



# CATALYST FOR CHANGE

CREATING AN ECO-SYSTEM  
FOR YOUNG ENTREPRENEURS  
IN EAST AFRICA

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## About Intellecaps

Intellecaps is a pioneer in providing innovative business solutions that help build and scale profitable and sustainable enterprises dedicated to social and environmental change. The company's unique positioning at the intersection of social and commercial business sectors allows it to attract and nurture intellectual capital that combines the business training of the commercial world with the passion and commitment of the social world to shape distinctive solutions. Intellecaps was founded in 2002 and has more than 100 employees. Intellecaps has worked with more than 60 clients on over 250 engagements across 15 countries.

For more information, please visit [www.intellecap.com](http://www.intellecap.com)

## About Intellecaps Business Consulting and Research Practice

Intellecaps's Business Consulting and Research Practice area offers strategic advisory services to international development organizations, businesses, and governments that seek to engage with BoP markets. These include market-based strategy solutions, high-quality and comprehensive research, and thought leadership that can be used to facilitate and direct business, investment, and market decisions to create a positive impact for people at the BoP. We combine our business acumen with a deep understanding of development issues to help clients around the world.

- Our expertise in solving strategic challenges across industries and markets enables us to bring a rigorous analytical approach to addressing development issues.
- Our research, independent and commissioned, drives thought leadership and is designed to promote actionable solutions to Bottom of the Pyramid challenges in Intellecaps's Focus Sectors and to function at the enterprise, sector and policy levels.
- Our understanding of the rural and low-income consumers drives our ability to address many of the complex challenges when working in low income markets.
- Our ability to drive multi-stakeholder partnerships that involve Corporations, Social Enterprises, Multilateral Agencies and Development Finance Institutions, and Donors enables us to innovate in delivering high impact solutions.

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## From Intellectap

Intellectap has always been fascinated by the energy of entrepreneurship and its role in transforming societies and local economies through product or business model innovations. With India, the “hub for social innovation” as our home base, we are excited about the passion of young entrepreneurs that are working to drive change at the “Base of the Economic Pyramid” by providing access to Waffordable products, services and livelihood opportunities for low income and underserved communities. Motivated to explore the evolution of this landscape and seek answers to difficult questions, we started our first research series on the growth of the microfinance industry in India in 2007. Over the years, we have expanded our research focus to other impact sectors.

We have watched the Indian impact enterprise landscape grow from a small group of individuals endeavoring to make a difference in their communities to a diverse set of entrepreneurs developing for-profit and affordable market solutions across several critical needs sectors. Our interactions with this emerging class of highly motivated entrepreneurs inspired our studies on the impact enterprise landscape in 2012 and 2013.

With the launch of “Sankalp Africa” in 2014 and our work with enterprises and eco-system players in East Africa, we have been witnessing a similar evolution of entrepreneurs and impactful business models. We experienced first-hand the youth energy in East Africa through Sankalp Africa and the Intellectap Impact Investing Network (IIN) where young entrepreneurs showcased their business models that attempt to find solutions to complex local problems across sectors such as education, energy, healthcare, water, agriculture and financial inclusion. This proliferation of youth entrepreneurship encouraged a discussion on the importance of eco-system support for the success of early stage enterprises. Young entrepreneurs, we realized, faced unique challenges, many of which could be addressed through strengthening existing support systems.

This research concept emerged from multiple conversations with stakeholders and young entrepreneurs who called for a more systematic understanding of the challenges they face, their demand for ecosystem support and the white spaces that indicate opportunities to strengthen supply of targeted support. With our roots in the Indian social entrepreneurship eco-system and through our experience of 12 years of working with young ambitious, entrepreneurs we are convinced that youth entrepreneurship can make a significant contribution to Africa’s inclusive growth.

Over the past four months, we have been listening to the stories of enterprises, partners and other stakeholders to understand their perception of the entrepreneurial eco-system in East Africa. As we conclude this phase of our youth entrepreneurship research, we recognize the need to invert another pyramid – that of support systems available to the vast majority of young entrepreneurs eager to raise capital, build capacity and leverage networks that will help turn their ideas into scalable businesses.

We are grateful to the enterprises and eco-system players for sharing their perspectives with us and helping us verify our hypothesis and findings, and hope we can collectively work towards “inverting the support ecosystem pyramid” for East Africa’s young entrepreneurs.

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## Abbreviations and Glossary

ICT	Information and Communication Technology
PPP	Public-Private Partnerships
ILO	International Labour Organization
CEO	Chief Executive Officer
HPI	Honey Products Industries
PPP	Purchasing Power Parity
BOP	Base Of Pyramid
SGB	Small and Growing Businesses
SACCOS	Savings and Credit Cooperative Societies
CIEE	Centre for Innovation, Incubation, and Enterprises
YEDF	Kenya's Youth Enterprise Development Fund
PE	Private Equity
LP	Limited Partners
MSME	Micro, Small and Medium Enterprises
SME	Small and Medium Enterprises
NASE	National Association for Social Enterprises
HNI	High Net worth Individuals
DFI	Development Finance Institutions
GEM	Global Entrepreneurship Monitor

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## 1

## Highlights of the Study

### Encouraged by a growing middle class and deepening domestic markets, youth entrepreneurship is proliferating in Africa.

Africa is the youngest continent in the world with almost 200 million people aged between 15 and 24, and this number is set to double by 2045<sup>1</sup>. With a labor market that does not provide a lot of opportunities for wage employment, Africa's youth is exploring entrepreneurship. The region is also seeing positive economic development. Africa was ranked the world's second-most attractive investment destination in 2013 – a significant leap from the third-from-last position it held in 2011<sup>2</sup>. In 2013, the continent maintained an average growth rate of about 4%, in comparison to the global average of 3%<sup>3</sup>, and was home to six of the world's fastest growing economies up to 2010<sup>4</sup>. The International Monetary Fund has projected an approximate economic growth of 5.2% in 2015-16 and 5.3% in 2017<sup>5</sup>, making Africa one of the fastest growing regions worldwide. Africa's compelling growth story is changing the continent's perception from a grant receiver to an attractive investment destination and a future hub for innovation. These factors have further spurred entrepreneurial activity in Africa, which has the highest rate of youth starting up new businesses, and moving from 'job seeking' to 'job creating'.

### Young entrepreneurs catalyze inclusive growth in their local communities.

Youth entrepreneurs are leveraging new business opportunities by addressing gaps in their local communities. While many young entrepreneurs are starting a business because of a lack of other options, there is a trend of youth choosing entrepreneurship over secured white collar jobs, not only to make profits, but also to

MAINSTREAM  
HIGH GROWTH SECTORS

INCLUSIVE  
BUSINESS MODELS

SELF EMPLOYMENT

HIGH EMPLOYMENT  
SECTORS

address problems. In their local contexts, they act as catalysts for social and economic development by:

- Creating employment for themselves and others.
- Developing solutions in mainstream high growth sectors.
- Creating social impacts through inclusive business models in sectors such as healthcare, energy, water, sanitation, education and agriculture.

### There is an upsurge of asset-light, services enterprises in East Africa (66%)<sup>6</sup>.

A significant number of these enterprises, led by youth entrepreneurs, develop inclusive business models that provide accessible and affordable solutions to low income populations in sectors such as education, water, sanitation, energy, healthcare and energy. Others leverage information technology and mobile

1. Promoting Youth Employment in Africa. African Economic Outlook. 2012

2. Ernst and Young Attractiveness Survey. Ernst and Young. 2014

3. African Economic Outlook. 2014

4. Six of the ten fastest growing economies in Africa between 2001-2010 and their respective GDPs are: Angola – 11.1%, Nigeria – 8.9%, Ethiopia – 8.4%, Chad – 7.9%, Mozambique – 7.9%, Rwanda – 7.6% (Source: The Economist; IMF)

5. Africa's Pulse: Decades of Sustained Growth is Transforming Africa's Economies. World Bank

6. Analysis of Intellect Database of 300 enterprises





penetration in Africa to create technology-for-development solutions across different sectors. Most of these enterprises act as multipliers for employment creation - of every 100 jobs created, 79 have been created by youth entrepreneurs for other youth in the age group of 18 to 34 years. Within 3 to 4 years of the enterprise age, total employment has grown by almost 300% in these enterprises.

**More than 12 million opportunity-driven early stage entrepreneurs in East Africa are capital hungry. Many of them represent the entrepreneurial youth of Africa, who eschew wage-paying jobs for self-employment<sup>7</sup>.**

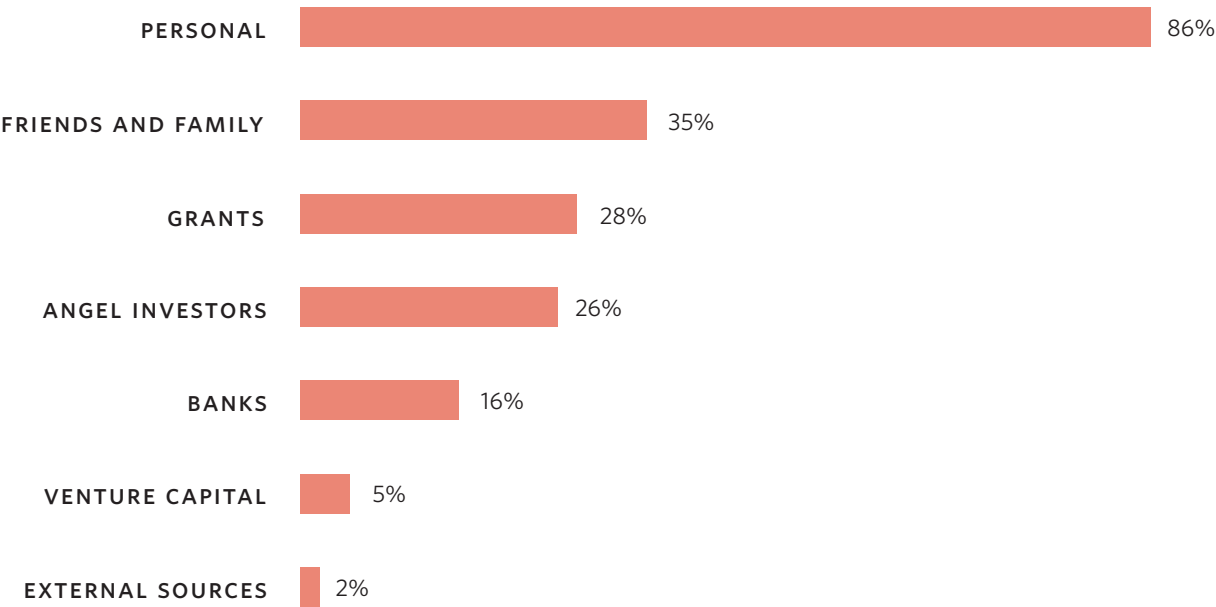
However, not even 20% of these youth entrepreneurs are able to access equity or debt capital. Left with no other option, 86% use personal funds or borrow from family and friends to set up an enterprise. Across all stages, youth entrepreneurs find it difficult to access capital, and hence face a higher risk of failure because they are unable to survive by bootstrapping for long. Young and without credit history or experience, they find themselves at the “Bottom of the Enterprise Pyramid”, facing tough challenges in accessing finance, obtaining business skills and finding affordable and high quality advisors to help them grow their business. Young

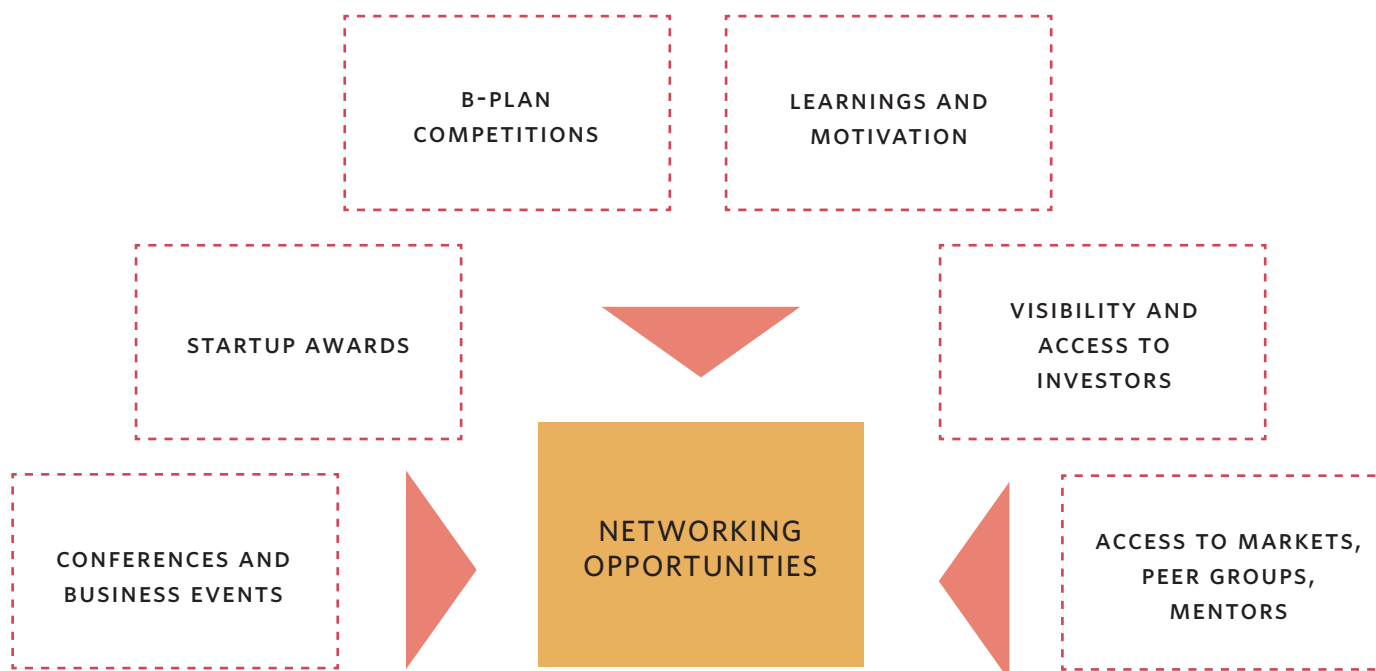
entrepreneurs often get eliminated at the preliminary screening stage itself, because they have difficulties in articulating their business model or do not have the requisite processes and systems to convince investors of the viability of their business model.

**Governments and donor agencies support several business advisory services initiatives. Many of them, however, are targeted at young entrepreneurs with the objective of creating self-employment.**

Youth is encouraged to start enterprises as an alternative to wage-employment. Many of these initiatives hence remain generic in nature. Few initiatives provide targeted support to growth-oriented youth entrepreneurs. However, the needs of both types of entrepreneurs are very different, hence requiring a different approach. As the focus is on employment generation, there is little or no support to encourage profit-focused, opportunity seeking entrepreneurs, who require on-going support in transitioning from idea to scale. While pre-incubators and incubators provide support from the idea to the start-up stage, there are very few service providers to handhold the entrepreneur to scale up. Business advisory services efforts emphasize the number of enterprises supported, but not on the number of enterprises that have become profitable and have scaled up<sup>8</sup>.

Sources of Funds for Youth Entrepreneurs





**Young entrepreneurs value networking opportunities that support access to investors and provide them opportunities to showcase their business.**

While networking, peer-learning and exposure are perceived as important contributors to the success of an enterprise, young entrepreneurs value and actively seek “tangible” outcomes of networking opportunities. Young entrepreneurs specifically highlight their need to engage with more experienced entrepreneurs and investors. Around 70% of entrepreneurs we surveyed have cited the need for access to business plan competitions and start up awards to enhance their visibility.

**Governments, donors and other support organizations can play an enabling role to catalyze youth entrepreneurship by**

**strengthening and investing in service providers that can offer long-term and targeted support to young entrepreneurs.**

Most programs and initiatives currently involve direct implementation by either governments or donor agencies that directly connect with the entrepreneurs. Our research indicates that there is a need for governments, donors and other support organizations to promote youth entrepreneurship through strengthening and investing in service providers that can offer long-term and targeted support to young entrepreneurs. There are a number of service providers with innovative business models who invest in young entrepreneurs, support them with necessary business skills and hand-holding, and create networking opportunities to provide them visibility. Knowledge exchange and collaboration between eco-systems from different geographies can facilitate lesson learning on how to best deliver support and strengthen the growth of a young, ambitious generation of entrepreneurs.

7. Global Entrepreneurship Monitor Report. Babson College et al. 2013

8. Intellect Primary Research. Intellect. 2014

## 2

## African Capitalism 2.0: Youth Entrepreneurship for Inclusive Growth

Africa's economic and social transformation in recent years is driven by its US\$429 billion<sup>9</sup> domestic market and a growing private sector<sup>10</sup>. Increased political and macro-economic stability, improved governance, accelerated economic reforms, and a growing middle class has moved Africa from the bottom quartile in 2011 to becoming the world's second-most attractive investment

destination in 2014<sup>11</sup>. Countries like Kenya, Rwanda and Ghana are attracting global attention as innovation hubs focused on developing solutions of local and global relevance<sup>12</sup>. These positive developments have also begun to slowly trickle down to the "Base of the Economic Pyramid", although 50% of the population still lives in poverty<sup>13</sup>.

Table 1: Africa Growth Outlook

ECONOMIC PERFORMANCE	SOCIAL PERFORMANCE	GOVERNANCE PERFORMANCE
<ul style="list-style-type: none"> <li>Expected GDP Growth 2014: 5%</li> <li>Expected GDP Growth 2015: 5 -6%</li> </ul>	<ul style="list-style-type: none"> <li>The Human Development Index: 1.5% annual growth rate, but scores in health, education and income are low</li> <li>Millennium Development Goals Progress: maternal and child mortality declined by 47% and 44 % respectively</li> <li>Substantial progress in completing primary education: 50% in 1990, 70% in 2014</li> </ul>	<ul style="list-style-type: none"> <li>Improved macro-economic management</li> <li>Decreased inflation since 2011</li> <li>Improved public financial management</li> </ul>
<ul style="list-style-type: none"> <li>External financial flows in 2014: US\$200 bn</li> <li>Foreign direct investment in 2014: US\$80 bn</li> <li>Remittances: US\$67.1 bn in 2014</li> <li>Manufacturing and Services: 750 new green field projects</li> </ul>	<ul style="list-style-type: none"> <li>High poverty rate: 50% of the population</li> <li>Global Hidden Hunger Index: 20 most affected countries are in Sub-Saharan Africa</li> </ul>	<ul style="list-style-type: none"> <li>Doing Business Index, World Bank: 31 of 47 economies in Africa implemented at least one regulatory reform, making it easier to do business between 2012 and 2013- 66 reforms in total</li> <li>Increased public sector investments</li> </ul>
<ul style="list-style-type: none"> <li>Sizeable middle class (annual income &gt; US\$3,900): 350 mn</li> <li>Consumer Spending Projections 2020: US\$1.4 tn</li> </ul>	<ul style="list-style-type: none"> <li>Income inequality remains high at Gini coefficients of 0.45</li> </ul>	<ul style="list-style-type: none"> <li>Increased political stability in the region</li> </ul>

SOURCE: AFRICA ECONOMIC OUTLOOK 2014; WORLD BANK DOING BUSINESS



Africa's growth is increasingly defined by Africans themselves. A growing private sector comprising local and foreign enterprises is not only building businesses and creating economic opportunities, but also contributing to the creation of social wealth by providing jobs or addressing underserved market needs. While there are large corporate players, it is the growing number of small businesses with scalable business models that is driving Africa's transformation. Several of these are high-growth enterprises and key drivers of youth employment: 15.7% of these high growth enterprises in East Africa create up to 59% of jobs<sup>14</sup>.

However, in recent years, a new generation of young entrepreneurs, who are attracted to entrepreneurship by opportunities for profit through enterprise, has emerged. These entrepreneurs explore opportunities arising from a growing middle class and rapidly urbanizing population, modernization of the agricultural sector, technological innovations related to the ICT industry, increased regional trade of goods and services, as well as partnerships with the public sector through public-private partnerships (PPPs).

