Jobtech Alliance

Digital Services for Microenterprises in Sub-Saharan Africa

A Landscape Scan III

July 2023

Digital Services for Microenterprises in Sub-Saharan Africa: A Landscape Scan III
July 2023

Contents

This v1 edition was produced in June 2023 and is one of a series of five landscape scans on the jobtech sector in Africa. The other Landscape Scans also available are:

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iv. Technology-Enabled Skilling

v. Digital Tools for Worker Enablement

If you have feedback on the content of this Landscape Scan for future iterations, please contact info@jobtechalliance.com

Standard Brief: What is Jobtech?

'Jobtech' refers to digital platforms which connect people to work opportunities that build livelihoods. Simply put, jobtech is the future of work. 540 million people worldwide will find work through digital matching platforms by 2025, with significant growth expected in Africa; 30-88 million Africans will earn from jobtech by 2030. Jobtech involves the use of technology to enable, facilitate, or improve people's productivity to access and deliver quality work. Today, we count over 500 jobtech platforms in Africa.

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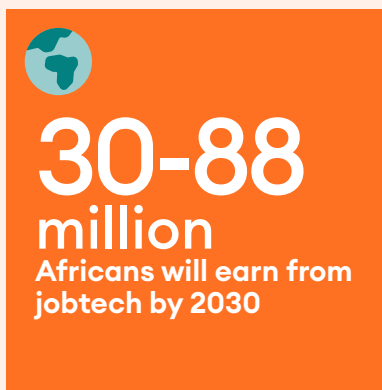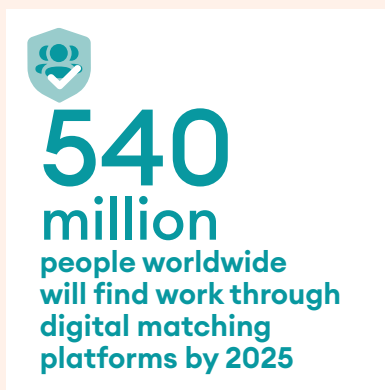
See the below table for the Jobtech Taxonomy defining the five major categories and definitions within the space.

Platforms for offline work

Category definition

Platforms where work is mediated online but delivered offline, also known as "location-based platforms" as per the World Bank.

Subcategories

1. Taxi / ride hailing / delivery / logistics
2. Home services / technical services
3. Cleaning / domestic work
4. Care services
5. Job boards / recruitment platforms
6. Distributed manufacturing

Platforms for digitally delivered work

Category definition

Platforms where work is mediated and delivered online, sometimes known as "cloud work."
The category does not include online jobs when the work is not delivered through the platform (i.e., job boards).

Subcategories

1. Skilled online freelancing
2. Managed services / global business services / BPO (including managed microtasks)
3. Task-based or distributed microwork / microtasks
4. X-to-earn / play-to-earn
5. Platforms for creative content producers / influencers
6. Trading platforms for digital products

Digital services for micro-enterprises

Category definition

Platforms that improve access to market, business performance, or productivity of self-employed individuals or microenterprises. The category does not include pure fintech players or players targeted only at larger scale SMEs.

Subcategories

1. E-commerce marketplaces
2. Business management tools / vertically-integrated platforms
3. Social commerce / digitally-enabled agent models

Tech-enabled skilling

Category definition

Edtech platforms that equip people for the world of work.
The category does not include platforms with no tech product.

Subcategories

1. Course / guided / cohort-based learning
2. On-demand / self-paced learning
3. Digital apprenticeships / mentorship / internships
4. Professional networking / labour market information platforms
5. Assessment / credentialing

Digital tools for worker enablement

Category definition

Digital platforms that provide workers with tools that enhance their rights, benefits, and protections.

The category does not include tools with no tech product or tech integration.

Subcategories

1. Identity / reputation
2. Alternative data tools / benefits
3. Rights / legal / collective engagement

Jobtech has huge potential to alleviate the youth unemployment challenge in Africa. We have seen that jobtech has the potential to create new work opportunities that were not previously possible, improve regularity and quality of work, size of income, and overcome traditional barriers to access for marginalised groups. But we've also seen that it can create bad work as well as good, and create new barriers to access for marginalised groups. The market fundamentals are challenging, and there is a lack of innovation in the space. Few startups have succeeded and few funders know how to effectively contribute. There is little shared knowledge about what does/doesn't work, and a lack of visibility and community limits scope for collaboration.

