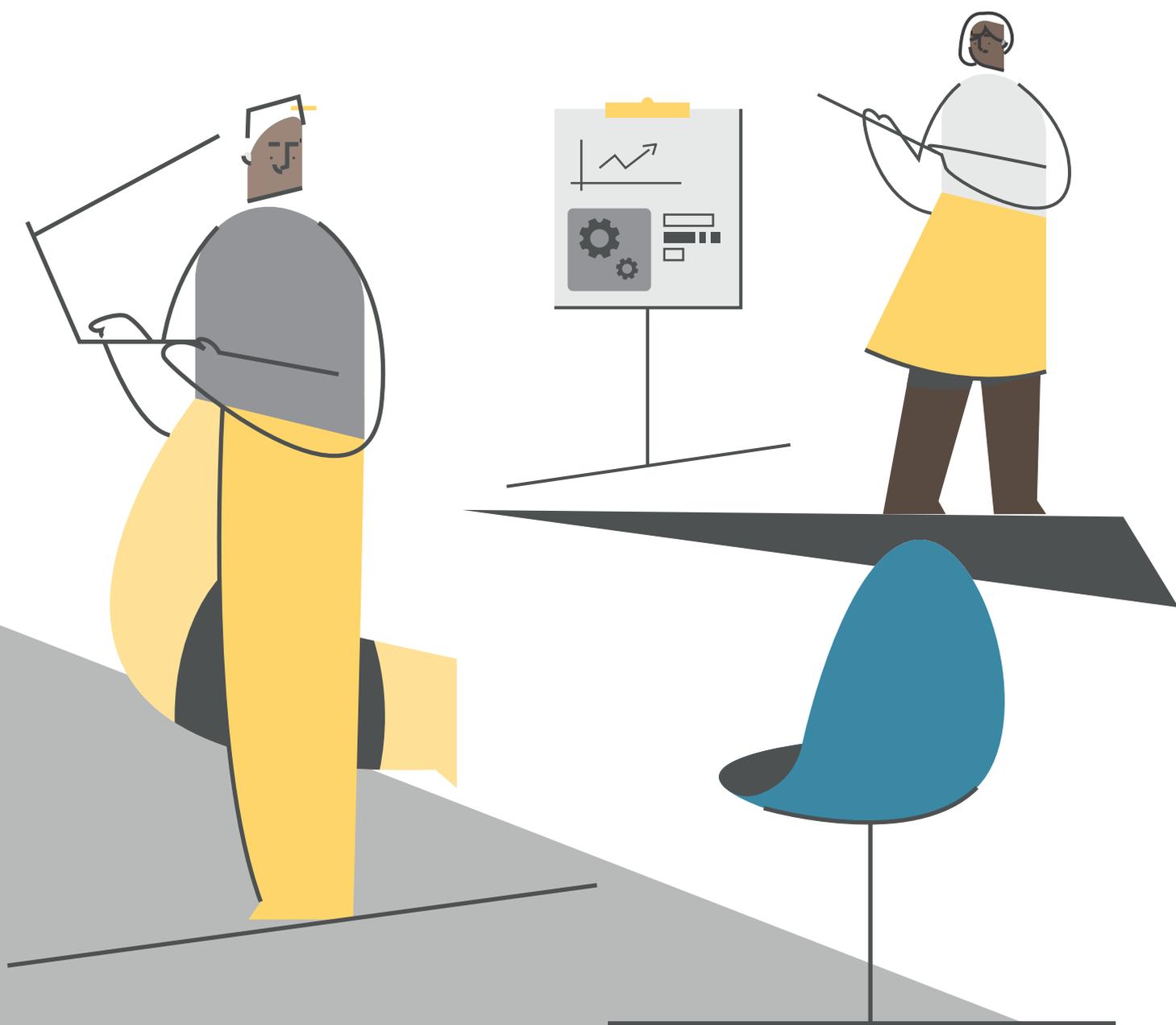


October 2021

# Bolstering innovators in Africa

Innovation hubs' catalytic role as ecosystem support organisations



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# FOREWORD

The role of innovation hubs in contributing to the inclusive development of startup ecosystems, in particular those across underserved markets, has become an increasingly followed subject by public and private sector actors. This is partly a function of the fastening paradigm shift that is seeing innovation and entrepreneurship as viable avenues for skill-building, job creation and broader economic growth.

As **AfriLabs** turns 10 years, we are using this occasion to reflect upon the gigantic developments across Africa's tech ecosystem over the past decade, as the continent witnessed the shift from a barely existent ecosystem to a more mature and sophisticated one, and where the interplay between actors ranging from investors to regulators, successful founders, support organisations, and corporates is more structured and stronger than ever.

Our collaboration with **Briter Bridges** stems from the intention to move the conversation towards an actionable agenda that provides sound and comprehensive conceptual frameworks built by leveraging Briter's data and insights, together with AfriLabs' experience in supporting over 300 hubs across the continent.

Looking back at the history of innovation hub mapping, we now observe an increased depth in the type of analysis that is requested and carried out by the experts and stakeholders involved in Africa's startup ecosystem. As such, the collaboration with Briter Bridges is aimed at unearthing some of the nuances in the understanding of what hubs actually do and how they stay alive, by looking at their revenues streams, the type of support they provide

to entrepreneurs and their overall contribution to the local innovation communities.

As the ecosystem matures, there is a compelling need for hubs to strengthen the dialogue and cohesion between actors in order to ensure continuity in the pipeline from idea to growth. Additionally, the increased awareness of the complexity in the hubs' models, especially as highlighted by COVID-19, calls for a reconfiguration of the way sustainability is understood, thus expanding the very idea of hubs as limited to startup builders.

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# INTRODUCTION

Innovation hubs play a vital role in supporting entrepreneurs and small businesses by providing safe spaces that enable them launch their ideas, scale their companies, and network with a community of like-minded individuals. As resources increase and hubs are able to capture available funding to deploy into the entrepreneurs they support, the realm of opportunities for these organisations across the continent expands significantly. Over the past half-decade, the annual mapping and study of hubs has taken a central role in determining the opportunity in the markets they operate in. *'Bolstering innovators in Africa'* is an update to Briter's and Afrilabs' 2019 publication, *'Building a conducive setting for innovators to thrive'*, which highlighted the roles that innovation hubs play, as well as the business models they adopt in order to remain operational. It shares insights into the value that they provide for startups, their challenges, and their models for achieving sustainability. This report was built by updating the existing state-of-the-art listing of hubs and sharing a survey that was filled by over 100 organisations, in order to collect fresh information on the innovation hub landscape. Since our publication in 2019, the number of identified hubs has grown by over 60%, from 643 in 2019 to 1031 in October 2021, despite factors like the COVID-19 pandemic, which caused disruptions to the business operations of many organisations, and monetisation problems that are peculiar to innovation hubs. As observed, COVID-19 had a significantly negative impact on several such organisations, especially those predominantly monetising through services related to physical facilities, with as many as 80% of respondents explaining having to shut down operations temporarily during lockdown measures. Among the services hubs provide, existing studies identify startup support and community building as the main categories. Of these two, tech hubs

typically prioritise community building as their primary purpose. The findings in this study contribute to literature and provide context by indicating that hubs that operate in the majority of Africa's startup ecosystems are targeted towards enabling a thriving community of entrepreneurs, tech enthusiasts and freelancers with only a few of them offering services that are geared towards building and scaling companies. This study explores the different categories of innovation hubs by type of service provided, looking at their revenue models, their funding sources, as well as support offered to their cohorts.

