THE EVOLUTION OF PRIVATE CAPITAL IN EAST AFRICA

2013 – 2023

A DECADE OF TRANSFORMATION

Briter Bridges, I&M Burbidge Capital And EAVCA

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About EAVCA

EAVCA is the apex trade network for private capital providers in East Africa. At the core of what we do is promote East Africa as a private capital destination while ensuring a favorable environment for trade for the private capital sector. Our advantage is in providing localized support in information access, policy guidance and networks to business, all which are critical to their East Africa strategy.

About Briter

Since 2018, Briter Bridges has carved a leading role as a research and market intelligence firm focused on emerging markets. Briter has built a reputation in applying data, visual storytelling, engagement and nuance to power thought leadership, research, and investment strategy across Africa and underserved markets. Briter now boasts a portfolio of over 100 clients, ranging from the World Bank to the Gates Foundation and dozens of venture funds and ecosystem support organisations. Briter Intelligence, Briter's proprietary product and platform, is the fastest-growing business intelligence tool dedicated to the entrepreneurial ecosystem in underserved markets, counting thousands of users from Amazon to Boston Consulting Group, media, investors, and government agencies.

About I&M Burbidge Capital

I&M Burbidge Capital Limited is a corporate finance advisory firm that provides capital solutions across the Sub-Saharan Africa region.

Our Services:
Originating and structuring Equity and Debt capital raising, IPOs, M&A transactions, Strategic Options advisory, PE advisory, Tax Advisory and other Corporate Finance Services

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Foreword by EAVCA

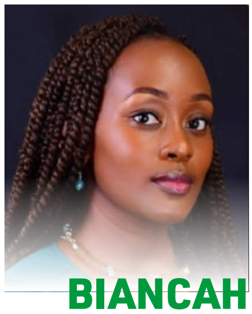
We are delighted to present this seminal publication, highlighting the evolution of the private capital ecosystem in East Africa. In this comprehensive report, we offer an empirical analysis of private capital activity in East Africa and provide insights into the outlook for the next decade.

Over the past decade, the private equity industry in East Africa has experienced remarkable growth. Established in 2013 by seven visionary founding members, all of whom were investors, the East African Private Equity and Venture Capital Association (EAVCA) has evolved into an ecosystem enabler, now comprising c.130 members including private equity and venture capital fund managers, development finance institutions, family offices, and advisory firms, all contributing to the vibrant private capital landscape in the region.

The scale of investment in the industry has also expanded remarkably in terms of deal size and the volume of deals with a particular attribution to exponential growth in the venture capital ecosystem for the latter. Also noteworthy is the complexity of investment structures, which now include growth capital investments, patient capital vehicles, buyout funds, and a myriad of mezzanine capital investments, reflecting the industry's adaptability and innovation.

EAVCA is proud to play a pivotal role in fostering this growth through our advocacy and research work. East Africa offers immense potential for growth, of-

JACKLYNE IMINZA – ANYAMBA



BIANCAH KOMORA

fering compelling commercial and social returns. We firmly believe that the private capital ecosystem is well-positioned to capitalize on the multitude of opportunities that the region presents.

We extend our heartfelt gratitude to all our members and partners for their unwavering confidence and continued support in fulfilling our mandate. Our accomplishments would not be possible without your dedication and collaboration.

We would also like to express our sincere appreciation to our research partners, I&M Burbidge Capital and Briter Bridges, whose invaluable contributions have enriched the insights contained within this report. We trust that this publication will serve as a valuable resource for all stakeholders in the private capital ecosystem.

Should you have any inquiries or require further information about this report, please do not hesitate to reach out to our editorial team whose contact details are on the last page of this report.

Thank you for your continued engagement with EAVCA, and we look forward to working together as we embark on the next phase of East Africa's private capital journey.

JOSHUA MURIMA

Venture Capital Editor's Note

In an era defined by rapid technological advancements and increasing awareness of environmental sustainability, the VC investment landscape in East Africa has witnessed profound transformation. As we stand at the intersection of business, innovation, investment, data and evidence, it is with great enthusiasm that Briter joins forces with EAVCA to share the 'VC' perspectives in this "Evolution of Private Capital Report." This report serves as a testament to the journey undertaken by the realm of private investment in East Africa over the past decade, focusing specifically on the realms of digital and green technology ventures which stay at the heart of startup innovation, technology, and venture capital.

This report is more than a mere retrospective; it is an exploration of how private capital has fueled the growth of pioneering enterprises that are redefining industries and forging pathways to the future. Over the course of ten years, we have witnessed an unprecedented surge in investments that target innovative startups and visionary technologies. This period of transformation has not only shaped the industries we operate in today but has set the course for what lies ahead.

The significance of a ten-year retrospective view cannot be overstated. By delving into a decade's worth of data, we gain invaluable insights that guide our trajectory forward. As we chart the path for the future, we draw upon the wealth of experience garnered from successes and challenges alike.

In the pages, we explore how private investment has ignited and sustained the fires of innovation in the digital and green technology sectors. We celebrate the audacious spirit of founders and investors who have come together to create meaningful change. We reflect on the progress made, acknowledging the groundbreaking achievements that have reshaped our world. Yet, we also peer into the horizon, recognizing the potential for even greater advancements as we leverage the insights from the past to shape a more prosperous and sustainable future.

EDWARD BURBIDGE

KEVIN KURIA

Private Equity Advisor's Note

Private Equity has been a feature of East African capital markets for nearly 60 years in different forms, whether it be the private investment vehicles of the Aga Khan Development Network operating in the region since 1963 or the Industrial and Commercial Development Cooperation (ICDC) which was founded in 1954, and which went on to birth Centum, the Kenyan listed private investment group. The modern iteration of private equity, with a fixed term and defined limited partner/general partner relationship has been present in East Africa since the 1990s with one of the pioneer funds being the Acacia Fund which was sponsored by the then Commonwealth Development Corporation.

The development of commercial Private Equity in East Africa can be viewed as having occurred in three waves with the first funds investing in the region active from the late 1990s to the mid 2000s (examples being Actis, Helios, and AfricInvest), the second and largest wave increasing the number of freshman funds in the mid 2010s; and the latest being in the period just before the Covid-19 pandemic and primarily comprised of sophomore and other follow-on funds with a smaller proportion of freshman funds. The second wave birthed in the years following the Great Financial Crisis of 2008, which were characterized by low interest rates and an increased focus on social impact, had the highest concentration of East Africa focused funds and increased allocation to East Africa by pan-African funds. The Lions on the Move series of publications by the McKinsey Global Institute and McKinsey & Co.'s Africa offices is also credited as one of the catalysts for the increase in investment focus on African economies and the proliferation of private equity investment vehicles in the SSA region in the mid to late 2010s. This period saw a remarkable growth in fundraising with the total funds raised growing from c. USD 3.1 billion in 2010 to a peak of c. USD 5.7 billion in 2015, according to data from Brighter Africa.

DFI investments on have been present for decades, initially focused on bilateral engagements with governments and also through financial institutions (such as private equity funds and banks), and in the last decade increasingly taking a direct investment route to complement existing fund of fund investment strategies.

In the period from FY 2013 to H1 2023, private equity investment has gone through several cycles with an increasing refinement in investment strategies. Private capital investment is now the dominant form of corporate deals in the region (excluding debt from commercial banks) owing to the long bear run in the public equity capital market and the collapse of the public debt capital markets following several bank and large retailer defaults.

Overall, 427 investments with a total value of c. USD 7.3 billion and 51 exits with a total value of c. USD 1.3 billion have been publicly disclosed. In this article, we assess the data behind these numbers, the factors that have driven performance and the outlook for private equity in the next decade.

Please note that whilst there were direct DFI investments announced in the all the years of the period under review, the distinction between PE and DFI investments in our data only commenced in 2019.

THE EVOLUTION OF PRIVATE EQUITY IN EAST AFRICA

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2. PRIVATE EQUITY EXITS
3. PRIVATE EQUITY OUTLOOK

Private Equity in numbers

478
TOTAL NUMBER OF PE DEAL IS EAST AFRICA

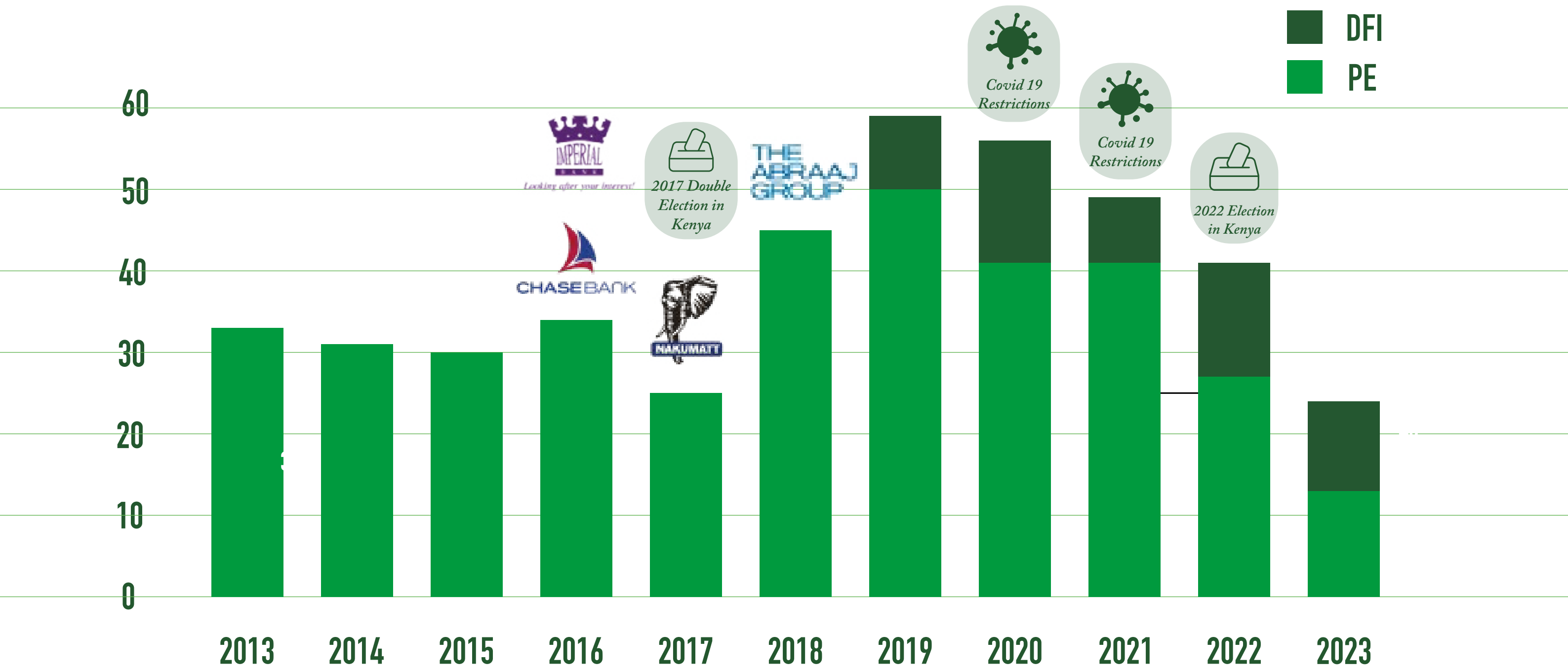
8.6
DISCLOSED PE DEAL VALUE IN USD (BILLIONS)

427
THE NUMBER OF DISCLOSED PE INVESTMENT DEALS IN EA

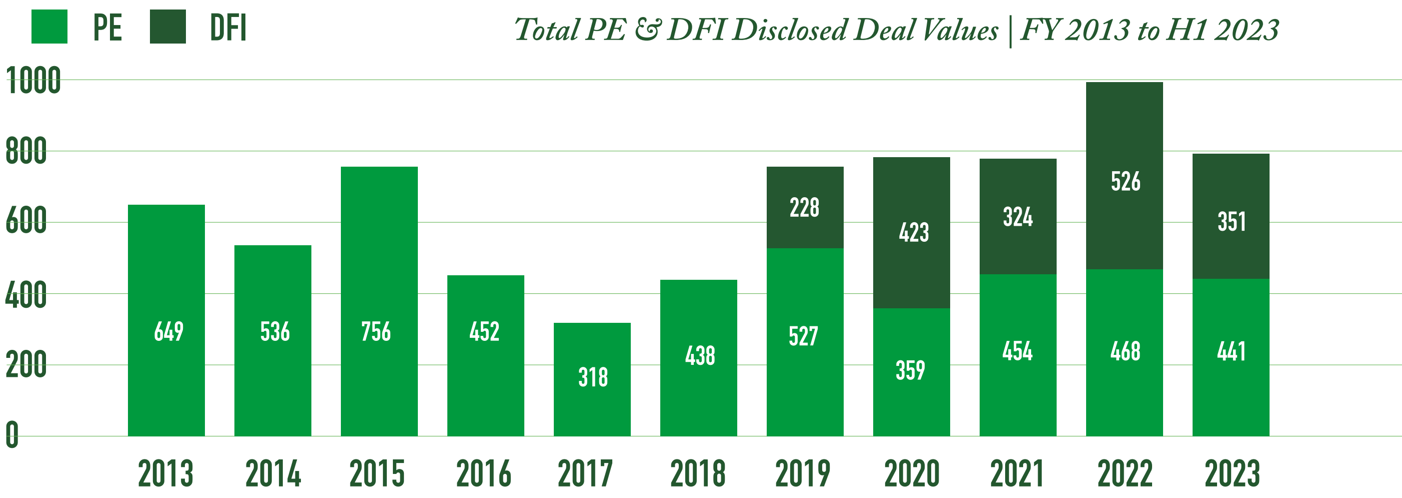
51
THE NUMBER OF DISCLOSED PE EXIT DEALS IN EA

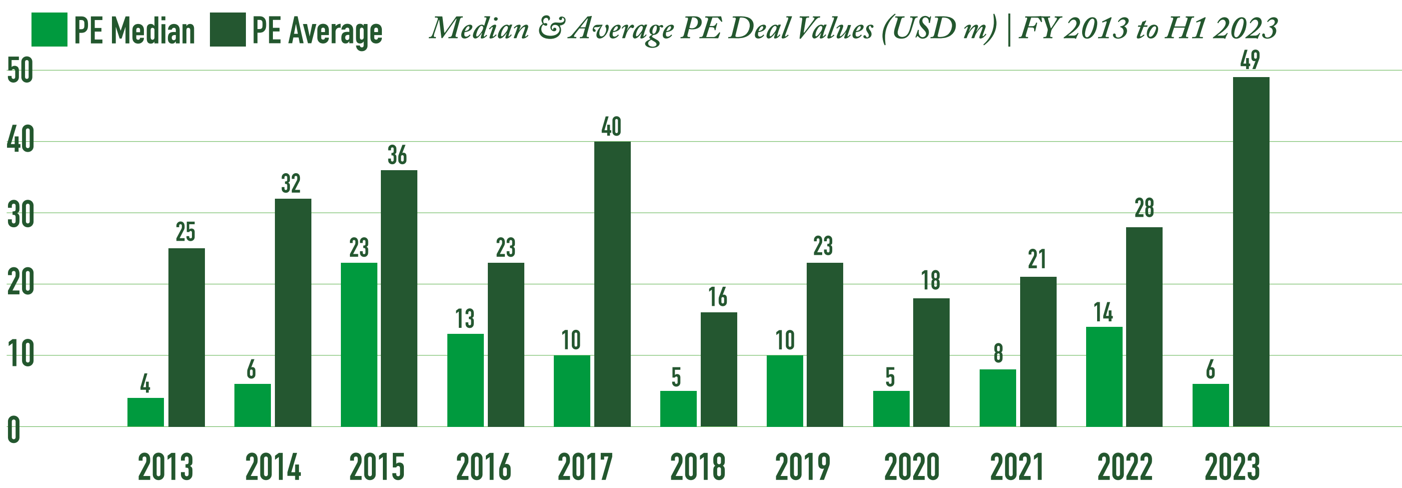
PRIVATE EQUITY INVESTMENTS

A total of 427 private equity and direct DFI investments were recorded in the East African region between 2013 and H1 2023, with a total disclosed deal value of c. USD 7.3 billion, although not all deals had disclosed deal values and as such, this number is likely much higher. Investment activity has steadily trended upwards since 2013, with a brief lull in 2017, attributable primarily to the elections in Kenya, then peaking in 2019 when the highest deal count of 59 investments was recorded. Since 2020 there has been a steady decline in investments this trend is primarily attributable to the Covid-19 pandemic and the resulting economic and civil restrictions, as well as the usual downturns associated with election cycles in the region. We expect, however, that this will reverse in the medium term as investors aim to capitalize on the region's positive fundamentals including attractive demographics, relative political stability and a large infrastructure base. Precedence for this expected performance is evident from the resilience, and growth, of the industry despite a barrage of unfortunate macro and market developments in the last 8 years including the collapse of two banks and the region's largest retail operations as well as the interest rate cap regime between 2016 and 2019.



Notably, whilst there has been a general decline in PE investment activity, the total disclosed deal values have increased, indicating a shift in focus to larger ticket sizes, as demonstrated by the increase in the median and average deal sizes and, generally, a smaller number of follow-on funds being raised, particularly by region specific funds. FY 2022 recorded the largest deal values in the last decade and 2023 is well on track to surpass this with the H1 total disclosed deal value already at c. USD 792 million vis a vis the previous year's c. USD 994 million for the total year.