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Our goal of these landscape scans is to provide an introduction to jobtech for entrepreneurs, investors, researchers, and policymakers alike. It will shed light on the vast potential that jobtech has to enable the jobs of the future, but will also critically reflect on some of the challenges and dilemmas that are inherent to the growth of jobtech across Africa. Ultimately, our goal is to inspire thinking on how this nascent, yet overlooked part of how Africa's digital economy interfaces with the physical. We hope these scans will provide a helpful starting point to inspire you and challenge your thinking.

# Introduction: Digital Services for Microenterprises

The future of work in Africa cannot ignore microenterprises, especially those from the informal sector. There are 44 million micro, small, and medium enterprises (MSMEs) within sub-Saharan Africa, with 97% of them being microenterprises, according to the IFC. Microenterprises are the main source of employment and the backbone of economic activity in urban and peri-urban Africa. Small-scale enterprises have absorbed over 49% of the increase in the labour force in five African countries (Botswana, Kenya, Malawi, Swaziland and Zimbabwe), for example.

Africa's informal sector accounts for over 80% of jobs within sub-Saharan Africa, according to the World Bank, with many of the microenterprises mentioned above sitting within this sector. About 80% of employment growth in Tanzania was accounted for by informal enterprises. Unfortunately, informal enterprises also account for the most number of lost and unstable jobs, according to the International Labor Organization.

Digital services for microenterprises are platforms that improve access to market, business performance, or productivity for self-employed individuals or microenterprises. These tools help improve microenterprises' efficiencies and operations, increase revenue, and access new markets and customers. These tools are becoming more common in the aforementioned microenterprises of African cities and villages. They include ecommerce marketplaces / sales and marketing tools, social commerce / digitally-enabled agent models, and business management tools / vertically-integrated platforms and are explored in-depth in the "Subcategories" section.

Digital app penetration by use case
% of micro and small retailers that report using a digital app
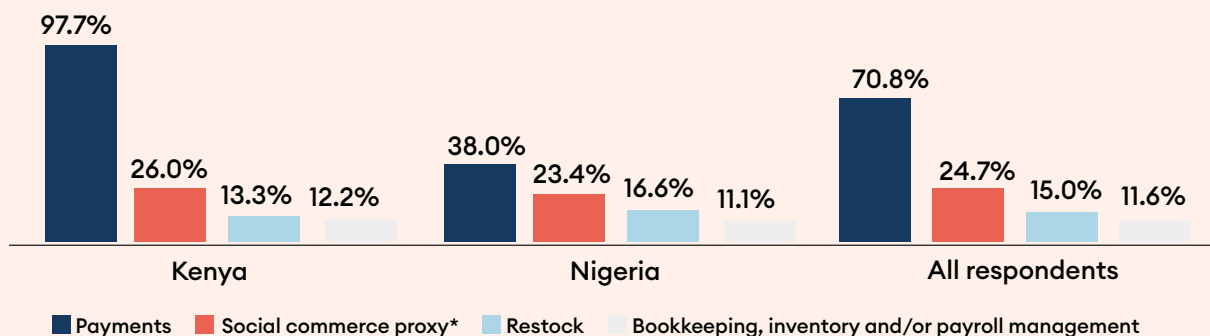
Source: DFS Lab

The rise of social media has undoubtedly shaped the microenterprise and informal enterprise landscape, with small businesses most commonly creating business pages on social media platforms like Facebook, WhatsApp, and Instagram. The first generation of digital tools for microenterprises were centralised ecommerce platforms like Jumia

(the 'Amazon of Africa') that managed customer-facing sales and backend logistics and have struggled in Africa due to difficulties in last-mile delivery, customer onboarding, low trust, and more. Therefore, a second wave of platforms have emerged that provide the 'MSME stack' for microenterprises to improve their customer acquisition, business management, supply chain, and more (these are the "business management tools" discussed more in-depth within the "Subcategories" section). Notable examples of these tools include Paystack Commerce or Flutterwave Store, Nigerian-based solutions that essentially serve as "Shopify for Africa." Within FMCG specifically, platforms frequently also connect businesses with suppliers and financing.

