Overcoming liabilities of foreignness – Expanding to Africa as a foreign Venture Capitalist

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Dissertation submitted in partial fulfilment of requirements for the MSc in International Management with Specialization in Strategy & Consulting, at the Universidade Católica Portuguesa, 3rd of April, 2022.

Abstract

English

Venture Capital firms face additional risks and challenges when investing in start-ups in foreign markets because of the increased geographical, institutional, and cultural distance to potential investment targets resulting in Liabilities of Foreignness. Despite these challenges, there are increasing numbers of cross-border investments in the African market. This dissertation explores the drivers of the increasing interest in African start-ups and how foreign investors are overcoming the liabilities of foreignness. The exploratory study uses a qualitative research approach in the form of semi-structured interviews with 12 active investors in Africa. The results highlight the numerous drivers of the growing African Venture Capital market and the different internationalization strategies applied by foreign investors. Moreover, foreign investors in Africa must adapt their traditional investment process to local conditions. Foreign investors use additional risk assessment signals the deal evaluation and not only invest in later rounds, but also place more emphasis on entrepreneurial characteristics and the expertise of local co-investors. Additionally, foreign investors conduct extensive risk analysis of potential macro-economic scenarios potentially impacting local business models. Post-investment activities by foreign investors are strategic by providing an international context to local African start-ups. This thesis adds to existing literature on internationalization of VC firms with a focus on the African continent.

Keywords: Venture Capital, internationalization, liabilities of foreignness, investment process, Africa

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Portuguese

As empresas de Capital de Risco enfrentam riscos e desafios adicionais quando investem em start-ups em mercados estrangeiros devido ao aumento da distância geográfica, institucional e cultural em relação a potenciais alvos de investimento, resultando em Liabilities of Foreignness. Apesar destes desafios, há um número crescente de investimentos transfronteiriços no mercado africano. Esta dissertação explora os motores do crescente interesse nas empresas africanas em fase de arranque e a forma como os investidores estrangeiros estão a ultrapassar as Liabilities of Foreignness. O estudo exploratório utiliza uma abordagem de investigação qualitativa sob a forma de entrevistas semi-estruturadas com 12 investidores activos em África. Os resultados destacam os numerosos motores do crescente mercado africano de capital de risco e as diferentes estratégias de internacionalização aplicadas pelos investidores estrangeiros. Além disso, os investidores estrangeiros em África devem adaptar o seu processo de investimento tradicional às condições locais. Os investidores estrangeiros utilizam avaliações de risco adicionais para assinalar a avaliação do negócio e não só investem em rondas posteriores, mas também colocam mais ênfase nas características empresariais e na perícia dos co-investidores locais. Além disso, os investidores estrangeiros conduzem uma análise de risco extensiva de potenciais cenários macroeconómicos com potencial impacto nos modelos empresariais locais. As actividades pós-investimento dos investidores estrangeiros são estratégicas, proporcionando um contexto internacional às empresas locais africanas em fase de arranque. Esta tese vem juntar-se à literatura existente sobre internacionalização de empresas de capital de risco com enfoque no continente africano.

Palavras-chave: Capital de risco, Internacionalização, Capitalistas de risco estrangeiros, Liabilities of Foreignness, Processo de investimento, África

Title: Ultrapassar i Liabilities of Foreignness - Expandir-se para África como capital de risco estrangeiro

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LIST OF ABBREVIATIONS

API	Application Programming Interface
LP	Limited Partner
PC	Portfolio Company
VC	Venture Capital
VCs	Venture Capitalists
YoY	Year-over-Year

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1 INTRODUCTION

1.1 Background and Problem Statement

Venture Capital firms (VC firms) collect funds from institutional investors who provide these funds for a predetermined number of years in exchange for an appropriate promised return. VC firms invest these funds in opaque risky ventures with pronounced information asymmetries between the entrepreneur and the VC firm. Because of this high-risk environment, an extensive investment process and usually hands-on management support for and monitoring of the portfolio companies are usually required by VC firms (Amit et al., 1998).

The major objective in the investment process of a VC firm is the reduction of the existing information asymmetries between the VC firm and the target company. These information asymmetries are often more difficult to resolve when VC firm's portfolio companies are located outside of the VC firm's home market. As a result, Venture Capital was a local market, because VC investors were investing in companies in or near their home market (Cumming & Dai, 2010), as geographic proximity to investment targets was considered as a necessity for attracting enough start-ups, evaluate potential deals (Sorenson & Stuart, 2001) and post-investment monitoring and value-adding services (Mäkelä & Maula, 2017). Nevertheless, in the 1990s, rising domestic competition in maturing VC markets, among other factors, increased the internationalization ambitions of VC firms and forced them to invest across other geographies (Aizenman & Kendall, 2012; Schertler & Tykvová, 2011). Considering the number of VC investments made in the world, cross-border investments increased from 10% of all VC investments in 1991 to 22% in 2008 (Chemmanur et al., 2016). For a VC firm investing in startups outside its home country, this entails liabilities of foreignness (Wright et al., 2005), which are all additional costs incurred by a VC firm operating in a foreign market that would not be incurred by a domestic VC firm (Zaheer, 2017). The increasing occurrence of cross-border investments despite the liabilities of foreignness has raised the question of what drivers of these investments are, and how they are monitored and managed. Especially important is the extent of the adaptation of the investment process to local market conditions and the extent to which VC firms use the same approaches in the investment process as in own domestic markets.

With the increased internationalization of VC firms, research has also turned its attention to the topic. Early research in the VC international investment literature assesses the country-level (e.g., Aizenman & Kendall, 2012; Balcarcel et al., 2010b; Groh & Wallmeroth, 2016; Guler &

Guillén, 2010) and firm-level determinants (Cumming & Dai, 2010; Fritsch & Schilder, 2008; Gupta & Sapienza, 1992) of international VC firms.

However, it does not provide insights into the challenges VC firms are facing when expanding to different markets (Devigne et al., 2018). With a few exceptions that focus on developed economies such as the United States and Europe (Guler & Guillén, 2010) and early VC-target emerging markets in Asia (Dai et al., 2012; Lu & Hwang, n.d.; Wright et al., 2002), there is a lack of empirical work on how VC firms respond to the geographic, cultural, and institutional distance associated in cross-border investments. A market that has not been the focus of the literature is the African continent. The VC market in Africa is relatively young but has shown rapid growth in recent years and is therefore increasingly attracting local and foreign investors (Romane Assouc et al., 2022). This thesis is written in collaboration with the Portuguese VC firm, Bynd Venture Capital (Bynd), which is currently evaluating the African start-up market as an investment case for the future. Bynd is a leading Portuguese Venture Capital firm operating since 2010, with a focus on seed / early-stage technology companies connected to Iberia, having done 40+ investments across verticals and geographies (Bynd Venture Capital, 2022). This dissertation aims to build the knowledge foundation about the current drivers of the VC market in Africa and answer strategic questions on how to enter the African VC market and adapt the investment process as a foreign investor to local African market conditions.

1.2 Aim and Scope

The underlying research aims to expand the current knowledge on the internationalization of venture capital firms and is extending current research with a focus on the African continent, which has not been the focus of the literature so far due to its infancy as a market. Since the local venture capital market in Africa is not very well developed in an international comparison, but at the same time growing rapidly, the thesis aims to understand the drivers of its growth story. It also aims to explore the rationale behind local and foreign VC firms' investments in African startups. Finally, this thesis answers strategic questions on how to build an investment strategy in Africa and adapt the investment process as a foreign VC firm to local conditions and circumstances in Africa. Based on this research, strategic recommendations for the practical application of an investment strategy and process are developed. The guiding research question of this thesis is:

Why and how do foreign VC firms invest in African start-ups?

This results in the following research questions the dissertation aims to answer:

Research Questions

Table 1: Research Questions

ID	Research Question
RQ1	What are reasons and drivers of the African Venture Capital market attracting increasing interest from investors?
RQ2	What are strategic pillars in the investment strategy of foreign VC firms in Africa?
RQ3	How must a foreign VC firm adapt the investment process according to local conditions and circumstances in Africa?

1.3 Research Overview

The methodological approach in this thesis is an exploratory research design with qualitative research to collect primary data. The author conducts interviews that are evaluated using qualitative content analysis. Following, the analysis is triangulated with secondary data to be able to present comprehensive, saturated, and reliable results. By employing qualitative modes of inquiry in the form of semi-structured interviews with local and foreign VC firms in the African market, the research questions can be answered.

1.4 Outline

The structure of this thesis is divided into five chapters. After the introduction, the second chapter consists of the literature review which serves as a theoretical framework. This chapter outlines the theoretical basics on relevant trends and topics regarding the internationalization of VC firms. In chapter three, the approaches to qualitative research are presented to justify the decision on the methodological approach. Subsequently, the research concept of qualitative content analysis according to Mayring (2015) is explained in more detail. The results of this analysis are then evaluated and discussed in chapter 4. Finally, the findings of the thesis are summarized, classified, and reflected upon. An outlook on future developments and further research possibilities on the topic rounds off the work with final considerations discussed in chapter five.

2 LITERATURE REVIEW

2.1 Internationalization Strategies of Venture Capitalists

Because of the geographical, cultural, and institutional distance between VC firms and potential portfolio companies that is implied with cross-border investments, VC firms that are investing in foreign start-ups outside their home market face additional risks resulting in liabilities of foreignness. In domestic deals with proximity to the portfolio company, VC firms manage risk by identifying suitable investment targets through their local networks and conducting thorough screenings that include face-to-face meetings. The value-adding services that most VC firms provide to their portfolio companies in cross-border deals after the investment are even more hindered because those services require very close collaboration and understanding of the local environment. Particularly, early-stage startups are dependent on close cooperation on a day-to-day basis (Devigne et al., 2018). Consequently, VC firms investing internationally must adapt their strategy and operations accordingly than merely implementing the same strategy as for local investment deals.

2.1.1 Internationalization strategies

Given the characteristics of a VC firm, there are two main strategic approaches to compensate liabilities of foreignness in cross-border investments. One approach is to form **syndicates with local VC firms,** as this method allows outsourcing of monitoring and value-adding services to local co-investors who are not constrained by geographic, cultural, or institutional distance (Chemmanur et al., 2016; Devigne et al., 2011; Huang et al., 2015; Nahata et al., 2014). This consortium consisting of both local and international VC investors additionally provides a broader range of skills, experience, and networks that can add value to portfolio companies (Devigne et al., 2018; Schertler & Tykvová, 2012). Syndicates with local VC firms reduce information asymmetries and monitoring problems and have positive effects on the exit performance of local portfolio companies (Huang et al., 2015). This strategy is more likely to be used when entering institutionally less developed countries (Chemmanur et al., 2016). Cross-border VC firms often prefer local VC firms with whom they already have relationships.

Another strategy for reducing liabilities of foreignness is to establish a **local branch** in the foreign market. This approach ensures proximity to the entrepreneurs and thus reduces information asymmetry problems. In the domestic market, the head office is usually represented on the investment committee, which makes decisions on investments and exits. This allows the foreign headquarters to address challenges that would otherwise require the use of expatriates (Pruthi et al., 2009). One way to further reduce information asymmetries is to employ local investment professionals in the new offices (de Prijcker et al., 2012; Devigne et al., 2016; Pruthi et al., 2009). By having investment professionals with local knowledge, VC firms with an office in the foreign market can address the problems associated with foreignness themselves (Devigne et al., 2018). Therefore, it is believed among foreign VC firms that hiring local executives is more important than deploying expatriates when establishing a branch in a foreign market (Pruthi et al., 2009).

2.1.2 Local Adaptations in the investment process

Once the internationalization strategy is set, the literature suggests that foreign VC firms must adapt their traditional investment process when investing in foreign markets outside of their home country than merely implementing the investment recipe from their home country. Adaptations in the investment process will be discussed according to the adapted investment process model of Fried and Hisrich (1994). Figure 1 shows the general steps of a VC firm's investment process:

Figure 1: Venture Capital investment process according to Fried and Hisrich (1994)

The first phase of the investment process is (1) deal origination, often referred to as deal flow generation. Most VC firms get a significant number of investment proposals from referrals in their network. Another deal origination approach is to proactively search and outreach to potential investment targets. In a second step, the potential investment target undergoes a (2) deal screening. This includes generic but hard selection criteria such as the investment size, industry, investment stage, or geography (Fried & Hisrich, 1994). These criteria are often referred to as the term "investment thesis". The investment thesis is a central part of the investment strategy of a VC firm and identifies the following points (see figure 2):

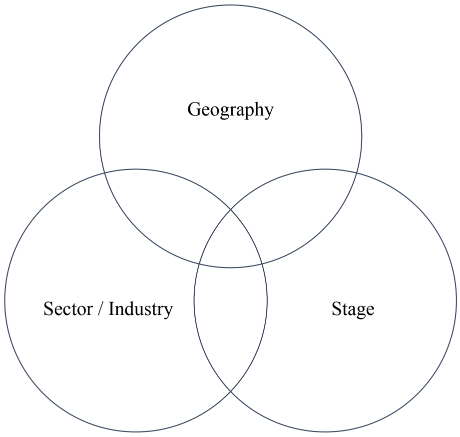


Figure 2: The components of a VC firm's investment thesis

Most VC firms are not "generalists" but specialize by industry, life stage of the venture and geographic location (Gupta & Sapienza, 1992). Specialization allows VC firms to easily screen out the riskiest ideas, minimizing the adverse selection problem and allowing them to build on their niche competitive advantage (Newbert, 2007). As a result, any potential startup whose profile does not match the VC firm's area of specialization is considered risky and therefore not considered for funding (Subrahmanya Mungila Hillemane et al., 2016). A wider focus in terms of geography, sector, and stage opens the deal flow funnel, because a wider range of start-ups can match the criteria but a niche competitive advantage to one industry, geography or stage is harder to establish (Will Kenton, 2021). After checking if the start-up matches the investment thesis of the VC firm, there is additionally a generic screening including but not limited to the business model, market characteristics and product characteristics in the deal screening step.

After the potential investment target passes this step, a potential deal is (3) evaluated with additional information and a more extensive due diligence. By progressing through the evaluation phase, the start-up enters (4) the closing stage, where legal documents for the investment and the deal are negotiated (Fried & Hisrich, 1994). After closing the deal, post-investment activities such as monitoring, and value-adding services might be aligned, discussed, and executed between the investor and the portfolio company.

In the following, the current status of research on how foreign VC firms adapt the above-described traditional investment process to local conditions in foreign markets. Due to the limited scope of this thesis, only the steps (1) deal origination, (2) deal screening, (3) deal evaluation and (5) post-investment activities are considered assuming that these have the greatest influence on the strategic orientation of a VC firm in a foreign market.

Deal origination

As described, deal origination is the initial step in the VC investment process, from which VC firms identify attractive investment targets. A VC firm can either proactively seek deals (solicited deals) or passively wait for deals to approach (unsolicited deals). Typically, there are three avenues for unsolicited deals: the entrepreneur, the network, and the intermediary. VCs are often contacted by entrepreneurs who are running a promising but risky venture. Individuals or organizations that are connected to the VC firm in various ways, such as the VC firm's parent company, portfolio companies funded by the VC firm, and former syndicate partners, are referred to as networks. Most deals offered by network members are based on trust and goodwill rather than profit. Finally, intermediaries are local consulting firms and individual brokers who make profitable offers to VC firms.

Foreign VC firms generate fewer unsolicited deals from their networks compared to local VC firms, which makes it more difficult for them to generate sufficient deal flow. As a result, international VC firms prefer more solicited deals by taking advantage of their home country (Lu & Hwang, 2008). Moreover, some of the advantages that VC firms enjoy in their domestic networks, such as their social status, can be transferred from the VC firm's home country to the target firm's country (Guler & Guillén, 2017).

Deal Screening

Selecting the right investment targets is one of the most critical factors for the success of a VC firm (SØrensen, 2007). The important part of this process, the transfer of soft information between VC firms and entrepreneurs, is hampered for potential investment targets abroad by greater geographic, cultural, and institutional distance, as well as less involvement in the portfolio company environment (Devigne et al., 2016). In general, the risks of information asymmetry are much higher for transnational VC firms than for domestic VC firms in these countries. Combined with the atypical sectors that VC firms tend to focus on in foreign markets, this creates a massive amount of information asymmetry and reduces the ability of VC firms to evaluate quality investment opportunities. This is particularly the case for foreign investments in emerging markets (Cumming & Dai, 2010; Subrahmanya Mungila Hillemane et al., 2016).

Most cross-border VC firms adopt a strategy to overcome information asymmetries by selecting portfolio companies with lower ex-ante information asymmetries and investing exclusively in companies that have higher information transparency, e.g., at a later stage, in a later round, or in larger transactions (Schertler & Tykvová, 2011).

Deal Evaluation

After the screening of a target start-up, a potential deal is evaluated using signaling mechanisms. These signals used to assess the risk of an investment can be categorized into (1) Signals from Entrepreneurial Characteristics, (2) Signals from VC firms and deal-related characteristics and lastly (3) Signals from the external macro-environment and government policies.

(1) Signals from entrepreneurial characteristics

In the absence of historical data on the investment target, the relevant characteristics of the founding team are often taken as an indicator of creditworthiness. VC firms invest in teams with relevant industry experience and those with an additional mix of technical and business education. Another important positive indicator is founders with a proven track record of successful startups (Hsu, 2007). These characteristics indicate not only entrepreneurial skills, but also a significant reduction in the VC firm's involvement in the new venture after the investment. Due to the high opportunity cost of the VC firm, these considerations are critical. (Shane & Stuart, 2002). This is particularly important in cross-border deals where the distance between the entrepreneur and the investor is greater and makes the transfer of soft information between the two actors more difficult.

(2) Signals from VC firm and deal-related characteristics.

As shown in the previous chapter, syndication or co-investing is a strategy used by many VC firms investing across borders. It is also used as another important signal of potential risk. Syndication not only helps spread risk, but also brings more knowledge and support, which adds value to the potential target company (Gompers & Lerner, 2004). Thus, syndication helps reduce risks and appears to be an important strategy for addressing the information asymmetry risks associated with geographic distance and cultural differences (Dai et al., 2012).

(3) Signals from the external macro-environment and government policies

For VC firms, expectations of the current and future macroeconomic environment are critical. An economic upturn directly implies higher market liquidity and thus directly affects the ease of exit and the realization of the VC firm's return on investment. Therefore, VC firms closely evaluate and analyze signals from the external macroeconomic environment that are consistent with the exit scenarios of potential portfolio companies in foreign markets (Cumming & Johan, 2010). In addition, supportive government policies related to investment targets, particularly with respect to taxation, are critical to the success of VC firms (Gompers & Lerner, 2004).

Post-investment activities

After an investment in a start-up was made, post-investment activities typically include portfolio company monitoring and additional value-adding services by a VC firm. There are significant differences between local and foreign VC firms in terms of involvement in these post-investment activities due to the greater geographical distance involved in cross-border deals (Cumming & Dai, 2010). For example, Pruthi & Wright (2003) stated that international VC firms entering the Indian market prefer strategic monitoring and advisory services over operational monitoring and services because they are easier to provide across distance.

In terms of value-adding services, Langdon et al. (2003) find that foreign investors significantly promote the internationalization of portfolio companies by helping them develop a global perspective for their business. Their networks link internationalizing firms to opportunities, learning, and cost savings that result from pooling resources. Most often, foreign VC firms provide value-adding services to their portfolio companies by establishing overseas offices, hiring new employees, recruiting foreign customers, opening doors to partners, offering legal advice, enhancing credibility, and providing contacts to foreign investors.

The presence of foreign investors in a syndicate can affect the level of monitoring and participation in value-adding services. Investments consisting of syndicate with local VC firms facilitate monitoring activities, as this strategy allows outsourcing of monitoring and value-adding services to local co-investors (Chemmanur et al., 2016; Devigne et al., 2011; Huang et al., 2015; Nahata et al., 2014).

3 RESEARCH METHODOLOGY

3.1 Design

In the second chapter, a review of the current state of literature in the topic was carried out to obtain a theoretical foundation for the research. The focus of the literature review was on relevant journals in the fields of business venturing, finance, and business administration. Because of the infancy nature of the research of the internationalization of foreign VC firms to Africa, this thesis uses an exploratory research design. It aims to investigate the emerging occurrence of foreign Venture Capital investments in Africa and the reasons and drivers behind it. Additionally, the thesis answers strategic questions on how foreign VC firms enter the African market and what the strategic and operational implications are.

For largely unexplored questions, qualitative research methods can be used as an open-ended, semi-standardized approach to explore the new and unknown research questions. The goal is to gain insights from the qualitative analysis of the experiences and knowledge of selected experts with different industry backgrounds and profiles (Flick, 2017). The results are then used as a basis for further research and topic exploration. The concept of qualitative content analysis, which is based on scientific text analysis, is considered most appropriate in this case. Question-based analysis is systematic, rule- and theory-driven, and forms the basis for the empirical quality seals of objectivity, reliability, and validity. Categories are the key element of the content analysis process, defining the goals of the analysis and justifying each step of the evaluation to make the results comparable. The questions of the analysis are derived from the overall research questions of the dissertation. The text analysis works with a flow model, the rules of which are revised after an initial test phase. These rules ensure that the data analysis and its subsequent interpretation are transparent, verifiable, and comprehensible despite subjective influences. In addition, the synthetic category formation contributes to the comparability of the results and to the assessment of the reliability of the analysis (Mayring, 2015).

3.2 Research Methodology and Approach

The first step in the research design was developing a draft questionnaire based on the literature review and the derived hypothesis. After a first feedback loop with the academic supervisor of this dissertation, the draft questionnaire was tested with relevant interview partners to gain more feedback and eventually adapt the questionnaire. After adapting minor changes in the first draft of the questionnaire, the actual interview round was conducted.

Number & Selection of Interview Partners

Since this dissertation aims for data saturation in the specific field of internationalization of Venture Capital research, multiple interviewees are selected to complete and answer the questionnaire, so that with each interview a higher degree of data saturation is achieved, and validity is assured (Fusch & Ness, 2015). Regarding the minimum number of interviews, this thesis follows the approach of Glaser & Strauss (1976) that recommends the number ten to ensure that an adequate amount of information is obtained from the interviews (Glaser & Strauss, 1999).

Regarding the selection of interview partners, the so-called *purposive sampling* was used, meaning that the interviewees were selected based on their personal professional characteristics. To select the relevant interview partners, it is necessary to define a relevant profile of the desired experts. In this dissertation, experts are defined as individuals who have had relevant exposure and experience in the African Venture Capital market. This includes two different types of experts that are relevant to this study:

(1) Foreign VC - Representatives of foreign VC firms actively investing in Africa
(2) African VC - Representatives of local VC firms from Africa

Through the involvement of the two types of experts, it is ensured that the new and unknown research topic is explored and analyzed from different perspectives and that the results can be integrated into the big picture of the topic.

The database “Africa: The Big Deal” by Maxime Bayen and Max Cuvellier – a comprehensive data set of VC financing round in Africa from 2019-2022 – served as a basis for the identification of relevant and active VC firms on the African market. After the identification of the most relevant local and foreign VC firms on the African market, executives and investment managers were contacted via Social Networks like LinkedIn and via E-Mail and asked for the availability for an interview. Additional interview partners were provided through the personal network of the collaboration partner of this dissertation *Bynd Venture Capital.*

Because of the practical relevance of this work for the cooperation partner, the research interview partners have been anonymized. The anonymization of interviews creates a conflict between the quality of the research and the protection of the identification of companies or individuals. Foreign and local venture capital firms were polled on their willingness to share information in a non-anonymous manner. Respondents stated that they did not want to share information that could be traced back to their company for competitive reasons as well as subjective assessments of the topic. As a result, interviewee anonymity is a top priority, and the respective companies and names of the research subjects are censored if they are mentioned. For the same reason, consent forms between the author and interviewees are not included. A template for the consent form is attached to this paper. An overview of all interview partners can be found in the following table 2:

Table 2: Overview of conducted interviews with local and foreign VC firms in Africa

ID	VC type	Role	HQ
IP01	Foreign VC	Investment Associate	London, UK
IP02	Foreign VC	Associate	Sunnyvale, US
IP03	Foreign VC	Senior Associate	Paris, France
IP04	Local VC	Analyst	Lagos, Nigeria
IP05	Local VC	Head of Investments	Mauritius
IP06	Foreign VC	Head of Portfolio	San Francisco, USA
IP07	Local VC	Angel Investor	Johannesburg, South Africa
IP08	Foreign VC	Head of Ecosystem Accelerator	London, UK
IP09	Foreign VC	Managing Partner	New York, US
IP10	Local VC	Investor	Cape Town, South Africa
IP11	Local VC	Investment Analyst	Tunis, Tunisia
IP12	Local VC	Venture Finance Analyst	Lagos, Nigeria

3.3 Data Collection

A semi-structured qualitative interview approach is used for this exploratory research, which means that the interview guide is not fully structured and leaves room for flexible questions depending on the interview progress. The research questionnaire is divided into five consecutive sections, which are in turn divided into questions. The different sections build on each other and answers the research questions in sequence. The script is divided following:

1. Introduction
2. Drivers and Trends in the African Venture Capital market
3. Investment Strategies
4. Deal Flow Generation
5. Post-Investment Activities

The first section is used to ask for any ambiguities or necessary evidence about the person and the VC firm, as well as an introduction to the topic of the dissertation. This ensures a common knowledge base for the interviews and that all information gathered in the interviews is relevant to this dissertation. The second chapter addresses questions about the current drivers and trends of growth in the African venture capital market and motivations for entering the African venture capital market and investing in African startups. The third section explains and discusses the different investment strategies of foreign and local VC firms. The fourth section includes questions on the different sources of deal flow in Africa and finally the fifth section includes questions on the possible post-investment activities of foreign and local VC firms.

