

The Nigeria MSME Report 2022

Fuel for Africa's next Billion Businesses



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Objective

To provide an empirical source of truth based on data (from merchants on Kippa) that the tech ecosystem, investors, and policymakers can use to learn more about small and medium scale businesses.

Introduction

According to the Small and Medium Enterprises Development Agency of Nigeria (SMEDAN), MSMEs accounted for 96.7 percent of businesses, 87.9 percent of employment, and 49.7 percent of national GDP as of 2020. A report by World Economic Forum states that MSMEs represent around 90% of all firms globally, provide roughly 70% of all employment, and, by some estimates, contributes up to 70% of global GDP. This proves that Small and medium-sized enterprises (SMEs) are the engine that pushes global economies.

The success of MSMEs in Africa is the continent's hope for economic prosperity. This reality is confronted with severe and several challenges necessitating the need for a robust support system to help them grow and scale. Geared toward providing the fuel that will help African MSMEs become more efficient, profitable, and sustainable, Kippa took a trip around Nigeria engaging with MSMEs to understand their biggest problems and the appropriate solutions.

Premise

The research into the operation of MSMEs has led to the discovery of a riddle that we can't keep to ourselves, necessitating the publication of this report.

The goal is to provide you with a comprehensive understanding of how small and medium-size businesses operate in Nigeria and Africa; the unique business environment, the potential, the challenges encountered as well as insights into how technology can create solutions and foster growth. As more people in Africa embrace smartphones, and as mobile network penetration and internet access improve, technology products will become more accepted.

There is no better moment to deliver digital tools and services that will help MSMEs succeed than NOW!

SMEDAN estimates that there are approximately 39.6 million MSMEs in Nigeria as of 2020, a country with a population of 200 million people.

When compared to other countries with higher populations, such as the United States with 30 million MSMEs, India with 42 million MSMEs, China with 38 million MSMEs, and Indonesia with 64 million MSMEs, it is clear that Nigeria and Africa have significantly more entrepreneurs than these other regions.

According to the African Development Bank, 22% of Africa's working-age population are starting businesses. This is the highest entrepreneurship rate in the world. The entrepreneurial rate ranges from 9% in Algeria to about 40% in Nigeria and Zambia. This demonstrates the continent's entrepreneurial spirit as well as the continent's big young population. It's almost as though every Nigerian/African is naturally entrepreneurial.

The higher density of MSMEs can also be explained by the fact that harsh economic environments, lack of access to capital, and poor business practices have stunted the growth and transition of micro-businesses. Or that the proliferation of MSMEs is a result of unemployment.

MSMEs in other emerging markets like India, Brazil, Mexico, Peru, and Indonesia outgrow their founders, employ more than one person, grow and record profits over time. The majority of MSMEs in Africa don't, even though they have that potential, 80% of businesses in Africa fail within five years of starting up. For example, SMEDAN reported a reduction in the number of MSMEs in 2020 of 39.6 Million as against 41.5M in 2019 which accounts for 3.7% reduction in less than a year. Apart from these, African MSMEs are majorly a one-person show, they often don't grow to employ more labour, and they don't scale to out-live their founders or become generational.

With this reality comes the big 'Why?'

"That's the fundamental question we tried to answer in this research; we went a step further to see what can be done to change the narrative and whether the problem is worth addressing. This report is a first of many of its kind that Kippa will be producing as we work with MSMEs and unravel more mystery."



A close-up photograph of a young Black woman with her hair in a bun, smiling broadly. She is wearing a vibrant, ruffled top with horizontal stripes of yellow, black, and red. The background is a busy market stall with various items on display, including bowls of food and colorful containers. The overall atmosphere is bright and positive.

MSME Behaviour and Attributes



We looked deep into some of the behaviour and characteristics that define African MSMEs to better understand how they operate, because these qualities are determinants for many of their operations, and understanding these features is crucial to understanding merchant operations.



MSMEs in Nigeria by their numbers

39.7 million MSMEs

38.4 million

are Microenterprises, representing

96.9% of the total

1.2 million

are SMEs, representing

3.1% of the total

MSMEs in Nigeria contributed

46.31%
to the GDP

and accounted for

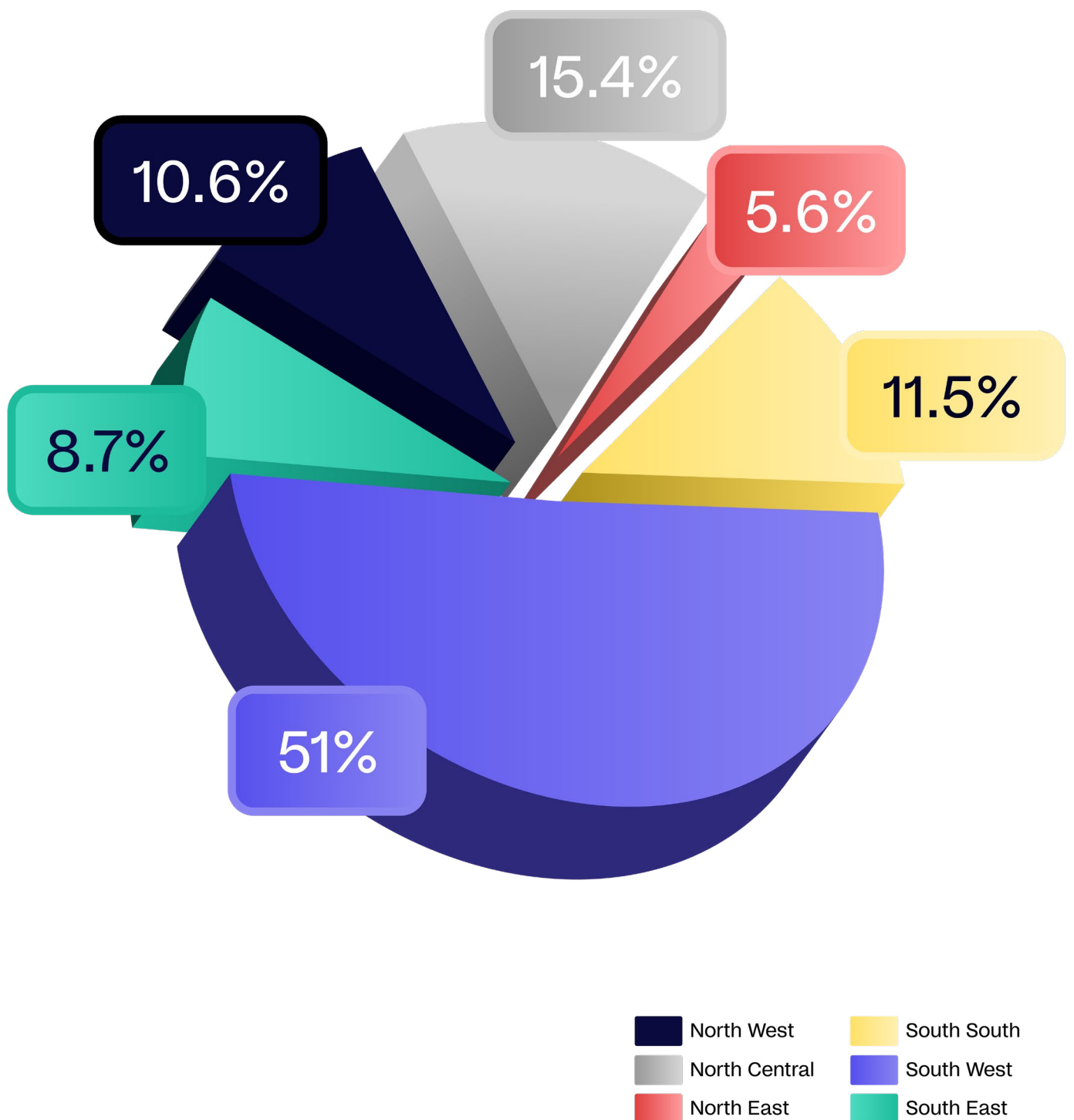
96.7% of all businesses

MSMEs accounted for

6.21%

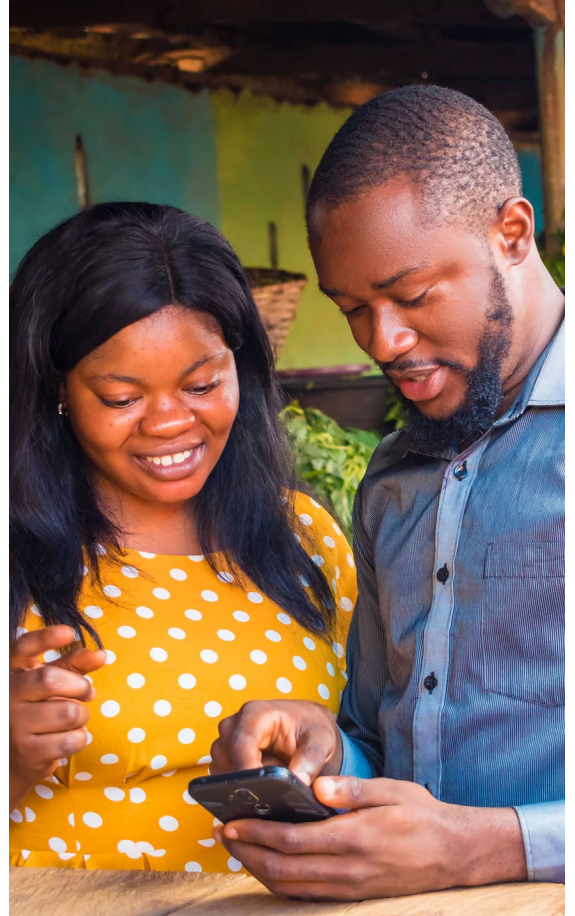
of gross exports

Where are MSMEs located and domiciled across Nigeria?



From the 23,618 MSMEs surveyed across the 36 states of the country, majority of Nigeria's MSMEs are in the south, with Lagos, Oyo, and Ogun accounting for a significant portion of the total. Based on merchant activity on Kippa, the city of Lagos alone is home to 19% of all MSMEs in the country. As a result of Lagos' population, urbanization, and some cultural variations at play, more economic activities are taking place in the state. Both men and women, as well as white-collar professionals, are in the business of selling something, generally referred to as a "side hustle".

