

Africa: Drivers of venture capital growth in Q3 2023

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Despite a global funding winter, there was a 28% increase in venture capital raised in sub-Saharan Africa (SSA) in the third quarter of 2023, compared to Q3 2022. Increased investment has largely been driven by technological innovation, changing consumer demands and an increased focus on environmental, social and governance (ESG) initiatives.



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This is according to the African Private Equity and Venture Capital Association (AVCA), which also noted that private equity investment in SSA did not fare as well in the same period. Local and international private equity firms invested \$1.2bn in SSA companies in the third quarter of 2023. This was 16% lower than the first nine months of 2022, with total PE investment in the first nine months of 2023 totalling \$3.3bn. The number of PE transactions reached 91, also a decrease compared to the same period in 2022, with 34% less volume in PE deals overall.

Africa's increase

However, AVCA's Q3 2023 Venture Capital Activity in Africa report revealed that Africa's venture capital ecosystem recorded a 28% increase in capital raised by venture capitalists during Q3 2023 compared to the same period last year. Deals valued at more than \$100m propped up the ecosystem in SSA, with a large decline in seed and early-stage funding.

While the quarter fared well, the total raised for the first nine months of the year was \$2.95bn, down from \$4.3bn raised in the first nine months of 2022, with the VC industry in SSA so far attracting just 69% of the capital raised in the region in 2022. The pending fourth quarter results might even out comparative amounts over the two years.

Careful selection

Globally, geopolitical challenges, currency volatility and soaring inflation led investors to adopt a cautious stance, prompting smaller and safer investment choices. As a result, mega deals saw a decline across all asset classes. However, despite a general decrease in the volume of transactions, certain sectors in Africa exhibited resilience, most notably the technology,

media and telecommunications (TMT); consumer goods and retail (CG&R); and financial sectors.

These sectors embraced technological innovation in an environment driven by changing consumer demands. According to AVCA, the TMT, CG&R and financial sectors accounted for around two-thirds of all venture capital raised in the first nine months of 2023, with financial, IT and e-commerce startups proving most successful.



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Tech transformation

In the TMT sector, the impending rollout of 5G will further accelerate Africa's transformation through the enhanced capabilities of asset tracking and logistics, connected shopping, energy monitoring and the promise of smart cities. For this to happen, it will be essential that policy and legal frameworks facilitate the development of the necessary infrastructure to support access to the required broadband spectrum.

The financial sector in SSA has led the development of mobile payment systems and digital trading platforms, among others. For example, enhanced digital payment systems are assisting to facilitate trade across the continent and opening up opportunities to invest in products and services that are traded across the new African Continental Free Trade Area (AfCFTA). Private equity and venture capital investors have taken note, and more global PE funds are expected to zero in on initiatives that benefit from AfCFTA in the future.

Consumers are also enjoying the benefits of digital developments, especially those that support financial inclusion and online retail platforms. More than half of the world's mobile money customers are now based in Africa and innovative new financial service offerings are opening up to mobile money users.

Investing in fintech

Fintech alone accounted for 25% of all venture capital rounds in SSA in the last few years. Bringing the unbanked into the financial mainstream has created openings for innovative financial solutions and the user markets are huge, with plenty of room for more growth in segments such as alternative lending, digital investment and neo-banking.

SSA fintech startups that did well in 2023 include the \$35m Series B round for South African digital lender Lulalend and the \$30m pre-Series B funding for Nigerian payment service provider Nomba.



E-commerce continues rising

Even before the big boost it received from the pandemic, the online consumer goods and retail sector was experiencing exponential growth, with a corresponding shift in consumer attitudes regarding the sustainability of products and services they consume, as well as a demand for more transparency throughout the entire supply chain.

One of the ways digitalisation is addressing challenges in the CG&R sector is through the use of artificial intelligence in every aspect of a product lifecycle, from research and development solutions, manufacturing robotics, supply chain analysis, demand forecasting and inventory management through to customer engagement, targeted marketing and sale and post-sale interactions, and in the data collation of ESG initiatives.

While online retailers in Africa have struggled due to current economic headwinds and impact of inflation, they are effectively adapting by sourcing different supply chains and securing better prices. The online retail market has grown so substantially that larger multinational retailers are announcing plans to enter the market through key gateway countries such as South Africa.

Influence of sustainability

An increased focus on sustainability is also directing the strategy of private equity and venture capital investors, with ESG considerations influencing the way investors view and select targets. Sustainability-driven investments have seen significant returns, with lower costs, higher employee engagements and stronger sales leading to superior valuations.

Private equity and VC investors are also looking at the continent to provide energy transition investment opportunities, with small-scale renewable energy projects being especially attractive. For example, cleantech (technology companies that aim to improve environmental sustainability), renewable energy and energy storage initiatives have been attracting investor interest both globally and in Africa.

PE and VC investors are also increasingly looking at the incorporation of inclusion and diversity in potential investments, most notably in terms of investment in youth and women-led projects.

Innovative technology entrepreneurs are creating unique African solutions to changing African challenges and creating plenty of exciting opportunities for investors to be part of Africa's positive and sustainable transformation. With the opportunities on offer, it appears that if the global winter has come, spring is hopefully not far behind.

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