

SCOPING STUDY: THE START-UP ECOSYSTEM IN ZANZIBAR 2024



PARTNERS AND COLLABORATORS



The Revolutionary Government of Zanzibar through the President's Office Labor Economic Affairs & Investment and Zanzibar Economic Empowerment Agency (ZEEA) is among the primary beneficiaries of the study. The findings are also intended to benefit other entities of the government of Zanzibar that are responsible for formulating policies and fostering an environment conducive to the success of start-ups. By leveraging entrepreneurship, innovation, and digitalization, these entities aim to accelerate socio-economic development in Zanzibar.



Netherlands Enterprise Agency

The Kingdom of the Netherlands (EKN) through the Netherlands Enterprises Agency (NEA) is the sponsor of this study. It firmly believes that collaboration is essential in addressing both social and global challenges. In Tanzania, the EKN shares its values and expertise to successfully cooperate in various areas including trade and investment promotion, agricultural and innovation.



The United Nations Development Programme (UNDP) through the Funguo Project is another key sponsor of this study on the start-up ecosystem in Zanzibar. The Funguo Project was established to support Tanzania's desire to create a more viable and sustainable environment to promote innovation and support innovative start-ups and MSMEs. It serves as a platform open to any partner interested in catalysing the Tanzanian ecosystem in diverse ways.



ZRCPP is an autonomous non-government organisation (NGO) that conducted the study. The centre is dedicated to unlock local potential through high- quality research and policy analysis, driving the operationalisation of socio-economic development.



Zanzibar Start-up Association (ZSA) is the NGO established to stimulate the growth of start-up businesses in Zanzibar. It is positioning itself as a key actor within the start-up ecosystem.

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Let us ensure this study is utilized at all appropriate levels to guide the relevant actors to build the start-up ecosystem in Zanzibar.

ACRONYMS

COSTECH	Commission for Science and Technology
EGA	e-Government Agency
EKN	Embassy of the Kingdom of the Netherlands
ESOs	Entrepreneur Support Organisations
ICT	Information and Communication Technology
IoT	Internet of Things
KIST	Karume Institute of Science and Technology
MDAs	Ministries, Departments and Agencies
MSMEs	Micro and Small Medium Enterprises
MVP	Minimum Viable Product
NEA	Netherlands Enterprises Agency
NGO	Non-Government Organisation
RGoZ	Revolutionary Government of Zanzibar
SIDS	Small Island Developing States
SME	Small Medium Enterprises
SUZA	State University of Zanzibar
UNCDF	United Nations Capital Development Funds
UNDP	United Nations Development Programme
USAID	United States Agency for International Development
ZDV	Zanzibar Development Vision
ZEEA	Zanzibar Economic Empowerment Agency
ZIPA	Zanzibar Investment and Promotion Authority
ZNCC	Zanzibar National Chamber of Commerce
ZRCP	Zanzibar Research Centre for Socioeconomic and Policy Analysis
ZTBI	Zanzibar Technology and Business Incubation

GLOSSARY

Accelerators	Organisations that support start-up growth by providing skills, resources and networks of connections.
Angel Investor	A wealthy person who invests his or her own money in a company—usually a start-up—during the early stages of development and may or may not have an active advisory or guidance role for the founders in the venture.
Business Acumen	Theoretical or practical knowledge of how to develop and manage a business, including speed and accuracy in understanding and dealing with risks and opportunities in the business environment.
Coaching	The provision of professional guidance to help new entrepreneurs navigate the challenges of launching and growing a business
Exit	Refers to the point at which a founder or early stage investors sell their stakes in the venture, generally either in a private acquisition or public offering.
Incubators	Organisations that promote start-ups by providing office space and administrative support services, including legal, recruiting, IT, accounting, public relations and pooled buying programs.
Mentoring	A process of having an experienced person who provides advice, knowledge, or connections to a start-up founder. Mentorship usually involves a mentor with a strong business acumen and practical experience.
Scale-up	Defined as a firm that has an average annualised return of at least 20% in the past three years with at least 10 employees at the beginning of the period, according to the OECD (2007). This report refers to “scale-up” as the point at which a start-up becomes sustainable or secures sufficient funding to grow.
Start-up	A registered innovative company within its first 5 years of operation, aiming to disrupt the existing market by producing new products or services and typically designed for rapid growth.
Start-up Ecosystem	The combination of people, start-ups at various stages and other stakeholders and organisations supporting or connecting to these start-ups, interacting in multiple dimensions to create and scale new start-up ventures.
Unicorn start-up	This is a private firm with a valuation over \$1 billion.
Venture Capital (VC)	Investors who provide capital to start-ups by purchasing a stake in an entrepreneur's idea with a growth potential, nurturing it for a short period, and then exits when the timing is optimal.

EXECUTIVE SUMMARY

The government of Zanzibar aims to leverage technology and innovation to attain inclusive economic growth, as outlined in the Zanzibar Development Vision (ZDV) 2050. Technology and innovation are essential for boosting productivity and economic growth by creating highly paid jobs, revenue and wealth. However, emerging economies like Zanzibar face challenges in developing and utilising technology to cater for its growing economic needs and addressing social challenges. An estimated 70% to 80% of the productivity gap between developed and developing countries are attributed to slower technology adoption. Start-ups can help bridge this gap by fostering local technology development and facilitating the integration of foreign technology. Start-ups are increasingly recognized as pivotal drivers of innovation, job creation, and socio-economic progress due to their capacity to disrupt industries and scale rapidly.

This research highlights the potential of developing a robust start-up ecosystem in Zanzibar to foster the current economic growth and ensure long-term socio-economic stability. Similar to other parts of the world, diverse stakeholders in Zanzibar are beginning to acknowledge the critical role of start-ups in promoting an inclusive economy and achieving socio-economic development efficiently. Therefore, this report addresses the existing knowledge gaps by providing empirical evidence on the start-up ecosystem which is valuable to policymakers, start-ups, investors and entrepreneur supporting organisations.

In Section 1, the report gives some background for start-ups, and explains the status quo, prevailing situation of various attributes of the ecosystem and key related issues. The rationale and objectives for the study are covered in Section 2 and 3, respectively. Section 4 contextualises the concept of start-up in the social and economic context of Zanzibar. Section 5 describes the methodology and consultative process through which the study was conducted by researchers. It is important to note that different methodologies were used to capture the landscape of start-ups and analyse the key attributes in terms of talent, capital, demand and enabling environment. It employed quantitative and qualitative research to offer a comprehensive analysis of Zanzibar's start-up ecosystem. The research involved initial meetings, data collection, literature review, roundtable discussions for private sectors and public sectors, surveys, and interviews, ensuring an inclusive and participatory analysis with key stakeholders. Section 6 of the study covers the findings of the study. Additionally, the practical and recommendations on policy and practical measures to build the start-up ecosystem are presented in section 7.

The study reveals that Zanzibar's start-up ecosystem is at an infant stage. Key challenges identified include weak Entrepreneur Support Organizations (ESOs), limited access to capital, untapped market demand, difficulty in serving underserved markets, and a lack of a supportive enabling environment. Additionally, inadequate policies and regulatory frameworks hinder the growth and development of start-ups. The absence of streamlined registration processes, tax incentives, and intellectual property protections further derail the ecosystem. In addition, there is no government entity with mandate and instrument to coordinate and guide the start-up ecosystem.

The study highlights the importance of a unified effort from all stakeholders to effectively tackle these challenges. Experiences from similar economies, which have made significant progress in building their start-up ecosystem, exemplify the potential benefits of well-supported start-ups. The government of Zanzibar must play a central role by developing and implementing supportive policies, improving access to capital, and fostering a culture of innovation. Developing Zanzibar's start-up ecosystem is crucial not only for economic benefits but also for social development. By leveraging its entrepreneurial spirit and focusing on talent development, market demand, and supportive policies, Zanzibar can use start-ups to unlock new opportunities and prosperity.

1. INTRODUCTION AND KEY MESSAGE

1.1. Background

Start-ups are increasingly seen as critical agents in fostering innovation, creating highly paid jobs, and addressing socio-economic challenges by leveraging their unique ability to disrupt industries and scale rapidly. Diverse stakeholders in Zanzibar are increasingly paying attention to the propensity of start-ups as catalytic agents for accelerating inclusive economy and attaining socio-economic development more easily, quickly, and efficiently. Start-ups are young enterprises founded to develop a unique product or service, bring it to market and cater to the growing demand¹. They are at the forefront of innovation, agility, creativity, and the ability to quickly adapt to changing market conditions. Start-ups are typically geared to positively disrupt industries and change the economy and ultimately the world through rapid scale-up.

Success stories of start-ups are a globally known phenomenon with a proven track record of being effective instruments for creating wealth to investors, generating revenue to governments, and solving socio-economic challenges. Start-ups have thrived in both developed and developing economies over the past two decades by creating entirely new categories of goods and services, improving ways of doing business and public services delivery. *In developing economies such as Zanzibar, a vibrant start-up ecosystem is of paramount importance because of two main reasons. Firstly, it can harness the effective delivery of quality public services and address socio-economic challenges. Second, the start-up ecosystem could be a pathway for attracting investment, fostering a culture of innovation and accelerate inclusive economic growth by catering for underserved and untapped markets and increasing both labour and business productivity, and creating jobs with high salaries.*

Although start-ups are not explicitly covered in the Zanzibar Development Vision (ZDV) 2050 and its five-year development plan, there is growing interest among entrepreneurs, policymakers, and enablers in understanding the landscape and status of the start-up ecosystem. *Emerging economic opportunities and social dynamics necessitate the need to understand the landscape and status of key attributes of the start-up ecosystem, which are talent, capital, demand and enabling environment.* This empirical knowledge can inform Zanzibar's ambition to utilise start-ups to create innovative solutions more urgently for addressing challenges pertained to financial markets and services, food systems, energy resilience, education, health, sustainable blue economy and tourism, and climate change. It could also help to explore the potential of start-ups tapping the rich and diverse emerging opportunities through entrepreneurship, innovation, and technology.

1.2. Comparative Situational Analysis of Zanzibar's Start-up Ecosystem

Start-ups have become a driving force noticeable in almost every sector of the economy globally in terms of number, valuation and impact. The Netherlands, for instance, ranks as the fourth best European country for start-ups, and the fastest-growing start-up ecosystem in Europe, projected to worth around \$400 billion market capitalization in 2030², demonstrates how the start-up ecosystem can be among the main drivers of economic growth in a country which is small. Another example is Brazil where a substantial proportion of start-ups have expanded internationally (11.8%) and this contributes substantially to solidifying the country's position as one of the emerging big economies³. India minted 44 unicorns in 2021, raised a total of \$72 billion in exits (up from \$1.8 billion in 2020)⁴.

Despite having an underwhelming policy and regulatory environment with negligible coordination

¹ [What Is A Startup? The Ultimate Guide – Forbes Advisor](#)

² [Building a world-class Dutch start-up ecosystem | McKinsey](#)

³ [The start-up ecosystem in Brazil: Main characteristics and opportunities of cooperation for Finnish entities - Ulkoministeriö \(um.fi\)](#)

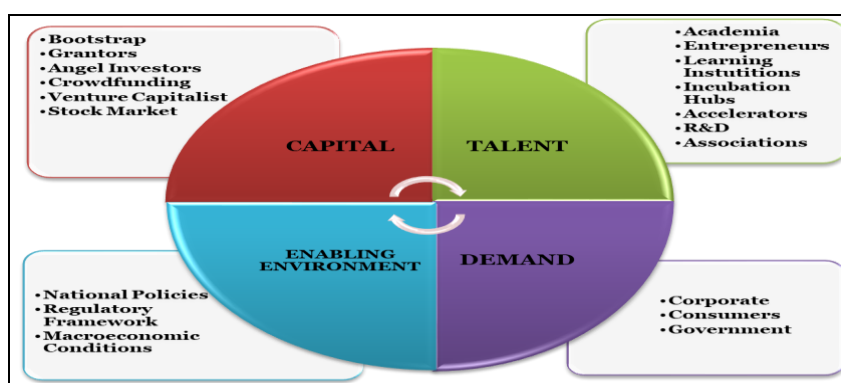
⁴ [Startup Genome](#)

between and among government agencies responsible for developing aspects of the ecosystem,⁵ Africa is also experiencing a rise in start-ups. Much of the success, however, is attributed to fintech, which is related to increase access and improve services in the financial sector. This trend is driven by a young and tech-savvy population, access to funding, and supportive government policies aimed at fostering innovation and entrepreneurship. *South Africa, Mauritius and Kenya which are the largest 3 African economies for start-ups as of 2023, sequentially⁶, do present compelling evidence that is possible for a developing economy such as Zanzibar to achieve the benefits associated with the immense growth of the start-up's ecosystem.* As concrete evidence of this argument, Kenyan start-ups have attracted venture capital (VC) funding more than USD 4.5 billion in the past decade⁷. Another example is Tunisia, the country granted labels to 1,040 start-ups as of 2023, underlying its commitment to innovative growth⁸.

Although Tanzania Mainland receives lower funding than its counterparts⁹, it has started to experience a rise in entrepreneurial creative disruptions, with a growing number of promising start-ups emerging from various industries. The number of start-ups in Tanzania Mainland has increased from 587 in 2021 to 673 in 2022, representing a growth of 15%¹⁰. The on-going regulatory reforms in the financial and information and communication technology (ICT) sector have contributed to the creation of at least 33 fintech start-ups, offering a wider range of services such as bill and merchant payments, micro-loans and mobile insurance¹¹.

Zanzibar's start-up ecosystem remains underdeveloped, with many enterprises stuck in the incubation phase and struggling to gain market traction. Zanzibar is not fully reaping the benefits that start-ups bring to the market and the economy, largely due to the lack of a vibrant start-up ecosystem. The analysis of four key attributes conducted by this study, as illustrated in Figure 1 uncover that *the ecosystem is underdeveloped*, hindering the economy from reaping the benefits linked to the transformative power of start-up ventures. *Further findings show that only limited start-ups emanated from Zanzibar without significant traction, while most enterprises are stuck in an incubation phase.* The start-up ecosystem is underdeveloped and sluggish, which makes it challenging for founders to establish and scale-up their operations due to: weak entrepreneur support organisations (ESOs) to foster ***talent***; limited investors to provide ***capital***; the untapped ***market*** to be served by the start-ups, and an absence of a supportive ***enabling environment***.

Figure 1: Zanzibar's Start-up Ecosystem Attribute



⁵ [Startups – Mozilla Innovation Week](#)

⁶ [Africa: top countries for startups 2023 | Statista](#)

⁷ [Kenya start-ups raise Sh669bn in a decade - Business Daily \(businessdailyafrica.com\)](#)

⁸ [Startup Genome](#)

⁹ South Africa, Nigeria, Egypt, Kenya, Ghana, Tunisia. Algeria, Tunisia and Uganda [Startups – Mozilla Innovation Week](#)

¹⁰ [Tanzania Startup Association \(tsa.co.tz\)](#) TANZANIA STARTUP ECOSYSTEM STATUS REPORT 2022

¹¹ [The FinTech Start-up Landscape in Tanzania - UN Capital Development Fund \(UNCDF\)](#)

The extensive mapping exercise conducted by this study reveals that *despite frequently hosting countless discussion-based events, the ecosystem is fragmented without causing tangible outcomes measured by number of start-ups and funding*. It epitomises what is happening in the ecosystem as most entrepreneurs are trapped under ideation phase and struggle to enter a pre-start-up phase to test and launch their products. *A few local start-ups (Airpay; Aatif Aquaponics Limited; DPO Group and Firdaus Botech) have developed the Minimum Viable Product (MVP), but they have not gained significant market traction*. Additionally, Wasoko and Tushop, a part of Zanzibar Silicon initiative¹², have failed to penetrate the market two years after launching their operations.

