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THE STATE OF TECH IN AFRICA

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State of Tech in Africa
Q3 2023

Disclaimer

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Foreword

Africa's tech ecosystem has seen a mixed bag of performances since the year began. Although venture capital (VC) funding has failed to reach the dizzying heights of 2021 and 2022, regulations have taken centre stage to standardise the digital economy across the continent. As the lines between the physical and virtual worlds intersect, a strong focus on the impact of technology has become critical.

This quarter, venture funding failed to hit the half-billion dollar mark, a decrease from the amount closed in the previous quarter. On the other hand, acquisitions continue to wax strong as we saw Nigerian business banking startup, Moniepoint, make its first acquisition gaining inroads into the Kenyan market. Regulatory moves across South Africa, Namibia, and Egypt have seen a friendly disposition towards cryptocurrency and digital lending respectively.

In line with our tradition, there is a section with insights focused on key trends in the quarter, quotes from experts, and interviews with key stakeholders about some of these trends. Expect to gain actionable insights into the business of African tech, and how policies and regulations intersect with innovation. Whether you are a VC investor, a startup founder, an executive, an employee, or a tech enthusiast, this report gives you a peek into the major trends within the past quarter. And also a crystal ball for what to expect in the coming months.

Olanrewaju Odunowo
Head, TechCabal Insights

SUMMARY

In Q3, startup funding hit the lowest amount in seven quarters as acquisitions remained steady

Between July and September of this year, VC funding nosedived compared to the **US$857million** and **US$916 million** from the previous two quarters of the year; it is the lowest amount raised in seven quarters. One thing is clear, the **US$ 5.2 billion and US$ 6.5 billion** reached in the previous two years will not be surpassed this year. Interestingly, three VC firms have closed funding rounds to be deployed to startups innovating across the continent. We will hear from Hope Ditlhakanyane about how Founders Factory is investing in founders solving problems in underserved areas across the continent.

As digital payments continue to wax strong on the continent, the Indian government has proposed its digital payments system to some African countries. While this appears to be an intriguing proposition, the presence of existing payment systems in key African markets suggests that competition will be intense, ultimately benefiting the end user through the potential innovations that may arise from these commercial battles.

Other activities that took centre stage include lending solutions gaining momentum in Egypt and Mastercard acquiring a minority stake in Momo, MTN's fintech division. Nigerian business banking startup, Moniepoint, also made its first acquisition, ramping up its expansion plans into Kenya and the East African subregion.

In the Southern African subregion, Namibia and South Africa have approved the licensing of crypto platforms, marking a significant departure from the prevailing stance governments across the continent have maintained over the past two years.

Just like the last quarter, energy-focused startups raised the highest amount compared to other sectors; a change of guard from the usual position fintech startups held in the past.

Layoffs increase as startup funding reduce

$499m
Total funds raised

7
Number of acquisitions

4
Expansions

738
The number of tech workers laid off in Q3 2023

Energy
$194m
Sector with the most funding

Housing/Proptech
$0.5m
Sector with the least funding

16
Number of debt deals

0
Number of mega deals*

*Mega deals are venture deals equal to or greater than $US 100 million

FUNDING

Funding Snapshot:

with less number of deals compared to Q2 2023, Q3 2023 just fell short of hitting the US$500 million mark

Funding Q2 2023	Funding in Q3 2023	Funding in Q3 2022
$916m Funding	$499m Funding	$675m Funding
131 Number of deals	97 Number of deals	74 Number of deals
9 Number of debt deals	12 Number of debt deals	6 Number of debt deals
2 Number of mega deals	0 Number of mega deals	1 Number of mega deals

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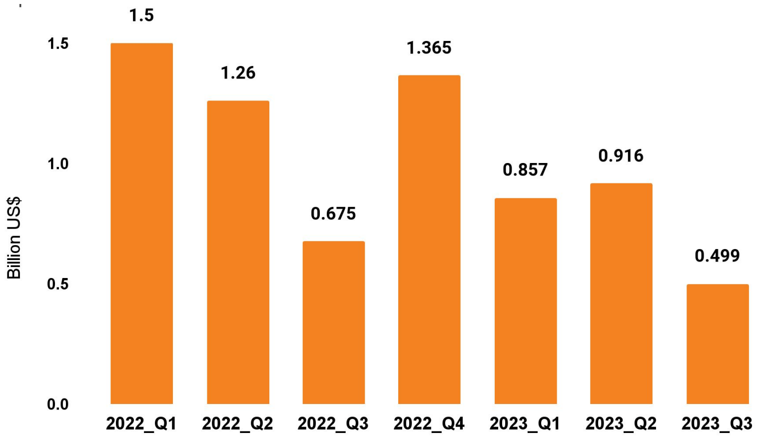
Funding fell by 41.7% quarter-on-quarter

Between July and September 2023, African startups raised funds across 97 deals valued at US$499 million. This represents a 41.7% decrease compared to US$ 916 million raised in Q2 2023, and a lesser figure compared to $675 million raised in the corresponding quarter of 2022. (See fig. 1).

