By Johan Fourie

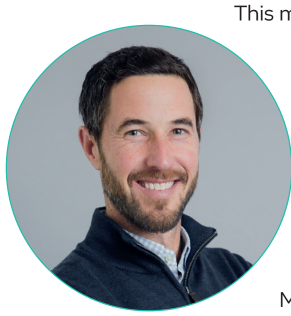
TECHNOLOGY

Tech incubators and accelerators

The dearth of innovation in the public sector has contributed to the growth of recent institutional innovations.

If there's one lesson we've learned from economic history, it's that innovation is key to human flourishing. One would think, therefore, that innovation is at the forefront of government policy. But sadly, that is often not the case. In fact, as Deidre McCloskey and Alberto Mingardi argue in their book, *The Myth of the Entrepreneurial State*, a response to Maria Mazzucato's popular *The Entrepreneurial State*, the state is often a barrier rather than a boost to innovation.

It is this lack of innovation that has contributed to the rapid growth of a relatively recent institutional innovation: the tech incubator and accelerator. Josh Romisher is CEO of the Nedbank Stellenbosch University Launchlab, an incubator for new start-ups. Having lived and worked in the US, Europe, Africa and Australia, he has seen many of these ecosystems in action. I ask him why African incubator programmes have not delivered on their immense promise, yet.



Josh Romisher
CEO of the Nedbank Stellenbosch University Launchlab

"Many incubators in Africa are funded by development finance or by governments or universities. Most of them are run as non-profits, operating on a substantial grant. They then spend that grant funding over time, because no one pays them for services. Five years later they realise they haven't built a sustainable business, and they are out of money."

Nairobi-based Wanjiku Kimani, a venture partner at The Baobab Network, an early-stage venture (and profit-oriented) tech accelerator with a portfolio of firms across the continent, suggests this business model is changing, albeit slowly. "Africa's tech start-up space is still quite nascent. The growth in accelerators is a reflection of the general growth of the tech sector. For instance, our insights team scoped 504 venture capital investment deals in Africa, compared to around 130 deals in 2015. The number of start-ups in the ecosystem is growing and we are seeing more investments going into African companies. I see the sudden increase in accelerator activity as a response to the demand for investor-ready start-ups."

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I asked both Kimani and Romisher what the main constraints are that start-ups still face on the continent. Are there barriers that almost all start-ups face, or are they largely industry and country specific?

"There are obviously some sector-specific challenges, but tech-enabled start-ups generally share the same pain points," says Kimani. "Start-ups are often faced with difficult macroeconomic conditions, fragmented markets with poor infrastructure and consumers that are expensive and difficult to serve because they have limited purchasing power and a preference for offline touchpoints. Covid-19 has accelerated some behavioural shifts, but the challenges still remain with regards to limited access to affordable capital from traditional financial institutions and venture capitalists as the venture capital market tends to have a bias for well-networked founders with elite credentials. Start-ups also find it difficult to acquire good talent."

Romisher highlights an additional constraint. "In the US or Europe, you can be very specialised in a market, you can do something as a small piece of a bigger market, be very, very specialised and have easy access to your customers. You can push it out through an app, you can deliver it through Amazon – there are many options. The rails have been built.

"In Africa, things are not that specialised – you basically need to build the entire value chain. For example, if you're offering a product, you may have to offer financing, you may have to offer service, you must physically sell and deliver it, because there's no one else to do it for you. This makes a venture way more costly and way more difficult."

I ask Kimani about the exit options for start-up founders on the continent. Is the aim to sell to international firms or is it to truly build an African multinational?

"Both. We have seen an increase in mergers and acquisition activity among African companies and a few large acquisitions from international firms. For example, Stripe acquired Paystack Nigeria for $200m, Kenya-based start-up Ajua, acquired another Kenyan start-up, WayaWaya, and our portfolio company, Mangwee from Zambia, was acquired by a Ghanaian fintech start-up, Zeepay."

One critique against tech accelerators is that they benefit those that are already affluent and who can afford to take the big risks that might deliver the big rewards. How does one mitigate against such increases in inequality?

"Generally, local investors still have a strong preference for traditional assets, such as land and real estate. We would, therefore, first need to see a shift in investment behaviour. One way to mitigate against higher inequality is for founders to share the upside rewards of their companies with their employees."

And, as McCloskey and Mingardi argue, if we want to build the future, we have to look towards entrepreneurs rather than bureaucrats. But bureaucrats can help. Says Romisher: "We need to make it easier for entrepreneurs to get visas to South Africa. We will attract the best entrepreneurs in the world if we can make it seamless, inexpensive and easy for them to come and build businesses here. This involves thinking hard about intellectual property, financial controls and labour laws. But SA already has all the attributes to be the epicentre of entrepreneurism in Africa."

Economic history shows that where entrepreneurs are allowed to innovate, prosperity follows. As tech incubators and accelerators gather pace across the continent, there is much to be optimistic about. ■

editorial@finweek.co.za

Johan Fourie is professor of economics at Stellenbosch University and author of *Our Long Walk to Economic Freedom* (Tafelberg, 2021).

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