## METHODOLOGY

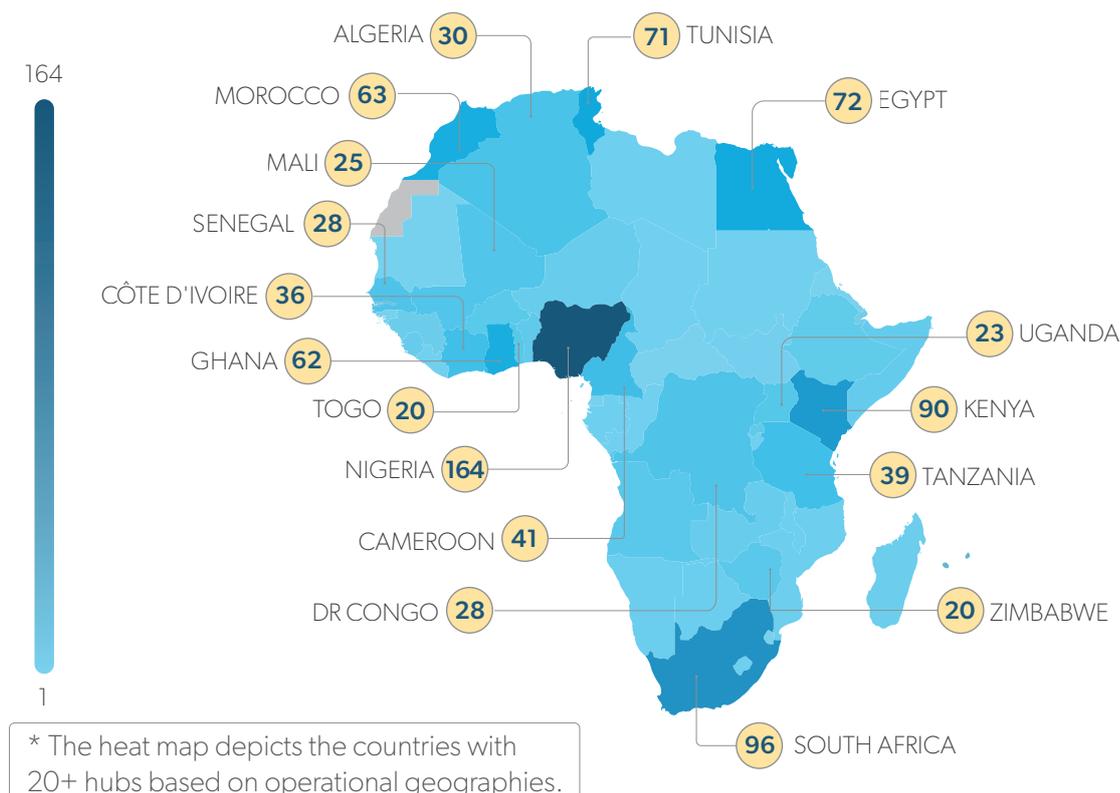
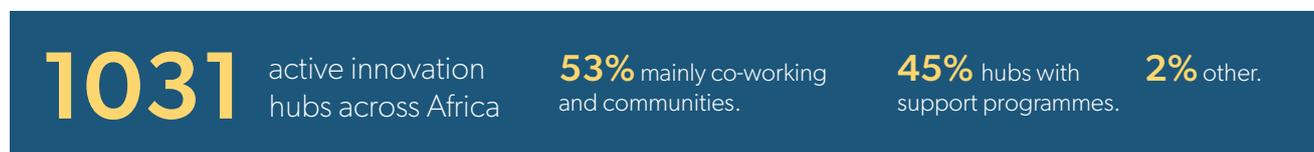
At least **1031 innovation hubs** were identified as operational across Africa as of October 2021, using a combination of primary and secondary data collection methods, in an effort that has seen hundreds of hub managers involved, from Dakar to Cairo and Maputo. In this study, hubs are defined as support structures that offer services including incubation and acceleration programmes, co-working spaces and support structures to enable entrepreneurs to thrive. For clarity and consistency purposes, although many hubs offer hybrid services and could fit into more than one category, this study focuses on the core services hubs offer and offers insights into auxiliary offerings based on direct contributions from hubs. A survey targeted at hubs across Africa was used to collect new primary data and insights from hub managers, while Briter's intelligence platform and desk research were applied to carry out the broader mapping exercise. For the sake of clarity, data collected through the survey will hereafter be referred to as the *Survey Sample* and data from Briter's database will be called the *Tech Hub Database*.

# AFRICA'S INNOVATION HUB LANDSCAPE

1031 hubs operate in 53 countries in Africa and in over 200 cities across the continent. The most populated ecosystem is Nigeria, with a total of 164 hubs operational in the country, as illustrated in Figure 1, of which 149 are local and 15 international. South Africa and Kenya follow suit with 100 and 90 hubs respectively. North Africa has witnessed fast growth in the past half-decade, with Egypt, Tunisia, and Morocco alone counting over 200 hubs. The majority of these organisations are situated in the largest business centres of each country, with Lagos counting at least 54 hubs, followed by Nairobi with 51 hubs, Tunis with 42 hubs, Cape Town and Cairo with 39 each, and Accra with 26. As nascent startup ecosystems outnumber mature ones, resources are not always evenly distributed nor readily available, and a large share of hubs operating on the continent

do not provide cash funding à la Y Combinator but instead offer services that help entrepreneurs develop technical skills and business knowledge. Such hubs include coworking spaces, makerspaces, and innovation hubs and, based on Briter's data, they make up a larger percentage of hubs in African countries, as can be seen in Figure 2. Players in these categories offer a one-stop shop where startups, local stakeholders, donors, and corporations can network and gain access to financial advice, market opportunities, and create links to investors. Nevertheless, in countries with more sophisticated ecosystems, where a venture capital scene is developing in parallel, the number of organisations offering acceleration services, cohort-based programmes, mentoring and funding is growing.

FIGURE 1: AFRICA'S TECH HUB LANDSCAPE



Hubs are concentrated in key cities but nascent ecosystem support structures in non-capital cities are emerging. Innovation hubs tend to be concentrated in capital cities or economic centres, but a growing number of organisations are targeting secondary and tertiary urban centres to tap into

underexplored ecosystems and develop them from scratch. Although resources in these locations remain scarce and we are yet to witness significant success stories emerging from them, a number of notable examples are Arusha, Kumasi, Durban, Mombasa and Abuja.

