Impact of COVID-19 on FinTechs

Country: Senegal

March, 2021

mastercard foundation

MSC
MicroSave Consulting

About this report

01

At the outset of 2020, the number of COVID-19 cases rose in Senegal. The year was marked by restrictions on movement across the country and unprecedented changes in the global economic context. This affected both Senegal and its trade partners. However, the upheaval also created opportunities and highlighted challenges in for growth.

02

In this report, we will assess the impact of the COVID-19 pandemic on the FinTech ecosystem in Senegal. Before the pandemic struck, the Senegalese FinTech industry was growing steadily. Gradually stimulating the interest of investors, FinTechs in Senegal were rolling out a range of products and services based on gaps in the existing financial services.

03

How has the pandemic affected FinTechs? What measures have the policymakers taken? Did these measures prove effective for FinTechs? What are the sentiments of investors for this sector? This report attempts to answer such questions. Conducted in three phases, the research for this report sought to gain insights into how the ecosystem adapted and evolved during 2020.

04

The MSC team spoke with a mix of early-stage and established FinTechs, technology companies, impact investors, industry association representatives, incubators, government officials and the central bank. This was complemented with secondary research on the FinTech landscape in Senegal.

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MSC conducted a country-wide landscape study to gauge the impact of the COVID-19 pandemic on FinTechs

Key objectives of the study

01 Assess the impact of COVID-19 on the business of early-stage FinTechs and established technology companies

02 Understand the coping strategy of FinTechs and their plans for sustainability

03 Analyze the policy-level response of the government and regulators on FinTechs

04 Assess investor sentiments in terms of their response to the ongoing crisis and plans for the future

05 Understand major concerns around policy advocacy of FinTech startups and industry associations around financial innovation

Structure of the report

An overview of the sub-categories of FinTechs we assessed for the study[1]

P2P lending

Lending FinTechs include peer-to-peer lending platforms as well as underwriting and lending platforms using machine learning technologies and algorithms to assess creditworthiness

Savings

Mobile money or digital savings solutions

InsurTech

Technological innovations designed to save money and increase the efficiency of the current insurance industry model

Payment and enabling FinTechs

- Digital payment solutions through innovative technologies, such as QR Code and NFC, among others
- Service aggregator that provides recharge, bill pay, money transfer, cash-in and out, customer onboarding

Startups

- Age : Less than five years
- Funding : Up to pre-Series A
- Staff : Less than 20

Established players

- Age : More than five years
- Funding : Up to Series C
- Staff : More than 20

[1] Average age of small startups 4.43 years, 1 out of the 8 was founded by a woman

Acronyms and Abbreviations used in the report

	Full forms		Full forms
ADEPME	*Agence de Développement et d'Encadrement des Petites et Moyennes Entreprises* (Agency for the Development and Management of Small and Medium Enterprises)	**MNO**	Mobile Network Operator
B2B	Business-to-Business	**MSME**	Micro, Small, and Medium Enterprise
B2B2C	Business-to-Business-to-Consumer	**NFC**	Near-Field Communication
B2C	Business-to-Consumer	**OPEX**	Operating Expenses
BCEAO	*Banque Centrale des Etats de l'Afrique de l'Ouest* (Central Bank of West African States)	**P2P**	Peer-to-Peer
COVID-19	Coronavirus disease	**PPP**	Public-Private Partnership
DER	*Délégation Générale à l'Entrepreneuriat Rapide pour les Femmes et les Jeunes* (Direction for the Rapid Entrepreneurship of Women and Youth)	**SaaS**	Software as a Service
FONGIP	*Fonds Garantie des Investissements Prioritaires* (Priority Investments Guarantee Fund)	**USD**	United States Dollar
G2P	Government-to-Person	**USSD**	Unstructured Supplementary Service Data
KYC	Know Your Customer	**XOF**	West African Franc
M&E	Monitoring & Evaluation	**WAEMU**	West African Economic and Monetary Union

Section 1: Executive summary

Executive summary

This study analyzed the impact of COVID-19 on FinTech startups from April to December, 2020

- Many FinTechs found themselves placed precariously from April to June, 2020, with declining cash reserves and almost no revenues. Over the year, despite early losses, both early-stage and established FinTechs demonstrated resilience through diversification of their business models. Early-stage FinTechs forged new partnerships while large tech companies strengthened existing ones.
- Despite an urban-led uptick of e-commerce at the start of the pandemic, online sales stabilized once the lockdowns ended while logistics and delivery services increased.
- FinTechs that relied exclusively on physical contact had to quickly pivot to a "phygital"[1] approach to build the confidence of their clients.
- The delivery of government social benefits to beneficiaries saw limited participation of FinTechs.
- FinTechs hope to see an increased participation towards digitalization of government processes and implementations.
- FinTechs with more advanced digital operations fared better than their competitors due to their agility and diversification of approaches. They experienced accelerated customer adoption to digital services because of the pandemic's restrictions on mobility.
- Despite upticks in business, investors and external financing options are needed to serve the increasing demand.

Customer sentiment

- **Risk aversion:** During the lockdown between April and June, 2020, onboarding of new customers was almost zero across all categories except digital payment FinTechs. After the lockdown, business activity picked up for some. The transaction volumes of a few FinTechs increased by more than 20 times in mid-2020 and by 1,000% by December with a shift to digital onboarding.
- **Policies:** While the pandemic has affected the FinTechs financially, government response has been lagging and focused primarily on short-term solutions.
- **New trends:** The utilization of services of digital payment FinTechs is on the rise.

Business and raising capital

- **Revenue streams:** By the end of 2020, most payment FinTechs were on track to lengthen their runways. However, savings and lending FinTechs were facing shortened runways as revenues were affected adversely.
- **Cost-cutting:** FinTechs implemented various cost-cutting measures, from temporary shutdowns to a reduction in fixed costs (office space rentals etc.). Early-stage FinTechs had a harder time retaining pre-pandemic levels of staffing.
- **Fundraising:** Access to finance remains the most critical need of FinTechs. With no new investments, investors have only been supporting their portfolio companies or branching out into sectors they deem priority, such as logistics and agribusiness. The FinTechs in our sample demonstrated resilience—they relied on their own funds and none of them shut down during these difficult times.

