Cellulant

Emerging Global Enterprises

Africa Foresight Group

WORLD POLICY INSTITUTE

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Foreword

This excerpt forms part of a larger 12 case study report that was carefully put together by Africa Foresight Group over a period of two years to understand the works and environments of *hidden champion companies* on the continent. We are proud to present this sneak-peek as part of our annual flagship conference Africa@Scale 2019 in Oxford.

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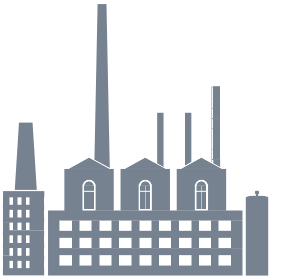
Case 02

Cellulant is a Kenyan company that started as a music and news streaming software enterprise ten years ago. Today, the company is a famed digital payments service provider that prompts, collects, settles and reconciles payments in real-time. The company has found a way to converge both the agricultural and technology sectors by using mobile wallets to empower farmers across Africa as well as powering transactions for millions of merchants and utility facilities across the continent. Currently, Cellulant serves 220mn customers across 34 countries.



Country of origin: Kenya

Sector: FinTech

COUNTRY PROFILE

Kenya is the largest economy in the East African Community (EAC) and Common Market for Eastern and South Africa (COMESA) in terms of GDP and has positioned itself as a major economic power in Sub-Saharan Africa. The East African nation has developed from a largely agrarian economy, focused on horticulture, tea, and coffee, to a manufacturing player. The country is a major recipient of foreign direct investments and local investments in the Great Lakes region and sub-Saharan Africa in general. Interestingly, family businesses, ICT for development and the service sections of the economy of Kenya have experienced exponential growth in the last few decades.

4.9%

Average GDP growth rate of Kenya in 2017

As of 2017

7.1%

Inflation rate

13.7%

lending interest rate

Business Landscape

Family businesses accounts for 80% to 90% of all business enterprises in Kenya. These businesses contribute to **60%** of employment generation and job creation.

More broadly, there have been key developments in the business landscape over the past 10 years that are important context for this case study, namely:

- The introduction of *Huduma Centres* in counties which reduce the procedures and period required to register a business have enhanced the registration and ease of doing business in the entire country
- The use of technology to reduce time in various processes such as the Kenya Revenue Authority's Itax platform further allows individuals to submit their tax returns online – a proof of the technology conquest and the government's support of it
- Again, the strategic development of special export zones and industrial parks in counties, provide incentives and opportunities for businesses to grow multinationally

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Entrepreneurship

According to the Kenya National Bureau of Statistics, SMEs provided employment to an estimated **14.9 million** people in 2015, arguably accounting for the highest source of employment.

Ease of doing business has improved in the country, however, corruption and high tax policies have been the largest problem entrepreneurs face, the most businesses affected by these policies are new entrants.

Access to funds and investment capital continue to be a challenge. A new law was passed by parliament in 2015 required banks to cap their interest at a maximum of **4%** above the Central Bank rate.

This has caused a shortfall of funds available to entrepreneurs.

As a result, the success rates of most businesses are low.

70%

Of business fail or foldup within the first three years of operation (Strathmore Business School and Invest in Africa-IIA).

Entrepreneurship in Kenya is not fully by choice but due to lack of employment opportunities that involuntarily drives majority of the people into it. The ease of starting a business in the country has improved over time with the government having less stringent policies on opening business and requirements. A birth of change makers has been on the rise in Kenya. Most entrepreneurs desire to solve a problem especially in the ICT sector.

Inadequate infrastructure threatens Kenya's long-term position as the largest East African economy, although the Kenyatta administration has prioritized infrastructure development.

