The Missing Middle: Why Universities must build and control their own innovation fund

By:

Ifeanyi Monyei – Group head, Strategy and Growth (Venture Garden Group & Greenhouse Capital
Lois Nanono- Program Officer, Business Development Services- RUFORUM Secretariat.

1. The Crisis No One Names: What Happens After the Grant Ends

Across African universities, innovation dies quietly—not in the classroom, not in the lab, but in the dead space that follows the last disbursement of a grant. It is here, in the weeks and months after donor funding runs out, that some of the continent's most promising ideas fade into academic archives. A prototype sits on a shelf. A research insight remains trapped inside a thesis. A student team dissolves because their only financial lifeline was a one-off seed grant designed for visibility, not commercial survival.

This is the part of the innovation pathway no one wants to confront: **after grants, there is nothing.** Not because money does not exist, but because no university controls the capital that actually matters—the capital that converts research outputs into validated products, into customers, into ventures that can stand on their own.

The uncomfortable truth is that universities are strong at attracting grants precisely because grants do not demand commercial outcomes. They demand reporting, compliance, and proof of activity. But the market demands validation, pricing discipline, and the ability to learn from customer rejection. Grants and markets operate on different logics, and universities have been structurally tuned to one at the expense of the other.

The result is a vast landscape of unrealised potential. Not for lack of brilliance, not for lack of ideas, not for lack of problems worth solving, but for lack of the one ingredient that turns ideas into enterprises: **follow-on capital that belongs to the university and can be deployed on university terms.**
This is the "Missing Middle."
And it has quietly cost universities more innovation value, more commercial upside, and more economic influence than any other gap in the system.

2. The Hidden Cost of Dependency: When Others Control Your Capital, They Control Your Outcomes
For two decades, African universities have become hosts—hosts to donor programmes, hosts to private-sector pilot projects, hosts to ecosystem partners who come with their own funding envelopes, their own KPIs, their own definitions of success. Universities deliver activity; external partners capture value.

It is not malicious. It is structural.

Funding today moves around universities, not through them.
Corporates will only engage at the end of the innovation chain, once risk is almost zero. Donors fund projects, not systems. Venture capital waits until traction is proven. Even government programmes rarely allocate resources that universities can flexibly deploy. Because the university has no institutional investment vehicle, it is forced into a permanent posture of responding rather than shaping.

And because each external funder brings its own priorities, the university becomes an implementer of fragmented agendas rather than the steward of its own long-term innovation strategy.

Most of the commercial value created within university ecosystems **leaves through the cracks**:

- When a prototype is handed to an external hub for "acceleration," the university loses negotiating leverage.
- When an investor enters early and defines equity terms, the university accepts whatever is placed before it.
- When research is licensed cheaply because there is no internal capital to test it further, the university trades long-term ownership for short-term relief.
- When donor-funded incubators collapse after the project ends, the university returns to zero institutional memory.

This pattern has turned the most important stage of the innovation journey—the transition from lab insight to validated market offering—into a no-man's-land where the university has influence but no power, visibility but no control, responsibility but no agency.

To break this cycle, universities must stop renting the future of their innovation and begin owning it. And ownership begins with the one thing universities have never built: their own Innovation Fund.

3. Why an Innovation Fund Is the only logical next step

A university that does not control capital cannot control its innovation destiny.
It cannot determine which ideas should advance.
It cannot back its researchers with confidence.
It cannot negotiate with investors from a position of strength.
And it cannot capture the upside of its own intellectual production.

An Innovation Fund changes that dynamic entirely.

It consolidates every fragmented funding stream—donor grants, research budgets, CSR contributions, government allocations, incubation support—into a single financial engine governed by the university, accountable to the university, and deployed according to the university's priorities.

It turns the institution:

- From a programme host into a **capital allocator**
- From a passive participant into a **market shaper**
- From an academic observer into a **co-owner of ventures and intellectual property**

More importantly, it fills the one gap no other stakeholder will fill.
Not donors. Not corporates. Not investors. Not government.

