EXECUTIVE SUMMARY

ACCELERATING STARTUPS IN EMERGING MARKETS:

Insights from 43 Programs

MAY 2017

EMORY | GOIZUETA BUSINESS SCHOOL

SEG SOCIALENTERPRISEGOIZUETA

Aspen Network of Development Entrepreneurs

Deloitte.

Research Team

Peter W. Roberts, *Academic Director*
Social Enterprise @ Goizueta, Emory University

Genevieve Edens, *Director of Research & Impact*
Aspen Network of Development Entrepreneurs

Abigayle Davidson, *Research Analyst*
Aspen Network of Development Entrepreneurs

Edward Thomas, *Senior Manager*
Deloitte

Cindy Chao, *Manager*
Deloitte

Kerri Heidkamp, *Senior Consultant*
Deloitte

Jo-Hannah Yeo, *Consultant*
Deloitte

Acknowledgements

The Global Accelerator Learning Initiative (GALI) is made possible by its co-creators and founding sponsors, including the U.S. Global Development Lab at the U.S. Agency for International Development, Omidyar Network, The Lemelson Foundation, and the Argidius Foundation. Additional support for GALI has been provided by the Kauffman Foundation, Stichting DOEN, and Citibanamex. We continue to thank our colleagues at these organizations for their ongoing encouragement and support.

This report would not have been possible without the participation of dozens of accelerator programs that partnered with the Entrepreneurship Database Program to collect information from entrepreneurs. In addition, we are grateful to the entrepreneurs, program managers, investors, and other thought leaders who participated in our interviews, served on our expert panel, and provided reflections on our findings. We thank them all for their time and for their valuable insights.

Finally, we thank Michael Belles, Sol Eskenazi, Naomi Maisel, and Daina Ruback for stepping up to support the many interviews that we conducted with entrepreneurs, program managers, and investors. Their time and talents are appreciated!

Introduction

Because entrepreneurship is critical for economic growth and prosperity, policymakers are honing in on entrepreneur promotion and support as a vehicle for stimulating economic development in emerging markets.

Seeding more and more promising new ventures, and then smoothing the path from "small" to "small-and-growing" is seen as a viable means to create new jobs, as well as a viable alternative to traditional employment-based livelihood approaches.

Because acceleration is seen as an important spur to entrepreneurship, accelerator programs are proliferating around the world. Although these programs attract thousands of applicants and accelerate hundreds of ventures, few published studies provide systematic insights about their operations and impacts, and fewer still compare programs operating in established entrepreneurial ecosystems to those that aspire to have impacts in emerging markets. To address this research deficit, Social Enterprise @ Goizueta at Emory University and the Aspen Network of Development Entrepreneurs (ANDE) launched the Global Accelerator Learning Initiative (GALI) in collaboration with a consortium of public and private funders. GALI builds on the work of the Entrepreneurship Database Program at Emory University, which has been working with accelerator programs around the world to collect and analyze data describing the many entrepreneurs that they attract and support.

Combining longitudinal venture-level data with qualitative insights from entrepreneurs, program managers, and investors, this report investigates similarities and differences between accelerator programs run in emerging markets compared to those run in high-income countries.

Overall, we find that the two country contexts may not be as different as many people believe. When trying to stimulate the growth of promising ventures, the emerging market accelerator programs in our sample attract similar entrepreneurs and ventures and produce similar outcomes – accelerated revenue and employee growth and accelerated equity and debt investments. However, there are a few subtle but important differences.

Early Impacts of Acceleration on Revenues, Employees, and Investment

Data from our sample of ventures and programs suggest that programs around the world are accelerating revenues, employees, equity, and debt.[1] After one year, participating ventures report higher revenue and employee growth, as well as higher equity and debt investment growth compared to ventures that were rejected from the application pool (Table 1).

ONE-YEAR CHANGES IN KEY PERFORMANCE METRICS[2]

table 01

	PARTICIPATED AVERAGE CHANGE	REJECTED AVERAGE CHANGE	DIFFERENCE	
Revenue				
High-Income Countries	$35,062	$10,530	$24,532	✓
Emerging Markets	$26,134	$11,043	$15,090	✗
Full-Time Employees				
High-Income Countries	0.81	0.3	0.51	✓
Emerging Markets	2.18	1.22	0.96	✗
Equity				
High-Income Countries	$23,415	$8,878	$14,536	✗
Emerging Markets	$22,239	$8,195	$14,045	✓
Debt				
High-Income Countries	$21,620	$7,048	$14,572	✓
Emerging Markets	$14,616	$1,566	$13,050	✓

Statistically significant difference at the p<.05 level: ✓ YES ✗ NO

1 The sample includes 2,455 ventures that applied to 43 different accelerator programs between 2013 and 2015. Of these, 1,172 ventures applied to programs in high-income countries and 1,283 ventures applied to programs run in emerging markets.

