ENTREPRENEURSHIP & ACCELERATION

Questions from the Field

Photo courtesy of MassChallenge Mexico.

Funding Accelerator Programs | December 2017

The GALI team consistently hears questions from accelerators and others in the field about financial sustainability. In this brief, we ask: How do accelerators fund their programs, and how do different funding profiles relate to different accelerator offerings?

More than 50 percent of the accelerators that responded to GALI's Global Accelerator Survey were less than four years old. Anecdotally, we have heard that many accelerators are experimenting with their revenue models. The financial sustainability of accelerators is a topic of interest among these accelerators as well as their funders and investors. In this data brief, we use data from GALI's 2016 Global Accelerator Survey[1] to explore how accelerators are funded and how reliance on distinct types of revenue corresponds with other programmatic differences.

[1] The full Global Accelerator Survey results are available at www.galidata.org/accelerators.

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About the sample

Accelerators share a set of program characteristics that distinguish them from other forms of capacity development services. Specifically, they are time-limited programs that work with cohorts or "classes" of ventures to provide mentorship and training, with a special emphasis on connecting early stage ventures with investment.[2]

The global accelerator landscape is growing and changing at a rapid pace. Between 2014 and 2017, GALI identified over 500 accelerators around the world, and in 2017 surveyed them to provide insight into what acceleration looked like in various geographies and contexts. After removing responses with insufficient funding data, this analysis is based on 139 organizations that run accelerator programs.

In the Global Accelerator Survey, we asked respondents to indicate the percentage of their funding in 2016 that came from eight different sources. We also asked questions about where they operate, the type of ventures they support, and what services they provide.

Types of Funding for Accelerators

We grouped the eight funding sources from the survey into four broad types (Table 1). Donor funding was the most common type, with over 60 percent of respondents reporting either government or philanthropic funding used to operate their programs in 2016. 'Investor-backed' was the least common response, at around a quarter of respondents.[3] Revenue-generating activities included four different funding sources, but was reported by less than 40 percent of respondents.

TYPES OF FUNDING FOR ACCELERATORS

table 01

FUNDING TYPE	FUNDING SOURCES INCLUDED	FREQ
Donors	Government; Philanthropic organizations and/or grants	88
Corporates	Corporates	75
Revenue-generating	Fees charged to ventures; Success fees charged to investors; Consulting services; Returns from equity in accelerated ventures	54
Investor-backed	Investor-backed	37

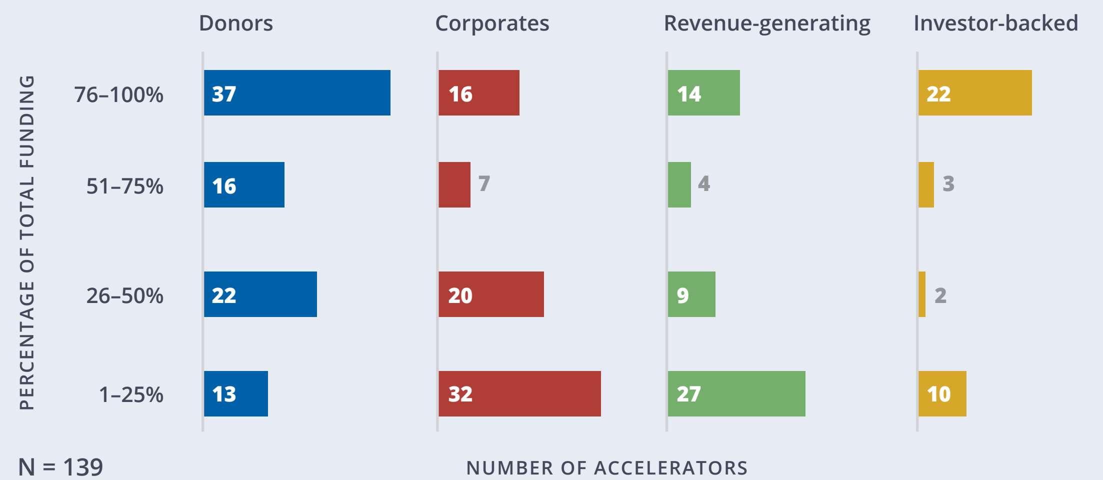
N=139

2 Cohen, S. & Hochberg, Y.V. (2014). Accelerating startups: The seed accelerator phenomenon. Available at SSRN 2418000.

3 'Investor-backed' was added as a funding category to the 2016 Global Accelerator Survey based on this being a common 'Other' response in the 2015 survey.

Figure 1 shows the number of accelerators that relied on each funding type, and to what degree (as a percentage of their total funding in 2016). The majority of accelerators that received donor support relied on it for more than half of their total funding, while corporate support more often accounted for 50 percent or less.[4] Half of those with revenue-generating activities relied on the revenue for less than a quarter of their total funding, and most of those that reported to be backed by investors were supported at above 75 percent (with many being 100 percent investor-backed).

