transformation offers significant potential to enhance financial inclusion by providing services to underserved populations. Mobile payments now account for nearly 70% of digital transactions in some African economies, demonstrating the continent's leadership in mobile money adoption. Sub-Saharan Africa has shown remarkable growth in financial inclusion over the past decade, much of it driven by mobile money account adoption. The World Bank reports that the region continues to work on promoting more overall account access and usage, as well as more equal access based on gender, income, education, and age.
- **Innovative Financial Products:** The digital shift enables the development of new financial products and services, such as digital credit markets, which can improve access to funding and reduce costs by enhancing information access and risk assessment. The International Finance Corporation highlights that emerging digital credit markets may offer a potential increase in funding at lower cost by improving access to information and risk assessment.

FIGURE 2. Unequal access to financial accounts based on gender, education, and income is common in Sub-Saharan Africa
Adults with an account (%), 2021/2022



Source: Global Findex 2021

WORLD BANK GROUP



Solutions:

- **Subsidising Mobile Data:** To mitigate infrastructure and affordability challenges, particularly the high cost of mobile data, African governments and financial institutions can subsidise data access through public-private schemes. Some countries have started implementing "data voucher" programs or zero-rating essential financial services, allowing users to access digital banking apps without incurring data charges. Additionally, expanding community-based digital access points, such as shared internet kiosks, mobile banking vans, or agent banking hubs, can provide access to underserved women entrepreneurs and rural communities.
- **Developing Cross-Border Regulatory Sandboxes:** To overcome regulatory fragmentation, African regulators should adopt regional regulatory sandboxes, shared testing environments, where fintechs can trial innovations across multiple jurisdictions under unified oversight. The Bank of Zambia, Bank of Ghana, and Bank of Sierra Leone are already piloting this model with support from the Africa Fintech Network.

Financial Market Reforms:

Driving Factors:

- **Technological Partnerships:** Global Economic Uncertainty: The decision to maintain interest rates is closely tied to the volatile state of the global economy. Central banks across the continent are responding to a mix of slowing global demand, geopolitical instability, and the potential for disrupted trade flows. In South Africa, SARB Governor Lesetja Kganyago flagged concerns about the possible withdrawal of the country's AGOA (African Growth and Opportunity Act) benefits, which could negatively impact exports. However, this concern is not isolated, similar anxieties have been voiced in Kenya, Ethiopia, and Côte d'Ivoire, where economies remain closely linked to external trade partners.
- **Inflation Stabilisation:** Inflation levels have moderated in several African economies, creating space for interest rate stability. In South Africa, inflation stands at 3.2%, within the central bank's target range of 3–6%. Ghana and Kenya have also seen easing inflation, driven in part by improved food supplies and relatively stable exchange rates. Despite this, central banks remain cautious, with rising fuel costs, potential tax reforms, and global supply chain vulnerabilities posing potential inflationary risks. Holding rates provides a buffer as these risks are monitored.

Challenges:

- **Trade Dependency:** Many African economies remain heavily reliant on preferential trade agreements such as AGOA, which grants duty-free access to the U.S. market. While South Africa faces immediate concerns over the potential loss of these benefits, other AGOA-participating nations such as Lesotho, Mauritius, and Eswatini could also be severely affected. Increased tariffs would make their exports less competitive, threatening employment and industrial output in key sectors such as textiles, agriculture, and automotive production.

- **Policy and Diplomatic Uncertainty:** Uncertainty around global trade and foreign policy continues to affect long-term economic planning.These tensions complicate trade negotiations, limit access to foreign capital, and reduce investor confidence in the short term

Opportunities:

- **Export Diversification:** The potential risk of reduced access to Western markets is encouraging African countries to explore new trade partnerships and expand their export destinations. South Africa has begun increasing engagement with Latin America and ASEAN nations, while countries like Rwanda and Ghana are focusing more on intra-African trade. The African Continental Free Trade Area (AfCFTA) offers a unique opportunity to reduce dependence on external partners and develop resilient supply chains within the continent.
- **Structural Economic Reform:** Current uncertainty also provides an opportunity to accelerate long-overdue economic reforms. These include improving the ease of doing business, addressing energy supply issues, and promoting innovation. By building internal resilience, Africa can weather external shocks more effectively and drive more sustainable growth over the long term.

Solutions:

- **Proactive Trade Renegotiation:** Rather than waiting for agreements to collapse, African countries are actively exploring new trade frameworks, including bilateral agreements with the United States and EU member states. This type of forward-looking diplomacy is essential to protect export sectors and ensure uninterrupted market access during geopolitical realignments.
- **Strengthening Regional Trade Networks:** AfCFTA remains one of the most promising platforms for African economic growth. As more countries operationalise tariff reductions and digital trade facilitation, the opportunity to build resilient regional supply chains becomes more tangible. Nations such as Malawi, Zambia, and Côte d'Ivoire stand to benefit significantly from enhanced cross-border trade infrastructure and harmonised regulatory frameworks.

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Glossary:

AGOA (African Growth and Opportunity Act): A U.S. trade programme that provides eligible Sub-Saharan African countries with duty-free access to the U.S. market for thousands of products. Its continuation is subject to U.S. policy decisions.

AfCFTA (African Continental Free Trade Area): A trade agreement among African Union member states aimed at creating a single market to boost intra-African trade and economic integration.

SARB (South African Reserve Bank): South Africa's central bank, responsible for setting monetary policy, including interest rates, to maintain financial stability and control inflation.

Repurchase Rate (Repo Rate): The interest rate at which a country's central bank lends money to commercial banks. It is a key tool used to regulate inflation and economic activity.

Inflation: The rate at which the general level of prices for goods and services rises, leading to a decrease in purchasing power.

Monetary Policy: The process by which a central bank manages a country's money supply and interest rates to achieve economic objectives like controlling inflation and promoting growth.

Duty-Free Access: The ability to export goods to another country without paying import tariffs. This often makes products more competitive in foreign markets.

Trade Diversification: A strategy to reduce dependence on a single market or trading partner by expanding exports to multiple countries or sectors.

Public-Private Partnership (PPP): A collaborative agreement between government agencies and private-sector companies to finance, build, and operate infrastructure or deliver services.

Digital Transformation: The adoption of digital technologies by organisations to improve operations, deliver value to customers, and remain competitive.

Intra-African Trade: Trade that takes place between African countries. It is a key focus of the AfCFTA in reducing reliance on external markets.

Structural Reform: Long-term changes to a country's economic and institutional framework (e.g., regulatory systems, public services) to improve efficiency and competitiveness.

Regulatory Sandbox: A controlled environment where fintech companies can test new products or services under relaxed regulatory conditions, typically overseen by financial authorities.

Interest Rate Hold: A decision by a central bank to keep interest rates unchanged, usually to maintain economic stability during uncertain times.