



Published On: March 25th, 2021.

Building marketplaces as an engine for prosperity in Africa

This document presents the conceptual framework which informs CIM's investment in African marketplaces. It also discusses the opportunities and constraints in African marketplace as well as the impact they can have. It lays out the process of investing in African marketplace.

It is however not an exhaustive advisory on African market places or an in-depth analysis of all marketplace models. It represents only one source of knowledge on marketplace models and should therefore be used in combination with other resources and in consideration of the local context.



Acknowledgements

This publication is based on research conducted by Consonance Investment Managers in collaboration with the Africa Foresight Group.

We would like to express our gratitude to the CEOs of the following African marketplaces who were very generous and cooperative throughout the research process. They include; Ayodeji Balogun, Chief Executive Officer and Obianuju Okafor, Corporate Communications at AFEX Nigeria; Hilda Moraa, CEO and Daniel Adereti Strategy Corporate Development at Pezesha; Moulaye Taboure, CEO and Guillaume Darnaudet, CFO at Afrikrea; Yasmin Kumi, CEO at Africa Foresight Group and Steve Dakayi-Kamga, Co-founder and Leo-Armel Tchoudjang, Co-founder at BetaStore.

Special thanks also to team members who designed the graphics and those who supported the editing and production process.

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Executive summary

Africa is a growing economy that is ripe for budding digital marketplaces. First, Africa's youth population is the second highest in the world with an increasing labor pool and anticipated growing income. As of 2019, 60% of Africa's population was less than 25 years old (accounting for approximately 20% of the world's youth population making Africa the world's youngest continent. In addition, Africa continues to enjoy growing labor force participation with a 63.1 per cent total labor force participation rate considered higher than the global average of 60.5% per cent in 2020.

Secondly, Africa's fast-growing urbanization and digitization as evidenced by internet and mobile penetration position it strongly for growth. Driven by the availability of more affordable smartphones and data plans, the growth rate of internet users has increased by more than six-fold from 2009 to 2020.


However, Africa lags in terms of economic activity and prosperity as these positive indicators are yet to fully materialize to the scale needed to address Africa's development challenges. Africa has the lowest GDP per capita in the world and ranks lowest across all four components of the national prosperity formula. The lowest of the four components is human capital which could be driven by the low rankings in economic complexity in select African countries.

Marketplaces, known to be platforms that connect buyers and sellers of goods and services and facilitates transaction are in the nascent stage in Africa. African marketplaces have significantly evolved— from an era of barter trade to a current transition to tech or tech-enabled marketplaces, and remain unique compared to marketplaces in other regions; highlighting a significant opportunity for growth. Emerging trends over the past decade such as technology and infrastructure (including 5G, payments infrastructure and blockchain technology among others), regulation and protectionism, supply chain/logistics and global/Africa crises to mention a few have continued to shape African marketplaces operating models.

Consonance Investment Managers (CIM) has tailored the definition of marketplaces to Africa based on its four years of investing in African marketplaces. Grounded on two frameworks namely the three guiding principles of investment and the National Prosperity formula, CIM positions marketplaces as engines of prosperity with optimal purposeful investments as the fuel to drive the engines.

The purpose of this report is to detail out the thinking on marketplaces as engines of prosperity in Africa and catalyze more investments into innovative marketplaces designed for the African landscape. The document is organized into four chapters.

- **Chapter I. Defining marketplaces** detailing out the high-level conceptual framework implemented by Consonance Investment managers for successful investment in marketplaces in Africa.
- **Chapter II. Introducing African marketplaces** highlighting the benefits and impacts marketplaces have had in Africa including case studies on success factors and pitfalls to avoid and effectively deepening the reach of the program.
- **Chapter III. Investing in African marketplaces** detailing out the learnings on the benefits of investing in marketplaces for the investors, marketplace owners and broader African ecosystem. This is based on interviews held with a sample of African marketplaces CEOs. This chapter also estimates the opportunity that exists within marketplaces in Africa, and



how it can be used by investors to make progress on Africa's prosperity journey while yielding returns.

- **Chapter IV. Conclusion and roadmap** showcasing potential marketplaces strategic thrusts and a five-step systematic, rigorous and thorough investment process to follow. This chapter also articulates what marketplace CEOs perceive to be the future of marketplaces in Africa.

Chapter I: Defining marketplaces

Marketplaces can be simply defined as platforms that connect the buyers and sellers of goods and services. These marketplaces provide the infrastructure which facilitates interactions and transactions between these parties. Marketplaces are not new 21st century inventions but have been around for centuries, for example, as far back as the Champagne fairs in 12th century France where the county of Champagne, around 1180 AD, hosted a series of trade fairs which drew sellers of goods and services from across Europe¹.

While these fairs no longer exist, modern marketplaces share some similarities with them. These modern marketplaces include physical brick and mortar spaces where sellers display their wares for others to purchase. Examples of these are the Khan el Khalili market in Egypt, the Kejetia and Makola markets in Ghana, and the Maasai market in Kenya, among many others are notably amongst the largest organically grown markets in Africa. These physical marketplaces allow customers to view products in real-time, in some cases, test the products while providing the sellers with real-time feedback on their experiences.

However, one of the major technological advances of the 21st century has been the rapid rise of online market places or platforms, especially in advanced economies. Driven by the rise of the internet, these platforms can take the form of websites or apps where buyers and sellers can conduct transactions. Jumia, for instance, offers 2 million products conveniently to customers across 12 African countries or online supermarkets and grocery stores. The global spread of the internet has meant that business owners can expand their reach across continents, enabling customers from different nations to purchase their products².

Finally, the third form of marketplaces is hybrid models which is a combination of online platforms and physical infrastructure. These hybrid platforms entail using websites or apps to facilitate product order and delivery while at the same time building physical infrastructures such as warehouses or pickup locations.

Marketplaces as engines of prosperity in Africa

Whether offline or online, marketplaces play an important role in the economic development of any nation. Beyond merely being a platform for transactions, these marketplaces can support the development of entrepreneurship skills, the creation of broad-based wealth and even support efforts to reduce poverty.

If we think of marketplaces in terms of the financial, economic and social value which they can deliver, that is, as 'engines of prosperity', our focus should be less on the platforms through which they operate but on the value which they deliver and how they can do so. At Consonance Investment Managers (CIM), our experience of investing in African markets over the past four years has enabled us developed foundational frameworks to structure the thinking on marketplaces as engines for prosperity in Africa.

These foundational frameworks are:

- The three guiding principles of investment
- National prosperity framework/formula

¹ Fisman Ray and Tim Sullivan. Everything We Know About Platforms We Learned from Medieval France. Harvard Business Review, 2016.

² Väänänen Heikki. The Future of Retail Isn't Physical Vs Online, It's Omnichannel. Forbes, 2020.

CIM invests in marketplaces that have or can develop a sustainable moat. That is, legal exclusion including patents, ownership of scarce resources, regulation etc.; returns to scale including network effects, ability to experiment; Systemic lock-in including switching costs brand, business model innovation and know-how obscuration including trade secrets, tacit knowledge and company culture.

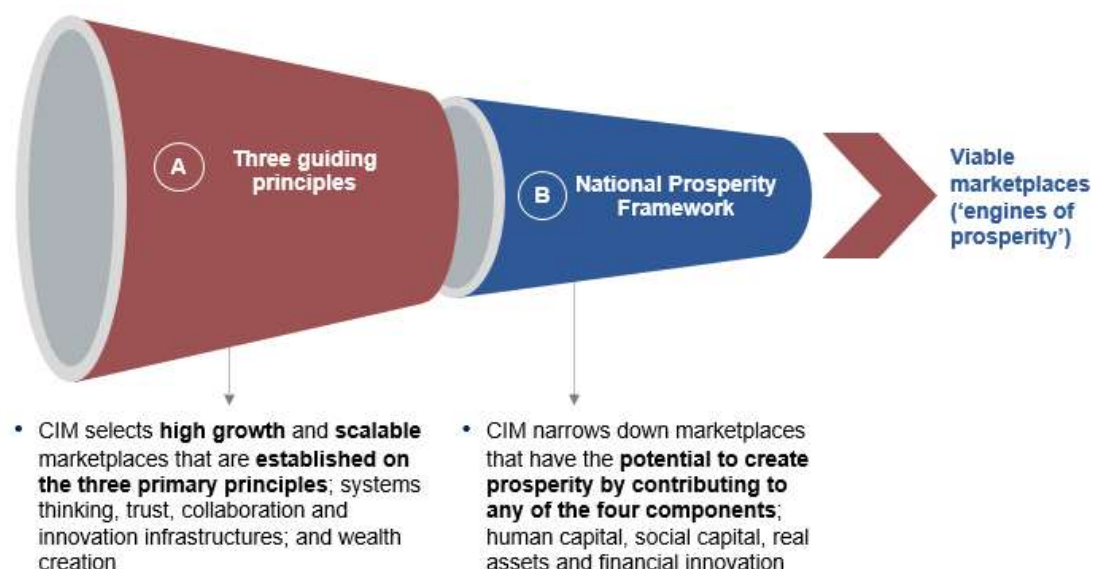


Figure 1: CIM uses a two-step filter process to identify and invest in marketplaces that are engines of prosperity

The three guiding principles of investment

CIM's has developed three guiding principles which inform their investment in any marketplace. These principles include:

- Systems thinking
- Trust, collaboration and innovation infrastructures
- Wealth creation

Systems thinking

Every marketplace, entity or organization that is an instrument of prosperity occurs as a system. A system can be defined as an interconnected set of elements that are coherently organized to organize a shared objective. Marketplaces can be viewed as a system seeing as they involve buyers, sellers, goods, the transaction infrastructure and rules for participation etc. Therefore, the performance of any marketplace depends on the interplay of these elements and how they interact with one another.

