Connecting Africa

AFRICAN TECH STARTUP FUNDING 2017

The scale and scope of African tech startup funding grew in 2017

AFRICAN TECH STARTUP FUNDING 2017
THE SCALE AND SCOPE OF AFRICAN TECH STARTUP FUNDING GREW IN 2017

2017 was a record year in terms of funding for African tech startups, with more startups – 159 in total – raising a higher combined total of funding – more than US$195 million – than any previous year on record.

That's according to the findings of the third annual [African Tech Startups Funding Report] released by tech startup news and research platform Disrupt Africa in January 2018.

This signals continued growth of the continent's tech startup ecosystem, as more and more investors of all shapes and sizes from all over the world see the opportunities in backing the innovative tech solutions that are being developed to solve some of Africa's most pressing problems.

Yet the development of Africa's tech scene in funding terms goes beyond the headline numbers, and tells a story of a continent that is seeing a gradual trickle down of funding into countries and sectors that were previously ignored. See Fig. 1

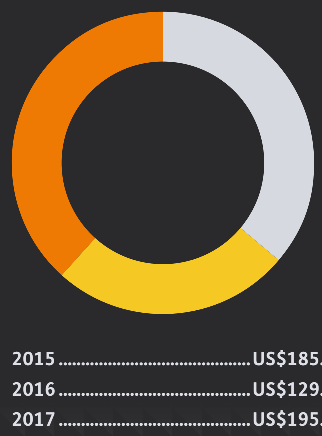
Sustained growth

The headline numbers tell a positive story. The number of startups to secure funding increased for the second year in a row, while total funding was up 51% to just more than US$195 million. For years, Africa has been spoken of as the final frontier for tech growth and investment: Finally there is continued evidence that investors agree.

These investors are not hedging their bets, either. In all, 45 African tech startups raised US$1 million or more during the course of 2017, up from just 28 in 2016. Notable rounds went to Entersekt, BitPesa and Flutterwave in the fintech space, and Twiga Foods in agritech. This is just as well: Fintech and agritech businesses need to scale as quickly and as far as possible in order to succeed. Larger tickets, previously lacking, are vital. >

Figure 1

Total funding for Africa tech startups by year



As ever, the 'big three' – South Africa, Nigeria and Kenya – claimed the bulk of the funding. South Africa accounted for the most startups, with 59, while Nigeria had 30 and Kenya 24. For the first time, however, Nigeria overtook South Africa in terms of total funding raised, with $63.3 million. This was almost wholly accounted for, however, by the $40 million round raised by coding accelerator Andela in October. See Fig. 2

There is no surprise these three markets retain a significant advantage. They have the most developed startup scenes on the continent, with a plethora of hubs, incubators and accelerators. They have generally positive government policies, are seen as 'jumping off points' for the rest of the continent, and have a number of success stories. They are where most non-African investors immediately turn.

Yet South Africa, Nigeria and Kenya are not the be-all-and-end-all of African tech. Far from it, in fact. Egypt, with 13, and Ghana, with five, were both well represented by funded startups, with the latter's total funding increasing by almost 150% compared with 2016. North African countries Morocco and Tunisia are also attracting funding, as investor interest returns to the region as it recovers from the instability of the Arab Spring. Ugandan tech startups also had a good year.

Other African countries are increasingly attracting the attention of investors, who seem more and more willing to seek out opportunities in more far-flung countries. Africa is not a country, but most nations share similar problems, be it in access to finance or finding farmers' markets for produce, that can be addressed with tech solutions. There is an increasing appetite to find these addressable markets in places less investor-busy than Cape Town or Lagos.

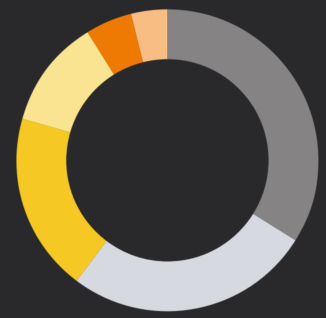
As a result, the total share of funding secured by startups in South Africa, Nigeria and Kenya has been on the decline. It was 81.7% in 2015, but fell to 80.3% in 2016: Last year it was 74.7%.

The same can be seen when we include Egypt and Ghana to make a 'big five': In 2015, these countries claimed 98.7% of total funding, but in 2017 it was down to 90.9%.

We have already mentioned Uganda, Morocco and Tunisia, but funding went elsewhere too. Startups from Angola, Zambia, Zimbabwe, Cameroon, Ethiopia, Senegal and South Sudan all raised funding, as well as five from the often war-torn Somalia, where a local VC fund is leading the way. >

Figure 2

Countries by total funding



- Nigeria $63.3m
- South Africa $49.6m
- Kenya $32.8m
- Ghana $22.3m
- Egypt $9.3m
- Uganda $7.9m

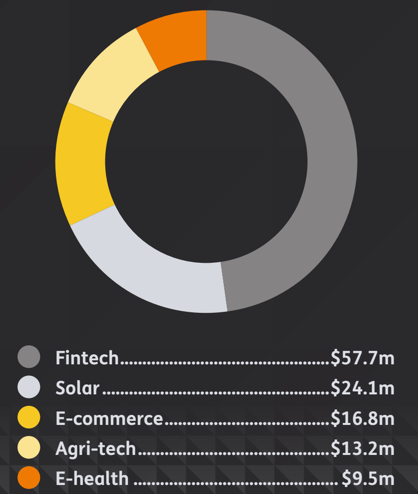
> Other African countries are increasingly attracting the attention of investors, who seem more and more willing to seek out opportunities in more far-flung countries.