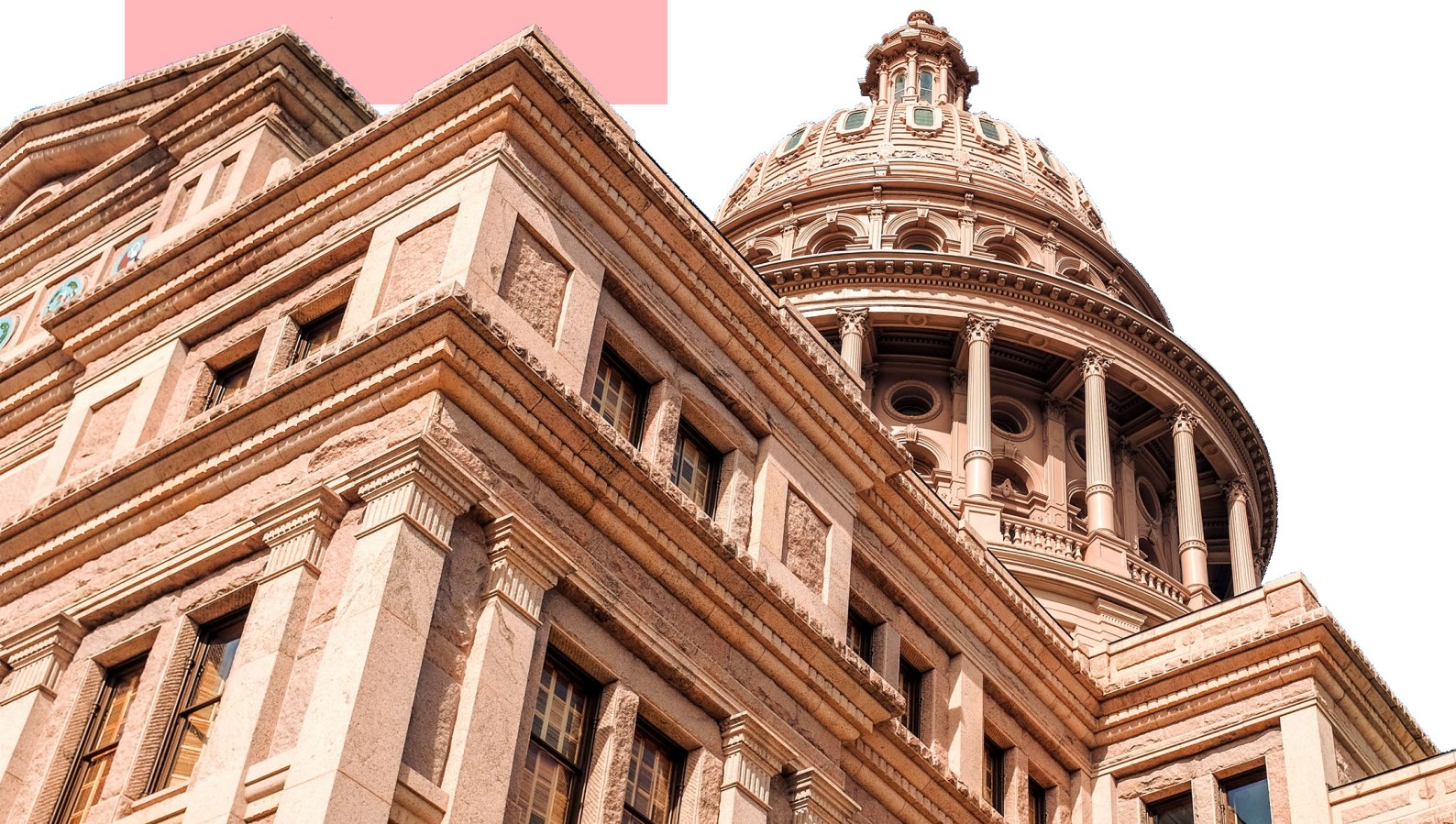
According to the National Bureau of Statistics, Nigeria has 43 million households, with an average of one entrepreneur per household. Lagos has over a million homes with over three million MSMEs, implying that practically every family in Lagos has three entrepreneurs on average. Many young people in Nigeria have discovered that a single source of income is insufficient for survival, which is why a larger percentage of Nigerian entrepreneurs are between the ages of 18 and 50. According to the FATE Foundation's report on the State of Entrepreneurship in Nigeria, 67 percent of Nigerian entrepreneurs are between the ages of 18 and 35. Furthermore, businesses in the South are also more open to embracing technology to manage their business. One reason for this may be because the south is more urbanized, and has more internet connectivity, and smartphone usage than the north. The North also has a lesser rate of technological adoption and research reports has suggested this can be attributed to the insecurity,



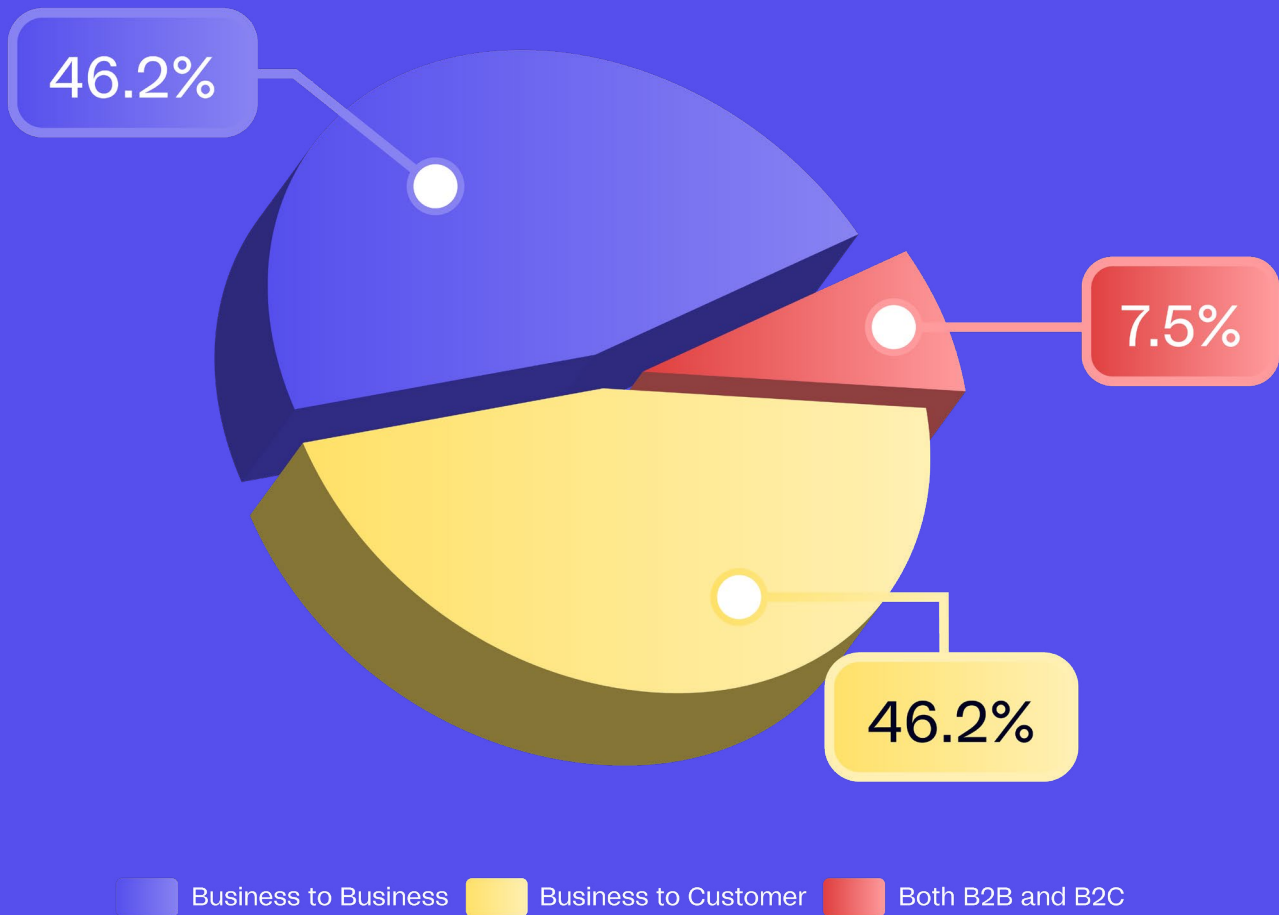
banditry, terrorism, and kidnapping in the region, that destabilised residents and their businesses.

But besides the economic advantages that favour the adoption of digital technology by MSMEs in states like Lagos, FCT, Abia, Oyo, Ogun, Rivers, and Delta, digital commerce is also increasing in states like Kaduna, Edo, Kano, Anambra, Akwa Ibom, and Enugu. This as stated earlier could be linked to improved internet connectivity and more affordable smartphone access.

Another important factor that may be at play is Government reform and policy that facilitates the growth of MSMEs. For example, The Kaduna state government established the Kaduna Investment Promotion Agency (KADIPA), with the mandate to handle all investment in the state and create an enabling environment for businesses to thrive with the use of technology. Other states have followed this trajectory, such as Edo, which established the Edo State Investment Promotion Office (ESIPO), and Nasarawa, which established the Nasarawa State Investment Development Agency (NASIDA). These agencies have played a key role in strengthening the business climate in the states.



Business model adopted by MSMEs operating in Nigeria



Half of the companies polled use a B2C strategy, selling directly to consumers, while the other half use a hybrid strategy, selling to both consumers and businesses. The majority of wholesalers sell to small-scale retailers (merchants) as well as consumers. Solely 7.5 percent of MSMEs are strictly B2B, meaning they only sell to other firms. It's even

more fascinating to learn that most of these companies rely on pen and paper or ledgers for bookkeeping and keeping track of critical trade data. Some traders rely solely on their heads to keep track of things. This is one of the reasons why MSMEs struggle to keep track of sales, maintain adequate inventory, and keep track of goods, all

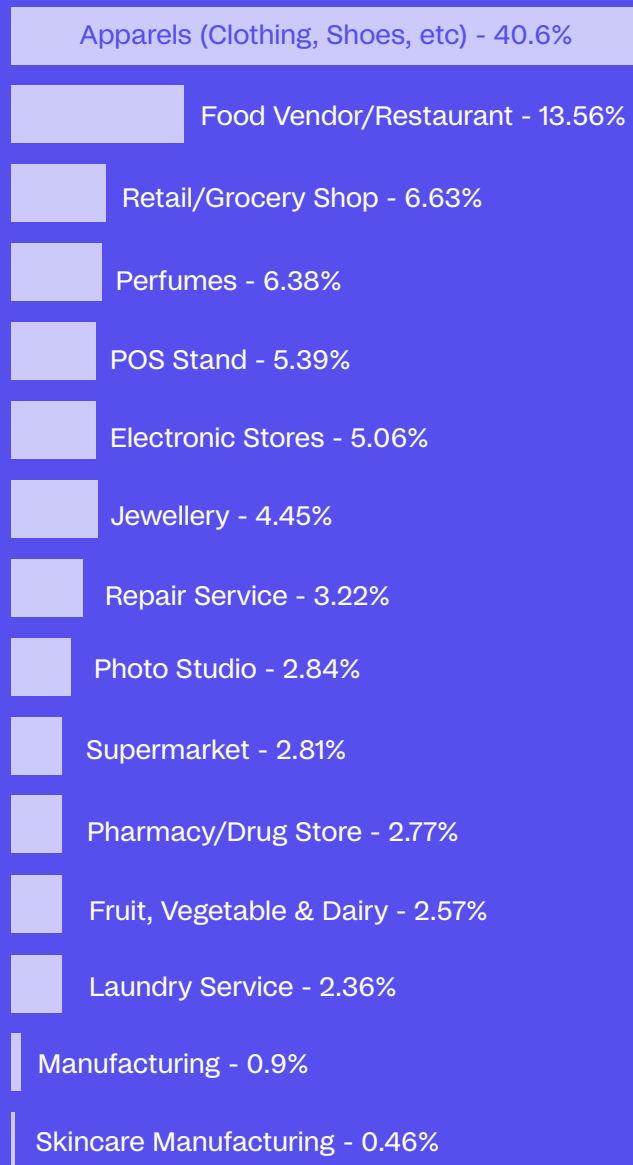
of which Kippa helps them with. It's also worthy to note that when a company grows and expands, a strictly B2C SME may evolve into a hybrid B2B and B2C model, and a strictly B2B SME may evolve into a B2C and B2B model as they gain a deeper understanding of their end customers. We have seen how well the approach works for small firms.

