Monitoring the Impact and Success of Startup Acts in Africa

By Blaise Bayuo and Chizi Gakuo

Bold action by Africa's political leadership will help to unlock the potential of the continent's burgeoning digital economy, which is why implementing effective startup acts – dedicated legislation aimed at supporting tech entrepreneurs – can be a highly effective move. However, startups have a high failure rate, with only 8 per cent in Africa making it to the Series-B funding stage (typically meaning they are well-established). Despite this, they have the real potential to deliver good-quality employment on a continent where three-to-four times more people enter the job market than actual roles are created as well as to develop innovative solutions to pressing local challenges and drive long-term, inclusive growth. With Africa's tech-startup ecosystem having secured $5.4 billion in funding in 2022, leaders need to seize the moment and develop pro-startup legislation to catalyse innovation, entrepreneurship and economic growth.

Some African countries are already developing pro-startup legislation, combining best practice from across the globe and continent with adaptations to fit local context and priorities. However, governments must be ready to economically justify why resources are being allocated to startups instead of other public services such as health care, education and salaries for critical state employees. This justification can only be made if impact is measured. Governments must therefore balance costs of delivering a startup act against costs of measuring its success. Effective monitoring demands resources; avoiding this investment is a false economy that risks continuing ineffective interventions.

As governments commit to implementing startup acts, it is critical to define what success means and monitor relevant indicators. The Tony Blair Institute for Global Change has developed a framework guiding governments on how to measure the effectiveness of startup acts.

Where possible, governments should use existing national resources – for example, data used in the process of developing entrepreneurship policies– to understand the impact of new policies and avoid duplication in the evaluation process. Conducting a baseline study to identify available indicators using existing databases is key. Governments should also supplement national data with reference to global innovation and startup reports that provide useful indices on comparative national performance. For example, the World Intellectual Property Organisation's Global Innovation Index and Startup Genome's Global Startup Ecosystem Report provide useful data.

Pathways for Measuring the Gains Made From Startup Acts

We have identified six crucial metrics of success that policymakers implementing startup acts should factor into their monitoring and evaluation frameworks. Countries can determine use of these metrics based on their national priorities and degree of startup-ecosystem development.

1. Investment Flows to Early-Stage and Emerging Startups

Indicators to measure include:

- The increase in early-stage deal counts for startups. Leaders need to measure the count (number) of total investments that startups receive over time. It is also essential to disaggregate funding sources into the local and international to help determine the impact of legislation on unlocking capital to support startup growth and inform more targeted promotion of investment.

- Growth in deal amounts for startups. While the number of investments is a measure of progress, the investment amount (size) helps demonstrate how much finance is flowing to startups for growth.

- Growth in the number of early-stage profit and non-profit investors. The growth in the number of investors who specialise in supporting early-stage startups is another important metric. The goal of pro-startup legislation is to reduce investment risks and boost the confidence of both local and foreign investors in local enterprises.

- Policymakers can aggregate data from existing sources such as Crunchbase, Briter Bridges reports, the Global Startup Ecosystem Report and national administrative databases to guide reviews. Governments can also conduct national-innovation surveys to provide broader and more comprehensive data reflecting the national context.

2. Growth in Businesses Related to Innovation and ICT

Indicators to measure include:

- Growth in the number of innovation and ICT-driven local companies. The immediate and direct impact of startup acts will be seen in the number of new or existing companies registering as beneficiaries of the legislation. At a minimum, the year-on-year growth rate of innovative companies should improve and rank higher than the historical averages recorded before the act's implementation (although it can take more than two years for a startup to transition from early stage to high growth).

- The number of innovation and ICT-driven support organisations (incubators and accelerators) established to assist startups. Startup acts are designed to encourage all stakeholders to invest in and support new companies through tax incentives and funding assistance. The growth of incubators and accelerators is therefore a good measure of success.

- The number of students graduating with ICT-related qualifications.Startup acts support entrepreneurs to leverage ICT and business innovations to drive growth across all sectors while creating new industries. A positive change in the percentage of students majoring in innovation and ICT-related programmes should be measured, reflecting growth in relevant industries.

3. Traction and Viability of Startups

It is important to measure the early survival rate of startups. Recording the percentage of startups that are still active after one year helps to assess failure rates and provide insights

into the type of startups that fail in the first 12 months. In addition, collecting data on those startups that have been supported by the new legislation and are running smoothly will help governments to identify potential winners and agree on a "graduation point" at which companies no longer need the special measures detailed in the act, such as tax benefits for the first year of operation. Understanding how many supported startups have expanded into new markets (local and foreign), built more partnerships and are profit-making will help inform the effective implementation of legislation.

4. Contribution to Decent Employment

- With the proper policy support, startups help create both direct and indirect jobs. On average, young firms across Organisation for Economic Co-operation and Development (OECD) countries account for about 20 per cent of employment and create almost a half of new jobs. Generating employment is core to most governments' national-development plans and is especially important in Africa, where 10 to 12 millionyoung people enter the job market each year, but only3.1 million roles are created.

- Startups also contribute indirectly to employment (although this is harder to measure) by engaging with other businesses, individuals and governments in their value chain to stimulate economic growth that has ripple effects on employment. Additionally, as more people transition through startups, they gain relevant skills for their career progression.
- As governments roll out startup acts, tracking the number and location of related jobs – both direct and indirect, rural or urban – provides measures of success for assessment based on national objectives.

5. Governance: Quantifying Institutional Support From a User Perspective

- Drafts of startup acts across Africa have outlined incentives aimed at addressing operational barriers. Unfortunately, different ministries and departments are responsible for the various aspects of implementation. It is therefore critical to ensure that all relevant state agencies are aware of their roles and have mechanisms to implement the incentives contained in the acts as well as ways to evaluate startups' abilities to access these benefits.

- Founder access and satisfaction. This metric measures startups' ease of access to benefits and incentives, as well as their satisfaction levels. Higher levels of access and satisfaction indicate that acts are delivering positive gains. Governments can measure founder satisfaction using online or offline surveys, including six-month barometer surveys, and forums for founders to speak directly to government leaders.

- Process metrics. These help to gauge how streamlined and coordinated efforts are among state institutions responsible for the legislation's success. Developing answers to the following questions in sequential order could help governments understand and measure implementation efforts:

- How many firms apply to become beneficiaries of the startup act?
- How many startups complete the application and/or qualify within a target timeline
- After accreditation, how much time does it take to access the services provided by the act?

6. National Competitiveness Through Innovation

To determine the contribution that companies benefitting from startup acts have made to national competitiveness, leaders should measure the amount of new intellectual property (IP) registered by them. Across Africa, where economies are primarily informal, measuring competitiveness remains challenging. Year-on-year growth in new IP registration among startups could be one positive growth indicator of national-innovation activities. National surveys on new trademark and copyright registrations provide another more accessible data source for measuring innovation.

Conclusion

Governments and startup founders in Africa have a shared vision of creating sustainable wealth and employment opportunities. Yet startups are not benefitting from the full potential of state support; they continue to face regulatory, financial and market-access challenges. However, governments are beginning to embrace their role in helping startups overcome these obstacles. Measuring the key success areas outlined above will help policymakers systematically evaluate how startup acts can contribute towards sustainable real-world impact in alignment with national priorities while setting countries on positive trajectories with their digital agendas.