

*Africa's fledgling startup scene is seeing breakneck growth, slowed only by a lack of funding. This offers new opportunities to investors looking for returns in untapped, fast-growing markets.*

## EMERGING MARKET INSIGHTS

IFC's Economics and Market Research Department

# Venture Capital *and* the Rise of Africa's Tech Startups

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Tech startups have proliferated across Africa over the past decade. Between 2015 and 2022, the number of tech firms receiving funding each year multiplied sevenfold to more than 700, one of the fastest growth rates in the world, according to Pitchbook,<sup>1</sup> a data provider. Much of the activity has been concentrated on hubs in Cairo, Nairobi, Lagos, Cape Town, Johannesburg, with new hotspots emerging in Accra, Kigali, Addis Ababa, and Dakar.

Africa's startup surge may seem surprising, when 40 percent of the population doesn't have reliable electricity. Yet the continent's young tech firms are finding a local market: They provide financial technology services such as online payments, help informal businesses integrate into supply chains, and make it possible for farmers to lease machinery (**Box**).

These firms could fuel African economies and make them more productive. To get there, they must overcome the steep global fall in venture capital funding over the past three years and the increasingly volatile macroeconomic environment. Already the number of funded tech startups had shrunk to fewer than 400 by 2024, Pitchbook data show (**Figure 1**). There are more funded startups beyond the tech sector, but the post-2022 downturn<sup>2</sup> trends are broadly consistent across various data sources.

## What's Behind the Boom?

Enabling the proliferation of startups was the rise of mobile telephones.<sup>3</sup> Barely two decades after they first appeared in the late 1990s, mobile phones had blanketed Africa, an unusually rapid and far-reaching spread.

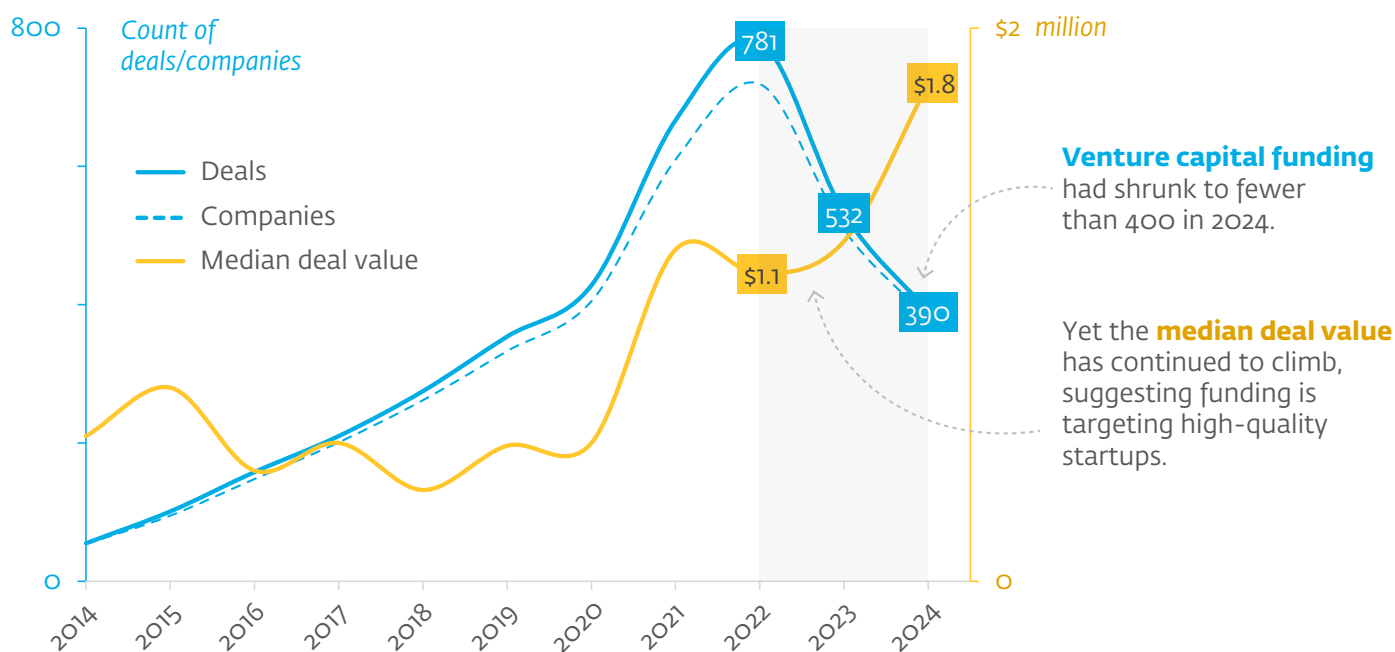
This rise defied established trends. Usually, businesses adopt new technologies in sequential order—first landline telephones, then mobile phones, and so on. Similarly, poorer countries adopt new technologies much later<sup>4</sup> than wealthier nations. In Africa, mobile phones leapfrogged fixed-line telephones because they were more affordable and could reach remote areas. Sub-Saharan Africa now boasts around 90 mobile subscriptions per 100 people. Fixed-line connections, by contrast, peaked at just 1.6 per 100 people in 2009 (**Figure 2**).

