LimbeLabs ventures

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The focus of this talk is entrepreneurship in the African context, but I'd like to open with a quote from the American context that I think is appropriate to this topic. This is from op-ed piece which appeared earlier this month in the New York Times.

Here's is your fun fact for the day, from the Kauffman Foundation, which specializes in promoting innovation in America. "Between 1980 and 2005, virtually all net new jobs created in the U.S. were created by firms that were 5 years old or less. That is about 40 million jobs. That means the established firms created no new net jobs during that period."

Message: If we want to bring down unemployment in a sustainable way, we need to create a bunch of new companies — fast. But you cannot say this often enough: good-paying jobs come from start-ups. And where do start-ups come from? They come from smart, creative, inspired risk-takers.

Entrepreneurs are the life blood of all economies. They are pioneers and risk takers who develop innovations, implement new ideas, create jobs, wealth and contribute to a more vibrant global economy.

Entrepreneurs are a key driver in Africa's economic development. An increasing body of research argues that entrepreneurs, and their small to medium size enterprises (SMEs), hold great potential for the continent's continued economic growth. Entrepreneurs are vital to building a healthy and stable society. They help to create an important middle class and are an invaluable source of jobs, tax revenue, foreign currency and countless other tertiary benefits.

Imagine for a moment that many of Africa's problems could be solved by something so simple, so fundamental that you might not even recognize it in front of you. I'd like to pose the following question:

Can an African tech entrepreneur change the world?

Is this a relevant question to ask? Is it wishful thinking to imagine that African entrepreneurs can change the world? You can probably guess that my answer is an emphatic YES! I'm convinced that African startup pioneers—particularly those working in the web and mobile space—are in a unique position right now, today to change the face of the continent. How?

Before we address the 'how' of this question, it's important to look at the most common problems in this context. An entrepreneur operating in the African context faces an incredible number of challenges and obstacles before they can implement a promising business idea. They must effectively solve thousands of problems, often alone, if they are going to be successful.

Factors such as access to finance, lack of equity at the start, shortage of skills, etc. are common constraints all over the world. In Africa, however, some issues – such as the absence of an enabling environment – play a bigger role. There's also a need for increased business skills at all levels.

Most of the individuals with skills to create their own high-tech businesses are working in safe jobs for multinationals or big NGOs. The reason is simple: they usually face a choice between earning a living with a decent salary or navigating a maze looking for financing armed with little more than a good idea. A similar dilemma exists for entrepreneurs anywhere, but in Africa the options are fewer and the risks involved in starting a venturing are greater.

African entrepreneurs who are successful at running a small business may have difficulty applying that same business acumen to running a modern firm. Do they have the experience that is necessary for business success on a larger scale? Do they know how to tap external sources of finance for growth or how to plan for longer-term investments or develop professional marketing methods, distribution networks or internal controls? That kind of expertise may be difficult to acquire and may run counter to established business attitudes.