Systems thinking therefore is an analytical tool that helps us to understand how different parts of a system are connected and how they work within the context of larger systems. It can also be a diagnostics tool as it allows us to approach problems in a disciplined manner and make informed decisions before acting on them³. Applying systems thinking in the development of marketplaces in Africa, therefore, means envisaging the 'big picture, in terms,

³ Goodman Michael. Systems Thinking: What, Why, When, Where, And How? Systems Thinker, 2021.

of what is required to make a marketplace functional. It is understanding the skills, resources and capabilities of both buyers and sellers and how they may impact the efficiency of marketplaces.

Trust, collaboration and innovation infrastructures

Trust can be defined as the social glue which holds business relationships together. For marketplaces to be efficient, buyers need to believe that sellers are accurately describing their products and will fulfil transactions. Similarly, sellers need to trust that buyers will pay and will honor the terms of services. Marketplaces that embody trust, therefore, reduce the time and energy which participants on their platform may otherwise expend on protecting themselves from being exploited.

Collaboration is essential in building any enterprise of value especially if institutions such as marketplaces are viewed using a system thinking perspective. For efficiency purposes, many businesses today focus on their core competencies while collaborating with others to provide complementary or ancillary services. Airbnb, for instance, is the world's largest hotel but it neither owns nor leases any real estate. Instead, its business model relies on mobilizing and managing the underutilized time and assets of others.

Finally, innovation, that is, continuous improvement and ultimately excellent user experience is critical to the development of successful marketplaces. Today, the most valuable companies, invest significantly in big data and machine learning infrastructure to improve the user experience. Uber, for instance, learns from every order, pickup, ride, ratings and feedback⁴. These data inform the development of tools and functionalities that would serve customers better.

Wealth creation

Every dollar spent in a marketplace should create broad-based wealth, i.e., equitable distribution of value among stakeholders. Wealth creation is an outcome of value creation which within the context of marketplaces refers to the value that is created for all parties involved in a transaction. This includes the firm, buyers, sellers and affiliates. For marketplaces to be engines of prosperity, they should be able to create broad-based value for these stakeholders.

Technology, such as the internet, is perceived to be a key driver for wealth creation by marketplaces as it increases access to economic opportunities for traditionally marginalized groups. For example, many people in rural areas who have internet access no longer have to rely solely on word-of-mouth marketing but can connect to potential buyers through social media platforms.

The National Prosperity formula

The national prosperity formula was developed in 1991 by Michael Milken, the Co-Founder and Chairman of the Milken Institute which is a non-profit focused on increasing global prosperity by advancing collaborative solutions that widen access to capital, create jobs and improve health. According to Milken 'prosperity in any society depends on the leveraging effect of financial technology on the sum of human capital, social capital and real assets⁵. Milken

⁴ InformIT. Trust, convenience and millennials: the collaborative economy. 2016.

⁵ G20 insights, Michael Milken: Creating value, Milken Institute - Michael Milken: Increasing global prosperity. 1960s.

argued that financial innovations helped the US addresses issues such as housing and transportation infrastructure and also have the potential to reduce poverty and address development challenges in poor countries. Milken's prosperity formula inspired CIM's conceptualization of national prosperity as the output of thriving marketplaces.

There are four components of the national prosperity formula:

Human capital

Human capital consists of the talent, knowledge and skills that people invest in and accumulate throughout their lives, enabling them to realize their potential as productive members of society. Education also includes adult skills which refer to the skill-base of the working-age population and reflects the historic quality of education but also provide a base level for the short-term potential of the economy⁶. Investing in people through quality education, jobs and vocational training develops the diverse skill sets required to tackle different levels of complex problems.

Social capital

Social capital refers to the existence of rules, both formal and informal which supports collaboration and cooperation between actors in a marketplace⁷. It can also be seen as the connections between individuals and the social networks and norms of reciprocity and trustworthiness which arise from them⁸. Given the relational nature of social capital, elements of it include personal and family relations, social networks, interpersonal trust and institutional trust. The presence of social capital in society reduces the transaction costs associated with the market transactions thereby increasing opportunities to create economic value and consequently improving the quality of lives of individuals.

Real estate

Real assets refer to hard infrastructure that supports the marketplaces. It includes durable components that provide income opportunities and have long term capital growth as they generate value. Marketplaces require a variety of tangible and intangible infrastructure to function effectively. Some generic infrastructure that is needed across most sectors of the economy includes telecommunication networks, transport, energy, water etc. The importance of these critical infrastructures cannot be overstated. Good transport infrastructure, for instance, opens up communities to trade and commerce while facilitating the distribution of goods and services from manufacturing locations to markets.

Financial innovations

Financial innovations are the financial systems that help the marketplace. These financial systems develop products, services and processes which support the growth and expansion of market places. Examples of these include long and short-term bonds, venture capital and working capital facilities. These tools have increased the credit available to marketplaces, providing them with less costly ways to raise capital. Venture capital financing for instance allows early-stage start-ups with high growth potential to access capital while giving up equity or an ownership stake to Venture capitalists. The growth of venture capital has allowed early-stage business with minimal operating history to secure financing which banks may not be

⁶ Legatum Institute. Defining Prosperity. 2020

⁷ Francis Fukuyama. The Tanner lecture on human values. 1997

⁸ Robert Putnam. Bowling Alone. 2000.

willing to grant them while at the same time benefiting from mentorship from experienced business executives⁹.

Data

Data is important to each pillar of the prosperity formula, especially in today's world where big data has become an integral part of organizational decision making. Data is used iteratively as an output and input of each pillar, supporting operations and innovation culture and consequently delivering smarter solutions.

Box 1.0 Case study – AFEX

Introduction:

Africa Commodities Exchange Limited (AFEX) is a marketplace that embodies the three principles of investment and contributes to all four components of prosperity. AFEX commodities exchange market is the first private sector-led commodities exchange market in Nigeria. Founded in 2014, AFEX seeks to maximize the value that African farmers and other market participants derive from their activities. The company has developed and deployed several solutions which have resulted in gains for Nigerian smallholder farmers, processors, exporters, investors and the Nigerian economy at large.



AFEX illustrates the three principles of investment:

- Systems thinking

AFEX has adopted a system thinking approach to solving the problem of production and transaction of agricultural products in Nigeria. Their business model illustrates an understanding that the success of their marketplace depends not only on its tech-heavy front-facing end but also on meeting the offline needs of the farmers who produce the commodities traded on their platform. Thus, they provide resources and facilities which farmers need to manage their produce. For instance, to address the storage issues faced by farmers, AFEX provides warehousing facilities for their produce. These warehousing services include a quality and quantity grading process; storage and pest management services as well as the dispatch of these commodities to its various storage facilities across the country.

- Trust, collaboration and innovative infrastructures

The AFEX model is built upon gaining the trust of the farmers who register on their platform and the trust of buyers by guaranteeing the quality and quantity of commodities. By delivering on their promises to farmers, AFEX has supported over 100,000 farmers and aggregated over 100,000 metric tonnes of grain since 2014. AFEX, has also shown a consistent capacity to innovate to meet the needs of its partners. In February 2021, the company announced the first warehouse receipt-backed commercial paper in Africa, with tech-enabled operations and a 24-hour fast cash turnaround for borrowers. The goal of the financing deal is to help eradicate the high cost of procurement incurred by processors by deploying a discounted value of a warehouse receipt distributed among five leading players in the Food and Beverage, Trading Poultry and Animal Feed segments in Nigeria.

⁹ Corporate Finance Institute. Venture Capital. 2021

- **Wealth creation**

AFEX's founding vision is one of inclusive markets ensuring that while creating wealth for investors, producers and farmers are also included in the benefit-sharing formula hence improving their quality of life. For example, through its forward contracts, processors are provided with a product that allows them to ensure the availability of raw materials and the ability to hedge their price risk. It also gives the seller, typically a producer or trader, the opportunity to participate in the upward price movement of the commodity without undue exposure to market or price risks.

How AFEX positively impacts the prosperity components:

- **Human capital**

AFEX trains and equips farmers with the skillsets required to produce high crop yield. Its market education platform, EDEX includes the train the trainer model for smallholder farmers and is aimed at effective and efficient knowledge dissemination to smallholder farmers on various farm processes. They also provide extension services that train them on good agronomic practices.

- **Social capital**

The AFEX model is built upon gaining the trust of the farmers who register on their platform and the trust of buyers by guaranteeing the quality and quantity of commodities. According to the CEO of AFEX, Ayodeji Balogun, the reason why their engagement with farmers has been successful is that they trust them and they see value in the services which AFEX provides them including input financing and storage services. AFEX's consistency in the delivery of these services has therefore enabled them to earn the trust of the farmers and the accompanying social capital. The efficiency and consistency of AFEX's products are underpinned by its ability to collect and process data intelligently.

- **Real assets**

AFEX built 60 warehouses across Nigeria where farmers can store their commodities until an off-taker is found. The warehouses act as the brick-and-mortar channel through which AFEX's hybrid marketplace operates. They have enabled farmers to address problems of storage and wastage of produce. In addition, AFEX also runs a smooth logistical chain through a network of transportation trucks.

- **Financial innovation**

AFEX provides access to finance to agriculture through creative solutions and has developed a commodities exchange market that creates wealth for farmers and investors. For example, its input financing programme provides smallholder farmers with the financing needed to obtain quality inputs while at the same time providing an avenue for people interested in diversifying their investment portfolio to do so. To encourage investments, it has developed a variety of financial products including COMX which is the electronic platform where securitised agricultural assets are traded; Exchange Traded Commodities (ETCs) which are investment vehicles that track and replicates the performance of an underlying commodity index including total return indices based on a single commodity.

Chapter II: Introducing African marketplaces

African marketplaces are unique and differentiated from other marketplaces in the world. Despite the development challenges faced by the continent, there are at least five factors that highlight significant opportunities for growth.

