



CASE FED WAS THE FIRST MYC4 PROVIDER AND STARTED IN 2006. FED NOW EMPLOYEES AROUND 40 PEOPLE AND MORE THAN 800 LOANS HAS BEEN FACILITATE THROUGH THEM. THE AIM FOR 2008 IS TO PROVIDE LOANS FOR MORE THAN EUR 1 MILLION TO BUSINESSES IN UGANDA.

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The African loan market

The African banking system is the smallest in the world and consequently has very little competition. The governments in many African countries are restricting the entry of foreign banks, thereby creating a monopolistic situation with a lack of distributional capacity and uncompetitive rates. A recent World Bank study¹ concluded that the difficulty of accessing affordable finance is one of the main factors holding back the continent's private sector. The study finds that it is crucial to extend the reach of financial services, payment systems, insurance and credit to a larger share of the population, and that particular challenges are posed by the widely scattered nature of rural populations and the informal nature of much economic activity.

The losers are not the large companies. The amount of finance available for these companies more than meets the need. The losers are the medium-sized (100-250 employees) and small (1-100 employees) businesses, which find it hard to obtain finance. They are often forced to turn to local money lenders and end up being exploited because of non-transparent conditions – a setback not only for the individual entrepreneur but for the development of the region as a whole.

Interest rates up to 280% are not uncommon with local money lenders, but their services are convenient and fast, and they can be extremely flexible when the need for money arises. However, for most small businesses engaging with a local money lender will often result in stagnation and a decline in income because of the unreasonable conditions keeping them trapped in poverty.

Microfinance

For the many micro-businesses, consisting typically of one person, there is an alternative. Africa is experiencing growth in microfinance institutions (MFIs) operating under the assumption that, if these people gain access to credit, they will expand their businesses, stimulate local economic growth and hire their less entrepreneurial neighbours, resulting in fast economic development.

The MFIs offer credit to poor people – usually loans of less than USD 100². These loans are enough for hard-working micro-entrepreneurs to start or expand small businesses such as weaving baskets, raising chickens or buying wholesale products to sell in a market. The microfinance model has showed that, if given the opportunity, the poor are capable of transforming their own lives. The best example is found in Bangladesh, where since 1983 Grameen Bank has provided microcredit to 7.45 million borrowers, enabling the poorest of the poor to lift themselves out of poverty.

1. Making Finance Work for Africa, The World Bank, November 2006

2. First Step Initiative, www.firststepinitiative.org; Paris Microfinance Network, parismfn.org

MFIs exist in many forms – credit unions, commercial banks, and, most often, non-governmental organisations (NGOs). NGOs acting as MFIs face the inherent challenge that they often depend on donors to provide them with their loan capital, which is a non-sustainable situation and leaves them open to charges of practising usury with charitable money. While NGOs have the benefit of being close to the local communities, and as such the people in need of microfinance, a recent analysis of Danish NGOs and microfinance³ concludes that, given the nature of their operations, their role ought to be as promoters rather than providers of these services.

3. Danish NGOs and microfinance by the Project Counselling Service (Projektrådgivningen), May 2007, financed by DANIDA

The dilemma of microfinance

Many MFIs use social collateral in the form of peer groups to ensure loan repayment. Borrowers take out loans in groups, and if a borrower defaults his loan, the entire group is usually penalised and sometimes barred from taking out further loans. This peer pressure encourages borrowers to be highly selective about their peer group members and to repay loans in full and on time. Interest rates of 30-70% to cover the costs of the MFI are not unusual due to the transaction-intensive nature of microfinancing, but nonetheless they are a preferable solution to the excessive interest rates of the local money lenders.

While microcredit has achieved a great deal, especially in urban and near-urban areas, its progress in delivering financial services in less densely populated rural areas has been slow. 84% of Sub-Saharan Africans live in rural areas, and urban-rural income inequalities continue to rise⁴. A study by the UN Department of Economic and Social Affairs (DESA)⁵ concludes that in recent decades African and Latin American countries have had the highest levels of inequality in income. The study concludes that during the economic downturn in the 1980s and 1990s, those at the bottom of the income scale, the most vulnerable, were affected disproportionately. And when national incomes rose, those at the top benefited the most, while the poor saw few gains, if any.

4. Combating inequality in Africa in Africa Renewal, Vol.20 #2 (July 2006), page 16

5. The Inequality Predicament, 2005, the UN Department of Economic and Social Affairs (DESA)

The World Bank⁶ recognises the role that inequalities play in hindering the 2015 Millennium Development Goals (MDGs) and has announced that “equity considerations need to be brought squarely into the centre of both diagnosis and policy”. Likewise, the UK’s Department for International Development has stated that “inequality does matter for achievement of the MDGs”⁷. The inequalities seen in Sub-Saharan Africa are the reason why MYC4 is going to prioritise a rural outreach from 2009 when identifying and selecting business opportunities.

6. The World Bank in the 2006 edition of its annual World Development Report

7. Mr Arjan de Haan, social development adviser with the UK’s Department for International Development, in NEPAD Dialogue, a publication of the New Partnership for Africa’s Development (NEPAD)

Together with its supplier of cocoa beans – the global commodities and financial services group Armajaro – Toms is going to invest directly in the local cocoa bean farmers, helping them to build a sustainable business. In so doing, Toms is not only supporting the local community, but also creating a link to its core business. And the involvement in Ghana will not only optimise Toms’ supply chain, but also enable it to proactively communicate its social involvement in Ghana as part of its internal and external CSR strategy.

Sustainable financing

Whereas charity donations have been one answer to trying to solve the poverty problem in Africa, the mindset behind both microfinance and MYC4 is to create an incentive for individuals to lift themselves out of poverty. This corresponds to the difference between giving a man a fish (and he will come back the day after for another fish) and teaching him to fish (and he will be able to feed himself). The first saves lives and is a necessary service to the poorest of the poor; the latter is a sustainable solution aimed at the many small-scale entrepreneurs and the precondition for creating growth in Africa. MYC4 is not aiming to reach the poorest of the poor.

In the western world, financing institutions are instructed by law to inform their clients about the total cost of credit, expressed as an annual percentage rate (APR). This ensures transparency and serves as a financial version of the McDonald’s index.

In Africa, lenders are not required to inform their customers about the total cost of the credit, leaving the borrowers unable to compare the loans and at great risk of committing themselves to unreasonable payment terms.

As part of the overall goal of removing barriers and securing fair conditions for small businesses in Africa, MYC4 is advocating for the introduction of an APR in Africa to allow the borrower to see the effective interest rate he will be charged.

MYC4

By focusing on the power of business as the driving force to end poverty, MYC4 provides investors with a dynamic platform to create and support new enterprise and commercial innovation in Africa. MYC4 sources financing for the 'unfundable', bringing people together in business deals at the best market price with the Internet acting as a catalyst for change.

MYC4 is striving to become a universal platform that unites capital, people and knowledge in a common pursuit of promoting sustainable businesses in Africa.

The goal of MYC4 is to become the first company in the world to be owned by the world. In essence this would mean 6.6 billion shareholders. By the end of 2008, MYC4 aims to reach 25,000 investors and facilitate investments of EUR 12.5 million in more than 5,000 African businesses.

MYC4 is headquartered in Copenhagen, Denmark, and has an IT development centre in Kampala, Uganda. MYC4 A/S was founded in May 2006 as a joint venture between Mads Kjær, Kjaer Group A/S, and Tim Vang.

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