PERCENTAGE OF 2016 FUNDING FROM EACH TYPE *figure 01*



Self-funded accelerators

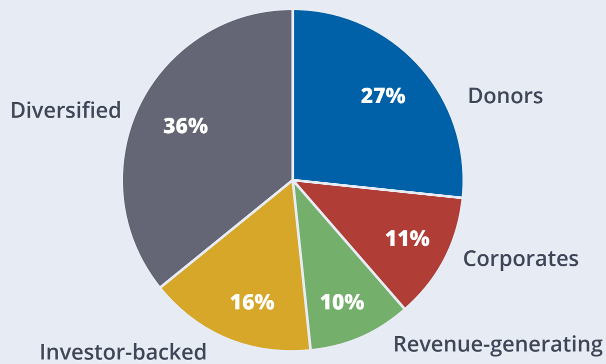
Around 15 percent of respondents reported a funding source that did not fit into one of the above defined funding types. Most of these were in some way self-funded, with responses ranging from 'bootstrapped' to 'self-funded' to 'balance sheet of parent company'. Others were funded by the university in which they are based or are a program of a larger institution or network. Respondents that reported to be self-funded at 25 percent or more were removed from the analyses in this brief; however, it is useful to note that some accelerators are not fully reliant on outside funding sources or revenue-generating activities.

[4] Accelerators have a range of different financial relationships with corporates. Some corporates provide donations to accelerators, some co-brand for a particular program, and a smaller portion of accelerators are actually started by a corporation, with the intent of sourcing innovation for that corporation's particular industry.

Five Funding Profiles

Next, we divide the respondents into five profiles based on the type of funding they rely on for 76 to 100 percent of their total funding.[5] Figure 2 shows that 27 percent of accelerators rely predominantly on donor funding, and only 10 percent on revenue-generating activities.[6] Thirty-six percent of respondents do not rely on one single funding type and fall into the 'diversified' category. Within this group, most relied on two or three types of funding, and a small portion relied on all four.

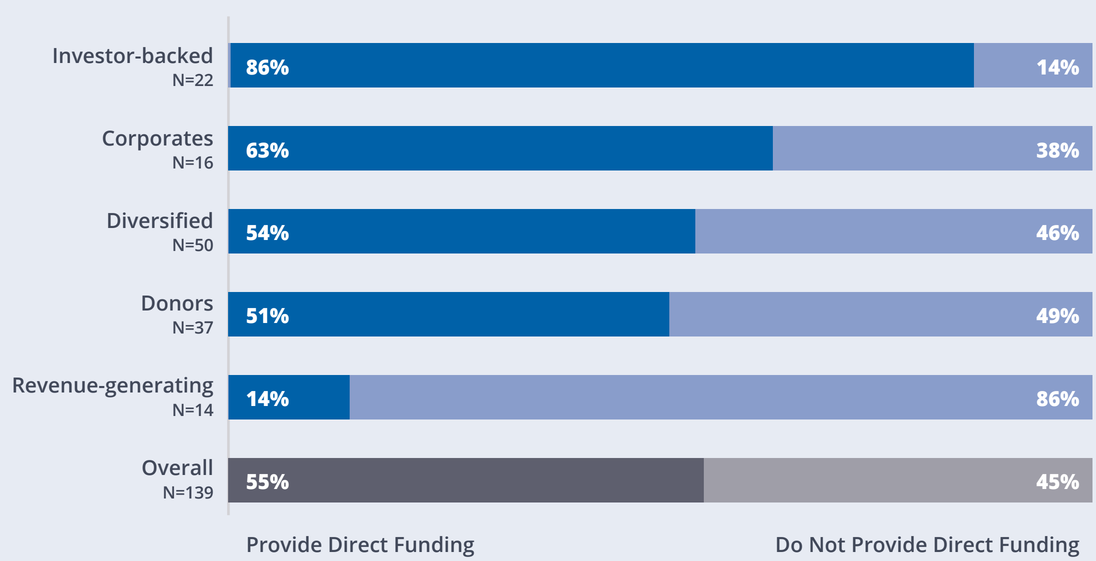
FIVE FUNDING PROFILES *figure 02*



N = 139

Figure 3 shows the percent of respondents in each funding profile that provide direct funding (e.g. grants or equity investment) to ventures. Nearly all investor-backed accelerators provide direct funding, while less than 20 percent of the revenue-generating accelerators do.

