The Futures of Financing African Small Businesses

by

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Dedication

To Brahim Benjelloun-Touimi,

who accompanied me on my first journey exploring the futures of African businesses,

and

To Virginia Joann MacArthur,

who accompanies me through all my journeys trying to make our world a better place.

Acknowledgments

My journey began in small town America, and I am grateful to my father, Charles W. Bartlett III, who taught me the basics of operating small businesses, which are the backbone of America's economy.

As a young adult, I enjoyed a consulting career at Accenture in the financial services sector where I am grateful to Steve Shane and Joan King who helped me learn both the business of banking and the leadership skills of large-scale transformation. At mid-life, I fell in love with Morocco and journeyed to Africa. For 10 years, I focused on philanthropy and am grateful to Bob Lupton whose coaching and book *Toxic Charity* - plus my own charitable failures in North Africa - started me on the journey of finding better options than charity to support Africa's growth.

My journey coincided with President Barak Obama's Global Entrepreneurship Summit whose fifth annual event was hosted by Morocco in 2014 and inspired BMCE Bank of Africa to extravagantly grant $1M a year to African entrepreneurs. I am grateful to the bold leadership of BMCE Bank of Africa's President Othman Benjelloun, Director General Brahim Benjelloun-Touimi, General Secretary Houda Sbihi, Director of Sustainability Soraya Sebti and Manager of Investor Relations Mohamed El Aoufi for allowing me to lead their teams on the five-year journey across all African economic zones mentoring thousands of African entrepreneurs to create jobs and improve lives.

In recent years my journey took a new turn into academia and I am grateful to Dr. Mary Grace Neville, Dean of the School of Business at the Al Akhawayn University, who shared my enthusiasm for entrepreneurship and challenged me to do more than teach from my experience, but to devote time to research that would amplify my corporate experiences. I am grateful to Dr.

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This thesis was made possible by my parents, Joann and Charles William Bartlett III, my soulmate Allan B. MacArthur whose ideas are always invaluable, and my friend, Guinevere M. McWhorter, who is an exceptional editor. Both Allan and Guinevere accompanied me on my first Moroccan journey of philanthropy and my recent pan-African journey meeting the women and men of Africa who are launching and scaling businesses to create jobs and improve lives.

My final acknowledgement goes to the thousands of African small business owners who mentor others to launch and grow businesses. You generously give your time and talent to this continent’s future, and I sincerely want to help you create the futures of African business.

ABSTRACT

Africa's small businesses are a driving force for growth, inclusivity and innovation across Africa. However, they lack access to financing which is called the credit-getting gap. This thesis identifies plausible futures for financing African small businesses to close this credit-getting gap to strengthen both economic and job growth across Africa. This thesis maps the weight of Africa's history and narratives that act as barriers to access credit. It then continues to the push of Africa's present players and digital innovations into the future; then shares the pull of a vision where Africa achieves its future as a world economic power.

The research method is the University of Houston's Framework Foresight method. The timeframe is 10 years, 2021-2030. The approach maps four future scenarios that should be considered by actors such as Bank of Africa who influences the futures of financing as both a strong legacy and most likely actor to write the future economic history of Africa. The key recommendations are presented in three options: ***1. Study and See*** the futures to reduce the risk by observing rather than acting; ***2. Sell and Leave*** the African financing markets because the disintermediation is imminent; or ***3. Diplomatically Broker the Future*** of financing across Africa by bringing together the stakeholders to collaborate on stronger, future methods for financing African small businesses.

Keywords: Africa, financing, MSME, access, foresight

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Chapter 1. INTRODUCTION

This thesis researches the futures of African small business' access to financing to enable growth beyond 50 employees. Access to financing is important because small businesses in Africa have not been growing commensurate with the funding provided which is impacting the economic maturity and livelihoods of Africans. Prior research has focused on barriers to small business growth such as financial education, political barriers such as corruption and social barriers such as gender inequality. This thesis researches the historical access to finance, the current trends and players, and forecasts plausible futures of access to financing.

The thesis is divided into four sections: first, an introduction to the definitions used and context of the African Micro, Small and Medium enterprises (MSME) sector. The second section explains the framework foresight used in the research and conclusions to understand the drivers, uncertainties, archetypes and impacts of plausible scenarios for financing African MSMEs. The third section examines the trends, issues, plans and current conditions of legacy and alternative financing that enable sustained growth contrasted with the failures to sustain growth in Africa's MSME sector since 2010. The fourth section provides four plausible future scenarios on both 10-year and 20-year horizons for financing African MSMEs to fuel Africa's economic growth. The thesis concludes with options and recommendations including future research topics.

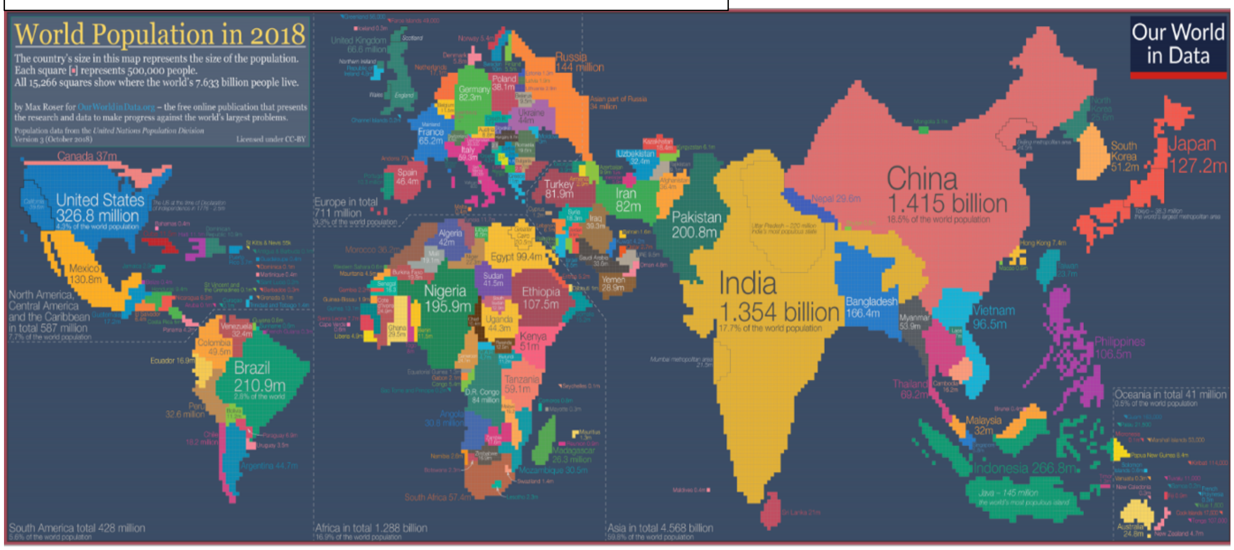
AFRICA

First, a brief summary of the African continent focuses on the key factors relevant to this research. Today the African continent consists of 54 countries covering 20% of the land space in the world, second only to Asia, and housing 18% of the world's population.

Figure 1 shows Africa sized proportionate to population with the rest of the world in 2018. Africa trails China and India but is far larger than North or South America or Europe (Roser, 2018).

However, the continent's GDP is a measly 0.4% of the world. Of the 54 countries in Africa, their average GDP per capita (2019: nominal) is $1,970, which ranks between Bangladesh and Syria. GDP per capita ranges widely from a high of $17,000 in Seychelles (more than Hungary)

Figure 1. The world map shown on scale with population size (Roser, 2018)



down to $260 in Burundi, the lowest ranked country globally in 2019 ("AFDB Socio Economic Database, 1960-2021 - Africa Information Highway Portal," 2020).

The most promising African economic statistic is that the 2016-2018 GDP growth of Africa is significantly stronger than developed countries. Africa's GDP is growing 4.5% annually which is much stronger than the developed continents of North America at 2.4% and the European Union at 1.4%. (European Parliament, 2016, pp. 3–24).

Figure 2. Depiction of how many countries fit on Africa's continent (Insite/Out, 2020)

Beyond the economic numbers, consider the sheer size of Africa. Figure 2 depicts how the USA lower 48 fit in the Sahara Desert, China fits in central and Southern Africa with Japan in southern Africa, India is the equivalent of East Africa and Europe fills in the rest (Inside / Out, 2020).

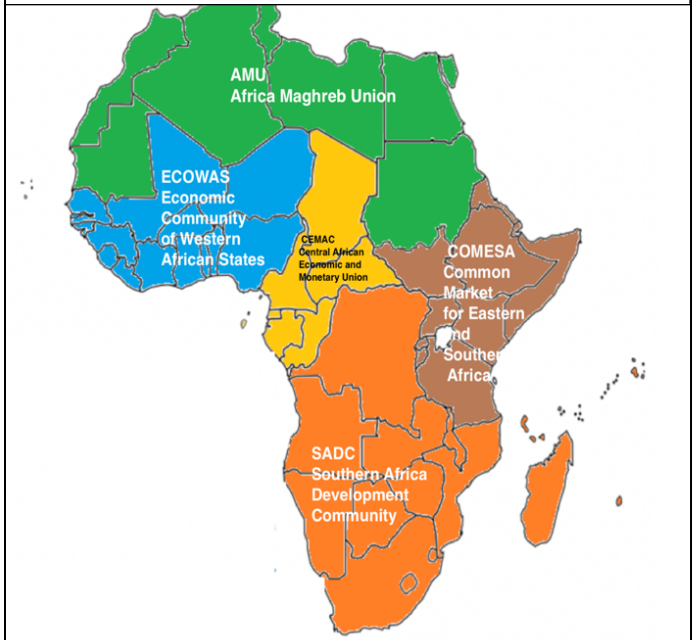
Despite its size, Africa's future economic potential is far different than its current reality. Often considered the world's final frontier, Africa's economic future will significantly impact the world's economic strength because of its sheer size and resources.

ECONOMIC ZONES

Africa's 54 countries are grouped into economic zones as part of their evolution from single-state nations to trading partners. Historically, they share geographic proximity, colonial heritage and often languages. Economically, they are seeking to strengthen their economies and trade by forming trading blocs to increase their competitiveness and market share. Logistically, they offer visa-free travel between them for citizens and for some foreigners such as East Africa which allows one visa to visit several countries. Financially, some are planning a common currency. West Africa is current planning a common franc between them.

Many countries belong to multiple economic zones. For the sake of simplicity, this author accepts the five economic zones (see Figure 3) recognized by the Banque Moroccan Commerce Exterior (Tahri-Joutei, 2017) with statistics from 2018:

Figure 3. Africa's Five Economic Zones (Tahri-Joutie, 2017)



- AMU (Africa Maghreb Union) includes 7 countries in North Africa from Morocco to Sudan with a low GDP of $377B but the continent's largest geographic country: Algeria.
- ECOWAS (Economic Community of West African States) includes 16 countries in West Africa with a GDP contribution of $669B, of which 66% comes from Nigeria, the largest populated country in Africa.
- CEMAC (Central African Economic and Monetary Community) includes 6 countries in francophone central Africa with the lowest GDP of $145B and smallest population of 37 million people, or 0.3% of the continent's total.
- COMESA (Common Market for Eastern and Southern Africa) covers anglophone east Africa and includes 19 countries with a GDP of $840B and the largest population of 390 million people.
- SADC (Southern African Development Community) includes 16 countries in southern and central Africa and boasts the largest GDP of $721B of which 51% is from South Africa.

("AFDB Socio Economic Database, 1960-2021 - Africa Information Highway Portal")

Africa currently has very different economic regions just as the American continent does. North Africa is historically studied as the MENA (Middle East and North Africa) due to its Islamic roots and distance from SSA (Sub-Saharan Africa). This leads to a mentality that the north is more European and Arab than African with many comments being made by Moroccans, Tunisians, and Egyptians “I’ve never been to Africa.” The six islands are geographically assigned to Africa but share distinctive differences and often say “We are not really Africa.” The six lusophone (Portuguese speaking) countries do not share the English, French or Arabic languages and their residents say, “We are not really Africa.” When you visit South Africa, residents often say “We are not really Africa.” These observations result in a bigger question: “Who is Africa, then?” This author accepts the vast diversity of Africa’s landscape and prefers to research the continent as an economic whole, while acknowledging that Africa’s futures will vary by region and their financing futures will likewise vary.

MICRO, SMALL AND MEDIUM ENTERPRISES (MSMEs)

Africa’s GDP strength depends on each of these economic zones growing their MSME output, employment, and contribution to economies. MSMEs are defined differently around the continent and the world. For this research, the definition that represents the most common range is from the Kenyan Central Bank: 2-50 employees with \$20,000 – \$1.2M in annual revenue (Calice et al., 2012).

As of September 2019, African MSMEs represent 90% of companies in Africa and create some 60% of jobs in the formal sector. In terms of wealth creation, this large number of African MSMEs generate a paltry 40% of the Gross Domestic Product (GDP) of African countries (Khimdjee, 2019, p. 3).