All interviews were conducted between November 2021 and February 2022 via online video zoom calls during the interviewees' working hours. On average, the interview duration was about 30 minutes.

3.4 Data Analysis

A data analysis based on the transcription material of the interviews, supplemented with secondary data, was carried out. The so-called content structuring is the foundation of primary data analysis. The flow model proposed by Mayring (2015) is used to ensure synthetic penetration and understanding of the content. A categorical system, according to Mayring (2015), is the basis of qualitative content analysis. A combined technique of deductive-inductive categorization is employed due to the complex and specialized research question developed at the beginning of this thesis. In the first step, the main categories of the categorial system obtained from the theory are roughly recorded using the interview guide, resulting in deductive category construction. It is based on the four relevant sections of the interview script.

First, from the drivers of the VC market in Africa and the reasons for investing in African startups; second, from the investment strategies used in the African market; third, from the deal flow generation approach of VC firms in Africa; and finally, from the post-investment activities. After reviewing the material, the categories are completed and revised, implying inductive category formation. The following table shows the resulting categories as well as the associated research question and coding rules for analyzing the textual material.

Table 3: Overview of Categories and Coding Rules

RQ	Category	Coding Rule
RQ1	C1: Evolution	ALL statements that relate to the development of the African venture capital industry in recent years.
RQ1	C2: Drivers	ALL statements that relate to drivers of and reasons for the growth of the African VC market.
RQ1	C3: Rationale & Reasons	ALL statements that relate to the rationale and reasons behind investing in African start-ups as a VC firm.
RQ2	C4: Internationalization Strategy	ALL statements that relate to the internationalization strategy of foreign VC firms in Africa.
RQ2	C5: Investment Thesis	ALL statements that relate to the investment thesis of VC firms in Africa.
RQ3	C6: Deal Flow Generation	ALL statements that relate to the current deal flow approach of active VC firms in Africa.
RQ3	C7: Screening & Due Diligence	ALL statements that relate to the screening and due diligence process of African Startups by VC firms
RQ3	C8: Post-investment activities	ALL statements that relate to the involvement and scope of foreign VC firms in post-investment activities.

Transcription of the interviews

The qualitative text content analysis of the interviews is based on the transcription of the interviews. The goal is to gather important information and make it available for later analysis. Zoom video software was used to conduct and record the interviews. All research-relevant sections of the recordings were transcribed according to the selective protocol methodology of Mayring (2014). Sections that are not required for text analysis and interpretation, such as the description of the research topic or the introduction, are not transcribed.

Data Triangulation

The triangulation procedure is used in the analysis of this study to avoid systematic bias (Patton, 1999) and to ensure data saturation (Kane & Denzin, 2017). To ensure a comprehensive understanding of the findings, data sources such as recent and relevant articles, reports, and studies are used and cross-referenced with the results of the qualitative analysis. This data triangulation increases the reliability of the data and the quality of the research.

4 RESULTS & DISCUSSION

The following results come from a series of interviews conducted with local and foreign investors in Africa. Participants are named pseudonymously after each quote. The study was designed to determine the drivers of growth of the African Venture Capital industry and the rationale behind investing in African start-ups as a foreign VC firm. Additionally, this thesis aims to answer strategic questions on how to enter the African market and how a viable investment strategy could potentially look like. Focus will be on different internationalization strategies used by foreign investors in Africa and on factors that foreign VCs must adapt in their traditional investment process to meet and respond to local African circumstances and conditions. The structure of this chapter and the associated research questions are illustrated in figure 3.

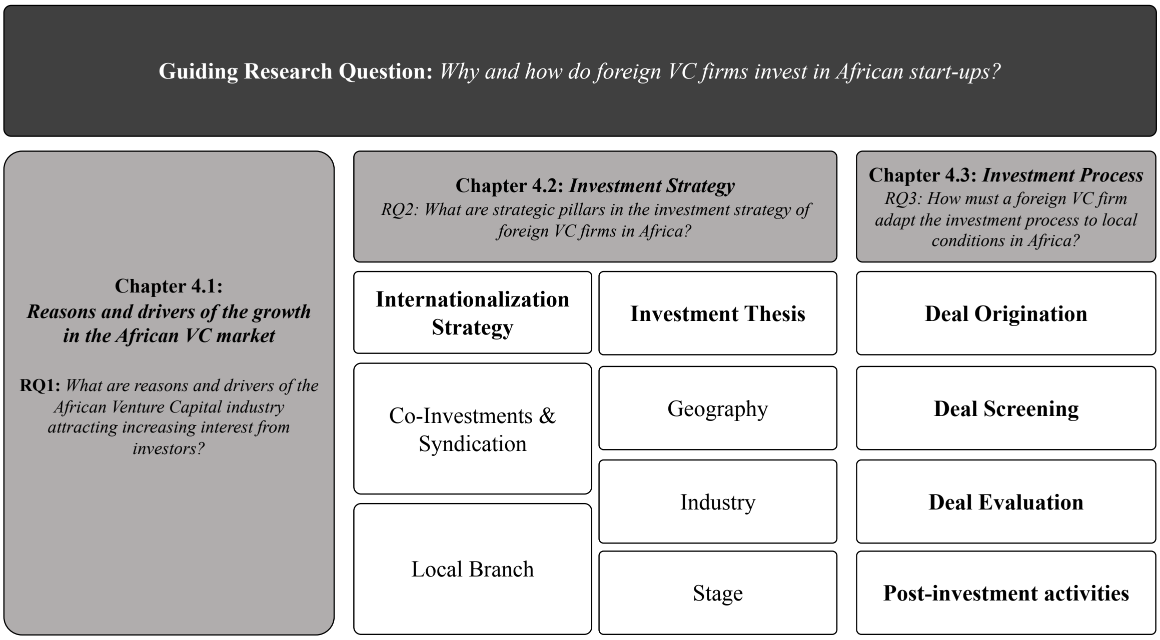


Figure 3: Stucture of the results and associated research questions

In chapter 4.1 an analysis of all interviews regarding the reasons and drivers of the growth in the African venture capital industry is conducted. Based on that, RQ1 will be answered: *"What are reasons and drivers of the African Venture Capital industry attracting increasing interest from investors?"* Subsequently, there is an analysis of the various applied investment strategies in Africa answering RQ2: *"What are strategic pillars in the investment strategy of foreign VC firms in Africa"*. Lastly in chapter 4.3, the adapted investment process of VC firms in Africa is highlighted answering RQ3: *"How must a foreign VC firm adapt the investment process to* *local conditions in Africa?"* The goal of this detailed and holistic analysis is answering the guiding research question: *"Why and how do foreign VC firms invest in African start-ups?"*

4.1 Reasons and drivers of the growth in the African VC market

The first research question was set out with the aim to understand drivers why local and foreign venture capital investors are increasingly active in the African VC market and the rationale behind it. The interviews reveal various drivers for the growth that are different in nature but are all linked to the overall goal of a VC fund: finding investment opportunities in start-ups with a potential of high financial return on investment (IP01-IP12). The drivers mentioned in the interviews with the associated frequency analysis are displayed in figure 4.

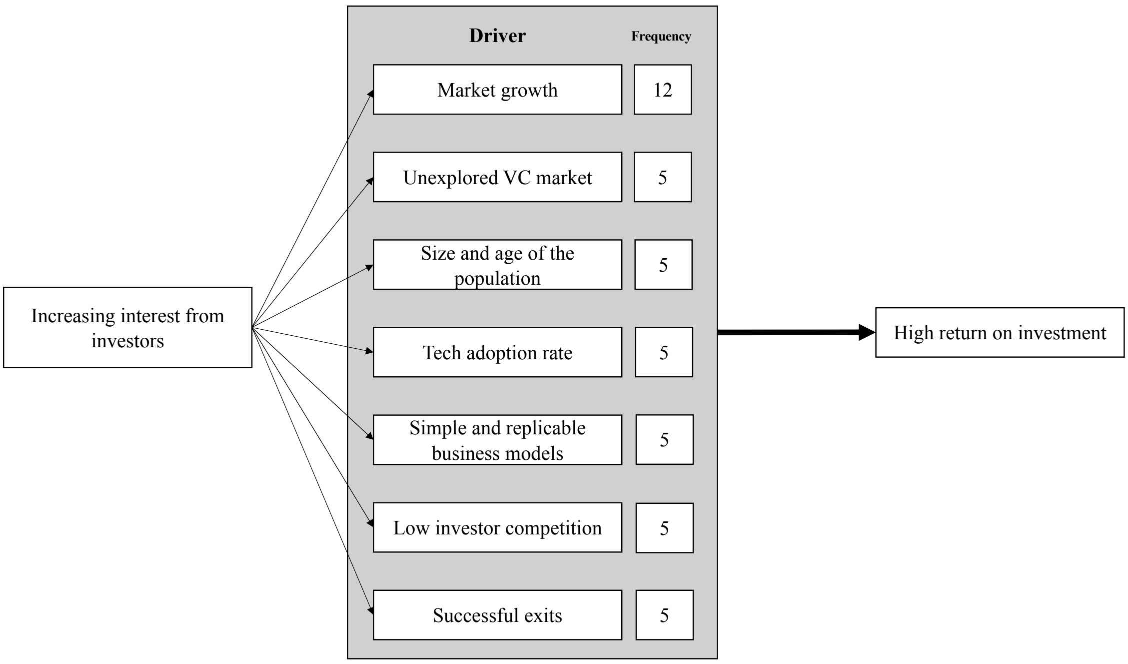


Figure 4: Drivers and rationales for the increasing involvement of investors in African start-ups

The driver most mentioned by interviewees is the exponential **market growth** of African Venture Capital (IP01-IP12). It has developed to the fastest growing VC market in the world after years of being under the radar. This trend is confirmed by the number of deals happening and total equity funding amount per year in figure 5:

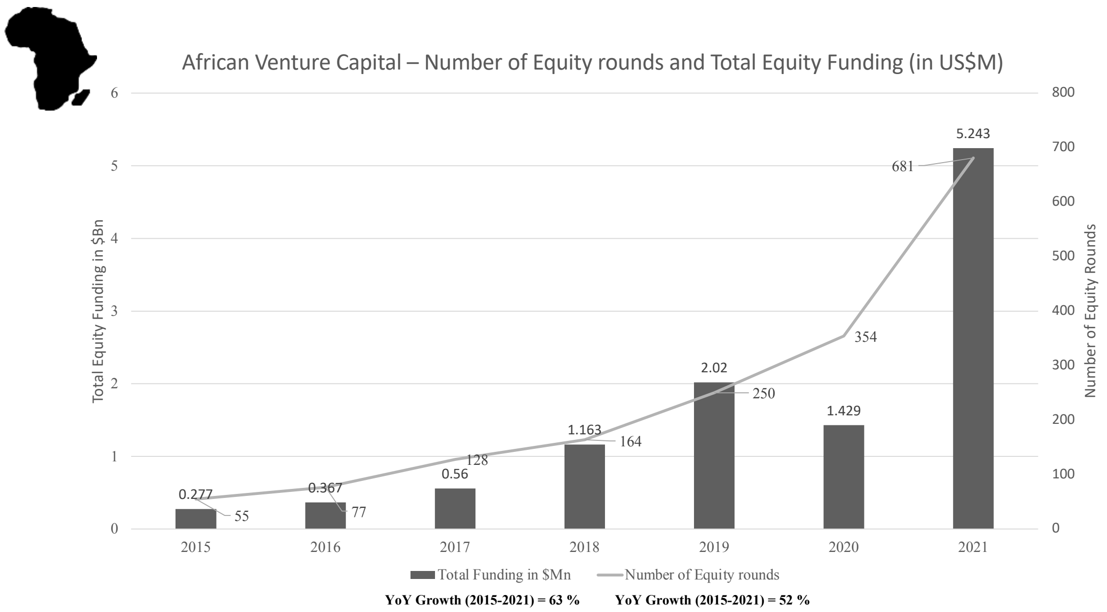


Figure 5: Number of equity rounds and total equity funding in Africa from 2015 to 2021

2021 marked a rapid increase of 267% in total equity funding on the continent compared to 2020 and an increase of 92% in number of equity rounds. The year 2021 ended with 681 equity funding rounds for 640 African tech start-ups resulting in a total equity funding amount of $5.2 billion. Overall, the trend between 2015 and 2021 is positive: The number of deals has been steadily growing with a YoY growth rate of 52% and the total equity funding amount with a YoY growth rate of 63% (Romane Assouc et al., 2022). These numbers put into global comparison (see figure 6) shows that the African VC market is growing faster than the total global VC market:

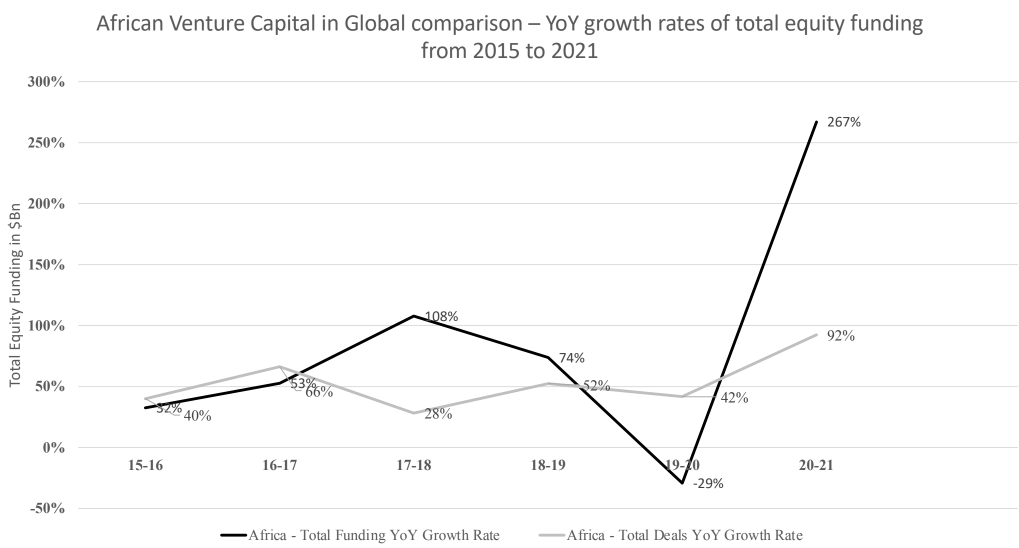


Figure 6: Growth rates of the African VC market in global comparison

Compared to the global VC market, the African market has been growing at a higher rate in most of recent years. After a year of recession due to Covid-19 that allegedly affected the African VC market more than the global market, the total equity funding amount took off in 2021 at a 267% growth rate achieving a 2.9 x higher growth rate than the global VC market (CBInsights.com, 2022; Romane Assouc et al., 2022). The interviews confirm the growth signals from the market for investors (IP01-IP12):

"It is a new market and I think that excites. That certainly excites investors and obviously entrepreneurs." (IP07)

Some of the interviews reveal that investors expect the African VC market to further grow over the next years and reach further records in terms of total funding amount and number of equity rounds due to network effects (IP03; IP08): The more capital is deployed in the African market the more start-ups will be founded which further attracts new investors. This attracts especially VC firms with international ambitions because they constantly look for new opportunities in promising markets to hedge against uncertainty in existing markets:

"You need to be able to invest across cycles, ups and downs of markets. I think multi-geo is an interesting way to sort of hedge against uncertainty, to look for upside in new markets. Covid-19 sort of accelerated things in terms of this notion that we call internally: Geography is dead." (IP09)

Considering the increasing internationalization ambitions of international VC firms, the actual size of the African VC market must be contextualized. Compared to the global VC market size, the African market and the total amount raised in 2021 is still a tiny part of what is raised globally (IP02; IP07).

"Even if it is crazy growth, it is still representing a minority stake of the total VC funding in the world." (IP02)

Therefore, expanding to Africa, and seeking investment opportunities on the African continent became a natural fit for many foreign investors, because it is one of the most **unexplored VC markets in the world** (IP02; IP03; IP05; IP07; IP09).

Another notable driver mentioned by interviewees is the pure **size of the population** (IP02; IP07; IP08; IP09; IP10) concerning the increasing **tech adoption rate** (IP02; IP07; IP08; IP10) among the population.

“If you see the size of the market and the age of the population and the penetration of smartphones and internet that is growing, it has all kind of positive insights about a potential good market.” (IP02)

Another driver highlighted is the **replicability of fundamental business models** from developed VC markets in Europe, Asia, and Northern America to the African market. The interviews reveal that currently fundamental business models, e.g., in logistics, health tech or fintech, are built in Africa that have already been successful in developed markets. It is perceived that Africa’s natural tech infrastructure lags years behind the developed markets, but the African tech ecosystem starts to develop in a similar direction (IP02; IP05; IP06; IP07; IP10).

“A lot of that stuff that’s already been built in Europe, in Asia, in the US, is just now being built in Africa. So, for a VC, that’s literally the perfect place to be” (IP05)

This serves foreign VCs from developed countries as a major competitive advantage because they can leverage the experience of investments and portfolio support in their home markets and apply it to the African continent:

“And I think one advantage that a European VC would have, is that they are essentially seeing ten years into the future and see what’s working in European markets.” (IP07)

Moreover, the interviews reveal that the current **low competition among investors** is another driver for the increasing interest (IP01; IP03; IP07; IP08; IP10). The increasing competition in developed VC markets in Europe, Asia, and Northern America and the amount of available capital in those markets, complicates finding promising start-ups at a fair price. Comparably, the African VC market is a less competitive environment, and it is easier to build up a reputable brand as a foreign VC firm (IP07). Therefore, it is perceived that the high competition in traditional markets made international VC firms look for investment opportunities in new markets that can refund them high multiples on their potential investment (IP08). One VC firm highlights that as a foreign VC firm it is quite easy to succeed on the African continent because there is a relatively low necessity for assets under management to invest diversified across the continent compared to traditional markets in Europe, Asia, and North America (IP09).

Another notable driver of the increasing interest in African start-ups by investors, are **major exits** by African start-ups in the years 2018 to 2021 (IP02; IP03; IP04; IP10; IP11). Major concern of potential investors were non-existent exit scenarios and consequently unrealized return on investments. Especially IPOs of late-stage start-ups in the alleged unstable financial markets in Africa seemed to be unrealistic. But the years 2018 and 2019 changed the negative perception of investors on potential exits (IP03). Major exits in these years, like those of Paystack (acquisition), Jumia (IPO) and DPO Group (acquisition) strengthened investors' confidence in African start-ups (IP02; IP03; IP04; IP05). The bar chart below shows the number of exit deals happening on the African continent between 2016 and 2019 (see figure 7).

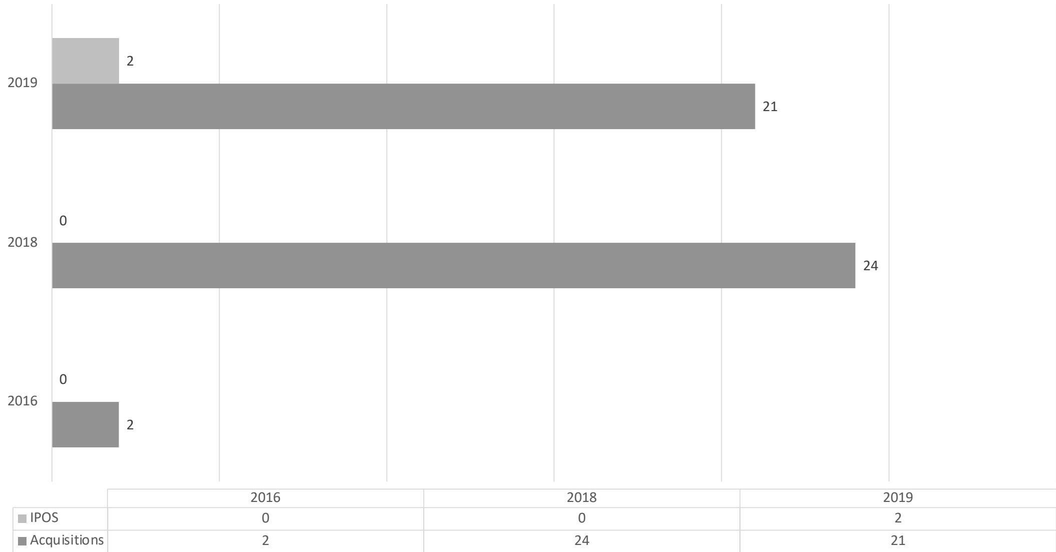


Figure 7: Number of Exits of African Tech Startups between 2016 and 2019

It confirms that until 2018 there was a low number of exits happening in the African tech start-up ecosystem which then took off in the following years (Digestafrica.com, 2019). The increasing occurrence of exits in the following years accelerated the number of investors coming to the continent as local investors brought in foreign investors from their network:

"We are seeing more success stories, unicorns, and acquisitions, which is increasing investors' confidence. Local investors also coinvest with other investors and bring in foreign investors from their network as well." (IP04)

The mentioned drivers positively support the main goal of **high financial return on investments** and increases the chance of high return multiples. The general evaluation on the return potential of investments in Africa by the conducted interviews is positive (IP03; IP04; IP07; IP09). It is expected that return on investments is realizable at low costs:

"And from a valuation perspective, you could still buy really fairly attractive assets and opportunities in these markets at a relatively low-cost basis." (IP09)

Overall, the interviews highlight that the various drivers have a positive impact on the growth of the African VC market and that further increase in total equity funding amount and number of equity deals is expected. The timing of entering the African market as a foreign VC firm is supposed to be as early as possible because getting involved early correlates with a higher chance of high multiples on the investment made (IP01; IP07; IP11).

"And so, if you want to get in alley and be part of the wave, I think it's prudent to get in now as opposed to waiting. (...) I think for any fund that is trying to get exposure into Africa, I think time is now." (IP01)

4.2 Investment Strategies in Africa

With respect to the second research question, "What are strategic pillars in the investment strategy of foreign VC firms in Africa?", in the following the various internationalization strategies of foreign investors in Africa will be discussed as well as their investment thesis on the African continent.

4.2.1 Internationalization Strategies of foreign VCs in Africa

As described in chapter 2, literature suggests two main strategies to compensate liabilities of foreignness when investing as a VC firm in foreign markets. One approach is to **syndicate with local VC firms** and the second one is setting up a **local branch**. The findings from the interviews partly confirm the current state of the research. In addition to the two internationalization strategies there is a third one which describes a **hybrid model.** It was not possible to fully distinguish the different internationalization strategies applied by the interview partners as the strategies are often followed by each other or are applied progressively and simultaneously. In general, setting up a local presence in Africa as a foreign VC firm is one strategic approach for differentiation in Africa. VC firms normally start with syndication with local VC firms to kickstart their investment story in Africa, followed by a hybrid approach with local partners in the markets without building a local branch and build up deal flow. Once this internationalization strategy resulted in some good deal flow and investments, some foreign VCs might consider opening a local branch with local executives in some African markets (IP01; IP02). IP01 outlines that after co-investing with local VC firms in a couple of deals, VC firms evaluate if they commit themselves to Africa (IP01). The characteristics of the three internationalization strategies are highlighted in figure 8 and followed by a discussion.

Internationalization Strategies of foreign VCs in Africa

Strategy	Local Branch	Hybrid model	Syndicate with local VC firms
Local Presence	Local Executives	Local partners (Investment Scouts or Accelerators)	None
Investment Targets	Early-Stage	Depending on partners	Late-stage
Effort	High	Moderate	Low
Commitment	Strategic	Tactic	Opportunistic

Figure 8: Internationalization strategies of foreign VC firms in Africa

Local branch

Opening a local branch as a foreign VC firm is the internationalization strategy with the most effort in establishing but is also shows a high strategic commitment to the market which could benefit in long-term efficiency by building up a brand locally in Africa.

“Local Presence is what differentiates everyone in the space.” (IP01)

If a foreign VC firm aims to invest in early-stage start-ups, the interviews confirm the necessity of establishing local networks in presence to be able to get sufficient deal flow and investment opportunities (IP01; IP03; IP10). It is perceived that relationships and networking in the African VC market is more important than in other markets and trying to replicate this from the outside is not possible (IP01; IP03; IP10). The interviews also confirm that local employees know the markets better than foreign expatriates and do not need time and resources to adapt (IP02; IP08). Nevertheless, sending out expatriates from the VC firm’s home country in addition to hiring local talents in Africa is deemed valuable, because diversity in backgrounds and experience complements and increases the decision-making quality (IP02; IP08).