9. All Dollar Figures in this report are US\$-figures

10. Global Consumption Database. World Bank. Accessed in Dec 2014

11. Ernst and Young Attractiveness Survey. Ernst and Young. 2014

12. Global Innovation Index. Cornell University, INSEAD and the World Intellectual Property Organization (WIPO). 2014

13. The Middle of the Pyramid. AfDB. 2011

14. Intelcap Analysis based on Global Entrepreneurship Monitor 2013



## Spotlight on East Africa: A Hot-Bed for Innovation and Youth Entrepreneurship

Often called the “Silicon Savannah”, East Africa is one of Africa’s most dynamic regions for innovation. Around 65% of the population is below 24 years, representing a demographic group that can leverage economic opportunity.

Countries in East Africa, however, are currently characterized by high unemployment. According to ILO estimates for 2013, the unemployment rate for Ethiopia was 5.7%, while 9.2% of Kenyans were employed. Youth unemployment is substantially higher and more prevalent in urban areas, and particularly so among those with a higher education – for instance, youth unemployment in Kenya was significantly higher at 17.1%<sup>15</sup>.

In order to address this issue, governments, donors and other support organizations have prioritized youth entrepreneurship promotion<sup>16</sup>. While a large number of initiatives aim to encourage youth to start a business as a form of self-employment to escape poverty, there is an emerging consensus that youth can be an important driver of employment creation, growth and innovation. Experts acknowledge that there is a need to instil an entrepreneur-

*“There is a lot of optimism, and hope for growth. A lot of young entrepreneurs are taking charge and solving the problems of our own communities. It’s now time for us the youth to rise and shine and take charge of our destinies. Young entrepreneurs are very confident today of making a difference.”*

**Herve Kubwimana,**  
Country Director, African Innovation Prize

ial mind-set among youth to turn necessity driven entrepreneurs into opportunity seekers<sup>17</sup>. Programs like the Kenyan Youth Entrepreneurship Development Fund and the Rwandan Innovation Endowment Fund provide seed funding and business skills training to East African youth. Initiatives like Ashoka’s Change Maker Schools or Innovate Kenya encourage children and youth to develop problem-solving and entrepreneurial skills to create the next generation of opportunity-driven entrepreneurs. Business plan competitions like Anzisha Prize encourage young entrepreneurs to develop solutions for social challenges.

PHOTO BY: EA FRUITS



**Table 2: Employment in East Africa (by work status)**

	ETHIOPIA	KENYA	RWANDA	TANZANIA	UGANDA
<b>WAGE EMPLOYMENT</b>	6.0	29.1	23.9	8.0	8.7
<b>SELF EMPLOYMENT</b>	4.7	7.4	9.1	17.1	13.8
<b>FARMING</b>	82.3	63.5	67.0	79.4	67.5

SOURCE: WORLD BANK DEVELOPMENT REPORT, 2013

Other initiatives by donors and support organizations include the Youth Entrepreneurship Facility and the Youth to Youth Fund by ILO, Youth Entrepreneurship Networks and the African Commission. Initiatives like Microsoft's Youth 4Africa Project include participation by the corporate sector to mentor Africa's youth. In 2014, Safaricom announced the launch of a KSh250 million microloan facility for youth entrepreneurs.

## Youth Entrepreneurs in East Africa

There are good reasons to be excited about promoting youth entrepreneurs in East Africa. Examples of some globally recognized youth entrepreneurs include Patrick Ngowi, Founder of Helvetic Group, a pioneer in the supply, installation and maintenance of solar systems in Tanzania and Paul Barclay, CEO of Impact Africa Industries, a company that produces low cost sanitary pads in Kenya and South Sudan<sup>18</sup>.

These young entrepreneurs seek to mitigate key challenges in the region such as address the unemployment problem, make Africa's growth gender inclusive by supporting rural women micro-entrepreneurs and introduce product and service innovations in a market that is ready to adopt and adapt for a better quality of life.

## African Union Agenda 2063:

*"Young African men and women will be the path breakers of the African knowledge society and will contribute significantly to innovation and entrepreneurship. The creativity, energy and innovation of African youth will be the driving force behind the continent's political, social, cultural and economic transformation."*

To commemorate its 50th anniversary, the African Union Commission has created a Vision for 2063 "The Africa We Want", defining its priorities for the future. Innovation and Youth Entrepreneurship emerge as key themes for the African Union's long-term agenda. The Vision sees Africa's youth as path breakers of the African knowledge society and drivers for innovation and entrepreneurship. It calls for action to invest in their health, education and access to technology, opportunities and capital, and to develop concerted strategies to combat youth unemployment and underemployment.

SOURCE: VISION 2063'S WEBSITE

15. Accelerating the AfDB's Response to the Youth Unemployment Crisis in Africa. AfDB. November 2013

16. Youth Employment Interventions in Africa. International Labour Organization (ILO). 2012

17. See for example: Is Youth Entrepreneurship a Necessity or an Opportunity? A First Exploration of Household and New Enterprise Surveys in Latin America. Technical Papers, Llisterra, J.J., Kantis, H., Angelelli P.; Tejerina, L. Inter-American Development Bank. 2012.

18. 30 Most promising youth entrepreneurs in Africa. Forbes. Accessed in December 2014

## Creating Jobs and Skills: Fighting Africa's Unemployment Challenge

Small enterprises, particularly those with innovative business models and helmed by young entrepreneurs, are emerging to mitigate Africa's significant youth unemployment. In Malawi, Frederick Matress set up Honey Products Industries (HPI) when he observed that poor collection techniques in the honey industry caused product wastage and destruction of bee-hives, and that there was increasing unemployment in young Malawians aged 15-29 years old.

*"Spotting an opportunity and building a business idea is what created Honey Products Industries. The enterprise started as a simple idea to buy honey from farmers, package and sell it across local communities. Today, we see the company as a potential supplier to address the increasing honey consumption in Africa."*

**Fredrick Matress,**  
Founder, Honey Products Industries

HPI provides an alternative livelihood opportunity for smallholder farmers who often cope with challenges of food insecurity caused due to low agricultural yields, and helps reduce degradation and exploitation of local forests. It optimizes the value chain to procure and process high quality organic honey. The honey is



PHOTO BY: HONEY PRODUCTS INDUSTRIES

## Defining Youth Entrepreneurship

This report focuses on opportunity-driven youth entrepreneurs between 18 – 35 years. The age range is in line with the definition of youth by the International Labour Organization. By focusing on opportunity driven entrepreneurship, we limit ourselves to entrepreneurs, who are driven by opportunity as opposed to seeking an alternative to unemployment, and hence, motivated by necessity. These transformational young entrepreneurs have introduced a new product, service or business model innovation to address challenges in their communities.

sourced from independent smallholder beekeepers, packaged and processed in factory hubs and then distributed across the country. It trains youth to own and operate franchised business outlets to achieve scale. Since inception, HPI has provided entrepreneurship and business management skills to 250 unemployed adults, set up three organized business hubs and improved access to profitable markets for over 2500 smallholder beekeepers.



PHOTO BY: HONEY PRODUCTS INDUSTRIES



**Figure 1:**  
**Opportunities in Employment Creation and Skilling**



## Developing Innovations with High Social Impact - Providing Solutions at the Base of the Pyramid

Despite high growth rates, 34 of the 54 least developed countries are in Africa<sup>19</sup>. Even though poverty rates have been declining, development is uneven and large sections of the population still lack access to quality basic services such as healthcare, education, water, energy and sanitation. According to World Bank estimates, 47.5% of Africans have less than US\$1.25 (PPP) per day, and about 239 million people in Sub-Saharan Africa are malnourished and do not have stable and secure access to food. Two thirds of Africa's population has no

access to energy, around 300 million people do not have access to a source of drinking water and 47% has low or no access to basic health care services. As a result, 115 Africans die every hour from diseases linked to poor sanitation, poor hygiene and water contamination<sup>20</sup>.

An increasing number of young innovative entrepreneurs are identifying business opportunities in these challenges and developing solutions to bring affordable basic services to underserved communities. Impact Africa Industries, for instance, addresses menstrual hygiene issues that keep young girls from school.

*"We produce sanitary pads at a manufacturing location in Kitale, western Kenya, where most of the employees are women, the idea is to promote women employment in the rural community and include them in our growth story. Another key aspect of the company is to mentor young girls to see a better world beyond their circumstances and aspire to achieve more, till date we have impacted lives of over 1,25,000 young girls in East Africa."*

**Barclay Okari,**  
Co-founder, Impact Africa Industries

Across Sub Saharan Africa, around 30% of the girls miss school during their menstrual cycles, and 10% drop out due to the accumulation of lost school days. Menstrual education and hygiene awareness is poor, which contributes to the low market penetration for sanitary napkin players in East Africa. Launched in 2010, Impact Africa Industries manufactures affordable sanitary pads and distributes them across East Africa under the brand 'Safi' and 'Malaika.' The company is connected with 720 schools and promotes employment among women in the rural community. Of the current staff of 34 employees, 22 are women.



PHOTO BY: IMPACT AFRICA

**Figure 2:**  
**White Spaces and Opportunities in Impact Sectors**



19. Kenya: 147, Rwanda: 151, Tanzania: 159, Uganda: 164, Ethiopia: 173: Human Development Report. UNDP. 2014

20. UN Water. International Decade for Action. UN Department of Economic and Social Affairs. Accessed in December 2014

## Developing Product and Service Innovations - Improving Access and Affordability



Africa's mobile boom has stimulated an innovation economy, and encouraged innovations such as M-Pesa. The continent's mobile-subscription count will reach one billion during 2015, 1.2 billion by end of 2018<sup>21</sup>. The improved international connectivity, rollout of mobile broadband networks and availability of low-cost smart phones will increase the use of data services and drive technology, and business innovation. Africa is already the world leader in mobile money, and nascent opportunities are to be found in online trading platforms, information services and software that have the potential to transform sectors like agriculture, healthcare and education.

Launched in 2012, Ensibuuko is an ICT company that connects

farmers to finance opportunities as well as to the market. Their flagship product MOBIS, is a banking software for Savings and Credit Cooperative Societies (SACCOs) that integrates the use of mobile money, bank accounts, SMS and USSD to the web to offer easy financial management. SACCOs provide much needed financial services to rural farmers, but suffer from poor financial management practices. They rely on either poorly functioning banking software or manual paper-based management systems, which consume significant amounts of time, personnel and paperwork. Ensibuuko's platform provides transparent accessible record keeping and market linkages to farmers through mobile phones. The company intends to extend its services to over 25,000 rural farmers in the next 5 years and is working closely with eco-system players like Kiva.

21. Africa Telecom Outlook. Informa Telecoms and Media. 2014

**Figure 3:**  
**Opportunities in Tech and Product Innovation**



3

# Spotlight: Young Entrepreneurs as Drivers for Change

There is excitement about Africa’s youth being a driver of change and there are many reasons that back this enthusiasm. It is widely recognized today that youth has a higher risk appetite and is more likely to be responsive to new economic opportunities and trends. As a result, youth entrepreneurs often operate in high growth sectors, creating scalable enterprises that contribute to economic growth and job creation. Evidence suggests that young entrepreneurs are more likely to employ other youth and hence create a multiplier effect for addressing the youth unemployment challenge<sup>22</sup>. According to a comparative research conducted by Global Entrepreneurship Monitor on the state of Youth Entrepreneurship globally, Sub-Saharan Africa with 29% has the highest percentage of young people involved in nascent and new businesses. A majority of these

“Different approaches are needed for youth entrepreneurship promotion, depending on the objective. As Banerjee and Duflo have stated in their book -Poor Economics, entrepreneurship does not necessarily lead to poverty alleviation. Not everyone is an entrepreneur. We should focus more on the mid-size businesses, with 50 – 300 employees. They are the ones that create employment and have prospects for success”

Christine Mwangi,  
Strathmore Business School

entrepreneurs identify and seek to tap market opportunities - 23% of youth having introduced a new product or service<sup>23</sup>.

Figure 4: Youth Driving Change in Africa

AFRICA'S YOUTH POTENTIAL		
MORE THAN 50% OF THE POPULATION UNDER 25		
MOTIVATION AND ATTITUDE	START-UP RATE	INNOVATION AND GROWTH
<ul style="list-style-type: none"><li>60% of the youth have the belief that there are good business opportunities and want to start a business</li><li>For 75% of youth starting a business is a good career option</li><li>60% of youth believe they have the capabilities to start a business</li><li>Low levels of fear of failure; for only 25 percent fear of failure prevents them from starting a business</li></ul>	<ul style="list-style-type: none"><li>Sub sahara Africa with 28% highest rate globally of early stage enterprises &lt; 3.5 years</li><li>Most start ups in the retail sector</li><li>Highest percentage of young people involved in nascent and new businesses (29%)</li><li>Two thirds of all young new and nascent business owners are opportunity driven</li></ul>	<ul style="list-style-type: none"><li>23% of early stage youth entrepreneurs have introduced a product, service or business model innovation</li><li>3.9 % of early stage youth entrepreneurs with high growth expectations</li></ul>

SOURCE: GEM 2012



## Youth Entrepreneurs face unique challenges and need a continuum of support

While there are opportunities for youth to contribute to a more inclusive growth in Africa, the region has some way to go before this potential is realized. Young entrepreneurs in East Africa face tougher challenges to start and grow a business than their older and more experienced counterparts. With no credit history, often no collateral and limited experience, young entrepreneurs struggle to convince bankers and investors to back their ventures. As investors tend to consider the entrepreneur and their management team when taking an investment decision in an early stage enterprise, young entrepreneurs often lack the credentials to win their vote of confidence. Given their limited professional experience, they find it difficult to access adequate information and attract talent. Often they are unaware of peer groups and inexperienced in leveraging networks. In the East African context, many first generation entrepreneurs lack role models and mentors to guide them on their entrepreneurial journey, since the older generation is more likely to encourage their children to take up wage-paying, white-collar jobs.

*"Uganda has one of the youngest populations in the world. The rate at which new enterprises are started by youth is high. A start up may take up to 5 years to become sustainable and scale. The years that precede these are quite challenging to navigate. There is a high demand for mentors in Uganda. To succeed, young entrepreneurs need the guidance and support of mentors and a little bit of exposure to what is happening in other parts of the world"*

**Opio David**  
Co-founder Ensibuuko

In the absence of a strong peer group or older role models and mentors in their immediate environment, young entrepreneurs need an eco-system of players who provide a continuum of support from Idea to Scale. Young entrepreneurs need investors who understand early stage businesses, and have the risk appetite and patience to provide them with financial and non-financial support. They also need business advisory support that helps them and their inexperienced teams to better manage their businesses. Accessible networks and communities are needed to help young entrepreneurs share experiences with peers, and learn from other experienced enterprises and mature industry players.



PHOTO BY: ENSIBUKO

22. For evidence on youth-specific business challenges, see An evaluation of business start-up support for young people.Meager, N. et. al. In: National Institute Economic Review.2003
23. Generation Entrepreneur:The State of Global Youth Entrepreneurship.Youth Business International and Global Entrepreneurship Monitor.2012 Global Consumption Database.World Bank.Accessed in Dec 2014

## Focus of this Report: Creating an Eco-System for Youth Entrepreneurs

With Intellectap's footprint in the Indian early stage and social entrepreneurship eco-system, we believe that East Africa's young entrepreneurs can become agents of economic and social change if they are supported by a strong and robust eco-system of capital, business advisory support and networks. Our work over the past 12 years in India and our engagement with more than 6000 early stage enterprises has convinced us that young, ambitious and growth-oriented entrepreneurs with the right kind of capital, business support and the power of networks can transform local contexts.

This research is a first landscaping study, providing an analysis of insights into young entrepreneurs' needs and perceptions of the support eco-system. It examines how the current landscape addresses young entrepreneurs' financial and non-financial needs and identifies potential opportunities for enhancing this support. The findings of this research might serve as an input for the design of new interventions to strengthen youth entrepreneurship. Drawing on lessons and business models from India for providing

*"There was a need for more holistic approaches that combined finance, mentoring and other support services, therefore, ILO designed this innovative entrepreneurship development model. ILO's Youth to Youth Fund (Y2YF) is a competitive grant scheme for established youth-led organizations to propose innovative solutions to employment challenges in their communities. So far we have 139 youth led organizations engages youth themselves. So far we have supported about 9000 youth entrepreneurs in Kenya, Uganda and Tanzania."*

**Ekanath Khatiwada,**  
Youth to Youth Fund, ILO

financial and non-financial support to innovative entrepreneurs, the report encourages collaboration between eco-systems, and hence, is a first step towards an increased dialogue between India and Africa on accelerating entrepreneurship.

### Entrepreneurial Eco-Systems - Creating Pathways from Idea to Scale

Entrepreneurs on their journey from idea to scale require an eco-system that combines capital, business advisory support as well as networking and peer-learning opportunities. An entrepreneur needs eco-system players that provide him with the necessary skills to develop his idea into a business model, groom him to articulate his business model to investors, help him to raise capital and provide him with opportunities to connect with other peers and people who can make his business grow and succeed. He needs capital providers that have the patience and trust to offer the right kind of finance throughout his journey, whether it is seed- and micro finance in the early stages, or angel investors, venture capital, debt financing and other forms of private equity in the later stages of the growing enterprise. A robust ecosystem also supports at a sector level,

removing systemic bottlenecks and market barriers as well as facilitates enabling policies and infrastructural support through efforts that cannot be undertaken by one entrepreneur alone.

An entrepreneurial eco-system is thus more than the sum of its parts - it consists of investors, incubators, accelerators, university and corporate labs, service providers and networks that collaborate with each other to create pathways for entrepreneurs, helping him to graduate from idea to scale. In addition to a landscape of supporting organizations such as industry bodies, sector enablers and specialized organizations, entrepreneurs need a culture of patience, trust and risk appetite that encourages them to think outside the box.