- **Africa has a young and rapidly growing population**

Africa is the world's youngest continent. Out of the 1.2 billion people aged 15-24 globally, Africa accounts for 20% of the world's youth population. It is also estimated that Africa's proportion of youth in the world is projected to increase to 42% by 2030¹⁰. As a result, Africa's working-age population is expected to grow by 450 million people by 2035¹¹. The creation of jobs and economic opportunities for this young and rapidly growing population has the potential to add \$500bn a year to its economies for 30 years, that is, about one-third of Africa's GDP¹².

- **Africa has opportunities for agricultural innovations**

Africa accounts for 60% of the world's uncultivated arable land¹³. Also, over 60% of Africa's working-age population work in agriculture and over one-third of the total value added comes from agriculture¹⁴. Even though the continent's contribution to global agriculture remains low, these opportunities create a significant market place for innovators to address gaps. Marketplace innovations that help in addressing productivity, infrastructure, processing, storage and distribution challenges have a great opportunity to thrive.

- **Classified marketplaces are growing**

As digital connectivity on the continent continues to increase, classified marketplaces have emerged as popular platforms that support online commerce. These classified market places such as Tonaton in Ghana and Takealot in South Africa, allow sellers to advertise goods online which can be paid for upon delivery. While they may not be optimal, they are sometimes the only available marketplace in parts of Africa and serve as a digital gateway, stimulating the development of full e-commerce sites. Thus, there exist significant opportunities for innovators to leverage these classified marketplaces and support their conversion to e-commerce platforms.

- **Africa is a leader in mobile money**

Mobile money services have adapted and thrived at a time when digital financial services have grown in importance. Africa is the fastest-growing and second-largest mobile phone market in the world and accounts for approximately 50% of the world's 1.2bn registered and 300 million active mobile money accounts¹⁵. Mobile money platforms have played an important role in driving financial inclusion on the continent; M-Pesa, for instance, has 42 million active customers and 400,000 agents across seven countries.

¹⁰ UN Office of the Special Adviser on Africa. Youth empowerment. 2021

¹¹ World Bank. Creating jobs for Africa's growing population. 2017

¹² World Economic Forum. The world's 10 youngest populations are all in Africa. 2016

¹³ Oxford Business Group. Agriculture in Africa 2019: Special Report. 2019

¹⁴ International Labour Organisation. Employment in Africa. Think agriculture!

¹⁵ GSMA. State of the industry report on mobile money. 2021

This digital innovation is the go-to medium for most transactions on the continent and many marketplaces have incorporated it into their operations.

- **The AfCFTA shall promote regional integration**

On the 1st of January, 2021, trading officially commenced within the African Continental Free Trade Area (AfCFTA). The AfCFTA, which has so far been ratified by 36 out of the 54 countries on the continent, is set to be the largest free trade area in the world comprising 1.3 billion people with a combined GDP valued at \$3.4 trillion¹⁶. It has been estimated that the AfCFTA has the potential to lift 30 million people out of extreme poverty. However, much of this would depend on the existence of digital infrastructure including marketplaces that can facilitate the sale of goods across countries and also facilitate payments and settlements of transactions.

However, Africa's economic and social indicators remain poor...

The preceding sections have highlighted how Africa's young population, agriculture potential, classified marketplaces, mobile money platforms and the recently launched AfCFTA offer significant opportunities for the development of marketplaces on the continent. However, there still exists a significant gap between the continent's potential and what has been realized so far. As shown in Figure 2, Africa has the lowest GDP per capita of all the continents in the world. GDP growth on the continent contracted by 3.3. % in 2020, confirming the region's first recession in 25 years.

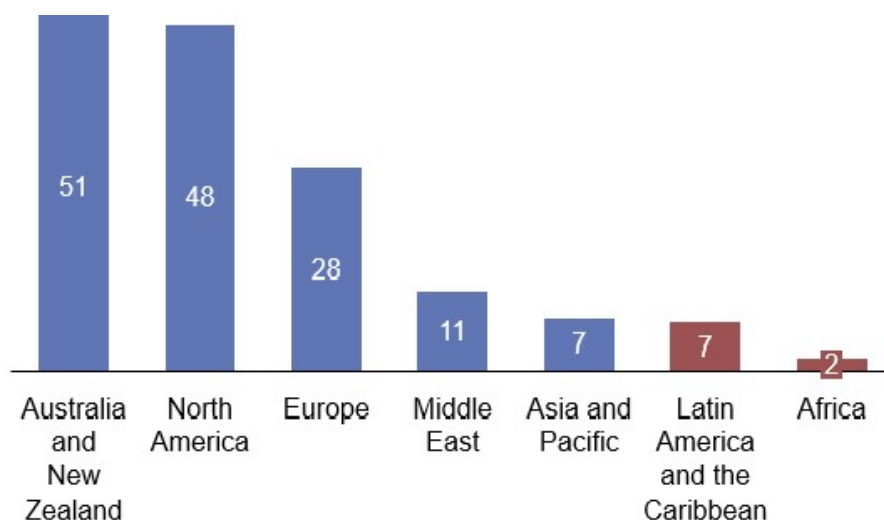


Figure 2: GDP per capita 2020, current prices (U.S. dollars per capita) US\$ thousands

The poor performance in GDP can be partly attributed to the generally reduced levels of economic activity caused by the coronavirus pandemic. African marketplaces have also performed poorly, accounting for less than one per cent of the world's e-commerce sales in 2020 when the world's largest online marketplaces sold products valued at \$2.6 trillion, accounting for 60% of global e-commerce sales¹⁷. Even before the pandemic, African market places were small by global standards. For example, the 631 online marketplaces in Africa recorded about 2.2 billion visits in 2019; only 10 African countries were responsible for 94%

¹⁶ World Bank. The African Continental Free Trade Area. 2020

¹⁷ Digital Commerce 360. Online marketplaces database. 2021

of all online business. This lies in sharp contrast to Amazon.com which had 26.73 billion visits and Aliexpress.com which had 6.6 billion visits within the same year¹⁸.

One consequence of the continent's abysmal economic performance is its impact on the development of social and human capital as well as its real assets and pace of financial innovation. The World Bank projects that Africa's 2020 economic performance could push up to 40 million people into extreme poverty, rolling back gains that have been made in the global fight against poverty over the last five years. Also, the Coronavirus pandemic and the accompanying school closures in many countries are estimated to have affected nearly 253 million students causing losses to learning, and undermining the development of human capital.

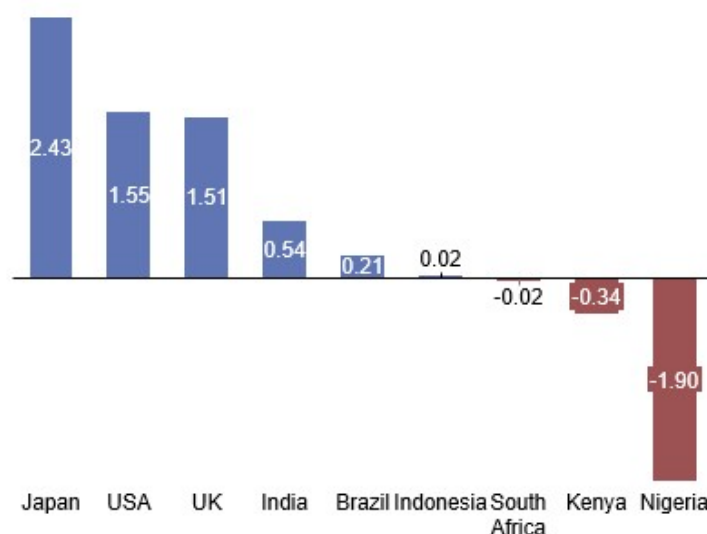


Figure 3: Africa's complexity rankings (human capital development) relative to other regions

Even before the pandemic, Africa's poor economic and social performance arguably has its roots in limited technological capabilities which refers to the productive capabilities of a country, i.e., the "technical know-how" required for production. These technological capabilities are largely a function of the quality of a country's human capital which consequently determines the country's level of economic complexity. The diversity and sophistication of a nation's exports are often a fair indicator of the level of complexity in an economy. However, primary commodities, that is – unprocessed agricultural produce and natural resources account for more than 60% of the continent's total exports¹⁹. Limited education, skills and technical know-how account for the inability to increase the value-added to commodities.

The evolution of African marketplaces

During the pre-colonial era, barter trading was the only form of trading in most communities in Sub-Saharan Africa because of the language barrier²⁰. These items used in barter trade performed the four basic functions of money which includes; a medium of exchange, a unit of account, means of payment and store of value. However, in the late nineteenth century, global

¹⁸ International Trade Centre. Business and policy insights: mapping e-marketplaces in Africa. 2020.

¹⁹ UNCTAD. State of Commodity dependence 2019

²⁰ Africa Barter trading and taxation in colonial Africa. 2021.

monetary systems underwent some fundamental challenges; major Powers in Europe adopted the gold standard and this had implications for countries in Africa because of the penetration of western technology and trade in the period following the industrial revolution. Subsequently, other items such as cowries, copper manilas, iron bars and other imported objects became the currencies used for trade.

In 1912, the colonial monetary system was introduced in British West Africa²¹. It assisted the development of trade between West Africa and the United Kingdom and relieved the UK of its responsibility towards the currency of the colonies. In 1914, during and after the First World War, banknotes were introduced in African colonies as a result of the scarcity of metals needed to mint coins. The evolution of monetary systems in Africa was a response to a need to keep up with the constant evolution of the market. As trade within the continent and outside of it grew, these monetary systems enabled the reduction of transaction costs in both local markets and international trade. Also, these modern currencies were seen as a way to transform local economies and develop export-oriented economies.

