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Final Report

Argidius Foundation
Evaluation of GrowthAfrica's support to ventures in East Africa

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Results in development

Executive summary

This evaluation of GrowthAfrica's accelerator programme was commissioned by GrowthAfrica and Argidius Foundation, a GrowthAfrica funder, in early 2017 to assess:

- The relevance, efficiency and effectiveness of GrowthAfrica's business development services to small and growing enterprises over a two-year period between 1 January 2016 and 31 December 2017;
- GrowthAfrica'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.

During 2016 and 2017, GrowthAfrica provided support to 63 enterprises, exceeding their target of supporting 40 businesses. Enterprises are yet to complete the 36-month long accelerator programme. By the end of 2017, the first cohort had received 21 months of support. Enterprises interviewed reported GrowthAfrica has contributed to short-term outcomes, such as improving business and leadership skills, development of clearer value propositions, and reducing costs. At the end of 2017, enterprises exceeded the overall revenue milestone by 33%; seven enterprises doubled their number of jobs and income opportunities; and nearly a third raised investment exceeding the investment target by 20%. Over half of the enterprises who responded to the survey noted a contribution by GrowthAfrica to these longer-term outcomes.

This executive summary highlights findings to selected evaluation questions.

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

GrowthAfrica describes its 'ideal enterprise' as one that has two to three years of operations in a fast and growing industry with consistent growth in revenue, between US$100,000–US$500,000 in the year preceding entrance to the programme. The founders (around two or three) are in their mid-30s to early 40s, with some life experience – with at least a bachelor's degree, some international exposure through travelling, living and working or studying abroad, and are open and willing to learn.

In practice, GrowthAfrica selects a broader array of enterprises which it says reflect the state of market. It uses a smaller set of enterprise eligibility criteria that are applied flexibly and adapted for countries and sectors. These are: for-profit; post-revenue (ideally a minimum of US$50,000 in the previous year); have operated for at least a year; and at least one founder can attend 80% of all workshops held in the first six months of the programme. GrowthAfrica does not sector preference but excludes enterprises that may 'do harm', such as those in the mining sector. Criteria relating to the strength of the business idea or model are not clearly articulated by GrowthAfrica staff[1], except that some types of businesses are ineligible because GrowthAfrica did not believe they were scalable. These businesses included: 1) consulting models that rely on tenders and are project-based and 2) primary agricultural production.

Nearly all selected enterprises met the for-profit criteria and the number of operational years. While 45% reported US$50,000 or greater revenue, the overall average revenue was US$287,651 and the median US$43,500. For the 50% of enterprises that did not meet the US$50,000 threshold, the average revenue in the preceding year was US$13,416, highlighting the gap to the ideal level of baseline revenue.

GrowthAfrica identifies and selects enterprises using a three-step selection process that consists of outreach and recruitment, selection and contracting. The process commences with a call for application, social media advertising, and canvasing networks and alumni for referrals. GrowthAfrica screens and

[1] Documented selection criteria and assessment records were requested but not provided.

short-lists the top 50 enterprises, which it then interviews and further short-lists 20–25 before completing a veri-diligence process. An external selection committee interview to select between 15–20 enterprises which GrowthAfrica offer places to. Usually between 10–12 enterprises are contracted[2].

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

The enterprises that were interviewed referred most frequently to the following types of internal challenges: uncertainty over the business model or focus of the business; understanding customers; competitive pricing models; cash flow; and staffing. GrowthAfrica also broadly saw these types of issues as representing enterprises' most immediate needs. Around 60% of enterprises (GALI survey respondents – selected enterprises) expected to secure direct venture funding (e.g. grants or investments), or access and connections to potential investors and funders – and viewed this as an important benefit of participating in accelerator programmes. This suggests enterprises may have considered access to funds to be the most immediate solution to address their challenges, and possibly under-recognising the importance of other services, i.e. oriented towards support to their organisational development.

Some enterprises interviewed highlighted internal and external contextual factors contributing to their business development. Factors impacting on enterprises were largely specific to their business model and sector, and as such there were few common factors. Examples included:

External Factors:

Political: All enterprises interviewed were based in Nairobi and the 2017 Kenya political situation affected businesses whose sole or primary market was Kenya (exports were nil or low, or did not work in other countries). Enterprises with customers outside of Kenya were reportedly less affected. One enterprise joined the programme because of the downturn in the resource sector in East Africa. After joining, increased conflict and insecurity in the region, new industries (such as renewable energy) and development (new road construction) increased demand for their services.