Silver linings

- **Product innovations:** FinTechs used the lockdown to reflect on pivoting their business models, diversify, and innovate products and processes, especially for expansion into the B2B, B2B2C, and G2P or P2G segments.
- **Bullish segments:** The lockdown and restrictions on movement have boosted and provided greater legitimacy to digital financial services, as more people have been adapting to digital modes for payment transactions and savings. While digital wallets used to be something "good-to-have" for most startups before the pandemic, it has now become a "must-have."[2]

Source:[1] Physical + digital; [2]As stated by an incubator during an interview

Section 2: Recommendations

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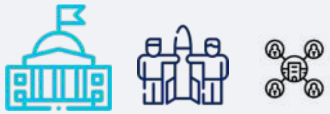
With an uptick in the adoption of digital payments, the sector needs to collaborate to create greater benefits for transforming access to financial services

Challenges	Who should intervene?	What could be done?
Mismatch between public support measures for startups, FinTechs, or MSMEs and their needs		• Both the government and BCEAO could engage with greater and more frequent dialogue with FinTechs to understand their pain points as well as the opportunities they present could accelerate financial inclusion. • The BCEAO is in the right direction by continuing to engage meaningfully and regularly with the sector to incorporate the views and needs of startups in and support measures it announces in the future, as well as wider policies and regulations.
Lack of understanding of the regulations		• In continuation to the point mentioned above, an enabling regulatory framework, along with the implementation of the Startup Act, would help FinTech startups navigate national and regional markets. FinTechs specifically requested dialogue with both BCEAO and Government • to understand the existing laws better.
Lack of ecosystem's support—all FinTechs interviewed have been growing on their own without the help of incubators, investors, or government authorities		• Both the government and BCEAO could promote the development of a more enabling ecosystem that will foster the exchange of ideas and collaboration among different actors, such as FinTech startups, established players, incubators, incumbents, consultants and academics, and the public sector itself. This will invite greater private investment, which lacks severely at present. • Explore opportunities for collaboration in the P2G or G2P segments. • Tailor training to correspond to the specific needs of FinTechs. • Increased involvement by the different Chambers of Commerce in supporting FinTech businesses to drive business and confidence.

Policymakers Investors Start-up teams Industry associations, incubators, and accelerators

Although financial services had the highest investment deal counts in 2020, the Senegalese startups were largely ignored as investment opportunities. Overall, there is an urgent need for deeper collaboration and support (both financial and non-financial) to strengthen the startup FinTech sector

Challenges	Who should intervene?	What could be done?
Lack of tailored capacity development and incubation programs targeted specifically toward FinTechs, which makes it difficult to pivot business models to remain viable, scale-up, or do both		• Investors and incubators recognize the need to increase support for capacity building. At the moment, none of the sampled incubators work with Senegalese FinTechs. They must engage in a needs assessment to better understand the short-, medium-, and long-term needs of FinTechs and partner with public and private investors to develop targeted programs. • Industry associations must not only facilitate dialog among different ecosystem actors but also help increase the access of FinTech startups to capacity-building programs and opportunities.
Continued investment gap and lack of risk-taking by investors, despite the continued and rising interest in African FinTechs, growth of mobile money, and Senegal's emergence as one of Africa's leading investment hubs		• FinTech startups, established players, and incumbents must come together to collaborate and spur innovation at scale in the sector. • Public and private investors must be willing to encourage this collaboration. • Industry associations could play a more active role and ensure accountability in facilitating this collaboration, access to funding, and proper utilization of funds by startups.
Slow pace of digitalization of startups due to the lack of adequate and sustained support		• Digitalization is an important lever for growth and the State must take measures to help startups digitalize their operations. Apart from the DER and FONGIP, it needs to set up other tools and institutions to strengthen MSMEs, such as BPI in France which provides financing and business development support, to boost the ecosystem. DER, though doing a good job, is currently not enough to accelerate growth.

Policymakers Investors Start-up teams Industry associations, incubators, and accelerators

Expediting the transformation to e-governance can create business opportunities for FinTechs and make them the frontrunners of digitalization projects for the government and regulators, while enhancing financial inclusion

Challenges	Who should intervene?	What could be done?
The slow pace of digitalization of government entities and services	Policymakers	• As Government and BCEAO engage in more in-depth dialogue with FinTechs, they must recognize the need to accelerate the digitalization of their own services and payment processes and implement it. • The Government and BCEAO could enhance the interoperability of different platforms, particularly between banking and mobile money operators. • The Government could involve local FinTechs and the technology sector in the solutions of Smart Senegal[1] and public procurement opportunities.
Lack of transparency in public sector expenditure on FinTechs and SMEs as part of its COVID relief measures	Policymakers; Industry associations, incubators, and accelerators	• All involved government entities could periodically publish their budgetary data and list of beneficiaries in a free, easily accessible, and transparent manner to maintain accountability for public funds allocated to startups. • Entities like the DER could strengthen their M&E processes by ensuring timely communication to startups about application procedures and decisions taken. • The Government could provide a public dashboard to provide greater transparency and updates on the progress of fund utilization to create trust.
Limited participation of women in the tech startup sector	Policymakers; Start-up teams; Investors; Industry associations, incubators, and accelerators	• All actors in the ecosystem are encouraged to collect gender-specific data to design relevant gender-intentional support services. • The Government could Integrate STEM for girls in the school curriculum. • All stakeholders should consider developing advocacy programs to engage and network with women, including mentoring. • The Government and industry could aggregate initiatives to give a greater voice to women in technology. • The Government, investors and associations could train incubators and accelerators, providing training materials that consider gender issues.

Policymakers · Investors · Start-up teams · Industry associations, incubators, and accelerators

Sources: [1]The Smart Senegal program aims to deploy network and telecommunication infrastructures and to set up technological platforms to improve of the living conditions of the population.