1.3. Enabling Environment

Various ESOs focus on promoting the start-up ecosystem in Zanzibar through innovation hubs. Notably, the State University of Zanzibar (SUZA) opened WASTEX LAB which, to this date, incubated 5 ideas and conducted a dozen hackathon events and established the Zanzibar Tourism Business Incubator (ZATOBI), which completed only 3 incubations of start-up ideas¹³. The CUBE incubates start-ups during the ideation phase. The Karume Innovation Hub offers a wider range of ad hoc training, whereas Zanzibar Technology and Business Incubation (ZTBI) aims to nurture innovation and entrepreneurship among start-ups in ICT, Tourism and Agribusiness. *Despite having eye-catching missions, no start-up with the MVP that can test the market has come out from these hubs*.

In 2022, the Zanzibar Economic Empowerment Agency (ZEEA) was established to empower entrepreneurs by increasing productivity, production, efficiency and marketing. Nonetheless, the mandate and programs of ZEEA are not designed to cater to the unique demand of the start-up ecosystem. *This study has identified that none of enterprises that have been supported by ZEEA is a start-up with the MVP*. Also, Zanzibar Start-up Association (ZSA) focuses on nurturing a stronger ecosystem. *This study finds that none of the existing members of ZSA fits into any phase of the business life of a start-up*. All members are micro and small medium enterprises (SMEs), and this implies that ZSA needs to identify benefits to incentivise start-ups founders to join the organisation.

Access to capital is another significant barrier to start-up development, as observed by this study. *Zanzibar's entrepreneurs mostly rely on the government and donor grants, while the private capital in terms of the venture capital (VC) and alternative financing options (crowd-funding, angel investors and impact-based grants) to finance start-ups is negligible*. Banks are not active lenders to start-ups because they lack tangible assets to be used as collateral unlike SMEs, and the absence of stock market exchange limits the funding and exit option.

Zanzibar's start-up ecosystem lacks the necessary policies and regulatory frameworks to facilitate ease of doing business, streamline registration, provide tax incentives, develop talent, and protect intellectual property rights. Without addressing these issues, entrepreneurial activity will remain stifled, deterring potential innovators from starting-up their ventures. In Zanzibar, the start-up is a relatively new concept and policy makers have limited knowledge on this topic. Beyond mapping the ecosystem, this study presents a joint definition of what start-up should mean in a local setting. It also presents key insights regarding the key attributes of Zanzibar's start-up ecosystem to influence its future outcomes, not only regarding the number but also the ability of the start-ups to grow.

The rest of this study is structured as follows. Section 2 provides the rationale of the study derived from the related literature and best practices. Section 3 describes the purpose of the study, outlining its objectives and intended outcomes. Section 4 contextualises Zanzibar's start-up ecosystem. Section 5 presents the methodology used in this study, followed by empirical results in Section 6. Section 7 offers a gap analysis and calls to action to build a more vibrant start-up ecosystem in Zanzibar.

¹² [Silicon Zanzibar](#)

¹³ [zatobi – The State University Of Zanzibar \(suza.ac.tz\)](#)

2. RATIONALE FOR SCOPING STUDY

2.1. Why Zanzibar needs to act now

Zanzibar stands at a critical juncture in its development, marked by impressive economic performance¹⁴ driven by the tourism sector. The tourism sector is the key source of employment and national income. It contributed around TZS 2.29 trillion (USD 100 billion) in 2019¹⁵. *The tourism sector presents a promising opportunity for start-ups to thrive and create economic synergy across strategic sectors.* Despite the impressive growth figures, Zanzibar has struggled to translate this into a substantial poverty reduction and wealth creation partly due to low utilisation of start-up and technology to reach the underserved markets. Zanzibar has a relatively high unemployment (19.6%), which is more prevalent among youths (33.3%)¹⁶. *If youths are provided adequate skills and an enabling environment is created, the presence of a vibrant start-up ecosystem can lessen the youth unemployment and create highly paid jobs.*

SMEs operating under the informal economy are a predominant business type and a major source of income and jobs in Zanzibar. They are promoted by the national SMEs Policy 2018 and their prominence is largely being attributed to the informality of Zanzibar's economy. Only a few small firms are seemingly moving up the ladder to become medium- and large-sized firms or expanded to reach markets beyond their area of operations to create significant wealth and revenues. Among the practical measures taken by the RGoZ to support the growth of SMEs is the allocation of TZS 14 billion (about USD 5.5 million) in form of interest-free loans, as part of INUKA initiative, to entrepreneurs¹⁷ by ZEEA. *However, ZEEA is not specifically designed to support start-ups at any stage of their life cycle - ideation, start-up, scale up, and exit.* Topics related to start-ups are seemingly not among the leading agenda for attracting the capital from the private investors. Scattered and incoherent initiatives are being implemented by different ministries, departments and agencies (MDAs) of the RGoZ. Task of identifying a joint definition of what start-up should mean in a local setting has been initiated by this important study. Beyond mapping, what is equally valuable is to identify policy and actionable actions to build the start-up ecosystem in Zanzibar.

2.2. The Need for a Comprehensive Scoping Study

Start-ups have the potential to bring significant economic impact. While global start-ups are addressing critical challenges such as food insecurity, energy crisis, healthcare access, and climate change, Zanzibar has not yet developed the capacity to produce global start-up champions. Zanzibar's start-up ecosystem faces major challenges and barriers suffocating its growth *including the lack of skills in business and innovation skills.* Most of the ideas are hardly being converted into start-up business and none of them have reached scale-up phase. Start-up ideas which are coming out in Zanzibar hardly grow, create low returns, and are not backed by research and development (R&D). Existing interventions to support start-ups are mainly being implemented through isolated project-based approaches; as a result the prospect of the Unicorn coming out of Zanzibar seems implausible.

There is a significant knowledge gap about the fundamental attributes of the start-up ecosystem in Zanzibar. *When these factors are combined, it becomes complex for policymakers to understand start-ups let alone create adequate policies and regulatory frameworks to build and shape the ecosystem.* This situation calls for a scoping study to explore what already exists, what the challenges are and how next steps can be made to build the start-up ecosystem in Zanzibar. Developing a robust start-up ecosystem could be pivotal in addressing these challenges, driving innovation, and unlocking the potential for sustainable economic growth.

¹⁴ In 2024/2025, Zanzibar's economy is anticipated to grow by 7.2%, according to the National Budget 2024/25 Speech.

¹⁵ [Zanzibar tourism satellite account: estimating the contribution of tourism to the economy of Zanzibar \(uneca.org\)](https://www.uneca.org/publications/zanzibar-tourism-satellite-account-estimating-the-contribution-of-tourism-to-the-economy-of-zanzibar)

¹⁶ <https://www.ocgs.go.tz/ReportOCGS/volume1a.pdf>

¹⁷ [1686838460.pdf \(zanzibarassembly.go.tz\)](https://www.zanzibarassembly.go.tz/1686838460.pdf)

3. PURPOSE OF THE STUDY

The overarching objective of this study is to provide a comprehensive overview of Zanzibar's start-up ecosystem, identifying key stakeholders, challenges, and opportunities for growth. This section details the specific goals of the study, including the development of a customised definition of start-ups within the Zanzibar context, the identification of systemic gaps, and the formulation of actionable recommendations for building a vibrant start-up ecosystem. The study aims to present an overview of Zanzibar's start-up ecosystem and promote the development of its innovation and entrepreneurship landscape.

Specific Objectives

In addition to the general objective outlined above, the study aimed to achieve the following specific interrelated objectives within the context of Zanzibar's start-up ecosystem:

- i. *Provide an overview of the start-up ecosystem and identify important key stakeholders by* identifying key stakeholders to be involved in building the ecosystem with their appropriate roles. Since the start-up ecosystem is not well developed, and anticipation that there is no clear definition of what constitutes a start-up or qualified conditions for the start-up do not exist, the study also aims to come up with a customised definition of start-up.
- ii. *Identify and analyse the systemic gaps and challenges that hinder the development of start-ups at the public and private domain.* This objective aims to gain a comprehensive understanding of barriers and obstacles hindering the success of start-ups. It involves assessing the systemic issue and operational challenges that impact start-ups. Based on this objective, the study seeks to identify actions for addressing the challenges and foster a more enabling environment for building a robust start-up ecosystem.
- iii. *Explore the Role of Start-Ups in Youth Employment and Digital Transformation:* While the start-ups have proven to be a potential source of wealth, job and revenue creation worldwide, they can also be a catalyst in transforming certain aspects of Zanzibar's economy if well developed and prioritised. This objective examines how the start-up ecosystem can contribute to increasing youth employment and explores the role of digital transformation in fostering start-ups that leverage digital technologies.
- iv. *Organise a roundtable discussion with stakeholders of the public and private domain as well as potential start-ups for inputs on solutions.* The aim is to promote the start-up concept among key stakeholders from the public and private sectors, as well as potential start-ups, by facilitating a roundtable discussion. This participatory approach will gather diverse perspectives and develop actionable solutions for establishing a well-functioning start-up ecosystem.
- v. *Provide recommendations with a follow-up practical action: The study will offer recommendations and propose practical actions for building and harnessing a vibrant start-up ecosystem in Zanzibar.*

4. CONTEXTUALISATION OF THE START-UP IN ZANZIBAR

4.1. Lack of start-up definition

There is no formal definition of what constitutes a start-up in Zanzibar or what it should be. Throughout the roundtable discussions, interviews, and surveys, it became evident that most actors are unable to differentiate between start-ups and MSMEs at both policy and operational levels. MSMEs are the backbone of the economy and major sources of employment and income to most people in Zanzibar, yet it is crucial that start-ups are differentiated from SMEs. The RGoZ has developed a framework and intervention measures targeted at bolstering small entrepreneurs through ZEEA. They need to be differentiated because start-ups have the capacity to grow exponentially due application of technology faster than traditional MSMEs. If there were a definition of start-ups, they would not be lumped together with MSMEs. Nevertheless, there is a challenge facing policy makers on how to distinguish SMEs and start-ups. *This confusion constrains the development of policy measures to harness the growth of start-ups through increased use of technology, innovation and digitisation.*

The parameters by which MSMEs are defined in Zanzibar use sales volumes, the number of employees, and asset size, either individually or in combination, while start-ups tend to be founded by entrepreneurs who work to bring to the market a seemingly unique product or service. Also, MSMEs generally focus on incremental improvements and adaptations, while innovation and disruptions are at the core of start-ups. The latter constantly seek to disrupt existing markets or create new ones through cutting-edge technologies, unique business models, or revolutionary product offerings. Furthermore, MSMEs in Zanzibar have a more conservative approach toward risk and they usually pursue proven business models, established markets, and gradual growth. On the contrary, start-ups are inherently risk-taking ventures pursuing breakthrough innovations to produce new products.

Most stakeholders have suggested that start-ups should be classified as tech and non-tech businesses. In this regard, Zanzibar's key stakeholders have reached a mutual agreement that start-up should be defined as a *“registered innovative company that is in its initial phase of operation aiming to disrupt the existing market by producing products or services and designed to grow quickly”*. However, the proposed definition does not specify a timeframe for how long a company must have existed to be classified as a start-up. A contrary perspective presented by the senior government officials argues that the definition of start-ups must include the number of years for enterprise to be categorised and regarded as a start-up¹⁸. For this reason, the study proposes a more appropriate definition in Zanzibar which defines a start-up as ***“a registered innovative business that is within the 5 years of operation aiming to positively disrupt the existing market by producing new products or services and it is typically designed to grow quickly”***. *What matters the most is that the proposed definition offers an initial definition for start-ups to be used fitting the context of Zanzibar, as agreed by diverse stakeholders.*

Zanzibar's stakeholders also agree that founders of start-ups do not need to be born in the country; they can originate from foreign countries or be a diaspora. There is a perception that foreign entrepreneurs and the locals who have lived, studied, or resided in the diaspora can play a critical role in shaping the future of start-ups ecosystem due to their greater ability to secure funding quicker and in higher amounts, and have greater global experience and superior training than local founders.

4.2. High failure rate but great potential payoff

Zanzibar is blessed with a rich experience for trading and bolstering a natural passion for entrepreneurial undertaking as a historical trade hub in the East African region. People in Zanzibar

¹⁸ This view was expressed by the Honourable Zena Ahmed Said, the Secretary to the Revolutionary Council and Chief Secretary in her remarks during the roundtable discussions on May 3, 2024. The view was also shared by officials interviewed during this study.

have an entrepreneurial blood and believe they have what it takes to launch a company and build it into a profitable business. Although anyone can start a business and aspire to success, not everyone will succeed¹⁹. About 90% of start-ups in the world completely fail, and 15% of those that survive produce a successful exit of \$50 million or more. Indeed, a small number of African start-ups transit beyond the very first phase of ideation²⁰. The lack of business skills exaggerates the likelihood of start-ups to fail in Zanzibar. As the next section of this study illustrates, *founders face particularly high challenges to launch their start-ups and most entrepreneurs remain in the ideation–start-up phase, which is commonly tagged the “valley of death”*.

4.3. Low prioritisation

Reflection on the growing prominence of start-ups in global economy, the top 40 global start-up ecosystems were collectively worth USD 8.4 trillion at the end of 2023²¹. During the same period, for the first time, more than half of GDP was estimated to be driven by “digitally transformed” enterprises, and 70% of new value created globally over the next 10 years will be based on digital business models²². Despite the increasing attention given to start-ups globally, there is a low prioritisation in Zanzibar. As a result, there is a lack of coherent vision of what a start-up ecosystem could look like and how much it can contribute to the economy.

*All existing development plans and policies do not recognise the importance of start-ups, apart from the Zanzibar Digital Transformation Policy*²³. As a result, the existing regulatory framework does not foster the start-up ecosystem, and the government support has been insignificant and inconsistent. At the same time, an absence of a vibrant start-up ecosystem makes it difficult to identify and prioritise sectors with high potential for economic and social impact. Without clear direction, valuable opportunities associated with start-ups to leverage innovative ideas and entrepreneurial energy for sustainable development will continue to be missed, perpetuating the inability to generate local solutions to deal with socio-economic challenges. The creation of a robust start-ups ecosystem can only happen when the government treats start-ups among top national priorities.

Considering this observation, the critical question becomes: What should Zanzibar do to foster a vibrant start-ups ecosystem? What policy and actions can be taken by various actors, especially aspiring entrepreneurs, to lay the groundwork and build a vibrant start-ups ecosystem in Zanzibar? The rest of this study attempts to provide some valuable insights to these important questions which could provide guidance on how new enterprises can move beyond the proof-of-concept phase to demonstrate a solid business rationale for a proposed business venture, and eventually gain traction.

¹⁹ [What Does It Take to Be a Successful Entrepreneur? \(hbs.edu\)](https://hbs.edu/what-does-it-take-to-be-a-successful-entrepreneur/)

²⁰ [Startups – Mozilla Innovation Week](#)

²¹ [Startup Genome](#)

²² [Strategic Intelligence \(weforum.org\)](https://weforum.org/strategic-intelligence/)

²³ The Draft Policy prepared by the Ministry of Infrastructure, Communication and Transport.