Only the university is positioned to deploy early, patient, disciplined capital into ideas that are still forming—ideas that require testing, refining, piloting, iterating. Ideas that need to be stress-tested against real markets before any external party will take them seriously.
This is capital with a specific purpose: **to transform research outputs into investable evidence, not into grant reports.**

This is the Missing Middle.
And only a university-controlled Innovation Fund can solve it.

4. Understanding the Middle: The stage of Innovation where everything breaks

The innovation pathway inside an African university typically starts strong. Grants support research. Grants support student entrepreneurship. Grants support competitions, bootcamps, hackathons, prototypes, and demonstrations.

But grants are not designed for business-building. They are designed for learning and experimentation.

Bridging the Innovation Gap: The critical role of investment-grade capital

The challenge of translating promising university research into viable commercial ventures is concentrated at a crucial juncture: the point immediately following the development of a functional **prototype**. While universities excel at securing early-stage grants for fundamental research and initial proof-of-concept, the collapse of many promising ideas occurs right after this technical achievement.

The Evolution of Capital Requirements

Once a prototype exists, the financial requirements shift radically, moving away from purely academic funding toward demanding specific, commercially-oriented resources. The next developmental stage is capital-intensive and requires a **disciplined, structured, and patient form of investment** designed to manage risk and achieve market readiness.

This necessary funding must explicitly support a series of non-academic, market-facing activities:

Phase of Development	Required Capital Focus	Strategic Purpose
Market Validation	Insists on rigorous **customer feedback** integration and iterative testing.	Ensures the product meets genuine market needs and avoids feature creep.
Operationalization	Supports complex and costly **regulatory approvals** and certifications.	Establishes the necessary legal and safety frameworks for market entry.
Product Maturation	Finances comprehensive **product refinement** and robust scaling for reliability.	Optimizes the technology for manufacturability, durability, and user experience.
Scaling & Launch	Funds **early production** runs and essential **go-to-market tests** and pilot programs.	Validates the production process and measures commercial viability and channel effectiveness.
Risk Mitigation	Possesses the necessary resilience to **absorb early failure** and commitment to subsequent reinvestment in pivots.	Acknowledges the inherent uncertainty of innovation and ensures long-term commitment.
Governance	Demands and institutes essential **commercial discipline**, accountability, and clear milestones.	Imposes business rigor to transition from a laboratory concept to a sustainable enterprise.

Defining Investment-Grade Capital

It is imperative to clearly distinguish this required funding from other common sources available to universities. This is emphatically **not philanthropic money**, **corporate CSR** initiatives, or unstructured **donor activity financing**.

The capital required is **investment-grade**: it must be **patient**, acknowledging long development cycles; **structured**, with clear terms and exit strategies; **staged**, disbursed based on milestone achievement; and rigorously **governed**, with professional oversight.

The Consequence: The "Missing Middle"

Universities, in their current operating model, almost universally lack this dedicated tranche of investment-grade capital. This critical financing gap is the **"Missing Middle"**—the space between initial grant funding and mature venture capital.

Because they possess none of it, universities are structurally **forced to hand their innovators** into the arms of external market actors—such as traditional venture capitalists, corporate partners, or deep-pocketed private investors. These external entities seize control, setting the rules, shaping commercial incentives, and ultimately capturing the majority of the eventual intellectual property and financial value.

The Missing Middle is the primary institutional mechanism through which the university cedes control and suffers four distinct, major losses:

1. The loss of its **innovators** and associated talent retention.
2. The loss of its most promising **ideas** and long-term research impact.
3. The loss of its crucial **bargaining power** and ability to influence mission.
4. The loss of substantial potential **revenue**, diminishing the capacity for future self-funded research.

This situation represents a massive inefficiency in the innovation pipeline, but it is a challenge that can and must be strategically overcome.

