Towards A Business Model For Funding African Startups[1]

Author: Brian Laung Aoaeh

Published at Tekedia.com: 07 Jan 2013

Preamble: *Please participate in the discussion by leaving comments at the end of the article. Share the article with people in your network with a capacity to make this happen and also with people in positions that make them capable of affecting public policy related to this topic. If you publish a blog and wish to share this with your readers please do so with a link to this post at Tekedia where your readers can read the complete article. We will make a copy of this article available in PDF simultaneously with its publication at Tekedia, or soon after it is first published. If you wish to correspond with the author on the topic please do so using LinkedIn, Twitter or some other social networking mechanism as an initial mode of contact. Alternatively you could initiate contact through Tekedia's editorial team using the email address* [*tekedia@fasmicro.com*](mailto:tekedia@fasmicro.com). *Please read Tekedia's terms of service.*

Abstract: *At the same time that Africa is experiencing a boom in entrepreneurship amidst the proliferation of Internet and mobile technology African startups face the impediment of inadequate access to seed and early stage venture capital to fund their growth. A number of converging factors in other parts of the world present the contours of a possible solution to this problem. This blog post describes the problem in some detail, discusses the factors that point to a possible solution, and studies some examples of how an analogous problem is being solved by entrepreneurs, investors and policy makers in other parts of the world. It ends by attempting to fashion an outline of how current ideas might be combined in order to solve the problem specifically for African technology startups.*[2]

Introduction

More than ever before, African startup entrepreneurs have the opportunity to conceive and build technology-enabled startups that can compete at global scale. Internet, cloud-computing, and mobile computing technologies have made it infinitely easier and less expensive to build businesses that have the potential to become enormously successful by gathering users and customers from all over the world, and generating enormous revenues and profits in the process.

However unlike their counterparts in the United States and other parts of the world with more mature startup ecosystems, African startups have a much more difficult time raising seed funding and subsequent follow-on equity financing through venture capital. Even those African startups that successfully raise seed funding might find that they encounter a “follow-on equity financing crunch” which can slow things down, or lead to fatal consequences. To get a sense of the magnitude of this problem we can refer to recent research by CB Insights[3] on the venture capital industry and startups in the United States, which finds that 60% of seed-funded startups fail to raise follow-on financing.

In order to avoid confusion later lets define a few terms[4] before we proceed.

- A **startup** in this formulation is a temporary organization that has been created to find a solution to a problem, and on that basis to search for and develop a repeatable, scalable, and profitable business model[5]. In this context a new restaurant business does not qualify as a startup. The business model for restaurants already exists and there is no “search” necessary. Typically, the startups we will be referring to use a new technology or business model as an enabling factor in their bid to create and deliver value to their prospective customers. Startups are characterized by a very short operating history - a few months to no more than a few years. They are also characterized by a considerably high probability that what little operating experience they have gathered might differ markedly from what happens in the near future.
- A **company** is what a startup matures into after it has found a repeatable, scalable, and profitable business model and has reached a point at which its operating history offers a highly reliable prediction of its near and medium term future operations. In other words, at this point any changes to the business will be reflected in relatively minor adjustments to a very small number of elements of the business model.
- An **investor** is a person or organization seeking a significant financial return in exchange for significant amounts of capital for which the investor gets an ownership stake in the company[6]. The investor realizes the financial return from their investment upon exit.
- **Venture capital** is a form of financing provided to startups by investors because the typical startup has not reached the point at which it can secure a bank loan, and is still too risky and too small to raise capital by selling stock to public equity market investors through an IPO. Venture capital is a subset of private equity[7]. As a rule of thumb venture capitalists seek to invest in startups with a realistic chance of achieving a 10x return for the investor within the investor’s investment horizon. Another rule of thumb is that the venture capital investment should have a realistic chance of getting to $100 million of revenues in a relatively short span of time once the startup starts to scale.
- **Angel investors** invest their own money in startups. The typical angel investor provides much more than financial capital. However, an angel investor may be limited by the capacity of one individual to maintain adequate oversight over many early stage investments at the same time. In the United States some angel investors have started to band together in other to distribute the workload, share ideas, and benefit from the diverse areas of expertise that different angel investors bring to the group.

- **Venture capitalists** invest money on behalf of other investors in a venture capital fund. Investors in the venture capital fund are called limited partners (LPs). Venture capitalists invest in startups. The best venture capital investors also provide much more than financial capital. The fund is typically managed by an entity called a general partner (GP). LPs compensate the GP by paying the GP a percentage of the assets managed by the fund each year in annual fees, as well as a percentage of the excess returns generated by the GP when the fund exits from an investment. Each fund is typically created with a 10-year term, renewable for 2 or 3 one-year extensions at the discretion of each fund's LPs.[8]
- A **Seed investment** is an early stage investment in a startup. In many cases it represents the investment round that follows capital raised from an entrepreneur's friends and family. In the United States, seed investments are typically less than $1.5 million. Historically seed investing has been the exclusive purview of angel investors. That has changed. A large number of venture capital funds now specialize in seed investing, and there are even large funds that have been raised for the purpose of making seed investments. One night argue that this trend is occurring because of a realization that the most attractive venture investing returns are driven by investment activity at this stage of the startup lifecycle[9].
- A **Series A investment** is an early stage investment in a startup. Series A investments are follow-on equity investments that happen after a startup has already raised money from seed investors. In the United States, Series A investments typically happen 12 months or more after a startup has successfully raised seed capital. This is traditionally the point at which venture capital funds enter the picture. In general the Series A round is larger than the seed round, just as the seed round is larger than the friends and family round.
- A **public good or service** is one whose creation does not dramatically improve the chances that its creator will become rich. The economists' definition of a public good or service is somewhat more complex than this but this should work for the purpose of this discussion[10]. Public goods and services are characterized by the free-rider problem. A "rational person" would not contribute to the provision of the good or service because one does not need to do so in order to benefit from the public good or service. The opposite of a public good is a private good.
- A **remittance** is a sum of money sent from one person to another in which there is a physical distance between the sender and the recipient. For example an Ethiopian expatriate residing in Washington, DC might send a remittance to relatives in Addis Ababa.

The Problem

Internet technology has led to a boom in entrepreneurship and startup formation across the African continent. In an article for the BBC Erik Hersman describes the phenomenon[11] in its current incarnation. He also describes the proliferation of tech-hubs that is springing up to meet the demand being by created by the groundswell of would be African technology entrepreneurs for the resources startups need in order to bring their visions to life.

Contemporaneously with the boom Erik describes so well, a debate is taking place about the fundraising environment for Africa's would be entrepreneurs and technology startup founders. Writing for Forbes Mfonobong Nsehe says Africa may never produce a Facebook, Groupon, Zynga or Google.[12] Indigo Trust's Loren Treisman asks the question most pointedly; Do Africa's technology entrepreneurs need charity?[13] In the same vein Al Jazeera's English service The Stream had a conversation with TMS Ruge that asked another pointed question; Are international NGOs helping Africa's tech industry grow or are they slowing it down?[14] To put some specificity around the issue, let's distil the observations made by Loren Treisman, TMS Ruge, and Mfonobong Nsehe. Among numerous other issues, Africa's startups operate in an environment characterized by

- A dearth of local angel investors as well as a lack of awareness and interest from international venture capitalists to fund seed investments in African startups,

- Severe scarcity of local and international venture capital to fund the growth and development of those African startups that have already successfully scaled the long-odds of getting seed capital, and
- A large number of aid organizations making an even larger number of small, high-risk grants to a large number of social enterprises that are pursuing a goal of technology enabled social change in various sectors of Africa's economy.