Section 3: Role and impact of players in the ecosystem on FinTechs

The government announced short-term measures, while the dialogue between the BCEAO and FinTechs increased; regulators should consider instituting more transparent and longer-term support mechanisms

Policies	Category	Impact	Insights
Temporary travel restrictions throughout the country at various times during the year	All types of enterprises	↓ D ↓ I	FinTechs that offer digital payment services but face-to-face interactions for the collection of payments suffered a substantial loss of revenue. This was because their business model relied on in-person collection, which forced these FinTechs to reframe their business model and offerings. Given the uncertainty around how long restrictions in movement would last, all sampled enterprises suffered significant losses regardless of their size.
Waiver of the transaction fee for mobile money cash-in cash-out transactions and bill payments like water and electricity ()	Payments	↓ D	The loss of revenue due to the waivers for mobile money transactions from March to June 2020 forced entities to change their revenue streams abruptly. Several enterprises voiced frustration at not being involved in the dialogue around this decision. Later in the year, a working group was coordinated for increased collaboration and exchange of ideas.
Remuneration of at least 70% to be paid by the enterprise to staff put on partially-paid leave	All enterprises	↔ D	Startup FinTechs were badly hit. Although some of them managed to lower their operating costs, most of them found the 30% part of the salary covered by the government was too low and would have preferred a 50% coverage. They continue to seek fiscal support from the government and regulator.
Waiver of social and fiscal charges during the first lockdown period (March to June, later extended to July)	All startups and companies	↔ D ↑ I	Small FinTechs considered this measure as necessary but insufficient as compared to their loss in revenue. They need continued fiscal support to manage their working capital in the long run. Large firms found this helpful for maintaining staff.
Waiver of digital signature and KYC for new mobile money accounts for three months (March to June)	Payments	↑ D ↑ I	MNOs and some FinTechs managed to reach a wider market digitally and accelerate their expansion into the mass market. However, due to uncertainty around the duration of the lockdown, digital uptake was slower than expected and benefitted mostly larger players rather than FinTech startups. For instance, a large firm signed up 350,000 new clients, 50% of which included women, for the first time due to the relaxation of the rules.

D Direct impact | I Indirect impact | ↓ Negative impact | ↔ Neutral impact | ↑ Positive impact

Sources: Ministry of the Interior, BCEAO (2020), Ministry of Finance and Budgets

Despite the government and central bank's supportive measures and introduction of opportunities for FinTechs to deliver or expand services, the business environment leaves much to be desired

Programs	Category	Impact	Insights
DER announced a financing line of XOF 200 million (USD 362k) for startups as well as loans for all its beneficiaries. It also allocated funds for an incubation and investment fund.[1]	All micro-enterprises	↔ D ↑ I	Certain sampled FinTech startups had applied for public funds or loans announced as part of the Program for Economic and Social Resilience. However, there was no follow-up from the concerned institutions despite multiple attempts to enquire about the application status. Overall, the lack of clarity on measures and application components, including the time taken for application review, led to misinterpretations. Moreover, responses to FAQs were not available publically until much later in the year. This was coupled with a lack of transparency on loan disbursal and feedback to applicants.
The Government launched a social cash transfer program that utilizes PPPs with FinTechs, MNOs, or both, to deliver cash.	Payments	↑ D	Mobile payments helped reach 5,000 beneficiaries with the Government indirect cash transfers in Dakar. This increased the interest of the government and NGOs in utilizing mobile channels as well as a greater openness for collaboration such as opening up more APIs or supporting FinTechs by the MNOs.
The Government launched information, education and awareness campaigns highlighting the benefits of e-commerce to all segments of the population.	Payments	↑ D	Though ad hoc approaches are appreciated, more effort is needed to improve the interoperability of different platforms, including between banks and MNOs. The government campaigns increased awareness and according to Jumia, some active online businesses have experienced growth of up to 50% during 2020.[2]

D Direct impact　I Indirect impact　↓ Negative impact　↔ Neutral impact　↑ Positive impact

Source: [1] Ministry of Economy, Planning and Cooperation; [2] Jumia

Without external funding, many FinTech startups will not be able to take the next step in their development as interest in digital payments increases

Strategies of investors

By and large, investors have not altered their financing strategies, though they are more prudent than before the pandemic had struck.

01 By and large, the priority areas for investors are startups in the space of agribusiness, logistics etc. FinTech space is yet to get its due share of priority from them.

02 Senegalese public institutions have been concentrating their investment in the promotion of innovation and the development of digital services; implementing digital addresses; developing digital use cases; promoting IA; and reinforcing high and very highspeed bandwidth especially in rural areas.[1]

03 Private sector investors, including international investment funds, now follow more stringent policies in their due diligence. They are focused on developing the capacities of their portfolio companies to manage cash and create sustainable strategic plans for the long term. Largely, **private sector investors are not keen to invest in FinTech startups of West Africa until the ecosystem is restructured, with greater collaboration among FinTechs and incumbents and more innovative in business models.**

04 Public investors re-oriented some approved investment projects but there has been a lack of transparency around beneficiaries and disbursals. They have largely utilized subsidized loans. However, more effort is needed to target and adapt measures to a diverse set of startup enterprises, especially FinTech.

Source: [1] Plan Sénégal Emergent

However, investors are cautious about investing in FinTechs

Outlook on FinTech investments	
Payments or aggregator	Enablers are likely to lead the inflow of funds. Payment aggregators and similar businesses will benefit from the increased digitalization of customer engagement. This is true for both the B2C segment, with an increase in the adoption of e-money, and the B2B and B2B2C segments. Digitalization of operations is the most critical need of the hour in Senegal.
Savings	Innovative models that combine savings with other essential sectors, such as agriculture and agribusiness, will likely see continued investment. Given the loss of income among micro and small entrepreneurs, especially in urban areas, the demand for savings or lending products and services is muted. Thus, investment in this sector will likely rise only in the medium to long run.
P2P lending	The demand for digital credit among MSMEs in Senegal is low, given the underdeveloped infrastructure, weak regulation, and low levels of financial and digital literacy. Investor traction will likely reduce for P2P lending FinTechs in the short to medium term until the economy recovers. In the medium to long term, the demand for digital credit could increase if an enabling ecosystem is created. This will further increase the interest of investors in digital credit.
InsurTech	With an insurance penetration rate of just 1.35% of the GDP, Senegal's growing but nascent insurance sector experienced arrested growth due to the pandemic. Business in non-health areas almost came to a standstill. Given the low levels of awareness among consumers and their current reluctance to buy digital and micro-insurance, investment in the the InsurTech sector has limited short-term prospects and will witness greater buoyancy only in the medium to long term, as the economy begins to revive itself.

