

Do mLabs Still Make a Difference?

A Second Assessment Executive Summary



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Assessment Team

The assessment team included Siobhan Green, Kelvin Wong, Michael Lennon, Matthew Dawes, Russell Southwood, Anoush Yedigaryan, Charley Lewis, and Sylvain Béletre. Additional support for this work was performed by Sonjara staff, including Marcy Brown, Andrew Green, Margie Joyce, Silvie Stankova, and Ibrahima Thiam.

About Sonjara

Sonjara, Inc., is a woman-owned technology business based in the Washington, DC, area that equips the international development community to capture the promise and power of information and communication technologies—particularly the performance improvements emerging from smarter use of data, mobile technologies, and the innovation of business practices.

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Photo Credit: East Africa iHub

EXECUTIVE SUMMARY

The infoDev Mobile Application Laboratory (mLab) program seeks to harness the dynamism of digital technology sectors by equipping the next generation of entrepreneurs to help address development goals. By combining the benefits of digital technology with the strategic benefits of a development-oriented innovative entrepreneurial environment, economic growth and other development objectives can be supported and achieved.

This report is a second assessment of the mLabs program following the 2014 assessment *Do mLabs Make a Difference?* This second assessment focuses on essentially the same three questions as the first assessment.

In September 2016 the infoDev mLab program engaged Sonjara, Inc. to perform this rapid assessment in Armenia (mLab Eastern Europe, South Caucasus, and Central Asia), Kenya (m:lab East Africa), Senegal (CTIC/mLab West Africa), and South Africa (mLab Southern Africa).

This second assessment is based on an examination and visits to each mLab, with more than 160 field interviews and facilitated focus group discussions. The team analyzed more than 70 mLab-supported companies, conducting in-depth interviews with 59 mLabs start-ups as well as with mLab staff, investors, comparable start-ups, customers, and others in the ecosystem. The team also performed a review

of documents, data, and materials provided by the mLabs and companies, as well as collecting leading practices and background research from industry and stakeholder sources.

REPORT FINDINGS

mLabs Have Evolved in Response to Their Ecosystems

Since their launch in 2010 and since the 2014 assessment, mLabs have coevolved with their ecosystems, both influencing and being influenced by rapidly changing environments, marked by increased involvement by the private sector in both incubation and investment, and the rapid changes and improvements in technology infrastructure.

ASSESSMENT FOCAL QUESTIONS

1. What are the effects of the mLabs on start-ups?
2. What are the impacts on customers of start-up products and services?
3. How have the mLabs influenced their local digital entrepreneurial ecosystem?

The successes documented in this report are at least partially attributable to the ability to continuously adapt to the changes in the ecosystem. As the ecosystems likely will continue to evolve rapidly, the future success of mLabs will continue to be linked to their ability to match emerging needs and opportunities.

Impact on Start-ups

The assessment determined that mLabs continue to have positive impacts on supported start-ups, as measured by company survival, maturation, job creation, and income generation. For example, African mLab-supported start-ups are posting an 84 percent survival rate.

There is also clear evidence of mLab-generated job growth due to direct hiring by mLab start-ups and, perhaps more important, income-generation opportunities resulting from mLab companies' business models.

In addition, evidence indicates mLabs start-ups consistently progress from early stage start-ups into more mature businesses. With respect to mLab-provided services, the most frequently cited benefit by mLab start-ups concentrated on business acumen and networking—the opportunity to connect to other entrepreneurs and other high-quality business resources.

Impact on Start-ups' Customers

Citizens, businesses, and governments are enjoying a range of benefits as a result of the digital business models, products, and services developed by mLab-supported start-ups:

- Over 1.7 million students receive mobile-based academic materials and instruction via digital technology developed by an mLab-supported start-up.
- Farmers monitoring their crops, water usage, and sales with an mLab-incubated company are experiencing an average increase in income of US\$155 per month, adding a US\$2.7 million input into the regional economy.
- A national traffic-safety campaign crowdsourcing monitoring of minibus traffic using an mLab-incubated app has contributed to a 30 percent national drop in minibus traffic deaths.

mLabs were established as part of the Creating Sustainable Businesses in the Knowledge Economy program, launched in 2010 by the government of Finland and Nokia with the objective “to derive and test new approaches to advancing innovation and entrepreneurship in developing countries.”

