



FINTECH

FORWARD LOOK

2022

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INTRODUCTION

WELCOME TO OLANIWUN AJAYI LP FINTECH FORWARD LOOK, 2022

In the course of 2021, there were several notable developments in the Nigerian Fintech landscape. Picking up from the previous year, regulators have actively engaged with the Fintech ecosystem, issuing several instruments that touch on issues like holding companies and shared services arrangements, open banking, general permissible activities of participants as well as new licensing regimes.

Also, the exponential growth of investments in the Fintech space did not wane in 2021. In Q1 alone 18 tech companies raised \$219 million, a 395.5% increase from the amount raised during the same period in 2020 and almost double what was raised in the whole of 2020.

There was also an almost consistent spike in payments and transfers, and our Report mirrors this in numbers. On the lending front, Nigeria's credit to the private sector soared to a valued N33.8 trillion as of September 2021, according to the money and credit statistics by the Central Bank of Nigeria. This trend is owing to a blend of CBN policies, technological innovation, as well as the increase in Fintech participants within the lending space.

In a bid to expand their market and service reach, we also saw a number of strategic partnerships in the year, especially in the payments space. For instance, Paystack entered strategic partnerships with companies such as Apple Pay and WooCommerce. These partnerships have availed local merchants with more options for accepting international payments, while exposing Nigerian fintech companies to a new range of international users.

Agency banking has been a driving force for the steady promotion of financial inclusion in Nigeria, and this has been the trend over the last couple of years. While it has been led by mostly fintech companies and traditional financial institutions, we anticipate even more participation by telecommunications companies in agency banking by 2022.

On the regulatory and government side, beyond the widely reported regulatory position taken by the CBN and other regulatory agencies which particularly affected the crypto space, the Federal Government of Nigeria launched the e-Naira, Nigeria's central bank digital currency and the first in Africa.

This Report is in three parts: Part A outlines key facts and figures that shaped the Fintech space in 2021, Part B focuses on highlights of 2021 and the key trends we observed, while Part C looks forward into 2022, outlining some of our expectations for the year and what we think the key indicators for the sector would be.

We hope that you find it an engaging read. As always, please do not hesitate to contact us if you have any queries. We look forward to receiving your feedback, comments and observations on the Report.

Thank you.

Damilola Salawu
Partner, Technology, Innovation and
Fintech, Olaniwun Ajayi LP



PART ONE

FACTS AND FIGURES 2021

INVESTMENTS



In Q1 2021, 18 tech companies raised \$219 million, a **395.5%** rise from the amount raised during the same period in 2020 and almost double (181.7%) the amount raised in the whole of 2020. ¹



Fintechs accounted for **93.09%** of the amount raised in Q1, with a value of \$204 million, as opposed to the \$46 million raised in Q1 2020. This figure was largely influenced by Flutterwave's \$170 million Series C round.



In Q3 2021, tech companies raised an estimated \$248.6 million, a **103%** increase from \$122.76 million raised in Q2 2021. Similar to Q1 2021, fintech companies received almost half of the total investment in tech companies in Q3 2021 at about \$113.7 million. On aggregate, the technology sector raised \$590.36 million in Q1 – Q3 2021.

Nigerian tech companies raised a total of \$1.7 billion in 2021 ³

As a commercial hub housing several high performing Fintechs, Lagos now ranks the highest start-up city in Africa, ahead of Nairobi and Cape Town.

1. Techpoint Africa – 'Nigerian Startup Funding Report Q1 2021' <<https://intelligence.techpoint.africa/report/nigerian-startup-funding-report-q1-2021/>>
2. <https://www.startupblink.com/startupecosystemreport.pdf>
3. Nairametrics – 'Nigerian tech startups have raised \$1.7 billion in 2021 – US Ambassador' <<https://nairametrics.com/2021/12/20/nigerian-tech-startups-have-raised-1-7-billion-in-2021-us-ambassador/>>

VALUE AND VOLUME OF PAYMENT TRANSACTIONS



Electronic payment (e-payment) increased from **NGN92.71tn in August 2020** to **NGN171.99tn** in the corresponding period in **2021**

Between January and August 2020, Electronic payment (e-payment) increased from NGN92.71tn in August 2020 to NGN171.99tn in the corresponding period in 2021, recording an 85.52% increase YoY³. In Q1 2021 alone, the value of e-payment hit a record N58.8 trillion.⁴

Data⁵ from the Nigeria Inter-Bank Settlement System (NIBSS) shows positive growth across the various e-payments channels between January and September 2021. Within the period, NIBSS Instant Payment (NIP) transactions recorded a transaction value and volume of NGN191.4tn and 2.5bn, an 81.8% YoY and 82.9% YoY growth respectively. POS transactions saw a total transaction value and volume of NGN4.6tn and 707m, growing by 43.9% YoY and 60.4% YoY respectively.

Mobile inter-scheme transfers, on the other hand, was the most impressive, recording a transaction value and volume of NGN5.1tn and 188.7m, growing by 167.3% YoY and 113.8% YoY respectively.