The situation I have described above leads to a number of outcomes. I will outline three that concern me for the purpose of this discussion. First, having shrewdly assessed the realities on the ground a significant number of young African technologists will gravitate towards ICT-based social change projects that develop public goods and services, and have a high probability as it were of getting grant-funding from a non-profit grant-making organization like the Indigo Foundation[15]. Second, most of the ICT-based social change projects that indeed win grant-funding never become commercially successful enough to become weaned off grant-funding altogether. Instead, grants finance the "modest" life-style of the social enterprise's founders and the handful of employees that the social enterprise has brought onboard as time has progressed[16]. Third, the small numbers of international investors interested in exploring venture capital investing in Africa develop the view that African startups are much more focused on public goods and services than on private goods and services. Given that such venture investors are seeking large financial returns, they begin to look elsewhere for opportunities[17], taking with them the capital, and company building expertise that Africa's startups so desperately need.

Fortunately there's no reason for this cycle to continue indefinitely. A number of converging factors now make it entirely possible to solve this problem.

The Pieces of The Puzzle

The first piece of the puzzle presents itself in the form of remittances. The World Bank estimates that Nigeria alone received $21 billion of remittances in 2012[18]. World Bank estimates show remittances to sub-Saharan Africa growing from $28 billion in 2009 to $31 billion in 2012. Growth plateaued between 2011 and 2012, but will resume in 2013, 2014 and 2015 respectively with estimates of $33 billion, $36 billion and $39 billion. The bank's economists note that their estimates may grossly under-represent the true level of remittance flows to sub-Saharan Africa due to a number of issues related to differences in data reported by the bank and the IMF on one hand and national African governments on the other. Another reason is that a significant proportion of African immigrants use informal channels for the purpose of sending money home – some sources estimate that as much as 50% to 75% of remittances to Africa go through informal channels[19]. Unfortunately, remittances largely fuel consumption and largely do not go towards increasing economic activity. In fact anecdotal evidence points to African immigrants' perennial fear that funds repatriated with the intention of funding small and medium sized enterprises will be mismanaged or simply embezzled by relatives at home. UNCTAD also estimates total foreign direct investment (FDI) flows to sub-Saharan Africa in 2011 of $36.9 billion[20]. The vast majority of FDI inflows to Africa are targeted at energy, mining, and other areas of primary economic activity associated with Africa's commodity-centered economies. There is no reason to believe that the investors behind the flows of FDI into Africa's economy view any other kind of investing as anathema to their cause.

The second piece of the puzzle presents itself in the form of crowdfunding. Crowdfunding is an effort by a "crowd" of individuals who form a social network on the Internet and pool their monetary resources in order to support efforts by other people or organizations in which they have an interest but with which they did not necessarily share a pre-existing formal affiliation. Crowdfunding has matured since the first recorded instances of crowdfunding in the music industry. Today Kickstarter, IndieGoGo, RocketHub and numerous other crowdfunding websites have created a platform that makes it possible to crowd-fund nearly any kind of activity in any part of the world[21]. The most successful crowd funding campaigns raise millions of dollars from people who support the causes that the campaigns champion[22]. There are four main forms of crowdfunding. In donation based crowdfunding people donate to a project in exchange for an intangible, non-monetary reward. In rewards based crowdfunding people make cash contributions to a business or project in exchange for a tangible, non-monetary reward like a thank you email, a t-shirt, or a new product. In lending based crowdfunding individuals lend money to fund a business or a project in a manner that is similar to what would happen if the entity behind the campaign had taken a bank loan. In equity based crowdfunding people contribute funds in exchange for equity in the project or startup that they are funding. Many crowdfunding sites have a decidedly international flavor to the activities that they facilitate. However, at this point the United States remains the focal point of the great majority of crowdfunding initiatives.

The third piece[23] of the puzzle presents itself in the form of a segment of the Jumpstart Our Business Startups Act or JOBS Act, which was signed into law by President Barack Obama on 5 April 2012. The JOBS Act contains a section that contemplates an expanded role for crowdfunding in giving small individual investors access to early stage investment opportunities as well as giving startup companies increased access to sources of capital through online capital raising activities[24]. The JOBS Act creates a new section in the Securities Act of the United States that adds an exemption from SEC registration for crowdfunding, and requires the SEC to publish rules governing this aspect of the law no later than 31 Dec 2012[25]. The law makes a number of issuers ineligible to use crowdfunding as the JOBS Act defines it. This list of ineligible issuers includes non-US companies, companies required to file public reports with the SEC, certain investment companies and another type of business entity known as a business development company. Startups that seek crowdfunding under the JOBS Act can raise up to $1 million per 12-month period. They can have an unlimited number of investors, but that is subject to the maximum amount of capital they can raise. The investment per investor is restricted by a set of rules that link the maximum amount a small retail investor can invest each year to that investor's annual income. The startups that crowdfund under this provision of the JOBS Act must file investor disclosure documents with the SEC and must use an intermediary broker-dealer or funding portal[26]. The law provides for full disclosure liability with a knowledge out[27]. Shares sold to investors through this mechanism are restricted for one year. There may be additional state-by-state filing requirements that come into effect after the crowdfunding provisions in the JOBS Act have come into effect. Advertising and general solicitation is barred under this provision. Public companies, foreign startups and investment companies cannot issue under this mechanism.

We have already stated that the JOBS Act crowdfunding mechanism allows startups to raise up to $1 million during each trailing 12-month period. Investors who earn less than $100 thousand per year are allowed to invest the greater of $2,000 or 5% of their annual income or net worth during each trailing 12-month period. At income levels of $100 thousand or more per year, investors can invest 10% of their annual income or net worth per trailing 12-month period[28]. This investing activity has to be conducted through a broker-dealer or through a funding portal. Issuers must file with the SEC and provide extensive disclosure to the broker-dealer or funding portal. Issuers are barred from advertising securities issuances except to direct investors through a broker-dealer or funding portal. They generally cannot pay people to act as promoters. Crowdfunded shares are not counted in the SEC shareholder-count rules which trigger public filing requirements when that threshold is crossed. The income related rules above apply only to non-accredited investors. An accredited investor is a financially sophisticated investor that is deemed to have a reduced need for protection. Accredited investors must earn an individual income of more than $200,000 per year or a joint income of $300,000 per year in each of the last two years and have a reasonable expectation of continuing to maintain at least that level of income, or they must individually or jointly have a net worth exceeding $1 million, or they must be a general partner, executive officer, or director of the issuer. Accredited investors include individuals, pension funds and other employee benefit plans, trusts, insurance companies, and banks[29].

So, what is a funding portal? The term "funding portal" means any person or entity acting as an intermediary in a transaction involving the offer or sale of securities for the account of others, solely pursuant to section 4(6) of the United States Securities Act of 1933[30]. A funding portal cannot offer investment advice or make investment recommendations. It cannot solicit purchases, sales, or offers to buy the securities of startups that it offers to investors in its print materials, on its website or by other means. It cannot pay anyone any form of compensation for solicitations related to sales of securities that it offers to investors in its print materials, on its website or by other means. A funding portal cannot hold, manage, possess or handle investor funds or securities – it cannot act as an asset manager, a fund manager, an investment advisor or a custodian. A funding portal cannot engage in any activity that the United States SEC deems to be inappropriate.

Funding portals must register with the SEC and with the United States Financial Industry Regulatory Authority (FINRA)[31] even though they are exempt from broker-dealer regulation. They must provide investors with extensive risk related disclosures and they must also provide investor education materials. The entity that manages the funding portal must ensure that each investor that uses the portal has reviewed and understood investor education materials prepared according to the SEC's standards. The funding portal must positively affirm that each investor understands that early stage startup investing can lead to the loss of the investor's entire investment. Also investors must provide affirmative representation to the funding portal that;

- They understand the generally high level of risk associated with investments in startups, and the other types of issuers that are expected to utilize the JOBS Act's crowdfunding mechanism, and
- They understand that such investments will generally be characterized by high illiquidity, and
- They understand any other such issues that the SEC may deem appropriate from time to time.