However, the world has significantly changed since colonial times as the innovation of digital payments solutions have grown rapidly and in response to the evolution of traditional marketplaces to online marketplaces. Africa has not been left behind; in 2007, digital payments was introduced when Safaricom launched its mobile money solution, M-PESA for peer-to-peer money transfer to facilitate transactions. As of 2018, two-thirds of total global mobile money transactions were driven by users in sub-Saharan Africa (SSA), with values exceeding \$25 billion²². Digital money has been touted as a revolutionary tool for expanding access to financial services in low resource environments. This is because users only require a mobile phone to transfer money at a low cost; they do not need access to an existing bank account.

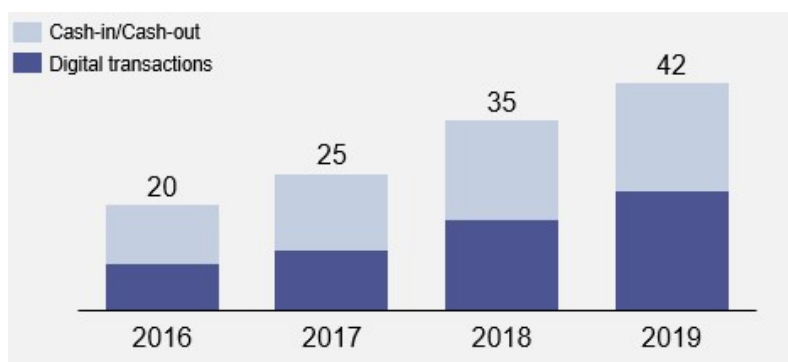


Figure 4: Mix of mobile money transaction values (billions of \$)

As these digital payment solutions continue to grow, it is expected that the 400 million internet users on the continent shall increasingly patronize online marketplaces²³. By, 2025, it is projected that there would be a more than 50% increase in internet penetration across the continent, increasing the number of internet users to 600 million resulting in the increased patronage of e-marketplaces²⁴. This increased engagement has the potential to generate

²¹ A.G. Hopkins. The creation of a colonial monetary system: the origins of the West African Currency Board. African Historical Studies. 1970.

²² J-PAL. The rise of mobile money in sub-Saharan Africa: has this digital technology lived up to its promise?

²³ McKinsey. How e-commerce supports African business growth

²⁴ McKinsey. Lions go digital: the internet's transformative potential in Africa. 2013

more than US\$500 billion a year by 2030, equivalent to close to 10% of expected continental GDP.

The journey of building marketplaces in Africa

Building marketplaces could be a daunting process for many especially in Africa. Entrepreneurs focus on resilience to overcome any inherent African challenges as well as attract investments to grow their models to scale. We identified a 5-step journey of setting up marketplaces. Each step poses unique African challenges survived by successful African marketplaces.

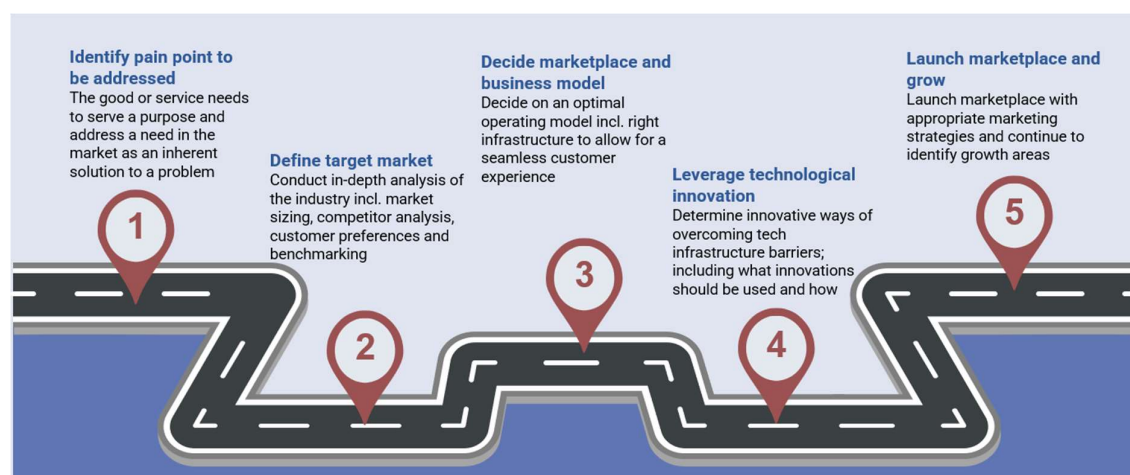


Figure 5: Five-step journey of building marketplaces

- 1. Identify the pain point to be addressed:** There needs to be an addressable gap in the market to justify the building of a marketplace. Innovators should therefore be able to clearly articulate the purpose of the good or service and how it serves as a solution. In Africa however, many marketplace developers do not have the necessary skillsets needed to effectively diagnose these gaps and recommend appropriate solution; this can be partly explained by the fact that online marketplaces are relatively nascent on the continent. In other cases where a developer may pre-empt user's needs, many of them struggle to convincingly sell their solution to customers.
- 2. Define target market:** The next step involves an in-depth analysis of the industry and Mapping of the target market. This process should cover parameter such as market sizing, competitor analysis, customer preferences and benchmarking. But marketplace developers in Africa are often confronted by low demand generation because of low levels of education of the target consumers. Also, some markets are saturated by international companies such as Uber for instance who have access to vast resources, unlike local competitors.
- 3. Decide marketplace and business model:** Once the target market has been mapped out, marketplace developers need to decide on an optimal operating model including the right infrastructure which considers Africa's unique local context. This process will immensely benefit from the use of a systems-thinking perspective and critical analysis based on the components of that national prosperity formula. Developing a business model using this approach allows for the development of a seamless customer experience. In Africa however, unreliable supply may cause supply chain disruptions and delay. Also, issues

such as weak backward integration may cause difficulty in tailoring models to meet the target market.

4. **Leverage technological innovation:** Marketplace developers in Africa must also consider innovative ways to overcome technology infrastructure barriers which are prevalent in most parts of the continents. These innovations should not only focus on 'what' they can do but also 'how' they should be used given the low levels of education and digital literacy on the continent. This cannot be overstated as many marketplaces in Africa continue to suffer from poor physical infrastructure which is needed to support them. Also, payment and settlement solutions remain a challenge for online marketplaces.
5. **Launch marketplace and grow:** Once the preceding steps have been completed, the marketplace can be launched with a marketing strategy that is locally tailored and considers the nuances of a given geographical location and target audience. Marketing is a continuous process and data from the activity can inform new areas of growth. Also, marketplaces can ensure repeat and satisfied customers by leveraging customer data intelligently and providing benefits such as after-sales care. As marketplaces remain a relatively new phenomenon on the continent, developers need to work hard to earn customer trust especially as most of the existing marketplaces are constrained by low customer retention. This situation is often caused by sub-optimal customer service operation and delayed delivery times.

Marketplaces support the innovative use of technology

Marketplaces leverage the use of technology as infrastructure almost side-lining physical infrastructure as a key component within marketplaces. Some of the most successful marketplaces have been able to develop innovative solutions to marketplaces that have transformed how we deploy physical infrastructure.

- **They have reduced the need to build physical infrastructure:** Recent marketplace innovation have created a situation where entire infrastructure systems have lost their market share as a result of a change in technology that renders the existing infrastructure obsolete. Airbnb for instance uses the homes of individuals to provide accommodation to visitors instead of building new hotels for visitors/ commuters. Similarly, Uber does not purchase a fleet of cars for its service but instead renders its services by using technology to utilize existing car owners for its model. This pattern of different infrastructure systems rising and then declining as a superior technology emerges has been observed in many countries
- **They create demand for new infrastructure systems:** New technologies impact demand for infrastructure systems in unforeseen ways. By providing a solution to a particular problem, they can trigger demand for specific infrastructure. For instance, advances in data proliferation, connectivity, automation and sustainability technology are disrupting existing markets and creating new ones altogether in many infrastructure sub-sectors. These developments have reimagined the possibilities for the built environment, for instance, companies such as Zipline have transformed the medical supplies delivery ecosystem due to their reliance on drones to deliver medical supplies.
- **The lower the cost of supplying infrastructure:** Technology has also led to more efficient service delivery solutions by connecting demand and supply in an efficient manner that reduces any logistical costs. Betastore, for instance, aims to ensure the availability of

commodities cheaply to retailers by connecting them to proximate wholesaler's hence reducing storage and transportation costs to both wholesalers and retailers through an efficient supply chain platform. Also, there has been an increase in technologies that are redefining the process, materials and timelines of building infrastructure than conventional methods, thereby significantly reducing costs. E.g., Winsun, a Chinese firm, is using 3D printing to build houses. The company claims to have built 10 houses in less than 24 hours at a cost of less than \$5,000 per house.

Lessons from African marketplaces

We have observed that marketplaces in Africa thrive or fail due to various reasons. Primary reasons marketplaces succeed include:

- **Access to large markets:** More populous African countries with a growing middle class tend to have more prosperous marketplaces. According to a McKinsey Global Institute report, as more Africans move to urban jobs, their incomes are rising. In 2008, roughly 85 million African households earned \$5000 or more – the level above which they start spending roughly half their income on items other than food. The number of households with discretionary income was projected to rise by 50% over the 10-year period between 2008-2019, reaching 128 million by 2020. By 2030, Africa's top 18 cities could have a combined spending power of \$1.3 trillion²⁵
- **Digital connectivity:** High mobile penetration rates and access to mobile phones contribute to higher success in marketplaces; approximately 90% of mobile phone users shop online and 51% do so at least once a month. Similarly, urban centres with relatively wider coverage and faster download speeds show greater participation in market places, unlike rural areas where network infrastructure is underdeveloped
- **Investments:** Foreign and local investment is a differentiating factor for the leading African marketplaces. Platforms like Jumia and Takealot have received investments from foreign companies. These foreign investments have allowed these marketplaces to access scarce capital, leverage foreign technical expertise and learn industry best practices.
- **Innovative operating models:** The operating models of marketplaces are their competitive moat, allowing them to adapt and bounce back in case of disruptions, e.g., amazon vs Airbnb during COVID-19. In Africa, marketplaces such as AFEX which adopt systems thinking approach, addressing both online and offline issues that may affect commerce continue to show resilience and dynamism.