Business Categories

Physiological needs such as feeding and clothing take the lead in terms of the business sector with the most merchants, favouring Abraham Maslow's hierarchy of needs.

Clothing & Apparel accounts for 40% of the total businesses, this is followed by the food and restaurant businesses (13%) and Retail/Grocery stores (6%). Shelter and Feeding are two essential necessities that every individual survives and lives by, hence the majority of MSMEs fall into these three categories. Shelter and feeding are essential needs, and they will always be in need.

0% 50%



“Clothing and Apparel accounts for 40% of the total businesses, this is followed by the food and restaurant businesses (13%) and Retail/Grocery stores (6%).”

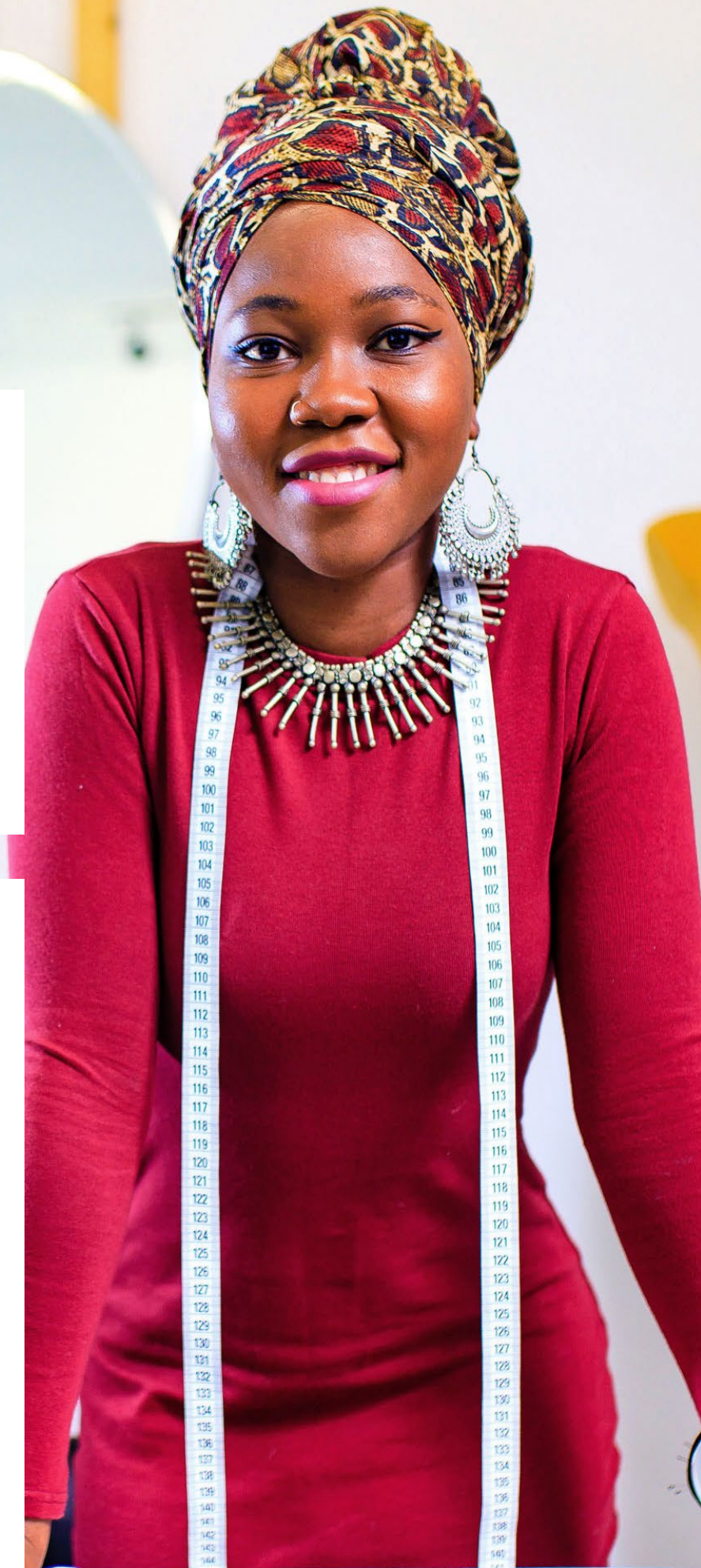
Because merchants in Africa don't have as many opportunities to experiment or try out something completely new unlike their counterparts in the developed markets, many entrepreneurs may want to focus on products that always sell. This is the case with Halima, a typical MSME owner in Nigeria, her story is both a touching and interesting one that gives insights into the struggles and wins of an average MSME entrepreneur.



Halimah runs a clothing and apparel business that she started in 2018. She started the business with her life savings, and a few contributions from family and friends, these are sources of capital that she could not afford to lose.

In her words;

“The major reason why I started this clothing business is because I love fashion and I believe clothes will always be a need because everyone wears one. However, I later realised the hard way that running a successful business takes more than the need, one need to understand much more in terms of how much is coming in and going out of the business, how much profits one is making, documentation, and much more.”



It was sad that she had to close down her business after two years in 2020 during the COVID 19 pandemic as her business was badly affected by the pandemic.

She said “I even tried to take a loan from a microfinance bank along the way to boost the business during this period though it was a high-interest loan, I didn’t really mind as that seems like the only hope to raise funds because I didn’t want my business to fail but to my amazement, a major requirement was for me to provide a financial statement of my business and of course how on earth could I get that, I am not an accountant, neither do I have one, and that was how the hope for loan was declined and the business died a natural death.”

In 2021, Halimah decided to give entrepreneurship another shot, she started a new business where she sells female clothes and fashion items, she came across the Kippa app sometime in August of 2021 and signed up immediately.

Halimah uses the Kippa app to manage her business finances, and inventory, track her debtors, and generate invoices for customers and recently started receiving payments on the app as well.

Halimah has been recording profits month after month and has even expanded her business to open another branch within a year of starting this new business. Now she can even access loans as she can now provide a financial record of her business. In her words “Kippa should have come earlier to save my first business in 2020”

There are many Halimahs with similar stories all around Africa, and what Kippa is doing is helping to prevent these enterprises from collapsing and even offering those who have failed a second opportunity by making it simpler for them to start and grow their business.”

“Running a successful business takes more than the need, one need to understand much more in terms of how much is coming in and going out of the business”

The other reason why most merchants are into the apparel or food business is that, unlike in developed markets where big clothing brands like Nike, Channel, Gucci, etc. produce what people wear, the majority of Africans have to rely on their local manufacturers to make garments that are affordable and sometimes a dub of global names. But this isn't just a problem in Africa; China was once in this situation, but thanks to interventions and support from entrepreneurs like Alibaba, as well as massive investment from western investors, the Chinese manufacturing sector has been transformed into a trillion-dollar economy that now exports standardized products to every country on the planet.

This potential is also present in Nigeria, as evidenced by the Ariaria market in Aba, southeastern Nigeria, which has been dubbed "Africa's China." This market is the manufacturing center for a variety of products, including shoes and textiles, which are used in Nigeria and even exported to other African countries. This market has the potential to become the next China or even bigger, exporting items around the world and allowing Nigerian MSMEs to flourish and thrive.



“Emmanuel operates a shoe business in Aba; these shoes are locally created directly in Aba market and are sturdy, inexpensive, and long-lasting since they are made of high-quality leather that lasts for years.” Emmanuel is an expert in this craft; he has been

doing it for 15 years, but he is the only employee and has 2 apprentices, he hasn't been able to expand or grow the business beyond the stage it was 10 years ago; when asked how the business has been doing and if he is thinking of an expansion, he said



“ The business is what I and my family has been living on, it pays the bills but that is it, I also want to grow the business, build more branches and produce higher volumes and even export my products but no money for that expansion.”

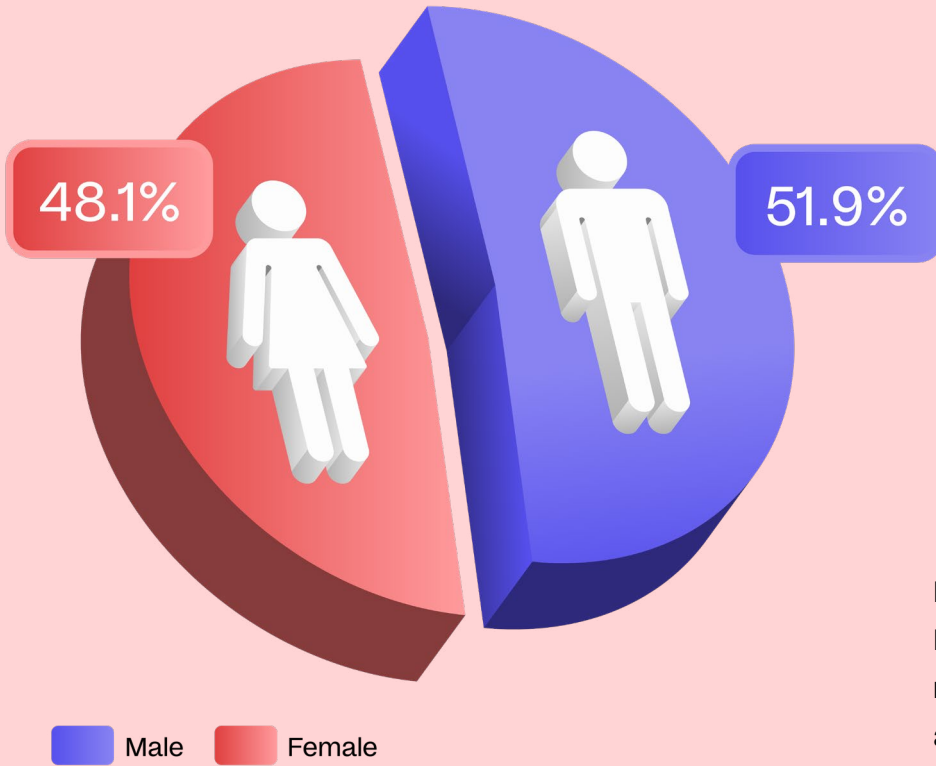
When asked what his growth rate has been over the years, he couldn't provide any solid response as there is no documentation of that, nor does this business have any proper structure which makes it hard for any meaningful growth to happen even if he could access the funds for expansion; and this is a business with the potential to expand, employ more labor, grow, and compete globally. This reality is complicated by a lack of appropriate digital tools and support systems to make this growth happen. Emmanuel began using Kippa in October 2021, and within six months, he has been able to record all his transactions, understand his finances, register his business and record profits, now he is already looking forward to accessing a low-interest

loan to make his expansion plans a reality.

