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REPLICATION OF INTELLECAP'S ECOSYSTEM BASED APPROACH IN EAST AFRICA

Grantee

Intellectap Advisory Services Private Limited

This report is made possible by the support of the American People through the United States Agency for International Development (USAID), Argidius Foundation and Shell Foundation. The contents of this report are the sole responsibility of Intellectap and do not necessarily reflect the views of USAID or the United States Government.



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List of Abbreviations

Abbreviation	Description
SGB	Small & Growing Businesses
PACE	Partnering to Accelerate Entrepreneurship
I ³ N	Intellectap Impact Investment Network
GIZ	Gesellschaft für Internationale Zusammenarbeit
AVPN	Asian Venture Philanthropy Network
FSD	Financial Sector Deepening
EAVCA	East Africa Venture Capital Association
PRISM	Portfolio Risk Impact Sustainability Measurement
INGO	International Non-Governmental Organization
CIF	Collaboration for Impact Facility
EATIH	East Africa Trade and Investment Hub
BMC	Business Model Canvas
NFNV	New Faces New Voices



1. PACE – Intellectap Partnership

Over the past 15 years, Intellectap has built and refined an ecosystem-based approach to accelerating entrepreneurship and innovation among Small & Growing Businesses (SGBs) in India. We have built services, tools, products, and methodologies to unlock support for SGBs from several private commercial and donor organizations. USAID through the Partnering to Accelerate Entrepreneurship (PACE) initiative, partnered with Intellectap to replicate its ecosystem-based approach for accelerating the entrepreneurship and innovation ecosystem in East Africa. This partnership was co-supported by the Shell Foundation and Argidius Foundation. Support to Intellectap under PACE began in October 2015.

Intellectap has sought to replicate its ecosystem-based approach to East Africa by bringing together capital, knowledge and networks to support SGBs at two levels: (i) provide direct support to SGBs in the form of acceleration, fund-raising, technical assistance, innovation transfer, and market linkages, and (ii) discover and engage critical ecosystem players such as corporations (both local and international), accelerators, other development sector players in supporting SGBs.

This report seeks to provide a summary of the results and also highlights the key learnings from our replication effort. It includes:

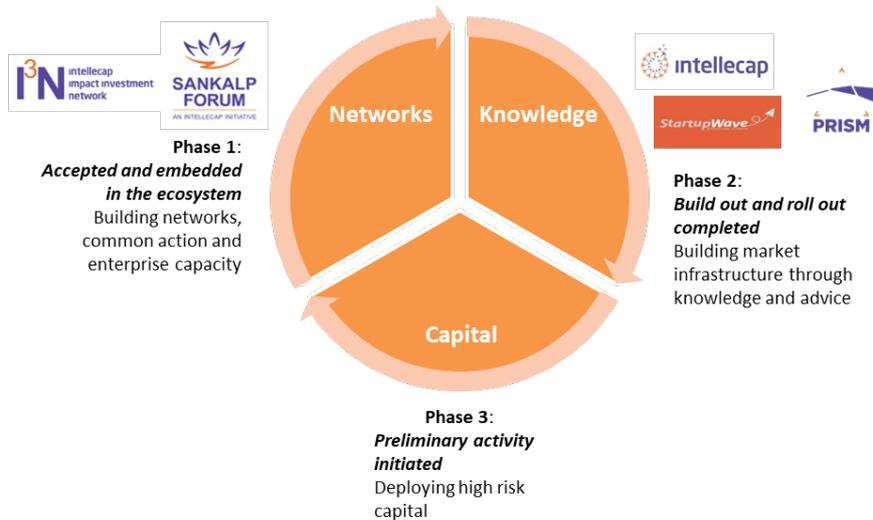
- Overview of progress made by Intellectap's different products and services as well as Intellectap Africa as an organizational unit
- Detailed progress report on each of the three key pillars of our ecosystem-based approach:
 - i. Networks, which include Sankalp Forum and our angel network (I³N)
 - ii. Knowledge services, which include consulting and our proprietary platforms
 - iii. Capital, through our nascent equity capital fund
- Discussion on key challenges, lessons learnt and proposed adaptations in our approach