Co-founders of Cellulant, Bolaji and Kevin

BUSINESS CASE STUDY – CELLULANT

At a glance

Cellulant's journey started in the most unusual of ways - on a table napkin. In 2001 Bolaji Akinboro and Ken Njoroge sat across each other at a dinner table that led to a discussion over a cup of coffee and a business model drawn on a serviette. In 2004, Cellulant launched one of the first mobile content services in Kenya and Nigeria with a focus on music and news. The business grew to serve more than **8M** unique consumers over a period of 4 years- all of whom were consuming local music and news genres. By 2005, Cellulant began to prototype the mobile banking platforms in the region; and became the first company to connect M-pesa to banks in Kenya. In 2012 the company was granted a license from Central Bank of Nigeria to operate the **Growth Enhancement Support Scheme (GES)**, a mobile payments e-wallet for farmers. GES has since powered more than **US $1Bn** in subsidy payments to approximately **15M** farmers across Nigeria and has been adopted in other countries in Africa and beyond.

Interestingly, the firm grew organically before accessing funding in 2011 for expansion. By 2015, Cellulant had expanded its mobile banking offering into a fully loaded digital payments ecosystem across Africa. A unified payments platform, Cellulant powers marketplaces that matter in local, global and value-chain payments in Africa. The company is growing to fix Africa's payments challenges by connecting **700m** mobile users to payments that power their daily lives. Cellulant's belief in providing solutions to everyday challenges across Africa has led to digitizing payments end to end for various value chains; and as a result, providing increased transparency and broader reach within a single mobile platform for financial sector players.

Since its inception, Cellulant has grown from 2 founders to a team of more than **450 people in 18 countries in Africa.**

But how did this growth story evolve step by step?

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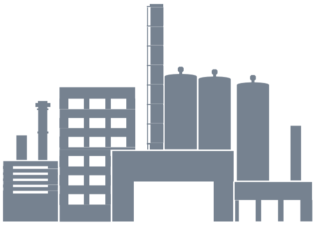

The Businesas Model Evolution

Initially, Cellulant provided music and news through telcos to consumers. In 2004, Cellulant launched its first mobile content services in Kenya and Nigeria with a focus on music and news. Cellulant sold polyphonic tunes directly to consumers through telco lines.

Marketing for the products was done through newspapers and telcos capturing more than 8 million unique consumers over time. As any start –up, the firm tried accessing capital from banks but the model of selling news and music for revenue was foreign and thus a few doors were shut.

The revenue generated was shared between the telcos and Cellulant at 70/30 with a 90- day collection cycle. But early on, the company faced a few challenges with payments from consumers. A music tune retailed at USD0.60 which was an expensive amount for their target market.

To solve this problem, the company came up with a payment solution called '*Malipo Pole Pole*' (Swahili for Pay Slowly). The company figured they would be able to allow their consumers gain the digital content and pay in tranches within 20 days.

Ken Njoroge stated that they ventured into payments in 2007 because they wanted to solve a major pain point for customers that they experienced in the course of payment collection.

This was about the same time Safaricom's mobile money giant M-PESA had been launched in Kenya. Cellulant became the first company to connect M-PESA to a bank. Mobile money was attractive because there was an opportunity in the market, and a customer pain point that could be solved via this Fintech innovation.

Between 2005-2007, Cellulant began to prototype the mobile banking platforms in the region, and thus shifted the business model from B2C to B2B. In 2008, they advanced the mobile payment solution by deploying the first Mobile Banking Solution on USSD for one of the first multinational banks. With this, there was expansion of its footprint in Botswana, Zambia and Ghana. In 2011, they began to advance a converged eco-system that would connect banks, merchants, mobile network operators and the consumer to create a single one-stop shop for a seamless mobile commerce experience. Their growth continued in 2012.

In 2014, they expanded their mobile banking offering and mobile wallet offering into a fully loaded mobile payments ecosystem. Today Cellulant's payment coverage is 12% of African's digital payments with 50% of the largest banks in Africa that cater to 10% of Africa's banked population and an eWallet solution for 15% of the unbanked farmers in Africa. The firm has 220M active consumers from their partners, including 120 financial service providers, 40 mobile network operators and more than 600 businesses, which are connected to their payments ecosystem.