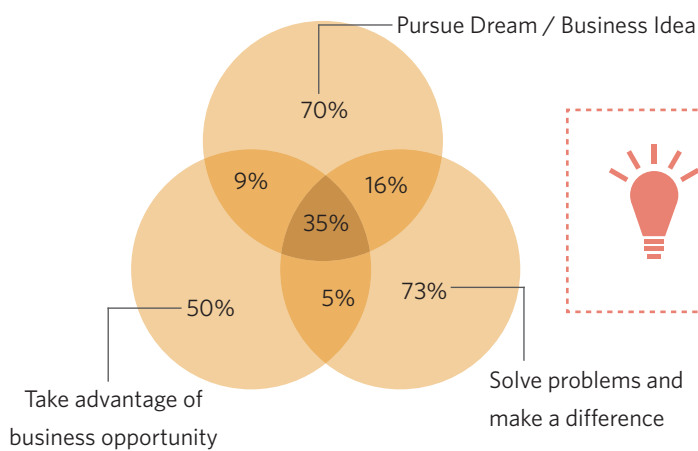


PHOTO BY: JIBU

# Highlights:

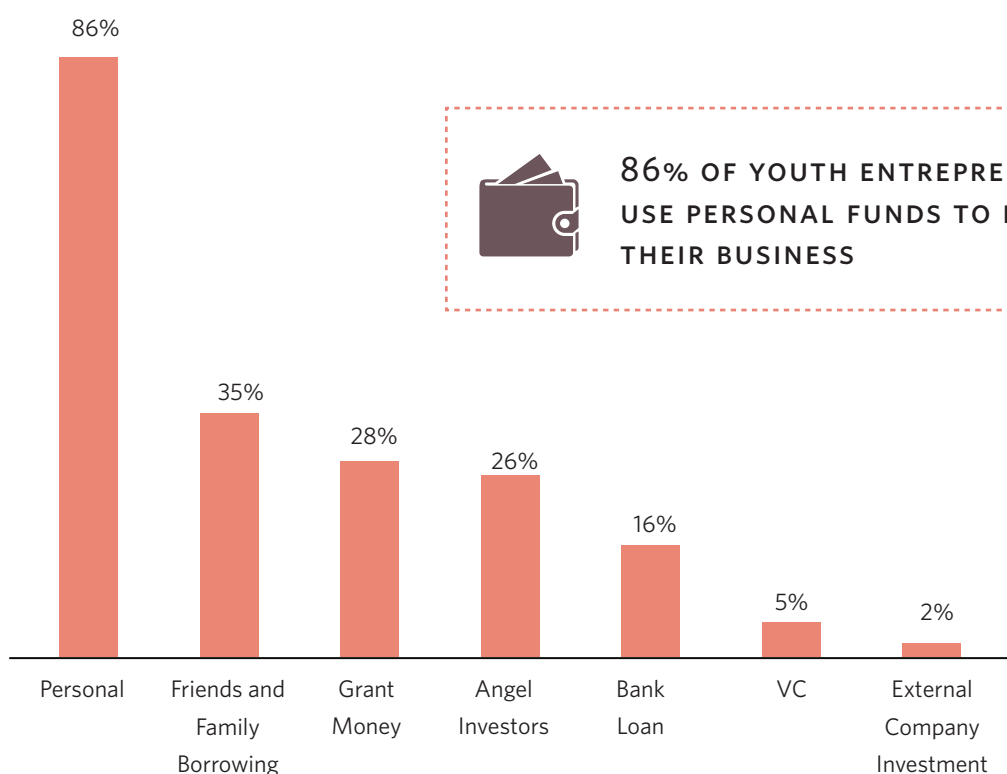
## Youth Entrepreneurship Eco-system

### Key Reasons for Selecting Entrepreneurship



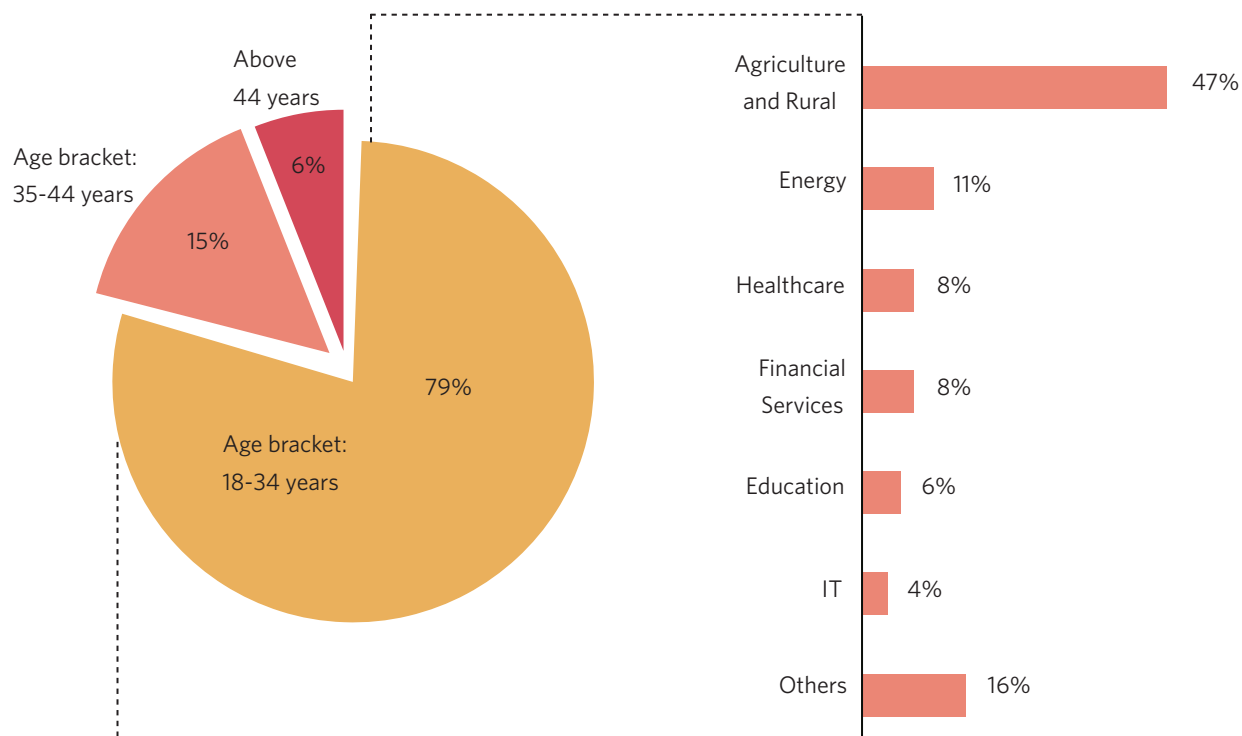
**73 % OF YOUTH ENTREPRENEURS  
WANT TO SOLVE A PROBLEM  
IN THEIR COMMUNITY**

### Sources of Funds



**86% OF YOUTH ENTREPRENEURS  
USE PERSONAL FUNDS TO FINANCE  
THEIR BUSINESS**

## Sector-wise Youth Employment Impact

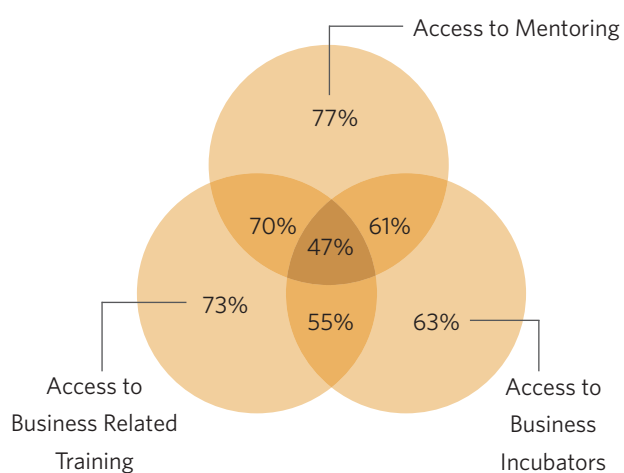


**79% OF JOBS CREATED BY YOUTH ENTREPRENEURS ARE JOBS FOR OTHER YOUTH**



**47% OF JOBS CREATED FOR YOUTH ENTREPRENEURS WERE IN THE AGRICULTURAL SECTOR**

## Access to Mentoring



**77% OF YOUTH ENTREPRENEURS FIND MENTORING SUPPORT AS KEY TO ENTREPRENEURIAL SUCCESS**



**50% OF YOUTH ENTREPRENEURS FIND LACK OF BUSINESS KNOWLEDGE AS A BARRIER THAT PREVENTS THEM FROM SCALING UP**



4

## Key Insights: The Youth Entrepreneurship Eco-System

Ideas at the “Base of the Pyramid” lack support to grow and scale

*“Almost 80% of start-ups die in the first year in Rwanda.”*

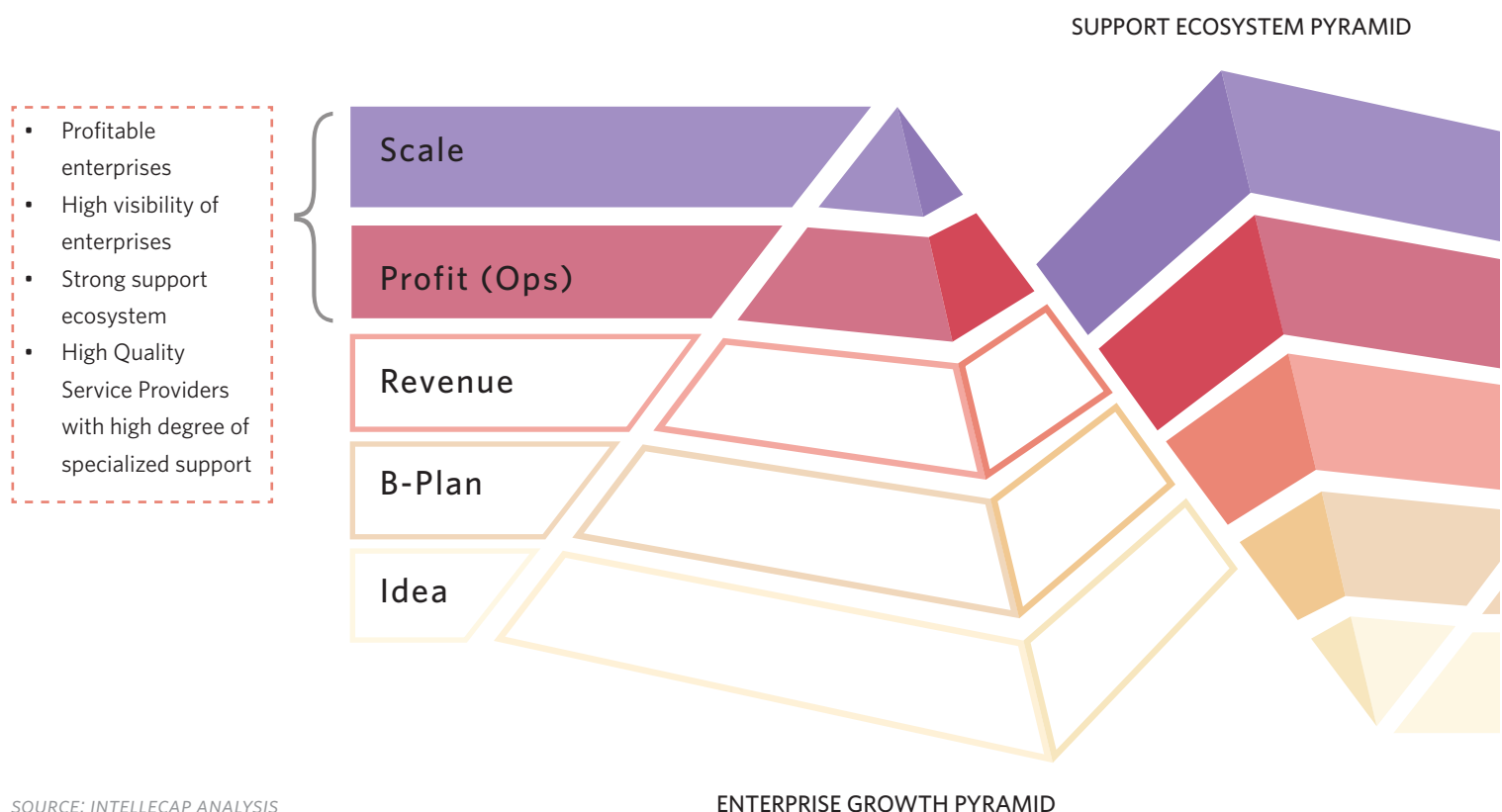
**Nitrampeba Sylvere**  
Ministry of Youth and ICT, Rwanda

Most of East Africa’s young entrepreneurs are at the idea or business plan stage. Their business model is yet to be proven and the enterprise is in a pre-revenue stage. Positioned at the “Bottom of the Enterprise Pyramid”, they require support to grow their business, establish systems and processes and refine their business

models. Without support, few enterprises make it to the next stage; up to 80% of enterprises die in the first year.

Our conversations and analysis indicates that the Enterprise Pyramid is matched by an inverted Support Ecosystem pyramid. Simply put, there is a strong ecosystem to support and encourage the few enterprises that have scaled and are profitable. For the vast majority of young entrepreneurs at bottom of the Enterprise Pyramid that struggle to turn their ideas into viable business models, there is virtually no support environment and very limited access to capital, business advisory services support and networks.

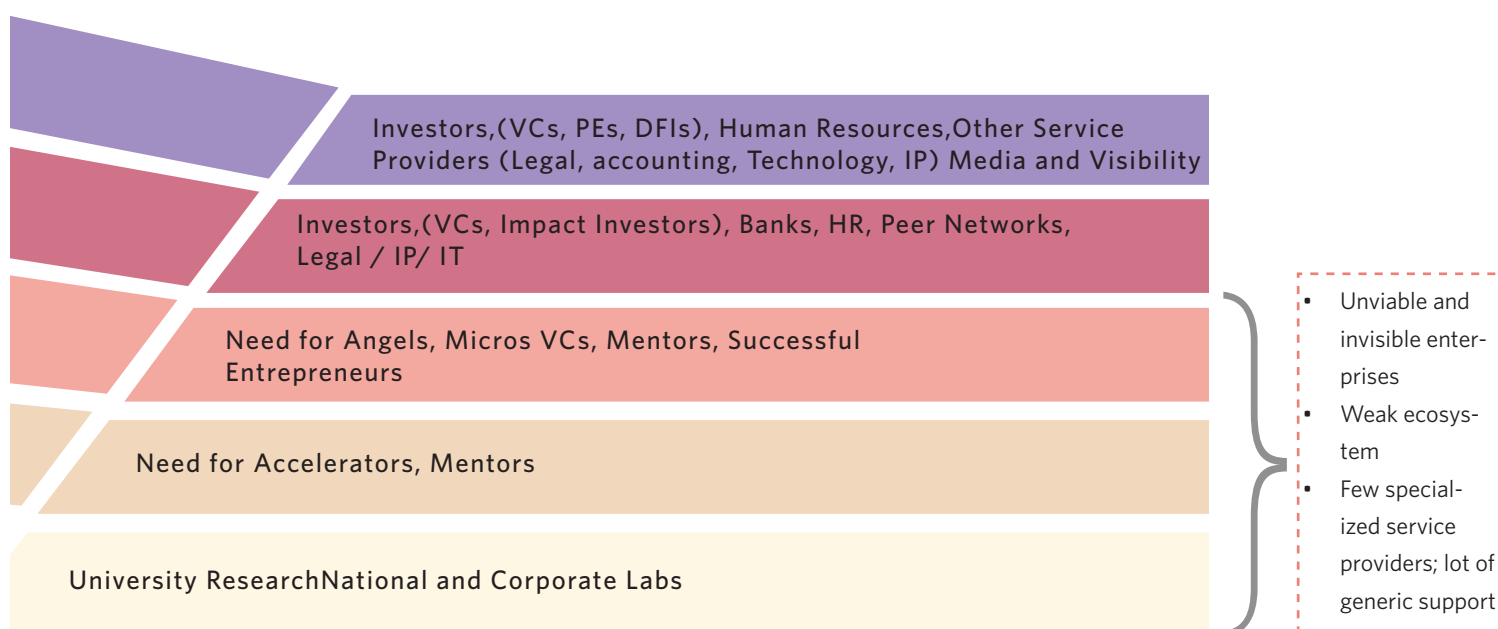
**Figure 5: Inverted Eco-system Pyramid**



Our findings suggest that this mismatch between the demand for support and the services provided could make the difference between success and failure of start-ups in East Africa. The following pages give an overview of the perception of young entrepreneurs on their needs and the support eco-system. It presents perspectives of stakeholders such as incubators, educational institutions, youth organizations, government, investors, youth initiatives and funding agencies. It provides first insights into challenges young entrepreneurs face, and highlights the need for a deeper understanding of young entrepreneurs' support requirements to design effective solutions.



PHOTO BY: KAIGALI FARMS



**ENTREPRENEURIAL ECO-SYSTEMS : CREATING PATHWAYS FROM IDEA TO SCALE****IDEA STAGE:**

The entrepreneur generates an idea and determines the feasibility. He runs pilot tests to refine the core idea, or makes a case for it through existing market research. He is testing waters to see if the idea has potential for impact.

**BUSINESS PLAN STAGE:**

The entrepreneur has a business plan in place. The enterprise takes shape and resources required to run the startup are identified. The business model has been finalized and the revenue stream has been identified and implemented. The idea has turned on its feet and operations have started, although there is considerable scope for improvements and changes before product and service roll out.

**REVENUE STAGE:**

The entrepreneur procures resources (financial, human and capital) needed for the enterprise, and revenues begin to stream in as the customers start paying for the products and services. The product and service is nearly finalized, and the entrepreneur is validating the business plan. The marketing strategy and operations strategy are being refined so as to increase the customer base.

**PROFIT STAGE:**

The entrepreneur utilizes resources to break even, and generate profits. This is the secondary implementation phase. The enterprise seeks to have built a loyal customer base, and may have to face competitors offering similar products or services. As the enterprise makes profits, and its business plan is validated, it can seek investment from stakeholders, venture capitalists, and donors to scale operations.

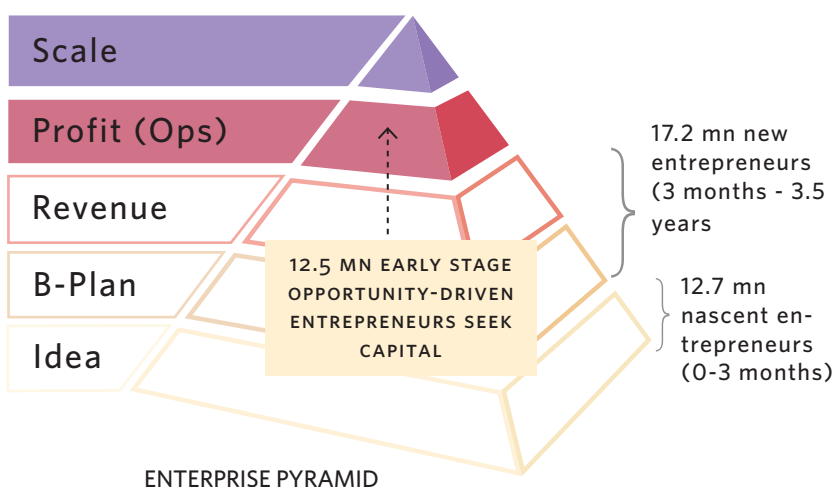
**SCALE STAGE:**

The entrepreneur seeks and leverages opportunities to grow the enterprise beyond its current offerings. The enterprise grows by entering a new geography, refining the current offering, or both. The entrepreneur has to consider the sustainability of the venture and long term strategies for hiring and funding. At this stage the entrepreneur will face challenges such as diverse cultures of customers in new markets, emerging market trends, changing economic policies of countries and more.