5. METHODOLOGY

5.1. Conceptual framework

The conceptual framework used in this study identifies key participants in Zanzibar's start-ups ecosystem based on their roles in entrepreneurship and innovation. The framework is based on the well-known "Entrepreneurial Ecosystem Diagnostic Toolkit" established by the Aspen Network of Development Entrepreneurs (ANDE)²⁴, customised to fit Zanzibar's local context. The framework is employed particularly to assess the extent of collaboration between actors, as well as identify their role and areas for collaboration to build the start-up ecosystem. It also assesses their contributions in building the start-up ecosystem, and presents an overview of Zanzibar's start-ups ecosystem, which is at nascent stage, is performing well and where improvements can be made. In addition, the framework used to create a snapshot of the relationships among these actors and how they interlinked to create a bridge for the start-ups to thrive.

5.2. Approach and Methodology

The methodology of this study focused on understanding and enhancing the start-up landscape in Zanzibar, paving the way for a more vibrant, inclusive, and sustainable entrepreneurial ecosystem. It utilised a mixed-methods approach, combining both quantitative and qualitative methods to comprehensively analyse and understand the current state of the start-up ecosystem and prospects in Zanzibar. The study was designed to be highly participatory by ensuring stakeholder engagement at every stage fostering a sense of ownership and collaboration among the ecosystem's actors. The objectives of this study are achieved through three key stepwise approaches, described below, with a visual representation of the processes illustrated in Figure 2:

5.2.1. Data collection

Information on actors operating in Zanzibar is fragmented, making it complex for actors to make relevant and informed decisions. Thus, the study used a mixed methodology by employing a combination of primary and secondary data methods, including roundtable discussions, detailed interviews, and surveys, interviews, involving entrepreneurs, policy makers and ESOs. This extensive and thorough data collection exercise enabled the study to provide a detailed and accurate picture of the status of Zanzibar's start-up ecosystem, the potential growth and steps of actions for building the ecosystem to benefit from untapped opportunities in various industries.

To identify as many start-ups as possible, the researchers asked ZEEA, ZSA and Zanzibar National Chamber of Commerce (ZNCC) to present the list of their members. Researchers reached out to various hubs in the ecosystem²⁵, to obtain contact information on start-ups to be included in the study. It was identified that only 4 start-ups have launched their products in the market. Although it is feasible that there may be other start-ups which have not been captured, our rigorous data collection process suggests that this is rather unlikely to be the case. The list provided by ZSA, for instance, includes 30 enterprises from diverse industries, but none of them is a start-up with an MVP and they do not have any product under ideation. Currently, there is no electronic dynamic database about start-ups; which limits this study's ability to conduct time series analysis to observe the key trends.

5.2.2. Literature review

This study undertook a desk review of literature to understand the status of start-ups in developed and developing economies to identify key issues, existing and emerging trends and best practices that may be applicable to Zanzibar. In addition, the literature review thoroughly analysed empirical research, reports, plans, policies, laws and regulatory framework in Zanzibar and across the world.

²⁴ [FINAL Ecosystem Toolkit Draft print version.pdf \(aspeninstitute.org\)](#)

²⁵ Cube, Karume Innovation Hub, ZTBI, Spice Tech Hub, Ibua Hub, Jang'ombe Hub and SUZA hubs.

5.2.3. Roundtable Discussions

Two physical roundtable discussions consisting of 110 participants from start-ups, development partners, different ministries, departments and agencies (MDAs), academia, capital providers, and ESOs were conducted. The first event involved only the private sector and took place on 18th April 2024. The Second event involving high level policy makers took place on 3rd May 2024. They were facilitated by researchers, but the large parts involved interactive discussions. These discussions were moderated and guided to encourage a high participation limited to the scope of this study. The insights gathered from the roundtable discussions were utilised to provide solutions, recommendations, and follow-up actions to address the identified issues. Discussions exclusively covered issues pertaining to the current state of the start-up ecosystem in Zanzibar, the challenges and constraints faced by start-ups, opportunities and untapped potential for growth, and priority areas for building the ecosystem.

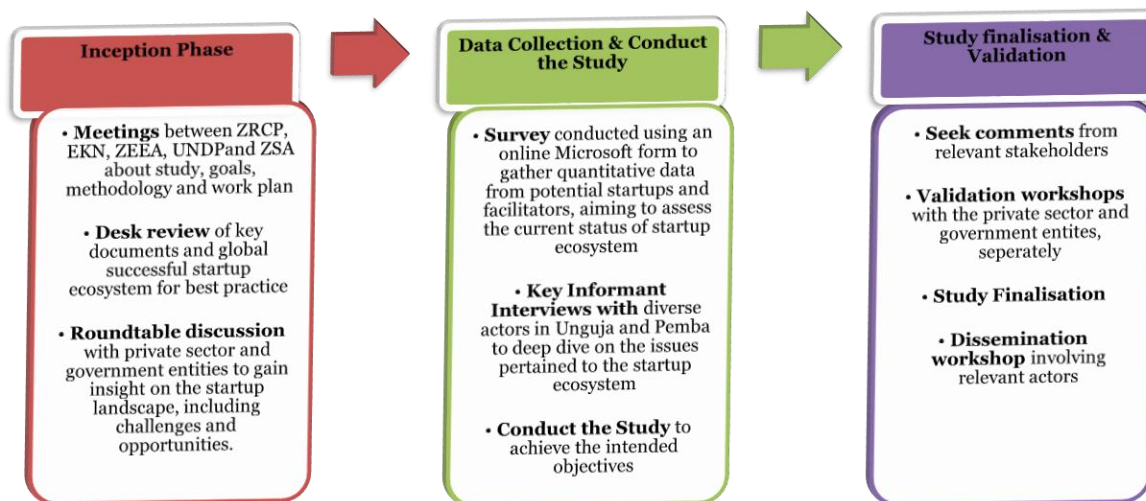
5.2.4. Survey and Interviews

The study employed two online surveys. The first survey questionnaire was conducted using the Microsoft survey form and was distributed online to 100 registered members of ZSA, ZEEA, and ZNCC. It targeted existing and potential start-ups. The second survey questionnaire targeted ESOs across the ecosystem. The survey was designed to collect quantitative data from key ESOs targeting incubators, accelerators, academia, and research institutes. The same survey tool was used, and the respective links were shared online via email. In total, 10 targeted comprehensive interviews were conducted by researchers involving key stakeholders in the ecosystem, including start-up founders, government officials (policy makers and regulators), and ESOs across Zanzibar. The interviews were detailed and based on predetermined questions. However, open exchanges were permitted to gather further insights and qualitative information on all topics related to the objectives of this study.

5.2.5. Validation

Upon completing the previous phases, a first validation workshop was conducted with various actors from the private sector and ESOs on 20th August 2024. Another presentation involved government stakeholders was carried on 6th September 2024 to capture a joint position from MDAs on findings of the study presented in the next section. Moreover, a dissemination event involving stakeholders who are anticipated to use or benefit from this report was hosted on 17th September 2024²⁶.

Figure 2: Process to conduct the Scoping Study on the Start-up Ecosystem in Zanzibar



²⁶ The event was officiated by His Excellency the President of Zanzibar Dr. Hussein A. Mwinyi.

6. THE STATE OF START-UP ECOSYSTEM IN ZANZIBAR

This section of the study presents empirical findings about Zanzibar's start-up ecosystem across its key attributes to capture the insights from roundtable discussions as described in the previous section²⁷. The findings provide a comprehensive overview of the ecosystem's current strengths and weaknesses, setting the stage for recommendations.

6.1. Insights from the private sector roundtable discussions

The following key issues were pointed out by diverse actors from the private sector during a roundtable discussion on *their perception of Zanzibar's start-up ecosystem and what need to be done for it to be elevated*:

- **Limited Access to Capital:** Founders of start-ups stated that their enterprises are encountering severe financial constraints to translate concepts into prototypes that can test the market. A similar challenge is faced by few start-ups with MVP to accelerate their products to gain significant market attraction. This is mainly due to lack of access to financing from private equity, and the complexity of rules governing the access to grants for economic empowerment. Founders are frustrated with the status quo and feel that innovative ideas are not receiving sufficient support from the government and banks – i.e. the main source of capital. Aatif Aquaponics Ltd, for instance, mentioned that *“Banks and ZEEA prioritise repayment of loans by requiring collateral in terms of tangible assets over supporting innovative ideas when providing capital to enterprises”*.
- **Absence of the Top-notch Enablers:** Many start-ups struggled due to a lack of guidance from experienced mentors and qualified coaches with proven track record, leading to the failure of potentially innovative ideas. They feel that ESOs are ill-equipped in terms of human capital and financial resources. As a result, they offer a similar basic incubation support to start-ups. Due to the obvious shortage of experienced ESOs in the ecosystem it is challenging for founders to receive the guidance and capital from diverse sources required to build and grow their start-ups. The existing ESOs are viewed to be “not fit for the purpose” to support the diverse needs of start-ups across various sectors within the ecosystem.
- **Weak Innovation and Entrepreneurship Skills:** Both start-ups and ESOs cited a shortage of basic innovation and entrepreneurship skills as a barrier to translating ideas into successful ventures. *“The main struggle facing start-ups is to develop convincing business plans and foster creativity, deterring potential investors and mentors”* as cited by the Youth Challenge International.
- **Unsupportive Policies and Regulations:** The new entrepreneurs often face obstacles due to unsupportive policies, complex bureaucracy, ambiguous regulations, and cumbersome licensing procedures, discouraging them from establishing businesses. These factors are critical as they make Zanzibar not an easy place of doing business for start-ups due to the high cost of registering and operating their entrepreneurial ventures.
- **Limited Market Opportunities:** Actors within the start-up ecosystem are uneasy about the demand side because of the small size of Zanzibar's economy. This concern is exaggerated by myopic view that Zanzibar's start-ups can only cater for the local markets.

To build the start-ups ecosystem in Zanzibar, several key strategies were put forward:

- **Development of the National Start-up Policy:** The presence of this national policy should

²⁷ [Roundtable Discussions on Start-up Ecosystem Report Startup](#)

foster the start-up ecosystem and advocate for reduced regulations and bureaucratic processes in doing business and create the right incentives for attiring private capital to finance start-ups.

- **A formal recognition of start-ups:** A strong emphasis was placed on the need of having start-ups formally acknowledged as a sub-sector of Zanzibar's economy.
- **Establishment of one-stop centres:** The nation needs to create a centralised facility for operational registration and licensing procedures to streamline processes and reduce costs of registering and operating start-ups.
- **Competency Based Education:** The on-going systemic reforms of the education system should instigate a shift from theoretical to competency-based learning, emphasising creativity and innovation skills. This reform should aim at cultivating an entrepreneurial mind-set among students.
- **Mind-set Change:** Efforts should be made to change societal perceptions on the concept of start-ups and their impact on the economy and society. The move can target individuals, investors, educators, trainers, researchers and policymakers.
- **Simplification of funding conditions:** When the government of Zanzibar, either through ZEEA or other entities, offers funding opportunities to start-ups the conditions must be simple, and the process needs to be transparent. If this is not done, start-ups will continue to struggle in accessing seed funding offered by the government.
- Actors in the ecosystem should support start-ups in adaptation of emerging digital technologies and ICT into their business processes and marketing analytics. This move not only would enhance business creativity but also can expand market access.
- **Building more efficient ESOs:** Key actors from all aspects of the ecosystem should create joint ESO platforms for start-ups to network, share opportunities, and access mentorship and training. This would facilitate growth of start-ups and enable them to become financially sustainable. This includes a creation of a well-equipped incubation and acceleration hub.
- **Learning from Success Stories:** Start-ups and ESOs can benefit from visiting and learning from successful ventures to understand operational strategies and best practices.
- **Utilisation of the Priority Sector:** Actors in the ecosystem ought to support start-ups to align with priority sectors such as tourism, agriculture, fintech, blue economy, and health tech.

6.2. Insights from the public sector roundtable discussions

The following are key insights emanated from the roundtable discussions involving MDAs focusing on gathering insights to shape Zanzibar's start-up ecosystem:

- *The RGoZ recognises the importance of findings from this study in creating policy, plans, and procedures for an enabling environment to support start-ups in Zanzibar.* It will also inform the efforts of shaping policies and regulations to foster the development of the start-up ecosystem.
- *Also, the RGoZ expressed its commitment to create a favourable environment for attracting the investment, but there is a need for identifying the priority sectors - a gap this research aims to fill.*
- *There was a consensus on the necessity of creating a comprehensive national policy to support the process of building a vibrant start-up ecosystem.*
- *Prioritisation of the service-based economy activities in Zanzibar's start-up ecosystem,*

leveraging the island's strategic location. Sectors like ICT, international financial services, and international call centres were also highlighted as promising areas.

- *Fostering a culture of innovation* emerged as a crucial recommendation to stimulate start-up growth and development.
- The importance of conducting thorough evidence-based assessments to inform decision-making and developing actionable strategy on the start-up ecosystem using the best practices around the globe was also emphasised.
- The need to modernise the education system to focus on practical and competency-based skills was highlighted as essential for nurturing talent and fostering entrepreneurship.
- *An establishment of a Dedicated Public Entity to formally guide and support the building of the start-up ecosystem* was underscored as amongst crucial factors.

Table 1: Map of the key stakeholders within the Zanzibar start-up ecosystem

MDAs	ESOs	Capital	Start-ups
<ul style="list-style-type: none"> • President's Office, Labour, Economic Affairs & Investment • President's Office Finance & Planning • Ministry of Trade and Industrial Development • Ministry of Infrastructure, Communication and Transport • Zanzibar Planning Commission (ZPC) • Zanzibar Business and Property Registration Agency (ZBPRA) • ZEEA • ZIPA • Zanzibar Revenue Authority (ZRA) • Tanzania Revenue Authority (TRA) • e-Government Agency (EGA) 	<ul style="list-style-type: none"> • SUZA (WASTEX LAB & ZATOBI hubs) • KIST Hub • ZSA • ZNCC • ZTBI • CUBE Zanzibar • COSTECH (IBUA hub) • Zanzibar Silicon • ZRCP • Mwalimu Nyerere University • ITT Madras • Development Partners <ul style="list-style-type: none"> - UNDP Funguo Project - EKN - USAID through Feed The Future Tanzania (Private Sector Strengthening) - UNCDF - European Union 	<ul style="list-style-type: none"> • No private equity investor • ZEEA (but none of start-up with MVP has manage to access capital from it so far) • Various Commercial Banks, but they are not financing start-ups 	<p>Start-ups with MVP</p> <ul style="list-style-type: none"> - Airpay Zanzibar - Aatif Aquaponic Limited - Firdous Biotech - DPO Pay <p>Potential Start-ups</p> <ul style="list-style-type: none"> - Refasha Products - Kokaya Management - Coastal Biotech - Asili fertiliser - Rahisi Solution Co Ltd - Swahili Soft Technology - Green Rose - Mamou Naturals - Innovation City - Kidichi Spices

6.3. START-UP LANDSCAPE IN ZANZIBAR

6.3.1. Findings from the start-ups

The section provides a comprehensive analysis of Zanzibar's start-up ecosystem, examining the demographic characteristics of founders, business stages, formalisation challenges, access to capital, availability support from ESOs, digital application and enabling environment.