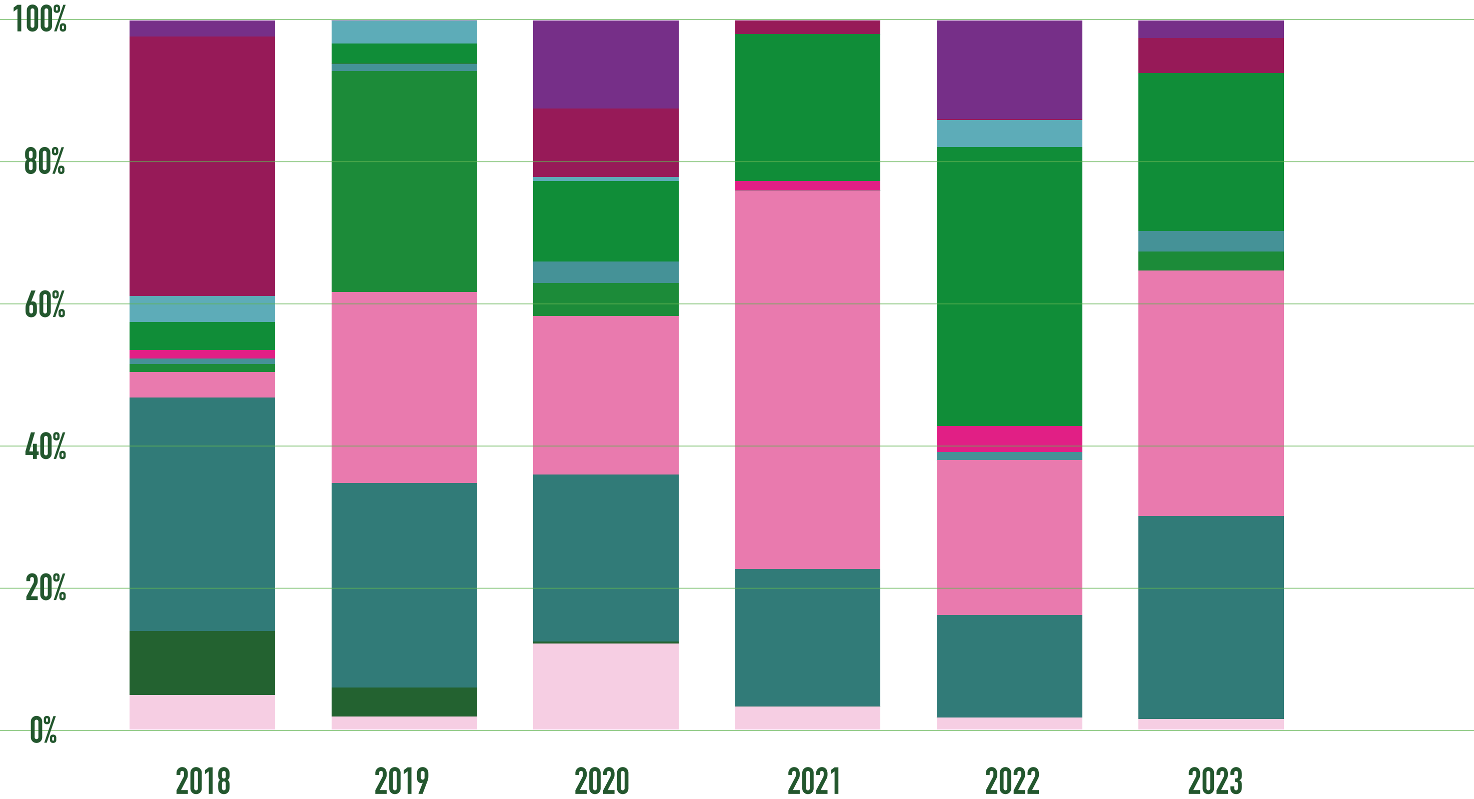




Sectoral Distribution

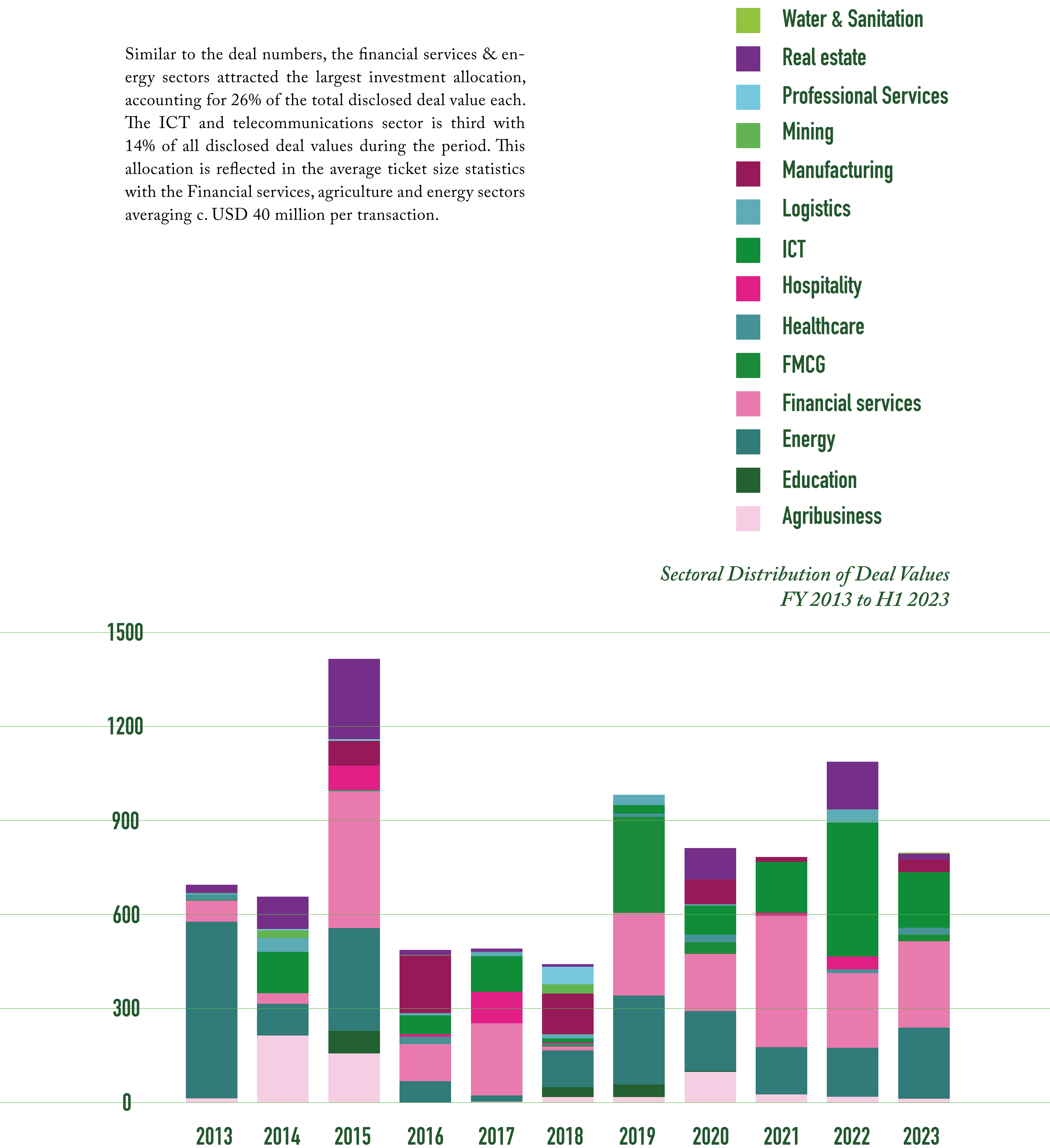
The financial services sector has attracted the most PE and DFI activity (investments and exits) in the last decade accounting for 20% of all deals. The agribusiness, energy and ICT sectors comprise the rest of the top three, accounting for 14%, 12% and 12%, respectively. In recent years, the energy, ICT and healthcare sectors have been resurgent driven by the climate change agenda and covid-19 pandemic. Whilst many PE and DFI investors tend to shy away from primary agriculture due to its long maturity profile, and wide set of idiosyncratic risks, an increasing focus on food security is driving strategy and investments into the agri-processing segment of the agriculture sector with a focus on value chain efficiencies and shortening.

Sectoral Distribution of PE & DFI deals FY 2018 to H1 2023



Similar to the deal numbers, the financial services & energy sectors attracted the largest investment allocation, accounting for 26% of the total disclosed deal value each. The ICT and telecommunications sector is third with 14% of all disclosed deal values during the period. This allocation is reflected in the average ticket size statistics with the Financial services, agriculture and energy sectors averaging c. USD 40 million per transaction.

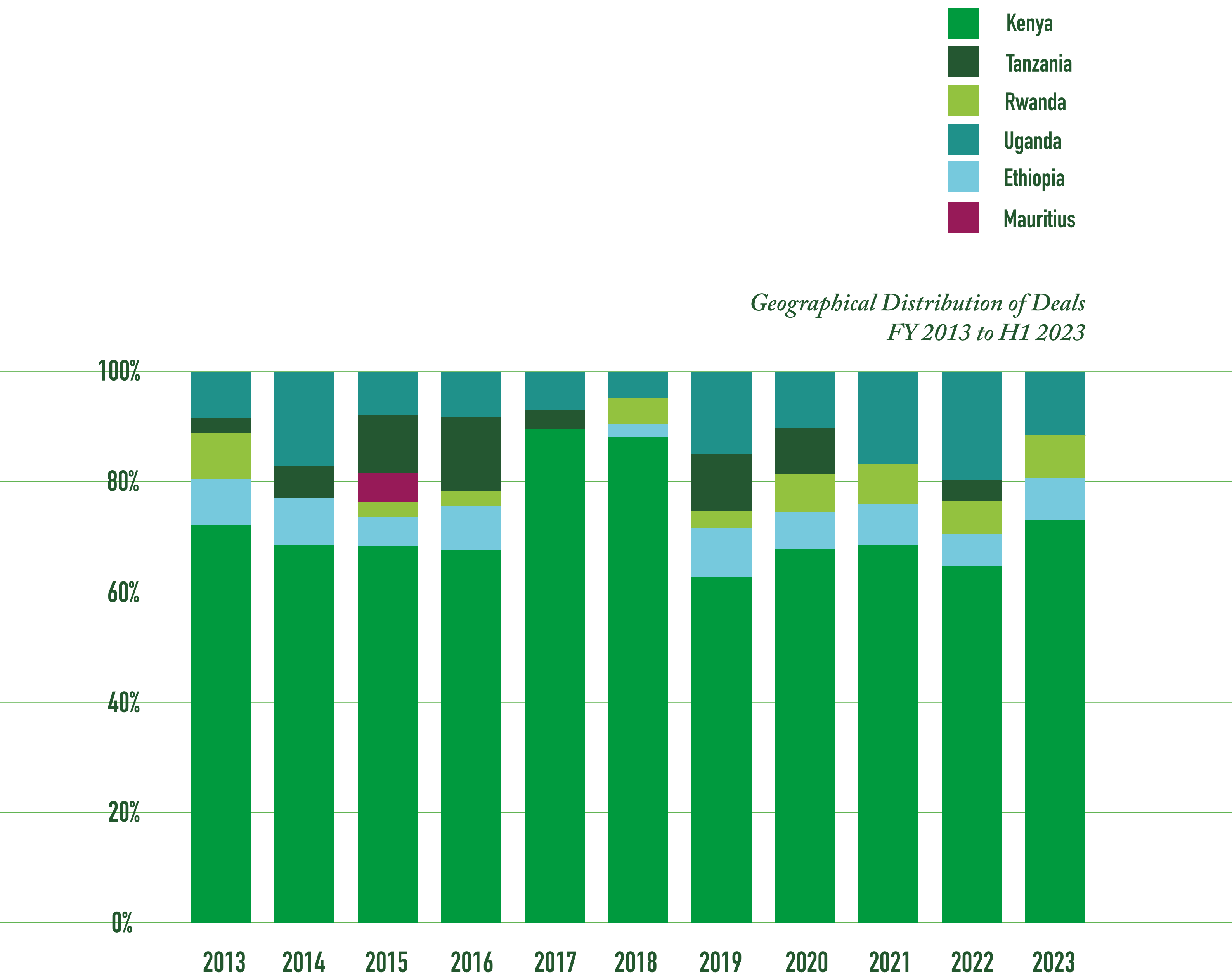
Sectoral Distribution of Deal Values FY 2013 to H1 2023

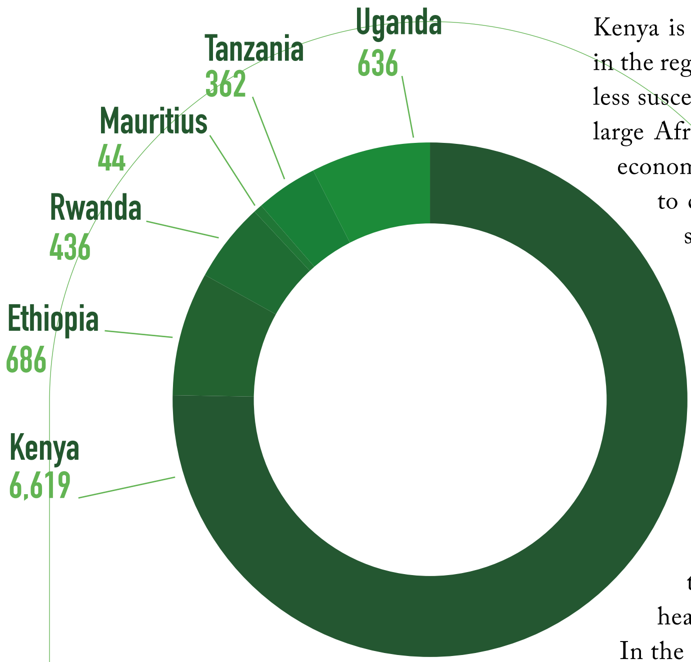


Geographical Distribution

Kenya has traditionally taken the lion's share of all deals in the region, accounting for 69% of all transactions in the period whilst Uganda accounted for 12%, Tanzania and Ethiopia 6% each and Rwanda 5%. The remainder were multi-country deals. Kenya's dominance of the private capital markets is also naturally reflected in the deal values with the country accounting for 74% of the total disclosed deal value whilst Uganda and Ethiopia accounted for 8% and 7%, respectively. 5% of all flows went to Rwanda with the rest being multi-country transactions.

Geographical Distribution of Deals FY 2013 to H1 2023



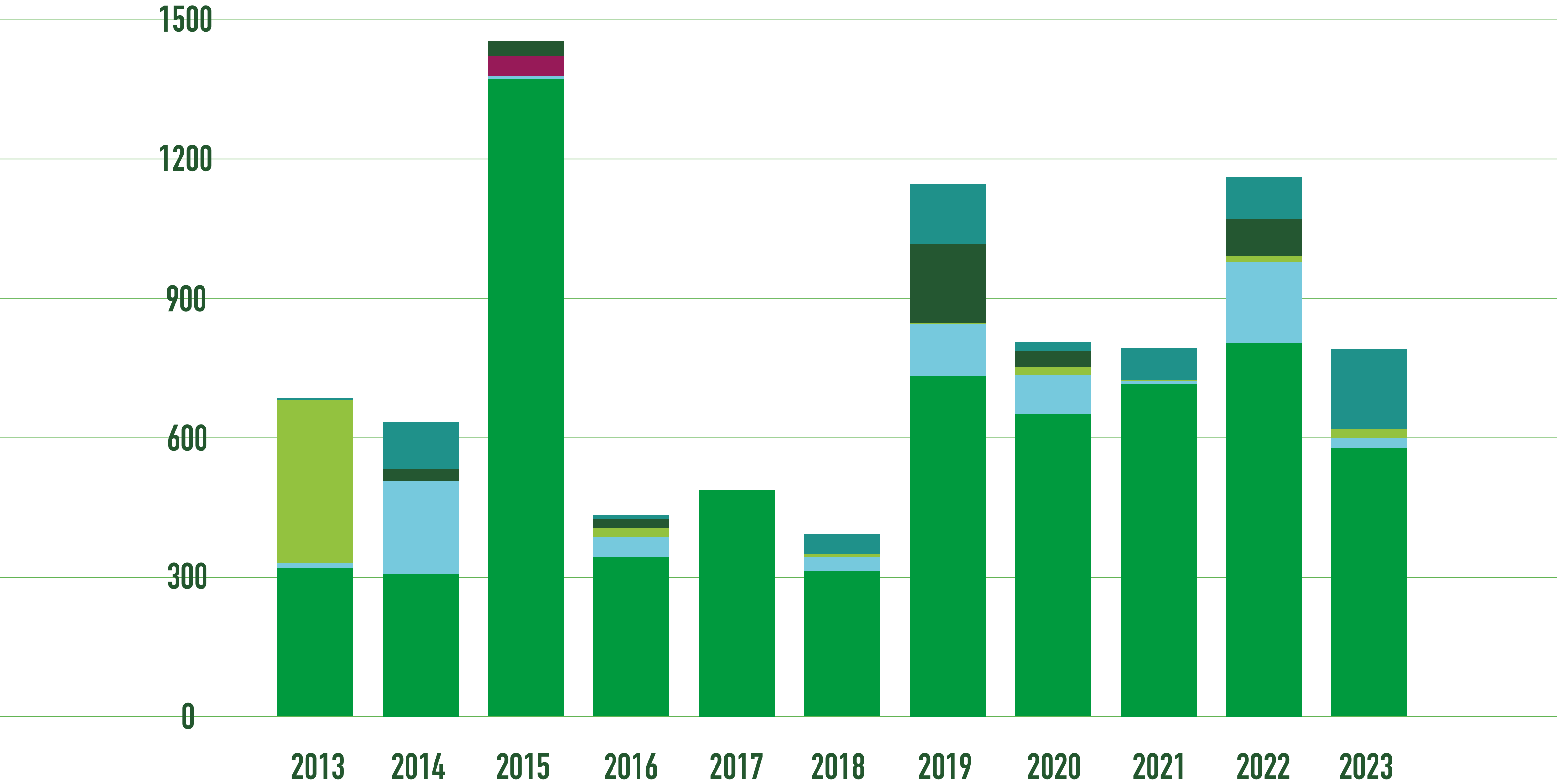


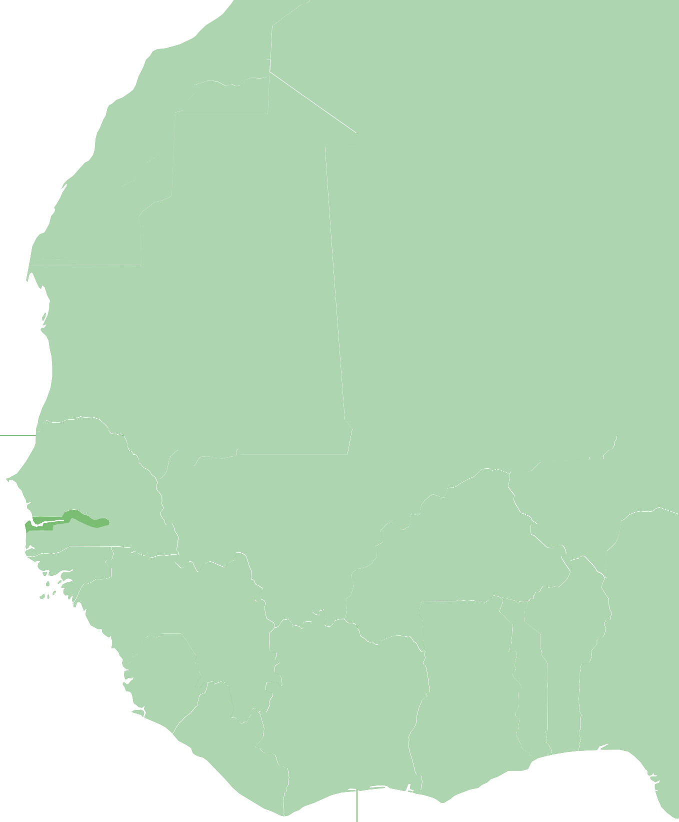
Total Value of Deals ($MM)

Kenya is considered a central hub for economic activity in the region and has a relatively well diversified economy less susceptible to commodity risks as compared to other large African economies. A large addressable market & economy, strengthening rule of law especially as relates to commercial matters, and a large talent base are some of the factors that have set the country apart in attracting PE and DFI investments. Indeed, many of the private equity and DFIs investing in the region have their Africa and regional headquarters in Nairobi.