Impact versus returns

It has long been a myth in the tech funding space that investors either put money into companies for impact, or for returns, but not both. That is increasingly being blown apart, as the difference between return-focused and impact-focused becomes blurred. There is a fair argument that, on a continent where stunningly few people lack access to things like financial services, power, or quality healthcare and education, every investment is an impact investment. This is backed up by the data.

Figure 3

Top five investment sectors by total raised



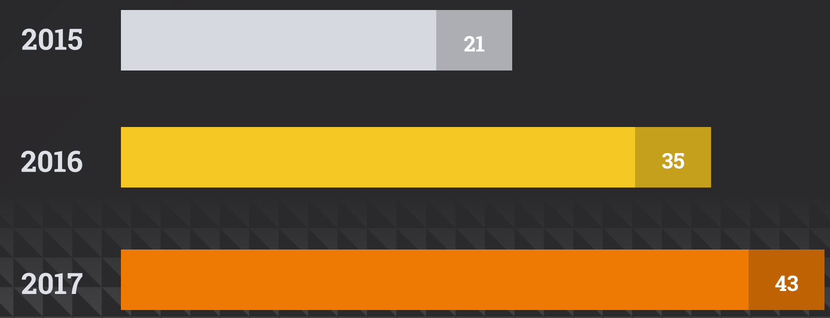
Unsurprisingly, for the second year in a row, fintech topped the pile. Fintech ventures made up 27% of the overall total, with the $57.7 million raised in total by such companies accounting for just shy of 30% of the overall tally. Fintech companies in Africa are innovating in everything from payments to credit, savings to insurance, and investors are tempted by the huge impact such businesses can have, as well as the massive unaddressed markets that such startups can reach. See Fig. 3

Where banks have failed to go, fintech startups are going, usually in agile and cheap ways, that ensure swift uptake of hitherto unavailable services, and make large returns on investment more likely. This is why fintech startups are also attracting bigger ticket sizes: 17 startups in this sector raised $1 million or more, with eight of those in South Africa. See Fig. 4

Other sectors you might describe as 'impact' also had an impressive 2017. Solar companies, most of which use mobile money-based pay-as-you-go (PAYG) technology to allow rural Africans to access solar power, were the second most backed on the continent, while agritech startups, which between them raised a combined $13.2 million, were in fourth place: This was an increase of more than 200% compared with 2016 figures.

Agritech, like fintech, is a sector where 'impact' and 'returns' can be effectively

Figure 4 Number of fintech startups funded by year



married. Farming is the primary source of employment for the majority of Africans, and an under-utilized asset on the continent in an era of global food insecurity. Such investments have the dual capacity of doing good and making money, as tech startups help farmers increase their yields and provide them with easier and more affordable entries to market.

The number of startups raising funds has been on the rise, while there were two rounds of $1 million or above in 2017, raised by Kenya's Twiga Foods and Nigeria's Farmcrowdy.

Health and education are other areas where tech startups can make a huge impact, and they too are proving popular with investors.

Total funding for e-health startups, such as South Africa's hearX Group and Ghana's mPharma, was up 13.5% year-on-year, as investors are tempted to discover whether there are ways of making good money from helping to increase access to quality healthcare.

Ed-tech startups are also seeing more activity, with 11 such companies securing funding in 2017. The space also has its first ever dedicated incubator – the Cape Town-based Injini – which is testament to a renewed desire to create a pipeline of quality, investable e-learning startups as interest grows. >

THE FUTURE

Investing in Africa is not, of course, all about impact. E-commerce investment rebounded in 2017 after a poor 2016, seeing an increase of 350% in total funding to almost $17 million. Logistics startups continue to perform well, while companies in the entertainment and marketing spaces also attracted funding.

So what does the future hold? The prognosis is generally good for the African startup space, with, in general, more startups raising funds, a greater amount of money being invested, and increasing diversity in terms of where this money is going and into what sector. There is investor appetite to back companies in sectors as diverse as financial services, transport, and entertainment.

The identity of those investors is also changing. Whereas in previous years international investors were mostly impact-focused funds, major VC firms are now entering the game. The success of the recent African Angel Investor Summit (AAIS) in Cape Town is testament to how international angels are getting excited about Africa.

From within the continent, too, there is growing appetite. Africa-based VC firms are springing up left, right and center, most notably in South Africa, thanks to the Section 12J regulation. There is even a sign individual African investors are turning away from real estate to tech.

There is still lots to be done. Africa needs more success stories, better governance, and more funding.

The tech scene has been, in some ways, overhyped, and more needs to be done to match the reality to the rhetoric.

But progress has been steady, and sustained, giving hope that the tech space may one day fulfill its vast potential. ■