The law requires funding portals to take measures to limit fraud risk with relation to the transactions they facilitate by, among other things, obtaining or performing background checks and historical regulatory and disciplinary record checks, including securities enforcement regulatory history checks on every officer, director and person holding more than 20% of the outstanding equity of every issuer whose securities are offered through the funding portal. The funding portal is required to provide the SEC and potential investors any disclosures made by the issuer under the issuer disclosure provisions of this law not later than 21 days before the first day on which securities are sold to any investor. Funding portals must ensure that funding proceeds become available to issuers only if the aggregate amount raised from all investors equals or exceeds the target-offering amount[32]. Furthermore, funding portals must ensure that individual investors adhere to the income related investment limits set-forth, across all securities issuances across all funding portals, under the mechanism of the crowdfunding law. Also, funding portals have to protect the investor information collected under the auspices of this law. Funding portals are barred from compensating people for the activity of generating leads to individual investors. Employees, partners, directors, officers, and other agents of an entity that runs a funding portal are prohibited from having a financial interest in any issuer using the funding portal's services.

In addition to the already extensive set of rules that funding portals must adhere to, the SEC reserves the right to issue additional rules as it deems appropriate from time to time.

The final piece of the puzzle presents itself in the form of the boom in technology hubs that Erik Hersman describes so vividly in his article for the BBC about the dynamic, evolving and nascent technology startup scene spreading across the continent. Investors seeking technology startups in Africa can now rely on such technology hubs, co-working spaces, incubators and accelerators as partners in the process of unearthing some of Africa's most promising technology innovators and startup entrepreneurs for seed or follow-on venture capital investments[33].

I have discussed the problem African startups face in raising venture capital. I have also hypothesized that a number of converging developments around the world offer some suggestions towards a possible solution. I will now devote the remainder of this article to discussing a business model framework that might be executed in order to yield one workable solution to the problem, as I understand it.

Towards A Workable Solution: A Brief Survey of Some Examples

A number of enterprising individuals in other parts of the world have already set about making efforts to capitalize on some or all of the factors we have discussed in the preceding section in order to fashion a solution to the problem of inadequate access to capital for nascent ideas, startups and other types of project-based enterprises. I will now briefly examine some of these approaches in the following discussion.

New York-based SeedInvest describes itself as a revolutionary funding platform that allows investors to identify, execute and manage investments in top startups and small businesses[34]. Two former professional investors who have set for themselves the mission of building a cohesive end-to-end platform for investors and entrepreneurs founded it. Accredited investors wishing to use SeedInvest's platform can receive personalized recommendations based on a proprietary algorithm. They can filter the recommended companies further based on a number of investor preferences. They can then follow prospects they find interesting and receive alerts when these prospects launch a capital raise. SeedInvest conducts due diligence on companies that list on its website, and provides tools for investors to conduct their own additional due diligence[35] using SeedInvest's streamlined process. Investors can then initiate an investment by reviewing company data and documents made available in a virtual dataroom, execute legal agreements, and fund an investment directly on SeedInvest. The company expects to introduce options that will enable non-accredited investors to invest in a similar manner once the SEC promulgates the rules for the final part of the JOBS Act later in 2013. SeedInvest is geography-agnostic in terms of where investors reside. For startups seeking to raise funds under the JOBS Act's crowdfunding mechanism SeedInvest lets the startup create an issuer profile that could include a pitch deck and video of the team and the startup's product or service. The startup can create traction for itself by using social media tools provided by SeedInvest to help startups tap into their own networks of prospective investors. Startups that feel ready can launch a fundraising round on SeedInvest after review by SeedInvest's investment committee prior to the launch. SeedInvest provides startups with guidance to help them close the round.

Jerusalem-based OurCrowd is an equity based crowdfunding platform that has been built exclusively for a select group of accredited investors to provide funding for Israeli startups[36]. Membership in the OurCrowd community is vetted and offered only to investors who meet the accreditation criteria spelled out by local and international regulatory bodies. An existing member of OurCrowd must recommend a prospective new member before that new member is accepted into the community. Investors who are accepted into the community are expected to make at least one investment per year. OurCrowd's initial focus is the dynamic early stage funding market in Israel. Only companies that have passed a rigorous due diligence process will be added to the platform. All term sheets are pre-negotiated by OurCrowd's team of investment professionals and OurCrowd's management company and affiliated mentor network leads each investment round with some of their own money. To my knowledge OurCrowd is the first Israel-focused equity-based members only crowdfunding platform to launch in 2012 and one of the world's few accredited investor only crowdfunding platforms – OurCrowd has no intention to seek non-accredited invetor. OurCrowd has ambitions to fund startups elsewhere in the globe[37]. Like SeedInvest, OurCrowd is geography-agnostic in terms of where its investors reside. OurCrowd offers its members the flexibility and choice of angel investing with the infrastructure, processes, and management expertise that one typically associates with institutional venture capital firms. OurCrowd does not operate under the auspices of the United States JOBS Act. The process by which OurCrowd makes an investment in a specific startup involves the creation of one investing entity into which investors' capital is rolled-up. Unlike in an example we will encounter later, this investing entity can participate in follow-on financing rounds launched by the corresponding startup.

Miami, FL and Chicago, IL -based EarlyShares is an equity based crowdfunding platform that was created with the goal of helping entrepreneurs raise capital from everyday people[38]. The platform allows startups to raise seed capital. It also enables existing businesses to raise growth capital. EarlyShares is open to accredited and non-accredited investors, although it is not clear if non-accredited investors can actually invest in any startups yet since the SEC is yet to finalize the rules that govern participation by non-accredited investors[39]. For investors the portal has a 4-step process between signup and preparation to begin seeking out startup investment candidates. Once that process is complete the investor then goes through a 6-step investment process that starts with a search for startups the investor might wish to explore and ends with ongoing updates from the startup to the investor once the investment transaction between the startup and the investor has been completed. For startups and small companies raising crowdfunding on EarlyShares begins with a free crowdfunding assessment and an application that involves answering a questionnaire. The information that startups and small companies must provide includes a brief description of the business or idea and the market it will pursue, the amount of capital it wishes to raise from the crowd, and a brief investor pitch. Startups and small companies can also upload additional materials like a pitch deck, financials, and a business plan. EarlyShares provides a template that startups and small companies can fill with data and other information. Once the application has been accepted after a review by EarlyShares startups and small companies go through an 8-step process that includes an extensive security review, publication, campaign launch, social media sharing, funding, and investor relations. EarlyShares promises startups and small companies that crowdfund on its platform that it will continue to work with them even after their campaign is successfully completed and they have raised the capital they seek. It maintains an investor communications portal for that purpose. EarlyShares operates under the auspices of the JOBS Act.

