DIGITAL FOR TANZANIA

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D4T-TIDE Case Study Series

NAVIGATING THE INNOVATION ECOSYSTEM: CHOOSING AN ACCELERATOR

Lessons from Dawa Mkononi

March 2024

CONTENTS

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ACKNOWLEDGEMENTS: UNCDF gratefully acknowledges feedback on the report provided by UNCDF staff particularly Ivana Damjanov, Aneth Kasebele, Edgar Masatu and Tian Zhang.

We would also like to acknowledge the contribution of Joseph Paul.

INTRODUCTION

Accelerators, incubators, and competitions have become essential components of start-up ecosystems all over the world, offering early-stage companies access to mentorship, technical assistance and business advice, partnerships, and, of course, money.

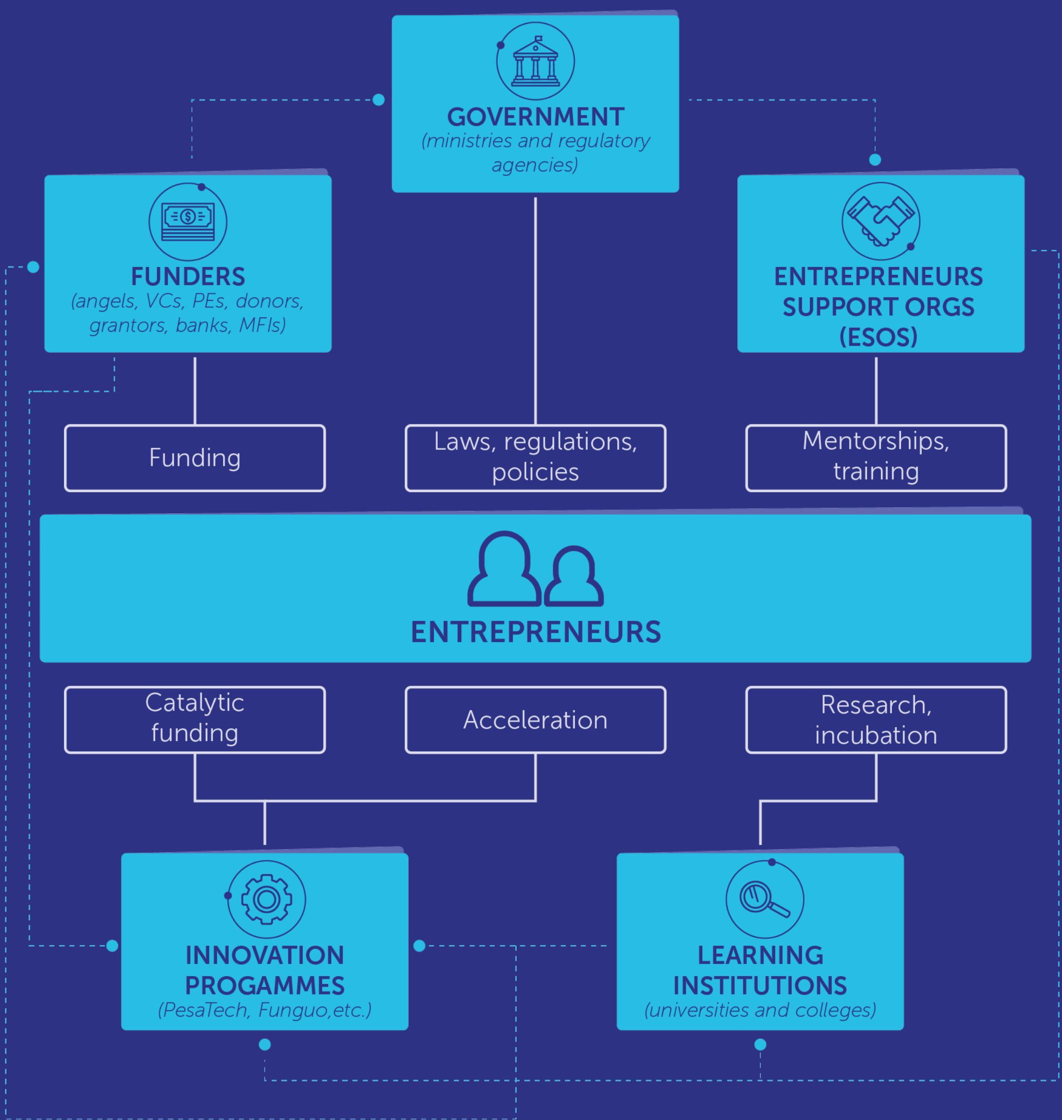
With its nascent yet fast-growing innovation ecosystem, Tanzania is no exception; entrepreneurs in this East African country now have several accelerator and accelerator-like programs to choose from.

