

JFAC S4 Ep 3: What does sustainable finance have to do with a bag of NikNaks?

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And, um, we asked him, okay, cool Ntando asked him, Okay, cool. What's the real issue? And as he had a conversation with him, he realised he was short of 10, 000 bucks. And really the truth of the matter was like, okay, 10, 000 wasn't a lot of money. Obviously, for him, it was everything at that particular point in time.

And the more we engage with him, we realised actually capital isn't the real issue here. The issue here is that he's not able to meet his working capital cycle.

Ntombini Marrengane: One income can transform a household in communities where every cent counts, financial inclusion. Isn't just about being welcomed into a formal banking [00:01:00] system.

It's about being empowered to build a better future. A small amount of money can make a big difference to entrepreneurs. So why is it getting so difficult?

Ajay Banga YT Clip: Of 7 billion people in the world, close to 2 billion are either underbanked or unbanked in some way. And what I mean by underbanked or unbanked, unbanked is obvious.

They don't have a relationship with the banking institution of any type, of any type. Underbanked is even if they do, they're not getting to participate in the financial mainstream and do things that you and I take for granted, which means being able to access credit when you need it at a reasonable price, being able to access insurance of the type that's relevant to you, being able to do things of that nature, save for a rainy day in the right way.

All that done in a form that's good for you as the consumer.

Ntombini Marrengane: Access to finance in any region is essential if we as a [00:02:00] global community are to achieve the 17 United Nations Sustainable Development Goals, especially those relating to poverty, hunger, health, and gender equity. Having the ability to save after meeting basic needs or access to credit are two factors which are critical to enable investment in businesses, react in emergencies, afford health care, quality education, and participate fully in society.

Necessity is the mother of invention, and this is especially true in the informal economic sector, where innovations emerge that meet users where they are, literally. The story of Mpesa is a good example.

get.Africa YT clip: Mpesa is the world's leading mobile money service. It gives people without traditional bank accounts access to financial services.

Using their phone numbers as account numbers and their mobile phones as mobile wallets, Users are able to make transfers, pay for goods and services, access credits and savings, and much [00:03:00] more. The onboarding process is authenticated through a national identity card, and each transaction is validated via SMS.

M-Pesa users can fund their accounts either through an authorised agent or a bank to M-Pesa top up. Cash withdrawals can also be made through an authorised agent or an ATM.

Ntombini Marrengane: Welcome to season four of the Just For A Change podcast. Powered by the Bertha Center for Social Innovation and Entrepreneurship. I'm your host, Ntombini Marengani. In this new season, we're looking at unexpected connections, surprising overlaps, and unusual alignments in the work being done locally and globally that's moving our societies forward in positive ways.

Innovations like M-Pesa in Kenya work for so many people because traditional banking systems don't. Banks rely on formal documentation like tax filings and income statements. Often require assets for collateral and want to [00:04:00] see a complete credit history. Most commercial banks don't offer bridging finance or capital investment to small and medium sized enterprises, as it is considered too risky, or if they do, the interest is prohibitively high.

This is where sustainable capital steps in, which is especially suited to an African financial market. Later on, I will ask our guest Prince Nwadeyi to explain more. But before we get to that, Let's hear from Phumza Matwele.

Phumza Matwele: My name is Phumza Matwele. I am the director of Eunimike Trading, PTY LTD, known as Shap Left Med Store.

My entrepreneurial journey started about 10 years ago, right from the Raymond Ackerman Academy. My business is aimed to set up over the counter medication pharmacy in local communities around where they are no [00:05:00] access to

basic medications. We have so far delivered the vision to some communities around Cape Town, yet a lot still need to be done in enriching other communities in need of our service.

Ntombini Marrengane: Phumza is the founder of Eunimike Trading, an over the counter pharmacy and healthcare centre in Khayalitsha, Western Cape. After completing business training at the Raymond Ackerman Academy of Entrepreneurial Development, Phumza was able to get finance from the SAB Foundation's Toluna Enterprise Program Alumni Fund.