By monthly activities, August had the highest VC funding (US$243.96 million) from 26 deals. The months of July and September surpassed the US$100 million mark with deals worth US$141.1 million and US$130.5 million respectively but saw more deals (38 and 33**)** when compared to the month of August.

Unlike the previous two quarters of 2023, there were no mega deals recorded within the period.

Fig 1: In Q3 2023, funding was a few marks shy off the US$500 million mark and below that of Q3 2022



Source: TechCabal Insights, The Big Deal

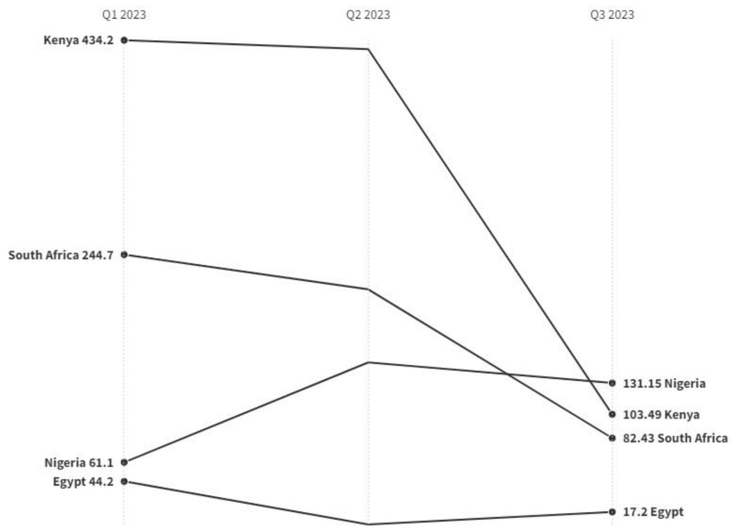
Nigeria gets the most of the depressed funding this quarter

In Q3 2023, startups operating in Nigeria, Kenya, South Africa, and Egypt (The Big 4) raked in a total of US$ 334.3 mIllion in VC funding. Nigeria and Kenya got US$ 103.49 million and US$ 131.15 million respectively. The total funds raised by the Big 4 this quarter is less than the amount raised by Kenyan based startups in Q2 2023 alone.

South Africa and Egypt got US$82.43 million and US$17.2 million respectively.

Overall, this quarter saw a significant decline in funding to three out of these four countries. Only Egypt saw a rise in VC funding by 181%. Kenya, South Africa, and Nigeria saw percentage declines of 75%, 62%, and 12% respectively.

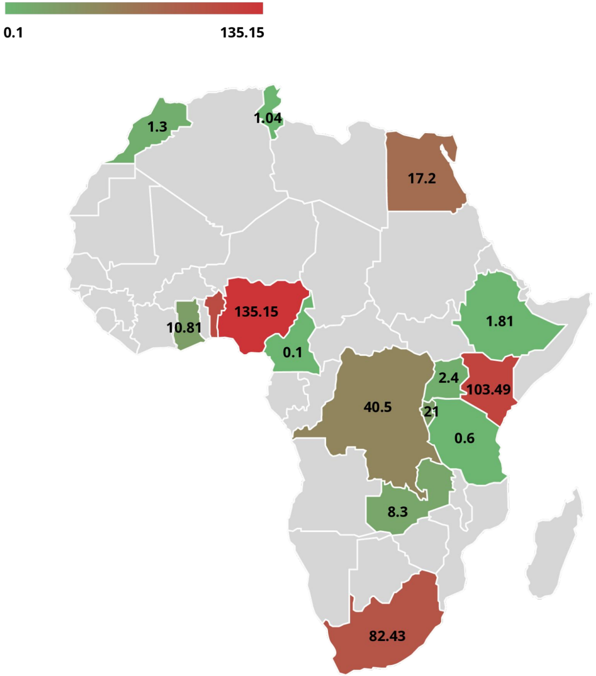
Figure 2: VC funding to Egyptian startups see a slight increase from the previous quarter



Source: The Big Deal

Startups based in DR Congo and Benin Republic raised a combined US$103 million in funding

Fig 3: Funding breakdown by country in Q3 2023



- This quarter, Nigeria moved two ranks up to the top in terms of funding position within the Big 4.
- Kenya moved to second, while South Africa moved to third to complete the top three. Egypt maintained its position despite an increase in funding.
- Beyond the Big 4, two startups based in Benin Republic and the Democratic Republic of Congo raised US$63 million and US$40 million respectively.