The volume of NIP transactions dropped for the first time in April 2021 to 265m, valued at around NGN20.68tn. This represents a 6.05% drop from the N22.02 trillion in March but an impressive 195% growth from the N7.01 trillion transacted in April 2020.⁶

POS transactions also saw a dip in April 2021 as transaction volumes fell 4.1% to 77.6m and the value of transactions also fell by 4.42% to NGN507.8bn during the month. The drop is said to have been caused by disruptions to the ATM cards and services of some banks.⁷

3. Punch - 'E-payment transactions rise by 85.52% in one year' <<https://punchng.com/e-payment-transactions-rise-by-85-52-in-one-year/>>

4. Technext - 'POS and mobile payment slows in April as e-transaction numbers fall for the first time in 2021' <<https://technext.ng/2021/05/18/pos-and-mobile-payment-slows-in-april-as-e-transaction-numbers-fall-for-the-first-time-in-2021/>>

5. Proshare - 'Nigeria's Growing Digital Payment Industry' <<https://www.proshareng.com/news/Mobile%20Money%20and%20Telcos/Nigeria-s-Growing-Digital-Payment-Industry/59418>>

6. Technext - 'POS and mobile payment slows in April as e-transaction numbers fall for the first time in 2021' <<https://technext.ng/2021/05/18/pos-and-mobile-payment-slows-in-april-as-e-transaction-numbers-fall-for-the-first-time-in-2021/>>

7. Ibid

REGULATIONS

2021 witnessed a lot of regulatory activities across the tech industry. Broadly, regulatory action was required to provide some clarity on a number of financial activities or to bring existing guidelines in line with current realities through amendments.

Below is a timeline of the various several circulars, guidelines, and regulations issued within the year.

J
A
N

In January 2021,

the Securities and Exchange Commission (**SEC**) Crowdfunding Rules took effect. The rules provide for a formal regulatory and supervisory framework, including compliance requirements, the scope of business operations, registration requirements, obligations of the operators, and penalties for non-compliance, for entities in the crowdfunding and commodity investment ecosystem.

In January 2021,

the Central Bank of Nigeria (**CBN**) issued the Framework for Regulatory Sandbox Operations which provides for the establishment, rules and operations of Regulatory Sandbox for the Nigerian payments system to promote effective competition, embrace new technology, encourage financial inclusion and improve customer experience to engender public confidence in the financial system. While the regulatory regime around the fintech ecosystem is still developing and certain entry barriers still exist for new comers with novel business models, we expect that a functional Regulatory Sandbox would afford regulators a better understanding of new products and also allow for seamless regulatory onboarding. The framework notes that the CBN will make a call for applications once in each calendar year for interested participants that meet the eligibility criteria for participation.

In January 2021,

the Framework for Quick Response (**QR**) Code Payments in Nigeria was introduced by the CBN, creating a QR Code licensing regime while setting out the standards applicable to the operations of QR Codes in Nigeria. It also identifies the eligible participants that can offer QR Code services and infrastructure in Nigeria and the standards that must be maintained by the participants. QR Codes as a payment method is increasingly being adopted in the Nigerian payments system. NIBSS launched the Nigeria QR Code (**NQR**), a secure QR code-based payments and collections platform for merchants and customers to receive and make payments. Fintech companies such as Paystack and Flutterwave now offer merchants QR Codes as a payment method to accept payments. More traditional financial institutions have also integrated QR Codes as a payment method in their respective mobile and web applications.

F
E
B

In February 2021,

in an attempt to provide an enabling regulatory environment for the provision of innovative financial services, the CBN issued the Regulatory Framework for Open Banking in Nigeria (**Open Banking Framework**). The Open Banking Framework will serve to allow the transaction data that banks sit on to be accessible to other industry players.

A
P
R**In April 2021,**

the SEC issued the Major Amendments (**Amendments**) to the Securities and Exchange Commission Rules and Regulations, 2013 (**Rules**), making significant changes to the provisions relating to Sub-Brokers. By the Rules, a Sub-Broker is a person or company who is not a member of an Exchange but acts as an agent of a sponsoring broker/dealer or assists investors in buying and selling securities through the sponsoring broker/dealer. The Amendment now recognises that a Sub-Broker may utilize a digital platform to engage investors and interact with sponsoring brokers and has been grouped under the category “Digital Sub-Broker” or “Sub-Broker Serving Multiple Brokers Through A Digital Platform.” This development offers a fresh path for Fintechs to venture into the regulated capital market terrain. It would also improve the participation of Nigerian retail investors in the local and international markets and ultimately impact the overall growth of the capital market.

M
A
Y**In May 2021,**

the CBN released the New License Requirements for the Payments System. It contains the eligibility criteria for each payment licence category, including the Payment Terminal Service Provider (**PTSP**) licence, Payment Service Solution Provider (**PSSP**), Payment Solution Services (**PSS**), Super-Agent licence, Mobile Money Operator (MMO) licence, Switch and Processing licence. The New Licence Requirements consolidated requirements that were *hitherto* in different regulatory frameworks into one single document while introducing additional documentary requirements across different licence categories. We note that this move by the CBN was in response to calls for harmonization of the various regulatory regimes in the payments system and with the New License Requirements comes clarity in relation to regulatory overlaps, among other issues.

J
U
L**In July 2021,**

the Supervisory Framework for Payment Service Banks (**PSBs**) was issued by the CBN, setting out the licensing requirements, the roles and responsibilities of the participants involved in the ecosystem and the permissible activities. We note that in November 2021, the subsidiaries of telecom giants MTN and Airtel were granted AIPs to operate PSBs by the CBN; a piece of good news for the mandate to deepen financial inclusion.

In July 2021,

the CBN released a revised twin regulation for MMOs in Nigeria; Guidelines on Mobile Money Services in Nigeria and the Regulatory Framework for Mobile Money Operations in Nigeria. The revised regulations introduce new provisions regulating the operations of mobile money operators, notably, by the new regulations, mobile money operators are now permitted to offer mobile wallets. The proliferation of mobile wallets has ushered in seamless financial transactions and also driven financial inclusion in the country.