The fund allows recipients to access support in the form of grants and interest free loans, provided that they meet certain criteria. The aim of this growth fund is to increase participants turnover and create as many new jobs as possible. Phumza shares with us the difference that working capital made in her business and life.

Phumza Matwele: Having the opportunity to be selected [00:06:00] among 60 entrepreneurs from over a thousand application to be supported by the SAB Foundation, it was an open door for me and my business with the fund that I procured from the SAB Foundation. I was able to buy a vehicle for the day to day operations. of the business and set up a new shop, which also gave more opportunity to others from our local communities to have a job in our establishment.

Ntombini Marrengane: As Phumza's experience highlights, access to even small amounts of capital can make an enormous impact on a household and a community. What does this mean at the household level? Those small investments can change the trajectory of families. As jobs are created, social,

health, and education outcomes are improved, with positive effects [00:07:00] rippling outwards indefinitely.

So we see that business success doesn't necessarily look like a unicorn startup worth a billion. But what has more social impact is thousands of small businesses, each uplifting the families and neighbourhoods around them. Just a reminder to subscribe to this podcast so that you don't miss other episodes.

And be sure to spread the word about the Just For A Change series. South Africa, one of Africa's biggest economies, has an estimated 3 million micro and informal businesses, accommodating many marginalised communities. According to a 2023 study, More than 60 percent of those who start an informal business do so because they are unemployed and have no alternative source of income.

Joining me today is Prince Nwadeyi, an inclusive innovation specialist in financial services, a Bertha Scholar, he is the founder of Ispani, a data insight and consulting business focused on informal emerging markets. [00:08:00] And Satana Capital, which provides finance to informal traders. He is also an advisor for Bitprop, a property technology player in South Africa that provides access to infrastructure finance for previously financially excluded individuals in low income communities.

Thank you so much for joining me today Prince. I'm so keen to hear how you're helping to drive financial inclusion in Africa.

Prince Nwadeyi: Thank you so much for having me. It's absolutely a pleasure to be here with you and Dombini and super excited for our chat. Yeah, really, really keen to engage, um, and discuss.

Ntombini Marrengane: Could you please explain to our listeners what sustainable capital is and how it works?

Prince Nwadeyi: So sustainable capital, in my view is specifically capital that is deployed to a business or into an ecosystem with the agenda, not just to be extractive in its nature, but to create the right sort of network effects for the [00:09:00] ecosystems, which would service.

So by way of example could be, if we go out and deploy capital to finance, let's say an informal trader, we don't just look at the return that we get from the informal trade and capital. We also focus on does this actually lead to growth in their underlying business. Do we make sure that that also creates jobs as a consequence?

And is the community better off because of the intervention that we had in being able to deploy capital to that particular entrepreneur business person. That in our view is what sustainable capital is. It's capital that doesn't just focus on the return alone. But also looks at the sort of network effects that it has within society and it's its persistence is not necessarily required or dependent on further capital being pushed in that it's intervention actually creates an ongoing circular effect for sustainability within those environments.

Ntombini Marrengane: Wow. That's a big ask from an investment. [00:10:00] And I'm really curious as to how you actually link up with these informal traders who can then benefit from the access to sustainable capital. But we'll come to that in just a moment. What can you tell me about the working capital finance gap currently faced by small and medium and micro enterprises in Africa at the moment?

Prince Nwadeyi: Sure. So the working capital finance gap that sits on the continent is quite significant. Last I checked, it was sitting at around 331 billion US dollars. This is a massive amount of capital that is literally can't be met by one individual or financial services business. So it means that there's a huge opportunity to make a difference while building sustainable operations.

But far more importantly, I think. One of the biggest opportunities, the challenges that also emerge is the fact that the ability to deploy capital to these entrepreneurs is more often than not hamstrung by the fact that existing financial services players don't know how to do it. And what [00:11:00] I mean by that, they don't have the understanding, the insight, and they need to be innovative in terms of how they think about the deployment of their capital for us as a business, our approach has been relatively different and has taken an intermediated approach through partnership with wholesalers and channel providers to enable us to reach those entrepreneurs.