Sample Descriptive Statistics

In conducting the survey covering 100 enterprises in Zanzibar who are perceived as start-up by ZEEA and ZSA, initially, only 5 responses were received in the space of 1 week after sending out the survey link via email, and then calls were made to remind the target sample to respond. This helped to bring a modest increase in responses from 5 to 11. To further improve response rates, appointments were arranged to visit their workplaces, although this posed a challenge for some who lacked a proper

workspace. Following these visits and the subsequent survey sessions, the total responses increased to 39 which represent a response rate of 39%. This is a good response rate for both above discussed surveys, given the presumed reluctance of private firms to disclose information about decision-making regarding business plans, investments and capital structure strategies. The response rates are comparable to percentages attained by empirical studies dealing with the private enterprises²⁸. Among 39 respondents 51% of founders considered themselves as start-ups, while the rest of respondents were SMEs without interest to become start-ups, and they were excluded from the analysis of this paper. Therefore, the analysis of this study is based on the final sample consisting of 20 respondents who regard themselves as start-ups.

Start-ups and formal registration

Results from the question which asked respondents if their businesses are formally registered or not. The finding shows that 75% out of respondents were formally registered and 25% of them were not formally registered. Such a high rate of formal registration is a positive sign, suggesting that a substantial proportion of start-ups operate formally. Benefits of formalisation for start-up arise in various forms, including legal protection, access to government support, eligibility for funding, and the ability to engage in formal business contracts. It also reflects a level of commitment and seriousness among these entrepreneurs to build profitable businesses. Nonetheless, a further analysis was conducted on start-ups founders who have not formally registered their enterprises. They were asked the reason for not being formally registered. Results show that the 60% of respondents mentioned that their business was still in idea/pre start-up and 40% of them mentioned that the formalisation process is too expensive as a reason for not being formally registered.

Number, Gender and Age of the founders

Many respondents mentioned that their enterprises have a single founder representing 52% of the total sample, while 28% of the total sample has indicated that their business has two founders. Around 10% of the total surveyed sample declared to have three or more than three founders. The statistics also shows that the ecosystem is predominantly male dominated, with 74% of founders being men, and most start-ups being driven by individuals aged between 31 and 40 years. Most (63%) of respondents were below the 40 years of age, while 37% of respondents were above the age 40. This observation is comparable to findings for Tanzania Mainland²⁹ and other African economies³⁰ where many start-ups have founders who are male and youths pursuing self-employment as a career choice.

6.3.2. Definition of the Start-up in the context of Zanzibar

This part provides the result of the proposed definition of start-up to understand if the start-ups agree with it or not. The above finding reveals the popularity of the proposed definition of a start-up “*a registered innovative business that is within the 5 years of operation aiming to positively disrupt the existing market by producing products or services and it is typically designed to grow*”. The result shows that a significant number (82%) of respondents agreed with the proposed definition of start-up, and only 10% of participants disagree. Moreover, 8% of the sample they have suggested that another definition should be found. It underscores the wide acceptability by stakeholders that it effectively captures the key characteristics that define start-ups in the ecosystem. However, the identification of the above definition does not imply that an alternative version cannot be proposed, or the definition is open to alteration to enhance its relevance and applicability in both policymaking and functionality of the start-up ecosystem.

²⁸ [Corporate finance approaches of Icelandic private firms after the financial crisis | Emerald Insight](#) Twahir Khalfan and Jón Þór Sturluson (2018).

Hermes, N., Smid, P. and Yao, L. (2007), “Capital budgeting practices: a comparative study of the Netherlands and China”, International Business Review, Vol. 16 No. 5, pp. 630-654.

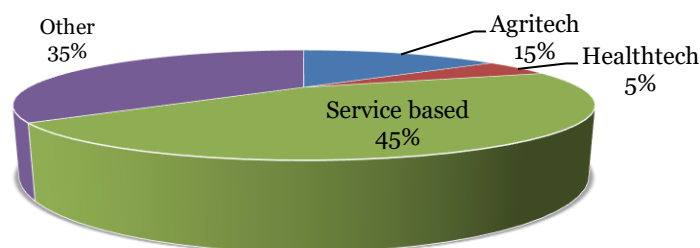
²⁹ [tsa.co.tz/storage/documents/ZUGwpNncofnuWwsa6JN2HzrKos86nUJGNkP9lT7F.pdf](#)

³⁰ [Startups – Mozilla Innovation Week](#)

Industrial Distribution

Start-ups can operate in any sector, depending on the extent of innovation, business model, required capital and investment returns. Most prominent industries for start-ups are the service-based industry including the tourism sector (45%), Agri-tech (15%) and Health-tech (5%), as shown in Figure 3. The appeal of a service-based business may stem from the fact that this sector, which includes tourism, is the leading sector in terms of contribution to the gross domestic product (GDP).

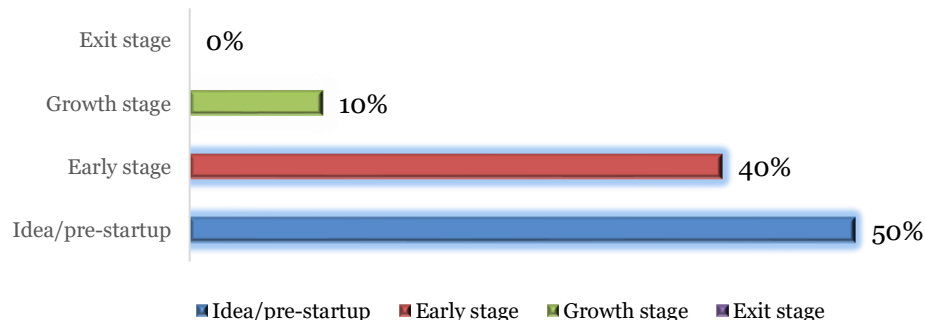
Figure 3: Industrial Distribution of Start-ups



Start-up Maturity

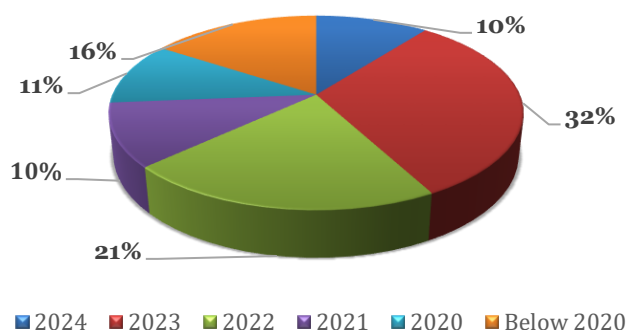
This part of the analysis shows the result of a survey in which people were asked about the stage of growth in their start-up. As presented in Figure 4, half of the respondents are still at the pre-revenue phase – i.e. concept/pre start-up stage (50%) and at the ideation stage (40%). This suggests that a significant portion of start-ups in the ecosystem are still in their infancy. The prevalence of start-ups at this stage indicates that many entrepreneurs are in the process of conceptualising and refining their business ideas, rather than having concrete business operations and models. Furthermore, the situation reflects a notable need for having foundational support systems that can help transform ideas into MVPs. Additional results show that 2 (10%) start-ups have declared to have reached seed stage and feel ready to accelerate their products to gain significant market attraction. The limited absence of start-ups at the growth stage indicates that scaling up remains a significant challenge within the Zanzibar start-up ecosystem.

Figure 4: Start-ups Maturity based on the product development



In Zanzibar, as shown in Figure 5, the largest proportion of start-ups (32%) appear to have been founded in 2023 and 21% of start-ups were founded in 2022, indicating some momentum has been gathered in the last two years. This is an interesting finding as the higher number of start-ups in 2023 because the enabling environment has improved. About 16% of start-ups were established before 2020, representing more mature businesses in the ecosystem. Meanwhile, around 11% of start-ups in the surveyed sample were founded in 2020, whereas 10% founded in 2021, and 2024, separately.

Figure 5: Year of Start-ups existence



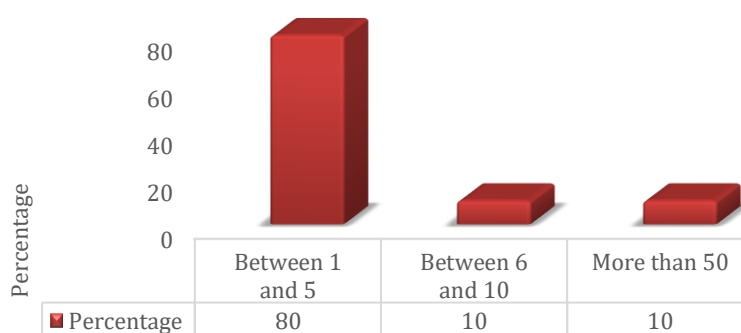
Geographical Location

Results on the location of start-ups reveal a significant concentration in Urban Unguja, where 90% of start-ups are situated. This is not surprising given that this is where ESOs that support start-ups tend to base and the area has superior infrastructure, and easier access to markets, and resources than other parts of Zanzibar. In contrast, Rural Unguja hosts only 10% start-ups, suggesting that entrepreneurship is less prevalent in rural areas, likely due to challenges like limited resources and logistical difficulties. There is no start-up in Pemba, highlighting a significant disparity in entrepreneurial development between Pemba and Unguja, possibly driven by inadequate infrastructure, funding, and business support services in Pemba.

Employment Generated by Start-ups

Figure 6 shows the number of employment opportunities generated by start-ups in Zanzibar with a majority of respondents (80% of the total sample) indicating that they employ between 1 and 5 people, and 10% of start-ups employ between 6 and 10 people. The findings also reveal 10% of start-ups employ more than 50 people. The employment findings reflect an underdeveloped start-ups landscape, but with the right support, there is room for substantial growth and increased economic contribution.

Figure 6: Number of people employed by start-ups



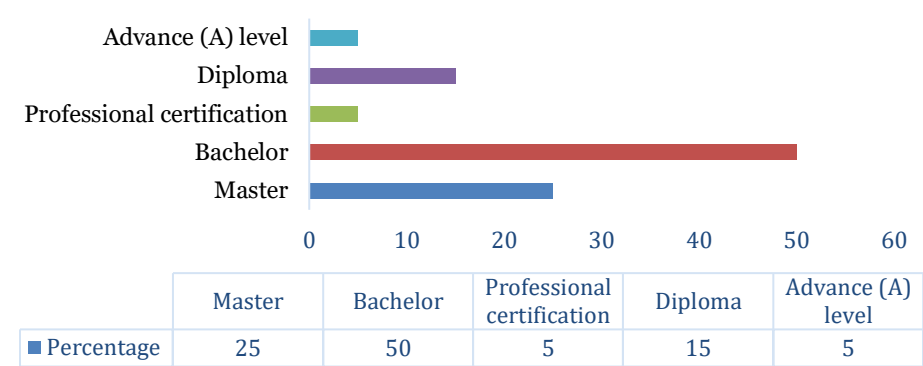
6.4. KEY FINDING ON THE ECOSYSTEM ATTRIBUTES

Education of Founders

The relatively good level of educational attainment among founders has been identified, with 50% holding bachelor's degrees, as shown in Figure 7. More results on the education level of founders show that 25% of them have master's degrees, 20% have diploma certificates, and 10% have an advanced level and professional certificate. These findings illustrate that founders of start-up tend to be

educated. The high level of education among start-up founders is often linked to greater success in their ventures, as it equips them with essential skills like critical thinking, problem-solving, and management, which are crucial for navigating the complexities of entrepreneurship. The academic can be used as a proxy for knowledge but does not necessarily reflect their competency in business skills. It does confirm that, however, Zanzibar needs good education and to keep building the capacity of the universities to have a bigger pool of founders

Figure 7: Education of Founders

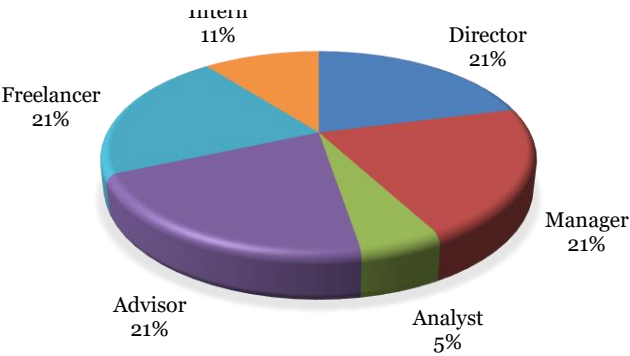


Further results demonstrate the education background of the founders. It shows that 37% of founders have Science, Technology and Engineering educational backgrounds, as well as business education, separately. Also, only around 5% of respondents have Finance and Banking, whereas 21% founders have other educational background categories. The diversity of educational backgrounds among founders in the Zanzibar start-up ecosystem is a key asset that, if properly nurtured, can lead to a more innovative, inclusive, and resilient entrepreneurial landscape.

Previous role of founders in Zanzibar

The surveyed sample was asked to stipulate the previous role of their founders. The results show that the Freelancer, advisor, manager and directors each consisted of 21% of respondents, while the intern position scored 11% and the business and finance analyst role received 5% of the total responses. The analysis, as can be seen in Figure 8, reveals start-ups in Zanzibar are not typically founded by business savvy founders. The presence of founders who have previously been interns, however, may imply that there are limited barriers in establishing a start-up.

Figure 8: Previous role of founders

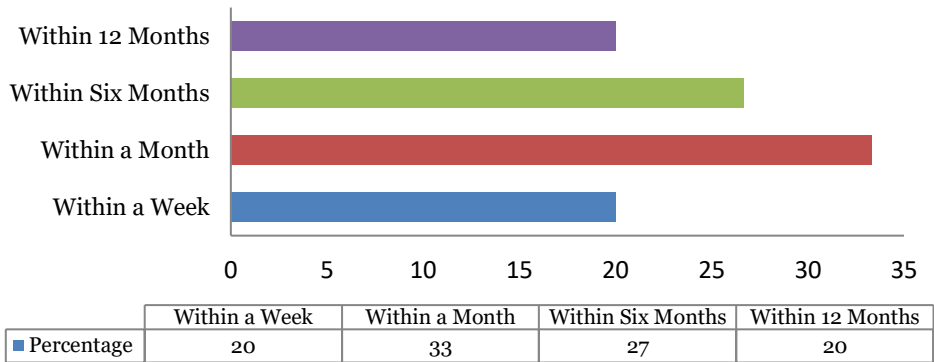


Time spent by start-up to be registered

Figure 9 shows the result of the response on the question about the time spent by founders to have their start-up become incorporated as a formal business. The result shows that the majority of start-ups (33%) spent a month registering their business, followed by a within six months period (27%). Furthermore, around 20% of respondents mentioned that they managed to register their business venture within a week, and one year, respectively. The variation in incorporation times for start-ups in Zanzibar indicates inconsistencies in the registration process, with some businesses experiencing quick turnarounds while others face prolonged delays. While few start-ups were able to register within a week, the fact that a significant portion took several months to a year suggests potential inefficiencies,

such as bureaucratic hurdles and complex legal requirements. To address these challenges, targeted actions are needed to streamline the incorporation process, reduce bureaucratic delays, and offer incentives for formalisation.

Figure 9: Time spent by founders to register start-ups in Zanzibar



Support offered by ESOs

Another aspect of the survey examined the services offered by ESOs to the start-ups in Zanzibar. This was done by asking start-ups if they are satisfied by assistance received from the ESOs or not. The findings indicate a polarised perception of the support provided by ESOs, with slightly higher respondents (55%) reported dissatisfaction, reflected in those who disagreed or strongly disagreed with the statement that ESOs offer them satisfactory support. On the contrary, 45% of respondents expressed satisfaction with the support extended to them by ESOs, as evidenced by those who agreed or strongly agreed. This suggests mixed views regarding the quality and magnitude of assistance offered by ESOs. Additionally, it illustrates the need for ESOs to improve their support services to meet the diverse needs of the start-ups.

