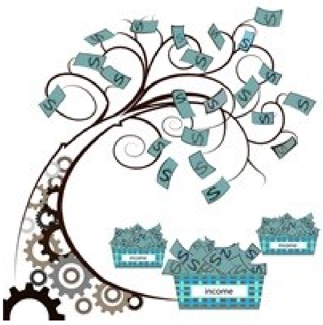
ClipDC conference reveals new ideas on funding

The 'Creating and Leveraging Intellectual Property in Developing Countries (ClipDC) conference, held from 17-20 November 2013 at the Southern Sun Elangeni Hotel in Durban, has revealed some new ideas on funding. Government officials, policy experts, academics and entrepreneurs from South Africa and Africa and developing and developed countries attended the conference.



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Banking the unbanked in Sub-Saharan Africa

The mobile financial sector is fast becoming one of the most lucrative opportunities to be explored in Africa and particularly Sub-Saharan Africa. Many will remember the popular M-Pesa innovation that was powered by Nedbank in South Africa. Launched in 2007, the Kenyan concept is very successful in that context but failed miserably in the South African context. One of the main reasons for the failure, says ClipDC delegate and representative for telecoms consultancy Indian Atlantica, Nnamdi Oranye, "Was that Nedbank didn't correctly assess the South African market for the innovation. About 70% of South Africans are already banked and this technology did not translate well to this demographic."

It is then clear that an innovation like mobile banking systems will suit contexts, which host a high number of unbanked people and where the culture or mind-set is open to allowing a fusion between mobile technologies and financial services. "Technology that enables users to digitally transfer cash, pay bills, buy goods or make deposits without needing banks or accessing the internet is uniquely suited to Africa and other regions with minimal infrastructure."

Lions on the move

He has followed this and other interesting developments in this space after being enthralled by a 2010 McKinsey Report entitled 'Lions on the Move', which focused on progress and potential of African economies and identified telecoms as one of four key sectors for further development in Africa. He came back to South Africa to explore the convergence between financial sector services and mobile banking convenience, after studying in Australia for a Masters in Telecoms.

"Africa has leapfrogged the development phases of technology. We are ahead in terms of technology and have not followed the standard phases of development of setting up infrastructure and following that with mobile systems."

About half of the 208 deployments of mobile banking systems around the world, are used in Africa. Another reason most of the systems are not successful is due to "the development of the IP which is an expensive exercise. Many of these solutions are also not tailored to the markets in which they are rolled out."

FNB successful deployment

One of the most successful solutions that is tailored for the South African market is the FNB e-Wallet. He says that the bank is pushing innovation beyond reach of its competitors. It has successfully penetrated the market by targeting the banked sector, which needs to pay its domestic workers and other casual workers, who mostly fall within the unbanked grouping. This clever initiative leverages the willingness of the banked sector to test a mobile financial transaction application, which in turn will produce a large footprint of usage that should encourage use among the unbanked.

The FNB e-Wallet takes innovation a step further by identifying the large number of Zimbabweans living in South Africa and meeting their need to send money back home. This is done through the FNB e-Wallet merging with Zimbabwe's mobile money transfer serviced called EcoCash. Money is transferred from the e-Wallet to EcoCash in Zimbabwe and family members can collect from any OK store there.

Freemium services to attract

He looks to these examples as key indicators of a market that has massive untapped potential in the African context. In his work with Indian Atlantic, it is responding to this need with a 'Freemium' concept which allows unbanked individuals to use services free in the transacting stage. The package will become premium and paid for when value added services such as paying bills, are introduced. The revenue stream for the company deploying, is then created from third party or 'in-app' advertisers, which models itself on the Google AdWords and other similar advertising methods.

He warns that innovators and mobile service providers keen to roll out this concept should firstly understand their market or country context before spending millions of dollars on the technology, only for the model to be abandoned due to lack of adoption by users.

"This also ties to patents and IP projects. One of the biggest insights I have gained at CLIPDC is about the necessity of patenting a concept, or not. On the African continent, the introduction of innovation hubs to encourage entrepreneurship and innovation is gaining momentum and this helps to foster creativity yet protect IP. I've also come to understand how heavy protection over IP in software creation when paired with business model, is a hindrance to actual technology transfer," he concludes.

Credit cards not only source of capital

Often the only capital available in the earliest phase of a start-up is for entrepreneurs to tap into their credit cards, says Professor Stephen Sammut, a partner in a venture capital business, who teaches entrepreneurship at the Wharton School of Business in the US. However, that does not mean that there are not billions of venture capital dollars available if companies searched for those operating in the areas where they are doing business.

Sherry Knowles, the principal at Knowles Capital, gave a perspective of just how much venture capital was available for the right business ideas, when she chaired a session on raising venture capital at the conference.

Worldwide, this figure was $110.3 billion in 2012, with 93% going to the US, Asia and Europe - and there were 3826 venture capital deals struck in the US alone. Sammut set out the life cycle of a start-up, beginning at the very first, pre-seed stage "where you have an idea, but still need flesh it out and raising capital is virtually impossible.

"This is what is called bootstrapping, where you are dependent on your own resources, where you turn to Visa or MasterCard," he said. However, once the idea had been fleshed out it became easier to raise capital, although often start-ups may be dependent on seed grants. The next step, when it becomes easier to raise funds, is in the start-up phase when the company needs to hire key staff and develop its business position, followed by the "POP" - proof of principal - stage, which is essential for technology companies.

Funders for startups

This includes demonstrating commercial relevance, followed by actual development, growth, expansion and, finally, market exit. He also looked at the various funders available for start-ups.

Angel funding by high worth individuals - this has a number of advantages and is only just starting to surface in sub Saharan Africa, particularly in Kenya and South Africa. This usually consists of individuals operating in their areas of influence "who are usually more compassionate and can provide coaching and guidance." Family offices are increasingly playing a part in corporate venture funding.

"There is an accumulation of wealth in sub-Saharan Africa and these entities could increasingly play a greater role in funding ventures. Foreign venture capitalists may also be prepared to play a greater role in southern Africa, but this would require governments putting good policies in place.

Corporates partnering with smaller companies, especially in the field of high tech, where many big corporates such as Microsoft have formed venture capital arms that invest in smaller players still in the formative stage. There should be "a collected effort by governments to approach them to access funds."

There was also an expanding role by impact funds, mainly for profit family businesses, which have a double bottom line, which invest in businesses with a social impact in healthcare, education or other areas that "administer to a particular need of society. So check, as there may be a particular fund out there formed to look at your line of business," he concludes.