2015

VENTURE FINANCE IN AFRICA

the progress of early-stage high-potential growth companies

This is the summary version of the 2015 Venture Finance in Africa report. If you would like to receive a full version of this study, please register as a VC4Africa Pro Account user or contact the team at VC4Africa.biz (details inside)

VENTURE CAPITAL FOR AFRICA

african venture finance starts here
EXECUTIVE SUMMARY

Innovative ventures yield high social and environmental impact and are a key driver for Africa’s development. Opportunity driven entrepreneurs are generating much of Africa’s employment, income and hope for a better future. But how are these companies progressing over time? This question is answered in the VC4Africa 2015 Venture Finance in Africa report.

Data sets on this emerging segment are limited and there are few comparative studies. The VC4Africa community of startup entrepreneurs and investors collects data to help explain trends and set the way forward. This report captures the performance of ventures listed on the online platform and highlights the activity of investors part of the network. As the community continues to grow, it is expected this yearly report will lend insights into what is happening across the larger startup space. The report breaks down insights across 5 indicators: employment, performance, investments, investors and ecosystem.

EMPLOYMENT

Over the course of 2014, the average team size for a venture increased by 54%, resulting in 5.7 jobs per venture. The same ventures expect to quadruple their team size by the end of 2015. The data shows that new jobs are being created in almost all African countries. Agribusiness, health services and education related ventures are the most significant job creators.

PERFORMANCE

49% of the ventures start generating revenue in their first year of operation. By their fourth year, 34% of the ventures expect to book more than USD 100K in annual revenue. The number of ventures with this kind of revenue potential has grown by 56% over the course of 2014. Moreover, almost one-third of the ventures turned profitable or at least reached their point of break-even.

INVESTMENTS

44% of the ventures are successful in securing external capital investment. The average capital secured per venture increased from USD 129,348 in 2013 to USD 205,374 in 2014, otherwise an increase of 59%. The largest investments are made in South Africa, the most investments are made in Nigeria, and Kenya secures the largest total amount of external capital.

INVESTORS

Of the 600 investors part of the community, 82% invested in an African venture. Angels represent one-third of the network, followed by Venture Capital firms and Social Impact Funds. Investors report management and team as being the most important factors they consider when investing. The country’s level of economic growth and size of market are the most important factors when deciding where to invest.

ECOSYSTEM

The ventures that participate in sector events, or join an incubator or accelerator, secure on average USD 126,090 in external investment. This is 23% more than their counterparts who do not participate in such programs. Ventures that have established a partnership with a multinational company secure 150% more capital on average, and are 57% more likely to break-even by their third year of operation.

December 2014
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FR = graph included in the full report
The VC4Africa community is a global peer-to-peer network where entrepreneurs and investors come together to build great African success stories. A growing number of ventures are active on our platform but do they make a difference? Do the companies we engage as a community add to the tax base of African economies and are they indeed a source of employment for the continent’s burgeoning population of youth?

The data in this summary report indicates these companies are employing more people over time, and that their economic and social impact starts to increase in parallel. And despite the limited sample size, these companies are increasingly representative of what is happening across the larger African startup ecosystem.

The companies registered on the platform are securing increasing amounts of investment, and both revenue and team size increase significantly from when this same study was conducted in 2013. More importantly, the entrepreneurs represented in this report do create meaningful employment opportunities for their fellow citizens. This is a critical economic contribution when taking into account that 43.3% of the Sub-Saharan African population is under the age of 14\(^1\). In many ways, the future of the continent will be shaped by the continued success of its entrepreneurs.

In the full report we share more specific insights on the 5 indicators, regarding demographics, sectors success factors and other external influencers. Furthermore, it includes more case studies and a comparison with last year’s results. If you would like to receive a full version of the 2015 Venture Finance in Africa report, please register as a VC4Africa Pro Account user or contact the team at VC4Africa:

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**Tel:** +31 20 779 55 74

We would like to thank the entrepreneurs and investors that participated in this study. They continue to inspire all of us at VC4Africa. Our hope is that entrepreneurs and investors use this data to benchmark their own progress. We also hope the report captures the progress these entrepreneurs are making and offers hard data that shows these companies are i) successfully growing their operations over time and ii) adding much needed jobs to the African marketplace.