FIGURE 2: HUB CATEGORY BY SERVICES OFFERED, BY COUNTRY

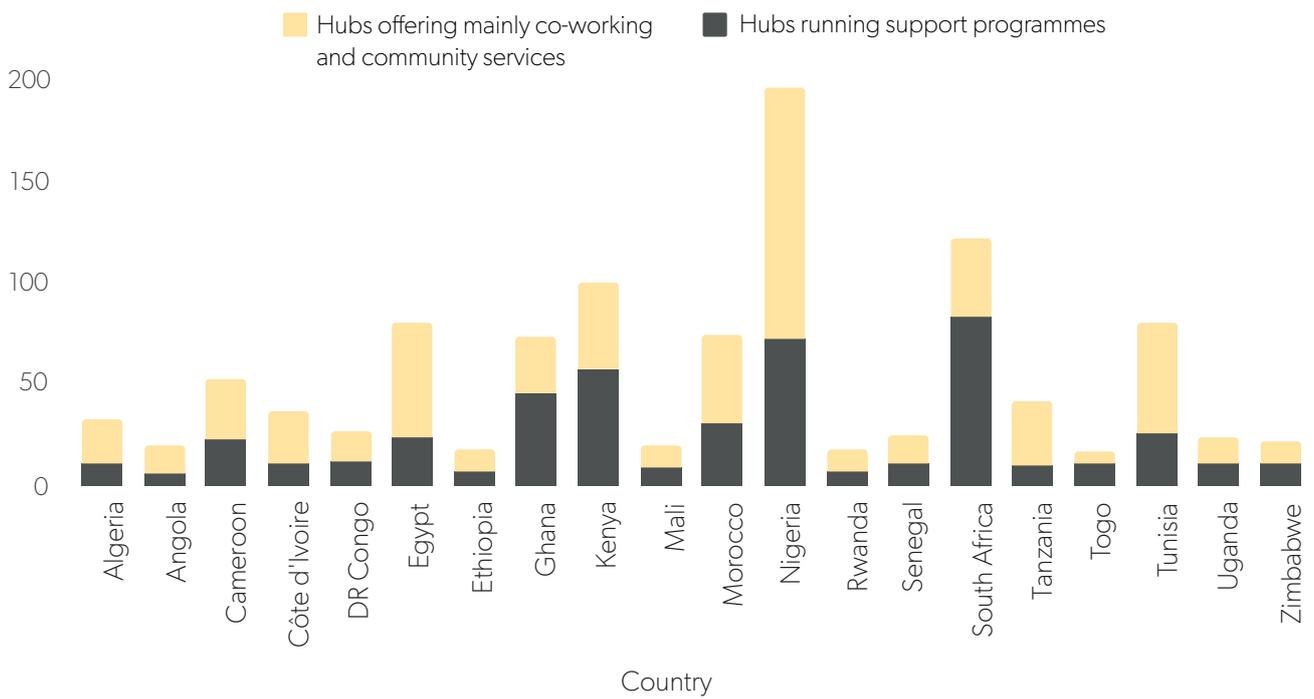
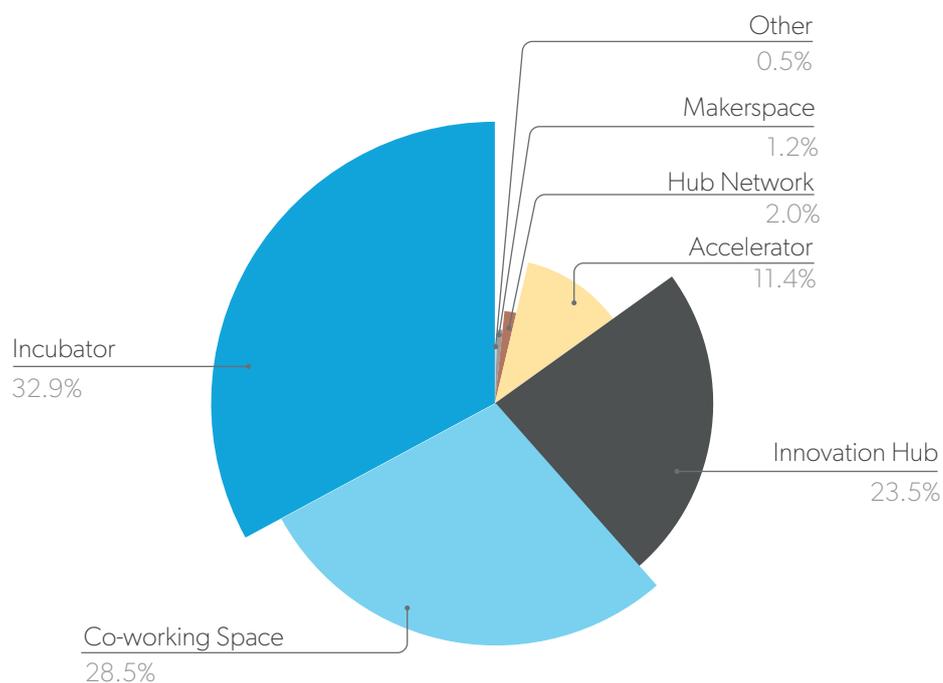


FIGURE 3: BREAKDOWN OF HUBS IN AFRICA BASED ON BRITER INTELLIGENCE



# SURVEY FINDINGS\*

The backbone of this study is based on a survey of 103 hubs across the continent, looking at their locations, sector and impact focus, funding and support offered to startups, and the impact of the COVID-19 pandemic on their premises and finances, among various other different aspects.

## LOCATIONS AND HUB STRUCTURES

The report includes insights from the *Survey Sample* which comprises hubs operating across more than 60 different cities in 37 countries (Figure 4). Almost a quarter of the respondents are located in Nigeria,

reflecting the distribution of hubs across the continent in the *Tech Hub Database*.

Most survey respondents were either non-profit or government-led and founded (Figure 5) between 2016 and 2018, with only one founded in 2020, as seen in Figure 6. A reason for the slowdown in the launching of new hubs in the past couple of years could be the COVID-19 pandemic.