Source: [1] Plan Sénégal Emergent

Industry associations need to be more vocal about the public and private support they need. They need to collaborate more proactively with FinTech startups to voice their concerns.

The associations await response and collaboration from the government in implementing the Startup Act, as startups lack understanding of the legislation and regulations

Advocacy activities for associations

01 Mobilize and consolidate efforts for enterprises to obtain the status of a "startup"—awaits the decision of the President to constitute a committee that will grant the status.

02 Advocate for the implementation of the Startup Act, which was ratified in December, 2019, but has yet to be put into practice, along with the associated rules and regulations.

03 Institute an investment fund for startups, for which the association is in discussion with the DER.

04 Keep succeeding in more advocacy efforts for startups. The association successfully advocated for the deferral of three months of loan reimbursements of all startups with loans from the DER and an emergency allocation of XOF 200 million (USD 362,000) under "Prêts COVID-19 DER/FJ" to support startups during the pandemic.

05 Create awareness on the needs of startups, FinTechs in particular, among investment banks and media to enhance access to finance.

Industry initiatives

- Digital Tuesdays continued round table discussions on innovation and building the entrepreneurial ecosystem.
- 'Code Against COVID' held a hackathon event engaging youth to find functional and ready-to-use solutions or a high quality prototypes advanced enough to be operational very quickly.
- NTF IV held webinars with economic advisors in Senegal to facilitate connections and organize business missions for Senegalese digital sector players.
- The private sector launched the coalition DAAN COVID-19 and brought together 500 actors of the ecosystem to address the needs of the Ministry of Health and Social Action.
- MNO-affiliated accelerators initiated strategic partnerships, such as e-commerce platforms for FinTechs to increase their market reach and for MNOs to increase their customer base.
- SENStartup organized a technology solutions challenge in response to the crisis, in partnership with the DER.

Sources: Ministry of Digital Economy and Telecommunications (2020); MSC interview; Commodafrica (2020).

Section 4: Coping strategies adopted by FinTechs

The pandemic presented itself as an opportunity for FinTech enabler firms to scale up and expand their B2B operations

Enablers

Organizational structure

- Enablers could retain their existing staff because of cashflow saved due to government's deferred tax payment timelines
- Prioritization of digitalization efforts, expansion of their networks, and distribution channels
- Implemented work from home balancing with having staff in the office to run call centers
- The distribution network was affected adversely during the lockdown, with CICO agents having to adhere to reduced business hours
- In-person activities reduced significantly, which led to greater online interaction with stakeholders

Sales and marketing

- Firms are placing a greater reliance on telephonic and digital marketing for client recruitment and client onboarding
- Sales teams have shifted to tiered products and services offered with "light" versions promoted at lower tariffs
- With growing acceptance of digital payments, firms have accelerated launch of alternative payment methods, such as debit cards and NFC, and services directed to "social sellers"
- Some large entities were able to contracted with the government for G2P payments in Dakar for the first time
- Payment firms saw an increase in demand for bulk salary payments as well as other types of payments

Pricing

- Modification of tariffs and transaction fees in adherence to the guidelines of the BCEAO
- Free data services provided by certain technology firms for a limited time for companies that switched to telework to build loyalty

Cash remains king. Though startups have adopted various coping mechanisms in response to the challenges they faced during the pandemic, they need timely cash injections to survive and fulfill customer demands

We saw the following coping mechanisms adopted by startups

Develop or launch new products and services
- Reworking of certain products that may get a boost by the crisis such nano loans
- Expansion of offerings by selling their technological skills
- Development of new savings and health insurance products and payment methods

Diversify/change revenue models
- Some startups pivoted their revenue streams by selling or licensing out their transaction platform for social cash transfers (G2P)
- Some startups pivoted their services to offer trainings to ensure revenue generation

Adjust the business model
- Significant expansion of B2B activity as it is considered more profitable and secure in the long run
- Short- to medium-term pivot of business activity to utilize core skills to sell consulting services to clients

Realign internal structure and processes
- A shift to hybrid (physical+digital) sales approach due to limited face-to-face interactions
- Accelerated digitalization of collection processes to overcome restrictions on in-person transactions
- Restructuring of internal work streams due to reduced staff numbers

Collaborate
- New partnerships in both the public and private sectors, which will be beneficial in the long run

Reduce operating expenses
- Reduction of expenses through staff layoffs and pay cuts
- Temporary closing of offices and telework

Section 5: Impact of COVID-19 on FinTechs

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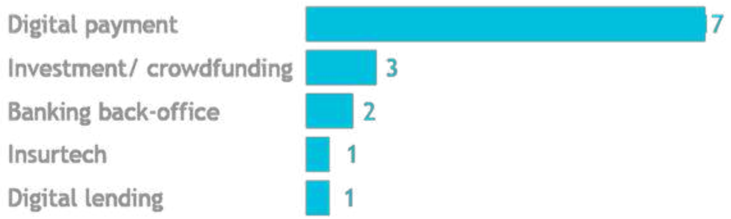
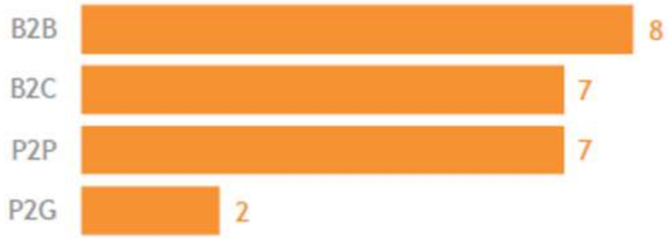
Senegal's FinTech sector is nascent but nimble and has been growing steadily in recent years with increased access to mobiles phones and internet connectivity