Major reasons for hiring a local investment team in a local branch is that with local market knowledge, it is easier to understand business models specific to Africa. Local currencies, markets, trends, and drivers are perceived to be significantly different to other markets, which results in a necessity to have people locally on ground with local knowledge and experience (IP02). Another advantage of being locally present, is building mutual trust with the entrepreneurial ecosystem, which is as essential, especially when investing in early-stage startups. Without this trust, networks for deal flow and participation in investment rounds can be hindered:

"There's a level of comfort you've got to put the entrepreneurs. They need to be able to say, I trust this guy. I don't trust this guy. At least I've had dinner with this guy. We've had conversations. I know he has a family with two or three kids. We share certain principles and certain ethos. So those conversations become valuable when you're closing a deal" (IP03)

Syndicate with local VC firms

Contrary to the approach "Local branch", syndication with local VC firms is another strategy for the internationalization of foreign VC firms to Africa. This strategy is mostly used as an initial starting point for a foreign VC firm in the African market because of its low effort (IP06). The interviews reveal that there are numerous foreign VC firms making opportunistic investments on the African market in a very selective manner. Most VC firms that syndicate with local VC firms in Africa, invest in later stages and larger rounds and have a good reputational brand (IP01; IP03). It is perceived that there are big opportunities for global reputational VC firms to easily invest in African start-ups because most entrepreneurs want to have them as investor to demonstrate trust in the potential of their business (IP03). Opportunistic investments of foreign VC firms are often made when start-ups match part of the investment thesis (industry, and stage) and they see potential in a very specific start-up. Foreign investors favor investing with local VC firms to maximize the value and success rate for the portfolio companies by the complimentary skills and expertise of foreign and local investors (IP09). From a start-up perspective, a syndicate consisting of local and foreign investors is deemed to be the most effective investor constellation, because African start-ups need more than just pure capital. Local investors can provide the local context to the business and support by providing value-adding services with local market knowledge, while foreign investors can provide more capital and connect start-ups to similar markets internationally and markets outside of Africa. The later and bigger the investment round is, the more important it is to have foreign VC firms invested in start-ups because local VC firms cannot provide the necessary capital to level the business towards a successful exit in investor-friendly countries outside of Africa (IP01; IP04)

Hybrid model

The hybrid model serves as a progression model from syndication with local VC firms with a higher degree of involvement and commitment on the continent and is established by VC firms that got comfortable and certain experience in investing in African start-ups (IP01; IP02). Goal of this strategy is to acquire local market knowledge and expertise in Africa by local partners, either local investment scouts or local accelerators and incubators that support the VC firm with deal flow services. Local investment scouts are individuals hired by the foreign VC firm that have experience and market knowledge in Africa. They cover certain geographical parts in the African start-up market and act as a mediator and facilitator between the foreign VC firm and potential investment targets without deploying expatriates or opening a local branch. (IP01; IP09). IP02 works for a foreign VC firm with an integrated accelerator program and sets up partnerships with local accelerator programs to get sufficient deal flow. Nevertheless, most of the investments into start-ups were made remotely and with a local lead investor (IP02; IP05):

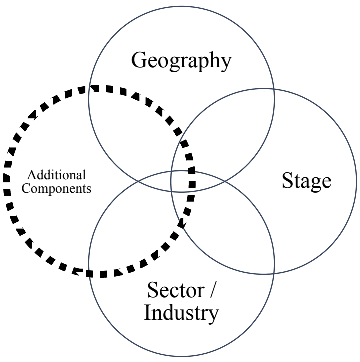
"We always had calls with the local lead investors to understand better the company and to basically to do a proper due diligence and understand why they are investing, what they're excited to be lead investors and share insights about different topics. So, I think it's important that if you don't have anybody on the ground, at least to speak with people on the ground, that can explain the market because it's completely different and it's tricky to understand if you are not based there or you haven't visited for a time there." (IP02)

This mix in the investment team consisting of local partnerships and investment managers from the VC firm's home country is perceived to be an effective approach to combine local knowledge and firm-specific experience (IP02; IP09). The interviews reveal that especially when VC firms aim to become an active hands-on investor and lead investment rounds, representatives on the continent are essential to build up a very strong local network (IP09).

In summary, the interviews have shown that there are three main internationalization strategies applied by foreign VC firms in Africa. The application of these strategies depends on the commitment, the investment thesis, and the effort and resources foreign VC firms are willing to invest. Opening a local branch is the most effective but a high-effort approach to overcome liabilities of foreignness in the African VC market. Syndicate with local VC firms is confirmed to reduce information asymmetries and monitoring problems and a highly applied approach to kickstart investing in African start-ups. In both cases, relying on local experts and co-investors is deemed essential because of the increased geographical, institutional, and cultural difference between foreign investors and local investment targets. A hybrid model serves as a progression model to the syndication model. By establishing contracts with local investment scouts or accelerators, foreign VC firms can outsource their deal flow to those initiatives and benefit from local professionals with local market knowledge and expertise without deploying expatriates or opening a local branch.

4.2.2 Investment thesis

As described in the literature review, another important pillar of the investment strategy of a foreign VC firm in the African market is the investment thesis. Figure 9 shows the investment thesis of the interviewed interview partners:



	Local VC firms		**Foreign VC firms**				
	IP04; IP05; IP07; IP11; IP12	IP10	IP01	IP02	IP03	IP06	IP09
Geography	Agnostic but with focus on 4 major hubs in Nigeria, South Africa, Kenya & Egypt.		Agnostic but with focus on 4 major hubs in Nigeria, South Africa, Kenya & Egypt.				
Sector / Industry	Agnostic	Logistic & Med-Tech	Agnostic				
Stage	Seed		Agnostic	Seed - Series A	Series A & B	Seed	Seed - Series B
Additional	None		Low – income population	B2B	Low-income Population	None	

Note: IP08 did not disclose the investment thesis

Figure 9: Investment Thesis of foreign and local VC firms in Africa

The interviews of this dissertation reveal that most of the active VC firms on the African continent are sector- and geography-agnostic, meaning that they do not pursue a special focus when sourcing and selecting start-ups for an investment in terms of industry and geography (IP01; IP02; IP03; IP04; IP05; IP06; IP07; IP09; IP11; IP12). Only one interviewee from a local VC firm focusses on logistic and med-tech start-ups, all investors reveal that they follow the strategy of not limiting their investments to a specific **sector / industry** within the African startup ecosystem (IP01; IP02; IP03; IP04; IP05; IP06; IP07; IP09; IP10; IP12).

“We are quite spread and occasionally, you would see crypto, you would see blockchain, you see all those things, but we're quite spread. We invest in good founders. That's the main thing when we see founders being pulled up and they have the traction to shoot for it.” (IP04)

One reason for the sector-agnostic investment thesis mentioned by IP01 is the underdeveloped African tech infrastructure that is still in its infancy, which limits the number of startups coming through the deal flow in a specific industry or sector. According to this interviewee, investing sector-agnostic facilitates increasing deal flow and potential number of investments (IP01). Nevertheless, the perception of the interviewees is that currently most of the funding is allocated to fintech start-ups, because access to financial services is a massive and underserved problem on the continent (IP03, IP07). This is confirmed by data when analyzing the sectors that received most of the funding amount in 2021 (see Figure 10). Fintech start-ups received 62% of all equity funding in 2021, followed by Logistic start-ups (7%), Education start-ups (6%) and commerce start-ups (5%) (Romane Assouc et al., 2022).

Figure 10: 2021 VC Equity Funding per industry / vertical (in US$M)

All foreign and local VC firms pursue a **geography**-agnostic investment thesis, meaning they do not limit their deal flow and potential investments in start-ups to a specific country in Africa (IP01-IP12). Nonetheless, it is perceived that most of the investments is made into start-ups from 4 major start-up hubs in Africa, namely Egypt in Northern Africa, Kenya in East Africa, Nigeria in West Africa, and South Africa in Southern Africa (IP02; IP06; IP07).

Compared with data, the finding of VC investment concentration in those four major country markets is confirmed (Romane Assouc et al., 2022). Figure 11 shows the total venture capital equity funding per country in 2021. Nigerian start-ups received most of the funding in 2021, followed by South Africa, Egypt, and Kenya.

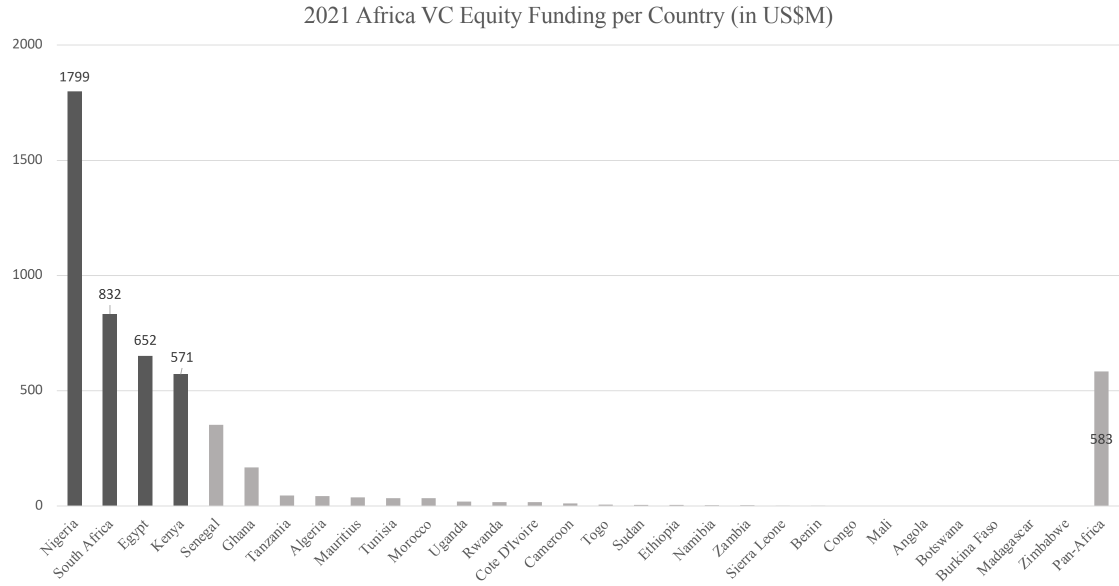


Figure 11: 2021 Africa VC Equity Funding per Country (in US$M)

In terms of **stages**, differences between foreign and local investors can be seen whereas all local investors focus on early-stage start-ups, foreign investors have a broader spectrum of stages also reaching into later stages like Series A and B. IP03 for example, only invests in Series A & B start-ups. IP09 highlights that their wide range of stages they tend to focus on was initially a signal of commitment to the market (IP09).

Some foreign VC firms also have **additional components** in their investment thesis like a B2B focus (IP02) or the start-up's addressable market. IP01 and IP03 prefer to invest in start-ups that address the African low-income mass-market (IP01; IP03). Reasons mentioned for this specific criterion is the unmatched potential of pressing and basic problems that this segment of population is having. Therefore, investors on the African market, are constantly seeking investments in founders and teams that are solving the largest and painful problems on the continent targeting most of the population (IP01; IP03).

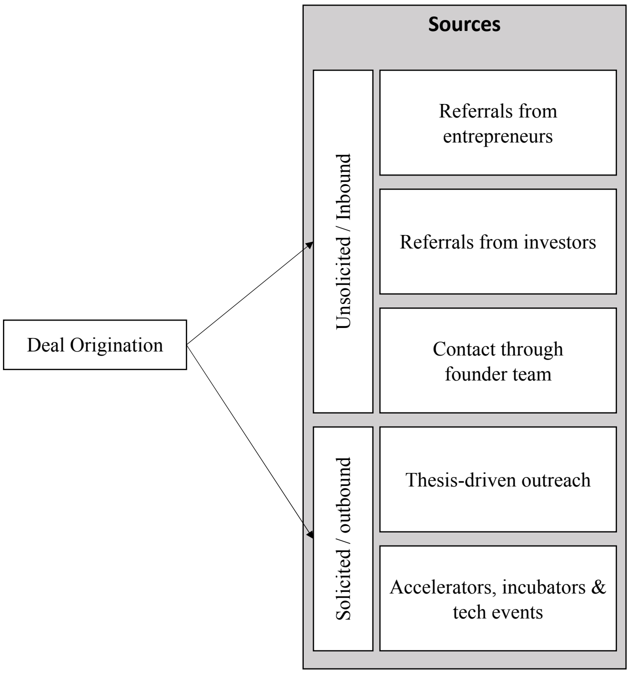
Summarizing the findings of the interviews, all VC firms, foreign and local, have a broad investment thesis to ensure sufficient deal flow coming through the screening phase from various sources. Especially in terms of geographies and industries, investors do not limit deal flow to certain criteria. There is a perceived difference in terms of stage focus between local and foreign investors. Local investors are majorly targeting early-stage companies, whereas most of the foreign investors position themselves as stage-agnostic or late-stage investors. It can be concluded that foreign investors select investment targets at a later stage or in a later round in Africa than local investors, and therefore select companies with lower ex-ante information asymmetries and with a high information transparency to overcome liabilities of foreignness associated with the increased geographical, institutional, and cultural difference to potential investment targets.

4.3 Adaptations in the investment process to African circumstances

As described in the literature review, the traditional investment process consists of several steps from deal origination to deal closing and potential post-investment activities and works as a funnel to identify applicable investment targets. In this chapter, it is elaborated what adaptations a foreign VC firm must make to meet the local conditions and circumstances in Africa. Because of the limited scope of this thesis, only the steps deal origination, deal screening, deal evaluation and post-investment activities are discussed, since these have major impact on the strategic orientation of a foreign VC firm in Africa.

4.3.1 Deal origination

As described in the literature review, deal origination is the first step in the VC investment process, from which VC firms identify attractive investment targets. In general, some VC firms in Africa indicate that the quality of the deal flow is perceived as questionable in many cases. For instance, two foreign VC firms from the interviews reveal that finding quality deal flow in Africa is challenging and resource and time consuming (IP02; IP03). Especially inbound deal flow, meaning start-ups or founders proactively contacting VC firms is challenging, because many of these potential deals do not meet the quality standards of the VC firms (IP03). The findings from the interviews highlight a wide range of deal origination approaches among investors in Africa. Figure 12 shows the different deal origination sources used by local and foreign investors:



	Local VC firms						Foreign VC firms					
Sources	IP04	IP05	IP07	IP10	IP11	IP12	IP01	IP02	IP03	IP06	IP08	IP09
Referrals from entrepreneurs	X		X	X	X	X	X	X	X	X	X	X
Referrals from investors	X		X	X	X	X	X	X	X	X	X	X
Contact through founder team	X		X	X					X			X
Thesis-driven outreach							X	X				X
Accelerators, incubators & tech events		X	(X)	X	X	X			(X)	X		

Figure 12: Different deal origination approaches in Africa

Except IP05, every interview indicates that their deal origination approach is heavily relying on inbound deal flow from referrals from networks: mostly from founders / entrepreneurs and other investors (IP01; IP02; IP03; IP04; IP06; IP07; IP08; IP09; IP10; IP11; IP12).

"From my experience over the last two and a half years, the best deals will come through referrals. So, referrals mostly from other investors or from other co-founders or founders' friend who's doing this and that and introduce you to that." (IP02)

Some foreign VC firms perceive connections and referrals through successful founders and entrepreneurs is the best way to attract quality deal flow, because successful entrepreneurs know other good entrepreneurs with high-potential ideas and companies. Therefore, referrals through entrepreneurs from a VC firm's network is often the most effective way to deal origination while meeting the high-quality standards of VC firms (IP02; IP03). Referrals through other VC firms on the continent is considered as another top source for deal flow in Africa. Most of the VC firms whether local or foreign, are constantly in information exchange with other active VC firms in Africa, to share information and insights about potential investment opportunities (IP01; IP02; IP03; IP04; IP06; IP07; IP08; IP09; IP10; IP11; IP12). Another inbound source which is not as frequently used as referrals is the contact through the founder or the founding team itself (IP03; IP04; IP07; IP10).

Three of the interviewed representatives of the VC firms mix their inbound approach with a thesis-driven outbound approach. The firms formulate hypotheses about the development and trends of the African start-up market and proactively outreach to startups that are aligned with these hypotheses (IP01; IP02; IP09). IP09 reveals that they are constantly mapping the start-up ecosystem biannually to get an overview of high potential sectors and trends. Based on this analysis, the VC firms pro-actively search for start-ups and reach out to the founders of the company. Another outbound deal flow source are accelerators and incubators in Africa (IP05; IP10; IP11; IP12). One local VC firm from the interviews is solely focusing on start-ups that come through initiatives like accelerators and incubators, because the number of high-quality incubation and acceleration programs seems to constantly increase and start-ups that come through these programs have the foundational basis to survive in upcoming years (IP05). Other VC firms issue their concern about acceleration and incubation programs. The increasing competitiveness on investor side for the start-ups passing such a program and the limited number of high-value incubators and accelerators, leave some VC firms in doubt about the effectiveness of such programs for deal flow generation (IP07; IP09).

Summarizing, there are no substantial differences between the deal origination approach between the interviewed local and foreign investors in Africa. Both types of VC firms heavily rely on and prefer deals coming in through referrals from investors or entrepreneurs. Foreign VC firms mix the inbound deal flow approach with referrals, mostly with a thesis-driven outbound approach by contacting founders of start-ups which could potentially match their hypothesis of successful startups, whereas most of the local firms have close ties to existing early-stage accelerator and incubator initiatives. It can be concluded that foreign VC firms might invest very strategically and analytical, whereas local investors' strategy is to build an extensive network with early-stage founders, mostly over accelerator and incubator programs.

4.3.2 Deal Screening & Deal Evaluation

As described in the literature review, the deal screening and evaluation step in the investment process is one of the most critical factors in the success of a VC firm. Foreign VC firms face several difficulties in those steps due to the increased distance and the arising information asymmetry between VC and PC. In chapter 4.2.2, it was already shown that the interviewed foreign VC firms tend to focus on later-staged start-ups than local VC firms in Africa. Consequently, they tend to invest in start-ups with lower ex-ante information asymmetries.

In the deal evaluation process, literature suggests that foreign VC firms rely on the evaluation of 1) Signals from Entrepreneurial Characteristics; 2) Signals from VC firms and deal-related characteristics and lastly 3) Signals from the external macro-environment and government policy when investing outside their home market. Except IP03, every interviewee of a foreign VC firm highlights that additional risk assessment signals specifically relevant for African start-ups are necessary to evaluate deals. In the following table, the additional signals to assess the risk of African start-ups applied by foreign VC firms are summarized:

Table 4: Additional evaluation signals of target startups

Signals from	**Additional signals in Africa**	**Foreign VC firm**
Entrepreneurial Characteristics	• Greater emphasize on entrepreneurial fit (IP01; IP09)	IP01; IP02
VC firm and deal-related characteristics	• Local co-investors assessment of the target (IP01; IP02)	IP01; IP02
External macro-environment and government policy	• Incorporation in investor-friendly country (IP02; IP07; IP10) • Regulations in the country (IP06) • Long-term risk analysis of the macro-environment (IP06; IP09)	IP02; IP07; IP10 IP06 IP06; IP09

For most of the foreign VC firms, signals from Entrepreneurial characteristics seem to be equally important in Africa as in other markets and one of the best indicators for a good investment opportunity. Getting conversations with the founding team of the start-up or asking for referrals is a good lever for assessing the risk of the investment. IP01 and IP09 emphasize that getting to know the founder of the company is especially important in Africa and that they rely a lot on referrals from customers and partners of the start-up.

"I think just getting to know who the founder is, what their motivation is, I think is very critical. Either meeting in person or just making sure that you know the person really well is very critical. And then just, like learning about the history, like what have they done before that? What kind of experience do they have? Do they have the grid to be able to sustain through this? Are they a good fundraiser, for example? Are they a good leader? Because those are some of the things that it's very difficult being an entrepreneur, especially here on the continent. And

so, you want someone it takes someone with a strong character to be able to get through that." (IP01)

Regarding signals from VC firm and deal-related characteristics, the results have shown that foreign VCs tend to invest in later rounds or stages to minimize information asymmetries. Chapter 4.2.1 has also shown that foreign VC firms prefer investing or syndicating with local co-investors by relying on the assessment of local market experts (IP01; IP02). Consequently, foreign VC firms are using VC firm and deal-related signals to assess the risk of an investment.

By counting the number of mentions, signals form external macro-environment and government policy seems to be the most important to foreign investors in Africa. Politics and regulations might negatively impact the growth and exits of start-ups and consequently the financial return on investment for VC firms. Therefore, some foreign investors conduct extensive risk analysis of potential macro-economic scenarios that might impact the success of start-ups in the local markets, because it is perceived that African markets are more volatile and riskier than traditional markets (IP06; IP09). Additionally, VC firms expect startups to be incorporated in investor-friendly countries before raising a Series A investment round to facilitate potential exits and the financial return for investors (IP02; IP07; IP10)

As described, foreign VC firms use additional steps in the deal screening and deal evaluation phase when investing in African start-ups. Besides potentially investing in later and larger rounds compared to local investors, foreign VC firms have a greater emphasize on entrepreneurial characteristics in Africa, rely more on the experience and knowledge of local co-investors. Additionally, foreign investors conduct extensive risk analysis of potential macro-economic scenarios that might impact the success of start-ups in the local markets, because of the higher volatility and risks in African markets. An additional important factor is the start-up's incorporation in investor-friendly countries to facilitate later exits and the return on investments.

4.3.3 Post-Investment Activities

As described in the literature review, post-investment activities in the life cycle of a VC firm usually include the monitoring of portfolio companies and value-adding services for portfolio companies. In terms of involvement and degree of those services, current research suggests that there are substantial disparities between local VC firms and international VC firms due to the geographical distance between VC firms and portfolio companies in cross-border deals

(Cumming & Dai, 2010). The interviews reveal that there are differences in the involvement of monitoring and value-adding services between local and foreign VC firms in Africa and the kind of value-adding services they provide (summarized in table 5):

Table 5: Post-investment involvement and services of local and foreign VC firms in Africa

Type of VC	Involvement	Value Adding Services
Local VC firm	Regular monitoring + Strategic services	• Fundraising (IP04; IP10) • HR Strategy (IP10) • Connection to personal networks (IP05; IP07; IP11) • Internationalization to other African countries (IP04; IP05) • Legal work with regulators (IP04)
Foreign VC firm	Monthly monitoring + Strategic services	• Fundraising (IP02; IP06; IP09) • Finance (IP09) • Connection to personal networks (IP02; IP03; IP06) • HR Strategy (IP03) • Expanding to international markets (IP03) • Technology support (IP03) • Marketing strategy (IP06)

All interviewees highlight that the post-investment activities are more strategic than operational. Foreign VC firms indicate that the monitoring of portfolio companies is mostly conducted monthly. Two interviewees normally set up a monthly monitoring report with the portfolio company to check the business progress (IP02; IP03; IP06; IP09). IP06, a foreign VC with a local incubator, highlights that they are heavily engaged in the monitoring because they work with the portfolio companies on a regular basis through the incubator. All local African investors explain that the involvement in the monitoring of portfolio companies is relatively high in case they lead the investment round (IP04; IP05; IP07; IP09; IP10).

In terms of value-adding services, the interviews reveal that there are slight differences between local and foreign investors in Africa. Nonetheless, all investors, local and foreign, provide strategic value-adding services to portfolio companies (IP01-IP12). The most mentioned services investors provide are fundraising support (IP02; IP04; IP06; IP09; IP10), HR strategy support (IP03; IP10) and providing connections through personal networks (IP02; IP03; IP05; IP06; IP07; IP11). The additional value-adding services differ slightly between foreign and local investors. Whereas local investors help their portfolio companies in an African context by helping them to internationalize to other African countries (IP04; IP05) and with work with local legal regulators (IP04), some foreign investors bring in their expertise regarding expansion to international markets (IP03), technology (IP03), and marketing (IP06). This list is not limited, since some VC firms have the perception that the necessary portfolio company support is very ad-hoc:

"It really depends on the founder, their maturity and what they need from us. We want to be responsive to the market, not dictatorial. We have this sort of document we give out to portfolio companies when they get on board. It's like, this is what we're good at. This is what we're not good at. This is where we can help you. This is where we can't help you." (IP09)

Summarizing, the current state of literature can be partly confirmed. Foreign VC firms provide monitoring and value-adding services on a strategic level. The monitoring occurs mostly monthly and does not cover the day-to-day business of portfolio companies. Value-adding services are also on a strategic level with a focus on fundraising support and referrals trough the personal network of the foreign VC firm. Additionally, foreign investors try to provide an international perspective to the local African start-ups.

5 Conclusion

5.1 Summary

VC firms invest in in opaque risky ventures with pronounced information asymmetries between the entrepreneur and the VC firms. After an investment, usually hands-on management support for and monitoring of the portfolio company is required. The information asymmetries and the post-investment activities are often more difficult to resolve when the portfolio company is located outside of the VC firm's home country because of the increased geographical, institutional, and cultural differences. Therefore, foreign VC firms face several liabilities of foreignness in foreign markets compared to local VC firms. There is currently little academic understanding, what drives VC firms investing in foreign markets despite the liabilities of foreignness and what challenges VC firms face when investing abroad. The increasing occurrence of VC investments in Africa, raises the questions about the drivers of the African Venture Capital industry receiving increasing interest from foreign investors and how they solve challenges associated with the liabilities of foreignness. Based on an explorative research approach using semi-structured interviews with 12 foreign or local VC firms in Africa and a following qualitative content analysis, this paper provides insights on the internationalization strategies of foreign VC firms in Africa and what adaptation in the investment process they must make to be successful in Africa and overcome liabilities of foreignness.

The thesis found that, from a VC perspective, there are several drivers that positively impact the increasing interest in African start-ups. The growth of the African VC market is the most important driver currently. Besides that, the rather unexplored and underdeveloped VC market compared to traditional VC markets combined with the huge market size and population in Africa, an increased tech adoption rate among the population, the success rate of simple and replicable business models from other markets, low competition on investor side and the increasing occurrence of successful exits of start-ups leads to increasing interest and confidence in African start-ups from investors. Because of the expectation of high financial return on investments in African start-ups, Africa becomes a natural strategic fit for many international VC firms.

The investigation on how foreign VC firms expand to Africa has shown that there are three main internationalization strategies. The application of these strategies depends on the commitment, the investment thesis, and the effort and resources foreign VC firms are willing to invest. Opening a local branch is the most effective but a high-effort approach to overcome liabilities of foreignness in the African VC market. Syndicate with local VC firms is confirmed to reduce information asymmetries and monitoring problems and a highly applied approach to kickstart investing in African start-ups. In both cases, relying on local experts and co-investors is deemed essential because of the increased geographical, institutional, and cultural difference between foreign investors and local investment targets. A hybrid model is also regularly applied by foreign investors and serves as a progression model to the syndication. By establishing contracts with local investment scouts or accelerators, foreign VC firms outsource their deal flow to those initiatives and benefit from local professionals with local market knowledge and expertise without deploying expatriates or opening a local branch.