The large percentage of MSMEs also reflect the great disparities between formal and informal sectors across Africa. The informal sector does not record employees to social benefits, pay taxes, or even have traditional bank accounts. They are truly mom-n-pop shops that are the backbone of many economies. However, these African MSMEs have not grown their small businesses into major GDP contributors in the formal sector as other developed countries have developed their small businesses. For this thesis, the informal sector is not analyzed due to the lack of consistent or verifiable data. Instead, if organizations recognize the MSME, such as community savings and loans, then they are included in this research. African MSMEs are the driving force behind a number of innovations, they contribute to the growth of national economies through investments and exports, and they generate a large share of new jobs in an economy (Diabate et al., 2019).

The MSME business sector is of interest to policy makers not only because of the important role it plays in the economy, but also because of the avenue to advancement that MSME business ownership represents for upward mobility, economic security and racial equality
(Raynard and Forstater, 2002).

Despite their significant growth in numbers and job creation, African MSMEs have not grown their sizes to a significant GDP input nor to increase the middle class substantially over a 10-year period (Clemente, 2018). Various social, technological, environmental, economic and political (STEEP) factors affect small business growth in Africa. This research will focus on the economic factor of financing because Africa has the highest proportion of under-financed MSMEs in the world at just 52% (Picchiottino, 2019). Another way to say it is that the financing gap is $100 billion for Africa’s formal MSMEs, which are locally registered and paying taxes (Upadhyay and Mante, 2020). This is critical because the MSME businesses' success is largely dependent on access to financing for both capital expenditures and working capital. The research includes a review of the STEEP changes in Africa which affected MSME's access to finance and are projected to affect access to finance.

THE MISSING MIDDLE LITANY

The 'missing middle' is a litany often discussed by academics and development agencies, but little research has been completed so that is why it is termed a 'litany.' The widely accepted definition is the African missing middle is the gap between the many informal microenterprises and the large public and private companies. MSMEs would be the gap-filler. The missing middle in Africa has been the focus of multiple studies because the GDP contribution by MSMEs has not grown compared to other developing regions (Berg and Fuchs, 2017). Akinkugbe and Wohlmuth sought to answer: "How severe is the 'missing middle' phenomenon in Africa?" They write:

> The research reflects a huge gap in entrepreneurial activities between the informal sector microenterprises and the large formal sector enterprises, just as there is a huge credit-granting gap between the microfinance institutions at the low end and the big commercial/merchant banks (and recently established venture capital financing institutions) at the high end in most of the African countries. The relatively weak growth and sustainability records of SMEs and the hierarchical nature of the economic sectors and firms in Africa are resulting from this state of affairs. (2016)

Over the last 10 years, the missing middle also refers to the major gap that remains despite an emergence of empowered African middle classes. Research hypothesizes that if the emerging middle class in Africa can overcome these gaps by financing the growth of MSMEs, then job creation will grow on the continent. So, the missing middle is more than MSMEs, it is missing middle class households and economies of African countries. There is a chicken-and-egg relationship between growing Africa's middle class and sustaining MSMEs to maintain 50+ employees and $1M+ in revenue (Hambayi, 2019).

In addition, Africa has a significant gap in investable capital targeted for funding MSMEs relative to all other regions, so this author extends the definition of missing middle to include access to capital, middle class households and MSMEs.

FINANCING ORGANIZATIONS

Access to financing for both capital acquisition and working capital is critical to the success of MSMEs. Much of this financing takes the form of credit extended by commercial banks and non-bank lenders (Deiana and Minsat, 2017).

This section briefly defines the major actors across Africa's lending landscape who offer MSMEs both debt and equity financing including but not limited to payments financing, lines of credit, inventory lending, receivables lending, and short-term loans for capital and operating expenses.

Private Lenders

The first major actors are the privately-owned commercial, retail and microfinance banks who comprise the largest number of lending entities in Africa. Over 500 banks exist on the continent, but they offer less than 1-5% of their portfolios to MSMEs with no increasing trends. This is in contrast to Organisation for Economic Co-operation and Development (OECD)'s 37 member countries where bank lending portfolios range from 20%-60% for MSMEs. For the African MSMEs, only 10% win loans from legacy banks (Picchiottino, 2019).

Development Finance Institutions

The second major actors are Development Finance Institutions (DFI) who are predominantly publicly funded organizations that makes direct investments through equity, debt, or guarantees with the explicit goal to achieve social and/or environmental impacts with a modest financial return (Global Impact Investing Network, 2016).

Domestic and international actors offer financing related to infrastructure and humanitarian businesses ranging from USD $50,000 to over $50M. The major lenders in Africa are the African Development Bank (ADB), European Bank for Reconstruction and Development (EBRD), International Finance Corp (IFC, part of the World Bank), Commonwealth Development Corp (CDC, the UK's DFI), Deutsche Investitions- und Entwicklungsgesellschaft (DEG, Germany's DFI), and Agence Française de Développement Group (France's DFI). The DFI's charters follow their country's government goals, but are primarily motivated by development, seeking investments in markets where others struggle to invest. The DFI's total financing contribution to the African landscape has not been documented nor has their success rate in growing MSMEs over an extended period of time.

Award Grants

The third set of actors are entrepreneurship award grants who are sponsored by African and international groups offering from $500 to $150,000 grants to motivate and sustain small business growth. These combination competition and educational events have doubled in size over the last six years with the largest two being the Tony Elumelu Entrepreneurship Program based in Nigeria and the BMCE Bank of Africa's $1M African Entrepreneurship Award based in Morocco. Their total cash financing contribution to the African landscape exceeds $6M in the last six years. The BMCE Bank of Africa's grants to 44 businesses have a 95% success rate as measured by the businesses are still in operation and meeting original targets or reasonably proxy pivots (McWhorter, 2018).

FinTechs

The fourth set of actors are FinTech companies who are the fastest growing with the broadest reach. For example, FinTech M-Shwari in Kenya has disbursed 25 million loans through phones to MSMEs who do not have bank accounts and need access to operating capital. FinTech Lidya in Nigeria has made 2,500 loans to MSMEs through their online, free cash management service. Loans range from $150-$50,000 and are provided in 24 hours based on having direct access to the MSME's transaction flows. FinTech Musoni in East Africa is a mobile technology microfinance organization that leverages the M-Pesa digital money network and has distributed over 200,000 loans to 90,000 MSMEs since 2016. The total volume of African FinTechs financing transactions is not documented (Vizcarra et al., 2013).

Peer to Peer

The last group are the peer to peer (P2P) financing models which include crowdfunding, telecoms, angel investment groups and cooperative savings and loan groups. These groups are often referred to as alternative financing because they are alternatives to institutionally regulated and colonial-era financing. The following definitions give context to their importance. The newest P2P alternative is crowdfunding which began in 2012. Crowdfunding provides debt and equity financing through online platforms that allow individuals to find and invest P2P, online, in a business of their choice. For African startups, crowdfunding has doubled annually since 2012 with 100 platforms existing today in Africa with the vast majority focused on financing a specific economic zone and a measly 10% on pan-African projects, which reinforces the economic zone mentality of the continent (Boum, 2015).

In contrast, angel investment groups have existed since 1984 in South Africa and are social networks who invest individually or as a group in start-ups. Today, angel networks have expanded beyond South Africa into 22 countries and include over 300 investors. Investment levels range from $5,000 to $1,000,000 usually to get the prototype to market, before the MSME is eligible for bank financing. The goal is to have a successful exit, which is defined as selling the company or receiving stock by listing the company on a national stock exchange. As of 2018, no angel group has reported a successful exit, which means the investment-return model is not yet mature (ABAN, 2017). To date, African angels are motivated more by philanthropy than by liquidity exits.

The third type of P2P lending is the cooperative savings and loans groups who provide financing to neighborhoods, tribes and villages in a loosely structured, cooperative, family-style pooled credit union model. As of 2009, 13 African countries regulated these cooperative savings and loans with the largest being in Kenya and Ethiopia. In Kenya, the Savings and Credit Associations (SACCOS) first existed in the early 1900's. In 2010, Kenyan SACCOS came under regulation; and in 2018, over 11,000 registered SACCOS with 8 million members held $2.5 billion in savings. This ranks SACCOS in the top five "banks" in Kenya based on deposits (Allen and Staehle, 2007). "We grew up with SAACOS. You would never go to a (Kenyan) bank that charges you 25% interest and demands your home as collateral. You go to your neighborhood, who is an extension of your family, and all small businesses start and grow this way," explained Marshal Luusa, a businessman and entrepreneur in Kenya (2018).

Another version of cooperatives is the Village Saving and Loans Associations (VSLAs) in Uganda. Created by CARE in the 1990's, VLSAs offer financing to the rural poor by creating groups of people who can pool their savings through the Accumulated Savings and Credit Association (ASCA) model. The main focus is on rural workers, especially women. Their lending model includes members depositing into a common pool, averaging less than $1 per day, and borrowing from it, averaging $20 per person. The major results are the inclusion and growth of women-funded businesses (Karlan et al., 2012) Brian Karonda, a Bank of Africa driver, explains, “My mother lives in the rural Kumi region and uses her VLSA to pay for her nieces’ education and to pay for cows because she is a farmer. She does not have a bank account and would not ever consider walking into a bank, even though her son works for a bank!” (2017).

The last P2P actor is an unlikely financial services entrant - telecommunications. SafariCom launched the mobile money phenomena in Africa in 2007 with M-Pesa which now leads the world in mobile money transactions. Today, M-Pesa is used from huts to high rises and from teens to grandparents to buy everything from chickens to cars. M-Pesa advertising is ubiquitous in many African cities. In 2019, 200 million mobile money users made 25 billion mobile money transactions in Africa, accounting for 64% of all transactions made worldwide (O’Dea, 2020).

These financing actors are as diverse as the economic zones of Africa. Just like economic zones range from developed to developing, from healthy GDPs like EU countries down to the lowest in the world, so do the financing actors ranges from large and traditional to small and agile, from legacy paper products based on European protocols, to innovative digital solutions based on rural business needs. The access ranges from walk-ins to traditional brick-n-mortar bank branches to fast mobile money on dumb-phones to full transparency of business transactions on smart-phones.

Given the weight of African economies and their missing middle, the push to alternative financing, plus the massive pull of MSMEs to grow businesses, what are the plausible futures for financing African MSMEs? To answer that, the Framework Foresight method, first published by the University of Houston in 2013, is applied to develop plausible future scenarios of financing African MSMEs and explore implications to Bank of Africa.

Chapter 2. FRAMEWORK FORESIGHT

Framework Foresight is defined as "A method for carrying out foresight projects developed at the University of Houston. The method is a systematic way to develop 'start-to-finish' future view of a … topic… to explore its implications" (Hines, 2015. The Framework's modular approach uses templates for capturing quality information about the future. Each step feeds the next in a logical flow to develop practical, tangible outcomes and recommendations for clients. There are six main steps or activities in futures research (Hines, 2020). Those six activities are illustrated in figure 4 with the corresponding deliverables of each step in the column on the right (Hines, "Evolution of Framework Foresight," 2020).

Each step requires a template for easy use by student, practitioner/consultants and client/beneficiaries. Step 1, Framing, defines the scope of the research and was completed based on

Figure 4. Framework Foresight's six steps and eight templates used in research (Hines, 2020)

Step	*Templates*
Framing	1. Domain description 2. Current assessment
Scanning	3. Scanning and inputs 4. Drivers
Forecasting	5. Baselines and alternative futures
Visioning	6. Implications analysis
Planning	7. Options and strategic approach
Acting	8. Indicators

the author's personal understanding of the domain, concurrent with a literature review that broadened the actors and understanding of recent research. The literature review was organized along the frame domain and was updated regularly when new information or insights were gained during the literature review. Also, during Framing, a current assessment is conducted on the domain actors and includes a historical context using the same time frame as the futures research. For example, the futures scope looks forward 10-years, then the historical context looks back 10 years. The research focuses on major milestones or events of the last 10 years that affect the domain actors.

Step 2, Scanning, was conducted over a period of eight months and included scanning news releases, journal research, and conferences for the trends and activities of the actors in the domain. These information sources are summarized looking for the themes which are called drivers. These drivers of change are created through a process of both analytics and interpretation. The templates assist with documenting each step and require reflection and an attitude of "so what?" and "what if" to transform the data into drivers.

Step 3, Forecasting, begins with the archetypes used by futurists and the drivers to identify distinctive forecasts for the future. Archetypes enable understandable categorization of futures and the four most commonly used are in this thesis: Baseline, Collapse, New Equilibrium and Transformation. Forecasting is not a financial activity that assumes classic optimistic, pessimistic and realistic scenarios. Instead, forecasting begins with the drivers from the previous step, examines them under STEEP categories across the actors, then adds additional lens analyses such as Causal Layered Analysis and Spiral Dynamics to reduce internal bias the researcher brings to the analysis. Finally, the forecasts are communicated in narrative format that illustrates the future in a compelling way that enables the reader to grasp the significant differences of each future archetype.

Step 4, Visioning, is defined as creating a vision for the futures and is relevant to specific clients. A vision comes with a perspective or context of current role. For example, the visioning step with Bank of Africa assumes their current perspective and role in Africa MSME financing. This step enables the client to understand the implications of the future visions on their current reality. The tool used for this step is named the third order impact analysis because it takes the significant and provocative implications of each scenario and poses the question "what would happen then?". The analysis documents "what would happen then?" for each change impact, so that the client can understand the implications of a change resulting from a future scenario. The most significant implications are then passed to the client for planning.

