Conversation #14

Creating the PayPal Mafia of East Africa

Ben Lyon of Kopo Kopo

***Ben Lyon** co-founded Kopo Kopo in 2010 and sits currently on the Board of Directors. Earlier, he studied economics and international studies at Rhodes College in Memphis, Tennessee, where he specialized in informal economics and microfinance. Ben has served in various roles while at Kopo Kopo, from Head of Product to VP of Marketing and CEO. He has operational experience in multiple markets throughout Sub-Saharan Africa and Asia. Find Ben on Twitter @bmlyon, and check out his company at www.kopokopo.com.*

What is the story behind Kopo Kopo? And why did you decide to start in Kenya?

We—Dylan, Tom, and I—co-founded Kopo Kopo five years ago in Seattle, Washington, as a Delaware C corporation. Dylan and I moved to Nairobi in late 2010 and lived here for four years.

The reason we came here was because of the ubiquity of mobile money. Our background was all in microfinance, and we had a hunch there was a business angle and a microfinance angle in mobile money that hadn't been fully exploited. Today that's different, because almost all microfinance institutions (MFIs) in Kenya use mobile money for disbursement and collection to some degree.

In our early days, we wanted to help MFIs integrate mobile money with their core banking systems. We quickly found that this wasn't the best idea—the reason being that microfinance systems and processes aren't standardized. MFIs can take ages to make a business decision, and they are highly bureaucratic and risk-averse, so they don't change. Change is a frightening thing, so they are using lots of disparate legacy technologies, and there isn't a real understanding or desire to fundamentally change that technology to catch up with the times.

Would you say that's only typical for the MFI sector or for most SMEs in Kenya?

It'd be most SMEs. Fiber cables just came a few years ago, and so the Internet hasn't fully reached all businesses yet, but you do see this massive growth in Android devices and 3G connections. MFIs are not at the front of the adoption curve. They are not your early adopter. We found this quickly and pivoted to focus on retailers. By retailers, we mean a barber shop, a salon, a general trader, somewhere where you're paying for goods and services to the person in front of you.

In early 2012, we launched as the world's first merchant aggregator of mobile money services. In essence, we were to Safaricom's M-PESA what Square was to Chase Paymentech in the U.S.

Safaricom is the issuer of M-PESA (Kiswahili for "mobile money"), the largest mobile money service in the world. When we entered the market, the majority of Kenyan adults had M-PESA on their phones, but less than one percent of businesses formally accepted it. So imagine if you were walking around with a payment card in your wallet but you couldn't find anywhere to pay with it. The utility of that card would be diminished significantly. So we said to Safaricom, "Let us help you acquire merchants so people can pay for everyday goods and services with M-PESA." We were the first to do that in the mobile money industry, and we are currently the largest third party doing it.

Why did you decide to incorporate in the U.S.?

We incorporated in the U.S. because we are Americans and planned to raise money from U.S. investors. For tech startups in the U.S., you either incorporate in your home state, in the state of your investor(s), or in Delaware as a C corporation. For a U.S. technology investor, that's kind of the gold standard. So all lawyers in the U.S. are educated or taught on Delaware Case Law. C corporations can raise money from local and international investors. They have good board protections etc. So because we were raising money in the U.S., we incorporated in Delaware and have a branch in Kenya rather than a subsidiary. All of our shares are domiciled in Delaware, and that's again for investors. If we had a subsidiary, then we'd have shares sitting in Kenya, and that can complicate things in an exit.

The company was designed to be enticing and relatable to the investor and also kind of designed from the beginning as a technology company to be prepared in the event of an exit. So if someone wanted to acquire us, if we wanted to list on a stock exchange, that's how investors get their money back. If you want to get investment, you have to be prepared. It's not just what's the product, what's the opportunity, what's the problem you solve, or how big is it? It's also, how will I get my money back, and how long will it take, because they are not charitable organizations. So if they invest in you, on year three of their funds, they have seven years to get their money back. And so they are thinking in terms of an exit timeline from the very moment you shake hands. So you need to have a structure that accommodates that.

How about your employees? How do you engage them?

Building Kopo Kopo is a mission, not a job. And by mission, I mean a higher calling—something both important and meaningful that is greater than our individual selves. We wanted a compensation package that reflects that, and we wanted everyone to be aligned toward the same outcome. Every employee has a stake in the company's future—engineers, sales personnel, drivers, janitors, *everyone*.

The way it works is that every new employee signs an Employee Stock Option Agreement that entitles them to purchase shares at a strike price in the event of an acquisition or IPO. We also pay competitive salaries, so there aren't any real trade-offs. It's the best of both worlds.

