Kenya Innovation Ecosystem Funders Forum

Catalyzing Homegrown Innovation in Africa:

How Public Capital Unlocks Private Investment

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Background and Introduction

At the 2025 AVPA conference, The Foreign, Commonwealth and Development Office (FCDO), The Research and Innovation Systems for Africa (RISA) Fund, and The Lemelson Foundation [under the umbrella of the Kenya Innovation Ecosystem Funders Forum (KIEFF)], in collaboration with the Global Innovation Fund, sponsored a session titled "*De-risking the Deal-Making: Public Money as a Magnet for Private Capital.*"

Across Africa, public funding has long played a central role in supporting the early stages of innovation, particularly where private capital is hesitant to participate. This ongoing reliance on public financing underscores the need for countries to strengthen their commitments to Gross Expenditure on Research and Development (GERD), as many remain below the African Union's 1% of GDP target. Both public and private investments have been instrumental in developing and sustaining the pipeline of local innovations, and stronger public commitments could help attract additional private sector participation. The challenge now is to explore how public resources can be deployed more strategically to further de-risk opportunities and unlock meaningful private sector investment for homegrown solutions.

This article synthesizes insights shared by four leaders in innovation financing in Africa: **Tandokazi Nquma-Moyo**, from *South Africa's Technology Innovation Agency (TIA),* **Hamdiya Ismaila**, formerly with the *Ghana Venture Capital Trust Fund (VCTF),* **Dianah Irungu** from the *Global Innovation Fund (GIF),* and **Maggie Flanagan** from *The Lemelson Foundation*. Each offers a distinct perspective on strategically deploying public capital, creating value beyond financing, and shaping ecosystems that attract private investment.

Catalyzing Homegrown Innovation Through Public–Private Collaboration: Insights from South Africa

The Technology Innovation Agency (TIA) was established to support the commercialization of research-based products. Historically, early-stage innovations in South Africa faced one major hurdle: private investors are reluctant to back pre-revenue products. To address this gap, TIA initially introduced joint investment committees that combined government and angel investors on a 50:50 basis. While this approach delivered strong commercialization outcomes, it placed significant administrative burden on entrepreneurs.

Recognizing the need for a more efficient model, TIA transitioned to include a fund-of-funds (FoF) strategy, with the establishment of an Industry Matching Fund and implementation of South Africa's Innovation Fund. In this structure, TIA invests as a 20% limited partner, offering subordinated capital to attract private investors. The FoF model allocates 60% of capital to investment funds and 40% to pipeline development, ensuring a steady flow of commercially viable innovations in TIA's sectors of interest.

To date, TIA has invested in approximately seven (7) funds, including Venture Capital and Angel asset classes, supporting spinouts in biotech, deep tech, and natural products at the pre-seed, seed, and Series A stages. Their total investment of ZAR 180 million (~$10.66M) has successfully leveraged over ZAR 1 billion (~$59M) from co-investors.

TIA's experience demonstrates the power of public capital to unlock private investment when deployed strategically. The agency now plans to expand its approach through:

1. Establishing a special purpose vehicle that private sector funds can invest through.
2. Expanding a diversified financing strategy that integrates direct investments, co-investments, and fund-of-funds approaches to better address different stages of the innovation lifecycle.
3. Scaling programs that build the capacity of black, emerging, and female fund managers to strengthen the pipeline of Africa-focused investment talent.
4. Advancing cross-border collaboration, starting with the Innovation Agencies of Africa Network, to explore the establishment of a Pan-African Innovation Fund that can attract global capital alongside local public resources.

Catalyzing Ghana's Venture Capital Market: Insights from the Ghana Venture Capital Trust Fund (VCTF)

Ghana's experience underscores the importance of creating a robust enabling environment for venture capital. At the time of the VCTF launch, the country had very few VC vehicles managed by locally based fund managers. To address this gap, the Government of Ghana passed the Venture Capital Trust Act of 2004, establishing a government-backed fund-of-funds structure. Through this model, VCTF invests via Venture Capital Finance Companies managed by local fund managers, thereby strengthening the domestic VC industry and catalyzing early-stage businesses.

VCTF frequently took a first-loss position to absorb early-stage risk, investing through locally managed Venture Capital Finance Companies (VCFCs). According to VCTF's reports, for every GHS 1 invested, it mobilized up to GHS 5 from other investors, a strong demonstration of the catalytic power of strategic public financing.

Importantly, VCTF did not participate directly in the governance of the Venture Capital Finance Companies, thus preserving investment independence while still influencing mandates toward early-stage businesses. VCTF also played a significant role in developing Ghana's capital markets by partnering with the Ghana Stock Exchange to support the creation of a dedicated market for SMEs, the Ghana Alternative Exchange, providing exit routes and liquidity for venture-backed firms.

Key opportunities emerging from the Ghanaian experience include:

1. Leveraging fund-of-funds (FoF) structures to achieve scale and diversify investment risk,
2. Creating larger funds to ensure sustainable fund economics and strengthen fund viability,
3. Building track records for local fund managers, enabling them to attract future capital, and
4. Supporting a broader mix of fund types, including sector-specific funds, to meet diverse market needs.

