

Can Africa's startup sector keep up its record funding run amidst global turmoil?

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Startups have become vital engines of change that can have an outsized impact on an economy. They are crucial in fueling innovation and enhancing economic and digital competitiveness. They improve access to products and solutions while significantly contributing to employment.



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In recent years, amid global economic volatility and uncertainty, Africa's startup ecosystem has shown continued growth, attracting record amounts of funding. According to the African Private Equity and Venture Capital Association (AVCA), funding for African startups is on track to hit record levels, with venture capital deals reaching [\\$3.5 billion](#) in the first half of 2022 alone - more than double the amount raised in H1 2021. AVCA notes that, if the current trend continues, fundraising is likely to reach \$7 billion this year.

However, there are rising concerns that this substantial growth in investment will slow down over the next 12 months as [geopolitical tensions, economic turmoil, and a surge in inflation](#) create liquidity challenges in the competitive global fundraising ecosystem. Typically, as perceived risk rises, investors pivot to investments with a lower risk profile.

This pivot is not surprising. Investors and financial markets typically look for the "smart money" - places where their capital can grow while being insulated from the turbulence of the market. Venture capitalists, by design, are not as risk-averse, but they do not ignore the forces of market entropy forever.

Yet, there is a reason many investors continue to invest in the continent's startup ecosystem. The COVID pandemic accelerated the global demand for innovative products and digital services, making investments in startups attractive for both traditional and non-traditional funds looking for new investment opportunities. According to CB Insights, investments in technology startups can provide much-needed diversification against traditional businesses and declining sectors which tend to be impacted by global and technological disruptions.

The challenges and complexities experienced by the continent at large present an unparalleled business opportunity and the chance for growth, which doesn't necessarily exist in developed markets.

Understanding Africa's vibrant startup market

Africa boasts a booming startup ecosystem currently valued at approximately [\\$6.6 billion](#). Startups on the continent are extremely resilient as they operate in complex business environments with limited resources.

African startups' investment attractiveness is also driven by the continent's burgeoning consumer and business market, supported by its rapidly growing youth population, internet penetration, and improved digital maturity. Africa's population is already the fastest growing in the world. It will likely [remain so until 2100](#), when the population is expected to reach 4.3 billion with a median age of 35, while Nigeria's population is also projected to overtake that of the United States in 2050.

The challenges experienced on the continent also present an opportunity for new business models and investment opportunities to emerge. Most African entrepreneurs behind the innovation witnessed to date are driven by the challenges they and their communities continue to face, such as lack of access to basic services, including financial products; decent healthcare; and a lack of infrastructure; among other issues.

The likes of Mukuru, Flutterwave, and Chippercash were born out of frustrations such as hyperinflation in the founders' home countries, as well as cash shortages, difficulty in transferring money from Africa, high costs of transacting, and limited payment infrastructure in general. Now, these companies have become billion-dollar enterprises that have not only created jobs but have produced outsized returns for investors who backed them along their journey. While fintech has led in terms of innovation and funding, there are many other sectors that are also fertile for innovation and require financial backing to move from an idea to a business.

African energy and healthcare sectors ripe for innovation

The challenges in the energy sector present an opportunity to develop alternative energy sources. [According to Mckinsey](#), nearly 600 million people across Africa do not have access to grid electricity, and this number hasn't changed much in the last decade.

Development in this sector will require collaborative investment efforts across the public and private sectors, as well as drawing in international investors, to be successful. This problem means that there is still an opportunity for development. With every investment in infrastructure development, we see improved distribution of basic services such as transport, electricity, and internet access, in addition to new market linkages and business development. This reduces income inequality, which in turn results in an increase in income generation capacity and a rise in purchasing power. These are all key in driving economic growth while producing favourable returns for investors.

Healthcare infrastructure, in particular, is another significant opportunity. Ensuring equitable access to quality healthcare is a shared problem among all 54 African countries. And, as long as healthcare infrastructure remains underdeveloped, African entrepreneurs will continue to bring new technologies and seek innovative ways to make access to affordable healthcare more efficient.

The pandemic accelerated the development of healthcare solutions by tech entrepreneurs. According to [Salient Advisory](#), Africa is home to 1 276 health-tech startups that are supporting healthcare delivery and distribution. Around 60% of these were founded in the last five years. It is also reported that 2020 represented an unusual surge in innovation driven by the pandemic, with 22% of all companies founded in 2020.

At Founders Factory Africa, we witnessed this emergence of healthtech innovation, ranging from rapid diagnostics, telemedicine, online pharmacy services, and medicine deliveries to electronic medical records. We know more is still to come. Furthermore, the healthtech sector is expected to be the third likeliest to produce unicorns (companies valued at over \$1 billion) in the coming years. Despite this progress, healthtech entrepreneurs continue to face headwinds ranging from regulation, a lack of funding to further develop their products and solutions, as well as access to corporate partnerships to speed up their access to market.

Harnessing market forces to address the region's health challenges will require increased engagement with government agencies, collaborations between startups and large corporates, and increased international investment. Investments in the private health sector can lead to long-term, sustainable increases in funding and health.

An optimistic future

While we have made strides in various sectors, far more investment in research and development and technology startups, plus partnerships with governments, are required for Africa to compete on the [Global Innovation Index](#) and reach its full potential. The UN Economic Commission for Africa estimates that the health and wellness sector in Africa will be worth [\\$259 billion by 2030](#). It is also expected that 1 in 5 of the world's consumers will be in Africa and that household consumption will reach \$2.5 trillion by 2030.

Coupled with rapid population growth and the rate of mobile and internet penetration, Africa is well-positioned to offer investors competitive and scalable investment opportunities across a variety of sectors, which will require some mindset shifts.

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