Uganda has traditionally attracted investment into the financial services and agriculture sectors, which remain the mainstay sectors for PE and DFI investment. Other sectors that are increasingly popular include the energy, healthcare and ICT & telecommunications sectors. In the medium term, it should be expected that the oil & gas and logistics sector will be more active as investors explore opportunities from the commercialization of its oil deposits and Uganda being a gateway to DRC which was recently admitted into the East African Community.

Geographical Distribution of Disclosed Deal Values FY 2013 to H1 2023

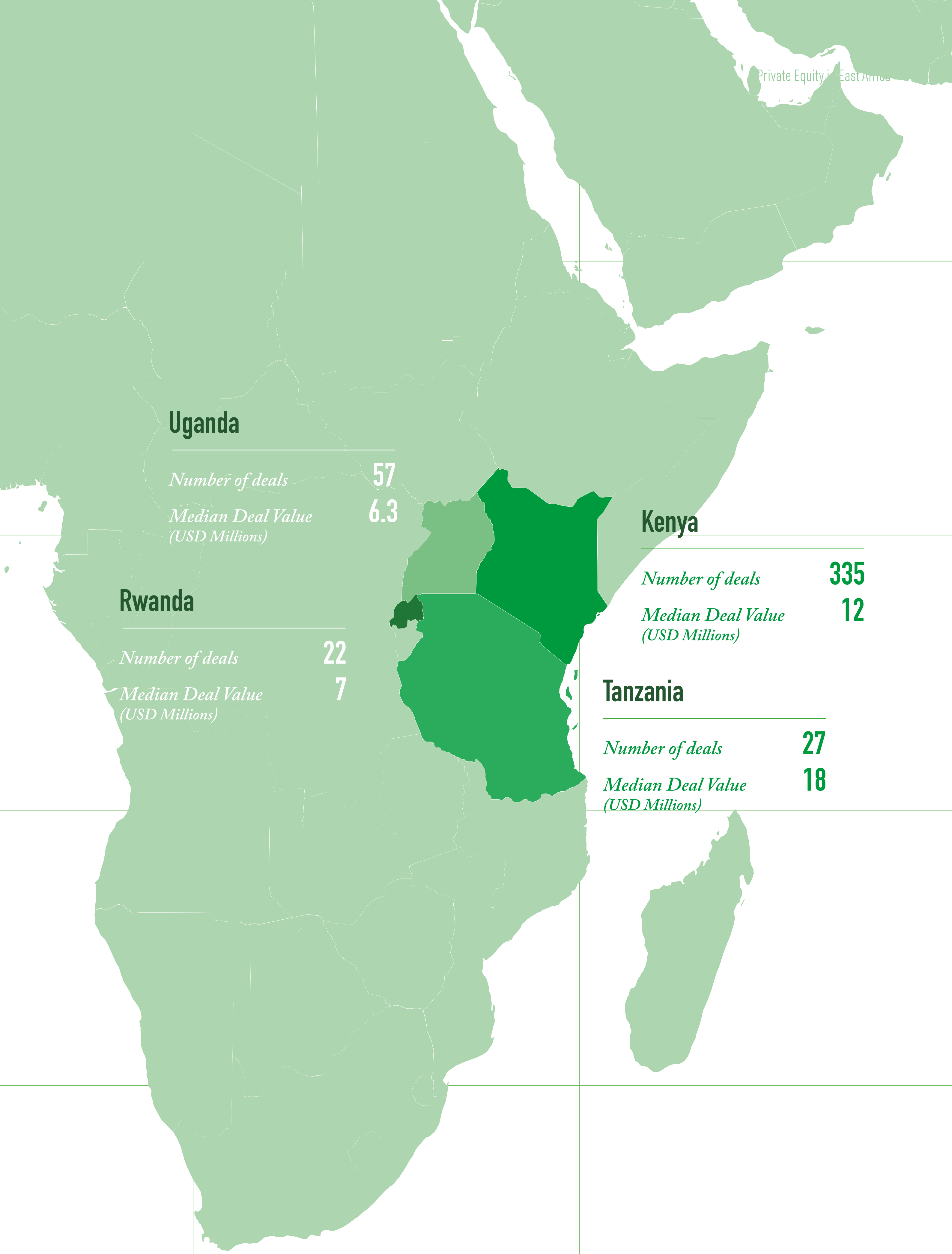




Tanzania is fast emerging as an attractive investment destination following the recent changes in administration and government policy. In recent years, there has been a resurgence in investments into the agriculture, natural resources, infrastructure and tourism sectors in addition to the mainstay financial services sector. However, the institutionalization of businesses in the country lags behind its East African peers lengthening transactions, and potentially, value creation timelines.

Rwanda has long had favourable investment policies that have attracted significant investment from venture capital and private equity. The former has thrived more on account of the relatively small size of the market, which is less suitable for commercial private equity, and the increasing capacity to scale a business from Kigali.

Ethiopia, long hailed as Africa's fastest growing economy, has faced significant pressure owing to the adverse political stability in the country with the Tigray conflict since late 2020 and recently with the troubles in the Amhara region. Further structural issues from a fixed exchange rate regime present challenges for investors to extract dividends, whilst forex controls limit the ability to deploy debt in hard currency. The country, nonetheless, remains a promising investment destination, in particular due to very attractive demographics.



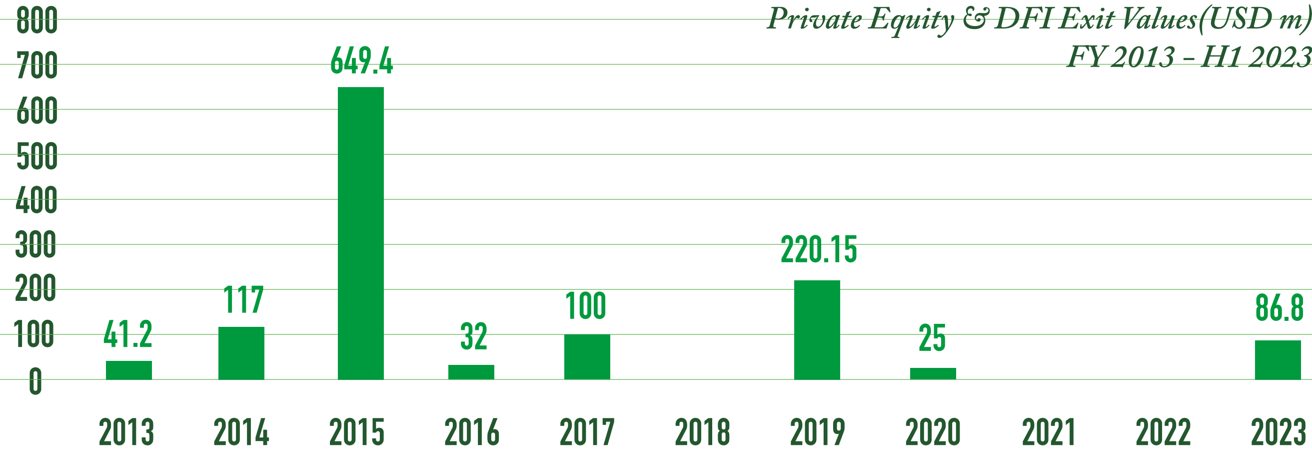
Uganda
Number of deals 57
Median Deal Value 6.3
(USD Millions)
Rwanda
Number of deals 22
Median Deal Value 7
(USD Millions)
Kenya
Number of deals 335
Median Deal Value 12
(USD Millions)
Tanzania
Number of deals 27
Median Deal Value 18
(USD Millions)

PRIVATE EQUITY EXITS

Overview

Private equity exits are hugely topical in the private equity community in East Africa both for their complexity and somewhat elusive nautre as evidenced by the contrast in publicly disclosed private equity primary (money-in) transactions as compared to private equity exits (427 investments vs 51 exits). Whilst the data suggests only 51 exits over the last decade, anecdotal evidence suggests a higher number on account of investments that are exited to founders and management and not disclosed. The data also does not capture investments that are exited via forced liquidation. Things are picking up though, with FY 2022 recording the most exit activity in the region in the last 10 years, with 2023 set to surpass this performance. The increase in exits in FY 2022, although a singular observation, is a herald to the exit activity expected in the region over the next 5 years, as the investments made in the last 7 years mature and fund lives come to an end. Increasingly, we understand that exits are a pre-requisite for first time fund managers to raise follow on funds from limited partners focused on the region, the majority of whom are DFIs.

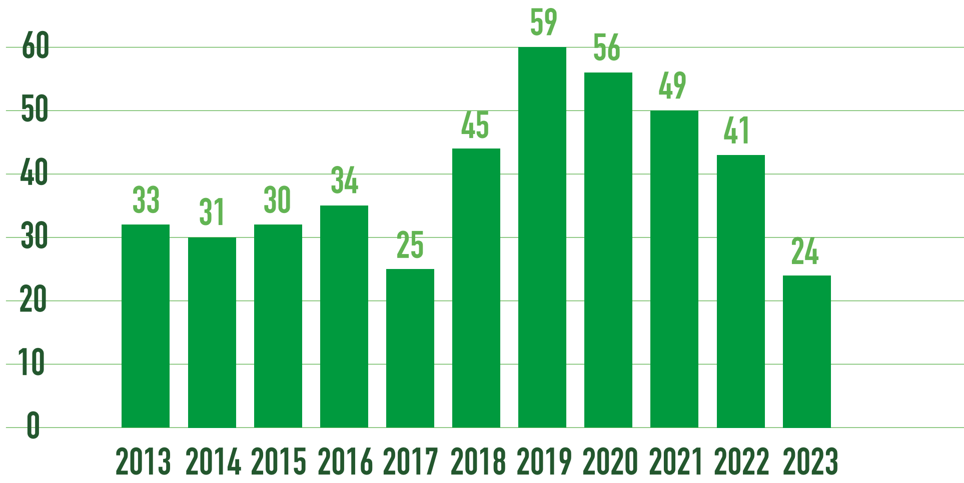
Excluding outliers, the average holding period in the industry has been c. 7 years for exits recorded between FY 2014 and H1 2023, with a general reducing trend up until the Covid period. These are remarkable numbers given the turbulent macro, geopolitical and weather-related events in the region during the period under review and their impact on profitability which then influences valuation. We would expect that with investors shifting more towards mature companies (on account of the larger ticket sizes), holding periods will continue to decline over the long term towards the industry global average of c. 6 years. This will naturally differ for sectors with high idiosyncratic risks such as the agriculture sector and project-based sectors such as the energy sector where holding periods of at least 10 years are often required to realise significant value from investments.



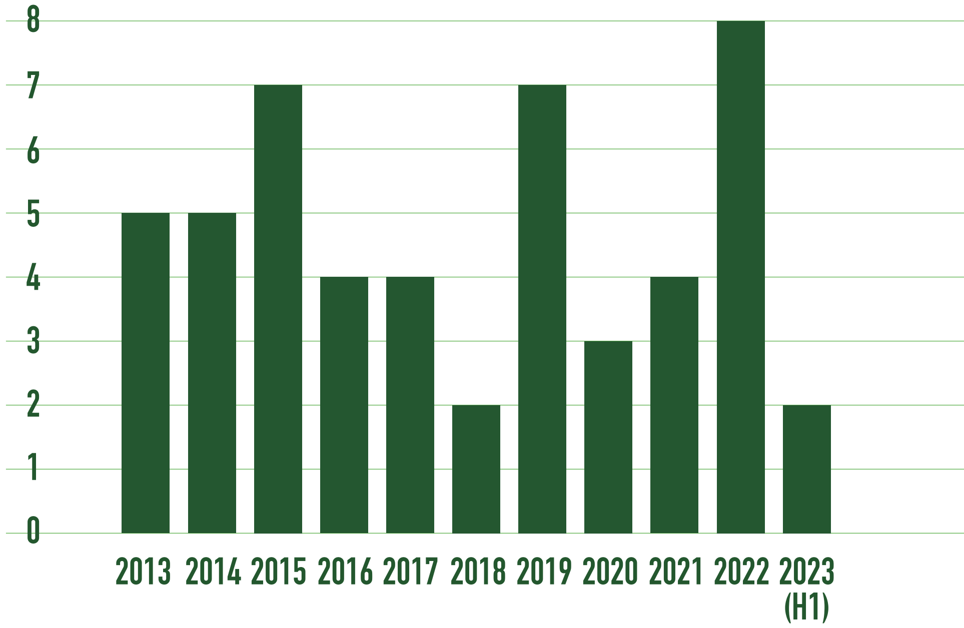
Private Equity & DFI Exit Values(USD m)
FY 2013 – H1 2023

Year	Average Holding period	Median
2014	4.4	3.0
2015	6.6	6.0
2016	6.5	7.5
2017	14.5	8.0
2018	6.5	6.5
2019	20.3	14.0
2020	3.3	3.0
2021	5.3	5.0
2022	5.5	5.5
2023	8.5	8.5

Private Equity & DFI Investments
FY 2013 – H1 2023



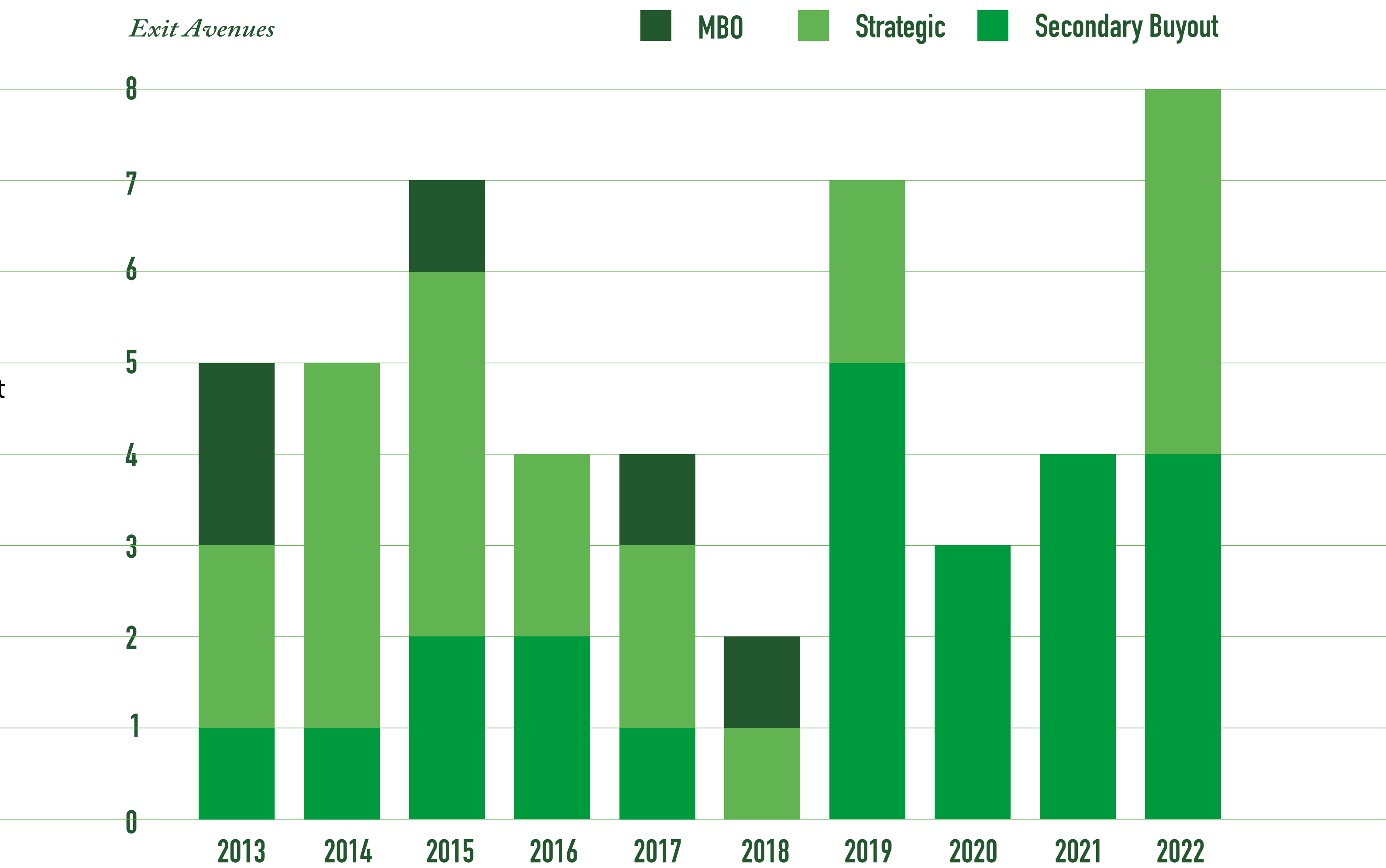
Private Equity Exits
FY 2013 – H1 2023

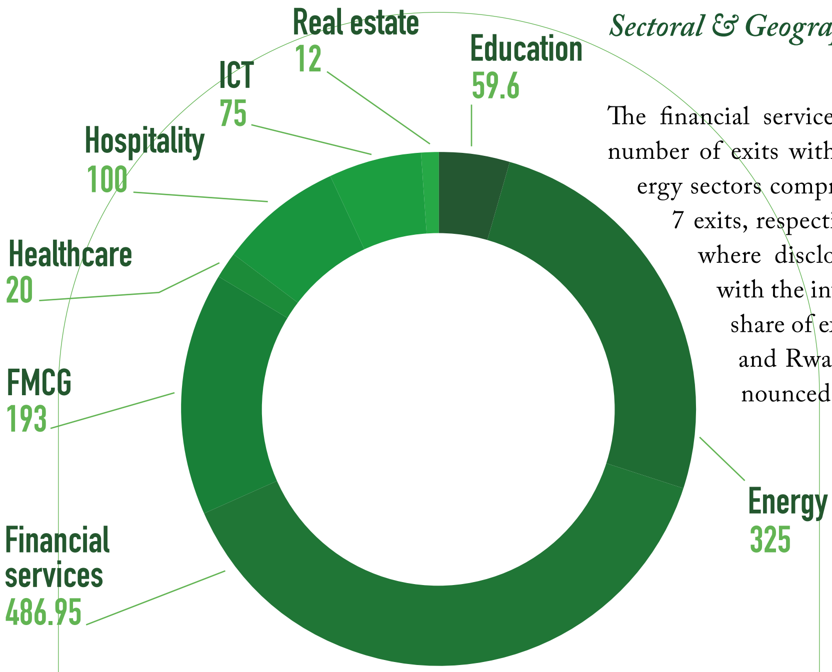


Exit Avenues

There are three primary exit avenues taken by PE investors in the region – sale to trade players, secondary buyouts and MBOs. Only one single exit via IPO has been recorded in the period under review. Sales to trade players have traditionally been the primary exit avenue for PE investments in the region with buyers primarily coming from Europe and Asia. Whilst this remains a primary avenue, the exit landscape is evolving in several ways with secondary buyouts now edging ahead of trade player sales and the buyer geographical profiles expanding to include pan African and regional buyers. The increase in secondary buyouts is recent and driven by several factors including a loosening of restrictions on secondary buyouts and an increase in the number of funds that will now execute majority transactions, and furthermore, secondary capital only transactions. Meanwhile, the diversification of trade buyer profiles is in line with the geopolitical shifts to a multipolar world intensified by the effect of the Covid-19 pandemic on globalization giving rise to on/reshoring and supplier diversification, and recently, the Russia-Ukraine war.

