DIGITAL FOR TANZANIA

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D4T-TIDE Case Study Series

ESTABLISHING EFFECTIVE PARTNERSHIPS IN THE INNOVATION ECOSYSTEM

Lessons from Laina Finance

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AUTHOR: Caroline Morrow

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INTRODUCTION

Partnerships of all kinds are essential to the success of fintech start-ups, especially those with objectives to expand financial inclusion at the last mile. From telecoms, who provide a large customer base, to banks, who help put the "fin" in fintech, fintechs do not operate in a silo but an ecosystem.

These partnerships are rapidly expanding access to the digital economy for underserved segments of the population—and with continued progress in financial inclusion dependent upon innovation in financial technology and the introduction of new business models, the best partnerships are win-win for the parties involved and for financial inclusion.

This case study provides insights into establishing effective partnerships in Tanzania's fintech ecosystem through the lens of Laina Finance (Laina). Laina is a fintech startup regulated by the Bank of Tanzania that offers instant credit in the form of flexible payment plans at the point of purchase for devices, insurance premiums, and more.

Through its digital financing platform, Laina offers both conventional and Sharia-compliant credit, primarily to consumers at the base of the pyramid, especially women and youth, who do not have traditional forms of collateral or credit history. Lessons from Laina's experience will be useful for other start-ups embarking on their own growth journey and for traditional financial service providers, funders, and others seeking fintech partners.

Laina participated in the PesaTech Accelerator, an initiative by the UN Capital Development Fund (UNCDF) aimed at supporting fintech startups in Tanzania that are in the post-Minimum Viable Product (MVP) phase and growth-stage. This accelerator program focuses on enhancing fintechs' capacity to attract investment through an Investor-Readiness Program (IRP). Additionally, it serves as a platform to facilitate connections among startups, strategic partners, and investors, fostering a vibrant ecosystem for fintech innovation and growth.

FINTECH-FINANCIAL INSTITUTION PARTNERSHIPS

- NEW OFFERINGS FOR EXISTING CUSTOMERS
- DATA COLLECTION, USE, AND MANAGEMENT
- CUSTOMER ENGAGEMENT AND PRODUCT USAGE
- ACCESS TO NEW MARKET SEGMENTS

WHY PARTNERSHIPS?

Discussions with Tanzanian fintechs from the PesaTech Accelerator revealed that contrary to the popular narrative, financial institutions view fintechs not as threats to their business but as partners in innovation. Mainstream financial institutions—banks, insurance providers, payment companies—seek partnerships with fintechs to improve product offerings, increase efficiency, and lower costs. For fintechs, partnerships with large corporations and reputable financial service providers help them access growth capital and scale their products and services. Successful partnerships, in turn, result in more affordable and higher quality financial products and services for customers who were excluded from or underserved by the traditional financial sector.[1]

While the Laina team initially worked alone, self-financing to prove their concept, they knew that the success of their business model would ultimately depend on successful partnerships. Today, some of Laina's biggest and most important partnerships are with telecoms, who provide a large customer base, but these are not the only critical partners; different players are important to different areas of the business. When looking to extend credit to customers without credit history, for example, partnerships with institutions that have structured data around these consumers is essential. With device financing for Vodacom or other telecom subscribers, on the other hand, the telecom is the most important partner. The credit reference bureau (CRB), which maintains performance records of loans taken out by Laina's customers, is a crucial partner. However, its data is constrained by inconsistent reporting to the CRB by financial institutions.

Partnerships are vital. They are a critical element of our service provision, and enable us to achieve our growth goals without constantly fundraising.

- Tonny Missokia, Director, Business Development, Laina Finance

[1] *The Center for Financial Inclusion at Accion and The Institute of International Finance, How Financial Institutions and Fintechs are Partnering for Inclusion: Lessons from the Frontlines, 2017*

THE PATHWAY TO PARTNERSHIP

While every fintech has a unique partnership journey, the pathway to partnership typically involves four stages: identifying prospective partners, negotiating a deal, working together, and nurturing the relationship.

IDENTIFYING PROSPECTIVE PARTNERS

Partner identification can happen in several ways—sometimes through formal procurement processes or contests set up by financial institutions or other corporate entities, and other times more organically through relationships and mutual interests.