Step 5, Planning, is defined as creating options for managing the future scenarios. A fundamental belief of futurists is that there are many plausible futures, so plan ahead for multiple, plausible futures. The planning step enables the client to see options for what role or activities could benefit the company in light of these plausible futures.

This research followed all steps with the exception of Acting which included preferred future which requires direct client interaction. The completed templates are available upon request.

Chapter 3. RESEARCH INCLUDING LITERATURE REVIEW

Step 1 - FRAMING

The research begins with framing the issue: African MSMEs access to financing to enable growth beyond 50 employees in a 5-year time frame. The frame uses a domain description, illustrated in figure 5 with a domain map which is a visual of the categories used in the scanning and research. The placement of the

Figure 5. Domain map framing the scope and key issue of the research

ovals is significant showing both major actors and inter-relationships. For example, the main category is Financing African Small Businesses surrounded by the sub-categories of the actors and environment affecting financing. The domain map is designed with an intentional left side which are the traditional legacy lenders for the last 10 years: private lenders, DFIs, and award grants. The right side has the smaller but accelerating lenders: FinTechs and P2P. Supporting the domain at the bottom is a STEEP analysis to determine the social, technological, environmental, economic and political facts that are affecting MSME financing. The key issue focuses on a 10-year horizon, 2021-2030 and seeks to answer: "What enables African startup businesses to grow beyond 50 employees in 5 years?" The bottom right corner lists the topics out of scope for this thesis due to lack of research data available (e.g., informal economy) or lack of credible data available (e.g., government stimulus programs).

The next step in answering that question is to briefly assess the current environment and recent history of the small business finance domain.

HISTORY and CURRENT ASSESSMENT

Before launching into the future, we look to recent history to get a sense of continuity and change within the domain. Therefore, the history will be contained to a 10-year review of the significant milestones leading to 2020.

Looking back to 2010, a significant milestone was achieved in Africa when mobile money accounts in Africa caught up with the number of bank account holders. Specifically, 86 million registered Africans legitimatized mobile money accounts for payments compared to 70 million bank account holders (Triki and Faye, 2013). This milestone was significant because it changed the dialogue from "How can the unbanked become bankable?" to "How much more financing can we do without banks and just our phones?" Like a flood of water that can't flow into a narrow pipe, African consumers flooded to M-Pesa because it was not a narrow pipe that prohibited most from having access to banking by requiring unreasonable identity requirements, balances and fees. Instead, mobile money, primarily M-Pesa, aligned with the flow of consumer needs and bypassed traditional financial institutions who had previously maintained the barriers to access of finances.

Figure 6. The Economist magazine announcing the theme of Africa's Rising (Economist, 2011)

The next year, in 2011, the *Africa Rising* narrative was coined by the Economist magazine and society's view of Africa began changing from a continent doomed to misery to a continent of possibility ("Africa Rising").

This was significant for the diaspora, the investment community, and even the mindsets of Africans to shift from the century-old narrative of a war-torn, poverty-stricken, drought-plagued continent to an optimistic narrative backed with facts about political stability, technological advancements and economic potential of the world's second largest continent.

In 2012, crowdfunding platforms debuted in both Africa and the USA helping fund and grow businesses through rewards and equity crowdfunding. This event accelerated the era of P2P financing by enabling online access to small investments ($1,000 - $50,000) by both African-resident investors and the African-diaspora (Team, 2020). The online access technology leapt over traditional, institutional investor financing by enabling individuals to quickly evaluate and decide if they would fund small amounts as either charity or equity based on individual preferences, not onerous corporate underwriting policies.

In 2014, Africa's GDP growth caught the world's attention when it exceeded both the USA and EU by significant margins. Africa's 4.5% growth beats the USA which averages 2-3% and the EU at 1-2% (European Parliament. Directorate-General for Parliamentary Research Services and Zamfir 3–24, 2016). If the Africa Rising narrative was considered more fantasy than fact, these GDP figures confirmed the continent was rising above its colonial roots. In fact, the next year Private Equity (PE) investors penetrated the African market at a record 13%, which was equal to the same amounts they were investing in Brazil and Japan, and just below China at 14% (Traversone, 2018). This put Africa on the map for PE funds and changed the narrative from "developing" markets to "growth" market for PE firms.

In 2015, the African Business Angel Network (ABAN) formed to coordinate the broad array of angel social networks and increase the volume and size of deals. Today, ABAN has over 80 members from 22 countries, but only 4 of the 80 are South African which demonstrates it is not representative of the continent's angel network (ABAN, 2017). The ABAN angels represent mainly West Africa and North Africa because that is where the leadership is from (Nigeria, Cameroon, Egypt). This north and west regional focus strengthens the weaker markets where angel investing has been under-represented, basically outside of South Africa.

In 2016, Africa hit another milestone with 1 billion SIM cards in use, four times more than the USA's 250,000 mobile phone users. In addition, Africa passed \$60B in mobile money transactions, through 140 mobile money services in 39 countries (*Blockchain Technology in Africa*, 2017). Africa's mobile money volume was three times the USA's mobile money transactions and second only to China. This demonstrated that the purchasing power and demand for financial services along with burgeoning technological capabilities was catapulting Africa toward China's territory.

In 2018, microfinance organizations became recognized actors in the financing landscape when they came under national banking laws in all East African countries ("Tanzanian Government Releases Microfinance Bill," 2020). Their ability to be agile and provide alternative financing was diminished as the majority of them were acquired by major banks. This is important because it could become a trend for other small, agile actors to be acquired by the legacy players and the economy loses alternatives. During this decade, DFI's focus began to migrate from funding not-for-profit entities to funding for-profit social businesses. This coincided with the global increase in 'social entrepreneurship' defined as individuals that engage in entrepreneurial activities with social objectives and impact investing (Visser, 2020). The DFI's began funding businesses who could link their core activity with social objectives like food distribution companies linked to food security or manufacturing of female sanitary products linked to girls' education (McWhorter, 2018). For example, in the Southern Economic zone, the DFI investments for 2014 were over 600 deals totaling $16 billion or $26M average per deal (Global Impact Investing Network, 2016).

The current state of MSME access to financing in Africa can be categorized by four dimensions: *Lenders-Light, Lenders-Lately, Livelihoods-Large and Localities-Largest.* This category scheme was chosen because the lenders are major stakeholders but have historically had a light contribution to the MSME's financing needs and their trends lately must be examined. The other schemes reflect the STEEP categories that impact MSMEs.

Lenders-Light

African lenders are light on financing MSME needs. MSMEs suffer from a financing shortfall of USD $190 billion from the traditional banking sector (IFC Enterprise Finance Gap

Database, 2017). The banks only provide about 20% of the needs due to high interest rates, an average of 14% with a high of 35% compared to just 10% in developed countries. Collateral requirements average 110% of the loan amount. African MSMEs are 30% less likely to obtain bank loans than larger enterprises (Beck and Cull, 2014). Why are commercial and retail banks not lending? One answer came from the head of commercial and retail banking at BMCE Bank of Africa, Mr. Adil Lahbichi, who has also coached 100’s of startups across Africa and has a degree in entrepreneurship. He states:

> MSMEs need operating cash more than anything. Banks just can’t provide that from our balance sheets. Remember, the money on our balance sheets is not our money. We are entrusted to hold one person’s money and make our business model by lending it to another. But if we lend to risky startups, we risk losing other people’s money. The only way we can lend to MSMEs is to work in partnership with governments, DFI’s and other guarantee organizations. With guarantees, we can risk it. But without guarantees, we are risking other people’s money. (Lahbichi, 2017)

Venture capitalists (VC’s) invested a scant 1% in Africa in 2017 and chose to invest seven times more in India (Figure 7), which has the same population and GDP as Africa (Intelligence, 2020).

Figure 7. Africa’s ranking in venture capital volumes (Intelligence, 2020)

Venture capital in Africa: a nascent sector with a bright future

In 2017, African venture capital operations only represented 1% of transactions completed throughout the world and 0.6% of total investment in the sector.

Geographic region	Number of deals	% of total	Total value (US$ million)
United States	5,104	39%	69.2
China	1,736	13%	47.0
Asia (excluding China) and India	1,078	8%	19.4
Europe	3,772	29%	26.9
India	827	6%	7.4
Israel	253	2%	2.2
Africa	128	1%	0.6

Source: Partech Ventures, 2018; Preqin, Global Venture Capital Deal, Avril 2017.

The DFIs are light in their effect on financing MSMEs to grow their businesses. Instead, their humanitarian and central government agendas often impede the growth of MSMEs. For example, the DFIs are migrating away from purely social objectives into a blended social entrepreneur program. This is significant because it removed the motivation to generate profits for return on investment replacing it with a dependency model (Vir, 2020).

With DFI funding, the typology of NGOs is shown in figure 8 with the green arrow: NGOs start at the top with high social goals and no profit objectives and descend to hybrid-social enterprise then to a profit-oriented enterprise with strong social goals, but a profit-oriented enterprise (Niels and Jonathan, 2010).

Figure 8. Typology of NGO's (Niels and Jonathan, 2010)

- Traditional NGOs, in which high levels of social and environmental goals are set and where profit is not an objective;
- Not-for-profit social enterprises, where the same principles as above apply, but also where innovation is a key driving factor;
- Hybrid social enterprises, with high levels of social and environmental goals, and where income and profit are incorporated into the task (or mission);
- Profit-oriented social enterprises, with an unqualified income strategy in addition to significant levels of environmental and social goals; and
- Socially committed enterprises, without strong social and environmental goals.

The reverse typology using the red arrow was also observed during this period of social entrepreneurship. Startups who were at the bottom with an enterprise would be incented by DFI financing to move up to be a social enterprise with an unqualified income strategy. This breaks the motivation to grow the business. An example is Jokko$anté, a Senegalese online subscription service launched with strong social and environmental goals related to accessing medicines and reducing waste. However, after two years in operation, they were motivated to move up this typology with offers of DFI funding who wanted to support the access to medicine by subsidizing the business model and making the income irrelevant and expense management irrelevant because the DFI was migrating it to an NGO model (Lahbichi, 2017).

Lenders-Latest

The latest lenders coming to the landscape are alternative financing programs which are growing at an annual rate of greater than 115%. In 2016, they financed $180M in reward-based crowdfunding, equity-based crowdfunding and online P2P microfinance. (Ziegler et al., 2020)

FinTechs are capturing the world's imagination and investments and in Africa they exceed 400 entities with 25% of the total FinTechs in the world. (see Figure 9). Most FinTechs provide tools that help manage business activities and thus provide direct access to key performance information such as fleet or sales or supply chain volumes to determine creditworthiness. Using online, real-time transparent tools cuts out the middleman underwriter and enables the FinTech to quickly and accurately assess the need and risk. One example is Lidya in Kenya who provides free, online accessible invoice management tools and access is shared with Lidya. Lidya can observe the invoicing activity and make credit decisions within 24 hours and even collects repayments directly from the buyer, taking over a major financing hurdle from the MSME (Shah, 2020).

Figure 9. List of FinTechs in Africa by country and type (Shah, 2020)

Country	Payments	Lending	Remittance	Investech	Insurtech	BlockChain/ CryptoCurrency	Specialised
Algeria	TPAY		WorldRemit		DabaDoc	Binary.com	mubawab
Egypt	Fawry	capiter	DAYRA	thndr	Hood	yellow	MoneyFellows
Ethiopia	EthioPay	BelCash	paga	jamiipay	PULA	atala	YERAS GEBEYA
Ghana	MTN	carbon	Zeepay	invest mobile	WorldCover	BitPesa	agrocenta
Kenya	M-PESA	kiva	SimbaPay	[ABACUS]	bismart	Bitsoko	FarmDrive
Lesotho	Cassava	Smartel Money	Mukuru			SpectroCoin	
Mozambique	QUICK-E-PAY	GetBucks	Mukuru	Socremo	ASKARI	PAXFUL	ROBOBO
Nigeria	Interswitch	FairMoney	SureRemit	piggyvest	AutoGenius	kobocoin	farmcrowdy
Rwanda	mobicash	airteltigo	mergims	save	RADIANT	coinbase	ozuri
Senegal	Orange Money	matontine	Wafacash	matontine	PlaNet Finance	CoinAfrique	LEMONWAY
South Africa	SnapScan	JUMO	hellopaisa	EasyEquities	LUMKANI	sunexchange	MORTGAGE MARKET
Tanzania	MaxMalipo	TALA	Sendwave	halOyako	Jamii	humaniq	A-TRADER
Uganda	cellulant	NUMIDA	remit	ensibuuko	BIMA	BINANCE	awamo
Zambia	ZAZU	MFinance	SureRemit	KwikFin	Hollard.	Bitcoin	VITALITE
Zimbabwe	EcoCash	GetBucks	Sasai	BAOBAB	Cassova	BITMARI	Hillsphere