The analysis of the applied investment thesis of local and foreign VC firms has shown that quality deal flow is problematic in Africa. Therefore, most interviewed VC firms have a broad investment thesis without a certain specialization in geography or industry to ensure sufficient deal flow from various sources. There is a perceived difference in terms of stage focus between local and foreign investors. Local investors are majorly targeting early-stage companies, whereas most of the foreign investors position themselves as stage-agnostic or late-stage investors. It can be concluded that foreign investors select investment targets at a later stage or in a later round than local investors, and therefore select companies with lower ex-ante information asymmetries and with a high information transparency.

The analysis of potential adaptations in the investment process to local African market conditions partly confirms the current state of research and extends it to the African context. In the deal origination phase, both local and foreign VC firms in Africa heavily rely on inbound deal flow from network referrals. Foreign VC firms usually mix this approach with a thesis-driven outreach to potential target companies, whereas local VC firms have closer ties to the African entrepreneurial ecosystem, especially to accelerators and incubators. Nevertheless, both type of investors prefers sourcing unsolicited deals from networks. Foreign VC firms use additional risk assessment signals in the deal screening and deal evaluation step when investing in African start-ups. Besides investing in later and larger rounds compared to local investors, some foreign VC firms have a greater emphasize on entrepreneurial characteristics and rely more on the experience and knowledge of local co-investors when evaluating African start-ups. Additionally, foreign investors conduct extensive risk analysis of potential macro-economic scenarios that might impact the success of start-ups in local markets, because of the higher volatility and risks in African markets. An additional important factor that foreign VC firms consider as important in the evaluation step is the start-up’s incorporation in investor-friendly markets to facilitate later exits and the return on investments. Regarding post-investment activities for portfolio companies, literature can be confirmed. Monitoring and value-adding services for potential portfolio companies by foreign VC firms have a strategic focus by providing an international context to the local business but are very ad-hoc. Focus of the value-adding services include but are not limited to fundraising support, business development support and HR strategy support.

5.2 Implications for theory and practice

This study adds to the body of knowledge within the literature on internationalization of venture capitalists, as previous research does not understand drivers of the increasing internationalization ambitions of international VC firms and the challenges VC firms face when expanding into foreign markets. In addition, this exploratory thesis covers the African market, which has not been the subject of research. Therefore, this thesis provides an empirical qualitative investigation of foreign VC firms' internationalization strategies to Africa and the necessary adjustments in the investment process to local African conditions to overcome liabilities of foreignness as an international VC firm in Africa. Based on the empirical work of this thesis, many practical issues can be derived for the strategic orientation of a VC firm investing in the African market. In addition to understanding drivers for expansion into Africa, various strategic implication for investments in in African startups can be derived. Additionally, topics such as deal flow generation, deal screening and evaluation and post-investment activities are discussed and practical implications for these topics can be derived. This thesis is therefore a strategic starting point for any VC firm currently evaluating Africa as its next strategic investment case.

5.3 Limitations and suggestions for future research

It is acknowledged that this dissertation was conducted in an exploratory manner and therefore the primary focus of the research is to discover ideas and insights for further research. Since the empirical study was conducted in the form of qualitative research, caution must first be exercised regarding the generalizability of the findings. Although the sample size of the VCs interviewed met the requirements of Glaser & Strauss (1976), a larger sample size could provide more detailed findings. In addition, due to the difficulty of accessing investors in Africa for interviews, both local and foreign investors were surveyed. Therefore, a larger sample of foreign VC firms could provide even more detailed insights. Consequently, the study does not claim to be representative of all foreign VC investors in Africa.

Two points for future research emerge from the findings of this dissertation. A natural progression of this work is to address the limitations identified so that the results can be validated to a greater extent by interviewing more foreign venture capitalists in Africa and examining how they have expanded into Africa and how they adapt their investment process to local conditions. Further research approaches could be quantitative research in each of the steps of the investment process to generate deeper and more fundamental data. This could provide further insights into the adaptations in the investment process made by foreign investors to meet local conditions and overcome liabilities of foreignness.

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7 Appendices

Appendix A Semi-Structured Interview Guide

1. **Introduction**

2. Drivers and Trends in the African Venture Capital Market

2.1. The Venture Capital industry in Africa is still in its infancy but booming. What are the main reasons for this development?

2.2. Why did you start investing in Africa? Do you see any differences in the investment behavior between foreign and local VCs?

3. Investment strategies

3.1. What is your investment thesis in Africa? (Stage, technology and/or country) Is it different to other geographies, if yes please elaborate.

3.2. How did you set up your investment team in terms of local presence? Do you have a local branch? What was the rationale behind it? What is the ratio of local executives vs. expatriates?

3.3. What is your perception on Syndicates / co-investments of local and foreign VCs?

4. Deal flow generation

4.1. What is your approach to deal flow generation?

4.2. What is your main source of deal flow? How did you set up this source?

4.3. Are there any additional steps in your screening or due diligence process, specific to African Start-ups?

5. Post-investment activities

5.1. How high is your involvement in monitoring of the portfolio company in Africa? How many investment managers do you allocate per portfolio company for monitoring purposes?

5.2. What kind of value-adding services do you offer to African Startups?

Appendix B Interview Data Protection & Anonymization

1. Participation in the interview is voluntary
2. The interview is conducted in the context of the master dissertation of the student Markus Duczek (Católica Lisbon School of Business and Economics)
3. Responsible for the execution of this interview study is:
    a. Markus Duczek
4. The person responsible for this interview study will ensure that all data will be treated strictly **confidential** and **anonymized**
5. The audio/video recording will be irrevocably deleted after the interview has been transcribed. Third parties have no access to the audio recordings.
6. Excerpts of the interview may be quoted in **anonymous** form in the research work to be in the research paper to be written.

____________________________ ____________________________

Signature Interviewee Signature Interviewer

____

Location, (Date)

Appendix C Transcription of Interviews

IP01

And just talking about the reasons to invest in Africa and why you also open up a second fund, what are the main reasons, or why do you think VCs should invest in Africa right now?

Yeah, I think if you see all the trends in other emerging markets like LATA; or look at Southeast Asia or India in that case, I think Africa is if you're like a VC and you're looking for the trends and falling trends. I think Africa is where, let's say India or LATAM was probably two or three years ago. And so if you want to get in alley and be part of the wave, I think it's prudent to get in now as opposed to waiting, let's say two or three years down the line, because at that point you're not starting to compete with the big growth equity funds like Tiger Global, Sequoia and stuff. And those guys at that point, unless you have $100 million to invest, unless you have a billion dollar fund to invest, then it's very difficult to consider that stay. And so it begins to squeeze the returns because obviously at that point, valuations are like businesses overpriced. It's very competitive to get into deals right now. I think it's the best time to get into this space and begin to build like a platform, begin to know who's operating on what level, in which countries, in what sector. So that's why I think for any fund that is trying to get exposure into Africa, I think time is now, even this year alone, things have changed dramatically compared to last year. And so if you give it another two or three years, this is going to be completely different. The same thing that happened in Brazil, for example. So Brazil right now is super hot because for anyone who's getting in now, I mean, it's kind of late, right. So people who are benefiting from all the exits right now, guys who got in probably four or five years ago when Brazil, when a lot of people weren't really paying attention to what was going on in the field or other market.

Okay. And you already talked a little bit about your investment thesis, so you're now transitioning more to later stages. What is your investments thesis? Do you prefer any specific industries, specific countries? What is your rational behind it?

No, we tend to invest across sectors because obviously on the continent it's very difficult to just be, let's say, a fintech investor purely. Right. Because it's not fully developed. So being sector agnostic really helps quite a bit. And so that's why we've kind of the only thing we have a focus on is on the segment. So we tend to focus on a particular segment of the economy, which is like the mass market. So the low income mass market. So obviously, if you look at the continent, like the African continent and the income, there's a very small high income or middle income population. Right? Yeah. So if you try to build a business or like a unicorn, you'd have to be addressing majority of the people. Right. For it to make sense. And so that's why our focus is on that segment where I'd say 80% or 90% of the population in Africa are categorized. So you'll see a lot of our investments are in basic things that this segment of the population need on a daily basis. So like financial services, they need health care, they need education, they need waste management or water or products like FMCG or agriculture. In that case, those are the kind of sectors we've tended to focus on based on our thesis or focusing on low income individuals.

Okay, cool. And regarding the whole, I would say, setup of X, do you have local presences in different countries and how would you recommend a European VC to set up their brands or their operations in Africa? You need a local presence to be close to people close to entrepreneurs, et cetera. What would you recommend there?

Local presence is what differentiates everyone in the space. Right. So if you want to be an investor who's best in, let's say, Europe and just making opportunistic investments in the space. Yeah, it's very difficult unless you're playing at the growth stage level where there's not that many players. But then if you're trying to do an early stage investment, you're going to be missing out on a lot of deals because you have to be here to be able to know what's happening in the space, know who's doing what deals. And a lot of these deals, the way deal making happens is you learn about a company from another investor who's probably here and probably met through coffee or met at a meeting or something like that. And so trying to replicate that over the phone or over Zoom or stuff like that is very difficult. And then also right now there's so much competition that I don't know unless you're like a well known VC. Right. So a Tiger Global or let's say a Sequoia or YC, then people would want to have you on the cap table either way, because even if you're not around. Right. Because of the brand that you bring and all that stuff. But if you're just like a normal regular VC that is trying to just make investments on the continent, it's going to be difficult to get into deals. And I've seen a few models where a lot of these, I guess, global VCs, they'll start with having venture partners, so people who Scout for deals for them, and then once they get one or two deals done on the continent now they hire someone locally so someone who understands the space. Okay. Who's based in the market they want to target, for example, maybe someone in Nairobi covering Africa and who's well connected within the ecosystem and knows what's going on to have good processing and also with deals and stuff like that. So it's usually progressive. I'm on this group where I've seen a few of my friends being paused by all these, either American or European VCs who are trying to establish a presence on the continent.

Yeah. Making it like step by step. So first step is like startup Scouts in the I would say hot markets that I'm trying to generate deal flow and then step by step afterwards, then sending out or hiring local people, local investment managers. And then the more success you have then also opening maybe up a really local presence in the market.

Otherwise, you need to know how the ecosystem is before you make a commitment in terms of deploying and all that stuff. And usually one or two deals should be good enough to be able to establish that whether you want to play in a big way or not.

Okay. That's very interesting. Talking about maybe like co investment in syndication on the African market. What is your perception on co-investments between local VCs like Nova, Stars and also foreign VCs? Do you see that this happening more often? And what is your perception on co investments?

I think, yeah. I've seen deals where you find co investments by mostly Western investors who actually don't even have local presence. And a lot of times that's problematic. Right. Because if you're trying to build a business here in Kenya, as in you need people to help you, let's say, talk to the regulators or get partnerships and stuff. If it's someone based in London who doesn't really have that many networks around here, the only thing they'll be helping you out with is the money. Right? The capital as opposed to the network. And it's more than just capital that these founders need. And so I've seen a lot of them struggle because they don't have a local part now a local investor to help them with the local nitty gritty that you need to do that. And so the best, I think, is having Coinvestors, who are both having a mix. Right. We can have local investors who provide the local context and then have European or American investors who are able to bring in the capital and also can connect these companies to probably similar businesses in other emerging markets or in the US. And usually I think the good thing with having American or European or Asian investors on the Cap table, especially when you get to the stages where you now raising a $50 million round or $100 million around. Yeah, it helps to have those people because they probably have connections or networks in those types of crowds who people can write 10 million or $20 million checks. They can also help with exits because a lot of the exits on the continent will most likely happen through acquisitions, even through secondary sales. Right. So getting a Tiger global in your Cap table and cleaning, that's how you get your exit. And so it helps a lot to have I've seen a few companies who really struggled with the bigger rounds, the latee stage rounds, and also with exits because they didn't have any global investors, but they only had local investors. And those local investors don't really have that extensive network outside the country, limited operating.

Okay, let's switch maybe a little bit from investment strategies and those strategic set up to the deal flow generation. What is your approach to deal flow generation in your fund? And what would you recommend to other VCs or other Angels on how to get those sourcing in?

Yeah, I think in my experience over the last two and a half years, the best deals will come through referrals. So referrals mostly from other investors or from other co founders or founders friend who's doing this and that and introduce you to that. But I think lately, especially the angel investors, I think have some of the best because they usually get in early support the businesses, and then when it gets to the seed round of the series, they'll now approach you as a bigger fund to come. And so for me, what I've done is I've built like networks around the different Angels syndicates in Nairobi, for example, in Lagos or whatever, and so usually just get deal flow from most of those guys. And it's the same thing. Once you get deal flow as well, you share with them and continue building that flow of information so that when there's a hot deal, you'll always be the first one to be told about or to be asked if you want to participate in that kind of thing. So that's what has really helped. And for me as well, just being on top of what's happening on the continent in terms of investments. So knowing who's invested in what who's building what I think is also critical so that you're able to make an analysis of if it's a space, just knowing all the players in that space and then making an opinion about who to back in that space, especially for hot sectors like for example, right now, the biggest sector obviously Besides fintech is B2B ecommerce, electric vehicles, buy now, pay later platform. So just like being able to understand who the other players are then figuring out, okay, who do I want to back based on the strength of the team or how they've been able to go about building the business.

Okay, perfect. So you would say that the ratio of proactively searching for deals so solicitated deals is higher than unsolicited deals. So when you passively waiting for deals approached by entrepreneurs and startups, et cetera.

Yes. And I think also if you have conviction right, especially if you're like a European investor, you've seen something else walk in a different part of the world and you think it's just going to be a matter of time before it works on the continent. So just proactively looking for business in that space and figuring out putting back or being a trend set. In that case, I think really in house because I think a lot of investors lately are just following each other blindly because someone is investing just because someone else has invested as opposed to being a Trendset in terms of okay, this is what I believe. This I think is what I'm convicted about. And I'm going to back this company because the team is great, the opportunity is big. So just being the first investor in the company and bringing all these other people on board, I think that's where you get the most I guess return on your investment compared to just like being one of the many other investors investing in the business once someone else has identified it.

Yes. Okay. Maybe switched to another aspect that is really important to me. What about the screening and the due diligence that you're doing on startups and maybe also compared with your experience, also knowledge from the US, are there any additional steps in your screening and your due diligence that is specific to African startups or what is your focus on the end? Is maybe the difference to the US market or the European market?

I mean, I think it's very similar, right. The same type of entrepreneurs you meet and the same type of challenges. Obviously you need to be. Yeah. But I guess if it's someone who doesn't have local presence, I think relying on probably a lead investor, for example material is really helpful. But I think even if you're relying on that, I think just getting to know who the founder is, what their motivation is, I think is very critical. Either meeting in person or just making sure that you know the person really well is very critical. And then just, like learning about the history, like what have they done before that? What kind of experience do they have? Do they have the grid to be able to sustain through this? Are they a good fundraiser, for example? Are they a good leader? Because those are some of the things that it's very difficult being an entrepreneur, especially here on the continent. And so you want someone it takes someone with a strong character to be able to get through that.

Would you say that the personal fit or the personal characteristics are even more important on the African market than somewhere else?

Yeah. Because if you think of it, like, if it's a great founder as an investor, you won't struggle to have them fundraise or for them to attract the best talent or for them to attract the best partnerships, whether here or abroad. It all depends on the type of founder. I guess you have to look at how big the market is, how novel the solution is and stuff. But I think more than anything, just the team is very critical here. Yeah, I've seen businesses in our portfolio who are doing very well in terms of the numbers, the execution. But then if you're not able to tell the story to other people, like investors or to potential buyers of the business, Then you'll struggle, you'll be getting like a two X multiple in your revenue as opposed to like a five X or ten X just because you can't tell the story.

Maybe I can send you like I have two more questions about the post investment activities. Do you think it's okay if I send it in per mail and then you answer them?

IP02

Yeah, that's very interesting. I mean, you probably know that the VC funding in Africa in 2021 was like on a record high, so never that high before. And what do you think are the main reasons for I would say like venture capital boom in Africa right now.

So even if it's crazy growth, it's still representing less than 2% of the total VC funding in the world. When there's half of not yet, but it's going to be like half of the population in the future. So I think it's still low compared to the potential that it has and the interest now, it comes from the success cases basically of Paystack who exited. I think it was at the end of 2020 200 million to Stripe. And there's also which companies Interswitch is doing well. There's like the first success cases that we are seeing with Flutterwave based inter switch in the index space. And this is showing to investors that there's like a potential for exit, which was one of the main concerns I think that the investors had when investing in Africa and that you can make profits. And then if you see at the stage of the market, which sometimes is tricky, like when people see that Nigeria reaches 200 million market, it is not. But if you see the size of the market and the age of the population and the penetration of smartphones and internet that is growing, it has all the kind of positive insights about a potential good market. And also of course the size of the population is huge. So I think that this before it was not people was not taking attention or not paying attention to it and now people is paying attention. And also the internet penetration and smartphone penetration is not something that happened instantly. It took time and actually like for instance, Pesa was developed because of the lack of smartphones and internet connection for everybody. But right now there's a penetration of smartphones, Android space. Mostly there are business models that are possible before that were not possible. For instance, this last year in retail B2B, which is basically these applications that the owners of the small corner stores have to order the food delivery to order their food. But it's B2B, it's not delivery. I think MaxAB raised, if I'm not wrong, 55 million trade deposit just raised over 100 million. And it's something that maybe two years ago that the penetration of phones was not there, the smartphones was not there. It was not possible to have this kind of business model. So there's more penetration in different technologies. There's more business models that can be developed on top of them. And one of the fees that I had when I was investing is investing in digital infrastructure for development of new startups on top of them or new companies on top of them. And I think that's something really interesting. For instance, right now is the API infrastructure with companies like Stitch or Mono that are developing API infrastructure for the fintech space. And I think that in the coming years, we're going to see some startups developing on top of them, these startups being successful, of course, and startups developing on top of them. So as long as the technology infrastructure and adoption of different technologies is there, there's going to be like kind of an increasing amount of funding and increasing of opportunities because there's going to be exits. And when there's exits, it's going to fall vicious cycle, a virtual cycle. In this case, when we see this technology has been developed.

What was your investment thesis for Africa was different to your general Plug and Play investment diagnostic, right. So you're investing in various technologies and industries, right?

Yeah. it's tickets from 50K to $200 in first tickets, pre Seed, series A always minority investor. Like, we never lead rounds. And the purpose sector agnostic and with a focus on traction and entrepreneur, you understand? So we're really entrepreneur friendly in terms of we don't bother the entrepreneur. It's really investment thesis at the moment was like, okay, we have this kind of scope in terms of ticket size, geographies, and sector, which is super big. Like, it's not a proper scope, but we don't bother the entrepreneur. And what we had in Africa's investment thesis that we're drafting it dependent on the region. Because even if Africa as a continent and there's companies trying to do pan African products, it's completely difficult, I would say almost impossible to do because when I see Nigerian entrepreneurs telling me that they are going to span to Egypt, it's the same distance from Portugal to Russia, and the culture is completely different. So it's kind of challenging. So we divided the continent in four parts, which was Northern Africa when the main market was Egypt, then East Africa, where the main market was Kenya, West Africa with Nigeria, and Southern Africa with South Africa. So we divided the market in that sense. And then with the main thesis of investing in technology infrastructure in Nigerian, Kenya, there's an adoption of mobile money. So we have to take into account like the different aspects, cultural and habits of every kind of region to do our investment thesis. So it wouldn't have any sense, for instance, to do an investment in how to say this. Like it would be really difficult to do an investment, for instance, in energy space in Egypt when it's really controlled by the government, whereas in other countries there's a deliberalization in Nigeria. I think in 2017 they liberalize the energy sector. I'm not sure right now. You should have to do more research on that. But I remember that they liberalized. I don't know how liberalized it is, but at least there's kind of a less strict ownership of the energy sector. So depending on each region where we are focusing was in big cities and a big market. So most of our investments were in these four countries and taking the regional approach of every of them. Then we had I think an investment in Ghana and some in Morocco because our first office was in Moroccan. We accelerated some startups there and we invested on them. They are doing pretty good, so that's good. But I would say, if I have to say, like, okay, a new fund is getting to the African market. I would focus on Nigeria, Kenya, Egypt, South Africa and maybe growing markets if it's culturally appropriate, like Senegal. I think it would be interesting for the Francophon Africa and Morocco. But the problem with all this company, okay, I forgot this in our investment thesis also we were pushing for the Delaware or Dubai incorporated companies because when it comes to regulations, it's quite tricky to do exits in some markets because the government has different policies and regulations that are not investor friendly. So I think that's 90% of our investments were in Delaware or Dubai based startups or at least in a startup that is incorporated an investor friendly environment because there's some problems with existing startups in Africa if they are incorporated there. So that's what one part of investment thesis.

Super helpful. And how did you enter those four main markets? You already mentioned that you hired local people there. But from the first investment onboard, how do you set up the operations there? Did you open up a branch in every country? How was the approach in the beginning?

So in the beginning we were in the middle of the first wave of Corona. So I did everything remotely and it was more in terms of looking for investment opportunities spreading in Africa. And I think that one of the first investments was Amitrak, which is a logistics company out of Kenya. And I think that we coinvested also with another VC fund. I think it was Bynow ventures and a couple of investors from Kenya and it was a company incorporated in the US. So if the company is incorporated in the US and you have some communication with them, it's quite easy to do it. The problem comes to understand the market if you don't have feet on the ground. It's complicated to understand some business models. There's others that it's not that difficult, but there's others. Like if you don't go to Kenya until you don't go to Kenya, you don't understand how the Peso works and how it is used and how big it is. Until you don't go to Lagos, you don't know what's traffic and what's informal market like. Having feet on the ground is really important. And I think that it depends on the budget that you have to do this. But if you have the budget to hire local analyst or associates in each country that it's based there, I think it's completely worth. So in Plug and Play what we did, we have a kind of particular business model because we're not only a venture capital but we're also an accelerator. So we're a corporate funded accelerator. And when we went to Morocco, we got a partnership with OCP, which is a mining company out of Morocco that hired us to, let's say they funded an accelerator program there. So we started operations as an accelerator program and they started investing there. Then we got a partnership with the alliance to Entrepreneur South Africa, and then with the government of Egypt, which is Etida, the branch we started there. So we did these partnerships to set up operations as an accelerator program. But we were using this accelerator programs to get regional insights for investments. But for instance, in Nigeria and Kenya, which are, I think like 50% of our investments in Africa, we did everything remotely. But it is true that when doing the due diligence of the startups, we don't lead the rounds. We always had calls with the local lead investors to understand better the company and to basically to do a proper due diligence and understand why they are investing, what they're excited to lead investors and share insights about different topics. So I think it's really important that if you don't have anybody on the ground, at least to speak with people on the ground, that can explain the market because it's completely different and it's tricky to understand if you are not based there or you haven't visited for a time there.

Let's talk about investment syndication. Maybe the next question. One follow up question for this question would be how important are local executives from the market so born and raised in Africa versus is it also possible to send out like, let's say, plug and play executives expatriates to the foreign market?

So I think it's a mix of both, because on the one hand, you want to have someone that onboards quickly and understand the structure of the company and knows the process of the company and adapted to the country that he's moving, let's say like that. And on the other hand, you want someone that has lived there or for a period of time, like, let's say at least like five to six years because they have the knowledge of the market. So both things are good and each one has its pros and cons. I don't have a complete answer to this, but I would say for us what we did was someone from the Plug and Play team was going there and he hired local talent and also he hired people from other parts of the plug and play team to go there if they were interested. So it was kind of a mix of local talent and people from the company. I think that the best thing to have is like a mix of both, just because it's easy to onboard someone. Like if you are going to have someone that is based there and you have to on board it online and he's going to join a new industry because maybe he doesn't need to have experience captured before. It's tricky to do an on board with such a distance, with such different cultures. But at the same time, if you bring someone from Portugal or from the US to, I don't know, Kenya fresh without knowing anything, even if you have a lot of if you really want to learn, you are going to do it, but it's going to take you also time to understand the market. So I think that the mix of both is the perfect. It's tricky because usually like venture capital funds, if it's only VC fund, the team is limited to what the fund has raised and maybe you cannot afford to have two people on the ground if it's not a priority location. So it's tricky.

Yeah, totally to the co investing and syndication with local VCs. I mean, you already mentioned that you are always a minority holder, so you're never like leading rounds. What is the reason for that, especially in the African market? What's the reason that you're not leading any rounds?

Yeah, that's super easy. It's just because we do like over 150 investments per year and it's impossible to have seat boards in 150 companies per year with a portfolio of over 1000 companies, it's impossible basically to lead round. So we prefer just to invest with investors that are based there on the ground or that have experience in the industry that we're investing in. But it's just because it's our general investment, we never refund.

Okay, then what about post investment when you're not leading rounds or were you heavily involved, like the monitoring and also the post investment activity?