- VC4Africa research team

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\(^1\) Source: World Bank, 2013
ABOUT VC4AFRICA

The vision is to enable African entrepreneurs and investors to find each other online. We aspire to become the preeminent social network for entrepreneurs and investors focused specifically on innovative business opportunities across the African continent. Learn more about the community by checking out our welcome page.

• The ventures are early stage, post-seed and pre-late stage, and require investments less than USD 1 million;
• The primary sectors include mobile, web, renewable energy, healthcare, education and agriculture, amongst others;
• Each venture is scalable, makes smart use of technology, or is disruptive in their application of a business model;
• Thirty percent of the registered ventures have an explicit social mission and could be qualified as a social enterprise.

1. VENTURE APPLICATIONS

cumulative applications

2011 2012 2013 2014

350 900 1700 2600

2. PUBLISHED VENTURES

breakdown by country

Other countries represented in the study:
Algeria, Angola, Benin, Burkina Faso, Burundi, Cape Verde, CAR, Chad, DRC, Gambia, Guinea, Lesotho, Liberia, Madagascar, Malawi, Mali, Mauritius, Morocco, Namibia, Sierra Leone, Somalia, Sudan, Swaziland, Togo, Tunisia and Zanzibar
Every year VC4Africa reaches out to entrepreneurs who are part of the community to find out more about their progress. Specifically, this report looks at their organizational advancement as measured by growth in revenue and the number of new jobs created over time. This feedback underpins an annual benchmark for the companies listed on the platform, and offers tangible evidence of their impact.

**RESEARCH**

**METHODOLOGY**

The research team is in constant communication with members and conducts a regular series of surveys, interviews, focus groups, design sessions and brainstorms. For this report, the data is pulled from two main sources i) an annual survey conducted with the ventures registered on the platform and ii) the investors who are part of the community.

**VENTURES**
Entrepreneurs with a venture profile were asked to participate in an online survey. The survey was sent to 1300 entrepreneurs and 257 entrepreneurs responded, a 20% response rate. Entrepreneurs were asked to report on their revenue, profit, and change in team size over time. They were also asked to report on their capital requirements and progress fundraising. In recognition of their positive contribution to society, participants received the ‘Entrepreneurs Rule’ badge.

**INVESTORS**
600 investors part of the community were asked to participate in an online survey. 71 responded, a 12% response rate. Investors were asked to provide feedback on their level of activity, the amount of capital available, their intentions to invest, and the considerations they make when allocating.

**LIMITATIONS**
The data sets are limited and by no means do they represent the African investment space. At the same time, there is little information available on this emerging segment and there are few comparative studies. Any conclusions should take the limited amount of data into consideration while recognizing that as the community continues to grow these insights will improve over time.
3. DISTRIBUTION OF VENTURE STAGES

57% of the ventures are in a startup phase where 43% are in a growth stage. Startups focus on solution validation, product market fit and survival, whereas growth ventures focus on expanding product line, growing revenue and growing team.

4. VENTURE BREAKDOWN BY TOP 20 SECTORS

computer software, internet and e-commerce are the three sectors best represented in this report.

- Computer Software: 24%
- Internet: 21%
- E-Commerce: 17%
- Agribusiness: 15%
- Education: 14%
- Media: 12%
- Professional / Diversified Services: 11%
- Health Services: 9%
- Clean Technology: 7%
- Financial Services: 7%
- Food & Beverages: 7%
- Renewable Energy: 7%
- Telecommunications: 7%
- Computer Hardware: 5%
- Leisure: 4%
- Transportation: 4%
- Import/Export: 3%
- Retail: 3%
- Construction: 3%
- Real Estate: 3%
This section looks at the job performance of the companies. The graphs show job creation over time and job growth by country and sector.