Cellulant has recently rebranded its consumer product from Mula to Tingg. David Waithaka, the Chief Strategy Officer, describes Tingg as 'Africa's unified app.' Tingg is a new & robust single payments platform for Africa's marketplace, layered to cater for different value chains. It provides an easy, secure, cashless and convenient payment and financial services solution for customers and merchants. Their aim is to converge all payment channels and financial services into one ecosystem. This would be helpful to both local businesses and multinational companies that have operations in different countries in Africa.

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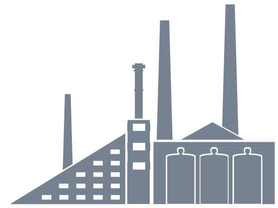

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The Core Products of Cellulant

Tingg is a Pan-African digital commerce platform that connects consumers and business to payments and financial services. Tingg provides an easy, cashless and convenient payment solution for businesses and their users; facilitating payments across multiple channels. With just a single contract and a single integration to tingg's payment gateway, local and global merchants will now have a more enhanced and seamless experience way of accepting key local mobile and online payments that grow their business across the continent.

Agrikore is an online marketplace (e-marketplace) solution creating value for smallholder farmers, agricultural input and produce traders. It was developed by Cellulant for Nigeria in 2012 but has since grown to other African markets. At its core Agrikore is a blockchain based smart contracting platform that provides the tools for the creation of a structured agribusiness economy (agritech) in Africa linking all the players in agriculture at the input level (farmers, agro-dealers, financial institutions, governments, development partners) and at produce level (FMCGs, produce aggregators).

The emergence of mobile money services has brought millions of Africans into the formal financial ecosystem

> Cellulant has and continues to innovate with the varying products brought into the market. The company has recently invested in proprietary tools, programming and technology to help the banking and retail sector assimilate into the mobile banking sector to help them reach the end customer; and for global and local merchants to accept key mobile and online payments. This would mean a platform that aggregates the customer information, pools it, and provides financial service solutions relevant to their needs. Cellulant continues to focus on an end-user strategy, which balances their B2B customers and interaction with a dynamic and far reaching B2B2C interface which we believe will increase the adoption solutions by banks, merchants, traders and their customers.
>
> *– David Waithaka, Chief Strategy Officer*

This is done as they continue partnering with their current B2B customers to fulfil their very specific needs

Cellulant has built a business that has fine-tuned the art of execution and agility. This has set them apart in this market because they have a reputation of getting things done. This is their competitive advantage. The company has also built relationships with banks and businesses alike, providing them with lasting solutions for their customers. By fostering these types of relationships with their customers, they have enabled growth for these businesses by simply being efficient in delivery. This has also helped them expand their business to other countries.

The company's products and services are built to be relevant to the needs of its market segments, and therefore offering the next generation product suite that drives revenue growth and cost savings to its customers.

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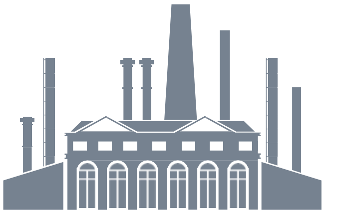

For unbanked

Cellulant aims to reach nearly all unbanked adults and help many banked adults transact across Africa; The company claims to have been building the first and only national mobile payments network in Nigeria at the time this report was composed.

Corporate Social Responsibility

Local focus in different markets is integral in the Cellulant business success. As a Pan African company, Cellulant localizes their solution approach with a belief that local problems require not only holistic approach, but a local focus. This is done at all levels of the business's, supply chain. Cellulant has one of the biggest technological team in Africa that creates opportunities for the youth to become innovative and creative in the tech field. Their CSR is to be able to build their employees to be the best version of themselves. They are able to do this by giving them a chance to explore their core competencies whilst working for and with the company. Cellulant also builds business brands by encouraging women to rise across the leadership ranks within the company. In alliance with the African Leadership University they are currently sponsoring the education and tutelage of students who are being at Cellulant after their graduation.