A
U
G**In April 2021,**

the CBN issued the Guidelines for Licensing and Regulation of Payments Service Holding Companies (**PSHCs**) in Nigeria (**PSHC Guidelines**). The PSHC Guidelines regulates the operations of a holding company owned by payments service companies such as MMOs, switches and processing companies and PSS licensees. Its issuance is intended to complement the earlier issued CBN Circular on New Licence Categorisations for the Nigerian Payment Systems 2020 which mandated companies desirous of offering switching and processing services alongside mobile money services to set up a PSHC while also creating a regime for payment companies to operate a holding company structure. The PSHC structure would help to enhance the efficiency of payment holding companies, given that each subsidiary is required to focus on a specific service offering. It also enables the CBN to conveniently carry out its oversight functions.

O
C
T**In October 2021,**

the CBN issued a revised Regulatory Framework for Bank Verification Number (BVN) Operations and Watch-List for the Nigerian Banking Industry (**BVN Framework**). The BVN Framework introduces salient amendments to meet the current realities in the banking and financial services industry, particularly the applicability of the BVN regime to mobile money wallets/operations and the exemption of Tier-1 accounts from participating in the BVN database, amongst other key amendments

In October 2021,

following the launch of the eNaira, the CBN released the draft Regulatory Guidelines on the eNaira (**Draft eNaira Guidelines**) which will in the main, regulate the issuance and use of the eNaira and will apply to all financial institutions and users of the eNaira. The release of the Draft eNaira Guidelines is an attempt to provide legal and regulatory clarity on the country's official CBDC.





PART TWO

2021 WRAP UP

E-NAIRA AT THE CENTER STAGE



Nigeria became the first African nation to introduce an official central bank digital currency (CBDC)⁸ when it officially unveiled the eNaira on 25 October 2021.⁹ According to the CBN, the eNaira will form part of the Naira in circulation and would be at par with the Naira¹⁰ and it is intended that the typical monetary policies employed by the CBN to control the supply of Naira will also extend to the eNaira.¹¹

While there are several upsides to having a CBDC, the launch of the eNaira has been met with different criticisms and issues. One was the apex bank's decision to engage Bitt Inc., a Barbados-based fintech company, as the technical partner for the eNaira, overlooking participants within the Nigerian fintech community. Outsourcing the contract to a foreign company raised doubts regarding the government's support for local capacity development, the country's private technology sector as well as the criteria adopted in making the selection. The CBN subsequently announced that it will own a majority stake in Bitt Inc. after its registration in Nigeria. It is noteworthy that the Barbadian company was instrumental in the launch of the CBDC pilot phase of the Eastern Caribbean Central Bank (ECCB) in April 2021.

8. A CBDC is the virtual form of a country's fiat currency, issued by the central bank.

9. It was originally billed to launch on 1 October 2021 but was deferred with the CBN citing the commemoration of the country's 61st independence anniversary as a reason for the postponement

10. Exchanging 1 to 1.

11. Paragraph 1.0 of the Draft Regulatory Guidelines on the eNaira

Another issue the CBDC project encountered in its take-off was the alleged infringement on a company's trademark by the CBN. ENaira Payment Solutions Limited (**ENaira Ltd**), a registered Nigerian company, instituted a trademark infringement action¹² before the Federal High Court (**FHC**) against the apex bank over the name "eNaira", urging the court to prevent the launch of the CBDC. In a cease-and-desist notification issued by the company's solicitors to the CBN, it was alleged that ENaira Ltd is the holder of the trademark "ENaira" registered in Class 36¹³ and Class 42¹⁴. While the substantive suit is still pending, the court paved the way for the launch of the e-Naira, by refusing the grant of an injunction sought by ENaira Ltd to restrain CBN from rolling out the e-Naira.



Some legal concerns also surround the eNaira, particularly the CBN's powers to issue the eNaira. The CBN Act¹⁵ as well as the Decimal Currency Act¹⁶ prescribe that legal tender in Nigeria includes **currency notes and coins** issued by the CBN. Given the absence of a law permitting the CBN to issue currency in a digital form of Naira, this presents a regulatory lacuna. Hence the concern about a robust legal basis for issuing eNaira. The CBN in issuing the regulatory framework governing the eNaira has however relied on the provisions of Section 19(1) (b) of the CBN Act which gives the CBN powers to determine the "forms" and "designs" of the notes and coins issued by the CBN subject to the approval of the President and on the recommendation of the Board of the CBN.

12. ENaira Payment Solutions Limited v. CBN (FHC/AB/CS/113/2021)

13. Insurance; financial services; real estate agency services; building society services; banking; stockbroking; financial services provided via the Internet; issuing of tokens of value in relation to bonus and loyalty schemes; provision of financial information.

14. Scientific and technological services and research and design relating thereto; industrial analysis and research services; design and development of computer hardware and software; computer programming; installation, maintenance and repair of computer software; computer consultancy services; design, drawing and commissioned writing for the compilation of websites; creating, maintaining and hosting the websites of others; design services.

15. Section 20(1) and (2)

16. Section 4

Outside these concerns, we note that the eNaira is a digital asset, accounted for in a digital ledger. It is also supplied and fully controlled directly by the CBN. It possesses a non-interest-bearing CBDC status, a transaction limit for customers, and a value-based transaction limit. Financial institutions licensed by the CBN are to be responsible for ID verification, eNaira payment processing, and creating wallets for customers to hold their eNaira. The eNaira wallet is similar to a bank account and is created in the same way. However, it is a separate account that is not connected to an already existing bank account. The eNaira shares some similarities with the Sand Dollar, the CBDC of the Bahamas and the first to be launched in the world. It is also a digital representation of the Bahamian dollar. The Sand Dollar is similarly issued by the Central Bank of The Bahamas through authorised financial institutions (AFIs).