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Energy startups got the highest amount in funding for the second quarter in a row

Like last quarter, energy-focused startups raised the most amount by sector, closing out at US$194.7million from 9 deals. Three startups—Nuru, Spiro, and Wetility—raised a combined US$162 million. Five of these deals were deployed via debt financing. This is in line with an existing pattern observed with funding into energy-focused startups due to their capital intensive and high-risk nature.

Also, the rise in cleantech solutions and alternative energy sources may be linked to the need to meet the net zero 2050 deadline. This means investment in the sector will continue to see significant funding as African countries try to increase their energy consumption.

Startups operating within the fintech and logistic sectors made up the top three sectors this quarter with US$112.74 million and US$63.2 million raised respectively.

Table 1: Funding breakdown by sector between Q1 and Q3 2023 (in USD million)

Sector	Q1	Q2	Q3
Agriculture & Food	12.8	47.9	31.41
Deeptech	15.1	17.6	0.5
Education & Jobs	12.1	3.8	5.11
Energy & Water	47.4	486.9	**194.77**
Fintech	594.4	244.9	**112.74**
Healthcare	64.2	37.5	34.76
Housing	9.1	0.1	1.4
Logistics & Transport	24.9	58.2	**63.2**
Retail	16	8.7	35.06
Services	14.6	6.5	3.25

Average deal size per sector fell between US$0.5million to US$ 21.6 million

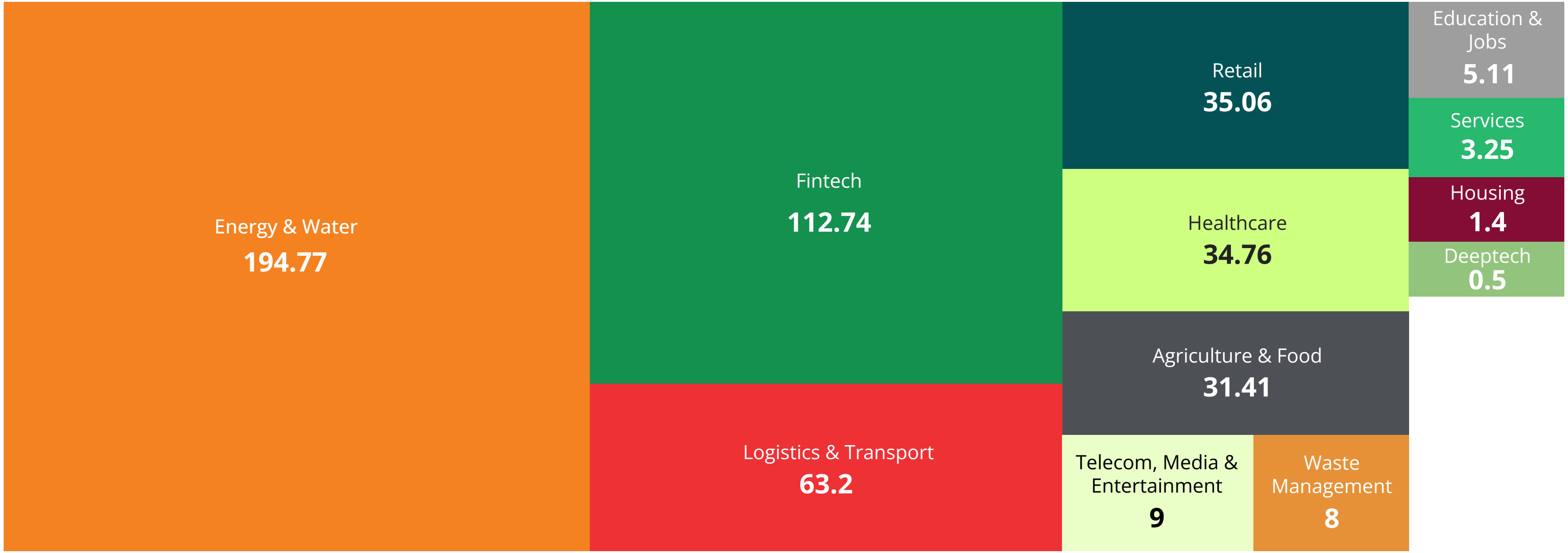
Table 2: Funding breakdown by sector showing average deal size, and deal count in Q3 2023

Sector	Total($)	Average($)	Deal count
Agriculture & Food	31.41	2.094	15
Deeptech	0.5	0.5	1
Education & Jobs	5.11	1.28	4
Energy & Water	194.77	21.64	9
Fintech	112.74	3.89	29
Healthcare	34.76	5.79	6
Housing	1.4	0.7	2
Logistics & Transport	63.2	5.27	12
Retail	35.06	3.90	9
Services	3.25	0.54	6

- Although energy-focused startups received most in funding, fintech deals remain the most common for most investors. Large ticket sizes have always been key to the disparity in deals between sectors.
- This was evident in the size of deals that went to energy focused startups: Nuru's US$40 million series B deal, Spiro's US$63 million debt deal, and Wetility's combined debt and venture raise of US$49 million.