Number of FinTechs in Senegal (at the end of the year)

Senegalese FinTechs by subsectors



Business models of FinTechs



Limits of digital financial inclusion

- FinTechs struggle to contribute to financial inclusion. This is due to the absence of appropriate regulation of FinTech activities, as well as a clear strategy for financial inclusion.
- Despite regulatory progress to promote the financial inclusion, 27% of Senegalese adults lack a national identification.[1]
- As the Central Bank does not supervise FinTechs, consumer protection remains a grey area. As a result, transparency, customer grievance and redressal, data privacy, and service quality are managed on adhoc basis.
- The country ranks 102 out of 175 on the Global Cybersecurity Index. This indicates scope for improvement, especially with regard to the capacity building of stakeholders.
- The competitive dynamics favor MNOs above other types of FinTechs for reliable USSD and API channels.
- The country has no incubators that specifically support FinTechs and their specific needs.

Source: MSC research, [1] IUT (2018), World Bank (2017)

COVID-19 presented itself as an opportunity for technology firms including payment FinTechs to scale their businesses and build trust with clients

Trends

Key target segments
- Mass market (upper-end and middle-class segments)
- Private companies and MSMEs
- Government services

Key categories
- E-wallets
- Remittances
- Payment aggregators

Primary drivers
- Digitalization of merchant payments, as well as B2B and P2G payments
- Inability of clients to reload e-wallets in person

Merchant payments tripled during the first 15 days of the crisis and then dropped as shops shut down owing to lockdowns. The transaction volumes have been increasing consistently since then. However, some feel this was part of their pre-pandemic momentum.

Client projects were put on hold due to the uncertainty around the duration of the lockdown

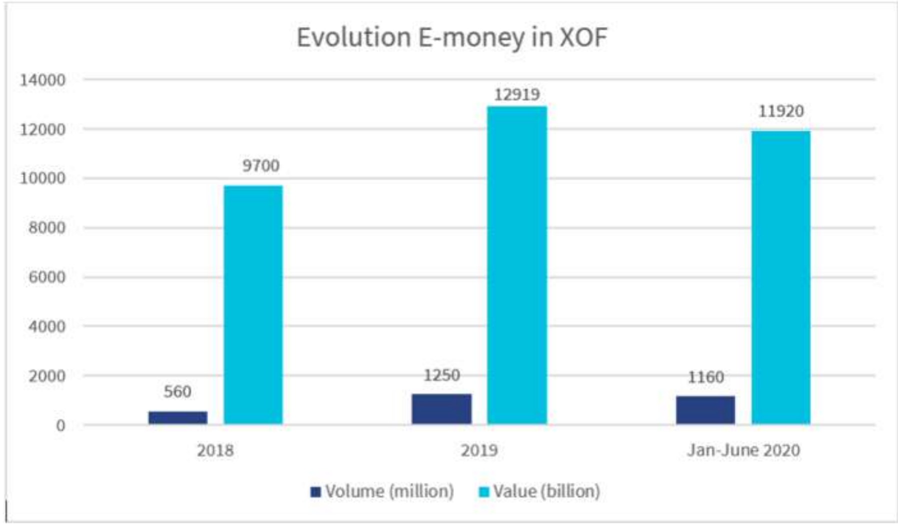
Big push by banks to digitalize, adopt bank-to-wallet and wallet-to-bank transactions

The product pipeline was reprioritized, with services adapted to challenges that became more obvious during the pandemic, such as the need for nano-credit

Both app downloads and usage of the app by existing clients increased

Home cash-in and cash-out services were introduced

E-money evolution



Source: APSFD

For large FinTechs, lower international remittances and increased interest in digitalization implied almost uninterrupted growth after an initial hiccup in Q2

The case of a large technology company[1]

Impact of the pandemic

1 Business model Remains B2B2C, with clients that include other companies, NGOs, and government agencies Payment at time of deposit, after which all transactions are free	0%
2 Transaction volumes Despite a rise in the transaction volumes, it has not yet translated into a corresponding increase in new accounts due to the limited number of smartphones in the market.	+45%
3 Staff Did not reduce staff, allowed them to work from home except those in call centers Had to hire staff temporarily to support customer service in the short term	+4%

Impact of the pandemic

1. With an increase in the utilization e-wallets trust began to build and now more clients leave funds on their e-wallets after the first three months of using their accounts.
2. Banks have shown an increase in interest in developing bank-to-wallet services and understand the importance of digitizing their processes.
3. Increased interest in the market to digitize fee collections.

[1] MSC Interview

Severely hit at the beginning of the pandemic, FinTech startups were forced to adjust their burn rates by reducing staff and salaries, and rethink client outreach via digital means

They demonstrated resilience by eventually increasing their runways from about a month to between six months and two years despite the lockdowns and curtailed business

Customer sentiment

- With restricted movements, clients engaged with call centers through virtual channels in growing numbers.
- The pandemic had an uneven impact across FinTech verticals, with savings and lending FinTechs facing greater challenges as clients held on to physical cash and did not renew loans.
- Download of applications increased as clients recognized the benefits of digitalization or discovered products that they had not yet used.

Organizational culture

- FinTechs reduced their costs by cutting the salaries or hours of their staff or through layoffs. Though they attempted to retain staff through partially-paid leave, the measure was not sustainable. The activities of FinTechs have picked up at present.
- Working from home helped reduce office expenses as startups tried to switch to variable costs and lower fixed costs.
- FinTechs accelerated the digitalization of services and collection mechanisms to adapt to restrictions in movement.

Business model

- Some FinTechs pivoted their models to remain viable and reduce reliance on an approach that required in-person collection of payments.
- They expanded their service offerings to address uncovered needs during the lockdown.
- Expansion of client partnerships will prove beneficial in the long run.
- Runway preservation. Four out of seven (57%) sampled FinTech startups had approximately six months of runway left by Q4 2020. The others had reserves that would last between nine months to two years.

