Where does the funding go?

August 2022

Africa Venture Capital

Prepared by

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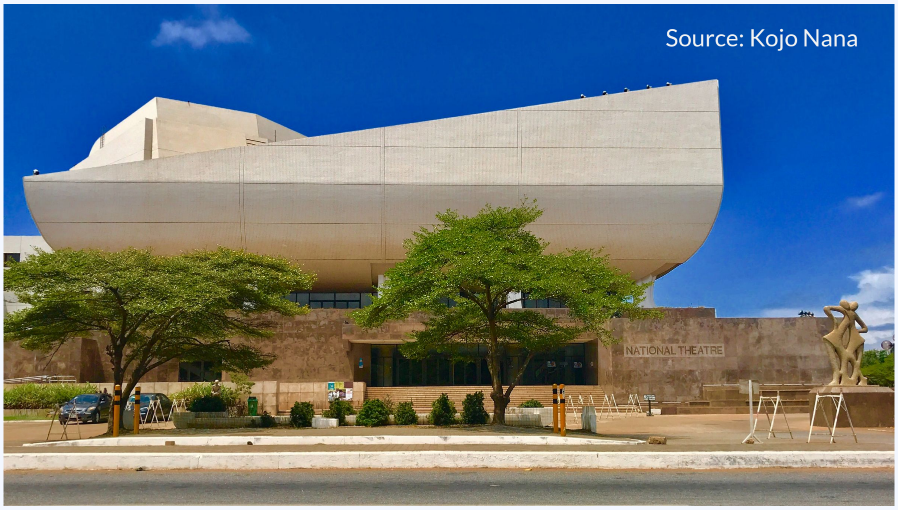
1. Executive Summary



Interest in harnessing business potential on the African continent is growing year on year. The total amount of venture capital (VC) investment on the continent has grown to between USD 4.3 billion and USD 5 billion in 2021, a 16-fold increase from 2017[1].

However, the distribution of the funding is uneven[2]. The market of start-ups successfully accessing funding is primarily dominated by non-African-CEOs. A sample taken from deals occurring in Africa between 2017-2021 showed that black Africans accounted for 28% of CEOs and 31% of executive teams of the start-ups winning deals[3]. For the subset of energy, mobility, and agriculture-related firms, the equivalent distribution is 21% of CEOs and 36% of executive teams[4]. Shell Foundation, EchoVC, Songhai Advisory, Briter Bridges, and Triple Line set out to interrogate why this demographic imbalance in the start-up investment landscape persists and identify emerging solutions.

Interviews with investors and start-ups working in these sectors revealed that common barriers faced by start-ups working in these sectors include: not having access to family and angel investments early on; not being familiar with jargon used in the investment industry or acquiring insufficient business expertise; not seeking investors that match their stage of business growth; being subject to unconscious bias during investment decision-making and not having access to the right networks.

For example, a study by the Harvard Business Review found that at least 30% of VC deals in America were the result of leads from former colleagues or work acquaintances, with 20% from referrals by other investors, and 8% from referrals by existing portfolio companies[5]. Likewise, 70% of investors in the top 20 biggest deals in 2021 came from the US and UK[6], which becomes problematic when proximity and familiarity significantly drive investment decisions.

There are many signs that these barriers are starting to be overcome, although each comes with its own limitation.

1. Africa's Investment Report (2021). Briter Bridges. https://briterbridges.com/africainvestmentreport2021
2. In Search of Equity: Exploring Africa's Gender Gap in Startup Finance (2021). Briter Bridges. https://briterbridges.com/in-search-of-equity-report
3. Briter Bridges, supplemented by Songhai Advisory web-searches on company profiles
4. Ibid.
5. How Venture Capitalists Make Decisions. (2021, September 17). Harvard Business Review. https://hbr.org/2021/03/how-venture-capitalists- make-decisions

Table 1. Enablers tackling the challenges faced by African founders

Enablers	Limitations
Incubators and Accelerators: The number of incubators offering readiness programmes to tackle the jargon barrier and business expertise is increasing. They also help form new networks and facilitate the sharing of experiences between those taking part in the programmes[7].	Not all investors are willing or able to offer technical support in addition to providing start-ups with funding. Furthermore, networks created by these schemes will primarily be made up of founders instead of existing investors or portfolio companies.
Valuing Local Knowledge: Local knowledge is progressively being recognised as a key characteristic for the successful execution of the business idea and creating a positive social impact, increasing the chances for African-led start-ups of winning the funding they apply for. This is particularly true when investment goes through local investment institutions.	Investors still struggle to find executive teams that have both the local knowledge and the technical expertise needed.
Global Exposure: A growing number of African students attending US and European universities and returning to their home continent is also expanding the number of African founders with access to strong business networks[8]. Data from 2021 showed that 39% of start-ups headquartered in Africa had studied outside of Africa[9].	This option is only available to those who can afford to pay the costs associated with studying abroad, including high international student fees.
Conscious Inclusion: The Black Lives Matter (BLM) movement has opened the space for more honest dialogue about the lived experiences of people of colour within a mainstream context. In some instances, it appears to have led to a more intentional approach to close the inequality gap, as attested to by some of our key informants. 61% of VC survey respondents said that BLM has affected their investment strategy [10].	This movement has primarily taken place in the US and UK. It is not yet clear whether this has influenced investors focused on VC in Africa.

7. Landscape Study of Accelerators and Incubators in East Africa. (2020). Global Accelerator Learning Initiative. https://www.galidata.org/publications/the-accelerator-and-incubator-landscape-in-east-africa/
8. Sub-Saharan Africa leads the world on student mobility. (2020, December 3). University World News. https://www.universityworldnews.com/post.php?story=20201202075826
9. Briter Bridges data from 2021

Opportunities in tech: An upward trend of interest in tech solutions being offered on the continent has also increased the number of investment opportunities available[11]. This is mostly in tech-oriented innovations and Fintech. Start-ups operating in other markets are still subject to limited options.

Catalytic Capital: There are a number of investors seeking to make catalytic investments. Catalytic investments accept disproportionate risk and/or concessionary returns relative to a conventional investment in order to generate positive impact and enable third-party investment that otherwise would not be possible [12]. It can catalyse growth because it aims to:

1. Support innovative business models,
2. Create a track record for managers,
3. Attract new investors to more high-risk opportunities,
4. Demonstrate the financial viability of selected groups and geographies, and
5. Grow early-stage companies to a point where they are able to tap into conventional financing and acquire new investment.

It has a starter effect or 'seed' effect for other investors because it fills gaps where there are market or investing anomalies and is therefore drawn to developing markets – all characteristics that favour African founders in Africa.

The definition of Catalytic capital and its associated criteria differ between investors. 'Catalytic' funding programmes are not tagged as such. It is therefore difficult for African founders or others to conduct research identifying 'catalytic' capital providers and knowing whether their start-up aligns with the desired characteristics of the investors profile.