5. Why Universities Cannot Continue Without Professional Fund Management

It is not enough to create a fund. **The fund must be properly managed.**

Universities are not built to underwrite risk. The skillset needed to run a capital vehicle—the processes of due diligence, portfolio management, capital allocation, valuation, legal structuring, and investment decision-making—does not sit in a typical academic or administrative environment.

This is why every successful university innovation ecosystem globally relies on a professionally managed fund structure. Oxford has one. MIT has one. Technion has one. Waterloo has one. Nairobi is building one. Stellenbosch is close. Cape Town has structured fund partnerships.

Professional fund managers are not a luxury. They are a requirement.

They ensure that:

Function	**Impact**
Objective decision-making	Funding decisions are made based on evidence, not institutional politics
Commercial discipline	Innovators are held to market standards, not academic timelines
Evidence-based allocation	Capital follows validation milestones, not grant cycles
Investor confidence	External investors trust the governance and co-invest
Negotiation power	The university can negotiate confidently with private partners

This is how a university stops being "prey" in the investment ecosystem and becomes a player.

6. The Transformation: What changes when a University controls its own fund

Once a university has an Innovation Fund, its entire posture on innovation changes.

It no longer waits for outsiders to determine which ideas deserve to live. It decides.

It no longer designs programmes around donor cycles. It designs around commercial logic.

It no longer hands over IP cheaply out of desperation. It negotiates from a position of strength.

It no longer loses its best innovators to external accelerators. It becomes the accelerator.

It no longer watches millions of dollars of research output produce zero return. It captures upside and recycles it.

The university becomes:

1. **A capital allocator** – Making strategic funding decisions based on portfolio logic
2. **A co-founder of ventures** – Taking equity positions and board representation
3. **A strategic investor** – Building a pipeline from research to market
4. **A partner of corporates** – Negotiating from strength, not dependency
5. **A credible attractor of private capital** – De-risking investments for follow-on funders
6. **A generator of institutional revenue** – Creating sustainable income streams from exits

It becomes an innovation institution—not because it built more programmes, but because it **built a financial engine capable of sustaining innovation beyond grant cycles.**

7. What this moment demands from University leadership

The decision to build an Innovation Fund is not a technical decision. **It is a leadership decision.**
It requires senior administrators to break away from the decades-long dependency model and accept that the university must now operate with the mindset of a market actor, not simply an academic institution.

It requires courage to:

- **Centralise fragmented funding streams**
  Too many universities allow innovation funding to remain scattered across faculties, research centres, and donor-specific programmes. Consolidation is painful—it threatens existing power structures and requires difficult conversations about institutional control. But without consolidation, there can be no coherent fund.
- **Bring in professional fund managers**
  This means acknowledging that academics and administrators, no matter how brilliant, are not equipped to manage investment portfolios. It means creating a governance structure that gives fund managers operational independence while maintaining institutional oversight. It means paying market rates for talent that can deploy capital with commercial discipline.
- **Accept fiduciary responsibility**
  Running a fund means the university becomes accountable not just for research outputs, but for financial returns. It means reporting to investors, managing risk, maintaining legal compliance, and potentially facing losses. This is unfamiliar territory for most university leadership—but it is non-negotiable.
- **Negotiate new terms with donors and partners**
  Many existing donor agreements explicitly prohibit universities from using grant funds for equity investments or commercial ventures. Building an Innovation Fund will require renegotiating these terms, advocating for blended finance structures, and making the case that innovation funding must include investment-grade capital, not just activity budgets.
- **Think in decades, not grant cycles**
  An Innovation Fund is not a three-year project. It is a permanent institutional capability. Leadership must commit to building an endowment mindset—where early investments are recycled, where patient capital compounds over time, and where the university measures success not in publications, but in ventures launched, jobs created, and economic value generated.