While the proliferation of these programs is largely positive news for founders—new programs can fill gaps in the market by focusing on specific sub-sectors or by offering new types of financing—it also means that there is more for them to consider when deciding which accelerator to spend their limited time and resources on.

It is important for start-ups to have specific ideas about what they want to gain from accelerators, and to know which programs offer what benefits. Likewise, it's important for supporting organizations to understand—and continually re-assess—what start-ups need to ensure they are providing adequate and relevant support.

This case study provides insights into navigating Tanzania's innovation and accelerator ecosystems through the lens of Dawa Mkononi (DM), a health-tech and e-commerce start-up. Lessons from DM's experience will be useful for other start-ups embarking on their own growth journey and for innovation ecosystem facilitators seeking to improve awareness and quality of their programs.

MAP OF SUPPORTING ORGANIZATIONS IN TANZANIA'S TECH START-UP ECOSYSTEM



ABOUT DAWA MKONONI

Dawa Mkononi, Swahili for "medicine at your fingertips," is a business-to-business (B2B) health-tech and e-commerce start-up. It was founded by medical doctors Joseph Paul, Clemence Exaudi, Kilalo Mjema, and Asorael Ayo. Initially starting its operations in 2020 as a retail outlet for pharmaceuticals, DM expanded its scope in January 2022 to include a digital platform specifically designed for B2B transactions. This platform enables pharmacies, accredited drug dispensaries (ADDOs), and other healthcare outlets to purchase pharmaceutical products online for expedited delivery.DM streamlines the procurement process, increasing efficiency in a currently fragmented system, to ultimately improve the quality of care delivered.

While the idea for the company was informed by a deep understanding of, and firsthand experience working in, the healthcare sector (the founders were in medical school when the idea for the company was conceived!), DM needed support operationalizing their business idea and putting the "fin" in "healthcare fintech," as many start-ups do. This included a need for technical assistance on things like financial modeling, software development, and digital payments, as well as access to mentorship, partnerships, and fundraising opportunities.

Today, 3 years after inception, DM is gaining traction in the market, with new partners and investors recently announced. What role did local accelerators play in getting them there, how did they navigate different programs on the market, and what are their plans for further acceleration?

EMBEDDED FINANCE

Embedded finance is the placing of a financial product in a non-finanical customer experience, journey, or platform. While embedded finance is not an entirely new concept (non-banks have offered financial services via private-label credit cards at retail chains and airlines for many years, for example), the next generation of embedded finance integrates financial products into digital interfaces that users interact with on a daily basis. It could be an e-commerce merchant providing insurance, a coffee shop app that offers 1-click payments...or a healthcare application providing order, delivery, and payment services. Embedded finance brings financial services to the customer at the exact moment it's needed.

Companies that offer embedded finance, then, must have expertise in both the financial and non-finanncial customer experience, journey, platform, etc. An ag-tech company must understand agricultural and technology; a healthcare fintech/e-commerce firm must be good at the healthcare part of their business, the "fin," the tech, and the commerce. While founders with expertise in one component may partner with a co-founder that has experience in another as a solution, there is also a role for accelerators. Accelerators can help fill knowledge and experience gaps, provide insights from the lessons other companies have learned, and facilitate partnerships to ensure financial services are embedded seamlessly into the business model.