AngelList and SecondMarket have formed AngelList Invest, a partnership that seeks to open deals to small investors[40]. Through this partnership small, accredited investors can invest as little as $1,000 in early stage technology startups alongside angel investors and venture capitalists investing larger amounts of capital. AngelList is a platform on which startups can meet investors and prospective employees. It enables startups to raise equity or debt financing from accredited investors. AngelList also provides term sheet templates to help startups reduce costs and to help speed up the fundraising process. Since its launch about two years ago AngelList is reported to have 40,000 company profiles, 16,000 active fundraising campaigns and 5,000 accredited investors who have made at least two investments through AngelList and have a reference on the website[41]. Published reports suggest AngelList now matches startups with as much as $12 million in funding and 100 new hires per month[42]. SecondMarket initially launched as a marketplace for restricted securities in public companies[43]. The company has since expanded its activities into new markets including debt securities, bankruptcy claims, private company stock, venture-backed startups, and community banking. The company claims to have a vast international network of accredited institutional and individual investors. It also claims to be capable of aggregating and connecting investors around the world with billions of dollars in investment opportunities. AngelList Invest works by aggregating all the small investors who wish to invest in a specific startup into one investing entity. That entity then invests in the corresponding startup, eliminating the problem of startups needing to manage a cumbersome number of small shareholders. AngelList Invest raises a minimum of $150,000 for each startup that decides to use this approach. The minimum amount an individual investor can commit under this program is $1,000. In one of AngelList Invest's earliest test cases, Transcriptic, a California-based startup raised $500,000 from 50 investors[44]. AngelList Invest is currently being run as a pilot-program, and is almost certainly a pre-cursor to

AngelList and SecondMarket expanding their activities into the crowdfunding market for unaccredited investors once the SEC publishes the applicable rules and regulations. As things stand the investing entities formed on behalf of the crowd of small investors by AngelList Invest cannot participate in follow on investment rounds launched by their corresponding startups. However, those rules might change, since everything is really only being tested at this point to see what works and what does not. AngelList is based in California while SecondMarket is based in New York.

Mission Markets describes itself as a capital marketplace for the local community, sustainable, and impact investing community. Its investor, company and community members can access and discover capital raising, investment and crowdfunding opportunities. They can also collaborate with a diverse group of market stakeholders. Mission Markets provides data, metrics, community building tools and promotional services and products to market stakeholders. It also facilitates transactions covering environmental credits and rights. Currently its offerings cover clean energy, water, ecosystem conservation, green infrastructure, sustainable agriculture, economic development, education, health and wellness and sustainable consumer products. Investor members of Mission Markets gain access to a wide range of investments, a variety of financial instruments, opportunities that span the spectrum of various social and environmental markets, filtering options on multiple criteria, a dedicated sales and marketing team to match investors and issuers, crowdsourced peer review and due diligence groups, centralized research, news and third party ratings, and social networking with communities of like-minded investors. The site does not make a prominent distinction between accredited and non-accredited investors. I assume it offers opportunities for both, but that similar to SeedInvest, EarlyShares, and AngelList Invest it too is laying the groundwork to enable non-accredited investors make investments in early stage startups under the auspices of the JOBS Act. Companies that list on Mission Markets gain access to what Mission Markets describes as mission-aligned capital. They also gain access to 3rd party service providers. Public companies that sign onto Mission Markets can promote and monetize their internal corporate social responsibility and sustainability programs. Companies have to provide data about the offering, data on valuation and the financial terms of the transaction, and uploaded documents related to the transaction. Mission Markets also has financial disclosure, social and environmental impact assessment requirements[45].

I have discussed how a number of people in the United States[46] and Israel[47] have approached solving the problem that is posed by an inadequate supply of capital for startups, small businesses, and other types of idea- and project-based enterprises. The solution to that problem drives continuing growth in technology innovation, startup entrepreneurship, economic development and employment[48]. I will now discuss one potential approach to solving the problem as it pertains to African startups, angel and venture capital investing on the continent.

Towards A Workable Solution: Applying What We Have Learned – The Big Picture

We begin with a simple value proposition. In order to solve this problem we seek to provide the most promising African startups with access to seed and early stage venture capital, and to provide investors from around the world with an opportunity to earn outsized returns by presenting them with co-investment opportunities not followed by the mainstream of early stage investors.

Why does this make sense? Africa as a whole presents a compelling economic picture to investors that are willing to do the work to seek investment opportunities on the continent. Africa's collective 2008 GDP of $1.6 trillion equals that of Brazil or Russia, the continent represents one of the fastest growing regions in the world, and in the long term, trends indicate that the continent's economic prospects are strong[49]. According to the World Bank, sub-Saharan Africa is expected to grow at 4.8 percent in 2012, unchanged from its 4.9 percent growth in 2011. If one excluded South Africa, the forecast for economic growth in sub-Saharan Africa jumps to 6 percent[50]. Some research indicates that sub-Saharan Africa is home to as many as 9 of the fastest-growing economies in the world, and that a majority of these economies are experiencing growth that is unassociated with the export of primary commodities, minerals or energy. The experts behind this research have gone as far as to predict that some economies in sub-Saharan Africa will surpass the Asian Tigers as the economic growth story of the coming decade. The authors of that research suggest that Africa will grow from a collective GDP of about $2 trillion today to $29 trillion in today's dollars by 2050. In the process by 2050 they expect Africa to produce more in GDP than the US and the Eurozone combined. The continent's population will grow from about 1 billion people today to about 2 billion people in 2050, transforming its basic social, demographic and political realities.[51] The key drivers of sub-Saharan Africa's economic growth will be urbanization, labor force expansion, and an increase in the number of middle-class consumers.

African startups, and indeed startups from other emerging economic regions of the world face an interesting opportunity. They can conceptualize and create technology-enabled startups that solve problems that are seemingly peculiar and unique to their region of the world. Once the technology is tested and scaled successfully in the startups' home market and region, it may become obvious that there is an emerging domestic market (EDM) in the United States or Western Europe that faces an analogous problem and therefor presents a potential new market and untapped revenue source for the African startup. An EDM is a domestic market with growth potential that is underserved and faces constraints in access to capital, goods and services because of systematic undervaluation that occurs as a result of enduring information asymmetries between the constituents of the EDM on one hand and the people or enterprises that would satisfy the EDM's demand for capital, goods and services on the other hand. Typically, EDMs are comprised of ethnic minority groups, and women, in urban and rural areas with low-income to moderate-income populations. In aggregate EDM's in the United States present potentially large and lucrative market opportunities. Hispanic buying power is estimated to equal $1.2 trillion in 2012 – there are only 13 countries in the world each with aggregate buying power in excess of that amount. Asian buying power is expected to reach $1 trillion in 2017 – and is already larger than the buying power of all but each of 17 nations in the world. In spite of suffering a reportedly disproportionately large, negative impact during the Great Recession[52] Black buying power exceeds $1 trillion in 2012, and is expected to reach $1.3 trillion by 2017[53]. So what kinds of technology products might make the leap from serving African customers to serving customers in the United States? One example? Tablet computers that offer the functionality and performance of higher priced comparable products but sell at $50 or less. That $50 hurdle may be already too high. The Aakash UbiSlate 7Ci retails at $35 and was developed specifically with India's students as its target market. Are there African startups designing and building tablet computers? Yes. VMK is based in Brazzaville, Congo and produces the Way-C family of tablets. FASMicro is based in Owerri, Nigeria and produces the Ovim family of tablets[54]. Encipher is based in Abuja, Nigeria and produces the Inye family of tablets. Another example; smartphone, feature phone, and tablet apps that improve battery life by modifying the data consumption behavior of these devices in order to dramatically reduce the monthly data-usage bills consumers incur from their use. Another example? African innovators are developing all sorts of mobile apps that can be harnessed by private and public entities in the West and other parts of the world to deliver a variety of goods and services to underserved EDMs. One more example; energy efficiency solutions that help people in underserved communities take advantage of renewable energy sources in a bid to better manage their ongoing energy-consumption patterns and costs. A final example; mobile-money solutions that enable unbanked consumers in the shadow or underground economy to tap into mobile- and web-based ecommerce, as well as mobile-banking and mobile-insurance services without going through the formal banking and insurance sector.[55, 56]