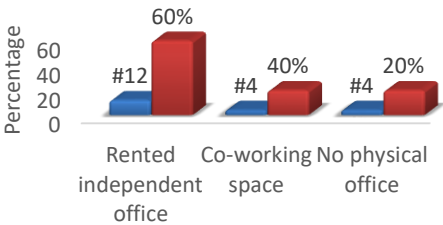
Entrepreneurship and Business Skills

Around a half of start-ups in Zanzibar ecosystem have not received any entrepreneurship training before or after establishing their business. The remaining half has received entrepreneurship training either prior or after the establishment of their business. The timing of the training - before or after establishing a business - also matters, as early training helps avoid pitfalls and enable founders to adapt to real-world challenges. Regarding respondents who have indicated to receive entrepreneurship training, the survey reveals that the most offered training is about Business and Product Development (31%), followed by Sales and Marketing (23%). This finding highlights the need for more accessible, customised and practical based training opportunities, and the importance of having mentorship and coaching programmes to facilitate the growth of start-ups.

Place of doing business

This part observes the office where start-ups conduct their business undertakings in Zanzibar. Figure 10 shows that 60% of respondents were operating their business in rented independent offices, 20% use co-working spaces, and 20% do not have any physical office. The varying operating locations of start-ups reflect the dissimilar capability to afford the working space. Start-ups that have invested in rented independent offices likely do so because they have reached a level of operational stability that necessitates a

Figure 10: Operating Office

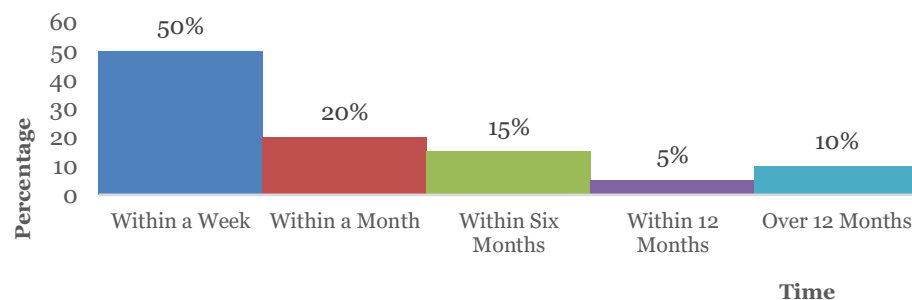


professional setting. This decision may be driven by the need to portray a formal business image, facilitate client meetings, or provide a stable environment for employees. Start-ups operating in co-working spaces are trying to gain from the cost sharing benefits and networking opportunities.

Time taken to open a bank account

The result, in Figure 11 shows the time respondents took or think it may take their business to open a bank account. Within a week has been selected by 50% founders of start-ups, within a month 20% participants, within six month 15%, within 12 months 5% and over 12 months 10%. The varying time frames for opening a bank account have significant implications for start-ups, affecting their operational efficiency, credibility, and overall start-up financial growth. Delays in opening accounts can damage a start-up's reputation by making it harder to establish trust with clients, suppliers, and investors. This situation suggests that there is a need for a streamlined process for opening bank accounts. Another challenge is the lack of clarity from the bank given that sometimes it is not clear what documentation is required for opening a business account. When start-ups can quickly open an account, they are able to manage cash flow and transactions effectively, while those without accounts are excluded from the financial system.

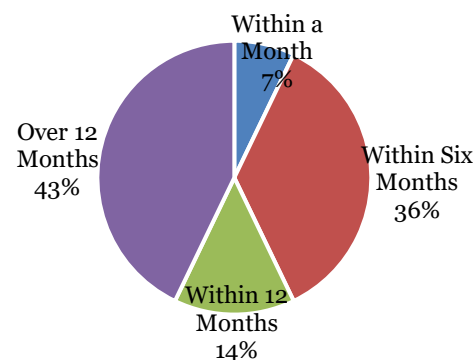
Figure 11: Time to Open Bank Account



Duration for Obtaining Credit from Lenders

The result in Figure 12 shows the time that the start-ups took, or thought may be required for the business to obtain credit from lenders. The most selected duration expected to access credit from lenders by start-up founders is over 12 month's period (43%), followed by within six months (36%), within 12 months (14%) and within a month only 7% of the total respondents. The findings on the time it takes for start-ups to obtain credit from lenders reveals considerable variability, with some businesses expecting quick access to funding within a week or month, while others anticipate delays of six months to over a year. It suggests that many start-ups face significant challenges in securing credit, which can hinder their growth and operational effectiveness. These delays may be due to various factors linked to conventional borrowing from the financial institutions, such as stringent lender requirements and collateral, lengthy approval processes, or a lack of adequate financial histories, which often cannot be met by start-ups.

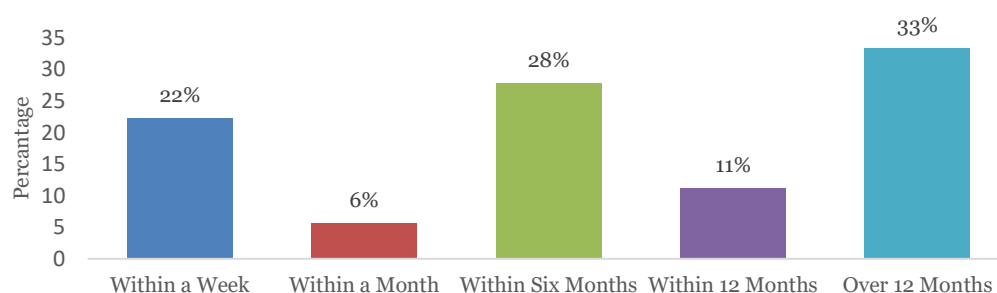
Figure 12: Time needed by startups to obtain credit from lenders



Duration to Access Capital from Investors

The result provided in Figure 13 depicts the time that the participants take or think it may take their start-up to obtain funding from the private investors. Most respondents 77% mentioned that it took them or think it may take within a year to access funding from the private investors, while 33% of start-up founders think that they may need over one year to secure funding from the private equity investors. The expectation of the time frame required to access private equity financing could largely be influenced by the amount of capital needed to be raised. A lower required capital is likely to be accessed in a shorter period compared to a higher amount of required funding. The prolonged access to private equity financing has a critical implication for start-ups, and this is among the main reasons that threaten their survival. Given that only 4 start-ups with an MVP have tapped into equity, it seems that most expected financiers are probably friends and family.

Figure 13: Duration to obtain funding from the private equity investors



6.4. MAJOR CHALLENGES AND KEY FACTORS

Leading obstacles faced by start-ups

Start-ups in Zanzibar's ecosystem are facing various bottlenecks which are serious obstacles to their success. The results show that limited access to capital is the leading constraint pointed out by 70% of respondents, and it was followed by unpredictable policies and regulatory framework and Low level of support from successful businesses, each selected by 60% of respondents. Other bottlenecks in a ranking order are the lack of mentorship and expertise from incubators, hubs and academia (40% of respondents), lack of innovation and entrepreneurship skills (35%), limited size of market and opportunities (30%), and corruption (5%). The findings reveal significant obstacles for start-ups in Zanzibar, highlighting the urgent need for policy reform to create a stable regulatory environment that attracts significant private equity investors and enhance the ease of doing business. The lack of mentorship illustrates a critical gap in the support network, calling for stronger partnerships between actors in the ecosystem. Additionally, the perception of having a limited market size reflects the need to create readiness for start-ups to recognise the potential of reaching the broader markets beyond Zanzibar's territories. Corruption being mentioned as the lowest of challenges faced by start-ups in Zanzibar is an encouraging observation given that this issue is regarded as a serious problem in many ecosystems across the African continent.

Start-ups' Access to Funding and Magnitude of Capital Raised by Start-Ups

The findings show that many start-ups in Zanzibar (75%) have not managed to access any sort of funding, while 25% have managed to access funding from investors, ESOs and government. This suggests start-ups struggle to secure funding, which reflects an alarming situation. Addressing this issue is of paramount importance in building the start-up ecosystem.

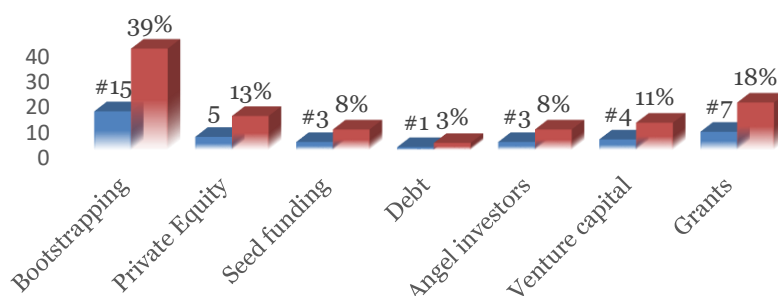
Concerning the start-ups which managed to raise capital, the findings of the survey revealed that 25% of them (3 start-ups) have managed to secure funding in the range of TZS 250-500 million

(approximately USD 100,000-200,000), whereas 75% have managed to get funding below TZS 25 million (USD approximately 10,000). It is worth noting that from the surveyed sample no start-up has managed to acquire funding of TZS 500 million and above (over USD 200,000). The finding that start-ups in Zanzibar are unable to raise large capital from investors highlights the reality about the infancy of the ecosystem, and it is not surprising since no start-up has managed to reach an acceleration phase.

Primary Source of Capital

Figure 14 presents the primary source of funding for the sample start-ups in Zanzibar. The results shows that the primary source of financing for most start-ups is bootstrapping (39%), followed by the Private Equity, including Angel Investors and VC (32%), Grants from the Government and DPs (18%), Seed funding 3(8%), and Debt from banks and other institutional lenders (3%). The findings highlight an over reliance on bootstrapping in providing capital to start-ups, while there is a limited access to private equity and capital markets for scale-up funding and exiting. VCs that have invested in start-ups are likely to be those with an MVP and foreign founders.

Figure 14: Primary Source of Funding



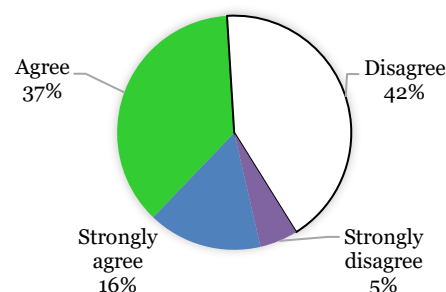
Financial Constraints

In line with results presented above, the analysis of this study identifies that 72% of the total respondents view their start-up to be financially constrained and 28% are not financially constrained. This finding points out that the financial constraint is widespread and limits start-ups' ability to invest in crucial areas like product development, marketing, and growth, which typically stifles innovation and competitiveness. The situation could also deter investor confidence, making it harder for start-ups to secure funding and exacerbating the problem. Strengthening the ecosystem by improving access to capital and support services is essential to create more financing options to cater for the capital requirement of start-ups with credible investment cases and convincing business models.

Start-up in danger of perishing in a short run

With regards to the question if they ever feel their business is likely to fail to raise additional capital in the next 6 months, the findings are presented in Figure 15. It reveals that 53% of surveyed start-ups agree and strongly agree with the perspective of being in danger of dying if they fail to secure additional financing within the next 6 months. This situation may explain why there is a majority registered in 2023 since the earlier ones failed to raise capital and get to MVP stage. It may lead start-ups to focus on short-term survival at the expense of long-term financial sustainability. However, 47% of the sample start-ups disagree and strongly disagree with this view, suggesting that they are not in danger of perishing soon.

Figure 15: Risk of perishing due to lack of capital in the next 6 months



Internet Connectivity and Digital Application

Respondents were asked if they have access to high-speed internet connectivity. The result shows that only 35% out of respondents have access to a reliable high-speed internet, but the rest don't have any access. Start-ups without high-speed internet may struggle with communication, cloud services, online marketing, and real-time collaboration, which are crucial for modern business operations. This poses significant challenges for the majority of start-ups, affecting their operational efficiency, productivity, and ability to compete effectively. Also, only 35 of respondents are using websites for their business. Another result shows that 70% of sample start-ups believe that ICT is the main driver of their business.

Most start-ups (55%) do not use any digital tool to offer solutions and products that solve different social challenges and explore economic opportunities in Zanzibar. The remaining share of start-ups (45%) use emerging technologies to offer services and products. The result shows the most popular emerging technologies used by start-ups are Internet of Things (IoT), big data and other technologies.

The Role of Start-up Policy in building the ecosystem

All surveyed start-ups agreed that the development of Zanzibar Start-up Policy can help to address some of the existing challenges faced by founders, and it would help to build the ecosystem. The observed unequivocal agreement that the Zanzibar Start-up Policy would help the sector grow and flourish provides several key implications. That is, there is a strong demand across founders for an instrument to prompt the creation of a regulatory framework to foster, shape and build the ecosystem.

6.5. FINDINGS FROM THE SURVEY OF ESOs

This section explores the various aspects of the start-up ecosystem in Zanzibar, focusing on the roles on the overall ESOs' ability to support entrepreneurial growth. The data analysed in this analysis were obtained from a survey conducted among key stakeholders, including facilitators and enablers who play a critical role in nurturing and supporting start-ups in Zanzibar. The study also identifies ESOs within the ecosystem, such as the Zanzibar State University (SUZA) Hub, Karume Institute of Science and Technology (KIST) Hub, CUBE Zanzibar, and Zanzibar Technology and Business Incubation (ZTBI) that provide critical support and training to start-ups. The presence of these stakeholders is crucial in nurturing the growth of start-ups and enhancing the overall ecosystem. Out of a sample size of 10, a total of 7 respondents participated in the survey, which reflects a response rate of 70%.

The analysis highlights the strengths and weaknesses of the start-up ecosystem, providing insights into the current state of support structures, the effectiveness of existing programs, and the perceived gaps in resources and infrastructure. Key themes explored in this analysis include the duration of existence and geographical distribution of ESOs, the educational background of leadership, the categories of start-ups receiving support, and the stages of growth that are most supported. Additionally, the analysis investigates the constraints faced by ESOs, the roles of government and private sector involvement, and the financial sustainability of organisations supporting start-ups. By examining these factors, this analysis sheds light on the critical areas that need attention to foster a more robust and inclusive start-up ecosystem. The findings provide valuable information for policymakers, development partners, and other stakeholders interested in enhancing the entrepreneurial landscape.

Organisation Duration and Location

Many ESOs in Zanzibar start-up ecosystem have been in existence for over 10 years, with 57% of participants reporting their organisations have been established for this duration. This longevity indicates a long presence of ESOs but does not imply that they are active and provide adequate support to start-ups. Also, 29% of ESOs have been operating for the period between 6 and 10, while 14% of ESOs have existed for the period less than 5 years.

The section also examined the location of ESOs. All ESOs are based in Unguja with 83% of them located in Urban Unguja, and 17% in Rural Unguja. This geographic concentration suggests that the start-up ecosystem is heavily clustered in urban areas of Unguja, where access to infrastructure, markets, and resources are more readily available. The prominence of these stakeholders in urban areas highlights the need for greater outreach and support in rural regions to ensure a more inclusive and balanced development of the start-up ecosystem across Zanzibar.

