Aban: [00:00:00] You're listening to Inside Financial Inclusion.

Robin: A podcast on the people and policies that are shaping inclusive finance worldwide from the Alliance for Financial Inclusion.

Aban: I'm Aban

Robin: Haq. And I'm Robin Newman.

Robin: Micro and small businesses globally are drivers of growth and innovation. Nowhere is this more true than in Africa, where MSMEs are not so much a segment of the economy as the economy itself. the traditional financial sector has largely seen them as a risky proposition, if it has seen them at all, leaving a vast financing gap. Our guest today has challenged that paradigm, seen opportunity where others saw only risk, and built something real on the other side of it. tell us more.[00:01:00]

Aban: It's a pleasure to welcome Hilda Moraa to the podcast. is the founder and CEO of Pezesha, a fintech that has taken on the ambition to solve the problem of access to finance for SMEs in Africa. But Hilda's entrepreneurship story extends far beyond Pezesha. She was part of the founding team of iHub Research at Nairobi's first innovation hub before founding her own company, Veza Tele, in 2009.

And more recently, she has also put on the investor's hat. So today, we'll speak to Hilda about how regulators and innovators can work together to help good ideas grow and reach more people. to the podcast, Hilda

Hilda (Pezesha): Thank you very much for having me here today

Aban: So it seems you've always been someone who spots problems and then sets out to solve them. Even back in college, you started a printing business because you saw a need that [00:02:00] wasn't being met. So tell us about Pezesha, your latest adventure. What problem are you trying to solve, and why did you think it was important to solve it?

Hilda (Pezesha): Absolutely. Um, my entrepreneurial journey started, almost 20 years ago, , really the passion behind it is, , what I studied to do in school, which is, computer science. and building innovations, with technology at the center of it has been my driver to actually changing the world and of course, changing the problems we have, Africa. Um, and of course, working with multinationals such as Coca-Cola in 2008 op-opened for me a lot of doors to

actually see it in practical sense, the problems that small businesses are actually facing. and I got out of the office and went on the ground to actually see these businesses, and so that is actually where the, eureka moment actually began. Um, you know, the light bulb was these [00:03:00] businesses, no one is actually thinking about them, no one is solving their problems, and here I am, uh, with the tools and the skills I need to actually help them, to grow their businesses to the next level.

Um, and that's how Wazatele was born. really building and helping these businesses to basically have efficiency, have visibility about their sales, have visibility what's happening in their businesses. Uh, access to financial, services, especially for small businesses, it doesn't start with credit and it doesn't end with credit.

It, it started actually with giving them the right tools. so we had to do the hard work of putting their house in order, giving them the foundation that they need, the data that is required for them to be credit worthy. And, Pezesha is now the continuation of that journey that started almost 10 years ago. We are starting to see the impact become real. Uh, we have enabled more than [00:04:00] 500,000 SME loans on our platform. Um, and so Pezesha is solving, a big, big problem, uh, which is access to working capital for small businesses. banks won't touch them because, these are risky businesses. They do not have any credit history. They do not have collateral. and so the work we've been doing with my team, on the Pezesha side for the last nine years has really been to now consolidate, and bring all these value chains together SME space give them access to credit first entry, but also allow them, to be able to access capital that sees their businesses go to the next level, not in terms of just, size, but also in terms of opportunities and job creation

Aban: You know, I'm not an entrepreneur, but, uh, what I know about entrepreneurs, especially startups, is that their, uh, you know, uh, [00:05:00] almost end goal is to have a successful exit. And you had that with Atelle, you know, I think it was in 2015 or something. And I wondered, you know, why you kept going, why didn't you just, you know, um, relax after that?

But I can see why, because you felt that the problem really wasn't solved yet. Uh, you had just looked at part of the problem and there was the second piece, which is also maybe not the end and be all that is access to finance and credit, but it's a really important complement. Uh, do you see it that way as well?

Or is it just some internal drive which keeps you going?