Millions of Emmanuel are distributed across Nigeria and Africa, working in various sectors and experiencing the same issues. This is the reality they speak of when they argue that African enterprises have potential, but lack the tools and resources to transform those potentials into economic advantage and wealth. Kippa is attempting to bridge this gap by providing entrepreneurs like those in the Ariaria market all the digital tools they need to establish and scale their businesses and compete globally.”

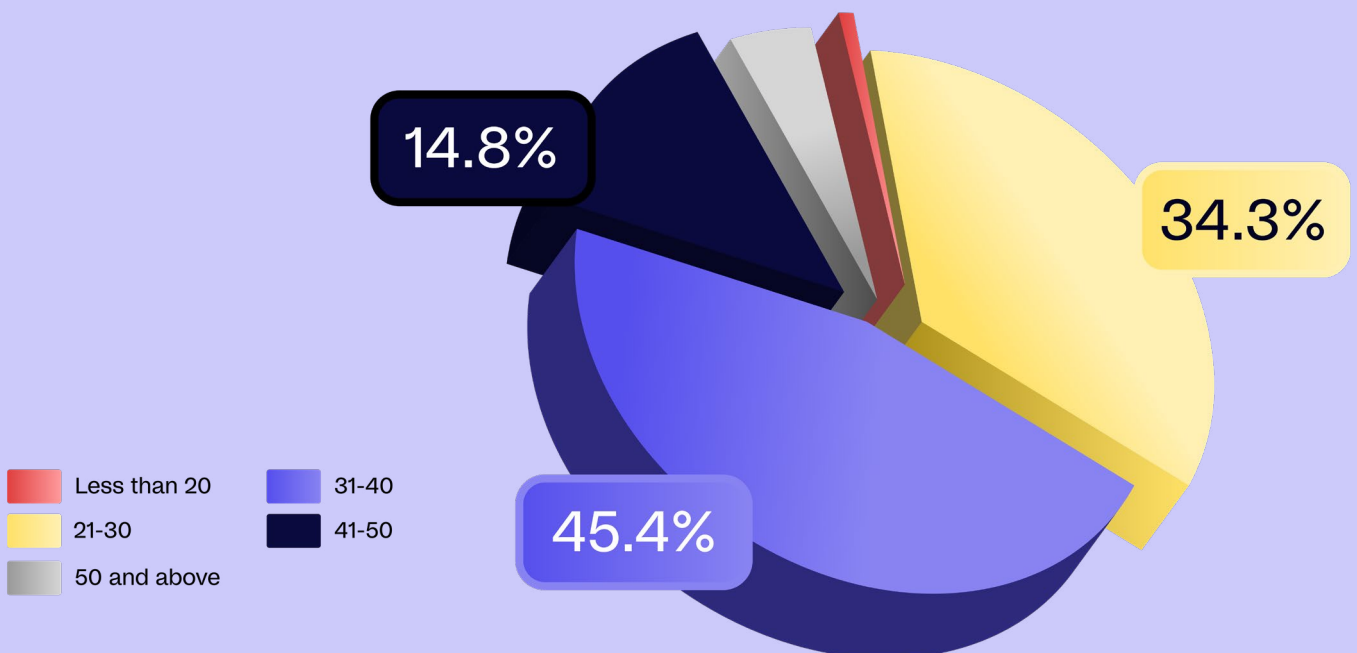


Gender and age of MSME Merchants



In terms of gender, 52% of MSMEs surveyed are run by males while 48% are owned and operated by females.

Age Group



The majority of SME owners polled are between the ages of 20 and 50 and have some level of literacy, suggesting that many SME owners can use technology to help their businesses grow. As long as you are agile and youthful, you can use technology to operate your business. However, most of these MSMEs are unwilling to pay a monthly fee for bookkeeping because their business is a

means of survival. They, too, desire for more, but lack the necessary skills and digital tools to reach that next stage of development, so they continue to play at the ground level. While some may perceive this as a problem, we see it as an opportunity, a potential worth exploring and a market ripe for expansion.

This is why we decided to offer bookkeeping services

on a freemium model and then stack other services on top of that, for which they will be charged and will gladly pay once they see the entire impact of digital tools on their business.



Key Takeaways

1.

Business thrives when the government performs its duty in creating an enabling environment

2.

Males own and operate more businesses than females in Nigeria

3.

Northern states are becoming open to technology adoption, but insecurity is a key roadblock.

4.

Nigerians have a strong entrepreneurial spirit. When compared to other countries with similar or even bigger populations, such as India, Indonesia, China, Brazil, and Mexico, Nigeria has more MSMEs.

5.

Africa is the world's youngest continent, and most African MSMEs are run by youthful, nimble, adaptive, and capable persons between the ages of 18 and 50.

6.

Apparel, food/restaurants, and grocery stores lead the way in terms of business categories with the most merchant

7.

The most significant impediment to MSMEs' growth is not a lack of capital; rather, it is a lack of the skills necessary to manage a successful firm, as well as a lack of process, corporate structure, and business acumen.



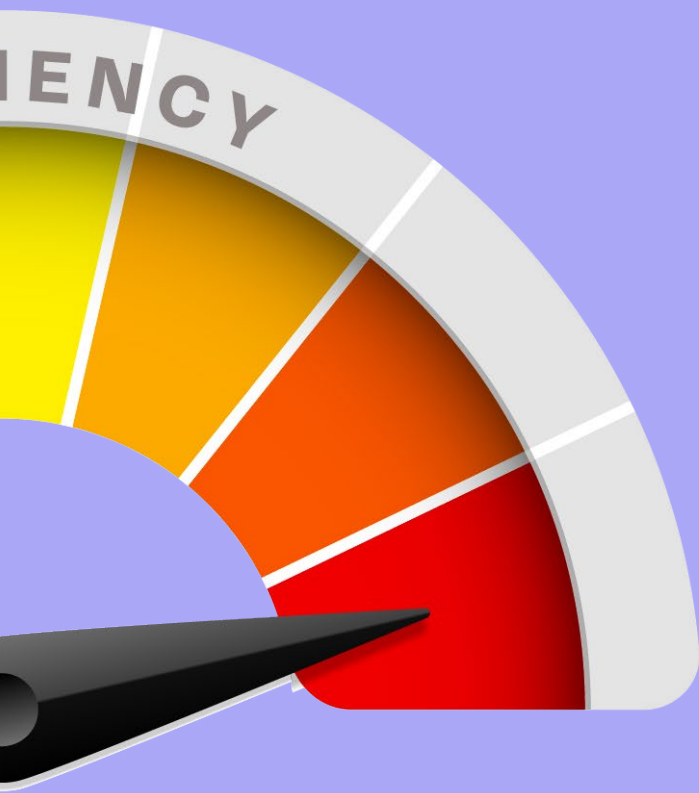
MSMEs want Efficiency

Africa is a huge market for large companies, and so it is for Small and Medium-size Enterprise on the continent. Unlike large companies, MSMEs have unique challenges, including limited access to financing and digital infrastructure, lack of scale economies, and corporate structure as well as skilled labor. Innovative firms such as Kippa are striving to level the playing field by creating digital tools to help SME entrepreneurs succeed in this environment. Digital bookkeeping, inventory management, debt recording, affordable capital infrastructure, and payment services that work are some of the technologies that help MSMEs become more efficient, profitable, and scale over time.

For example, 60 percent of MSMEs polled utilize Kippa's free bookkeeping application to keep track of their transactions and determine how much money is coming in and going out of their company. To record debit and credit transactions, 21% utilize the cash book tool, while 50% use the inventory management tool to keep track of their stock and supplies.

Previously, they used pen and paper for this and could barely extract any insights from the records, especially as the records piled up; however, with the Kippa app, they can generate reports of weekly, monthly, quarterly, and yearly transactions, gaining deeper insights into their business and becoming more informed about how to manage and grow the business.





This is the digital advantage: by overlaying these digital tools on top of SME's traditional offline processes, it becomes more efficient and opens up the business to more growth. This growth, though, isn't just for them; it's also for firms like Kippa and more returns to VCs that finance innovative startups solving Africa's toughest problems.

According to Statistica, the number of on-line purchasers in Nigeria was at 76.7 million in 2020, with internet penetration at around 46%. COVID has also aided this, since more people are eager to shop online, and MS-MEs require digital tools to compete effectively at this level.

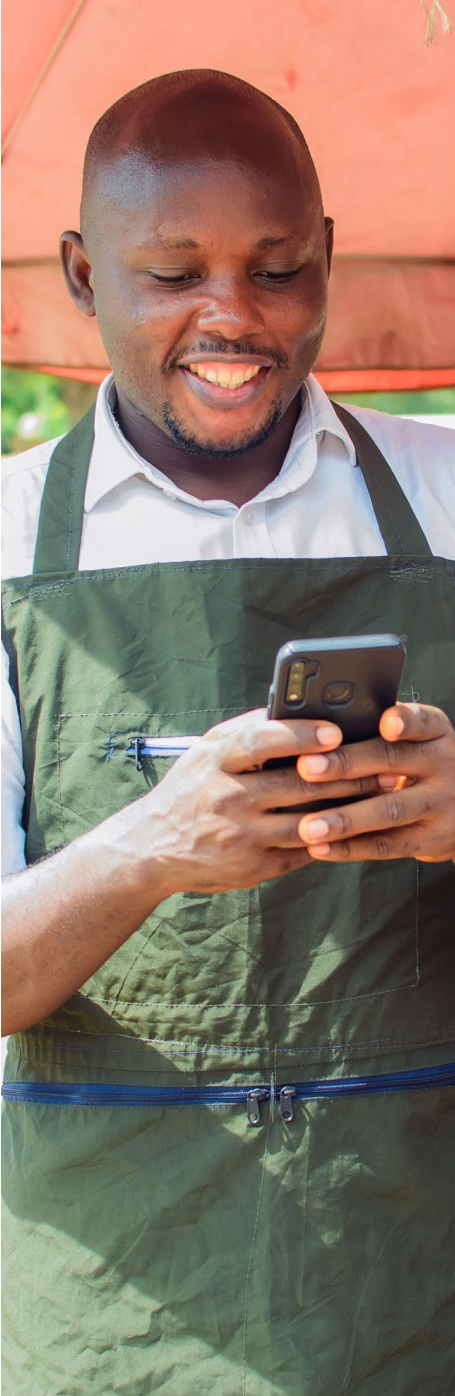
The Kippa e-invoicing tool, which is used by more than half of the MSMEs polled, offers the following benefits to businesses:

- Effortless tax preparation; The information from the e-invoice may be tracked in real-time and auto-populated on tax return forms and e-way bills, making the tax filing process easier.
- It also makes data reconciliation and correctness more efficient during manual data entry.

How do digital tools aid MSMEs' operations in Africa?