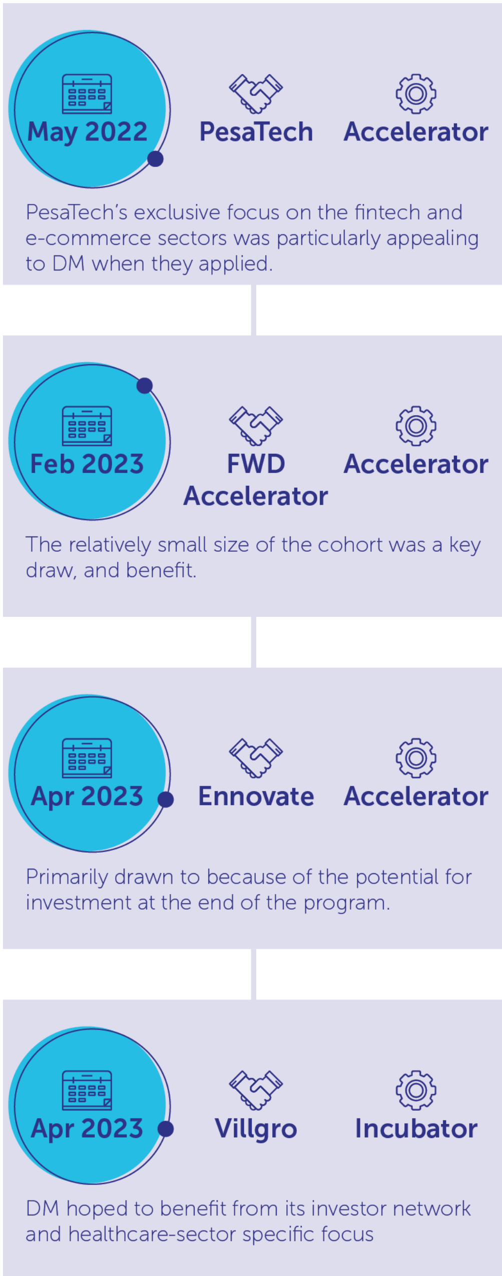
DM'S ACCELERATION JOURNEY

PESATECH

The first acceleration program DM participated in was PesaTech, a fintech accelerator implemented by the United Nations Capital Development Fund (UNCDF) in partnership with Sahara Ventures; Enea Advisors, a Tanzanian business management and strategy consulting firm; Hindsight Ventures, the Africa-focused subsidiary of a global startup accelerator headquartered in India; and iPF Softwares, a Tanzanian software development firm. This consortium of implementing partners brought both a breadth and depth of expertise in supporting fintech start-ups.

PesaTech's exclusive focus on the fintech and e-commerce sectors was particularly appealing to DM when they applied, with several members of the first cohort echoing that there had been a need for a fintech-specific accelerator. DM team were skill lacking technical expertise and key partnerships in the digital payments and fintech space, which were essential to bringing the e-commerce solution they envisaged to life.

Through PesaTech, DM received tailored technical assistance at the intersections of financial inclusion, healthcare supply chains, and digital payments. Moreover, peer-to-peer engagement with other cohort members facilitated knowledge



sharing and partnership development within the PesaTech community.

PesaTech's focus on increasing investor readiness among post-MVP and post-revenue start-ups. With a validated solution and existing customer base, DM didn't necessarily need support refining its core business model and product, but benefitted from "seemingly basic yet practical advice" for taking their company to the next level. They found training from different experts on things from financial modelling and cash flows to data rooms and human resource manuals particularly useful. Importantly, they were able to apply their new skillset and showcase their investor readiness through introductions and pitches to investors such as *Goodwell*, an impact investing fund based in Kenya, and *FMO Ventures*, a program run by the Dutch development bank.

While the wide range of technical and business sessions was a core benefit of PesaTech, it also posed some challenges for DM. Primarily, they did not think that all sessions were relevant to them and were sometimes unaware of how much time and effort each of these sessions would require. They would have preferred to have more information ahead of time, and/or the option to opt out of sessions to spend their time more efficiently. Likewise, they felt there was a lack of clarity around potential funding from PesaTech post-acceleration. While DM saw value in the program regardless—and how skills gained through the program would increase the chances of funding from third parties later—they commented that a lack of clarity around financing can be de-motivating.

When asked if they would participate in PesaTech again or recommend it to other Fintech start-ups, DM said yes. Beyond access to useful events and networks, it's also the case that "there are not many opportunities [for start-ups in Tanzania]. Any chance you get, you have to shoot your shot. You never know."

ENNOVATE

In April 2023, DM joined an accelerator run by *Ennovate Ventures*, which they were primarily drawn to because of the potential for investment at the end of the program. While funding was not guaranteed, one of Ennovate's objectives is to invest in the funding gaps left by VCs and it is one of the only programs in the country connected to *ABAN*, the African Business Angel Network, whose *Catalytic Africa* program offers co-investment and matching with angel investors. In terms of TA, DM noted that while they got what