# Highlights: Capital

## East Africa Early Stage Financing Gap

### DEMAND DYNAMICS



SOURCE: INTELICAP ANALYSIS, GEM REPORT, 2013 AND  
PRIVATE EQUITY CONFIDENCE SURVEY, DELOITTE, 2013-14

### SUPPLY DYNAMICS

- US\$ 163 mn Private Equity (PE) capital invested in East Africa in 26 enterprises in 2013
  - Biggest Investment: 60 mn
  - 103 mn invested in 25 deals with an average size of US\$ 4 mn
- 12 enterprises received PE funding in Kenya, highest in any country in East Africa
- 30 PE/VC funds listed on EAVCA (East Africa Venture Capital Association)
- East Africa has PE and VC funds listed on EAVCA offering investments in wide range (US\$25,000 - US\$80 mn) of ticket size, however, most investors operate in range of US\$25,000 - US\$10 mn
- Few investors specialize in providing "growth capital" in form of Debt and Quasi Equity in range. Investment offered ranges in US\$100,000-US\$1.5 mn
- Angel Investors are mostly unorganised and provide fund support in range of US\$5000-US\$250,000



12.5 MN EARLY STAGE OPPORTUNITY-DRIVEN ENTREPRENEURS SEEK CAPITAL



ON AN AVERAGE ONLY 2 OUT OF EVERY 10 BUSINESS PLANS GET SELECTED FOR SEED FUNDING



63% OF THE 0-2 YEARS OLD ENTERPRISES AND 59% OF 2-5 YEARS OLD ENTERPRISES FIND ACCESS TO FUNDING HIGHLY CHALLENGING

# 4.1 Capital

## Early Stage Capital - Key Challenge for Young Entrepreneurs

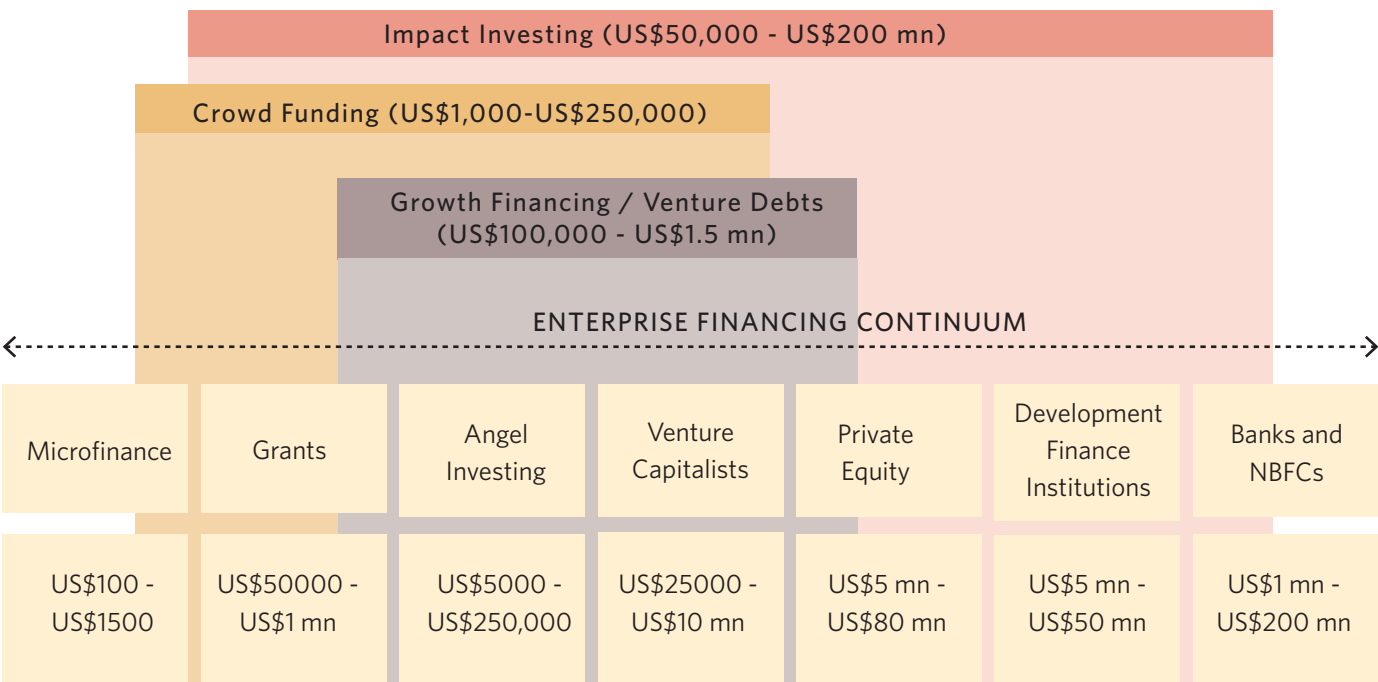
Our survey revealed that the most acute gap in financing early stage growth entrepreneurs falls in range of US\$10,000-US\$500,000<sup>24</sup>. Capital needs in the very early stages of an enterprise include seed funding from personal contacts, angels, and crowd funding. Enterprises that have sustainable models and sufficient track record can also attract impact funding.

East Africa has a growing number of investors and financial service providers that have emerged in response to the entrepreneurial activity. However, our survey highlights that youth entrepreneurs across all stages of enterprises find it difficult to access capital and indicate adequate finance as one of the critical factors for the survival of the enterprise. While initiatives like Kenya's Youth Entrepreneurship Development Fund are specifically targeted at

financing youth entrepreneurs through microfinance, these funds are inadequate to support growth-oriented enterprises<sup>25</sup>. As debt and equity are difficult to access, grants are the preferred option for youth entrepreneurs.

The supply of capital hence is not aligned with the need for finance at various stages of the enterprise life cycle. According to our survey findings, access to appropriate capital is particularly challenging in the early stages, which is why 86% of entrepreneurs use personal money and 35% borrow from friends and family to start their business. For entrepreneurs that do not have this option, lack of funds is a key reason for business closure<sup>26</sup>. Our discussions with stakeholders and entrepreneurs reveal that availability of seed, angel and venture capital is sparse. Lack of experience and

Figure 6: Enterprise Financing Continuum



SOURCE: INTELLECAP ANALYSIS, IMPACT INVESTING IN AFRICA, UNDP, 2014



poor understanding of investors' expectations were found to be prime hurdles in accessing seed and venture funding. Access to debt also remains poor since banks perceive lending to young, first time entrepreneurs to be risky as they are inexperienced, lack a substantive credit history and often do not have sufficient collateral.

### Accessing Seed Capital from Friends and Family

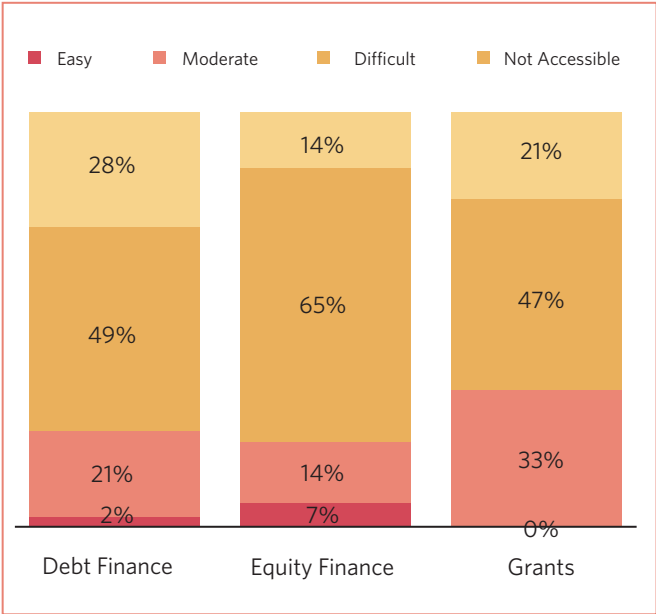
Seed funding at the idea and business plan stages mainly comes from personal resources – family, friends and small grants<sup>27</sup>. There are very few formal seed funds and micro venture

#### Kenya's Youth Enterprise Development Fund (YEDF)

*YEDF aims to empower youth entrepreneurs and increase their economic opportunities. The fund provides loans at competitive rates to youth enterprises. It attracts and facilitates investments in youth driven MSMEs, helps them connect with large enterprises and also facilitates overseas youth employment. The fund operates through a network of financial intermediaries like microfinance institutions, NGOs, and savings and credit cooperative organizations for on-lending to youth enterprises. YEDF has provided KSh 5.9 bn to over 157,000 youth enterprises, trained over 200,000 young entrepreneurs, and supported thousands of youth to take up overseas jobs through the Youth Employment Scheme Abroad program.*

SOURCE: VISION 2063'S WEBSITE

Figure 7: Ease of Receiving Funding

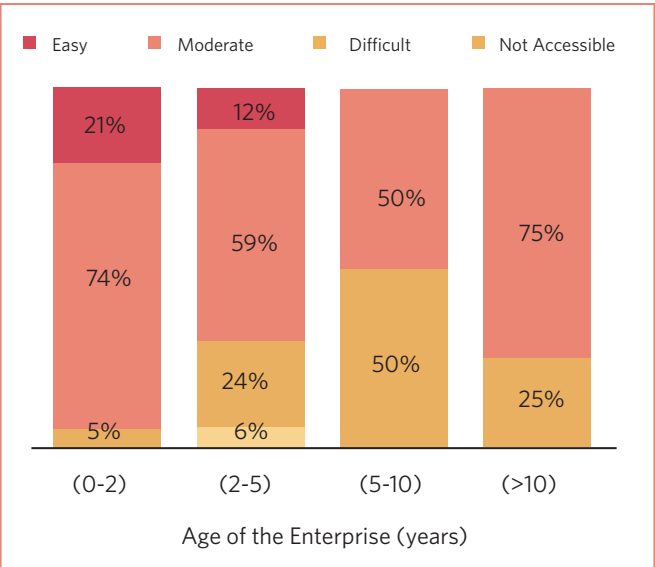


SOURCE: INTELLECAP ANALYSIS

capitalists that step in to support enterprises at this stage. Grant funding is, therefore, the most sought after source of funding among entrepreneurs with businesses in the pilot and start-up stages. However, experts shared that grant funding often leads to inefficient use of capital; and suggested that business advisory support in areas such as financial management should become a prerequisite for grant funding to ensure the desired impact of the idea. Interestingly, grant funding was stated to be more accessible for the enterprises between 5-10 years; suggesting that even grant funders are averse to risk, instead, they too seek to support proven models.

24. Intellect Primary Research. Intellect. 2014  
25. Targeted initiatives like the Kenyan Youth Enterprise Development Fund aim to fulfil the need of early stage financing for young entrepreneurs providing them with micro-finance in East Africa.  
26. Global Entrepreneurship monitor, 2013  
27. Seed Funding is capital required for entrepreneurs in early stages to graduate the business idea into a viable business model

Figure 8: Access to Grant Funding



SOURCE: INTELLECAP ANALYSIS

## Access to Early Stage Equity Finance – Angels and Impact Investors

As young entrepreneurs move from idea and business plan stages to set up operations and generate revenues, they seek funding from angel investors<sup>28</sup>. Youth-specific pitch-sessions like those organized by Child and Youth Finance International provide young entrepreneurs the opportunity to showcase their business models to investors. However, most of our survey participants found it challenging to access equity funding from angel and impact investors. Young entrepreneurs with operations in the financial sector found it slightly easier to get equity funding than those from other sectors such as energy and healthcare. Our interviews with stakeholders revealed that young entrepreneurs are often not adequately prepared to present their business models to investors. Expat entrepreneurs find it easier to overcome this challenge, as they are better prepared to speak the language of the investors.

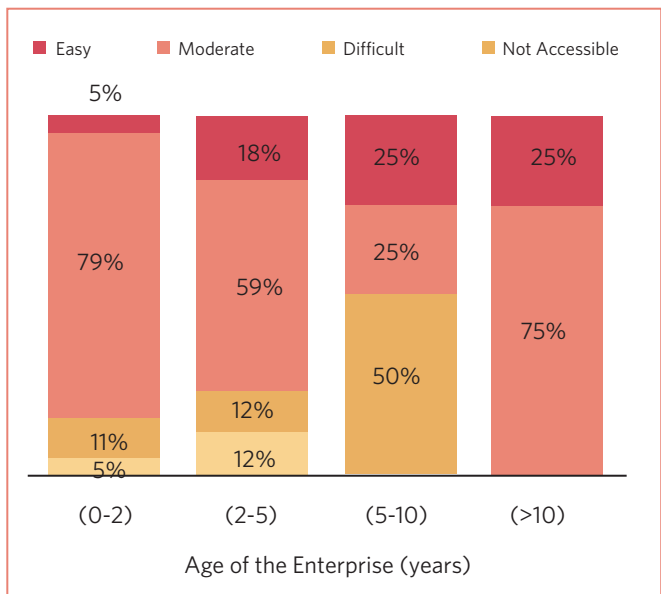
Angel networks are emerging as a solution to this challenge. While angel networks are a recent phenomenon in Africa, there is an increasing interest among the African diaspora and local business professionals, doctors, lawyers, and accountants to contribute as angel investors. NewGenAngels, Angel Africa List are some of the notable angel networks in East Africa. Few of the surveyed entrepreneurs received capital from venture capitalists

“Funding is one of the major issues faced by young entrepreneurs. Currently there are lot of incubators in micro financing segment, \$100 - \$1500, or venture capital segment, above \$100000 but most of the entrepreneurs fall in the middle category and would be requiring \$2000 - \$15000 and there is no one addressing that segment.”

Liesbeth Bakker,  
CEO & Founder, The Hub East Africa

with the risk appetite to invest in high growth potential startup enterprises. According to information from EAVCA, venture capitalists typically invest in ticket sizes ranging US\$25,000 - US\$10mn in East Africa. Fanisi Portfolio, Fusion Capital, and Jacana Partners are some of the notable venture capital funds in East Africa. The East African Venture Capital Association, set up in 2013, has 39 members. VC4Africa, a platform with more than 600 investors, including angel investors, venture capital firms, and social impact funds, facilitates capital flow to early stage enterprises. Most of the angel and venture funds registered on the platform focus on technology, agriculture, health, finance and energy, and mostly in ticket sizes between \$25,000 to \$250,000<sup>29</sup>.

Figure 9: Access to Equity Capital



SOURCE: INTELLECAP ANALYSIS

## Early Stage Capital Providers:

**Savannah Fund** is one of the few funds in the region, which provides seed capital. Operating in Sub Saharan Africa, it specializes in investments in range of \$25000- \$500,000 and focuses on early stage high growth technology startups.

**GroFin** provides a debt, quasi-equity and equity to early stage small and growing enterprises across Africa in combination with business advisory services support and advisory. The range of investment is between US\$50,000-1,500,000. In the whole of East Africa, Grofin makes an average of 25 investments per year.

Similarly, **Business Partners International (BPI)** provides finance, business knowledge and advisory services to small and growing enterprises . In East Africa, BPI operates in Kenya and Rwanda.

Impact investors, while focused on more established businesses, often invest in the earlier stages of an enterprise as well, and thus overlap in terms of investment range with angel investors. In 2013, they made several smaller investments as well. There are 81 dedicated impact funds that invested about \$600 mn in “early stage” enterprises with typical deal sizes ranging from \$50,000 to \$2 mn<sup>30</sup>. Private foundations invested between \$50,000 to 1 mn ticket size through equity, debt and grants in Africa in 2013.

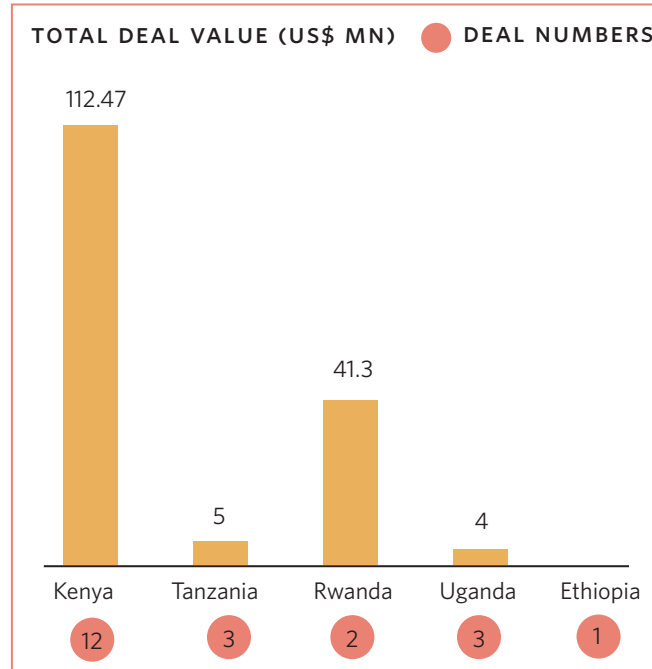
In response to the call for greater outreach, crowdfunding platforms like Jumpstart Africa have emerged as innovative solutions to fill critical financing gaps for young entrepreneurs. These platforms facilitate both, grants and equity investments for early stage enterprises. Homestrings, a crowdfunding platform that is present in 13 African countries raised about \$25 mn primarily from African diaspora in 2 years, illustrating the potential of crowdfunding . In Africa, crowdfunding represents a market opportunity of about \$2.09-2.46 bn.<sup>31</sup>

## Financing Landscape for Profitable, Scalable Enterprises

Impact investing<sup>32</sup> has the potential to address the financing needs of youth entrepreneurs with businesses that have set up operations and started generating revenues, as they tend to have a higher risk appetite. Impact investors provide non-financial support such as business advisory services in addition to capital. This type of investing is gaining maturity as \$ 8 bn was invested in Africa in 2013 by multiple investors through diverse financial instruments such as both debt and equity<sup>33</sup>. Acumen Fund, Root Capital, Village Capital are some of the active impact investing funds focused on Africa.

The amount of private equity (PE) investment in growth stage enterprises is increasing. In 2013, Africa was stated as “most

**Figure 10: Major PE Investments in East Africa**



SOURCE: EAST AFRICA PRIVATE EQUITY CONFIDENCE SURVEY, DELOITTE, 2014

28. Angel investors are high net worth individuals, successful serial entrepreneurs, and professionals who invest in early stage ventures

29. Venture financing in Africa.VC4Africa.2015

30. Impact Investing in Africa.UNDP.2014

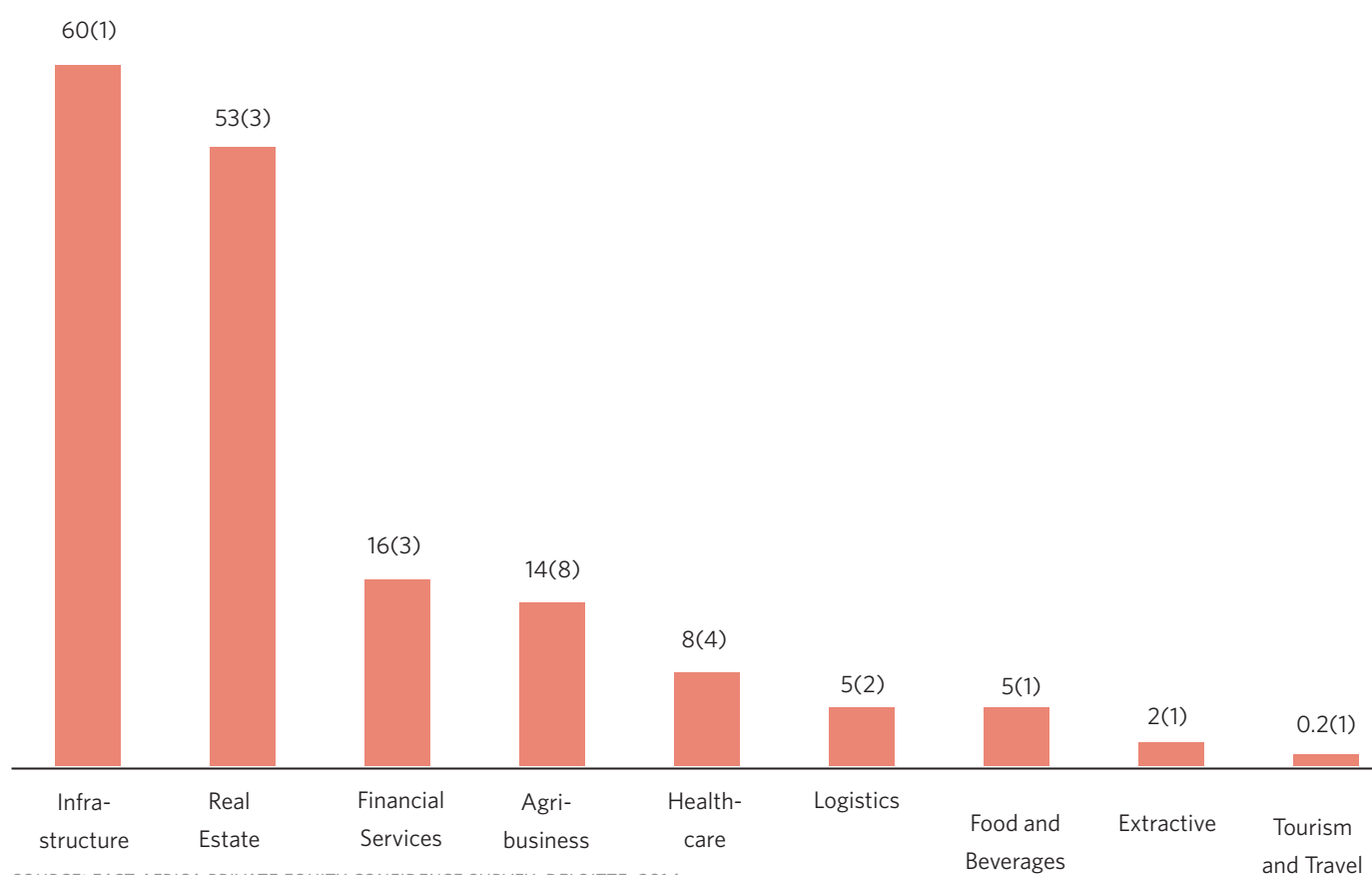
31. Crowdfunding potential for developing World.The World Bank.2013

32. Impact investment include,public and private investors as well as development partners which invest during various stages of life cycle in sectors that create social,economic,and environmental impact

33. Impact Investing in Africa.UNDP.2014

Figure 11: Sector-wise Breakup of PE Investments in East Africa

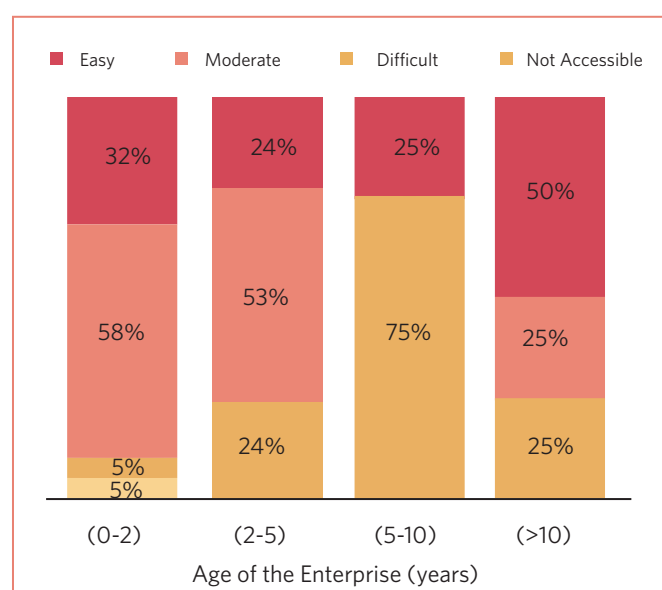
REPORTED VALUE (\$M) AND NO. OF EAST AFRICAN DEALS BY SECTOR



SOURCE: EAST AFRICA PRIVATE EQUITY CONFIDENCE SURVEY, DELOITTE, 2014

attractive emerging market” by limited partners (LPs)<sup>34</sup>. The aggregate value of PE deals doubled to a figure of US\$3.2 bn in 2013 from US \$1.6 bn in 2012, validating the positive sentiment among investors about Africa<sup>35</sup>. However, East Africa is perhaps lagging behind other regions in attracting private equity. It received \$163 mn in PE investments, which is just 8.8% of Pan-Africa PE deals. Kenya remains the top destination attracting 69% of total value and accounting for 46% of the deals in region<sup>36</sup>. PE investors in East Africa are increasingly looking at early stage small and medium enterprises - 65% of all PE deals are in these two categories. PE investors in East Africa focus mainly on the food and beverage, agribusiness, retail, healthcare and pharmaceuticals, and financial services sectors. While some of the investments were between \$ 500,000 and \$ 2 mn, it might not become a trend, given that PE investors look for more proven models that can absorb bigger investments. There is, however, a role for impact PE funds such as Abraaj Africa and Ariya Capital to take the lead in early stage PE investing.