In conclusion, this research found that progress has been made towards increasing African start-ups' access to funding pools but many limitations still remain. Lack of access to preliminary funding (family and angel investments sized $150,000 and below), business networks and business expertise still act as barriers to access for African start-ups. Investors can do more by participating in local networks, feeding their investments through local institutions, and accompanying their investments with investment-readiness programmes.

One key opportunity lies in increasing the catalytic investment targeted towards African start-ups. However, more efforts are needed in making the investment criteria for catalytic capital more transparent. This would help start-ups to understand the characteristics investors are looking for and strengthen their business models accordingly. Start-ups can also do more by participating in or setting up networks themselves, seeking out business education programmes, strengthening their business plans and ensuring they match an investor's profile before pitching to investors.

Source: Virgyl Sowah

11. 2021 Africa Tech Venture Capital. (2022). Partech.https://partechpartners.com/2021-africa-tech-venture-capital-report/
12. MacArthur Foundation. Catalytic Capital at Work. https://www.macfound.org/press/article/catalytic-capital-work

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This research was co-funded with UK aid from the UK government through Shell Foundation and Echo VC. The research was conducted by Songhai Advisory, Briter Bridges, and Triple Line. We are especially grateful to all the start-ups, investors, and support organisations who were generous with their time in participating in the focus group discussion and interviews.

1. Introduction

Interest in harnessing the business potential on the African continent is growing year on year. The total amount of venture capital (VC) investment on the continent grew to between USD 4.3 billion and USD 5 billion in 2021, a 16-fold increase from 2017[13] . However, the distribution of the funding is uneven. The start-ups in Africa successfully accessing the largest pools of funding over the past five years have primarily been led by non-African CEOs[14].

The purpose of this research, therefore, was to interrogate why this demographic imbalance in the start-up investment landscape persists and to point towards what some of the solutions could be for closing that gap. Specifically, we set out to:

- investigate the hypothesis that patterns of venture capital funding to African-founded and non-African-founded start-ups operating on the continent differ in significant ways.
- interrogate the challenges and enablers driving VC in Africa through desk-based research, key informant interviews and a focus group discussion with investors and agriculture, energy, and mobility start-ups.
- provide actionable recommendations for impact- oriented investors and start-ups.

2. Investment patterns

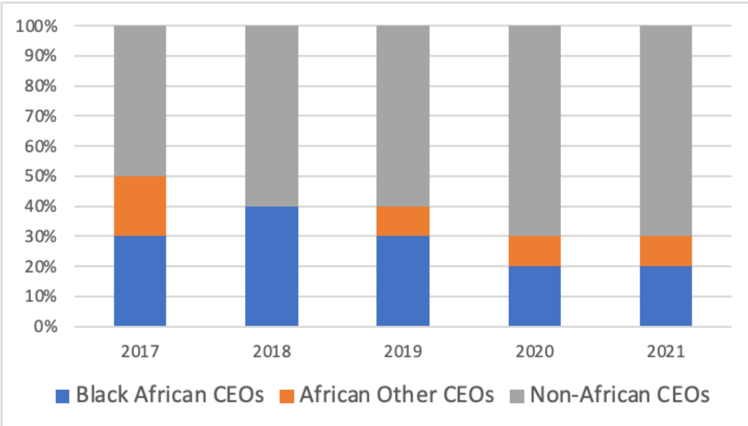
Global venture capital (VC) investment grew to record-breaking levels last year, totalling USD 643 billion, compared to USD 335 billion in 2020[15]. Of that, Africa's share was estimated to have been between USD 4.3 billion and USD 5 billion[16]. This is more than 16 times the 2017 outturn.

However, this still equates to less than 1% of global VC, whereas the region accounts for around 3% of global GDP and 17% of its population. In other words, while VC is a niche affair across the world – less than 1% of start-ups globally raise venture capital[17] – that reality is even more pronounced in the African context.

Just a small proportion of start-ups on the continent – around 740 – raised VC funding in 2021 and, according to Briter Bridges' Africa Investment Report (2021), 55% of that funding went towards megadeals with ticket sizes ranging from USD 120 million to USD 400 million. 3% of total investment to Africa went to businesses in the mobility sector and 4% to businesses in agriculture[19].

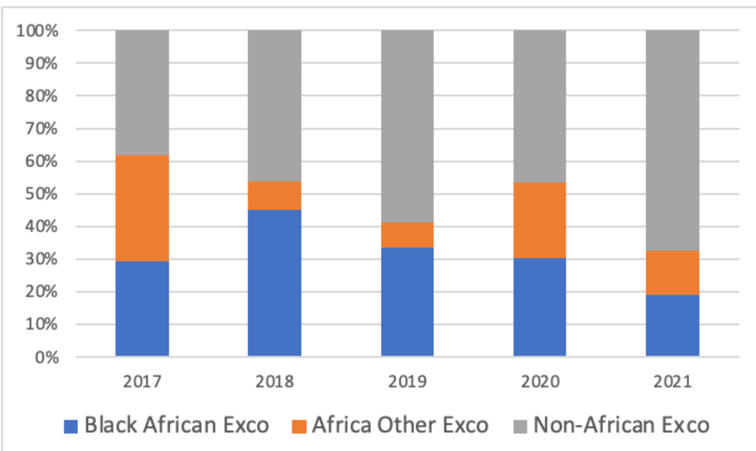
13. Africa's Investment Report (2021). Briter Bridges. https://briterbridges.com/africainvestmentreport2021
14. Data gathered by Songhai Advisory from multiple sources including WeeTracker, LinkedIn, Briter Bridges, to discover demographic trends of top ten start-ups in Africa receiving the largest funding amounts between 2017 and 2021 (USD5m and USD500m).
15.ibid.

Figure 1. Diversity of CEOs



Source: Songhai Advisory

Figure 2. Diversity of Executive Teams



Source: Songhai Advisory

While VCs are increasingly investing in Africa, other forms of inequity persist. For instance, roughly one-third of all investments go to companies headquartered in the US and the UK[20] .

Of those headquartered in Africa, 39% went to founders educated outside of Africa[21] . Countries receiving the largest amount of investments were Egypt, Kenya, South Africa, and Nigeria, who together received 38% of the funding in 2021[22] .

Furthermore, some research (see Figure 1 and Figure 2[23]) suggests that black Africans are under-represented among the leadership teams of the firms that access funding for the region.

For instance, looking at the ten largest reported VC deals in Africa between 2017 and 2021, black Africans accounted for 28% of CEOs and 31% of executive teams overall[24]. For the subset of energy, mobility, and agriculture-related firms, the equivalent distribution is 21% of CEOs and 36% of executive teams.