The COVID-19 pandemic undoubtedly accelerated the adoption of digital technology by small businesses in Africa, as companies sought ways to survive during lockdowns and other restrictions. Research by Caribou Digital found that ninety-two percent of MSMEs in Kenya use at least one social media or messaging app for business use, while over a quarter (and growing) are using jobtech platforms built to enhance business opportunities. Similarly, a global Center for Financial Inclusion study found that businesses that sold on digital platforms were more resilient to the impacts of the pandemic.

An influx of venture capital has also accelerated the growing digitization of microenterprises in Africa. As one 2021 Techcrunch article explained, "The process of digitising the operations of mom and pop stores in Nigeria is serious business right now. In fact, it might be the second-best thing after fintech at the moment." Over the coming decade, with growing ecommerce penetration in Africa, online payments, logistics and digital consumers, opportunities in digital services for microenterprises will be immense.

Through a literature review, this landscape scan sought to understand digital services for microenterprises in Africa. The following sections define the business models utilised by these platforms, the subcategories outlined in the Jobtech Taxonomy, and insights about both business opportunities and jobs impact outcomes from work in this sector.

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Business Models

This sector is broad, with a range of highly varying business models across the different categories of our taxonomy. Platforms may use multiple models at the same time. The following table therefore outlines some of the revenue streams that digital services for microenterprises may seek to employ:

Listing fee

Description:The platform earns revenue from fees charged to sellers to list products or services, commonly on an ecommerce platform. The fee is often paid upfront or as part of a subscription package, and may include tiers around promotion or visibility of the items.

Commission

Description: The traditional income stream for ecommerce platforms is a percentage commission on the transaction between the seller and the buyer.

Subscriptions

Description: Platforms can charge subscriptions for their professional offerings (bookkeeping software, marketing tools). Although, with generally low uptake of subscriptions in Africa, these tend to be offered as freemium to make services sticky, while monetization takes place elsewhere.

Advertising

Description: Third party advertisers may advertise to sellers or to endpoint buyers, or microenterprises themselves may pay to promote their products (see listing fees above).

Sales or Supply Chain

Description: A platform offers a product that the platform user sells to a final customer. The platform can charge up front for the items (a traditional 'sale') or offer an inventory which the seller earns commission from selling (as is common in social commerce or agent models).

Warehousing, deliveries & fulfilment

Description: Platforms charge microenterprises for warehousing or delivery of items.

Layered financial services

Description: Platforms may offer a range of financial services to microenterprises or to their customers, from buy-now-pay-later (BNPL), stock financing, loans, or other financial products based on the use of these platforms by users.

One of the core business model decisions is whether the platform is seeking to serve as a marketplace and be the intermediary between buyer and seller, or whether it is seeking to augment the seller (microenterprise) in their business. Essentially, this means determining whether it is a marketplace or a Saas (software-as-a-service)-type business.

Intermediary platforms connect users so they can interact and transact in a marketplace. Global platforms like Amazon or Ebay and regional examples like Jiji or OList are examples of intermediation platforms.

> **Intermediary platforms connect users so they can interact and transact in a marketplace.**

Augmentation, on the other hand, involves the use of digital tech to enhance the way micro-entrepreneurs run their businesses. Global ecommerce engine Shopify and Nigerian examples Paystack Commerce or Flutterwave Store would be examples of augmentation - they provide the ability for any business owner to easily create their own ecommerce site using their infrastructure, which offers attractive website layouts, integrated payments, inventory management, integrations to promote on social media, and more. Over a quarter of all ecommerce stores in the USA are built on Shopify, but the buyer never actually knows that they are interacting with Shopify - just the business owner. Both of these (and more) exist in Africa, as the following sections will cover.

Subcategories

The Jobtech Taxonomy outlines three subcategories of digital services for microenterprises:

Ecommerce marketplaces / sales and marketing tools

Description: These platforms enable microenterprises to more easily earn income from selling products through centralised listing platforms or marketplaces.

Social commerce / digitally- enabled agent models

Description: These digital platforms enable micro entrepreneurs or agents to more effectively sell products or services to their networks.

Business management tools / vertically- integrated platforms

Description: These platforms enable microenterprises to increase earnings or profits through enhanced efficiencies and reduced costs.

Each subcategory is explored in more depth in the following sections, with most relevant insights including definitions, challenges, themes, and company examples.

> These digital platforms enable micro entrepreneurs or agents to more effectively sell products or services to their networks.