And typically for us, we don't necessarily give guys money directly. We'll give them, we'll fund their stock. Or would fund their fuel in the case of ride hailing operators, um, would fund what we, what we call the value making process of that particular vertical operation.

Ntombini Marrengane: And I think that's really important because if one thinks about access to capital, often we think about a small business person, um, whether in the formal or informal sector accessing finance, perhaps from a bank or a loan from family networks and just getting that cash.

And hopefully the person does invest [00:12:00] it in an income producing way into their business. But what you've explained is that you actually, you take that burden off the borrower and invest it for them directly.

Do you work with them to do Uh, research on how to access perhaps more economical or more valuable supply chains. Or do you simply just say, okay, you've been using this service provider. I'll go and pay them on your behalf.

Prince Nwadeyi: At this particular point in time, we don't necessarily take the approach that you've described, and maybe it will add value to me to give you a bit of colour in terms of how, maybe where it came from.

Um, which might be interesting to also paint a picture around it. Okay. The story behind why we decided to, for example, start the working capital finance business came as a result of, as you, as you said, Um, we ran a business called Ispani, which still operates. We had just come back from client assignment in Kenya, and we're, we'd finished a research project for one of our Swedish clients.

And when we [00:13:00] returned, um, my business partner had walked into his spaza store in Philippi Village, just outside the solution space. And, um, he met a trader there who was crying. And it was a man who was old enough to be my father. And he asked him in IsiXhosa "Baba, ukhalelani?", which translates to why are you crying?

And he said, all I ever want to do is to feed myself, feed my family and feed my business. And, um, we asked him, okay, cool. Ntando asked him, okay, cool. What's the real issue? And as he had a conversation with him, he realised he was short of 10, 000 bucks. And really the truth of the matter was like, okay, 10, 000, wasn't a lot of money.

Obviously for him, it was everything at that particular point in time. And the more we engage with him, we realised actually capital isn't the real issue here. The issue here is that he's not able to meet his working capital cycle because from this business, he's paying, um, the kid's school fees is not paying himself a salary.

He's sorting out black tax issues. There are multiple things that are pulling on the business. So he [00:14:00] doesn't have enough stock in the shop. So we came up with this idea that instead of providing capital to an individual entrepreneur directly, we could partner with wholesalers. Get access to the trading data of the specific individual, um, spaza store, analyse that data and come up with an amount that we could allocate to them, and then we could recoup that capital.

Back from the wholesaler. Um, once the trader pays back and we could be a revolving type facility for them to consistently draw down on, which was effectively the approach that we took, which resulted in the idea that we then created, which was Satana capital. And we specifically focus on what we call taking an embedded first approach.

So we don't go directly to this spaza store. We always now partner with existing operators or channel providers within that space. We focus on what we call our demand in elastic sectors. So those are sectors where the impact of whatever happens within the broader macroeconomy doesn't [00:15:00] necessarily affect the demand or that particular product or items specifically dependent on the sort of business model that's being deployed by that vertical.

So for example, with spaza stores. We're primarily buying stock for them, the ride hailing space, we're focusing on looking to finance fuel for Uber drivers and

operators in that environment. So we look at demand in elastic spaces. Thirdly, we need to make sure we're financing what we call the value making process.

So we're finding stock or fuel. Number four is we deploy capital in a space where we believe we're able to build what we call a defensible mode. So that's to say we're able to defend our position and really create outsized value beyond the capital that we have. So the way in which we add value. Has to be beyond just our available capital, but our business model, our process, the way in which our product works, it needs to be defensible in effect.

And what is most importantly is five and six, is that we need to be able to see that our capital [00:16:00] creates the right sort of flywheel effect for growth, which basically means we need to see when we deploy capital and going to the initial definition that I discussed with you around sustainable capital.

