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# Where Grameen Bank meets eBay in an African marketplace



By [Grace Segran](#)

**While share prices have been falling and banks have been offering measly interest rates, MYC4 investors have been earning an average gross interest rate of 12.9 per cent a year from investments made from the comfort of their home. Too good to be true? According to Mads Kjaer, CEO of the online marketplace MYC4, “investors set the interest rate themselves and bid for it, and many hard-core investors realise even much higher yields.”**



A hybrid between Grameen Bank and eBay, **MYC4** sources financing for 'unfundable' entrepreneurs in Africa and brings people together in business deals at the best market price through the internet. Founded by Kjaer and Tim Vang in 2006, it has the noble – if somewhat ambitious – target of eradicating poverty and hunger by 2015, in line with the United Nations' (UN) Millennium Development Goals.

“The key to ending poverty does not come from increased development aid, but from risk capital and investments. Only by raising capital for small businesses will we see sustainable prosperity in Africa,” Kjaer argues. “The microfinance model has shown that given the opportunity, the poor are quite capable of transforming their own lives themselves,” citing former UN Secretary-General Kofi Annan who said that the growing global consensus is that we can reach the Millennium Development Goals only if business is part of the solution.

## **Removing barriers**

Smaller companies in Africa are often unable to obtain loans from banks because these require collateral which the owners don't possess. As a result,

they turn to loan sharks who charge extortionary rates of up to 200 per cent. “MYC4 strives to remove barriers such as these that keep people in poverty,” Kjaer told INSEAD Knowledge.

MYC4 operates at the top of the microfinance market with loans of more than 100 euros, and at the bottom of the meso or intermediate segment for medium-sized and small businesses with loans of less than 100,000 euros. “The loans are not being offered to the poorest of the poor, but to entrepreneurs who already have a small business or company, but lack access to finance. We hope to offer loans to the broader section of the middle segment soon,” says Kjaer.

## How it works

The MYC4 platform is built around a network of African providers who perform due diligence on business owners applying for a loan through MYC4. The providers know their local market and which businesses are sustainable. Once the enterprise passes the evaluation, details of the business and loan are uploaded onto the MYC4 website. Investors select a business from the website and offer to finance part of the loan at an interest rate they set themselves. The interest rates vary from a minimum of zero to a maximum of 25 per cent, with the entrepreneur paying the weighted average of the lowest bids.

Take for example, entrepreneur Emmanuel Sebunya of Kasubi Parish in Kampala, Uganda. He started his poultry farm with a stock of 300 broilers some years ago. Today, Sebunya has 500 broilers which he supplies to restaurants, supermarkets and individual buyers. His income in 2008 was 600 euros.

He would like to expand his business and needs a loan of 500 euros to buy more birds, poultry feed and vaccines. This move would boost his monthly turnover by 20 per cent. He wants to repay the loan in six months and reckons he can afford to pay a maximum interest of 12 per cent a year.

Transaction fees and the repayment plan are set out clearly on the website and you can bid against other investors using MYC4.com to offer the best borrowing rate.

Although he has asked for a maximum interest rate of 12 per cent, you may set yours at, say, 20 per cent, as other investors in the project may ask for a correspondingly lower interest rate such as seven or even zero per cent. The auction process is completed in a month, or when Emmanuel's loan is fully subscribed at his desired maximum interest rate of 12 per cent or lower.

## **What's in the name?**

According to Kjaer, 'MYC4' has a dual meaning. It stands for something or somebody you "care for" ('C4'); it is also the name of a plastic explosive – a metaphor for the potential that lies in African entrepreneurship waiting to be triggered.

With the MYC4 model everyone wins, says Kjaer. The borrowers get the loan at a rate they can repay; the investors earn income from the interest; and MYC4 gets three per cent from the borrower over time. "Its open-bidding process allows the model to provide a self-regulating marketplace that encourages the borrowers and providers to perform well and the investors to offer lucrative interest rates. Its default rate is two per cent."

"For the first six months of inception, we got family and friends to use the tool to invest in African businesses," recalls Kjaer. "Today, a little more than a year since the beta version of MYC4.com has been launched, some 12,800 investors from 83 countries have invested 6.5 million euros in 3,700 businesses in seven African countries."

Headquartered in Copenhagen, MYC4 has 32 employees of which 10 work out of its development centre in Kampala, Uganda. "MYC4 will only become financially sustainable when more than 140 million euros have been invested on the platform," Kjaer explains. "When MYC4 reaches this breakeven point, 50 per cent of the company's earnings-after-tax will be invested in UN's Millenium Development Goals that are lagging behind the most." MYC4 expects to break even in 2011.

"We are not a philanthropic initiative but a profitable business which is actively making a difference to the lives of small entrepreneurs, and ultimately contributing to the end of poverty, in Africa," he says.

Africa was a natural choice for Kjaer as he lived and worked for more than two decades on the African continent.

Indeed MYC4 is an example of the internet helping to achieve what Bill Gates has termed 'friction-free capitalism', by putting buyer and seller in direct contact and providing more information to both about each other. "Our goal is to become the first company in the world to be owned by the world - literally, in the fullest sense," Kjaer says.

*Mads Kjaer recently took part in the INSEAD Alumni Sustainability Roundtable on Social Entrepreneurship. His co-founder, Tim Vang, was a guest speaker at the INSEAD Social Entrepreneurship Programme in November 2008.*

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