Cell phones paved the way for another leap<sup>5</sup>: mobile money platforms, which allowed people to make basic transactions by phone without opening a bank account. They were quicker, cheaper, and easier to use<sup>6</sup> than commercial banks, which often did not have enough branches to serve their customers adequately. In Kenya, a pioneer in mobile money, more than two-thirds<sup>7</sup> of adults had mobile money accounts in 2021, but only half had accounts at a formal financial institution.

The latest wave of startups piggyback on those developments, looking to use cell phones for a broader range of services. These innovations have been spurred by strong network effects—where adoption becomes more beneficial as more users and businesses join. But the opportunities go beyond cell phone applications. The rise in tech startups in Africa has the potential to enable further technological diffusion and productivity gains across various sectors,<sup>8</sup> such as agribusinesses, health, education, and commerce.

FIGURE 1

### Venture Capital Funding to African Tech Startups



Source: Pitchbook, 2025

## The Downturn

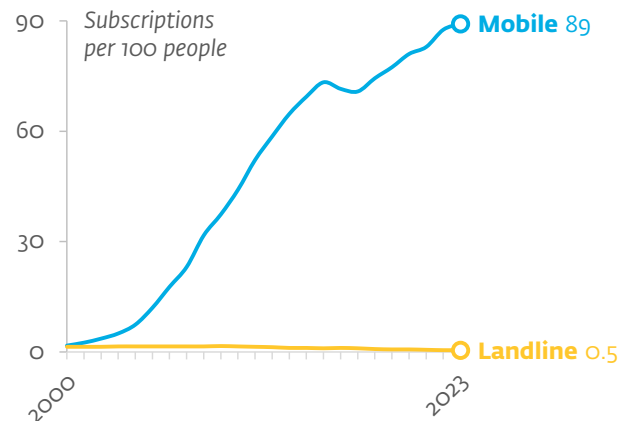
Africa's startup ecosystem grew rapidly until 2022 when rising inflation, interest rates, and economic uncertainty caused funding to dry up.

Venture capital deals in Africa fell around 52 percent between 2022 and 2024, more than in any other region, according to Pitchbook. To be sure, the VC collapse was global. (**Figure 3**). But the stakes are particularly high in Africa, where the startup ecosystem was still in its early stages when funding went into reverse.

That highlights one of the biggest challenges for Africa's tech startups: a missing domestic equity financing market, which forces them to rely on foreign investors. An ongoing IFC study suggests entrepreneurs strongly prefer equity investments from investors with local experience. Yet roughly 80 percent<sup>9</sup> of African firms' funding comes from abroad (**Figure 4**)—much of it from Europe and North America—a higher share than in other emerging markets. That's a problem because foreign investors are more likely to pull their money out during downturns.

