



African Private Equity and
Venture Capital Association



Venture Capital in Africa:

Mapping Africa's start-up investment landscape

June 2020



Africa's robust macroeconomic growth was a crucial driver of the continent's VC industry; creating a positive economic environment that catalysed innovation, entrepreneurship and investment

EXECUTIVE SUMMARY

The Venture Capital (VC) landscape in Africa has gradually evolved over the last two decades to become a recognised and definable investment theme, simultaneously attracting international investment to the continent while also encouraging the development of local venture capital firms and home-grown financing solutions. The growth of PE and VC investment in Africa reflects the changing nature and scope of external flows to the continent, where foreign direct investment (FDI) has come to eclipse official development assistance (ODA)¹. In 2012, 17 African countries recorded receiving more FDI than ODA, climbing to 26 countries in 2017 as investment activity on the continent continued to rise². Africa's robust macroeconomic growth, averaging 4.6% between 2000 and 2016³, was a crucial driver of the continent's VC industry; creating a positive economic environment that catalysed innovation, entrepreneurship and investment. Although Africa's more recent economic growth has been lower than predicted, Africa's GDP growth was above the world average in 2019 and it remained the world's second fastest growing region⁴. PE and VC funding in Africa has developed progressively, buoyed by this favourable economic outlook, the magnitude of the market, the growing middle-class consumer base and the fact that Africa is home to the world's largest free trade area⁵.

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- 1 Amadou, S., 2015. *Africa in Focus: How Finance Flows to Africa*. Brookings. Available at: <https://www.brookings.edu/blog/africa-in-focus/2015/05/20/how-finance-flows-to-africa/>
 - 2 Gugu, S. and Mworio, W., 2017. *Venture Capital in East Africa: Is There a Right Model?* Available at: https://link.springer.com/chapter/10.1057/978-1-137-57878-5_14
 - 3 ODI, 2018. *Africa's Economic Growth in a New Global Context*. Available at: <https://www.odi.org/events/4592-africas-economic-growth-new-global-context>
 - 4 African Development Bank, 2020. *African Economic Outlook 2020: Developing Africa's Workforce for the Future*. Available at: <https://www.afdb.org/en/knowledge/publications/african-economic-outlook>
 - 5 World Bank, 2020. *The World Bank in Africa: Overview*. Available at: <https://www.worldbank.org/en/region/afr/overview>

Despite the relative infancy of the entrepreneurial space in Africa, a culture of entrepreneurship is growing across the continent. In recognition of the importance of entrepreneurship for economic development, job creation and poverty reduction, various national governments have also begun to implement supportive public policy to streamline business regulation for start-ups and small businesses. Tunisia and Senegal have both passed Startup Acts to create a better local environment for innovation and entrepreneurship, and startup legislation is also being pursued in Mali, Ghana, and Rwanda⁶. As Africa's VC ecosystem expands, the actors operating within the industry are also diversifying.

In this context, VC activity in Africa has seen significant growth in recent years. The total number and value of VC deals reported on the continent reached a six-year record high in 2019. Fintech dominates the African start-up scene, but afro-entrepreneurship has also exploded within the Utilities, Logistics & Transportation, E-Commerce, Healthcare and Agribusiness sectors. In terms of countries, South Africa, Kenya and Nigeria have attracted the bulk of VC investments between 2014 and 2019, reflecting similar patterns to PE activity on the continent.

For the purpose of this report, AVCA has tracked activity from both direct and intermediated/fund investors to provide a summary of recent trends in VC deals in Africa, including the profile of the investor types that have been active in Africa's VC scene. AVCA's inaugural VC report also provides case studies that exemplify the continent's VC opportunities.

6 Ashebir, A., 2020. African Countries Need 'Startup Acts' More Than Ever to Support Innovation. Tech Crunch. Available at: <https://techcrunch.com/2020/05/19/african-countries-need-startup-acts-more-than-ever-to-support-innovation/>