We believe that the addition of the eNaira to the payments system could potentially expand payment options, boost financial inclusion, reduce the cost of processing cash, drive efficiency for monetary policies, while enabling transparent payments to citizens eligible for specific government welfare programs.



Regulatory Clampdown: Government v Innovation

In the past year, Nigerian regulatory authorities appeared to take a stringent stance towards the technology sector with a series of warnings, sanctions, court actions and proscriptions of several activities and companies. Reactions to the regulatory actions were mixed, with some stakeholders asserting that the regulatory measures were an attempt to stifle technological and economic advancements of the booming and thriving Nigerian technology industry, while other observers commended the actions of regulators as necessary by the CBN in the discharge of its statutory mandate to ensure financial system stability by protecting the financial sector and its participants. We highlight below some of the headline regulatory oversight activities in 2021.



Crypto Ban

In the first quarter of 2021 the ‘**Crypto ban**’ as it is popularly known was brought into effect, through a Letter issued by the Central Bank of Nigeria (CBN) to all Deposit Money Banks (DMBs), Non-Bank Financial Institutions (NBFIs) and Other Financial institutions (OFIs) (together the “**Financial Institutions**” or the “**Regulated Entities**”) in Nigeria prohibiting the Financial Institutions from any form of commercial engagements with virtual currency exchanges or facilitating cryptocurrency trades and a directive to close bank accounts associated with cryptocurrency exchanges. The Letter elicited widespread concern both locally and internationally. Few days later and in response to the widespread criticisms, the CBN issued a press statement justifying its position whilst also emphasizing that the CBN was not comfortable with any form of cryptocurrency-related activities and it promised to continue to educate Nigerians to desist from its use due to the inherent risks (the **Press Statement**).

Notably, since the issuance of the Letter and the Press Statement, numerous changes have taken place within Nigeria, on the one hand, Financial Institutions have begun to disable or deactivate the accounts of their customers on reasons of suspicion of engaging in cryptocurrency-related transactions¹⁷. In a similar vein, some cryptocurrency exchanges stopped marketing their service offerings to Nigerians and many users were forced to withdraw balances in their crypto-wallets¹⁸. As is with all things technology-related, users and cryptocurrency exchange platforms have been forced to resort to peer-to-peer trading, although, this has also caught the attention of Financial Institutions of late who have further increased the level of scrutiny on unusual transactions conducted by some of their customers, leading to either forced bank account closures or enhanced know-your-customer verification¹⁹, etc.



17. <https://thenationonlineng.net/court-unfreezes-accounts-blocked-by-cbn-for-cryptocurrency-trading/>

18. In the aftermath of the Letter, Binance and Luno released statements advising their customers to suspend all Naira deposits on their platforms until further clarification is obtained from CBN.

19. <https://businessday.ng/technology/article/nigeria-blocks-bank-accounts-in-renewed-crypto-onslaught/>



Naira Devaluation and the Freeze on Certain Fintechs

One of the serious issues the CBN had to deal with in 2021 was the stabilization of the Naira through several intervention policies and measures²⁰. In addition to the policy actions, the CBN also moved against corporate entities and individuals whose business activities it perceived to be contributing to the devaluation of the Nigerian currency and exchange rate instability. On this note, the CBN in August, approached the courts to obtain an order to freeze the bank accounts of certain fintech companies such as Trove, Risevest, Bamboo, etc. on several grounds including that these companies were complicit in operating without appropriate licences, and dealing in foreign exchange (forex) and cryptocurrency in contravention of CBN's circulars. The freezing order has since been vacated in relation to one of the affected companies on the basis that the CBN lacked the powers to have obtained the freezing order in the first place²¹.



Data Protection

The previous year also saw increased activity by the National Information Technology Development Agency (NITDA), Nigeria's information technology agency and data protection authority in ensuring compliance with the NDPR Guidelines of 2019. NITDA imposed fines on certain corporate entities guilty of violating the data protection regulations in the country. In this regard, a fine of ₦10 million was imposed on an online lending platform, Sokoloans for invasion of privacy of its users.



The Social Media Gag

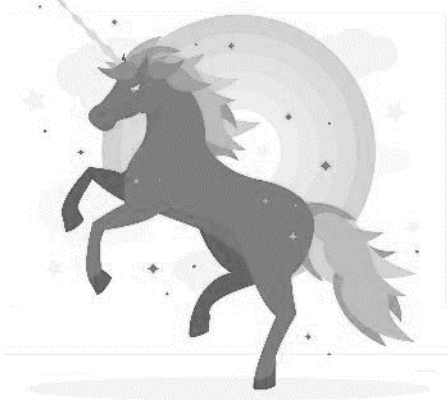
Finally, there was a general clampdown on social media in Nigeria in 2021, particularly Twitter, as the Federal Government (through a statement issued by the Ministry of Information and Culture) indefinitely suspended the operations of Twitter in Nigeria and ordered all network operators to block access to the social media platform as activities on the social media platform 'are capable of undermining Nigeria's corporate existence'²². However, the suspension is to be lifted subject to Twitter's satisfaction of certain conditions including Twitter setting up a local office in Nigeria and cooperating with the government to regulate harmful tweets.