FIGURE 2

### Mobile and Landline Subscriptions in Sub-Saharan Africa

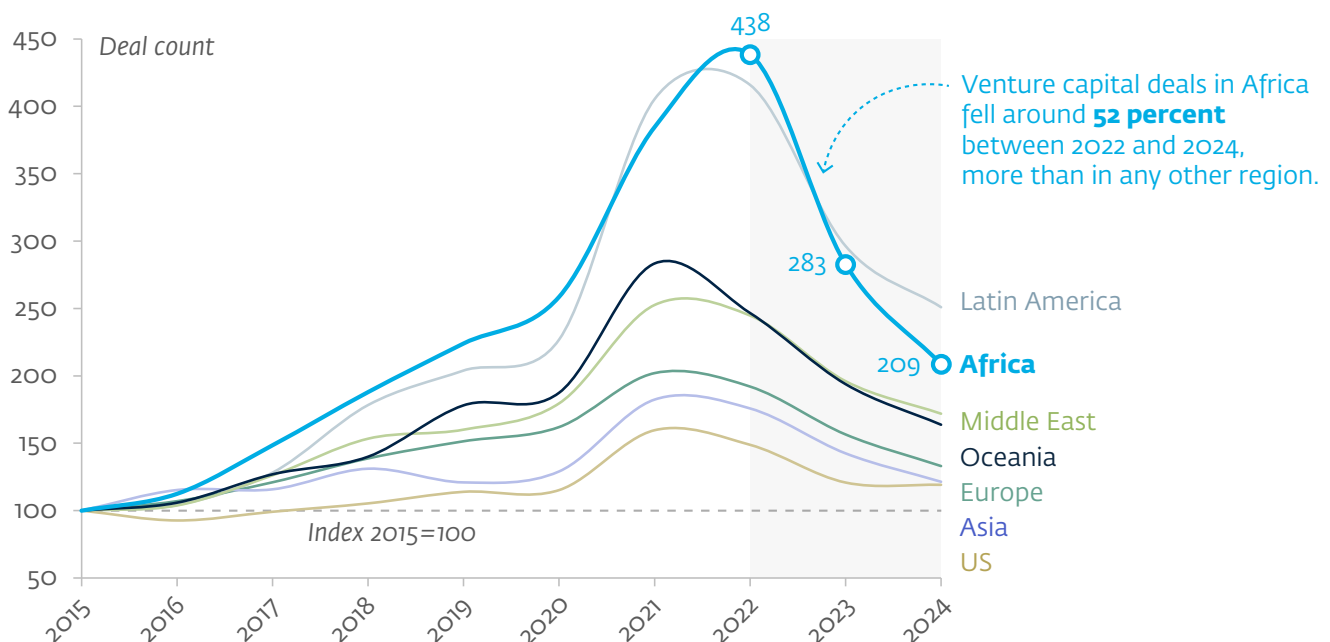


Source: World Bank

FIGURE 3

### Venture Capital Deals Globally

*All sectors and stages*

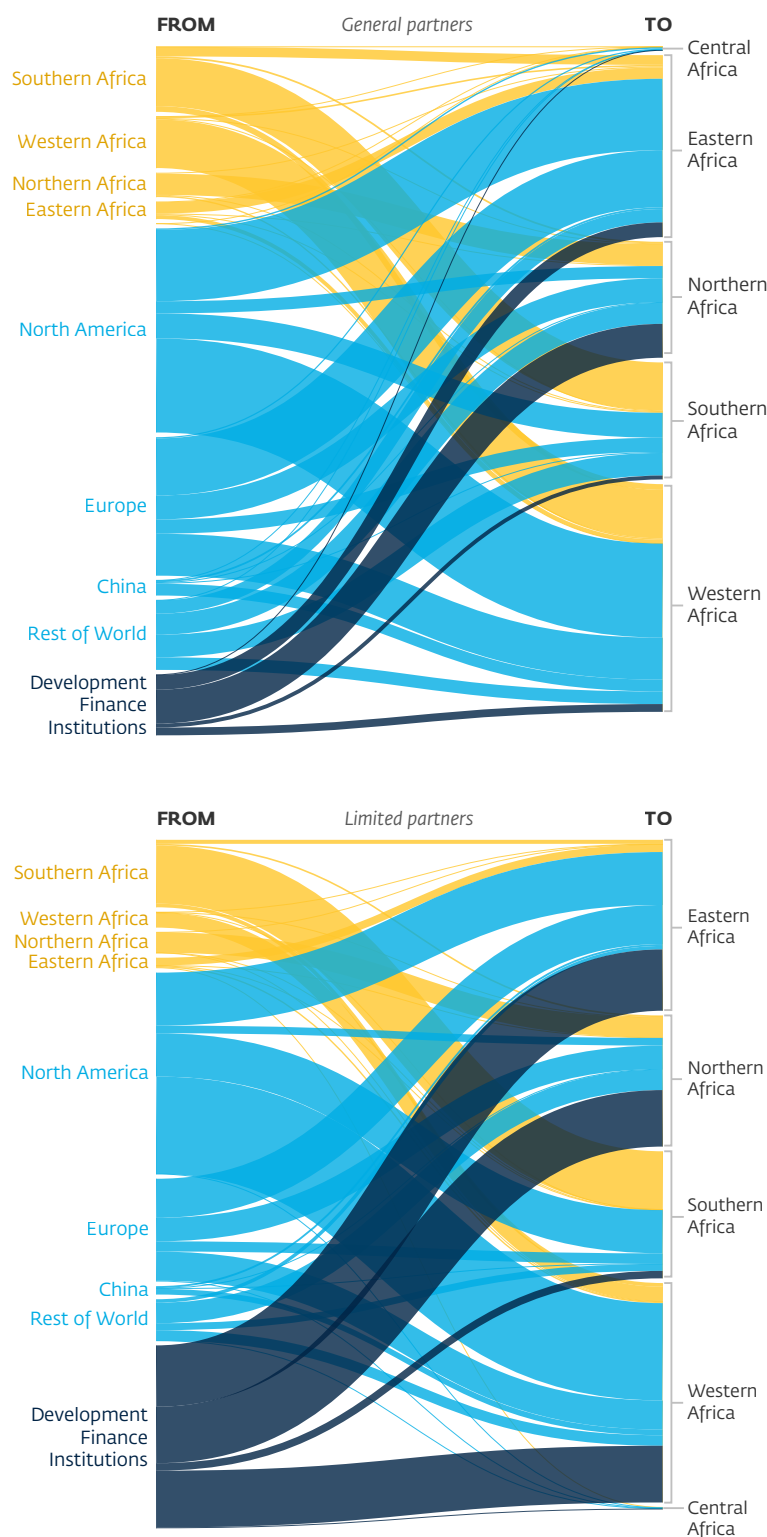


Source: Pitchbook, 2025

FIGURE 4

## Funding in Africa Is Fueled from Abroad

Investment flows between regions, \$ millions



Source: Colonnelli et al. (2025) based on Pitchbook data.

Investors may also view African startups as riskier than those in other places, which makes it harder for firms to grow. An IFC study<sup>10</sup> shows that only one-third of funded startups in Sub-Saharan Africa landed their first VC deal within their first five years. In contrast, more than half of similar firms in Latin America had reached that milestone within the same period. Foreign investors are also more likely to work with firms in countries with which they share a colonial linkage or a common language,<sup>11</sup> thereby limiting themselves to just a subset of possible investment opportunities.

The pullback has been sharper for seed and later-stage funding rounds than early-stage companies (**Figure 5**). As a result, many established startups that may have secured initial funding are now struggling to get the capital they need to grow.

Investors are narrowing their focus, almost exclusively targeting the four countries with the most developed startup scenes—Egypt, South Africa, Kenya, and Nigeria. That's accelerating industry consolidation, capital concentration, and strategic realignments toward sectors perceived as lower risk. The downturn is disproportionately affecting women-led businesses. Companies with female founders received their lowest-ever share of investment in 2024, at 6.8 percent, according to Africa: The Big Deal, a database. The data only counts deals of at least \$100,000.