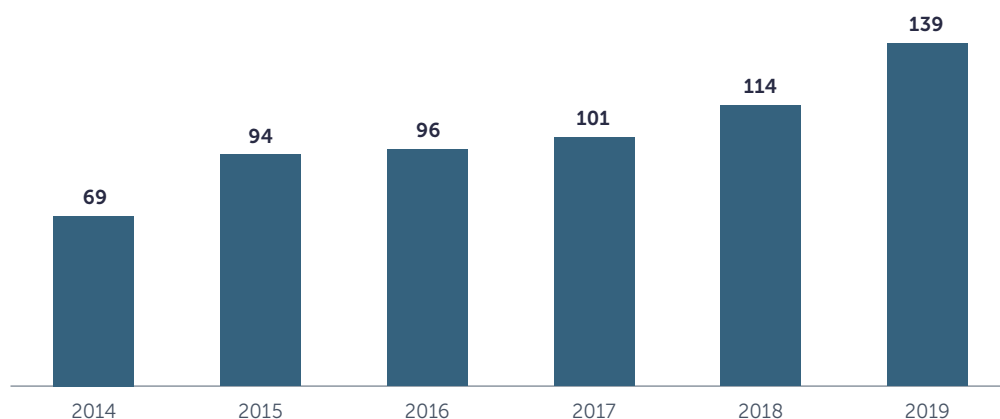
613

Number of reported VC deals in Africa, 2014 – 2019

139

Number of reported VC deals in Africa in 2019; representing a 22% increase from 114 VC deals in 2018

Number of VC deals in Africa, by year



The number of VC deals in Africa has been on an upward trend since 2014. In 2019, the number of VC deals reported on the continent reached a six-year high of 139 VC deals.

US\$3.9bn

Total value of reported VC deals in Africa, 2014 – 2019

US\$1.4bn

Total value of reported VC deals in Africa in 2019

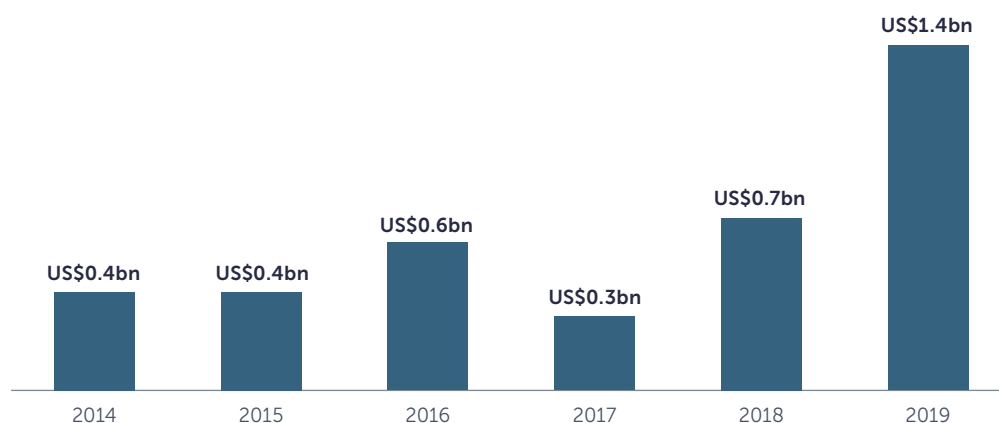
US\$0.7bn

Average annual total deal value of reported VC deals in Africa, 2014 – 2019

US\$2.1mn

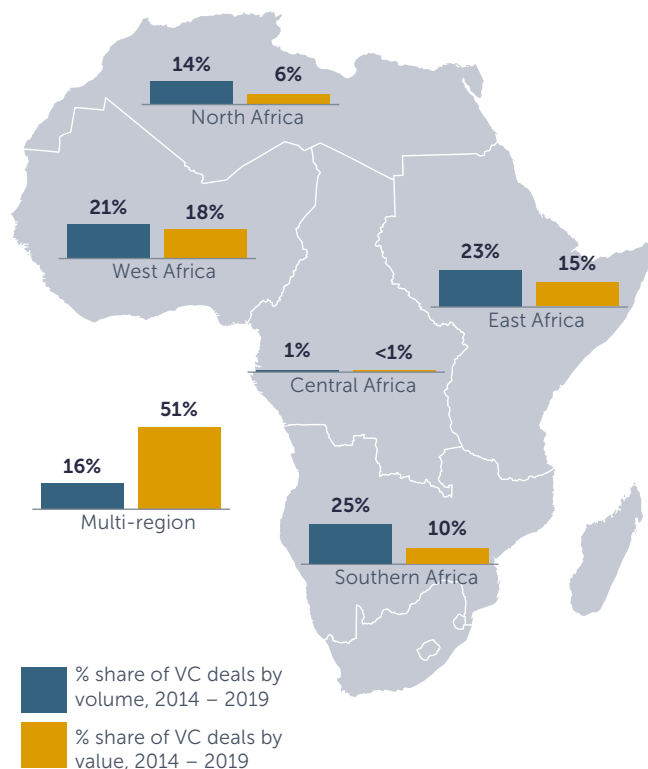
Median deal size of VC deals, 2014 – 2019

Value of VC deals in Africa, by year



2019 was also a record year in terms of VC deal value. The value of VC deals reported in Africa reached US\$1.4bn in 2019; the highest on record.