Figure 12: Access to Debt Capital



SOURCE: INTELLECAP ANALYSIS

Finally, early and growth stage enterprises also seek debt funding. According to reports, 60-75% of micro, small and medium enterprises (MSME) are underserved by banks in Sub Saharan Africa<sup>37</sup>. Our survey findings also suggested that access to debt is a challenge across all enterprise stages. Enterprises in the agriculture sector are more successful in accessing debt than enterprises from other sectors. This reflects the inability of the banking sector to cater to the financing needs of early stage enterprises. Besides lack of willingness of banks to lend to young entrepreneurs, high cost of debt and lack of tax incentives act as deterrents for young entrepreneurs.

*"Youth finds it even more difficult to access a loan because of a lack of trust by the bankers. The question is how we can de-risk young people by building their credit history and can the government be a partner in this."*

*Peris Wakesho,*  
Regional Director, Ashoka

## THE INDIAN EARLY STAGE FINANCING CONTINUUM

The Indian early-stage financing space has been evolving and now provides a continuum of investment and advisory services ranging from micro-venture capital, angel investments and venture debt to investment banking services and private equity.

- **ANGEL INVESTING:** 500 angels make investments of around US\$ 22 mn annually, partly facilitated through Angel Networks like the Indian Angel Network and Mumbai Angels. Established in 2011, Intelicap's I3N (India Impact Investment Network) is India's first angel network dedicated to the early stage funding needs of impact enterprises<sup>38</sup>. Ennovent's Impact Circle is another impact-oriented angel network.
- **MICRO VENTURE CAPITAL AND IMPACT INVESTING:** Aavishkaar, set up in 2001, was first micro-venture capital fund focusing on early stage high growth enterprises. In the same year, Acumen Fund started its operations in India as the first foreign, social venture fund. From 2001 to 2014, \$1.6 bn has been invested in 220 scalable impact enterprises. Of this amount, \$435 mn have been invested by impact funds and \$906 mn have been invested by mainstream venture capital and PE investors<sup>39</sup>.
- **VENTURE CAPITAL:** India's venture capitalists make annual investments of around US\$ 240 mn<sup>40</sup>. They have an association that is engaged in policy advocacy, aiming to create favorable policies for the venture capital sector.
- **DEBT:** Access to debt is difficult for early stage enterprises in India. Small Industries Development Bank of India has launched a National Innovation Financing Program that provides venture debt to early stage ventures. In addition, innovative business models of non-banking financial institutions like Intellegrow provide venture debt to small and growing enterprises have emerged in recent years.
- **INVESTMENT BANKING SERVICES FOR EARLY STAGE VENTURES:** Specialized service providers help entrepreneurs raise capital and facilitate transactions for early stage enterprises.

34. Global limited Partners Survey. Emerging Market Private Equity Association.2013

35. African Private Equity and Venture Capital Association (AVCA). Accessed in December 2014.

36. Private Equity Confidence Survey. Deloitte.2014

37. Micro, small and medium sized enterprises in emerging markets.Mckinsey & company.2012

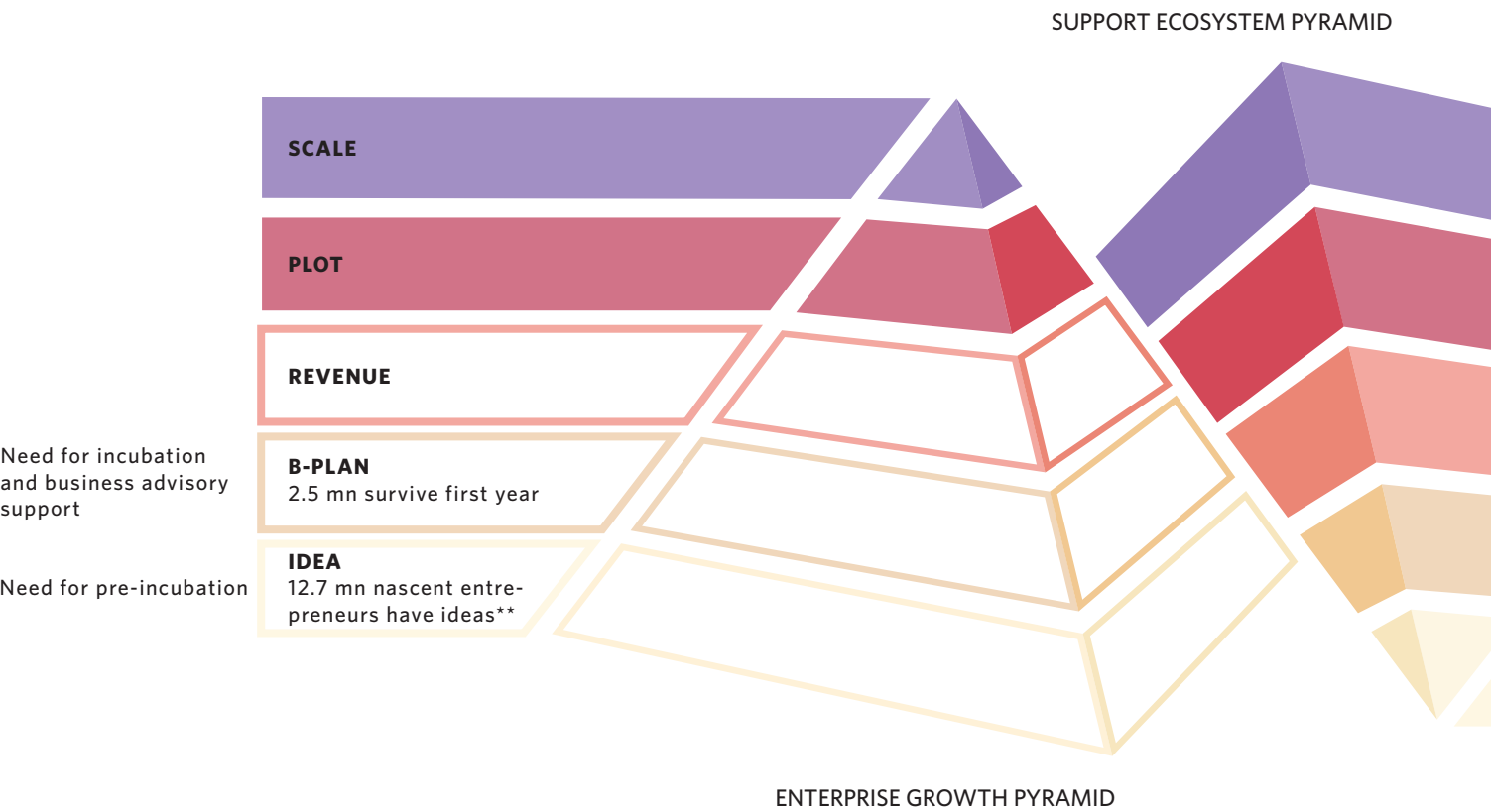
38. Invest. Catalyze. Mainstream. The Indian Impact Investing Story.Intellecap.2014

39. Invest. Catalyze. Mainstream. The Indian Impact Investing Story. Intellecip.2014

40. Planning Commission Report. Government of India.2012

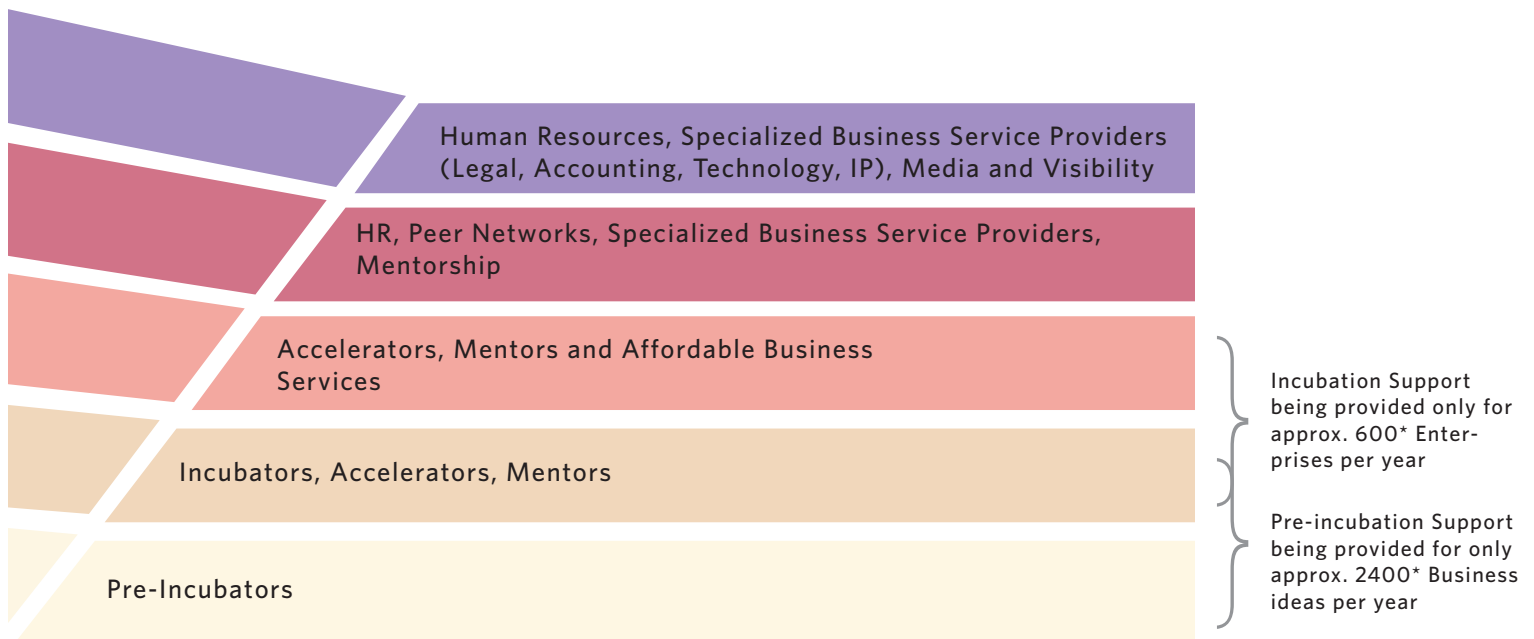
# Highlights: Business Advisory Services

Business Advisory Services Gap  
in East Africa’s Eco-system



\* BASED ON INTELLECAP’S PRIMARY RESEARCH AND ANALYSIS

\*\*BASED ON INTELLECAP’S ANALYSIS USING GLOBAL ENTREPRENEURSHIP MONITOR REPORT 2013



## 4.2

# Business Advisory Services

### Taking Ideas at the Bottom of the Enterprise Pyramid to Scale

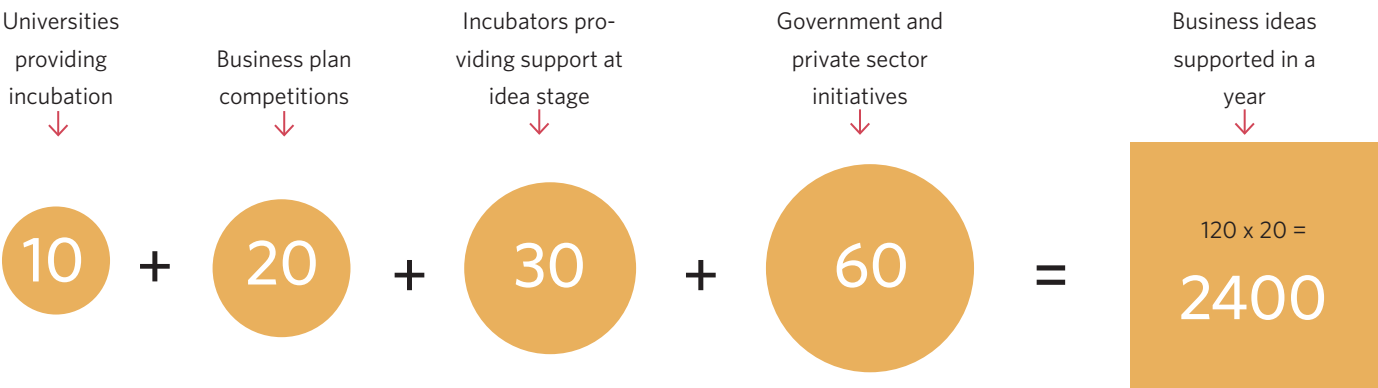
Co-working spaces like Klab in Rwanda and incubators like HiveCollab in Uganda and Ice-Addis in Ethiopia are buzzing with idea-stage entrepreneurs. However, few entrepreneurs have an actual business plan or a successful pilot tested in the market. Encouraged by innovation challenges such as Africa Innovation Prize, Innovate Kenya and business plan competitions by organizations like Enablis, the number of youth seeking to find solutions to challenges in their communities is increasing, building a pipeline of tomorrow’s successful entrepreneurs. Young entrepreneurs that were part of our research highlighted that support in effectively running the business, particularly in business planning, financial modeling, and operations management, is as important as access to capital<sup>41</sup>. While East Africa

“Young people in Kenya lack exposure to project-based learning, tools, and mentors, that can inspire them to solve problems and nurture their interest in entrepreneurship”

Elli Suzuki,  
Chief Operating Officer, Global Minimum

has witnessed a growth in the number of business plan competitions, co-working spaces, business incubators and specialized service providers that aim to address these needs, the demand for support is much higher than what the current eco-system can provide<sup>41</sup>. The support eco-system catering to the capacity needs of young entrepreneurs mostly consists of pre-incubation support providers, incubators and accelerators, specialized service providers as well as targeted initiatives and youth entrepreneurship programs.

#### PRE-INCUBATION SUPPORT



<sup>41</sup>Assuming each initiative can support 20 ideas in a year





**12.7 MN NASCENT ENTREPRENEURS REQUIRE SUPPORT PRE INCUBATION SUPPORT, WHEREAS ONLY 2400 ENTREPRENEURS ARE ABLE TO RECEIVE PRE INCUBATION SUPPORT IN ONE YEAR IN EAST AFRICA**



**2.5 MN EARLY STAGE ENTREPRENEURS SURVIVE THE FIRST YEAR AND REQUIRE INCUBATION SUPPORT, WHEREAS ONLY 600 ENTERPRISES CAN BE INCUBATED IN A YEAR**



**47% PERCEIVE ACCESS TO INCUBATORS, ACCESS TO MENTORING AND BUSINESS TRAININGS TO BE ESSENTIAL IN RUNNING A SUCCESSFUL BUSINESS**



**NEARLY 50% OF YOUTH ENTREPRENEURS FACE THE CHALLENGE OF LACK OF ACCESS TO BUSINESS KNOWLEDGE**

## Pre-Incubation: Supporting Future Entrepreneurs

Our research indicated that, on an average, business plan competitions and pre-incubation service providers in East Africa are only able to accept 15% - 20% of the applications they receive. Nearly 80% - 85% of the ideas are filtered out and cannot access much needed support to bloom into a business plan. Only 2400 pre-incubation business ideas can be supported collectively in a year by university incubators, business plan competitions, government programs and private sector service providers. The current pre-incubation capacities, therefore, are unable to cater to the demand of 13.46 million nascent enterprises that would need support in Kenya, Tanzania, Uganda, Rwanda and Ethiopia<sup>42</sup>.

*"We need to build the pipeline of talent. Strengthening incubation and helping to turn ideas into products and businesses is important. But we also need to look back in the pipeline and help youth to open their minds through inventions and innovation"*

*Abby Sarmac*

*Formerly with Lemelson Foundation*

### INNOVATIVE INITIATIVES FOR CREATING NEXT GENERATION ENTREPRENEURS

**African Innovation Prize (AIP)** is a non-profit organization driven by the mission of inspiring and supporting university entrepreneurship in Africa. AIP supports entrepreneurs in converting an initial idea into an investment ready enterprise through a three phased program consisting of training, mentoring and a business plan competition. The entrepreneurship training is structured around three key areas: Dream, Design, and Dedicate. AIP currently offers its program in three universities in Rwanda and is looking to expand to other parts of Africa as well. Winners receive a cash award of \$ 3000. AIP has partnered with Inkomo to provide mentoring.

**Ashoka Change Maker's Youth Venture Program** identifies future entrepreneurs between 12-22 years and facilitates partnerships with mentors and investors. Ashoka Youth Venture, with assistance from 87 implementing partners, has supported 3764 youth ventures. Recognizing that entrepreneurship education has to start in school, Ashoka has supported nine Change Maker schools in East Africa.



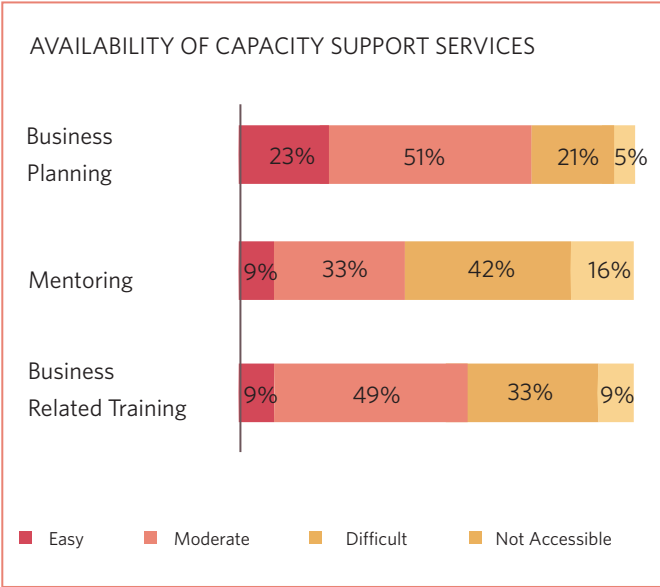
PHOTO BY: SANKALP FORUM

**The Future Forward Challenge** is a competition for youth from Sub-Saharan Africa in the age group of 18-30 years. The initiative awards projects that improve skills and employment opportunities for youth in Africa. It provides a platform for young entrepreneurs to network with peers and an opportunity to receive training to implement their projects.

