Angel Networks in Emerging Markets: A Guide for Development Institutions

ANGEL NETWORK SPOTLIGHT | 2020

ViKtoria Business Angel Network

Credit: VBAN

Status as of May 2020

FOUNDED: 2017 (Parent ViKtoria Ventures founded in 2012)

BASED: Nairobi, Kenya

INVESTMENT GEOGRAPHY: Kenya

FORM: VBAN sits under its parent company ViKtoria Ventures, a for-profit entity

NUMBER OF ANGELS: 43; 24 active

NUMBER OF DEALS: 26

TOTAL FUNDING: $700,000 USD

INVESTMENT FOCUS: Sector agnostic, with investment criteria focused on capital efficiency, scalability, and innovation

WHAT MAKES THIS NETWORK SPECIAL

Born out of ViKtoria Ventures, a start-up supporter in East Africa, VBAN uses its deep networks to attract angel network members and build quality pipeline for investors. With a dedicated Network Manager, VBAN provides hands-on support to members at every step of the investment process.

BUSINESS MODEL

- VBAN's business model relies on a number of diversified revenue streams, including membership fees, carried interest, consulting fees, and sponsorship contributions.
- With ViKtoria Ventures as its parent organization, VBAN also benefits from shared physical resources and operational expenses.

KEY ANGEL ENGAGEMENT STRATEGIES

- VBAN offers virtual and in-person masterclasses focused on angel investing concepts to members and prospective members.
- Referrals and personal networks of the founders and current members enable a steady pipeline of new potential angel members.
- VBAN sets clear expectations about what active engagement looks like for angels. As a result angels frequently bring new deals and offer their time and expertise as mentors to portfolio companies.

KEY ENTREPRENEUR ENGAGEMENT STRATEGIES

- Embedded in ViKtoria Ventures, VBAN uses its ecosystem knowledge to source relevant deals.
- Members are encouraged to introduce businesses to the network from their own networks and sectors.

Natasha Dinham is the lead author of this case. This angel network spotlight is part of Angel Networks in Emerging Markets: A Guide for Development Institutions, a USAID-funded study of angel networks in Latin America, Middle East/North Africa, and Sub-Saharan Africa. This project is a collaboration between Center for the Advancement of Social Entrepreneurship at The Fuqua School of Business at Duke University, Millbrook Impact, and the Bertha Centre for Social Innovation and Entrepreneurship at the Graduate School of Business at the University of Cape Town. This case study reflects the status of the network as of May 2020. Find other cases from this project as well as the full guide at http://bit.ly/EmergingAngels

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Development History and Model

FOUNDING STORY AND LEADERSHIP

> In the initial years, most of the capital [we saw available to entrepreneurs] was in the form of grants and competition awards. Most of the time this form of capital ended up with expat founders and not local founders. While there were many ways of resolving this challenge, we felt local angel investors would have the most success.
>
> **Stephen Gugu**
> Co-Founder

The ViKtoria Business Angels Network (VBAN) was born out of ViKtoria Ventures, a for-profit organization founded in 2012 by two Nairobi-based entrepreneurs, Stephen Gugu and Yaron Cohen. Gugu has a background in entrepreneurship and financial services, and runs an advisory business, InVhestia Africa Limited, which provides services in financial modelling, valuation, financial due diligence, mergers and acquisitions, and fundraising across Africa. He also runs the Private Equity and Venture Capital program at Strathmore Business School based in Nairobi. Cohen has worked for years in an advisory role for technology startups in Kenya. ViKtoria Ventures focuses on building startups through incubation and acceleration programs in partnership with other ecosystem players, conducting research and facilitating strategic planning for development organizations, and fostering linkages to successful startup ecosystems in other countries.

While the training, coaching, and support services ViKtoria Ventures offers to startups are foundational to building businesses in Kenya, Gugu and Cohen knew that these efforts only make up half of the puzzle. The critical second piece is identifying and expanding the pool of early-stage investment capital available to fuel the growth and sustainability of these new businesses. From their deep experience working in Kenya, the founders also knew that investment capital must match the specific needs of Kenyan entrepreneurs, who tend to be younger and less experienced than the average entrepreneur. They therefore need financial support coupled with mentorship to actualize their business goals.

To foster connections between Kenyan startups and potential local investors, ViKtoria Ventures organized pitch and matchmaking events. Gugu and Cohen saw that these events succeeded in igniting discussions between potential investors and entrepreneurs, but without structured support to actually close deals, conversations tended to lose momentum and capital flows never came to fruition. What was missing was a centralized facilitator who could support the full investment process, from pipeline identification all the way though deal-signing. The ViKtoria Business Angels Network (VBAN) was launched in 2017 to target early-stage capital, coordinate both seasoned and first-time investors, and address this deal-facilitation gap. To launch, VBAN received support from the regional industry group African Business Angels Network (ABAN), who sponsored the first batch of masterclasses for VBAN's members and shared lessons learned from other jurisdictions. VBAN is now a member of ABAN.