We need to see that that capital actually results in growth in that entrepreneur. We've had guys that we started out giving 40, 000 and in five months they were taking 200, 000 and returning that capital in 14 days. And after that, they were like, Prince, you know what? We don't need your money anymore because we can stand on our own two feet.

And those are the sorts of stories that we want to see. And then the other pieces that we need to see it build stickiness between ourselves, the entrepreneur and the channel partner. So those criteria need to hold true before we look to deploy capital within a particular environment or sector. And that's largely been the way we've found that we are best capable to, to add value to the entrepreneurs in that space.

We're starting to build intelligence as well. Funny story was, um, there's a time [00:17:00] when we lent out the money to a particular operator and we hadn't yet started taking, um, cognisance of the kinds of products they were buying. And then we realised that we just gave this guy like 40, 000 right. And he bought, he had bought a ton of Coca Cola crates, but in the heart of winter.

Obviously he was not going to be able to move his stock within the 14 day period that was required. And then he came back and was like, guys, I can't pay you back on time. Give me an extra week or two and stuff. And we gave him the grace period. But what was funny about it was that he started realising that it's necessary for us to also start advising the entrepreneurs to think differently about how they stock up their shops and to be sensitive to certain changes and seasons, like you can't, um, stock up your shop. shop with a bunch of romany creams and like Coca Cola in the heart of winter and expect to move your stock. So starting to add that intelligence, not only to our credit scoring model, but also to advise them to say, Hey, based on what we're seeing on other stores in the area of purchasing that are [00:18:00] successful stores, we think you need to think differently about your basket.

So that's another way in which we're starting to look to add value to the operators in this space.

Ntombini Marrengane: That must be filling a huge gap because up until now, without the landscape picture of what's happening in these shops, shop owners and individual operators are just kind of going through by feel, right?

What they think is moving, what they see is going, um, not necessarily applying a formula to it. That's pretty amazing. I want to come back to that as well a bit later, but first, while you were in university, you founded Ispani, which you've

mentioned, a business that focuses on enabling access to critical data insights on rural and peri urban townships in South Africa.

Why did you think this was needed?

Prince Nwadeyi: Oh, wow, that is a very interesting question. So the story goes, like this. I was sitting in a marketing lecture that was being given by Prof Simpson [00:19:00] from the Unilever Institute at UCT at the time. And if I'm a hundred percent honest, guys, I was a bad student. I was so disinterested in the lecture, up until Prof Simpson suddenly said the informal sector in South Africa is valued at 600 billion Rand, about twice the size of agriculture's contribution to GDP.

And, um, We're struggling to gain insight on this space and a lot of brands and businesses are talking to us to figure out how to like unlock data insight in this, on this particular market. And this is, and this is the time when they were having these reports on black diamonds, the growing economy in this world environment.

And I literally sat up, that's when I like started focusing on the lecture and we started the business because on the one side we realised there was a huge problem to solve to unearth data insight on informal market communities. But then the second component that also became a huge burden for us was we also realised that there was also a huge gap for [00:20:00] youth unemployment.

And there are a lot of young people in the townships who operated in this environment, but could equally add value to how products and services end up manifesting within the communities. So we realised that we could build what we call micro data entrepreneurs, um, who could effectively become data collection agents who could collect data in real time on behalf of any brand or business

through our software platform and pass on that data to us in a two sided marketplace that we set the price.

And we could take that data in effect and offer it to universities, offer that data to, um, large corporates who are looking to build new products, innovate and service these communities and utilise that insight to then consult. And that really became the catalyst behind why we decided to start this business.

I remember the first project we got was from one of our lecturers at UCT. It was like a 5, 000 project to [00:21:00] do some data collection in Khayelitsha. Where we had to, I mean, as, as students, R5, 000 is a lot of money for us. So we were like, we're going to be rich. Um, but on a serious note, the more we got on the ground, um, and we did, did the data collection in Khayelitsha, we began to realise, wow, there's actually a bigger problem we can solve here beyond just thinking with our commercial minds.