Share of number and value of VC deals in Africa, by region, 2014 – 2019



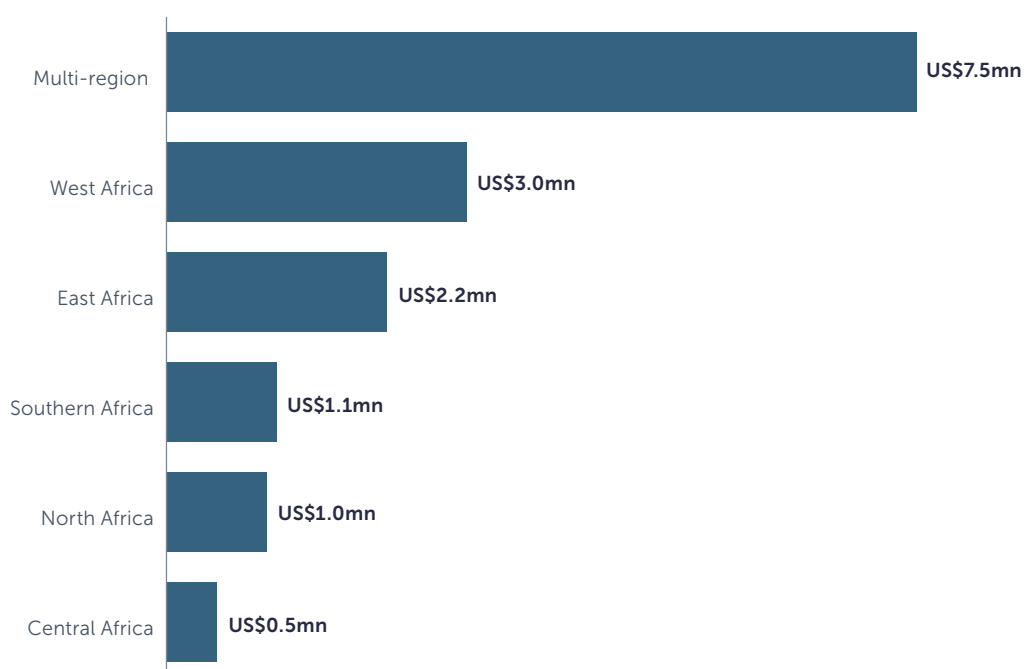
Southern Africa, East Africa and West Africa accounted for the greatest share of VC deals by volume, while multi-region deals attracted the largest share by value

Southern Africa attracted the highest volume of VC deals (25%) in Africa between 2014 and 2019. Of those deals, 79% were headquartered in South Africa. East Africa accounted for the second highest share of VC deals (23%), followed by West Africa (21%).

Multi-region VC deals accounted for the greatest share by value. An example of a large multi-region VC deal is the 2019 US\$100mn Series D investment round in Andela, a company backed by TLcom Capital which currently operates in East, West, and North Africa.

Median VC deal size in Africa, by region, 2014 – 2019

Multi-region VC deals had the largest median deal size at US\$7.5mn, followed by West Africa and East Africa at US\$3.0mn and US\$2.2mn respectively

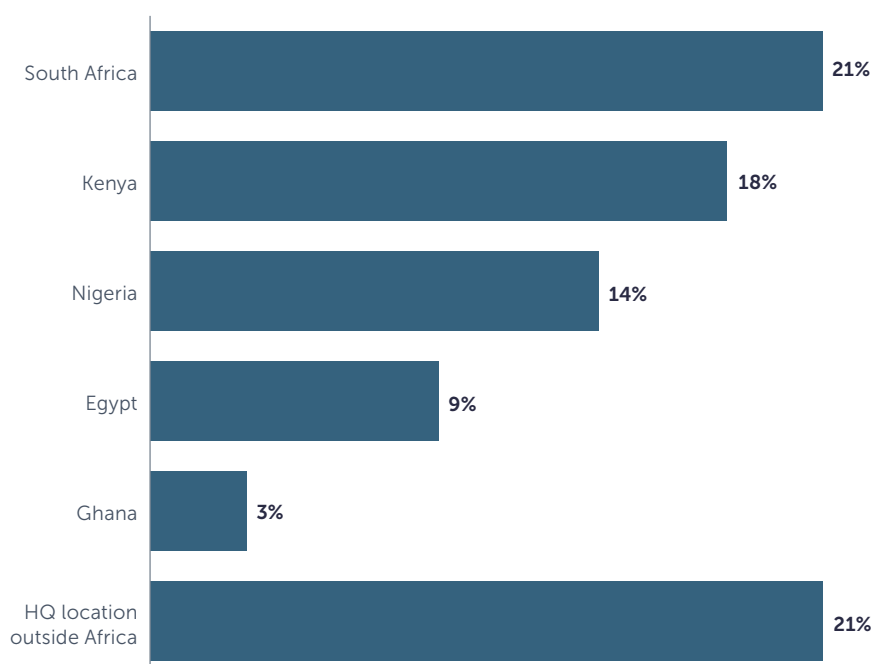


Between 2014 and 2019, five countries within Africa accounted for 65% of the total number of VC deals reported