2 Average differences for the full sample were: Revenues ($20,008*); Employees (0.68*); Equity ($14,333*); Debt ($14,096*).

The average changes reported in Table 1 do not take into account the different starting points for ventures operating in the two country groups. When considering venture size at application, the relative changes for revenues and employees are smaller in emerging markets, while the relative changes for both debt and equity are larger (Table 2).

AVERAGE PERCENTAGE CHANGE RELATIVE TO APPLICATION

table 02

		PARTICIPATED AVERAGE CHANGE	REJECTED AVERAGE CHANGE	DIFFERENCE
	Revenue			
	High-Income Countries	**61%**	**37%**	**25%**
	Emerging Markets	**39%**	**26%**	**14%**
	Difference	*-22%*	*-11%*	*-11%*
	Full-Time Employees			
	High-Income Countries	**58%**	**32%**	**26%**
	Emerging Markets	**43%**	**30%**	**13%**
	Difference	*-15%*	*-2%*	*-13%*
	Equity			
	High-Income Countries	**27%**	**16%**	**11%**
	Emerging Markets	**53%**	**40%**	**13%**
	Difference	*26%*	*25%*	*2%*
	Debt			
	High-Income Countries	**39%**	**35%**	**4%**
	Emerging Markets	**52%**	**9%**	**43%**
	Difference	*13%*	*-26%*	*39%*

Looking beneath these observations, we examine several commonly held beliefs about acceleration in emerging markets. We recruited a diverse panel of sector experts who collectively brainstormed a set of ideas about why accelerators in emerging markets might perform differently than those in high-income countries. This exercise uncovered four main areas where emerging market differences might influence accelerator performance: those pertaining to entrepreneurs, ventures, entrepreneurial ecosystems, and accelerator programs. Detailed analyses of quantitative and qualitative data suggest that – at least in this sample of accelerators with similar impact aspirations and program structures – several beliefs about emerging market differences may be overstated.

Key Insights

BELIEF #1:

EMERGING MARKET ENTREPRENEURS ARE DIFFERENT

1 Do emerging market entrepreneurs have greater talent gaps, and less entrepreneurial experience? MIXED SUPPORT

2 Do emerging market entrepreneurs invest less of their own money in their ventures? NOT SUPPORTED

Are they less confident of success? MIXED SUPPORT

Emerging market entrepreneurs have more-than-adequate educational experience and technical competence, according to data and interviews. However, investors often point to a lack of entrepreneurial experience among founding teams. In addition, emerging market entrepreneurs place more value on "business skills development" when considering accelerator programs, despite their higher levels of reported experience.

When it comes to making personal investments in their ventures, emerging market entrepreneurs are similarly confident about commercial prospects, and are backing this up by investing similar amounts of their own funds. However, in interviews, fewer emerging market entrepreneurs mentioned getting acquired as a specific aspiration. This diminished focus on scaling-to-exit may contribute to investor perceptions of lower entrepreneurial ability and commitment.

BELIEF #2:
EMERGING MARKET VENTURES ARE DIFFERENT

3 Do ventures in emerging markets work in different sectors, and are they less likely to be invention-based? SUPPORTED

4 Do emerging market ventures simply need less capital, whether due to lower costs of doing business or lower expectations about future growth? LIMITED SUPPORT

5 Do emerging market ventures tend to be less developed at application? NOT SUPPORTED

Or do they tend to wait longer to apply, and are therefore more developed at application? SUPPORTED

6 Are emerging market ventures seen as riskier? LIMITED SUPPORT

Emerging market ventures tend to wait longer and are therefore more commercially established before they apply to accelerators. However, they do not come in with as much initial investment support and plan to raise considerably less equity over the next three years. Interviews with accelerator program managers suggest that emerging market ventures may be less investment-ready as they are still iterating on their growth strategies.

There are sector differences in the ventures that seek acceleration in emerging markets, which are also less likely to be built around proprietary intellectual property. However, these differences are not responsible for the short-term equity deficits experienced by emerging market ventures.

Investors report relatively more difficulty sourcing quality deals in less-developed markets. However, when we asked specifically about risk factors that they consider, nearly all pointed to the quality of the founding team and related human capital risks as an important factor regardless of where the venture is based.

BELIEF #3:

EMERGING MARKET ECOSYSTEMS ARE DIFFERENT

7 Do emerging markets have less local equity investment, including fewer local investors and less-developed networks connecting investors to potential investments? SUPPORTED

8 Is it harder in emerging markets to attain success without acceleration? Do high-income countries provide greater opportunities for rejected entrepreneurs to access services, support and advice? NOT SUPPORTED

Our data do not support the idea that commercial success without acceleration is dramatically more difficult in emerging markets. However, investment funds flow less freely in emerging markets. Before acceleration, high-income country ventures are able to attract twice as much early-stage investment as those operating in emerging markets (Table 3). Emerging market program managers often facilitate deals with investors who live and work outside the country and are more likely to emphasize that recruiting investors to the program can be quite challenging.