Savings FinTech startups saw their B2C business activity decrease significantly, as their customer base comprises mainly vulnerable populations, especially women who have lower access to formal financial services

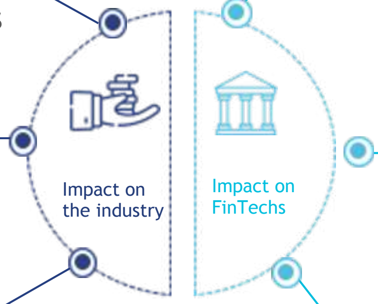
A transition to digital payments helped the startups to maintain operations

Trends	Key target segments	• Mass market • Smallholder farmers, especially women	Key categories	• Savings for productive usage	Primary drivers	• Low banking penetration

Clients finished their savings cycles and then opted out for future rounds

During the lockdowns, groups were not allowed to gather which reduced savings group cohesiveness

Depleted savings of customers and financial hardships reduced the ability of clients to save or borrow money for their business

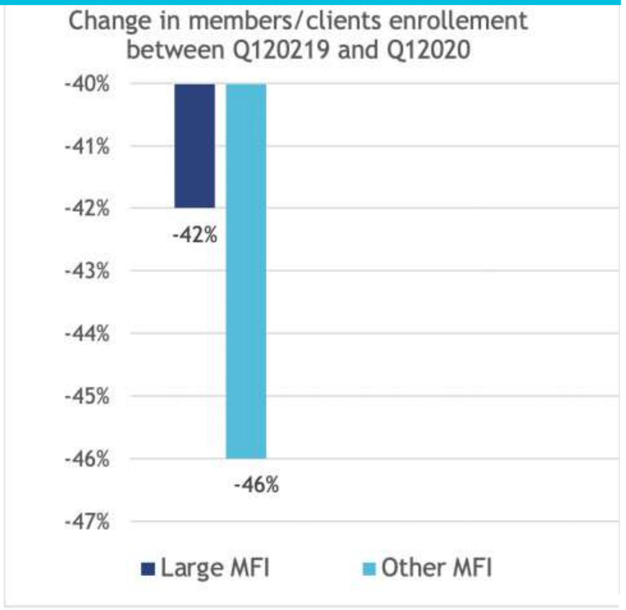


Players accelerated their business plans to diversify services to mitigate risk by working with a narrow customer base

Startups either reduced or suspended salaries to lower expenses and increased workloads by canceling outsourced work

The use of digital payments increased

Impact of COVID-19 on MFIs as a comparative to savings and lending FinTechs



Source: AP/SFD

Savings FinTechs provided temporary grace periods but faced immediate liquidity issues as clients held onto physical cash

Customer sentiment

- With unclear prospects, clients preferred to keep cash on hand rather than deposit it.
- Clients found it challenging to send payments via mobile money as transactions with higher amounts require an ID.

Organizational culture

- To conserve the burn rate, startups instituted pay cuts at the beginning of the crisis and reduced the working hours of their employees.
- They now rely more on digital communication and marketing, as restrictions during the pandemic made hybrid or "phygital" models (physical interaction with customers with digital money transactions) necessary.
- Interactions through the telephone have increased to support clients.
- Need skills and tools to manage teams remotely.

Business model

- Savings startups want to diversify their product and service offerings to meet the needs of their vulnerable clients better, including a focus on food programs or social transfer programs.

Digital lending can help revitalize the economy

With only 21.1% population in the formal banking sector, the potential to grow digital lending is huge

Trends

Key target segments
- Diaspora
- MSMEs in the formal sector
- Tontines[1] and cooperatives

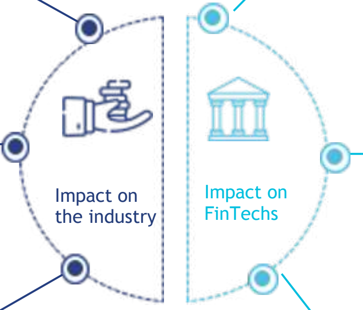
Key categories
- Crowdfunding
- P2P loans
- Donations

Primary drivers
- MSMEs lack access to finance

Reduced spending power to participate in on-lending by individuals due to lockdowns in Europe

Declining interest in loans due to a shift to survival mode

Shift in the priorities of lenders toward healthcare issues



Training on business planning fortified with a newer understanding of business continuity

A halt in operations or change in the credit duration to mitigate delinquencies and defaults

Diversification of service offerings to non-financial services and expansion of the B2B business

Impact of COVID-19 on credit from MFIs as a comparative

		4th quarter 2019 (XOF)	4th quarter 2020 (XOF)	% Variation
Number of loans	Large MFIs	180,956	135,146	-25%
	Other MFIs	9,550	7,124	-25%
	Total	**190,506**	**142,270**	
Amounts of loans	Large MFIs	157,771,003,580	132,206,800,289	-16%
	Other MFIs	2,889,924,203	2,090,516,115	-28%
	Total	**160,660,927,783**	**134,297,316,404**	
Outstanding loans	Large MFIs	370,702,853,386	390,621,074,542	5%
	Other MFIs	7,146,047,789	6,373,007,726	-11%
	Total	**377,848,901,175**	**396,994,082,268**	

[1]Tontines are associations that bring together members of a clan, a family, neighbors or individuals, who decide to pool goods or services for the benefit of everyone, in turn

Source: APSFD

A lack of clear regulations on lending, especially crowdfunding, implies that P2P lending startups have to rely on niche clients and their own ingenuity and funds to grow

Customer sentiment

- Despite another rise in the demand for crowdfunding, small individual investors are scarce.
- Crowdfunding lenders are still involved as investors. However, they now prefer a wait-and-watch approach due to uncertainty in the market.
- Lending periods have either been paused or extended since clients are unable to pay.

Organizational culture

- FinTech with limited liquidity were stressed and had challenges maintaining team morale.
- FinTechs rationalized costs by not renewing contracts and imposing mandatory vacations.
- Teams proposed telework telework however did not implement as teams not used to working in isolation and the environment is not conducive to this type of work.

