Preparing SMEs in Africa for outside investment

It may sound easy to connect companies seeking financing to grow and investors seeking a place for their money to grow, but matching the two is often far from simple. Especially in developing countries, it means overcoming considerable knowledge gaps and trust issues.

The difficulties are magnified in Africa, which suffers from a lack of local investors, regulatory constraints and a shortage of highly skilled talent. Although the continent has abundant labour and resources, which should make it an attractive destination for international capital flows, African countries have been relatively unsuccessful at drawing foreign investment.

Two Ugandan fintech start-ups, Xente and Swipe2pay, recently bucked this trend, securing a total of $140,000 from Tokyo-based venture capital firm Leapfrog Ventures. The two companies, which offer e-commerce platforms that enable Ugandan enterprises to accept bank cards and mobile money for payments, are using the funds to improve their products and enter new African markets.

'The absence of local investors to invest in local start-ups, that's a big problem in Africa,' says Solomon Kitumba, chief executive and founder of Swipe2pay. 'The second challenge is that external investors don't trust, and the third is that there is a knowledge gap between entrepreneurs and investors.'

Difficulty accessing funding is one of the biggest obstacles for African businesses. Banks typically demand such high collateral and interest rates that most small enterprises cannot afford to borrow. Many turn to loans from friends and family, while others watch their companies stagnate or fail.

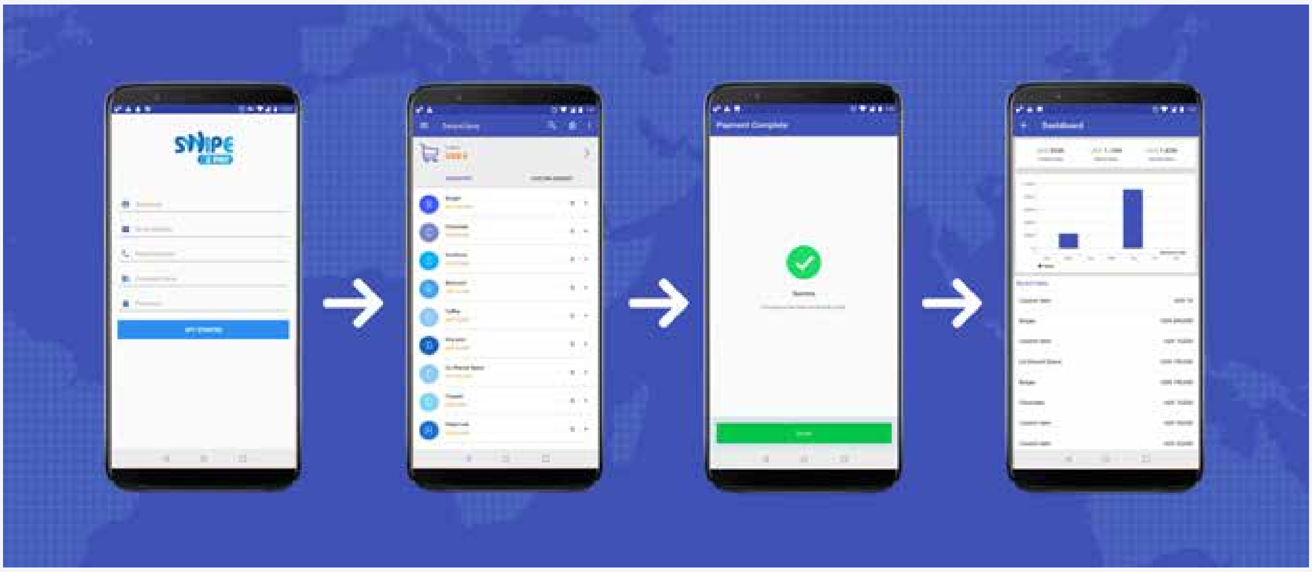
Many small businesses across the continent operate below their full potential because of limited access to finance. 'They do not fit into the business models of the incumbents (banks and microfinance institutions), because of their informal way of operation,' Kitumba says.

Learning to speak 'investment language'

Firms that are able to demonstrate the prospect of rapid growth, often through an innovative product or service, tend to attract private equity. But SMEs often do not know how to find investors that might be interested in their products or services. Many are also ill-equipped to make an effective 'sales pitch' or to prepare themselves for outside investment, according to Kitumba.

Before meeting with Leapfrog Ventures founder Takuma Terakubo, Kitumba made sure that Swipe2pay had a 'minimum viable product'. He also was fully prepared to champion his business strategy and explain in detail how the investment would be used.

'We had to know our numbers, what we are doing, how we plan to make his money back, financial projections and models,' he says. 'I made sure I had all that on the table. Also pricing models, what our plans were for the next six months, where I planned to go with the money I raised. It made more sense to Leapfrog to know that we were already trying to sell the product without outside money.'



Kitumba also followed blogs on fintech and participated in online investment forums. He learned that Leapfrog Ventures was keen to invest in Uganda from the Netherlands Trust Fund IV (NTF IV) project, a partnership between ITC and the Dutch Centre for the Promotion of Imports from developing countries. Both Swipe2pay and Xente are beneficiaries of the project.

Although NTF IV helped the two enterprises hook up with founder Terakubo, it was up to the companies to make convincing pitches to win him over.

Preparedness is essential

Allan Rwakatunga, chief executive of Xente, says he made sure he was well prepared before sitting down with the Leapfrog Ventures chief. That included having a 'pitch deck' – a brief presentation detailing his company's business plan – as well as all the financials and relevant legal documents. Rwakatunga knew how to prepare for his meetings because Xente had raised money from another angel investor earlier in the year.

Leapfrog Ventures has invested in nine East African seed-stage start-ups since launching its $4.5 million venture capital fund for sub-Saharan Africa in July 2018.

Explaining his selection of Xente and Swipe2pay, Terakubo says: 'Their business is providing high-quality solutions to the challenges facing growth industries in Africa. I feel that special business is born in Africa. There are social problems in advanced countries like Japan due to too much economic growth, and in Africa, I expect to see another world we could not realize.'

The investment has helped Swipe2pay expand from three people to a team of eight, and the company will enter the Rwandan market by April. The number of businesses on its platform has surged from 25 to 650, and the company aims to reach 1,500 by the end of 2019.

Xente has enjoyed similar growth, doubling its staff and customer base, and recently expanding into Nigeria. Xente will 'go live' in Kenya, Tanzania and South Africa in mid 2019.

Source: ITC.