FIGURE 4 AND 5: LOCATION AND CATEGORIES OF SURVEY RESPONDENTS

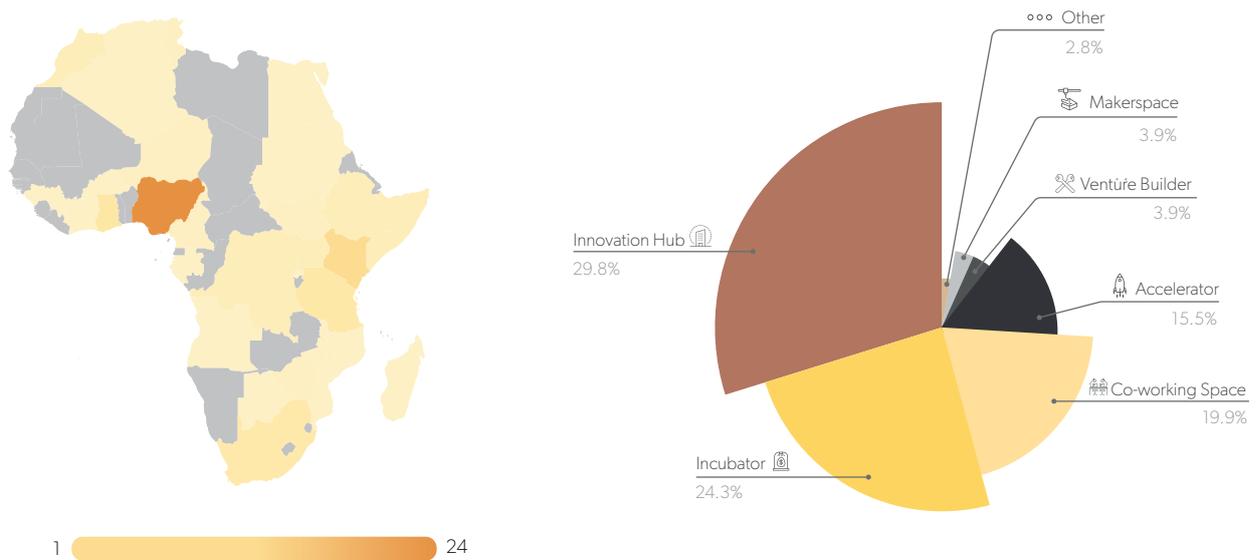
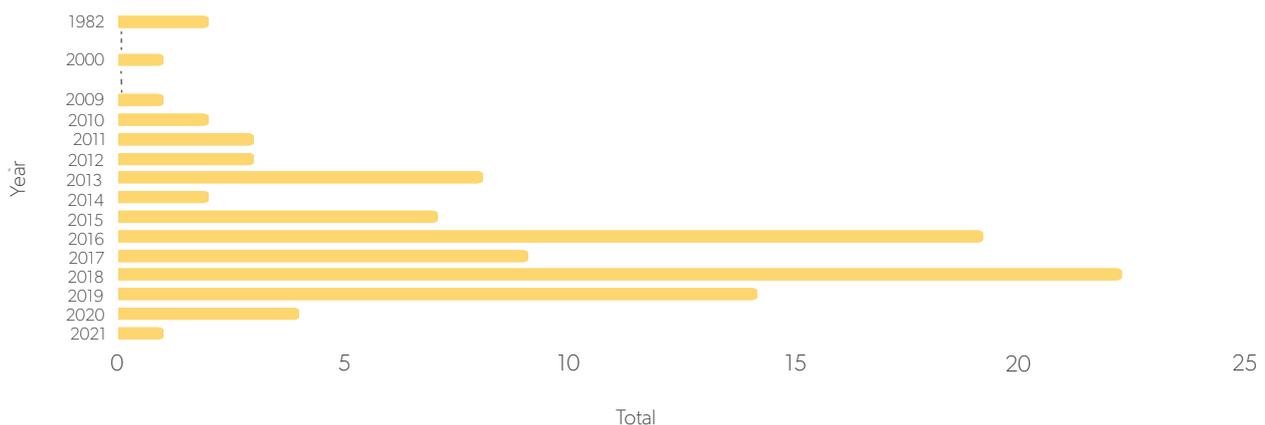


FIGURE 6: FOUNDATION YEAR OF RESPONDENTS



\*Figures in this chapter are derived from the 100+ hubs surveyed. They are meant to define trends and may not be comprehensive.

## FUNDING AND DISTRIBUTION

Due to the fact that several hubs are non-profit or sponsored organisations, achieving financial sustainability is key. When compared to findings from Briter’s 2019 hubs study, hubs are increasingly reliant on external donors to fund their operations. When asked if they had received external funding, 29% of the respondent hubs claimed to have received up to \$50,000 since inception, 14% indicated to receiving between \$50 - \$99,000,

while 10% of the hubs preferred not to disclose their funding status. The funding came from various sources, including corporate sponsors, private foundations, NGOs, government agencies, philanthropic organisations, embassies, DFIs, private investors, universities, and venture capitalists, who are listed as the most active funders (Box 1). The figure excludes financing for specific programme implementation or consulting exercises.

### BOX 1: KEY PARTNERS



When it comes to donor funding allocation, most respondents specified directing the funds to programmes as the most important use. The programmes, which are centered around business training and workshops, and include hackathons and bootcamps, offer a perfect opportunity for entrepreneurs and startups with innovative ideas to introduce and present their ideas, and for existing companies to gauge and recruit outstanding talent. Investments in startups turned out to be the least prioritised use of donor funds, likely because, from a donor or corporate perspective, structuring hub

funding for further cash deployment into startups has different legal and logistical implication compared to funding to cover direct costs. While In addition, another possible factor could be the fact that most investments, especially into early-stage companies, require long-term commitments and many hubs do not have the capacity to make long-term bets, or it could simply be, as earlier mentioned, that hubs would rather prioritise capacity-building initiatives and supporting entrepreneurs beyond the mere deployment of financial capital.

