Executive Summary

Argidius Foundation

Evaluation of Intellecap's support to ventures in East Africa

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Results in development

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This evaluation of Intellecap's investment readiness services was commissioned by Intellecap and Argidius Foundation, one of Intellecap's funders, in early 2017 to assess:

- The relevance, efficiency and effectiveness of Intellecap's investment readiness services to small and growing enterprises over a two-year period between 1 January 2016 and 31 December 2017;
- Intellecap's contribution to outcomes (revenue growth/job creation/investment raised of enterprises); short- and medium-term results; and
- To understand the factors that have positively and negatively influenced results.

What is the nature and scope of enterprises selected by Intellecap for support, and how does Intellecap identify and select enterprises?

Intellecap selected 39 enterprises during 2016 and 2017, all of which met most of Intellecap's selection criteria. Intellecap's theory of change includes working with businesses that create a social impact and it selects enterprises that it believes create social impact. Intellecap does not define the impact or try and quantify it. Intellecap explained that this was because investors have their own views on what social impact is and what impact is created.

Intellecap engages with more than 100 investors, of which about 50 are angel and institutional members of its investor network, I^3N. Investors have a broad range of sector interests and cover a wide range of ticket sizes from $20,000 to over $5 million. Investor interest serves as a proxy indicator for Intellecap selecting the right enterprises and all enterprises showcased had at least two investors express interest.

Intellecap identifies and selects enterprises to showcase three times a year using a multi-step process consisting of internal and external assessments. Intellecap aims to select enterprises from a range of sectors – for example, a mix of 'futurist' companies (e.g. gaming) and 'tried and tested' business ideas (e.g. clean energy). Over half of selected enterprises are in the agribusiness and technology sectors; industries with a potential for high-growth and revenue. The technology enterprises leverage technology as an enabler to increase access or operational efficiency in other sectors such as financial services, health and education.

What are the key bottlenecks/growth opportunities facing enterprises that are selected, and how do these vary by enterprise and other characteristics (e.g. local economy)?

Nearly all enterprises mentioned **access to capital** as the main motivation for engaging with Intellecap. A wide range of internal enterprise bottlenecks affect enterprises' ability to raise capital, which is expected to lead to growth. These included:

- accounting structures and financials;
- compliance with laws, regulations and licensing requirements;
- internal management processes within enterprises;
- overall strategies, including being clear about 'who they are and what they are pursuing';
- and lack of understanding of how their industry works.

Interviewees note several internal and external factors impacting negatively on enterprise growth. The Kenyan elections in late 2017 was the most significant external event affecting Kenyan enterprises and investors. Investors were wary to invest and citizens were reluctant to spend money, thereby impacting more broadly on the economy. The Kenyan supermarket chain Nakumatt also closed at this time impacting on a range of enterprises.

Internal factors were mostly specific to enterprises and their situation. These include: investors' perceptions about what were attractive business models and sectors; investors' concerns around negative environmental impacts due to the enterprise's location in a residential area; and lack of regulation for a particular product that was necessary to create revenue streams with new clients.

Intellecap's services are focused on the enterprise-investor linkages. Enterprises did not mention specific business issues that they expected Intellecap to help them address. However, Intellecap noted that several enterprises would have benefited from more and broader business development services.

What is the nature, scope, and costs of the support provided by Intellecap to these enterprises and how aligned are these with the bottlenecks and opportunities?

42 enterprises received investment support services during 2016 and 2017. This included 39 enterprises selected during 2016 and 2017 and three that were selected earlier. The total cost of the services is approximately $640,000. Intellecap provided showcasing, financial modelling, business model advice, investor negotiation and facilitated investments to enterprises.

Enterprises do not receive equal services or depth of service. Nearly a third of enterprises were only showcased and received about two days support from Intellecap. Another third of enterprises were showcased and received advice on their business model or financial model, with Intellecap also providing them with linkages to investors following the showcase. These enterprises received about five days of support.

Most of Intellecap's support is provided over a small timeframe, normally between one and three months, leading up to and around the showcase. 'Low touch' support is provided if enterprises already have investors interested or traction with investors. Medium or high touch support is provided where greater support is needed.

Where Intellecap facilitates investments, support is provided over a longer period as the average time to close a deal is nine to ten months.

Services were aligned to support enterprises to increase their access to investors and capital, but services offered were not sufficient to address many bottlenecks that enterprises faced that may affect their investibility. In some cases, enterprises are showcased as 'opportunities' rather than 'investments' to get investors' interest and feedback on gaps that the enterprise and Intellecap can then use to increase their investment readiness.

Do the services provided by Intellecap create value for the enterprises? What evidences, quantitatively as well as qualitatively, can Intellecap and the enterprises point to, supporting the notion that Intellecap services make a difference for key performance indicators?

In the short term, Intellecap has contributed to enterprises' and investors' knowledge. For enterprises, this knowledge includes a better understanding of what investors want as well as better understanding of their own enterprises. They have also increased their visibility and networks with investors and potential partners. Enterprises provided examples of improved business and financial models highlighting outcomes such as a better articulation of value proposition; a more 'solid grasp' of business financials; improved market segmentation; and new product development.