20. CBN 'New Policy Actions in the Foreign Exchange Market' <<https://www.cbn.gov.ng/out/2017/ccd/press%20release-new%20fx%20market%20rules.pdf>>

21. <<https://nairametrics.com/2021/10/06/trove-in-talks-with-cbn-after-the-apex-bank-froze-its-account/>>

22. <<https://techcrunch.com/2021/06/04/nigeria-suspends-twitter-operations-says-platform-undermines-its-corporate-existence/>>

MORE FINTECH UNICORNS AND BIG TICKET FUNDING



In less than three years, Opay has emerged as Africa's fastest Unicorn. Its latest valuation placed its worth at \$2 billion following a \$400 million investment round led by SoftBank.²³ The investment marked the largest ever investment in an African fintech and brought Opay's total fund raise to \$570 million across three rounds. Opay, primarily a payment, mobile wallet, and agent banking solution, utilised a super app strategy to drive interest in its payment services. Previously, Opay subscribers could access transportation, food, asset management, and even instant messaging services from within its payment app. However, the restrictions on commercial motorcycle operations in Lagos State last year and the effects of the pandemic led to Opay focusing on payments, a decision which appears to have paid off, as Opay states that it now processes \$3 billion in transactions monthly.



Flutterwave, the five-year-old payments solution fintech also became a Unicorn in 2021, after raising \$170 million in a Series C funding round led by growth-equity firms Avenir Growth Capital and Tiger Global Management LLC, alongside existing investors Visa, FIS, DST Global and Salesforce Ventures. The fundraise marked a total raise of \$225 million over three rounds and brought Flutterwave's net worth to over \$1 billion. Flutterwave has built its network up to 290,000 merchants, as well its Barter App to over 500,000 users. According to a statement by the company, the aim is to focus on customer acquisition and product development going forward.²⁴



Andela, a global tech talent outsourcing company, also became a unicorn in August 2021 after its \$200 million Series E fundraising, putting its total valuation at \$1.5 billion. The funding round was led by SoftBank Vision Fund 2 with participation from Whale Rock alongside existing investors, including Generation Investment Management, Chan Zuckerberg Initiative, and Spark Capital. In the past year, Andela has increased its presence to over 80 countries following its expansion into Eastern Europe and South America, in June. With the latest raise, Andela plans to expand its talent offering beyond software development to include new verticals such as design and data after it launched its Salesforce development earlier this year.

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23. <<https://www.techinasia.com/softbankled-400m-puts-african-fintech-startup-unicorn-club/>>

24. <<https://technext.ng/2020/07/02/breaking-opay-confirms-it-is-shutting-down-oride-otrade-ocar-ofood-payment-platform-only-to-remain/>>

25. <<https://technext.ng/2021/09/29/andela-raises-200-million-at-1-5-billion-valuation-in-series-e-led-by-softbank/>>



Swvl, an Egypt founded ride-sharing platform operating in Africa and the Middle East, also became a Unicorn in 2021. Swvl attained a \$1.5 billion valuation after its merger with a special purpose acquisition company (SPAC), Queen's Gambit Growth Capital. With intentions to list on NASDAQ, under the ticker SVWVL, the newly merged company becomes the largest African unicorn to debut on a US-listed exchange, beating Jumia's NYSE debut of \$1 billion.

Chipper

Chipper Cash, an African cross border payment company also reached unicorn status with a total valuation of \$2 billion in 2021, when it raised a total of \$250 million in Series C funding through an initial \$100 million fundraise and an additional \$150 million extension round. This made ChipperCash the ninth African Unicorn, joining Interswitch, Jumia, Flutterwave, Opay, Andela, Egypt's Fawry and Swvl, and South Africa's Wave.

2021 was also a blockbuster year for funding generally. Nigerian digital bank- Kuda raised \$25 million in a Series A funding in March 2021, and another \$55million in a Series B funding in August 2021, bringing its total valuation to \$500 million. In July 2021, Fairmoney, a credit led Neobank raised \$42million in a Series B funding led by Tiger Global. Prospa, a fintech offering banking and business services to small businesses raised \$3.8 million in a pre-seed round in September 2021. Nigerian Agritech Releaf also raised \$4.2 million in a seed round in September 2021, to scale its food processing technology. Drugstoc, a Nigerian pharmaceutical distribution healthtech raised \$4.4 million in a Series A funding in November 2021. Also in November, Africa Health Holdings, an African health care company providing telemedicine services raised \$18 Million in a Series A funding.

The rise of new unicorns and big-ticket series funding in 2021 signifies the profitability and significant growth potential in the African fintech space in recent years. This is illustrated by the speed at which newer African Unicorns emerged. For instance, the first Unicorns in Africa, Interswitch and Fawry, reached Unicorn status in 17 and 12 years respectively, while the remaining seven African Unicorns took an average of 4.7 years to achieve Unicorn status, with the most time to attain Unicorn status being 7 years. Evidently, the Fintech ecosystem has emerged as one of the fastest growing sectors of the Nigerian economy.

STRATEGIC FINTECH PARTNERSHIPS TOWARDS ACHIEVING INTERCONTINENTAL REACH

In previous reports, we predicted that strategic partnerships will play a critical role in the development of the space, as key players with diverse strengths come together to expand their reach. This year saw several strategic partnerships aimed at increasing international reach, particularly in the payments space.

Flutterwave, a leading payments solution company entered several key strategic partnerships in 2021. In March 2021, Flutterwave entered a strategic partnership with Ecobank Transnational Incorporated, aimed at offering digital business and banking solutions to support business growth across Africa. The partnership involved providing customers with free digital marketing training, secure payment processing, specialised business banking and increased international reach by being able to process payments in over 150 countries. Flutterwave also entered a mobile money partnership with the MTN Group in August 2021 which allowed Flutterwave to offer MTN Mobile Money²⁶ as a payment method to its business customers. In September 2021, Flutterwave entered a partnership with 9PSB, the first Payment Service Bank (**PSB**) in Nigeria which sought to create a seamless payment ecosystem by aggregating and simplifying transactions for banking agents, merchants, and consumers. The same month, Flutterwave also partnered with Currencycloud, a leading B2B cross-border solutions provider, by integrating with Currencycloud's cross-border payments API to enable its merchants to send and receive money transfers, around the world, and accept payments in multiple currencies via virtual accounts.