- An mLab-supported mobile- and web-based product alerts drivers if they have received a speeding ticket, including the amount, and lets them know the necessary steps toward resolution, such as payment. The web application also lets them check and pay their property tax online.
- Tour guides have broadened their customer base using an mLab company's mobile business platform, resulting in increased income-generation opportunities in traditionally underserved areas.

As the above examples show, mLab companies have had diverse economic and social impacts on customers, including for bottom of pyramid (BoP)—a group which often makes up the vast majority of the population in the mLab countries.¹ Many customers are benefiting from the growth and diversification of digital products and services being added to the market. Many citizens are enjoying deeper participation and inclusion in more segments of economic and social life. Many customers are also benefiting from extraordinary improvements in the efficiency of services and products, as well as from innovations in business, government, and social affairs.

However, as the World Development Report 2016 points out, the “aggregate impact [of digital technologies] has fallen short and is unevenly distributed.”² Benefits to one group of customers cannot necessarily be assumed to have positive impacts on the traditionally disadvantaged. In fact, in many communities, digital technologies can inadvertently exacerbate existing inequality.³

1 BoP-targeted beneficiaries fall under an essentially a “social benefit” objective.

2 World Bank 2016, 2.

3 World Bank 2016, 2.

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While many mLab start-ups express a desire to build companies that provide positive social and/or economic impact, there are significant economic headwinds against these business models succeeding. While specific customer impacts differs by mLab, these headwinds have caused many mLab companies to pivot to more successful revenue sources, which lack clear potential for direct impact for the majority of the population. Along with the overall lack of finance at early stages, increased private sector opportunities in “business to business” (B2B) business models has provided an attractive—and often times essential—alternative to the more challenging BoP and business-to-consumer (B2C) business models.

We've gone from nothing to Facebook's CEO meeting with our ICT minister and then coming to mLab. He can relate to the minister as Kenya's part of the global economy. We're not a charity case. We're rising up the Innovation Index steadily.

- Digital technology entrepreneur, Kenya

There is also an increasing level of private sector involvement in both incubators and among investors (angel and venture capital) in the mLab countries and investors have more explicit profit goals and requirements for the companies they work with. While private sector investors often include language on a social and economic benefit aspect, they are measured by their return on investment, and will naturally seek companies that can produce higher yield business models. As such, and as seen in the larger digital ecosystem globally, the economic and social promise of these BoP-targeted business models may be unrealized due to these economic headwinds unless explicitly supported by the donor or government communities.

Impact on the Digital Entrepreneurship Ecosystem

mLabs continue to have positive impacts on their ecosystems. First, being among the earliest incubators in their countries, they provided social proof and led the way for other important partners in the government and private sector to enter the space. In Kenya this growth has translated from an estimated 10-15 digital start-ups created in 2011 to approximately 70-100 new start-ups in 2016. Second, mLabs have provided hands-on training and real-world experience to entrepreneurs as well as helped traditional entrepreneurs and businesses understand the new digital start-up community. Third, mLabs have connected start-ups to financing through a variety of sources. m:lab East Africa start-ups raised nearly US\$6 million since the last assessment in 2014. mLab Southern Africa start-ups have generated nearly US\$750,000 in external investment in 2016.

As the ecosystem has changed, the influence of the mLabs has changed as well. mLabs are no longer necessarily the most coveted option but rather one of many different types of incubation services available. Other players are offering attractive training and capacity-building support options to compete for top entrepreneurial talent.

While access to finance remains a challenge, new opportunities—such as the estimated US\$500 million in venture capital (VC) available to African technology start-ups in 2017—may significantly change the African digital landscape. At the same time, VC investment typically seeks to generate 30 times the investment,⁴ and this may reinforce the trend for start-ups to shift away from targeting BoP customer markets, which are usually higher risk and lower return. This underscores the importance of angel and donor investments, which have modest expectations of return.

SUMMARY OF SECOND ASSESSMENT RECOMMENDATIONS

Strengthening mLab Program Impact

Because of the rapidly evolving ecosystems in the mLab countries and differences among mLabs, there should be a formal process for periodic reexamination of mLab strategic focus. This focus should include determining which services generate measurable value for incubated companies, especially access to finance throughout the start-up life cycle. mLabs should continue to strengthen the business acumen of mLab entrepreneurs along with their

technology skills and to consider deepening the pool of business services support (for example, legal, accounting, human resources, and so on) provided to mLab companies so founders can focus on core business activities.