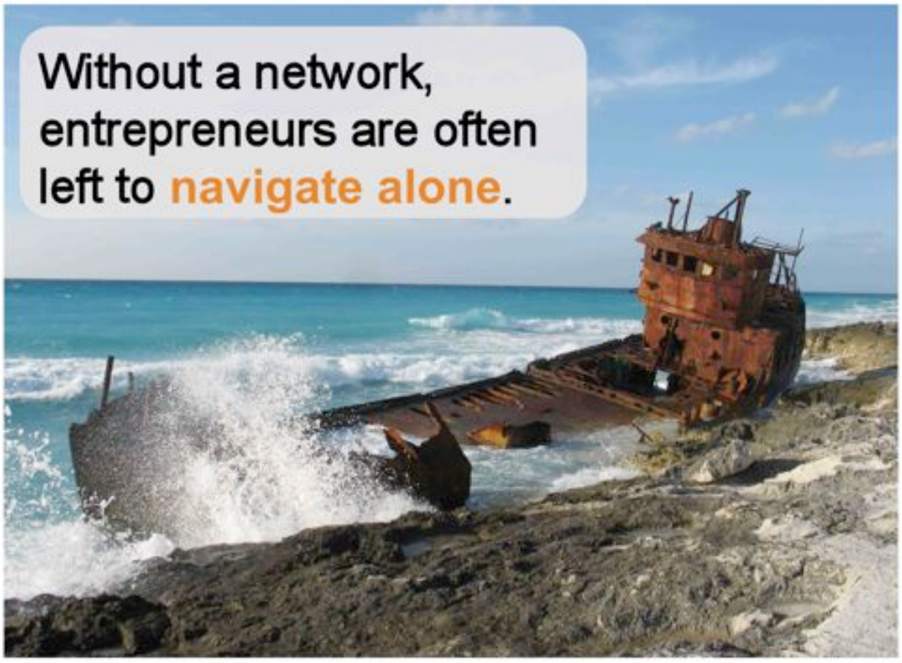
Access to seed stage financing is a major obstacle across Sub-Saharan Africa. There are very few opportunities for equity-based funding, especially in the range where entrepreneurs just starting out really need it. Local angel investors, when they do exist, may demand absurdly high equity stakes from startup founders, often in the range of 60-80% percent, and take control of the company with their majority stakes.

At the same time, investors and private capital around the world shy away from the African continent due to a lack of knowledge and information. This 'black hole' in the collective information universe is unfortunately translated as 'increased risk' meaning few are willing to participate in an African venture. The cost of due diligence is high and few investors have the time and resources to consider starting entrepreneurs that lack a successful track record. As a result, most capital remains expensive. There are relatively few investors looking at the African technology sector, and those that do are interested in later stages of investing.

As a result, mid-range investments ($10,000 to $300,000) are needed to bridge the so-called funding gap between microcredit and commercial finance and bolster entrepreneurs.

This limited access to finance is a major obstacle to private sector development. In some cases, as little as $5,000-15,000 in seed capital can fund an African startup from 6 months to a year. We're not talking about $10 million Series A round of funding for a Silicon Valley startup.

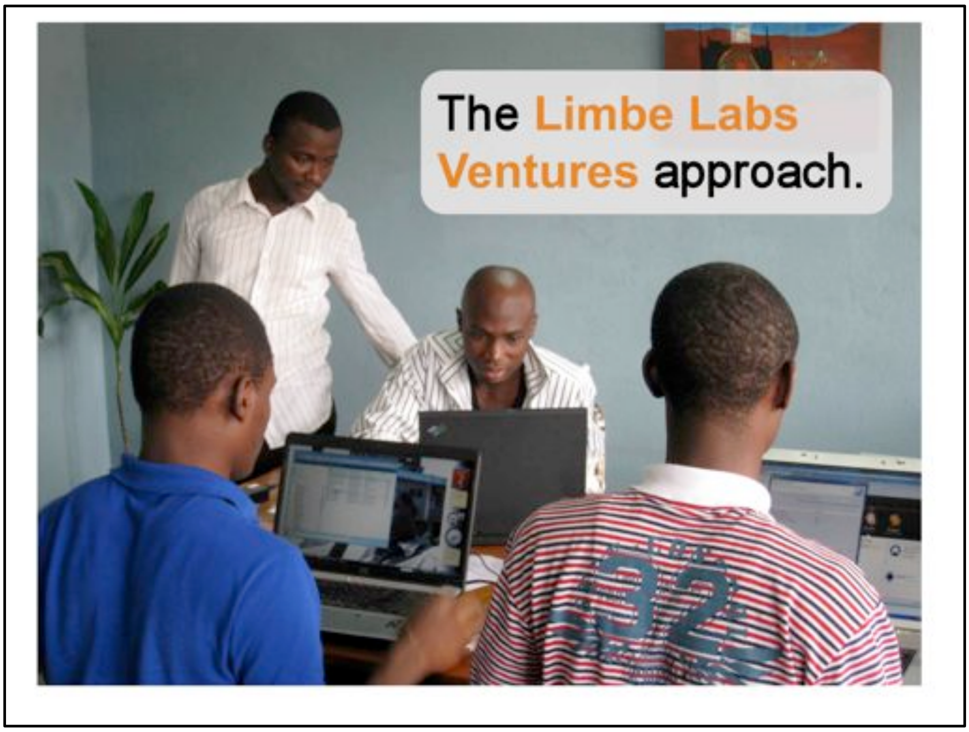
Further complicating things, African SMEs lack reliable financial data that allows investors and financial institutions evaluate the health & prospects of a company. Most African SMEs also lack assets for collateral in order to obtain a bank loan. Prior to starting Limbe Labs, I've personally made the rounds with entrepreneurs in Cameroon to both local angel investors and bank loan officers and witnessed firsthand how difficult it is to get any kind of financing (debt or equity).