In addition, we identified three major reasons why marketplaces fail:

- **Poor infrastructure:** Poor physical infrastructures such as roads, air travel and unreliable electricity disadvantage African marketplaces at a global level. Africa's internet connectivity significantly lags other continents preventing marketplaces from harnessing available business economic development opportunities, e.g., Efritin. More so, even though Africa is a mobile-first continent, in terms of internet access; many marketplaces do not have apps even though apps offer an opportunity to optimise mobile devices for the market place. As of 2019, only 22% of African online marketplaces had a mobile app.

²⁵ McKinsey Global Institute report

- **Inadequate financial and socio-political support:** The development of marketplaces in Africa is affected by limited investments by governments in the infrastructure and institutions needed to make these marketplaces succeed. Financial constraints also hinder marketplace development; for instance, start-ups such as Afrostream and GoMyWay were unable to raise additional rounds of investments. International banking regulations can be a hindrance especially to SMEs that are sometimes unable to acquire bank accounts to transact internationally.
- **Sub-optimal business models:** Many marketplaces have failed as the businesses models do not consider the nuances of conducting businesses in Africa. The design of online marketplaces for instance often fail to critically consider issues such as the payment solutions and delivery options, from the perspectives of both buyers and sellers and this may lead to a failure to sustainably address the market gap e.g., Wabona; or survive competition by perceived giants, e.g., Mxit, Ousta, DealDey.

Box 2.0 Case study – Afrikrea

Introduction:

Afrikrea was founded in 2016 and is a platform to discover, buy, and sell African fashion, arts, and crafts. It thus operates in the fashion marketplace. Since its establishment, Afrikrea has seen explosive growth, growing threefold each trimester. The marketplace has processed over 10 Million euros of transactions all over the world and federates over 8000 shops in 125 countries (40% in Africa) with over 120,000 products available on the website. Even the coronavirus pandemic did little to impact on this performance.



The Afrikrea model

Afrikrea attributes its success to its ability to access large markets, leverage digital connectivity, and an innovative operating model. Despite the Coronavirus in 2020, Afrikrea processed more than €10 million in 145 countries. The company saw approximately €6 million in transactions, 500k+ visits every month, 2300+ new products each week and 1200+ messages exchanged each day. According to the CEO 'As our sellers used our DHL partnership to send over 10 tons every month, at the best rate and with the easiest experience they ever had, we were able to chalk a very successful year in 2020, despite Covid-19'.

Afrikrea has been able to provide a platform that ensures supply and demand needs are met as it drives the growth rate of the marketplace. The platform curates a wide variety of diverse commodities to meet demand. It also leverages technology to build a system of trust by enabling communication between sellers and buyers. The CEO emphasised the importance of building trust especially on the side of the sellers as they drive a variety of products available in the marketplace.

The company's innovative operating model ensures it differentiates itself by creating a unique experience for customers which differs from what its competitors offer, especially its wide variety of goods and service. To address supply chain needs, Afrikrea has established partnerships with several companies like a shipping company, DHL.

Emerging trends that have shaped African marketplaces

We categorized the most common trends that shaped the African marketplace models over the past decade into three groups namely technology infrastructure, regulation and protectionism, and global/Africa crises.

Technology infrastructure

While the digital economy and required technology infrastructure in Africa remain nascent in comparison to other regions of the world, there are emerging positive trends that if fully materialized could enhance the development of marketplaces on the continent. Cryptocurrency and mobile money technology, for instance, can resolve the difficulties associated with payments and settlements while big data can enable marketplaces to make more intelligent decisions.

- **Cryptocurrency**

Cryptocurrency transactions in Africa are growing rapidly on a continent that already embraces mobile money, virtual currency offers advantages for a young, tech-savvy population keen on overcoming challenges with international payments and also currency devaluation²⁶. Monthly cryptocurrency transfers to and from Africa under \$10,000 (€8,500) shot up by 55% over the past year, reaching a peak of \$316 million in June 2020²⁷. Nigeria, for instance, is the second-largest bitcoin peer to peer market in the world²⁸.

However, like other regions in the world, this growth has been met with increasing regulatory concerns. For instance, Nigeria's Central Bank recently prohibited financial institution from dealing with local cryptocurrency exchanges²⁹. Nonetheless, there are still some marketplaces that accept cryptocurrency payments; Fasttech, a Nigerian electronics e-commerce platform, accepts bitcoin and other cryptocurrencies as a mode of payment.

- **Social media**

Africans are coupling their already extensive use of cell phones with a more recent and massive interest in social media. Studies suggest that when Africans go online much of their time is spent on social media platforms such as Facebook, YouTube and Twitter which account for 54%, 29% and 11% of social media usage respectively³⁰. Influencer marketing is also gaining grounds on the continent, for example, in South Africa, it is forecast that by 2022, brands shall spend up to \$15 billion on influencer marketing³¹.

Furthermore, platforms such as Facebook and Instagram have enabled users to set up "shops" where small business can market their products. The trend has made it easier for suppliers with no physical infrastructure or websites to be able to create marketplaces, especially during the peak of the Coronavirus pandemic, when even those

²⁶ FINSMES. Why is Crypto adoption growing in Africa? 2021.

²⁷ DW. Africa's quiet cryptocurrency revolution. 2021

²⁸ Crypto Potato. How Nigeria become the second-largest bitcoin P2P market in the world. 2021

²⁹ Quartz Africa. Nigeria's crypto start-ups and traders are still at the mercy of its Central Bank. 2021.

³⁰ StatCounter. Social media stats Africa. 2021

³¹ IT web. 2022 dubbed the year of SA's influencer economy

with physical stores were made to close. The lifestyle brand, Folklore, for instance, uses Instagram shops to display their pieces to 17,000+ followers.

- **Artificial Intelligence and Big Data**

More e-commerce executives agree on the fact that big data holds the key to the future of the digital commerce industry. This has been validated by recent moves by big tech companies; For example, in 2019, Google opened its first Africa based artificial intelligence research center in Ghana³². Big data enables e-commerce companies to improve decision making, gain a competitive advantage, and enhance performance, products, and operational processes. These online marketplaces can also leverage data for customer behavior analysis allowing them to develop solutions to their needs.

- **Payment infrastructure**

While issues such as cross- border payments and currency conversion remain major uptake hindrances, digital payments will grow into the norm rather than the exception. The introduction of mobile money payments to Africa in 2007 was revolutionary increasing access to payment options to millions of people and thousands of businesses across the continent. As of 2015, there were over 270 live mobile money services worldwide with over 50% located in Sub – Saharan Africa³³. Growth in digital modes of payment is expected to continue rising through to 2025 where electronics payments revenue from Africa will be US\$ 27.1 billion.

African marketplaces continue to benefit from the use of digital payments as most of them such as Jumia allows for mobile money on their platforms. Cellulant, an Africa-founded digital payments provider, believes that infrastructure that leverages the penetration and usage of mobile phones is critical to growing economies in Africa including ensuring interoperable systems.

- **Blockchain technology**

This is an innovation that protects the history of a digital asset by making it transparent and unalterable and is becoming increasingly popular in African marketplaces. From enabling micropayment systems to digital identity management to smart contracts, blockchain-based solutions can leapfrog traditional or non-existent technology infrastructures in African nations and drive a new era of more inclusive growth. BitHub Africa is a Kenyan blockchain accelerator for local start-ups helping marketplaces with the potential to enhance transparency and reduce long-standing inefficiencies and costs within multiple sectors of sub-Saharan African economies.

In addition, there's increased uptake of blockchain in Africa to tackle land ownership which is also an input for African food or agrotech marketplaces. Rwanda has signed deals to build blockchain-based land-titling systems, where information is stored in immutable digital registries and cross-checked by a network of computer users. In addition, Land Layby Group, a Nairobi-based real estate firm aims to launch a private land registry in Kenya powered by a cryptocurrency-like unit called a 'harambee token'. It

³² Next Billion. Big data and AI in Africa: why the future of the continent is artificially intelligent and digitally enabled. 2021

³³ GSMA. The mobile money. 2016

rewards users for adding correct entries to the blockchain and penalizes them for erroneous ones.

- **Supply chain and logistics**

Logistics infrastructure is a fundamental pillar to transform Africa's commerce from informal to formal. This is promising because the Africa Continental Free Trade Area (AfCFTA) is designed to facilitate the free movement of goods, people and investment. In addition, the growing online retail and e-commerce sectors are greatly shaping the supply chain and logistics industry in Africa.

Many logistic companies have been focused on bridging the rural-urban divide by connecting rural communities to the regional supply chain³⁴. Twiga Foods, a Kenyan mobile-based food supply platform has leveraged this opportunity by solving the issue of post-harvest loss of about 20% which was a result of supply chain and distribution deficit by setting up warehouses with cold storage closer to farmers to enable them to stock and preserve their produce.

Regulation and protectionism

Protectionism in Africa remains prevalent despite steps towards a free trade area recurrent anti-immigrant violence in South Africa, trade restrictions in East Africa, and economically harmful border closures in Nigeria are a few examples of ongoing regulations. However, the landmark the African Continental Free Trade Area Agreement (AfCFTA) signed in 2018 which commits countries to remove tariffs on 90 per cent of goods has the potential to progressively liberalize trade in services, and address a host of other non-tariff barriers.

AfCFTA will be a game-changer for stimulating intra-African trade. Despite implementation issues marketplaces can benefit greatly from this agreement by accessing bigger markets and expanding across borders.