AVERAGE INVESTMENT PRIOR TO APPLICATION

table 03

	PARTICIPATED	REJECTED
Equity Since Founding		
High-Income Countries	$87,923	$57,275
Emerging Markets	$42,274	$20,368
Debt Since Founding		
High-Income Countries	$55,381	$20,145
Emerging Markets	$28,123	$17,986

BELIEF #4:

EMERGING MARKET ACCELERATOR PROGRAMS ARE DIFFERENT

9 Are emerging market programs of lower quality? Do they make fewer direct investments in ventures? NOT SUPPORTED

10 Do emerging market accelerators have lower-quality networks? SUPPORTED

There is no evidence of an overall quality difference between emerging market and high-income country accelerators. High-level data describing 42 of the programs in our sample reveal no evidence of inferior resources for emerging market programs (Table 4). They spend more money per program and attract a similar number of mentors. The data also suggest that emerging market programs offer the same amount of guaranteed investment to the entrepreneurs who participate in their program.

However, emerging market entrepreneurs rarely indicate that connections made during a program help grow their networks. Moreover, program managers in emerging markets are also more likely to report difficulty recruiting mentors and advisors. This suggests that the social capital benefits that accrue during programs might be harder to sustain post-program.

DATA DESCRIBING SAMPLED PROGRAMS *table 04*

	PROGRAMS	PROGRAM COST	MALE MENTORS	FEMALE MENTORS	TOTAL MENTORS	GUARANTEED INVESTMENT
High-Income Countries	26	$124,596	38.8	16.4	55.2	$87,446
Emerging Markets	16	$281,000	42.8	14.5	57.3	$90,000

Implications for Acceleration in Emerging Markets

To ensure that these observations are interpreted through an experienced sector lens, we presented them to leaders in the field and asked them what they might take away from this research.[3] Below are their collective reflections on the major findings:

- **There are fewer quantifiable differences in the pipelines of entrepreneurs and ventures that present themselves to emerging market accelerator programs than many tend to think.** On the other hand, securing investment is more challenging in emerging markets. It is important to think about, and begin to rectify, this imbalance between promise and investment outcomes in emerging markets.

- **Emerging market accelerator programs are able to create short-term windows where investment outcomes are better aligned with the revenue and employee growth outcomes.** But what exactly are entrepreneurs looking for and getting from accelerators in the two country settings? Emerging market entrepreneurs tend to place more emphasis on business skill development, while much of the framing of accelerators' value is around building connections that might help close fundraising gaps. This raises program design issues that must be addressed.

- **Finally, we must not allow this initial picture of two forests to obscure the many tree-to-tree differences in specific countries or cities.** We must also remember that data-driven insights are only as good as the data and that these (quantitative and qualitative) data are still quite general.

The last point in these reflections represents a clear and compelling call to action. Because this initial sample of accelerator experiences is limited in both size and diversity, we must continue to ask questions and to collect data from more programs working in more places. The expanding range of programs and countries represented in our data will allow us to dig beneath the overall effects to determine where and how accelerator impacts are influenced by program design choices and ecosystem effects. We must also find ways to modify our research processes so that they can tease out the subtle-but-important nuances across regions and cities.

3 Special thanks to the leaders who provided their insight: Ross Baird (Village Capital); Nicholas Colloff and Harry Devonshire (Argidius Foundation); Nneka Eze (Dalberg Global Development Advisors); PR Ganapathy (Villgro); Ian Lorenzen (GrowthAfrica); Kenneth Turner (The Lemelson Foundation); Rodrigo Villar, Erik Wallsten, Armando Laborde, and Anne-Lorraine Meunier (New Ventures Group)

Invitation to Join GALI

We invite interested accelerators to consider joining the Entrepreneurship Database Program to begin developing a more comprehensive understanding of acceleration practices and impacts.

Through participation, our accelerator partners gain:

- Deeper insights from reports about applicant pools, selection biases and impacts on revenue, employment and investment growth based on all entrepreneurs who apply to your program. These reports are valuable for programs that want to demonstrate impacts to program funders and supporters; and
- Visibility from the broader GALI network, which provides benefits for those looking to develop more visible platforms for participating entrepreneurs.

We invite you to indicate your interest by answering a few questions at: www.galidata.org/contribute.

THE ASPEN INSTITUTE
ANDE is a policy program of The Aspen Institute.

Photos generously provided by: WECREATE Zambia (p. 3), The Points of Light Civic Accelerator (p. 5), Village Capital (p. 5–6), Kinara Indonesia (p. 8)

The views expressed in this document reflect the personal opinions of the authors and are entirely the authors' own. They do not necessarily reflect the opinions of the U.S. Agency for International Development (USAID) or the United States Government. USAID is not responsible for the accuracy of any information supplied herein.

GALI

To learn more about GALI, please visit www.galidata.org.