

African startups can thrive in informal markets

African tech startups can thrive by finding solutions that work for informal markets, yet most are continuing to ignore the opportunities in this space.

By Tom Jackson ^{26 Apr 2017}



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That is according to Jean-Claude Bastos de Morais, founder of the African Innovation Foundation ([AIF](#)), who told Disrupt Africa the continent's informal sector is a "huge white elephant" that must be addressed but continues to be ignored in the race for transformation.

"It is the informal sector that is conducive for needs-based and localised innovation to thrive," said de Morais.

"In Angola for instance, the informal market is estimated to account for 60% of the economy, led largely by its women folk. That's a staggering percentage of the population that must somehow be brought into the fold by narrowing the gap between the formal and informal economy."

For him, the only way to do this is to be creative in introducing new, fast and pervasive ways of learning for the masses. This is where the need for environments that allow creativity and innovation come in.

"For me, this is absolutely vital to enable sustainable, niche enterprises to flourish. I always say that need is the mother of innovation, creativity its father; combined they have the power to create self-sustaining communities," de Morais said.

"We don't need to become mass producers and exporters of this and that. Africa has so much inherent creativity that is unique only to Africa and the informal sector can benefit from it, provided they are supported."

To support this, De Morais launched Fábrica de Sabão, Angola's first innovation hub, built in the middle of the country's largest slum. The goals are to include marginalised communities, drive needs-based innovation and support niche enterprises.

“We have repurposed a bunch of shipping containers and kitted them out with electricity, Wi-Fi connectivity and furniture,” he said. “These spaces are rented out to businesses who are keen to be a part of the ecosystem and so far we have a few companies ranging from venture capital to pharmaceutical and human resources operating out of there.”

Makerspace

Fábrica de Sabão also has a co-working space that students and youth from the community can use, while there is also a popular makerspace.

“I’ve been following the maker movement for some time and believe it has the capacity to create jobs in Africa – unique jobs built on local creativity and flavour,” said De Morais. “At the same time, I didn’t want to limit the hub to being just a makerspace. My vision was for it to be an all-encompassing ecosystem to create, incubate, accelerate and market niche products and services.”

He is no stranger to offering support to young African entrepreneurs, having founded AIF in 2009, with the aim of creating a vehicle to increase the prosperity of Africans by catalysing the spirit of innovation. Since 2012, the foundation has been running the Innovation Prize for Africa ([IPA](#)), which looks to reward and support the best of the continent’s young innovators.

“Innovation is in my blood, Africa is in my blood. I’m equally passionate about both because of the enormous potential I see when I think of innovation in the context of Africa. Ours is a continent unlike any other. In parallel to the challenges we face is ever-present ingenuity,” De Morais said.

Various exciting innovations have emerged from the IPA, such as Cape Town’s nutrient recycling company AgriProtein, which raised US\$11 million in funding after winning the prize in 2013. 2012 winner Professor Mohamed Sanad – from Egypt – created a new in-phone and mobile antennae to help people stay connected, and subsequently signed a contract with Vodafone.

De Morais said the evidence of the last few years was that Africans are capable of coming up with world class innovations that solve African problems.

“Many of these innovations have global relevance too and have been attracting the necessary investments to scale and commercialise. But of course, this is only the tip of the iceberg and there’s scope and need to do much more,” he said.

Investors

All of this means the continent is increasingly attractive to investors.

“African markets represent tremendous and immediate opportunities for investors against a backdrop of uncertainty in many developed economies,” De Morais said.

“There are opportunities for early-stage investments in reverse innovations in healthcare, agriculture and clean energy. Last year, I believe [tech startups in Africa raised US\\$129 million in funding](#). But despite this positive headway, SMEs and startups in Africa have not yet begun to significantly impact economic diversification and job creation at the scale required.”

He compared the continent with Israel, which has a population of eight million but over 6,000 startups and

attracts more venture capital per person than any other country in the world.

“African investors need to get the ball rolling by investing in local startups and making them more viable for foreign investors. This is one way we can catalyse a new generation of African entrepreneurs and secure continent-wide transformation,” said De Morais.

As an early-stage market, African startups need venture capital (VC) money, yet what is available is mostly private equity (PE) money that is channelled towards large-scale investments.

“This mismatch must be understood and accounted for if more African startups are to make it to the big league anytime soon. So I guess you can say that we need a stronger VC ecosystem that is aligned with African innovators and the solutions they are seeking to launch in the market. That’s on the financial side of things, which we all know is one of the main challenges,” De Morais said.

Infrastructure is also key. While some African nations are investing in enabling infrastructure, and some governments are investing in developing innovation ecosystems, others have not done enough.

“When we’re talking about a continent made up of 54 countries, we’ve barely made a mark. There is so much potential, clearly, but on the upside, there is definitely movement in the right direction. There is more capital and increased focus on unlocking local startups, which is creating positive development opportunities for investors who are less risk averse,” said De Morais.

Those opportunities are real, and will only increase in size and number given Africa’s “ridiculously young” population and the continent’s proven ability to leapfrog many aspects of technological evolution.

“I guess you can say we have come of age when technology is so easily accessible, a lot cheaper and more pervasive. I see kids in slums pulling apart computer parts and even 3D machines and assembling them together like it is the most natural thing to do. It’s incredible, really,” said De Morais.

“Africa is a continent that is rife for disruptive innovation because our youthful populations are early adopters of technology and are creating solutions to local challenges that don’t exist anywhere else, but could certainly be exported. They are creating new markets and value networks and spearheading innovation-led growth across the continent, despite the inherent challenges.”

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