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16. Kene Okafor., T. (2022, February 8), Reports Say African Start-Ups Raised Record-Smashing USD4.3 bn - USD5 bn. https://techcrunch.com/2022/02/08/reports- say-african-startups-raised-record-smashing-4-3b-to-5b-in-2021/17. Eve, H. (2020, July 6). Venture Capital Is Not the Funding Reality of Most Startups—Here's What Is. Forbes. https://www.forbes.com/sites/hollyeve/2020/07/06/venture-capital-is-not-the-funding-reality-of-most-startups-heres-what-is/?sh=7ae2a72f65ea
18. Africa's Investment Report (2021). Briter Bridges. https://briterbridges.com/africainvestmentreport2021
19. Ibid. Sector disaggregation does not include energy.
20. Africa's Investment Report (2021). Briter Bridges. https://briterbridges.com/africainvestmentreport2021
21. Briter Bridges data for deals occurring in 2021.
22. In Search of Equity: Exploring Africa's Gender Gap in Startup Finance (2021). Briter Bridges. https://briterbridges.com/in-search-of-equity-report
23. These graphs were designed by Songhai Advisory using Briter Bridges data on the top 20 deals between 2021 and 2020, and WeeTracker data between 2017-2019. Songhai supplemented the databases to establish the demographic of the start-up CEOs using a variety of open self-reported sites such as LinkedIn.
24, Briter Bridges, supplemented by Songhai Advisory web-searches on company profiles

3. Challenges for VC in Africa

Evaluating the reasons for the observed investment patterns is complicated by a dearth of data, particularly for seed and pre-seed funding. Interviews and the focus group conducted as part of this research identified the following key driving factors for the trends identified above:


Photo credit: Songhai Adviisory

Lack of family and angel investment opportunities; investment language barriers; disconnects in identifying the right funders/understanding that VC means scale; barriers to networking; and unconscious bias.

3.1 Family and friends financing and angel investment

Family and friends are an important means for early-stage start-ups to raise pre-seed capital – close to 40% of start-ups go through the friends and family route internationally[25]. Yet in an African context, this practice is not typical. "African-led teams rarely have friends and family who have been able to make angel investments in their companies. This makes it very difficult to compete with an internationally led team that has raised USD 1 million from friends and family" says a European impact investor investing in East Africa.

Underlining the point, only two out of the 15 founders included in this research said that they had received financial support from family and friends. Similarly, only two of our 15 respondents said that they had received funding from angel investors, one of whom was a non-African founder.


Photo credit: Alfred Quartey

3.2 Business expertise

The perception of a skills gap among African-led start-ups emerged from our research. One impact-first family office was particularly frustrated, saying that "[African-led start-ups] are … unable to articulate very complex business models and understand certain financial aspects of their business and the investment process". One East African founder of a mobility start-up agreed, saying that "expats seem to articulate their ideas better – again perhaps because of the exposure and experience that they have. That also contributes to their raising capital more easily than local founders".

Meanwhile, a global foundation felt that "for African-led companies, there is a perceived level of legal and/or financial risk – inability to meet due diligence requirements – [resulting from their] method of articulating the pitch and ask. Probably not the same reason for international companies though wouldn't say we fund more of those – with them, it's more about market understanding and solution alignment". This perception is largely attributable to educational and professional disparities. The impact first family office (above) recognised that "very few [have had] the opportunity to study [or] work abroad or at top tier companies".

Similarly, a European VC investing in East Africa shared that "a VC investor is only looking for venture-scale businesses. "There are a number of African-led teams that are seeking venture capital for businesses that do not suit that kind of capital. I think this is on us as investors to educate them on what it means to be rapidly scalable. It is more work to teach someone about deal terms and at the same time do a deal with them. This leads many teams to deprioritise these founders, but I think it is our responsibility to teach this as well".

3.3 Networks

A study by the Harvard Business Review found that at least 30% of VC deals were the result of leads "from former colleagues or work acquaintances, … 20% from referrals by other investors, and 8% from referrals by existing portfolio companies".[26]

The fact that few African start-up founders will have attended top global universities distances them from the typical VC investor not only in terms of relationships, but also in terms of ideas, expectations, and ways of doing.

25, Types of Investors - Friends & Family, Angels, VCs, and Customers. (2022). Fundable. https://www.fundable.com/learn/resources/guides/investor/types- of-investors
26, How Venture Capitalists Make Decisions. (2021, September 17). Harvard Business Review. https://hbr.org/2021/03/how-venture-capitalists- make-decisions

A Ghanaian agribusiness start-up founder in the UK diaspora shared that "academically, there's nothing that I've learned at university that I can't find online. It's not so much of what you learn but rather it's the network. I know that when I'm ready to scale up I'm ready to tap into the funding [that will be available] because of the relationships with colleagues and classmates that I have built up. I know that I can reach out to my alumni network. People are so willing to help. Particularly with the US universities. The alumni are everything".

Indeed, we found that 40% of African founders studied abroad. Although education alone cannot explain investment decisions, it is likely to explain some of the differences previously mentioned such as helping founders gain access to the right networks and being able to speak the sector lingo.

3.4 Unconscious bias

Seventy percent of investors in the top 20 biggest deals in 2021 came from the US and UK [27]. This becomes problematic when proximity and familiarity significantly drive investment decisions[28] . A Dutch impact investor investing in Africa recognised the relationship between the profile of VC fund leadership and the opportunities these entities invest in: "The majority of the capital in the VC space does not come from local institutions or individuals. This leads to the teams not being local and that in turn leads to the teams mostly finding founders like them. This is not out of malice, but they just run in the same circles".

A Ghanaian impact investor described this phenomenon as a hidden bias. "For example, if you're a white Oxbridge graduate, you have a better chance of capital from someone who looks like you... because of that unconscious bias. It is slowly going away but it's still there to stay, 'I don't think I can trust this person with capital'".

The literature is supportive of these sentiments. In Post Corona: From Crisis to Opportunity, professor and entrepreneur Scott Galloway considers that "58% of the people who work in the venture capital industry are white men" and that, notably, "white men control 93% of the venture capital dollars"[29]. In the US, where the highest volume of VC deals was done last year, only 3% of VC investors are Black and only 2% are at partner level[30].

25, Types of Investors - Friends & Family, Angels, VCs, and Customers. (2022). Fundable. https://www.fundable.com/learn/resources/guides/investor/types- of-investors
26, How Venture Capitalists Make Decisions. (2021, September 17). Harvard Business Review. https://hbr.org/2021/03/how-venture-capitalists- make-decisions
27. Africa's Investment Report (2021). Briter Bridges. https://briterbridges.com/africainvestmentreport2021
28. The familiar versus the unfamiliar: Familiarity bias amongst individual investors. (2017). Stellenbosch University. https://www.researchgate.net/publication/313253657_The_familiar_versus_the_unfamiliar_Familiarity_bias_amongst_individual_investors
29. BlckVC.org: https://www.blckvc.org/#:~:text=Today%2C%20only%203%25%20of%20venture,capital%20to%20become%20more%20inclusive.
30 https://www.forbes.com/sites/elizabethedwards/2021/02/24/check-your-stats-the-lack-of-diversity-in-venture-capital-is-worse-than-it- looks/

4. Enablers for VC in Africa

As suggested in Section 1, a confluence of environmental factors and deliberate actions are changing the context for African-led founder access to VC. Among them, business ecosystem development, international study, commitment to diversification, African fintech expansion and investors' appreciation of the commercial value of local knowledge.