DIRECT FUNDING FOR VENTURES, BY FUNDING PROFILE *figure 03*



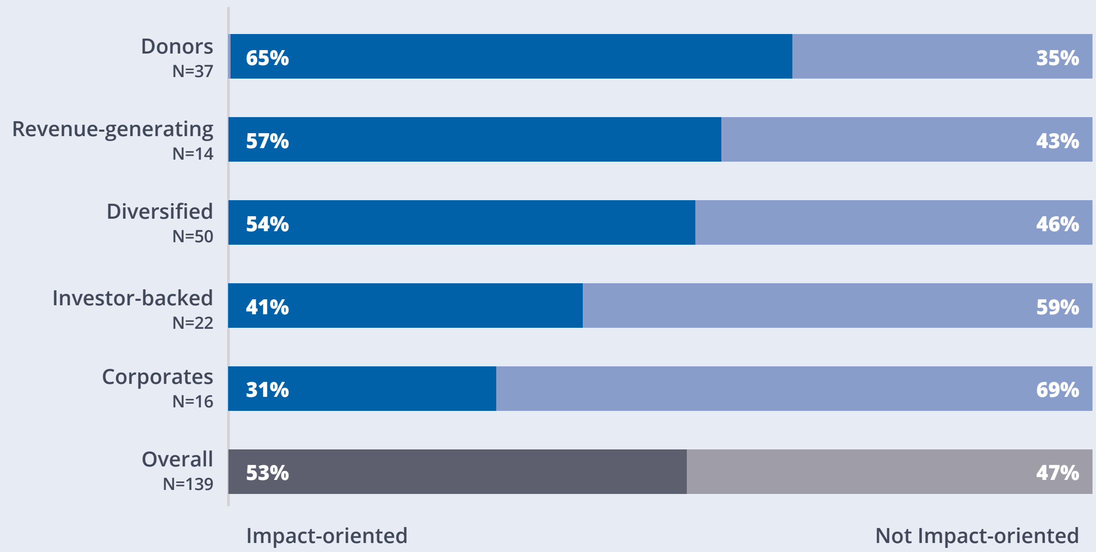
[5] To see how sensitive these patterns were to changes in sample size, we tried lowering the cut-off for funding profiles to 70 percent. This dropped the 'diversified' group to 25 percent, and increased the size of the others. The patterns in Figures 3 – 6 were very similar, with slightly less variation between profiles. The only noticeable differences were that the proportion of corporate-funded accelerators headquartered in emerging markets increased to 38% (from 31%) and the percent of revenue-generating accelerators that directly fund ventures increased to 25% (from 14%).

[6] Most of the accelerators in the "revenue-generating" category earned their revenue through venture fees and/or consulting services. Only two earned equity returns from investments in accelerated ventures, and only one charged success fees to investors.

Figure 4 shows the percent of respondents in each funding profile that have the explicit intent of supporting ventures with social or environmental impact objectives. Sixty-five percent of the donor-funded accelerators support impact-oriented ventures, compared to around 30 percent of those funded by corporates.

IMPACT ORIENTATION, BY FUNDING PROFILE

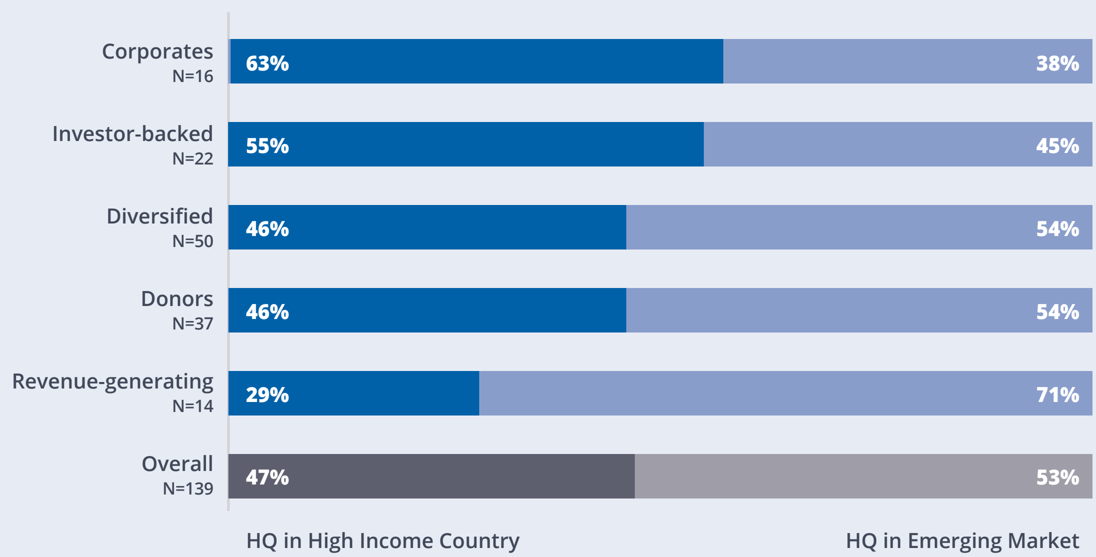
figure 04



We also segmented the sample by headquarter location for the organization running the accelerator. Interestingly, around 70 percent of revenue-generating accelerators are headquartered in an emerging market[7], while the others were more evenly split between being headquartered in high-income countries and emerging markets.