Yeah, for monitoring we don't claim is not a bothering investor in terms of asking for monthly, we recommend the entrepreneurs to send us like a monthly sum up of the business. And usually they all do it because the other investors ask for it and in terms of the support in particular, so they have this B2B, corporate funded accelerator programs and the corporate innovation platform. Basically one thing that Plug&Play does is connecting corporates with startups. So there's a lot of business development opportunities because I forgot to say that. But apparently investors in B2B companies, B2C, we had maybe 15 business or 14, which is a minority. And for B2B companies, basically what it does is connecting them to corporates startups, to corporate. And it's a potential clients for the startups. For Africa was a bit tricky because there was not that many corporates in the network of plug and play, but what we had more with African startups. And it was a bit like the work that I had to do because as we didn't have corporate, we need to show some value. It was helping them with the next fundraising rounds with international investors. So basically I started in the Series Seed, I was helping them to connect to investors across the US, the Europe or even in other regions of Africa. So even though the main added value of Plug&Play the business development opportunities with other big corporates for 500 companies in Africa, we lacked these corporates. We focused on helping investor raise the next round.

Okay, cool. And one question that I forgot to ask, what was your approach to deal flow generation on the African content? I mean, as you're probably also providing those accelerators, it was maybe easier. But what was your general approach to get those deals and all those startups in?

Okay, that's a good question because it's super particular. Most of the deal flow in Africa, it's through WhatsApp groups and WhatsApp conversations. So it's super informal and there's basically groups of associates, groups of analysts, group of partners in WhatsApp? And it's just people share information, they share insights about the markets and they also share deals. Anyone is interesting deal, something like that. So that's I think the better quality source, like this network that you create and this, what groups or this network of investors that you usually invest with then second, there's people like, I don't know if you know him. Maxime Bayern, that's like the funding database. So with the funding database, basically I was checking that the Pre-Seed deals or seed deals that were happening in the continent and I was contacting them just for next rounds to have them on the other. So it was a mix of Proactive outreach to some startups and network. That quality of deal flow in Africa is challenging. And we have this conversation a lot of times with other VCs. It's really hard to find quality, deal flow. And when you find quality will flow, if it's in fintech, the valuation is going to be crazy high. And even if it's not Fintech, sometimes it's crazy high. So it's a challenging moment. There's few valuations that make sense at the moment. I think at least when I left, it was like that. And if you want like top entrepreneurs. It's hard.

Yeah. So it's a mix. Like there's a lot of entrepreneurs that contact you through LinkedIn or email. I don't know how they get it and stuff like that, but these days usually are not that good. That's what happened to me. At least there's other way of having dealflow. That is for me the best way. It's not networking with other VCs, but the other entrepreneurs that you invested in, you tell them, hey, if you see any stuff that is interesting and that you have worked with, feel free to end their fundraising. Feel free to do an introduction so other entrepreneurs can introduce you to other good entrepreneurs. I think that was a good way. So it was a network with other VCs, network with other entrepreneurs. There's some quality events, but right now that every thing is virtual, it's a bit more challenging. But the events are not that bad for getting people in Africa. And some of them, some entrepreneurs reach out to you, but usually low quality. I think I did an investment that has reached out to me Proactive, sourcing and yeah, I think that's it.

Okay, cool. We are already two minutes behind, I would have one more question regarding the due diligence process, if that's okay.

In your whole investment process, when you were like, okay, this startup looks interesting. Was there additional step in the whole due diligence process or the screening that was particularly important for Africa compared to your experience in the US? Maybe.

Maybe if we didn't have feet on the ground and we didn't meet the entrepreneur in person. But we did it with most of the investments that we did another that we don't have like fit on the ground. It's asking for references to clients or lead investors. Sometimes we don't speak with the lead investors. Sometimes, yes. It's not really good, but no, the only difference, maybe it's like to a company that is based in Europe or the US or like in the blood markets, we don't ask them where they are incorporated. While in African company, we always ask if they were incorporated in an investor friendly environment. And even though they were not incorporated in investor friendly environment, some of them, they told us that they were going to allocate some part of the funding to incorporate in the US. So at least that they want to incorporate for the Series A, because seed and preseed round, you can raise them with African investors being incorporated in Africa. But for the series A, if you want international funds, you need to be incorporated outside. If not, it's going to be super hard. Okay. But the additional step, I don't think so.

IP03

Okay. Yeah, that's what I also did. I did a lot of research about the African VC industry. And also in the interviews, like everybody's saying, record high, even though there was Covid. When did Partech create the first African specific fund? Do you know when they started to investing in Africa and what were the main reasons for that?

Do you know that the initial vintage in 2017, that's when Fund one? No, actually not 2017. They had a fund closed January 2018. They could start doing initial deals. They had a final close in January 2019, just about twelve months later. The idea is really they've got a good platform in Europe and they've been able to do some deals in the US. So it makes a lot of sense to use the same platform to go to Africa. Really. I don't even call it diversify or I'd call it first mover advantage. At the time they were coming, there wasn't a lot of money dedicated to the continent. Right. 2018, I can't remember the numbers, but probably 1.3 billion was raised 2017, maybe half of that. It was still a really pretty small industry at the time, but the growth prospects of them was really small. And naturally, once you have a really good leadership position in Europe, which I think they do, and you look for the next emerging market and see, where could we go? Do we go to Asia? Do we go to China, do we go to Africa? I think Africa became a natural fit because it was probably the most unexplored. I don't know what the reason is, but I guess it was the most unexplored, the way you could really put your foot down before the big boys come or the other big boys come. And I think that was a very smart strategic decision, really well timed. And so far I think it's paying off. I think it will be, the reason. I say that if $1 billion is being raised and if you look at the vehicles dedicated to this continent , and I'm not talking about the Sequoias, I consider those guys global. But if you look at an African management team that raised an African dedicated vehicle, that isn't a lot of money compared to what is being raised right now.

Yeah, okay. That makes sense. You've already said it a little bit regarding local presence, how important is a local presence on the African market? I mean, you have a local present. You already mentioned Sequoia that probably don't have local executives. What is your perception on that? Is it necessary to have a local branch in Africa to be close to people? What is your rationale behind that.

I think local presence is important. I mean, I used to work for private equity before, and even then, local presence was important because Africa is probably a bit of a different beast compared to the rest of the world. It's an ecosystem in an environment where relationships matter a lot. In terms of you've got to be building the right kind of networks for you to get the best kind of deal flow. Right. The investment banking profession, especially on the tech side, isn't really well developed. It's actually, I would say it's almost nonexistent. The advisers trying to advise tech companies on capital raises, but they just don't understand the lingo just yet. So they also just bridging that knowledge up, tell them to raise money for a bank. They're extremely good. Okay. So for those reasons, you really have to be on the ground, talk to the accelerators, talk to the angel networks, talk to entrepreneur networks, and try and solve this deal. Just to give you perspective, when we could travel back in 2019, we were doing about 40% of our time on the road, just in and out of countries. And consider that we had offices in Nairobi and in Senegal, in Dakar. So we already had ongoing presence in those two market, but we are still traveling so much across the country that is to source deal flow and just have dinners and breakfast with investors. And those relationships would help when the pandemic hits, because now we were trying to close deals remotely, but we could relate to some of the deals because either we've seen them before we met the founders before. So that aspect of relationship, I think deals in Africa will be one a lot on relationships, even more than in other markets, I would say, because there's an element of trust. Remember that VC, private equity, these are still relatively young asset classes. Right. So some of these founders raising money and doing it for the first time ever, they've never raised money before. They've not been used to an ecosystem where money is constantly being raised. It's just now developing over the last four to five years, especially on the technology side. Tere's a level of comfort you've got to put the entrepreneurs need to be able to say, I trust this guy. I don't trust this guy. At least I've had dinner with this guy. We've had conversations. I know he's got a family with two or three kids. We share certain principles and certain ethos. So those conversations become valuable. I think when you're closing a deal.

I think eventually there will be a lot more drive to local executives. Right now you could do either, because right now the shortage is capital, right? Once it starts getting competitive, that could be a potential play. But the thing is, the VC world is so unique in that the Sequoias don't have to set up shop in Africa right now. They could just wait for any big deal that comes up seriously and beyond and be able to travel in, spend time with the team and travel out. But for those of us who've got a built portfolios that are Africa specific, if you're doing seed investing, depending on your strategy, whether you're doing 20 deals in a fund or 50 deals in a fund, you really do have to be on the ground. If you're doing Series A and B, where you're doing 2025 deals in a fund, you don't have an option. You have to be here, I think. But if you're doing growth investing where you're looking to do ten deals of five years, which is two deals a year, you may get away with not being there. For now, you may get away with not being there. Yes. And you may get away with it long term because I've seen some large American firms doing deals in Europe, and even when they're competitive, they really invest the time. But of course, you then have to put in an extra effort because you've got to travel. And I know of a deal that I found from the US traveled and spent an entire week in Paris just trying to get the deal signed. And at that time, it's competitive. There are two or three other players. You still could lose out.

What is actually your investment thesis in Partech Africa is it like you already said, it's pretty early stage. Do you target any specific technology also, maybe countries in Africa.

So sector, geography, agnostic. But what you realize is that we will not do hardware plays because they probably require a lot more money than we can provide. Maybe this is a step back. The fund is $140,000,000, $143 doing Series A and B checks with a target size of about three to $6 million, as a first check can go up to $14 million all in. So what you realize $14 million on a single line. What happens is that you keep reinvesting in your winners. Right. So to hold your position and the thesis really is to look for teams solving the largest problems or the most painful problems of the continent using technology. So be it in logistics, be it in FMCG supply chain, be it in fintech, where we know this is a big problem and technology can play a role in making the value chain on that particular sector more efficient. Those are the deals we like. The biggest sector right now in Africa is fintech, which takes probably more than half of the deals. And the reason is because access to financial services is such a big problem. Right. The banking penetration is not as high and why it's not for mobile banking I think that number would be worth of.

Yeah. Okay, that makes sense. What I've seen in the past is a lot of coinvestments from local VCs, and we already talk about that a little bit. Local VCs versus co investing with foreign VCs. Do you see that the trend is increasing and what are the reasons for that? And is it the reason for that kind of synergies between the local and also the foreign capabilities and strengths and weaknesses?

Yeah, I think it's synergy, really looking for synergy. You're on the ground. You're not the founder. You probably invested in the previous round. You're following on in this round. The fact that you're following on is a good signaling sign for anyone coming in. You're still putting money on the table, and especially last year when you don't know the team you're trying to figure out we can't travel. So what do we do? Let's try to partner up with somebody who's on the ground. But I think that local knowledge is valued, that local perspective is valued because this is a continent of 54 or 55 odd countries with fragmentation across languages, across currencies, across cultures. We've led round, we've co-lead rounds, we've had follow on rounds. So we did it all. It just depends on the size because our focus was so depending on the size of the check size, we could call it. But that's something that we used to do. So the first one more thing that I did mention when I said you were geographically agnostic, what you'll realize and I'm sure you looked at the data, is that they're only pretty much there are four dominant markets where all this money goes. The tier two markets are catching up. But really it's Nigeria, it's Kenya, it's South Africa, it's Egypt, and the dominant market. So those are areas where we expect most of our deal flow to come from.

So the next part that I would like to cover is like deal flow generation. What is your approach? You already mentioned your networks, so you're probably proactively searching for deals. Are they also like entrepreneurs coming to you?

I would say the best deal flow comes from entrepreneurs, good entrepreneurs knoq good entrepreneurs, or as the saying goes, bad over good entrepreneurs will know who else is a good entrepreneur. That's a really good source of deal flow. The other source of deal flow. If you're still is the investor, just look at who's investing that seed and look at their portfolio. Right. If you know good seed investors, they probably make good decisions. If you look at their portfolio, you're probably going to get good deals. Actually, there's quite a lot of inbound, but you do need to curate that inbound. It comes in all shapes and sizes. So you've got to find a way of quickly filtering out and figuring out, does it meet the quality standards? Does it meet the sector fees, the efficiency fees? Not so much on the banker side, investment banking is not that on the VC side isn't that well developed. Accelerators, a couple of accelerators here, the likes of Antler, Y Combinator deals that go? They tend to get a lot of attention. There's one called, I think, Doctor, one of the founders of this company that does buy now pay later in Europe, Klarna. One of the founders , I think has an accelerator called Norrsken. But deals that go through those programs tend to get quite a bit of attention. Okay.

It's heating up. It hasn't been intense, but I can tell you for sure it's heating up. For those deals, it's pretty competitive because if a deal goes to AC, now you're competing with global investors. So you really, really must show your local, not even your local. You must show what it is that you bring to the table. And I also found us to check for this. What value do you bring beyond your capital? What networks can you open up? What doors can you open up? Can you help me hire good people? Can you help me build better technology? These are going to get competitive, especially because of what has happened last year. There's going to be a lot of attention on the market in coming years. If we close this year at 4 billion, which it seems that we will 4 billion raised. I would not be surprised if in another two years that market isat 10 billion. You just need to look at what happened in Southeast Asia and Latin America to know where this is going. Okay. And you're starting to get really solid winners. You're starting to get activity on the exit side. And once you start getting good winners, activity on the exit side, it just attracts more capital. And if you think some of these global players, who are the ones who I think will bring the most competition, if you look at what they really need to look into Africa to be competitive, it's really small. You'll find funds that have overall assets under management in the billions. And they only need to allocate less than a billion dollars for Africa, a couple of hundred million would do it.

Okay, very interesting. One more question regarding the due diligence. So just imagine you have a start up that you consider exciting. Are there any additional steps in your due diligence process that is like very specific to Africa?

No, everybody gets the same termsheet, everybody gets the same deal, everybody gets the same termsheet that we use for European, for the US, for Southeast Asia. So we don't place an extra premium for Africa. I think that premium is negated by the fact that if you grow quickly, you can really grow quickly.

Okay, cool. We still have like four minutes. I have two more questions about post investment activities. So monitoring and also value adding services. Are you offering any of these services and your post investment activities? Is it more on the operational side or more on the strategic side of the business?

I'd say more the strategic side. But we asked our founders, what is it that you would like us to help you with? And the number one thing that they would like to help with is hiring good people. With one of the recruitment partners we work with, we try to come up with a program that would curate good talent and put it in a talent bank first, that if one of our startups wanted to hire, they just check in the bank first and see if there is any kind of meets their requirements before they go all out hiring. And the idea was to reduce the time to hire, reduce the cost to hire. Still a very young program developing day after day. But that was the number one reason that was put on the table by founder that this is where we need help in addition to capital. Number two is can you open doors for us? Can you open networks? Can you help us launch a company? Can you help us launch in Nigeria? What's the Nigerian market like? What do we need to look out for? Or can you help us launch in Egypt? Or can you introduce us to potential partners? Right. So that was the number two. The third one was going to help us build better technology. A bit of a mix of hiring the right kind of talent and just having the right kind of strategic value at the board level. Yeah. I mean, in terms of involvement, it depends on investment. First few months, you probably are very involved. You probably get on calls every week with the team for an hour for a catch up. What's working? What's not working? So sometimes we do get into the operations, but not to sort of more so as an advisory role, let me call it that. Right. But then as the companies much, when your portfolio, you tend to step back. You probably do monthly meetings so it depends.

<u>IP04</u>

<u>Okay, very cool. You probably also know Maxime Bayen, you probably saw and African VC funding is on a record high or was on a record high in 2021. Where do you see the main reasons for that in the development of VC funding in recent years?</u>

Okay, so there was something that happened in November, October 2020, and that was the acquisition by Stripe. This is just Fintech. Fintech has gone on from being what's, that everybody's going to be a fintech company, right? That has translated to Africa. And now you're saying like a bunch of Africans are done screaming of doing cool stuff and solving the inadequacies with the banking systems and the Pay stock acquisition kind of like push the narrative forward. So you said that Pay Stock was acquired in October 2020, and within the first seven months of 2021, you saw like, this huge bomb in investments. So the narrative of finally African startups have been success stories who are not beginning to have more unicorns. I mean. Okay, let me just recap. We are seeing more success stories, unicorns, and acquisitions, which is increasing investors' confidence. Local investors also coinvest with other investors and bring in foreign investors from their network as well.

<u>Okay, cool. All right. You probably also noticed that a lot of foreign VCs are coming on the continent. Where do you see the biggest differences in the investment behavior between local VCs and foreign VCs?</u>

Okay, local versus foreign, this argument seems like it comes on end. But the way I see it is the local investors need to do more. And by more, I mean they need to be less risk averse because of local investors are investing from local currency. Most of the founders are raising, like, what, dollars? Euros. Right? They are at a higher risk than the foreigners who are coming with the dollars and euros. Right. So because of this, they tend to screen deals more, they tend to be more stringed with their due diligence and local investors don't invest as much as one would like. But this is kind of changing. I mean the narrative is just changing. I've got playing a game of narratives now. Narrative is changing. Success stories have been told and so everybody is seeing VC as a good investment vehicle. But in terms of investing and it's something that we do at the firm. So we coinvest with other investors and we also bring in foreign investors as well. If we see that a deal or a company is more suitable for maybe a VC that is heavily involved in fintech or agricultural or clean tech, whatever it may be, and we have contacts with them, we try to do that, we try to bring them in, maybe lead around because we don't actively involve pre-seed like pre series A, series A. So we don't really lead rounds. So we bring them in and they need rounds with us.

What is it like specifically your investments thesis?

So we are sector agnostic. If you go to our website right now you would see 130 companies. That's why I said we are one of the most active on the continent. And so you'd see investments in what ad, health care, Fintech, travel, ecommerce, logistics. So we are quite spread and occasionally you would see what crypto, you would see blockchain, you will see all of those things, but we're quite spread. We invest in good founders. That's the main thing when we see founders being pulled up and they have the traction to shoot for it.

Okay, cool. I would be interested how you set up your whole operations. I mean you mentioned that you are only a bunch of people, so not a lot. How do you investments in the deal sourcing? How do you set up the operations?

So from deal sourcing to due diligence, most of our deals are captured in Cap table. So if you click on the Apply for funding link you would see a bunch of questions that the Ask founders are working on. What sector are you in? Stuff like that. Very preliminary questions. Submit your deck, you would see all of that. Okay, so that's one of deal flow pipelines, right? Sometimes we get like I mentioned earlier from other VCs in space, other partners in space, other founders in space as well. Some founders will be like, oh, I just met this cool guy or he was in my former startup and he's now starting his own business and they sent this to us so we have deal flow from everywhere. That's one of them. The website is one of the channels. So when we get that, we screen the deals, we have certain criteria which we use to screen deals. Metrics, traction, team, location. We try to not invest in places that are politically, not politically like some countries like Ethiopia, for instance, where you have rest at moment, we tried to move away from the spaces. So after doing that, then we come and have a meeting with the founders. Those are the parts that screen with the founders. We speak to them because we have like a group of about 200 Angels. We bring in partners that are partners and experts that are core in this space deal. We bring in people, maybe CEOs, directors, people who actually know the space. They come on the calls and they speak with his founders. Then if the deal is a good deal, we go ahead with due diligence. Where we speak to customers, we try to understand the business in really, high details. Then after that we sign the checks and move on. Sorry. We now become partners with them. So whether it's us finding maybe your next hire or finding your next big customer, those kind of expansion plans, then we proceed with that. So I'm based in Lagos. We have somebody who is in Abuja, parts of Nigeria. One of our partners is based in Egypt, others are based in the US, Barbados, the UK. So quite spread.

Next question would be your perception on co investments between local and foreign VCs. Have you ever mentioned that you already brought some foreign investors aboard? Do you see that happening more often? Would you be more also open to increase this syndication in the future. What's your perception?

More of it needs to happen because we need local investors are not going to match the level of funding that you would get. That's why you probably see in the report that Y Combinator is the most active, which is funny is a local investor. But why would they be on the list of active investors in Africa? It's quite funny. I believe that it will increase. We need more of that because local investors are still, they still need more encouragement to be more open to investment in VC. Really? That's just that we need more.

Well, that's interesting. Yeah. Because when you think about PreSeed towards, let's say pre series A, I mean, whatever you want to call them now, you might see the million dollars seed rounds. It's crazy. So most of the time how I try to think about it is when you are at what preseed to seed stage, you are still an egg. So everybody needs to hold you, gently manage you gently take you from zero to ten. Then when you are now at the seed to series A, now you can now go out there, explore the world and be out there. So now you are now more comfortable in receiving foreign investors because one thing

founders and yes, local investors don't bring as much money, but the experience is still very key. One thing founders don't understand is local investors would help you where your foreign investors would just sit back and be like, sorry, what do I do here? Your foreign investor would not fight this central bank for you. If he has no connection, he can't do it. But the guy who would invest into your business for just a small amount would do that and do it much more better. So, yeah, we need a balanced founders need to understand that at the early stages you need the local experience on your cab table for you to really scale.

Okay. That was good. Okay. We already talked a little bit about your deal flow generation approach. You said that get a lot of inbound over your website, then connections to other VCs. Right. Also network with entrepreneurial startups. Is there anything else to add to deal flow operations?

I think that's about it. Like getting deals, I think the website is if I were to rank it out of 100%, maybe the rest I might be 20, maybe 20%. The rest will be probably composed of other founders, other VCs, other partners. Like really the people who are active in the space, who do you know? And it's something that I've always been to. The VCs space is a game of who you know than what you know people. So it's who you know that gets you in front of pitching your company. That's it.

Do you provide those value adding services? And if yes, are they more on an operational side or very strategic question where you provide help?

Yes. So as far as I can tell, yes, we provide value services apart from capital. So totally, for instance, just launched in Egypt, I think some months ago. And we supported and helped them with that expansion from Nigeria to Egypt. So we provide on the ground operational expertise. Also, we can help you meet with regulators, puts you in front of those conversations, trying to reduce the time that it takes for you to view your company. We do that as well. And like I said, we also have a group of over 200 Angels, C level executives from any industry, what's called because we're not just based in Nigeria. We have people spread all across the world. Like some people are in Nigeria, Egypt, somebody is in

UK, somebody's in US, somebody is even in Barbados. Imagine Barbados. So it's very distributed. And so because of that kind of like diverse experience, you bring quite a lot to the table.

IP05

The first topic is always like the rational behind investing in Africa. As you probably know, the VC funding was on a record high in 2021 on the continent. Where do you see the main reasons for this development in recent years?

Yeah. A few years ago, Nigeria was still ahead of everyone else, so there was a lot of VC activity there, but everywhere else was pretty much dead. There was also some in South Africa, Kenya a bit less, Egypt a bit less. But it's just that people have realized that there's a lot of capital to go around and not enough places to place that capital effectively at good terms. Think about it as a fund. Right. Where do you have opportunities to get better returns? A lot of the stuff that's already been built in Europe, in Asia, in the US, is just now being built in Africa. So for VC, that's literally the perfect place to be. When you think about tech companies and how they grow, you want to back really fundamental business models, like in logistics or in health tech or in fintech. Right. And those are the models that rescale very effectively and are able to give fund returns also as effectively. So it's just a function of a few funds came in very early on, like Homage Ventures was very early. Who else? There were a few funds that have started a while back, but now it's just that there are a lot of companies that are at the growth stage and are raising subsequent funds. So subsequent rounds of financing. So that's series B and C. And that's why all these growth equity people are coming in and look like this business is doing great. Let's put some more funding into it. And that's sort of shown on the early stage investing is less capacity for returns and capacity for liquidity, and that's what's attracting all these funds to come in. So I regularly see European funds trying to do deals in Africa. That's such a new thing. That wasn't happening previously. Tiger closed its first investment. I think it's Texas pay this year. Andreesen Horowitz just concluded one. It was released yesterday. Target has been here. Target hired like from CRE. They hired, I think, an investment principal from CRE. And now he's handling most of their investing. So they're coming on to the continent now.

Do you see, like any big differences between the investment behavior of those foreign VCs compared to local VCs in terms of investment thesis stages, et cetera?

A lot of international funds. Yeah, let me take that in two pieces. So number one, a lot of international funds that will come in, they'll typically only look at Series A and beyond. And the reason for that is they want to see an established business with a good product, good revenues coming in. And since they don't have market expertise, they want to focus on what other local funds have invested in the past. And so they can follow on and have that sort of laid foundation already so that they don't have the risk of playing in the seed stage. So I think that's one effect. And the second one is when you look at C Browns in Europe, and I was in Cape Town recently, I was speaking to the partner at Brigga Ventures, and he said something to me. He said, look, regardless of where company is in Europe in terms of revenue monetization and product, seed round, Series A, round, Series B rounds have all normalized. So revenue has pretty much become irrelevant. Right. Based on how much you will raise. So the idea is you're raising a two to $5 million seed, you'll raise a $10 million Series A and $20-30 million Series B. And that's sort of normalized itself. And funds won't ask you stuff like, oh, well, how do you justify that against your revenues? Whereas we still have to look at seeing if a product even has traction. So we're making those types of decision even at the series A stage that European VCs don't give a shit about. So they'll come in, they'll say, no revenues. That's cool with me. We'll invest if the company is based in Europe. So that's a disconnect that's I think a bit problematic because here you have a lot of capital that they want to deploy $5 billion for. European VC is nothing. They're more than happy to deploy it into one company. For an African fund that's Africa focused, it's a bit more challenging to even deploy that capital. So they're more careful about where they place their money. And a big example of this is Opie, the round that they raised. It makes no sense. You ask anybody in the VC community, people who work at least and actively invest in VC. They will tell you about Ope. They'll be like, yeah, it makes no sense, but they were able to raise the funding and it's sort of a chicken and egg situation. It's like, oh, I have the funding now. Now I'll make the company work as opposed to the company's working. I need more funding now. I'll be successful. You see? And those two mentalities are obviously different. Like, the reason Tiger did a new access was not that you can go see access a website. They don't even have a website yet. It's sort of like we'll give you guys a lot of money, build the product, and then we'll see what comes. So I think it's just a different style of investing, but that's going to slowly. It's also going to change. It's just a function of how much capital is available and how much can be placed. Okay.