26. MTN Mobile Money is a secure mobile money service that enables MTN Mobile Money wallet holders to store funds, send and receive money and make payments using their mobile phone.

Likewise, Paystack, a leading payments company, entered a strategic partnership with Apple Pay. Through the integration, Paystack merchants can now accept Apple Pay as a payment method on the platform, allowing them to easily accept international payments. Paystack also partnered with WooCommerce, one of the most popular e-commerce platforms in the world. With this partnership, WooCommerce, selected Paystack as its preferred payment partner in Africa, meaning WooCommerce merchants can now easily accept payments via Paystack.

Through these partnerships, leading Nigerian Fintechs have been able to expand their reach beyond their borders, giving Nigerian users a better and more expansive user experience, and introducing the Fintechs to a new range of international users.





PART THREE

2022 OUTLOOK

INCREASED PARTICIPATION IN AGENCY BANKING BY BANKS AND ENTITIES BACKED BY TELECOMMUNICATION COMPANIES

Enhancing Financial Innovation and Access (EFInA) reported in 2021 that about 55% of Nigerians were unbanked in 2020 for several reasons including limited access to brick-and-mortar banks due to distance from dwelling places, poverty, cost of banking services, irregular income, institutional exclusion etc. One of the positive indications is the contribution of agency banking to the promotion of financial inclusion in Nigeria; precisely, in 2020, agent banking contributed about 19% to the financial inclusion gains of the country, 16% up from 2018 (when it only contributed 3%). Thus, the agent banking sector in Nigeria continues to be on the rise; a sector which has been led by mostly fintech companies (such as Paga, Opay, TeamApt, Kudi, etc.) and few traditional financial institutions (such as FirstBank -through FirstMonie, SANEF).

2021 however saw increased participation by more traditional financial institutions (commercial banks) in the agent banking sector and we expect this trend to continue in 2022. This trend is largely driven by the existing gaps in the financial inclusion target of the country including the commercial opportunities that can be derived by financial institutions who are able to successfully provide agent banking services. Therefore, many commercial banks rolled out different agent banking services and products in an attempt to gain market share or at least play catch up with the early entrants in the industry.

In addition, we also expect that in 2022, the telecommunication companies (telcos) would finally be able to fully deploy agent banking services. This is on the back of the recent issuance of an Approval-in-Principle (AIP) to Airtel Mobile Commerce Nigeria Ltd, a subsidiary of Airtel for its operations as a super-agent in Nigeria. Further, the CBN issued Payment Service Bank (PSB) AIPs to entities backed by MTN and Airtel (2 of the largest telcos in Nigeria). With the PSB licence, these telcos (through the PSBs) can fully deploy agent banking services (which is one of the permissible activities of PSBs pursuant to the guidelines governing the operations of PSBs).



Permissible Activities of PSBs

- PSBs are permitted to accept deposits from individuals and small businesses, which are to be covered by the deposit insurance scheme;
- PSBs are allowed to carry out payments services and process inbound cross-border personal remittances. They are further permitted to sell proceeds of the personal remittances to authorised foreign exchange dealers, in compliance with the extant Foreign Exchange Regulations;
- PSBs are permitted to issue debit and pre-paid cards on their names, and are also allowed to operate electronic wallets;
- PSBs are permitted to invest in securities issued by the Federal Government of Nigeria and the CBN; and
- They can render financial advisory services, and carry out any other CBN-prescribed activities.

Given the reach of the telcos, there is general optimism in the financial services industry that these telcos would leverage templates/models utilized by telcos in other jurisdictions (e.g., mPesa (by Safaricom) in Kenya) to provide effective agent banking services and further gain market share (potentially threatening traditional financial institutions²⁸).

Therefore, 2022 might be the year when Nigeria finally starts to leverage agent banking to truly unlock increased participation in the financial services sector by the underserved and excluded.



28. <<https://www.premiumtimesng.com/news/headlines/493585-mtn-airtel-win-payment-permit-war-as-banks-risk-losing-more-fintech-space.html>>

SURGE IN NIGERIA'S 'BUY NOW PAY LATER' PRODUCTS AND SERVICES

Buy Now Pay Later (BNPL) continues to be a small but growing segment of the financial services in Nigeria. BNPL's growth is one of the areas of change in the credit market and has recorded strong growth over the last four quarters, supported by increased e-commerce penetration along with the impact of economic slowdown due to disruption caused by the Covid-19 outbreak.

According to the Q2 BNPL Survey, it has been reported that the Nigerian BNPL market is expected to grow by 67.4% to reach \$341 Million in 2021. Some of the key players in Nigeria include Carbon, CDcare, PayQart, Credpal.

There is currently no specific legislation on digital lending in Nigeria. Hence, BNPL operators are forced to operate within the extant money lending laws of the various states and BNPL operators usually apply for a money lender's license and in rare cases a finance company license. However, given that the moneylender licenses are territorial (to the states), it is not usually sustainable for BNPL products (being digital lending) as applicants have to apply for money lenders licenses in all the states in order to comply with the moneylender laws of the various states.

Alternatively, companies wishing to carry on money lending activities in Nigeria obtain licenses granted by the Central Bank of Nigeria as a finance company under the Revised Guidelines for Finance Companies in Nigeria.