As at Q2 2023, startups in the energy, fintech, and logistics sectors got the largest chunk of the pie in Q3 2023

VC funding to African startups by sector in Q3 2023 (in USD million)



Source: The BigDeal

ACQUISITIONS

Fintech acquisition deals remain dominant

Table 2: List of acquisitions in African tech between July and September 2023

Acquirer	Acquired startup	Startup category	Comments
Grinta-Egypt	AutoCure-Egypt	Health	It's Grinta's third acquisition in two years. It had acquired PH Store, a B2B marketplace for pharmaceutical products, and EME, a software development company.
Moniepoint-Nigeria	Kopo Kopo-Kenya	Fintech	A 100% acquisition of Kopo Kopo Inc's shares and a strategic expansion play into Kenya.
WhogoHost-Nigeria	SendChamp-Nigeria	Cloud	The acquisition combines cash and equity, and is part of WhoGoHost's strategic plans to deepen its value offering for its customer base.
Turaco-Kenya	MicroEnsure-Ghana	Fintech	An expansion strategy into Ghana, increasing its presence to four markets across the continent
Risevest-Nigeria	Chaka-Nigeria	Fintech	Both companies will continue to work on their product roadmaps and collaborate to improve products.
Mastercard	MTN Momo	Fintech	The acquisition is a minority stake in the fintech business of MTN Group Ltd.
Asaak- Uganda	Flex Club-Mexico	Fintech	The acquisition will allow Asaak to build on its credit ecosystem by collaborating with the FlexClub Mexico to launch creative financial solutions specifically for the Latin American region.

Source: TechCabal Insights

Focus:

Moniepoint

Market and Product expansion across Africa

Nigerian fintech company, Moniepoint, extended its presence beyond Nigeria after getting approval to acquire Kenya's payments and credit startup, Kopo Kopo for an undisclosed amount. The Competition Authority of Kenya (CAK), which oversees competition-related matters for transactions exceeding KES1 billion (US$7 million as of August 2023), announced the acquisition.

The proposed transaction will see Moniepoint Inc acquire all shares of Kopo Kopo, constituting a merger under Kenya's Competition Act 2010.

In Nigeria, the company seeks to **replicate** its success in agency banking in retail banking by leveraging its distribution strategy. The 8-year-old startup, which provides banking services to small and medium-sized businesses across Nigeria, is hoping to reach new customers by expanding its services into the personal banking segment. It will roll out a consumer app and debit cards as part of an effort to break into the personal banking market, competing with dominant players: OPay and PalmPay.

2015

Founded

Founded by by Tosin Eniolorunda and Felix Ike, under the name "TeamApt" to provide back-end services to Nigerian banks.

2019 -2022

Receives License

Received a switching and a banking license from the Central Bank of Nigeria in **2019** and **2022** respectively to offer business banking services to merchants in Nigeria.

Jan, 2023

Rebrand

Rebrands to Moniepoint Inc., the name of its flagship product that helps businesses grow through access to digital payments, accessible credit and business management tools.

August, 2023

Kopo Kopo Acquisition

Acquired a majority stake in Kopo Kopo, a Kenyan payments company, to establish its presence in Kenya

Expansions remain steady

Startup expansions have never been as critical given the shrinking purchasing power across Africa. To increase revenue and gain market share across the continent, African startups expanded beyond their home markets. In Q3 of 2023, we tracked four (4) major expansion moves as in the table 2.

Auto24, an Ivorian used car marketplace, **expanded** into Morocco, Rwanda, Senegal, and South Africa, a year after it launched. The decision to expand to Morocco and South Africa is due to their status as two of the biggest car markets on the continent.

Wasoko, an African e-commerce company **expanded** into the Democratic Republic of Congo (DRC), bringing its presence to six African markets (Kenya, Tanzania, Rwanda, Uganda, and Zambia). The expansion is being facilitated through Wasoko's existing e-commerce hub in neighbouring Rwanda.

Senegalese logistics startup, Chargel, **expanded** its footprint across Francophone Africa after a US$2.5 million seed raise and a move to Cote d'Ivoire. Tunis-based peer-to-peer (P2P) fashion marketplace Dabchy **launched** operations in Egypt.