### Mentoring Support: Only Available to a Minority

Mentoring support by experienced entrepreneurs or industry experts is regarded as one of the most valuable service for young entrepreneurs. However, since it is mainly provided by incubators and few specialized service providers, it is only accessible to few entrepreneurs. Different providers offer targeted, high quality mentoring sessions; however, costs can be as high as \$300 for 2 days, making it unaffordable for many young entrepreneurs<sup>43</sup>. Only 9% of our surveyed entrepreneurs have easy access to mentoring; for the others, it is difficult to access or not available. Ironically, our conversations with service providers and incubators highlighted their challenge in identifying entrepreneurs who are willing to commit to a mentor-mentee relationship.

Figure 13: Business Support Services



### Business Skills and Services: Support is Generic in Nature

Specialized service providers like Inkomoko in Rwanda and Open Capital Advisors in Kenya aim to address this gap and offer high-quality affordable services to early-stage entrepreneurs in need for business advice on a long-term basis. Yet, demand for such support is clearly in excess of the current supply. According to nearly 50% of interviewed entrepreneurs, the lack of business knowledge is a key barrier to scaling their operations. Young entrepreneurs keen to improve their financial and accounting skills or needing advice on legal requirements, financial and human resource management, and marketing find it hard to get tangible support. According to our research, most training programs remain generic in nature, providing little hands-on value; they are also typically short term. Access to long-term support is either unavailable or too expensive. These challenges are insurmountable for young entrepreneurs living and working outside urban innovation hubs.

“Entrepreneurial support organizations need to be willing to invest in companies for long time since having long term relationships with clients is what produces the best results”

Sara Leedom,  
Co- Founder, African Entrepreneur Collective

42. Global Entrepreneurship Monitor, Sub-Saharan Africa Regional Report.2012  
43. Interviews- Youth Entrepreneurs East Africa, Intellectap December 2014

## Incubation Support: Available to a Limited Number of Young Entrepreneurs

Although the incubation landscape has been expanding in recent years in East Africa, it is still nascent. According to our mapping study, there are approximately 40 Incubators across Kenya, Tanzania, Uganda, Ethiopia and Rwanda that can collectively support about 600 enterprises in a year<sup>44</sup>. Kenya has the highest number of incubators (24) while Ethiopia has the least with only six incubators. There are different models for incubation and most incubators offer a mixed service portfolio. While some offer co-working spaces, others provide a mix of pre-incubation and incubation services. The mode of delivery also differs among incubators - some provide ongoing mentor-

ing support, where milestones are tracked to monitor progress, while others offer targeted workshops and training sessions that build specific skills. The service package often includes joint information and telecommunication infrastructure and easy access to legal advisors, support in information technology, accounting and marketing as well as human resource professionals and technical experts. The current incubation capacity in East Africa cannot cater to the existing demand of approximately 18.2 million early stage enterprises that require support to grow into mature enterprises<sup>45</sup>.

### EXPANDING INCUBATION SERVICES – INNOVATIONS FROM INDIA

While India's incubation landscape has grown over the last years, it is skewed in favor of urban centres. But in the last 5 years, continuous effort is being made to reach out to a larger number of entrepreneurs and increase incubation capacities beyond metro cities.

#### REGIONAL ENTREPRENEURSHIP HUBS:

Villgro, a Chennai-based incubator, has moved beyond urban centres to nurture potential entrepreneurs in semi urban areas through its 'Unconvention' platform, a network of local hubs reaching into small towns and cities, providing inputs and networks that were earlier only available in metro cities.

#### REPLICATION OF INCUBATORS THROUGH FRANCHISE MODELS:

Unltd India, the Mumbai-based social enterprise incubator, replicates and increases outreach through a franchising model. Affiliates set up incubators across the country and get mentorship and support from experienced Unltd team members.

#### VIRTUAL INCUBATORS:

To bridge the gap of huge demand for incubator support and limited supply, especially in smaller towns, a virtual incubation platform StartupWave is a one-stop service, providing a blend of virtual and in-person support to take start-up enterprises from idea to the investment stage. This platform is designed in consultation with other brick-and-mortar incubators, corporates, funds and start-ups across the country. In its first six months, it supported 250 idea-stage entrepreneurs.

#### INCUBATING OTHER INCUBATORS:

Aarohan Ventures supports other incubators across India and provides them training and network connections. Similarly, the National Entrepreneurship Network has partnered with over 470 top-tier academic institutes in India and provides support to their incubation centres.

<sup>44</sup>. Primary Research. Intellectap. December 2014

<sup>45</sup>. Global Entrepreneurship Monitor. Babson College et al.2013



## Youth Entrepreneurship Promotion - Largely focused on encouraging Youth to Start-Up

Idea competitions and challenges, as well as youth-oriented business plan competitions are widely used instruments to help young innovators in the initial phase. Ideation and start-up workshops, and training programs in entrepreneurship are other examples of entrepreneurship promotion targeted to encourage and support young entrepreneurs.

This study mapped 28 youth entrepreneurship promotion activities by different stakeholders and conducted expert interviews. Findings indicate that there is a gap between youth entrepreneurs' needs and the current support provided. Eco-system players stressed the need for follow-on support, which

*"Everyone is looking for big numbers, but consequently too many programs are only providing superficial support in order to reach those large numbers. Consequently too few young entrepreneurs are getting the depth of support which they need to really start and grow a business that will be successful over many years"*

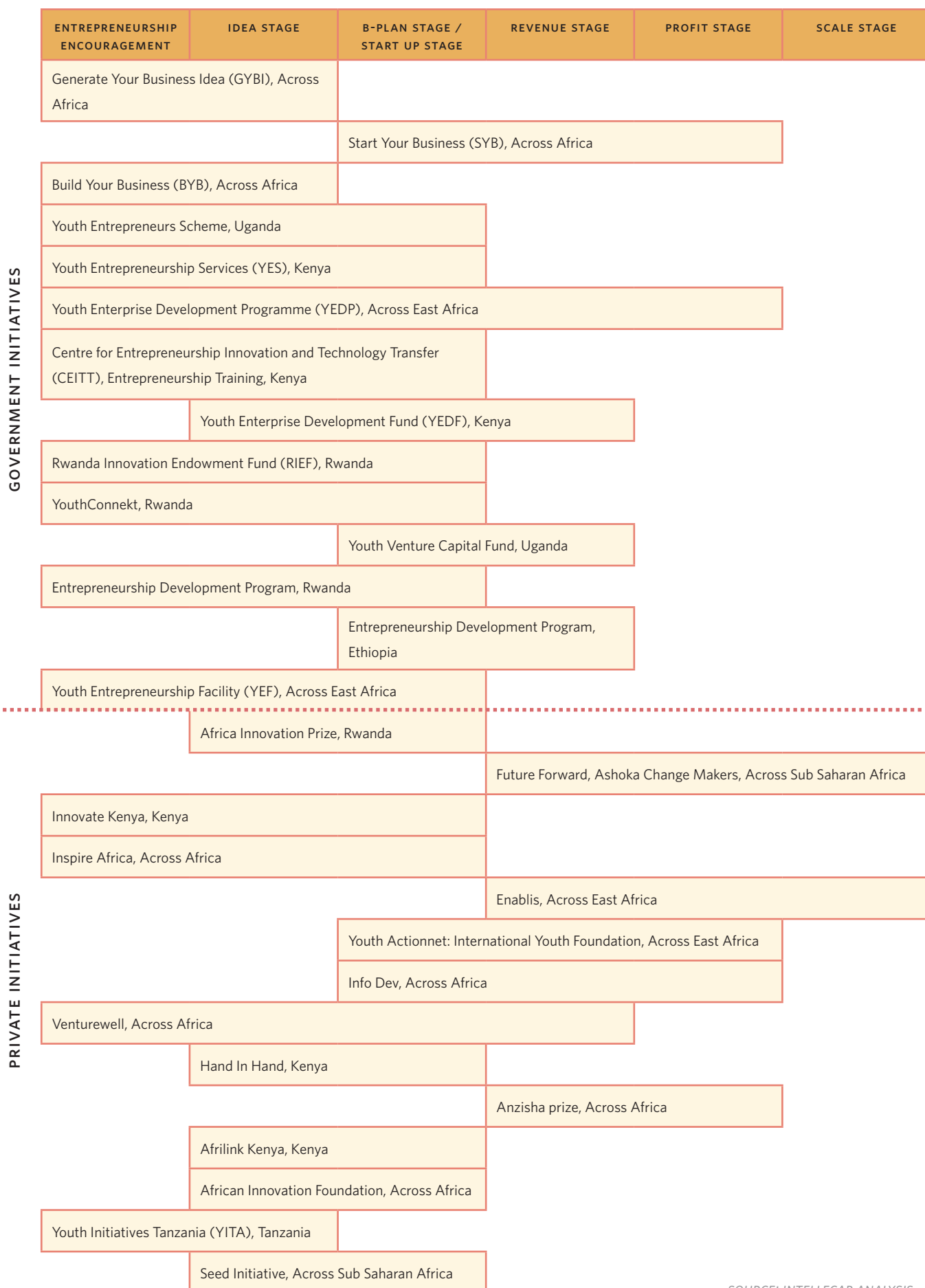
*Tendai Pasipanodya,*  
Youth Employment Specialist, ILO

is currently not available. A lot of programs are focused on self-employment generation, which is a necessity given the unemployment situation in East Africa. However, there is little support for opportunity-seeking entrepreneurs to start-up and grow. Often, young entrepreneurs discontinue their business after a very short time in the absence of such support.



PHOTO BY: POWERGEN RENEWABLE ENERGY

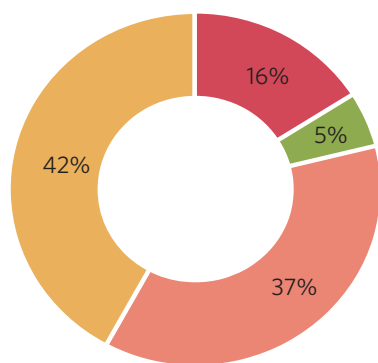
Figure 14: Mapping of Entrepreneurship Promotion Initiatives



SOURCE: INTELLECAP ANALYSIS

# Highlights: Networks

## Ease of Networking



■ Not Available ■ Difficult ■ Moderate ■ Not Accessible



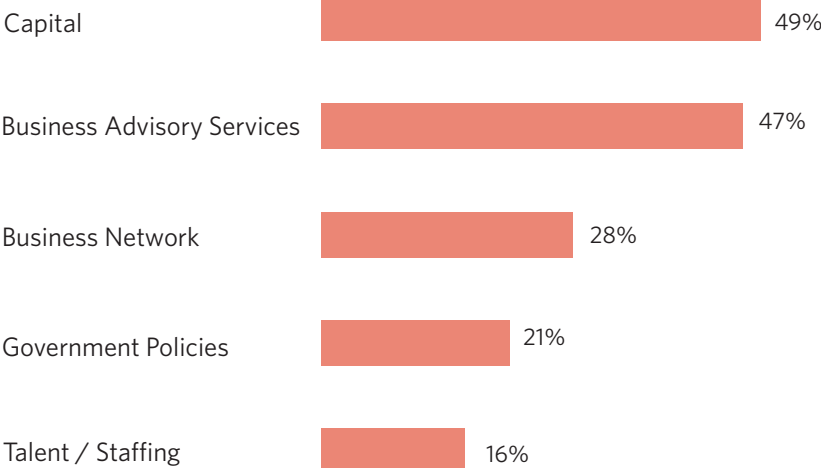
**42% OF ENTREPRENEURS  
FIND ACCESS TO NETWORKS  
TO BE EITHER DIFFICULT OR  
NOT AVAILABLE**

*"Working in silos does not help an entrepreneur succeed. There is a need and a lot of room for open platforms and networks where entrepreneurs can connect with other entrepreneurs as well as investors. Networking, after all, is an important driver for the success of an entrepreneur "*

*Lee Carter,  
Investment Analyst, Invested Development*

*"Youth business competitions are primarily accessible for university students. Access to these competitions from entrepreneurs with lesser educational backgrounds is really difficult "*

*Tania Laden  
Executive Director and Co-founder, Lively Hoods*



**28% OF ENTREPRENEURS  
HAVE CITED LACK OF BUSI-  
NESS NETWORKS AS A MAJOR  
CHALLENGE IN RUNNING A  
SUCCESSFUL ENTERPRISE**



## 4.3 Networks

### Young Entrepreneurs need Accessible Peer-Learning Networks

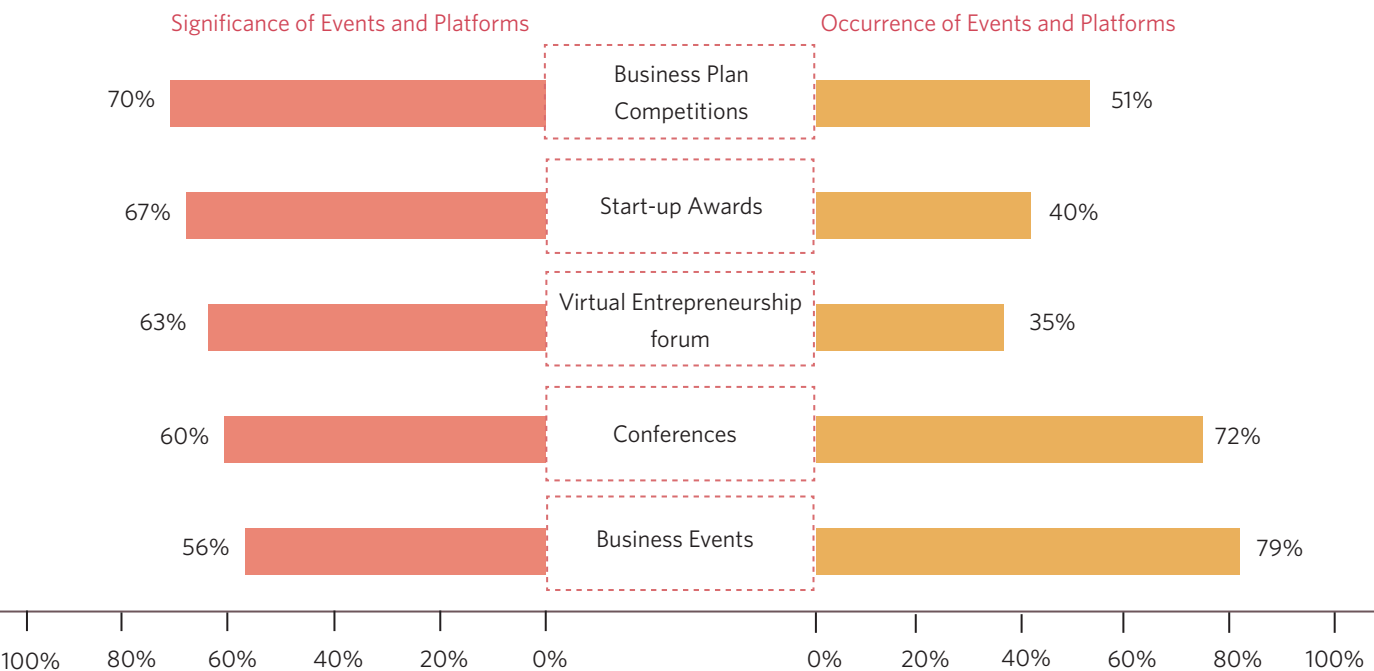
*"Capital is not the major challenge that I faced; it was the lack of information on how to make this work, the business knowhow and the market knowledge, that was a bigger challenge for us. Mentoring from experienced entrepreneurs gives us insights into how businesses can be run efficiently and this guidance is invaluable"*

Harriet Kamashanyu  
Founder, Rhythm of Life

Youth entrepreneurs highlight the importance of networks to showcase their ideas; meet other entrepreneurs, funders, and industry experts and build greater visibility across various sectors<sup>46</sup>. However, most young entrepreneurs find it challenging to access such networking opportunities. Peer networks are perceived to be easier to access than business networks, which are expensive and tend to favor mature enterprises. Initiatives such as Rwanda's Youth Connekt and Ashoka's Youth Venture bridge this gap by connecting youth and providing them an opportunity to interact with peers and mentors.

Figure 15: Business Events and Networks

SIGNIFICANCE VS OCCURRENCE GRAPH OF EVENTS AND NETWORKS



SOURCE: INTELLECAP ANALYSIS

Networks are also often sectoral, connecting enterprises that operate within a single sector. According to our research, enterprises from the information and communication technology (ICT) sector find it easier to access networks, while those from the financial service industry find it hardest to connect with peers, since it is dominated by traditional, large players, who are inaccessible to young entrepreneurs.

## Engaging Networking Opportunities are more valued than Conferences

Young entrepreneurs are looking for tangible outcomes from networking opportunities. Our survey findings and interviews with young entrepreneurs indicate that they value engaging and “hands-on” platforms like business plan competitions, challenges and start-up awards more than generic networking opportunities such as conferences and other business events. While they consider business plan competitions and start-up awards to be most significant, access and awareness of such events is low. Virtual platforms such as Youth Connekt in Rwanda can help connect peers, experts, and business partners from different geographies and bridge the gap between rural and urban enterprises.

### Connecting Young Entrepreneurs Virtually

**Youth Connekt Rwanda**, launched in 2013, connects and inspires youth, and bridges the urban-rural divide. The initiative, which offers virtual as well as physical platforms, is effective in connecting Rwandan youth to role models, resources, knowledge and skills, internships and entrepreneurial as well as employment opportunities.

**Child And Youth Finance International** recently launched an Online Platform for Young Entrepreneurs (YEI), connecting young entrepreneurs, mentors and investors from around the world. In addition to the online networks, Child and Youth Finance International also organizes Pitch-Days for young entrepreneurs, showcasing them to an investor community and facilitating investments

**VC4Africa** is one of the largest online communities of entrepreneurs and investors. It operates as a peer to peer network and follows an open source approach. Entrepreneurs have access to free online tools, mentorship and funding opportunities. VC4Africa also organizes events which serve as forum for members and supporters to meet in person and share ideas that drive entrepreneurship in East Africa

## PLATFORMS AS DRIVERS OF ECO-SYSTEMS: EXAMPLES FROM INDIA

While global networks like World Economic Forum and Skoll World Forum have gained recognition in shaping debates and bringing actors from different contexts on one platform to co-create solutions, the Indian eco-system has observed the emergence of different platforms that connect local entrepreneurs with other eco system players, and act as a catalyst for impact enterprises across India.

**Sankalp Forum** was the first platform for impact enterprises in India, and has over the years, grown into one of the world’s largest platforms building an enabling ecosystem for early-stage SMEs, and engaging with over 11,000 people globally through collaborative year-round initiatives. The forum celebrates entrepreneurship and makes local champions known to a global audience. It provides a space for local and global knowledge sharing, screening of investment opportunities and dialogue between enterprises, investors, governments, and other supporters. Sankalp has supported over 300 businesses in India and channeled investments worth US\$ 120 mn.

**National Association For Social Enterprises (NASE)**, set up in 2012, acts as an industry body serving its member network of social enterprises through business advisory support and policy advocacy. NASE is an example of a multi-sectorial network of social enterprises that aims to build the next generation of entrepreneurs through events, training and outreach.