Global/African crises


Social, economic and political crises occurring within and outside their continent have consistently impacted the operations and performance of African marketplaces. This underscores the importance of firms and policymakers invested in these marketplaces to develop contingency plans to address these issues so they do not undermine marketplace operations.

- **COVID-19 pandemic**

The Coronavirus pandemic, declared formally in March 2020 caused severe disruptions to global trade and commerce. However, marketplaces saw a surge in traffic, demand and conversions – the highest in the decade—accelerated by the shift from offline-to-online shopping trends. The introduction of lockdowns and social distancing requirements led to a transitioning of work modes including working from home and utilizing technology for efficient communication.

These disruptions in global supply chains affected Africa as delivery channels from Asia and Europe slowed down. Some African marketplaces benefitted from the integration of a more digitized environment as it created efficiency in operations. Food marketplaces

³⁴ The Africa Report. The 3 trends shaping the future of logistics in African markets. 2019.



that relied heavily on imports suffered from international trade restrictions whereas those with a reliance on local production like AFEX thrived. Marketplaces that heavily relied on international travel such as aviation, hospitality, and tourism were also negatively impacted among others.

- **Security**

Terrorism and extremism are Africa's biggest security threats today. African marketplaces in countries where violence is rife are unable to create the type of partnerships and relationships which they need to grow and scale. This limitation also extends to international partnerships where security and political crises often become major disincentives for potential collaborators.

Chapter III: Investing in African marketplaces

Marketplaces can transform the lives of Africans

Marketplaces are critical because of the real benefits they provide to ordinary Africans and the continent's economy. At the individual level, marketplaces have created greater access to markets for manufacturers and traders as they can now sell products on platforms such as Jumia and access customers they would otherwise have struggled to reach. Many retailers no longer have to bear the costs of building physical stores or services as they can conduct businesses from the comfort of their homes. These conveniences support the growth of small and medium-size enterprises (SMEs) which currently account for 70% of businesses on the continent and 80% of its employment³⁵. This is important as SMEs have driven the increased representation of women and young people in entrepreneurship.

Also, as more marketplaces increasingly integrate payment solutions on their platform, it makes SMEs more confident in conducting trade on these platforms. Some platforms also offer logistic services as part of their model, reducing the time and resources which SMEs would have otherwise spent on facilitating the delivery of products. The macroeconomic implications of these are quite significant, as a BCG analysis that deduced that these marketplaces can create an estimated 3 million jobs by 2025. The additional / new jobs will in turn lead to increased individual income hence a multiplier effect on the potential spend in marketplaces.

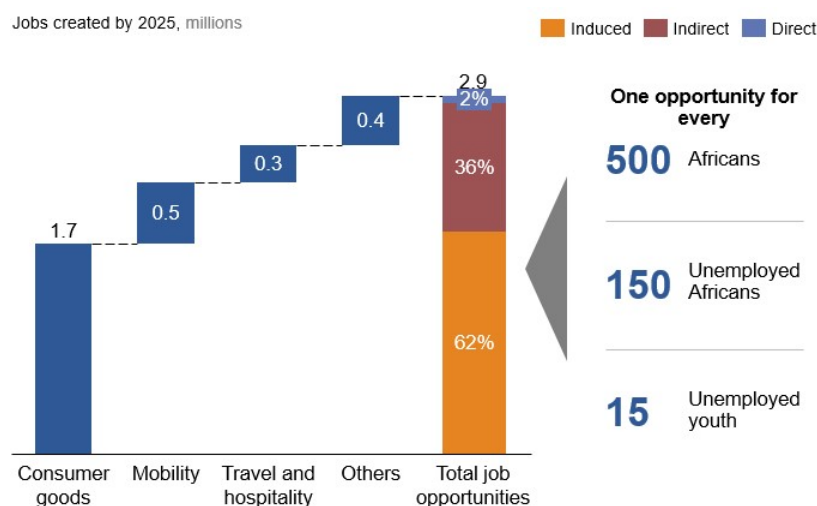


Figure 6: Job creation potential of marketplaces

Marketplaces can spur economic complexity and diversity

As discussed in the previous section, economic complexity is a key indicator of the development as it implies that an economy can manufacture complex products which may be more difficult to produce in other countries. Specifically, most countries that are characterized by economic complexity no longer rely solely on the exports of agricultural commodities or unrefined natural resources. Instead, they have the capabilities needed to process, add value and operate on higher ends of global value chains. Countries with economic complexity have

³⁵ World Economic Forum. Why SMEs are key to growth in Africa. 2015

made remarkable progress in developing their institutions, infrastructure, innovation capability, financial systems, product markets, labor markets, amongst other indicators.

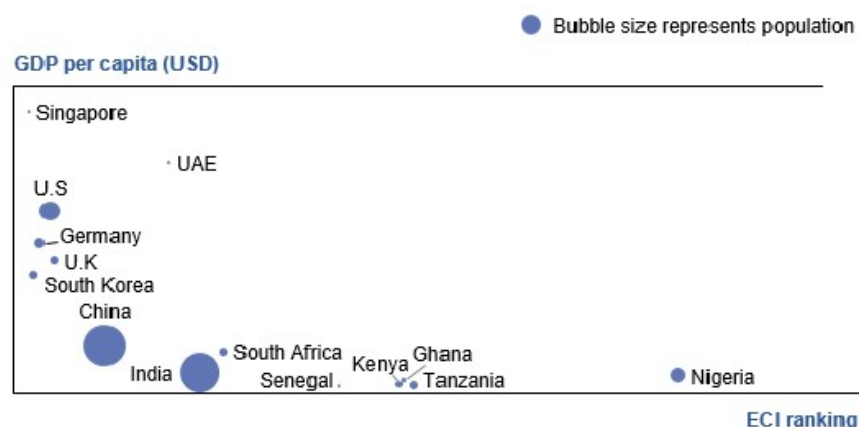


Figure 7: The relationship between economic complexity and economic development

For example, South Korea has achieved exceptional rates of economic growth in the past 30 – 40 years. This economic growth is linked to the increase in productivity in South Korea which itself is an outcome of the accumulation of human capital. The average number of years of schooling increased from 4.1 in 1960 to 12.0 in 2010

African marketplaces need to support more complex activities

Historically, many African economies have traditionally depended on agriculture as a major source of employment and contributor to GDP. While agriculture continues to play a role, since 2000, services-based activities such as retails have increasingly accounted for a significant share of employment. However, the challenge which Africa faces is that unlike other emerging economies such as the Asian Tigers, where the development of manufacturing sectors preceded the development of their services; the performance of Africa's manufacturing sector remains abysmal.

This has dire implications because of the role which manufacturing plays in the development of the productive capabilities needed to build more complex economies. Manufacturing not only offers significant job-creation potential but also supports the creation of critical backward and forward linkages³⁶. For example, the inputs needed in industry generates demand for agriculture, mining, information technology and also increases the supply of products for consumer markets and other sectors. By so doing, it provides significant opportunities for suppliers, distributors and retailers.

³⁶ Brookings. The potential of manufacturing and industrialisation in Africa. 2018

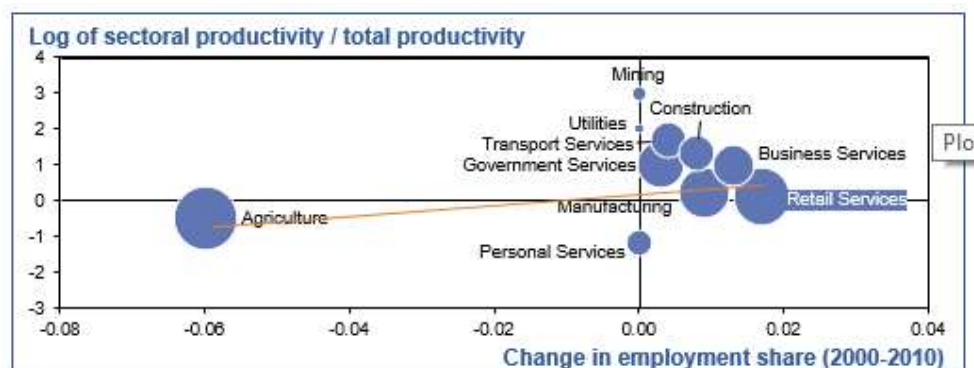


Figure 8: Sector productivity and employment changes in SSA, 2000 - 2010

The failure of African countries to develop their manufacturing sectors means that they do not have the production capabilities needed to build economic complexity. Factors such as low levels of human capital, weak supply networks, poor financial and logistics infrastructure have contributed to the current state of affairs.

How market places can contribute to Africa's economic complexity

AFEX is an example of a marketplace that can contribute to complexity, due to three factors; human capital, distribution networks and access to finance. First, the marketplace supports the development of human capital by training farmers with the skills needed to achieve optimum yield and quality crops. In addition to this, AFEX addresses the logistics and distribution issues faced by farmers by ensuring that off-takers such as food processing companies purchase the crops produced by these farmers. Finally, the company address financial constraints by providing farmers with the capital to produce the inputs they need for production.

Box 3.0: Case study – Consonance Investment Managers

Introduction:

CIM has invested in 25+ portfolio companies across 5 countries in Africa and attests to significant gains especially from strategically positioned marketplaces. These include B2C, B2B2C and B2G businesses.



The Consonance Investment Managers model

There are two characteristics that define the marketplaces which CIM invests in, they are;

- **Attractive business models:** These are marketplaces that have highly recurrent revenues, revenue line optionality and monetization opportunities, scale profitably and enjoy a strong network effect. This gives the marketplace a competitive advantage once at scale.
- **Nascent market space:** These are huge, high growth, unstructured marketplaces with opportunities for trust and collaboration platforms. The African market space has a young, vibrant population who are the biggest users of online marketplaces.

