

Ex-Ante Evaluation
Private Sector Investment Finance Division
Private Sector Partnership and Finance Department, JICA

Name of the Project

Country : Africa

Project Title: Project for Supporting Start-ups Innovation in Africa

Signing date: March 15, 2023

2. Background and Necessity of the project

(1) Current State and Issue of the project in the region

In Africa, 41% of the total population is under 15 years old as of 2020, and the region's population is expected to grow from 1.3 billion in 2019 to 2.4 billion by 2050 (African Development Bank, 2021). On the other hand, many African countries are highly dependent on primary industries such as oil, minerals, and agriculture, and are facing the problem of low value-added industrial structures. If the current low value-added industrial structure continues while the working population grows, it is expected to occur many social challenges, such as increased unemployment and sluggish per capita income growth.

The African Union has identified the transformation of industrial structure as a key item for achieving sustainable economic growth in Africa in its Agenda 2063. And the Tunis Declaration, the outcome document of TICAD 8, also calls for the realization of structural transformation for sustainable economic growth and development through social solution-based businesses led by startups. In fact, as digitization progresses worldwide, more and more startups with innovative digital technologies and business models are realizing high value-added services and contributing to solving social issues in Africa. For example, M-Pesa, a mobile remittance service provided by Safaricom, a Kenyan company founded in 2007, has been used by about 30 million people in 10 countries over the past 10 years, contributing significantly to financial inclusion in the region (World Bank, 2018). In addition, the e-Commerce platform provided by Jumia in Nigeria is used by about 110,000 local African companies in 11 countries (Jumia, 2020), facilitating economic activity online as well as solving problems in the business environment such as immature transportation infrastructure and inappropriate market prices. Also, Zipline in Rwanda has developed the world's first drone transport service, improving access to medicines in the country by transporting emergency medical supplies to areas with inadequate infrastructure.

Considering successful cases of solving social issues through the use of digital technology, as described above, startups engaged in innovative businesses need to raise funds quickly. However, in many cases, startups have difficulty in providing sufficient collateral, which makes it difficult for them to obtain financing from private commercial banks. For this reason, raising capital through equity investments is the basic method of financing. In Africa, however, venture capital and other means of raising capital for startups are not mature enough. For example, African startups account for only about 0.6% of the total amount of funding raised by startups worldwide (Yostartups, 2018). Also capital markets are underdeveloped; the number of companies listed on the stock exchange is only 58 in Kenya (2017) and 162 in Nigeria (2020). In addition, while business support is expected to be effective for the growth of startups, the support system is not well developed in the African region, limiting the opportunities for startups and potential entrepreneurs to receive appropriate advice.

Under these circumstances, this project will provide risk money and business capacity building support to African startups engaged in innovative businesses through investment in an investment fund managed by Verod-Kepple Africa Partners, a Japan-Nigeria joint venture. It is highly meaningful to invest in startups through the investment fund in order to support the development of industries and the resolution for social issues in the region.

(2) Japan and JICA's Policy and Operations in the Start-up Sector

At TICAD 7 (August 2019), the Japanese government confirmed the importance of "accelerating economic structural transformation and improving the business environment through private sector development and innovation" in economic growth, and agreed to focus on the realization of private investment expansion exceeding \$20 billion, especially in developing human resources to support industrial diversification and innovation creation. In addition, the TICAD 8 Tunis Declaration (August 2022) also calls for the realization of structural transformation for sustainable economic growth and development through startup-centered and social solution-oriented businesses. This project is in line with these policies of the Japanese government and JICA.

This project will invest in a fund that provides investment and business support to startups in the African region, which is consistent with the development policy of the region and the policy of Japan and JICA. The project will contribute to SDG Goal 8 (Economic growth and Employment), Goal 9 (Industrialization and

Innovation), and Goal 17 (Partnership).

(3) Other Donors' Activity: None in particular

3. Project Description

(1) Project Objective

This project aims to contribute to sustainable economic growth in Africa by providing funds to startups in the region that are working to solve social issues through investment in an investment fund for startups in the region, thereby promoting industrial development and solving social issues in the region.

(2) Project Site/Target Area

All of Africa (excluding disputed territories)

(3) Project Component

- ① Investment amount: USD 5 million
- ② Outline of Project Plan: Through investment in a venture capital fund that invests in startups in African countries having the potential to contribute to solving social issues by innovative technologies and business models, the project promotes industry in the region, solve social issues and contribute to sustainable economic growth in the region.

(4) Project Implementation Structure

- ① Investee: Verod-Kepple Africa Ventures SCSp
- ② Executing Agency: Verod-Kepple Africa Partners ("VKAV")
- ③ Operation and Maintenance Agency: Verod-Kepple Advisors Ltd ("VKA")

(5) Environmental and Social Considerations / Cross-cutting issues / Gender Categorization

(1) Environmental and Social Considerations

- ① Category : FI
- ② Reason for Categorization: Under the "JICA Guidelines for Environmental and Social Considerations" (2010), the sub-projects could not be identified before the JICA funding and the subproject may be assumed to have environmental impacts.

2) Cross-sectional Issues:

- (1) Promotion of Poverty Reduction: Poverty reduction is expected to be promoted through support for startups engaged in services for the low income population.
- (ii) Promotion of social development: investment in women entrepreneurs

is expected to promote gender equalization

3) Gender Classification: ■GI (Gender Activity Integration Projects)

<Activity/Reason for classification> Part of the sub-project aims to promote gender equalization through support to companies that include women in their founding teams.

(7) Other Important Issues: None in particular

4. business effects

(1) Quantitative Effects:

index-name	Baseline (Actual value in 2022)	Target (2031) (End of fund 1 year ago)
Number of investments in emerging companies	0	20 companies
Total Fund Investment	0	US\$48 million
Number of investments in startups that include women on the founding team	0	5 companies

*Reference indicator: The number of employees in portfolio companies (including the number of women) and amount of taxes paid by portfolio companies as monitoring indicators.

(2) Qualitative effects: industrial development and resolution of social issues

5. External Factors

(1) Prior Conditions: None in particular

(2) External Factors: None in particular

6. Lessons Learned from Past Projects

(1) Evaluation Findings of Similar Projects

"The Regional Business Development Fund Project" (1996-2001) in India, Private Sector Investment Finance project, provides lessons that it is necessary to confirm that the investees are going to be enough prepared through checking the pipeline list consisting of potential investees, and that it is effective to evaluate the capacity of the fund manager as an investor and to ensure in advance to have the authority to replace them, if necessary.

In addition, replacement of fund manager affected fund operations in the similar fund so that there is the lesson that key person clauses need to be properly

established.

(2) Lessons for the Present Project

With regard to these lesson, the project mitigated the risk by obtaining the pipeline list in advance and conducting screening. In addition to focusing on evaluating the capabilities of the investment team in due diligence, the duties and responsibilities of the investment team were clarified, and the right to replace the investment team was secured under certain conditions.

7. Evaluation Results

As described above, this project is in line with Africa's development challenges and policies and Japan's cooperation policy. Necessity of the project is recognized and the project plan is appropriate and has sufficient prospects for achievement. Therefore, it is highly meaningful to support the project through private sector investment finance.

8. Plan for Future Evaluation

(1) Indicators to Be Used: as described in 4.

(2)Timing: Ex-post evaluation one year before the end of the fund.