PROCEEDINGS

Panel on Disrupting Systems: Financing Africa's Youth Entrepreneurs

Moderator: Laura French, Program Manager, MasterCard Foundation
Panelist 1: George Bakka, Chief Executive Officer (CEO), Patasente & Founder, Angels Initiatives
Panelist 2: Lubna Shaban, Co- Director, Child and Youth Finance International
Panelist 3: Buhle Goslar, Director of Customer Intelligence, Jumo
Panelist 4: Parminder Vir, CEO, Tony Elumelu Foundation

Executive Summary

The majority of Africa's population is young and in the coming years, an increasing number of youth will hit the job market. We know that SMEs are estimated to account for 80 percent of employment on the Continent. Financing youth entrepreneurs offers enormous potential to generate employment, innovation, and economic growth.

Disrupting the system means changing the status quo and looking at youth entrepreneurs as solution-providers. They need to be part of the conversation, building better policies from the ground up.

The objective of this session was to paint a holistic picture of financing for young African entrepreneurs, including the challenges, gaps and opportunities. Themes were explored from the perspective of the investor, innovation & technology, business services & linkages, as well as from the view point of the young entrepreneur.

Mastercard Foundation

- Mastercard Foundation was founded in 2006 and in the years since, has grown from a small "start-up" to one of the largest private foundations in the world. The Foundation's work focuses primarily on Africa and they recently launched a new strategy, Young Africa Works. The strategy outlines how the Foundation will work over the next decade to ensure that 30 million young people in Africa secure dignified and fulfilling work.
- Young people are early adopters of new technologies, and the start-up space is driven by youth.
- When small firms and entrepreneurs access financial services, they have the resources to grow and create job opportunities for others in the community, thereby lifting people out

of poverty. This is also a profitable segment for finance, and a significant portion of banks' potential clientele are young entrepreneurs.

Tony Elumelu Foundation Entrepreneurship Program

- The Tony Elumelu Foundation Entrepreneurship Program was founded in 2015 with the vision of committing US$100 million to empower 10,000 African entrepreneurs across 54 countries over a period of 10 years. The participants are SMEs and entrepreneurs that need access to networks and finance having businesses of 0-3 years. This implies that 60 percent of the applications selected are from people who have only developed a business idea.
- The Program starts with a very rigorous application. In 2018, 151,692 people visited the portal, but only 64,000 actually submitted their applications. After participants are selected, they engage in a 12-week training program, where they work with a mentor and have access to a curated resource library. At the end of those 12 weeks, the entrepreneur submits a business plan and a group of partners reviews it and provides feedback. The Foundation delivers US$5,000 dollars in capital as a proof of concept. All participants are then invited to an entrepreneurship forum in Lagos, Nigeria, forming a new network of 3,000 people.
- Since 2015, the Foundation has invested a total of US$20 million, including US$15 million directly in the capital to 3,000 entrepreneurs. A sample of just 426 entrepreneurs, for which the Foundation invested US$2 million, have created 4,000 jobs in two years, contributing US$25 million in revenues. This demonstrates that a structural approach to financing with a long-term investment can yield extraordinary returns.
- Bankers need to think and see things from the perspective of SMEs. Every financial institution should have an entrepreneur as part of its team. For instance, the Tony Elumelu Foundation Entrepreneurship Program has partnered with United Bank for Africa (UBA), requiring that every participant open a bank account with them. UBA is currently active in 20 countries. UBA is now considering establishing SME desks and developing specific products to support SMEs. Legacy banks must change and embrace the digital era.
- The Foundation has 300,000 entrepreneurs from 54 African countries on its network utilizing three languages: English, French and Portuguese.

Patasente

- Patasente is an online supply chain platform that facilitates trade between businesses in Africa. It enables clients to undertake e-commerce, settle payments and secure payables and receivables financing.
- Its solution facilitates growing revenues with online sales, reduce transaction costs with digital payments and unlock millions in working capital with its factoring service. Patasente factors invoices on 50-50 syndicate basis from its Factoring Fund with other lenders that lend against its Guarantee fund.
- To date, it has enrolled 1500 MSMEs, generating trading volume worth of US$4 million and syndicated over USD$1 million in factoring on the platform.
- Patasente is focused on enrolling micro, small and medium businesses, both buyers and suppliers in the construction, agriculture, manufacturing and textiles sector.

JUMO

- JUMO (jumo.world) is a technology platform for micro and small enterprise owners, banks, and mobile network operators. JUMO is also a holder of capital and big data. Sixty-five percent of its customer base is under the age of 35, and 20 percent is under the age of 25. Most live on under US$10 a day.
- JUMO issued its first mobile loan in May 2014. It has now served over 7.5 million customers across 6 African markets, and is currently expanding into Bangladesh and Bangladesh. One of the challenges for JUMO is that their customers are not very mobile because they sometimes run multiple businesses. This implies that JUMO must take its products directly to the clients, including financial capacity building. Another aspect of businesses of this nature, is that there is a fluidity between the entrepreneurs' lives and their businesses. Therefore, JUMO looks at the entrepreneurs realistically, seeking to better understand their specific needs.
- JUMO will be launching a product to address the issue of unpredictable incomes. The product allows young entrepreneurs to purchase income-generating assets with repayment terms adjusted to manage the unpredictability of their income flows.
- Sometimes there is a mismatch between the way in which the customers are receiving their income and the way in which the financial product is structured. JUMO introduced an installment product and a cash advance product, and find that customers perform better when matched with the right product. It is crucial to flip the lens and determine how the institution can help customers demonstrate the best version of themselves through their respective enterprises.
- JUMO has invested in predictive analytics and engineering to better understand risks.