Hilda (Pezesha): Wow. Uh, they say -- if you're an entrepreneur, also not just, uh, uh, passionate, but also crazy. think the crazy part is maybe also part of it, that we, we just look for problems. We're always in the middle of problems and trying to solve them. So will say for me, it's really the drive to actually solve this problem for SME working capital, because I believe, with a lot of conviction [00:06:00] if we're able to solve this problem right once and for all, sustainably, uh, this is the way you create opportunities, not just for now, but for generations to come in and benefit. this is how we create jobs for the youth. This is how we solve our problems, because SMEs are the backbone of the economy. the ones driving every economy, not just in Africa, globally. I think we're so close to getting there. And the current situation and macroeconomic situation has compounded the problem of access to financial, inclusion, for small businesses and that's why it's really important, that we speed up, , solving this problem.

Otherwise, it can get worse

Aban: Your team at Pezesha, I think it's also got a huge percentage of, uh, women in your team, right? I think it's about between 40 to 50%. And, uh, that's unusual for a company that's working in finance. Uh, as you said, you know, not just at leadership, but, you know, even in, in [00:07:00] the overall composition.

Is that like a conscious choice you made? And, uh, can you give us an example of, uh, a product or something that changed because of that, uh, composition of your team?

Hilda (Pezesha): Yeah, that's very intentional. It's very, very intentional. I, I made that decision from day one. It's really important for the work that we do at Pezesha to basically have that kind of composition. If you look at the statistics, when I say it's a $330 billion financing gap across Africa, almost, 60% are women that are actually being left behind. So that is really the mission that we set from day one as Pezesha, if we have to fix this problem the way we want to, achieve it and, and make it long-term sustainable, then we first have to solve for the women who have been rejected. and, and bringing more women in the team [00:08:00] also to allow the diversification of ideas, fact, our data science team has more women than I had expected, and that makes me really happy because data science department is really the core of the work that we do at Pezesha, it is how we underwrite, and the risk models that we build to allow more women to be included actually starts there at the, credit assessment level.

But I will say the real work that has gone into this and the biggest success we've had is in our proprietary credit scoring platform. We call it PataScore, and that

platform has largely been built by these women. and so it, it allows us to offer financial literacy a pathway to include more women. And, we see financial literacy a big role in actually driving more [00:09:00] women. And just to give you a real practical example, every woman who goes through our financial literacy modules, which is AI-driven, when they finish these modules, credit graduation grows by almost 30%. So for us, these are that we would not have been able to do, honestly, if we didn't have the diversification the way we design and build products at Pezesha.

It's not a one-size-fits-all. It is tailor-made for all our customers, both female and male

Robin: I'd like to drill a little deeper, Hilda, into the question of, of risk and perceptions of risk. And we mentioned earlier in the discussion that traditional banks won't touch your customer base, which is predominantly, uh, youth entrepreneurs, women entrepreneurs, because of their [00:10:00] perception of, of high levels of risk.

But what you're saying seems to challenge that, um, by stating, actually, if you design the product in the right way, um, you can really bring that risk level right down. So what, what myths about, um, women and youth borrowers do you feel that you've really been able to challenge through your model?

Hilda (Pezesha): Yeah, that's a very good question. And, uh, i- initially even us, we do have, as fintechs, we do have these myths as well plugged in into our and the way we look at the s- same women because they're risky, and that's been the biggest myth. They're risky because they do not have any historical data that can actually create their first credit score. And that is the myth that exists not just with banks or traditional, entities, but also with fintechs. But it has taken us [00:11:00] almost nine years to validate and unpack those myths into reality because now we have more data.

So the thin file of data is still a big issue, that is not for only Pezeza to fix, this is going to take an entire village. this is going to take, stakeholders that have interest to solving this problem from, governments to regulators, to bureaus and, and many other entities that need to come together to fix this. And so for us, what we have been able to, if I were to say unmyth that these women and youth actually, are not risky . whatever alternative data they already have, especially mobile money, is a good start, and that's what we've used to give them, a credit score. Secondly, we have been able to help these [00:12:00] businesses, with tools to start building their credit history. So financial literacy a big role to actually, , help these, uh, underserved communities or businesses to be able to

start understanding the, the use of credit as a tool to help their businesses to grow. And then thirdly, is also that, you know, people say, when a woman, , borrows, they're borrowing for their husbands. Yeah. So, I think , this is more of a cultural myth that needs to be, , unpacked because if you look at the women on our platform, are running their own businesses. are the ones who are taking care of their families. know, they're the ones who are basically putting food on the table

so what I will say is, um, seeing women are the better payers our platform because they are more responsible. once they are given credit as a, a tool, they use it as a wealth creation tool [00:13:00] as well.