Ecommerce marketplaces / sales and marketing tools

Ecommerce platforms can be open marketplaces that link sellers and buyers. Sellers list their products on the platforms and are connected with buyers. These platforms can also be basic classifieds generating leads for microenterprises, where the transaction is then taken 'offline' (to WhatsApp or phone). Regionally, this includes classified platforms like Jiji (regional), OList (Nigeria), Tonaton (Uganda), PigiaMe (Kenya), or Junkmail (South Africa) and auction platforms such as Quibids (South Africa). These platforms typically charge a fee for listing or for access to additional features such as featured listings or highlighted advertisements. While these platforms are able to achieve scale through their generally light-touch engagement, they don't necessarily solve the bigger problems of the value chain and thus struggle to either be sticky or to find sufficient scope for monetization.

Ecommerce platforms that are end-to-end digital services often integrate payment gateways and delivery channels. In this case, the seller and buyer connect and transact primarily through the platform. Those ecommerce marketplaces largely earn revenue by charging commissions on transactions, and can charge additional fees for delivery, warehousing, advertising/premium listing, and more. Jumia is Africa's largest online marketplace, which operates across the continent and faces competition from others such Konga (Nigeria), Kilimall (Kenya) or Safaricom-backed Masoko (Kenya). Jumia raised $1.2B and went public on the New York Stock Exchange, but its stock value has fallen over 70% since as it has struggled to acquire customers, maintain growth and demonstrate viable unit economics. Similarly, Kenyan marketplace Sky.Garden struggled to demonstrate sufficient growth and core viability before being acquired by buy-now-pay-later fintech, LipaLater.

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The translation of the traditional ecommerce model into Africa has struggled to deliver the scale required for venture returns. Challenges have been faced at all levels, from demand-generation, to trust-building, supply management, and fulfilment. Jumia famously has built its own payment processing arm, JumiaPay, and its own logistics operating system, as it could not rely on third party providers. Interestingly, those spinoffs arguably offer the greatest business viability of the Jumia empire, as it has struggled to acquire African customers or retain customers who tend to be unwilling to pay more for convenience, have low brand allegiance, and are inclined to go wherever price is lowest. Jumia and other full service ecommerce marketplaces have struggled with operational challenges from a lack of customer addresses, to high returns, to merchant unreliability.

This challenge in acquiring and retaining customers in Africa has led some ecommerce marketplaces to add offline sales channels. Copia built its entire model on this, while Jumia added an offline sales agent model called JForce to onboard users into ecommerce and multiply sales (more on that in the next section).

Social commerce / digitally- enabled agent models

Social commerce platforms and digitally-enabled agent models address the challenges of trust and last-mile sales and distribution outlined above to sell through personal connections or localised networks. Social commerce comprises the buying / selling of goods directly from a social media platform or by using social interaction and engagement to increase sales.

Digitally-enabled agent models can enable individuals or businesses to sell online products to their networks in an offline world (such as Jumia's J-Force or Tendo merchants), or enable people to promote products through social media networks. Agents can either earn commissions from each sale, or less commonly may set their own prices above rates set by the platform. They may also support businesses in aspects such as last-mile delivery.

There is a lot of overlap between pure social commerce and digitally-enabled agent models, with many digitally-enabled agent models using social media as a marketing / business tool.

There are a huge variety of models using social commerce or agent networks:

- Moniepoint (rebranded from TeamApt) offers agent banking in Nigeria through over 100,000 agents.

- Copia is an ecommerce platform that reaches last mile customers in Kenya and Uganda through a network of more than 40,000 agents.

- Tendo in Ghana/Nigeria replicates India's Meesho model (that has over one million sellers) to enable users to price and sell products to their networks from a digital wholesale catalogue. Here, the platform sets its wholesale rates, and the users set prices based on what they think is suitable for their user group.

- Twiva (which also has relevance to our Platforms for Digitally-delivered Work) utilises influencers to sell products online.

- Social media platforms such as Facebook, WhatsApp, and Instagram enable a wide range of microenterprises (from apparel to used cars) to conduct business either enabled by these platforms or directly on these platforms.