These features provide the following benefits to CIM

- **Financial gains:** Investors can make up to 30% annual returns on average from attractive business models in the marketplaces compared to 5-15% returns on fixed income securities and the capital markets.
- **Portfolio diversification:** Marketplaces are an opportunity for investors to increase and diversify their asset portfolio and therefore can mitigate against market volatility in one sector.
- **Credibility and reputation:** Investors can build their reputation in the marketplace through purposeful investments in budding marketplaces in Africa.
- **Downside protection:** Thoughtful allocation and investment into hard assets that provide a relative safety net if investment value reduces.

What Marketplace CEOs are saying

A survey of a few marketplace CEOs highlights gains to the marketplace owners, communities and the country economies they exist in. The emerging themes which they highlight show the role of marketplaces in fostering sustainable development on the continent.

- **Job and wealth creation opportunities:** Many of the CEOs view the marketplace as an ecosystem that creates value for both the buyer and seller. This takes the form of providing skills training for SMEs on the marketplace to ensure they are creating value that translates into wealth creation, not just subsistence.

“

‘From the founding vision, our north star at AFEX has always been one of inclusive markets. The producers and sellers must always be included in the benefit-sharing formula – they should be able to take out of the value they are creating’

”

- **Enhancing trust-based relationships:** Marketplaces ensure that all necessary operations and information flow within the marketplace in a transparent and easily accessible manner. Trust can be established through linking sellers and buyers to allow for real-time conversation or through trust-based technological infrastructure, e.g., credit scoring mechanism by Pezesha. This is very important as many African countries are generally low-trust societies; therefore, the operations of marketplaces can help build trust which also supports the development of meaningful relationships in other areas of civic and social life.

- **Access to large markets:** Africa's rapidly growing population provides an avenue to create a unique experience for customers through offering a wide variety of goods and services. These inclusive technologies have provided creative ways to create jobs that are gainfully employing the large pool of African youth.

“

'Technology has been able to structure businesses- that creates many spaces now for young people to work jobs in diverse sectors not just the usual white-collar options or basic farming level jobs'

”

- **Enhanced partnerships and collaborations:** Successful marketplaces on the continent have benefitted strongly from forging alliances with critical stakeholders, not just in the private sector but also with policymakers. Some admitted that these partnerships allowed them to build trust on both the demand and investor side. Many investors also provide critical thought and advisory to the marketplaces they invest in by providing their technical knowledge and expertise to the founders. This is especially why foreign investment is valued because it can bring in fresh and frontier ideas, which may not yet be common knowledge.

These emerging themes however exist alongside critical challenges

- **Poor infrastructure:** Africa is fraught with infrastructural challenges such as poor roads, no warehousing, shipping irregularities and low digital awareness. According to the African Development Bank, the continent needs about \$130-\$170 billion per year to meet its infrastructure needs³⁷. The consequences are that marketplaces have to develop the infrastructure they need to do operate thereby increasing the costs of operation. African marketplaces must therefore creatively maneuver the infrastructural challenges they face to thrive.

“

'Our initial solution was a fully technological one. However, executing in Africa proved we had to start with backward integration to guarantee quality and quantity. We built supply chain infrastructure warehouses in 15 states having the producers in mind to improve their productivity'

”

³⁷ AfDB. African Economic Outlook. 2018

- **Sub-optimal data access:** Approximately 80% of African marketplace businesses are informal limiting the availability of quality data to guide optimal investment decisions. Therefore, marketplaces develop different models to survive the challenges posed by inadequate and low-quality data, these activities may present additional costs for marketplaces; however, some new financial inclusion and digital finance application are attempting to bridge the information gap through, for instance, the use of alternative credit data³⁸.

“

‘We have a duty to fine-tune our economic models to fit these markets, including building the necessary datasets for credit scoring, rather than avoid them because traditional credit risk says so.’

”

- **Very fragmented systems:** Africa bears very different systems due to the varying regulatory frameworks in each country, e.g., financial reporting frameworks, measurements and testing standards etc. This makes it difficult for firms seeking to scale their operations across the continent because they need to duplicate efforts and resources to meet the regulatory requirements of each country. While these are some of the issues which the AfCFTA seeks to address, it, however, remains a serious challenge for the time being.
- **No plug and play solutions:** Africa remains a very unique landscape and ideas that have worked elsewhere may not work in the continent due to the absence of critical institutions and infrastructure. Marketplace founders, therefore, need to be willing to do the hard work, adopt a systems-thinking approach and address critical elements needed for their platforms to operate efficiently. Failure to do so may undermine the sustainability of the business.

³⁸ Finextra. Digital credit scoring paves way for microloans in East Africa.

Box 3.0 Case study – Pezesha

Introduction:

Pezesha, a digital financial infrastructure was founded in 2016 to facilitate the connection of SMEs to financial institutions to increase their access to affordable working capital. Based primarily in Kenya and Ghana, Pezesha connects lenders or investors who can either be individuals or institutions to quality small businesses that require financial support.



The Pezesha model

Pezesha aims to empower Africans through quality financial education and access to financial instruments. The company has a goal to obtain 10% market share of the \$128 Billion by 2026. To achieve this, Pezesha has developed several unique solutions like alternative scoring models, financial education chatbots, amongst many others. The innovative scoring technology leverages wider data sets and results in low NPLs over time. This digital tool gives investors the ability to vet and evaluate small businesses, using complete transactional business data to draw useful insights into business trends and cash flows. The scoring technology allows for a risk-based approach model which becomes more robust over time as Pezesha continuously aggregates data.

There is a large demand for access to capital in Africa but lack of education deters businesses from pursuing this capital. Pezesha's is plugging the gap in financial education through its financial education product, PataScore. The product has developed inductive financial literacy modules including debt and cash flow management, importance of financial records and many more. To allay fears most Africans have about accessing credit, the CEO said; 'We started by making people understand that credit is not a bad thing, it's only a bad thing when you over indebt yourself'.

Their products and services therefore empower MSMEs to make better decisions to attain financial health.

Given its expanding operations in East and West Africa, Pezesha's products are flexible to accommodate different currencies, whilst also operating in accordance to the different regulatory frameworks available in these countries

African marketplaces can unlock prosperity in Africa

There is approximately US\$ 2 trillion opportunity to scale up diverse marketplaces and unlock greater prosperity across the four components. As discussed previously, Africa has a young and rapidly growing population with 60% classified as youth. These youth are also the demography with the highest media consumers. This implies a growing need for innovations and companies that creatively solve problems, simplify data structuring, collection and analysis. The growth of cities and rising urbanization rates shall support an increase in consumer expenditure which is projected to reach \$2.1 trillion by 2015.

Marketplace size, US\$ billions

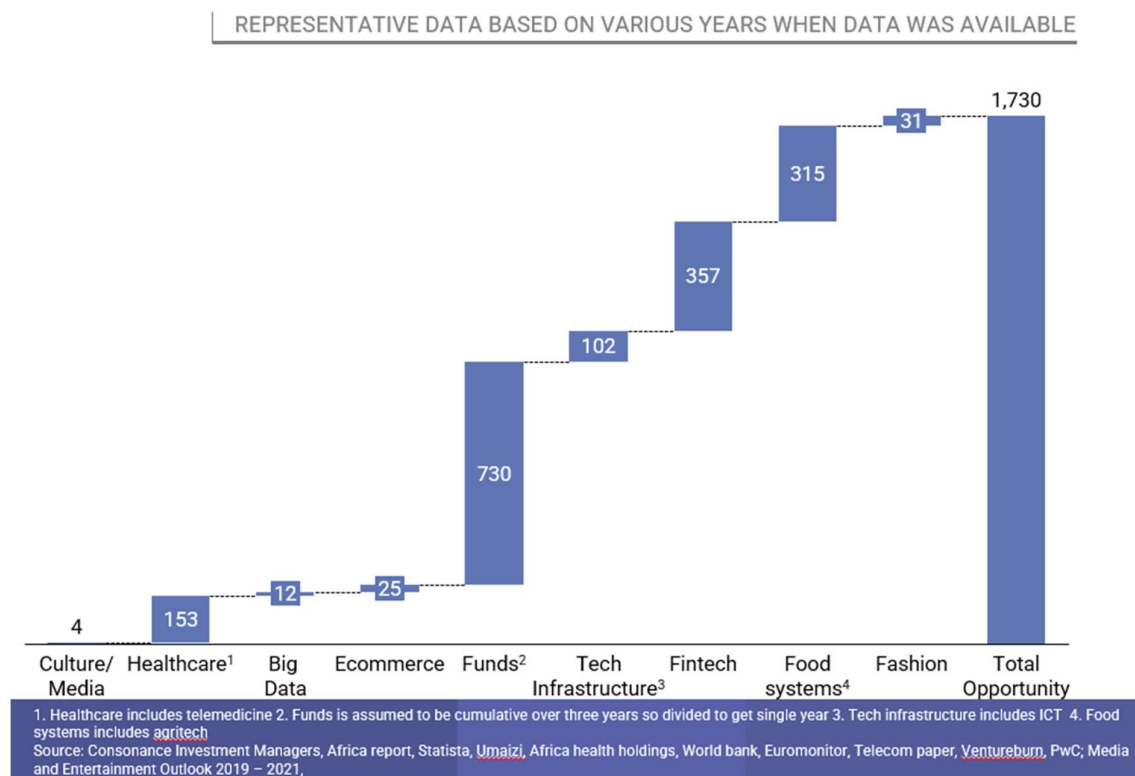


Figure 9: Marketplace size (US\$ billions)

We believe that addressing these seemingly intractable solutions can create wealth for millions across the continent. Each sector highlighted in the figure above highlights varying breadths of opportunities.

- Food systems:** Access to food in Africa is changing as a result of the triple effect of growth demography, urbanization and transformations in agricultural production and trade. These changes create risks; however, they also generate new opportunities³⁹. Africa's food economy is a main source of employment which maintains agricultural production, agro-food processing and product distribution. In addition, with Africa holding 60% of the world's uncultivated arable land Africa's food markets could create significant opportunities over the next decade.