Table 3: Major expansion moves in African Tech (Q3 2023)

Startup	Previous Location	New Location	Startup Category
Dabchy	Tunisia	Egypt	**Agric-tech**
Auto24	Ivory Coast	Morocco, Rwanda, Senegal, and South Africa	**Automobile**
Wasoko	Kenya	DRC	**B2B e-commerce**
Chargel	Senegal	Ivory Coast	**Logistics**

MAJOR WINDS

India expands payments system to Africa

At the recently concluded BRICS meeting, Indian Prime Minister, Narendra Modi pitched India's Unified Payment Interface (UPI) to member nations as part of its effort to extend its influence in payment technology.

With a focus on advancing financial inclusivity and fostering economic growth, India is taking significant strides towards Africa, and is in talks with several African countries, including Namibia, Mozambique, and Kenya, to foster the development of its **Unified Payment Interface (UPI)** and establish commercial partnerships with payment platforms.

The interface, which was developed by the National Payments Corporation of India (NPCI), is a versatile mobile payment system that enables seamless transactions between multiple bank accounts, and facilitates various transactions, including inter-bank peer-to-peer (P2P) and person-to-merchant (P2M) transactions, over-the-counter and barcode payments, as well as recurring payments such as utility bills and school fees.

Currently, UPI boasts approximately 300 million users and 500 million merchants in India. It has become the preferred method for online transactions in the country, with over 10 billion monthly transactions and $180 billion in transaction volume in August, as reported by the *National Payments Corporation of India (NPCI).*

Notably, India's neighbouring countries, including Nepal and Bhutan, have already adopted UPI, and Sri Lanka is expected to join in. Additionally, India has forged closer financial ties with Singapore, facilitating smoother remittance flows between the two countries by linking their payment systems.

The adoption of UPI may encounter competition, as several African countries, including Nigeria, Kenya, and Uganda, already have existing payment systems that have processed billions of transactions.

VC firms close funding rounds

In September, Kenyan-based venture firm, Enza Capital, **raised US$58 million to support** startups on the continent. The VC company which invests from first cheque, is commencing a new shared ownership model that allows startup founders the ability to own part of the firm.

Another VC firm, P1 Ventures, also **closed a US$25 million fund** which it plans to invest in African businesses across fintech, SaaS, AI and healthtech ventures.

Similarly, **Founders Factory** secured US$114 million in funding support from the Mastercard Foundation and Johnson & Johnson Impact Ventures, an impact fund within the Johnson & Johnson Foundation, will enable Founders Factory Africa to scale its model and better serve technology-led startups and founders across the African continent.

The additional funding enables the early-stage investor to refine its funding model, becoming sector-agnostic in its investments. It will focus on founders who prioritise strong business fundamentals and will also intensify efforts to address the gender imbalance in the ecosystem.

It will also broaden its capital investment offering to include non-dilutive capital, supporting the continent's need for different capital deployment types across the venture maturity curve.

Focus:

Venture Capital Investment in African tech

Hope Ditlhakanyane,
Investment Principal,
Founders Factory

Hope Ditlhakanyane is currently the Investment Principal at **Founders Factory Africa**, leading the firm's ecosystem engagement efforts to attract and convert startups that meet meet our investment criteria.

What would you say are the biggest hurdles that VCs like you with a pan-African focus face when it comes to investing on the continent, and how can they be overcome?

Hope Ditlhakanyane: Africa remains ever so diverse and multi-faceted, with many emerging tech ecosystems outside of the "Big 4" starting to make their mark. Of course, there are a number of macro challenges like currency devaluation that make it much more difficult to operate. However, I will highlight three founder-specific challenges, namely:

> *Return to fundamentals*:

Product Market Fit is a widely misunderstood concept among founders, not by definition but in how it informs how founders should prioritise key strategies and activities within their startups. A founder's focus on vanity metrics, such as gross revenue vs margins or retention/active usage vs user growth, etc., tends to not only skew the proposed value of a deal but also affect an investor's ability to align on value-add post-investment.

"In a funding winter environment, every cent should be stretched to deliver value where it matters most..."

- Hope Ditlhakanyane

In a funding winter environment where every cent should be stretched to deliver value where it matters most, it becomes even more crucial for founders to have clarity of thought on the right value drivers for their businesses. FFA is consistently working towards sharing our "Traction Engine" that distils how founders can move further faster by focusing on metrics that matter towards reaching product market fit.