The first step to making this funding model a reality is the creation of an investment fund. The fund has to be of a sufficient size to make several investments of $50 thousand to $100 thousand a year, or enough to last the startup about 12 months[57]. If I were doing this, I would not be the very first capital in the company[58]. I would partner with the incubators, co-working spaces, accelerators and hubs that have mushroomed across the continent and use them as a filtering mechanism for selecting a slate of startup candidates from which a final class of 4 – 6 will emerge for the fund's portfolio. I would have a hub in North Africa, a hub in West Africa, a hub in East Africa and another in Southern Africa. In each hub I would negotiate flexible arrangements for office space to ensure that startups in which the fund decides to invest have the best working spaces available. Next, I would build a team of operations and technical staff whose only duty is to assist these startups quickly conceptualize, design, build, test, scale and widely distribute their products. This team would also include people experienced in industrial psychology, market research, strategy, marketing, public relations, accounting and finance, human resource management and business development. Obviously one of the most important activities of this team would be to conduct full due diligence on every startup in which the fund considers making an investment[59]. Another team of people would be responsible for identifying and reaching out to potential accredited co-investors around the world[60]. In relation to a specific startup in the fund's portfolio this team's sole responsibility would be to introduce the fund to potential co-investors, to educate the potential co-investor about the market opportunity, about the product the team is building to exploit that market opportunity, about the team behind the startup, and about the business model as we understand it at that point in time.

The investment firm would be physically based in the United States or Western Europe, to take advantage of the mature and strict regulatory and legal environment there. As things stand today, I would prefer to be based in the United States because I could also take advantage of the emerging crowdfunding mechanisms contemplated by the JOBS Act. I would form a partnership with a funding portal or two – say, with AngelList and SecondMarket's AngelList Invest program. The notion being that the fund's portfolio companies would each utilize AngelList Invest as a mechanism for filling out a portion of the funding round subsequent to the startups' entry into the fund's portfolio[61]. The fund's community of investors would thus include;

- Fund LPs who automatically invest in each startup in the fund's portfolio by virtue of their investment in the fund,
- Accredited investors closely affiliated with the fund who have the option to invest alongside the fund at any stage and benefit from the fund's legal, operations, management and strategic expertise as it relates to building businesses from scratch and helping the startups in the fund's portfolio succeed[62], and
- Accredited and non-accredited investors, the crowd from AngelList Invest for example, who would typically only invest in an investment round subsequent to the fund already having made an investment in a given startup and having worked with the startup for about 12 months in order to increase the odds that it will thrive under the rigors and realities of competition in the marketplace, thus making it a successful investment for the fund and its affiliated co-investors.

Where does the issue of remittances come in? That plays a role in the third group - the crowd of accredited and non-accredited individual investors. The fund would need to find a way to let expatriate African professionals living abroad know that an opportunity now exists for them to invest in African startups alongside a venture capital fund with Africa as its sole focus, and alongside other institutional and individual investors from other parts of the world. Why this approach? First, this is a group of people that already collectively "invest" a large sum of money in Africa through annual and largely recurring remittances. It makes sense to offer this group an opportunity to put a small portion of that capital to work in a way that accomplishes the simultaneous goals of yielding a financial return and generating jobs and economic growth at home. Second, a small number of these people might be willing to form an online social networking community[63] whose only focus is helping the startups they have invested in succeed by providing support to the startups on an as-needed basis by answering questions in a discussion forum[64], through email correspondence with an individual working at one of the startups or with a member of one of the fund's auxiliary operations teams, or by means of a conference call by telephone or video. An idea of this sort is already employed by the Meltwater Entrepreneurial School of Technology (MEST) in Accra which recruits MBA consultants[65] from around the world for 6-month volunteer mentoring and advisory engagements with its teams of aspiring African software and technology entrepreneurs during their capstone project towards the end of MEST's 24 month program that trains a cohort of about 20 students (entrepreneurs-in-training or EITs) each year in software development, entrepreneurship, and basic business management.

Now that I have discussed the broad aspects of a possible solution, I will attempt to briefly outline the elements of a business model canvas for such a venture. My descriptions will by necessity be brief and riddled with gaps, but I hope it will serve a sufficient function of conveying how I expect an endeavor like the one I have described to work.

Towards A Workable Solution: Key Elements Of A (Draft) Business Model

The business model I am about to describe is based on Alex Osterwalder's Business Model Generation and the business model canvas. We have previously discussed business models and the business model canvas in extensive detail here.

- **Value Proposition**: provide the most promising African startups with access to seed and early stage capital, and provide investors from around the world with an opportunity to earn outsized returns by presenting them with co-investment opportunities not followed by the mainstream of early stage venture capital investors[66].
  - African startups gain a partner committed to their success, and capable of investing in their growth through the most critical stages of their lifecycle and sufficiently motivated to assist them compete on a global scale.
  - Investors obtain the flexibility of angel investing backed by the infrastructure typically associated with institutional venture capital funds.
  - This value proposition will be strengthened if the fund's principals have some money invested in the fund, but in and off itself that alone should not be the criterion by which investors make a decision about if they should invest in the fund, or co-invest alongside it.
- **Customer Segments**:
  - Early stage African technology-enabled startups,
  - Accredited individual and institutional investors, and
  - Non-accredited individual investors.
- **Customer Relationships**:
  - Fund portfolio companies (direct, high touch communication),
  - Fund LPs (direct, high touch communication),
  - Closely affiliated accredited non-LP investor members of the fund's member community (direct, medium touch communication),
  - Accredited and non-accredited investors who invest only through a funding portal but are not part of the fund's member community (indirect, low touch communication), and
  - People in the immediately preceding group who wish to volunteer some time in lending their expertise to startups they have invested in on an as-needed basis (direct or indirect low, medium or high touch communication depending on specific circumstances).

- **Channels**:
    - Website(s),
    - Phone,
    - Video, and
    - In-person meeting(s) as necessary
- **Key Activities**:
    - Sourcing, vetting and selecting startup candidates,
    - Due diligence (market, product, team, deal) and term sheet negotiations,
    - The 6-month intensive "hands-on" program followed by the 6-month "hands-off" period prior to the startups' graduation from the fund's 12-month acceleration program[67],
    - Customer Development in conjunction with the startup entrepreneurs during the 12-month program,
    - Operations support (design, technology, operations, finance and accounting, strategy, human resources, legal, intellectual property, public relations, marketing etc.), and
    - Syndication related to future financing rounds for startups in the fund's portfolio.
- **Key Resources**:
    - Relationships with accredited and non-accredited investors,
    - Relationships with African technologists and aspiring entrepreneurs, and with communities around the tech-hubs, accelerators and incubators that are flourishing across the continent,
    - The fund's people for their knowledge, expertise and company-building-from-scratch know-how, and
    - The processes and technology that will make all the fund's activities happen seamlessly across geographies and time zones.
- **Key Partners**:
    - Angel investors from around the world,
    - Early stage venture capitalists from around the world,
    - Foundations and charitable trusts that see the fund's activities as an extension of their own mission and wish to partner as co-investors with the fund or in some other capacity,
    - Funding portals like those discussed as examples of how the problem of access to capital is being solved in other parts of the world,
    - Professional service providers[68] like attorneys, technology and design consultants, outsourced software R&D teams, technology service providers etc., and
    - African governments that wish to partner with the fund in any of several possible capacities in order to aid the fund accomplish its goal[69].
- **Revenue Streams**: Fees and investment returns[70].
- **Cost Structure**: Technology, auxiliary services, salaries, and travel. [71]

<u>Conclusion</u>

I have attempted to describe the problem faced by African startups in gaining access to the capital that they require to grow and compete on a global scale. I have also discussed a number of converging trends that I believe offer sufficient contours of a workable solution to this problem. The problem of inadequate access to seed and early stage venture capital is not peculiar to African startups. They merely experience more acute symptoms of the problem than their counterparts in other parts of the world. I have pointed to a handful of examples in the United States and Israel to show how various models are being developed in various approaches to solving this problem. I have discussed in broad terms how I think a business model devised specifically to implement a solution to this problem for African startups might function. Lastly, using the business model canvas I have briefly outlined a draft business model for such an enterprise.