What is actually your specific investment thesis? You already mentioned, like, you're investing in startups to come out of accelerators, et cetera. Do you have any specific technologies or are you sector agnostic? What's your thesis?

We are sector agnostic, only pre Series A so we'll do seed preseries A rounds, sector agnostic and even country agnostic. We were trying to close a deal in Sudan, but then the military coup came and then we were like, fuck, can't do this anymore.

Okay. How did you set up the whole investment team in terms of local presences? Because all those markets are pretty much different. Right. So how did you set up the whole presence and the whole operations on the continent?

It's not that difficult. One thing is like, so again, as I said, most of our deal flow will come from accelerators. Like, the benefit of having the accelerator network is, you know, you have people on the ground who can do diligence for you. So as a team, we're only about six people. We're not that big, like an incredibly small team. And most of us are based in South Africa. So it's difficult now in this age of Zoom to try and go see companies before COVID, all funds would. But now they don't like that mental block of investing in a guy's company even before meeting him has now totally gone away.

So a lot of it happens over calls, get on diligence calls. We'll get our people on the ground to meet the company due diligence, and we're able to rely on that without having to travel and go see the company in action and then sort of interact with the founders in person.

Okay, cool. Let's talk a little bit about Co investments. You already mentioned that you were also talking to other VC funds, et cetera. Have you ever coinvested with the foreign VC?

Yeah. No. We have. One way our fund works is limited partners in our fund have access to co investment rights with no fees or no carry. So it's basically for free. So let's say we were coming to a round. There's more than there's still 500K left. We'll give it to some of our high net worth individual LPs or foundations, and then they'll follow and they'll do 100K, 200K checks. So that's how these funds will come in. So just this morning, I was on a call with the Maru Benny Corporation, who wants to direct investments into a Medtech in Nigeria. Like, what the fuck? There's no correlation between these two, but they want to do it. And so they want to work with us. They'll write a check into our fund, we'll give them the Co investment opportunities, then they will invest directly. So that's how we're seeing international funds coming in is they want to piggyback off of either us, Future Africa, like the top funds. They want to work with us, get access to our deal flow and then invest. I would not give a lot of deal flow to a fund that's not an LP in our fund, but just sometimes a founder is raising money. There's still 200, 300 left. And so you sort of have to go to these other guys come in.

In terms of local presence, how would you recommend a foreign VC entering the African market? Is there, like, any strategy you would recommend if you would start the operations from scratch?

Like, it depends if you're asking about a fund that's like a growth equity fund. It's two different things. Whether you target growth equity or you do early stage. And those two are very different. If you're doing early stage, you need to have local expertise. You can't just come out of India or Europe or the US and try and do early stage investing here totally. With no sort of support network locally. You just can't do that. So one way for early stage investors, at least for the US guys, like a early stage VC fund, they will invest in our fund, and then we give them access to the deal flow so that they can invest via their own vehicle. So that's been one thing. And so what happens is, let's say over a few years, they were able to then develop those relationships. Okay. For them to do it on their own. So it's sort of like a gateway to the continent and a lot of funds do this. Like if funds want to go to Europe, that's how they did it initially. If you look at everything, that's pretty much how it happened. That's how A 16 C started in investing in Europe. That's how it happened. And the other one for growth equity for us is like, think about portfolio value ad for us as a fund. Like, we invest in the early stage. Now founders raising Series A or Series B. He wants assistance. So we actually curate relationships with international investors. And we say, look, guys, we invested into this company. It's doing great. They're planning on raising a Series B, Series A or Series B, whichever it is. It will make sense for you guys to come in, do your diligence. But we're investors, we back the company. We love the company. And so we do a lot of recommendations to International VCs. Also for SoftBank, for example, we did a few Briga ventures, so Briga invested a few. I think it was $1 million into Quora, which is a portfolio company of ours. And we were essentially European VC. And we told them, this company doing well, raising capital. You guys can potentially come in and they did. Those are the two ways I see international funds coming in and investing on the continent.

Okay. And regarding setting up the deal flow sources, and you're pretty much doing it over the accelerators. Right. Are there, like, any other main sources that you should be aware of when setting up the operations here for deal sourcing?

Yeah, it depends. Are you asking me very tactical questions? Like, for a fund, like actively, it's going to use this as a handbook to deploy in Africa. If you want to paint it like that, then there's plenty of events, like just networking online events. So all accelerators will do demo days. Right. So go attend demo days. That's one big thing. Like, go ahead and all the demos. That's a massive thing. The second one is there's always sort of pitching events. So there is Africa Arena in South Africa. They organize events in Senegal, North Africa, South Africa, in Kenya. They've done a few here and there. So those are also good. And the rest of it would just be like trying to curate relationships with funds. And get coinvestment opportunities there. Those are the three I see.

well regarding post investment activities. So the monitoring of portfolio companies and also value adding services, are there any differences between what foreign VCs can offer and also what local VCs offer and what startups may be demand from the different types of investors?

Everything, really. When you're adding value in the early stage, it's partnership with banks, corporate insurance companies, Telcos, giving them access to those partners. That's very important. So that's a big focus of what we do. And that's because we come from a venture building past as opposed to coming from a private equity background. Right. So that's sort of the difference with us as a fund. And that's not the same with all other funds. There are a few funds that still come from like a 4DI or something. All the South African funds, actually, I take that back. Don't quote me as saying 4D I, but these funds come from a PE background and their whole concept of add value is like we're going to chop up your employee base, we're going to try and make you cash flow positive, and then that's our value at you. Even though that's not what it is, you sort of have to think of venture. Venture capital investing is totally different than me. So that's what I'd say as a fund. That's what differentiates us. And other early stage funds also operate in a similar manner in the sense that they curate existing relationships with corporates, try and get them to run POCs, whether that's having contacts at Telcos, Insurers, working with all the digital innovation people at major companies, established companies, and try and figure out how a company can assist depending on what the product is, depending on what their product is, where they fit in with these established players. So that's a lot of what we do. I can't comment on what other it's European international VC add value from. I know Sequoia has a big focus on portfolio synergy. That's a massive one for them. That's something I've heard of. And apparently they're very good at it. Not so much, I'd say, because we can't ask an existing portfolio company that's very young to go out and give their services pretty much at cost to other companies. That's a very difficult sell for early stage ventures. But once they get to that Series E and beyond stage, then we can start pulling on their resources and saying, look, there's this young company, they really need your assistance. Try and help them with whether that's scaling to Ghana from Nigeria or something like that. That's one of the things that we help with.

IP06

So ??? is not a traditional venture fund, it's a foundation backed fund. And it was founded in 2008 or nine. Don't quote me on that, but I think it's also online. When the CEO of ??? decided he wants to educate people in Africa about coding so initially he founded the school, taught people how to code, and then all these people came up with these great business ideas to local solutions and local problems, but there was no money. So he then decided to complement the training program with a venture fund that actually invest into great ideas coming from this program. And the idea was actually to kickstart entrepreneurship and to give entrepreneurs the opportunity to start their own business, which is a big hurdle in Africa. It used to be. It still is, right. There's a lot of opportunity cost for entrepreneurs that you have to take care of. Right. Like you need to find a job that's paying you reliable salary most of the time. And he saw the problem that there's a lot of ideas and a lot of great solutions to local problems, but people do not realize them because they do not have that, first of all, support and financial stability to do that. So he decided to actually come in and eliminate the issue of. Well, to a certain extent. Right. Eliminate the issue of actually starting out, which I personally probably want to go later into that, but which I personally think is super relevant, especially in a very young startup ecosystem.

Okay. Very cool. And the incubator or the school is all connected to the VC fund as well. And how big is the VC fund? And it only invests in the people and the startups that come through the incubator, right?

Yes, that's correct. So the fund, on average, we invest probably like one and a half to 2 million a year.

So it's really not limited. So if there's like ten great companies, then we invest in all of them. But if that's just five, we just invest in five. I think as of now, there have been like about $20 to $24 million and been invested over the whole lifetime of the fund. Yeah. So yes, there are programs in place with Mastercard Foundation, with UNICEF that we're working with that now include like more companies coming in that are not only going through a training program, but that joined several accelerated programs that allow for investments. So there's going to be a little bit of a strategy change, like it already started. But I haven't been there for like six months, so I don't know exactly how fast we have come there.

Okay, cool. And what is exactly any specific investment thesis, which startups are you targeting and which are coming into the incubator? Probably early stage technology. I don't know. Agnostic. I don't know. Maybe you can elaborate on that a little bit.

Yeah. Based on the thesis that this program actually started, we invest sector agnostic, but the companies have to be either technology companies or tech enabled. So what that means is we have several companies. For example, before I left, I raised money with a fintech company that is creating a community savings bank. So this is completely technology through mobile, money and USSC services. I don't know to what extent you're aware of that. And then there's, for example, another company that's like in agriculture, and they're working a lot with GIZ, and it's a technology enabled solution. They provide services to farmers like about crop prices or about weather data. So it's very much sector agnostic. But the solutions have to actually have a good impact, need to be scalable .And geography wise., we had majorly companies, obviously in the major markets which are gone in Nigeria, Kenya and South Africa. We do not focus on Egypt as of now because there were just no companies coming our way. We had one in Ivory Coast and one in Tanzania.

Okay. Those four major countries, that's what I always hear like big hubs. In terms of presence in those markets, how did you set up your strategy? Do you have a local branch or local startup Scout in every country? How are you doing that?

Yeah. So that's a really good point, right? I mean, I think it depends on the stage. So we are very early stage. So obviously the companies need a lot of hands on approach and support, especially as we also help them incorporate the business. Right. So I think at the later stages, definitely companies are a little bit more independent, especially if they found the business themselves and they come to you with already being active in the market, having most likely found product market fit. So we have seen that it's really relevant to be there for companies, but not majorly because of proximity, which kind of ties probably into the reason why it's still important. But given Covid, you can do everything online. The major reason why we think it's been important being on ground is first of all, understanding the local ecosystem, the economic dynamics and customer behavior. So customers are different. Like even across the country, you need to really understand what's going on on ground. And that's like actually the entrepreneurs who can do that best. So if you're like, based in Ghana and you've never traveled to Kenya, you probably cannot help if you're going there because you have no experience. So therefore, for me, it's just majorly understanding the ecosystem, having connections there, which is like huge and connecting them to the right people that know because the entrepreneurs are actually those who understand their markets best.

And what do you think about, like you mentioned, that sending out people in the real markets, how is the ratio between sending the local executives, hiring local executives in there or sending out expatriates to the market? What is more efficient? What would you recommend?

So it depends, right. You can have expats who have been living in Africa for whatever long or have been in Ghana for ten years and know the market really well, have found their own business. But if you just come as somebody who has never been there and doesn't have an idea and you go there and you trying to help someone you're not, you're probably going to be more of a burden. So then the question is who's the local has the local lived there? Does the local understand right? Is it like an expat as well or have they been growing up somewhere else Besides the country you want to send them to? So I think if you have an expert who really has connections in the country who really understands the dynamics better than somebody else who might be local, then great, but if it comes to building trust with maybe your customers, then it probably is relevant to send somebody who actually has been growing up in the environment because they are much better in making connections. I don't know if that's relevant but I'm just going to give you an example going back to another agriculture company. So the problem that they were trying to solve is as I said, crop prices. So for example for cocoa, the problem with cocoa is that the government is betraying a lot of farmers with the prices and we had to go there with locals to first of all translate to first of all tell them that we are not here to Rob them which is to mistrust everybody. Like obviously that is not does not look like them maybe based on skin color but also nationality but also like tribe.

There's so many things that make people distrust you. So it's not only race but you really need to understand how to reach the customer group. So yeah, I hope that answers your question.

How is your perception of this syndication and co investing with other VC firms?

Yeah I don't know to what extent I can speak to that but if I would raise a venture fund outside of Africa I think the first thing I would probably do is get a lot of connections with other really good venture funds on the continent and ask them if I can coinvest because first of all they have access to the great deals. Like if we're honest, yeah there are a lot of opportunities but how far do you get those deals to actually perform? So it's really hard to find really good ones and therefore you need to be fast, you need to be attractive and you need to have a track record. So if you're a good VC and you have a good entrepreneur, entrepreneurs are really selective. Right. So they're really selective because you really want to understand what you can do for them. And if the entrepreneur is not selective, I don't know to what extent they're really good, then okay. But I think co investments are super relevant to actually tap into the market to understand. I don't know, because we never did really coinvest with other companies. But maybe it's just another addition to that is there are different investment requirements across the countries. So for example, you cannot invest direct equity in companies in Ghana below a certain threshold. So I think before, I don't know if they changed it, but it was like 250 or 500K that you need to cross in order to be allowed to hold a direct equity stake as a foreign investor. So I think Kenya, you can do direct investment, Nigeria too. But there are companies a country that this is not possible. So you need to have somebody who actually understands, first of all how to get the money back out of the country and how to, first of all get the money into the country. Therefore, it's definitely important to have people who understand.

So the deal flow generation is like going through incubator. Right. Do you have any other approaches to deal flow generation specifically to Africa? What would you recommend there?

Yeah, as you said. Right like our deal flow majorly comes from the training program. But in terms of deal flow, and from what I know from other VCs, they get inbound a lot like a lot of inbound deals, a lot of recommendations. And obviously co invest the hottest deals across other VCs that you trust. That's what I would do because before I went to business school, I'm like, okay, how would I raise the funds in Africa? That's probably on hold for now, but I would definitely do it like this. Talk to other VCs that I trust. Then what I would do, depending on the stage that I would focus on probably my focus would be more on early stage series A, B, probably. And to acquire the early stage companies, I would probably go to the incubators and accelerator programs and look at those obviously get recommendations from them on companies mostly. Yeah. I think that's probably where you get the best quality deals. I don't think that inbound randomly would actually be a good strategy. So I think recommendations is number one.

Okay, cool. In case you have like there's a startup coming through Incubator, which is like really interesting to you, are there any additional steps in the whole due diligence process is specifically important for African startups, like things that you have to consider additionally to maybe a normal general due diligence process, just for African startups.

Yeah. So there are two things that are important. I mean, there are a lot of things that are important. But the two major things that send out to me is first of all, how big is the market and how easy can the companies expand across borders into different markets? Right. Like, what are the regulations?

I think you have to really consider all different types of risks. Like you really have to do a risk analysis and understand whether the investment actually makes sense in the very long run and whether there are any potential ways of, like, regulations shutting down your business. Obviously, this is everywhere the case, but Africa seems to be a bit more volatile in this topic.

Expanding in Africa to other markets. Like, let's say from Ghana to Nigeria. Right. So for example, as a fintech company, you might require a fintech license for one country and non for the other or like a new for the other country that you're not operating in. Yeah. Maybe there's like obviously different competitors, different regulations in general then obviously political environment, which kind of ties into the regulation. And the second is, how patient do you have to be? How much capital do you have to invest? Right. If you invest in tech companies, do you have to build the infrastructure? If you invest into logistics companies, how much capital do you have to put to work to actually get the business running? So if we talk about I don't know. So coat watch, you have to buy the whole fleets, you have to finance the whole fleet. Or if you're talking about Mpharma, you have to buy all the pharmacy chains and acquire them. You have to have all these equipment. Whereas if you look at the fintech startup, you just need to develop the technology depending on how capital intensive that investment will be. So that's probably a big consideration as well.

Right. Like, what kind of investor do you want to be? Do you want to invest into asset light models or do you really want to build an industry and therefore have to invest in infrastructure and therefore be more patient?

You already mentioned that you are pretty much heavily involved in the monitoring and also the value adding services. Are those services more on a strategic side or more really on the operational side of the business? How would you evaluate that?

Yes, I think we're very heavily involved more in comparison to other VCs, probably because we're literally working with them on a regular basis. We're not really doing operational. So we wouldn't probably do sales calls with them or it would be more of maybe tactical and strategic. Right. Like we talk about, hey, what do we need to do the next month? Then we set milestones and then they check in and say, oh, this is how far we've come. What do you think about our marketing campaign or okay, we want to raise funds so we create like they share with me their document about potential investors and I add my investors that I want to introduce them to or I review their pitch deck. It just ranges from many different wide spectrum, but I would never create a pitch deck for them, basically.

IP07

Probably you know that the VC funding right now in Africa is like on a record high was 2021. Where do you see, like, the main reasons for this development in recent years?

It's a combination of a number of things. I think that investors are always seeking arbitrage, and so they appreciate that getting in early will give them a much higher chance of multiple. We've got to contextualize Africa's fundraising, though. I mean, even close to $5 billion raised last year is not even close. I think 6% of what they've probably raised in the first two months in the US last year for US based startups. So it's a new market andI think that excites. That certainly excites investors and obviously excites entrepreneurs. But the reality is you've got increasing tech adoption, increasing mobile access, increasing internet access, and really one of the largest underserved tech markets in the world. Right. Which is why the majority of companies have done while to attract cash, have been fintech businesses. They're really formalizing a lot of the infrastructure that has been existing brick and mortar wise. And I think the one advantage that a European VC would have is they're essentially seen ten years into the future. Right. What's working in European markets, Africa's natural infrastructure lag means that those things will start to take a similar direction. So even in the most traditional investing spheres, if you're talking the stock market, if you had just any bit of insight as to where that might go, obviously we would start throwing your money that way. So, yeah, huge appetite last year, even just in my personal capacity, I get inquiries from one or two overseas investors every week looking at opportunities, looking for deal flow. It's a very exciting time.

And talking about those foreign investors, what kind of foreign VC funds do you see there? And are there any differences in the investment behavior of those compared to local VCs?

Absolutely. So I can talk from a South African perspective. Obviously, being based here, it comes on to supply of capital more than anything else. Right? You've got a relatively mature VC ecosystem in Europe, in the US, Asia, et cetera. And Africa does have this perception of increased risk for whatever reason. There's a number of reasons for that. I mean, I can touch on those in time, but naturally they're willing to then VC Fund is able to take a small allocation of $100 million and put 5 million towards African startups. Given the prospect of significant return on that multiple, should that start up really shoot the lights off with without the ability to take too much downside risk. It's a less competitive founder environment, the less competitive tech environment. Now compare that to domestic VC. The size of the funds are just not nearly as close. Right. So all of a sudden you've got bearing in mind most offshore VCs are coming in post Series A. That's a reality. South African VCs, and quite frankly, most African VCs are willing to come in at seed, but they are requiring more validation from those startups in question before they come in. Specific to South Africa, you've got quite a limited supply of capital in comparison to some of these overseas markets. Someone might be running 150,000,000 rand fund, which by local standards is quite a big fund, but $10 million writing $250 to half a million dollars checks doesn't allow you to write that many checks. And so you have to be very calculated about the plays that you're making and obviously need as much validation, which is why they're coming in at slightly later stages. So there's definitely a gap locally for Pre-Seed and seed stage still that hasn't been filled with them that's local or foreign BCS haven't got into that space yet. Okay.

Do you see any trends regarding, like, we already talked a little bit about the investment thesis of foreign VCs coming in later? Do you see there like a pattern in industries and technologies in which they were investing?

Oh, yeah. It does depend on the market addressing the elephant in the room. Nigeria is by far the most popular market for obvious reasons. You've got hundreds of millions of people populous. You've got a 40 million small business base alone there. So you've got a significant market that you can go after. The majority of fintech or tech companies that have attracted kind of 75 to 100 million dollar plus deals have been Nigerian and they have been fintech centric. And that's everything from ecommerce to buy now pay later to micro lending payments. In particular, if you look at stripes, acquisition, pay stack or flutter wave, raising big money. But then, Interestingly, you've got a big focus now from Middle Eastern VC, really targeting Egyptian startups, raising big money. South African startups, similarly, have raised a good amount of money, followed by kind of Kenya, Ghana as well. But they have to be playing on South Africa, for example, 50 million person country. So even if we got every single customer, every single person alive to be a customer, it's still not that big a market compared to Nigeria. So that's some of the perceived risks that people are looking at. So when they come into a startup, they have to know this is a Pan African play or a can they expand cross border. But yeah, fintech has been incredibly popular. Supply chain optimization has been especially out of Egypt, has been remarkably popular with investors. Agri tech has been very popular as well. Everything from physical if we think a company like Aerobotics in South Africa with drones and kind of pesticide services they can provide on mass scale and the data they provide from agriculture, you've got telehealth, telemedicine done very nicely, Ecommerce, and very nicely. But the majority of people will have to be a fintech play. Right. So they're either direct lenders or they provide embedded finance. And you can understand why that's going to have big appeal for VCs. It's a market they know.

Okay, interesting. And coming back to the foreign VCs and setting up the investment thesis, how do you see like foreigners setting up their local or the operations in Africa? Do they open up local branch? Do they have like investment Scouts, start up Scouts in those markets? Do you have any perception on that?

That's a good question, Markus. I don't know. But what I can speak to you and say is that at least in South Africa, if we talk about let's look at Y Combinator, right. Probably the most active you see in the world last year in terms of number of deals that they did from any one fund. If you look at Michael Cybel, they're kind of like CEO. He's now part LP in I think three or four different Nigerian VC firms. So typically you've got strong overseas coming into as almost shareholders of local funds as opposed to setting up the fund locally. They use local accelerators funds more as a deal flow base to then start sourcing overseas. So it's actually quite uncommon that you have a foreign VC fund set up a base domestically, I think in terms of being able to reach out to prospective deal flow, like all of that is done electronically these days, but it's still relatively nascent. You don't see a huge number of deals being done by the big players. Otherwise you've got a couple of entries from the likes of a SoftBank and a Tiger and things of that nature, typically later stage series B and C onward, but the market is wide open.

Regarding deal flow generation. I mean, you mentioned like accelerators, etc. And how would you set up as a new fund, how would you set up your deal flow approach your main source?

The challenge is you really only have about seven to ten accelerators worth their weight on the continents, if I'm honest with you, any of those that actually carry out a stamp of validation, the more savvy African founder is now looking at going to the same accelerators as that you would. They're trying to get into tech stars and they're trying to get into Y Combinator 500, et cetera. So accelerators, it's a given or take in terms of actual deal flow, by the time that start up exits that accelerator, it becomes very competitive for a new VC fund to become because they are so few and far between. With that being said, you've got some really promising industry organizations. You would have seen the guys venture capital for Africa, ABAN, which is the African Business Angels Network, Africa Tech Summit here, which is sponsored by the embassy of France throughout the continent, have a number of different regional summits. What I can say to you, though, from a personal perspective, is having pitched a number of VCs last year, even if we're just talking more organic deal flow now, those proceeds were incredibly difficult for me personally as a founder. So every single one of them having a non industry standard application process, for example, some saying, send me an email of your pitch deck, some saying, complete my type form questionnaire, and so even just standardizing that across the board or having a really good digital onboarding flow, will already set you apart from a lot of the options available to funders locally. It's tough, man. If you don't have someone in the fund or someone who can connect you with an analyst or someone on one of the investment associates of these funds, it's very hard to get an intro that actually carries any weight. You end up just paying another email in the inbox. So if there's an ability to reduce that kind of friction or those barriers to entry, then gosh, funner does that, man? And here's the irony. I'll just make this comment because it might be a value to the firm that you're working with. But if we look at South Africa, South Africa attracted the second most funds last year, agreed, as we're rather restricted to a number of mega deals, but we produce great tech talent here. The reality is that you actually don't need that much to validate product market fit. Locally, you have to be hyper focused on who the user is. But to get to actual metrics, that a VC then goes, oh, man, I want to back you. You don't need what you would need in Silicon Valley or even in Europe. You really need kind of 75,000, $120,000 at a Pre-Seed stage or earlier now because the supply of capital is so small locally, the terms that are offered by local VC funds are just absurd for a funder who's worth his weight. So there is a huge gap there for an Offshore VC to really get great economies of scale and bang for their buck. Instead of having to put in a million dollars, they can put in $100,000 and still get the same result. Okay, that brings with it some other complications, obviously, mate, in terms of return and multiples.

Are there any difference between local and foreign VCs and what would you expect from a foreign VC in terms of supporting your company?

Yes, Sir, I'm just trying to break that down. If I look at local VCs and by local I mean African domicile VC funds, I think the one advantage they do have is local context. So they understand the market, understand distribution strategies, they might have a local network. And ultimately for any SaaS play, being able to plug into other businesses can make a big difference there. From a Partnership's perspective, I think founders, as they become more discerning, do expect that of their investors that they're going to be far more than capital. Either that has to give you an intro into a really class accelerator, or they've got to give you some intros into people that are going to increase your user base or revenue, indirectly or directly. I've met a number of foreign VCs looking to get into South Africa just because of the nature of the cost of tech talent here, etc. Etc. Through and they come with a different mindset. It's very comfortable in Europe to right. You want to come in super early, you're comfortable to walk away with kind of 5-10 percent at a Max. In terms of safe notes, conversion, local VCs are looking to take 25 30% of the business at that same stage for the same amount. So you have the slightly different mentality because the industry is more mature overseas of what's actually expected and how to make it more founder friendly. I guess my own personal perspective is I just want to I would have an investor come on board. They can make a material difference to the outcome of my business. I think the challenge here is there are so many VC funds out there. I mean, I cover those raises every week and unless that investor has pedigree that it would allow you to reraise in the future at an easier rate, or they're able to actually give you introductions to accelerators or put you in front of more customers through their network or whatever it might be, then it's not really a great deal for the founder. So I think that's more of my practical expectation yeah, man. All investors promise the world that's the thing. So for funders they never really know, right. Every investor commits to make those intros and do those things and ultimately a lot of those relationships do end up being just pure capital. Sure, man. Listen, ultimately if there's anything I can answer, I'll be happy to do so pop me a text or whatever that might look like, man. Yeah. I think what I can say to you is one of the big challenges and you might not have thought about this. One of the inherent risks that people find is they do require the local startup to incorporate overseas. And depending on how that fund is structured, if it's an angel syndicate fund, it might be different. But if you've got a lot of foreign LPs, you'll have to incorporate the fund overseas and one has to think about things like CGT or how we actually return that capital to investors in time and for instance, get lined as a South African incorporated business over the next six months I have to reincorporate and move my IPO overseas if I hope to raise a reasonable seed run from an offshore investor because the inherent risk, even though it's not a reality, the perceived risk is very high. Touching South Africa African business, for instance. So those are things to think about. If this fund that you were talking to or working with is really considering getting in that again, I'm happy to make some introductions to decent legal people who can help incorporate the right way.