Day-to-day operations of VBAN are now managed by Angel Network Manager Jason Musyoka. VBAN knows that angels have their own lives and careers, are usually making investments on the side, and thus are not able to dedicate their full time to investment activities. Having Jason as the central point of communication for both angels and portfolio companies helps maintain deal momentum, keeps angels connected to the local entrepreneurial ecosystem, and grows the pool of angels over time.

THE VBAN SERVICE MODEL

VBAN seeks to offer valuable services to two tiers of angel investors. ***Deal flow members*** have existing experience in angel investing and join VBAN primarily to gain wider access to investment opportunities. They receive information on new potential deals, have access to a database of registered startups, and are eligible for discounted rates on training and networking sessions. ***Full members*** are interested in early-stage investing but may lack the expertise to make and manage investments on their own. They benefit from all the same services offered to deal flow members, as well as additional services designed to boost their knowledge and exposure to the startup space, including in-person or online masterclasses on angel investing concepts and pitch and networking events throughout the year.

To date, VBAN has facilitated approximately **$200,000 USD in investments**, with average deal size of $50,000 USD and average investment per angel of $10,000 USD.

VBAN considers its support services to fall under two categories:

Networking Services

- ***Training.*** VBAN offers training in both in-person and webinar formats to introduce angel investing concepts to aspiring angels. Converting individuals with capital and relevant business knowledge into angel investors is a way to increase the amount of local, early-stage investment available to Kenyan startups.
- ***Investor Networking.*** Networking among potential angels encourages individuals with industry-specific experience to share knowledge with other members and help assess potential deals. A strong network also fosters deal-sharing and co-investment opportunities.
- ***Start-up Networking.*** One of the key advantages of operating in partnership with ViKtoria Ventures is that VBAN members have access to accelerators, incubators, and other market players that contribute to a database of start-ups. VBAN takes an active role in curating this wide pipeline for the highest quality startups with strong growth potential. Members are also able to bring deals to the full network, so an individual investor can catalyze additional funding for an investment they want to make while sharing the risk among other members. In addition to the chance of accessing capital, start-ups benefit from exposure to diverse business industry experience and connections from network members.

Portfolio Services

- ***Deal review.*** The Angel Network Manager reviews all potential investments and submits notes to a screening committee made up of standing members. This screening committee is also open to other network members interested in the deal.
- ***Due Diligence.*** When there is sufficient interest in moving a potential deal forward, VBAN leads due diligence alongside a network member with specific expertise in the sector. Including an angel investor with sector expertise at this stage contributes to the depth of discussion and evaluation, and assists in generating buy-in from the network.
- ***Deal Structuring.*** VBAN leads the negotiation with entrepreneurs to structure a deal that meets their unique needs and stage of development.
- ***Pooling funds.*** VBAN plays a coordination role so that a deal of sufficient size can be formed. If a minimum of $50,000 USD is collectively allocated among VBAN members, the deal progresses to the next step and each investor signs a commitment form.
- ***Transaction documents.*** VBAN prepares transaction documents and manages the associated administration.
- ***Post-investment monitoring.*** Once invesments have been made, VBAN monitors and reports on portfolio companies to investors.

EXAMPLE INVESTMENT:
MANPRO

ManPro is a technology platform designed to digitize and streamline the process of construction management. The online app assists contractors and property developers in tracking construction projects through a single portal in real time.

ManPro discovered VBAN through an accelerator program when the business was still in its early stage of development. In Kenya, prospective entrepreneurs tend to have limited savings and modest disposable income, so many founders need to launch their ventures while working another job. This makes the pre-revenue startup phase especially difficult, and angel investment can be catalytic in giving founders the space to develop their model. As Founder Linus Wahome said, "Our key challenge at the point of raising angel capital was that we had bootstrapped for about a year and managed to build an MVP. However, we were almost exhausting our resources yet we still needed to close some major gaps relating to product-market fit. The angel investment we got will give us enough bandwidth to close these gaps and get us ready for scaling."

The angels settled on a modest $20,000 USD initial investment for proof of concept, of which $10,000 USD came from VBAN members. An additional $180,000 USD investment by VBAN and Pangea Accelerator could follow based on meeting performance milestones. "Unlike investments firms that typically invest huge sums and are very aggressive with their expected returns, angel investors are able to provide smaller amounts that startups require as seed capital and take a more long-term view with the startup. Angel investors are also able to bear higher risks that typically characterize early-stage startups," said Wahome.