Robin: That, that's great 'cause you confront the myth, you build financial literacy into the product to increase the repayment rates. But how do you make the unit economics work? Because at the end of the day, these are quite small value loans, I think we're talking about a lot of the time for these women and youth entrepreneurs, um, possessors of commercial enterprise.

So how do you square that part of the equation as well?

Hilda (Pezesha): unit of economics, uh, is, is, is really has been a, a journey for us because in the beginning you have to be okay with, uh, the learning curve. Uh, you know, once you start understanding the different sectors, uh, you start to figure out that even the unit of economics becomes a big challenge when you move from one sector to another. And I'll give you an example. You know, most probably the pricing that we do for [00:14:00] SMEs is completely different from what we do for, let's say, healthcare because of the margins of their products, and how much they make, uh, from their products also affects. So we work with, for example, a partner called Victory Farm. They, uh, distribute fish market women, and we are the provider of the credit to those market women. And so if we overlay anything above the tiny margins the market women are getting from the fish- And we charge them extra more than the 2% that we are charging per month, it will not make sense for them. so we co-create these products, uh, with our partners, to basically make the unit of economics make sense. So for us, uh, we look at, look at the margins of the products that our SMEs are selling. Uh, we look at, uh, we look at the cost of funds where we [00:15:00] are raising capital. So most of our capital comes from local banks. Um, and that way we're able to avoid, um, FX risk and any other risks that would come with, um, with, with, with, with funds, offshore funds. and then of course, we look at do we make sure that, um, our underwriting process is really good and efficient. And now over time, because of the amount of data we have, we've been able to get to less than 2% default

rates. which is for us really where we wanted to end up, uh, in terms of, uh, the unit of economics making sense because it, it brings sustainability and profitability, in the business. And then of course, um, really looking at how do you get this business to come back, um, you know, and not just borrow once from the platform.

So of our customers are repeat [00:16:00] customers. So that is also very helpful for our business and healthy because it means the credit is needed. It means that these businesses are growing, and they are also able to repay the credit. That's why they're coming back, because they will not get another loan they have not repaid their previous loan with us.

So we're very, we're, we're seeing over time, um, the unit of economics is, um, is really the backbone of our scale right now. And that's why we're moving to other countries with the same model, because we've already validated it in Kenya. So that is where we are, and it's taken us, uh, a lot of time and effort. but really, uh, we're also excited that we are working with local players to actually solve, um, the unit of economics problems.

Aban: Robin, if you allow me, I want to shift gears a little bit and bring in the regulation angle here now because, uh, that's, uh... You know, the regulators are the ones who are setting the rules of the game, defining the, [00:17:00] the guardrails with, on which fintechs can play. And, uh, Hilda, I think, um, you know, uh, AFI is a network of regulators, and what we observe is that one of the key challenges for central banks and financial sector regulators today is to balance innovation and risk.

But innovation is definitely big on the agenda, and one of the tools that financial sector regulators are more... using more and more are sandboxes. And I believe that Pezesha was one of the first fintechs to enter the regulatory sandbox of Kenya's Capital Markets Authority. Um, so my question, I guess, is, from a fintech's perspective, uh, what was your experience, uh, going through the sandbox?

Did it change the way you see regulators or how the regulators view you,

Hilda (Pezesha): yeah. I mean, it was, an interesting experience because I think this is the first, time, we're also [00:18:00] seeing the regulator, uh, especially, the capital markets. They're very, very flexible, and they are willing to allow more innovations to come through. So for us, being the first one to exit the sandbox, really brought in quite a lot of, credibility, but also we worked very closely with the regulator to get there. The experience under the sandbox was

really important to where we are today as a business. And in fact, the foundation of Pezesha is really what it is, as strong as it is, because, the regulator gave us an opportunity to validate our business model works, to validate the assumptions we had. Yeah.