Connectivity (or a lack thereof) prevents African entrepreneurs from taking full advantage of their ideas and market opportunities. Though social media and increasing access to broadband is gradually making inroads to change this, Africa's entrepreneurs are relatively unconnected compared to other parts of the world.

Many African techies and innovators work in isolation, with limited resources (bandwidth, tools, best practices) and lack open collaboration spaces that inspire creativity. Professional networking opportunities are also sorely needed. There's an acute need for role models, mentors, diasporans and successful entrepreneurs who are in a position to provide guidance and upgrade management skills. At another level, access to basic business services such as accounting, legal advice or simply a professional workplace with broadband and conference facilities is needed.

Without access to these critical business resources, networking opportunities & access to financing the African entrepreneur is often left to navigate alone.



Our philosophy: The most effective method for success is helping others do what they do best.

It is our belief that the most meaningful impact will still come from grassroots entrepreneurship and local efforts. Africans know best how to create the most effective solutions to Africa's problems. It's vital to support this bottom-up approach of citizens working to tackle local challenges and build on the idea that any person anywhere in the world might have the skills, knowledge and resources needed to make a lasting impact in their communities. Our goal is to create the kind of enabling environment that we see lacking to allow this bottom-up entrepreneurial growth to occur.

How? Our model is built on 3 pillars: 1) operating a profitable software engineering shop for developers to upgrade their skills with engineering work for clients, 2) an open-collaboration and co-working space where ideas are generated at a rapid pace, the best ones selected and developed into business ideas for presentation to investors, and 3) a seed stage business accelerator for startups working in the web and mobile space. The engineers working at Limbe Labs Ventures are busy putting in their 10,000 hours toward achieving mastery and success in their field (after Malcolm Gladwell's *Outliers*).

Like Appfrica Labs in Uganda and Banta Labs in Senegal, we were bootstrapped with founder savings. From the start, the pressure was on us to become cash flow positive in as little time as possible. By reinvesting profits from commercial software development projects, we were able to cover our running costs within 6 months of operation.

Private equity = taking an ownership interest in a startup in the form of a common stock. There are different types of private equity. At Limbe Labs we concentrate on seed funding in the range of $5,000 - $20,000 for each new business venture. In return, we take an equity stake in the range of 5-10%, depending on the level of risk.

Private equity investments require no guarantee - we focus on the credibility of the founder and quality of the business idea.
We help startups share the risks of investments - we earn when you earn, we lose when you lose.
We're flexible – there is no standard package and additional finance can be provided.
Our investments are accompanied with the full assistance (or as much as needed) of a business incubator - specific resources and assistance can be provided.

Every investor wants to see an exit. Our goal is to exit within 2-5 years. 3 ways to exit a startup (most common to least common):
1. We sell the shares to the shareholders
2. We sell the shares to a reputable person or company in the market who has extensive knowledge of the industry
3. We bring your company to the stock market, sell shares to external investors (IPO). 20 years ago there were only a handful of African stock exchanges. Today there are 16.

Alternative funding strategy: project work in exchange for seed capital. Startup founders are matched to a commercial software project of an appropriate size (1-3 months), they are paid a high monthly salary while gaining valuable experience doing client work, receive a lump sum payment at project completion, providing them with enough capital to bootstrap a business venture.