HEADQUARTERS LOCATION, BY FUNDING PROFILE

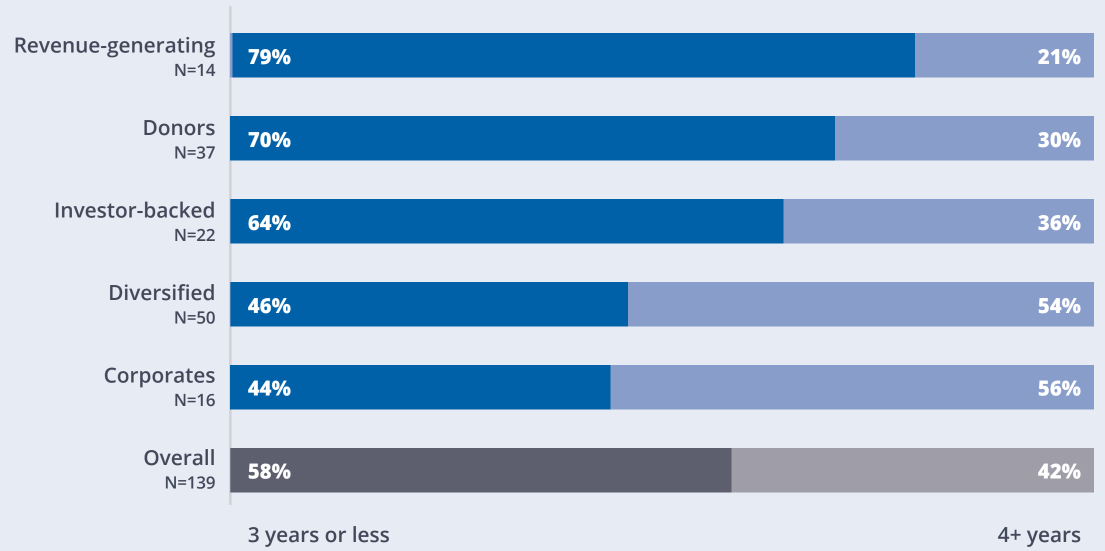
figure 05



[7] We define an emerging market as a low-income, lower-middle-income, or upper-middle-income economy, as defined by the World Bank Country and Lending Groups.

Last, we look at the number of years the organizations in our sample have been running accelerators. Revenue-generating and donor-funded accelerators tended to be younger (three years or less) while more than 50 percent of the corporate-funded and diversified accelerators had been running for at least four years.

ACCELERATOR AGE, BY FUNDING PROFILE ◀ *figure 06* ▶



What does this mean?

Accelerators differ considerably when it comes to how they fund their operations, and not surprisingly we see some differing characteristics based on their predominant funding sources. Much remains to be studied around accelerator business models, but this brief highlights a few interesting areas for consideration:

1. Both corporate support and revenue-generating activities are prevalent among accelerators, but most commonly account for less than 50 percent of an accelerator's total funding. This indicates that accelerators are using these as supplemental, rather than primary, funding mechanisms.
2. Nearly 40 percent of the accelerators in our sample do not rely on a single type of funding for their programs. This diversification may signal financial stability, or difficulty in securing consistent funding sources.
3. In our sample, revenue-generating accelerators are predominantly headquartered in emerging markets and are not likely to provide direct funding to ventures. Does this indicate a lack of outside funding (for example from foundations or corporations) for accelerators in emerging markets, or that the value proposition of accelerators is different for emerging market startups?

We hope these insights allow for a better understanding of how accelerators are funded and how these patterns differ by geographic and programmatic characteristics. As we continue to collect data, we will address more questions about trends in the field of entrepreneurship and acceleration.

Global Accelerator Learning Initiative

The Global Accelerator Learning Initiative (GALI), a collaboration between ANDE and Emory University, is designed to explore – and answer – key questions about enterprise acceleration, such as: Do acceleration programs contribute to revenue growth? Do they help companies attract investment? GALI builds on the Entrepreneurship Database Program at Emory University, which works with accelerator programs around the world to collect and analyze data describing the entrepreneurs that they attract and support. In addition, ANDE conducts a global market assessment of accelerators to learn who these accelerator programs are, where they are located, and how they are structured. To see the full survey results, visit www.galidata.org/accelerators.

GALI

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

The Global Accelerator Learning Initiative has been 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.