South Africa attracted the bulk of VC deals from 2014 to 2019, representing 21% of the total number of early-stage investments. Kenya (18%) had the second highest share of early-stage deal volume followed by Nigeria (14%).

One fifth (21%) of the total number of VC deals between 2014 and 2019 were in companies headquartered outside of Africa. However, these early-stage companies raised money to expand in Africa or further strengthen their African presence. Of these companies, the majority (53%) are based in the United States.

Top early stage investment destinations by VC deal volume, 2014 – 2019



56% of VC deals by volume in Financials, Information Technology and Consumer Discretionary

69% of VC deals by value in Consumer Discretionary, Financials and Industrials

Financials (19%), Information Technology (19%) and Consumer Discretionary (18%) accounted for the largest share of VC deals by volume from 2014 – 2019. Deals in Consumer Discretionary (28%), Financials (23%) and Industrials (18%) attracted the largest share of VC deals by value.

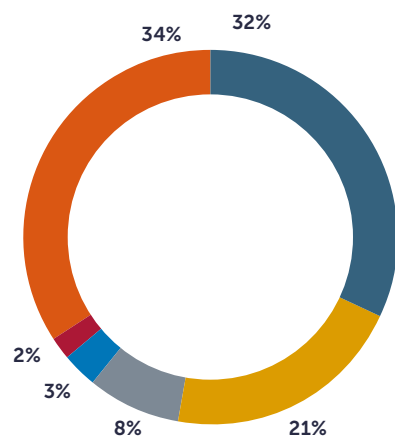
Utilities is another sector that has been quite popular among early stage deals, with investors being attracted by companies providing alternative power solutions. These companies accounted for a significant number of VC investment rounds from 2014 to 2019.

Share of number and value of VC deals in Africa, by sector, 2014 – 2019

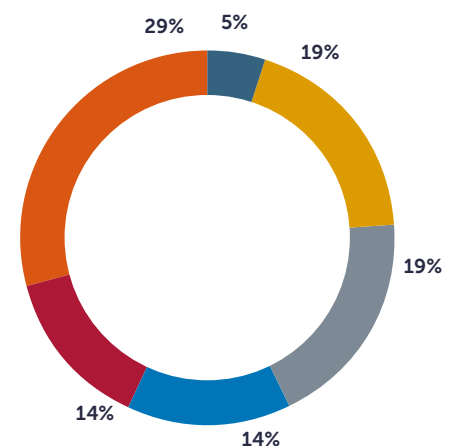


29% of the total number of early-stage investments reported in Africa between 2014 and 2019 were Series A & Series B; 32% were seed stage deals

Share of VC deal volume in Africa by funding round, 2014 – 2019



Share of VC deal value in Africa by funding round, 2014 – 2019



Nearly one third (32%) of the total number of early-stage investments reported in Africa between 2014 and 2019 were seed stage deals. These deals accounted for only 5% of the total deal value.

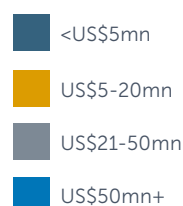
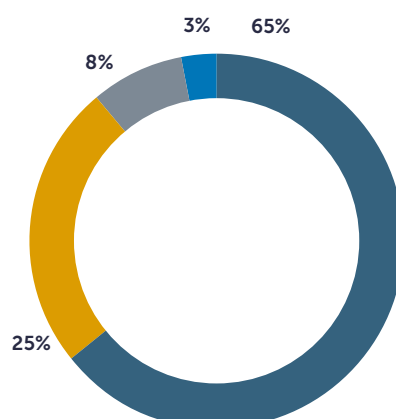
There is also a large number of deals in which the funding series are unknown, representing 34% and 29% of the total volume and value of total deals reported.

Series A and Series B transactions together accounted for 29% of the total volume, and 38% of the total value of early stage deals.