Business model

- Initially working only with women's groups, one start-up expanded their B2C models to male clients and cooperatives to reach larger volumes.
- Though they continue with the B2B approach, startups have been diversifying activities beyond financial services to build revenues.
- Travel restrictions and social distancing have hampered physical due diligence activities so the FinTechs have shifted to offering training and expanding training to investees and investors.

The presence of InsurTechs in Senegal has been accelerating

InsurTechs in Senegal are either B2B or B2C

Trends

Key target segments
- Individual
- Corporate
- Government

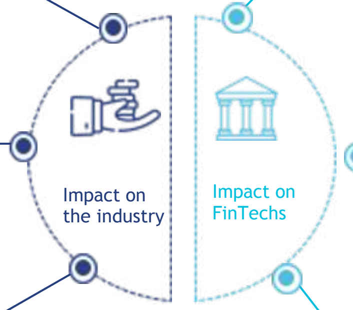
Key categories
- Broker
- Comparator

Primary Drivers
- Low penetration rates
- Lack of accessibility

Expatriates left the country or have yet to return, which led to a decline in home insurance

With declines in income, drivers opted to skip vehicle insurance

The decline in travel reduced the need for travel insurance



A shift in sales strategy to online and telephone calls instead of in-person sales

Acceleration of digitalization efforts

Diversification of partners

Impact on the insurance sector[1]

Generally speaking, all property and casualty lines of business recorded a decline in claims. This was mainly observed in the automobile and property business lines.

The lines of business most affected by the effects of the crisis are event cancellation and business interruption coverage.

Other directly exposed lines such as credit insurance, assistance, travel insurance, health insurance and provident insurance have also experienced an increase in claims.

Source: [1]Atlas Magazine

The Senegalese InsurTech sector is embryonic but shows great promise to optimize underwriting and facilitating access to insurance for clients

Customer sentiment

- While certain segments, such as car insurance policies, slowed down completely due to restrictions in movement, other policies like health and life insurance continued to grow steadily.
- Digitalization needs to be expanded both upstream with insurance partners and downstream with clients.

Organizational culture

- Teleworking or remote working is new and led to declines in productivity.
- Recruitment and training of new hires through online channels was not effective.
- The shift in sales tactics through online channels, such as social media is fairly new. Hence, training and marketing capacity needs to be developed.
- As the sector is young, training on managing working capital and strategic planning is essential but lacking as of now.

Business model

- Evolution of model to drive more partnerships to expand the customer base and drive financial stability.
- B2B was the most active segment and the overall impact of the pandemic on it was neutral.
- New product development linked to market gaps has been identified during the lockdown but will need financing.

Section 6: Case studies

Case study 1: Small payment and enabling FinTech

Design and development of digital payment solutions and platforms in Senegal

Key attributes

Founder:
Male, age 40-50

Category of startup:
Early-stage enabler

Business model:
Before COVID-19: B2B2C
During COVID-19: No change

Revenue generation:
Commissions based on transactions
Before COVID-19: +45% between December, 2019 and February, 2020
During COVID-19: -90% since the beginning of the pandemic

Key offerings:
Before COVID-19: In-person collection of taxes, private school fee payment, taxi fare payment
During COVID-19: Focus on expanding the client base

Total number of employees:
24, including nine women, with the average age of the staff between 22 to 23 years

Impact of the pandemic

1. **Organizational structure:**
   Did not renew fixed-term contracts from April to June. In the subsequent months, had to ask half the staff to go on partially paid leave and eventually forced to let them go as could not afford to keep paying them
2. **Customer retention and onboarding:**
   Utilization frequency dropped by 60%. No new growth since its three primary existing sectors were affected adversely—had to diversify its operations
3. **Runway:**
   Had reserves only for a month in April, 2020. Sought to reach pre-COVID revenue levels by March, 2021
4. **Partnerships:**
   Created new partnerships with public institutions to expand platform offering payment services in the tourism sector but activity not yet launched due to the pandemic, while its new partnerships with insurance companies solidified
5. **Coping strategy:**
   Short-term: Cut down OPEX on salaries to reduce the burn rate; Now needs to refocus on recruitment
   Mid-term: Attempted to secure investment from DER or FONGIP without success. Needed a large loan for an equipment purchase. Also applied for challenges where it was successful in winning funds from an international investment fund. Developed a distance-learning platform to fill the learning gap created by the closure of schools
   Long-term: Digitalization of payment collection services, development of new partnerships and new products and services, including micro-insurance, micro-credit, and micro-savings

Case study 2: Small savings startup

Agricultural products to smallholder farmers through a “phygital” savings solution

Key attributes

Co-Founders:
Male and Female, ages 40-50

Category of startup:

Early-stage savings AgTech

Business model:
Before COVID-19: B2C
During COVID-19: B2C

Revenue generation:
Before COVID-19: N/A
During COVID-19: -20-25% of sales but ended up with 3% growth by the end of the year

Key offerings:
A mobile layaway product that allows smallholder farmers to save small amounts of money for investment in agricultural products, such as seeds and fertilizers

Total number of employees:
1,200+ (including field staff)

Impact of the pandemic

1. **Organizational structure:**
   Reduction of OPEX with the office closed for at least three months, which halted recruitment and training, especially of the sales and field staff. Staff worked from home for those who could, such as the office staff, which was a new experience for many.
2. **Customer retention and onboarding:**
   Redesigned its delivery model for agricultural products and accelerated its mobile money pilot. Trained field interns for planting support and training and used radio spots for training.
3. **Runway:**
   Had reserves in April to last through December, 2020 (nine months)
4. **Partnerships:**
   Despite international donors pivoting their funds to needs they considered more urgent, such as logistics and food aid, the FinTech managed to achieve fundraising goals by the end of the year.
5. **Coping strategy:**
   Short-term: Sought an exemption from movement restrictions from the local government to serve its clients in rural areas but received no response to its emails; lowered minimum payments to clients
   Mid- and long-term: No significant negative impact on activities, and given the seasonality of business activities, expected revenues to revert to pre-crisis levels in time for the preparation of cultivation in 2021