Bridging the gap between catalytic and commercial capital: The Global Innovation Fund (GIF)

GIF holds a unique position in the impact investing landscape, balancing a focus on both non-profit and for-profit early-stage innovations, including pre-revenue companies, by offering a variety of capital, including grants, debt, and equity. This diverse capital mix has allowed GIF to support promising early-stage innovations with catalytic capital and attract follow-on commercial investment. Some innovations supported by GIF faced long regulatory and licensing lead times, which are key milestones for unlocking demand and demonstrating commercial viability. For instance, GIF invested in a carbon removal project developer that required a 12–18-month verification and certification process before it could commercialise its product. While this was a crucial step, timelines remained uncertain. However, once the verification and certification were completed, the company secured a long-term off-take contract with a government partner.

Furthermore, GIF launched a new debt fund, GIF Growth, with a blended fund structure that includes a first-loss tranche supported by government funders. Additionally, concessional contributions from partners such as FCDO enable GIF Growth to provide flexible, non-dilutive debt to local innovations for scaling.

Key opportunities arising from the Global Innovation Fund include: utilizing grants to finance highly impactful for-profit ventures, de-risking important milestones, building momentum, and proving commercial viability.

The Debate: Should Governments De-Risk Private Investors or Rely on Tax Incentives?

This segment explored two provocative statements, including the claim that governments lack the resources to fully de-risk private investors and should instead focus on tax incentives.

The discussion highlighted several lessons, drawn from various country experiences, that can be grouped into three core themes: funding mechanisms, incentive design, and the enabling environment.

1. **Funding strategy: blended approach and alternatives**

The most effective strategy for supporting innovation involves a blend of financing instruments. Governments shouldn't rely on just one mechanism to address the diverse needs of the innovation ecosystem:

- Blended finance: A combination of tax incentives (to reward private activity) and catalytic funding (direct government investment to initiate high-risk, early-stage research) is considered optimal.
- Alternatives to tax incentives: Where tax breaks are insufficient or problematic, governments can use other de-risking mechanisms, such as Outcome Funds (funding based on achieving clear, measurable results) and Guarantee Funds (like Zambia's Small Growth Infrastructure Fund, which reduces lender risk).

2. **Designing effective and accountable incentives**

Past experiences highlight the need for tax incentives to be meticulously designed to ensure they target the intended beneficiaries—genuine R&D activities—and provide evidence of fiscal return.

- Targeting specific R&D: The lesson from South Africa's 12J program showed that incentives must be specifically R&D-linked to prevent benefits from being disproportionately captured by general private equity, ensuring they truly support innovation and knowledge creation.
- Measuring fiscal return (Ghana Model): Governments must track the long-term economic impact of their support. The model explored in Ghana involves tracking PAYE taxes from employees of supported firms to quantify the cumulative tax revenue generated, thereby justifying continued strategic investment in high-growth companies.
- Counteracting crowding-out: In countries like Kenya, high-yield government bonds (e.g., ~18%) can crowd out early-stage private capital. This requires policy incentives that are specifically designed to counteract the attractiveness of low-risk government securities.

3. **The critical role of the enabling environment**

While financial tools are necessary, they are not sufficient. The underlying economic and legal framework is crucial for building private sector confidence.

- Building trust: Strengthening the rule of law, including contract enforcement, regulatory consistency, and the efficiency of the justice system, creates a predictable and stable business environment. In many contexts, this can be more effective at de-risking private investment than financial incentives alone, as it builds the trust and confidence investors need to take calculated, long-term risks.

Emerging Opportunities for Africa's Innovation Financing Landscape

Across all three perspectives, several themes emerged about the future of catalytic financing for homegrown innovations:

1. **Fund-of-Funds as a scalable mechanism:** FoF structures diversify risk, create scale, and reduce government interference in venture capital operations.
2. **Blended finance tools remain essential:** First-loss capital, guarantees, and subordinated instruments continue to be powerful levers for attracting private capital.
3. **Strengthening fund manager capacity:** Investing in local emerging and female fund managers is crucial for building a pipeline of Africa-focused investors.
4. **Regional collaboration is the future:** Cross-border investment funds and partnerships, including a potential Pan-African Innovation Fund, and leveraging existing continental platforms such as the Innovation Agencies in Africa Network, could unlock new partnerships and pools of public capital.

5. **Capital markets need continued support:** A healthy secondary market and supportive regulatory environment are critical for long-term ecosystem growth.

Conclusion

As foreign development capital declines, African governments have an opportunity to shape their innovation-driven economic futures. By strategically deploying public capital through mechanisms such as fund-of-funds, blended finance instruments, and targeted tax incentives, governments can de-risk early-stage innovation and attract meaningful private investment. Complementary investments in capital market development, fund manager capacity, and regional collaboration will further strengthen the ecosystem. Taken together, these approaches could position African countries to unlock the full potential of homegrown innovation and drive long-term, sustainable growth. African governments, in particular, must take proactive steps to create enabling policies, strengthen regulatory frameworks, and provide targeted support to early-stage ventures, ensuring that public resources are strategically leveraged to stimulate private investment and foster inclusive, sustainable innovation ecosystems.