Some time back I heard you talk about the "PayPal Mafia of East Africa." What makes it so valuable?

Silicon Valley is both ecosystem and mindset. The ecosystem is a function of mature capital markets, supportive institutions, and experienced entrepreneurs. It's common to see successful entrepreneurs in Silicon Valley become investors, and for good reason: They offer capital and, more importantly, empathy and expertise. Look for example at all of the consumer Internet companies you know today, the big ones, Facebook, Twitter, Foursquare, etc. Most of them have PayPal employees invested in them. So when PayPal IPOed, it made a huge number of millionaires, and now those employees are seeding entire generations of investment and starting new companies. You see it in 500 Startups, too. I mean, it's all over the place—Peter Thiel with Palantir, Elon Musk with SpaceX and Tesla. These are all PayPal people. We want to see that same ecosystem develop in East Africa.

Specifically, we talk about building the "PayPal Mafia of East Africa" because we want our team to become the first batch of entrepreneur-investors in the region. Their experience building a company and withstanding the ebbs and flows of entrepreneurship are a real and lasting asset.

What's happened here so far is that different parts of the ecosystem are developing parallel to one another. You have the incubators like iHub,

Nailab, iLab Africa, m:lab East Africa, and all the accelerators. You have angel investors starting to come from other markets. And this is all happening at the same time. What hasn't happened yet is there haven't been many successful exits from the technology community because it's so young. And because of that, you don't have many first-generation tech entrepreneurs that are wealthy enough to invest in the next generation. So we need a big exit, and then we need the members of that community to become the PayPal Mafia. That's the missing element.

Five years from now, I'd love to see our earliest employees behind the biggest startups on the continent. That's my personal vision of success.

How essential are investors from Africa to realize that vision?

I don't think it's about creating African investors or Silicon Valley investors or European investors. I think it's about learning a skill and paying that skill forward irrespective of region or nationality. We built a company from the ground up in Nairobi. That's what we know. As we've grown, we've seeded partnerships and cut our teeth throughout the continent. So I'm not on a mission to create "African investors"—I'm on a mission to create entrepreneur-investors that know their markets better than anyone else.

Should ICT ventures aim at becoming strategically valuable for a foreign buyout, reach for an international IPO, or simply not worry about it because other things matter? What is your strategy?

There's a saying that "companies are bought, not sold." I think that's true. Our main priority has been to build a big, defensible company. With defensible I mean that we're in the business of digging moats to protect our castle from attack. A company that is not defensible cannot withstand attack, or direct competition. In other words, to be defensible means that you have to capture a market segment quickly, patent some kind of unique IP, or jump over a material barrier to entry. Defensible companies are hard to replicate or attack.

We've made mistakes along the way in terms of prioritizing incorrectly. For example, we scaled prematurely. Specifically, we hired for the business

that our projections said we would have, not the business that our cash position dictated we actually had. We spent too much too quickly, and then we missed our targets. Another example is that we should have hired a chief financial officer or head of finance as early as 2013 or 2014 but only filled this role in late 2015.

In retrospect, I think we would have been more successful in the capital markets, if we had someone strong in the finance role. Despite these setbacks, our strategic goal has always been to build a big, defensible company. If you do that correctly, then there's a ready exit path.

How have you managed the tension between openness versus closed-ness when it comes to broadcasting information about your company?

We've probably been *too* open, insofar as we've always broadcasted our work. We've blogged about our work on the Kopo Kopo blog. We've also shared insights through industry blogs (e.g. CGAP, GSMA, and FSD Kenya). We've also talked about many of our insights and findings at industry conferences around the world. On the one hand, we've had a number of competitors try to replicate our ideas. On the other, the global industry knows and looks to our work. So it's hard to tell if our openness has been an asset or a liability. In general, though, it's who we are—it's in the DNA of our company.

What are some of the not-so-obvious risks you can get into when running a business in Kenya?

Risk is a relative term. It's important to understand the day-to-day context of your customers, employees, and partners. Growing up in the U.S., my idea of risk was relatively limited, and I mean this in the literal sense. We lost a friend in the 2013 Westgate Mall attack, and one of our board members was murdered in Nairobi in 2014. My wife and I also repelled or escaped repeated home-invasion attempts and a carjacking in 2014. As a result, I now think about security every single day. Growing up in the U.S., I never had to be so conscious of

physical security. We often talk about the relationship between risks and rewards. To be clear, there are real and significant risks to operating a business in an emerging market. Things don't often go south, but when they do, they go south quickly! That's a realization that inspires humility and patience.

Thank you, Ben!

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