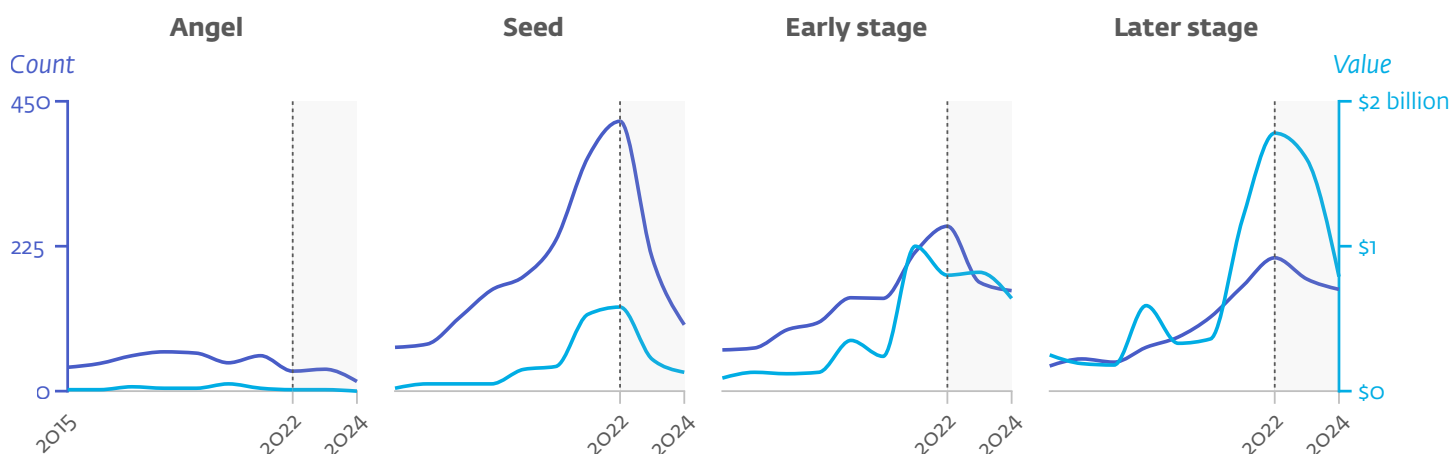
## The Productivity Payoff

If they weather the funding downturn, these companies could contribute to making Africa's businesses more competitive. They could bridge skill and digital literacy gaps and enhance access to markets. According to IFC research,<sup>12</sup> more than 600,000 formal firms and 40 million microbusinesses in Africa could digitize tasks such as accounting, supply chain management, or payments. A startup could help them do that, letting businesses focus on growth and job creation.

FIGURE 5

## Venture Capital Funding in Africa, By Stage

*Deal value and count*



**Source:** Pitchbook, 2025

In another study,<sup>13</sup> researchers gave a group of Rwandan entrepreneurs a marketing analytics app tracking their sales, products, and customers and compared their performance against a control group. Over time, entrepreneurs using the app were more likely to refine their business strategy by adjusting prices, improving their products, or monitoring inventory. They saw their monthly sales and profits rise 36.4 percent and 29.2 percent, respectively, over those without the app.

Investors and venture capitalists play an important role here by seeking out only the most promising startups and ensuring they have enough funding to get off the ground. These are likely to be the most innovative firms that could have the most significant impact on the overall economy. Only about 10 percent of young publicly listed firms in emerging markets (excluding China) are backed by venture capital but they account for almost half of all R&D spending in those countries, according to a 2024 study.<sup>14</sup>

There have been some bright spots amid the funding downturn. The value of the median deal in Africa has continued to rise, suggesting it's higher-quality

companies getting money. There have also been early signs of recovery in Africa, with more funding raised in the second half of 2024 than in the first half of the year and the second half of 2023, according to Africa: The Big Deal. It's unclear how viable the rebound will be considering the uncertain global economic outlook. Looking ahead, countries such as Ghana and Nigeria have recently allowed pension funds to invest more in private equity, a step toward building local funding sources.