<u>Livelihoods-Large</u>

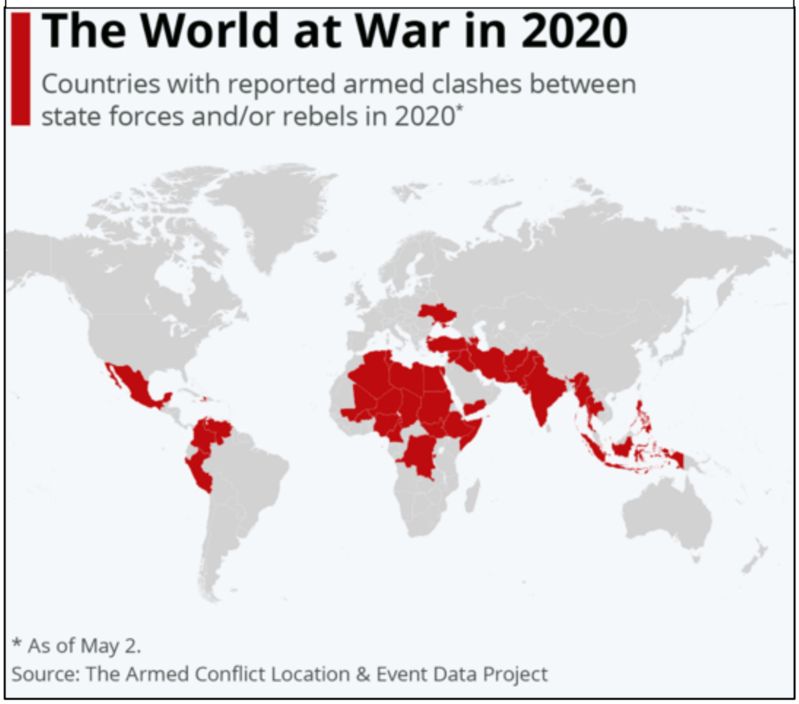
MSMEs provide the majority of livelihoods in Africa and are responsible for future job creation, creating over 60% of the new jobs across Africa. However, 70% of MSMEs fail in their first year (Fatoki, 2014). This failure cuts the pipeline of consistent job creation and creates a cascading negative impact on the local economies. The research is varied on reasons for MSME failures, ranging from lack of electricity or financing, and to lack of financial literacy. In a recent study, Khimdjee discovered a new finding: African entrepreneurs disproportionately do not grow their businesses because they sell the business to a larger corporation or they close the business when offered employment by the corporation. This phenomenon exists because the small business owner's goal is not to build a business to create jobs, create value, and grow assets. Instead, the goal is to sell the start-up to a big corporation within a couple of years of starting, before a healthy exit. A similar goal is to be hired by the larger corporation and brought in-house which is more socially esteemed than being an "entrepreneur" and is a reality of the slim talent pool in many African regions (Khimdjee, 2019).

Localities-Largest

The African locality is one of the largest impacts on MSME's access to financing. Starting with the population demographic, current conditions reflect Africa's growth rate of 25% a decade to 1.2B today, the same as the country of India. Looking at the technological environment, Africa's 75% mobile phone penetration clearly exceeds the worldwide average of 52% which indicates greater access and mobility. Looking at the economic factors, the GDP has expanded to $2.6 trillion ("AFDB Socio Economic Database, 1960-2021 - Africa Information Highway Portal," 2020).

Politically, Africa is half-way to elected democracies with peaceful transitions. Prior to 2012, only 20% of the political transitions to democratic leaders succeeded with 44 of the 51 attempted democratic elections failed. Since 2015, over 50% of the political transitions succeeded with 32 peaceful transitions. However, today Africa has 8 wars raging, accounting for 20% of all wars. This oddly correlates to Africa also having 20% of the world's land mass but Figure 10 shows that it is still the "hot spot" for wars in the world. ("Armed Conflict Location & Event Data Project," 2020)

Figure 10. World map showing conflict or war zones (Armed Conflict Project, 2020)



STAKEHOLDERS

Five stakeholder groups were selected to provide key insights into MSMEs in Africa. These five were chosen based on the litany of African entrepreneurs working across the five economic zones summarizing their beliefs on entities offering financing to their startups. These include:

<u>1 – Lenders: Corporate Banks in Africa:</u>

Banks are important because they historically are the major lender for business financing. However, their share in MSME financing is shrinking while MSMEs are the single largest growth sector. Corporate banks risk disintermediation from a market they have dominated for 40+ years. If their volume of loans shrinks, their margins from lending revenue to small businesses will shrink and their business models will be at risk of failure.

2 - Lenders: FinTechs in Africa:

FinTechs are important because they are providing online, digital financing – unlike all other lenders. Their share in MSME financing is growing the fastest across all sectors and 4 of the 5 economic zones (not North Africa). Their future stake is significant because their business model depends on high volumes of loans to offset their low margins.

3 – Lenders: Development Finance Institutions (DFIs) in Africa

DFIs are important because they continue to expand their financing portfolios and are well-aligned with the next 10 years' priorities which include the United Nations' Sustainable Development Goals.

4 – Grantors and Investors through Awards in Africa

The Tony Elumelu Entrepreneurship Foundation (TEEP) and the African Entrepreneurship Award (AEA) powered by BMCE Bank of Africa both grant significantly and seek to invest in MSMEs in the future. African foundations grant or invest seed money through regional and pan-African competitions and awards. These stakeholders are important because they provide gap-financing between family/friend startup money and mature institutional investing. They also motivate risk-taking and MSME growth by sponsoring energetic mentoring programs and inspirational ceremonies that give confidence and networking to the next generation of entrepreneurs who will impact the future MSME landscape. For these foundations and awards, their stake is creating a customer relationship early in an entrepreneur/business' life cycle, so they can secure lifetime customer value and revenue.

5 – Lenders: Private Institutions/Venture Capitalists (VCs) not in Africa

Venture capitalists are important because they offer the larger seed money needed for manufacturing and distribution. Their stake in Africa is to provide higher returns on investment because the entry costs and investment levels are lower than the saturated North American, European and Asian markets.

Step 2 – SCANNING

Inputs

The inputs are specific types of information about the future; for example, the trends, issues, and plans from stakeholders and projections from stakeholders or others that impact the subjects on the domain map and are a continuation of the current assessment findings. The trends are ten-year views of where the stakeholder, activity or STEEP category has moved so we can identify future trajectories. The issues are dilemmas or conflicts that are found in literature or surmised by the author that will occur and impact the future scenarios. The plans are publicly stated intentions or programs by key stakeholders or influencers. Each of these inputs will be presented with its significance to the future scenarios.

Trends

The major trends presented here are grouped by domain category:

<u>1- Lenders: The Credit Gap Continues</u>

First, the lack of access to bank's finance holds steady from 2010-2017 with an average of 10% of MSMEs receiving financing from family and friends, and only 10% from banks (Upadhyay and Mante, 2020). Likewise, banks' lending portfolios have not increased with MSME's loans but instead hold steady from 1-5% from 2010-2017 with no increasing trends. This is in contrast to banks' lending portfolios in OECD countries which increased from 20 to 60% in the same time period. The trend continues that the banking sector underperforms in the MSME sector. Oddly, the banks as a whole have jumped on the entrepreneurship bandwagon and create new products marketed to MSMEs or subgroups such as women, renewables, and all things green. But the reality is that these new product offerings are not making a difference in the funding gap. "Banks operate in a parallel universe," explains Parminder Vir, former director of TEEP, bringing the image from the television series *Fringe* where two universes have similar ecosystems but how they respond to them are different causing very different results (2020). Two factors reduce the effectiveness of new product offerings by lenders: first, the demand continues to grow at a rate faster than the supply. Even if banks are offering more financing due to government guarantees, the demand by the MSMEs is growing at a similar or faster rate to the 10% average holds. Second, the programs are designed more for marketing purposes and brand-improvement in a region. Specifically, the new programs are not designed to meet the needs of MSMEs, instead they are designed to attract new institutional investors by portraying a strategy of environmental sustainability, social entrepreneurship and financial inclusiveness.

2- Awards! Free Money – At a Price

Second, the access to award grant programs for African startups has doubled from 2014-2020 from 20 to 40 with cash grant prizes (Odinaka, 2019). Although the $1M African Entrepreneurship Award retired after four years, the Tony Elumelu Entrepreneurship Program (TEEP) continues to expand each year with a focus on providing $5,000 of seed capital to 1,000 "M's" in MSME, the micro businesses at the bottom of the pyramid. However, after five successful years, TEEP crossed the line from private grants funded by founder Tony Elumelu over to DFIs and comingled their financing for the startup investments (Vir, 2020). The implication of this is that DFIs are joining with private groups to finance award grants focused on the bottom of the pyramid. In addition, a new player, the US Embassy, has entered the grant prize game with a program called Open Startup for college students. The pilot launched in Tunisia and rolls out next in Morocco in 2020. The objective is to help college students create businesses rather than flood the public sector seeking jobs or flood the streets as unemployed. The US Embassy hopes to expand the award and mentoring programs throughout the continent by 2025 (Ghozzi, 2020).

The trend for award grants through competitions continues to increase. This trend has two unhealthy side effects: first, it promotes the lifestyle of "contestepreneurs" (contest + entrepreneur). This slang term from an African small business owner and award judge was coined for an entrepreneur who perpetually enters contests, earns small grants, and creates a lifestyle of competitions instead of creating a company (Meredith, 2015). Contestepreneurs are a common phenomenon among African competitions, especially those focused on key performance indicators (KPIs) of having all 54 countries participate because their brand is pan-African. Imagine a scenario where there is more award money than qualified recipients in countries akin to the Central African Republic. Or imagine the KPI of inclusivity with a special interest group like women in the Maghreb. To reach these KPIs, award programs seek out women to receive grants. So, one young woman brings a good idea and often wins several awards in sequence which shifts her lifestyle to finding and applying for contests. She begins a cycle of continuously presenting her ideas but never launching the business or growing her products/services or employees beyond the initial stages. Instead of being an entrepreneur, launching and growing a small business that contributes to her country's GDP, she has adopted the lifestyle of a perpetual award recipient.

The second, unhealthy side effect is the "poster-boy" effect. Imagine a young man from Rwanda who starts a business amidst the backdrop of national genocide and has grown it in spite of great personal adversity. His story and his presence show well on a stage and is adopted by the foreign award groups, often the US Embassy, to go on the speaking circuit to motivate others. The unhealthy side-effect is that he is taken out of his nascent small business – which still needs him to improve his products/services, expand his customer offerings, build his back-office strength, create more jobs – and made a poster boy for a program. (MacArthur, personal observation, Global Entrepreneurship Summit Silicon Valley 2016 and Rwanda business leader forum, 2017). Effectively, the very goal the award programs seek to achieve – launching and scaling businesses – is neutered. Both unhealthy side-effects create a dependency model of small business owners on grant funds. The trend is that small business owners' time, talent and energy is diverted away from growing their small business and channeled into marketing to sell their story - even if the story has no chapters.

3- FinTechs: Growing Up

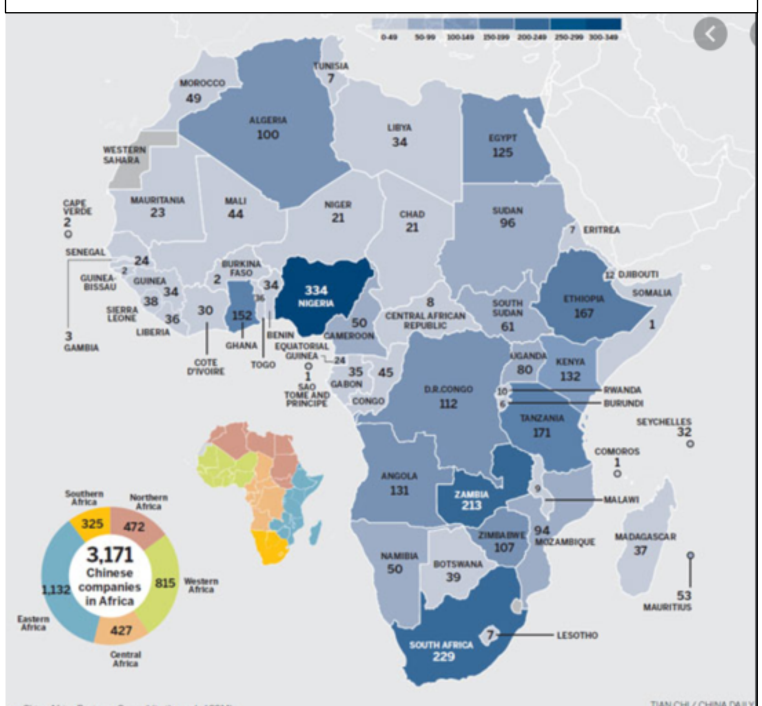
The third trend is access to loans from FinTechs which has increased 44% in the last seven years with additional players joining from all regions of Africa. M-Shwari in Kenya leads the 400 FinTechs in Africa by disbursing $4 billion in loans through mobile lending and saving services (Njugunah, 2019). Outside of Africa, the Ant Group FinTech in China currently offers loans to 1 billion Chinese entrepreneurs online by using access to their business flows as the underwriting analyses. The Ant Group originally launched as the payments service on Alibaba and is handling about $16 trillion a year in payments, which is 25 times larger than Paypal/Paystack, the nearest competitor (The Economist, 2020). The Ant Group's November initial public offering (IPO) on the Shanghai stock exchange was delayed by Chinese regulators, but a plausible scenario is The Ant Group expanding outside of China, whether an IPO or joint venture (JV).