As it turns out someone else has been thinking along these lines.

The Startup Africa Fund describes itself as a crowdsourcing project aimed at providing a mechanism for Africans and friends of Africa to fund innovative and disruptive technology startups based in Africa through a pooled fund. A quote on the fund's website is ascribed to Kayode Miyubi[72]. He is described as the project director. He says:

"Raising Startup Capital has been the biggest hurdle for Technology based African Startups. I believe we can solve that problem by investing in ourselves. Startup Africa Fund plans to provide the framework and the platform to do just that."

According to its website Startup Africa Fund was conceptualized in August 2012. It has an objective of raising $100,100 from 1,001 slots worth $100 each on a monthly basis for the next 5 years, providing total investment capital of roughly $6 million. Individuals who sign up as backers can obtain a minimum of 1 slot each month. Backers may pay for more than the 1 slot minimum per month. The fund opened 1,001 slots to the public on August 29, 2012 and stated that the offering would be closed by November 30, 2012. As I write this article 34 backers have pledged a total of $4,200 out of the monthly goal of $100,100[73]. The fund's stated goal is to seed between 1 and 4 Africa-based startups a month with capital in the range of $25,000 to $100,000. Presumably, the team behind this fund intends to run the fund out of the United States, the United Kingdom or Mauritius in order to take advantage of strict financial and investment regulations. The fund describes itself as a private fund whose funding mechanism works in much the same way as traditional cooperatives in African societies, and states that the opportunity will be closed to investors once the fund has raised sufficient pledges. At the time the fund was set up the people behind the project were merely collecting data to validate the possibility that they could pull this off – no money is actually being collected from backers at this time. Also, they had not yet developed a comprehensive legal, operating, and financial framework on which the fund and its activities would be governed. Startup Africa Fund intends to only make equity investments in the startups that it funds. It explicitly states that it expects to collect annual dividends from its allocation of profits from the startups that it funds. I should point out that most early stage startups operate at a loss for sometime, so it is not clear how Startup Africa Fund would obtain its pro rata share of "profits" if it indeed invests seed and early stage venture capital in African startups, as we have defined a startup, since such startups are not yet realizing any operating profits. The fund offers investors a 5-year term after which investors have the option to cash out their investment. In addition it offers access to startup documents like pitch decks etc., access to a private investor relations portal, and access to management decision logs and quarterly audits etc.

It is safe to say that this is not going to be an easy task to accomplish. The people behind Startup Africa Fund must now realize this even more so than when they first conceived their idea given that more than a month after the deadline by which Startup Africa Fund stated it would close its first fundraising effort it has raised only 4.2 percent of what would amount to its first monthly fundraising goal of $100,100.

Does this mean no one should try to solve this problem? Of course not! Or may be I should say, I hope not! It simply means that who ever proposes to solve this problem has to do a fair amount of thinking, and a considerable amount of background and foundational work before going out to raise capital for the fund. It also means that a low-touch approach like that seemingly used by Startup Africa Fund will not work as an initial investor outreach strategy. It is likely that an approach that focuses on accredited institutional and individual investors initially will yield better results than those reflected by Startup Africa Fund's fundraising methods and the results those methods have yielded to date. Non-accredited investors can be approached using a low-touch, indirect means of communication[74] once the fund has had some success and gained some traction and notoriety. From a timeline perspective I would budget no less than 12 months for laying out detailed legal, operating, and financial frameworks for how the fund will operate and the same amount of time for building the core functionality of the fund's investment, crowdfunding, educational and social networking portal. I would also allocate at least 12 months for the initial phases of the fundraising effort and I would probably devote 12 months for building the partnerships that the fund will rely upon to support its activities. Depending on the team that is working on the initiative some or all of these activities could happen in parallel. It bears noting that the team of individuals that hold partnership titles in the GP should include at least one individual with an impeccable, unimpeachable and impressive track record in venture investing and international business circles[75]. The team will also need a person with deep knowledge of Africa, its people and the burgeoning technology landscape across the continent. The remainder of the fund's team of professionals should understand the broad contours of the continent's economic realities and the challenges that African startups must contend with in order to succeed. Also, the team should collectively have a vision about how each of the startups that the fund invests in can compete in every corner of the world – that is one way, if not the only way, to generate truly outsized returns for the fund's investors.

An Africa-focused seed and early stage venture capital fund that invests in technology startups and generates outsized returns for its investors is the surest way to get more investors paying attention to, and investing in African startups. Such a fund would generate jobs, create wealth for its various stakeholders and increase economic prosperity within the communities in which startups in its portfolio operate. In addition, some of the startups this fund would invest in would undoubtedly improve the lives of many people in Africa and elsewhere. With hard work and a little luck, a number among them might even change the world in the process.

---

[1] This work relies substantially on the work of others. Any mistake or omission in quoting from, citing, or giving appropriate attribution to my source(s) is entirely mine and was not done deliberately or with ill intent. Please let me know if I have failed to cite work that you feel should have been more clearly referenced.

[2] The length of this article reflects the fact that I have been gestating one form or another of this idea since 2005, shortly before I began business school at NYU's Leonard N. Stern School of Business. However, I did not first think of it in relation to startups and venture capital.

[3] *Seed Investing Report – Startup Orphans and the Series A Crunch*, 19 Dec 2012. PDF accessed at https://www.cbinsights.com/blog on 24 Dec 2012.

[4] In general these definitions are not intended for purposes outside this discussion and may not coincide entirely with other common uses of the terms as readers might encounter them elsewhere.

[5] Steve Blank and Bob Dorf, *The Startup Owner's Manual: The Step By Step Guide for Building a Great Company*, First Edition, page xvii, K&S Ranch Inc., 2012, Pescadero, CA.

[6] I am obviously excluding many other classes of financial investors with this definition.

[7] Private equity provides equity financing for privately held companies in general. All venture capital is private equity but not all private equity is venture capital.

[8] A few other legal structures exist, but the GP/LP model is most prevalent.

[9] John Frankel, *How Institutional Limited Partners Can Avoid Limited Returns*, 17 Nov 2012. Accessed at http://techcrunch.com/ on 29 Dec 2012.

[10] A public good or service is one whose consumption by one consumer does not make it any less available for consumption by another, and one whose consumption cannot be effectively restricted. Air is a public good. Economists describe public goods as non-excludable and non-rivalrous.

[11] Erik Hersman, *From Kenya to Madagascar: The African Tech-Hub Boom*, 19 July 2012. Accessed at http://www.bbc.co.uk/news on 24 Dec 2012.

