Funding gap

Access to financing is consistently listed as the biggest obstacle to business for SME s in African countries. They often face double digit interest rates from local banks. And venture capital penetration is still extremely low. Top end 2018 estimates put it at about $725 million for the whole continent.

To tackle the problem, African countries continue to start new entrepreneurship funds. In July 2017 Ghana launched the National Entrepreneurship and Innovation Plan. The aim is to provide integrated national support for start-ups and small businesses.

Almost a year later, Rwanda secured a $30 million loan from the African Development Bank for the establishment of the Rwandan Innovation Fund. This will focus on investments in tech-enabled SMEs.

As new funds are started, African countries must look to the successes and failures of both global and regional funds to replicate best practices and avoid common pitfalls. African governments should explore replicating models similar to Small Enterprise Assistance Funds and the USAID backed enterprise funds. Both include robust investment selection criteria for funds.

In doing so, African government-backed entrepreneurship funds would operate as fund-of-funds where a fund invests in another private equity or venture fund rather than directly in businesses themselves as do many development finance institutions globally such as the UK s CDC or FMO of the Netherlands.

The what and the how

The fund of funds structure creates an arm s length relationship between the government agency that houses the entrepreneurship fund and the businesses that eventually receive investment. In between, sits a professional fund manager that earns the majority of its income from making good investments, growing companies and exiting them after a period of five to seven years. In this way, there are natural disincentives for corruption and market-based selec-