There's an impact story here of how we could change the way in which corporate doesn't understand these markets and we could actually help them to build products and services that and market in a responsible way. Um, within, within these ecosystems. And from there, we, we, we worked with the likes of Duracell, Yoko, ABN Bev, Munich, well, Swiss Re, Liberty, NASPERS.

We did a ton of work, um, within the, within the informal space, the United Nations Development Program. I think we did the biggest climate change study they did. Um, in South Africa, 10, 000 youth we [00:22:00] had engaged with utilising our microdata entrepreneurs. So there was a ton of work that we started doing and we saw how much that insight played such a big role in shifting thinking and affecting policy and affecting strategy, but ultimately adding value to those communities.

But, uh, I think in many ways, the journey that segwayed into Satina also was a result of the fact that we realised that our data insight could only do so much. We still saw huge spaces of opportunities for products that could be created, but corporates didn't necessarily have the incentive to do so at that particular point in time, um, specifically in the lending space.

And that's when we realised that we, we see the value, we understand the ecosystem. We know that if we can create this product for lending, We can solve a huge problem, but if we gonna wait for a big financial services firm to go through all the processes internally to do it, it's not gonna happen.

And that's when we decided to take the plunge. [00:23:00]

Ntombini Marrengane: The mission of your company, Satana Capital, is to provide 1 billion US dollars in working capital to a hundred thousand SMMEs on the continent by 2032. How close are you to this goal?

Prince Nwadeyi: Wow, we're not as close as we intend to be, but we're on that journey. Our target is hopefully by the end of this year, we would have done about steady state.

If I don't push the team, we'll get to a hundred million rand, but our target is 200 million rand in capital deployed by the end of this year. To SMEs and informal traders within the informal sector. We've been blessed to have Alan Gray as our key financial services backer, um, from a capital provision perspective, um, through the empowerment arm eSquared.

So they've been super supportive of the work that we're doing.

Ntombini Marrengane: Fantastic. Satana lends to informal traders and boasts a 99.5 percent repayment rate. What do you think most lenders or investors don't know or [00:24:00] should know about informal traders and how they do business?

Prince Nwadeyi: One of the things that I think operators or financial services players or lenders should know about the informal sector is the fact that they probably work harder than most of us.

They have a vested interest to make sure that they maintain their line of capital. That we provide to them primarily because they know they won't get one elsewhere. Um, and the next best alternative is someone who's going to charge them a significantly exorbitant rate of interest. So the likelihood of you to get your capital back as high, however, you need to systematise the approach.

You don't go in there and just, um, we call it spray and pray. You don't just throw away money and pray that you get it back. Um, you still have to be picky. You've got to pick the right operators correctly, but you've got to think boldly and differently around what are the tools and, um, criteria that I'm going to use to assess the risk that I'm going to deploy in the space.

And in many ways, you've got to think about it from the perspective of, so [00:25:00] in our environment, if I talk about lending, what we look at as we look at. Is there consistency of purchase of this particular product or service that this person is wanting us to provide finance for what are the turnaround cycles?

What's my collection mechanism? And how do I innovate around this process to de-risk my capital? What we've done is have just said, we're not going to give

you cash. We're going to give you the stock. We're going to pay the wholesaler. You're going to get the stock, you're going to pay us back, but we then built a data tool that enables us to consume a ton of data and then make quick decisions based off what we've determined to be a successful entrepreneur within particular, within particular criteria.

So then you test that over a period of time and the more it continues to check out. You then are able to increase and scale your business model and then start building your defence abilities and other sorts of pieces in there. I think at its core, they need to recognize the entrepreneurs there are real.

Some of what we've seen people who are building very sustainable [00:26:00] operations. I can tell you stories of guys and Alex who are making a hundred thousand Rand every two weeks selling bread. They're making more money than most professionals. I can tell you stories of people who are selling like the traditional FMCG goods businesses, and they're doing 400, 000 grand, if not more a month in revenue to people who are actually running real businesses, but banks would never touch traditional financial services institutions would never touch.

