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Toward an Ecosystem for Early-Stage Incubation of Social Enterprises in East Africa

Conference preparation, review, outcomes & next steps

Facilitated & prepared by Open Capital Advisors

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- The East African Social Enterprise community (especially those who are early-stage)

Introduction

Here we summarize a workshop held in Nairobi December 4-6, 2012. Stakeholders from across the early-stage enterprise ecosystem convened to identify & design high-leverage initiatives that could strengthen support for enterprises through development stages to achieve scale and build sustainably in order to provide broad solutions for large, disadvantaged populations. See Appendix 2 for how we define “social enterprise” broadly.

Participants from more than 40 organizations active in East Africa represented perspectives ranging from academia, impact investors, NGOs, social entrepreneurs, banks, industry organizations, commercial investors, corporations, service providers, and the donor community. Over the course of three days, we identified three high-potential initiatives with broad industry support that we believe will not only catalyze additional investment into the space, but help support strong, successful social enterprises with the potential to improve the lives of millions living at the base of the pyramid across East Africa.

Motivation

High-impact, growing businesses can stimulate economic growth and innovation and, with the right support, have the potential to scale and generate economic opportunities that increase the welfare of millions of people. While the volume of “impact investment” capital in developing countries has grown rapidly in recent years, promising opportunities ready for investment are still all too rare.

Developing an ecosystem to support early-stage enterprise growth is a challenge at the frontier of development aid, private philanthropy, and impact investing, all of which struggle to find social enterprises with the potential to scale sustainably. Social entrepreneurs struggle to access finance, face capital that is inappropriately structured for their needs, lack adequately talented employees to drive growth, implement poor governance practices without understanding long-term implications, and find it difficult to access markets, especially those with consumers and suppliers at the base of the pyramid (BoP). These questions must be answered before any investment is possible.

Many key players from the impact investing, social enterprise, aid, philanthropic, academic and NGO communities believe there is a need for a stronger ecosystem to support these entrepreneurs. Recent research and pilot initiatives to better understand this “pioneer gap” identified by the Monitor Institute-Acumen Fund study, “From Blueprint to Scale: The Case for Philanthropy in Impact” as the critical gap in early stage support of promising inclusive businesses to help them develop, validate and establish new business models and new markets to serve the BoP. Initial results confirm the importance of early-stage development and the need for organized mechanisms to shoulder the cost and risk of this critical phase. The aid and philanthropic communities, in conjunction with impact investors, have the opportunity to play a critical role in building ecosystems that foster and structure viable, investment-ready opportunities.

The objective of the workshop was to foster a forum that would deepen participants’ understanding of the social enterprise ecosystem in East Africa, identify actionable ideas & initiatives to address key unmet needs, gaps and challenges in the growth of early stage social enterprises, and lastly, seed potential partnerships to start to identify ways to work together on these initiatives.

Outcomes

1. **Create a leadership training environment-** This initiative will develop two themes; the first to attract top university graduates and the second to train middle management talent. Together, the working group identified a need to raise the profile of the social enterprise & impact investing space to make these opportunities attractive to top talent, reducing the stigma of entrepreneurialism. Social enterprises find it difficult to scale because talent able to manage complex operations and strategy is

difficult to find extremely expensive for local talent. While the founding team knows their product, service or technology, they often struggle to manage the business side. Specific elements will include:

- a) *Student employment*: Fund competitive salary similar to for-profit packages from KCB, Equity and US-based donations from Harvard, Stanford to allow top students to work with social enterprises
- b) *Middle management training*: Map programs available to build leadership & business skills; partner with professors championing this cause and extend programs (e.g. ANDE training)

II. *Aggregate & Disseminate available information*- This initiative will disseminate information already available to support entrepreneurs in East Africa. Several prior initiatives have developed content to support both social entrepreneurs and impact investors, but most entrepreneurs are not aware of it, especially outside the major metro area of Nairobi. Even within actors in the eco-system, many were not aware of current initiatives and active organizations in East Africa. Specifically, we will:

- a) *Create “first draft” eco-system map* of resources available; distribute open source through ANDE
- b) *Develop entrepreneur tough questions list* to supplement existing “start-a-business” resources with difficult questions all investors will ask. Build investor buy-in to commit to using this to filter. This will help separate good ideas from mediocre ones and build a solid founding team
- c) *Launch entrepreneur road show* presented by local entrepreneurs to disseminate tough questions list and other information to entrepreneurs across East Africa

III. *Catalyze support for investible social entrepreneurs through accelerator-like models* Accelerator programs today struggle to invest sufficient financial and non-financial resources in their portfolio companies. Preparing enterprises for later-stage investment requires programs to have significant working capital & time. This initiative will develop seed funding and technical support for accelerators, allowing them to invest directly in social enterprises and prepare them for later-stage capital:

- a) *Explore existing accelerator funding models* to identify learnings from other regions and models and develop a series of possible accelerator models to be evaluated for effectiveness in the East African context
- b) *Leverage accelerator-like models to provide holistic support* to a large number of social entrepreneurs
- c) *Develop & improve accelerator-like program diligence* by providing selection criteria for entrants suitable for later funding; ensure there is adequate on-going accelerator monitoring.

Next steps

Over the next six months, Open Capital Advisors will collaborate with participants identified at the workshop and others to develop a concept notes for each initiative. Starting January 2013, the working groups will organize continued collaboration through conference calls and in-person meetings where possible. We will focus on actionable results and next steps to build consensus and focus on innovative new ideas supported by stakeholders from across the eco-system. These concept notes will be circulated to potential actors, supporters and funders in the coming months.

For more details and to get involved, please contact Annie Roberts, a Partner at Open Capital Advisors in Nairobi at contact@opencapitaladvisors.com.