FIGURE 7: KEY SOURCES OF FUNDING FOR TECH HUBS



FIGURE 8: FUNDING RECEIVED BY HUBS SINCE INCEPTION

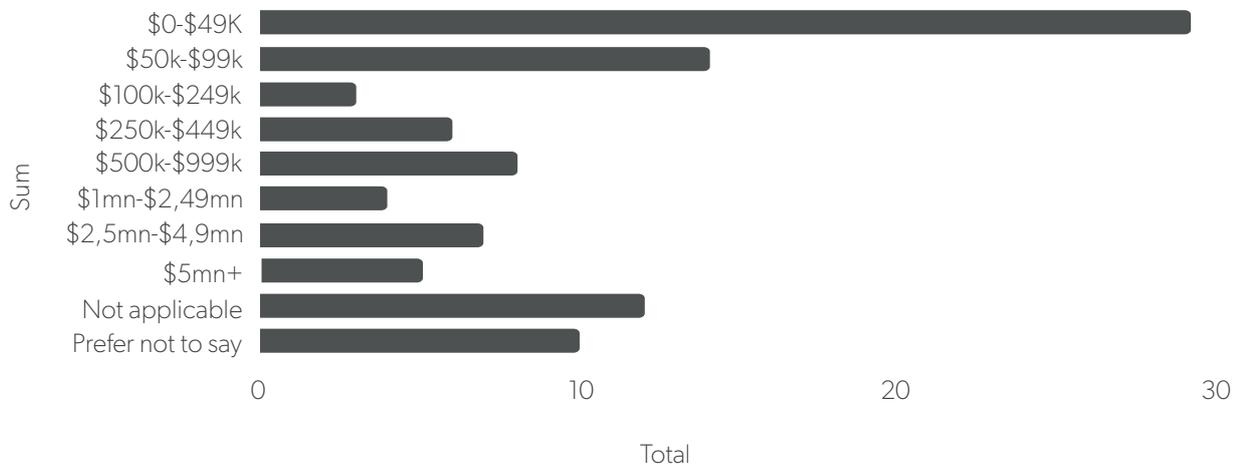
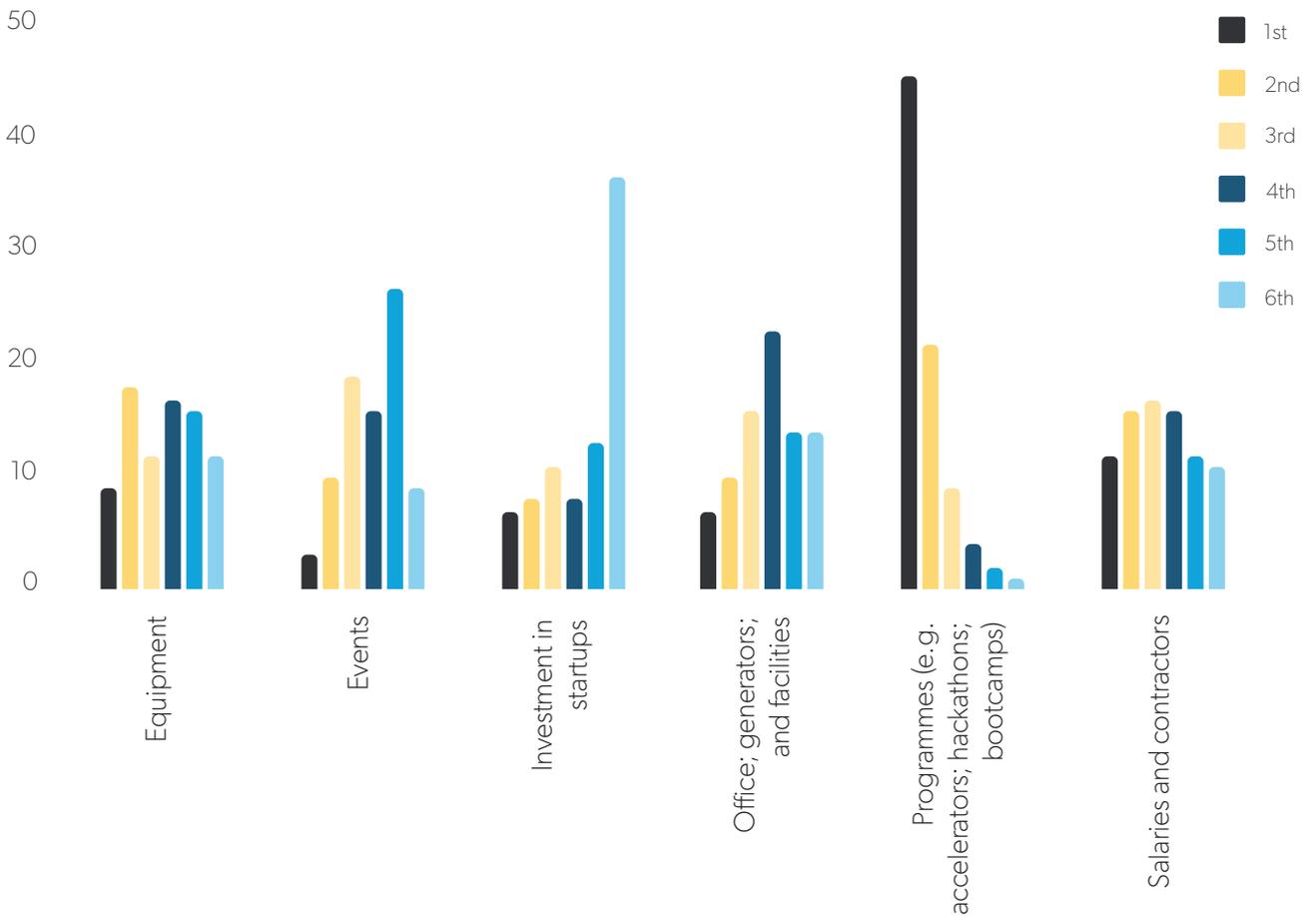


FIGURE 9: FUNDING ALLOCATION BY COST PRIORITY



## REVENUE STREAMS AND COSTS

Excluding donor funding, hubs are characterised by hybrid revenue models, including:

- programme implementation
- consulting
- event organisation
- commission on funding facilities

About 42% also generate revenues by charging a membership fees, such as rent paid by tenants to use their spaces and facilities, or subscriptions paid by startups and individuals to be part of the hub's community without necessarily using the space, giving them access to events, bulletin, network, perks, and job boards.

The majority of revenues and funding is used to pay rent and wages, with facilities and programmes following closely behind (Figure 10). Energy and generator costs are also significant, especially for

hubs in Nigeria where it is estimated that 22 million small unit petrol generators are used by individuals and commercial outlets due to poor power supply.

## ADDITIONAL SERVICES

As several hubs do not focus on funding startups, many have been exploring new realms beyond the traditional 'tech hub' role, growing to provide additional services (Figure 11 and 12) that may not be strictly startup-focused. More and more hubs are focusing on different ways to create wider social impact and influence policy making, such as increasing literacy in technology for surrounding communities. 32% of the respondent hubs hosted and rented their space for events while a further 23% offered corporate innovation programmes. Coding, IT and business classes for both adults and kids was another popular additional service the hubs offer.

FIGURE 10: HUB COSTS BREAKDOWN

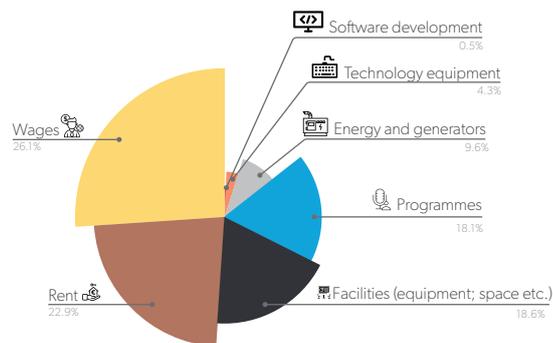
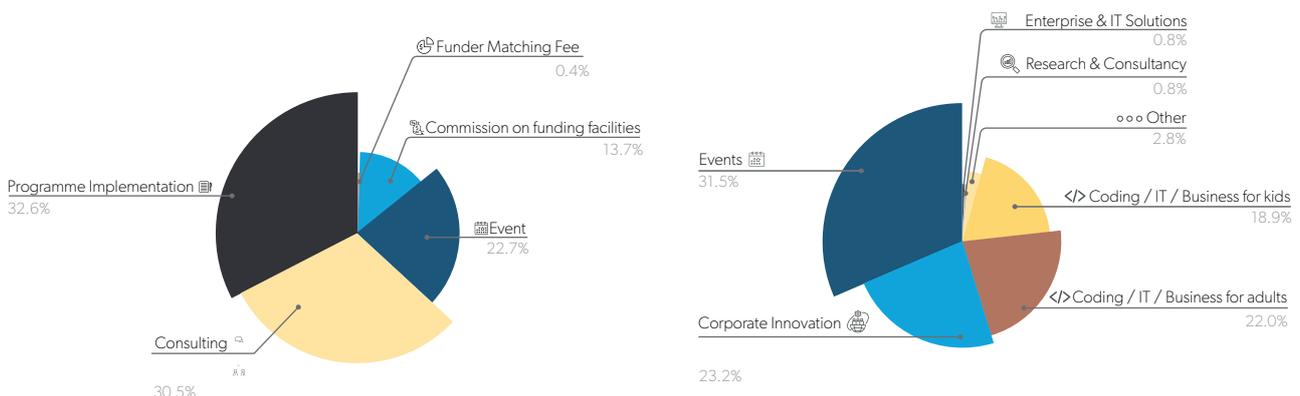