³⁹ World Bank Group, Open Knowledge Repository - Food Systems in Africa: Rethinking the Role of Markets. 2021

- **Funds and FinTechs:** At the center of Africa's economy are the intermediaries' market, which link producers and consumers. There remains a need for well-structured capital markets to increase trade and access to finance on the continent. There are also opportunities for the development of financial technologies seeing as 57% of sub-Saharan Africa remain unbanked. This significant gap explains the popularity of mobile money technologies and Fintech applications which provide solutions for underserved communities. Where FinTechs satisfy individual financing needs, innovations that address market structures are also necessary.
- **Technology infrastructure:** Technology in African markets has opened up different mediums which connects buyers to sellers. For example, consumers are shifting to ecommerce as mobile connectivity increases. COVID-19 also accelerated this trend and increased interest in contactless transaction. A survey of key African economies during the pandemic found that more than 30% of businesses were increasing the use of online and mobile banking tools⁴⁰. The growing adoption of technology is owed to the availability of tech infrastructure. Africa's tech infrastructure has grown significantly over the past 20 years. The Infrastructure Consortium for Africa (ICA) estimates that the average annual commitment to the continent's tech infrastructure during the period of 2016 to 2018 is approximately \$4 billion. Africa's tech infrastructure funding gap is as much as \$3 billion a year. International investors have also seen the potential opportunities in digitization⁴¹, thus increasing investments into tech infrastructure.
- **Culture/ media:** Several opportunities have been created in other sectors through digitization. For example, the digitalization of media has presented new opportunities for digital media to 'leapfrog' traditional media⁴². While traditional media like television and radio still have the largest footprint in African societies, digital media have started to provide users with ways of becoming more directly involved in politics and of contributing to social change. In addition to this, creators have leveraged technology to distribute media to the rest of the world. For example, The Nigerian film industry, also known as Nollywood, produces about 50 movies per week, second only to India's Bollywood—more than Hollywood in the United States. Although its revenues are not on par with Bollywood's and Hollywood's, Nollywood still generates an impressive \$590 million annually. Believing that if the industry is properly managed, a million more jobs could be created in the sector, the World Bank was assisting the Nigerian government to create a Growth and Employment in States project to support the entertainment industry, along with other industries.⁴³
- **Healthcare and health tech:** Another subsector is health tech as investments in Africa's e-health startups continues to grow. The number of startups active in the health-tech space on the continent has grown by 56.5% between 2017 - 2020 and has hit an all-time high at 180 active companies⁴⁴. Furthermore, the number of start-ups focused on addressing the challenges in healthcare and education have risen in recent years indicating the hidden value in these sectors. Many of these health-tech and ed-tech Startups have leveraged technology and increasing internet penetration on the continent to deliver solutions to


⁴⁰ Standard Chartered, Making it easier for businesses in Africa to join the B2B e-commerce bandwagon. 2021

⁴¹ Atlantic Council, The digital infrastructure imperative in African markets. 2021

⁴² DOC Research Institute, Digitalisation of the media in Africa: Prospects for change. 2018

⁴³ UN Africa Renewal, Nigeria's film industry: a potential gold mine? 2013

⁴⁴ Connecting Africa, Africa is experiencing a health-tech startup boom. 2020



members of underserved communities especially in rural areas, allowing them to achieve significant scale.

Altogether, there are diverse opportunities in Africa that can have significant catalytic impact on the economy and investors ought to leverage them in order to unlock national prosperity.

Chapter IV: Conclusion and roadmap

As African marketplaces continue to grow, there remains uncertainty about how these marketplaces shall evolve in response to the changing economic and social realities on the continent. However, our interviews with marketplace CEOs and investors reveal five emerging themes which they believe will shape the future of marketplaces on the continent.

Emerging themes in African marketplaces

- **Consolidation:** The share of services in the continent' GDP continues to grow, accounting for 55% of Africa' GDP in 2016⁴⁵. However, the sector remains relatively nascent and as such most of its markets remain unsaturated. Therefore, most of the first movers would benefit from the opportunity to consolidate demand, hence defining clear winners that may have dominance.
- **Long-term investment:** The challenging business environment that defines many African countries mean that it takes time for marketplace CEOs to get a clear understanding of the market gap, gain their trust as well as obtain the social license to operate. As a result of this, even the most promising business models would require time to deliver substantial returns. Therefore, marketplaces require long-term investment as well as resilient entrepreneurs.
- **Improved human capital:** The importance of professionals with the required level of education, skills and experience cannot be overstated especially in the development of innovative marketplaces. This is evident in the contributions made by members of the African diaspora who have been returning to support the development of marketplaces. They have the right skills, impact-oriented mindsets and access to relevant networks; their activities shall impact the evolution of marketplaces.
- **Increased cross country and multi-sectoral collaboration:** The future of marketplaces on the continent shall be defined by increasing multi-sectoral collaborations. The linkages between sectors necessitate this especially where there has been government failure in building the institution and infrastructure needed to support inter-sectoral collaboration - this responsibility shall fall on marketplaces. Also, the implementation of the AfCFTA and the growth of financial technologies which facilitate international payments and settlements shall lead to increased cross-country collaborations.
- **High uptake of digital models through technology-driven solutions:** While Africa's digital development lags behind other regions; of the 25 least connected countries in the world, 21 are in Africa⁴⁶. However, the growth of internet penetration on the continent is among the fastest in the world and this presents economic opportunities. This is evident in the growth of tech and tech-enabled entrepreneurship and this trend is expected to continue.

⁴⁵ UNCTAD. Mission to unlock Africa' service sector. 2019.

⁴⁶ The World Bank. Digital development. 2020

Box 4.0 Case study: Africa Foresight Group (AFG)

Introduction

Africa Foresight Group (AFG) was founded in 2016 and is the first and largest network of freelance and management consultants in Africa. AFG is a talent marketplace of African consultants working with African businesses to better equip them to be the best consultants and provide solutions to African businesses to elevate them into global champions.



The AFG model

AFG believes that the future is promising for African marketplaces, however, there will be a challenge of the level of inclusivity the marketplaces can provide. AFG embraced the cost-effective remote working (freelancing) model to provide quality services to a wide range of clients in Africa. The freelancing model is rapidly growing in Africa as the continent holds 10.1% of the world's freelancers. In addition, this trend of freelance evolution has been further enhanced by COVID-19.

One of the biggest challenges Africa faces is the limited skilled talent needed to push development. According to the AFG CEO, 'It has become very clear to a lot of investment funds that talent is the biggest unresolved challenge for scaling Africa. It's not capital anymore'. The continent has the lowest saturation of skillsets in the world. AFG is supporting the development of Africa's private sector by bringing together the best talent through its system of pooling experts across the continent and training young Africans across the continent, equipping them with the skills required to become management consultants who can provide high-level business solutions to African businesses.

AFG has been able to attract patient capital by setting up a marketplace that matches demand with supply. Through its operations, the company has attracted investors who understand the marketplace and the need to build for the future.

How to identify high -growth marketplace investments

While the number of marketplaces on the continent continues to grow, not all of them are innovative or high growth. However, CIM's experience investing in African marketplace, as well as insights from Marketplace CEOs and investor, reveal four strategic thrusts that can inform investment in high growth marketplaces.

- **Access to large markets:** In Africa, you cannot build a unicorn in all marketplaces so it's important to understand the markets that require local solutions. Marketplaces tend to thrive better in large economies therefore collaboration and expansion to access larger and global-scale markets is paramount for the development of successful marketplaces.
- **Foundational rail:** Investors in marketplaces should analyze the products offerings by marketplaces. Special attention should be paid to products that enable companies to leverage their intuitions to create new products i.e., data and distributions. Marketplaces should also display the flexibility to adjust to customer's tastes and preferences at all times; respond to the changing needs of customers; and have deliberate focus on customer experience and retention, i.e., repeat and satisfied customers
- **System thinking approach:** Building in context of the entire ecosystem with full knowledge of the complex and diverse nature of stakeholders involved is important. One of the

biggest challenges to doing business in Africa is the inconsistency in the regulatory and policy environment. Therefore, it is highly beneficial for marketplaces to build strong and meaningful relationships with regulators so that they can anticipate policy changes and adapt quickly. Marketplaces should also have the facilities to enhance a distributed system vs centralized one and innovate on financing, payment and logistics infrastructure.

- **Liquidity generation:** Liquidity is very critical for the efficient functioning of marketplaces. Therefore, high-growth market places need to have business models which can consistently match buyers and sellers on their platforms, and consistently fulfil arising demand.

Once these high-growth marketplaces, investments in them should be thorough, rigorous and systematic including the following five steps.

- **Research:** There should be teams committed to researching prospective deal and proposals submitted from different sources. Typically, investors are bombarded with tens of proposal, and without careful research, it would be difficult to accurately identify the high-growth marketplaces worthy of investments.
- **Marketplace selection, sourcing and due diligence:** Investors should perform due diligence and determine if the prospective company fits within its criteria, e.g., business, tax and legal. Also, depending on the values and priorities of the investor, it is important to assess if the marketplace meets its criteria for impact.
- **Investment approval and decision:** The findings from the due diligence process should be presented to an investment committee that has the responsibility to execute the final decision. Upon completion of this process, the identified company should fulfil any outstanding conditions.
- **Asset management:** Investments do not end at the disbursement of funds but involves working closely with the marketplace to ensure high performance. This includes their delivery across a range of relevant criteria including the achievement of milestones, development impact and ESG performance.
- **Asset sale or exit:** Once both parties, i.e., investors and marketplaces achieve the financial and developmental goals they set out in a given timeframe, the next step entails defining a clear rationale for exit and a discussion of how the impact can still be sustained.