Development finance institutions can help nurture home-grown capital markets by co-investing with pension funds and other investors. At the same time, instruments such as venture debt—a form of financing many African entrepreneurs would welcome but currently lack—could help startups scale up without relying solely on equity. Development finance institutions can also help by backing early-stage investments to make them less risky for private investors. Supporting regulatory reforms and helping establish infrastructure will also contribute to making the broader African startup ecosystem more resilient.

BOX

What Do Africa’s Tech Startups Do?

Roughly half<sup>15</sup> of Africa’s tech firms provide information technology services such as data storage or software. These services offer affordable and flexible options that are accessible to smaller businesses facing financial constraints.

Other startups focus on logistics or e-commerce. These firms develop platforms allowing informal retailers to order products directly from manufacturers, bypassing the usual distribution methods and cutting intermediary costs. Roughly 90 percent of retail sales are from informal vendors, but existing supply chains are fragmented and not set up to properly serve these types of businesses. Direct online sales to consumers have yet to take off in Africa, however, partly because many households do not have formal mailing addresses, which limits their ability to receive packages.

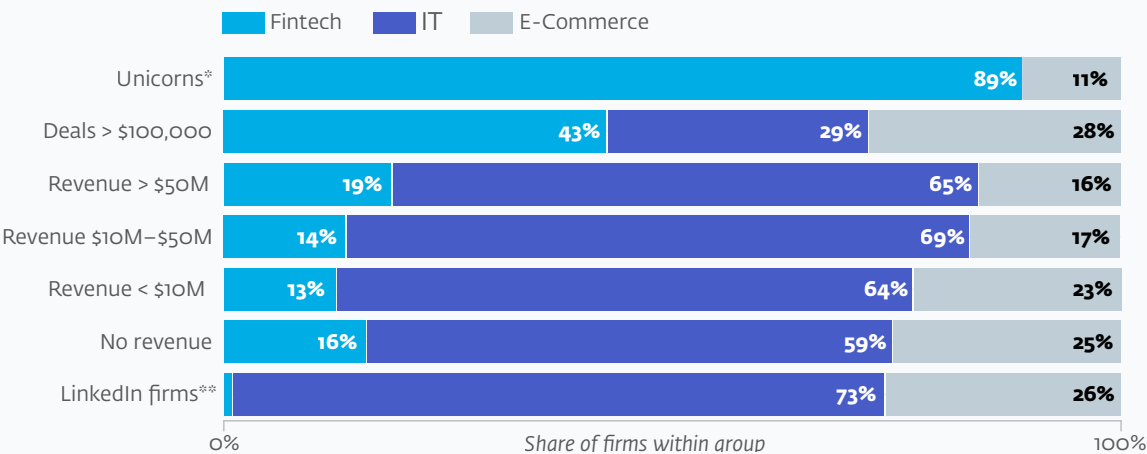
Fintech services, such as mobile payments or banking, receive the most investment despite making up a relatively small share of the total ecosystem. In 2025, fintech firms account for eight of the nine African unicorns, companies less than 10 years old and valued at \$1 billion or more by private investors or public markets (**Figure B1**).

Agriculture, which contributes 20 percent of Africa’s GDP and employs 50 percent of its workforce, remains a largely untapped sector. Some agtech firms provide information services, such as detailed weather reports. Some connect Africa’s smallholder farmers to new markets or offer them financial services, whereas others let farmers lease tractors and other machinery directly from owners. One estimate shows that the market potential for agtech firms exceeds \$2 billion.<sup>16</sup>

FIGURE B1

Sectoral Structure of Firms

By investment and revenue performance



\*Unicorns are companies less than 10 years old, valued at \$1 billion or more.

\*\*LinkedIn firms refer to all startups not found in VC data but with a presence on LinkedIn.

Sources: Pitchbook, Africa: The Big Deal, Briter Bridges, LinkedIn



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