And they're creating jobs. They're employing 10 people, 15 people. They're creating real jobs, which are sustaining families and helping parents to take their kids to school. Not probably model C school, model C schools or private schools, but they're giving them the education that they can afford.

But the reality of the matter, those businesses are contributing to the peace and stability we have in our country at a systemic level. And it would be wrong for us not to find ways to make those businesses more resilient. And make those

[00:27:00] businesses to scale and to grow where we can with responsible capital.

So, I think, I think it would, it would be to say to corporate South Africa, there's a real opportunity. If you don't understand it, partner with companies like ourselves. Which is what started happening, where we're starting to see organisations approach us to say, Hey listen, we have these funds, we don't know how to deploy them into the space.

But you seem to have a track record of doing this and doing this well. Can we work with you to give us this exposure? And we think that multiple opportunities and verticals that sit within this ecosystem.

Ntombini Marrengane: Two questions that we ask our guests at the end of each episode this season. I'm going to ask them to you now.

What does social justice mean to you?

Prince Nwadeyi: Social justice means to me that we're able to live in and create a society where people have equality of representation, [00:28:00] equality of opportunity as much as is possible, and the ability to the best of the opportunity available to them to be able to achieve their dreams and goals.

You might not be able to achieve them, but at least get the chance at the very least. And then also, I think that everyone is equal before the law. I think that's such an important piece. And I think if we can reduce the barriers to what it means to be able to live in dignity. For the vast majority of our people and for the reality of South African democracy, do not not be a dream that's been perpetually deferred for the vast majority of our people.

I think, um, that, that for me would, would be social justice.

Ntombini Marrengane: And why do you do what you do, Prince?

Prince Nwadeyi: I do what I do because I think I was born for it. Honestly speaking, I don't, I don't think that I could have done anything else. Uh, entrepreneurship for us and for me is not [00:29:00] really about making money. Um, that's great.

It's an offshoot of it, but the core of why we do what we do is because we truly believe that we've been called to build businesses and organisations that will change and transform the trajectory of the African continent to the betterment of its people. For us, business is an end to make and is a tool or a channel through which we can make an impact on the world and our communities, but one that's scaled and one that fundamentally transforms the trajectory of society.

That's why we do what we do. We want to see the world, want to see our continent in a better place. Like I said, I'm living for 2063, not that I'm going to die then, but I'm living because 2063, because that's the, that's, that's the stake in the ground for me, because I don't want to have the same conversations I've had to have with my parents and other elders about why our country and our continent is the way it is.

I think We should at least have a different [00:30:00] conversation with our children when the time comes.

Ntombini Marrengane: Absolutely. Thank you so much, Prince, for sharing your insights with us. It's exciting to see how innovative finance is helping us to move

forward towards a more just and equitable future on our continent, as you say, and beyond. Thank you so much.

Prince Nwadeyi: Thank you for having me. Sincerely appreciate it.

Ntombini Marrengane: In this episode, we've explored the value of financial inclusion. and seeing how it can unleash untold potential for even the smallest business owner. Accessible capital and credit can be the seeds that flourish into healthier families, stronger communities, and a more just world.

Thank you for tuning in to season four of the Just For A Change podcast, powered by the Bertha Center for Social Innovation and Entrepreneurship. If you're interested in hearing more about Unexpected Connections then make sure you subscribe to this podcast so that you don't miss any of our upcoming episodes.

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This podcast is produced by 2Stories in collaboration with the Bertha Centre for Social Innovation and Entrepreneurship. Written by Linda Scarborough, produced by Carol Williams, with audio editing, engineering and sound design by Kozi Mzimela, with production assistance from Without A Doubt Agency. Special thanks to the Bertha Centre team, for their input on this series. For more information on resources used to create this episode, please refer to the show notes.

