Supporting Financial Technology – Accelerators, Incubators and Innovation Labs in Africa

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The City of London published an independent report on the state of UK financial technology for the UK Treasury in February 2021, called the "Kalifa Review of UK fintech"[1]. The aim of the report is to ensure that the UK retains its leading position in the world of fintech. The report's recommendations cover policy and regulation, skills, investment, international actions, and national connectivity. The Kalifa report offers a cohesive, national approach to supporting fintech, involving regulators, the private sector and government.

But where is Africa placed in the fintech league table? The `Global Fintech Index 2020[2] shows that 8 of the worlds top 20 most important financial centres do not feature in the top 20 fintech hubs, in fact almost half of the top 100 fintech hubs are in emerging economies. In Africa, the leading fintech hubs are Johannesburg (62nd), Nairobi (63rd), Lagos (71st) and Cape Town (87th). There are upcoming hubs in Accra (123rd), Kigali (132nd), and Kampala (168th). However, notable is that the first entry in Francophone Africa is Dakar at 209th.

Ecosystems and enablers for financial technology

Fintech across Africa depends on actors and enablers. The actors in the financial technology ecosystem include governments and regulators that set policy and regulations and facilitate national infrastructure; financial institutions that purchase financial technology; corporates that use technology at scale; universities nurturing talent; investors and donors who fund fintech; support

[1] Kalifa, Ron (2021), "Kalifa Review of UK Fintech", The City of London and Innovate Finance, accessed on 26th February 2021, available on https://bit.ly/3qzfuLO

[2] Findexable, Global Fintech Index 2020, Findexable, available on https://bit.ly/38tWgRg

services - incubators, innovation labs and hubs and finally the fintech companies and the end users of fintech services.

The enablers in the support ecosystem include the investment climate, the business environment, the legal and regulatory environment, the level of development of the infrastructure, market demand and available skills.

This blog considers the role of incubators, accelerators, and innovation labs in supporting fintech and the challenges they face.

What are accelerators, incubators, and innovation labs?

In 2019 Forbes[3] counted 643 tech hubs across 34 countries in Africa, of which 41% were incubators, 24% were innovation labs, and 14% accelerators; 90 tech hubs were in Nigeria, 78 in South Africa and 50 in Kenya. But what are accelerators, incubators, innovation labs?

Accelerators aim to provide a rapid level of business growth to selected fintechs over a period of a few months. Accelerators ask for fintech's to apply for places – they chose the best through a competitive selection process. Accelerators are usually well funded, provide extensive short-term support, and have links to investors. However, the challenge is that this resource intensive approach. An incubator has a different focus, it is designed to provide medium term support to a larger number of start-up fintech. An innovation lab focuses on business growth and can be internal to a corporate or outside.

The sustainability model for incubators and innovation labs

The challenge for incubators and innovation labs in Africa is often sustainability, they must be nimble to succeed. This can mean serving a wide variety of technology-based companies across a range of sectors with a range of business support services. So, for example, Innovation Village in Uganda services a range of sectors which include agtech, energy, insuretech, edtech, health, tourism and fintech.

Incubators and labs supply a range of services:

a. **Workspaces**: This is the most common offering, but it is rarely sufficient to cover all costs. Desks or small rooms are rented based on a range of packages. Rooms for presentations, meetings and trainings can be rented as required and a range of secretarial services is provided. A coffee bar is provided selling coffee and snacks.

   A major benefit of the workspace for customers is that it offers flexibility and scalability which is important for a start up on a tight budget. But more than this, shared workspaces gather like minded people, and creates a meeting point for interested stakeholders.

b. **Event management**: Under this service, incubators and labs run events for their members, which are often funded by outside stakeholders, by financial institutions, donors, and corporates. In many cases, these are sprints – events designed to explore ideas.

c. **Professional services for members**: Many incubators and labs provide professional services for their members, these can include legal services, for example setting up a company or

[3] Shapshak, Tony (2019), "Africa Now Has 643 Tech Hubs Which Play "Pivotal" Role For Business", Forbes available on https://bit.ly/30x3HTx

examining a contract with an investor – or accounting services, or research and development support.

d. **Consulting services**: Consulting services around financial technology are often aimed towards external stakeholders. The extent of these services usually depends on the skills, knowledge and inclination of the leaders of the labs.

e. **Mentors**: High quality mentorship is a feature of accelerators but is often provided to a lesser extent through incubators and innovation labs. Mentors provide decades of experience and business knowledge to fintech's to help them fast track their learning and speed their business development.

f. **Corporate sponsorship**: While there are accelerators and incubators which are funded by corporates, corporate entities also extend more selected support to incubators and innovation labs, often as part of their corporate social responsibility, for example, MTN in Uganda providing free internet to Innovation Village.

g. **Investor management**: Labs, incubators, and accelerators both help prepare fintech companies for investors in terms of training and development work on pitches and in being a point of contact for investors.

h. **Equity**: In some cases, in return for support - labs, accelerators and incubators take small amounts of equity in a fintech in the hope that the fintech will receive finance to scale up services.

i. **Donor support**: According to Forbes approximately 60% of labs receive donor funding which covers some or all of their costs.