There is also an opportunity for more learning across and among mLabs through formal and informal sharing and networking, such as via strong alumni programs and follow-on support to continually engage past participants. Staging diversified networking activities with industries, prospective partners, mentors, and investors is also recommended as a highly valuable service that could be expanded and measured. mLab impact objectives and their strategic focus should be shared directly with investors, participating start-ups, and other mLabs.

Strengthen mLab Program Management

In light of the rapid changes in the digital technology ecosystem, building agile management processes into mLabs is recommended, including a full reexamination of performance metrics within and between mLabs and explicit training and support to the mLabs on greater and more effective use of data in decision making.

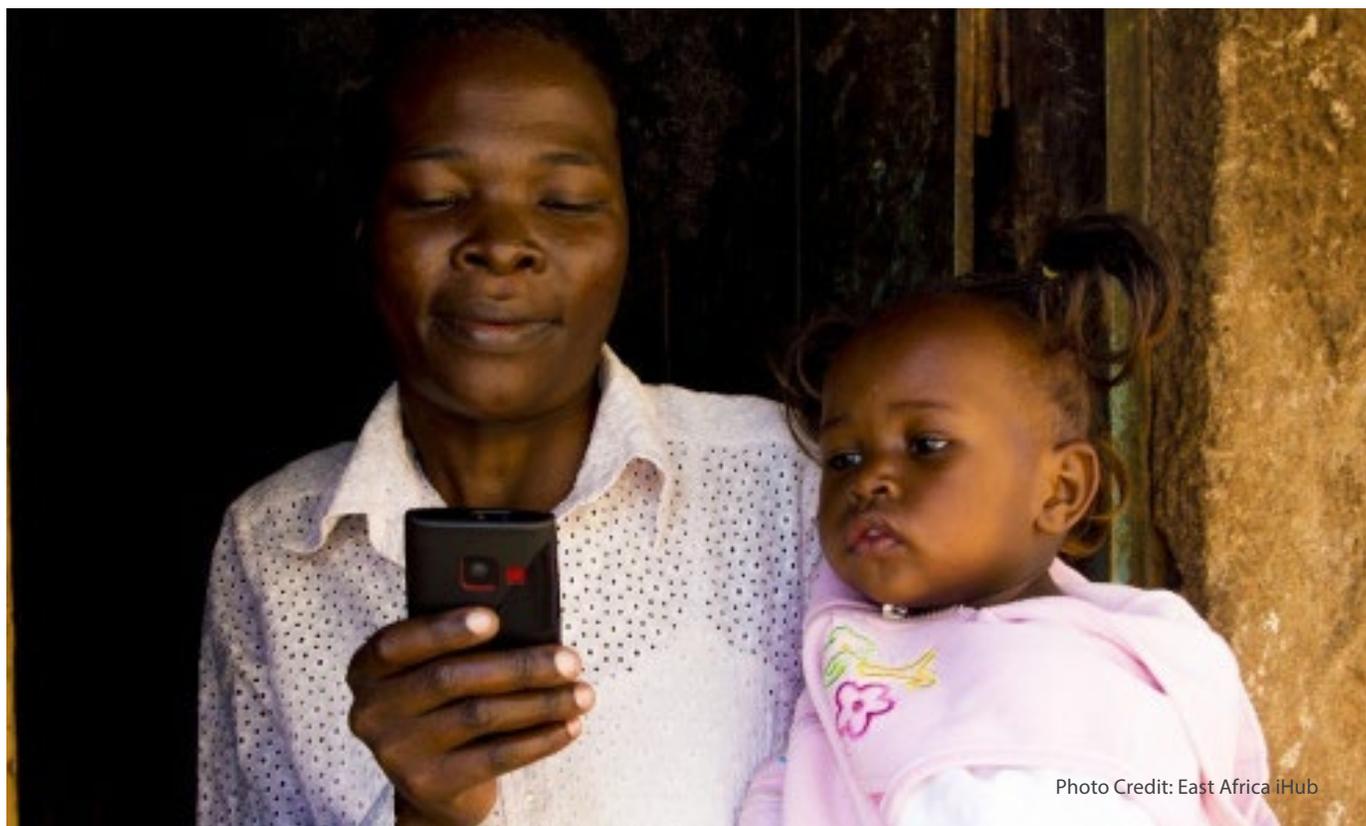


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