For banked

Cellulant through its consumer brand Tingg has moved organically from their B2B2C mobile banking software business to roll out a B2C business for the same customers in the same geographies that increases revenue to banks and simplifies payments for consumers. and

Questions

Cellulant has achieved impressive growth over the past 25 years, but certainly the sector also comes with challenges. Two challenges stand out in particular:

1) **Financial inclusion**: Most financial services players currently attempt to solve the riddle of the unbanked African consumer. Not many solutions have stood out so far when it comes to lasting impact and commercial viability. What can Cellulant build on from its past successes to crack this opportunity on a larger scale?

2) **Regional and global differentiation strategy:** Fintech is one of the fastest-growing technology sectors in Africa. While Cellulant enjoys an early-mover advantage and significant coverage across the continent, the question remains how the company can continue to win against competition and start thinking about global growth.

Cellulant's Tingg software has streamlined B2C relations for many Kenyan entrepreneurs

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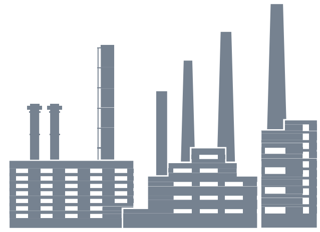

POLICY PROFILE

The FinTech Regulatory Environment

The Central Bank of Kenya Act (Central Bank of Kenya Act n.d.) allows the CBK to regulate financial services (Rebelo and Sejpal n.d.), and the CBK is the main bank with which FinTechs can partner.

However, as regulations are playing catch up to the rapid pace of the technological development and economic uptake, the CBK has generally favoured a light regulatory touch provided the sector is contributing to the expansion of financial services in the country (Rebelo and Sejpal n.d.). An example of this was when the CBK allowed the implementation of Safaricom's mobile money transfer system without any legislation or regulation in 2007 (Rebelo and Sejpal n.d.). Although the CBK is generally receptive to FinTechs, it does take a more cautious approach to cryptocurrencies such as bitcoin – cautioning the public against the use of such currency.

The CBK argues that the risks of using virtual currencies are high as they remain completely unregulated and offer no protection for individuals if there is a failure in the system (Rebelo and Sejpal n.d.).

There are aspects of FinTech's business that are regulated by the Kenyan government: The Kenya Information and Communications Act (Reporting n.d.) requires FinTech companies looking to establish their own telecommunications infrastructure to obtain a license from the Communications Authority of Kenya (Rebelo and Sejpal n.d.). When it comes to raising money, registered FinTech companies looking to sell shares must get approval from the Capital Markets Authority. In addition, new regulations are being drafted that would make it mandatory for non-registered smaller FinTechs to inform the Capital Markets Authority of Kenya about their share offers (Rebelo and Sejpal n.d.).

Privacy and Cyber Security Regulations Currently in Development

Although FinTechs like Cellulant continue to grow, there are concerns that protections on data privacy, consumer protection, and competition are not rapidly catching up.

Kamami Christine Michira, a partner of Bowman, a leading Pan-African law firm, and Head of the Kenyan Banking and Finance Department in Kenya, states that, "Technology has made the services not only pervasive but almost 'real-time' so much faster that everybody is still catching up – and the regulators are probably feeling it more than the rest because traditional methods of regulating are being rendered irrelevant." (IT News Africa 2017)

While Kenya does not have regulations regarding data protection and privacy, the Parliament has a bill pending, the Data Protection Bill, which will regulate the collection and use of personal data.

This bill, modelled from the constitutional right to privacy, which includes not having information about their family or self-revealed or required, would seek to expand this coverage to FinTech-related services. (Rebelo and Sejpal n.d.).

The jurisdiction of the bill is for companies who collect data or share data from their customers.

Currently there are no restrictions on the collection of privacy and data as long as there is consent from the owner and reasons have been given as to why the data is being collected.

If personal data or the owner is disclosed without consent there may be a violation on the right to privacy, according to the existing constitution (Rebelo and Sejpal n.d.).