Investors have improved their knowledge of impact investing in East Africa, investment opportunities as well as networks with other potential co-investors.

Investment raised is the key performance indicator to confirm investment readiness has been achieved. Many factors affect whether this is achieved. Intellecap has contributed directly to five investments: two investments during 2016–17, one in 2015 and two in early 2018. Although Intellecap does not claim a contribution for indirect investments, 18 enterprises raised 25 investments to a total value of $7 million during 2016–17. Additional investments in early 2018 increased this to $15.5 million. Two enterprises reported Intellecap had helped them increase their investment even though Intellecap has not facilitated a deal for them while seven enterprises who raised investment felt Intellecap did not contribute.

Incremental revenue growth for enterprises totals $6 million, while the estimated cost of the provision of investment readiness services for 2016-2017 is $640,000. The costs include time for staff from the East Africa and India offices. This cost is a proportion of the $3m support from Shell Foundation, USAID and Argidius Foundation for Intellecap's institutional development in East Africa. The return on investment for the investment readiness services component is approximately 800%; or 100% when adjusted for the total cost of the support provided by the three funders.

Based on a comparison with available data from the Global Accelerator Learning Initiative (GALI), enterprises selected by Intellecap in 2016 increased their revenue and raised investment more than the enterprises that it did not select and themselves were selected by other investment readiness or accelerator programmes. Full-time employee numbers increased from 640 to 990 (55%) with three enterprises contributing most to the average incremental increase in jobs. There is insufficient evidence available to determine if or how Intellecap's services contributed to this change.

What is the willingness of enterprises to pay for these types of services in the future?

Most enterprises obtain business development services from a variety of sources, some of which they pay for. Five out of the seven enterprises interviewed received free complementary or supplementary business development services e.g. Village Capital.

Intellecap has found most enterprises are willing to pay for investment readiness services via success-fee contracts. Some enterprises that are near to closing their funding round did not want to pay the success fee. One entrepreneur interviewed was willing to pay to attend the Stanford Seed, while another obtained legal services for deal negotiations and structuring in exchange for equity.

The availability of free services influences enterprises' willingness to pay. One interviewee reported that *'people used to be willing to pay $7,000-$10,000 [for business development services] and now only want to pay $2,000'.* They attributed the change to the increase in development organisations providing free services over the last five years. Two enterprises reported receiving 'free' financial models – both were paid for by third party organisations e.g. donor or foundation.

Recommendations to Intellecap

Based on the findings and conclusions, a small number of recommendations are outlined below. It is recognised that all recommendations have resource implications, which is challenging when there seems to be little willingness to pay for services at present, in the market. However, one of the recommendations relates to reviewing options for paid services.

1. **Investigate options for increasing support to local entrepreneur teams/enterprises**, while maintaining a diverse portfolio of sectors, business types (e.g. mainstream), stage of growth, and entrepreneurial team. This may include delivering more support directly or linking enterprises with other organisations that already provide a wider array of support services. It may also include providing support after an enterprise has received investment. There may also be opportunities to deliver support in other formats such as short small group learning sessions around specific topics, such as understanding term sheets.
2. **Intellecap should develop a range of forums for enterprises to raise their visibility with investors**. Enterprises generally perceive that Intellecap only offers showcases as a way to increase their visibility with investors. However, some enterprises would prefer other formats that take into account differences in entrepreneurs' style and skill e.g. some good entrepreneurs may not be good pitchers.
3. **Conduct market research to find out what investment readiness services enterprises, investors and co-investors are willing to pay for and how much**. The limited willingness to pay for services presents

a challenge to the business model and moving from a reliance on grant funding yet there were indications that some interviewees may be willing to pay for some of Intellecap's services. All enterprises interviewees felt the fee for facilitated investments was fair; and a few enterprises paid for investment readiness services (provided by Intellecap or others).

4. **Improve the quality and frequency of communications and relationship** management with enterprises, particularly after the first suite of support is provided up to the showcase, with investors on periodic updates on the enterprises showcased, and the broader set of stakeholders on Intellecap's successes and service offerings.

Recommendations to the sector

Small and growing businesses in East Africa need a variety of business development services. However, currently it is difficult to see how business development service providers can achieve financial sustainability given the prevalence of free or subsidised services provided by grant and philanthropic funding. It is recommended that further research be undertaken to better understand the market for paid business development services in East Africa, the advantages and disadvantages of subsidies, and assess the viability of different business models. This research should look at trends in the provision of free or subsidised services, donors' (including NGOs, foundations etc) policies and exit strategies for moving to paid services or exiting the market.

Local angel investing has not developed as fast as Intellecap hoped and many enterprises perceive there remains a finance gap in small ticket size investments. While Intellecap continues with its ecosystem building activities, it is also establishing its own fund in East Africa. Intellecap's fund aims to also encourage or crowd in local angel investors. However, there may be a risk that it crowds out local investors given there are also a limited number of investible opportunities in East Africa. To mitigate risks and further build the breadth and depth of local angel investing in East Africa, it is recommended that Intellecap implement more targeted activities to develop local angel investors' knowledge and opportunities to increase their practical hands-on experience.