8. The Architecture of a University Innovation Fund: What must be built

A successful Innovation Fund is not simply a bank account. It is a **structured financial vehicle** with clear governance, investment thesis, operational processes, and stakeholder alignment. Here is what must be built:

8.1 Legal structure

The fund must be established as a **separate legal entity**—typically a limited liability company, trust, or special purpose vehicle—to:

- Protect the university from direct liability
- Enable equity investments and convertible instruments
- Facilitate co-investment with external partners

- Ensure compliance with securities regulations
- Allow for professional fund management contracts

This structure should be **governed by the university but operationally independent**, with a board that includes university leadership, external investors, successful entrepreneurs, and fund management professionals.

8.2 Capitalisation Strategy

The fund must be adequately capitalised from multiple sources:

Source	Contribution	Terms
University endowment allocation	5-10% of investable assets	Patient capital, 10+ year horizon
Donor grant conversion	Negotiated restructuring of existing innovation grants	Blended finance, partial grant/partial investment
Government research commercialisation funds	National innovation budgets	Co-investment, matching requirements
Corporate partners	CSR and strategic investment	Sector-specific mandates
Alumni and philanthropic capital	Endowed chairs, named funds	Legacy and impact focus
International development finance	IFC, AfDB, EIB innovation windows	Concessional terms, technical assistance

Minimum viable fund size for African universities: $5-10 million USD

This allows for:

- 15-20 early-stage investments of $100-500K each
- Portfolio diversification across sectors and risk profiles
- Multi-year runway before requiring additional capital calls

8.3 Investment thesis and criteria

The fund must have a **clear investment thesis** that aligns with university strengths and market opportunities:

Investment focus areas:

- Deep-tech spinouts from university research labs
- Agri-tech and biotech ventures addressing food security
- Health-tech solutions emerging from medical faculties
- Climate-tech innovations from engineering and environmental science
- Ed-tech platforms built by faculty and student teams

Investment stages:

- **Pre-seed:** Proof-of-concept, prototype development ($25-100K)
- **Seed:** Market validation, early revenue ($100-500K)
- **Series A bridge:** Growth capital before institutional VC ($500K-1M)

Investment instruments:

- Convertible notes (for early-stage flexibility)
- SAFE agreements (Simple Agreement for Future Equity)
- Direct equity (for later-stage investments)
- Revenue-based financing (for cash-flow positive ventures)

Selection criteria:

- Direct link to university research or faculty expertise

- Scalable business model with regional/continental market
- Founding team with domain expertise and entrepreneurial commitment
- Clear IP ownership and licensing arrangements
- Alignment with SDGs and development impact

8.4 Fund Management Team

The fund requires a **dedicated, professional management team**:

Role	Responsibilities	Profile
Fund Manager	Overall strategy, LP relations, fundraising	10+ years in VC/PE, African market experience
Investment Director	Deal sourcing, due diligence, investment decisions	5+ years in early-stage investing, technical background
Venture Development Lead	Portfolio support, mentor network, market access	Entrepreneur experience, ecosystem connections
Legal & Compliance Officer	Deal structuring, IP management, regulatory compliance	Corporate law, IP specialisation
Finance & Operations Manager	Fund accounting, reporting, administrative systems	CFA or equivalent, fund operations experience

This team should be **compensated competitively** (including carried interest) and given **operational autonomy** within governance guardrails.

8.5 Portfolio support infrastructure

Capital alone is not sufficient. The fund must provide **structured venture-building support**:

- **Mentorship networks:** Successful entrepreneurs, industry experts, diaspora advisors
- **Market access programmes:** Corporate partnerships, procurement linkages, export facilitation
- **Technical assistance:** Legal, accounting, marketing, regulatory navigation
- **Follow-on capital facilitation:** Warm introductions to Series A/B investors
- **Talent recruitment:** Access to interns, researchers, technical co-founders from university

This infrastructure turns the fund from a passive investor into an **active venture builder**.