Laina considers partner identification as a key— if sometimes the most difficult— part of its product design phase. Product design begins with the customer; identifying a customer's need or gap in the market. Once the problem is identified, they dig into the key characteristics of the customer and what partners are best suited to help serve those customers. Telecoms like Vodacom are natural partners for device financing, for example, as they have a huge customer base of existing mobile phone subscribers. Because they can provide this customer base and because they are reputable, partnerships with telecoms often open doors to other partnerships or funding opportunities. Another PesaTech startup, *Settlo*, whose point-of-sale app provides business management solutions (profit and loss reports, sales and expense reports, inventory management), for example, received equity investment after securing a deal with Vodacom.

Engagement with other players in the innovation ecosystem through events and in accelerator programs like *PesaTech* also helps to forge relationships and facilitate knowledge-sharing that can lead to new partnerships. Laina, for example, has developed ideas for collaboration with fellow-PesaTech participants *Dawa Mkononi*, *Kilimo Maendeleo*, *Settlo* and *Safari Wallet*. While implementation of these ideas depends on financing, they point to the power of relationships in identifying potential partners. As the innovation ecosystem grows, there will likely be more opportunities for 'outside-the-box' partnership models that go beyond fintechs and financial institutions to bring different types of fintech/startups together.

NEGOTIATING A DEAL

After identifying a potential partner, the individuals from both organizations responsible for relationship and partnership management need to secure internal approval by gaining buy-in from manage-

HOW FINANCIAL INSTITUTIONS AND FINTECHS ARE PARTNERING FOR INCLUSION: LESSONS FROM THE FRONTLINES

FINANCIAL INSTITUTIONS

- Brand recognition
- Large customer base
- Wide range of product offerings
- Comprehensive customer data
- Robust infrastructure
- Advanced underwriting
- Risk management experience
- Access to capital
- Licensed to provide regulated financial services

SHARED

- Scaled and innovative solutions
- Deeper and analytics-driven customer engagement
- Enhanced risk mitigation
- Improved product efficiency
- More accessible products

FINTECH

- Culture of innovation
- Nimble
- Agility and speed to market
- Disruptive mindset
- Lean set-up
- Technological expertise
- Customer data analytics
- Specialized solutions
- Modern IT systems
- Absence of legacy systems

Source: The Center for Financial Inclusion at Accion and The Institute of International Finance, How Financial Institutions and Fintechs are Partnering for Inclusion: Lessons from the Frontlines, 2017 ment, boards of directors, and other relevant colleagues. There is a wide variety of potential commercial agreements—outsourcing agreements, collaboration agreements, technology development and licensing agreements for example—and no single type of agreement is typical for fintechs and financial institutions.

For Laina, a focus on understanding their own and their potential partner's value-add is essential at this stage, regardless of the type of agreement. Understanding your potential partner across many different dimensions, not just the ones most obvious to the partnership, allows you to better-identify relative strengths and create a stronger value-proposition. With Vodacom, for example, Laina's value-add is in supporting customer transition from 2G to 4G/5G, through device financing, which in turn increases the customer's profitability.

For many partners, sales is the primary language: they want to know how many more products they can sell if they partner with Laina as opposed to partnering with someone else or working on their own. Laina is working hard, however, to communicate and sell a value proposition that goes beyond sales.

As a technology provider, Laina helps partners save costs by building solutions for them, gathering feedback, generating data, conducting market research, and portfolio management. This strategic support allows partners to focus on their core business. Furthermore, Laina emphasizes the importance of agility while maintaining a keen focus on maximizing the lifetime value of each customer.

The beauty of most fintech startups is that, like Laina, they specialize in one area (or a few) which allows them to offer unique and customer-centric products and services. Big corporations, by contrast, have significant resources but lack the customer centricity needed to fill persistent market gaps.

They are also not as agile as fintechs, meaning their innovation cost is high. Telecoms, Laina believes, are well-suited to play a neutral role by allowing new players to leverage their platforms. Negotiation is of course tougher for early-stage companies than for more established firms with market traction, which is why it is important to communicate the unique offering and how it adds value to the partner, ideally across several dimensions and in both the short and long term.

In the short term, for example, the partnership may increase profits while in the long term, there may be opportunities to develop new products or services that increase the value of customers. Protecting intellectual property is also an important consideration for fintechs.