FIGURE 11 AND 12: REVENUE STREAMS AND ADDITIONAL SERVICES



## FUNDING AND FORMS OF SUPPORT

50% of the respondents offer financial support to startups, which takes the form of equity, grants or debt financing, with a majority of the hubs mixing these instruments. Grants, however, were the most popular instrument with equity coming in at a close second. 77% of hubs that offered financial support claimed to invest up to \$10,000 per startup with a total of 1194 startups funded since the hubs' inception, according to the 103 hubs surveyed alone. Investments into 86% of the 1194 startups that received funding from hubs was done between 2018 and 2021, with investments into the startups reaching its peak in 2020. A possible explanation for this is that as more and more hubs launch each year, a larger pool of very early stage capital is becoming available to startups. Another likely reason could be that by 2020, startups in the hub programmes had become de-risked and investment-ready.

37.5% of hubs surveyed indicated that they purchase equity shares in their cohorts while also in-kind support, which includes access to physical, technological and software facilities, is a big part of the financial support offered to cohorts. The hubs also offer non-financial support that takes different forms with the main ones being:

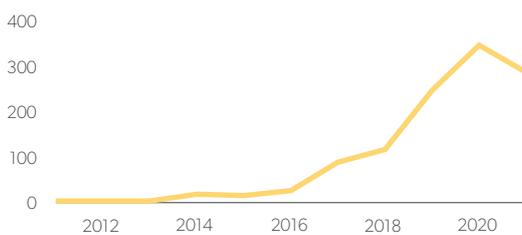
- workshops and bootcamps
- business advice
- networking and investor meetups
- dedicated mentorship and training

## CO-WORKING SPACES

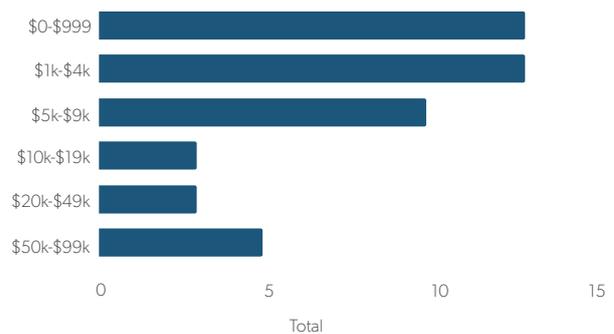
More than 80% of the hubs offer physical space and facilities to the startups in their cohort. This ensures the startups access the resources they need, all under one roof. Aside from their cohort startups, many of the hubs offer their space to individuals for hot-desking/co-working, which also acts as a source of revenue for them.

FIGURES 13 - 16

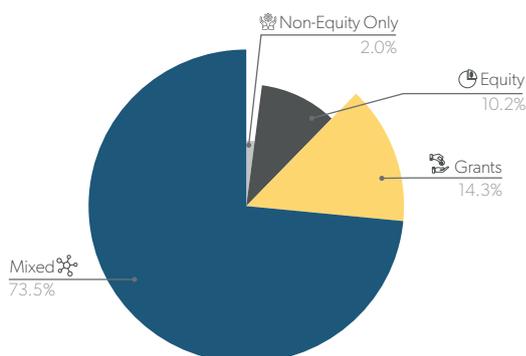
### STARTUPS FUNDED BY YEAR



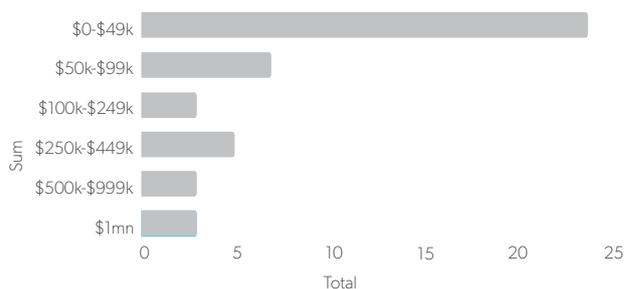
### FUNDING TO STARTUPS



### TYPE OF FUNDING ALLOCATED



### INVESTABLE CAPITAL FOR 2021



## COHORT SELECTION CRITERIA

Startups typically enter hub programmes for a fixed period of time and as a part of a cohort of companies. While the hubs can provide support, resources, advice and other services to startups of all stages, many focus on very early stage startups, e.g. those that are yet to generate any revenues. Most of the hubs, however, have minimum stage criteria for their cohorts. The majority (27%) of the respondent hubs' minimum criteria is startups at product development, even with no revenues. This is followed by 26% whose minimum stage is at ideation and a further 19% whose minimum admission is at a stage where companies have a product and some degree of sales. 16% gauged the minimum required stage of their cohort's startups at growth, and the remaining 12% have no stage criterion.

In terms of selecting cohorts, hubs have traditionally had no sector preferences because they don't necessarily have the capacity to dedicate their resources to a particular sector, but as hubs see the benefits of specialising in certain verticals, especially if backed by donors or corporates focused on a specific sector, they can be more beneficial to their cohorts, honing in on areas where they have strength, and delivering higher social impact. Despite the evolution, 12% of the respondents still take a sector-agnostic approach to select their

cohorts. Of the others, 14% focus on agriculture, a sector in urgent need of innovation and increased productivity. Agriculture sits as one of the most important industries for economic growth across the continent and the one with the highest potential to reduce poverty and hunger, fulfilling Sustainable Development Goal (SDG) 1 and 2. This is due to it being the primary source of subsistence, employment and livelihood for a majority of people in many countries across Africa. Beyond agriculture, 10% specifically target fintechs, and 8% focus on health-care companies. Other significant sectors of focus are hardware and internet of things (IoT), media and cleantech, based on the survey sample.

In addition to stages and sectors, hubs may also target specific segments of the population to address socio-economic issues. Many hubs are targeting founders from specific demographic groups to shape the future ecosystem and allow for more inclusion and diversity. More than half (60%) of the respondent hubs claim to support female founders, African founders, kids and youth, and students. Other demographics the hubs support include founders among refugees and people with disabilities.