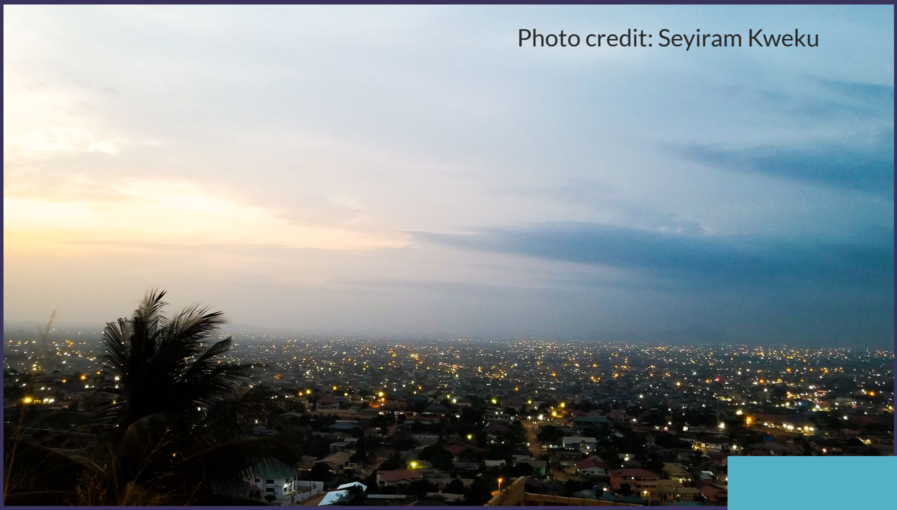
Photo credit: Seyiram Kweku

Box 1. Qualifying criteria for investment decision makers

When making a decision about which start-up to invest in, investors we interviewed said they consider a range of factors, namely:

1. Leadership - competence of the start-up founders/team, evidenced by their background, subject matter expertise and temperament;
2. Governance - whether the company is run ethically, devoid of corruption and unrealistic projections;
3. Market - whether the product/service addresses an identifiable need and whether there are ready off-takers of the product/service.

4.1 Incubators/Accelerators

Globally, accelerator and incubator programmes (AIPs) play an important role in the lives of early-stage start-ups in providing access to networks, know-how and funding, and they are becoming increasingly more present in Africa. 40% of our respondents (all of whom would describe themselves as African) said they had received accelerator/incubator funding from the likes of the Ghana Climate Innovation Centre, CCHub, and Ashesi Venture. In most instances, this type of pre-seed funding was heard about through the universities/alumni networks of the founders but equally, a key element of these programmes is the networks that they are creating themselves[31]. Consequently, the increasing number of AIPs could go some way in tacking the challenge that African entrepreneurs face in accessing the right networks.

4.2 Local knowledge

As seen in Box 1, the investment criteria used for traditional investments do not acknowledge the value of local knowedge. However, the start-up founders we engaged with pointed out that this is a missed opportunity because local knowledge is a necessary input for success.

31. Landscape Study of Accelerators and Incubators in East Africa. (2020). Global Accelerator Learning Initiative. https://www.galidata.org/publications/the-accelerator-and-incubator-landscape-in-east-africa/

For example, an energy-start-up founder shared that "for what we are producing, I grew up seeing our household using it and knew issues and pain points first-hand. My background made it easier for me to connect with my potential customers".

- An energy-start-up founder shared that "for what we are producing, I grew up seeing our household using it and knew issues and pain points first-hand. My background made it easier for me to connect with my potential customers".
- And per a mobility start-up founder in Uganda, "[local knowledge] is extremely critical for execution. It's what gives the local founder an edge. Doing business in Africa, you need to know who to deal with and how to deal with them. You have to know where the potholes are".


Photo credit: Songhai Adviisory

> *The problem is finding the founders who have local knowledge and the required expertise, the global exposure. That's a very small pool"*
>
> **Ghanaian fund manager investing in SMEs**

Pairing this local knowledge with other essential factors is where difficulties are believed to emerge. For example, a Ghanaian fund manager investing in SMEs shared that from her vantage point, "the problem is finding the founders who have local knowledge and the required expertise, the global exposure. That's a very small pool. We still have a long way to build up our human capital on the continent. It's hard to get the calibre of leadership that you need which is about combining an understanding of the local environment with experience, competence, and a global outlook for making sound business judgements".

Respondents contacted as part of this project were exploring new strategies to bridge the gap. According to one impact investor, "for international investors, a possible solution would be investing in local fund managers as compared to making direct investments. These local funds would then help entrepreneurs with their local markets".

An angel investor based in Kenya shared with us that "[he has] seen a trend of funds being set up to support locally bred entrepreneurs. I think more local firms will be funded by local fund managers in the future". The view that funding should be channeled through local investors was shared by a European impact investor focusing on East Africa "More local investors need to make allocations to VC because they would be in a better position to find a world-class African-led team".

4.3 Global exposure

There is also a growing presence of African students at top universities around the globe. Indeed, Africa is the most mobile continent in the world for tertiary education[32], with 5.1% of students in tertiary education having gone abroad to study – almost double the global average of 2.4%[33]. More specifically, studies show that the number of African students studying in the US has been on the rise for the past decade, representing 4.5% of the student intake in the US in 2019-20. With close to 13,000 students in the US in 2019-20, Nigeria leads these figures, followed by Ghana (over 4,000), Egypt, and Kenya[34].

As stated by an investment manager "what we're seeing more is repatriates returning, having worked or studied elsewhere, ... to exploit opportunities and doing that with local partners. I think that's a very good model because you can really mix the local knowledge especially around governance and structuring transactions". A French impact investor shared that they also see that a number of "African led companies are led by founders and executives who either studied or worked in Europe then came back to their home countries (repats)".

By accessing the global networks and education, African leaders are bridging the business expertise and networking gap. However, this option is still only available to elites. This will continue to be the status quo until the number of globally competitive tertiary institutions in Africa increases and efforts are made to make them more widely accessible[35].

4.4 Conscious inclusion

The Black Lives Matter (BLM) movement has opened the space for more honest dialogue about the lived experiences of people of colour within a mainstream context. In some instances, it appears to have led to a more intentional approach to close the inequality gap, as attested to by some of our key informants.