9. The Hard Truths: What will go wrong and how to prepare

Building an Innovation Fund is not a linear process. It will face resistance, failure, and setbacks. Leadership must anticipate these and build resilience into the system.

9.1 Internal resistance

- **Faculty will resist commercialisation pressures**
  Many academics view commercial funding as a threat to research integrity. They will resist equity arrangements, IP licensing terms, and timelines driven by market validation rather than publication cycles.
  Response: Create dual pathways—one for basic research (grant-funded), one for applied innovation (fund-backed). Make it clear that participation in the fund is voluntary, not mandatory. Celebrate faculty who successfully commercialise without diminishing those who focus on fundamental research.

- **Administrative systems will create bottlenecks**
  University procurement, legal, and finance departments are not built for speed. Investment decisions that should take weeks will be delayed by months due to bureaucratic processes.
- **Response:** Establish **fast-track approval mechanisms** for fund investments, with pre-negotiated templates for common deal structures. Give the fund management team authority to operate within approved mandates without seeking approval for every transaction.

9.2 Portfolio Failures

- **Most investments will fail**
  Early-stage venture investing has a 70-80% failure rate. The university community, accustomed to research "success" measured in publications, will struggle with this reality.
  Response: Communicate clearly from the beginning that **failure is part of the model**. Report on portfolio performance using industry-standard metrics (IRR, MOIC, DPI), not grant-style "activities delivered." Celebrate learning from failures as much as exits.

- **Winners will take years to emerge**
  Universities accustomed to annual grant cycles will struggle with investment horizons of 7-10 years before meaningful returns materialise.
  Response: Set realistic expectations. Build a **patient capital culture**. Report on leading indicators (venture milestones, follow-on funding raised, jobs created) while waiting for financial exits.

9.3 Ecosystem Skepticism

- **External investors will not immediately trust university fund management**
  The market has seen too many poorly-executed university innovation programmes. Credibility must be earned.
  Response: Start small. Prove discipline. Co-invest with reputable partners. Hire fund managers with track records. Publish transparent performance data. Build trust through consistency, not promises.

- **Donors will resist moving from grants to investments**
  Many donors are legally prohibited from taking equity positions or expecting financial returns. They will resist fund structures.
  Response: Advocate for **blended finance models** where donor capital takes first-loss positions, enabling commercial co-investment. Work with forward-thinking development finance institutions (IFC, AfDB, FMO) that understand catalytic capital.

10. The Compounding Effect: Why this gets better over time

The true power of an Innovation Fund emerges not in year one, but in **year seven and beyond**, when the system begins to compound.

10.1 The recycling advantage

Unlike grant-funded programmes that end when the money runs out, an Innovation Fund **recycles capital**:

- Successful exits return capital to the fund
- Returns are reinvested into new ventures
- The fund grows without requiring new fundraising
- Over time, the university becomes less dependent on external capital

Example scenario:
A $10M fund makes 20 investments over 5 years. If just 3 ventures exit with 5x returns, that generates $7.5M back to the fund (assuming 15% ownership stakes). Those returns can fund 15 more ventures without raising new capital.

10.2 The Reputation Flywheel
As the fund builds a track record, it becomes easier to:

- Attract top-tier entrepreneurs to university programmes
- Recruit experienced mentors and advisors
- Secure co-investment from commercial VCs
- Negotiate better terms with corporate partners
- Raise follow-on fund vehicles

The university becomes known not just as a research institution, but as a serious innovation player. This reputation attracts better talent, more resources, and greater influence.

10.3 The Economic multiplier
University-backed ventures create compounding economic value:

- Jobs for graduates (reducing brain drain)
- Tax revenue for local government
- Supply chain opportunities for other businesses
- Role models for future entrepreneurs
- Diaspora investment attraction

One successful venture creates an ecosystem effect that justifies the entire fund investment.

11. The Strategic Imperative: Why waiting is not an option
The window for African universities to build Innovation Funds is **closing rapidly**.