Crowdsourcing is a problem-solving and production approach that makes use of "the wisdom of the crowd" as it taps into online communities. Ideally, problems are communicated to a crowd of people with an open request for solutions. The crowd presents solutions and the originator sorts through them for the best ones. Companies and organizations that use a crowdsourcing approach as the engine that drives their internal business model, such as Amazon's Mechanical Turk, uTest, CrowdSpring, 99Designs, txtEagle, Kiva, Africa Rural Connect, Ushahidi and many others.

These companies are "crowdsourced services" which conduct distributed labor or knowledge on a problem – like market research, design, translation, crisis reporting, testing and other work.

Can finding a funding the best African startups be crowdsourced?

Crowdfunding is a collective cooperation, attention and trust by people who network and pool their money together, usually via the Internet, in order to support efforts initiated by other people or organizations.

Crowdfund. "South Africa cannot compete in the global online sector if it isn't funding start-ups at the beginning stage." Their plan is to do this by getting:"1000 people get together investing R1,000+ each by pooling the money into the Crowdfund." Seed funding is risky, and the idea of Crowdfund is to distribute that risk over a number of people thereby reducing it for everyone. Their goal is to invest 50,000-100,000 Rand in 10-20 "excellent ideas", and also provide legal advice and contracts, designers, specialized developers, bandwidth, hosting, office space and running costs, mentorship and time saved. Crowdfund raised 1 million Rand for South African startups in the first 30 days after it was announced.

VC4Africa, pioneered by Ben White, is what I call "Kiva on steroids". The goal of VC4Africa is to connect entrepreneurs and their businesses to investors and business partners needed to help them grow. The output can be measured in number of successful businesses launched, supported or financed by the VC4Africa network.

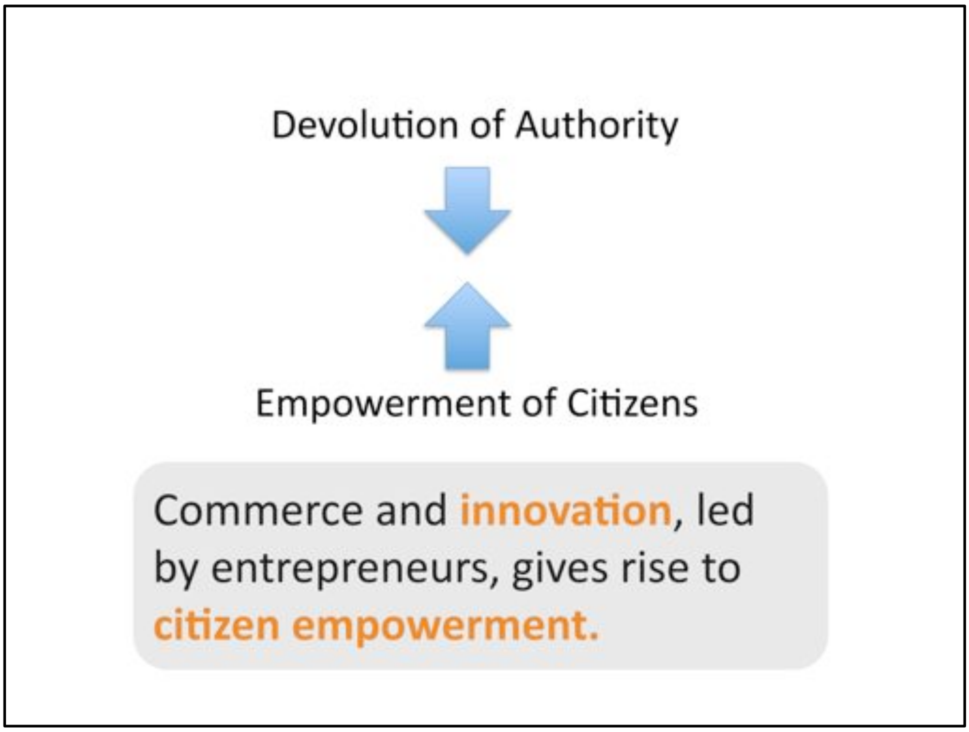
The root assumption made by VC4Africa is that there are nearly always investors (money) for good ideas, especially in emerging markets with the preconditions for rapid growth, such as Sub-Saharan Africa. The main challenge for investors is finding qualified entrepreneurs and good business plans. To this extent entrepreneurs have to work much harder than investors in order to reach a successful match. In the effort to help connect the two the focus needs to be placed on the entrepreneurs. What lacks in the African context is a network of entrepreneurs with a proven track record, success stories that exemplify what is possible and investible business plans. As a result we focus on three main drivers 1) Building an extensive network of promising entrepreneurs 2) Building a database of investible projects 3) leveraging the crowd in the process of due diligence and 4) funding models.