It has been reported that the Nigerian BNPL market is expected to grow by **67.4%** to reach **\$341 Million in 2021**

28. *Nigeria Buy Now Pay Later Markets Report 2021: BNPL Payments are Expected to Grow by 67.4% to Reach \$341.9 Million in 2021 - Forecast to 2028 (yahoo.com)*
29. *For example, the Money Lenders Law of Lagos State is only applicable for licenses for operations as a money lender within Lagos State.*
30. *This license is mostly suitable for companies that wants to provide ancillary services in addition to money lending.*

THE ROLE OF A CONTINENTAL-WIDE PAYMENT SETTLEMENT SYSTEM IN THE ECONOMIC INTEGRATION OF AFRICA

The African Union in collaboration with Afrexim Bank developed and launched the Pan African Payment Settlement System (the PAPSS). PAPSS seeks to facilitate payments as well as formalize some of the unrecorded cross-border trade between African countries by creating a centralized payment and settlement infrastructure for intra- African trade and commerce payments.



How PAPSS works

PAPSS aims to facilitate payment between vendors in different African countries and their customers in different African countries. The distinguishing factor with the platform is that it will allow for the settlement of transactions in the local currency of the vendor. What is not clear however is whether the central switch will integrate with the national switches of the different countries or what requirements there are, for the integration of the systems for the facilitation of payments.

Commendably, by 8 September 2021, PAPSS became available for use by African business owners doing business within the continent and has been widely accepted by West African Monetary Zone and is operationalized to support instant payment, pre-funding and net settlement.

Due to the success of the pilot phase in the West African Monetary Zone countries like Nigeria, Ghana, Liberia, The Gambia and Guinea, there are now advanced discussions with other national and regional institutions to leverage this success and rapidly expand the services within the continent.

IMPLICATIONS ON THE AFRICA CONTINENTAL FREE TRADE AGREEMENT (AfCFTA)

The AfCFTA aims to bring together the 54 African countries to trade under a single market with liberalized tariffs and the elimination of the non-tariff barriers to cross-border trading. As such, the operationalization of PAPSS will lead to a reduction in cost, duration and time variability of transactions. It is also hoped that PAPSS will lead to the reduction in forex liquidity requirements imposed by central banks on domestic deposit banks. The Central Banks' oversight of cross border payment systems will also be further strengthened given that African business owners will no longer rely on foreign banks to convert the local currencies. Hence, the cost of conversion by the foreign banks will be significantly reduced and business owners can trade directly without determining external factors.

Specifically, PAPSS has been designed to domesticcate intra-regional payments thereby saving the continent more than \$5 billion in payment transaction costs per annum, formalizing a significant proportion of the estimated informal African trade, and contributing to intra-African trade.

Furthermore, PAPSS addresses the historical problems for payments across African borders, adding value through a common market infrastructure for all stakeholders, from governments, corporates, small enterprises and individuals.



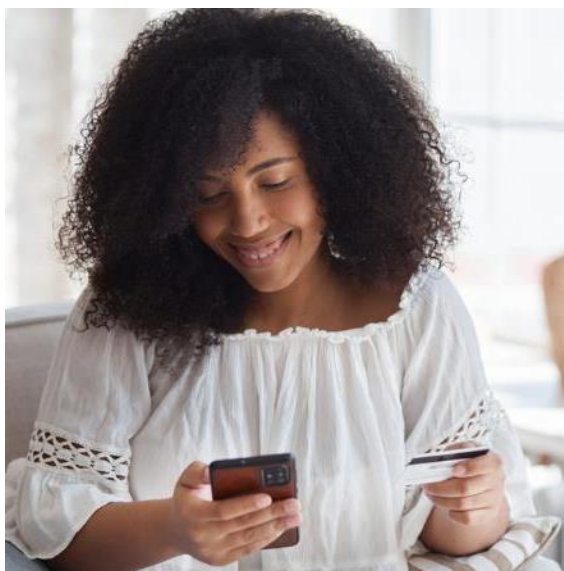
PAPSS and Nigeria

With the introduction of PAPSS by the African Union, the CBN has also taken a fundamental step towards its operationality. The CBN issued the Guidelines on the Operations of Pan African Payments and Settlement System (**PAPSS**) in Nigeria (the "PAPSS Guideline").

The issuance of the PAPSS Guidelines for an orderly and prompt settlement of transactions set the tone for participation by Nigerian commercial banks (who are Authorised Dealers) and the CBN, together with their counterparts within the West-African sub-region, in the pilot scheme, and in the near future, hopefully across the entire African continent.

On the other hand, we are yet to see how the different African countries regulations (particularly on forex) will be harmonized to give full effect to PAPSS. For a project that involves different countries, it is expected that a unified payment system regulation will not only facilitate smooth payment processes but centralize licensing and registration requirements for intended PSPs within the continent. The variance in the local laws may constitute a barrier to giving full effect to PAPSS. Therefore, it is exigent that the African Union implements a central licensing framework for payment providers across participating African countries. This will not only encourage the registration of additional payment service providers but also attract investments in existing PSPs.

IMPACT OF E-NAIRA ON MOBILE MONEY OPERATIONS



As discussed earlier, in October 2021, the CBN introduced the eNaira. The eNaira is account-based and leverages upon the existing identity infrastructure through the NIN, BVN, and TIN. It is accessed by opening an eNaira wallet via the eNaira Speed App which may then be loaded with money through bank accounts or debit/credit cards. The eNaira wallet can be used: (i) to store and receive funds; (ii) make peer-to-peer payments to anyone who has an eNaira wallet; (iii) to purchase goods in stores by scanning QR codes; (iv) to pay bills and make payments to businesses; (v) to pay government fines and charges; (vi) for international remittances; and (viii) to receive government aid.