Section 7: Annex

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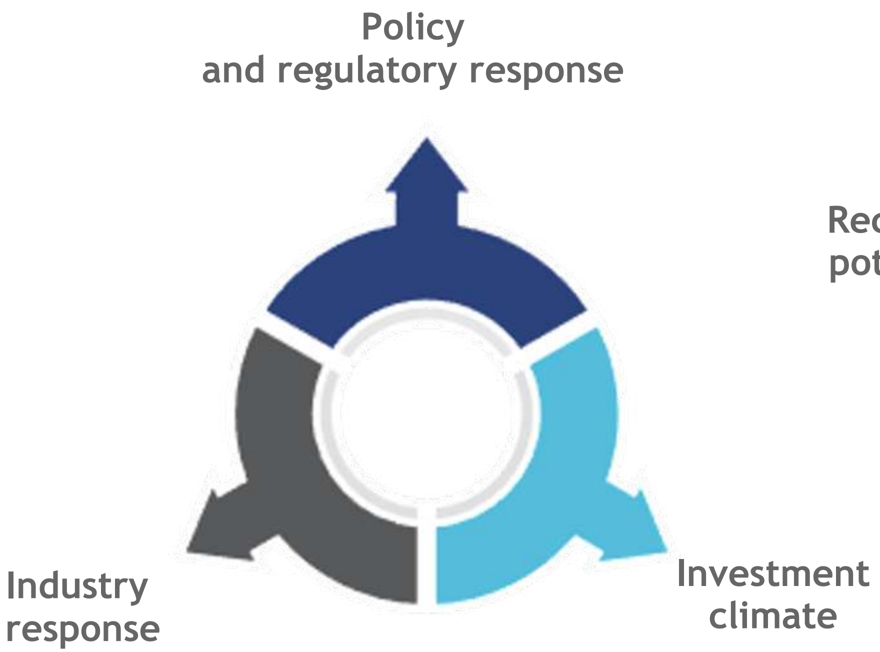
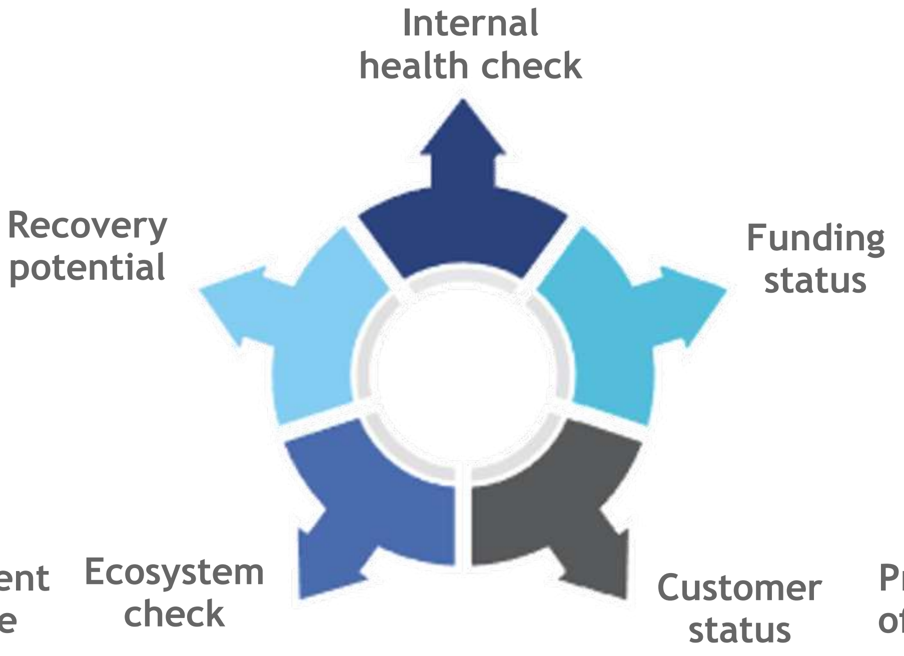
Annex 1: Research framework for tracking parameters

The objective of the study was to understand the impact of the COVID-19 pandemic on a range of FinTechs

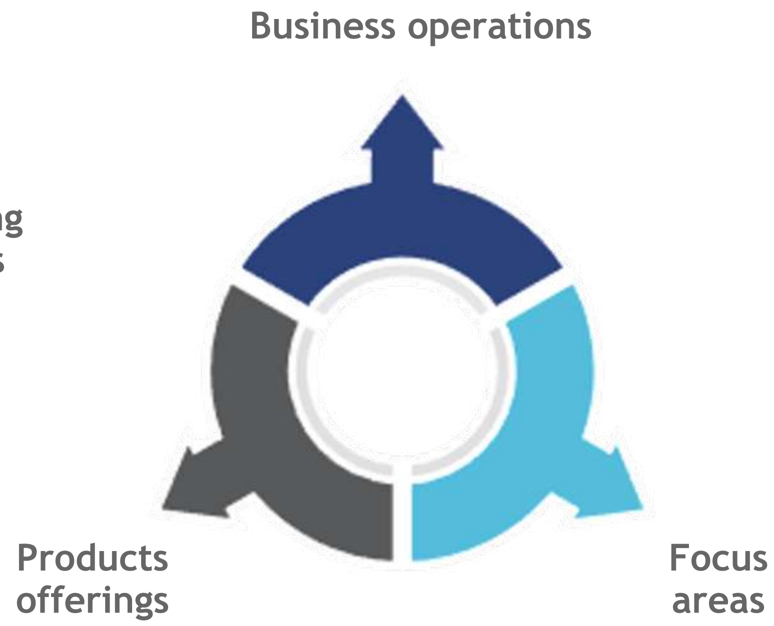
We tracked the country's ecosystem across the following parameters



We gauged the health of FinTechs across the following parameters



Small FinTechs



Established players

We interviewed seven small FinTechs and three established players from Senegal during this study. The FinTechs are distributed by category to develop a holistic picture of the impact of COVID-19 on different markets and the steps taken by different organizations to counter it.

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Developed 275+ FI products and channels now used by 55 million+ people	Trained 9,900+ leading FI specialists globally

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