PesaTech brings the right people together

- Joseph Paul, Founder, Dawa Mkononi

BOX 1: TERMINOLOGY

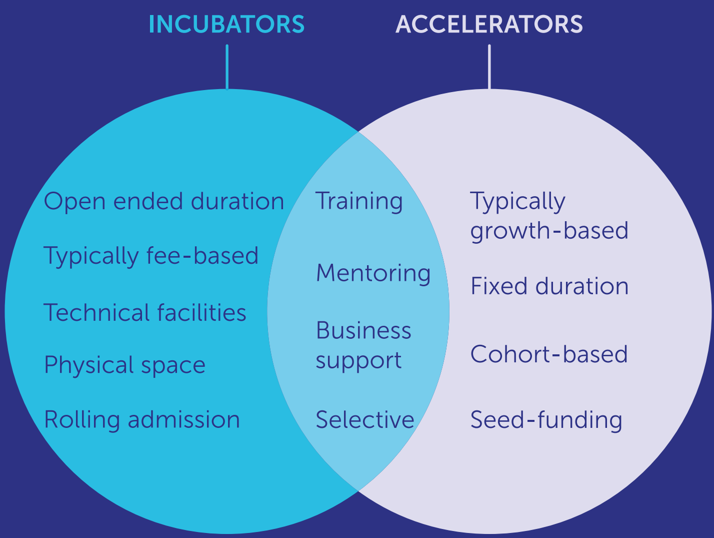
While the terms accelerator and incubator are often used interchangeably, there are important differences between them and between various start-up competitions.

A start-up **accelerator** is a program designed to help early-stage start-ups grow quickly through education, mentorship, and financing. They are intense and rapid, typically provide a fixed-term, cohort- based program over 3-6 months, culminating with a graduation or "demo day." The goal is to help start-ups that already have a minimum viable product (MVP) take their companies to the next stage more rapidly than they could on their own, sometimes in exchange for equity of other benefits. Many accelerators take a share of participants' equity, typically between 5-10%, in exchange for acceleration services offered.

Start-up incubators are similar to accelerators in that they help entrepreneurs refine their business ideas and build their companies, but they often do so from an earlier stage. Incubators support entrepreneurs that are still formulating business models and finding product-market-fit (as opposed to scaling and refining customer engagement/ product-market-fit for an already-validated product) and, as such, tend to focus on providing office space, ad-hoc training, and other support services over a longer period of time.

Start-ups may also seek to participate in **competitions**, typically one-time events that offer cash or other prizes to promising start-ups but are not tied to other education, training, or mentorship benefits.

We use the term **ecosystem facilitators** to refer to organizations running accelerators, incubators, hubs, business development services etc.



Source: Mass Challenge, "Accelerators vs. Incubators: How to Choose the Right One"

THE FOUR INSTITUTIONS THAT SUPPORT START-UPS				
	Incubators	**Angel Investors**	**Accelerators**	**Hybrid**
Duration	*1 to 5 years*	*Ongoing*	*3 to 6 months*	*3 months to 2 years*
Cohorts	*No*	*No*	*Yes*	*No*
Business Model	*Rent; non-profit*	*Investment*	*Investment; can also be non-profit*	*Investment; can also be non-profit*
Selection	*Non-competitive*	*Competitive, ongoing*	*Competitive, cyclical*	*Competitive, ongoing*
Venture Stage	*Early or late*	*Early*	*Early*	*Early*
Education	*Ad hoc, human resources, legal*	*None*	*Seminars*	*Various incubator and accelerator practices*
Mentorship	*Minimal, tactical*	*As needed by investor*	*Intense, by self or others*	*Staff expert support, some mentoring*
Venture Location	*On-site*	*Off-site*	*On-site*	*On-site*

Source: "What do Accelerators Do? Insights from Incubators and Angels," By Susan Cohen, 2013; Adaptations by Ian Hathaway via What Startup Accelerators Really Do they were looking for in the fintech space through PesaTech, Ennovate is well-known for its support on branding, marketing, and refining product-market-fit, which they still stood to benefit from.

VILLGRO

Also, in April 2023, DM was about to begin a program run by *Villgro Africa*, an incubator and impact investor focused on healthcare businesses in Africa. While the program had not yet started at the time of writing and the details of it were unclear, DM again hoped to benefit from its investor network and healthcare-sector specific focus.

FWD ACCELERATOR

Finally, in February 2023, DM joined the first cohort of *FWD Accelerator*, a post-MVP and post-revenue fintech accelerator run by SNDBX Investments and Warioba Ventures. The relatively small size of the cohort was a key draw, and benefit. With fewer start-ups to pay attention to, facilitators could spend more time understanding and addressing each company's specific needs. For DM, this meant linkage to companies that could support coding and AI, data management and analytics. The primary reason for applying to and joining the program, however, was again potential funding: DM anticipated more exposure to angel investors even the potential for funding from Warioba Ventures itself. It turned out they were right; in April 2023, Warioba Ventures announced its investment in DM, together with Ennovate Ventures, matched by ABAN / Catalytic Africa.