2. Overview of progress

In the three-year period since the launch of our initiative to replicate our ecosystem-based approach for accelerating entrepreneurship support to SGBs in East Africa, we have received generous support not only from our funders (Argidius Foundation, Shell Foundation and USAID PACE), but also from a number of local and international stakeholders such as development institutions (GIZ, the World Bank Group), private sector entities (Bosch, GE, Merck, Boehringer Ingelheim, Dutch Good Growth Fund), and industry associations (FSD Africa, FSD Kenya, EAVCA). These partnerships and collaborations have helped us grow all three pillars of our ecosystem-based approach – networks, knowledge and capital, in the region.

Over the last year, we have replicated our advocacy platform (Sankalp), angel investment network (I³N) advisory services (consulting & investment banking), virtual incubation platform (StartupWave) and impact measurement platform (PRISM) as envisaged at the beginning of our programmatic support. The development and adaptation of StartupWave for East Africa has resulted in over 450 sign-ups for our early stage enterprise support activities and partnerships with over 30 incubators / accelerators. Similarly, PRISM, our impact measurement platform, has garnered interest from a wide variety of players to measure the impact of their programs.

We also have significantly enhanced our local capacity by hiring talented and experienced professionals across market facing, delivery and support functions. Intellectap Africa now has a business development engine driven by local experts, capacity to engage with clients on a continuous basis and with local execution capabilities across three sectors (Financial Services, Agriculture, Livelihoods). This has resulted in better revenue realization in terms of ticket sizes for projects executed for a variety of clients including INGOs, corporates, utilities, fund managers, and industry associations.



3. Networks

Sankalp Forum

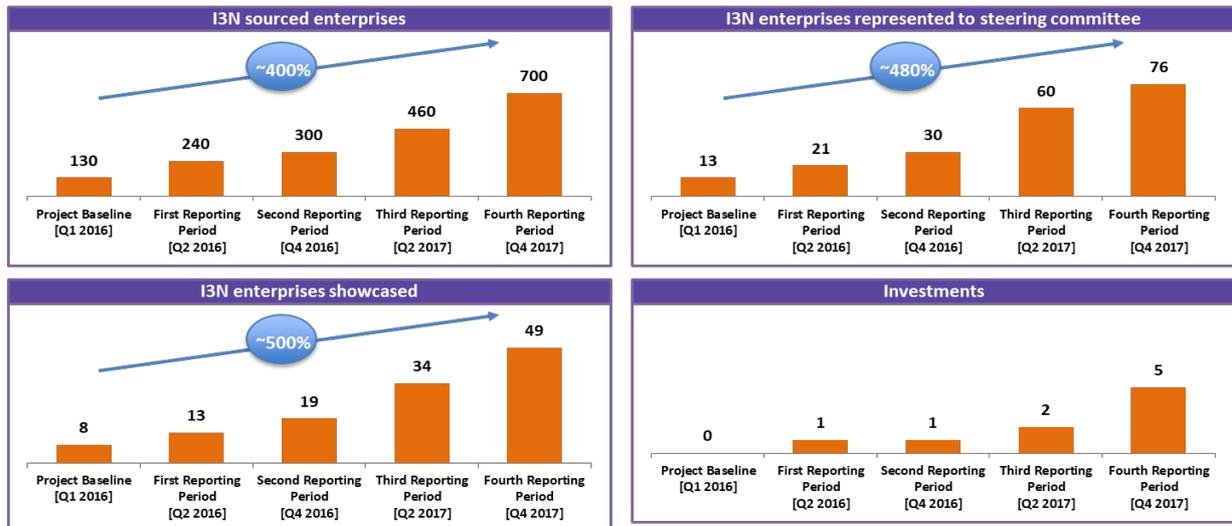
Over the last 5 years, **Sankalp Africa** has grown to become one of the largest common action platforms in the region. The 5th Sankalp Summit (2018) attracted close to 950 delegates representing 33 countries. At the Summit, we curated 46 sessions and brought together over 150 speakers to share their insights. We have mobilized a network of more than 3,500 stakeholders through the five Summits, and brought forward 100+ high potential enterprises from the region. Sankalp has hosted highly vibrant, informative and interactive sessions on topics including clean tech, nutrition, talent, and impact investing. Every year, our team discovers and shines the spotlight on leading social innovations that are creating large scale impact. While the PACE program did not explicitly support Sankalp Africa, the Forum is an integral part of the ecosystem approach that we are attempting to replicate.