Share of VC deals in Africa by volume, by deal size range, 2014 – 2019

65%

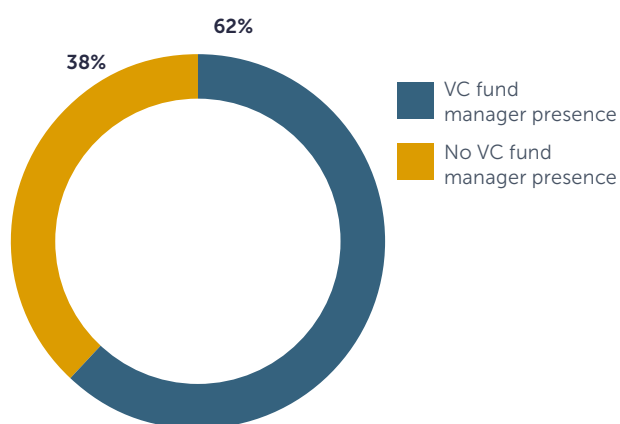
65% of the total number of VC deals reported were below US\$5mn in size



Almost two-thirds (65%) of the total number of all VC deals in Africa between 2014 and 2019 were below US\$5mn in size, while a quarter (25%) were between US\$5mn and US\$20mn in size.

Just 3% of the total volume of VC deals reported from 2014 to 2019 were above US\$50mn in size.

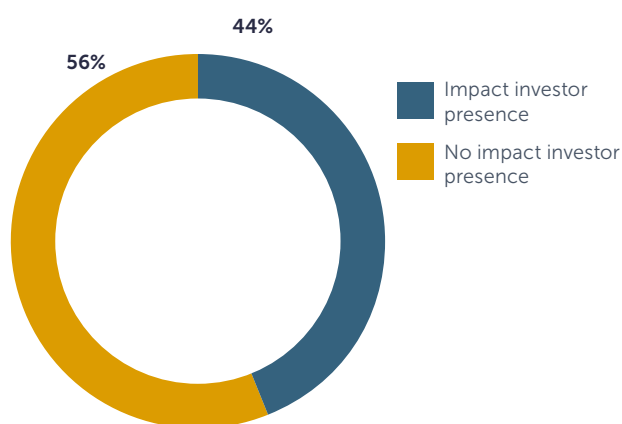
Share of VC deals in Africa with participation from at least one VC fund manager, 2014 – 2019



The majority of VC deals in Africa had at least one VC fund manager involved in the deal

62% of the total number of deals that were recorded in Africa between 2014 and 2019 had participation from at least one VC fund manager.

Share of VC deals in Africa with participation from at least one impact investor, 2014 – 2019



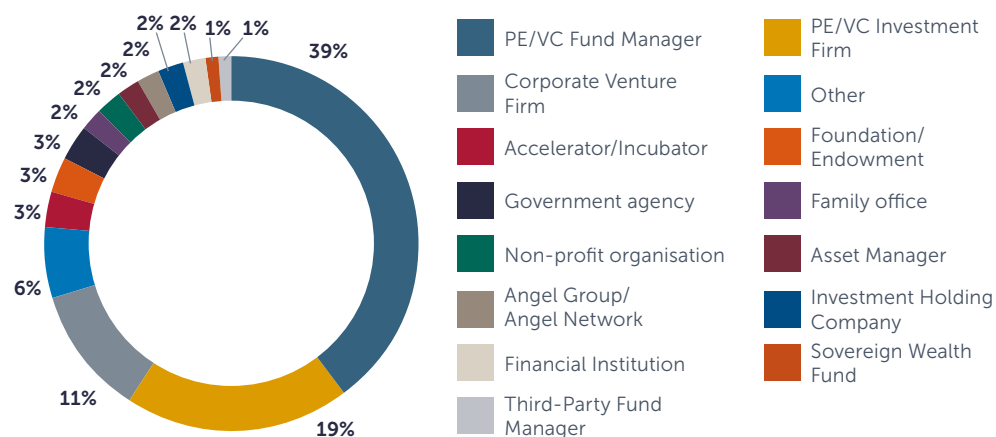
44%

44% of VC deals in Africa saw participation from at least one impact investor

Of the total number of VC deals that were recorded in Africa between 2014 and 2019, a significant minority (44%) had the participation of at least one impact investor.