WHEN NOT TO PARTICIPATE

While DM has applied to a few programs and competitions without much information on how they are structured or what benefits they offer because of the potential for financial return, DM does have limits for what they will give up at this stage: equity. As described in Box 1, many accelerators take a share of equity, typically between 5-10%, in exchange for access to resources, networks, and the (relatively small) capital investment they offer. While giving up equity for certain acceleration programs can be worth it—take Y-Combinator for example—founders should be careful in giving up a stake in their company for generic support. DM was accepted into a corporate-run accelerator in 2023 but declined to participate due to its equity requirement. While they may be willing to give up equity in the future, they are not there yet.

COMPETITIONS

While intensive, months-long accelerators can be hugely beneficial to start-ups, they are time consuming. And because start-ups are time and resource thin, they are often also interested in one-time competitions that offer "quick wins" in the form of cash, certificates that enhance reputation, or other prizes, but that are not tied to other training and time commitments.

After winning the "Bootsup" competition run by the Tanzania Commission for Science and Technology's (COSTECH) Buni Innovation Hub, for example, DM had the opportunity to travel to South Africa to pitch to investors and meet other start-ups in the region. DM was also a winner of mPreneur, a competition that stimulates capacity building among youth in mobile entrepreneurship.

As a winner, DM received IT-related TA, cash, and access to events including the opportunity to pitch to investors in Macedonia.

LOOKING AHEAD

While DM is gaining traction in the Tanzanian market, their goals for growth are ambitious. Is further acceleration in their future? Possibly, and once their seed round fundraising is complete, they will be more focused when it comes to participation accelerator programs and competitions. They are interested in accelerators that have one (or more) of the following characteristics:

- **Could support regional expansion.** DM has goals of expanding to Rwanda, Burundi, and Malawi in the next three years, but to do this, they need a better understanding of the regulatory environments and private sector partners in these markets. A regional accelerator with experience supporting start-ups operating in these markets, or who have supported similar expansion goals, could be advantageous.

- **Is focused on the intersection of healthcare, supply chains, and technology.** There are several accelerators and programs that focus specifically on the healthcare sector, such as the *HealthTech Hub Africa* in Rwanda, run by the Novartis Foundation. Just as PesaTech provided fintech and e-commerce focused support that they needed at the time, DM is now interested in tailored TA in the health and supply-chain/logistics space. Participation in health-tech programs could also facilitate partnerships with key stakeholders in the markets they plan to expand to.

- **Have a small cohort** that creates a sense of community and facilitates strong connections to facilitators and partners, like PesaTech and FWD.

- **Offer follow-on support.** While many of the accelerator programs DM is a part of are still underway, none of them have so far offered structured post-program support. DM noted that as their business grows, both in size and complexity of products/services offered, they will need to enhance their capacity for data management, data analytics, and artificial intelligence. Data scientists, however, are expensive and hard to come by, especially in Tanzania. DM suggested that PesaTech, for example, could offer program graduates limited/special access to partner iPF Software two years after the program.

CONCLUSIONS

DM's story teaches several lessons about what Tanzanian start-ups are seeking to gain from accelerator and accelerator-like programs, how they navigate choosing among programs, and opportunities for reducing information asymmetry between start-ups and ecosystem facilitators.

First, access to capital is the number one goal for start-ups. While very early-stage companies may value whatever support they can get—financial or non-financial—most post-MVP and post-revenue start-ups are actively fundraising. They value technical assistance and introductions to potential investors, too, but access to capital is the through line and the end-game; they will take advantage of any opportunity for potential funding (we saw that DM applied to a few programs without much understanding of what they would entail, solely because of the possibility of investment), and are most attracted to programs that are likely to result in investment.

This may sound obvious, but there are a few implications. First, founders should do their research to understand which programs may lead to direct funding (and in what form – grants, loans, equity, etc.). If direct financing is not an option, they should research which investors/investor networks the program has relationships with, and investigate other companies they have invested in. For their part, ecosystem facilitators should help start-ups with this research by being as transparent as possible about the likelihood of investment, either directly from the program or through its investor network. To increase potential for third party investment, ecosystem facilitators can make connections between start-ups and investors early in the program lifecycle, or even in the application selection phase. Finally, ecosystem facilitators should quantify for applicants, as best as possible, the value of non-financial benefits. While start-ups understand that non-financial benefits can theoretically increase the likelihood of investment, quantifying these benefits may increase the perceived value of TA and change mindsets to focus on the long game. Funding is almost never guaranteed, but transparent information is key.