I³N - Better traction and maturity

I³N Africa began operations in January 2015 and was officially launched as a network in July 2015. We started operations with 10 anchor angel investors (of which, 8 were based in East Africa). We now have 48 angel investors (with an equal number of local and international investors) in the network. This includes 30 individual members and 18 institutional investors, foundations & family offices.

During this 3-year period, we have identified over 60 enterprises and supported them by providing investment readiness services, business modelling services, assistance in pitching to investors, fund raising and negotiation support. As a result, 23 enterprises have successfully raised funds; of these, 5 enterprises received funds from I³N investors. Over 90% of funding raised is in the form of either equity or debt while grant funding accounts for about 10% of funding.

Companies Supported	Total Investment Raised	I ³ N Investment Raised
61	USD 25 Mn (23 Companies)	USD 1.15 Mn (5 companies)



All quarters reflect calendar year quarters

I³N Success

- Investor feedback on the I³N process and the quality of showcased enterprises has been encouraging. Investors view I³N showcase events as a high-quality source for deal pipeline. They also recommend I³N investment readiness support for companies that they would like to invest in (about 10% – 25% of enterprises in a I³N showcase are sourced through referrals).
- We have refined the I³N model and selection process by promoting earlier SGB-investor engagement and by aligning the pipeline to investor needs. All enterprises receive intensive support to meet gaps identified by investors, improve the quality of their financial statements, and navigate the deal structuring and due diligence process.
- Enterprises supported by I³N have grown in terms of revenue by over 110% over the period of engagement as shown in the table below.

Baseline year	# of enterprises reporting	Baseline revenue USD '000	2017 revenue USD '000	Revenue CAGR	Baseline head-count (HC)	2017 head-count (HC)	HC CAGR
2014	3	70	1,289	164%	0	540	NA
2015	9	432	1,909	110%	58	145	58%
2016	20	4,246	6,888	62%	201	263	31%
Total	32	4,748	10,086	112%	259	948	266%

Note: Baseline is the year in which an enterprise entered the I³N program. The above analysis is based on self-reported data from 32 out of 49 enterprises taken to showcase since 2015. The analysis is restricted to 32 enterprises from 2014 to 2016. For enterprises that were showcased in 2017 growth metrics will only be available in 2018 and hence these enterprises are not included in the analysis above. To read the table please refer to the baseline figure for a particular year and compare the corresponding figure for 2017 – for e.g. the 3 enterprises reporting from 2014 had zero head count at the baseline while the 2017 headcount is 540; since the baseline headcount is zero, the CAGR cannot be computed. Total revenue growth of 112% and HC growth of 266% is simple average growth and not CAGR.

Key insights

- With a 12% success rate of facilitating investments over 3 years, I³N has faced some challenges in catalyzing angel investments. These include:

Regional gaps at	Specific insights
Enterprise level	<ul style="list-style-type: none"> ▪ African enterprises face challenges in meeting the requirements of investors (both local and foreign) ▪ Peer-to-peer exchange formats are limited or only available to a small group or community

Investor level	<ul style="list-style-type: none"> ▪ High transaction cost, with most of the capital coming from outside the continent ▪ Limited investment opportunities, as entrepreneurs are attracted to sectors that are not very attractive to investors ▪ Shortage of debt funding for early stage enterprises in the region in the sub-\$ 100,000 range
Ecosystem level	<ul style="list-style-type: none"> ▪ The non-financial support ecosystem also often supports the same set of enterprises, with limited risk taking, as is also seen within investor circles ▪ Small and growing businesses are often treated as one homogenous category and there is little sub-segment specific support ▪ While the need for technical assistance has been established, it is unclear who will pay for it