Networks of Hubs

In addition, increasingly incubators, accelerators and labs are networked and are learning best practices from each other. The leading African network of labs is Afrilab[4] which counts 240 tech hubs as members. Afrilabs provides networking and training opportunities for the labs themselves.

Next Steps - linkages and positive policy

So, beyond specific support services such as Afrilabs, how can African incubators and innovation labs be strategically supported – to expand the business models they have developed over time.

Financial sector linkages: African fintech companies, especially start-ups struggle to connect to the financial sector. The financial sector must see labs as a strategic resource and work with them. In theory this sounds simple, but the picture is much more complex.

In Europe some of the leading accelerators are sponsored by financial institutions, the most well known of these is arguably, Barclays Rise[5]. In Africa linkages between financial institutions and

[4] https://Afrilabs.com
[5] https://rise.barclays/

financial technology have been slower to develop – but there is growing activity, particularly in the accelerator space. Standard Chartered opened its eXcellator Lab in Nairobi in 2019[6], Stanbic opened its Flyhub Technologies[7] in 2020, Standard Bank in South Africa invested in Founders Factory[8] in 2019, and there are other examples.

International linkages: There are also signs of international linkages developing. The UKs Department of Trade and Industry recently launched the UK-Kenya Tech Hub, under the Prosperity Fund, designed to increase digital access in countries like Kenya. The UK-Kenya Tech Hub is envisaged as the first in a series of hubs in middle income countries. The hub will operate through tailored interventions and through partnerships between UK and Kenyan fintechs.

Positive Policy and Regulatory Environment: To further support labs, there needs to be a positive policy and regulatory environment for fintech across African countries. Policies that promote STEM education and university linkages, sandboxes that work and provide guidance for policy as well as no objection licences for fintechs to operate. The regulatory environment needs to provide certainty around evolving issues related to access to data, consumer protection, taxation of mobile money and e-commerce, outsourcing, data protection, financial conduct.

Investors in Fintech: In 2020, 397 African fintech companies raised over US$ 701m in investment – a huge achievement – but a fraction of the fintech investment in the UK alone of US$ 4.1 bn during the same period. Specifically, African countries must encourage and stimulate local investment[9] in African fintech and to broaden the geographic distribution of investor activity beyond Kenya, Nigeria, and South Africa.

Fintech in smaller markets and Francophone Africa

Promoting fintech in smaller markets is particularly challenging. Firstly, scale. Financial technology usually requires scale to operate this can be difficult to achieve in local markets. Secondly, technical skills – fintech's in some countries lack exposure, mentorship and there are fewer opportunities for specific technical education. Thirdly, funding. Funding flows to African fintech are focused on Kenya, South Africa, Nigeria and a few emerging fintech markets such as Uganda, Ghana and Senegal.

MSC studied fintech development in six countries in Francophone Africa in 2020[10]. The reports noted challenges in the regulatory environment, in operating businesses, low scores in doing business rankings[11], limited available investment capital for fintech, and the need to incentivise and support innovation programmes.

The future is fintech – but it could use some help in Africa

So, the future of financial services is intimately related to the growth and success of financial technology – technology which will be either imported or developed locally. Strategically growing

[6] Standard Chartered (2019), "We've launched our Africa eXellerator innovation hub in Kenya" available on https://bit.ly/2OHzmiq

[7] The Bankers' Journal (2021) "Stanbic Completes Incorporation of Fintech Subsidiary, Flyhub", https://bit.ly/30AgRPA

[8] https://foundersfactory.com/

[9] Cracknell, David, "Crowdfunding in Africa", First Principles Consulting available on www.firstprinciplesinfinance.com

[10] Reports can be downloaded from www.microsave.net

[11] Country reports available through https://www.doingbusiness.org/en/doingbusiness

hubs, Nairobi in Kenya, Lagos in Nigeria, Cape Town and Johannesburg in South Africa and financial technology in West Africa needs its own country by country Kalifa report. Each country level report would need to be built considering the policy and regulatory environment, the financial sector, the fintech industry, the education sector and investor policy. As in any emerging industry, local market needs, and opportunities can be a focal around which support can be provided.

This blog is one of a series of blogs, should you wish to sign up to receive additional blogs, please write to David Cracknell at david@firstprinciples.consulting. David Cracknell is the Director of First Principles Consulting Limited, based in Nairobi, Kenya. He advises financial institutions, governments, policy makers and donors on financial services, including digital finance, policy and regulation, and inclusive finance.

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