IP08

What are the main reasons for this rapid growth in the last couple of years? Do you have any perception on that? What are the main reasons for the booming VC industry right now in Africa?

Okay, from the top of my head, I think there are some reasons that are exogenous, and this is something the overall growth of the VC space, generally speaking. And I don't know if you've seen the crunch base number that was published a couple of hours ago, but it's nearly doubling between 2020 and it is a global trend that's obviously stronger in Africa, but still a global trend. I think there's another reality, which is that there's a lot of competition now in the usual markets. China, for a non Chinese investor is very hard to get into. The US is very US centric. Europe is now getting, as you were saying, and like the investors you work with getting very structured and so on, it's getting harder and harder to find those like early Nuggets that can give you a ten X or 100 X or whatever, especially if you're doing early stage investment. And so in terms of the growth that we're seeing in Africa, I think it's a mix of two things. One is we're seeing mega deals that are driving the big numbers that we were not seeing backed before. It's nearly $2 billion here this year in just twelve with eleven companies, which is something that wasn't happening before. But that's normal because it was at an earlier stage. So it wasn't able to raise like multiple 100 million or in the case of obey, $400 million tickets. But it is also linked to the global trend, which is investors not only at early stage but also at later stage, trying to like the SoftBank behind two or three of those really big deals in Africa, at least two. And there's no pay. There might be a third one in Africa this year. So people who use not to look at Africa because the deals were too small and now they're ready to come with nine figure checks on the continent. But I think if you look at the number of deals themselves, which also integrates like earlier stage and so on, I think there's a lot more happening there as well because there are more people who understand the market and are ready to take risks and so on. So you see about more than 100 investors involved in Africa. I can't remember the exact number. I could find it for you. But the vast majority of them only get involved in one deal. It's kind of opportunistic. And there's like one thing that's really a good fit and might want to extend to Africa one day, but they have a bit of money and they just did it. But you have about ten to 20 investors that are doing double digits in terms of number of deals, including some doing 40, 50, 60 deals. And that obviously drives a lot on the number of the deals, but also will drive growth in the future, because hopefully all these organizations that might be getting half a million, a million, 2 million today might be getting 5-10, 20-50 next year or the year after. So I think it's multiple trends. Global trends is more and more people interested in Africa, and it's also happening at all the levels. That said, as you've seen the numbers, it's still mostly happening in like a handful of countries. It's Nigeria, South Africa, Egypt and Kenya. I think Senegal is a bit of an anomaly in the data set. I don't think they would do $222,000,000 raising next year either. I hope they do, but I don't think they will. So, yes, I don't think it's an African revolution at the moment. People are still making safe bets and focusing on the four key markets. Kenya being a bit of an anomaly because it is, given its size in terms of population and economy, probably shouldn't be in that top four, but it is for other reasons, including a very strong expat community and Safarikom and Ambesta. But there are still 24 countries where we've recorded zero activity in 2020, like not a single deal over $100,000 that would publicize or even share. One of them because you're talking to an investor from Portugal. One of them is Angola. Angola is either in the top ten or close to the top ten economies in Africa. I think it is in the top ten largest economies, but as we call it, no deal because of the structure of the economy and so on, there's not much done to facilitate entrepreneurship. There's too much risk and so on and so forth, because most of the money goes to four markets.

Can you kind of categorize the different types of investors? Where are they from? From Europe? What is their investment thesis? Are they sector agnostic or which trends do you see there?

I think you've got a bit of everything. You have those. I don't know. How do I structure them? You have those, a handful of, including Future Africa Capital Ventures and so on, that do spray and pray. I know they hate to be called like that, but this is basically what they do. They do a lot of very early, very small deals hoping that 50% will survive, 10% will do well and 1% will just explode in doing that is a very strong need in the market because they are the ones that can go into outside of the big four and can try new things and so on. The more established ones tend to have probably stricter investment pieces, and they will do specific markets or they will do specific topics and so on and not so well equipped to go outside of their comfort zone and so on. They're also, most of the time, not so well equipped to go below a certain ticket size. And this is what we're seeing with a lot of investors outside this. Pray and pray once that I just mentioned is usually when you start telling them about all these startups doing this and that and so on and just be like, oh, yeah, but it's very hard for us to go below 2 million and we don't want to be the lead. So basically, okay, you need a lead that will do more than 2 million. Plus you have two minutes. You're looking already at 5 million. It's already quite high. In terms of where they come from, I think the lines are blurred a little bit because I think you also have overlap. You have people who work for VC fund that might also be in charge of like, you have a quite structured or starting to get quite structured angel investor scene as well, where you might have people who locally might be able to do 100,000, 200,000 checks. But behind that check, you have 20 people that all have put a little bit of money inside, which is kind of an easy model in Nigeria as well. Just saying everybody puts a little bit of money together in terms of where the money comes from. Where the money comes from. It's hard. I know we look at where the investors based, but it's usually not so black and white. It's probably a horrible term using this case, especially with what I'm going to be saying, because you do have investors who are Africa, African in always the money comes from Africa, the investors come from Africa, the investment managers come from Africa and invest in African company. If you look for those at the end of the day, they're probably not that many, which in my opinion is not a big issue, because if Africa wants to I don't know if the ecosystem wants to raise 10 billion next year and 20 billion the following year, they need to find money everywhere they can. And for a start up in Europe, they would never say like, oh, no, we want European money managed by European investors. I mean, if there's good money coming from the US and from Japan, they'll take it. So there's that side of things. The downside of it, which is quite important, is the bias that comes with it, because foreign investors with foreign money tend to maybe know a little bit less about the market and go towards the thing that they understand the most and go towards the founders and the CEOs that look the most like them, that will tend to be also expats, that will tend to be male and so on, so forth. For me, the risk is here. I have no problem with U.S. And European money coming into Africa. I think eventually it's a good thing. And when you talk to a lot of investors and so on, they're like, yes, we want that money. We want to be on the same level. And if those deals are interesting for money from everywhere, we need to compete for that. The issue is the risk of bias, which is not a risk, it's just a reality here. So going back to my point, when you're looking for if you're trying to categorize them, I would say there is the size of the deals that they do, I think is extremely important because it's just completely different ball game, whether you're doing very early stages, 100,000 tickets, or whether you're looking at doing 10 million in the ball, there is whether there is a strict thesis or not. And then again, it might be linked to the first one, but you have people who say, we only do fintech. You have people who just say, well, you know what, we only do Nigeria because this is where they're based and this is like where the money comes from and so on. I think you would probably have to look at where the investor, the investment managers come from. You have cases where it's actually like mostly Africans. You have cases and people that do really good job, like Capital Ventures, for instance. There are three Japanese guys. So I think that's one way to look at it as well. But that's linked to where. And then the other criteria, in my opinion, is also where the money comes from. And that's where you might get a team of African investment managers. But most of the money might be coming from outside of Africa, and you might actually have investment funds that consider themselves African because they only invest in African companies and they're managed by Africans. But if you look at where the money comes from, where the LPs are from, you might have a lot of money from the US and from Europe also, because here again, there's a blurring of the line. There is a very strong African diaspora in the US and in Europe that in some cases have become very successful and might be putting money back. So this is why we really struggle with the term. We never say African startups, for instance, or African investors. African investors, we do a little bit more. But it's easier to say startups in Africa because there are many different definitions of what an African startup could be. And you could be like. For instance, you're in Nigeria with Nigerian founders and you only serve the Nigerian market. But actually, if I look at where you got your money from, you got it from the US. So you're majority owned by US investors. Are you still African? It's quite complicated, but I would say I would use these criteria to kind of cut the market and the reality is that 800 is a really big number. But as I number, but I say you probably can take 600, 700 out that have only done one or two deals in 2022. Who would go into a big part of Opportunistic investors where you need to look like what is their first investment and will they be doing like five or ten in 2022 or was it just that, oh yeah, they got involved and they just maybe put a small like got 2% into a startup in Africa as part of a bigger deal and actually don't have a strategy behind it, might exit the next round and so on.

One main question that I'm trying to answer is how do you enter the market in terms of local presence? What do you need in the local market?

I think in my opinion it's the right thing to do for business and it's the right thing to do. It would have been a lot harder ten or even five years ago because there might not have been that many investment managers in Africa and so on. The reality today is there are quite a few people doing these jobs and you also have diaspora that are moving back to the continent and doing those investments and so on. I mean, I have friends who used to do other things and now doing investment or might be doing it like a friend who's French Nigerian is doing it in Kutiwan, sub Saharan Africa. If you divide the things this way anyway, I think there is talent there. And at the end of the day you're VC, you want someone who will be able to understand the market, understand the venture obviously, and the potential, and also build a network. And I think today with how things are evolving and changing and maturing in the market, I think you're in a stronger position if you can rely on strong local talent which exists. And then again, maybe ten years ago it would have been much harder to find. But you can do it, especially if it's only part of your activity. And I'm saying that because, for instance, in the case of Kepple, it's only three of them. They're all Japanese, but this is all they do. But it required incredible investment on their time, in terms of their time, in terms of travel, in terms of building their network and so on. And this is what they fully dedicated themselves to as a very small organization for good three years now. And the risk also is if you have someone who may be based in Europe who might be coming from a different geography and doesn't understand, they will have to invest a lot of time in building those networks and it might actually be and rightly so at a disadvantage compared to someone who already knows the market, already has the network both on the investment side and the investor side, but also the startup site and can just kind of hit the ground running. What we're seeing though is that if you look at what Partech is doing, for instance, it's a mix. And I think there is value as well in having a mix like in having people who bring because at the end of the day the reason why we want female startup and the reason why we want local lead startup and so on is because you want people who understand the market and you want diversity of teams. It's proven that with diversity of backgrounds, profiles and so on, you take better decision and eventually you're more successful. So I think there is a case for a mix, especially when the DNA of the investor is like US centric or Europe centric. You might need someone with that understanding to kind of build a bridge between the two and apply different lenses to investments and so on. I think that's what Partech done quite well. It's kind of a mix of local diaspora and in some cases like Expats, I think that works quite well for them.

And how do the VC firms that only do like one or two deals per year or in 2021, how do they land those deals? Are the syndicates or co investment with other VCs that they are aware of that they're well connected with because they don't have any local startup Scouts or anything?

No, they probably won't. And usually, I don't know, I'm just saying usually. But actually you'll find the whole gamut in the database. But especially if you're trying to do bigger deals, whether it's a small deal where you have to identify local startups that other people haven't already invested in or larger deals where you need to have kind of the relevance and the visibility that someone who might is about to put 20 million just said, oh, you should bring this guy and he probably will want to put 5 million. I think it takes a lot of time to communicate where your thesis is and just saying like I'm looking to be not the lead, do tickets between two and ten in the three markets in health and this is what I do. And then actually you hear that in a lot of conversations, suddenly someone will say this is what my startup does and you go like oh, your startup does health and you're like series B. You need to talk to these guys because this is what they're kind of in their corner waiting for. And how many deals will there be available that fit their criteria in a year? They might only be on one or two and this is why they only do one or two investments in the end because they have a very clear thesis. I would say these investors, I hope for them that they don't only focus on the African markets because otherwise it's very low deal flow. And so but at the same time they might only have only like 20 or 30 million to deploy over three or four years and they want to do it for four or five deals. So they don't need to do ten or 20 deals a year. Okay. I think like for instance, the case that I followed a little bit because it's the next classmate of mine and so on is Clairdev, which is like a French based VC firm with Oshon de Cato retail and specialized retail. And they are interested in very specific things that have to do with retail or value chains and so on. And they got in quite early with Twigger Foods in Africa that does that, improving value chains of fruits and vegetables in Africa. And they got in there and I think Series A and then in Series B, Series B and Series C. But they also brought other investors because once you've invested in series A, it's in your interest that Series B is successful and you have your network of people, you know, are also doing the same type of deal. That answers your question.

Do you see any differences between the monitoring and the value adding services in Africa? What the African startups need, what the African VCs are able to provide compared to Europe or other markets?

It's not easy for me to compare to other markets because I don't really know how it works in the US and in Europe. But I don't know. I have my personal view, which is like once you invest in a company, you have to do everything you can so they're successful so that your investment brings more value. But I know that it's not what all VCs will do. There are some heavy models and I know because my friend Maxine was working at greentech, for instance, were trying to do that and had tried to develop a model where actually they didn't put that much money in there. But it's all the time and effort and network and so on that they were bringing in that were in the end earning them a bit of equity. I think it's still hard. It's still hard because it has to be done specifically and also because this is not how the market works. The market is like, I value you at 2 million, I buy 10% of your company for 200,000. This is what it is. And you'll find everything in the market. But what you'll find is that this is the advice we give to startups all the time. But I feel like they're getting it from everywhere and it's really getting to people. It's extremely important to go for the right money. And the right money is like someone who will be able to, on top of taking 5% of equity, 10% of equity, put the right person on your board. Like, they will not maybe sit themselves because it's good for the ego, but they will find an expert in the network and them in their forward seat. Or it will be the person who like, for instance, if you think Craydev and trigger foods, like, you bringing someone with 100 years of experience in retail and as you're building a retail business, that could be actually, I mean, it's experience, it's obviously gravitas and it's networks and so on. And that's valuable. And I think we're really going towards that. And I think maybe not at a super early stage, but when you start getting to Series A and so on, the startups in Africa, that's the counterpart of the pot growing and the interest of investors growing, they'll be more and more able to be a bit picky. And I think they will be encouraged by the market overall, by their peers, by their first investors to be picky and to go for the investors that really think the way they think want to agree with where they want to take the venture and also can bring something to the table. I mean, the stupid example, but I had three startups quoted was Shark tank. Sometimes you've got people who say, I've got this great idea and this guy's going to be giving me a good deal, but the clever ones go with like, oh, I go with this guy because he has a business that's similar to mine and maybe that these synergies and so on. And I think in early stages, people were taking the money wherever the money was. I think people are going to be more and more clever about where they get the money from also because there'll be wider choices to pick from.

IP09

What are the main reasons for this rapid growth in the last couple of years? Do you have any perception on that? What are the main reasons for the booming VC industry right now in Africa?

Yeah. So when we launched Fund One venture was still fairly nascent. There is no data. You try to build a portfolio model based on no data. It's basically just like throwing darts when you're drunk in the dark. And so we tried to build something very much from the ground up. So Fund One was based on what we know and what we've learned from our angel investing portfolio, which was you have this abundance of high growth companies that don't have access to debt, let alone to equity. So we built a hybrid fund. Fund One was debt and equity. We were stage agnostic because we knew that if we weren't going to follow on, there likely wouldn't be a follow on check. So we needed to be a signal to the market as well. So therefore, we were hybrid. We were multi stage. We had a lot of flexibility around front structure during the tenure of our capital as well. And Fund One was an evergreen fund as well. And I would say the last thing is, we are bullish on the African consumer, but we weren't yet ready to pull a capital to the African consumer. So Fund One was enterprise focused. We sort of looked for, like Pigs and shovel businesses. For marketing purposes, we call it digital infrastructure, but really, what that means is like the underlying rails that enable payments that enable all these sort of various verticals that we invest into. And we're continuing to deepen that and fund, too, across the strategy.

Okay, cool. And how did you set up? Do you have any local presence in Africa? Because you're like what we call probably like arm length investing. So you're investing from the United States in Africa? Do you have any local people that are connected to the ecosystem? How did you set up the whole information flow?

We're hybrid in that regard. We're three partners. My third partner is in Kenya. Prior to COVID, I had an apartment in Aerobia. I spent 120 days a year there. My partner covered West Africa, mostly based on Nigeria. We had a fourth principal in Nigeria. We're now hiring for someone there as well. So we're nine people, of which seven of us are on the continent. And I'm the only non African on the team. So I would say that we're very much locally led with a very strong local presence a very strong local network. I'm not sure that fly in, fly out investing works for these markets. When you're looking to actually be an active investor. Active. I mean, more of like a hands on investor, and we lead rounds. We take board seats. We tend to be sort of very actively engaged in supporting founders in various capacities. So in doing that, it's impossible to do that remotely. Yeah.

When I was analyzing the data are like syndicates and co investment with local VCs. What is your perception on that? Because I see the number of coinvestments between foreign VCs and local VCs is highly increasing right now.

Yeah. That's right. We've always sort of positioned ourselves between what we characterize as traditional centers of innovation and like local markets. And so we walked around Sand Hill Road in 2017 and introduced ourselves and people sort of looked at us and had no idea what to do. But perhaps all that work sort of has paid off in that a lot of these larger groups, whether it's GC or Andreessen or Sequoia, are now looking at this market a little bit more earnestly. And so we're that Port of call. We get the phone call we're supporting. I wouldn't want to lead around in LATAM without having Minashi's or Nasca or one of these folks as my co investor. Right. You're strong regional fund. You're that for a reason, you've demonstrated you've gotten market validation. If you're coming in as a global fund, you want to co invest with a strong strategic group again, subject to building ownership and whatever else are your criteria. And that's just because there's just so much you don't know. And this goes for us personally beyond whether GC is co-leading around with us or not. I want to co lead rounds with other local funds as well, whether it's Zach or Pardon or the guys at 4DX or QD, we share a lot of deal flow. It's a competitive environment, but it's not sharp elbow environment. And that's just because it's such a large market, right? It's so massive. There's so much friction and uncertainty that you want to have smart capital around the table to support founders. That diversity of ideas and diversity experiences, I think, is what helps get the best outcomes for founders. And so we're not fighting to, like, take entire deal. We're happy to do deals with other local funds and foreign funds because founders need a full toolkit of services, and there's no fund in Africa that could provide everything. It's just not possible. We talke constantly. I mean, WhattsApp we're actively chatting. We're like back channeling references. We're constantly sharing deal flow. It's very informal, but formal in that it works. And I actually hope that doesn't go away. I think that's actually a feature. It's not demonstrative of how nascent the system is. I think it's just demonstrative of how much support founders need and really reflective of a very different type of venture system than perhaps what you saw in the Valley or in the UK. And from a valuation perspective, you could still buy really fairly attractive assets and opportunities in these markets at a relatively low-cost basis.

You already talked a little bit about the flow generation, and you probably said that networking in the ecosystem and also with other issues. It's very important. Do you have any other additional approaches to deal for generation in Africa?

Yeah. The syndicates are actually a great source of deal flow. So one of our venture partners started something called Rally cap underneath our fund. And this sort of collective, really, that's what it is. It's collective is just sourcing deals, I think, much earlier than anyone else's. And so I wouldn't call that necessarily an edge, because if I was a founder and I'm raising money, I'd want to go out as wide as possible to raise capital to maximize my opportunity to find best sort of founder funder fit. But to be able to see deals earlier time is a great form of diligence, especially in a high velocity cycle like we're in right now. And so to be able to track a founder over a long duration period and see how well they decision and take actions and allocate time and resources. That's great for us to sort of build conviction. And so I think that's something that we try to do. We try to partner with a lot of local early syndicates. We get to look at the deal flow. We get to track that earlier and then last, I think, is that we tend to be thesis driven. So while we get a lot of inbound, we also do a lot of market mapping, we refresh those market maps biannually. So when we went deep on API economy, we understood the market. We actually went after up to as a fund, as opposed to waiting for them to come to us. Okay.

So more proactively searching for deals. Okay. What about accelerators and Incubators? Do you have any connections to them or any successes with that?

It's still early days. I'm a little bit skeptical on Accelerators Incubators. I'm not sure where you put Y Combinator, but it's a bit of a mixed bag. My partner Sam, who's in Nairobi, sits on the board of Antler East Africa. I'm not sure how Antler characterizes itself now. Are they early fund or the accelerator, but we see a lot of deal flow. We see a lot of deal flow from MEST and from Techstars and all these other ones. But if you were to ask me like, is that a better signal versus something just coming through a founder, I would say that our founder introducing us to one of our founders, introducing us to another potential founder that we haven't invested into is the best signal to us, far greater than Y Combinator sends us a deal.

One more question about due diligence process. Maybe you also have experience investing in other geographies. Are there any additional steps or any additional factors that you consider in your due diligence process just specifically relevant to the African market?

I would say that references, perhaps are more important what you did in the past. You worked with them past, sort of qualifying that. I mean, references are important everywhere. Right? Like you're investing people's character their integrity. But I think we spend a lot a little bit more time on that than perhaps I have in the past when I vested in India or LATAM, the other is probably just we spend a little bit of time getting creative around sort of Sensitizing effects, I would say probably more of a Nigerian investment than anything else, just because I think that's more at risk. So we'll look at various probability weighted outcomes in scenarios where the Nairo to USD falls 50% year over year. I would say that's sort of perhaps something unique that maybe you're not doing as much in other markets. But, yeah, I would say that's about it. Everything else is fairly standardized. Okay.

And I would have one last chapter of two questions, probably about the post investment activities. So monitoring and value services. Are you and your fund giving those positive investment activities? And are they more on a strategic point of view or from a more operational point of view?

They're both, but they're really driven by what the founders are looking for. We have a lot of finance experience. So I'll give you an example. My partner sort of served as an outsourced CFO for one of our companies. We've helped strategically in terms of cleaning up accounts payable and accounts receivable for another company. We've helped in terms of negotiating internationally with supply chain in China, India, for another company. In some other cases, we've just sort of served as the six man on the bench coming in and being on the sounding board to help with HR, help with fundraising. It really depends on the founder their maturity and what they need from us. We want to be responsive to the market, not dictatorial. We have this sort of document we give out to portfolio companies when they get on board. It's like, this is what we're good at. This is what we're not good at. This is where we can help you. This is where we can't help you. Right. And then we stay actively engaged through sort of monthly monitoring and checking calls. And that cadence obviously slows as companies grow and graduate out of our capital. But we're active hands on investors. But I think the basket of services we offer tends to differ depending on the stage of business and really what the needs are. Okay.

But is it also different to other markets that you invest in before?

Yeah. I would say my experience both as an LP in a number of funds and things I've done before. Is that, like most funds haven't systematized this. So it's very informal. It's very impromptu. It's more like task driven. It's like, hey, can you do this for me? And they do it. But we actually tend to take a very OKR approach to this where we sort of stay active in the planning and operations. And again, like I said, we serve as a six person the bench to come in and help on strategic initiatives I'll be honest, I don't think they're that different than investing anywhere, like you're investing in people. Right. And so the quality of the team is incredibly important. And time really is the best form of getting to know someone during that diligence process. Investing through Zoom is something we all have done now. But having a team on the ground to meet the local team and to build that time and to incubate that relationship is very, very important. More so given the distances and the geographies, we're recovering again. The other is really being locally led. So big ideas hit brick walls very quickly in these challenges in these markets, there's a lot of challenges, a lot of friction, a lot of difficulty operational execution. Just taking a great business from one city to another city could mean the end of that company. And so having a team that sort of understands the dynamics of growth and like, what is doable what's not doable and what's practical is very valuable. I would say those are two biggest things. Again, comes down to local team. Maybe the third is like again, like tenure of your capital. So thinking about these markets in terms of perhaps the traditional sort of ten year fund structure may not be best suited for these markets, given liquidity. And so having flexibility on the duration of your fund when investing in these markets, I think, is a value we're currently living through sort of a rapid velocity cycle of capital deployment. But I think that does change at some point. And so having the flexibility to the way characterize this is you can have a great company and you have a bad market, right? Why sell a great company to a bad market when the market eventually will turn? So if you could hold on to that great company for a bit longer and sell them to a better market, better for everyone. Right. For your LPs and everything else. So just because your fund docs say, eight years or ten years, whatever it is, having the flexibility, given the dynamics of these markets to change, that is a value because who knows, there could be a commodity super cycle or oil prices have deteriorated and all of sudden, a Nigeria is not as attractive as it once was, but your company is still growing 20% month over month. Right. So those types of disconnects, I think, are different when it comes to this market than does when you're investing in more traditional centers.

IP10

the next question would be you probably know that the VC funding was on a record high 2021 in Africa. Where do you see the biggest reasons for that? I would say boom in the African BC, even though it's still a small proportion of the worldwide investment.