Strong team cohesion has greatly influenced Cellulant's growth outcomes

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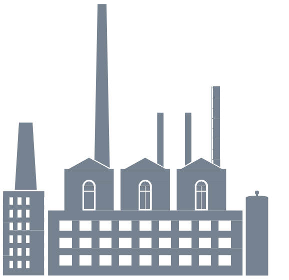


Privacy breach cost Kenya **$175 million in 2016** (Butler 2017). To help alleviate and identify cyber risk, on August 2017, the CBK, under **Section 33(4)** of the Banking Act, published a Guidance Note (Butler 2017). The Guidance Note produced minimum requirements for institutions to operate as it complements existing regulations under the Banking Act.

The regulations are as follows: performing internal/ external audits and risk management, have adequate outsourcing agreements with third-party services and providing IT security awareness training to their personnel (Butler 2017). In the Guidance Note, the CBK acknowledged the need to coordinate information sharing so there is "public trust and confidence in the financial system." (Butler 2017).

In South Africa, on October 2017, more than half of its population of **54 million** had their private information (names, identity numbers, income, genders, employment history and addresses) breached causing a high risk of identity theft (Fihlani 2017).

According to the United Nations Conference on Trade and Development, a lack of data protection laws, can affect international trade, services and markets. Having overly stringent laws can restrict businesses. It is important to find a balance to establish confidence with customers as well as provide opportunities for businesses to thrive.

When countries have privacy laws that are internationally compatible, they attract more businesses and establish trust and predictability for their stakeholders (United Nations Conference on Trade and Development 2016).

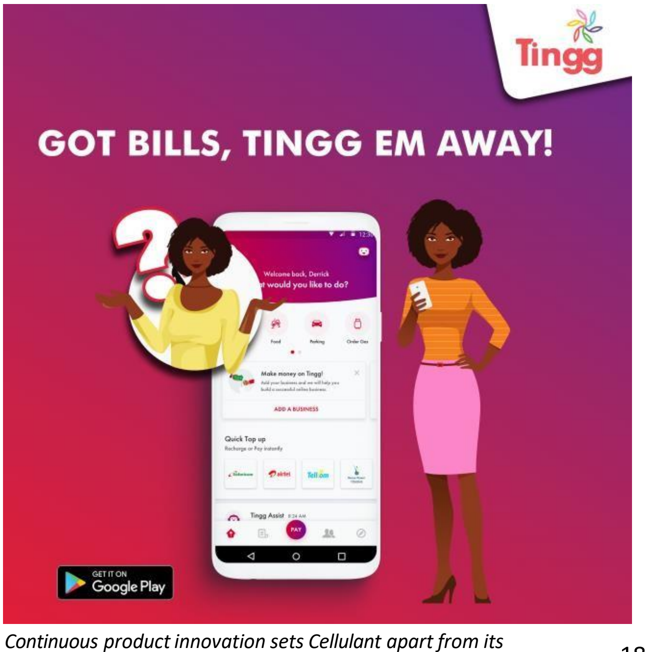
On August 1st, 2017, the **Abu Dhabi Global Market (ADGM)** and the **CMA** of Kenya signed an Agreement that allows for cooperation for FinTechs in both Abu Dhabi and Kenya (Mwangi and Lew 2017).

The agreement will enable information sharing between the two Authorities to inform each other of relevant economic and regulatory developments in their respective markets (Mwangi and Lew 2017).

The Australian Securities and Investments Commission (ASIC) as also signed an agreement in 2016 with the CMA of Kenya which allows both parties to share information on emerging market trends and development and regulatory issues in financial services (Bulling and Chasser 2016).

Moving forward it will be important for companies like Cellulant to stay updated on the new regulations being presented in the Parliament, like the Data Protection Bill and continue to enhance structures that ensure the protection of their customer's privacy.

With new partnerships established with the ADGM and the ASIC, this will enable more innovation and sharing of best practices. While the FinTech sector is on the rise, companies will have to adhere to the protection of their customer's data and privacy as well as the stability of their markets for stakeholders. If they are successful, they will attract more international agreements by building trust and continue to boost their markets.



Continuous product innovation sets Cellulant apart from its competitors