32. Tertiary education is defined as education at college or university level.
33. Sub-Saharan Africa leads the world on student mobility. (2020, December 3). University World News. https://www.universityworldnews.com/post.php?story=202012020758261
34. Which African country has the highest number of international students in the US? (2021, August 23). Business Insider Africa. https://africa.businessinsider.com/local/careers/which-african-country-has-the-highest-number-of-international-students-in-the-us/ytfvp1v
35. University of Cape Town is the leading university on the continent and ranks 109th in global league tables: https://www.usnews.com/education/best global-universities/university-of- cape-town-504187

A study by Morgan Stanley points to the extent to which VCs have been influenced by BLM, with 61% of their VC respondents saying that BLM "has affected their investment strategy".[36]

However, this impetus is viewed as building on independent efforts to address uneven patterns in investment, rather than as something entirely new.

As a credit investor specialist in large-scale investments in Africa put it, "it can't be BLM alone that has led to VCs looking more at Africa because if that were so, then you would expect to see a shift in financing across all asset classes in Africa. But when it comes to private equity, it has been the reverse. It's the opportunities in tech which have been the real game-changer".

61%

Of VCs say that the Black Lives Matter (BLM) movement has affected their investment strategy

41%

Say that finding opportunities with multicultural-founded companies is a "top priority"

4.5 Opportunities in tech

As a sector, technology is evolving rapidly on the continent. In 2021, Africa as a whole was the fastest growing region in the world for VC investments in tech with investment amounting to USD 6 billion in both debt and equity , twice the amount of activity in 2020[37]. Indeed, all of the top 20 VC deals in Africa last year were with companies which are tech-enabled, from Fintechs – such as Opay, Zepz and Chipper Cash – to AI data training companies such as Sama. In total, 62% of funding to African companies went to Fintechs in 2021, with the most popular products dealing with payments, transfers, and banking[38].

4.6 Catalytic capital

Catalytic capital could potentially play a key role in bridging the financing gap for start-ups in Africa because it can overcome the increased perceived risk of African-led start-ups. Catalytic capital is characteristically risk-tolerant, patient and flexible, and is often delivered through debt, equity or grants. However, there is no universal definition of catalytic capital, and the term is used by different stakeholders. The section below dives deeper into the key characteristics of catalytic capital to identify how catalytic funding can change the context for African-led founders wishing to access VC.

36. Morgan Stanley. (2020, November 19). New VC Focus on Race & Inequality. https://www.morganstanley.com/ideas/vc-progress-toward-racial-equality-2020-report
37. 2021 Africa Tech Venture Capital. (2022). Partech. https://partechpartners.com/2021-africa-tech-venture-capital-report/
38. Africa's Investment Report (2021). Briter Bridges. https://briterbridges.com/africainvestmentreport2021

5. Key Characteristics of Catalytic Capital

Catalytic capital – investment capital that is unlocked to support impact-driven companies at different development stages – presents an interesting opportunity for bridging the financing gap for start-ups in Africa, particularly given the perceptions of risk as evoked by some respondents earlier.

Source: Nupo Deyon Daniel

Box 2. Definitions

Catalytic capital: Debt, equity, guarantees, and other investments that accept disproportionate risk and/or concessionary returns relative to a conventional investment in order to generate positive impact and enable third-party investment that otherwise would not be possible[39].

Blended finance: The strategic use of development finance for the mobilisation of additional finance towards sustainable development in developing countries.[40]

Concessional finance: Loans that are extended on terms substantially more generous than market loans. The concessionality is achieved either through interest rates below those available on the market or by grace periods, or a combination of these[41].

It is characteristically risk-tolerant, patient, and flexible, often delivered through debt, equity, or guarantees, aiming to:

1. Support innovative business models;
2. Create a track record for managers;
3. Attract new investors to more high-risk opportunities;
4. Demonstrate the financial viability of selected groups and geographies and;
5. Grow early-stage companies to a point where they are able to tap into conventional financing and acquire new investment.

Due to the nature of impact-driven companies, traditional performance metrics considered pre- and post-investment do not always apply. An SME-focused impact investor described catalytic capital as any capital that changes the prospects for company growth when there are abnormalities or gaps :"Catalytic capital can be seen to be capital that has a starter effect or 'seed' effect for other investors. It is capital that essentially fills gaps where there are market or investing anomalies. It is also capital that catalyses growth or makes it sustainable."

39. MacArthur Foundation. Catalytic Capital at Work. https://www.macfound.org/press/article/catalytic-capital-work
40. OECD. Blended Finance. https://www.oecd.org/dac/financing-sustainable-development/blended-finance-principles/
41. OECD. Concessional Loans, Glossary of Statistical Terms. https://stats.oecd.org/glossary/detail.asp?ID=5901

Due diligence on financial indicators (such as revenue or expectations of investment returns), therefore needs to be evaluated in conjunction with the number of low-income persons affected by gaining access to the product or service, or, in the case of energy start-ups, the number of megawatts generated by clean solar energy. This may end up meaning longer time horizons for investment returns or fewer opportunities for exits, but it is not to say that catalytic capital cannot also yield high returns. For example, in November 2020, Kenya-based solar energy fund Crossboundary Energy sold its off-grid solar portfolio for a 15% return[42].

Low-income countries and emerging economies are strategic recipients of catalytic capital with financing for infrastructure, energy, and social objectives holding immense potential for impact in under-served markets. 61% of global, blended finance targeted countries in Sub-Saharan Africa in 2020, 27% of which targeted agriculture enterprises and exhibiting an additional upward trend in energy sector investments from 30% of company transactions in 2018 to 58% in 2020[43]. However, catalytic capital is still a relatively novel concept and there is currently no exact blueprint for how it works, where it is needed, and ways to optimise its impact. The term is also often used interchangeably with blended finance and concessional finance (See box 2).

Research by Harvey Koh, Managing Director at social impact consulting firm FSG, suggests that Development Finance Institutions (DFIs) are particularly suited for catalytic capital as they deploy substantial volumes of capital to increase economic growth and because financial returns are expected to just be approaching market rates. Globally, DFIs committed USD 1.6 billion in concessional financing in 2020 (the average annual deployment since 2015), the purpose of which is to de-risk projects for commercial finance partners and to crowd-in private investors[44]. However, DFIs' use of catalytic capital is not reaching its full potential and value due to a lack of evidence on capital gaps, difficulties in determining efficient subsidies and a lack of well-structured and easy-to-use investment practices. Philanthropic organisations and foundations, on the other hand, typically deploy grants and rarely target financial returns. One way of mobilising greater catalytic capital is by ensuring participation from a pool of contributors so as to absorb some of the risk and be able to offer blended financing depending on the requirements of the individual investors.

If implemented correctly, catalytic capital can bridge financing gaps, generate high impact, and enable third-party investments. Tideline's *Pathways to Impact*[45] aims to provide a framework to guide investors in the deployment of catalytic capital through distinct forms, roles, uses, and results that help clarify the rationale behind an intended investment. However, in order to create greater engagement and trust in the role of catalytic capital, more research is needed to identify and communicate the additional value of catalytic investments, and to clarify procedures in implementing this form of investment.