Child and Youth Finance International (CYFI)

- CYFI has an initiative called YE! Entrepreneurship Community. It is a global network of entrepreneurs under the age of 30 that includes a database of volunteer mentors, educational resources and tools, and access to peers. It is complemented by physical networks of young entrepreneurs at the country level.
- For CYFI, a supportive ecosystem in which young entrepreneurs work would be one in which the educational institutions provide entrepreneurship education, the financial sector caters to the needs of young entrepreneurs, and policymakers create regulations, policies and programs that support the entrepreneurial journey.
- CYFI is currently working on a paper with the SME Finance Forum to determine which financial products can best support entrepreneurs. They disseminate the information to financial institutions and facilitate partnerships with policy makers.
- CYFI works to have all the different parts of the ecosystem work in tandem to help the entrepreneur move from the idea stage, to the implementation stage, and finally to the sales stage.
- There are 70 million unemployed youth around the world. What CYFI has found by working with entrepreneurs in the YE! community is that, on average, a successful young entrepreneur will employ 11 other youth. Consequently, this segment cannot not be ignored, especially in a continent as young as Africa. If 5 million successful enterprises are supported, huge strides can be made in eradicating the income problem.

What constitutes disruption?

- The word *disruption* is a Western terminology around entrepreneurship that has been parachuted into the African continent. What young people require are not solutions from the outside, but rather from within the African private sector itself. Actual disruption would entail making them — the entrepreneurs and SMEs — part of the conversation. Policies should be built from the ground up, asking them what they think the solutions should be, because they are ultimately the solution-providers.

- Disrupting the system means changing the status quo. Currently the ecosystem needs change in terms of access to finance and the role that the financial sector has played. Innovations need to be shared and players should not work in silos. Innovations can help to de-risk financing for SMEs.
- Disruption is the other side of the coin of inclusion because it is related to access. Referring to it as inclusion opens opportunities. The solution starts by partnering with banks, who hold capital at little cost, but are risk-averse. This means that predictable assets must be created because driving down costs is critical. JUMA achieves this by assigning two-thirds of its employees to predictive analytics and engineering.
- The key to disruption is embracing risk, embracing SMEs and putting oneself in their shoes. In this context, more African private sector leaders are needed.

Financing Young Entrepreneurs

- Money follows good propositions. Entrepreneurs will find the financing they need once they have obtained the requisite skills and can manage and pitch their business ideas to financial institutions through a common language.
- SMEs and entrepreneurs need a combination of training, mentoring, and access to networks and finance — particularly that first few thousand dollars for proof of concept. They also need training in communications skills to effectively present their ideas to financiers. The Tony Elumelu Foundation has found that after training entrepreneurs using a holistic approach and showing that their model is successful, institutions like the Red Cross, the United Nations Development Programme (UNDP) and the French Development Agency (AFD) have offered to invest in their programs. Entrepreneurs do not need grants. They need investment.
- JUMO finds that financing youth is not riskier than financing other clients. They have a 95 percent rate of loan repayment because their products fit into the lives of the entrepreneurs and customers value access to their services. The more customer utility is maximized, the less performance issues arise from the product. Still, JUMO is working to enrich its digital footprint through mobile data. JUMO is now utilizing user-generated data, thereby helping to improve their portfolio performance.
- Helping young entrepreneurs to better communicate their ideas is essential. Mentorship, workshops and partnerships are some of the tools that have been used to develop their potential.
- Mentoring must be integrated into business development training, and it must be based on a concrete business idea. Mentors provide guidance, not therapy. Their job is to ask open questions and help the entrepreneur go deeper into the issues and challenges. Otherwise, mentoring becomes abstract and theoretical. It is also a two-way street in that mentors learn from the experience. However, it must be seen as part of a structured approach within the context of a wider network, including learning from peer-to-peer relations.
- Banks are failing young entrepreneurs. Banks cannot be forced to take risks, but there are high risks in financing small businesses. The key is finding local companies that are willing to make these businesses more bankable, and mitigating the risk with FinTech experimental design solutions.
- Presenting a partner value proposition is essential and should be optimized. The investor should feel that the project is going to drive their average revenue per user, drive up their numbers, or help retain customers. At the same time, it is necessary to immerse oneself in understanding what the customer wants.
- As it is not the nature of banks to be risk-takers, they do not have the sole responsibility of supporting entrepreneurs. Rather, they are one of many players. The right partnerships that complement what the bank has to offer can be created. Indeed, creating the right partnerships can facilitate the entire SME journey process.

- Equity markets are not yet evolved in Africa. Equity financing, provided by angel investors or early stage investment funds where they seek exits to larger firms, or non-collateral-based lending that frees up working capital, remains the best instrument for financing SMEs especially if the risks are well assessed and managed.
- The cluster syndrome needs to be avoided. It is a real risk to look at SMEs as one homogenous group. SMEs are not all looking to be part of a hub. It is important to look at what is scalable and transferable. In this way, the system can be transformed into a more inclusive one.
- By learning and collaborating with others, efforts to support youth entrepreneurs can be synchronized and complemented.