11.1 The competition is moving
Universities globally are accelerating their venture-building capabilities:

- **Oxford Innovation** manages £200M+ across multiple funds
- **MIT's The Engine** has $500M for "tough tech" spinouts
- **Technion's T3 Fund** has become Israel's leading university investor
- **Tsinghua University Holdings** manages billions in venture capital

African universities that delay will find themselves unable to compete for top researchers, unable to retain successful entrepreneurs, and unable to negotiate with increasingly sophisticated global investors.

11.2 The Research Investment is compounding
African governments and donors are investing billions in university research infrastructure. Without commercialisation pathways, this investment produces **publications but not prosperity**.
The opportunity cost of not building Innovation Funds is staggering.
Every year without a fund represents:

- Research breakthroughs that die in labs
- Entrepreneurs who leave for better support elsewhere
- IP that is licensed cheaply to foreign firms
- Economic value that accrues to other regions

11.3 The geopolitical stakes

Innovation capacity is becoming a **geopolitical asset**. Countries that can translate research into commercial advantage will shape the future. Countries that cannot will remain dependent.

African universities have a choice:

- **Build Innovation Funds now and become shapers of the continent's economic future**
- **Or remain implementers of others' agendas, watching value creation happen elsewhere**

The stakes are not just institutional. They are continental.

12. The Call to action: What must happen in the next 12 months

This is not a five-year vision. The foundation of university Innovation Funds must be laid **immediately**. Here is what must happen in the next 12 months:

Q1 2025: Leadership commitment and feasibility

- Vice Chancellors and Governing Councils formally endorse Innovation Fund development
- Appoint a senior leader (Provost/DVC level) as fund champion
- Conduct financial feasibility study: assess existing innovation budgets, endowment capacity, donor willingness
- Draft preliminary fund thesis and governance structure

Q2 2025: Legal and governance setup

- Establish legal entity for the fund
- Recruit independent board members with investment expertise
- Develop fund operating agreement and investment policies
- Negotiate with key donors to convert grants to investment capital

Q3 2025: Team recruitment and capitalisation

- Hire Fund Manager and initial investment team
- Secure anchor capital from university endowment
- Launch fundraising conversations with development finance institutions
- Finalise investment criteria and deal flow pipeline

Q4 2025: First Investments and ecosystem activation

- Make first 3-5 investments to establish credibility
- Launch portfolio support programmes (mentorship, market access)
- Host LP (Limited Partner) forum to attract co-investors
- Publish first annual fund report with transparent metrics

By end of 2025, each participating university should have:

- A legally established, professionally managed Innovation Fund
- $3-5M in committed capital
- 3-5 portfolio companies under active support
- A clear pathway to scale over the next 5 years

13. Conclusion: The University of the future is an Investor

For a century, universities have been centres of knowledge creation. For the next century, they must become **centres of value creation**.

This does not mean abandoning the core academic mission. It means recognising that **research has commercial potential that must be systematically captured and reinvested**.

The universities that understand this will:

- Attract the best researchers and entrepreneurs
- Generate sustainable revenue beyond tuition and grants
- Shape regional economies rather than simply study them
- Build permanent institutional wealth that funds future generations

The universities that do not will:

- Watch their innovations migrate elsewhere
- Remain dependent on fickle donor priorities
- Lose influence as economic power shifts to those who control capital
- Become museums of past achievement rather than engines of future prosperity

The choice is binary. The timeline is urgent. The stakes are existential.

African universities must build Innovation Funds—not as an experiment, not as a pilot, not as a donor-funded project, but as a **permanent institutional capability** that defines what a university is in the 21st century.

The Missing Middle is not a funding gap.

It is a power gap.

And the only way to close it is for universities to stop waiting for others to solve their capital problem and to **build, own, and control their own Innovation Funds**.

The time for debate is over.

The time for construction has begun.

"The best time to plant a tree was 20 years ago. The second-best time is now. The same is true for Innovation Funds."