Exit Avenues

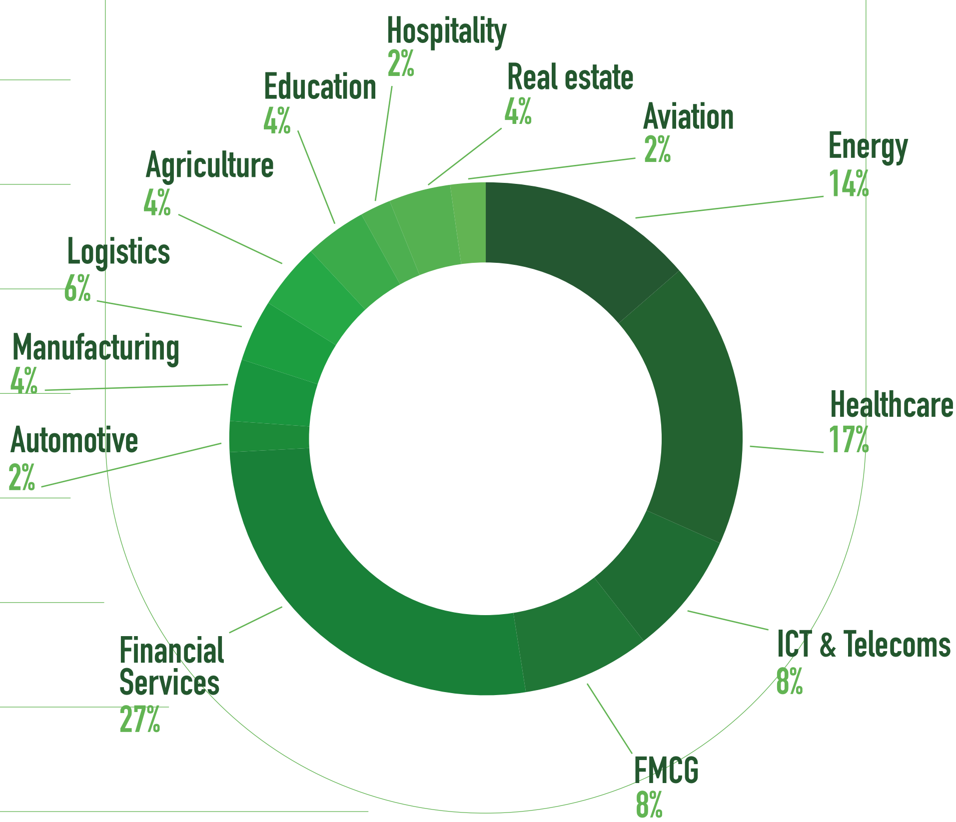




Sectoral & Geographical Distribution

The financial services sector has recorded the highest number of exits with 14, whilst the healthcare and energy sectors comprise the rest of the top 3 with 9 and 7 exits, respectively. A similar picture is presented where disclosed exit values are concerned. As with the investments, Kenya recorded the lion's share of exits with 36, followed by Uganda (8) and Rwanda with 3. Tanzania has had 2 announced exits whilst Ethiopia has had one.

Exits by Sector



PRIVATE EQUITY OUTLOOK

Private Equity in East Africa has grown significantly in the last decade to become a cornerstone of the regional capital markets with a sophisticated product offering that now more commonly includes buyout funds, mezzanine credit for leveraged buyouts, patient capital and distressed asset funds. Increasingly, fund managers are adopting a multi-strategy approach that incorporates these aspects across a variety of funds. The asset class retains its developmental ethos and has been instrumental in the increased adoption of corporate governance and other ESG principles across the private sector in the region.

The East African region presents an attractive investment destination for both developmental and commercial private capital given its strong fundamentals:

1. Positive demographics – The median age in the East African region ranges between 16 to 19 years, with a literacy rate of 71.3, and three of its countries in the top 10 list of most connected economies in Africa. This combined with a total population of more than 250 million people presents a large addressable market for growth.
2. Significant recent investments in infrastructure – All of the region's economies have in the last decade and beyond invested heavily in infrastructure development with a focus on transportation, energy and ICT capacity. This has opened up previously unexplored population centres and enabled innovative commercial solutions such as e-commerce. These investments have created highways for market expansion & creation, both geographically and notionally. Notably, Kenya's energy mix is primarily sourced from renewable sources presenting an exciting platform for manufacturing and innovation in promising technologies such as hydrogen.
3. Political stability – History has proven that the economies of East Africa ebb and flow with the winds of the political cycle with booms coming in the years following an election and slow downs in the year of an election. This is primarily driven by concerns on electoral related instability. The last election in Kenya has demonstrated that the political systems in the region are maturing with deal activity and economic activity less impacted by the political environment and more so by the global geopolitical and macroeconomic developments. There at least two and a half years before the next election cycle in all the region's economies which presents an attractive proposition for investment.

Notwithstanding, there remain headwinds to value creation and thus private capital investment including uncertain fiscal positions from high leverage, negative impacts from climate change threatening food security, and structural rigidities that present a hinderance to business including reducing efficiency in government service delivery. There appears to be light at the end of the tunnel for the region's economies with global interest rate rises now slowing down and the shift to a multipolar world presenting additional options for development partnership. There is also a concerted effort between both the private and public sectors to address the food security challenge whilst in countries such as Tanzania and Rwanda, the government is continually introducing investor and business friendly policies as well as reducing bureaucracy.

The maturity of the private equity community in East Africa in the last decade presents valuable perspective to capitalize on the positive developments in the region whilst adeptly managing risk. The predominantly developmental nature of private capital in the region lends it a captive stance which provides an implicit confidence of sustained liquidity. As such, we expect investment volumes to remain robust, though we may see investments from commercial PE (excluding direct DFI investments) plateau in the medium term while (accompanied by higher total deal values) due to the shift to larger ticket sizes. The latter development leaves a significant gap in the small cap segment which is presently primarily served by social impact funds which leaves a significant swathe of this market uncovered.

Where exits are concerned, we maintain a strongly positive view on exit activity. East African economies are well poised for growth and in addition to demonstrated investment interest from African conglomerates, we are also seeing increasing interest in the region from Middle Eastern, East Asian and South Asian companies. These two when combined with secondaries provides larger exit avenues for limited investment horizon funds.

A new horizon which may further catalyse the market would be secondary sales at fund level. This concept has been around in developed markets but, as far as public disclosure is concerned, has been muted in the African private equity space, presumably due to the developmental nature of the current limited partner base. We see this as an untapped market, with opportunities for liquidity coming from both global funds (The recent acquisition of the Ethos platform by TRG is telling) and global HNWI pools of capital that are looking for a home with social impact credentials.

THE EVOLUTION OF VENTURE CAPITAL IN EAST AFRICA

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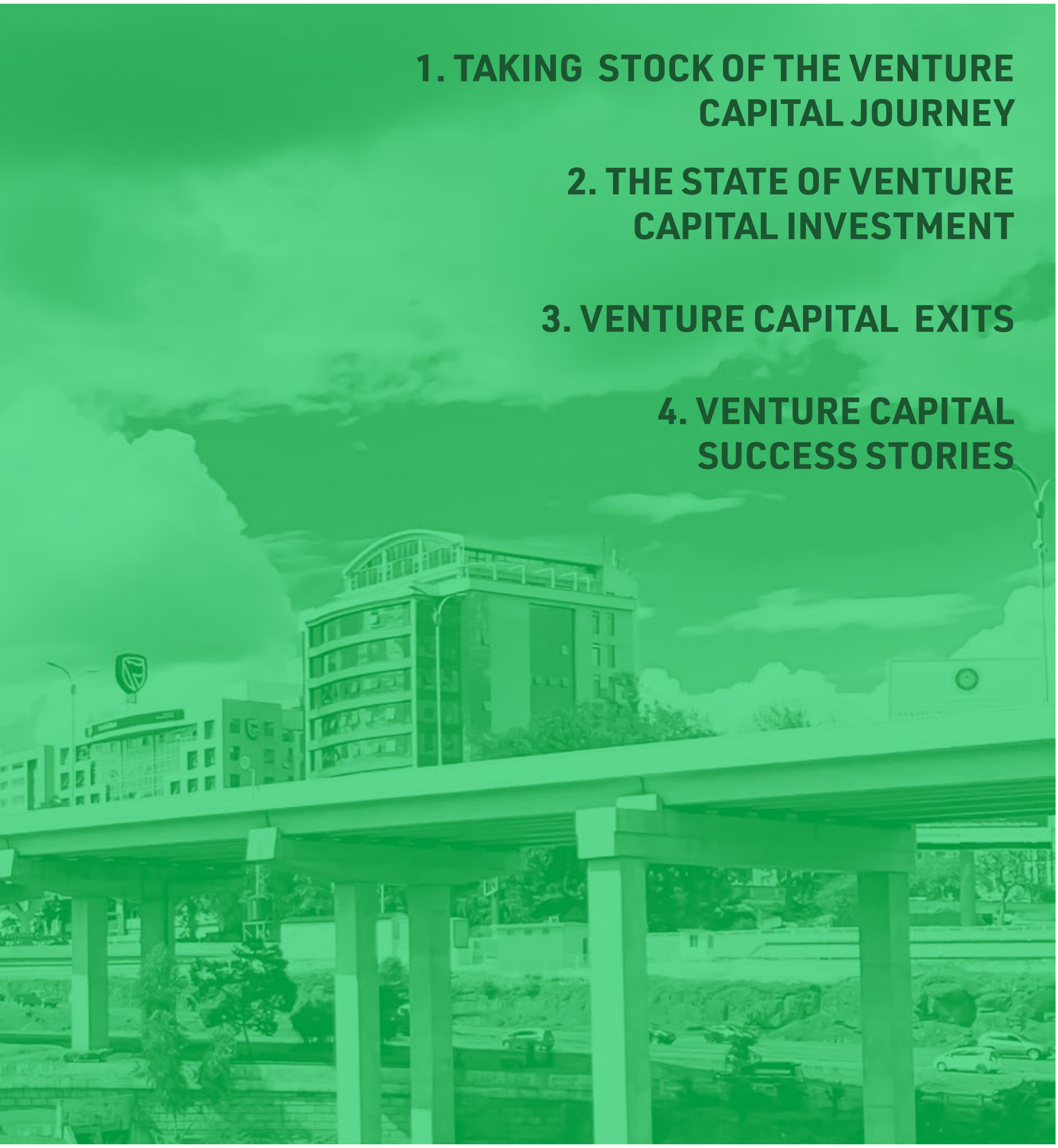
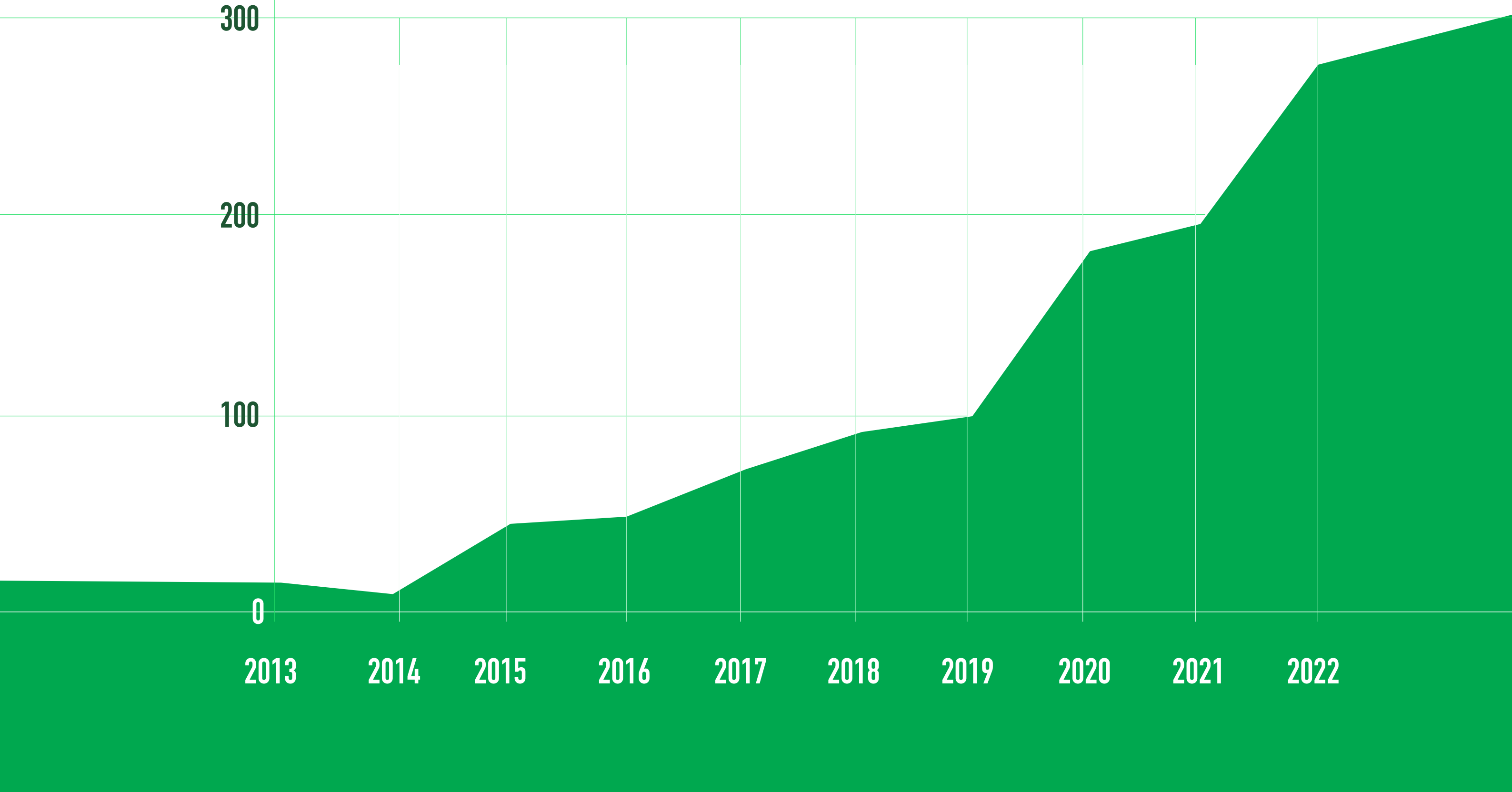


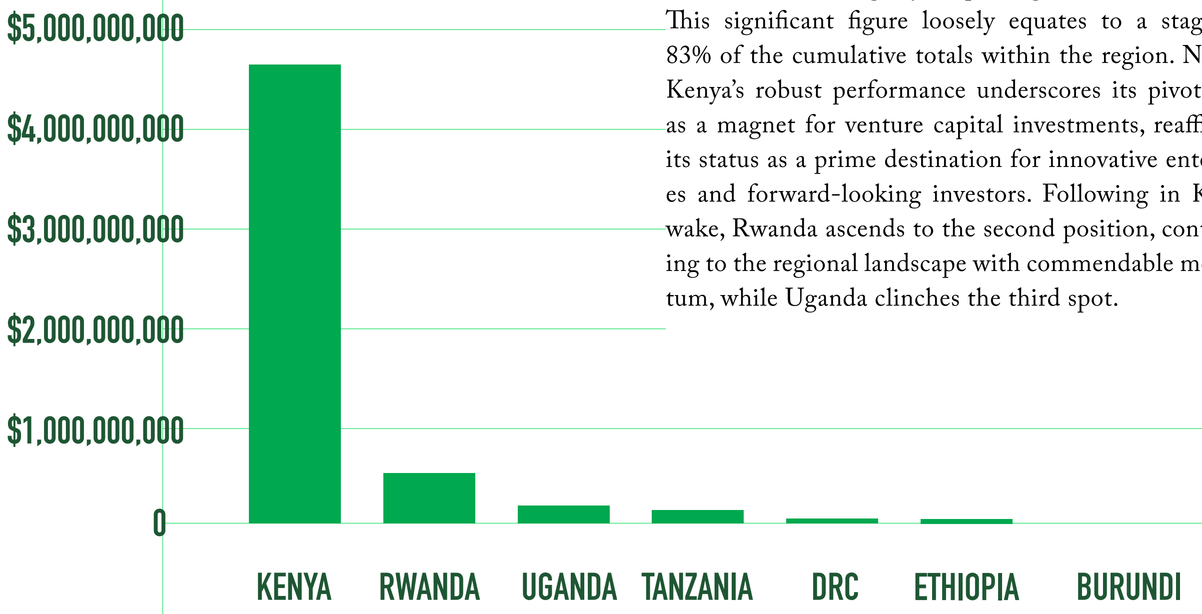
TAKING STOCK OF THE VENTURE CAPITAL JOURNEY

Over the span of the last decade, the landscape of private capital investments in East Africa, particularly within the realm of venture capital (VC), has undergone a remarkable transformation. The VC sector's exponential growth has propelled it to a noteworthy milestone, amassing a cumulative value of $5.5 billion dollars. This achievement not only underscores the increasing prominence of East Africa as a burgeoning hub for innovation and investment opportunities but also highlights the concerted efforts of both local and international investors in nurturing and catalyzing the region's economic dynaism.