Since the investment in October 2019, ManPro has been focused on product development and is now implementing a pilot phase, with product release to follow shortly. Wahome reports that their progress has been tremendous, and that it has been the advice, mentorship, and guidance from VBAN that has really taken his business to the next level. "Angel investors often bring a ton of experience and industry specific expertise and have a deep understanding of what it takes to bring success to a starting business. Angel investors provide ongoing mentorship and guidance to the founding team which is critical for success."

Source: Disrupt Africa, Tom Jackson, November 21, 2019, https://disrupt-africa.com/2019/11/kenyan-construction-startup-manpro-raises-200k-funding-round/, accessed May 11, 2020.

Business Model & Path To Sustainability

The VBAN business model is based primarily on membership fees and carried interest for each investment. This revenue model is currently supplemented by corporate sponsorships and consulting.

Credit: VBAN

Membership fees are tiered according to the two member types. The more experienced deal flow members pay $300 per year whereas the full members that will take advantage of additional training services pay a higher fee of $500 per year. In addition to individual memberships, organizations may join the network or join individual deals. For example, outside (informal or formal) investment groups may participate in VBAN deals to grow or diversify their portfolios. This enables larger deal sizes and garners VBAN additional revenue. VBAN also makes angel investment masterclasses open to non-members for a separate fee.

To align interests of the Angel Network Manager and angel investors, VBAN takes 20% "carried interest" in each deal, effectively rewarding the network for successful investments. This means VBAN receives 20% of the profits on investment after angels achieve the agreed-on return, the "hurdle rate," for the deal. Hurdle rates are determined on a deal-by-deal basis, but generally average around 10%. Due diligence costs for deals over $50,000 are recovered as fees.

To reach long-term sustainability based on member- and deal-related revenue, VBAN estimates that it needs to maintain at least 32 active members each year. In the meantime, corporate sponsorships and consulting provide additional revenue to cover operating expenses. VBAN particularly targets sponsorships from corporations interested in learning more about and supporting the entrepreneurial ecosystem. Consulting assignments ideally do not simply bring in income, but also add value to the network (e.g., designing and publishing an investor handbook) or build relationships with investors that could lead to co-investment.

Since VBAN is situated under parent organization ViKtoria Ventures, it benefits from shared resources such as office space, rent, and utilities, cutting costs that would otherwise be incurred solely by VBAN. In return, ViKtoria Ventures has access to some of VBAN's deals.

Angel Engagement

VBAN's stated strategy for activating new angel network members is through the provision of in-person and webinar masterclasses on angel investing concepts. These classes take individuals with financial resources and give them the basic investment knowledge and exposure to the startup ecosystem to join investments. Recognizing that the fee for non-members may be a barrier to engaging as many potential angels as possible, VBAN is considering soliciting corporate sponsorships to cover the cost of masterclasses in the future.

In practice, the majority of new angels currently come from referrals from the co-founders and members' wide network. Organic word-of-mouth is also a source of new members; because VBAN is very active within the entrepreneurial ecosystem, there are opportunities to attract new members through deal announcements, conference speaking slots, and networking events.

Angel networks generally find that it is not sufficient to simply aim to get more investors on the membership books; active engagement in deals and in supporting portfolio companies is the real goal. VBAN has stated guidelines that request members commit a minimum investment of $5,000 USD per year, one hour per month of start-up coaching, and a minimum of five business introductions for start-ups in the network. While on an individual member level these guidelines are not always met, the upfront expectation has built a culture of hands-on engagement by network members. Angels frequently bring deals to VBAN and offer their time and expertise as mentors to portfolio companies.

Strategies In Practice

In *Angel Networks in Emerging Markets: A Guide for Development Institutions*, common context and business model challenges that angel networks face as well as strategies to address these challenges are identified. The strategies VBAN has utilized are summarized in the column on the right.