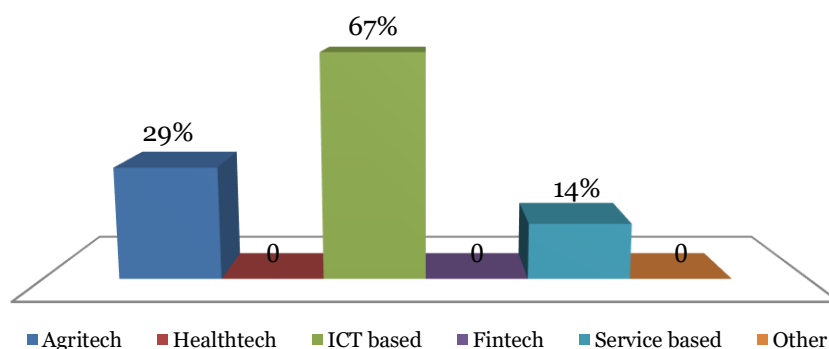
Education level of ESOs Leaders

More results present the education level of the head of the institution. It shows that 3 out of 4 ESOs leaders have Bachelor's Degree, 1 Master Degree, 2 have PhD level and 1 has reached Professor Level. This illustrates that leaders of ESOs are highly qualified, which can have a positive impact on strategic decision-making and business success.

Types of Industries Supported by ESOs

Figure 16 illustrates the category of the start-up to which ESOs have extended its support. It is observed from the result that the ESOs have supported the most start-ups that are under ICT industry (57%), Agri-tech industry (29%), and Service based industry (14%). The findings also revealed that there is no support from ESOs towards health-tech, and fintech industries. The finding that the majority of the ESOs support has been directed to start-ups within the ICT industry is consistent to the experience in other African countries where Tech start-ups are increasingly seen as most dominant actor in ecosystems³¹. The observation on Agri-tech reflects the recognition of the need to employ smart agriculture practices in transforming the industry to become more productive, resilient and profitable. Interestingly, another finding reveals that service-based start-ups have received minimal support from ESOs. This is somewhat surprising given the significance of the service sector in Zanzibar's economy, particularly in areas like tourism and hospitality. The limited support for service-based start-ups could imply a gap in the start-ups ecosystem where these ventures may be underserved or overlooked by current support mechanisms.

Figure 16: Type of industry supported by ESOs



Stage of growth of supported start-ups

More results of a survey in which ESOs were asked about the stage of growth of startup they show 73% of support offered by ESOs is directed to startups at an early and ideation stages and 27% is based on growth stage, whereas there is no support to startup seek for exiting. The focus on these early stages is critical because it addresses the fundamental needs of startups, such as business planning, market validation, and initial product development. However, it also exemplifies the reality that start-ups are stuck in the ideation stage and struggle to reach a growth phase. A considerable support (27%)

³¹ [Startups – Mozilla Innovation Week](#)

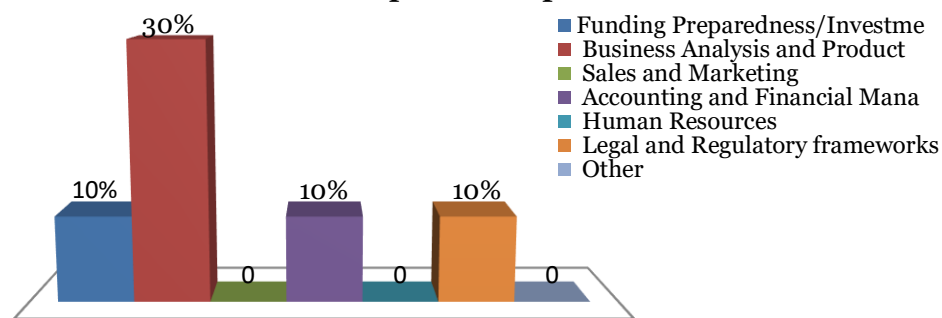
indicates that it goes to support start-ups at the growth stage is a puzzling observation. It contradicts another finding of this study that shows start-ups are unable to find any support to foster their acceleration. The absence of focus on the exit stage suggests that the ecosystem lacks start-up which may require support on exit options such as mergers, acquisitions, and initial public offerings (IPOs).

Categories of services offered to start-ups

The highest percentage (28%) of services offered by ESOs is based on activities that build a supportive entrepreneurial community, including networking events, mentorship programs, and workshops. Also, about 22% of ESOs offered incubation services during an inception phase of start-ups. Co-working spaces, provided by 22% of ESOs, play an essential role in fostering collaboration, creativity, and community among start-ups. Furthermore, it was indicated that 17% of respondents offer services designed to scale up.

Other results in Figure 17 focus on disentangling support provided by ESOs to start-ups under incubation. In this regard, ESOs offered incubation services in terms of Business Analysis and Development (30%), followed by Accounting and Financial Management (10%), Funding Preparedness (10%), and Legal support (10%).

Figure 17: Necessary support required to fill the gap of Entrepreneurship skills



Entrepreneurship mind-set

Many ESOs (57% of respondents) perceive the entrepreneurship mind-set of start-ups' founders as either weak or very weak, while 43% suggested that it is either relatively strong or very strong. Such a perception could be rooted from factors including inadequate mentorship and low adoption of technology which tend to stifle innovation. On the opposite spectrum, the relatively positive rating suggests that the entrepreneurship mind-set is there, and maybe the missing link is the business skills and entrepreneurship acumen.

Enabling Business Environment for supporting ecosystem

Most ESOs (71%) think that the business environment is not conducive enough to foster the start-ups ecosystem in Zanzibar, while 29% think the business is conducive enough. The overwhelmingly dissatisfaction of the current business environment could be attributed to various challenges facing the start-up ecosystem as echoed throughout this study. However, about 71% of SOEs consider the government plays a sufficient role in enabling their organisation to cater for the start-ups needs, while 29% start-ups disagree with the view.

ESOs capacity to support market entrance and to scale up

This part provides results of the question that asked ESOs about their incapacity to support start-ups to enter the market and to scale up if they agree with this perspective or not. The result shows that 86% of the total respondents agree with this view, but 14% refutes the argument. The overwhelming agreement by ESOs that they lack the capacity to support start-ups effectively is a strong indicator of

the systemic challenges facing the start-up ecosystem in Zanzibar. It suggests that ESOs acknowledge that they lack resources, expertise, or programs in place to adequately assist start-ups in overcoming the barriers to market entry and achieving scalable growth. Without strong support from these ESOs, start-ups may struggle to navigate the complexities of launching and scaling a business. This could lead to higher failure rates, slower growth, and missed opportunities.

Financial Constraints and Sustainability of ESOs

The result shows that limited support from the policy makers is leading the constraint facing ESOs in Zanzibar (31%), followed jointly by limited connection to foreign actors and lack of reliable internet connectivity (19% each). Other main constraints are lack of competent mentors and weak research and development competency with 13% each, while other factors such as the lack of office space is not a major constraining factor facing ESOs.

This part of the study also presents the result on ESOs financial unsustainability to cater for the start-ups needs because they overly depend on grants from DPs. Most ESOs (71%) strongly agree and agree that their financial sustainability depends on grants from DPs, suggesting a high level of reliance on grants. This indicates that ESOs in Zanzibar do not have reliable sources of funding. Only 28% of ESOs disagreed with the view that they depend on DPs financial support, and it is very likely that these organisations are state owned.

More results suggest that 83% of the sample ESOs agree and strongly agree that often their contracts with DPs involve key performance indicators (KPIs), which are not compatible with the needs of startups and the ecosystem. This widespread agreement highlights a potential disconnect between the objectives set by funders and the practical requirements of startups. However, 17% of sample ESOs disagree with this perspective.

ESOs' Viewpoint on the National Start-up Policy

All ESOs, a 100% of the surveyed sample, agree that establishing the Zanzibar Start-up Policy can help to build the ecosystem and eventually to grow and flourish. The unanimous agreement underscores a strong consensus among ESO on the importance of a national policy to support the start-up ecosystem.

6.6. DEEP DIVING ANALYSIS OF ZANZIBAR'S START-UP ECOSYSTEM

A vibrant start-up ecosystem requires well-functioning and coordinated attributes, including talent, demand, capital, and enabling environment. A presence of robust attributes and their interconnectedness is essential for providing start-ups with the tools and support needed to navigate the entrepreneurial journey and achieve sustainable growth. However, the nascence and fragmentation of Zanzibar's start-up ecosystem, as demonstrated above, is palpable. The current initiatives taking place within and between attributes of the start-up ecosystem are scattered and disjointed. The potential start-ups, for instance, have explicitly stated, during the roundtable discussion, that key actors within the ecosystem are misaligned, and work in isolation. As a result, ESOs who are regarded as enablers are only offering some basic incubation support, while the crucial role of acceleration has remained uncovered. In addition, MDAs and DPs often operate in isolation instead of working together to build a more vibrant ecosystem. When these factors are combined with existing limited demand for government contracts and non-existence private equity markets, founders of start-ups are seemingly not excited about being on the right trajectory to have successful start-ups ventures.

This Section of the study therefore provides the result of the detailed interviews involving start-ups with MVP, MDAs and key ESOs aimed to address the remaining information gaps from survey's findings presented above and gather deep qualitative insights on the key attributes of Zanzibar's start-up ecosystem. Insights and reflections from the interviews can be summarised and detailed as follows:

6.6.1. Deep Insights and Reflections from Startups with MVP

Consistent with the ecosystem maturity, the number of start-ups in Zanzibar's ecosystem is negligible and shows no sign of growing rapidly. This part of the study presents insights and reflections gathered from key informant interviews with founders and leaders of 3 out of 4 start-ups with MVPs.

Figure 18: Name of interviewed start-ups with MVP



The interviews with Airpay Zanzibar, Aatif Aquaponic and Firdous Biotech have revealed the following challenges and issues that need to be addressed for building a vibrant start-up ecosystem in Zanzibar based on key attributes:

1. TALENT

- Founders of start-ups in Zanzibar are highly educated, but they lack critical business acumen and are inexperienced. As a result, the local start-up founders feel that they lack top notch talent to compete at the global stage and to enable start-ups with acceleration. Leaders of start-ups which originated from abroad feel they can compete internationally. Moreover, there is a talent mismatch when it comes to finding people to be employed by start-ups with MVP.
- It is widely recognised that addressing the existing talent gap and unlocking the potential and aspiration of young people require innovation and entrepreneurship. Thus, start-ups seek tailor made practical business skills that are applicable to their specific needs, enabling them to implement best practices and adapt to changing market conditions effectively.
- A strong support network, including peers and mentors, is essential to address the talent gap. Start-ups have expressed a strong desire for having a competent individual ESOs and vibrant ecosystem. Start-ups believe such programs are vital for equipping entrepreneurs with the knowledge and expertise necessary to manage the complexities of business operations.
- Start-ups perceive its relationship with the government is relatively weak. They wish for strengthened collaboration with MDAs to build and enhance skills in terms of entrepreneurship and innovation.

2. DEMAND

- Start-ups understand that the government cannot on its own create the many jobs needed by youths in Zanzibar. There is a need for collaboration between entrepreneurs and government for enabling start-ups to cater for existing and emerging demand in the strategic sectors. What is needed is government recognizing that start-ups are important to the economy and are a priority in the strategic development of Zanzibar
- Start-ups have highlighted the need for targeted support in accessing a broader market. They indicated that effective marketing strategies techniques are critical for attracting and retaining customers, building brand awareness, and driving sales. They further indicated that start-ups face challenges in developing and executing marketing campaigns that resonate with their target audience, and they seek support in refining their value proposition and implementing

effective marketing strategies to cater for markets beyond Zanzibar.

- Founders of start-ups also expressed a desire for greater visibility and recognition through industry events and media coverage. Participating in events such as trade shows and conferences and receiving media coverage can enhance their credibility and attract potential customers. Increased visibility can be beneficial for brand building and market penetration.
- Additionally, founders have mentioned the necessity for actors in the ecosystem to collaborate in identifying demands of strategic sectors that can possibly be catered by start-ups

3. CAPITAL

- Start-ups have pointed out that financial services, such as loans, credit lines, and investment opportunities, are crucial for providing the capital required to overcome initial hurdles, invest in R&D and expand their operations.
- Start-ups often struggle with securing adequate funding and navigating financial support options. The founders argued that without financing from private equity, they may face liquidity challenges and struggle with covering operational expenses, or pursuing growth opportunities. Moreover, the inability to access financial support from the government, particularly ZEEA, to support their MVP is a pressing concern for founders of local start-ups.
- Zanzibar's start-ups ecosystem must be geared to access to attract VC to finance attractive investment opportunities. Venture capitalists are crucial sources for enabling start-ups to enter new markets as well as scale-up their business ventures. This can be helped by an improved enabling environment based on the experience of Silicon Zanzibar; VCs won't establish themselves in Zanzibar without special treatment.

4. ENABLING ENVIRONMENT

- The importance of a supportive infrastructure has also been emphasised by start-ups. They have pointed out the need for affordable office space and technological resources, which can significantly impact operational efficiency. Access to these resources enables start-ups to manage operations effectively, enhance productivity, and collaborate more efficiently. Additionally, the start-ups affirm that supportive infrastructure is seen as crucial for helping start-ups overcome initial challenges and position themselves for long-term success.
- Networking opportunities with established firms and investors have been identified by start-ups as crucial for expanding their reach and building strategic partnerships. Such interactions can lead to collaborative ventures, mentorship, and investment opportunities, providing start-ups with increased visibility and credibility. Networking events, industry conferences, and investor meetings are seen as essential platforms for showcasing ideas, gaining exposure, and forming alliances that drive business growth.
- Start-ups have also stressed the value of a robust ESOs network that includes peers and mentors. They believe that a strong network can offer practical advice, share experiences, and provide guidance throughout the entrepreneurial journey. Peer support and mentorship are viewed as critical for overcoming obstacles, making informed decisions, and building a successful business. A supportive community of peers and mentors is considered essential for effectively navigating the challenges of entrepreneurship.
- Start-ups expressed their endeavour to seek on-going support, including market research and strategic guidance, to create a more enabling environment to help them respond effectively to emerging trends and shifts in consumer behaviour. This adaptability is seen as essential for

sustaining growth and remaining relevant in a competitive environment.

- Insights from start-ups also underscore the necessity of tailored support programs to address their unique challenges. They call for developing an industry-specific Hub that offers targeted resources and expertise. Such programs may provide more relevant and impactful support, helping start-ups navigate sector-specific challenges and achieve their growth objectives.
- Another major challenge comes from unprofessional ESOs that prioritise making money over building the start-up ecosystem. This frustrates entrepreneurs and may lead them to lose trust in the support from ESOs. Also, both the formation and governance of the ZSA, which is a main umbrella, in the ecosystem are not driven by start-ups themselves or incorporating their needs. All these factors epitomise the fact that ESOs in Zanzibar have not incubated any start-up that came up with MVP or linked a start-up with MVP to secure capital from investors.
- Start-ups are unable to compete with established companies for public contracts. They are also feeling vulnerable to the risk of the ideas being stolen due to weak compliance of intellectual property rights. In addition, fiscal incentives to foster the growth of start-ups are limited.

6.6.2 Deep Insights from Government Entities

The interviewed lists of government entities included President's Office Labour, Economic Affairs and Investment, President's Office Finance and Planning, (Departments of Fiscal Policy and Policy, and Planning and Research) Ministry of Trade and Industrial Development (Department of Trade and Industrial Development), Zanzibar Investment and Promotion Authority (ZIPA). For Pemba, three interviews were carried out involving the Ministry of Trade and Industry, ZIPA and President's Office Finance and Planning.