Highlight summary report: Total amount of jobs created is highly dependent on the sample size. That said, with over 1,000 people hired up to 2013 and another 4,176 jobs expected to be created by the end of 2015, the figures in this section show that ventures active on the VC4Africa platform are creating a significant number of new jobs.

5. **TOTAL JOBS CREATED**
   realized up to 2013 and expected by the end of 2015

- created: 1,011 jobs, average = 5.7
- expected: 4,176 jobs, average = 21.3

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This section of the report looks at the revenue performance of the companies. Especially how revenue of the companies improves year on year and a comparison to their break-even points.

Highlight summary report: With over 70% of all ventures generating revenue, it is clear that the African market is full of opportunities.

10. **REVENUE GROWTH**
    distribution of years when ventures generated their first revenue

- Year 1: 49%
- Year 2: 19%
- Year 3: 18%
- Year 4: 29%
This section of the report looks at the capital raised by the companies participating in this study. The sources of capital being deployed, the stage the capital is being invested, and how the capital is invested across sectors and countries are also researched.

Highlight summary report: Total invested capital more than doubled compared to last year’s research: from USD 12 million to USD 26.9 million. This can be explained partly by the growing sample size. However, looking at the average amount invested per venture the numbers increase from USD 130K last year to over USD 200K this year.

13. **INVESTMENTS**

distribution of capital secured

![Graph showing distribution of capital secured]

26,903,943

- Only founder capital: 7%
- Internal + external capital: 49%
- No capital: 44%

20. **INVESTORS**

investment activity

![Graph showing investment activity]

- Invested in African companies: 82%
- Not yet invested in African companies: 17%
- No answer: 1%

This section of the report looks at the investors part of the community. It investigates their activity level, average size of investments and their allocation. Also insights on the venture and country factors that influence their investment decisions are analyzed.

Highlight summary report: The investors are actively investing with 82% indicating investments have already been concluded. Money is allocated to a broad range of sectors and investment sizes varies between the different types of investors.
This section of the report looks at some of the external influencing factors, for example how the invested amount of capital changes when there is a relationship to a multinational company. This section also looks at the ability of ventures to raise capital as per their membership to a hub and/or participation in pitch events.

Highlight Summary Report: The importance of participating in an acceleration program, or being selected for a pitch event, results in an increased amount of capital raised. Ventures participating in acceleration programs or events secure higher median and average amounts of capital compared to ventures that do not.

25. **Benefit of Accelerator Programs**

with or without participation in acceleration program or event

<table>
<thead>
<tr>
<th></th>
<th>Median</th>
<th>Average</th>
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</thead>
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<td>YES</td>
<td>USD 45,000</td>
<td>USD 126,090</td>
</tr>
<tr>
<td>NO</td>
<td>USD 25,000</td>
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The timing for local African angels to rise couldn’t be more critical. Indeed, foreign capital can only engage when there are local investors willing and able to lead the way. At the same time, African companies increasingly look outside their country for expansion or follow on capital. They seek access points to these networks. At VC4Africa we see a growing number of high net-worth individuals starting to invest locally. This is the single most significant development seen over the course of 2014.

INVESTOR CASE STUDY
emergence of the local angel investor

Over the past two years various angel networks have emerged across Africa, including the Lagos Angels Network (LAN), Cameroon Angels Network (CAN), Cairo Angels, Ghana Angel Investment Network (GAIN), Silicon Cape and many others. VC4Africa expects the number of networks to increase the coming period, and as a result a growing number of high net-worth individuals will become active as angel investors.

Nigerian-Finnish mobile payment startup IroFit raised USD 600K in seed funding from a group of investors including a leading Nordic early-stage VC firm, a major Finnish payments industry software development company, and a Nigeria based industry expert and angel investor. IroFit’s founder and CEO explains: “The angel investor from Nigeria found us through our VC4Africa venture profile and then reached out to us”.