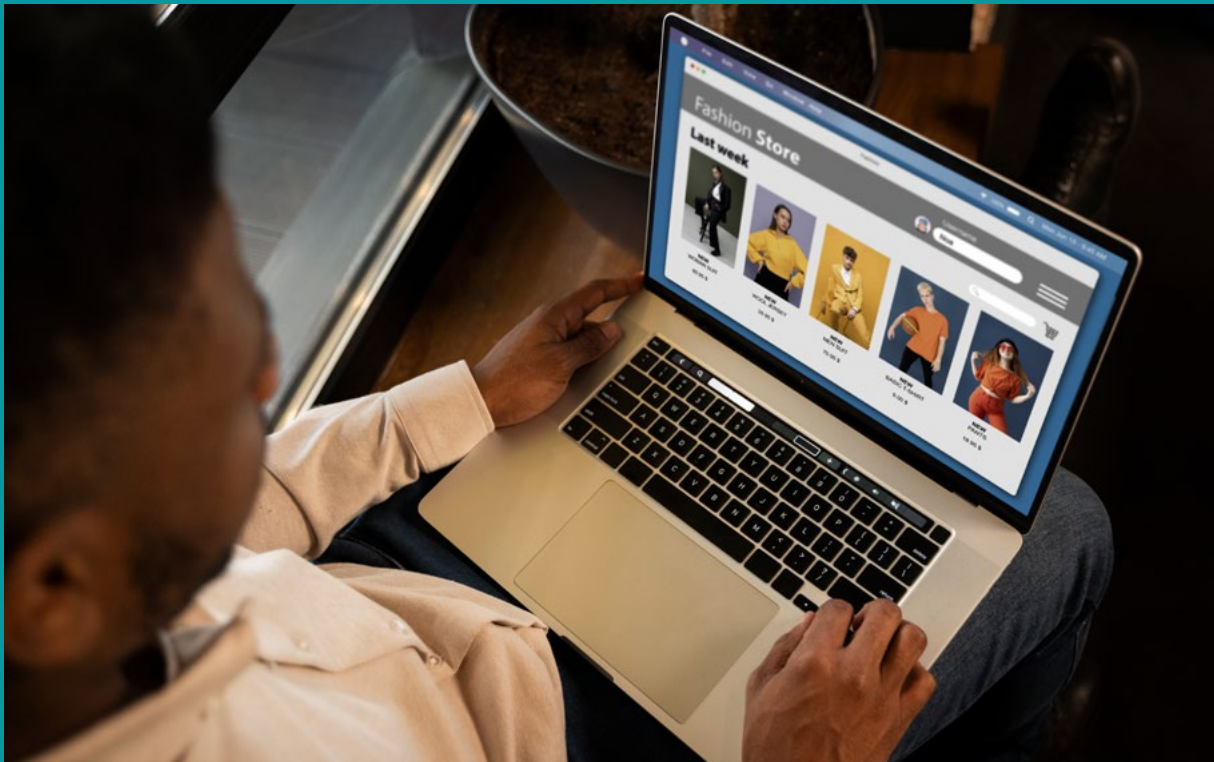## Business management tools / vertically- integrated platforms

There are a range of business management platforms which enable microenterprises to increase earnings or profits through enhanced efficiencies, increased market access, and/or reduced costs. This could involve offering one or more of:

1. **Day-to-day business operations**, such as scheduling appointments, inventory management, sending invoices, and processing payments. Platforms like Ricive and Trustwave seek to provide tools for SMEs to digitise tasks such as bookkeeping, logistics, bookings, and customer communications.

2. **Supply chain**. Platforms integrate with wholesalers or supply chain partners to reduce costs, increase access, and improve efficiency in supply chain management.

3. **Improved sales**. Platforms make it easier for micro-entrepreneurs to sell to existing or new networks. This could include features of ecommerce marketplaces, or could enable users to better market themselves through other channels like social media. Bumpa allows microenterprises to sell products, share invoices & receipts, request payment and record sales on Instagram without leaving the Bumpa app.

4. **Access to financing**. Through the above, traditionally informal microenterprises without 'historically viable' data points for credit scoring may now be able to gain access to a range of financial services, from inventory financing to growth loans.