"Any VC worth their salt will tell you that they invest in the people behind good ideas, not just the product/service that the entrepreneur is trying to create. So, how do you find these individuals? It's generally through your network, people you trust, that serve as a filter to guide you towards the promising ones. That's the same in Africa as it is anywhere else, yet here in Africa, there are fewer of these **trusted intermediaries** who act as filters (especially for international capital), than there are in the US or Europe." –Erik Hersman on Crowdfunding and Seed Funding in African tech

Before the opening of the iHub on March 3rd, the people behind Limbe Labs (Cameroon), Appfrica Labs (Uganda), the iHub and the iLAB (Kenya) met together in Nairobi and discussed how these spaces could act as that type of a filter for investors and funds. Each of us sees more young tech entrepreneurs every day, and sees these individuals consistently, than most any other single person could by themselves. Could these labs, which are now showing up all over Africa, be a way for entrepreneurs to make themselves known, show their stuff, then be introduced to the funds and investors with a greater level of confidence than normal?

The remarkable thing we're seeing today is the emergence of a network of privately-funded and bootstrapped tech incubators. The founders of these tech hubs have joined together to form a foundation called Afrilabs.

Revisiting this question, “*How* can an African tech entrepreneur change the world?”



Iqbal Quadir, MIT professor, founder of GrameenPhone, former New York investment banker gave an inspiring TED talk about the impact mobile phones have in rural areas of Bangladesh. Quadir's vision, which was deemed radical at the time, was to create universal access to telephone service in Bangladesh and to increase self-employment opportunities for its rural poor. Much more than a means of reducing poverty, technology empowers individuals and holds governments accountable. Developing countries have suffered under poor leadership. Commerce and innovation, led by entrepreneurs, give rise to citizen empowerment.

The history of Western economic and political advancement shows us that it's the economic strength of citizens -- not governments -- that gives rise to checks and balances.

A case in point is England, where a lack of outside money created real accountability. In the 13th century, after the advent of property rights, the British monarch was forced to convene a group of citizens as a tax-legitimizing device. This group, known as the parliament, capitalized on the monarch's chronic need for money and made sure the monarch did not gain financial independence. Every time the monarch wanted to pass a new tax bill, the parliament obliged only after exacting more liberty from the crown. Over time, it was parliament that emerged as the more powerful branch of government. The King no longer had sole control over the country. The monarch's shortage of money and a lack of outside aid were key to England's democratic success.

Aid did the opposite. During the last 60 years, poor countries have undergone a process which is the opposite of what helped Europe over the last 1000 years. Aid has empowered authorities, and as a result marginalized citizens. Authorities did not have a reason to encourage economic growth and development that would allow them to tax their citizenry.

Economic development is of the people, by the people & for the people – enabling the *network effect*. If citizens can network and make themselves more organized so they are productive, their voices are heard, they become empowered and their lives improve. Connectivity is productivity, whether we're talking about a village or a modern office.

A strong private entrepreneurial sector plays a vital role in providing Africans with jobs, a stable income and hope for a better future. Indeed, African SMEs contribute around two thirds of national income and provide the foundation for a stable middle class in many countries. They help form strong communities and are a powerful force for poverty reduction. Entrepreneurs create jobs, products and services that form the bedrock of flourishing democracies. Ultimately, this leads to the devolution of authority and the empowerment of citizens.

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