Total VC Investments

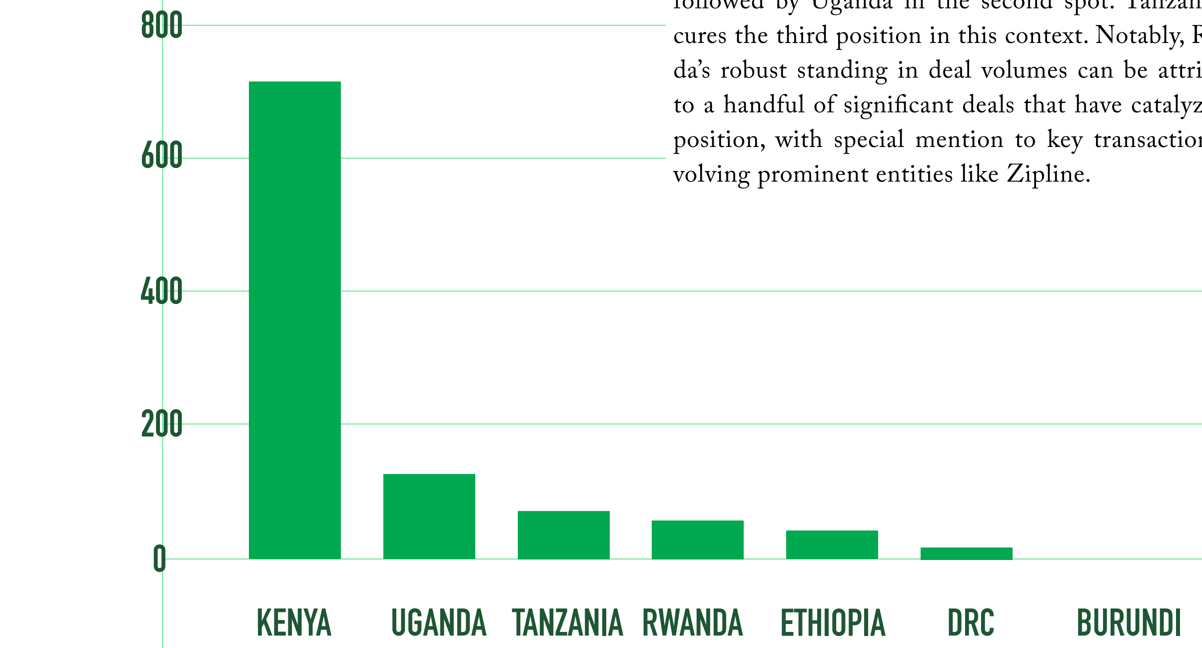


Geographical distribution of VC deals



This remarkable ascent translates into an impressive average annual growth rate of 70% over the specified period, as gauged by deal volumes. Within this panorama, Kenya emerges as a frontrunner, boasting a commanding lead in deal volumes at slightly surpassing the $4 billion mark. This significant figure loosely equates to a staggering 83% of the cumulative totals within the region. Notably, Kenya's robust performance underscores its pivotal role as a magnet for venture capital investments, reaffirming its status as a prime destination for innovative enterprises and forward-looking investors. Following in Kenya's wake, Rwanda ascends to the second position, contributing to the regional landscape with commendable momentum, while Uganda clinches the third spot.

Geographical distribution of disclosed VC deal values



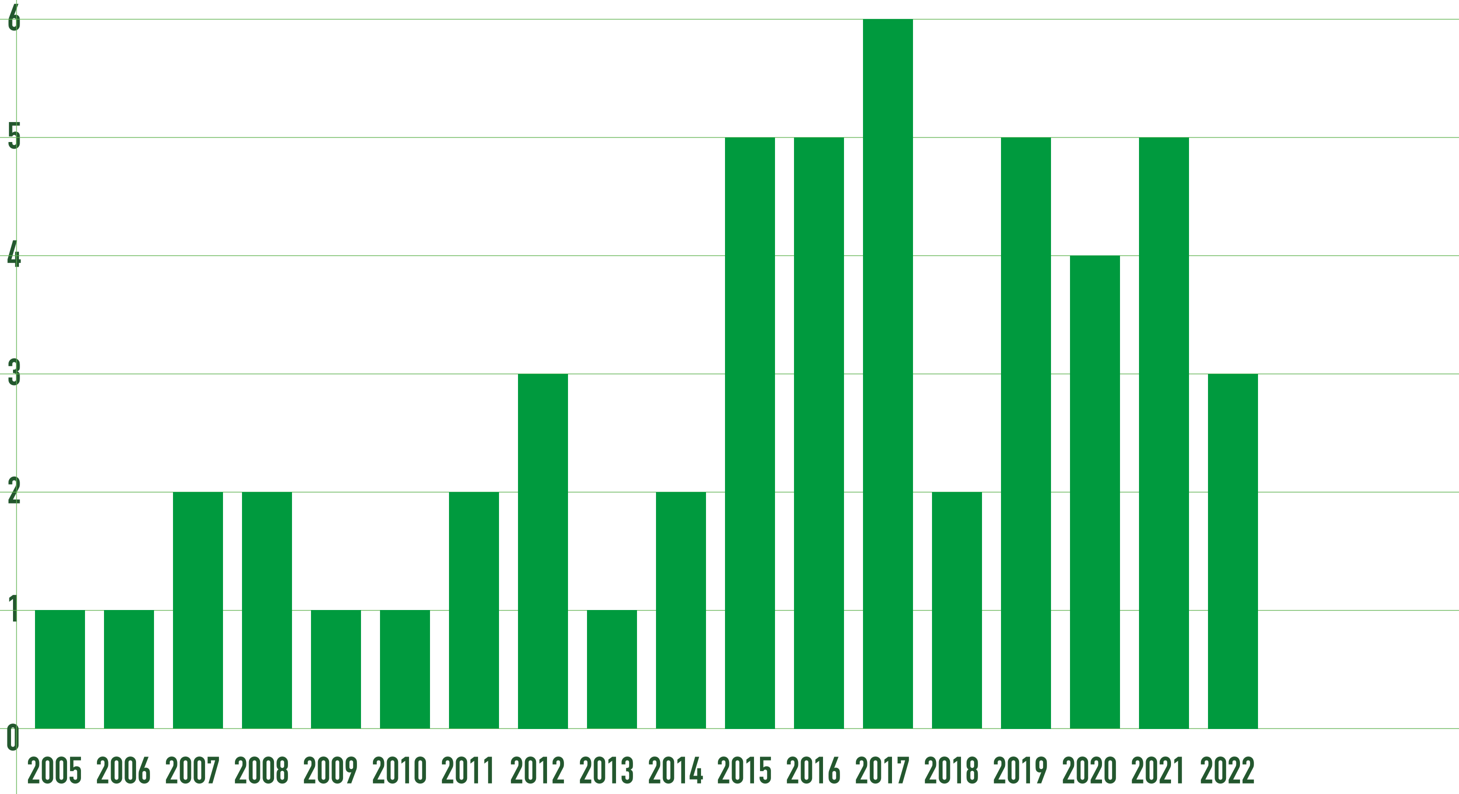
VC Deals

This trend is mirrored when considering deal activity, where Kenya's dominance remains pronounced, closely followed by Uganda in the second spot. Tanzania secures the third position in this context. Notably, Rwanda's robust standing in deal volumes can be attributed to a handful of significant deals that have catalyzed its position, with special mention to key transactions involving prominent entities like Zipline.

THE SUPPLY OF VENTURE CAPITAL

The East African digital and green technology landscape has garnered substantial interest from a diverse array of investors, comprising over 75 entities encompassing a range of investment types. Notably, these investors all have a commonality in their geographical roots, with each drawing their bases and headquarters from within the East African region itself.
A significant majority of these investors have their origins in the relatively recent timeframe of 2015 to 2017, with the year 2017 emerging as the pinnacle of activity in terms of investor establishment. This concentrated surge of investor founding during this period reflects the rapid acceleration of interest and engagement within the East African digital and green technology arena.

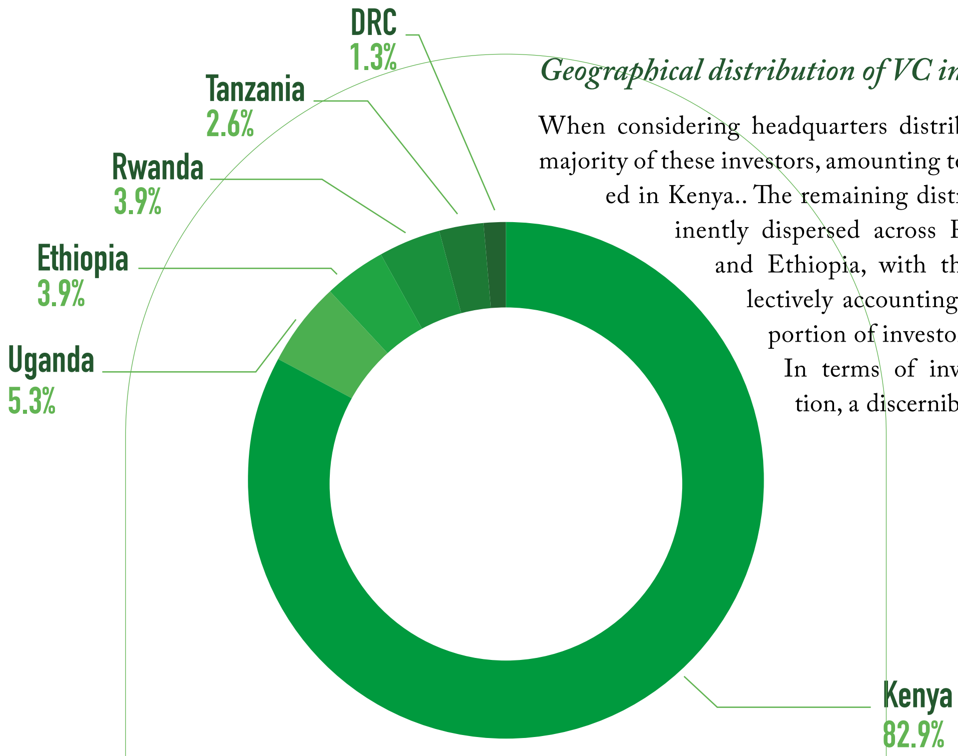
Number of new VC investors by year



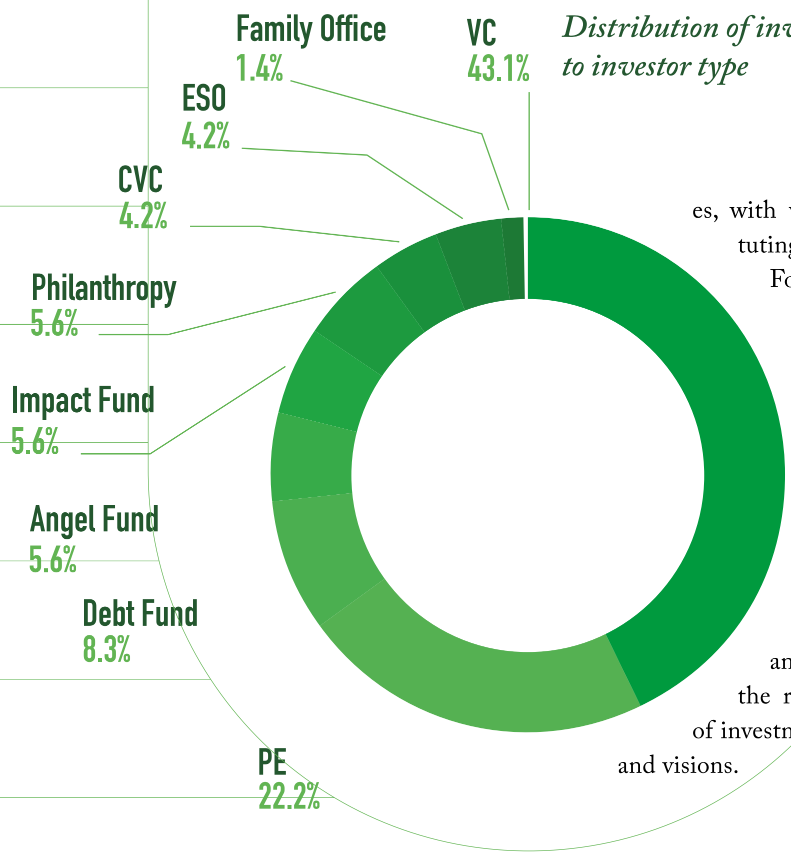
Geographical distribution of VC investors

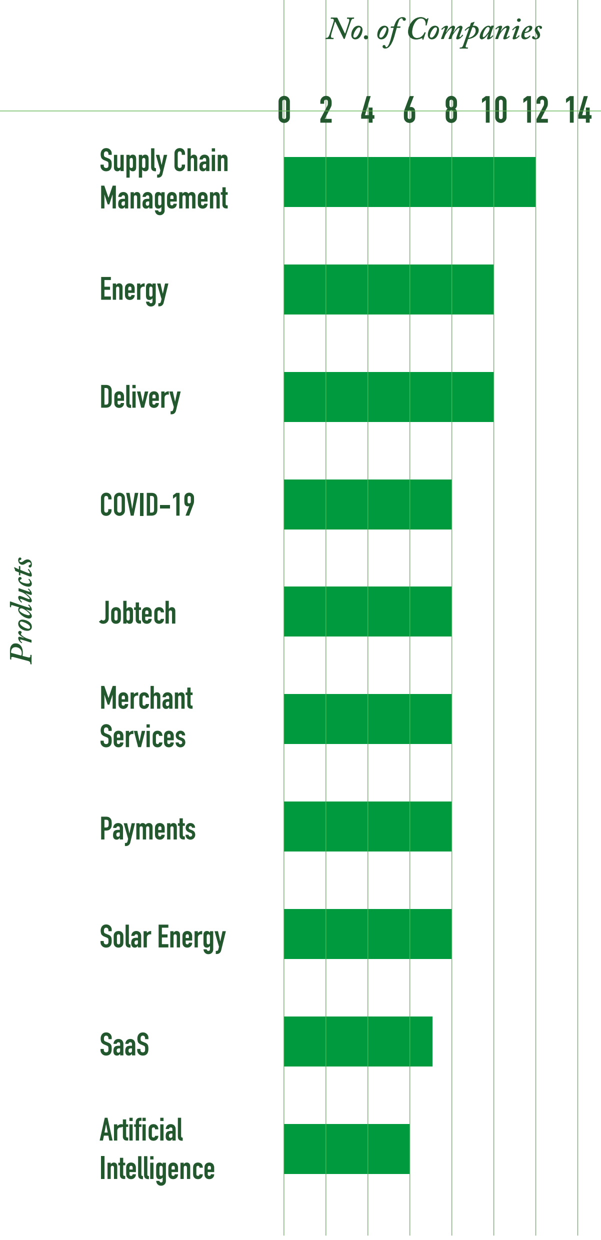
When considering headquarters distribution, a notable majority of these investors, amounting to 82.9%, are rooted in Kenya.. The remaining distribution is prominently dispersed across Rwanda, Uganda, and Ethiopia, with these nations collectively accounting for a substantial portion of investor bases.

In terms of investor categorization, a discernible pattern emerges, with venture capital (VC) firms constituting the largest proportion at 43%. Following closely behind are private equity (PE) firms, debt funds, and angel networks, collectively representing a multifaceted investor ecosystem that underscores the diverse and multifaceted nature of East Africa's digital and green technology investment landscape. This composition reflects a blend of strategic approaches, from early-stage support to growth and expansion, further accentuating the region's appeal to a wide spectrum of investment entities with varying objectives and visions.