Many platforms are seeking to offer multiple of these services, offering a sticky product and multiple revenue streams from one user. A huge number of actors in the retail and fast-moving consumer goods (FMCG) space have emerged over the last five years, which has been well-funded with significant investment capital in the last few years - Briter reported that over $490m was raised by 28 B2B commerce startups between 2009 and 2022. This included Trade Depot in Nigeria, Kenya-based Marketforce360, Kenya-based Wasoko, Nigeria-based Alerzo, and Nigeria-based Sabi, all of which provide some combination of supply chain (either direct provision or connection to distributors), logistics, business management, financing, market intelligence, and more, each with its own revenue model.
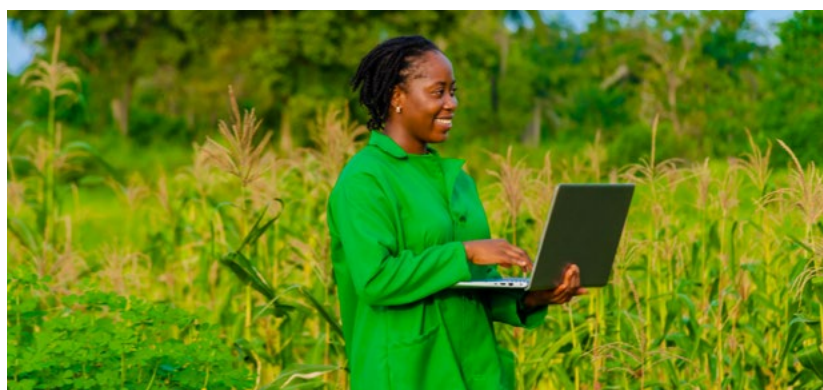
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There has been more of a gap around business management tools for the service sector. Though, as the Jobtech Alliance has written about, we are seeing more players beginning to enter this space, building vertically-integrated platforms for micro-entrepreneurs within specific sectors. South African platform Kandua, which might otherwise be seen as a gigmatching platform, has pivoted to presenting itself as a platform building 'HustleOS' for tradespeople. HustleSasa seeks to do something similar for creatives in Kenya, Fitted for tailors in Nigeria, Klas for tutors, and Orda for restaurateurs. We expect this space to grow.

Sector Analysis

We see the following trends as key themes for digital services for microenterprises over the coming years, both for business and jobs outcomes. We have separated sector analysis into two buckets: business and sector (challenges and opportunities) and worker and impact (challenges and opportunities).

Business and Sector (Challenges and Opportunities)

Need for offline presence in ecommerce ("tech and touch"): As is a common theme in these landscape scans, the role of offline operations is often critical in enabling viability of many 'digital' services for microenterprises. In the same way as the Amazon empire involves huge warehouses and delivery fleets, many ecommerce platforms need to take on significant offline operations, and with a lack of reliable ancillary service providers, platforms often need to build this infrastructure themselves- see Jumia's new warehouse and logistics network facility in Nairobi. While significant offline operations may improve business operations and long-term unit economics, it can limit scale and increase complexity of such businesses.

Some have argued that the inevitable endpoint of this trend is conversion franchising, where existing stores are converted into a franchise- this trend has already taken place in other industries, with agriculture and pharma as two significant case examples. Within the African market context, conversion franchising is an asset-light approach to taking existing microenterprises and standardising service, pricing, and approach and thus improving trust between businesses and consumers.

Microenterprises' significant dependence on ecommerce platforms: It is worth emphasising that these platforms bring opportunity and risk to microenterprises, especially as microenterprises increase their usage of such platforms. Within FMCG specifically, in 2022 around 1 in 5 micro and small retailers across Nigeria and Kenya used B2B ecommerce platforms to restock inventory, according to DFS Labs. The shutdown of these platforms can have a negative impact on their sales, resulting in decreased revenue, decreased market exposure, and difficulties in finding alternative sales channels. In early 2023 alone, the closure of B2B ecommerce startup Zumi impacted its 5,000 retailer & supplier customers, soon after the 2022 near-insolvency of Kenyan ecommerce startup Sky.Garden.

Need for FMCG players to differentiate as VC slows: As reported elsewhere, the huge early growth of the FMCG digitalization platforms has slowed somewhat, as multiple actors compete within a highly commoditized space. When venture capital was abundant, leading B2B FMCG marketplaces subsidised pricing to meet seemingly relentless demand, but with venture capital in Africa slowing (down 57% in Q1 '23 vs. Q1

'22), many platforms have also slowed their growth to preserve their runway- see notable examples of Alerzo's and Marketforce's recent layoffs. With many similar platforms offering similar supply chains and similar prices, platforms will need to offer more to maintain stickiness, and is likely to result in some M&A consolidation as a result of this trend.