This is how digital technologies are supporting the growth of MSMEs in Nigeria.

How Merchants use the Kippa App

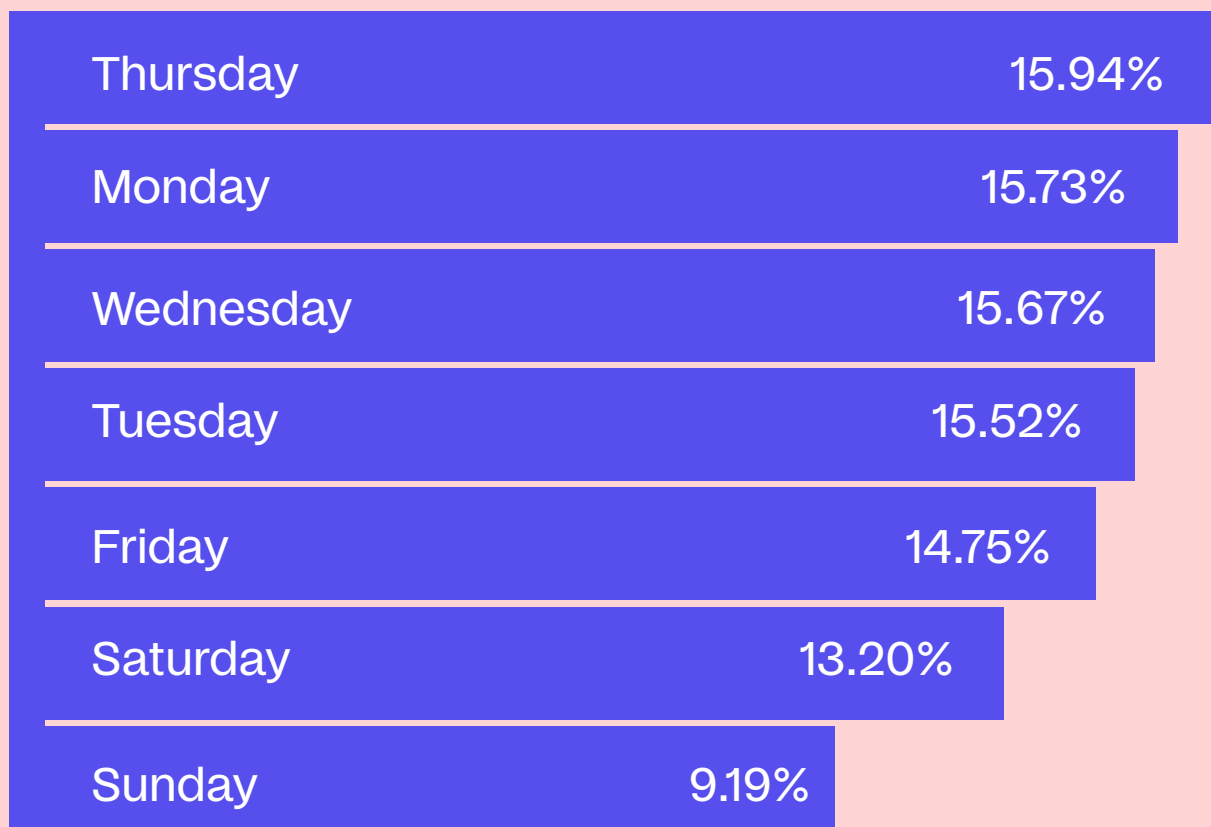


Transaction	Percentage
Transaction (money in and out)	60%
Cashbook (debit and credit)	21.44%
Inventory (product catalog)	50%
Invoice	25.93%

What day of the week Merchants make use of the Kippa App mostly

On weekdays, the most transactions are recorded because it is when consumers are most likely to transact. Mondays and Thursdays are the busiest days in this regard, with Mondays being the start of a new week and everyone

anxious to get something, and Thursdays being the end of the week and no one wanting to be stranded over the weekend while they're either resting, lounging, or Netflixing.



Key Takeaways

1.

The majority of MSMEs are concerned about how much money they are bringing in and out of their business. They make use of the book-keeping feature well.

2.

The mornings are for business, and the evenings are for recording.

3.

In 2020, there were 76.7 million online buyers in Nigeria, and internet penetration was approximately 46%, implying that digital sales will be the next big thing, and MSMEs would want all the digital tools to compete effectively in this new normal

4.

Credit infrastructure that is easily accessible and affordable is critical for MSMEs to develop and grow their businesses. Most bank loans are difficult to obtain for MSMEs, and the requirements and procedures are typically difficult to meet.





Interview with a Stakeholder





Interview

Dr Friday Okpara

Director of Partnerships
and Collaboration at Small
and Medium Enterprises
Development Agency of
Nigeria (SMEDAN)

Image obtained from www.nfnvnigeria.org

We didn't want to work in silos; instead, we wanted to gain a broad understanding of SME operations, and in order to do so, we needed to interact with all stakeholders in the sectors. Merchants are just one of those stakeholders; while they are the most important, there are other stakeholders, particularly

agencies that work with MSMEs, and one of them is the Small and Medium Enterprises Development Agency of Nigeria (SMEDAN), which we reached out to and spoke with Dr. Friday Okpara, the Director of Partnerships and Coordination at SMEDAN.

What are the most significant MSMEs difficulties that SMEDAN has identified over time?

Dr. Okpara believes that MSMEs are recognized around the world as the engine that drives the economy, which is why every country has a government agency that works with them, such as the Small Business Administration (SBA) in the United States, which supports American small businesses, and SMEDAN in Nigeria, which supports Nigerian small businesses. He added that MSMEs in Nigeria have several challenges, including a lack of market access, money, contemporary technology, support services, and infrastructure to help them establish and develop their businesses. According to him, MSMEs in Nigeria operate as their own local government because they provide almost everything they require with little or no government assistance, they provide their own electricity and security, and these are issues that impede their growth and prevent them from competing globally; all of these issues

eat into their cost of doing business. He also noted that power/electricity is a key difficulty for MSME, according to a World Bank study, while access to market is a huge problem for MSMEs, according to a Lagos Business School research, and access to finance is a major problem for MSMEs, according to a SMEDAN report. Multiple taxation, a lack of business structure, and inadequate bookkeeping are all issues. These are issues that impede SME growth, and the COVID-19 epidemic compounded the situation by eliminating a large number of enterprises.

What initiatives is SMEDAN implementing to support and enable the growth of MSMEs in Nigeria?

SMEDAN's mandate, according to Dr. Okpara, is to promote and facilitate development programs, policy ideas, instruments, and support services to accelerate the development and modernization of MSME operations.

We collaborate with other sister government agencies, private organizations, and stakeholders to make this mandate a reality.

To that end, we've been developing programs and initiatives to assist MSMEs in building their capacity to run their businesses successfully, as well as gaining access to affordable financing and business tools.

These are some examples of such programs:

- SMEDAN has granted 150 qualified Business Development Service Providers (BDSPs) Practicing Licenses. These Business Development Service Providers (BDSPs) are professionals who will help MSMEs create the capability they need to be economically sustainable in the long run.
- MICRO AND SMALL ENTERPRISE JAIZ/SMEDAN MATCHING FUND PROGRAMME.
The goal of this intervention is to provide credit to the sub-sector as a promotional instrument for increasing company output, competitiveness, and job creation.
- In the past, SMEDAN has partnered with Facebook and Google to give digital skills to small businesses.
- SMEDAN's National Business Skills Development Initiative (NBSDI) focuses on entrepreneurship and vocational skills training and empowerment for youth.
- SMEDAN intends to establish a 'Rating Agency' to make loans more accessible to small enterprises. It will be set up in collaboration with the Nigerian Export-Import Bank (NEXIM), the Bank of Industry (BOI), and others.
When fully implemented, the new national policy on MSMEs will create 41 million jobs in three years.



What specifically is SMEDAN doing for MSMEs in Nigeria in terms of provision of credit and training (particularly financial management)?

Due to the risk involved, obtaining credit is difficult. Large firms have a corporate structure, a financial history, and a proper record of their books, but MSMEs do not, which is why banks are hesitant to lend to them. The truth is that there are many reliable sources of finance for MSMEs, but the issue is the risk involved for lenders. Some commercial banks, such as FCMB, Fidelity Bank, and First Bank, operate lending programs for MSMEs, however the criteria are typically difficult to meet. Now the key question is who will de-risk this industry. The problem is that we don't have the means to de-risk funding, for example, we don't have the tools to examine MSMEs' credit histories, commercial banks have short-term loan portfolios that aren't always suited for MSMEs, and another issue is double-digit interest rates. To completely overcome the problem of

access to financing, a united effort of several agencies and stakeholders must come together to solve the problem.

The Nigerian Central Bank, commercial banks, development banks, and private lending institutions must all be willing to lend to MSMEs. To make it easier for lenders to give them loans, MSMEs must do their part by creating a bankable business plan, tidying up their books, keeping proper records of their transactions, putting a structure to their business and making it appealing, as well as demonstrating their willingness and capacity to repay these loans. It is critical to establish credit rating organizations that assess MSMEs, and SMEDAN is currently planning to do so.

Banks prefer sending money to pools and cooperatives because they check themselves and guarantee members pay back. Trade groups may also organize their members into pools and cooperatives and access finance collectively.

What is SMEDAN doing for Studentpreneurs?