Share of investors participating in VC deals in Africa by type, 2014 – 2019

PE/VC Fund managers represented 39% of the total number of investors that participated in VC deals from 2014 - 2019



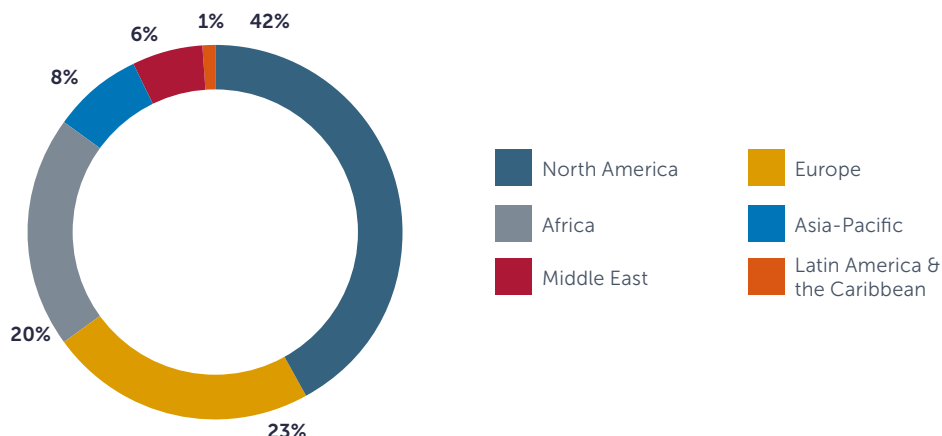
PE/VC Fund Managers (i.e. firms that have raised, or are currently raising, third-party PE/VC funds from institutional investors), represented 39% of the total number of investors that participated in VC deals reported in Africa between 2014 and 2019. PE/VC Investment Firms (i.e. firms that are not known to be investing through a fund structure, making mainly direct investments and do not fall into the other categories) accounted for 19% of the total number of investors, followed by Corporate Venture Firms (11%).

North American corporate venture firms played a key role in bridging funding gaps in Africa, accounting for a significant percentage (37%) of the total number of corporate venture firms that participated in VC deals in Africa from 2014 to 2019.

Share of investors participating in VC deals in Africa by region, 2014 – 2019

42%

42% of the total number of investors that took part in VC deals in Africa between 2014 and 2019 were headquartered in North America



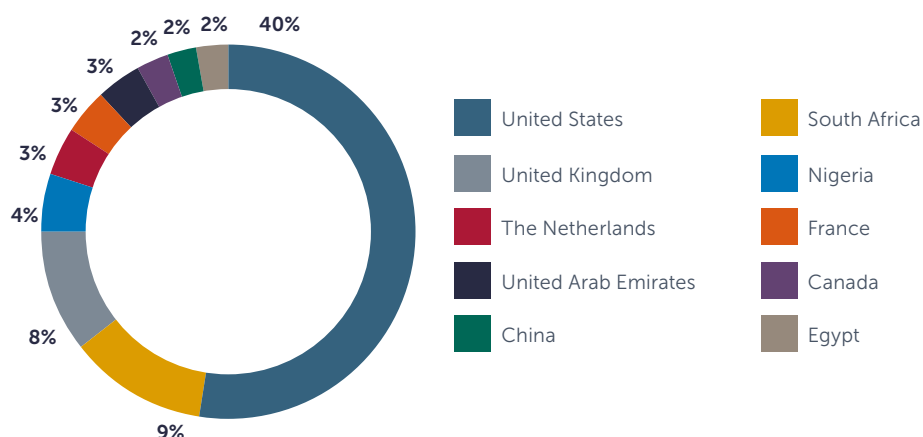
Foreign investors have been attracted by new opportunities and new markets in Africa. North American investors represented 42% of the total number of investors that participated in VC investments on the continent between 2014 and 2019, followed by European based investors at 23%.

African based investors accounted for 20%, followed by Asia-Pacific (8%) and investors based in the Middle East (6%).

Top ten countries where investors that participated in VC deals in Africa from 2014 to 2019 are based

40%

40% of the total number of investors that took part in VC deals in Africa between 2014 and 2019 are based in the US



Majority of the investors that took part in VC deals on the continent between 2014 and 2019 were US-based, representing 40%.

South Africa (9%), Nigeria (4%) and Egypt (2%), which also constitute three of the most prominent VC hubs in Africa, were within the top 10 countries where investors that participated in VC deals on the continent from 2014 to 2019 are based.

There is also a noteworthy interest from Middle East based investors into the African VC landscape. The United Arab Emirates was amongst the top 10 countries where investors that participated in VC deals in Africa from 2014 to 2019 are based, representing 3% of the total number of investors.



CASE STUDIES



Investor: AfricInvest

Countries within Africa: Nigeria, Tunisia and South Africa

Sector: Information Technology

Year of investment: 2019

Funding Round: Series A funding round led by AfricInvest, alongside Endeavor Catalyst, as well as various individual shareholders including the founding and sponsoring partners

Total Deal Amount: US\$7mn

Investment rationale

InstaDeep is one of the leading artificial intelligence (AI) companies in Africa, developing cutting-edge AI at an international level. The firm has received recognition from top AI specialists for their research, as well as for the applications and solutions they have developed in electronics and bioinformatics.