An alternative ecommerce model for Africa? While not a unique insight of this landscape scan, the significance of the alternative trajectory of ecommerce in Africa, away from centralised platforms to social and agent selling, is interesting. As analyst Oliver Marz explained about the failures of centralised ecommerce platforms in Africa, "let small businesses do the selling." Does this mean that ecommerce can be *more* of an employment creator in Africa?

Strong overlap with fintech: Many of these platforms have fintech components, from payment processing to stock financing and loans. The role of financial services is likely to be significant in achieving viability in these business models.

Increasing role of AI: AI is likely to play a bigger role in such platforms, offering customer support through chatbots, monitoring social media, segmenting customers and more. There has even been experimentation around AI business co-founders (see HustleGPT) and business advisory services, so expect to see more in this space.

Worker and Impact (Challenges and Opportunities)

Need for tech-enabled skilling: According to   a 2021 World Bank and IFC study, the demand for digital skills is increasing and will comprise ~90 million training opportunities over the next decade in Kenya and Nigeria alone. "Skills for a digital age" (e.g., communications, financial management) are key to ensuring that owners of microenterprises are connected with the digital services necessary to help their businesses expand. Several key players are addressing the digital skills gap, including Mosabi, a mobile-first learning platform based in Sierra Leone that cultivates digital / entrepreneurial skills and financial literacy through a course completed individually in a guided fashion. More detail on tech-enabled skilling in our fourth landscape scan here.

High and increasing female participation, though with some caveats: Women are more likely to own microenterprises in Sub-Saharan Africa versus many other parts of the globe. However, women are also more likely to report fewer employees and lower individual sales / profits, according to the World Bank. Digital services for microenterprises can therefore have transformative gendered impacts. An often-cited point is that African ecommerce can increase by $15B by 2030 if women seller's ecommerce activities increase to match those of men. According to a study conducted by IFC in conjunction with Jumia, 51% of Jumia business owners in Kenya and Nigeria were women.

While there are grounds for optimism, challenges continue exist due to a myriad of reasons: the continent faces one of the highest internet usage gaps between men and women, COVID reversed some of the success of women-owned firms, and there exist behavioural differences of women entrepreneurs being less likely to engage in business-positive actions including seeking out paid marketing and accessing small-business loans. Last, women are more likely to experience online trolling and harassment vs. men (22% of women respondents to a 2021 Pew Research Center survey had experienced sexual harassment often or sometimes vs. 15% of men).

To combat this, platforms can address gender-specific challenges across the selling cycle. Examples include providing high-value female-specific tools and implementing a greater range of policies against sexual harassment that do not put female workers' ratings or earnings at risk. In addition, there is an opportunity for platforms to better track and use sex-disaggregated data in implementing gender-focused policies, with a majority of platforms not reporting a widespread use of such data. Opportunities for sex-disaggregated data would comprise operational and strategic changes to data collection, including the development of sex-disaggregated targets and KPIs and the validation of women-forward business strategies.

Reduced barriers to entry, but reduced entrepreneurial upside? While decades of youth employment programming in Africa has given cash grants to microentrepreneurs to buy stock, platforms like Tendo enable inventory-less microenterprise. Many social commerce platforms have next to no barriers to entry. They somewhat mirror microfranchising, in their ability to reduce barriers to entry and risk. This offers the opportunity for increased inclusivity (most Tendo users are women, for example), but these platforms also often reduce entrepreneurial upside with thinner margins and less entrepreneurial creativity. More on that in this podcast.

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Further Reading

1. Jobtech Alliance - Reading Library: comprehensive library on resources useful for jobtech platforms and others in the ecosystem

2. Jobtech Alliance - What do jobtech platforms do if there are no jobs?: details imbalance between population growth vs. job growth in Africa and the role that digital services play in providing the tools and infrastructure for workers to thrive

3. Jobtech Alliance - The digitalization of the African microenterprise: discusses the advantages of digitization of small business in Africa, plus notable company examples within the space

4. International Finance Corporation - Women and E-commerce in Africa: findings on women in ecommerce, including challenges and opportunities to close the gender earnings gap

5. The Flip Podcast - The Future of Work Won't Look Like a Job: podcast on the evolving future of work, including enablement of jobs via digital services

6. The hard limits of retail digitalisation in Africa: blog post on trends within the tech-enabled solution stack aiding small enterprises