Competition: Two enterprises provided examples of where competition had negatively affected or was expected to affect business**.** In one case, another business had set up across the road, offering lower prices. In the other situation, a global corporate's business practices were a possible constraint on growth opportunities.

Internal Factors:

Entrepreneurs' attitudes: Entrepreneurs and GrowthAfrica staff also noted that the entrepreneurs' attitudes affected business growth and opportunities, both positively and negatively. For instance, the level of GrowthAfrica's service provision was influenced by entrepreneurs' proactiveness in following up with GrowthAfrica. GrowthAfrica described one entrepreneur as 'fixed' in what he wanted to do, which then constrained growth opportunities.

Assets: One enterprise has specific assets (local compliance certificates and local staff) that made it attractive to organisations looking for a local service provider or partner, and allowed them to access new opportunities.

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

The accelerator programme consists of a six-month phase of workshops delivered to cohorts, followed by 30 months of individual support to enterprises. By the end of 2017, 63 enterprises had commenced the 36-month long accelerator programme, more than the end of 2017 milestone of 40 enterprises. By the end of 2017, the first cohort had received 21 months of support. [3] .

GrowthAfrica delivered the workshops during the first six months of each cohort. Generally, enterprises were positive about the workshops, which helped them achieve short term outcomes (see next question).

[2] Cohorts consisted of between 8 – 16 enterprises. On average a cohort consisted of 12.5 enterprises.

[3] GrowthAfrica did not record and track which services were delivered to specific enterprises when or how much; or which staff within the enterprises received the services. GrowthAfrica did not record the design and delivery cost of different components of its services.

Network development, business development skills and leadership skill components were rated the most useful. Positive feedback provided by enterprises interviewed included: 1) the calibre of the GrowthAfrica delivery team, challenging enterprises to improve their businesses; 2) useful introductions to potential partners; 3) GrowthAfrica staff became a key resource for strategic advice; 4) GrowthAfrica did the 'heavy-lifting' to develop a financial model. Some enterprises' participation in the workshop was inconsistent. Some enterprises felt competencies among cohort members varied widely which made it challenging for all members to derive the same depth benefit at the same time. Based on interviews with GrowthAfrica staff and enterprises and enterprise survey responses, few mentor-mentee matches were operationalised during 2016-2017. GrowthAfrica also used 'sages' or 'experts' to provide one-off short inputs to enterprises, either via one-on-one interactions or in a workshop or seminar forum. Three quarters of enterprises (survey respondents) would have liked more support during the first six months.

GrowthAfrica has delivered some post-workshop support to enterprises. Some enterprises appear to have received more support than others. GrowthAfrica has introduced some enterprises to investors. The focus of most introductions concerned educating enterprises about investors' needs rather than with the aim of directly facilitating investment. Factors affecting the level of support provided to enterprises included the proactiveness of founders in seeking support from GrowthAfrica; the receptiveness and availability of enterprises to receive support; and Growth Catalysts' time (which decreased as new cohorts were mobilised). The limited availability of Growth Catalysts' time was the factor most highlighted by GrowthAfrica staff.

Participating in the accelerator programme appears to have met some of enterprises' needs, particularly in relation to business and leadership skills. Most enterprises expected more support, particularly in relation to: directly delivered investment facilitation services, specifically including access and connections to potential investors/funders; securing direct venture funding (e.g. grants or investments); and also network development (e.g. with potential partners and customers).

Overall, GrowthAfrica noted its expenditure against budget is on track, and since it has delivered to more enterprises than planned, the cost per enterprise is lower – from the planned US$44,000 to an actual of US$15,000–US$20,000.

Do the services provided by GrowthAfrica create value for the enterprises? What evidence, quantitative and qualitative, can GrowthAfrica and the enterprises point to which support the notion that GrowthAfrica services make a difference to key performance indicators?

Enterprises reported GrowthAfrica has contributed to some outcomes, particularly short-term outcomes related to the capacity of entrepreneurs, such as business and leadership skills, and specific areas of business operations relating to a clearer direction and value proposition, improved pricing, marketing and branding, and reducing costs. More than 75% of enterprise survey respondents felt that participating in the programme contributed to improving their business and leadership skills. Five of eight enterprises interviewed mentioned their increased and/or clearer focus in their direction, vision and value proposition. Enterprises also reported the improved focus had follow-on effects. Examples provided by individual enterprises included: helping them to refine their business model, to better analyse the market, benchmark competitors, as well as increase their confidence in saying 'no' to potential funders who have a different agenda. Enterprises interviewed provided several examples of how they had reduced costs such as changing to bulk buying packaging, moving to nearer suppliers to reduce transport costs, moving away from more expensive contract manufacturing, sourcing a cheaper manufacturer, reducing the number of employees, and decreasing the sales cycle time.