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42. Briter Bridges database
43. Convergence. (2021). The State of Blended Finance.
44. DFI Working Group on Blended Concessional Finance for Private Sector Projects. (2021). Joint Report December 2021 Update; and Catalytic Capital Consortium and Convergence. (2022). How DFIs Deploy Catalytic Capital.
45. Catalytic Capital; Unlocking more investment and Impact. (2019). Tideline. https://tideline.com/catalytic-capital-unlocking-more-investment-and-imapact/

6. Recommendations

Notwithstanding the 'green shoots' identified above, the research suggests that African-led early-stage businesses on the continent may face additional hurdles when accessing VC such as shallow networks, a perception of missing 'investor speak', and a lack of ready access to friends' and family capital. The same findings point to potential strategies for investors and start-ups to improve outcomes.


Photo credit: Joecalih

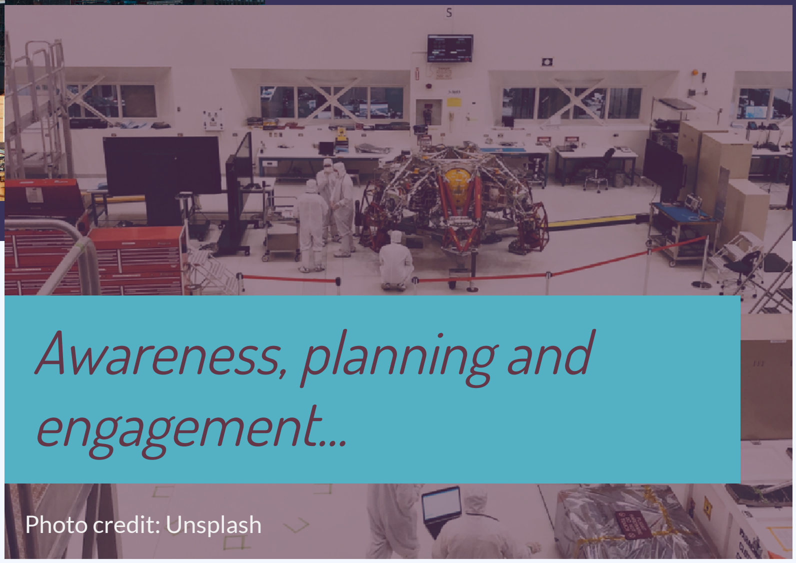

Photo credit: Unsplash

6.1 For investors

Build local knowledge and collaborations

Local knowledge and strong networks are key for building project pipelines and making sustainable investment decisions. Adopting an immersive approach to investing locally will help if funders embed local knowledge expertise into their internal processes and spend more time on the ground.

Finding opportunities to engage with African universities and non-tertiary institutions such as incubators and accelerators will also be important for networking, pipeline development, and the provision of technical support to departments for knowledge-sharing.

Outside the continent, exposure to African diaspora networks is critical. Our research suggests that the diaspora community will be a growing, influential pool from which effective start-ups on the continent will be emerging, so the more exposed investors are to these circles, the better able they will be to spot and appraise opportunities.

Increasing technical support

Unfamiliarity with the VC investment process on the ground is a contributor to gaps in access. Leaders in the VC community can help address this by creating/contributing to platforms that continuously share information, insights, and experiences of successful and failed investments in early-stage businesses on the continent.

Mentorship for promising start-ups, either directly or by encouraging investee companies to participate in incubator/accelerator programmes, will enable certain gaps to be filled. The founder of a start-up support organisation in Ghana concurs: "We need more mentorship, especially because a lot of start-ups are first time students out of university. They need to wear three hats – technical, managerial, and visionary. We especially need education on soft skills".

Monitoring and evaluation

Delivering on the expressed interest in diversity, equity, and inclusion requires awareness and deliberate action in practical terms. At the very least, this means building upon the work already started by some investors involved in catalytic capital to monitor and evaluate the distribution of funding between founders of African and non-African origin. This information will allow for the development of SMART (specific, measurable, attainable, relevant, and time-bound) goals.

7.2 For African start up principals

Know your investor

Start-ups should thoroughly research the type of investor they are seeking to raise capital from. They need to understand their profile – who they are, how they think, ticket size, the sort of returns they expect, and their investment thesis – priority sectors, what matters to them, and any other key metrics they use. Much of this data can be sourced online, from third-party aggregators, and through networking.

As has been noted, relationship-building is key, so start-ups ought to find ways to network within investor circles as much as possible. University alumni networks, incubators and accelerators are also useful ecosystems to be involved in to stay up to date on deals and how best to pitch ideas.

Make local knowledge and solid data core to the business

Use local knowledge to your advantage by creating products and services tailored to the local context. This is an asset valued by investors and which should be marketed alongside credible and financial data which provides the rationale for the market opportunity.

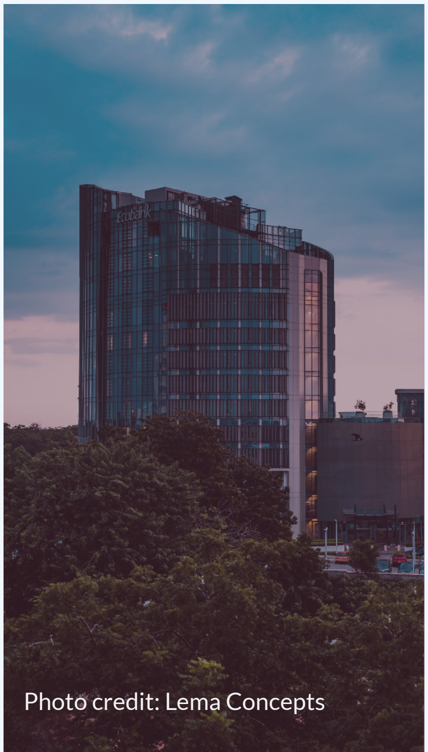
Photo credit: Lema Concepts

7. Conclusion

This research found that progress has been made towards increasing African start-ups' access to funding pools but many limitations still remain.

Investors can do more by participating in local networks, feeding their investments through local institutions and accompanying their investments with investment-readiness programmes. One key opportunity lies in increasing the catalytic investment targeted towards African start-ups. However, more efforts are needed in making the investment criteria for catalytic capital more transparent. This would help start-ups to understand the characteristics investors are looking for and strengthen their business models accordingly.

Start-ups can also do more by participating in or setting up networks themselves, seeking out business education programmes, strengthening their business plans and ensuring they match an investor's profile before pitching.

Photo credit: Murad Swaleh

Annexes

Annex 1. Methodology

Overview

This research was designed to interrogate whether there is an imbalance in funding for African-led start-ups and if so, what is the cause and what could the solutions be, paying close attention to the agriculture, energy and mobility sectors.

The research questions were initially developed by Shell Foundation and EchoVC at the inception of their partnership. They were later refined with Triple Line and Songhai Advisory to ensure they aligned with the Shell Foundation's and EchoVC's research needs. Data collection and analysis were conducted by Songhai Advisory, Briter Bridges and Triple Line.