[12] Mfonobong Nsehe, *Why Africa May Never Produce a Facebook, Groupon, Zynga or Google*, 7 April 2011. Accessed at http://www.forbes.com on 24 Dec 2012.
[13] Loren Treisman, *Do Africa's Technology Entrepreneurs Need Charity?*, 9 Aug 2012. Accessed at http://www.bbc.co.uk/news on 24 Dec 2012.
[14] TMS Ruge, *Are International NGOs Helping Africa's Tech Industry Grow or Are They Slowing It Down?*, 9 Nov 2012. Accessed at http://projectdiaspora.org/wp-content/2012/11/09/ on 24 Dec 2012.
[15] I do not intend to suggest that public goods are bad, or that there is anything wrong with social entrepreneurship for that matter. Nor am I against non-profits giving grants to social change enterprises.
[16] Very few social change enterprises develop into multi billion dollar global businesses.
[17] Emerging markets in Asia, South and Central America and the Middle East present equally nascent startup and venture capital ecosystems.
[18] The World Bank, *Migration and Development Brief 19: Remittances To Developing Countries Will Surpass $400 billion in 2012*, 20 Nov 2012. Downloaded in PDF from http://econ.worldbank.org/ on 24 Dec 2012.
[19] African Economic Outlook, *Financial Flows & Tax Receipts: Remittances*. Accessed at http://www.africaneconomicoutlook.org/en/outlook/financial_flows/remittances/ on 24 Dec 2012.
[20] 05 July 2012 UNCTAD Press Release, accessed at http://unctad.org/en/Pages/PressRelease on 29 Dec 2012.
[21] RocketHub claims to have "empowered projects in 1,500 cities and 100 nations" in the areas of art, science, business, and social good.
[22] See for example: Chase Hoffberger, *The Top 10 Most Influential Crowdfunding Campaigns of 2012*, 24 Dec 2012. Accessed 24 Dec 2012 at http://www.dailydot.com/society.
[23] Adapted from; Brian S. Korn, *Crowdfunding Under The JOBS Act*, 30 Nov 2012. Accessed at http://www.jdsupra.com/legalnews/crowdfunding-under-the-jobs-act-53850/ on 24 Dec 2012.
[24] The background story about how the Crowdfund Investing (CFI) framework created by Sherwood Neiss, Jason Best and Zak Cassady-Dorion found its way into the JOBS Act and created the future of startup financing can be found at http://www.startupexemption.com.
[25] The rest of our discussion of the JOBS Act crowdfunding provision assumes what we know now will still be applicable when the SEC publishes the complete set of rules.
[26] A funding portal is a kind of intermediary in a transaction involving the sale of securities between two counterparties.
[27] A selling party is not liable for any error, inaccuracy, or omission in a disclosure statement of the selling party if that selling party did not have actual knowledge of the error, inaccuracy or omission at the time the disclosure statement was issued.
[28] Such investors are described as non-accredited investors. Companies will not be able to raise capital from them till the SEC enacts the final part of the JOBS Act in late 2013. Till that happens startups can only use the full power of the Internet and social media to raise money from accredited investors.
[29] To qualify as an accredited investor employee benefit plans and trusts must have total assets of more than $5 million.
[30] Adapted from; John Cones, *Funding Portal Requirements Under The New Crowdfunding Law*, 06 April 2012. Accessed at http://www.baselineintel.com/research-wrap on 24 Dec 2012.
[31] FINRA is the largest independent regulator for all securities firms doing business in the United States. Its chief role is to protect investors by maintaining the fairness of the U.S. capital markets.
[32] This mirrors the practice on Kickstarter and IndieGoGo. A campaign has to equal or exceed its crowdfunding goal otherwise pledged funds are returned to would be backers of the campaign. A campaign can raise more than its target, but not less.
[33] AfriLabs is an umbrella body that was created to facilitate collaboration between Africa's technology, startup, entrepreneurship, and innovation communities. It exists to support the work of high potential entrepreneurs across the continent.
[34] https://www.seedinvest.com/about-us accessed on 24 Dec 2012.

[35] Some of this is accomplished by means of discussion forums that foster open sharing of due diligence information, knowledge and expertise amongst prospective investors as well as members of the startup team.
[36] http://ourcrowd.com/How_It_Works accessed on 24 Dec 2012.
[37] Full disclosure: my employer does business with OurCrowd.
[38] http://www.earlyshares.com/learn/overview accessed on 25 Dec 2012.
[39] It is likely that at this point EarlyShares simply functions as an education repository for non-accredited investors.
[40] Tomion Geron, *AngelList, With SecondMarket, Opens Deals To Small Investors For As Little As $1K*, 19 Dec 2012. Accessed on 27 Dec 2012 at http://www.forbes.com.
[41] Sarah Perez, *AngelList Gives Smaller Investors A Piece Of The Action With Launch Of AngelList invest*, 19 Dec 2012. Accessed on 27 Dec 2012 at http://techcrunch.com.
[42] Liz Gannes, *AngelList Now Matching Start-ups With As Much As $12M Funding and 100 New Hires Per Month*, 26 Dec 12. Accessed at http://allthingsd.com/ on 27 December 2012.
[43] https://www.secondmarket.com/about-us accessed on 27 Dec 2012.
[44] This was a portion of Transcriptic's $1.2 million seed round. You can read about how Transcriptic raised its seed round here: Sarah Lacy, *Transcriptic's Wild Seed Round: "The Internet Was Just Trying To Throw Money At Us"*, 13 Dec 2012. Accessed at http://pandodaily.com on 27 Dec 2012.
[45] http://missionmarkets.com/ accessed on 27 Dec 2012.
[46] At risk of stating the obvious, the United States Government's realization of the importance of this issue led to the JOBS Act. Other governments can learn from that example.
[47] Israel's government has played a critical role in transforming Israel into The Startup Nation. Jonathan Medved, the founder of OurCrowd is a key figure in that process. Singapore is in the process of emulating Israel's example.
[48] A whitepaper describing how crowdfund investing plays a role in solving pressing socio-economic problems can be downloaded from Crowdfund Capital Advisors' website at http://www.crowdfundcapitaladvisors.com/resources/26-resources/60-ten-steps-to-implementing-a-crowdfunding-framework.html.
[49] Acha Leke et al, *What's Driving Africa's Growth?* June 2010. Accessed at https://www.mckinseyquarterly.com on 27 Dec 2012.
[50] 4 Oct 2012 World Bank press release accessed at http://www.worldbank.org on 27 Dec 2012.
[51] Charles Robertson et al, *The Story Behind Africa's Economic Revolution: The Fastest Billion*. Preview chapter accessed at http://www.thefastestbillion.com/chapter/ on 27 Dec 2012. You may listen to a public debate based on the book that was held at Chatham House in London on 31 Oct 2012 at http://www.chathamhouse.org/events/view/185855.
[52] This is one way of referring to the global economic decline that began in December 2007. The Financial Crisis of 2007 – 2008 sparked it. According to the National Bureau of Economic Research in the United States it began in December 2007 and lasted till June 2009. Its effect on the United States economy is till being felt today, and some would wager that its effect on the global economy is still being felt as well.
[53] Data on Hispanic and Asian buying power obtained from 1 May 2012 press release from the Selig Center for Economic Growth at the Terry College of Business, University of Georgia accessed at http://www.terry.uga.edu/news/releases/2012/buying-power.html on 27 Dec 2012. Data on Black buying power obtained from Jeffrey M. Humphreys' post at http://www.reachingblackconsumers.com/2012/04/black-buying-power-continues-to-rise/ accessed on 27 Dec 2012. Jeffrey M. Humphreys is director of the Selig Center.
[54] Full disclosure: FASMicro is Tekedia's parent company. I earn no income from FASMicro or Tekedia.
[55] By no means are these examples the only ones possible, nor are they even the very best. Still, I think they sufficiently make the point.