Respondents felt GrowthAfrica contributed least to improving distribution, sourcing, packaging, tax and regulatory compliance and office/work space; and to increasing investment and access to investors or funders.

GrowthAfrica reported the following longer-term outcomes: Enterprises earned US$6 million between 2016–17, exceeding the milestone of US$4.5 million; and seven enterprises doubled their number of jobs and income opportunities; while 19 enterprises raised investment in 2017 to the value of US$1,962,041 (exceeding the target by 20%). About 60% of enterprises responding to the survey felt that the programme had made at least 'a little'[4] contribution to increased revenue and job creation, and nearly half have felt there was at least 'a little' contribution to the increased investment reported. Other respondents, either did not feel there was a contribution, or it was too early to tell.

The ability to assess GrowthAfrica's contribution to longer-term outcomes was constrained by incomplete and poor quality data.

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

Enterprises are not very willing to pay for business development services. Factors affecting their willingness include: affordability; the availability and perceived quality and value of alternative business development services; and the quality and timeliness of services they have received from GrowthAfrica. Enterprises' lack of understanding of hybrid organisations (with a for-profit and non-for profit arm) was another factor raised by some interviewees. Enterprises may find it difficult to understand why they should pay for services when GrowthAfrica Foundation receives grant funding to provide services upfront for 'free' but then require deferred payment via revenue shares and an equity stake. Three enterprises provided a dollar value of what they would be willing to pay for the workshop phase of the programme, all of which were less than the estimated cost to GrowthAfrica for delivery of services.

Recommendations to GrowthAfrica

1. **Targeting of enterprises** – It is recommended that GrowthAfrica review the alignment between its value proposition and its targeting of enterprises. As part of this review, the value proposition needs to be more clearly articulated to help identify the type of entrepreneur and enterprise the programme content structure and content is targeted at. It is also recommended that GrowthAfrica and enterprises agree on the process and outcome targets for the period of GrowthAfrica's support, and jointly monitor and assess performance against these. The targets should not be fixed but are intended to bring a clearer focus and purpose to the support of enterprises.

2. **Type, intensity of services and cost of services** – It is difficult to make recommendations at this point on what type and intensity of services GrowthAfrica should deliver. It is recommended that GrowthAfrica develops and operationalises its systems to capture information on the services delivered to each enterprise – the type, depth and length of service provision; and uses this information to estimate costs so some level of value-for-money assessment can be undertaken in the future. It is also recommended that GrowthAfrica revisits its capacity to deliver the range of services that it has said it will deliver to enterprises, and the intensity of the services, and actual staff requirements to deliver. Where service offerings change, GrowthAfrica should update contracts with enterprises.

3. **Scalable elements of GrowthAfrica's model** – It is recommended GrowthAfrica continues to assess and review the revenue sharing agreements as part of ongoing performance improvement measures to test if GrowthAfrica's business model is scalable. Without an effective revenue sharing aspect and GrowthAfrica's ability to implement it, it seems the accelerator programme, or parts of it, are replicable (such as workshops – but only as long as other implementation challenges are addressed) but not scalable.

Recommendations to the sector

There has been substantial growth in support to entrepreneurs in East Africa in recent years and enterprises have a range of business development service providers to choose from, most of which they do not have to pay for. It is recommended that further research is conducted to see whether this support is leading to improved enterprise outcomes for more enterprises, and if the proportion of investable enterprises is increasing. There is also a need to further improve sector understanding of the quality and relevance of free versus paid services, and which payment models are most likely to result to enterprises paying for services.

[4] Survey respondents were asked to rate GrowthAfrica's contribution. Rating options were: a lot, some, a little, none, too early to tell.

Increased income, job creation and investment raised are often tracked as indicators of success for small and growing enterprises. However, these indicators are often insufficient to determine the health and growth of a small and growing business, and provide little insights into the performance of a portfolio of enterprises in the short and medium-term. To gain a better understanding of enterprise and portfolio performance it is recommended that accelerator programmes develop and implement a more holistic approach to understanding enterprise performance. A holistic approach may include a judicious use of quantitative process and performance indicators, combined with qualitative information focused on short-term, medium-term and longer-term outcomes, supported by a learning approach which comprises of frequent feedback loops.

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