## Highlights:

# Enabling Business Climate



70% OF THE SURVEYED RESPONDENTS RANKED BUSINESS FRIENDLY GOVERNMENT POLICIES AS ONE OF THE MOST IMPORTANT FACTORS INFLUENCING THE SUCCESS OF YOUNG ENTREPRENEURS



NEARLY 60 % OF THE SURVEYED RESPONDENTS FIND THE TAX RATES AND TAX ADMINISTRATION TO BE RESTRICTIVE

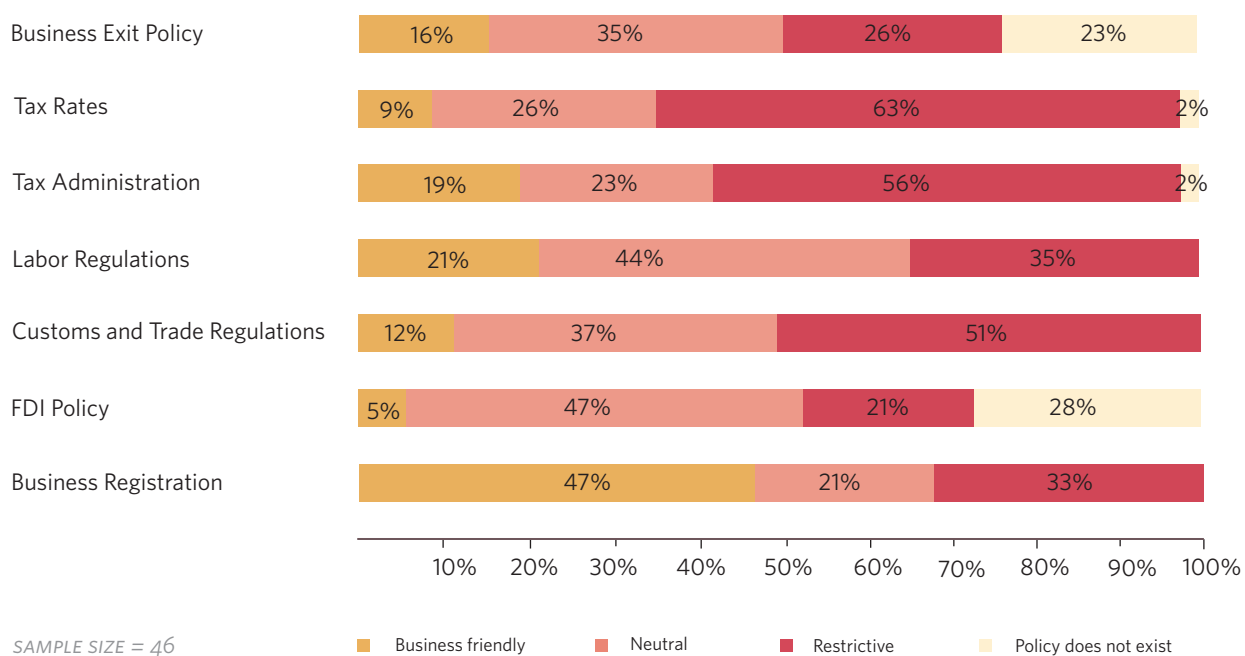


55% OF OUR SURVEYED ENTREPRENEURS CONSIDERED INFRASTRUCTURE TO BE A CHALLENGE IN THE SMOOTH RUNNING OF THEIR ENTERPRISES

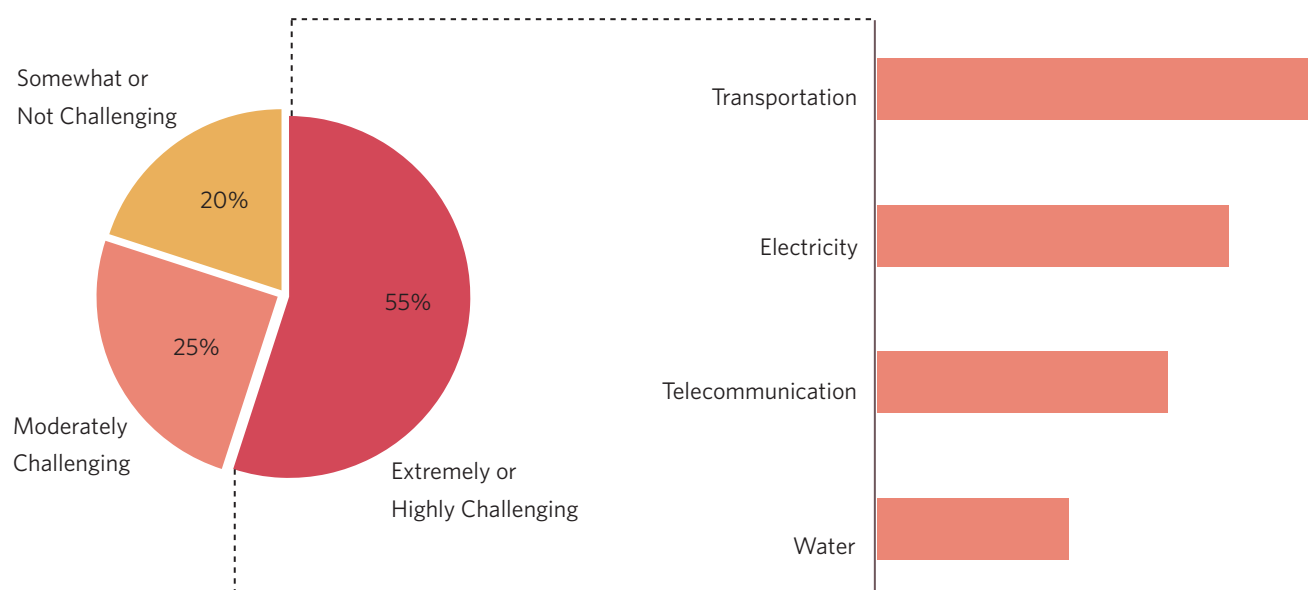


KEY INFRASTRUCTURE CHALLENGES CITED ARE TRANSPORTATION (56%), ELECTRICITY (46%) AND TELECOMMUNICATION (38%)

## Effect of Government Policies on Business



## Perception of Infrastructure Facilities



4.4

# Business Climate

## Government Policies can Catalyze Youth Entrepreneurship

Around 70% of the survey respondents ranked business friendly government policies as one of the most important factors influencing the success of young entrepreneurs. They also rated restrictive government policies as a major challenge in the startup phase, after capital and mentoring. They share that high tax rates, business registration policies and customs and trade regulations have implications on the smooth running of a business. Young entrepreneurs suggest that tax holidays and other incentives for youth ventures could incentivize more youth start-ups. This, they add, would be valued as a more impactful strategy for government support rather than the large public support programs targeting youth, which are accessible to very few young entrepreneurs.

## Infrastructure as a Pre-Condition to doing Business

Enabling infrastructure has been cited as another key driver for entrepreneurial activity by 55% of our surveyed entrepreneurs.



PHOTO BY: KIGALI FARMS

Enterprises with a rural footprint highlighted transportation as a major challenge; whereas IT start-ups are reliant on an appropriate ICT infrastructure. As many youth entrepreneurs are technology startups, their success depends on the speed with which East African governments are bringing mobile and internet infrastructure to rural Africa. While the private sector is a key driver, the government has a key role to play as well. For most surveyed enterprises, access to electricity is another big challenge. Some governments (Rwanda and Uganda) have responded with creating co-working spaces or incubation facilities as a response to address the infrastructure challenges and provide entrepreneurs with stable energy access and ICT support.

Table 3: Infrastructure Status in East Africa

	INTERNET PENETRATION	MOBILE PHONE SUB- SCRIPTIONS (PER 100 PEOPLE)	ACCESS TO ELECTRICITY (% OF POPULATION)	ROAD DENSITY (KM OF ROAD PER 100 SQ KM OF LAND AREA)
KENYA	47.3	71.0	23.0	28.0
ETHIOPIA	1.9	56.0	23.3	9.0
RWANDA	9.0	57.0	16.0	57.0
UGANDA	18.2	44.0	14.6	17.0
TANZANIA	15.3	27.0	18.4	3.0

SOURCE: INTELLECAP ANALYSIS

5

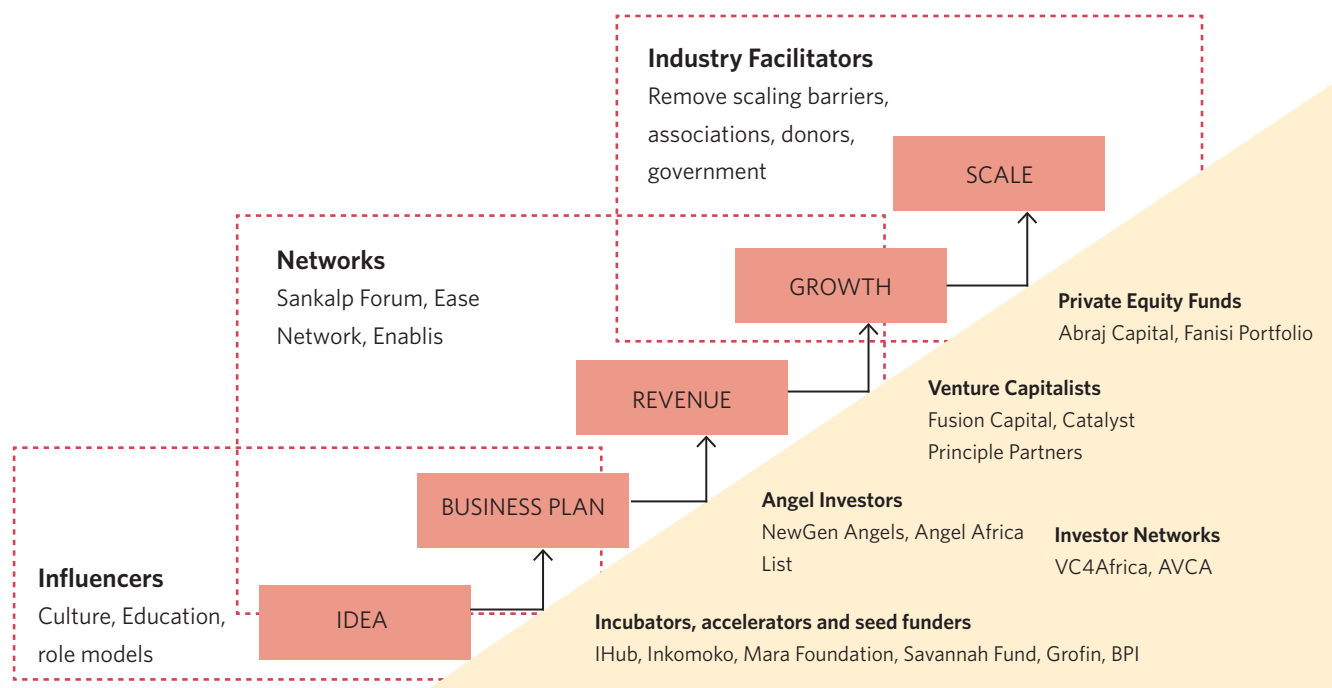
# Call for Action - Inverting the Service Pyramid for Young Entrepreneurs

## Continuum of Support combining capital, business advisory services and networks

Youth entrepreneurship promotion is high on the agenda of government agencies, donors and other support organizations in East Africa. Simultaneously, private sector support providers for start-ups have also emerged. Innovation challenges, business plan competitions, incubation programs and specialized service

providers target young entrepreneurs and provide them with different types of support. While the recent growth of the East African support landscape for enterprises is remarkable, the demand for support far exceeds the current supply. Youth entrepreneurs, with their unique challenges, are at the Bottom of the Enterprise Pyramid. They need a continuum of support that includes pre-incubation and incubation support, investment banking to raise capital and access to networks throughout the different stages of the enterprise life cycle.

Figure 16: Providing a Continuum of Support to Youth Entrepreneurs



SOURCE: INTELECAP ANALYSIS

## CAPITAL

THERE IS A NEED FOR CAPITAL PROVIDERS THAT TAKE RISK, HAVE PATIENCE AND PROVIDE NON-FINANCIAL SUPPORT TO BUILD THE ENTERPRISE.

While angel networks have been emerging, there is potential to increase awareness among high net worth individuals (HNIs) and engage them in building the next generation of entrepreneurs. For larger investment sizes between \$250,000-\$2 mn, impact investors have the mandate and mission to provide more than capital to the entrepreneurs: They usually take higher risks and provide non-financial support to build the enterprise. An East-Africa-wide campaign to accelerate youth finance can facilitate access to debt, equity and grant capital and help generation awareness about youth entrepreneurship among stakeholders. Further, the potential of crowdfunding platforms for providing small ticket-size financing between \$1500 – \$25,000 for young entrepreneurs should be explored.

THE GAP IN THE CURRENT FINANCING LANDSCAPE FOR EARLY STAGE ENTREPRENEURS OFFERS OPPORTUNITIES FOR TARGETED SERVICE PROVIDERS AND INNOVATIVE BUSINESS MODELS.

In the absence of formal financial institutions addressing the early stage enterprise financing gap, there is a space for business model innovations and to apply mainstream finance to early stage investing. In other regions around the world, innovative financial service providers, who provide early stage debt and micro-venture capital, have emerged. They have introduced innovations such as evaluating investment opportunities based on future prospects rather than on historical cash flows - Silicon Valley Bank, India-based Intellegrow, which offers venture debt, and Grofin, which provides finance and business advisory services to small and growing enterprises in Africa and Middle East, demonstrate the viability of such innovative business models catering to the capital needs of entrepreneurs.

*"Just giving money is a quick fix solution. Enterprises are often not able to get the most out of grants. Usage of funds would be more efficient if donors invested less directly in enterprises but more in service providers such as accelerators"*

*Ivan Mandela*

VP Finance, Unreasonable Institute

THERE IS A NEED FOR TARGETED PROGRAMS TO HELP YOUNG ENTREPRENEURS RAISE CAPITAL.

Our research indicates a strong need for educating young entrepreneurs about different types of financing, the advantages of equity and debt and the need for a sound financial model that they can take to banks and investors. Enterprise programs that groom them over a period of time and help them to articulate their business models to banks and investors are required. Targeted pitch-sessions for young entrepreneurs can provide youth with a safe space, where they are with peers and get focused attention by investors and other eco-system players.

## BUSINESS ADVISORY SERVICES

INCUBATORS AND SERVICE PROVIDERS SHOULD DEVELOP INNOVATIVE BUSINESS MODELS TO INCREASE OUTREACH, BUILD LONG-TERM RELATIONSHIPS AND OFFER CONTINUED SUPPORT TO YOUNG ENTREPRENEURS.

A strong support system consisting of pre-incubation service providers, incubators, accelerators and other specialized service providers can offer a continuum of support to the young entrepreneurs. Strengthening the institutional framework and building a market of committed high quality service providers could be a more impactful strategy for governments and donors than implementing initiatives, training programs and events directly.



## COMBINING ONLINE- AND OFFLINE MODELS OF SUPPORT SERVICES CAN BRIDGE THE GAP.

The East African ecosystem at present has service providers, physical incubators and co-working spaces mostly in its capitals and major cities. Given their limited outreach and the mismatch in demand and supply of support, there is a need for innovative solutions to increase access to incubation and business support services. *Hive Collab* in Uganda successfully tested a virtual incubation<sup>47</sup> model, providing mentoring support to enterprises beyond Kampala via phone and the internet. Initiatives like the Inclusive Business Accelerator launched in partnership with VC4Africa and StartUpWave, offering a combination of physical and online pre-incubation services to young entrepreneurs in Rwanda, piloted jointly by Klab, GIZ and Intellectap are other examples of new delivery models.

*"Incubators and accelerators would be able to have a larger impact on enterprises if they collaborate among themselves. Right now the challenge is that incubators are competing amongst themselves. Rather than trying to provide all the support services themselves, each incubator must focus on its strength areas and collaborate for support with other service providers"*

**Tom Osborne**  
Founder, GreenChar

## COLLABORATION AND PARTNERSHIPS PROVIDE POTENTIAL TO IMPROVE AND EXPAND EAST AFRICA'S INCUBATION SERVICES.

The gaps in the eco-system offer whitespaces for incubators and service providers to find a niche and to develop new business models that offer tailored and targeted support. Collaboration can expedite creation of a continuum of support for young entrepreneurs at each stage of the enterprise life cycle. Networks like Afrilabs and Impact Hub's SEED Program have been established



PHOTO BY: JIBU

to strengthen the incubation space and encourage knowledge exchange on innovative business models of delivering support to enterprises among different eco-system players and service provider<sup>48</sup>. Partnerships with the corporate such as Think, a newly established incubator in Rwanda that is funded and established by Tigo, offers solutions to expand the incubation space.

## NETWORKS

YOUTH-SPECIFIC ONLINE AND PHYSICAL NETWORKS THAT TO ALLOW PEER-LEARNING AS WELL AS PLATFORMS THAT CONNECT YOUNG ENTREPRENEURS WITH OTHER INDUSTRY PLAYERS ARE NEEDED.

Young entrepreneurs are often inexperienced, and therefore, unsuccessful in leveraging opportunities to network or interact with more mature enterprises. Targeted networks that facilitate interactions between youth, peer-enterprises, and more mature entrepreneurs can help to address this challenge. As most of the existing networks, platforms and events exist in the urban centers, smaller, more local events and community networks can address this gap and build a bridge to rural Africa.

47. Virtual business incubation services include those business support, counselling, assistance and funding services that are accessed by the entrepreneur electronically through ICT Organization (ILO).2012

48. Intellectap Primary Research. Intellectap.2014

*"The current ecosystem in East Africa operates in silos, while the players should be operating like a well-oiled machine, supporting the enterprises. That is not the current scenario"*

*Myles Lutheran*  
Founder, Eco Fuels

SECTOR AND STAKEHOLDER PLATFORMS WILL HELP Tackle KEY ISSUES AND DRIVE COLLECTIVE ACTION.

There is a need for actors that drive the eco-system and bring together young entrepreneurs, successful enterprises, investors, corporates and relevant public sector actors on one platform to jointly address systemic bottlenecks and collectively provide young entrepreneurs pathways for growing their business. Efforts by individual actors can only address very specific shortcomings in the eco-system. Through platforms that connect eco-system players, solutions can be co-created and gaps can be jointly addressed.

## YOUTH ENTREPRENEURSHIP PROMOTION

MULTILATERALS, DEVELOPMENT FINANCE INSTITUTIONS (DFIS) AND DONORS CAN FACILITATE THE GROWTH OF THE ECO-SYSTEM BY SEEDING AND STRENGTHENING FINANCIAL AND NON-FINANCIAL SERVICE PROVIDERS.

During the course of this study we spoke with 30 eco-system players in East Africa. There seems to be an emerging consensus that Youth Entrepreneurship Promotion needs to be revisited and a differentiation between self-employment and growth- and opportunity oriented youth entrepreneurs' needs to be made. While many of the ongoing youth entrepreneurship promotion activities focus on encouraging youth to start up, which is also a much needed intervention, little support is provided to those enterprises that have the potential, willingness and ambition to grow and scale. A paradigm shift is needed to strengthen youth-oriented service provider systems and actors that provide patient and high-risk capital, handholding support and help entrepreneurs accessing networks and peers.







#### GOVERNMENTS CAN ACT AS FACILITATORS AND ANCHORS FOR YOUTH ENTREPRENEURSHIP PROMOTION.

Feedback from entrepreneurs during consultations stressed that government initiatives are often not easily accessible. Efficiency and impacts of youth-oriented government programs could improve if governments are not implementing programs directly, but work with private partners to deliver and implement their support services. In addition, governments can create favorable conditions and incentives not only for youth to start up, but also for eco-system players to expand their activities.

WHILE EVERY ECO-SYSTEM IS UNIQUE AND HAS ITS OWN CONTEXT, CULTURE AND HISTORY; EXCHANGE BETWEEN THE EAST AFRICAN AND INDIAN ECO-SYSTEM OFFERS A POTENTIAL FOR LEARNING AND CAN HELP IN AVOIDING DUPLICATION OF EFFORTS

Incubators, venture funds, innovative financial and business service providers exist in both regions, and all of them bring valuable lessons and unique experiences that can help speed-up innovation cycles. Throughout this report, we have shared experiences from the Indian eco-system. However, there is a potential for a more systematic collaboration between the Indian and East African eco-system and its stakeholders. An India-Africa Knowledge Corridor that facilitates exchange and dialogue on institutional and enterprise level can be one way to sustainably build collaborations.