FIGURE 17: MINIMUM STAGE REQUIREMENTS

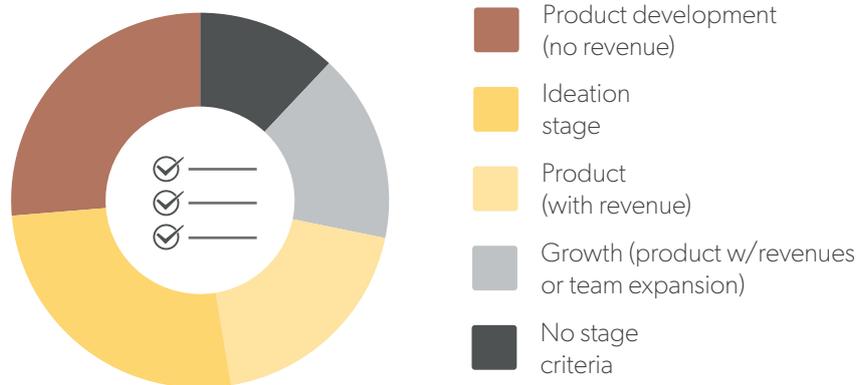


FIGURE 18: SECTOR PREFERENCES

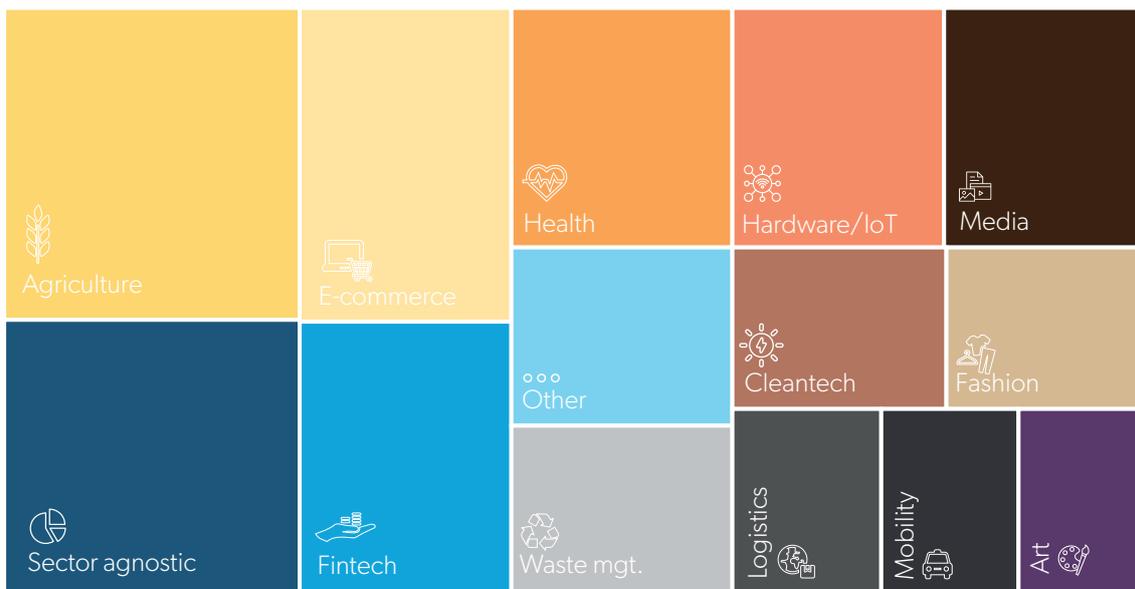
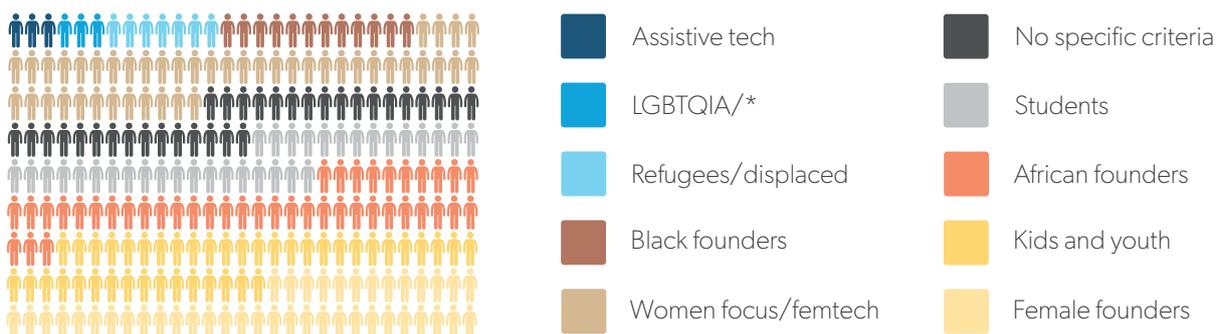


FIGURE 19: FOUNDER TARGET DEMOGRAPHIC



## COVID-19 AND CHALLENGES

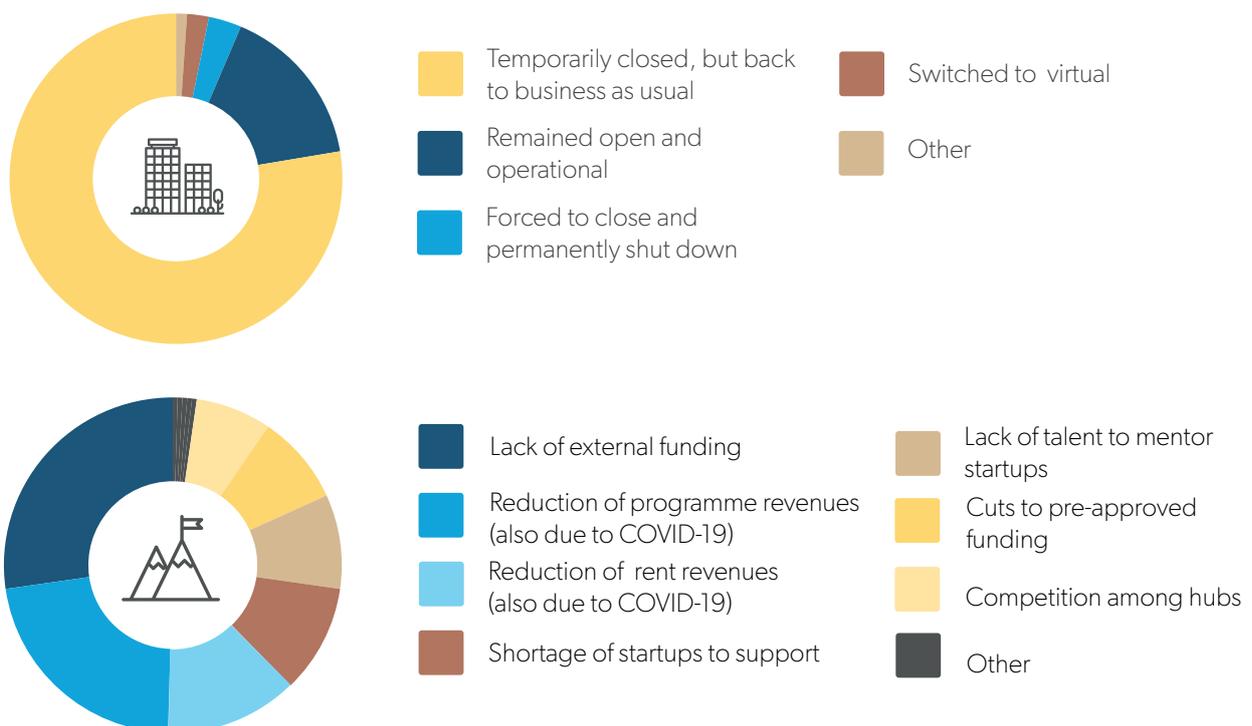
Hubs were asked how the pandemic had affected their revenues and premises. 78% of the hubs were forced to shut down their premises at one point during the pandemic, but we now seem to be gradually going back to business. Only 16% of the hubs remained open and operational throughout the entire period. A further 3% had to close their premises and permanently shut down. In terms of revenue, half of the hubs had a drop of up to 50%. 17% of the hubs were very negatively impacted with revenue drops of more than 50%. Only 6% of the hubs saw an increase in their revenues.