1. TALENT

- The talent gap in Zanzibar is obvious, as the government continues to lessen this challenge it is important that ESOs work closely with start-ups and align with needs of founders in the ecosystem. The lack of training opportunities among entrepreneurs in Pemba particularly widens the talent gap and the situation hinders their ability to innovate. Designated efforts need to be made for engaging youths residing in Pemba to embark on entrepreneurial activities is essential for fostering innovation and inclusive start-up ecosystem.

2. DEMAND

- The RGoZ through the mandated entities is open to promote the growth of local start-ups to reach underserved markets and improve public service delivery.

3. CAPITAL

- The fact that access to finance is a significant challenge impacting start-up ventures is well understood. Although ZEEA is mandated to empower people and small enterprises, its financing mechanisms is not applicable to allocate capital to start-ups with unique financing needs. This implies that Zanzibar's ecosystem ought to identify ways to fund start-ups. The establishment of a centralised repository for potential business ideas can help to provide accurate information for managing and channelling ideas to appropriate financing options would be a valuable step.

4. ENABLING ENVIRONMENT

- Currently, many policy makers in Zanzibar find it difficult to distinguish start-ups from MSMEs. It is also difficult to have a significant drive for helping start-ups due to the lack of a mandated public entity to lead and guide the ecosystem in a systematic manner.

- Low prioritisation of start-ups is obvious, and this partly because the concept was not recognised by Zanzibar Development Plan (ZDV) 2050 and Zanzibar National Plan (ZADep) 2021-2026. Nonetheless, the government is prepared to increase ease of doing business for start-ups by creating a more enabling environment and providing relevant incentives. In this regard, the government is open to introducing targeted fiscal measures and incentives for promoting the start-up ecosystem if supportive arguments are provided.

6.6.3. Deep Insights and Reflections from ESOs

Most ESOs in Zanzibar are situated in urban areas of Unguja. This means that they have limited potential to reach entrepreneurs in the rural areas. In Zanzibar, ESOs are funded by government and DPs, and expected in fuelling the success of start-ups. Evidence from the survey conducted by this study, however, demonstrated that ESOs are not doing great jobs in directly connecting start-ups with investors, and producing many start-ups with MVP that can obtain funding. In this context, the study presents deep insights and reflections from the key ESOs on key attributes of the ecosystem. A total of four key informant interviews with the prominent ESOs were carried out. It involved extensive one to one interviews with the UNCDF, USAID through its implementing agency known as Tetra Tech, CUBE, and ZTBI, to gather insight on what needs to be done for enabling ESOs to effectively support start-ups in generating attractive MVP. These insights and reflections are presented below:

5. TALENT

- Zanzibar has not been able to create a competent business model to be adopted in identifying talents which could be moulded to attract investment for start-ups. This challenge is compounded by the fact that most existing funders are DPs who are often pushing for ESOs to apply for models based on foreign contexts and events, such as meetings and workshops, which are easy to implement. Therefore, among the biggest remaining challenges is finding an appropriate business model which could work in Zanzibar's start-up landscape.
- Another major issue is the absence of the shared vision on how talents could be harnessed through a consortium centre involving local hubs, where everyone would contribute with the main intention of building the ecosystem through effective mentorship and industry connections. ESOs have pointed out they are struggling to attract foreign talent, in particular volunteers and diaspora, who may be able to fill some of the existing talent gap they face. Also, the foreign talents, including diaspora, are struggling to design a model that reflects the local landscape. It is critical for start-ups in Zanzibar to navigate complexities and attract talents.
- A significant suggestion involves integrating support services to address the multifaceted needs of start-ups. ESOs propose the creation of an open Hub that consolidates information on funding options, legal assistance, and business development tools. The existing ESOs have been unable to provide this due to lack of the funding and capacity. The Hub to be established would act as a one-stop-shop for start-ups seeking support, providing easy access to crucial resources and services. A competent Hub can give access to start-ups to seasoned advisors who can provide strategic guidance and industry-specific knowledge. Similarly, the foreign talents, including returning diaspora, when in Zanzibar may have a place or organised arrangement to help them with localisation of their business ideas built on foreign assumptions.
- Interviewed ESOs have stressed the importance of fostering a collaborative culture among start-ups, investors, and government agencies, which could lead to shared insights, resources, and opportunities that drive innovation and economic growth. The creation of collaborative platforms is also recommended, where start-ups can interact with industry experts, share knowledge, and access essential resources to drive their growth. However, the implementation of this will be difficult if all ESOs are competing for the same donor funds.

6. DEMAND

- ESOs in Zanzibar are typically project based, with short-term initiatives concentrating on accelerating the growth of SMEs in different sectors by providing them with business development support, training, and mentorship. They are doing notable jobs in supporting SMEs, but unfortunately, they have not been able to address the demand of the start-ups in terms of quality.

7. CAPITAL

- ESOs have stressed the importance of having financial support mechanisms, such as grants and subsidies, which are crucial for the sustainability and growth of early-stages. Moreover, ESOs have suggested the development of specialised funding programs and technical support tailored to the distinct needs of various start-up sectors. Such programs would ensure that resources are allocated effectively and that start-ups receive support that aligns with their specific needs.

8. ENABLING ENVIRONMENT

- Fragmented ESOs are assumed to lead to inefficiencies and missed opportunities for the start-up ecosystem in Zanzibar. ESOs are in survival mode without assurance of their sustainability, and they are focused on competing for access funding from DPs. ESOs tend to focus on copying and implementing others' ideas instead of being innovative to develop their own unique value offering and address the existing gaps in the ecosystem. Without a clear shared vision of what sort of the ecosystem to be achieved, it will remain difficult for SOE to collaborate with others. Currently, there are weak partnerships between public owned and private ESOs.
- Among the main challenges faced by ESOs is the difficulty in adapting to the specific needs of projects as each comes with its own methodologies, scope and expectations from the funders, in particular DPs and their implementing agencies. Funders often have pre-defined concepts of how the activities are to be done. This limits the ecosystem's ability to add value and be more flexible in approaches to address the actual need of entrepreneurs and start-ups.
- Weak linkage and synchronisation between ESOs and ZSA in the ecosystem. SOEs are trying to develop and do everything in isolation and donor and revenue driven, and as a result they are at risk of becoming a jack-of-all-trades rather than mastering a distinguished specialisation role in building the ecosystem.

Start-up success typically takes a relatively long time to be realised, tech ventures, as they operate in a fast-paced environment and rapid digital transformation under continuous change. Most start-ups in Zanzibar are in the nascent phase and their ventures have not succeeded to obtain significant funding. For a start-up to move successfully from ideation phase to scale-up, Zanzibar must meet these critical criteria:

- *Selecting the right sectors that are globally relevant and build upon unique local strengths.*
- *Setting a vision for competing on a large enough scope that allows scaling.*
- *Attracting the top talents from local and international markets and also building a pipeline of local talent through strong ICT-focused curricula/degrees.*
- *Ensuring the availability of sufficient domestic and foreign capital along the growth path, including tapping into a broad source of capital (e.g., pension funds and insurers).*
- *Creating favourable ecosystem that allows start-ups to secure talent and additional funding supported by fiscal policies such as tax exemption.*

7. GAP ANALYSIS AND CALL TO ACTIONS

7.1. Gaps to be bridged and Success Factors

Zanzibar, like many other developing economies, is contending with the challenge of challenging macroeconomic conditions in many developed markets in which most of VC originated. Most actors think that the start-up concept is not well known by policy makers, the local talent is not top notch to compete regionally or globally, and the incubators themselves need to be capitalised and capacities. As a result, local founded start-ups with the MVP are struggling to receive scale up support. Zanzibar is the only economy in East Africa without a properly functioning Hub for start-ups. This does not display a positive optic, and it may appear as a gloomy outlook to some actors. The policy and regulatory frameworks for guiding the effort to build the start-up ecosystem are not there. The current landscape of the start-up ecosystem explains why private equity is scarce, and the donor funding is the main source of funds.

However, it is worth remembering that diamonds are formed under pressure and many of the world's greatest start-up successes were born and built during economic downturns and in developing economies. Challenging conditions associated with a nascent start-up ecosystem can present exciting opportunities for ambitious entrepreneurs to ideate, test their MVP and take risks of entering the market with innovative business models. Often risk averse and slow movers' entrepreneurs hesitate to face the market challenges. The existing landscape in Zanzibar requires the policy makers and regulators to play a catalytic role in building a vibrant start-up ecosystem. Crucial resources, such as infrastructure, physical capital, human capital, and knowledge, need to be mobilised and harnessed for start-ups with MVP to utilise. Entrepreneurs must increase their technical skills and business acumen, be surrounded by other highly capable firms, and have access to markets for their goods or services. Although there are some random collaborations within Zanzibar's ecosystem, events for ecosystem building heavily rely on isolated actors, especially donors, and government activities. Numerous support through incubation programs for entrepreneurs are taking place, but evidently, they are not yet providing support of required competence to generate successful start-ups.

The assessment of the public entities and ecosystem enablers by this study suggest that there is significant room for improvement when it comes to the capacity of existing institutions responsible for entrepreneurship activities to promote start-ups. In particular, the establishment of ZEEA as a centralised agency with a core mission to strengthen economic empowerment using targeted interventions does set Zanzibar's in a right trajectory to strengthen entrepreneurship. Although start-ups are often perceived as MSMEs or SMEs, in technical and operational terms they are entirely different business ventures with aspirations. Start-ups need to leverage digital on technologies for growing their business and achieve market attractions. In this context, start-ups require unique policies and regulatory framework, distinct programs and financing instruments in comparison with the traditional SMEs. Therefore, MDAs that deal with managing and regulating start-ups in Zanzibar are required to be very different in terms of their governance, staff competencies, and overall flexibility to work with ecosystem enablers and investors.

Equally, the access to capital, which must be from unique sources, and presence of an enabling business environment due adequate policy and regulatory framework are the foundation for building a thriving start-up ecosystem. In Zanzibar's start-up ecosystem, financing options are limited and not visible beyond small seed funding from the RGoZ and donors.

There is also a gap of talented founders, who are convinced about the payoffs of start-ups as a prominent career choice when coupled with the limited availability of quality mentorship and coaching, reduces the possibility to secure funds from private equity and impact-based investors. ESOs lack a sustainable business model that generates revenue. They are highly dependent on donor funds which are competitive. They need to provide value that start-ups want to pay for. Similarly, ESO

should realise that donors want results. ESOs should be able to negotiate what type of realistic results donors can expect. It's not just the DPs at fault but ESOs express unrealistic ambitions.

Multiple gaps need to be addressed through policy and practical actions for Zanzibar's start-up ecosystem to function in coordinated and synchronised manner as a united community. The ecosystem must be conducive enough and efficient to channel resources towards promising entrepreneurs instead of allocating them to their competitors with unattractive business ventures. When the necessary attributes are in place for entrepreneurs to identify convincing business ventures and have knowledge and ability to translate promising ideas into attraction, Zanzibar will generate successful start-ups.

Success Factors for start-ups

Start-up success is difficult to be pre-determined given the industry usually has a higher rate of failure, but those few successful ones produce highly paid jobs, creating wealth, generating significant national revenue and providing more promising pathways for addressing socio-economic challenges. When the start-up ecosystem is immature, like in Zanzibar, all of its attributes in terms of talent, demand, capital and policy and regulatory frameworks need to be harnessed. Zanzibar "can take a leaf out of Tunisia's impressive progress" in leveraging on well-designed policy directives and a proper regulatory framework guided by a robust Act to build a vibrant startup ecosystem. The fact that Tunisian Startup ecosystem created \$25.6m in value between 1 July 2019 and 31 December 2021³² and is on a right trajectory to have 1,000 startups with labels that may create 10,000 jobs implies that the journey of building the startup ecosystem is worth pursuing in Zanzibar.

The rest of the part of the study highlights determining factors for start-up success in Zanzibar:

Short-term success factors for enabling start-ups to access funding from outside investors. The most important factors are:

- ✓ Obtain seeding funding from DPs or catalytic grant from government
- ✓ Be a core member of a competent Hub, which must be created if the start-up ecosystem is to become active, expected to attract various influential investment clusters.
- ✓ Collaborate to strengthen ZSA or other associations so that start-ups can have concentrated power to lobby for policy changes to create a more enabling environment.

Long-term success for start-ups to grow through proven business models are:

- ✓ Hiring talented employees over time and continuing to do so.
- ✓ Obtaining an initial financing is the most important factor.
- ✓ Having a proven track record of founding a previous start-up and additional founder in the venture, and
- ✓ Having a mentor who can guide start-ups on practical experience and knowledge, particularly business acumen.

7.2. Measures for building Zanzibar's start-up ecosystem

The rest of this section provides intertwined actions and policy measures needed to create readiness and the right mind-set for building an ecosystem that can generate successful start-ups.

7.2.1. Creation of Adequate Skills and Up-skills

Start-ups are proven to flourish in the entrepreneurial and innovative ecosystem. Thus, for a start-up to be successful it must attract top talent; these are super ambitious, highly motivated to push their start-up's mission, and utilise their experience to help the enterprises scale toward international success. In the global race for talent, most successful countries have initiatives that simplify the hiring of employees, especially foreign tech and business specialists who can help start-ups expand into new

³² [Tunisia: Innovative startups are key to economic revival \(african.business\)](#)

markets and scale up on a global level. Based on the findings of this study, Zanzibar appears to be struggling to work out how to create talents to produce start-ups with MVPs. Zanzibar can win the battle to create talents for founding start-ups, but it has its work cut out.

The community is clearly buoyed by the opening of the prestigious Indian Institute of Technology (IIT) Madras in November 2023. The university offers world class programs in Data Science and Artificial Intelligence (AI), and this move can help to generate more skilled and innovative youths in Zanzibar who could compete on a global stage. The crucial aspect is to maintain the momentum of generating talents by establishing another reputable entrepreneurship institute or centre to provide new adequate entrepreneurship and innovation skills and up-skilling the existing youths.

Potential critical actions that could provide quick wins in building the new skills and up-skilling of human capital may include:

- Ensuring the on-going reform of the education sector that intends to be competence based also focuses on strengthening entrepreneurship skills among youths. This means incorporating entrepreneurship courses in the curricula of high schools to create awareness and spark interest in entrepreneurship from a young age.
- *The government of Zanzibar needs to ensure practical entrepreneurship knowledge is provided by universities and colleges.*
- Capacity building of mentors in accelerators to address existing lack of quality mentorship in the ecosystem. The strategy for doing this can involve incentivising the successful entrepreneurs and ESOs to spread their knowledge and experience for the broader benefits of Zanzibar's community, and also creating a stronger linkage with international counterparts.
- *The government of Zanzibar particularly can put in place various incentives to encourage the return of talented diaspora to work in the start-up ecosystem.*
- Strengthening relations between key stakeholders (MDAs, ESOs, and start-ups) to make it easier for more future entrepreneurs to discover their talent at an early age.