4. Knowledge

Consulting services

Although the USAID PACE support to Intellectap centred on the 'I³N Enterprise Support Program' discussed above, our 'Knowledge' services play a critical role in amplifying our efforts to support enterprises through addressing systemic and market challenges, creating transparency, and visibility. In the reporting period, Intellectap developed important knowledge products to learn from and inform market development in East Africa. For instance, Intellectap was commissioned by East Africa Venture Capital Association to conduct a mapping of [fin-tech enterprises](#) to showcase the current state of fin-tech in East Africa. One of our earlier studies highlighted the vibrancy of the social enterprise landscape in East Africa while another analyzed the potential of technology to create developmental impact. These reports have helped take the development discourse forward, created visibility, and benefited enterprises through increased investor attention.

The Collaboration for Impact Facility (CIF) has helped Intellectap position our advisory services for private sector corporations in Africa and also allowed us to engage with corporates globally, especially in the US and Europe. Generally, there has been a lot of interest to learn about collaborative and partnership models between corporates and social enterprises.

During the review period, Intellectap deepened its engagement in the financial inclusion, agriculture and healthcare sectors, as well as in thematic areas like enterprise development and livelihood generation through our consulting and research support. In response to positive feedback from clients and sector stakeholders in the region, Intellectap proposes to strengthen sectoral depth by hiring sector specialists locally and also working with the sector teams in India.

In addition, clients and partners increasingly seek to tap Intellectap's ecosystem building capabilities, resulting in an additional service offering of 'creating ecosystems' for others who aim to create systemic change through collaborative action. Examples of this work include the creation of a 'Innovation and Startup Corridor' between Kenya, the Netherlands, and India, which creates ecosystem collaboration between these three geographies and crowds in different partners to help enterprises scale across these three markets.

Technical Assistance Facility

Our efforts to build an enterprise program have received some support, as interested partners have engaged with us to share our experience and knowledge in supporting enterprises. We have provided technical assistance to enterprises sourced by other organizations. For instance, we have provided technical assistance to 10 agri-enterprises of USAID's East Africa Trade and Investment Hub program, using a combination of virtual support through StartupWave as well as in-person support provided by the team. These engagements have not only validated the need for a

technical assistance facility within the East African ecosystem, but also helped our team to gain more insights into different sub-segments within the early stage enterprise universe. Intelcap supported 119 enterprises through different models (details in table below).

Funder	Content	No of Enterprises	Country
MERCK	- Investment Readiness Bootcamp	3	Kenya
GSMA	- Investment Readiness Bootcamp	19	Global
Canopus Foundation	- Investment Readiness Bootcamp - Investor Linkage and Showcasing	6	West Africa
Land O' Lakes	- Investment Readiness Bootcamp - Business Model Refinement - Financial Model validation and refinement - Investor Linkage and Showcasing	5	Kenya
GAIA/ AWARD	- Enterprise Challenge - Investment Readiness Bootcamp - Investor linkage and showcasing	75	Sub-Saharan Africa
Siemens Foundation	- Business Model Refinement - Financial Model validation and refinement - Investor Linkage and Showcasing	3	Global
SNV	- Business Model Refinement - Financial Model validation and refinement - Investor Linkage and Showcasing	8	Kenya

StartupWave

While 2016 was devoted to platform development, content curation, and partnerships, 2017 was dedicated to on-boarding users, expanding our partner networks, managing content on the platform, and building the StartupWave brand in the local market.

By the end of 2017, StartupWave had 400 enterprises registered in Africa; 85 of them completed their Business Model Canvases (BMCs). BMC encourages entrepreneurs to describe their business model, covering all elements from the core value proposition to customer segments, key resources, cost structure, revenue streams, partners, channels, relationships in one coherent framework. Many early stage entrepreneurs struggle to formulate their idea and the BMC format provides them with a structured method of enumerating the same.