There is a clear business need for InstaDeep's AI-powered decision-making systems to enable companies to maintain their competitive advantage in future operating environments.

At AfricInvest, we believe that artificial intelligence will significantly disrupt and enhance several key markets in Africa -such as financial services and logistics- and beyond. This structural change has created an exciting opportunity to develop a mutually beneficial partnership between InstaDeep's AI knowledge and platform potential on the one hand, and AfricInvest's track record, operational expertise and business knowledge on the continent on the other.

Importance of VC funding for the development of the company

Instadeep's raising of venture capital financing was aimed at supporting the development of a scalable product platform to empower enterprises with better decision-making using artificial intelligence. At the same time, the firm seeks to improve the delivery of tailored end-to-end AI solutions to the broad customer universe across different geographies.

Through its investment in Instadeep, AfricInvest hopes to help grow the African AI success story,

support InstaDeep's mission to accelerate AI talent development, and scale up the positive use of AI in Africa and around the globe.

Key achievements that have been reached, and/or key lessons have been learnt, since the investment

InstaDeep has been able to deliver on several key strategic milestones since the investment:

- Leveraging experience from its projects and AI research, at the end of 2019 InstaDeep introduced its new decision-making routing platform, DeepPCB™, a fully scalable, cloud-based and automated Printed Circuit Board (PCB) router significantly accelerating customer development cycles
- InstaDeep was also able to win crucial and sizeable contracts, pushing the company's brand recognition with major corporates in the EMEA region. Most notably, InstaDeep won a competitive tender for a contract with Deutsche Bahn to develop an AI System digitizing the railway operations as part of a 12-year digitization initiative to modernize the German railway network
- During this journey, Instadeep has continued to learn from its experience. In particular, the company has come to appreciate the importance of understanding and taking into account clients' processes (especially in large organizations), clearly defining and quantifying the added value of InstaDeep's solutions, and accumulating the research and experience that the team developed in order to build a sustainable AI platform that can serve clients across different sectors and verticals



Investors: Alitheia Capital/Goodwell Investments

Other Series A investors: Flourish Ventures (Omidyar Group), Accion, Bamboo Capital Partners, and Newid Capital

Country: Nigeria

Sector: Financials

Year of investment: 2018

Funding Round: Series A

Total Deal Amount: EUR1mn

Investment rationale

- Lidya digitally delivers the capital and tools that SMEs in emerging economies need for growth by providing accessible and affordable working capital. Its model is based on data-driven decision making which enables unbiased assessment, collateral-free lending, rapid disbursement, and flexible collection, which are key elements supporting access to credit.
- An opportunity for Alitheia Capital, as an impact investor, to expand the scope of its financial inclusion efforts to include SMEs as an underserved market and bridge the SME credit gap.
- Lidya's digital approach further develops the ecosystem by providing an alternative credit scoring system which SMEs might otherwise have been excluded from; training SMEs to build a strong credit profile and leveraging the opportunities that come from that; and managing their inventory and cash for better performance.

Importance of VC funding for the development of the company

- To achieve its vision to become the largest non-bank financier of small businesses in fast growing economies, Lidya has been very deliberate in selecting institutional investors that are leaders

in financial sector development. Venture capital funding has not only been catalytic in capitalizing talent and technology for the company, but also in accessing the experience, expertise, resources and networks of industry leaders for Lidya to strategize and actualize in developing new business, securing on-lending funds, and entering new markets.

Key achievements that have been reached, and/or key lessons have been learnt, since the investment

- Since closing its Series A round, Lidya has expanded into two new markets outside the continent, essentially exporting its award-winning African technology to the global scene and demonstrating the relatability of emerging market needs. Lidya now lends in Nigeria, the Czech Republic and Poland, and has disbursed more than 12,000 loans worth over US\$31mn to nearly 4,000 businesses.
- The investment highlighted the importance of tech-based companies having fundamental structures and principles (such as lean infrastructure and a decentralized, agile team) which are even more pertinent in light of COVID related restrictions. As borders are becoming less relevant to tech-based businesses, we are seeing the benefits of translatable tech which works in multiple languages and currencies.