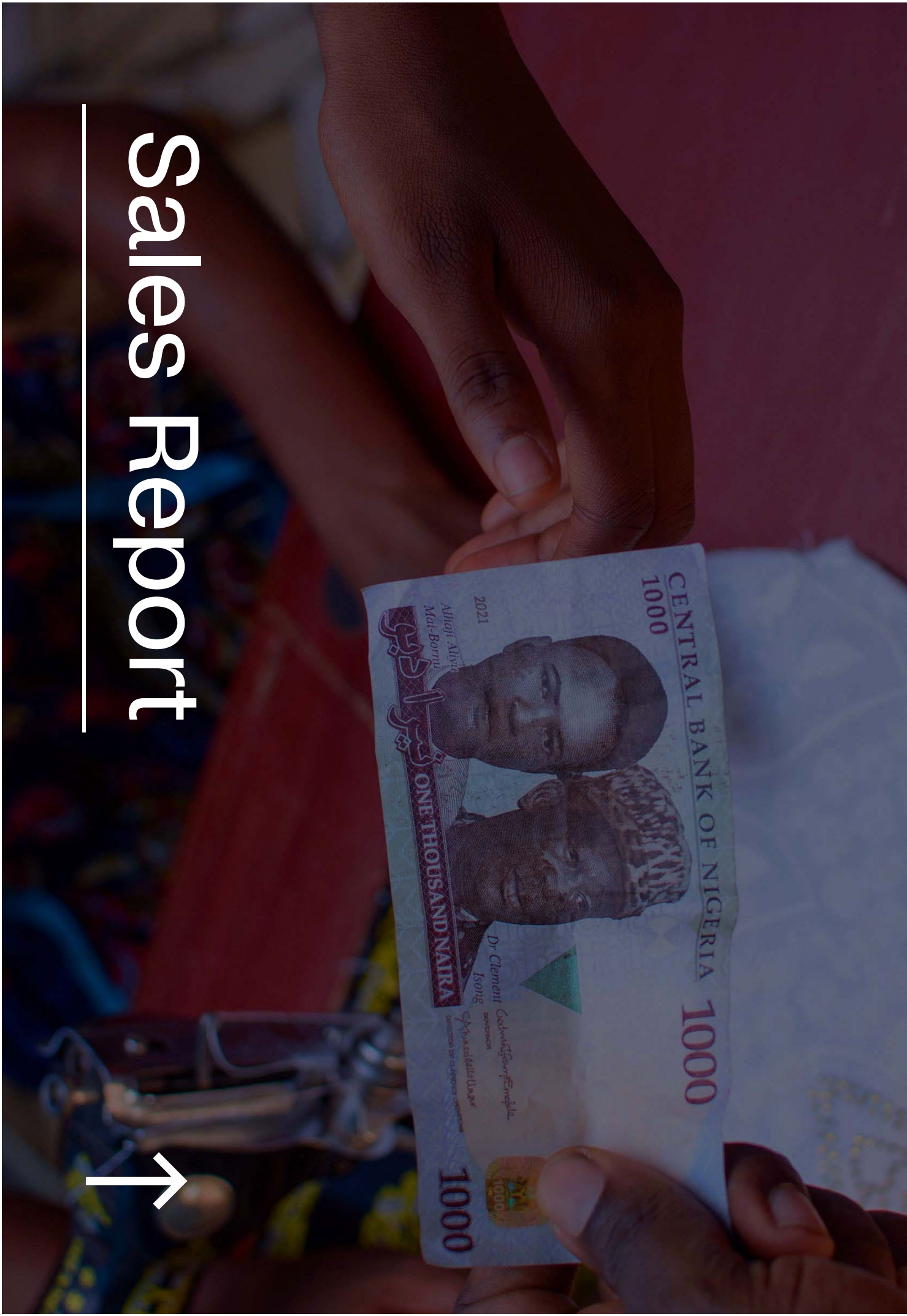
The Mindshift program was created by SMEDAN to help youth shift their perspective from working for someone else to creating something on their own and thinking about entrepreneurship.

Another program, NEDEP, focuses on skill acquisition, entrepreneurship training/business development service (BDS), and financial access. The OLOP platform is being used to implement the entrepreneurship training/business development service component, while the Bank of Industry (BOI) is handling the access to financing component and the Industrial Training Fund is handling the skills acquisition component (ITF) TERTIARY INSTITUTIONS ENTREPRENEURSHIP SCHEME (TIES) OF THE CBN - The Scheme's goal is to make it easier for undergraduates and graduates of Nigerian polytechnics and universities with breakthrough entrepreneurial and technology concepts to get funding.

What strategic collaborations does SMEDAN hope to form, particularly with the private sector, to help them better assist SME growth in Nigeria?

SMEDAN is Open to collaboration, we have collaborated with Central Bank of Nigeria, Nigeria Incentive-Based Risk Sharing System for Agricultural Lending (NIRSAL), Development Bank of Nigeria (DBN), Bank Of Industry (BOI), Nigeria Export Promotion Council (NEPC), Nigeria Export-Import Bank (NEXIM), commercial banks and other private institutions that can help SMEDAN in achieving its mandate. We are always open to collaboration.





Sales Report



Since the launch of Kippa, we have observed a continuous increase in the number of times merchants utilize the app to manage their business. Our customers logged the most transactions in the ember months, as Christmas and the new year approach, as well as the first quarter of the year. Clothing/apparel (25 percent), retail/grocery stores (24 percent), food vendors/restaurants (22 percent), and pharmacies (20 percent), account for a considerable share of these transactions.

This steady increase in merchant adoption of Kippa demonstrates that MSMEs are willing to adopt digital tools to optimize their business. COVID and its incessant lockdown and restrictions which negatively impacted many businesses have given most merchants a wake-up call to digitize their processes in order to reach more customers, generate more revenue, and become more competitive in order to unlock more growth for their business.

Seasonal Sales

Impact of Seasons on sales

Impact of seasons on sales became a necessary phenomenon to explore as business owners report changes in sales, profits, and or losses depends on seasons and the type of business.

In view of this, we analysed sales during the Christmas

period and found that manufacturing enterprises, pharmacies, supermarkets, and electronics retailers all saw an increase of 40%, 14%, 12%, and 8% respectively in sales during the Christmas sea son. This is due to the fact that consumers are more in

spired to buy more groceries, upgrade their electronics and lighting, purchase new devices towards the end of the year, and begin the new year with a fresh resolution.

Transaction volumes of MSMEs

Within our nine months of operation, we have recorded over \$3 billion in transactions that has been recorded over time.

\$3 Billion

\$3 Billion

\$3 Billion



Report on Credit Sales by Merchants

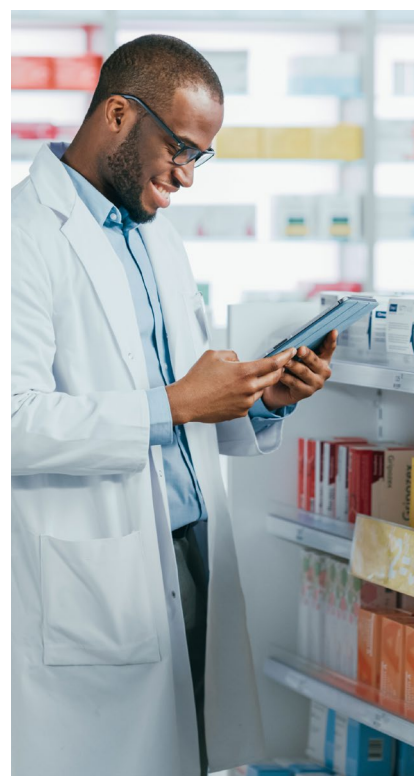


Kippa helps merchants recover debts 3X faster

“Mr. Emeka runs a small pharmacy in his community, and he frequently stocks essential medicines that meet the most urgent medical needs of people in the community. Mr. Emeka is well-known and has built strong ties with the community, and he frequently sells on credit to people in that community. This wasn’t a major problem at first because his debtors usually pay back within 30 days, which is just in time for him to need new stocks until the COVID-19 Pandemic. Things took a wild turn when the COVID pandemic hit almost everyone economically, and the majority of his debtors started taking longer time to pay back, with 30 days turning into 60 days and then forever, he won’t even remember some debtors until he sees them in person. This put a significant limit on his operations because debtors held critical funds needed for operations.

Mr. Emeka began using the Kippa app, and he was able to track all of his debtors and send them automatic debt reminders thanks to the debt tracking and reminder function.

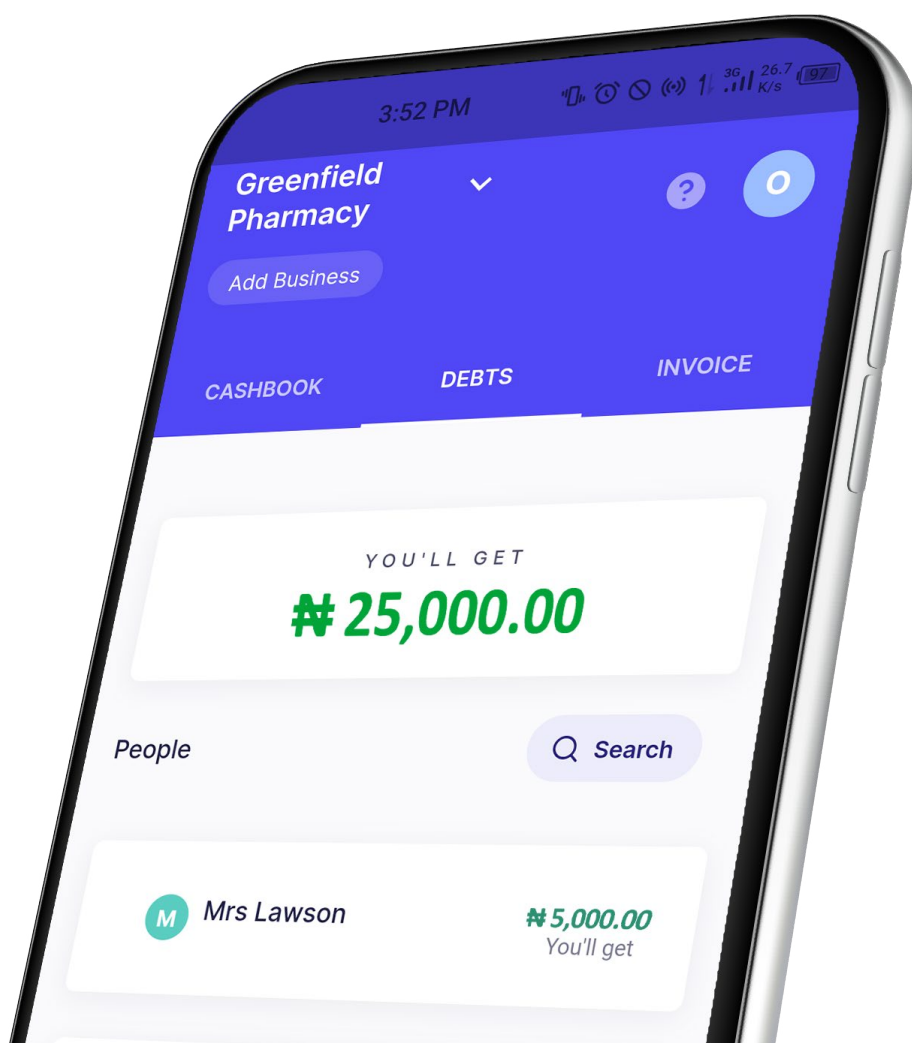
“Debts that used to take up to two months to recover previously, now I get paid back in two weeks or less in most cases, and bye-bye to having to remember all my debtors, I simply use my app and I can see all of them and remind them, Thank you Kippa,” he says when asked how this has benefited him.



Kippa's automated credit reminder feature allows available merchants to track their debtors and issue automatic reminders. This enables them to gain access to the vital cash flow they require to run their business and stay afloat.

Unlike standard credit services where lenders have access to financial records and credit histories before lending to customers, MSMEs are not able to request for the financial records of their customers before making credit sales to them, making merchants fully accountable for the risk.

Kippa is changing the game. Using Kippa's mobile application, MSMEs now have real-time access to their debtor's history and know who to sell to on credit and who to reject. This levels the playing field for MSMEs to compete on an equal footing with bigger businesses who readily access credit to expand their business from financial institutions because they can present detailed business records.



A close-up photograph showing a hand holding a Nigerian 5000 Naira banknote. The banknote features the portrait of a man and the text 'Central Bank of Nigeria' and 'Five Thousand Naira'. Another hand is holding a pink mobile payment device, likely a POS terminal, which is being used to process the payment. The background is blurred, showing other people and what appears to be a market or shop setting.

An Outlook of Payments to MSMEs



Cash still reigns supreme!