Second, technical assistance needs to be tailored. While many post-MVP and post-revenue startups require technical support in the same areas, every business is different. And while fundraising is the primary goal, serious start-ups recognize the value of tailored technical assistance.

As they mature, they will need even more tailored and complex support. Start-ups should ensure they have a specific idea of their TA priorities – whether it's related to pitching and data rooms or financial modeling and digital payments – so that they can, again, better-research and choose programs. Accelerators might also allow start-ups to choose training modules/TA "tracks," together with input from organizers to ensure curricula are as relevant as possible. There might, for example, be 'core courses' that all members of the cohort participate in, supplemented by sub-sector/theme specific tracks or 'electives.'

Third, it takes a village. It's difficult to say exactly which program, training session, or investor introduction has been most valuable to DM in its growth journey. What is clear, however, is that as the saying goes, it takes a village. Relationships built through Sahara Accelerator remain relevant today and PesaTech was instrumental in refining the solution, securing key partnerships, and increasing investor readiness—setting the stage for FWD/Ennovate to both invest directly and unlock third-party capital.

DM navigated Tanzania's accelerator market by at first being very open to (almost) any opportunity available and has become more focused with time. UNCDF is committed to continuing to support DM as they grow and expand to new markets, and to sharing their and other start-ups' experiences to inform and inspire the development of Tanzania's innovation ecosystem.

ABOUT UNCDF

The United Nations Capital Development Fund (UNCDF) is the United Nations' flagship catalytic financing entity for the world's 46 least developed countries (LDCs). With its unique capital mandate and focus on the LDCs, UNCDF works to invest and catalyse capital to support these countries in achieving the sustainable growth and inclusiveness envisioned by the 2030 Agenda for Sustainable Development and the Doha Programme of Action for the least developed countries, 2022–2031.

UNCDF builds partnerships with other UN organizations, as well as private and public sector actors, to achieve greater impact in development, specifically by unlocking additional resources and strengthening financing mechanisms and systems contributing to transformation pathways, focusing on such development themes as green economy, digitalization, urbanization, inclusive economies, gender equality, and women's economic empowerment.

A hybrid development finance institution and development agency, UNCDF uses a combination of capital instruments (deployment, financial and business advisory and catalysation) and development instruments (technical assistance, capacity development, policy advice, advocacy, thought leadership, and market analysis and scoping), which are applied across five priority areas (inclusive digital economies, local transformative finance, women's economic empowerment, climate, energy, and biodiversity finance, and sustainable food systems finance).

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FOR MORE INFORMATION, PLEASE CONTACT

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ABOUT D4T-TIDE

The European Union Digital4Tanzania (D4T) Programme is contributing to the impact of digital transformation on Tanzania's inclusive economic growth and citizen wellbeing. With a budget of EUR 35M, its specific objectives include:

1. Digital government: improving the digital economy and the use of e-government and eservices
2. Inclusive connectivity: increasing accessible and equitable connectivity services in rural and peri-urban areas, in particular for social services.
3. Digital trade support: developing the fintech sector and innovation ecosystems in the country and the region.

The programme is jointly implemented by The Ministry of Information, Communication and Information Technology (MICIT), EU Member States and the UN Capital Development Fund (UNCDF).

Under the D4T programme, UNCDF is currently implementing the Tanzania Inclusive Digital Economy (D4T-TIDE) project. Launched in September 2022, D4T-TIDE is a four-year project that aims to increase access to and usage of digital payments and digital financial services in Tanzania, while enabling the innovation ecosystem to better support entrepreneurs and further drive digital innovation.

ABOUT PESATECH ACCELERATOR

Pesatech Accelerator is a fintech accelerator program designed to support post-MVP and growth-stage fintech startups in Tanzania. The accelerator aims to build fintech's capacity to raise investment through an Investor-Readiness Program (IRP) and act as a marketplace between startups, strategic partners, and investors.

PesaTech's first cohort was implemented by Sahara Ventures in partnership with ENEA Advisors, Hindsight Ventures, and iPF Softwares with support from the European Union and SIDA.

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