Investors: IFC Venture Capital and Orange Digital Ventures

Countries: The company is headquartered in Kenya and operates in 12 countries across Africa. It is also registered in an additional four countries and has 2 further countries in the pipeline

Sector: Information Technology

Year of investment: 2018

Funding Round: Series A

Total Deal Amount: US\$8.6mn

Investment rationale

- Fast growing, capital efficient asset with multiple avenues for expansion
- Highly technical team able to deliver robust, scalable products with local/regional context
- Targets several very large and high growth markets
- Developer centric, efficient, low friction sales model

Importance of VC funding for the development of the company

- The Series A round enabled the company to expand its scope beyond Kenya which was its core market. At the time of the round, AT was operational in 6 African countries, but is now registered in a total of 16 African countries, and operates in 12 of these countries
- The company has also gone on to launch new products (IoT, data analytics, premium content, etc.) which are scaling quite well, and has also set up a studio accelerator model from where it nurtures new business ideas that ride on AT infrastructure

Key achievements that have been reached, and/or key lessons have been learnt, since the investment

- Telcos are still a dominant player in Africa's technology ecosystem and there are still lots of opportunities to create products that ride on their infrastructure, which generate value for both the Telcos and their users. However, OTT is growing fast with the adoption of messaging apps such as WhatsApp and Telegram, not just for personal use but also for corporate communications. Hence, there are opportunities for technology players to gain larger margins by leveraging these platforms.
- Regulation has been a key challenge in ramping up some of AT's new markets. Regulators are still a huge bottleneck and more needs to be done to help them understand the role that technology can play in development.

ZOLA Electric



Investors: Helios Investors III, SolarCity (Tesla), DBL Partners, GE Ventures

Country: Tanzania, Rwanda, Côte d'Ivoire, Ghana, Nigeria

Sector: Utilities

Year of investment: 2016

Funding Round: Series D

Total Deal Amount: Not disclosed

Investment rationale

- Current market penetration of consumer solar products of c.2% is expected to increase materially, and possibly faster than initial mobile telephony take-up rates, facilitated by mobile money payments
- High quality, entrepreneurial management, as well as strategic co-investors that benefit the business through investment and mentoring; such as, amongst others, SolarCity, the #1 provider of residential and commercial solar in the US, since acquired by Tesla
- Proprietary and scalable technology

Importance of VC funding for the development of the company

- The funding provided by Helios was a significant portion of the US\$55mn Series D which allowed the company to hire high-quality talent, expand geographically into Ghana and Nigeria and improve its product offerings while keeping them affordable and accessible to the end customers

Key achievements that have been reached, and/or key lessons have been learnt, since the investment

- ZOLA has expanded from a single country business in Tanzania, launching operations in Rwanda, Ghana, Côte d'Ivoire (through a joint venture with EDF Energy) and Nigeria
- Management has developed an affordable Alternating Current ("AC") product that allows customers in weak grid markets to use their existing appliances while supplementing grid power with solar
 - Solutions across Africa have traditionally focused on providing energy solutions that serve the rural off-grid market, with very little being done to address urban consumers' needs in many countries with weak grids
 - Traditional Direct Current ("DC") solar products would be incompatible with larger household appliances such as air conditioners and refrigerators which run on AC

Research Methodology

For the purpose of this report, Venture Capital (VC) is defined as financing that investors provide to start-up and early stage companies and includes seed and post- seed to late stage VC funding. Seed stage deals exclude deals from accelerators/incubators, and angel investors. Accelerators/incubators and angel investors have been included only when they are part of a larger group of investors who participate in the financing of a company.

Deals value includes equity, mezzanine, and debt when the latter is part of a larger transaction that also involves equity. Deals value includes the estimated African allocation for companies that have raised capital to expand or strengthen their presence in multiple markets including Africa.

Funding rounds include companies which will use the capital provided to finance the company's expansion or strengthen the company's presence in Africa.

Deal dates are mainly taken to be the date on which the deal is announced, unless otherwise specified.

Sectors for deals are based on Global Industry Classification Standard (GICS) classifications. They reflect the GICS sector reclassification that was made effective in September 2018, in which the Communication Services sector (which includes the former GICS Telecommunication Services sector, as well as some sub-industries that were previously classed under Information Technology and Consumer Discretionary) was introduced.

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The African Private Equity and Venture Capital Association is the pan-African industry body which promotes and enables private investment in Africa. AVCA plays an important role as a champion and effective change agent for the industry, educating, equipping and connecting members and stakeholders with independent industry research, best practice training programmes and exceptional networking opportunities. With a global and growing member base, AVCA members span private equity and venture capital firms, institutional investors, foundations and endowments, pension funds, international development finance institutions, professional service firms, academia, and other associations. This diverse membership is united by a common purpose: to be part of the Africa growth story.

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