> Access to scalable distribution channels:

B2C channels remain hard to crack in a market with low consumer purchasing power, and B2B models rely on long sales cycles with traditional corporate institutions. It remains a mammoth task for startups to find scalable distribution channels to distribute solutions to as many users as possible in a commercially viable approach.

An exciting challenge for us has been collaborating with corporates to leverage their networks and balance sheets as expansion pathways for startups within our portfolio. However, as the ecosystem matures and players like telcos, banks, and insurers begin to see the benefits of partnering with the more innovative, fast-moving startups, we're seeing more startups reach much commercial success. Building playbooks on corporate-startup partnerships becomes key to scale insights on how we can more broadly crack distribution on the continent.

> “As various investors come to the end of their fund lifecycles, it has become even more imperative to crack the question of how African startups can achieve an exit to return liquidity to investors and their LPs.”
>
> **- Hope Ditlhakanyane**

***Pursuit of exits*:**

A challenge not nuanced to just investors but the ecosystem as a whole has been the pursuit of exits. As various investors come to the end of their fund lifecycles, it has become even more imperative to crack the question of how African startups can achieve an exit to return liquidity to investors and their LPs. The question is not WHO to exit to, as we’ve seen broad categories of buyers emerging as the ecosystem matures, but rather WHAT they will be buying.

Our challenge has been working quite closely with founders to define what acquirable “assets” within their solutions could be and how they could better integrate building such assets into their roadmaps.

Supporting founders to balance this long-term strategic thinking with short-term priorities is always a challenge, as it's sometimes a choice between forgoing short-term revenue upside opportunities for longer-term value creation.

In Q3, Founders Factory Africa (FFA) was able to secure $114 million in funding. So far, the fund has operated a sector-agnostic model. Looking forward, where would FFA be looking to double down on, and why?

Hope Ditlhakanyane: The additional funding has been incredibly instrumental in helping us scale our model and continue to invest in exceptional entrepreneurs across the continent. FFA will continue to double down on entrepreneurs who are innovatively solving big pain points across underserved markets.

“For the African VC ecosystem to continue to grow and introduce innovative, scalable solutions that generate high commercial returns, women must be included as innovators and capital allocators.”

- Hope Ditlhakanyane

Africa still struggles with female representation in tech. One report notes that only 9.6% of African tech startups have a female CEO while 14.6 per cent have at least one female co-founder. What factors do you think contribute to this disparity, and how can it be corrected?

Hope Ditlhakanyane: For the African VC ecosystem to continue to grow and introduce innovative, scalable solutions that generate high commercial returns, women must be included as innovators and capital allocators. Unfortunately, we still have a long way to go in achieving this. Some initial research and anecdotal evidence cites the following challenges:

Lack of diverse representation in LP and Investor bases: Diverse investments can only be driven through diverse teams that are able to integrate diverse views and networks into their investment strategies.

While this is changing, women are still underrepresented in Fund-of-Funds/DFI/Family office employee bases and further in investor bases. Diversity targets, commitment to benchmark targets such as programmes to support first-time managers and support women to become investors are super crucial towards structurally allowing more women at the decision-making table to inform where funds should flow.

> **Demystifying myths**: There are often many myths around women founders, such as they do not exist or are not as ambitious. These unwarranted assumptions create challenges for women founders to form relationships with investors and attract the necessary risk capital to scale their businesses.

“There are too many mentorship and grant programmes but not enough equity and debt funding allocations for women.”

- Hope Ditlhakanyane

As a step forward, investors should move beyond their own immediate networks and become more intentional about building a diverse pipeline. As an example, we strive to ensure at least 50% of our pipeline comprises women-led businesses, and 50% of the deals presented to our Investment Committee comprise gender-diverse teams. Furthermore, we consistently ensure our investment process limits as much bias as possible to ensure every deal is viewed on its own merit. This can be achieved through a number of strategies such as gender-diverse deals teams, clarity on investment thesis, collation of insights to identify barriers and blockers in process/criteria for more underrepresented groups and partnerships with like-minded organisations and investors.

> **Too much mentorship, too little funding**: There are too many mentorship and grant programmes but not enough equity and debt funding allocations for women. As an ecosystem, we need to reallocate funding for running programmes and mentorship towards those that commit actual funding and hands-on venture building support to more women founders, especially at the earliest stages.

Lending solutions gain momentum in Egypt

In recent years, Egypt has taken impressive leaps towards digital transformation. In July, the country's central bank **issued** rules for licensing, registering, controlling, and supervising digital banks. In a similar vein, the Financial Regulatory Authority issued new rules for the use of financial technology (fintech) in the non-banking financial sector, which concern e-payment companies.

In response to these moves, Fawry, Egypt's leading e-payment solutions provider, **announced** plans to turn its online payment portal myFawry into a digital bank aimed at providing a variety of financial services, including payments, consumer lending, savings and investments.