In many cases, fintechs retain ownership of their intellectual property, while bank partners are granted a limited license to use it. This becomes more complex, however, when both parties jointly develop solutions.[2] Here, it's important to find a mutually beneficial middle ground where both parties benefit.

In terms of timeline, negotiations between small fintechs and big banks or other corporates can be lengthy. In Laina's experience, if the department you are working with views the partnership as a priority, you can sign a deal quickly; if not, it may take up to six months or longer to cross the finish line. But it is not always a matter of interest; because corporates are large, complex institutions with different revenue streams, it can take time to align all aspects of the partnership. And, while the fintech sector has gained relevance globally, fintech partnerships are still relatively new for many financial institutions in Tanzania. There is more scrutiny, regulatory uncertainty, and general unknowns when working with early-stage fintechs than with established firms—failure rates are higher, after all. Recently, after ***two years*** of developing a partnership with CRDB bank, Laina and CRDB launched "BIMA YA BUKU," a comprehensive insurance package specifically designed for motorbike riders, offering motor, health, credit life, and passenger liability insurance. With 200+ customers on Day 1, it is clear that patience pays off.

WORKING TOGETHER

After the partnership is solidified and deal signed, fintechs work closely with their partners to co-create and deliver effectively. Again, different fintechs will have different modes of working with different partners. In some cases, working daily side-by-side for months; in other cases, fintech employees may move to partner headquarters for short "sprints" to pursue rapid technology development together.[3] In many cases, pilot phases provide an opportunity for testing, refining, and iterating on product/service design and delivery. Unanticipated regulatory, technology integration, or other challenges often arise during this phase, making it important to be patient and take stock of lessons learned for the future.

NURTURING THE RELATIONSHIP

As partnerships progress, both organizations must work to ensure that their interests are aligned and support both the needs of their own institution and the partnership. To ensure a stable partnership, financial institutions can offer favorable contract terms, strategic investments, or future benefits to their fintech partners to enable them to continue to take risks and innovate. Laina pointed out that as a fintech, it's important to recognize that partnerships are not lifetime agreements; it's important to ensure agreements remain fair and clear as the products or services offered through the partnership evolve and as the company grows.

[2] *Canapi, Demystifying the Bank Vendor Management Process*
[3] *Ibid.*

CUSTOMERS AS PARTNERS

While we have so far discussed institutional partners, perhaps the most important 'partner' is the customer. The Laina team expressed that the most important thing to do in their business is to consistently deliver on the promises you make; this is how you build trust and establish a strong foundation for partnerships. While this is true for institutional partnerships, demonstrating that you are committed to continuously improving your product or service can also go a long way in keeping customers happy and satisfied. This can entail regular research and development, focus group discussions to understand customers' journey and feedback, and staying up to date with industry trends and changes. Ultimately, it's about making sure you are consistently delivering value and exceeding expectations. In other words, the partnership can't succeed unless it's generating a product or service that customers like, trust, and use regularly.

CONCLUSIONS

Fintechs are rapidly gaining relevance in Tanzania's financial sector, and the potential for fintechs to play a key role in bringing digital financial services to people who are currently excluded from or underserved by traditional financial service providers is high. Continued progress in financial inclusion will depend not only on innovations in technology but on innovative partnerships between fintechs, traditional financial institutions, telecoms, and others.

While both fintechs and larger financial institutions may approach these partnerships with caution, Laina's experience (and others') points to the importance of playing to and building upon respective strengths, while keeping the low-income, last-mile customer at the heart of decision-making. By leveraging the resources and reputations of larger players, for example, and the customer-centric, disruptive mindset of fintechs, these partnerships can result in a more diverse array of affordable, relevant, and high-quality products that low-income customers trust.

In particular fintechs should pay attention to three key things when partnering with larger institutions:

1. Speed of execution with highest degree of flexibility
2. Importance of owning IP for the solution
3. Brand visibility, which helps with improving credibility in the market

Accelerators like PesaTech can play a role in facilitating partnerships through introductions, relationship-building, and knowledge-sharing events as well as through capacity-building that both build fintechs' negotiation skills and their reputation, to lower the perceived risk of partnerships among larger organizations. If different players—fintechs, corporates, government, and development partners—can continue to learn from each other and facilitate mutually beneficial partnerships, the digital finance sector may be able to deliver on its promise of enabling financial inclusion.

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

Tian Zhang
Programme Analyst
tian.zhang@uncdf.org

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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