7.2.2. Supporting start-ups in early phases

In Zanzibar, actions to attract international talent (mentors, entrepreneur, and trainers) to the ecosystem may involve the implementation of the following interventions:

- *The government of Zanzibar should ensure a competent Hub is developed to support early stage start-up adequately by coaching, mentoring and funding tailored to their needs.*
- Financing start-ups in the seed phase should be a priority for actors in the ecosystem. For this reason, *the government of Zanzibar should identify Start-up Funding Mechanism beyond the existing ZEEA empowerment loans for investing in start-ups alongside private investors.*
- *The government of Zanzibar needs to facilitate access to public contracts for start-ups and possibility of local based start-ups to collaborate with the e-Government Agency (EGA) and MDAs to develop innovative solutions designed to advance the digitalisation of public services delivery.* Through this way, start-ups and scale-ups can accelerate the digital transformation of the public sector and help solve the existing socio-economic challenges.

7.2.3. Creating the enabling environment for incubation and scale-ups

A supportive policy environment reduces barriers to entry and creates a more favourable climate for start-ups. Implementing supportive policies and regulatory frameworks is vital for the growth of start-ups. Zanzibar's corporate law, and the ease of incorporation for start-ups, is lagging far beyond the international best practice, when considering that Tanzania³³ positioned 144 out of 190 countries in the World Bank's ease of doing business 2020 ranking, while the situation becomes worse looking at

³³ Tanzania is used as a proxy for Zanzibar's economy.

starting a Business ranking (Tanzania ranked 161 out of 190 countries)³⁴.

Potential actions for creating the enabling environment for incubation and scale-ups could include:

- *The Zanzibar National Innovation and Start-up Policy could be created by the government to support an enactment of an Act for reforming and strengthening entrepreneurship, innovation and financing attributes to support start-ups.* It will help to foster the ecosystem through a regulatory framework that builds on the definition presented by this study and can help actors to distinguish between start-ups and SMEs. In this regard, Zanzibar does not need to “invent the wheel” as it can learn from the experiences from comparable economies, principally Tunisia which is the first African country to unveil and implement the Start-up Act a few years ago and eventually become a blueprint for many countries.
- *The government of Zanzibar needs to establish a Department within the Ministry or Agency to deal with and coordinate the start-up ecosystem, which is a multi-sectorial in nature.* Ideally, the entity can either be under the Ministry responsible for Investment or Trade.
- *Streamlining business registration processes by the government through a one stop centre with a capability of providing services.* This need goes beyond the concept of pooling various offices on the same roof by making registration and compliance seamless processes. It will eradicate the bureaucratic day-to-day faced by start-ups and potential private equity investors.
- *Fast-tracking the process to acquire intellectual property rights provided by the relevant government entities in Zanzibar.* This is a crucial approach for protecting founders who are at the ideation phase. Also, mechanisms for resolving disputes effectively and transparently need to be established.
- *It is essential that the government create more favourable fiscal policies for start-ups.* Tax policies to attract foreign talents and private equity, for instance, can be put in place, such as the ones introduced in other countries, including the United Kingdom, Spain, Sweden, Tunisia, Nigeria and Ghana.
- *Improving access to talent for start-ups and scale-ups by attracting experienced founders from various parts of the world to mentor local start-up founders.* In addition, an introduction of Start-up Visa arrangement, which may include focusing on attracting talented volunteers to work in ESOs that directly support start-up and entrepreneurs.
- *The RGoZ can put incentives to encourage the return of talented Diaspora to play crucial roles in building effective and durable start-up ecosystems.*
- *The RGoZ needs to continue its commitment in having a regular dialogue with representatives and umbrella associations to cater for the interests of start-ups.*

7.2.4. Encourage an Entrepreneurship Mind-set

To cultivate a thriving start-up ecosystem in Zanzibar, it is crucial to foster a culture that celebrates innovation, risk-taking, and the entrepreneurial spirit. The actions to be implemented may include:

- Highlighting successful local entrepreneurs, and community events that encourage networking and idea exchange.
- *The government of Zanzibar, private sector, and ESOs needs to partner in developing a well-equipped Hub with sufficient spaces (e.g., co-working spaces) and events (e.g., meet-ups, competitions, etc.).* This will expand the community of entrepreneurs and increase both their number and quality. The Hub can enhance the investment-readiness of start-ups by providing targeted support, such as mentorship programs that connect entrepreneurs with experienced advisors who can help refine their business plans and pitches.
- The Hub to be created should also be a focal point to convene investor networking events to

³⁴ [Rankings \(doingbusiness.org\)](https://www.doingbusiness.org)

foster relationships between start-ups and potential investors, helping to bridge the gap between entrepreneurs and the capital they need. Also, pitch training workshops could be introduced to help start-ups craft more compelling presentations that clearly communicate their value propositions, address investor concerns, and highlight growth potential.

- It is true that start-ups usually need empowerment in terms of resources and skills; yet these are identical to a typical economic empowerment for SMEs or a part of poverty reduction measures. Zanzibar should perceive start-up founders as potential investment and start-ups as profit maximisation ventures instead of treating it as a pure economic empowerment industry.

7.2.5. Strategic Funding Options

- Catalyse privately managed seed financing options to address scarcity of funding for start-ups. This can be done through support from DPs and corporates as a corporate social responsibility (CSR). The public funds can also be allocated towards research grants for areas in strategically important sectors to support the domestic start-up ecosystem and innovation. Targeting research grants to specific sectors can increase the likelihood of success for start-ups that can operate domestically and strengthen the international competitiveness of local start-ups.
- *The support and loans provided by the government of Zanzibar to start-ups.* It implies a simplification of conditions for start-up loans and financial support offered by the government to make funding more accessible. This is crucial for ensuring the resources are allocated to support start-ups with attractive ideas and convincing business models.
- The role of the government in supporting start-ups to find financing goes beyond the seed grants provided to small entrepreneurs. *Creation of platforms for attracting early-stage investors with broad networks, experience and expertise would be a smart move to start with in building active private equity financing for start-ups in Zanzibar.* Therefore, policymakers need to work with relevant stakeholders in the start-up ecosystem to make the investment process more accessible and streamlined. This may include advocating for more transparent and efficient regulatory processes, attracting angel investor networks and impact-based financing provided by development institutions, and creating platforms that facilitate easier connections between start-ups and investors.
- Increasing the availability of capital—for example, by encouraging local government and private institutional investors to invest in VCs as in the case in various developed economies. *Zanzibar can use the available limited public resources to create the VC Fund, instead of the planned initiative to establish Zanzibar Investment Bank.* The fund can be co-created as a public private partnership to finance attractive start-ups. This approach is generally perceived as more efficient than direct government involvement in venture funding, because it involves experts with necessary experiences and rigorous investment knowledge.
- A clear investment process, helping start-ups better understand what investors are looking for and how to effectively meet those expectations needs to be established. Under such a setting, ESOs can support start-ups to understand the perspectives of diverse investors by analysing and consolidating the expectations of investors and sharing them with start-ups. For instance, the Hub, expected to be established and other ESOs, may be utilised for informing the process to access seed funding and nurturing start-ups in the idea/pre-start-up stage, providing mentorship, resources, and networks to help entrepreneurs refine their ideas and develop MVPs.
- Given the distribution of start-ups across different growth stages, key stakeholders in the Zanzibar start-up ecosystem must be organised to provide targeted support at Early-Stage. This financing phase can include investors, such as venture capitalists, angel investors, and grant providers play a critical role in supporting start-ups that have moved to the early stage, helping them secure the necessary funding to build their businesses and enter the market. In addition, the investors must be incentivised to finance the few start-ups that reach the growth stage.

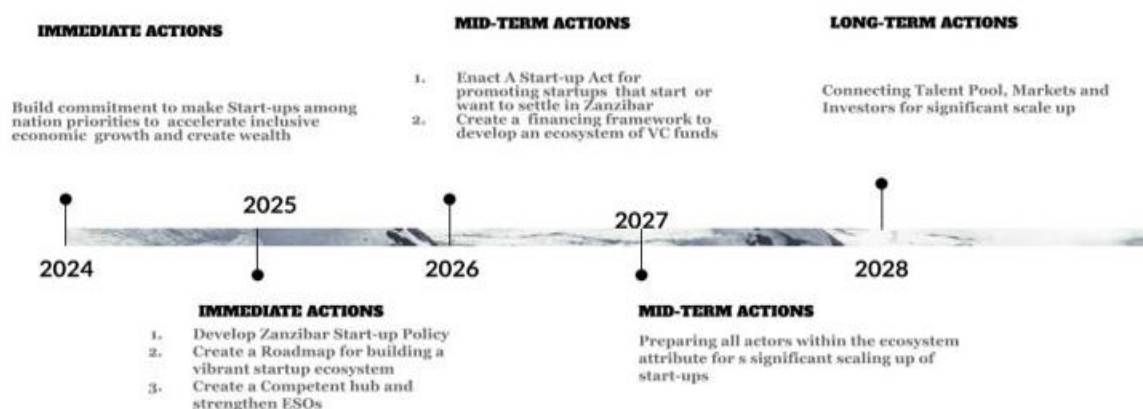
7.2.6. Focusing on sectors where Zanzibar can win

- Utilisation of the priority sectors by encouraging start-ups to align with priority sectors, such as *tourism, agriculture, fintech, and blue economy*, to incentivise them to focus on opportunities linked to the strategic sectors.
- Zanzibar currently has a competitive advantage in the tourism sector due to its geographical location and natural attractions and heritage, where e-commerce can cater for the demand of tourists with relatively high consumption power. Opportunities in the entertainment industry, for instance, have not remained unexplored. Fintech and e-commerce also present attractive sectors for start-ups to pursue. With an upward trend in the use of Internet of Things (IoT) and the application of emerging technologies in implementing smart agriculture, there is a huge potential to build food security and farm high end agricultural products in Zanzibar to cater for the growing tourism sector.
- A strong focus on these sectors on which Zanzibar can leapfrog its competitors, especially the neighbouring economies, could lead into more focus and a concentration of knowledge which in turn may increase the propensity to the scaling of start-ups.
- Start-ups should position themselves to address socio-economic challenges through *Health-tech and Ed-tech, and Clean Energy for reducing our environmental footprint*.

7.2.7. Build better connected, stronger and more visible ecosystem

- Coordinating mechanisms involving diverse stakeholders from the public and private sectors within the start-up ecosystem needs to be established. *This may include a set-up of the talent desk involving the RGoZ and private sector*. The desk would be the first point of contact for advising and guiding foreign talent wishing to join or invest in Zanzibar's start-ups.
- The start-up ecosystem needs to build a strong connection with the strategic sectors.
- In line with the government's strategy on the digital transformation, *the start-up ecosystem must develop a digital platform at the service of entrepreneurs for collecting and analysing data*. This dashboard can be useful; for (i) monitoring the most important attributes of the ecosystem and (ii) providing electronic administrative data to stakeholders. The dashboard will be able to measure the progress of the start-up ecosystem in Zanzibar.
- Efforts to promote Zanzibar as a "Start-up Economy" by building the ecosystem can be guided by actions presented in Figure 19. It is essential that actors in the start-up ecosystem contribute to the sharing of entrepreneurial experience with the focus of enabling entrepreneurs to obtain tangible and evidence-based answers to the questions they face on a daily basis. A Snapshot of suggestions for the start-up ecosystem in Zanzibar is presented in Annex I.

Figure 19: Increase Global Market Attraction & Utilise Strategic Sectors in Zanzibar



Annex II - Table 2: Key insights from ESOs and start-up with MVP on the ecosystem's attributes

Category	SOEs Perspective	Start-ups Perspective	Shared Perspective
Talent	Advocate for dynamic ecosystems with industry knowledge and strategic advice.	Emphasise the need for comprehensive training programs and robust mentor networks for accelerating start-ups.	<ul style="list-style-type: none"> • Zanzibar needs to build the capacity of local universities that supply talent. That is foundational. • Talent is crucial for innovation and entrepreneurship. <i>Incubation and mentorship through a competent Hub established jointly by the government and private sector is crucial in fostering talents who can generate start-ups.</i>
Demand	Highlight the need for collaborative efforts to cater for local and international markets.	Collaboration with the government is crucial for generating successful start-ups.	<ul style="list-style-type: none"> • Demand for product requires understanding of clients which would allow stratus to ensure their product fits the market. Client centricity is the key to success. • Addressing demand involves creating supportive environments with resources and networking opportunities.
Capital	Stresses the importance of financial support mechanisms like grants and subsidies for the sustainability of the start-up ecosystem	Calls for increased access to appropriate financing options at all stages of start-ups life lifecycle.	<ul style="list-style-type: none"> • Mobilise seed funding from government and DPs to catalyse start-ups during the initial phase but identify “sweeteners” to attract and incentivise private equity to invest in start-ups when entering the market and scale-up. • Sound and predictable private equity funding is required to finance start-ups. • An enabling investment environment for VCs and investors is also needed/
Enabling Environment	Request for streamlined regulatory processes, simplified business registration, and reduced cost of doing business and operating ESOs.	Fiscal space and regulation frameworks should concentrate on supporting start-ups.	<ul style="list-style-type: none"> • A supportive policy and regulatory frameworks established by the government to create an enabling environment in terms of business setup, compliance, and sustainability, is of paramount importance. • The government should largely focus on creating a more enabling environment to attract private equity.

Annex II - Table 3: A Snapshot of Recommendations for the start-up ecosystem in Zanzibar

Attributes	Recommendations
Talent	<ul style="list-style-type: none"> • Emphasise the need for comprehensive training programs and networks. • Design tailor-made training that covers all phases of start-ups life cycle. • Identify ways to secure the best local entrepreneurs and attract international talent. • Prioritise educational programs that foster innovation and entrepreneurial skills ensuring they address the specific needs of aspiring start-ups, particularly in technology and business development. • Organise special programs such as hackathons and innovation competitions to stimulate creative thinking and problem-solving skills among young people.
Demand	<ul style="list-style-type: none"> • Developing targeted marketing campaigns designed to resonate with local consumers and address their specific needs and preferences. • Facilitate participation in trade shows, conferences, and media coverage to boost start-ups visibility and credibility. • Link with the public entities to identify challenges which can be addressed by start-ups • Set vision for start-ups to cover markets beyond the domestic one.
Capital	<ul style="list-style-type: none"> • Concentrate on building the ecosystem, the capital will flow once start-ups have attractive products and convincing business cases. • Develop programs to provide affordable and reliable loans, credit lines, and investment opportunities tailored for start-ups at various stages of the life cycle • Calls for increased access to affordable financial services, VC, and investment opportunities. • Set a merit based and competitive arrangement for giving public funds to start-up considering their inherited risks and characteristics. • Create more accessible financial support mechanisms, including partnerships with private investors. • Build the ecosystem which will eventually attract the private equity financing • Create a "bank of ideas" to capture and evaluate business ideas. This centre should link entrepreneurs with potential investors and financiers both locally and internationally.
Enabling environment	<ul style="list-style-type: none"> • Establish a well-equipped hub for incubation and acceleration. • Create a procurement and local content laws which are favourable to start-ups • Strengthen intellectual property rights for protecting start-ups. • Requests affordable office space, technological resources, and support for market adaptation. • Need to have joint efforts by actors in the ecosystem to create the competent acceleration Hub to fill the existing skills gap. • Convene all start-ups with MVPs to explore ways for them to be actively represented in the ZSA. • Create incentives required to build a more vibrant start-up ecosystem. • Establish the hub to provide essential resources, including office space and technology equipment, to help start-ups manage operations effectively and overcome initial challenges. • Create policies and incentives to promote start-ups and build the ecosystem. • Identify an entity to be given a legal mandate to support the start-up ecosystem. • Secure commitment from multi-sectorial entities to be champions of start-up issues.