Distribution of investors according to investor type





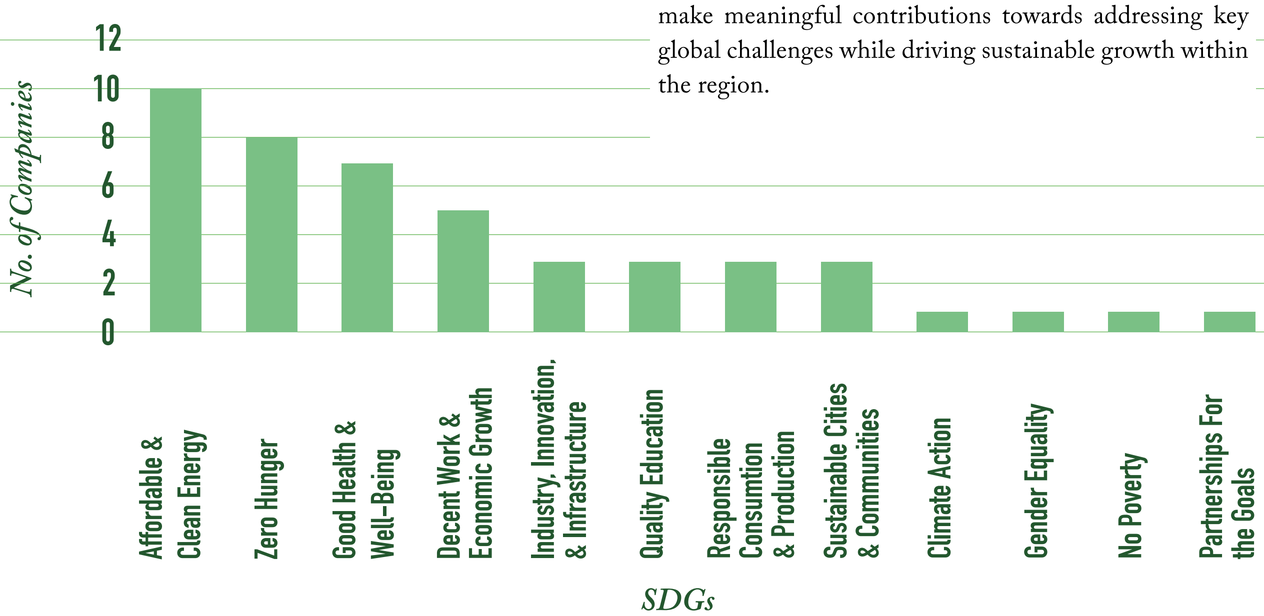
VC investment in supply chain products

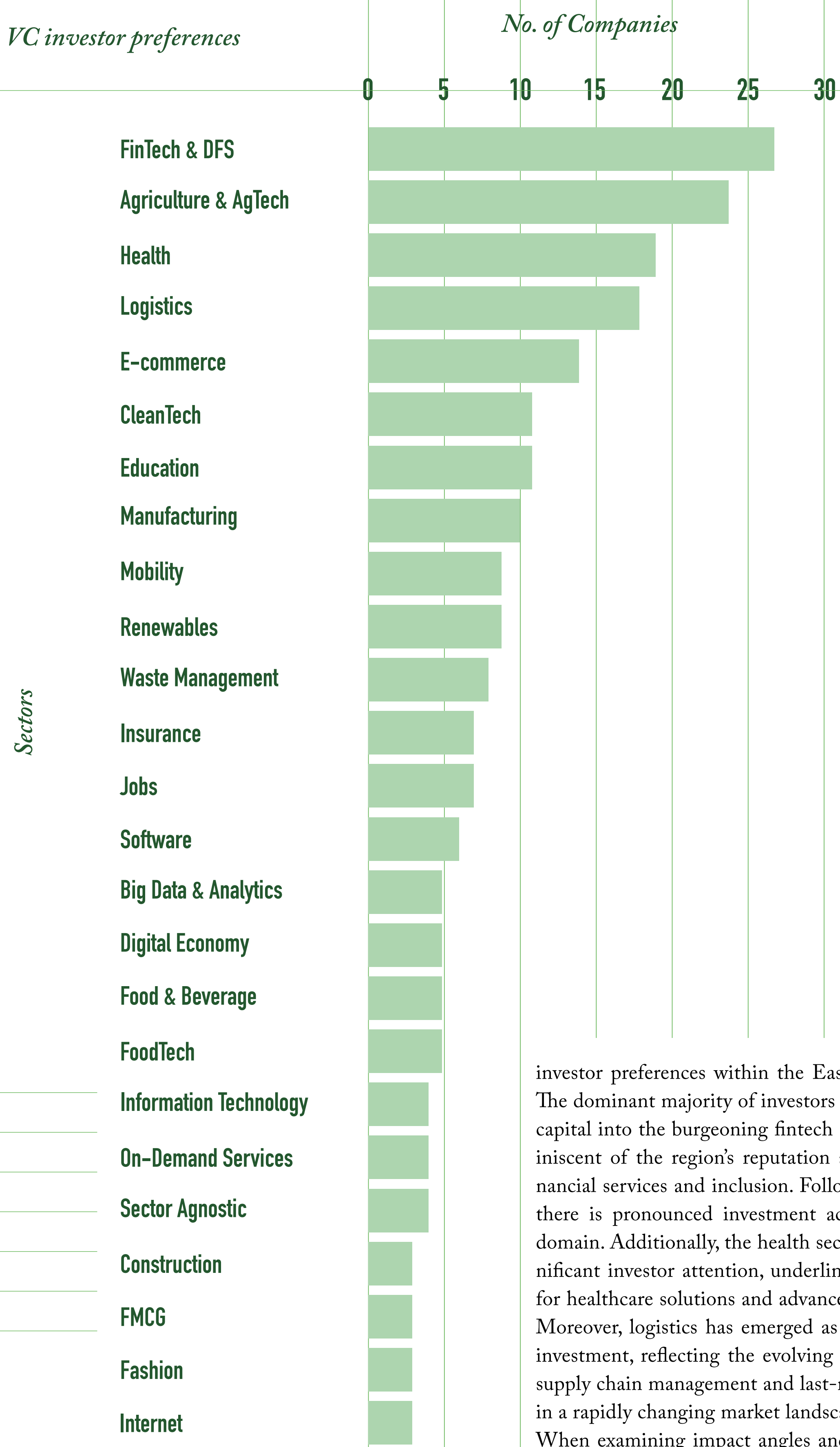
In the East African VC landscape, investor distribution has exhibited distinct trends. The predominant majority of investors have directed their capital towards supply chain-related products, recognizing the pivotal role these innovations play in optimizing logistics and distribution networks. Following closely behind, there has been significant investment focus on energy product clusters, acknowledging the growing demand for sustainable and efficient energy solutions. In addition, there has been notable investor interest in delivery-related products, reflecting the changing consumer dynamics and heightened emphasis on last-mile delivery services. Furthermore, it's worth noting that a considerable share of investments has been directed towards products designed to address the effects of the COVID-19 pandemic, showcasing the adaptive nature of the region's entrepreneurial ecosystem in responding to real-time challenges with innovative solutions.

From a sectoral perspective, a distinct pattern emerges in

Alignment of VC investors and SDGs

tainable Development Goals (SDGs), the pursuit of affordable and clean energy (SDG 7) emerges as the leading focal point for target investment. Alongside this, a commitment to achieving zero hunger (SDG 2) has garnered significant investor attention, reflecting a concerted effort to enhance agricultural productivity and ensure food security. Moreover, investments are also being channeled towards advancing good health and well-being (SDG 3), emphasizing the critical importance of healthcare innovations and systems that positively impact public health outcomes. These targeted investments underscore the multifaceted commitment of East African investors to make meaningful contributions towards addressing key global challenges while driving sustainable growth within the region.





investor preferences within the East African VC scene. The dominant majority of investors have channeled their capital into the burgeoning fintech sector, which is reminiscent of the region's reputation as a harbinger in financial services and inclusion. Following closely behind, there is pronounced investment activity in the agtech domain. Additionally, the health sector has attracted significant investor attention, underlining the critical need for healthcare solutions and advancements in the region. Moreover, logistics has emerged as a key focus area for investment, reflecting the evolving demands of efficient supply chain management and last-mile delivery services in a rapidly changing market landscape.

When examining impact angles and aligning with Sus-

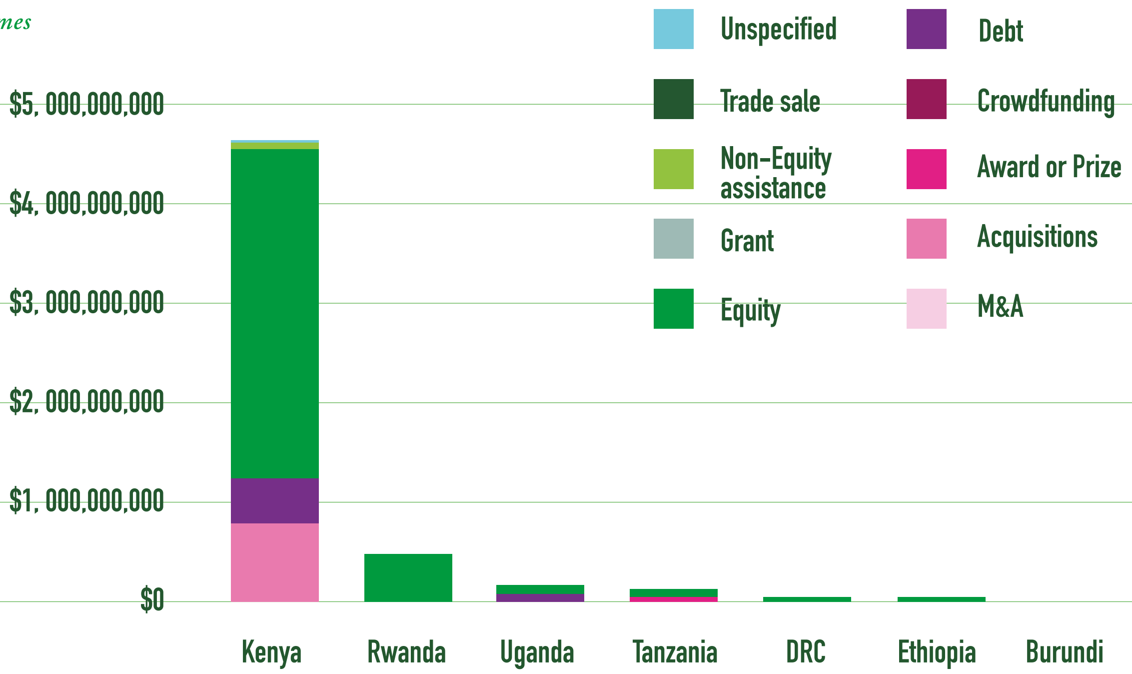
THE STATE OF VENTURE CAPITAL INVESTMENT

Over the span of the past decade, East Africa has witnessed a robust investment landscape, marked by a remarkable tally of over 1000 deals, collectively amassing a financial volume exceeding $5.5 billion. This dynamic display of investment activity underscores the region's enduring appeal to a diverse spectrum of investors and showcases the growing recognition of East Africa as a fertile ground for economic growth and innovation.

Deal type

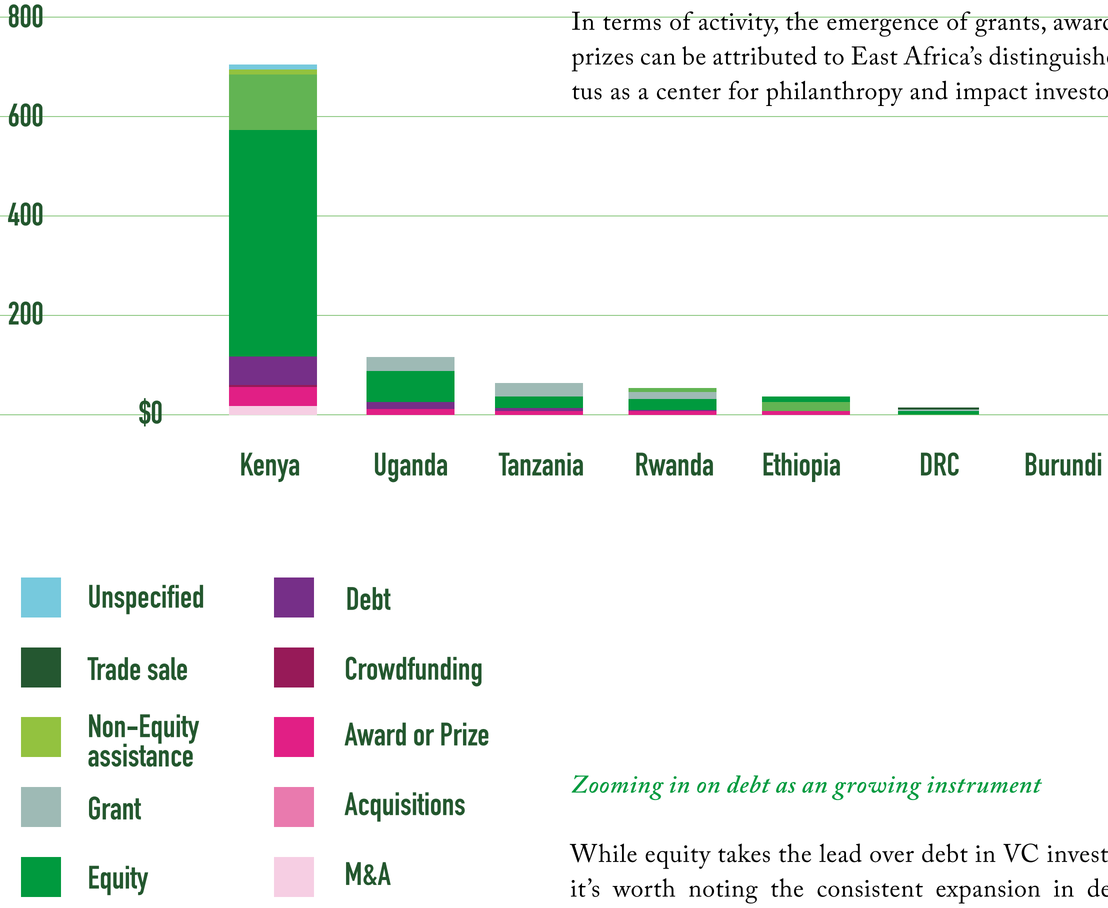
Equity stands out as the preferred vehicle for VC investments, and it comes as no surprise that over 72% (by volume) of VC transactions in East Africa are grounded in equity arrangements.

By volumes



By activity

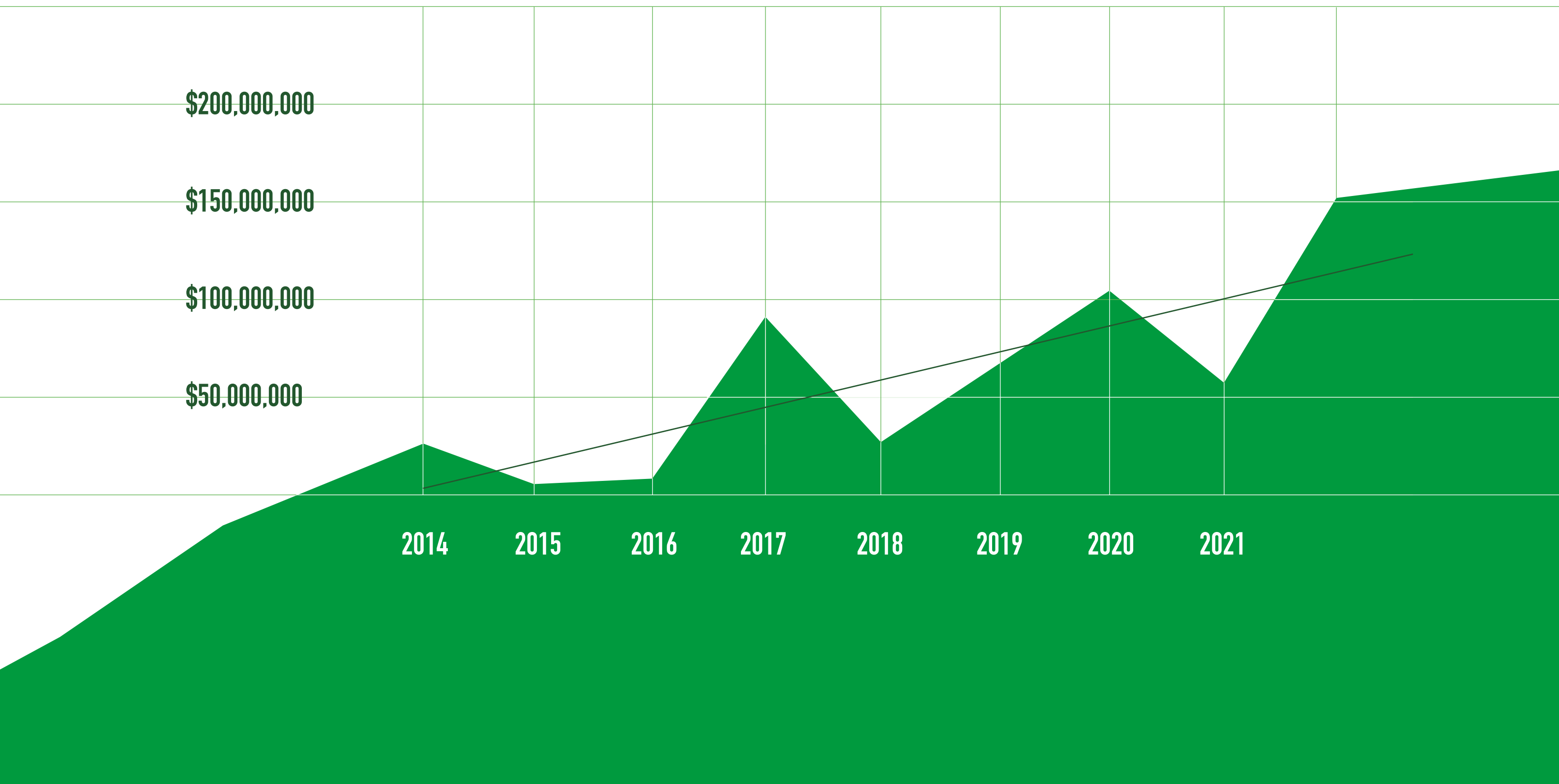
In terms of activity, the emergence of grants, awards, and prizes can be attributed to East Africa's distinguished status as a center for philanthropy and impact investors.



Zooming in on debt as an growing instrument

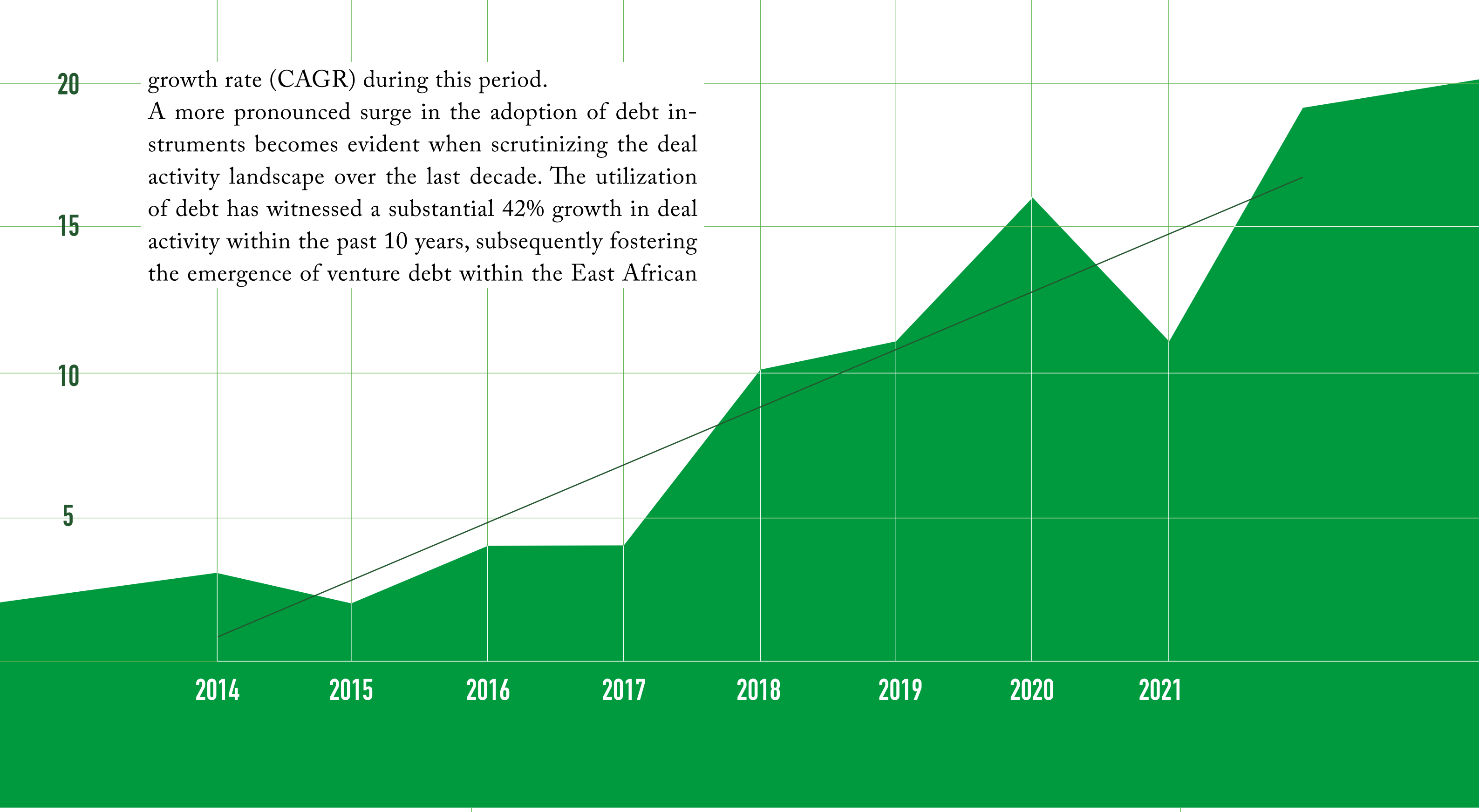
While equity takes the lead over debt in VC investments, it's worth noting the consistent expansion in debt investments, evident in both volume and activity, over the past decade. Debt investments have demonstrated robust growth, achieving an estimated 39% compound annual

Growth in VC - debt investments



growth rate (CAGR) during this period.