Figure 10. Chinese construction site in Ethiopia (MacArthur personal archives, 2016)

As of 2014, McKinsey reports that China had over 10,000 companies operating in Africa, mainly in East Africa and Nigeria, yet the same year the China Daily shows only 3000 companies in Figure 11 (Jayaram et al., 2017)

The expanding presence of the Chinese is evident in Africa, particularly at large construction and trade sites (Figure 12). So, a Chinese, or Chinese JV FinTech, will be a natural next step for African MSMEs to access financing.

Figure 11. Africa map showing Chinese companies' locations (Jayaram et al., 2017)



4- DFI's Big Not Bigger

The next trend is DFIs focus and volumes. The DFI trended towards a reduction in financing across Africa from 2016-2018. DFIs financed \$87B worldwide but reduced their financing to a nominal 11% of their total or \$10B in Africa with 140 funds in 2018. (Runde and Milner, 2019).

The cause and significance are difficult to summarize due to the nature of DFIs being they reflect their government's agendas. But following that guidance, European countries that support the DFIs are experiencing local economic crises, so the trend will continue to shrink for Africa due to availability or will be re-allocated to joint ventures such as the TEEP joint venture to add financing to existing national programs.

5- P2P-Crowds Online

The next trend is crowdfunding for start-ups in Africa which has doubled annually since launching in 2012 and changed the mindset of the diaspora from donations to investments (Chao et al., 2020).

Crowdfunding platforms grew from 57 to 100 from 2015 to 2020 and financing grew to over $200M in 2018 (Jonas, 2017). This trend signals a strong cultural fit with African MSME's access to financing. Chao explains:

> The (African) crowdfunding phenomenon is congruent with the traditional communal reciprocity culture of African individuals. Crowdfunding is a modern form of credit associations in the African context, where individuals invest in the businesses of others. Interestingly, the tradition of credit associations and other forms of microfinancing (delivered in diverse formats) have existed in many African cultures for decades. Crowdfunding is congruent with a community and tribal mindset which translates to online platforms with the majority of the P2P lending happening between the African diaspora … which perceives few barriers to such investments. (2020)

The African diaspora is defined as African-origin citizens living outside the African continent but contribute to the development and building of Africa. The number has grown 40% since 2013 and is now estimated at 200 million people (Kajunju, 2013). Individuals in the diaspora view crowdfunding as removing information and technical barriers enabling them to focus their hearts on their countries of origin. More importantly, it allows a shift from donations to investments for the diaspora who has followed the 2000's Africa litany of Africa is poor needing your charity but prefers to follow the 2020 mindset that Africa is full of potential needing investment.

6-Free Trade Opens Pipeline

The next major trend is the African Continent Free Trade Agreement (AfCFTA) which received ratification from the 54 countries of the African Union (AU) in 2019 and was scheduled to be launched in July 2020 but was delayed due to Covid-19 (Ighobor, 2020). The AfCFTA will change the game for MSMEs by allowing free trade, currency, and intra-African, and intra-regional movement of goods. Just as the European Union enabled European countries to negotiate and trade more profitably, so the AfCFTA will enable the AU to become the trade powerhouse that it is destined to be. On an interesting sidenote, the delay in launching was not due to trade safety, but to negotiation safety. Negotiations with each country have historically been face to face (f2f), in 4 languages (English, French, Arabic and Portuguese), and highly confidential. The global pandemic and containment shifted conversations to online, virtual platforms. This shift stymied the negotiations which places trust in f2f meetings and in paper documents, not digital documents. The global pandemic and looming economic crises will move the cultural norm of f2f and paper into acceptance of digital documents and virtual meetings between national leaders.

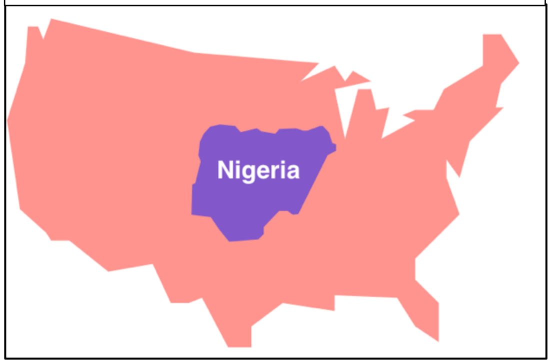
<u>7-Population, Economies and Tech</u>

Table 1. Population by Region 1950-2030 (Hertog and Cohen, 2015)

TOTAL POPULATION BY REGION	1950	2017	2030*
World	2,536	7,550	8,551
Africa	229	1,256	1,704
Asia	1,404	4,504	4,947
China	554	1,410	1,441
India	**376**	**1,339**	**1,513**

The final trends are from the STEEP analysis: social, technological and economic. For social, Africa's population continues to be the youngest and fastest growing in the world with 14% of the world's population in 2010 and 16% in 2020. Africa will exceed both India and China by 2030 (see Table 1) (Hertog and Cohen, 2015). Half of the 10 fastest growing countries in the world are African countries (Nigeria, DRC, Ethiopia, Tanzania and Uganda). Africa's largest populated country, Nigeria, will exceed the USA population by 2050, even though the USA is almost 9 times the size of Nigeria (Adegoke, 2017). Imagine moving the entire USA population in the five central states of Oklahoma, Kansas, Nebraska, Iowa and Missouri!

Figure 13. Map of Nigeria overlaying Map of USA (Adegoke, 2017)



This social demographic trend means the pipeline of MSMEs will continue to expand and be responsible for job creation as more youth pump through and the public sector is unable to employ them and European countries are unwilling to accept them.

The economic trend is best seen in the GDP remaining stronger than the world average from 2010-2015 and is projected to keep increasing. Africa has 5 the top 10 fastest growing economies in the world: Ethiopia, Tanzania, Rwanda, South Sudan, and Benin (Bajpaj, 2020).

For the technology trends, the major players are internet adoption and digital money regulations. The technology adoption in Africa continues to increase five-fold a decade with 523 million internet users in 2019 (O'Dea, 2020). Likewise, digital money is being accepted as evidenced by national regulations increasing from 2 countries allowing digital money in 2014 to 14 countries in 2017 encouraging digital payments and digital loans (Stolp et al., 2018). This represents 26% of the continent with a trend that other countries will quickly follow as they have convened study groups to analyze not if but when and how they will regulate digital currencies. This is significant because it signals that MSMEs will be accessing a new and different financial market than legacy banks and national currencies.

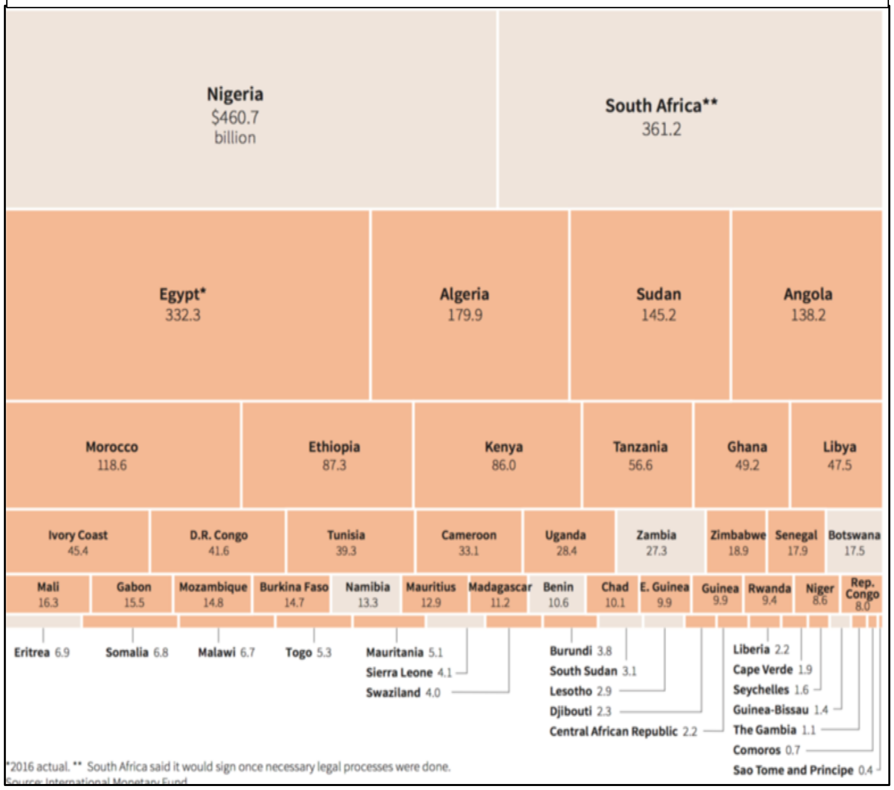
Issues

The trends were analyzed to identify controversies, dilemmas and choices not yet made by stakeholders that affect the futures of financing African MSMEs. The issues are presented in question format:

1. Will the African Continental Free Trade Agreement (AfCFTA) only benefit South Africa, Nigeria and Egypt because they are 50%+ of Africa's GDP? (See Figure 14) Or will it be a win-win for all MSMEs? How will the island economies fare who are cumulatively less than 1% of the continental GDP?

2. Will the disparate African regulatory environments discourage pan-African FinTechs from supporting start-ups because regulations vary greatly among AU countries and regions? (United Nations, 2018)

Figure 14. African Countries GDP 2018 Estimate: (colors not relevant) (Akeyewale, 2018)



3. Will unpredictable national politics prevent pan-African start-ups from growing due excessive taxation or corruption choking their life by local governments? (United Nations, 2018)

4. Can African startups thrive in countries considered high terrorist-risk by the USA and subsequently the majority of international lenders? (Hamacher, 2020)

5. Can African small businesses access the electrical energy required to operate because less than half of the 54 African countries have electrification rates surpassing 20%? (United Nations, 2017)

Plans and Projections

Three major plans and three projections were published in 2020 by Standard Bank, UBA, the World Bank, and The Ant Group that could affect the future financing for MSMEs.

Plans--

1. Legacy Banks Join FinTechs

The largest bank in Africa, Standard Bank, announced an online bundled solution with Mastercard and Google that allows MSMEs a plug-and-play e-commerce store builder, connected to an instant online checkout plus free Google Ads of R500 or USD$32 (Standard Bank, 2020); This is significant because it is the continent's first example of a traditional banking institution offering FinTech-like products to MSMEs. With this technology, Standard Bank can view sales volumes which is what FinTechs often have done and enables better lending. So, although this solution is not a lending plan, it is predicted to be a precursor.

2. Lenders intend to use more digital products tied to MSMEs needs.

In October 2018, the IFC announced:

> "Digital finance is the future so we must expand and tailor products and services to meet the growing needs of a dynamic continent. Our core product expansion will be UPIA which stands for 'Unsecured Private Immediate Affordable'. This is defined as a combination of micro-loans and no collateral requirement which replaces securitization and meets the customers' needs such as \$20 and \$500 to MSMEs through mobile technology," (Haliday, 2018).

This is significant because it begins the path to securitize loans in a non-collateral format which is critical for MSMEs.

3. African Regulations Ease

The World Bank announced that the AfCFTA will come into effect January 1, 2021, saying:

Africa will become the largest free trade area in the world since the establishment of the World Trade Organization. Its focus is first on easing trade for small and medium-sized enterprises, which account for 90 percent of jobs created on the continent. When it comes into effect, the AfCFTA will remake African economies—and the worlds. The AfCFTA will cover a market of more than 1.2 billion people and up to $3 trillion in combined GDP, with the potential of increasing intra-African trade by over 50 percent, according to the United Nations Economic Commission for Africa. According to the World Bank, meanwhile, the agreement could add $76 billion in income to the rest of the world. This is significant to the future of financing MSMEs because many of the future financing products rely on supply chains and trade across borders, which has been severely limited outside of the Eastern African bloc. With the regulations easing, MSMEs can do more trade therefore get more trade financing. (Kenewendo, 2020)

Projections--

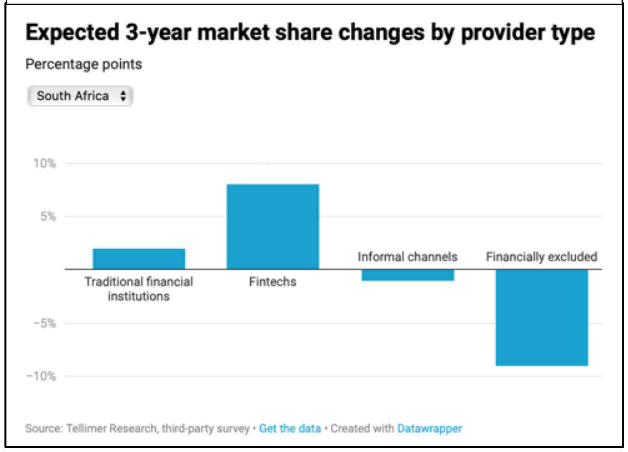
<u>4. African grantors and investors advocate African-based investment financing for MSMEs.</u>

Tony Elumelu, founder of one of the continent's largest grant programs (TEEP) was interviewed by Kim Dozier, TIME, and reiterated the need to empower entrepreneurs to start businesses in Africa during the global pandemic and the need to keep thinking about long term ways to innovate (Cachero, 2020). Elumelu is known for the term "Africapitalism," defined as business development that is not the responsibility of governments, donor countries, and philanthropic organizations alone. The African private sector must be involved in the business of African business development.