#### COOPERATION AT THE INSTITUTIONAL LEVEL IS ALREADY STARTING TO HAPPEN.

Villgro, the India-based social enterprise incubator, recently expanded its operations to East Africa. The Centre for Innovation, Incubation, and Entrepreneurship (CIIE) attached to the Indian Institute of Management, Ahmedabad has started a knowledge exchange with energy incubators from Africa. Impact Funds are working across regions to build on their own experience in sectors that are facing similar challenges. Innovative business models that provide finance, business advisory services and networking support to early stage entrepreneurs exist in both regions. Strengthened relationships between institutions in both eco-systems can help building business relationships on enterprise level. Sankalp Forum 2014 has successfully established business relationships between Indian and African entrepreneurs.



PHOTO BY: MICROCLINIC TECHNOLOGIES

6

# Annexure

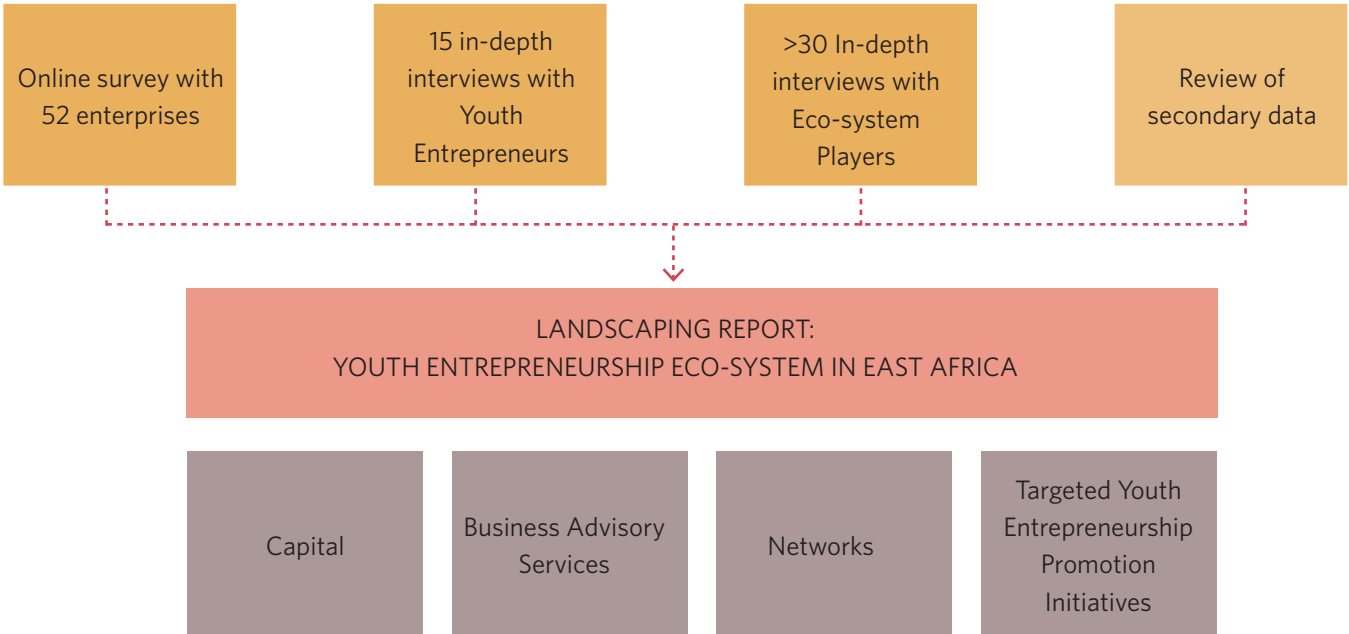
## RESEARCH METHODOLOGY

We have shortlisted the five most dynamic countries in East Africa (Kenya, Uganda, Rwanda, Tanzania and Ethiopia) on the basis of their high GDP growth rate, leading position in terms of FDI investments in the region and their position as the top performing economies in East Africa.

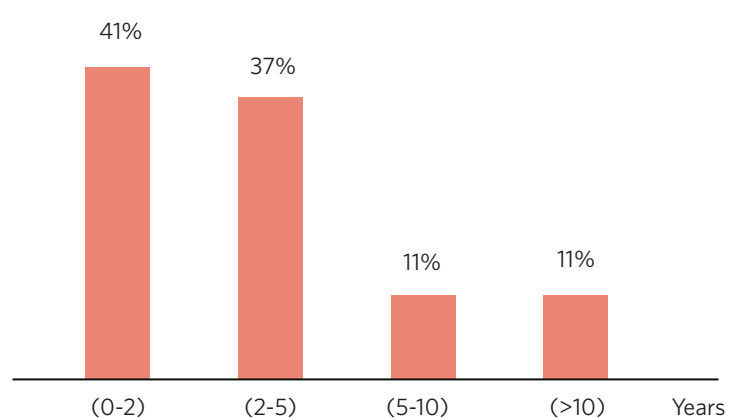
The secondary and Primary Research has been carried out significantly in these countries with various players in the eco-system to understand the challenges faced by youth entrepreneurs and the entrepreneurial eco-system in East Africa.

**The research involved the following activities:**

- Literature review of youth entrepreneurship promotion and entrepreneurial eco-system in East Africa
- Analysis of government, donor, civil society and corporate initiatives to promote youth entrepreneurship
- Online survey of 50 entrepreneurs and in-depth interviews with 15 entrepreneurs
- In-depth interviews with 30 eco-system players (Incubators, Investors, Government and Sector Enablers) from the East African region.

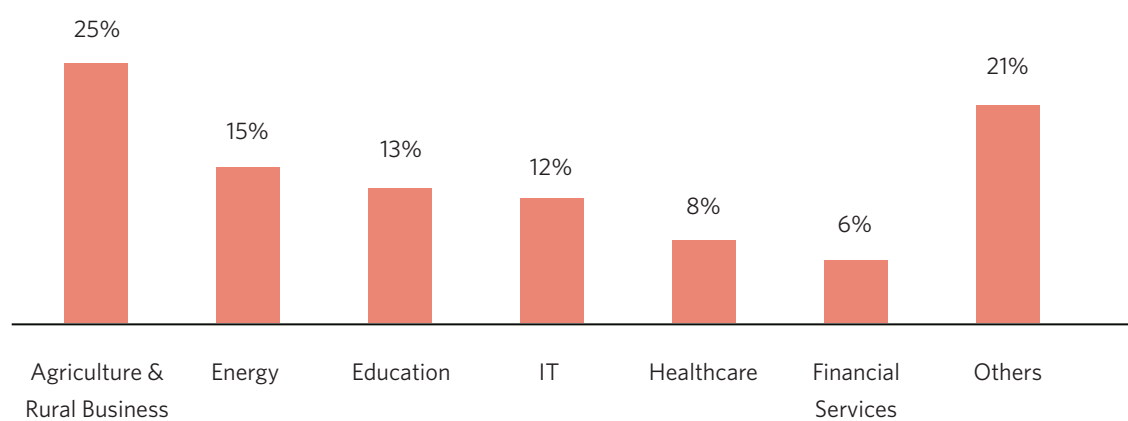


#### AGE WISE BREAKUP OF ENTERPRISES



SAMPLE SIZE = 52

#### SECTOR WISE BREAKUP OF ENTREPRENEURS



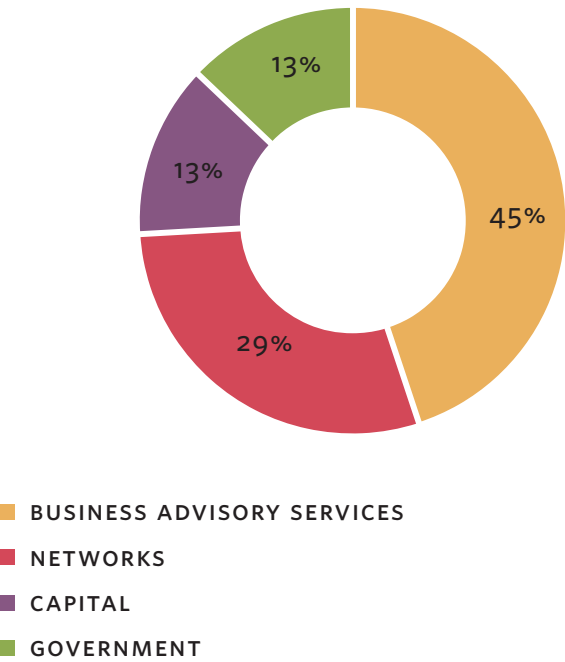
SAMPLE SIZE = 52

## SAMPLE SELECTION & CHARACTERISTICS

### 1. ONLINE SURVEY

For the survey, we reached out to entrepreneurs from our database of 300 enterprises created using various sources like investor's websites, publications, newspaper articles and the Intellectap network. Of the 300 enterprises, 52 responded to the survey. Approximately 80% of our respondents lead enterprises that are 0-5 years old.

### CATEGORY WISE BREAK UP OF ECOSYSTEM PLAYERS



SAMPLE SIZE = 30

### 2. PRIMARY INTERVIEWS

a. **Enterprises:** We interviewed entrepreneurs from the focus countries (Kenya, Uganda, Rwanda, Tanzania and Ethiopia) as well as other countries to understand the ecosystem developing around the region. The enterprises were spread across sectors such as agriculture and rural business, healthcare, energy and financial services. We have covered at least one enterprise from each country and two enterprises from each sector in our interviews. The 15 enterprises interviewed were a mixed sample of early stage enterprises with high employment impacts (27%), product and tech innovations (40%) and business models in impact sectors (33%).

b. **Eco system players:** We interviewed 31 ecosystem players (incubators and accelerators, investors, community networks, education support and government departments) from the focus countries.

NOTE:

#### **Methodology for estimating number of early stage entrepreneurs requiring capital in East Africa**

To estimate the number of early stage entrepreneurs requiring capital in East Africa, we considered entrepreneurship indicators provided in the Global Entrepreneurship Monitor, 2013 Global Report and demographic statistics provided in published databases.

#### **Methodology for estimating business advisory services support in East Africa**

We mapped the number of different actors providing pre-incubation and post-incubation support through primary and secondary research. Based on our Primary Research with sector experts, we estimated the average number of enterprises an incubator can support in a year, and therefore, the number of total enterprises that can be supported at the sector level.

## ANNEXURE 1

LIST OF ENTREPRENEURS ACROSS REGIONS AND SECTORS INTERVIEWED IN EAST AFRICA				
NAME	ORGANIZATION	SECTOR	COUNTRY	WEBSITE
Florin Gheorghe	Arbutus Medical	Healthcare	Uganda	<a href="http://www.drillcover.com">http://www.drillcover.com</a>
Elia	EA Fruits	Agriculture & Rural Business	Tanzania	<a href="http://www.eafruitsfarm.com">http://www.eafruitsfarm.com</a>
Myles	Eco Fuels Kenya	Energy	Kenya	<a href="http://www.ecofuelskenya.com">http://www.ecofuelskenya.com</a>
Opio Obwangamoi David	Ensibuuko	Financial Services	Uganda	<a href="http://ensibuuko.com/">http://ensibuuko.com/</a>
Gideon Emorut	Geel Medical Services	Healthcare	Uganda	<a href="http://geelmedicalsolutions.com/">http://geelmedicalsolutions.com/</a>
Tom	GreenChar	Energy	Kenya	<a href="http://www.greenchar.co.ke/">http://www.greenchar.co.ke/</a>
Fredrick Matress	Honey Products Industries	Agriculture & Rural Business	Malawi	<a href="http://www.sankalpforum.com/enterprises/honey-products-industries-limited/">http://www.sankalpforum.com/enterprises/honey-products-industries-limited/</a>
Galen Welsch	Jibu	Agriculture & Rural Business	Uganda	<a href="http://jibuco.com/">http://jibuco.com/</a>
Noeline Kirabu	Kyusa	Agriculture & Rural Business	Uganda	<a href="http://kyusa.weebly.com/">http://kyusa.weebly.com/</a>
Tania Laden	Livelyhoods	Agriculture & Rural Business	Kenya	<a href="http://livelyhoods.org/">http://livelyhoods.org/</a>
Eve Meyer	PowerGen Renewable Energy	Energy	Kenya	<a href="http://powergen-re.com/">http://powergen-re.com/</a>
Harriet Kamashanyu	Rhythm of Life	Agriculture & Rural Business	Uganda	<a href="http://rhythmoflifeproject.wordpress.com/">http://rhythmoflifeproject.wordpress.com/</a>
Humphrey Janji	ROCAC Group	Agriculture & Rural Business	Kenya	<a href="https://www.facebook.com/RoccoGroup">https://www.facebook.com/RoccoGroup</a>
Felix Kimaru	Toto Health	Healthcare	Kenya	<a href="http://www.totohealth.org">http://www.totohealth.org</a>
Samson Mutisya	Tracopay	Financial Services	Kenya	<a href="http://www.tracopay.com/">http://www.tracopay.com/</a>





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LIST OF ECOSYSTEM PLAYERS ACROSS REGIONS INTERVIEWED IN EAST AFRICA

NAME	ORGANIZATION	SECTOR	COUNTRY	WEBSITE
Kubwimana Herve	African Innovation Prize	Business Competition	Rwanda	<a href="http://innovationprizeforafrica.org/">http://innovationprizeforafrica.org/</a>
Temitayo Akinyemi	Afrilabs	Incubator / Accelerator	International	<a href="http://afrilabs.com/">http://afrilabs.com/</a>
Roshan Paul	Amani Institute	Education Support	Kenya	<a href="http://amaniinstitute.org/">http://amaniinstitute.org/</a>
Peris Wakesho	Ashoka	Community Networks	Kenya	<a href="https://www.ashoka.org/eastafrica">https://www.ashoka.org/eastafrica</a>
Lauren Parnell Marino	Ashoka Change Makers	Community Networks	International	<a href="http://www.changemakers.com/">http://www.changemakers.com/</a>
Philip Harris	Child and Youth Finance International	Community Networks	International	<a href="http://childfinanceinternational.org/">http://childfinanceinternational.org/</a>
John Ndikuwera	Enablis	Incubator / Accelerator	Rwanda	<a href="http://ensibuuko.com/">http://ensibuuko.com/</a>
Elli Suzuki	Global Minimum	Education Support	Kenya	<a href="http://gmin.org/">http://gmin.org/</a>
Rishi Khubchandani	Grofin	Venture Capitalist	International	<a href="http://www.grofin.com/">http://www.grofin.com/</a>
Brian Ndyaguma	Hivecolab	Incubator / Accelerator	Uganda	<a href="http://hivecolab.org/">http://hivecolab.org/</a>
Winnie Bullut	ICCO	Venture Capitalist		<a href="http://icco-investments.org/">http://icco-investments.org/</a>
Markos Lemmas	Ice Addis	Incubator / Accelerator	Ethiopia	<a href="http://www.iceaddis.com/">http://www.iceaddis.com/</a>
Tendai Pasipanodya	ILO Youth Entrepreneurship Specialist / Endevo Consultant	Youth Networks	International	<a href="http://www.endeva.org/">http://www.endeva.org/</a>
Natalie Miller	Impact Hub	Incubator / Accelerator	International	<a href="http://www.impacthub.net/">http://www.impacthub.net/</a>
Sara Leedom	Inkomoko	Education Support	Rwanda	<a href="http://inkomoko.com/">http://inkomoko.com/</a>
Lee Carter	Invested Development		International	<a href="http://investeddevelopment.com/">http://investeddevelopment.com/</a>
Abdallah Mohamed	Kenya Innovate	Business Competition	Kenya	<a href="http://www.innovatekenya.org/">http://www.innovatekenya.org/</a>
Claudette Irere	klab	Incubator / Accelerator	Rwanda	<a href="http://klab.rw/">http://klab.rw/</a>
Abby Sarmac	Lemelson Foundation	Community Networks	International	<a href="http://www.lemelson.org/">http://www.lemelson.org/</a>
Shira Bayigga Mukiibi	Makerere University	Education Support	Uganda	<a href="http://mak.ac.ug/">http://mak.ac.ug/</a>
Eddie Sam	Ministry of Trade, Industry and Cooperative	Government	Uganda	<a href="http://www.mtic.go.ug/">http://www.mtic.go.ug/</a>
Ntirampeba Sylvere	Ministry of Youth and ICT	Government	Rwanda	<a href="http://www.myict.gov.rw/">http://www.myict.gov.rw/</a>
Christine Mwangi	Strathmore Business School	Education Support	Kenya	<a href="http://www.sbs.strathmore.edu/">http://www.sbs.strathmore.edu/</a>
Liesbeth Bakker	The Hub East Africa	Education Support	Kenya	<a href="http://thehubeastfrica.com/">http://thehubeastfrica.com/</a>
Pascale Bonzom	UNDP	Government	Ethiopia	<a href="http://www.africa.undp.org/">http://www.africa.undp.org/</a>
Ivan Mandela	Unreasonable Institute	Incubator / Accelerator	Kenya	<a href="http://unreasonableinstitute.org/">http://unreasonableinstitute.org/</a>
Bertil van Vugt	VC4Africa	Venture Capitalist	International	<a href="https://vc4africa.biz/">https://vc4africa.biz/</a>
Anne Marie Jamin	Youth Entrepreneurship Fund	Youth Networks	Tanzania	<a href="http://www.ilo.org/">http://www.ilo.org/</a>
Khatiwada, Ekanath	Youth to Youth Fund - ILO	Youth Networks	Tanzania	<a href="http://www.ilo.org/">http://www.ilo.org/</a>

LIST OF ECOSYSTEM PLAYERS ACROSS REGIONS INTERVIEWED IN EAST AFRICA							
NAME	PLACES OF OPERATION	ICT	FOOD AND AGRI RELATED BUSINESS	EDUCATION	HEALTHCARE	ENERGY	MIXED SECTOR FOCUS
88Mph	Kenya	✓					
African Entrepreneur Collective	Rwanda	✓	✓	✓	✓	✓	
African Innovation Prize	Rwanda	✓	✓	✓		✓	
Africatwenty10	Pan-Africa	✓					
Afrilabs	Pan-Africa	✓					
ALN Ventures	Pan-Africa						✓
Bizcorps	Kenya						✓
C4DLab (University of Nairobi)	Kenya	✓					
Centre for Entrepreneurship and Leadership (KCA University's)	Kenya						✓
Dar Teknohama Business Incubator (DTBi)	Tanzania	✓					
Embark Energy	Ghana, Kenya, Tanzania, Uganda					✓	
Enablis	Kenya, Tanzania, Ghana, Rwanda	✓	✓				
eNSPIRE Africa	Kenya	✓	✓	✓			
Entrepreneurship and Leadership Foundation (E + L) in Kenya	Kenya	✓	✓	✓		✓	
Growth Africa	Kenya	✓	✓	✓	✓	✓	
GVEP International	East Africa					✓	
Hivecolab	Uganda	✓					
Iceaddis	Ethiopia	✓					
iHub	Kenya	✓					
iLabAfrica (Strathmore University)	Kenya	✓					
infoDev Incubation Support Center (iDISC)	East Africa	✓	✓			✓	

LIST OF ECOSYSTEM PLAYERS ACROSS REGIONS INTERVIEWED IN EAST AFRICA

NAME	PLACES OF OPERATION	ICT	FOOD AND AGRI RELATED BUSINESS	EDUCATION	HEALTHCARE	ENERGY	MIXED SECTOR FOCUS
Inkomoko Entrepreneur Development	Rwanda	✓	✓	✓	✓	✓	
Kenya Climate Innovation Center (CIC)	Kenya		✓			✓	
Kinu	Tanzania	✓					
klab	Rwanda	✓					
m:lab East Africa	Kenya	✓					
Mara foundation	Uganda						✓
Nailab	Kenya	✓					
Open Capital Advisors	Kenya						✓
Outbox	Uganda	✓					
Precise Consult International	Ethiopia		✓				
Sinapis	Kenya						✓
The Hub	Uganda						✓
The Hub East Africa	Kenya	✓	✓				
IMED	Tanzania						✓
The Regional Centre for Enterprise development at Inoorero University	Kenya						✓
Think.rw	Rwanda	✓					
UDEC	Tanzania						✓
Unreasonable East Africa	Uganda, Kenya, Tanzania		✓	✓	✓	✓	
VilCap	Kenya		✓				



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