		STRATEGIES TO ADDRESS CHALLENGES
ECONOMIC CONTEXT CHALLENGES	**Relatively small markets**	**Expand the local market through partnerships** • Develop ecosystem partnerships for deal flow • Participate in regional/cross border partnerships for deal flow/additional angels • Engage foreign/diaspora investors alongside local investors to increase capital available **Attract new angels through broader definition and awareness** • Expand the angel definition beyond high net worth individuals, to include mid-level professionals, friends and family, and others in the local market • Produce events that raise awareness of angel investing • Engage local business influencers in events to enhance attractiveness • Amplify success stories to generate interest and excitement **Activate capital through education, facilitation, and risk reduction** • Provide angel education and mentoring to build skills and confidence • Cultivate peer engagement to build trust • Facilitate the investment process to reduce transaction costs and friction • Use pooled capital models to shorten the learning curve • Develop fund models or hybrid funds to activate additional capital • Pursue investment guarantees or investment matches to reduce risk • Experiment with innovative workarounds to local regulatory constraints
	Lack of investment awareness, experience, & skill	
	Bias against local early-stage investing	
	Regulatory barriers to angel investing	
BUSINESS MODEL CHALLENGES	**Achieving a sustainable business model**	**Diversify revenue and share costs** • Charge fees for services to investors or entrepreneurs • Charge transaction-based fees • Generate revenue from sponsorships or consulting engagements • Structure investment upside participation for the organization • Be embedded in another institution to share costs • Secure grants/government support **Attract and retain staff and membership talent** • Structure investment upside participation for the manager • Host networking events attractive to key investors • Alleviate deal management burden on the most active members **Use innovative financing structures in addition to equity** • Use alternative financing structures that match local expectations around ownership, business success, exit, and return
	Retaining skilled network leadership	
	Lack of participation by key influencers	
	Unsuitability of traditional equity in some cases	

Looking Ahead

As VBAN establishes itself as a key player in the East African startup space, it has a number of ideas to grow and strengthen the network. To accelerate their path to sustainability, VBAN is in early stage discussions with development funders around a technical assistance facility that could be used to assist in administrative costs. They are also proposing that funders utilize their capital to catalyze member investment, either through a de-risking facility such as a first-loss tranche, or a co-investment fund that would crowd-in member participation. They are also looking for sponsorships to support workshops for potential angel investors, which would assist with their angel engagement strategy.

To leverage additional capital and conduct larger deals, VBAN is considering innovative partnership models, such as:

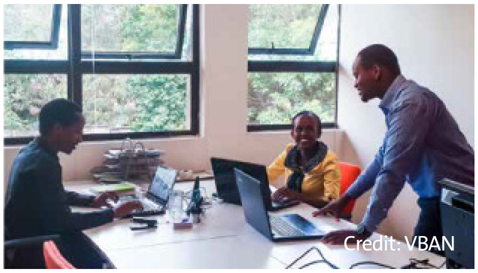
- Conducting more deals with formal and semi-formal investment groups that are already operating in East Africa and are looking to grow or diversify their portfolios.
- Creating partnerships with financial service providers such as banks and wealth managers. These providers could include angel investing opportunities to increase product offerings for their clients.
- Partnering with other venture and private equity fund managers, who would benefit from the local expertise and hands-on approach angels bring to supporting enterprises and build pipeline for their own investments.

SUCCESS MEASURES

The founders feel that, given the significant need among startups in Kenya for early-stage capital, angel investing is developmental by default. To date VBAN has not created metrics to measure success or impact. However, it is starting to consider ways to incorporate measures in the future.

Credit: VBAN

Lessons From This Network



A centralized network staff role can drive deals to completion.
VBAN acknowledges that angel network members have their own lives and careers, are usually making investments on the side, and thus are not able to dedicate their full time to angel activities. Having a dedicated Angel Network Manager ensures that there is active recruitment of new members and that deals do not stall merely for lack of attention. By coordinating the full investment process and serving as a central point of contact across members, the Angel Network Manager can ensure more deals close, unlocking the capital Kenyan entrepreneurs need.

Credit: VBAN

Investor expertise and connections are valuable non-financial support for young entrepreneurs.
Kenyan entrepreneurs are, on average, younger than entrepreneurs elsewhere in the world and they often come from backgrounds where they don't have the financial freedom to dedicate their full time to pre-revenue businesses. As they are forced to split their time between growing a new venture and other jobs, the mentorship, business advice, sector expertise, and connections accessed through angel investors can have a strong impact on start-up success. Judging an angel network merely on investment dollars facilitated doesn't capture these equally important, non-financial supports.

Strong partnerships with entrepreneurship organizations benefits investors and deals.
VBAN's relationship with ViKtoria Ventures has proved invaluable in building the angel network and deal pipeline. The fact that ViKtoria is deeply embedded in the entrepreneurial ecosystem, including with accelerators, incubators, investors, and enterprises, laid the foundation for VBAN and improves deal flow.

Credit: VBAN

Tiered membership options allow for more targeted services to angels.
The market of potential angels in Kenya ranges greatly, from experienced investors seeking deal flow to those completely new to angel investing. Although VBAN provides support across all types of angels, it acknowledges its different value offerings through a differentiated fee structure. Access to the full suite of services, including master-classes and pitch events, is offered to full members who pay higher fees than members simply looking to access deal flow. This tiered model allows a broader activation of angels in Kenya while compensating VBAN where additional investor support is required.

Find other case studies and the full report Angel Networks in Emerging Markets: A Guide for Development Institutions at http://bit.ly/EmergingAngels