This research set out to answer the following research questions:

1. How has capital been allocated to start-ups founded/led by Africans and non-Africans in Africa?
2. What have been the barriers to accessing capital for African-led start-ups?
3. What are some of the enablers for addressing the imbalance?

Data Collection

Qualitative and quantitative data was collected from a mixture of primary and secondary sources in two phases. This enabled the triangulation of data across different sources of information.

Phase 1

Briter Bridges collected primary data from 14 investors through online meetings and emails, gathering perceptions on catalytic capital; how they define, implement and measure catalytic investments.

Phase 2

Songhai Advisory conducted desk-based research, supplementing data drawn from Briter Bridges' database on deals conducted within the technology and innovation space (including agriculture and agtech, cleantech, mobility, logistics, fintech, health, education and more) between 2016-2021. Public data sources such as the World Bank, WeeTracker and the media were researched. Additionally, a document review and web search were conducted to obtain publicly available data on the general investment the trends in Africa.

Interviews with 15 start-ups, a further four investors, two investment facilitators and a round-table with investors and start-ups were then conducted to further understand the investment trends. The semi-structured conversations also revealed what some of the key barriers faced by African start-ups are, as well as what the potential solutions could be.

Sampling

The interview and focus group respondents were reached through purposeful sampling using Songhai Advisory, Briter Bridges and EchoVC's existing networks. Invitations to participate were sent via email and WhatsApp.

1. For the primary data collected from start-ups in Phase 2, purposeful sampling was conducted so as to get a range of representatives from the three sectors of interest (Energy, Mobility and Agricultural sectors) and from African and non-African backgrounds. In total, 15 start-up founders were interviewed, evenly spread across mobility, agriculture, and energy. Ten born in an African country (Kenya, Nigeria, Ghana, Uganda), three of African heritage but born in the diaspora (Canada, UK, US), and two non-Africans.
2. Efforts were made to include investors within the same perimeters, but several defined their portfolios as more generally investing in start-ups based in Africa. In total, 18 investors and two investment facilitators participated in the round table and interviews. They included African funders, High Net Worth Individuals (HNWIs), global foundations, impact investors, venture capitalists, and angel investors.

Data analysis

Several sources of data were relevant for each research question to enable comparison and triangulation, and to avoid over-reliance on a single data source and thus increase the robustness of evidence and evaluation findings. Thematic analysis was conducted on the primary data collected in excel, drawing together the findings from each of the interviews and the round table to formulate common themes.

Limitations

The interview and focus group respondents were reached through purposeful sampling using Songhai Advisory, Briter Bridges and EchoVC's existing networks. Invitations to participate were sent via email and WhatsApp.

1. Limited availability of quantitative data: Although Briter Bridges contains data from all members of its platform, the database is limited to what investors are willing to report. Consequently, like any database, these data are sometimes incomplete (missing data points for some deals, and limited number of deals included). Furthermore, many investments remain private, particularly seed or pre-seed deals. However, Briter Bridges data contained enough data to conduct some trend analysis on the demographic of start-ups obtaining deals in Africa.
2. Use of secondary data: This research relied on secondary quantitative data that was drawn for purposes other than these research questions. Consequently, exclusive analysis of the Energy, Mobility and Agricultural sectors was not possible.
3. Lack of consensus on catalytic funding definition: Although many investors can provide a qualitative description of how they characterise catalytic capital, investors themselves do not

differentiate between their 'catalytic' and 'non-catalytic' investments. Consequently, quantitative research on the different characteristics of catalytic capital compared to traditional capital could not be conducted.

Annex 2. Investors, Accelerators, Networks

2.1 For investors

There are a number of prominent actors leading the way for catalytic capital globally and across Africa. They focus on a range of thematic areas, all with the intention of creating social impact with their investments. Below is a list of investors that specify impact as a core feature in their investing strategies.

1. Bill & Melinda Gates

US-based foundation that offers programme related investments to support pro-poor enterprises.

2. BlackRock

US-based investment management corporation that raised USD 250 million from ten institutional investors in July/August 2021 for its blended finance fund aimed at reducing carbon emission across emerging markets.

3. Catalytic Capital Consortium (C3)

Through the MacArthur Foundation, the Rockefeller Foundation, and Omidyar Network, C3 is dedicating USD 150 million to supporting funds aiming to use catalytic capital.

4. British International Investment (BII)

UK-based DFI that in 2019 committed USD 2 billion to impact-focused deals.

5. Private Infrastructure Development Group (PIDG)

UK-based private infrastructure group that has committed USD 4.4 billion to infrastructure projects across Africa, South Asia, and Southeast Asia since 2002.

6. RF Catalytic Capital Inc. (RFCC)

US-based public charity launched in September 2020 by the Rockefeller Foundation to help the world equitably recover from the Covid-19 pandemic.

7. Shell Foundation

UK-based charity that provides grant funding and extensive business support to social enterprises and market institutions in the energy and sustainable mobility space.

2.2 Accelerators and networks by sector

Energy

1. Africa Power Platform	The African Power Platform was born out of the need to find all the players of the power industry in one place. There are many barriers to entry in Africa, and one of them is the lack of useful intelligence. The African Power Platform is on a daily basis advocating for taking access to power to every corner of Africa.
2. Energy Catalyst	Energy Catalyst accelerates the innovation needed to end energy poverty. Through financial and advisory support, and by building strategic partnerships and uncovering new insights, Energy Catalyst supports the development of technologies and business models that can improve lives in Africa and Asia.
3. Energy Camp Africa, run by Startup|Energy	The goal of Startup|Energy, an initiative of Stiftung Solarenergie and University Freiburg (Germany), is to increase the visibility of African startups for cooperation partners and investors, and to support African startups in the development of their products through an accelerator programme.
4. African Women in Energy and Power	Creating a cohort of women entrepreneurs in the energy sector enables partnerships to forge, consortiums to be built across countries, ensuring that women are better positioned to participate in cross-border power/ energy projects.
5. Accelerator Programme run by Africa Women Innovation and Entrepreneurship Forum	Creating a cohort of women entrepreneurs in the energy sector enables partnerships to forge, consortiums to be built across countries, ensuring that women are better positioned to participate in cross-border power/ energy projects.