[56] For more examples see: Ethan Zuckerman, *Africa's Hackers Are Today's World-Class Tech Innovators*, 26 Nov 2012. Accessed at http://www.wired.co.uk/magazine/ on 29 Dec 2012.
[57] This needs careful and considered analysis because too much money might lead to unending pivots by startup teams that may need to be allowed to fail and go out of business, while too little might mean that deserving startups are starved of much needed capital at a critical juncture. One solution to preventing capital waste could be to commit an amount, say $200,000 over the course of 12 months, but to make the investment in tranches with each subsequent tranche not requiring additional negotiations or legal work but being dependent on the startup having reached some mutually agreed upon milestone. Every effort has to be made by the startup and the fund to avoid choosing such milestones arbitrarily. Also, a greenshoe option could be built into each investment that the fund makes.
[58] This is a personal choice. I prefer to work with entrepreneurs who have already overcome several obstacles with their startup, and in their personal life. That is unlikely to be the case if this fund were to be the very first capital any startup receives. As with every rule, I expect to have to make exceptions from time to time.
[59] The model I am describing is already popular in venture capital investing circles. See for example; Drew Hansen, *How VCs Deploy Operating Talent To Build Better Startups*, 26 Dec 2012, accessed at http://www.forbes.com on 27 Dec 2012, or David Teten et al, *How VCs Can Accelerate Portfolio Company Returns*, 28 Mar 2012, accessed at http://www.teten.com/blog on 27 Dec 2012. To get a sense about why this approach is particularly necessary for emerging market startups see also: Omar F. Koudsi, *Startups: Silicon Valley Vs. The Emerging World*, 26 Nov 2011, accessed at http://techcrunch.com/ on 30 Dec 2012.
[60] There are several ways through which this can be accomplished. The method chosen should balance efficiency with effectiveness.
[61] I am by no means ignoring the fact that non-US companies are barred from raising funds through the JOBS Act's crowdfunding mechanisms as things stand today. The fund's personnel would need to find a way around that obstacle.
[62] This is similar to the OurCrowd model. These investors would be charged a fee to defray some of the costs that will accompany all the work that the fund will be doing on their behalf to ensure that the startups succeed.
[63] Not every individual that wishes to invest might have the skills or knowledge necessary to be accretive to the entrepreneurs behind the startups in the fund's portfolio. A mechanism would be necessary for managing this process. For example, this specific group could be an invitation-only group to which members are invited to join on the condition that they accept a small number of roles and responsibilities specifically related to their area of professional expertise.
[64] Stackoverflow and Collabfinder provide examples of how this idea might be implemented. The formulation of such a community would require a mechanism for protecting the startups' intellectual property.
[65] I was a MEST MBA consultant from December 2011 till July 2012. My cohort of MBA consultants included participants from Israel, India, Ghana, Poland and Sweden among other places, each of whom was based in the United States, Europe or the United Kingdom.
[66] A considerable body of investment research supports the idea that investors can earn outsized returns by shrewdly picking investments in industry sectors, geographic regions, and communities that are neglected by the mainstream press and the mainstream community of investors. For one, such investors are much more likely to avoid paying inflated prices for the investments they make than if they were investing along with the vast majority of their peers.
[67] A new class of 4 – 6 startups might begin every 6 months at the outset. This model has already been implemented elsewhere with much success. See for example Tandem - Silicon Valley's Mobile industry Accelerator and this article about Tandem: Rip Emerson, *Silicon Valley Mobile Accelerator, Tandem, Unveils Next Batch; Incubations To Generate $100M+ In Revenue For 2012*, 10 Dec 2012, accessed on 28 Dec 2012 at http://techcrunch.com.

[68] Service provider partners would be required to offer the fund's portfolio startups a significant discount to the providers' market rates.
[69] This kind of collaboration can take many different forms. The USA, Israel and Singapore offer very attractive examples of how public-private partnerships might be structured to aid the development and maturation of an ecosystem to support technology entrepreneurship, startups and innovation. I have previously attempted to tackle that topic here: How To Make Africa More Innovative And Entrepreneurial - Part IV.
[70] There are ways to modify the fund's structure in order to provide the GP with the flexibility to take some calculated risks. See for example Solidus - Private Equity for Families also read this article about how Solidus' unique business model innovation works to support its approach to seed and early stage venture capital investing: Brett Nelson, *A Radical Way To Build New Companies (Not Just Web Startups), Create Jobs And Boost The Economy*, 8 Aug 2012. Accessed at http://www.forbes.com/ on 28 Dec 2012.
[71] There are many ways to minimize the fund's costs quite considerably.
[72] I am connected to Kayode Muyibi on LinkedIn. I invited him to connect after reading about Startup Africa Fund in August 2012. I have never met or spoken to him about the project, nor am I connected to it directly or indirectly. CFA Institute's Code of Ethics and Professional Standards bar me from being involved in such a venture without the express and documented consent of my current employer.
[73] http://www.startupafricafund.com/ accessed on 28 Dec 2012.
[74] A website, educational videos, webinars, presentations, articles in the financial and popular press publications that are popular amongst African expatriates etc.
[75] This is not a necessary condition, but it would greatly help improve the fund's success odds. If such an individual is not directly affiliated with the fund's activities, then having such a person as a major LP and forming an investment advisory board for the fund that is populated with 3 – 5 people with the shared background of unassailable professional reputation and ethics, as well as significant success in entrepreneurship, international business and early stage investing will help lend credibility to the efforts of the team embarking on such an endeavor.

The Business Model Canvas

DRAFT

Designed for: BIZ MODEL FOR FUNDING AFRICAN STARTUPS

Designed by: BRIAN LAUNG ADAEH

On: 12/24/2012

Iteration: 01

Key Partners

- Angel investors
- Venture capitalists
- Accelerators
- Tech-hubs
- African ~~govts~~ governments
- African startups
- Non-profits, trusts, foundations etc

Key Activities

- Research
- Due diligence
- Customer Development
- Syndication
- Biz dev and operations

Key Resources

- Partnerships
- People
- Processes
- Technology
- Community

Value Propositions

- Seed and early stage capital for African startups
- Unique investment opportunities for angel investors, venture capitalists and small investors.

Customer Relationships

- Portfolio startups
- Fund LPs
- Other investors

Channels

- Internet
- Phone, video
- In-person

Customer Segments

- Early stage African tech. startups
- Accredited investors
- Non-accredited investors

Cost Structure

- Technology
- Auxilliary services
- Salaries
- Travel

Revenue Streams

Fees and investment returns.

About The Author

Brian Laung Aoaeh is an investment analyst at KEC Holdings in New Jersey, where he devotes the majority of his time to assessing potential venture capital investments. Before KEC Holdings, he worked at Lehman Brothers, UBS AG and Watson Wyatt Worldwide.

He holds a BA with a double major in Mathematics and Physics from Connecticut College and an MBA from New York University's Leonard N. Stern School of Business. He is presently a participant in the CFA Program.

He is an unpaid columnist for Tekedia, where he writes about startups, investing and entrepreneurship with a focus on the challenges encountered by African startups.

Brian devotes some of his personal time to volunteer activities related to entrepreneurship and economic development in Africa. He was a volunteer MBA Consultant for the Meltwater Entrepreneurial School of Technology (MEST) in Accra, Ghana between 2011 and 2012. He currently serves as a member of the Board of Trustees for The Kumasi Center for Lifelong Learning (KCLL) in Kumasi, Ghana. He was instrumental in initiating the discussions that led to KCLL organizing and holding Ghana's first ever 10-day training session in microelectronics and embedded systems at the Kwame Nkrumah University of Science and Technology in Kumasi between September and October 2012, in partnership with FASMicro, Nigeria Ltd. - Tekedia's parent company. Brian focuses on growth strategy in his capacity as a member of KCLL's Board of Trustees.

Before his departure for the United States he obtained his primary education at the Bayero University Staff Primary School in Kano, Nigeria. He then studied for the WAEC GCE Ordinary Level at St. Francis Xavier Junior Seminary, in Wa, Ghana and for the WAEC GCE Advanced Level at the Presbyterian Boys' Secondary School in Accra, Ghana.

Brian is a devoted husband and father. He is an ardent supporter of the Super Eagles of Nigeria and the Black Stars of Ghana. In his free time he is a fitness enthusiast, and now has several half-marathons under his belt.