The funds raised will be used to finalize IroFit’s proprietary platform and pay for the rollout of the service in Nigeria. In addition to the funding round, IroFit simultaneously signed a major agreement that guarantees a hundred thousand payment devices will be available to the Nigerian market upon launch.

The critical point in this story is to recognize that African born innovations, and the entrepreneurs that drive them, won’t receive the support they need until local investors vouch for them first. In this case, the Nigerian angel investor added a unique perspective to the market. The commitment from the investor put the wheels in motion needed to get other investors involved.
CONCLUSION

The report shows an increasing number of businesses successfully growing their operations over time. They generate an increasing amount of revenue and add new jobs to the African marketplace. Indeed, supporting Africa’s opportunity driven entrepreneurs generates a meaningful return.

Despite considerable gains, the ‘missing middle’ problem persists, although narrower than when VC4Africa started in 2007. From this report, we know that entrepreneurs have been able to secure venture funding in 26 African countries. Especially in leading markets like Kenya and Nigeria, founders increasingly succeed in raising the first USD 100K from external investors. The challenge now is to reach entrepreneurs across markets. At the same time help these companies grow to a size they become viable prospects for the larger venture capital funds, impact investors and SME financiers.

AFTERWORD - BY JASPER GROSSKURTH

These are exciting times for those who invest in Africa. We observe a strong increase of interest ranging from small scale investors to global multi-billion dollar funds. Their money meets an increasing number and diversity of businesses. New ways to match funds with businesses, such as VC4Africa, are catalysts for this growth of activity.

This report clearly shows the momentum. The number of venture applications on VC4Africa has grown by 640% in just 3 years. That growth in volume reflects a larger and more vibrant SME ecosystem in Africa: more ideas put into action, more encouragement, more risk taking entrepreneurs, more networks, more visibility. While many of the companies might still be in a stage of pure ambition or mentor dependency, a quickly increasing number are investor ready with attractive offers.
My own favourite set of indicators in the VC4Africa survey covers the team size. Just a year ago, the survey yielded an average team size per company of 3.7. The 2015 survey reports a rise to 5.7. Better even, the participating companies expect to quadruple their team size within the next two years. Many might fall short of that target, but the positive momentum is significant.

Larger teams reflect the fact that the idea owner is able to convince others of the benefit of the idea and has more shoulders to stand on. And in a large, yet committed group an investor is more likely to find promising people to work with. Given that team is probably the single most important decision criterion for investors, the growing team size is a very positive signal.

When we look at revenues, we see another set of hopeful signals. The share of companies participating in the survey that have reported to already have revenue stands at close to 60%. Investors love businesses with a proven business model and there is no better proof than revenues.

The money follows these positive developments. In last year’s survey the average investment into a company was USD 130K, including external funding and owner’s funding. This year’s survey puts the average investment at USD 205K, almost 60% growth.

This heightened level of activity will bring stories of success and of failure, stories of big wins and total losses. Both, bulls and bears of Africa will find evidence confirming their view. In that way, Africa is growing into a regular investment market where professional businesses meet professional investors. 2015 might well be a major positive tipping point on this journey. I am very bullish and find my evidence in the VC4Africa fresh business survey.

- Jasper Grosskurth is Managing Director at Research Solutions Africa Ltd.

**CLOSING REMARKS**

- It will be interesting to see what trends emerge given larger data sets showing how ventures mature over longer periods of time;

- The average and median values of invested capital per venture differ considerably. This implies a significant impact due to a few outliers. Therefore these outcomes have to be treated carefully;

- The top investment categories are related to the Technology sectors, and then followed by Agriculture, Health, Finance and Energy;

- This is the second time VC4Africa has endeavored to create such an index, an activity we look to build on in the future;

- You can see which companies participated in the index and interact with the participants on VC4Africa.biz.
VC4Africa’s vision is to enable African entrepreneurs and investors to find each other online. We aspire to become the preeminent social network for entrepreneurs and investors focused specifically on innovative business opportunities across the African continent. Learn more about the community by checking out our welcome page. Get involved and join the community today!

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