- Accelerator

- Network

6. ClimAccelerator run by Carbon Trust	ClimAccelerator describes itself as " your trusted, expert guide on the route to Net Zero, sharing our experience from the climate change frontline. We have been pioneers for more than 20 years, driving real change with leading businesses, governments and organisations".
7. The Climate Finance Accelerator (CFA) South Africa	The CFA is part of the UK Government's efforts to help South Africa tackle climate change and support a just transition. Projects in the CFA cohort come from a range of sectors including waste management, energy and transport. Some of them will increase sustainable mobility alternatives in ci ties while reducing emissions, whilst others support the growth of renewable energies in South Africa. The CFA is funded by the UK government's Department of Business Strategy (BEIS) ness, Energy and Industrial. By bringing together stakeholders who can develop and finance climate projects at scale the CFA will support South Africa's efforts to meet the priorities set out in its Nationally Determined Contribution under the Paris Agreement
8. Sustainable Energy Fund for Africa run by the African Development Bank Group	The Sustainable Energy Fund for Africa (SEFA) is a multi-donor Special Fund managed by the African Development Bank. It provides catalytic finance to unlock private sector investments in renewable energy and energy efficiency.
9. Magik Energy Lab	Magik Oil is a downstream oil company with headquarters in Dakar, Senegal. Its operations encompass the supply, distribution and retail of a range of petroleum products. With a team of subject matter experts, we have access to an expansive ecosystem of stakeholders in the Oil & Gas & Renewable Energy Industry.

- Accelerator

- Network

10. Global Women's Network for the Energy Transition	GWNET empowers women in energy through interdisciplinary networking, advocacy, training, coaching and mentoring. GWNET seeks to address the current gender imbalances in the energy sector and to promote gender-sensitive action around the energy transition in all parts of the world.
11. Industrial Decarbonization Accelerator	We are a UNIDO-led network of international initiatives working to accelerate the shift of industrial organizations – both large and small – away from fossil-fuels. Working with governments, the private sector and finance institutions in emerging economies, we enable industry to change the way they think about and use energy. This involves designing solutions tailored to specific country needs and taking what we learn to inspire global action on industrial decarbonization.

- Accelerator

- Network

Mobility

1. Africa Transformative Mobility Accelerator run by Africa Mobility Initiative	Africa Mobility Initiative (AMI) vision is to create a vast network of continental and global transformative mobility enthusiasts, who work together to create sustainable and scalable solutions to mobility challenges in Africa.
2. African Electro-Mobility & Green Energy Accelerator, run by Ev4africa	Electric Vehicles for Africa is a joint initiative by Mpact Lane Consult and Skill Shark India. To mobilize Africans to upskill, develop, collaborate, innovate, invest and economically transform their communities and environment with sustainable electro-mobility and green energy.

	We do that through Training, Research, Policy Development and Production facilitation. That includes awareness creation, skills development, advocacy, stakeholder engagement, policy planning and job creation.
3. MAN Impact Accelerator	The MAN Impact Accelerator helps scale social businesses in transport and logistics with a considerable impact on society.
4. E+Mobility Accelerator Programme run by EIT Urban Mobility	The E+ Mobility Accelerator proposal is a continuation of the EIT Urban Mobility Hub South Acceleration Programme, with a specific focus into the mobility & energy, micro-mobility and shared mobility thematic fields. Its main objective is to accelerate the introduction of start-up-led solutions in the market while helping cities and companies solve their challenges faster and efficiently.
5. The Baobab Network (general tech including mobility)	Investing in the next generation of African tech entrepreneurs - A bespoke accelerator for one-of-a-kind start-ups. Every start-up is different, so we treat them that way. We invest $25,000 into early-stage tech ventures across Africa and provide founders with a global platform to scale their business.
6. Norrsken Impact Accelerator (Clean energy, Agri Tech and Mobility)	Our accelerator brings together over one hundred extraordinary individuals who channel their knowledge, experience and network to pave the way for early-stage, up-and-coming impact tech startups

- Accelerator

- Network

Agriculture

1. FAST Accelerator, run by Microsoft in partnership with Flapmax	We identify, support and fund the next generation of African innovators building for sustainability at scale- from SMEs and large Enterprises to Governments and Communities.
2. Startupbootcamp, run by Enrich in Africa – a project funded by the European Commission	We are looking for the next generation of African startups disrupting industry sectors including AgriTech & Supply Chain, IoT & Connectivity, Machine Learning (Data Analytics), Cybersecurity, Clean Tech and RegTech.
3. The Land Accelerator	The world's first training and mentorship program targeted specifically toward businesses that restore degraded forests, farmland and pasture.
4. Katapult Africa Accelerator Programme	Katapult is establishing in Africa and is setting up accelerators and investment vehicles for startups within agritech and foodtech.
5. Food Africa Accelerator	Food Africa Accelerator is an accelerator aimed at addressing food security through fostering innovation. The project is commissioned by GIZ Make IT in Africa, a project on behalf of the German Federal Ministry for Economic Cooperation and Development (BMZ). Food Africa Accelerator is implemented by @iBizAfrica and Pangea Accelerator. The program is designed to support women and youth owned, agri based enterprises to sustain business growth through facilitating access to financing, business support and technology adoption.

- Accelerator

- Network

6. Agripreneurs Accelerator Program	The accelerator (face-to-face and virtual) is a one stop service, tailored to suit various needs of clients, that will provide agribusiness entrepreneurs with services and facilities to establish and accelerate new enterprises, test innovations, commercialize scientific knowledge and technologies.
7. GrowthAfrica	GrowthAfrica supports African businesses and entrepreneurs through an annual accelerator program. Participants of the program receive individualized and tailored in-company support, access to potential investors, leadership training and mentorship. Entrepreneurs in the fields of Agribusiness, Renewable Energy, and Water & Sanitation are especially welcome. The program is open to entrepreneurs from Kenya, Uganda, Ethiopia, Zambia, and Ghana.
8. O-Farms Accelerator Programme	O-Farms is an African SME accelerator completely focused on circular agribusiness with the goal of making circularity a mainstream approach for improved rural livelihoods and sustainability.
9. Africa Adaptation Acceleration Program (Agriculture and Food Security pillar), run by the African Development Bank Group	The Climate Smart Digital Technologies for Agriculture and Food Security pillar aims to scale up the availability, access, affordability, and applicability of digital and data-enabled solutions in African agriculture. The implementing vehicle for the pillar is the Smallholder Adaptation Accelerator, which will support the development and implementation of relevant digital adaptation solutions at scale to smallholders in Africa.

- Accelerator

- Network

10. African Agribusiness Incubation Network (AAIN)	African Agribusiness Incubators Network (Official). Incubating Incubators for Job & Wealth Creation.

- Accelerator

- Network

Energy, mobility, agriculture

1. Black Founder Fund, run by Google (General Tech)	A Google for Startups initiative giving access to funding to Black-founded startups in Africa.
2. Accelerator Africa, run by Google (General Tech)	A three-month virtual accelerator program for high potential Seed to Series A tech startups based in Africa.
3. Wennovation Hub	WeHub is a start-up incubator and accelerator focused on inspiring and empowering African entrepreneurs to solve their immediate socio-economic challenges by leveraging technology and local resources and building their community and collective networks through collaboration.
4. Terra Viva Grants Directory	The Terra Viva Grants Directory develops and manages information about grants for agriculture, energy, environment, and natural resources in the world's developing countries.