There's so much learnings. And the regulator also, took those learnings to what now they have formed as regulation. And because we practically were able to show what works and what does not work, and then we put it in the real world, and now they are [00:19:00] seeing it work. So for us, that experience was really, A big, big blessing to our foundation. And it cemented the work that we currently have been able to do, by giving us, a lot of leeway to make mistakes in a very safe environment where, if you're judged, you're going to be judged just within that environment, but you have a lot of room to basically, make mistakes and relearn and, and basically take whatever that works and get it out and, and scale it.

My only biggest, feedback that I also gave to the regulators was, we need to test the reality of some of these things in the real world. I think there could be other instruments, within sandbox programs that could allow for more experimentation, that is also not so much restricted because then if it is so much restricted, when things go to the market, you learn new things that you did not learn in the sandbox.

[00:20:00] So will the regulator then ask you to come back to the sandbox is the question. So that is the f- that is the biggest feedback, and we have already given the feedback. And of course, the other regulators should embrace the same. We should see, we should see more sandboxes from the central bank. We should see more sandboxes for new ideas, especially in, uh, open banking, in AI, and, and these things are here.

They are, they are not going anywhere.

Aban: Um, you've mentioned a few times that, uh, you know, Pezesha is now scaling beyond Kenya. I think you're already, um, in three markets, if I'm not wrong, Kenya, Uganda and Ghana. And this all sounds super exciting, scaling across borders. But I can imagine that every market, uh, also brings a new set of regulatory requirements.

Licensing requirements may be different, compliance requirements may be different, reporting requirements may be different. What would you say is the biggest regulatory hurdle to expanding across [00:21:00] borders in the African context for a fintech like yours today?

Hilda (Pezesha): One of the biggest, biggest thing that we continue to face as a challenge as we scale from one market to another is Kenya might have certain things, going well, when you go to a market like Uganda, you find that they are a bit behind, so you're gonna have to play catch up or you're going to try and go ahead, and you can't, you know.

You, you're not innovating. You're basically trying to educate and, engage rather than innovating. So you're spending a lot of time, trying to explain to the regulator, we're here to lend, we're here to support businesses. What do we need to acquire as licenses for us to be able to do that?

So harmonization of these policies, processes from one market to another almost does not exist. and so every time we go to a new market, we're forced to learn. Almost a year is gone. And the [00:22:00] goal of fintechs and the objectives of fintechs is speed. And so if we cannot get that speed, you're eating into your profits from another market that is doing very well. So usually the argument is, even for us as Pezesha, the argument is, do we just rather focus on the market that works and double down on, on really scaling in that particular market? Because SME working capital problem in Kenya almost 20 billion.

We have not even scratched the surface. Yeah? We have not even done 1% of that market share. So why are you going to Uganda when you're facing a lot of problems? Why are you going to Tanzania? Why are you going to Ethiopia when all these markets have different regulations and we are spending so much time, cost, and money and resources? And so for me, the, the world that we would love to see, and hopefully those are the conversations that AFI is also en- uh, enabling, and pushing the regulators to basically consider harmonizing.

[00:23:00] Because if we fix those problems, we will definitely see the financial inclusion gap continuing to basically narrow down, because we are able to solve those problems much more faster

Robin: This feels like the perfect moment to end the conversation on, so thank you, Hilda, for the candid and enlightening conversation. Uh, we started off with maybe a little glum picture of the challenge facing entrepreneurs in Africa today, but I think we finish with a lot of optimism, there's a lot of lessons that the many entrepreneurs following in your footsteps, um, can take. Um, so this has been, uh, I think a really interesting discussion. Uh, Hilda Moraa, CEO and founder of Pozesha, thank you very much

Robin: Thanks for listening to Inside Financial Inclusion

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Robin: I'm Robin Newham

Aban: And I'm Aban Haq. Until next [00:24:00] time