<u>5. FinTechs growing faster than traditional lenders and shrinking informal channels.</u>

A three-year projection from 1000 lenders in Africa forecasts that FinTechs will gain market share over traditional financial institutions (see Figure 15). Also, informal channels of finance and the financially excluded will both shrink (Shah, 2020).

Figure 15. Lenders market share projected changes in South Africa (Shah, 2020)



6. Chinese FinTech for 1 billion+ entrepreneurs.

The Chinese FinTech Ant Group which gives over 1 billion Chinese entrepreneurs access to financing using the most integrated FinTech is targeting Africa's 1 billion entrepreneurs. Ant offers a mobile app that is the equivalent of Apple Pay for offline, PayPal for online, Venmo for transfers, Mastercard for credit cards and JPMorgan Chase for consumer finances and iShares for investing plus an insurance brokerage all on one mobile app. Its IPO is estimated to get a market cap in excess of $300 billion, larger than Saudi Aramco's debut in 2019. Ant began as the payments service for Alibaba in China. Today, Ant has established China as the world leader in digital transactions changing the way that people manage their money. Ant was scheduled to IPO on November 5 but was suspended by Chinese regulators with no new date (The Economist, 2020).

DRIVERS

Drivers are a synthesis of research into the key themes of change in the domain and confirmed during stakeholder interviews. Several worldviews emerged from the interviews using the Causal Layered Analysis and Spiral Dynamics frameworks of Inayatullah and Graves, respectfully.

The research approach combined the two frameworks to pose the following question to stakeholders: "What are your beliefs or assumptions about the future of financing MSMEs in Africa?" The first insight came from youth and new entrepreneurs who believe that to grow your business, you must be from the right family or bribe the officials. So, the corruption theme was cited in interviews with those early in their business launch or wanna-be's, not yet launching. This represents the "red" spiral dynamic domain, whose worldview is focused on win/lose and power. Next, the interviews revealed the "blue" worldview of belief in a higher power and order of destiny when talking with existing small business owners in East Africa and North Africa. Their common response was that to get financing, you must accept God's grace and provision, be patient, and accept your destiny may be something different than growing your business.

The next insights came from interviews with angel investors whose worldviews fell into the "orange" view of individual responsibility. Specifically, they believe that to grow your business, you have to persevere through hardships, find mentors, and be stronger, faster and more agile than others. Next, the legacy lenders including banks and DFIs gave feedback in the "green" sector focused on collaboration across agencies, coalitions, working together, and keeping the circular economy and green sustainable financing in the forefront. The next worldview was found primarily in academics interviewed who focused on the big picture and role of MSMEs in the economics and business development of Africa. Their worldview was focused on the narrative of Africa's rising and distancing from the colonialist mindset.

Lastly, the "turquoise" worldview was found when talking with senior, often retired, executives who reflected on the global pandemic and prophesize that the shock of the virus will catapult Africa together and the AU will lead the economy to properly manage natural resources while creating new solutions for old problems like education, health, and energy.

Based on these inputs, the following drivers of the future domain for financing MSMEs and their uncertainties are proposed:

Digital Ecosystems Multiply

The biggest driver is that the digital ecosystems will continue to multiply. If Africa is leapfrogging into the digital era and mobile connectivity creates ecosystems of digital finance products, then legacy barriers like securitization through collateral will die. Instead, information insight will open the door to financing for MSMEs around Africa. This is already being seen in a pilot of digital trade finance between Seychelles and Ireland (Appleby, 2020).

Regional Integration

The second driver is regional integration inside the continent, so the countries become like the EU with no trade restrictions and common currency. The AfCFTA will drive Africa's 1.2 billion people to trade together and compete internationally through collectiveness rather than fragmentation.

FinTechs Erase the Barriers

The third driver is FinTechs erasing the boundaries between business and lenders by granting loans and managing collections inside industries using customer insights. Because FinTechs are reaching MSMEs in greater numbers than banks or VC funding, they will drive financing including a major bump from the Ant Group when it burrows into Africa.

Missing Middle Strengthens

The fourth driver is the missing middle class emerging in markets such as Cape Town, Lagos and Cairo to finance startups through online crowdfunding and regional angel investing. These middle-class populations are investing in more P2P lending across South Africa (Johannesburg, Cape Town and Durban) plus Lagos, Abuja, Luanda, Accra and Nairobi.

Strengths in Numbers both Population and GDP Growth

The fifth driver is population and GDP growth. Africa can no longer be dismissed as economically weak even though they are the economic infant in the world. With their rapidly growing economies and outputs, they will drive economic growth outside their borders.

Growing Older and Wiser

The sixth driver is political stability and maturity. Today, Africa is on par with Latin America and Southeast Asia in terms of stability and maturity. Stable countries mean peace and reduced corruption which, like Maslow's hierarchy of needs, are the required foundation before individuals can move up to a business achieving viable growth.

Chapter 4. RESULTS

Step 3 – FORECASTING: Scenarios

The plausible future scenarios are identified by starting with the six drivers previously discussed and applying them to four archetypes for the future. Archetypes are key patterns of change that futurists have identified over time. The first archetype that futurists apply is Continuation or Baseline. This archetype is defined as present trends and forces within the domain continue without any major disruptions or surprises. The system/domain continues along its current trajectory and assumes that current conditions will continue and is the default for the future.

In contrast, the Collapse archetype assumes that conditions will worsen and is considered the worst-case scenario. The system/topic "breaks" or falls into a state of dysfunction. The established way of doing things no longer works, and there is a decline in the "health" of the system/topic. On the more optimistic end, the New Equilibrium archetype is based on new factors emerging and bringing the domain to a better place than today. The system/topic is confronted with a major challenge to how it has been operating and is forced to adapt and comprise in order to save its basic structure and keep the current system intact.

Lastly, the Transformation archetype is the future of most radical and positive change. It presents a fundamental change to the system/topic where the rules of game are disappearing, and new ways of doing things emerge. See the table in Figure 16 that defines each of the scenarios by

Figure 16. Four strategies aligned to archetypes and plotted across six drivers (MacArthur, 2020)

Drivers >> **FOUR STRATEGIES BY ARCHETYPE**	**Regional Integration:** ***Good-bye Frustrating Africa, Hello Darling Africa*** *AfCFTA fully operational*	**Missing Middle:** ***Do unto others…*** *Middle Class economically contributes to financing*	**FinTechs:** ***Erasing the Barriers*** *FinTechs disintermediate commercial banks and national regulations*	**Digital Ecosystems Multiply:** ***Digital Insights Instead of Collateral*** *Digital finance global standard*	**Population and GDP Growth** ***Phoenix Rising***	**Political Stability** ***Best-in-Show***
Continuation "Baseline" **Africa Stagnant-n-Slow**	Economic zones such as COMESA and ECOWAS continue common visa ad common currency plans	Middle class **grows** in South Africa and Nigeria	FinTechs grow in Kenya, Nigeria, South Africa and commercial banks do JV's to try and catchup	Digital currency and blockchain continue being adopted b1-by-1 by each industry and country	Nigeria and Egypt continue high population growth while Ethiopia stabilizes. GDP growth maintains in South Africa, Nigeria, Egypt, Kenya and Morocco	Democratic elections continue across majority of countries with 50% having peaceful transitions of power.
Collapse **Africa: Oued & Void**	54 countries revert to nationalism, tribal greed and competition between nations	Middle class diminishes as Haves/Have-Nots continue spreading with elites and oligarchs controlling natural resources and BOP expands	FinTechs die off as a fad when Commercial Banks and Regulators kill them	Digital solutions crash and blockchain outlawed by regional despots	Poverty takes over as urban sprawl continues and private sector does not develop employment plunging all economies into lowest GDP's on earth	Autocrats and despots regain control of majority of countries: Boko Haram takes over Nigeria and Sahel. Fraction of countries maintain democratically elected leaders. Russia, China and USA using leaders as puppets
New Equilibrium **Africa: Balanced & Beautiful**	Africa has **five** trading unions/regions (not 1 AU): All 5 economic zones achieve common currency among themselves and open trade.	Middle class grows in largest GDP countries (South Africa, Nigeria, Egypt, Algeria, Angola, Ethiopia, Morocco) taking over leadership by growing MSME's	FinTechs are the go-to for all MSME's financing needs (payments, remittances, loans, customer relations)	Digital money, mobile loans, mobile access, and digital identity are the norm across all countries	Africa's GDP continues to strengthen and the "3 corners" of Africa become gateways to trade for Europe and Asia: South Africa, Egypt, Morocco	Democratic elections are the norm and peaceful transitions of power achieved.
Transformation **Blasian Businesses Leave Behind Borders**	The African Union (AU) is the darling of the world's major trading partners providing majority of food, clean energy and technology needed by China, India, USA.	Middle class becomes majority driving investments, finance, purchasing and polities	Banks become FinTechs. No distinction as all banks consumed by their FinTech JV's/subsidiaries	AU adopts common digital currency, common digital identity management	Africa's GDP exceeds expectations; 10 countries top trading partners to China, India and USA for natural resources and ease of doing business: Nigeria for oil, Angola for oil, South Africa for diamonds, Egypt for agriculture, Ethiopia for transportation, Morocco for manufacturing, Kenya for ICT, DRC for lithium, Rwanda for ICT innovation, Uganda for agribusiness	All border disputes resolved, all leaders democratically elected and AU's 54 countries resemble EU's countries with political stability, democratic elections and standard term limits.

archetype and driver. The scenarios are created by exploring the outcomes of each driver according to the archetype. The outcomes provide the building blocks for crafting the scenarios.

Understandably, reading a table is tedious and the future does not seem tangible. To create plausible scenarios requires vivid storytelling. Future scenarios must capture both our minds as logically plausible and our hearts as intimately desirable. Likewise, future scenarios must paint a picture of how our futures could be without interventions from the stakeholders who invest in the futures. So, storytelling is both exciting and uncomfortable, both invigorating and disgusting. All emotions are intentional to elicit actions from the reader about the futures.

Baseline or Continuation Scenario:

The first scenario is the baseline or continuation. It assumes Africa continues with no significant changes. This scenario is entitled:

Africa Stagnant and Slow

Africa's MSMEs idle as a stagnant stream with no visible progress. Financing for MSMEs remains still among the four players: FinTechs, mobile providers, DFIs and social networks (angels, crowdfunding, community savings/loans). The economies outside of the mobile money tributaries (South Africa, Nigeria, Kenya) do not benefit from digital finance and instead stay stagnant and slow in adoption. Although the middle class in South Africa, Nigeria, and Egypt offer angel financing, corruption remains constant, so deals are abandoned, inhibiting expansion. Looking a little deeper, digital currency continues with its mobile money roots but at a slow pace, not keeping up with the rushing inflows of entrepreneurs seeking startup capital and operating loans to cover collection shortfalls. FinTechs slowly enter more business' value chains and offer digital currency access based on e-commerce sites or taxi businesses or other supply chain options. DFI's investment flows continue in high poverty countries but limit their financing to infrastructure and human development projects. Social networks stay strong in East Africa where VSLAs and SAACOs continue to provide MSMEs the startup and growth capital needed. Banks show no movement due to limitations by central regulatory agencies with risk-averse appetites. A few announce small but safe JV's with FinTechs to offer bundled, digital solutions but these are limited to small pilots and marketing promotions, not operating income. MSMEs flood their economies with failures because they are like a long river fed by a strong tributary (a growing population needing to create jobs) but have no capital to flow. MSMEs seek to flow into the soil and enrich their economies. But their flow is blocked by man-made barriers such as national regulations preventing cross-border trade, financial regulations requiring unacceptable collateral guarantees, social stigmas of failure, demographic barriers such as a missing-middle-class who can mentor and finance growth.

African MSMEs stagnate, like a river unworthy of a name, full of potential but going nowhere. The focal question of this research, growing beyond 50 employees in 5 years, is not realized in this scenario.

Collapse Scenario:

The second scenario is the collapse scenario that assumes our domain actors crash:

Africa: Oued and Void

(in Arabic: وَادِي, definition: empty river)

Africa's MSMEs dry up, like an oued or an arroyo. Financing for MSMEs reverts back to families and friends because the FinTechs are killed by the major banks and their corrupt, regulatory authorities. Economies are devastated when autocrats and despots regain control of the continent and poverty spreads plunging Africa's GDP back into the lowest on the globe. Africa's rising story falls suddenly, and brain-drain leaves the major countries devoid of their talent.