As the eNaira can be used to make and receive mobile payments, it poses potential competition for mobile money operators (**MMOs**), who are existing mobile payment services providers in Nigeria. Mobile money is money in a secure electronic account (mobile wallet) which is linked to a mobile phone number. Mobile wallet users can receive, store, and spend money using their mobile phones. The eNaira provides peer to peer transfers and payments to merchants without charges, which is not the case for all MMOs, making it more attractive. However, MMOs retain the advantage of the agent network, over the eNaira. MMOs deploy wide agent networks wherein mobile wallet users may utilise mobile money agents to convert mobile money to cash. This is not currently contemplated as part of the eNaira rollout, particularly because a key reason for the eNaira is to reduce the Naira in circulation and save costs. At present, the eNaira can only be converted back to cash by transferring it to a bank account and retrieving the cash from the bank or an ATM. As the agent network is a key reason for the success of mobile money, despite certain advantages of the eNaira over mobile money, MMOs will still be able to compete favourably with the eNaira.

In its eNaira design paper, the CBN recognised the risk of disintermediation occasioned by the use of the eNaira, albeit in the context of banks. The risk is occasioned by the need for eNaira users to convert funds currently with banks or MMOs into eNaira, to then be stored in the eNaira ecosystem which reduces the funds available to banks and MMOs. To mitigate the risk, the CBN restricted the eNaira to micropayments and placed limits on wallets and has retained its focus on reducing cash which is outside the banking system and drove its introduction to the banking system. However, as the MMO system relies mainly on micropayments and services for the unbanked, these strategies do not favourably impact MMOs, who are in direct competition with the CBN as their users fall within the universe of the targeted customers of the eNaira. It remains to be seen whether the CBN will consider regulation to address the specific disintermediation risks posed to MMOs from the adoption of the eNaira. In any case, customers will benefit from greater choice, and reduction of fees, and unnecessary charges, and other incentives which will result from the increased competition.

OPEN BANKING OPERATIONAL REGULATION BY THE CBN



In 2021, Nigeria became a pioneer of open banking in Africa as the CBN issued the regulatory framework for open banking (the **Framework**) which sets out the principles of data sharing across the banking and payments ecosystem, API access requirements and technical design and information. The scope of the Framework extends to payments and remittance services, collection and disbursement services, deposit taking, credit, personal finance advisory and management, treasury management, credit ratings, mortgages, leasing, and hire purchases.

Some fintech companies (such as Mono, Okra, etc.) are already taking advantage of the Open Banking Framework to deploy innovative products and collaborate with other participants (including commercial banks and other payment companies) in the ecosystem and we expect this trend to continue. In 2021 for instance, Stich, a leading South African open banking company expanded its operations to Nigeria and we expect many global open banking companies to also enter the Nigerian market over the course of the year.



TESTIMONIALS

TESTIMONIALS

Olaniwun Ajayi – Tier-1 Fintech Legal Category (Nigeria)

“Olaniwun Ajayi has exceptional capabilities in advising on investment transactions and the development of new FinTech payment products. Their experience in emerging technologies is attractive to startups as well as traditional financial institutions operating in the Nigerian FinTech ecosystem.”

- *Chambers and Partners 2022*



Damilola Salawu – Band 1 Lawyer in Fintech Legal Category (Nigeria)

“He has an in-depth understanding of not just the rules and regulations governing the Nigerian payment FinTech industry, but also of the business nuances. He understands the need to balance innovation with regulation and is very professional and helpful, he listens attentively and is able to marshal his team to provide the support required.”

- *Chambers and Partners 2022*



Damilola Oyebayo – Band 1 Lawyer in Fintech Legal Category (Nigeria)

“He is a tech-savvy practitioner who writes extensively on the field. He is very conscientious and has an unrivalled understanding of the FinTech industry and its products. He is able to provide not just expert legal advice, but also practical advice that is very well informed by what other companies and competitors are doing.”

- *Chambers and Partners 2022*

Damilola Salawu – Global Leader and Recommended Lawyer in Blockchain and Fintech

Damilola Salawu is “a mentor in the space” applauded for his “excellent knowledge of the market=”

- *Who’s Who Legal 2022*

Damilola Oyebayo – Global Leader and Recommended Lawyer in Blockchain and Fintech

Who’s Who Legal 2022



GLOSSARY

AfCFTA	Africa Continental Free Trade Agreement
AFIs	Authorised Financial Institutions
BNPL	Buy Now Pay Later
CBDC	Central Bank Digital Currency
Covid-19	Coronavirus Disease 2019
CBN	The Central Bank of Nigeria
Fintech	Financial Technology
ECCB	Eastern Caribbean Central Bank
EFInA	Enhancing Financial Innovation and Access
FX	Forex
Fintechs	Financial Technology Companies
Healthtech	Healthcare Technology
MMO	Mobile Money Operator
NBFIs	Non-Bank Financial Institutions
NIBSS	Nigeria Inter-Bank Settlement System
NIMC	National Identity Management Commission
NIP	Nigeria Interbank Settlement System Instant Payment
NITDA	National Information Technology Development Agency
NQR	Nigeria Quick Response Code
OFIs	Other Financial institutions
PAPSS	Pan African Payments and Settlement System
PSHC	Payments Service Holding Companies

GLOSSARY

POS	Point-of-Sale
PSB	Payment Service Bank
PSS	Payment Solution Services
PSSP	Payment Service Solution Provider
PTSP	Payment Terminal Service Provider
QR Code	Quick Response Code
SEC	The Securities and Exchange Commission
Tech	Technology
Telcos	Telecommunication Companies

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