According to our survey, cash is used in 73 percent of all transactions with MSMEs. This is not unique to Nigeria; the same behavior can be seen across Africa. Cash was the most popular payment option in online retail in Morocco, Egypt, and Kenya in 2021, accounting for 74 percent, 60 percent, and 40 percent of the total, respectively as reported by Statistica.



A whopping 73.66% of all the payments made to MSMEs are paid by cash.

73.66%



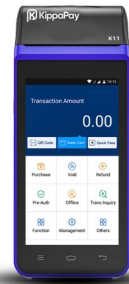
Cash

23.30%



Transfer

3.04%



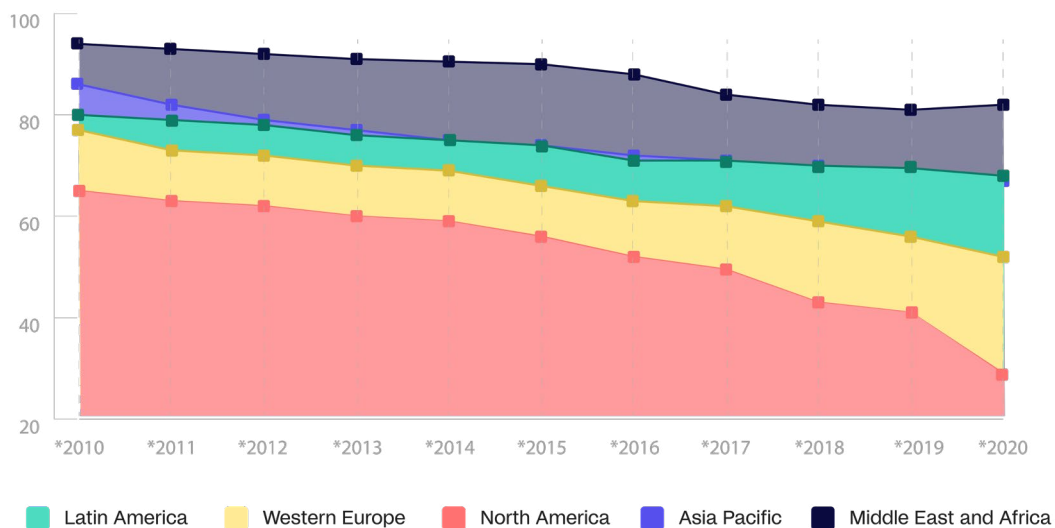
POS

Although one might be quick to assume that with all the new digital payment options available, digital payments would be taking over, this is not entirely true, particularly for business categories where

few payments are made. When it comes to payment, the apparel and clothing industry leads the way, with 40% (the highest) of their customers opting for digital payment. Customers patronising

grocery stores, restaurants, electronics stores, and supermarkets, on the other hand, almost always pay with cash the available data reveals.

Cash Transactions (as a % of total transactions)



Source: Euromonitor International

Why does Cash still persist In Africa



Tax avoidance and evasion, criminality, theft, and misappropriation are all concerns connected with high cash use, yet businesses in Africa still receive cash as their dominant mode of payment. With these obvious drawbacks, you might ask why cash is still dominant.

We learned from our interactions with SME owners and research that what MSMEs need in digital payment is still unmet.

Merchants need the following:

A digital payment platform that is;

- Stable, secure, and affordable.
- Simple to use and has a hassle-free onboarding process.
- This platform must also have an; Instant settlement and seamless dispute resolution process.





Even consumers prefer cash when they can because of the irregularity and unpredictability of digital payment options; no one wants to be stuck in a store after a shopping trip or a night of fine dining when their cards or bank transfers fail.

This problem presents an opportunity and a potential for growth in digital payments; Understanding what is important to the MSMEs is their ability to receive the funds once the transaction is done (instant settlement) rather than having to wait for a next-day settlement is a guide towards providing them with a solution that meets that needs.

The use of a point-of-sale (POS) system and QR codes for payment could be the way to go in the future. Mexico's "CoDi," which allows for immediate, free, and secure payments, and Brazil's "PIX," which is rapidly transforming the way people and businesses pay in this regard, both have a lot to teach us. These two payment infrastructures have completely transformed the payment landscape in two of Latin America's most important markets.



Why is POS Payment adoption still very low in Africa and the way forward...

According to our survey, POS payments account for fewer than 5% of all digital payments received by merchants across all business categories. You may question why this is the case; we discovered that the high cost of renting or acquiring POS machines, as well as paying interchange fees to card players, presents some costs to an average retailer. These expenses eat into a MSMEs' already low-profit margins, resulting in a desire for cash. Most POS merchants run a business (often

referred to as a POS business) where customers can withdraw, transfer money and pay bills; they act as a sort of mini-bank for small-scale transactions, and they can be found on practically every street and neighborhood, providing fast, quick, and easy services to their consumers.

Long queues, too much paperwork to fill out, and inefficient processes are all connected with traditional banks, not to mention the fact that they are not present in many

“ According to our survey, POS payments account for fewer than 5% of all digital payments received by merchants across all business categories.”

areas; in some, you have to go 10 kilometers to find a bank. Yewa North Local Government in Ogun State, for example, is the state's largest local government, with a land area of 2,087 square kilometers, a population of over 300,000 people, and only two commercial banks. According to World Bank data, Nigeria has 4.93 bank branches per 100,000 people, which is one of the lowest in the world. To this large group of banked and unbanked consumers who need to transact, POS merchants provide a viable and simple means of sending and receiving money, as well as payment of bills.

According to an article by Techpoint, as of August 2021, there are only 167,000 active POS terminals out of the over 300,000 deployed in Nigeria serving 79.3 million banked consumers, and processing \$13 billion in 2021 alone. While this is an increase of 11% from 2020, over the next 5 years, Kippa has the opportunity to considerably gain and own the market share.

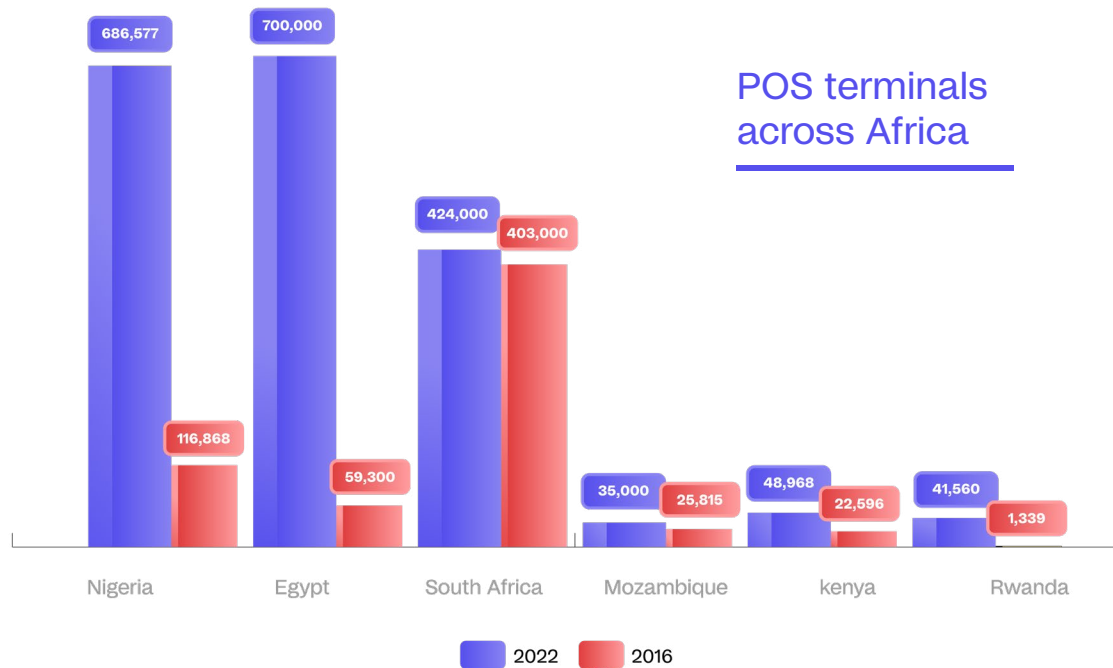
When you compare this number to what you will find in other emerging markets, you will see that African POS payment has a lot of room to grow. For example, in the fiscal year 2021, India had over 4.7 million point-of-sale (POS) terminals processing \$60 billion, Brazil had about 4.5 million POS terminals processing over \$47 billion, and Mexico had almost 1.5 million POS terminals, and Indonesia had over 1.2 million POS terminals.



over the next 5 years, Kippa has the opportunity to considerably gain and own the market share.”

Despite a 100 percent increase in the number of POS terminals deployed and payments processed between 2016 and 2021 in Nigeria, Egypt, Rwanda, Kenya, and South Africa, POS payments still account for less than 20% of all digital payments.

Not to mention the fact that in Africa, the usage of point-of-sale (POS) to make payments for goods and services by MSMEs is still not mainstream yet.



Key Takeaways

1.

Mobile penetration and wider internet coverage encourage technology adoption; they are important infrastructures that must be established to allow African MSMEs access to the technology tools they need to grow and scale their businesses.

2.

Cash transactions account for over 70% of the total transactions recorded by MSMEs in Africa; this shows that there is still a huge potential for digital payment towards achieving a truly cashless Africa

3.

Nigeria has 4.93 bank branches per 100,000 population, one of the lowest in the world