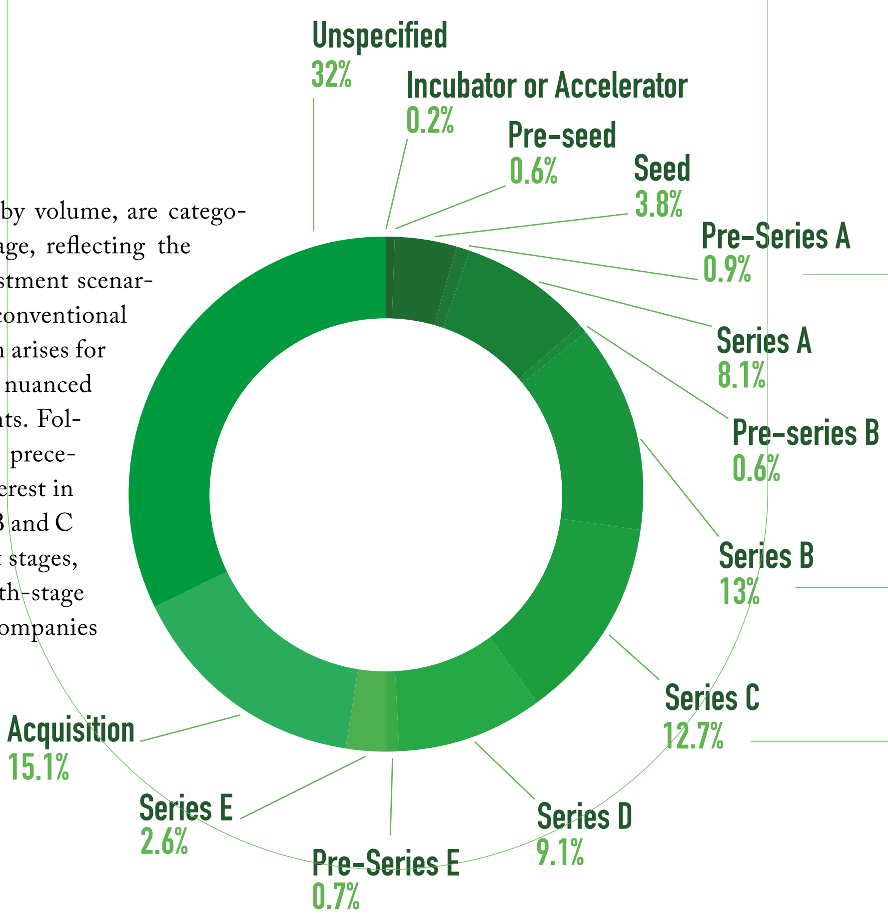
A more pronounced surge in the adoption of debt instruments becomes evident when scrutinizing the deal activity landscape over the last decade. The utilization of debt has witnessed a substantial 42% growth in deal activity within the past 10 years, subsequently fostering the emergence of venture debt within the East African VC ecosystem.



Deal stages

By volumes

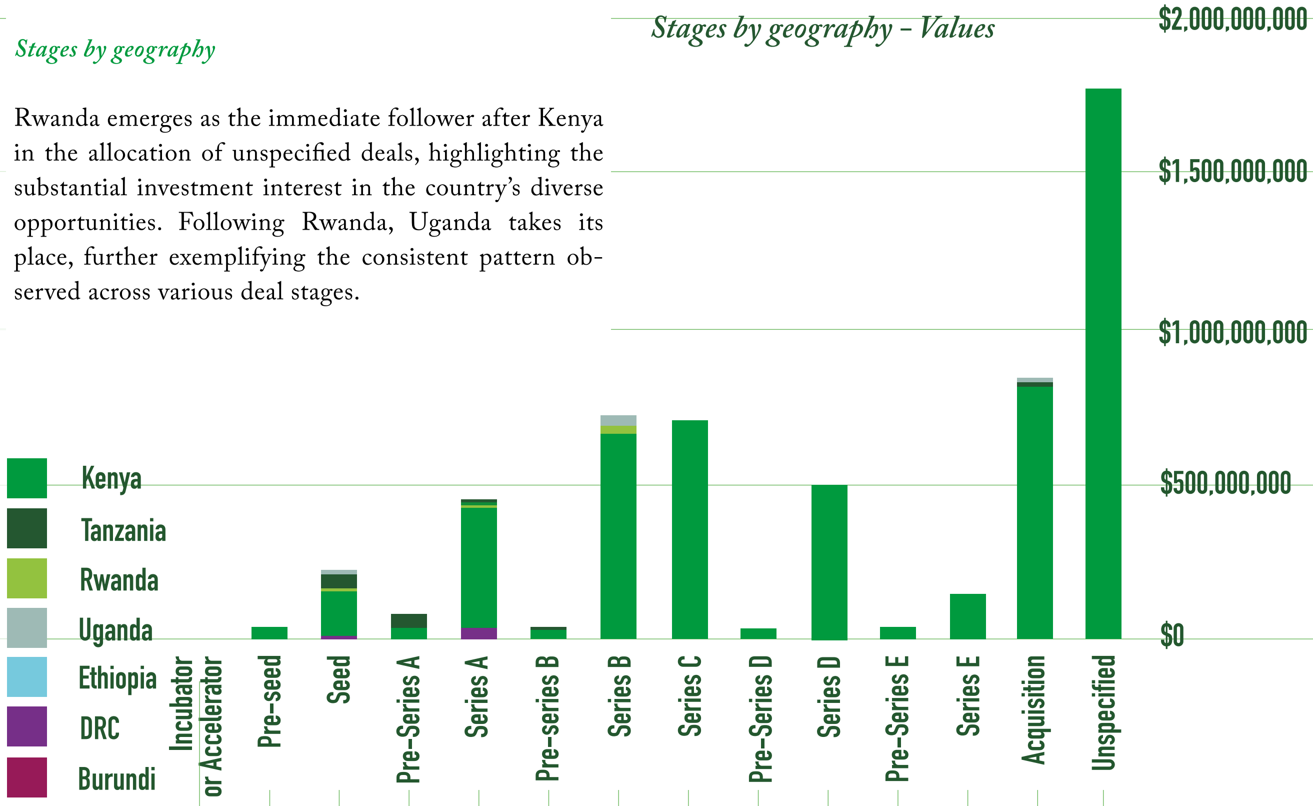
A significant majority of deals, by volume, are categorized under the ‘unspecified’ stage, reflecting the complexity and diversity of investment scenarios that may not neatly fit into conventional stages. This diverse categorization arises for various reasons, highlighting the nuanced nature of investment engagements. Following this, acquisitions take precedence, underlining a growing interest in mergers and acquisitions. Series B and C rounds also emerge as prominent stages, indicating an ecosystem of growth-stage investments that are propelling companies toward maturity and scalability.



Stages by geography

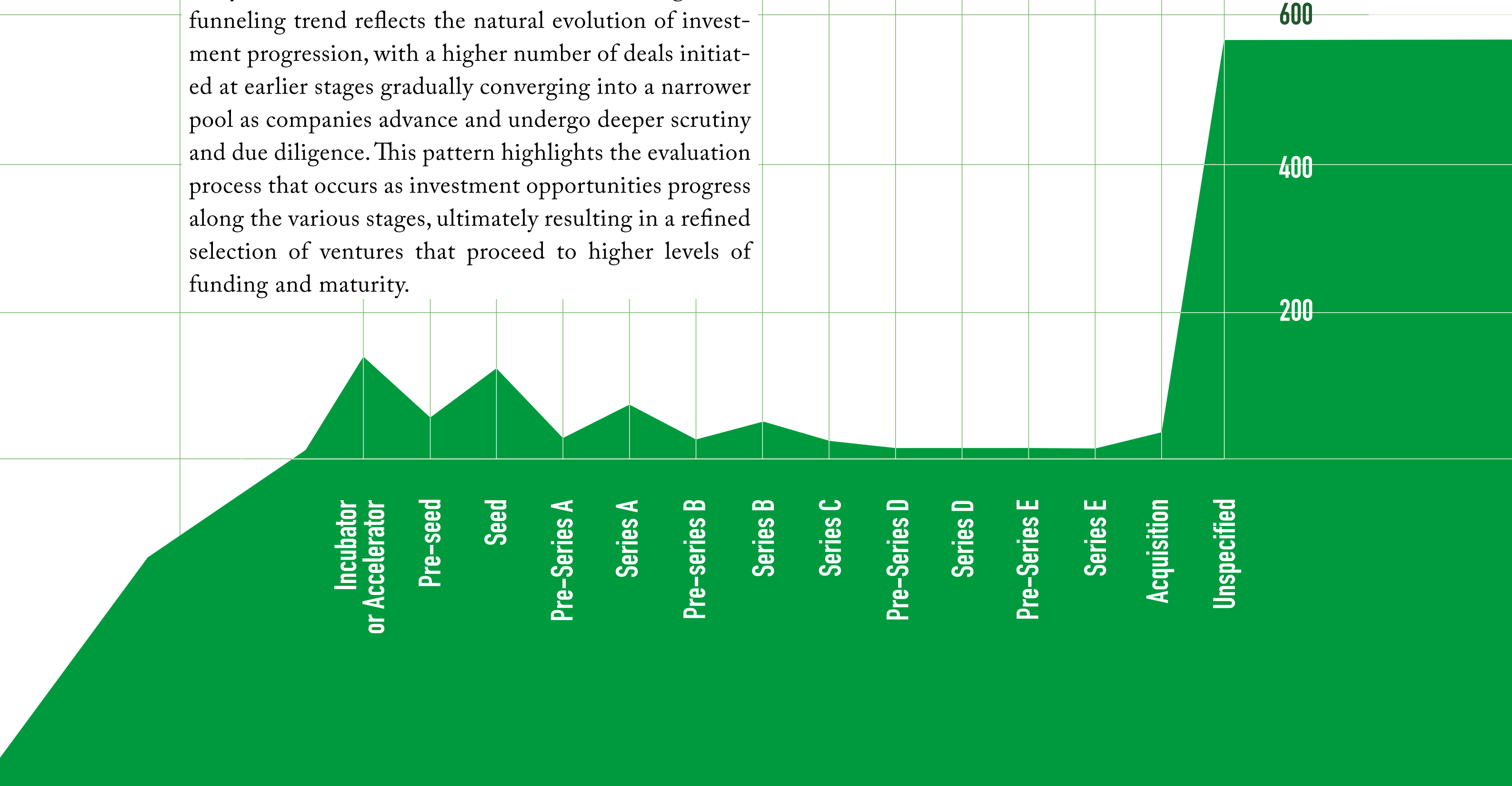
Rwanda emerges as the immediate follower after Kenya in the allocation of unspecified deals, highlighting the substantial investment interest in the country's diverse opportunities. Following Rwanda, Uganda takes its place, further exemplifying the consistent pattern observed across various deal stages.

Stages by geography – Values



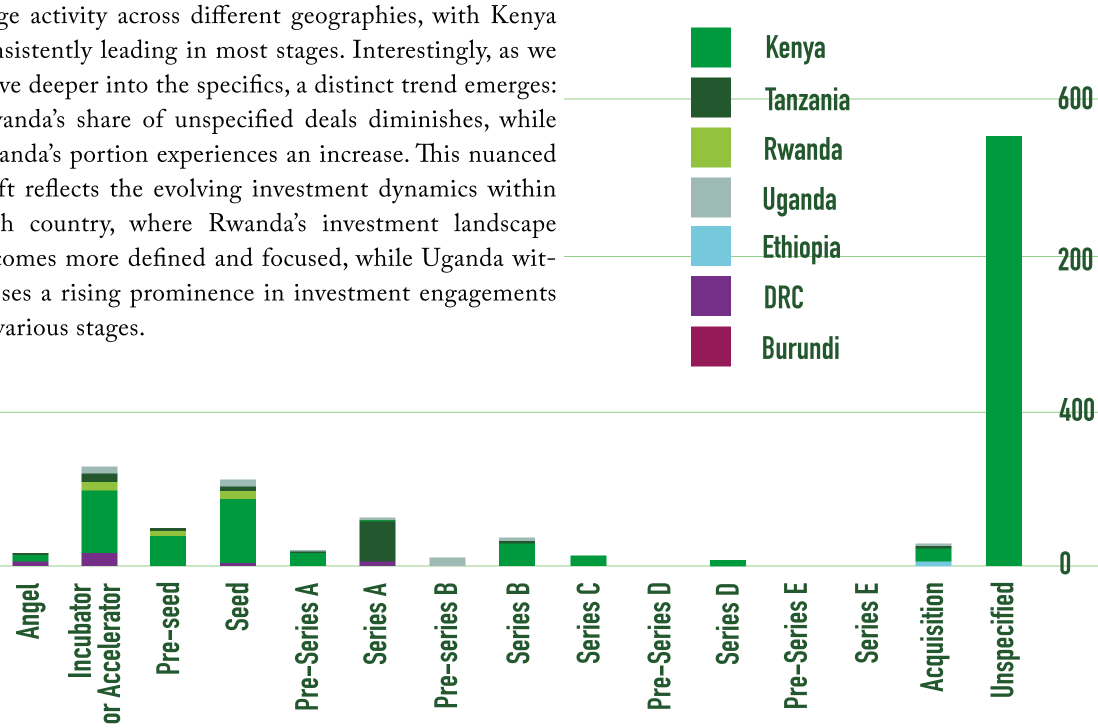
By activity

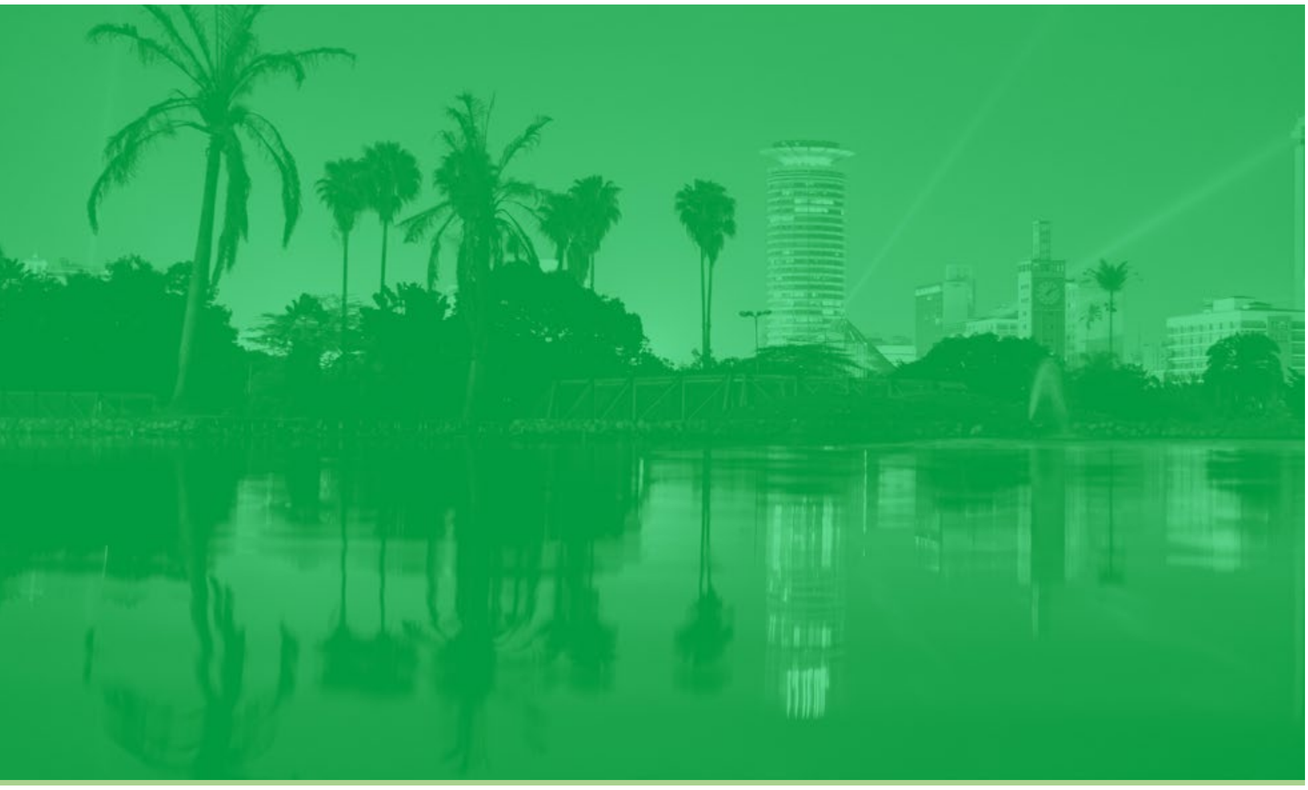
From an activity standpoint, a discernible 'funnel' effect becomes apparent, where a gradual reduction in deal activity is observed with each successive deal stage. This funneling trend reflects the natural evolution of investment progression, with a higher number of deals initiated at earlier stages gradually converging into a narrower pool as companies advance and undergo deeper scrutiny and due diligence. This pattern highlights the evaluation process that occurs as investment opportunities progress along the various stages, ultimately resulting in a refined selection of ventures that proceed to higher levels of funding and maturity.



A notable parallel can be observed in the pattern of stage activity across different geographies, with Kenya consistently leading in most stages. Interestingly, as we delve deeper into the specifics, a distinct trend emerges: Rwanda's share of unspecified deals diminishes, while Uganda's portion experiences an increase. This nuanced shift reflects the evolving investment dynamics within each country, where Rwanda's investment landscape becomes more defined and focused, while Uganda witnesses a rising prominence in investment engagements at various stages.