Looking deeper, when Africa's MSMEs dry up, Africa's people and economies are devastated. Digital currency shrinks like a fad. FinTechs are choked off as commercial banks and country regulators sense the threat and stop their expansion. DFI's investment flows are focused only on extremely impoverished countries, but corruption of the political systems diverts most of their flows to the pet projects of the despots. Alternative financing like crowdfunding is viewed as corrupt and lacks participation by a shrinking middle-class who are leaving Africa due to lack of opportunity and fear of a Second Cold War being played out on its land between China, Russia and the USA. Rural social networks like VSLAs and SAACOs continue to provide minimal help to sustenance families while angel networks return to European networks. Darlings such as M-Shwari and M-Pesa are cut back to serving small pockets of Kenyans. Musoni and Lidya go out of business and are viewed as a flash-in-the-pan. Commercial/retail banks drain the financing options for MSMEs, only serving major resource-rich businesses.

The political environment is unstable which decreases the flow of investments from the middle class and increases the “flight” or brain drain of the middle class out of Africa, taking their mentoring and money. The continent heats up as border disputes rise and wars exceed the 20% of their 2020 level.

MSMEs were once seen as the life-giving future for African job creation. Now, they are reduced to family sustenance models – not launching and expanding agricultural businesses, not providing innovative tech businesses, not feeding Africa nor feeding the next generation.

African MSMEs dry up. Like an African drought at Victoria Falls. Once considered the largest waterfall in the world, Victoria Falls (Zambia and Zimbabwe) had great potential to power the continent but now it stands empty and void of potential. The focal question of this research, growing beyond 50 employees in 5 years, is not realized in this scenario.

New Equilibrium Scenario:

The third scenario is the New Equilibrium that assumes our domain actors progress into a new state of strength, and is entitled:

Africa: Balanced and Beautiful

Africa's MSMEs achieve a consistent and balanced growth by accessing a menu of financing options. Pan-African efforts to spread a little financing over a large area morph into strong regional financing efforts that meet specific MSME needs. For example, the North region keeps its French and Islamic roots which benefits from Middle Eastern awards and French DFIs. In contrast, the Eastern Region reaches full digital currency maturity with digital payments, loans, and investments eliminating central banking authority. Financing is managed by FinTechs, telecoms and social networks all accepted by the regulatory authorities of East Africa. In contrast, Southern Africa achieves a balance between the middle-class investors (angels) doing p2p lending, private equity and commercial lenders who implement a blended model of digital solutions in combination with legacy products. The Western and Central regions emerge with crowdfunding and p2p lending.

Going deeper, Africa's MSMEs enjoy a steady flow of funding from a variety of sources. Digital currency thrives in East Africa while crowdfunding and p2p is the winner in West Africa. FinTechs grow steadily in Eastern and Southern Africa as commercial banks and country regulators give them greater latitude. DFIs investment flows are focused on the North and West, mainly with Islamic and francophone countries. Innovators such as M-Shwari and M-Pesa are duplicated throughout Eastern and Southern Africa which have the largest advances in GDP. Commercial/retail banks in North and Southern Africa begin to adopt hybrid solutions that combine digital with legacy products.

The political environment is stable which increases the flow of investments from the middle class and angel investors grow in the three gateway corners of Africa: South Africa, Egypt and Morocco. MSMEs steadily create jobs and can maintain a startup beyond five years reaching

50 employees, expanding agricultural businesses, providing innovative tech businesses, beginning to feed their region and adding value to

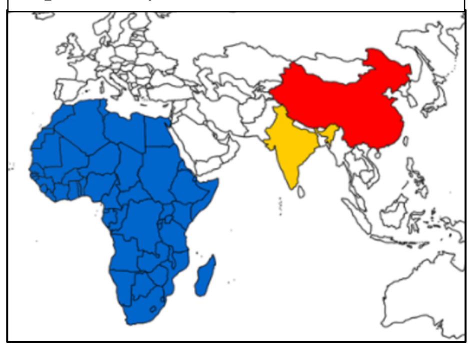
African MSMEs sprout stronger roots in their regional waters. The focal question of this research, growing beyond 50 employees in 5 years, is realized by regions in this scenario. MSME's grow and sustain themselves at 50-100 employees, contributing regionally.

Transformation Scenario:

The fourth scenario is Transformation that assumes our domain transforms into a new reality unlike the old, labeled:

Africa: Blasian Businesses Leave Behind Borders

Figure 17: Map of Africa, India and China



Africa's MSMEs receive the majority of financing from Chinese Fintechs and Indian investors (Figure 17). Ant from China offers the majority of operating capital financing to African MSME's birthing a new generation of Blasian (Black + Asian) businesses. The AU regulations make MSMEs easy trading partners with China and India whose historical capital investments extend from Morocco to Mozambique. African banks seek to transform out of legacy systems, so they follow the Sberbank's (Russia) 2020 model and rebrand themselves to be tech firms with e-commerce products and international trade solutions. The winner of the African financial marketplace platform is FinTechs, social networks and telecom firms all results of mergers or JV's between Africa and Asia, such as: M-Pesa + Ant, Jumia + Alibaba, Paystack + GrabPay.

Going deeper, Africa's MSMEs transform into Blasian Businesses. The Indian Ocean becomes a small pond between the African continent, the Indian sub-continent and China as the three grow their economies and populations into the majority of the world's GDP.

The Chinese and Indians have long invested in Africa, so they enjoy political and cultural acceptance. MSMEs are transformed with Asian finances and can strengthen their startups to maintain and accelerate growth and employee expanding agricultural businesses to feed the largest populations in India and China, providing innovative manufacturing facilities with raw materials and securing a close and hungry trading alliance with the consumers in China and India.

By 2030, Africa's population will be greater than India and China. African MSMEs thrive in international waters, leaving behind borders and expanding into Asia. The focal question of this research, growing beyond 50 employees in 5 years, is exceeded in this scenario. MSME's routinely sustain themselves at 100+ employees based across Africa.

Step 4 - VISIONING - Implications

These four scenarios will create changes that need to be understood from the stakeholders' points of view in order to grasp the "so what" implications. To identify implications, the 3rd Order Impact Analysis tool was used. The 3rd Order Impact Analysis tools begins with identifying the first level (labeled an order) of impact from a given change. Once that is identified, then the impact of that change is then identified and labeled the 2nd order impact. Once that is identified, then the impact of that change is identified and labeled the 3rd order impact. This results in the future impacts being identified for every change. The most efficient approach to evaluate four scenarios is to evaluate the baseline and one of the most extreme scenarios. For this research, Baseline and

Transformation were evaluated for key changes. Here are the two scenarios with 3rd Order Impacts explained:

1. **Continuation (Baseline) Scenario with 3rd Order Impacts:**

Figure 18. First, second and third order impacts of the baseline scenario (MacArthur, 2020)

Driver	Regional Integration: *Good-bye Frustrating Africa, Hello*	Missing Middle: *Do unto others…*	FinTechs: *Erasing the Barriers*	Digital Ecosystems Multiply: *Digital Insights Instead of Collateral*
Continuation "Baseline"	Economic zones such as COMESA and ECOWAS continue common visa and common currency plans	Middle class grows in South Africa and Nigeria	FinTechs grow in Kenya, Nigeria, South Africa and commercial banks do JV's to try and catchup	Digital currency and blockchain continue being adopted 1-by-1 by each industry and country

Figure 19. First, second and third order impacts of the transformation scenario (MacArthur, 2020)

Key changes your scenario suggests for client	One 1st order impact	2nd Order Impacts (for each 1st order impact)	3rd Order Impacts (for each 2nd order impact)
E… a… currencies and banking regulations (vs nationalize)	currencies (e.g. new EcoZones): - ECOWAS-currency - COMESA-currency - UMA-currency - SADC-currency - CEMA-currency	each EcoZone	3B. Risk managers must understand other new 4 EcoZone currency risks
		2B. MSME's activities cross national boundaries and require more supply chain financing	3C. Risk managers require extensive re-training on risk factors across boundaries
			3D. Trade finance policies change
Booming demand for online, flexible financial services meets middle-class' needs to be consumers and investors blurring the B2B, B2C, P2P lines	Legacy products like consumer loans and business lines of credit are merged and blurred into operating and lifestyle products that enable the booming middle class to grow and manage business+lifestyle as one, not separating their households from businesses from investments	2A. The lines between retail and commercial banking blur because the middle-class are both business owners and banks must reorganize around customers' needs not organizational product silos	3A. Banks must re-tool staff to be less technocrats and more relationship managers
			3B. Banks remove standard product offerings and replace with Custom-Tools for customer needs
		2B. Consumers demand online, real-time competitive access to best financing that THEY decide is used for personal consumption, P2P investment or growth	3C. Relationship management diminishes as transactional/price differences are transparent
			3D. Real time access to information is a minimum service to survive
F… t… consumer and business financing		2A. … risk-free compliance mindsets with new, agile, risk-taking mindsets	3A. … and retire Bank staff
		2B. Bank culture kills acquired FinTech	3C. Banks die
B2B, B2C, C2C, P2P payment, remittances and loan transactions are all digital with digital currency	Banks services not required for transacting or guaranteeing	2A. Digital financial transactions owned by telecom carriers	3A. Loan guarantees are based on real time, digital information insights not historical financial strength or asset collateralization
			3B. Telecoms become the financial powerhouses of the globe
		2B. Digital financial products are by **product** authorities, not national Regulators	3C. Largest digital finance provider is Ant/China which brings unique set of regulations not managed by China or one country
			3D. if products are P2P, then regulation goes to each party, not a national/third party

Figure 19. First, second and third order impacts of the transformation scenario (MacArthur, 2020)

Figure 19. First, second and third order impacts of the transformation scenario (MacArthur, 2020)

2. **Transformation Scenario with 3rd Order Impacts:**

Figure 19. First, second and third order impacts of the transformation scenario (MacArthur, 2020)

Figure 19. First, second and third order impacts of the transformation scenario (MacArthur, 2020)

TRANSFORMATION FUTURE SCENARIO: 3rd Order Impacts **Client: Bank of Africa's CEO and President**

Drivers	**Regional Integration:** ***Good-bye Frustrating Africa, Hello Darling Africa*** *AfCFTA fully operational*	**Missing Middle:** ***Do unto others…*** *Middle Class economically contributes to financing*	**FinTechs:** ***Erasing the Barriers*** *FinTechs disintermediate commercial banks and national regulations*	**Digital Ecosystems Multiply:** ***Digital Insights Instead of Collateral*** *Digital finance standardizes global trade replacing 20th century financial instruments including currency and collateral*	**Population and GDP Growth:** ***Phoenix Rising*** *Consumer purchasing power and GDP rank among top in the world*	**Political Stability** ***Best-in-Show*** *Democratic elections and border resolutions become the norm*
Transformation Scenario	The African Union (AU) is the darling of the world's major trading partners providing majority of food, clean energy and technology needed by China, India, USA.	Middle class becomes majority driving investments, finance, purchasing and polities	Banks become FinTechs. No distinction as all banks consumed by their FinTech JV's/subsidiaries	AU adopts common digital currency, common digital identity management	Africa's GDP exceeds expectations, and 10 countries emerge as top trading partners to China, India and USA for both natural resources and ease of doing business	Africa has no wars and democracies adhere to constitutions with peaceful leadership transitions

Three key changes Transformation suggests for client	**One 1st order impact**	**2nd Order Impacts (for each 1st order impact)**	**3rd Order Impacts (for each 2nd order impact)**
#1 Banks rebrand as tech firms offering Fintech and lifestyle services like e-commerce and consulting services	Leading African Banks will compete and rush to acquire the few, best-in-breed FinTechs and lifestyle brands across regions, pan-Africa and Asia	2A. Rushed acquisitions result in bad deals that cause majority of Africa's 300+ banks to fail and close	3A. Majority of African Banks **fire sale** at extremely low prices to Asian buyers
			3B. Top 10 African banks gobble up all 300 other banks to create Continental-Powerhouses (Bank of Africa ranked #10 in 2020)
		2B. Successful acquisitions will create new powerhouses on scale with Google and Alibaba/Ant	3C. New African platform marketplaces emerge that own all MSME financial and consumer relationships from cradle to grave
			3D. African giants acquired by North American and Chinese competitors, so all of Africa lending done through USA and China
Booming demand by India and China for African trade accelerate growth of MSME's	expansion as their finished products such as processed agri-products and clean energy (renewables such as solar and wind and hydro) are in high demand by India and China	Rapid trading requires digital currency and blockchain tracking for security and transparency	used across Africa, China and India
			3B. Transparent logistics reduce losses and corruption on movement between China, India and Africa
		2B. MSME's demand agile trade financing and opex financing relevant to financing logistics needed in these new export routes	3C. African financial services entities compete head-on with Indian and Chinese to provide trade financing
			3D. Logistics carriers such DHL and UPS enter financial services competition offering supply chain financing
#3 Africa's middle class prospers and becomes major investors in MSME	Africa's middle class creates crowdfunding and angel investment services	2A. African diaspora crowdfunding overtakes PE firms by bringing local values and the culture of African tribal communities to lending	3A. DIF's, European PE's and USA VC firms disappear from African landscape
			3B. "Brain-***Gain***" (opposite of brain-drain) rampant as the diaspora returns to Africa to live and invest
		2B. The ***missing***-middle becomes the ***massive***-middle driving markets, similar to the USA baby-boomer generation which drove America's consumer markets and buying habits in the 1970's – 2000's	3C. Better economic and political policies emerge because the middle-class voice is loud in demanding better governance policies
			3D. African MSME's will have higher demand across the AU for their products and services because the consumer purchasing power will compete with India.