Through StartupWave, we have successfully been able to reach many entrepreneurs who are not the 'usual suspects' in the entrepreneurship ecosystem. For example, one of our most promising entrepreneurs is a full time midwife at the largest maternity hospital in East Africa. He has developed hardware technology to make labor and delivery safer for mothers and infants. Another one of our more promising enterprises is a group of students from a local university who are building a travel booking platform that uses a smart algorithm to offer package options based on the user's interests and budget.

StartupWave has been able to reach such entrepreneurs through our outreach and network capabilities. We have identified and collaborated with strategic partners such as local universities, many with multiple campuses located outside capital cities.

5. Capital

Our chairman, Vineet Rai, recently announced that Aavishkaar intends to launch an Africa focused equity fund. Fund raising efforts for the same have been initiated with a targeted fund size of USD 150 million. Aavishkaar will also be building a local team to source deals, close deals and manage its portfolio.

Our knowledge services, provided by Intelcap's consulting team, played a catalytic role in this process. We conducted a market scan of the East African market, to assess the potential for funds like Aavishkaar to be set up in Africa. Some of the key highlights of the study were:

- Kenya and Uganda have the most mature support ecosystem for new enterprises in East Africa and thus are attracting most investor interest
- While the number of entrepreneurs dedicated to solve difficult problems at the “Base of the Pyramid” is increasing in the region, stakeholder conversations reveal that most start-ups do not survive the first year of business because of lack of access to capital
- In East Africa, majority of investors are currently investing in growth and mature stage businesses. There is significantly less activity in early stage funding (between USD 1 to 5 million).
- Having a local office assists in better and faster deployment of capital in the region.

Some of the key challenges expressed by other investors were as follows:

- Investible pipeline is a challenge - investors have encountered few companies that are truly investment ready
- Talent is a key constraint for investors as well as businesses. They struggle to find the talent and reliable manpower needed to plan for and achieve scale.
- With shallow financial markets, exits remain an issue for equity and quasi equity investors. Most of the current exits in the region were through secondary buyout or trade sales.
- Generating meaningful currency adjusted returns is also a big challenge, and hence, many investors prefer investments that have a natural hedge in terms of export revenue.

6. Overall challenges

In the reporting period, the following issues remained a challenge for Intelcap across our various product and service offerings:

- **Local institutional talent & leadership:** Even though Intelcap was able to build a local execution team across verticals, finding senior talent that is aligned with the organization's vision has remained a challenge. Towards the end of the reporting period, we were able to identify and recruit a Director for Intelcap's consulting team locally, hence filling a critical position.
- **Decision-makers operating outside East Africa:** Even though Intelcap has been able to tap into locally available capital and opportunities, most key decision makers for investors, corporates, foundations and donors are based outside the region. Hence it is critical to have a business development presence in Europe and the US, strengthening relationships with partners and funders. We have recruited a small team in the US and will continue to build the same as needed.
- **Organizational sustainability:** While Intelcap has been able to increase its revenue significantly during the review period, human resource and infrastructure costs delay the progress to full sustainability. In order to address this challenge and keep costs low, we continue to support project execution with expertise from our India team.
- **Sustainability of technical assistance programs:** During our engagement with a wide variety of ecosystem players (entrepreneurs, incubators, accelerators, and program managers) we have received requests to run programs to build entrepreneurs capacity in specific areas as outlined in the section on “Technical Assistance Facility”. Since entrepreneurs' ability to pay for such programs is limited, there is a need to seed an initiative that could support focused technical assistance programs to high potential entrepreneurs who are in a position to raise capital.
- **Need to catalyze pools of capital:** To bridge funding gaps at various stages of enterprise growth, there is a need to deepen alternate pools of capital (debt, grant, blended finance) so



that reliance on equity reduces. This will also enable technical assistance providers to facilitate access to alternate sources of financing while supporting entrepreneurs.