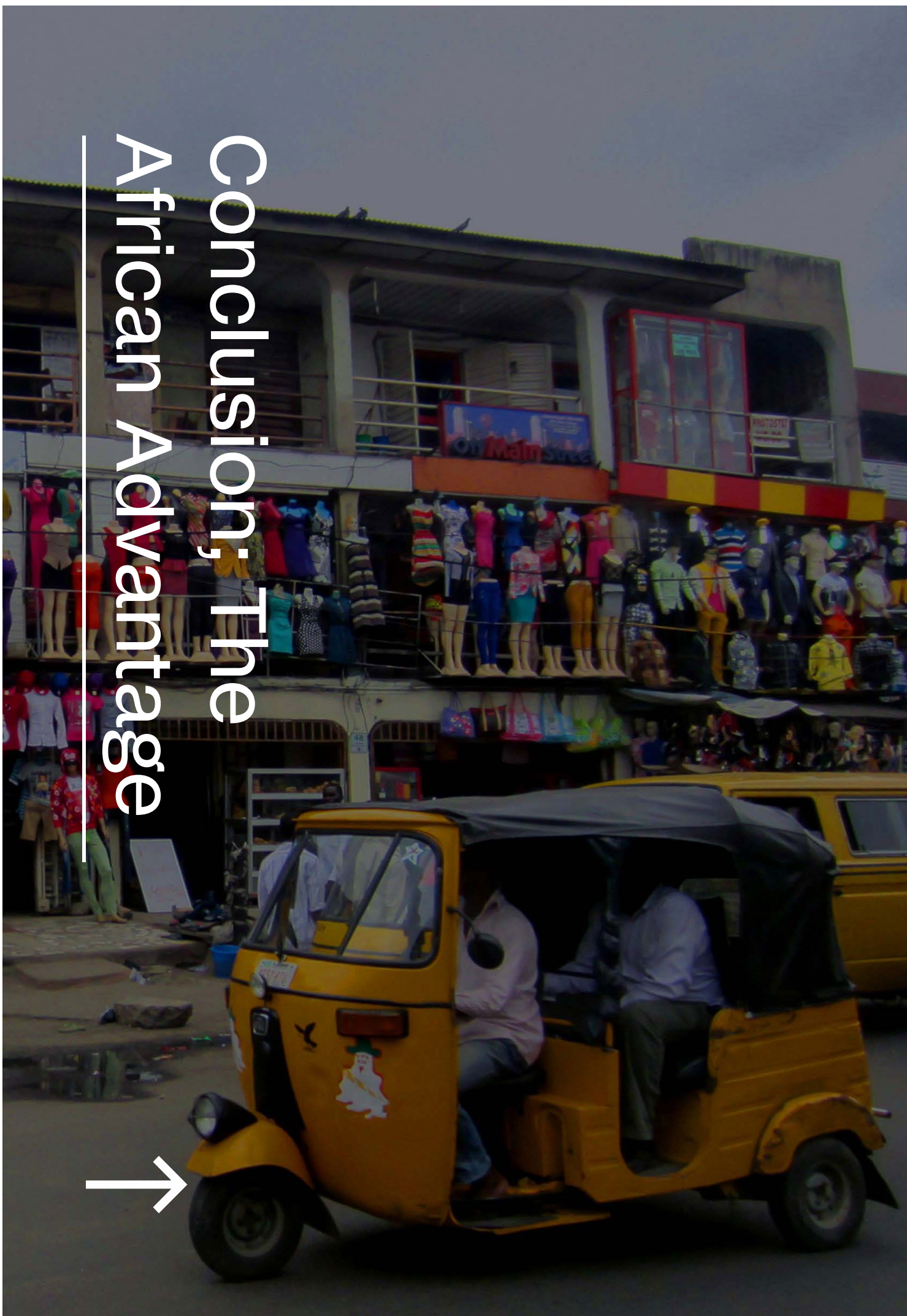
4.

In Africa, POS adoption is still quite low. POS payments account for less than 20% of total digital payments, and unlike their counterparts in other growing economies such as Brazil, Me

5.

SMEs really want to have a digital payment platform that works swiftly, simple to use, and offers both immediate settlement and a smooth dispute resolution process.

Conclusion; The African Advantage

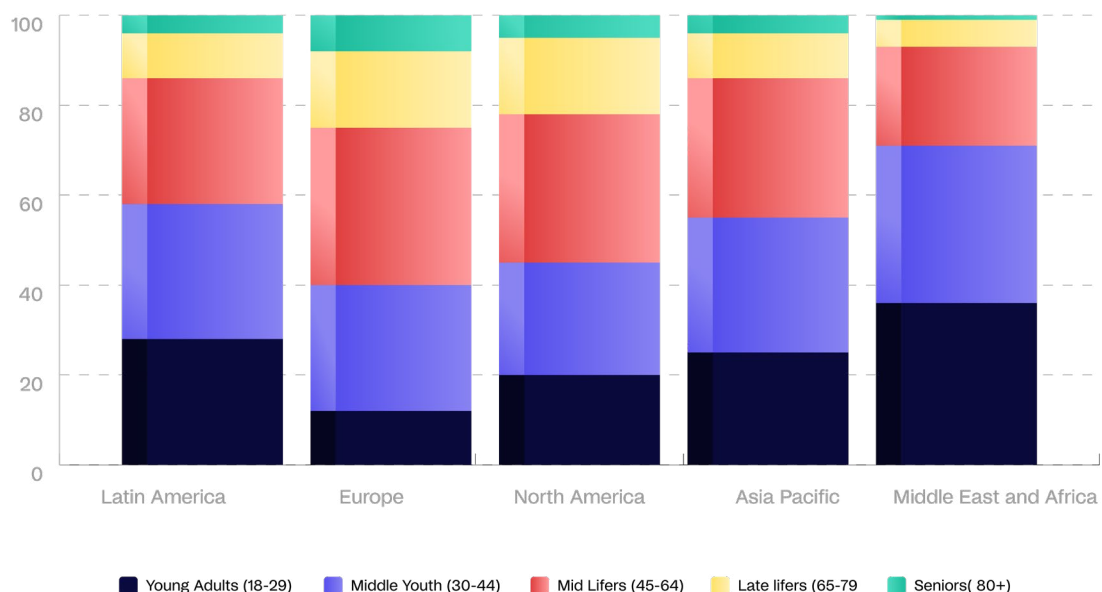


COVID Advantage

The outbreak of COVID-19 and the resulting lockdowns have increased public awareness on the use of mobile banking and other digital platforms. Indeed, the pandemic may have sped up the adoption of digital banking services and technologies by a few years. According to Reuters, mobile money transaction volumes

in Sub-Saharan Africa sits at \$490 billion in 2020, however, the exponential increase in this is unprecedented as Nigeria alone records a transaction volume of \$690 billion in 2021. These figures are expected to continue to rise steadily and rapidly in the coming years.

Young Africa with the Digital Advantage



Source: Euromonitor International

As the youngest continent on the planet with the highest number of young people aged 18 to 44 and Nigerian being the most populous black nation, the digital landscape is a thriving and a massive market for the internet economy. With the continent's largest population and one of the world's youngest, Nigeria has a large digital audience. Nigeria also boasts of one of the best network coverages and mobile connectivity infrastructure in Africa. According to Statistica, the percentage of people who use the internet in Nigeria is around 104 million as at 2021, and it is expected to continue to rise. According to various statistics, the number of smartphone users in Nigeria ranges between 25 and 40 million. In fact, mobile devices are utilized to access the internet far more frequently than desktop computers. In 2019, mobile devices accounted for over 70% of internet access, with this percentage much greater when it come to on-line marketplace visits.

Finally, Nigeria has the biggest number of MSMEs (42 million) on the continent and

one of the highest in the world. Unfortunately, these MSMEs do not have access to the digital tools they need to build and scale their businesses, which often leads to their demise.

According to Statistica, just 35% of the African population utilizes the internet for banking or financial services, and fewer than 15% for selling goods or services. That shows available potential for growth. In 2020, 82% of the people in North America used the internet for banking services, and 51 percent used it to sell or buy things, indicating that this is an area where Africa has untapped opportunities.

Per the Mastercard MEA SME Confidence Index, 81 percent of MSMEs in Nigeria are optimistic about future growth, owing to the potential of accepting digital payments, easier access to credit, and doing business internationally. These MSMEs have identified three top priorities for their growth: accepting digital payments (75 percent), easier access to credit (72 percent),





doing business international-ly, and digitizing business operations (72 percent).

This is a classic example of a market with many wants and opportunities but no products. This highlights the opportunities for companies like Kippa, Payhippo, Bumpa, Brass, Prospa, Fairmoney, and others who are offering digital solutions to small businesses.

For us at Kippa, we are confident that the market requires the products we are offering, as evidenced by the positive response we have received, and we know how to help MS-MEs solve their most pressing issues by providing them with the exact digital solutions that can be layered on top of their existing offline operations to fulfil their needs.

We have also learned from the market, and we are better equipped than ever with the insights we have uncovered, and we are more motivated than ever to work with these businesses to ensure that they begin to grow, scale, expand and outlive their founders, putting them on the path

to becoming true generation-al enterprises.

We have the talent, the capacity, and the market - the demand is evident, and we will continue to supply the digital tools that the market requires, making it easier for anyone to establish and build a business on the African continent.

Methodology

In carrying out this research, we interacted with 23,000 MSMEs who use the Kippa App across Nigeria's six geopolitical zones and thirty-six (36) states.

Our team of data analysts went through these records in order to provide us with information that was useful for the purpose of this research. We didn't stop there; we also used secondary data from Statistica, Euromonitor, Techcrunch, Nairametrics, The Economists, Indian Times, Research Gate, and Techpoint to supplement our primary data and support some of our hypotheses.

The Journey ahead for Kippa

For us at Kippa, we are laser-focused on offering the tools and services that MSMEs require to start and grow a successful business in Africa. Digital financial management, credit infrastructure, payment infrastructure, business education, and operational management are the most significant tools we have discovered MSMEs require the most.

Our Mission

Kippa is on a mission to make it easier for anyone to start and grow a business in Africa. Our aim is to contribute to the success story of the next generational MSMEs to emerge in Africa.



Words from our Founders

Due to the long-standing tradition in Africa of keeping small business financial records on paper and pen, there is a dearth of information available to both business owners and solution providers on how to improve and streamline business operations. We founded Kippa to put small businesses' financial data online so they could have access to insightful data that would help them operate their business profitably and sustainably. We have been able to gain significant insights into the operations of small businesses

and we have some thoughts on why some challenges they face occur after one year of serving over 350,000 small businesses. For us, we believe that we are in the best position to create solutions that can aid small businesses in Africa in expanding and operating more profitably. We prepared this report because it is crucial for us to share these findings with everyone working on solutions for this enormous market in Africa. We sincerely hope you will have as much fun reading it as we did putting it together.

Kennedy Ekezie-Joseph

Duke Ekezie-Joseph

Jephtah Uche

Acknowledgement



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Ahmed works as an Executive Assistant at Kippa, he leads a research group where he assists students in honing their research and analytical skills.

He is a fellow of the Nigeria Higher Education Foundation Scholars Program, The Bridge Program, Africave, and Clinton Global Initiative University.

He enjoys solving problems and leading initiatives that contribute to the development of his community. He is a lover of Fuji music and a retired political analyst.



Kennedy Ekezie-Joseph

Kennedy Ekezie-Joseph is the co-founder and CEO at Kippa. Previous roles include; Co-founder of Africave, TikTok's Global Expansion Lead, Accenture's Management Consulting Analyst, Athena Global Advisors' Analyst, and the Calabar Youth Council for Women's Rights' Founder.

He is Her Majesty Queen Elizabeth II Young Leader, an Ambassador for One Young World, and WAFF's Top 30 Teen Leaders in the World. He is a Fellow of Interact, Young Sustainable Impact, and The Resolution Project.

Kennedy enjoys basketball and travelling.



Duke Ekezie-Joseph

Duke is the Co-Founder and President of Kippa, where he is responsible for managing day-to-day business activities.

He previously co-founded Africave, and worked as a strategy consultant at Tiktok and was part of the team that helped Tiktok expand throughout Africa. He is a Nigerian Youth Peace Ambassador and an African Ambassador of Tile.ng.

He is a lover of art and enjoys basketball, reading, and public speaking.

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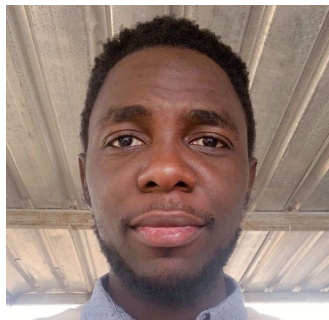


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