Let's talk extrinsic factors or stuff outside of Africa. Obvious one free money out there in the world, lots and lots of printing and lots of 0% interest rates and issuing and printing of money around the world. What happens then? It means you have, like I said, like we said earlier, is way too much money chasing way too few deals and funds struggle to just swallow the uptick in valuations, B compete and actually get into those like an allocation perspective. There's only so many VC funds out there in the world and so many quote unquote hot deals. And so I think you see a lot of mid market, mid tier funds struggling and looking elsewhere. You also see it actually from top tier funds where yes, they can get into all the hot deals, but even they I think struggled to now stomach the valuations. I don't want to say VC in America to a degree. Europe has run its course, but it's not the inefficient industry that it once was. Ten maybe odd years ago. If you just look at that graph of number of VC funds that have been set up around the world, it's also parabolic.So it is getting sort of more and more efficient. And so what happens is that funds a look to find Alpha profitability elsewhere where there are sort of more inefficiencies. And I think one of those places is Africa. So I think that's all the extrinsic factors mostly just like money outside, lots of money, lots of competition, probably leading to it being very hard to deliver on your return hurdles just in your home market. Europe, Europe, Latin America, maybe intrinsic factors just to Africa. The macro story, I'm sure you definitely know. And I think it's just getting sort of more noticed around the world. It's 1 billion people more. Nigeria, for example, going to be the largest city in 2050 or like top three largest cities in the world, youngest population cohort of any continent ever. It's the mass amount of young people increasing smartphone penetration, like some ridiculous stats of just getting hands into people's phones, into people's hands around the continent. Great stats like increasing GDP per capita in some select economies. And what does that mean if you have slow uptick in GDP per capita? It means people have more discretionary income when they have more discretionary income.It makes things like consumer basic BBC apps and startups more possible here. The focus in Africa for a while has been B2B stuff, but all of these metrics, I think lead to a conference of Africa being more and more kind of attractive and then diving even deeper into the African VC kind of startup ecosystem. Is there's finally been a couple of exits, right? What does that mean? That's like the one of Silicon Valley. Is that like they're finally approving from start to finish, build up a company, couple of funding rounds, good success. You've seen the dates. Pay stack, Flutterwave, fuel all the old chestnuts. What does that mean? It means those founders can now return the ecosystem with angel checks. It becomes this like it starts becoming a self sustaining ecosystem, which it never really once was always very difficult. It was always just like the questions were always asked. That's why there's been a lack of growth, state funding. Where's the exits like, how big is the exit going to be if we're not going to meet our return? We've got a VC fund model in Africa. Is it going to work? How is it going to work? But now it's been proven and so I think that derisks it for a lot of other VC funds, both internationally. They're sort of saying, okay, it's actually possible you can have a billion dollar exits here in Africa. So I think there's a de risking of it that led to an attraction of talent. Again, there's no stats on this and we actually try to find this, but I would love to see you could probably do like a LinkedIn search. It would be so nice to see this. Is that the number? I reckon the number of Ivy League or that other word for the Ivy League, like Ivy League plus MIT and other good schools, I forget the word as well as great European universities as well. I reckon the number of MBAs graduates or even undergrads number of Africans who have gone there and are now coming back to Africa to start startups is I reckon that number is climbing a lot. So you're getting this reverse brain drain of talent coming back to Africa. It's a bit of a shame that international VCs look for the Stanford MBA from Nigeria to fund, but that derisk their investment to some degree because they know Stanford is a good school. But finally, in a way, it's not like there's lots of quality. Not to say that African aged, I'm African educated. African educated people are not quality. It's just that you suddenly have a lot of good quality quotes, unquote people coming back, the African deer diaspora coming back to start companies here. So I think it's that combination. It's like a great talent, a clear path from start to exit here in the ecosystem. Talent is actually like a lot of coders in Nigeria and engineers and are working for overseas companies remotely. So there's like actually good talent here. And then, of course, the market is for some sectors that make sense, like fintech being one of them. You've seen it work in Latin America. You see it work in India. You see it work in Southeast Asia. Investors like who's just invested in Axel ribbon Tiger Global, they've seen it work in countries with similar demographics. And now Africa is just the same, just slightly, a little bit harder, a bit more fragmented, but sort of even bigger population or opportunity to some degree. Does that make sense?

Okay. That was very structured in terms of coming to the market now, entering the market as a European, do you think right now is the time or is it already kind of too late to come to the market now?

So one answer I would give is I don't have a good answer to that. I mean, I would say sooner rather than later just because I think all the things I discussed, the previous answer are adding up. These factors are becoming in my mind like evidence of the timing actually being right, the exit, right. The amount of funding. Right. And that's, of course, but the money printing, you take out the money printing kind of premium, it's still a lot of funding, a lot of deals getting done. Even today, there was a European growth stage fund that just got announced. Nor Shane, I think to that I would say a category is legitimacy. I would categorize that as like European gross fund party. Nor Shin a 16 Z Axel. Qed hiring of a GP down here. Qed the US fintech firm doing the first checks at Tiger Global during the second or third checks here in Africa. But like in quick succession, that to me is like legitimacy in the big funds are actually starting to take notes now. So I think if a European firm had to come here, I think the timing is right. But you'd have to overlay that view with what is happening in the macro environment. What I mean by that is, yes, I think the SNP or whatever, tech stocks have taken a knock, but it seems to be in the early innings of maybe a large correction and that feeds through in Africa is a risky place. And if that sort of becomes a very scary correction, then Africa becomes an even more scarier place. So it's just balancing those two views. But you can still build startups and recessions and the history shows that you can. So I think it's just viewing it with that in mind because Africa is like very susceptible to things like liquidity crises, oil shocks in Nigeria, devalue Nyrates into your terms by 30%. So it is difficult from that perspective. But just from the infrastructure to support a VC ecosystem, I think the timing is right. All of those things I mention, talent funding is here for the first time ever. The angel investment and the secondary market is very healthy and robust. I've seen founders scrape through Shore shank style tunnels of shit to, like, DuraAce, just angel funding in a precede round. And now it's pretty not easy, but a lot of $1 million precedes are happening.

Just Angels here's, 100K 50K. So that's never really been around for the past, like one year. 1.5 Audio So, Yeah, I think the timing is right. It's just when a VC firm I don't know if this is going to be your next question, but international firms coming here need local operating partners or local partners. Very difficult to just invest from outside. It's like, very difficult. There's just weird stuff with this market that you need local knowledge about. And often it's just nice to have like an international gleam and glamor. But also, founders just want to work with local partners quite often as well. It's not nice when I don't know your Portuguese, like Esteban or whatever, tells you how to build your mobile money company when actually you've never walked through a slum in Nigeria before, do you know what I mean? So it's like you need that kind of local knowledge. Sorry, not to insult any of the Portuguese friends.

Just wanted to know, do you need a local branch? Do you need to hire executives, et cetera. But does it depend on the stage in your investment thesis because you're coming in at a later stage?

Yeah, that's a good question. I think early stage you could do depends on, like, your fund. If you do like a $10 million fund or like a small $5 million or whatever, you're going to do a couple of quick investments. You could probably rely on current investors quite a lot. Just like fly down, build up your network, meet the maxims of the world, and Zac George and all the other names and interviewing whatever, and you could definitely do that. It's not often that you'll be leading investments. If that's your black court strategy, it's not often you'll be taking majority ownership in the round, et cetera, et cetera. So if you just want to invest in things that you sort of want to understand and it's like maybe fund one to prove it out, then you probably won't need to hire locally. But if you look at the north and find if you look at the Japanese Tipple Ventures and Samurai Incubate. They've got much longer, broader strategies. They sometimes lead, they sometimes don't. They're getting very involved in the space. I think there's also like a Japan Africa thing that they're doing, nor ship partake, et cetera. All of those have hired local QED, but all like, I think maybe a bit bigger, maybe doing a lot more on the continents, if that makes sense. Does that make sense?

Yeah, totally mentioned a little bit the coinvestments between foreign and local VCs. I saw that the number of those coinvestments indicates is increasing. What is your perception on that.

Yeah I think they are increasing. My perception is like I think it's great because in my view it shows that you can put your start up on a global stage and have an international investor emit quote unquote worthy. So that's a good sign for me. I really like the international investors are involved. If they could bring sort of unique viewpoints, maybe they invest in something similar and they've got insights. I think it's really great to have a mix of local and international. We always do try that keeps the local investors honest and it also sort of helps having foreign investors on board because of the reasons are outlined.

That's great. Let's talk a little bit about deal flow generation. I read it that the quality of deal flow is kind of questionable sometimes in Africa. What is your general approach to deal flow generation? What are your main sources?

Same as any other probably VC that you've asked the same as by and D Ventures just comes from a mixture of cold whether inbound or outbound because of all activities we do around PR. Building a public profile called outbound is just from us having a thesis because we're a thesis driven firm so we like logistics companies and so we will reach out to logistics companies that we sort of like and know and then you can answer right questions then it of course comes from network and that's why if your friend wants to come down here and invest they need to build that and come and come to the conferences and meet the people and wine and dine and do all of that good stuff to meet everyone and build a network of deal flow that we have and it's mostly from earlier stage funds, Angels and yeah, like accelerators and incubators and that like. But yeah, so our network we rely on quite a bit in terms of the quality of deal flow. Yes it is difficult so let me put it this way. We think the quality is actually pretty good but that's because we rely on we've proven the pipe if that makes sense. But I have seen nonsense out there and a lot of it is for two reasons. One is it's like two impact developmental focus which isn't yeah, we just want to build big companies and the second is that the playbook hasn't really filtered through here as it does in the Valley. I think people are okay but they just don't. They're not polished with their pictures, their ideas about thinking about companies and that's because we're v one of the ecosystem contrast that there is like really quality stuff out here. And just when there is quality stuff, it's hard to even get into those allocations still. So there is quality deal flow. It's just like building the right sourcing network to actually kind of do that and find that if that makes sense.

And you said that accelerators and incubators also like a source that you are relying on.

Not heavily, but for Y Combinator is a great example. There's a lot of African companies that go there. That's not an easy one. So you know that they'll probably be quite quality companies. So it's actually mostly international ones. I think about it Alchemist Antler, which like sets up operations here. Yeah, Techstars is a great one. Exactly. Startup boot Camp, I think was like a derivative of Techstars. There's also I think quality filtered things like Africa Arena and VC for Africa have that competition thing, pitching competition. So like those quality filters, we look for the accelerators here, founders Factory, Africa. We really like many local ones. I think about it actually. Oh my goodness. Is that one in Ghana? I've just forgotten it. Now the name will come to me. Yeah, she just left it. Anyway, the accelerators aren't that good in Africa. Long story short, to be honest, compared to internationally, so often it's great when African startups go to get that like Polish, then go to an international accelerator and can be remotely and then kind of come back.

Okay. And regarding the screening of the startups, is there any additional step from your experience that is really relevant or especially relevant to the African market in your due diligence process? Are you like taking a closer look at specially like one thing when looking into African startups compared to other startups.

So each one is different. But I'll give you our perspective and it goes back to that point about what I said about why we haven't invested in South Africa in such a long time. Domicile, where your country is Domiciled and legally headquartered. I don't think we've invested in one African startup that is locally incorporated. It's all in Delaware or maybe in the UK depending. And the reason for that is the exits and the big investors are not going to invest in some South African PCY limited Domicile here because South Africa especially has got huge the IP actually sits under exchange control. So you need to get Reserve Bank approval to move IP offshore. So it becomes an absolute nightmare for international investors to put money for Angels and early stages to put money in. It's a whole process they get similar to Germany actually huge. Only the German startup seems quite tough. And then to get money out is just incredibly hard because then a billion dollar company becomes like a massive thing to where does the IP sets? We very much look at like Domicile and then IP agreements to make sure that because you have to set up a subsidiary to pay salaries and take the loan et cetera, et cetera. And so that IP has to all transfer up to this thing. We're investing in the Delaware Volt Co. So we like very much focus on it but the company structure is set up correctly in place African perspective understanding the local laws and regulations particularly for the subsidiary company that they set up. Things are on IP and that's like we rely lots of local councils which we have like a network of and then it's not diligence to a degree but we build into our investment case FX depreciation the South African Rand depreciates against the dollar about 5% a year. The NYRA is a bit higher so you have to build that into your model and then as well as just things like we're looking at Ethiopian companies and then the great region blows up. So it's like just general macro things that are happening in that continent as well.

And what about post-investment activities?

Like everyone is different. Ours is more strategic. The most operational stuff we'll do is maybe help compile like a pitch deck outline and then provide feedback on that pitch deck. Sometimes I'm going to be involved in the hiring strategy and actively go out there and find people on LinkedIn to hire as a CEO of our portfolio company but we very I would say like 90 ten strategic operational maybe 80 20.

IP11

In general, the research that I've done is that the whole VC funding on the African continent is right now on a record high. Right. Where do you see the biggest reasons for that right now?

So the first reason for that Africa equals big market. I think the greatest benchmark you can do is how startups in Maghreb are doing. What happens is that you have a lot of big population and you have a lot of problems. Basically, the second thing is that there is a lot of barrier markets when it comes to European leader or worldwide leaders. In a sense, if you look more into, for instance, what Uber did in Africa and Asia, what would they do is that they won't because there is a lot of regulations. All placement has its own stuff, its own ways of doing. So. It's very expensive to scale and the return on investment is not huge. So what you find a lot of unicorns are doing. What they do is that there is like a Tunisian startup or a Subteran African startup that is booming. What you find is that they will buy it. Just like, I don't know if you know, Kareem, that's a good example. So mobility started with Uber, right. And Lyft and stuff like that. It happened in Europe and the States. And then there was Kareem. It's a startup started in the Miner region. They developed and then as they developed, it was acquired by Uber. So this kind of huge barrier to entry makes it very expensive for global leaders to get into the market. But also there is a lot of problems and there is a lot of population to be solved. On the other end, you find, of course, the race of technology that is there making things accessible. And here you don't have to. Now starting companies is cheaper way more than before. So that's why populations problems. You have like the great founders, the great mentality. Basically, that's the secret of having a startup.And then also the good point about this that you could also mention in your thesis is the exit point is that here probably in Africa, most people, at least when it comes to BTC startups, because then probably you have to evaluate startups per segment and factors and stuff like that. So when it comes to BTC, as I told you here, there's big leaders, big unicorns can simply buy. And that's, as I told you. So it leaves the African market. What I tell my startups people, we're not inventing the wheel, we're just adapting it to our roads. But I tell them, take a word, unicorn and just do what they do. And the good point is that there is a good point for investors. This is going to be an easy exit because a lot of problems of investors is how the hell am I going to exit from this startup? Especially most startups go in a walking dead kind of status. And by walking dead, I mean they're not growing and they're not dying. It's just like a heavy burden, you know. Okay, so this type of exit, I'm seeing it a lot in the main region in Africa. So you should definitely check that out. Another thing is that and that's the fun part. That's one thing. The second thing there is actually models that don't work and can never work in Europe and the States. And they can work in Africa.And here you can benchmark with Asia, especially when it comes to fintech. We hear the buzzing word fintech, fintech. But why fintech is relevant. For instance, Africa is not as relevant as it is in Europe because it's a bankless system. Okay. So you find if you go more into research, I think they did, 80% of the population is bankless, something like that. So here people are looking for other alternatives. And on the other hand, this is somebody from Africa told me about, I'm sorry, Africa. They tell some people would die with faint infused to pay gas and stuff like that. So these people don't have bags, they don't have a centralized system. And we all want our lives to be easier. And this is where the mobile payments exit. And whatever, the mobile payment kicks in, if you match it with BTC, that's how to make a boom. It's like what happens? You're going to have a wallet. You should definitely see WeChat. You should see the super app model you go into understand a lot of that. So what happens is that imagine you have your wallet open, wallets in your phone attached to your Ecommerce or whatever. See how easy it is for you to buy. You're working in the super app. And then, okay, the super app. You know what a super app is cool. So you're just getting to the super app. You would find probably discounts on some clothes and then you find some discounts on Cinema or going out and very accessible. This is how you get people hooked into just one app. So yeah, that's pretty much it. Also, as I told you, now moving. So I like to see them moving because I think these two, they need to be handled and seen completely differently because both of them have their own risks well, and their own advantages when it comes to B. To B, at least when I'm seeing Indonesia, I don't know about the rest, but I think there is Orange. I don't know if it's famous in Europe, but Orange is like a telco. It exists in France, it exists in Buenos, in Morocco, stuff like that. And this kind of the pioneers now into me, the one they do is that they're getting great products for cheap. So instead, for instance, we have only three telcos and it has their market share. So for instance, I don't know. I know a lot of startups that work with them, for instance, for energy management, energy controlling and energy management. So what happens is that, okay, so needs to have that right. They have a lot of electricity. So instead of going and paying a paycheck for office, that is I don't know how many, probably even millions or thousands of dollars. What they do is that they go to a company, they know the founders are good, they know technical wise, they're good. And what they do is that they do something that is customized to them without paying for it. It's like what startups are benefiting from, it that they develop. So the RND is happening hand in hand with potential clients. So it gives you like a perfect customer centric process.

Okay. And when it comes to the corporate, it's like instead of either paying for something that is very expensive or paying for an independent development agency to do something from scratch, you're just selling the startup and you can even lower your cost because it's just they presented as if I'm just fitting you or just because you're a startup, they even lower the price. Everybody, of course, is a win win. But this is also a very interesting one. And now what's exciting is that I'm seeing startups, for instance. Okay. I've seen this in a lot of I call the 60 portfolio startup is quite big. So what happens that, for instance, this company I'm working with, it's a branch in Tuna and you're relatively cheaper. So I've seen even startups, even companies had quoted in friends or otherwise and other places where they happily make the entrance. They're interested actually to buy their product. Okay, that's very interesting. So here you sign up the cup. What does the corporate game, the corporate game is that it's very customized product with me and also it's cheap. But for the startup as well as that, it gives you good traction, good credibility and stuff like that. So I think that is happening. I don't like that much. This model, especially some people do. It really pure employment. But if you see it's pure win win. So this is the kind of B to B. So it's a cheaper alternative. But also the second point is that it's adapted to the infrastructure because sometimes you would see sometimes in a lot of cases, you just need a very basic entry level product because you have nothing. And sometimes European products, they're just so developed, they just don't adapt because they go to because they probably assume that you have entry level, level one, level two. But reality is you have nothing. So this kind of understanding that they have nothing. And then this kind of understanding to know probably would get a feature from level three and then a feature from level two. But all of this level, entry level, this is how you kind of play with it. That's why I told you, the idea is we're not inventing the wheel, we're just adapting it to our roof. And I see a great benchmark, as I told you, with Asia, especially when it comes to B2C, because as I told you, the hierarchy and site is different. The behaviors are different. It's a developing market. So developing markets, as I told you, populations problems, developing markets. People want just to go from zero to zero. That creates opportunities that you want here in Europe and you want.

<u>But how do you do it with the local presence? Do you have, like in every market that you're investing in a local investment team? How did you set up the whole operation?</u>

Okay, so I'll tell you, I'll give you an overview of how a lot of issues are function, how it's model is a bit different. How is the difference is that even though it's the biggest in numbers, but it's not like they had parted in Egypt, like Egypt's office invest everywhere. What they do is that here we're talking more technical because what you see probably is probably the same fund, like probably with G 500 credit. That's the brand. But behind that brand is a lot of fun. Sometimes you would hear 500 startups did, for instance, ten deals this month. But in reality, probably they had one deal under that fund, the other deal under that fund and stuff like that. So what happens here, for instance, what they do is that, for instance, in Tunas, just like it happens in Lebanon, they exist in seven locations across the Mina. So in Tunas, you're familiar with what's LP, right? What an LP is. Cool. So what they do is that they fund, they fundraisers from local LP. So for instance, a plastic lab, there is a bank, there is a family office. There is also some international organizations as well. But the idea is that we establish something that is very local to that specific country. I told you, the only exception is in Dubai, in Abu Dhabi. And then also, as I told you, it's a complete office with local team, local LPs. The only thing that is common is how things are running. Like how is the program is structured, even the deals, key decisions and stuff like that, they are overseas from the club center.

<u>So you would say the two main sources are, like co investments with other VC funds and accelerators. Like the two main sources of two sourcing.</u>

Yeah, it's coinvesting, but also pipeline sharing when it comes to accelerators, not necessarily coinvesting, because what happens is that after that program or you can take any program, really any program, but you really need to select. Well, the program because some programs just bullshit. When you select a good. Yeah, I know. So when you select a good program, this is what you tell them after the end of every program I want you to send me the best there is out there. There is, for instance, Augment Technology Fund. They had a lot of investments with what happens that probably after every demo day they will travel to Tunisia, they will come to our offices and we will compare the switching to them.

That's how it happens. So that's why you hear a lot of startups or a lot of the advice founders to get warm introduction because it's like having a pile of CV you don't know from where to start. So this is how they're trying to get an optimized pipeline. So they do a lot of these partnerships. Well, they have, as I told you, touch up calls, they see the deal, they see what's in there, and then they start from there.

<u>One last question would be the whole involvement in the post investment activities. So monitoring also value adding services. How involved are you there in your portfolio companies? Is it more on a strategic level or operational level?</u>

So strategically for myself, I did a lot of effort. I did it above all my free time and stuff like that. I try to push for that as much as I can. But sometimes it's really not feasible. Exactly. So if you're looking for involvement, which is very important, you mentioned the great point. And here is probably one of the weaknesses of the ecosystem and how it's evolving is that here there is a lack of expertise because for instance, like here in Tunis, for instance, there's just a unicorn. Yet a lot of people are just in the seat, but very few are in the seat. Mainly you'll find them in seriously, you know what I'm saying? Always this, even the people who work in the VC, if you look, I think it's everywhere. There is no VC career. It's a very new thing having the VC career of somebody who knows how to do the monitoring. So how most of the monitoring works is actually through business Angels. That's why myself, I believe one of the greatest partnerships that you can do is the Business Angel Group. Because when they do these people, you find them. These people have great profiles like they're either wealthy people, people who have networks, people who have expertise, they generate very senior their career, and they have expertise and or, well, usually they have a great network. So business analysts invest a lot of time.

IP12

<u>So what do you think is like the main rational behind investing in Africa as a VC? What are the reasons for right now to invest in African startups? Do you have any drivers that are shaping the market? Any main reasons? Why do you think many VCs from outside Africa right now going into Africa, and what's the reason behind it?</u>

It's the largest black country currently. We have over 200 people in the country. And as I said in 2015, auto tech and startups, the activities of startups have started the technology. It's is going to lower by Africa, and approximately half of that is going to be less than 25 years. So the continent itself is a very chunk continent. And Africa and Nigeria is going to have about 1ft of the entire junk island in Africa, which is going to communicate into approximately. So these are the things that is shaking up and among other things, Safeco has already started using stuff. And most of them have a goal of investing back in the ecosystem. And this is the very early stage. And this is the best plan to actually get. When pollutions are really so much up and they are more talented, they are trying to piss up, so does it. And there's going to be increase in urbanization across Nigeria and Africa, which is also going to drive conservative, which is

<u>Cool. Perfect. And what is exactly your investment thesis are? So which stage are you looking for, which technologies? And you said also the country, do you have any specific focus?</u>

We are sector agnostic, but you're really looking at the product and the problem that the company is solving. Right. okay. As I understood, at least 50 million valuation. Right. Okay, perfect.

<u>And how did you set up the whole presence? Where do you have offices in the VC? How many people do you have? Can you little bit elaborate more on the organizational structure of your company</u>?

Okay. It's very much rule. And there are most accounts that are a couple of them in the US, in Asia, India, and all of that, most few of them in Africa. And many people are.

<u>Okay. Do you think that a local presence or a local presence in the market is really important for VC, that you kind of notice local market conditions, know the right people. So those local Scouts, are they really important or what is your rationale behind it?</u>

I think if you are looking to expand Africa, you'll need a few domain expertise in the African ecosystem. And that's where programs comes in or probably venture partners who are Africans who have too many expertise. And I think it's pretty good something that could actually help. It's based on what you guys are looking at right. There is a DC coffee in Africa, I think in Kenya. So it's based on what you guys are looking for. If you want to make it fast, it's always going to scale. If you want to have his car presence in Africa and also try to do the kind of studio property of them, it's going to be pretty great. Both sideways.

<u>For example, how important is like having expatriates from your VC in your home country versus hiring local executives that are really knowledgeable and present on the African market. What would you recommend?</u>

Yes. Obviously, there should be expats. So it's going to bring a kind of diversified thinking in terms of deal flow, in terms of making investments and a couple of things. Right. And also expertise from Europe to the African to also further diversify your thinking and also can be a differentiator. But then on the continent of Africa, I think it's pretty great.

<u>Okay, cool. You already talked about the deal flow a little bit. What is your current approach to Duplo generation in the first place? What is your rational behind it? What is your approach to deal flow generation?</u>

Yeah, current opposite. More involved because most of the companies I recommend at moment are expertise, but generally it could come from anywhere, from online offline meetings and tech events. It could even come from partners and all of that. But most of the companies are recommended. Yes. Most of the technology complaints in Africa right now, they are really great. They have gone to at least like $500. And I think it's a good deal through generation because we see them each probably just maybe if you have some connection or maybe can just check to a couple of companies that come to IC. Yes, I think it's good. My most successful generation is network. I have a couple of friends that send me send me to and I also work with a couple of my friends from the investor network.

<u>What is your approach in your VC regarding those post investment activities, especially like the monitoring of the portfolio companies? Is it more on a strategic side? Is it more really operational hands on support that you're giving? What is your thinking behind that?</u>

I think for me. Right. Most of the value of ads include marketing, for instance, the customers that are within the network or probably discount. We are very happy to do that for them. And also we also help with financing. We have raised an account very pretty easily, like card wise, once I invested $200,000 too. So I think it's pretty good. So we offer those strategic services.

Okay, cool. All right. If you think about European VCs right now on the African markets versus local VCs, where do you think are the biggest differences between those types of VCs? Do you have any perception on that?

Most of those, they don't really invest in Africa, like Africa focused, but they invest also in African startups. So the only difference they can bring to the people, they can invest large amount of money, local businesses. And it's going to be like a kind of collaboration between the local basis and the local business because local visits don't manage larger amount of assets. They don't manage lot of assets, like close to 50 million or less, but they have expense around that, but they cannot invest in later on.

So international VCs come in later stages in later rounds, and the first rounds are mostly done by local VCs, then?

Yes, obviously. Startups are very early stage, might not be super interesting, might not be interesting to international these days, but if they have a single local investor on their capital, might be interesting. They can also take the risk. Right. So that's one thing. The other one is utility, investment and all that. If the overhead, it would be very easy for them to scale out. Okay.