Similarly, Jumia is **developing** buy now, pay later solutions for consumers in partnership with third parties. The service, which could launch in Egypt, has already inked partnerships with 10 banks and fintechs in the North African country.

As part of a move to drive adoption of the JumiaPay app, the company's partners will be responsible for credit underwriting and loan disbursement. Jumia is also working on increasing the number of payment options available on the JumiaPay app, even as it seeks to launch JumiaPay on delivery in Ghana, Morocco, and Uganda.

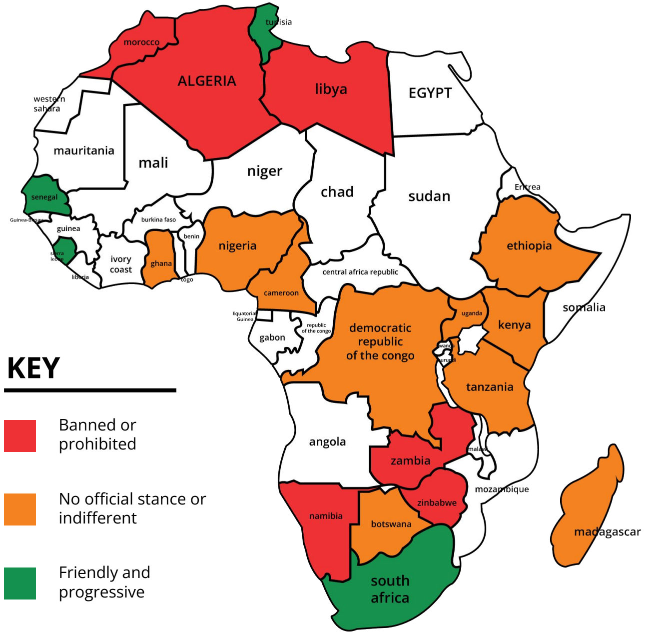
Crypto faces a mix of regulatory decisions

Last month, Namibia officially approved **the licensing of crypto platforms,** although it hasn't made crypto a legal tender yet. This means the Namibia Virtual Assets Act of 2023 now mandates all crypto platforms in the country to hold a licence before they can operate.

South Africa has reinforced a similar rule. According to the Financial Sector Conduct Authority (FSCA), all crypto exchange platforms in the country will have to apply for licences by November 30 or **face the law.**

South Africa became the first country on the continent to require that digital asset exchanges secure licences as most of the continent's largest crypto trading exchanges including Luno and VALR are based in the country.

Nigeria, on the other hand, confirmed that global crypto platform Binance was indeed operating without necessary approvals in the country. It also **warned all crypto investment platforms** against soliciting Nigerian investors.



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Layoffs continue amid tough macroeconomic conditions

Between Q1 and Q2 2023, over **638** African tech workers were laid off as more startups braved the challenging macroeconomic conditions across the continent. Layoffs intensified this quarter with five African startups collectively laying off over **738 employees** as seen in table 4.

In September, Ghanaian healthtech mPharma **laid off 150 employees**—including 40 Nigerians—from its team. This comes 19 months after the startup **raised $35 million** in a Series D round.

Cellulant **reduced** its headcount by 20% as it focuses on becoming a product-driven company. The company, which operates across 19 markets, disclosed that this shift has been in development for some time and has come to mutual agreements with affected employees.

E-commerce food distribution company, Twiga Foods, **laid off** 238 employees; a third of its 850 permanent employees. The company had previously laid off 211 employees in August, 2023.

Table 4: Breakdown of tech layoffs in Africa in Q2 2023

Number of laid off workers	Number of startups	Percentage change from Q2 2023
738	4	+210.1%
Sectors affected	Healthtech, Fintech, E-commerce, Media	

Layoffs continue amid tough macroeconomic conditions

Copia, a Kenyan e-commerce platform that serves low-income households, **laid off** 25% or 350 members of its 1,800-strong workforce.

Big Cabal Media, the parent company of **TechCabal, Zikoko** and Citizen, **cut** its workforce by 19% across its business units.

54gene, a Nigerian genomics startup that had raised **$45 million** in three funding rounds, **shut down** in September after facing financial challenges in the wake of financial mismanagement that strained its operations.

Similarly, Sendy, a logistics startup based in Kenya, went into **administration** after incurring a **$1 million monthly burn rate**. The company is facing financial difficulties and is seeking protection from its creditors while developing a restructuring plan.

Meanwhile, Nigerian fintech startup PayDay also confirmed its **search for a buyer** in September. The company, which **raised $3 million** in March 2023, faced a series of challenges including contentious salary increases, impulsive management choices and faulty infrastructure.