Lockdown measures, social distancing requirements and a majority of employees working from home are some of the likely reasons why many co-working spaces were forced to halt operations and why there was perceived hesitation in launching new hubs as a result of decreased demand for office spaces following COVID-19. Still, with the

majority of Africa's cities affected by poor electricity supply and internet connectivity, remote workers rely on co-working spaces to carry out their work. Also, many businesses, acknowledging that they can save costs from making long-term commitments for office spaces, now make physical attendance less strict and adopt flexible packages such as hot-desking instead of renting out entire offices.

Over the past eighteen months, there have been other obstacles that have threatened or reduced the respondents' sustainability, aside from COVID-19. 71% of the obstacles were directly related to the hubs' cash reserves. Lack of external funding was the challenge most frequently mentioned by the hubs, irrespective of the pandemic, whereas the reduction of revenues from programmes and rent, which was mentioned as second and third largest factors, can be considered as direct results of COVID-19.

FIGURE 20 AND 21:  
CHANGES TO PREMISES DURING THE PANDEMIC AND OPERATIONAL CHALLENGES

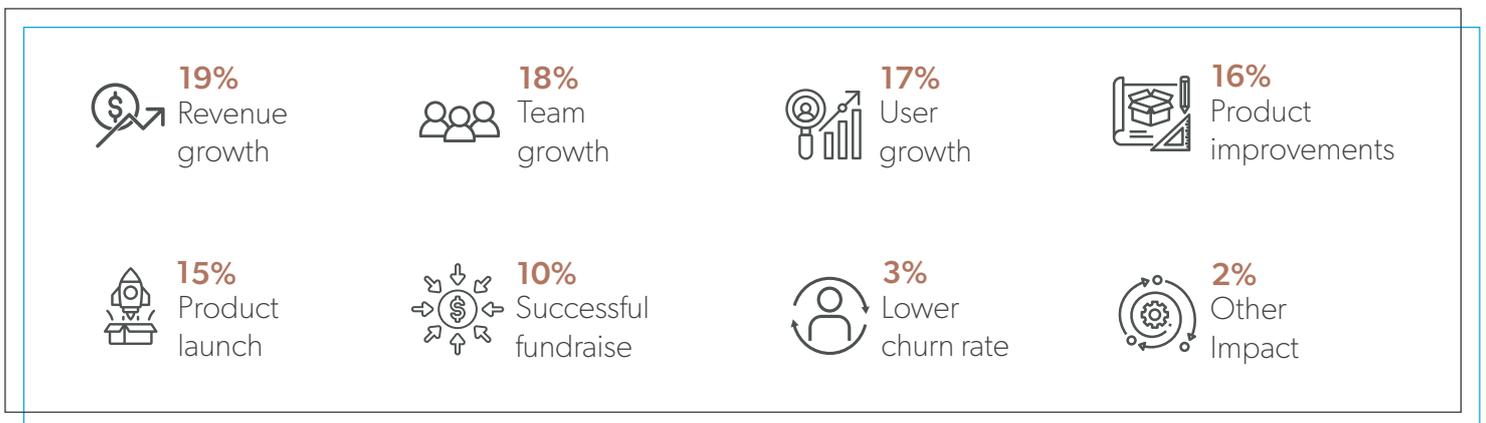


## IMPACT MEASUREMENT

Hubs have different targets and approaches, and these are reflected in the indicators and metrics used in the measurement of the impact of their programmes on, and the performance of their cohorts. An impact accelerator or incubator, for example, may be most interested in supporting companies targeting SDGs, while a corporate incubator or accelerator's focus may be more on the average return on investment from the cohorts, the

ability to plug a certain startup into their distribution channels, or the prospect of acquiring. According to the respondents, revenue growth, team and user growth, product improvement and product launch are some of the most used indicators to measure the impact of their programmes. As a direct result of their support and services, the respondents alone have claimed to have directly contributed to the success of over 250 startups.

### BOX 2: IMPACT EVALUATION: KEY INDICATORS



# TRENDS AND INPUTS FOR FURTHER RESEARCH

The conversation about the hypothetical ultimate role played by innovation hubs across Africa has been dominated by conflicting interests and perspectives. As more organisations enter the ecosystem, there is a growing need to address this inconclusiveness by analysing these organisations in a way that factors in the diversity and complexity of such models. This report intended to shed light on such nuances by breaking down the different aspects that characterised hubs, i.e. their revenue models, service offerings, support criteria, and funding sources. Here are some of the key findings:

**Not every innovation hub is born or geared to be an accelerator.** This is a recurring theme, already highlighted in previous literature and in our 2019 report. Data seem to confirm a defined demarcation between the concept of hub as startup accelerator, that is, a vehicle providing financial and in-kind assistance aimed at propelling a company's growth, and the more holistic understanding of hubs as organisations focused on community- and capacity-building, especially in the realm of entrepreneurship and the use of technology or innovative models. This is, however, by no means a rigid structure in that hubs can diversify, mature, and grow to become able to raise investable capital and attract mentors to add to their suite of startup support services.

**Funders and donors still play a key role in the guaranteeing hubs' financial sustainability.** Although African hubs are becoming more innovative with regards to generating revenue to fund their operations and facilities, a large number of them still rely on external funding to take care of their day-to-day operations and fewer of them are charging membership fees when compared to findings from Briter's 2019 hubs study. This is likely due to

the impact of COVID-19 on office work but the sustained inability of hubs to raise new funds and not being able to leverage their premises as efficiently as before the pandemic could put them at risk of shutting down, hence, their focus should be on refining their approach in order to achieve financial sustainability.

**Hubs with diverse models prove more shock-resilient and sustainable.** As mentioned, chasing one-size-fits-all models for hubs across Africa is not only detrimental to achieving sustainability, but it fails to understand the very complexity of this type of organisations. This study provides data that substantiate the claim that hubs are no monoliths and leverage diverse revenue streams that range from consulting to programme implementation, rent, and fund management on behalf of partners. As the startup ecosystem across the continent grows, there is room to increase the emphasis on financing models for startups, from equity to revenue sharing, that can offer feasible returns to the hubs.

**Need to focus on the funnel.** Startup ecosystems don't thrive in silos. The different components of an ecosystem play a specific role in ensuring the sustainability and longevity of the hubs. As Africa begins to see more sophisticated actors and associations become established, such as the African Business Angel Network, the investor community at large, from donors to venture funds, trade associations and African and global successful startups acquiring earlier-stage companies, the value addition needs to remain a key element in the perception of the hubs' role. In light of this, hub operators should focus on chasing synergies with partners across the board, not simply to focus on stakeholders that can finance their operations.

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