The most important and provocative implications are the ones that were not expected or were common across all scenarios. Each will be discussed here in the context of Bank of Africa, one assumed stakeholder. An assumed stakeholder or client is necessary because the change and implications require a context so the futures can be relevant and actionable. The scenarios stay constant across clients, but the implications and recommendations change depending on the role of the actor (e.g., bank vs. fintech vs. angel investor). This research can be applied to other actors, and the results presented next would change based on their context.

Baseline (Continuation) Scenario

In the baseline or continuation scenario, the most important change for Bank of Africa is the economic zones adopting regional currencies and the shift in banking regulations for lending. The implication for banks is that banks will need to adapt to revised regulations set at a regional level not a national level. A provocative change is that MSMEs use the regional currencies to expand their businesses across the region (including national boundaries) using these new regional currencies. The implication for banks is an increased demand in new, innovative supply chain financing management that optimizes the multiple new currencies.

A second important change is the booming demand for online, flexible financial services that meet the middle class's needs to be both consumers and investors, blurring the B2B, B2C and P2P lines. The implication is that banks will need to provide more custom tools for P2P investors and customers to select and customize their financial needs, instead of being constrained by a bank's product portfolio.

A third, provocative change is that FinTechs will begin providing the majority of consumer and business financing with agile mindsets and new paradigms of risk assessment. The implication for banks is that their 20^{th} century culture of compliance and risk management dies.

A fourth important change is that all B2B, B2C, C2C and P2P lending and payments will use digital currency across borders. The implication for Bank of Africa is that their services will not be required for transactions or guaranteeing because the telecom carriers will own this domain. A provocative change in this area is that The Ant Group from China will take over all digital currency for Africa bringing a unique set of regulations and methods from China.

<u>Transformation Scenario</u>

In this scenario, the first important change is that banks will rebrand themselves as tech firms offering FinTech and lifestyle services. The implication is that Bank of Africa will need to acquire the few, best-in-breed FinTechs to maintain their role as a financial services player. The provocative change is that new platforms will emerge across Africa which own all the MSME financial and consumer relationships from cradle to grave, and they may not be related at all to today's legacy banks.

The second important change is that booming demand in India and China for African trade will accelerate the growth of MSMEs. The implication for Bank of Africa is that MSMEs will demand agile trade financing and opex financing relevant to financing logistics needed on these new export routes. The provocative changes are that a common digital currency will be accepted between Africa, China and India resulting in African banks competing head-on with Chinese and Indian banks.

The third important change is that Africa's middle class prospers and becomes a major investor in MSMEs through crowdfunding and angel investment services, similar to USA levels. The important implication for Bank of Africa is that the missing middle becomes the massive middle driving markets, similar to the USA Baby Boomer generation which drove America's consumer markets and buying habits from the 1970's-2000's. The provocative implication is that the diaspora returns to Africa to live and invest creating a "brain-gain" (as opposed to brain-drain) reverse migration phenomenon.

Step 5 – PLANNING

In looking across the implications, five strategic issues were identified that should be planned for by Bank of Africa. Each issue is explained below alongside advice, or a response, recommending how Bank of Africa should plan to position itself in these issues and the future scenarios:

Issue #1 – Maintaining Center Position

How to offer MSMEs the online, real-time competitive access they demand to competitive financing options – from our Balance Sheet *and* from others (P2P)?

Response: ***airFIN at your Fingertips***

This is important because banks sit in the middle of the financing ecosystem. Tomorrow, if banks neglect to integrate the best options from a variety of players, they will be disintermediated as the old dinosaurs. MSMEs demand lifestyle products because their business and personal lives are mixed. They also compare and search for best deals among various players: institutions, DFIs, P2P. Just like individuals search Airbnb to compare lodging for work/play, MSMEs will search AirFIN to compare financing options for life.

Just like Airbnb, banks can become the integrator of financing products: traditional and alternative, B2B, B2C, P2P and provide them on an easy access platform to connect MSME's to lenders. airFIN will be the Airbnb of financing.

Issue #2 – Ants or Lions in Africa?

How to collaborate with Ant Group (China) in the MSME lending and payments space?

Response: ***The Ant of China Transforms into the Lion of Africa***

This is important because Return on Equity (ROE) on payments services is a hefty 20%, which overshadows core banking at a measly 5% ROE. MSMEs flock to digital payment providers such as Paystack-Nigeria (recently acquired by USA's PayPal) and M-Pesa in Kenya/COMESA. Worldwide, the payments business was $2.5trn revenue in 2019 compared with core banking with $3.0trn revenue. Ant Group (formerly Alibaba) leads the world handling $16trn in payments, 25 times greater than PayPal. Helping Ant/China enter the African market will enable BOA to enjoy these fruits. (The Economist, "The Future of Finance: The Digital Surge", 2020).

Ant is too big to compete with head-on. Bank of Africa is the only one with a Chinese presence and relationships with Chinese Regulators, so it can transform the Ant of China into the Lion of Africa.

Issue #3 – Digital Horserace

How to embrace and adopt digital assets such as digital currency and blockchain across Africa and internationally, especially China and India?

Response: ***Bet on Three Digital Horses***

This is important because since Covid-19 created pandemic distancing and quarantines, digital banking has surged. Digital currency has matured in major financial markets and accelerated in major emerging markets like Brazil. In Africa, digital currency is legal in 14 of the 54 African countries. Cross-border trade and financing will evolve to using digital assets. If Africa wants to run the global race, Africa will have to run on a digital horse.

To win this race, the bank must support digital assets even if African countries are slow to adopt CDBC (Central Digital Bank Currency). From a country perspective, Sweden launched the e-Krona in February 2020 and the Bahamas was the first country to have a national cryptocurrency. From an institution perspective, major global players like American Express, Santander (Spain), and SCG (Thailand) use Ripple's blockchain network for real-time, cross-border payments.

However, which "horse will win" is still unknown. So, bet on three of them watching them run across Africa, China and India. And see which one performs to the criteria.

Issue #4 – EcoZone Currencies

How to make loans using EcoZone currencies, instead of national currencies?

Response: Lead (don't follow) creating EcoZone Policies for Lending

This is important because MSMEs will demand more loans than current, national regulations allow. In addition, national economies are currently migrating to five common Economic Zones which will have common currencies requiring new regulations. Bank of Africa has a presence in all five economic zones and can take the lead with policies that benefit both MSMEs and lenders. If Bank of Africa fails to lead, they will lose market share of profitable payments and loan business to FinTechs and new platforms such as telecom SafariCom.

Issue #5 – Supply Chain Financing

What supply chain financing support MSMEs who import/export across economic zones?

Response: Be the first responder with Supply Chain financing, such as Cargo Finance

This is important because banks cannot provide MSMEs the working capital needed based on today's collateral and asset requirements. As MSMEs import/export across ecozones, their extended cash-conversion cycle eliminates working capital. For example, MSMEs must prepay suppliers, but then they need 60 days to collect from customers, so cash is untouchable for an average of 90 days. If banks offer Cargo Finance, basically a business shipment loan, they can offer profitable loans based on MSME's inventory value.

Given these five major issues, Bank of Africa has several options to respond. The next section will outline these conclusions and suggestions.

Chapter 5. KEY FINDINGS

A key finding for Bank of Africa is that in any of the four scenarios there will be a significant shift in financing and regulatory boundaries.

For the financing boundaries, the focus should shift away from southern Africa to southeastern Asia. To continue offering value and staying alive, BOA will need to continue its support of Chinese partners and continue expansion of its Shanghai branch.

For the regulatory boundaries, the implication is that regulatory agencies will become dinosaurs over legacy banks. Financing profits are moving out of banking environments into fintech environments, telecoms, e-commerce sites, social networks. These entities are not regulated by national banks and do not use a national currency.

Imagine that your legacy bank is like a football (soccer) team. Your team acknowledges the legitimacy of FIFA. FIFA regulates your matches, your rules, your playing fields. Then imagine a global pandemic shuts down live games, shuts down player movement, shuts down the business of football. Now, FIFA has nothing to regulate. But you still want to be in the business of sports entertainment. What do you do? Answer: watch the fans. The fans don’t disappear. The fans move to online gaming. The new game in town is online gaming, not regulated by FIFA. What will your role be in the new, online games?

With the sports analogy in mind, BOA can prepare for the future by taking on one of the three positions summarize below as Options to Respond.

Options to Respond

Bank of Africa (BOA) has three options to respond to the futures of Africa Oued and Void, Africa Balanced and Beautiful, and Africa Blasian Businesses Leave Behind Borders:

1. Study and See
2. Sell and Leave
3. Diplomatically Broker the Future

<u>#1 - Study and See</u>

In the first option, BOA would use its strength of analysis and patience of its culture to study trends and players. BOA would launch separate task forces to learn from each other and reduce the risk that one will underperform. The task forces will focus on:

(A) ECOWAS task force because they are furthest along with common currency; and

(B) COMESA task force because they are most nimble at new innovations being home to the mother of digital money: M-Pesa, and

(C) Digital payment providers around the world and their opportunities in Africa, and

(D) FinTech providers around the world and those open for JV or acquisition.

In this role, BOA would draft futures policies and monitor marketplace changes to avoid risk and to be thoughtful in any movement.

#2 - Sell and Leave

In this option, BOA would decide that the legacy banking was their core strength and the future of online, high risk digital currency, regional regulations, and FinTechs do not culturally fit with their risk-adverse, insurance-based culture. BOA would value its assets of pan-African, European and Chinese relationships plus its broad African footprint and sell to the highest bidder, probably an innovative FinTech seeking to expand its market.

#3 - Diplomatically Broker the Future

In this option, BOA takes the opportunity to strengthen and secure its center position in the financial services ecosystem of Africa – therefore the world – by diplomatically brokering the future changes with the major players. Specifically, BOA has strong relationships with the majority of African national banks and their institutional regulators. In addition, BOA is one of the few banks to have a physical presence in China therefore relationships with the Chinese regulators.

Using their Moroccan/French diplomacy roots, BOA should serve as the diplomat taking the lead with the transformation.

In this role of diplomatic broker, BOA would lead the transition to common regional currencies by convening major stakeholders like the various African Central Banks plus digital finance players to identify shared goals and country-specific deal-breakers when migrating to common regional or AU currencies. They would add 2 EU experts who led the transition from France to EU currency and Malta to EU currency to share lessons learned and help create a smoother transition.

In this role as diplomatic broker, BOA would lead the entry of China into Africa by creating a task force of Chinese and Moroccan colleagues, including regulators. They would organize a rigorous technical process to identify assets that Ant will provide based on services. They would also model the relationship process to determine cultural benefits of Ant coming to Africa including its branding: rebrand to African-Lions or continue as Chinese-Ant.

In this role of diplomatic broker, BOA would lead the product innovations around lifestyle platforms and supply chain financing. By demonstrating their deep experience with MSMEs and the ability to bring a variety of FinTechs, VCs, crowdfunding and social communities together, BOA would evolve to be “center of the universe” with a collaborative, community-based platform that meets the needs of Africans. Specific steps include:

1. Create a task force of alternative and traditional finance options: lenders, VC, PE, DFI, awards, crowdfunding, social communities.
2. Convene MSMEs who were denied loans due and/or have working capital issues to identify how their needs could be met in a digitally enhanced world.

3. Analyze the players in this industry in North America and China to learn product mechanics for online, real time financing for supply chain and other industries.
4. Draft product policies for Cargo Finance for African MSMEs working across African EcoZones, with Europe and Asia.
5. Create business models similar to Airbnb with transparent fees for the online offers.
6. Create a task force to study current and projected digital finance players.
7. Identify initial investment limits and create JV's with 3 digital finance providers globally
8. Determine performance metrics and success measures to track for 24 months to determine which digital payments platform to bet on.
9. Design an online platform that accesses members' offers and enables easy MSME viewing and access

The conclusion is that Bank of Africa has three distinct options to respond to the futures of financing MSMEs across Africa.

For African MSMEs financing, the futures do not lie with one lending organization, nor one technology nor one government's oversight. The futures lie on a vast landscape of actors that range from stagnant to swift, from safe to scary, from local to far, far away. The actors can be compared to Africa's major rivers: the Nile, the Niger, the Congo and the Zambezi. They all flow independently serving different needs, but they all flow for Africa's future.

To ride the rivers of the futures requires an actor to anticipate the flows and plan for plausible future scenarios. The futures are not yet written, but how the rivers flow can be anticipated. With anticipation comes a conscious decision to jump in the water and contribute to the MSME growth and flourishing along all the riverbanks in Africa.

Chapter 6. FUTURE STEPS

Based on this research, future research will be conducted along three main axes that could lead to continued understanding of enabling MSME growth through access to financing across Africa:

- Which financing methods result in "most reliable" growth out of dependent models into independence?
- How does the USA's small business growth in the era of 1800's (60 years after independence) inform the AU's small business growth in 2020's (60 years after independence)?
- How does change management inform foresight methods?

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