Focus:

Funding downturn and path to exit in Africa's digital economy

Stephen Deng
Co-founder & General Partner, DFS Lab

Stephen Deng is a co-founder and partner at DFS Lab, leading its investments in early-stage digital commerce startups in Africa. He has also spent time advising global clients on the growth of fintech and e-commerce in frontier markets.

1. The funding environment in Africa has paled in comparison to 2021 and 2022. In the same vein, we've seen a host of late-stage/growth stage startups struggle to attain profitability with some shutting down outrightly. What's the implication of such events to Africa's digital economy?

Stephen Deng: As much as a rising funding tide resulted in unprecedented growth of Africa's startup ecosystems in previous years, we're seeing how a falling tide is forcing many companies to re-think whether they have a path to long-term profitability. What we're seeing in startups looking to digitise and monetise Africa's growing digital economy, are much more sector-focused approaches. For example, we've seen many more founders and investors talk about verticals that represent large portions of spend (food, construction, auto, exports, etc.). We've always been sector-focused in our portfolio, and while those companies face the same macro headwinds, they've been intellectually honest about their path to profitability since Day 1, and are targeting market segments that are deep enough to support venture-sized outcomes.

“We also believe the **average exit in African VC** over this next cycle will **be (much) smaller** than what has been projected and fund managers must manage their strategies accordingly.”

- Stephen Deng

Additionally, the cooldown in funding means that revenue lines that were subsidy-based are over. We believe that African startups must help their users make more money and/or save on costs, but previous strategies that were focused on loss-leading products and services are over. In the long term, this likely means slower, but much more sustainable paths to scale.

Finally, M&As will continue to pick up and we're going to see more and more consolidation within sectors.

Given the history of previous public listings in relation to African startups, how viable is the IPO route when compared to acquisitions?

Stephen Deng: In the near term, IPOs are going to be far and few in between. At DFS Lab, we believe successful Africa VCs will need to generate their own returns through strategic partnerships for their portfolio companies, earlier. We also believe the average exit in African VC over this next cycle will be (much) smaller than what has been projected and fund managers must manage their strategies accordingly.

In the longer-term (10+ years) we do believe IPO markets will materialise as multiple layers of infrastructure digitize and unlock larger portions of Africa's overall economy.

Mastercard takes a bite into Africa’s digital financial services

Payments giant, Mastercard, **agreed** to buy a minority stake in MoMo, MTN's fintech division valued at $5.2 billion in a transaction that will be divided into two parts: **a commercial agreement on payments and remittances** that will use Mastercard's technology infrastructure to expand in Africa and an **investment in a minority stake**.

This move comes after Mastercard **invested $100 million** in Airtel Mobile Commerce BV, the holding company for the mobile money operations of Airtel Africa, in 2021.

MTN said it realised the fintech company's rapid expansion plans in the first half of this year. It also stated that 61 million active MoMo customers executed the 8.3 billion transactions, which saw a 37% increase in volume.

Meanwhile, in August 2023, Airtel Africa and Mastercard **partnered** to launch a new cross-border remittance service that will make it simple for its 100 million customers in 14 African countries to send and receive money across borders.

Future Outlook

2023 has been a watershed year for Africa's burgeoning tech industry. The drop in VC funding has led to a rethinking of growth strategies for tech businesses across the continent. A return to the fundamentals of building businesses has become the mantra. As a result of this, we expect to see more businesses reduce expenses to remain afloat as macro economic conditions continue to bite harder across Africa.

Growth stage startups with huge ambitions will ramp up on expansion and float new verticals to get the most of their existing user base. Market creating innovation will be the difference between newly floated startups that survive the headwind or not. Mergers and acquisitions will see a slight increase as startups are likely to acquire (or be acquired) firms with local advantages as an expansion strategy—as more firms seek exit option.

As the virtual and physical world begin to intersect on the continent, regulatory activities will increase to standardise technology businesses across the continent. With the rise in the adoption of digital financial services, fintech will remain a key sector while other sectors like energy, health, and logistics gain more prominence due to their immense potential in improving the quality of life of Africans.

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THE STATE OF TECH IN AFRICA Q3 2023

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About TechCabal Insights

TechCabal Insights is an Africa-focused digital economy consultancy that leverages data, experience, and our deep network to help big tech companies, local tech companies, startups, investors, and other players in the ecosystem on and off the continent to answer specific questions and implement key interventions.

Our sector-specific reports provide insight into the key players, business trends, customer clusters, regulatory issues, and problem-solving opportunities in each tech sub-sector. Additionally, we conduct both primary and desk research to create custom reports to answer specific client questions about the African tech industry.

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