Stages by geography (no. of investments)

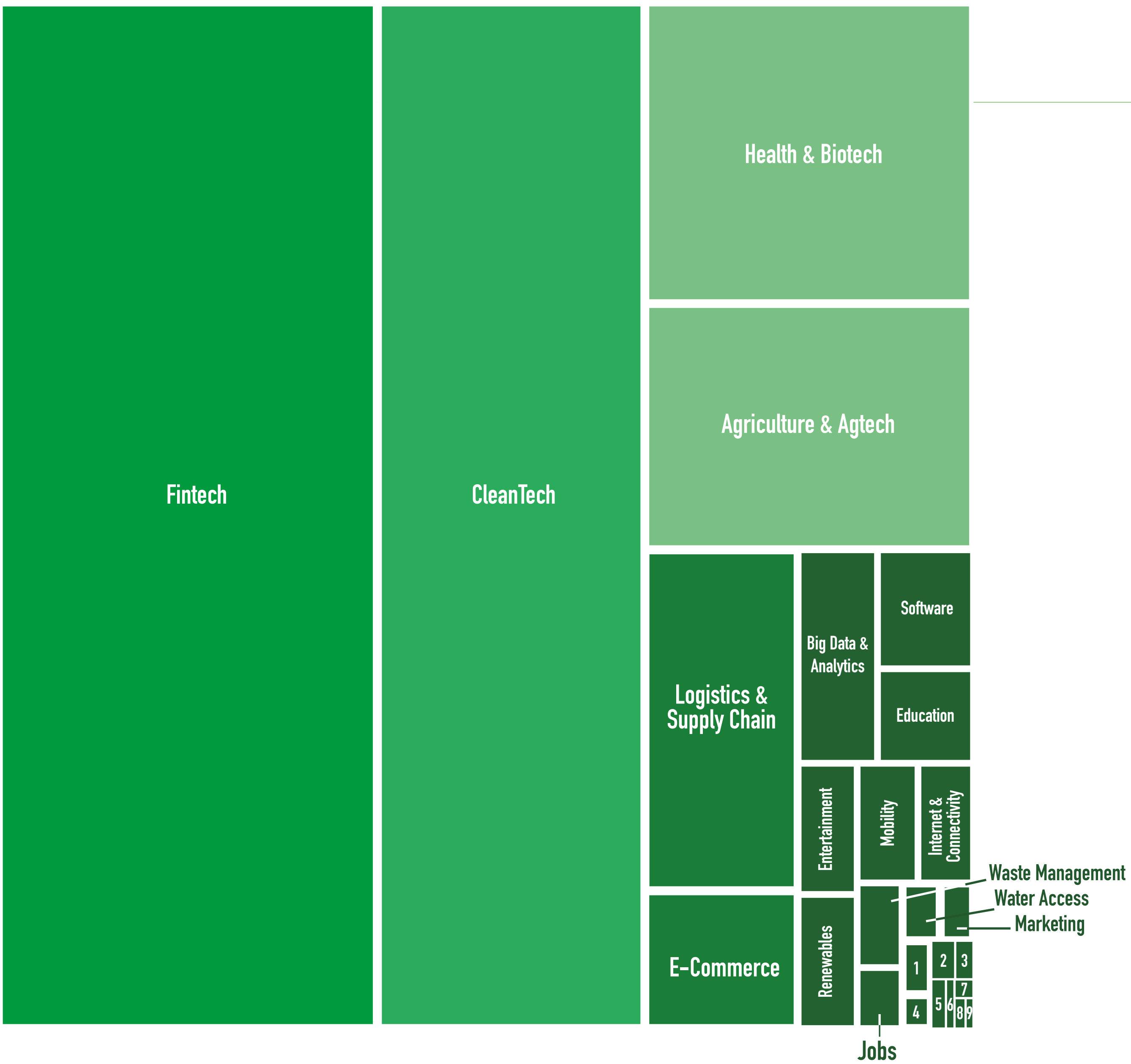




Sectoral distribution

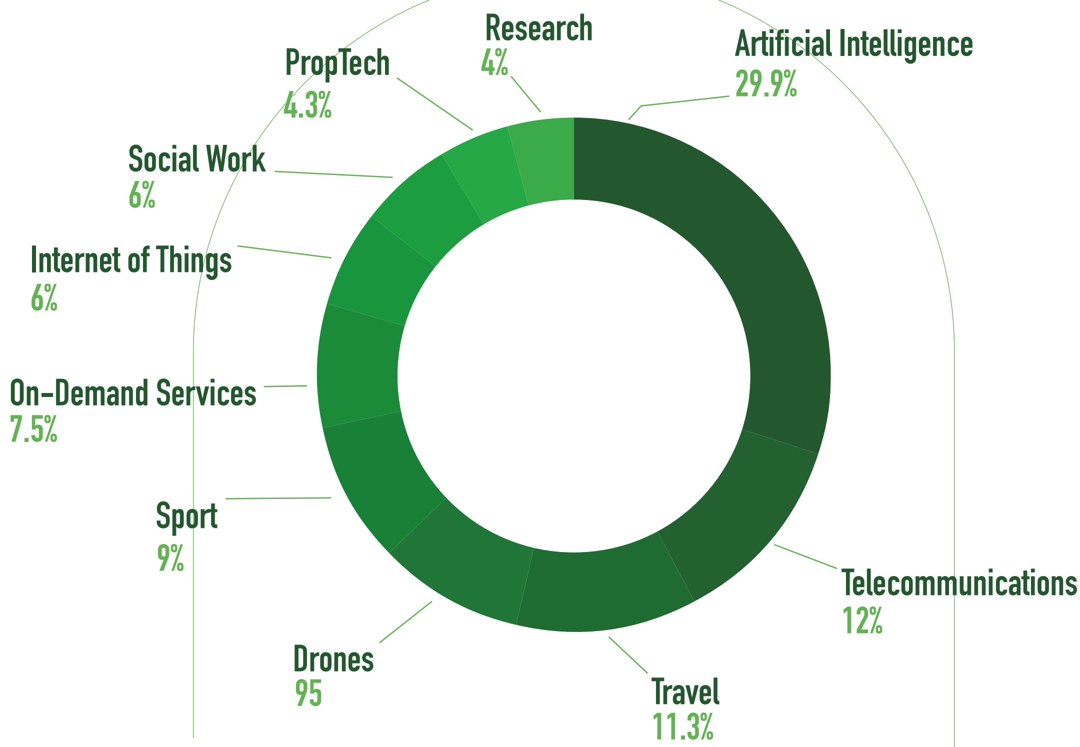
By volumes

From a volumetric standpoint within the sectors, there exists an equilibrium between fintech and cleantech, with both sectors accounting for nearly equal portions of investment activity. Health and agriculture sectors trail closely behind. Additionally, the digital logistics sector also commands a noteworthy share of investment volumes. Remarkably, when combined, these sectors collectively contribute significantly, amassing a total investment volume exceeding $4.9 billion.



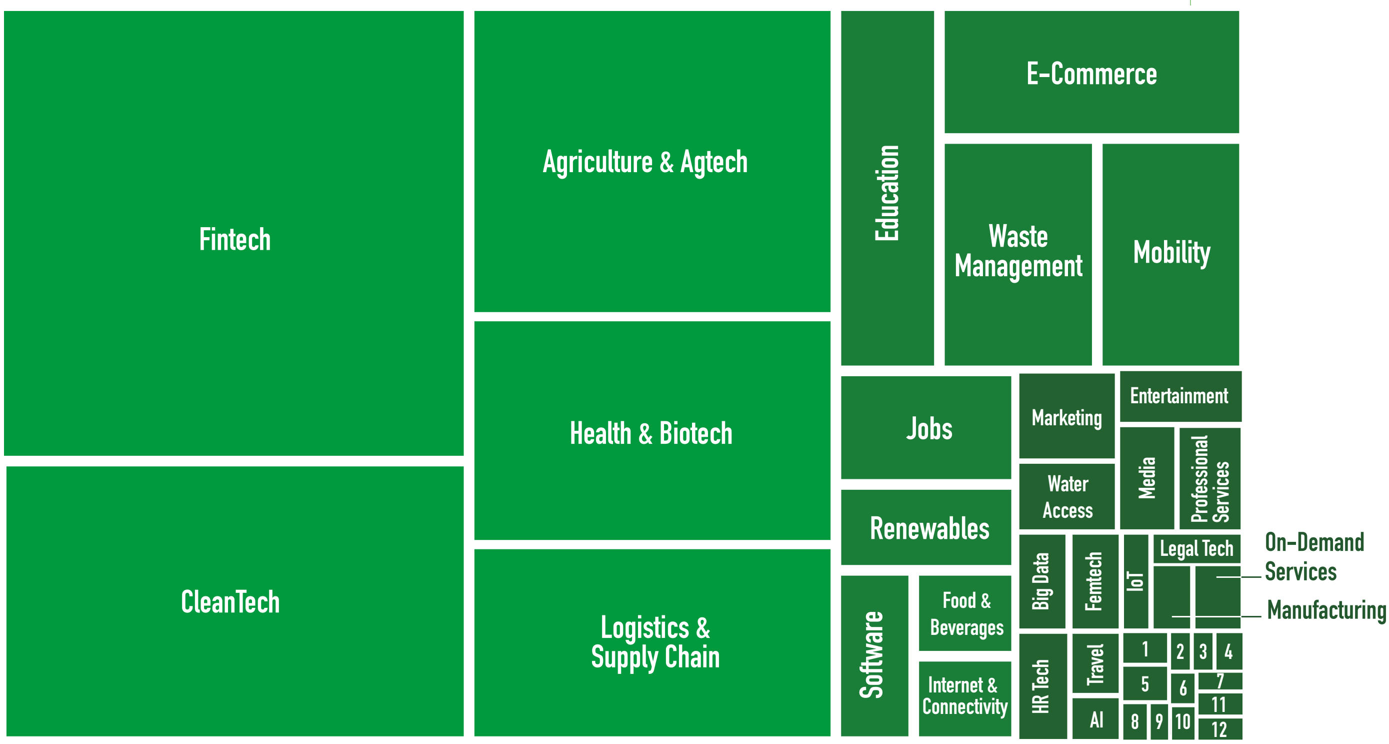
1. Femtech
2. Manufacturing
3. Media
4. Professional Services
5. Food & Beverage
6. HR Tech
7. Legal Tech
8. Others
9. Construction

Other sectors

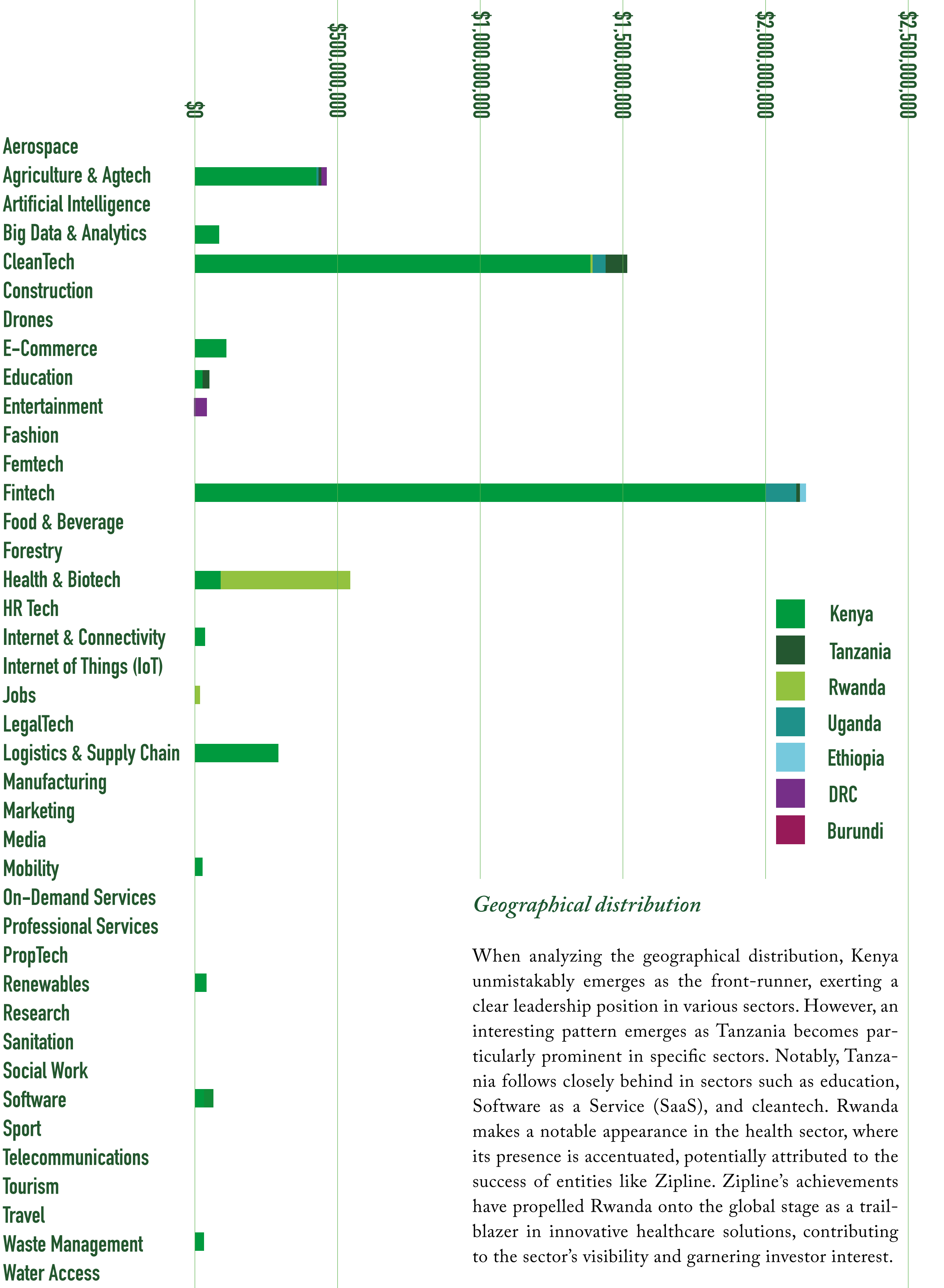


By activity

When examining the activity perspective within sectors, the dominance of fintech and cleantech experiences a shift, as agriculture, health, and logistics emerge to share a larger portion of the investment landscape. Notably, sectors like education, e-commerce, and waste management also rise to prominence, further diversifying the investment focus.



1. PropTech
2. Drones
3. Fashion
4. Forestry
5. Sanitation
6. Research
7. Sport
8. Aerospace
9. Construction
10. Social Work
11. Telecommunications
12. Tourism



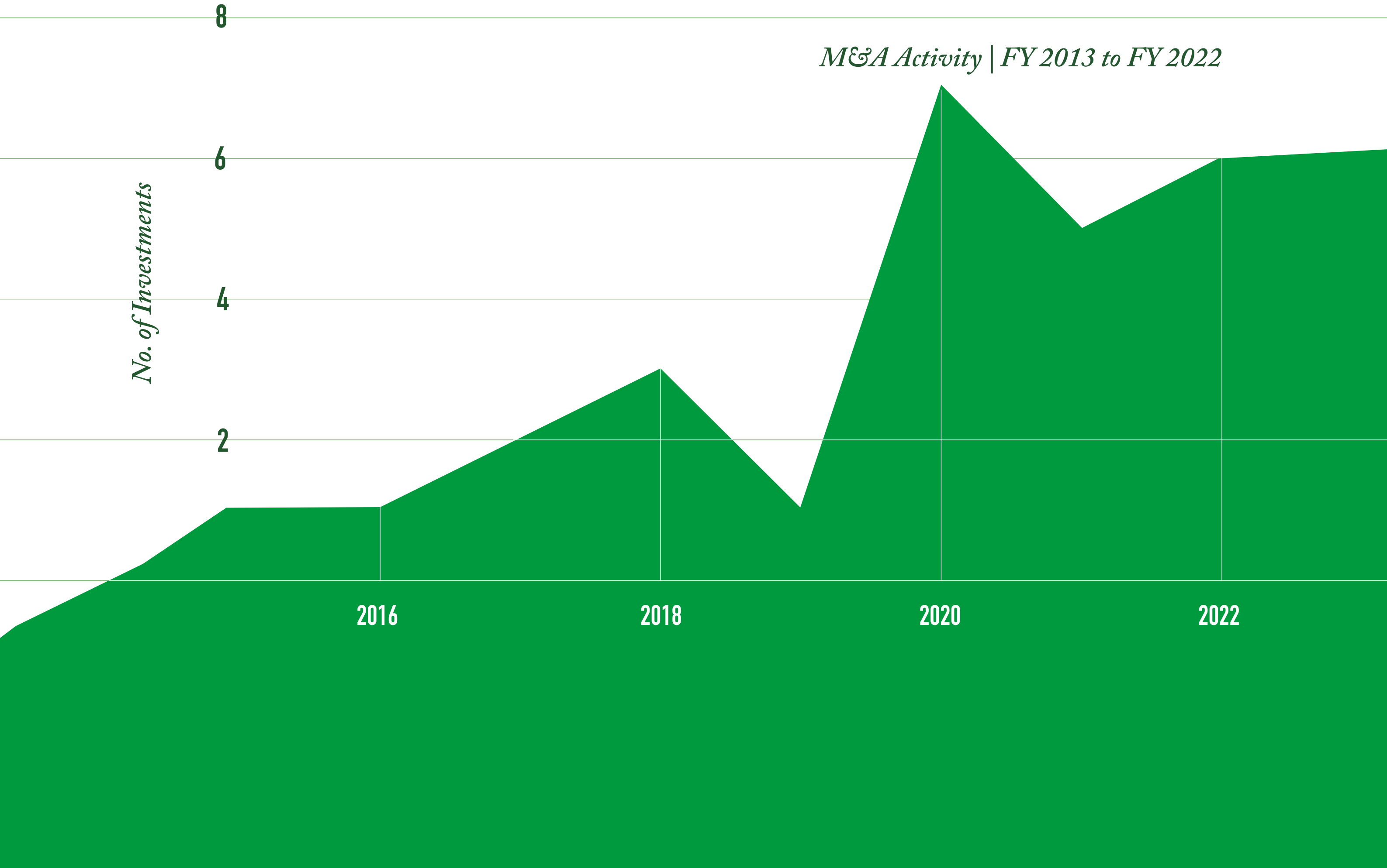
Geographical distribution

When analyzing the geographical distribution, Kenya unmistakably emerges as the front-runner, exerting a clear leadership position in various sectors. However, an interesting pattern emerges as Tanzania becomes particularly prominent in specific sectors. Notably, Tanzania follows closely behind in sectors such as education, Software as a Service (SaaS), and cleantech. Rwanda makes a notable appearance in the health sector, where its presence is accentuated, potentially attributed to the success of entities like Zipline. Zipline's achievements have propelled Rwanda onto the global stage as a trailblazer in innovative healthcare solutions, contributing to the sector's visibility and garnering investor interest.

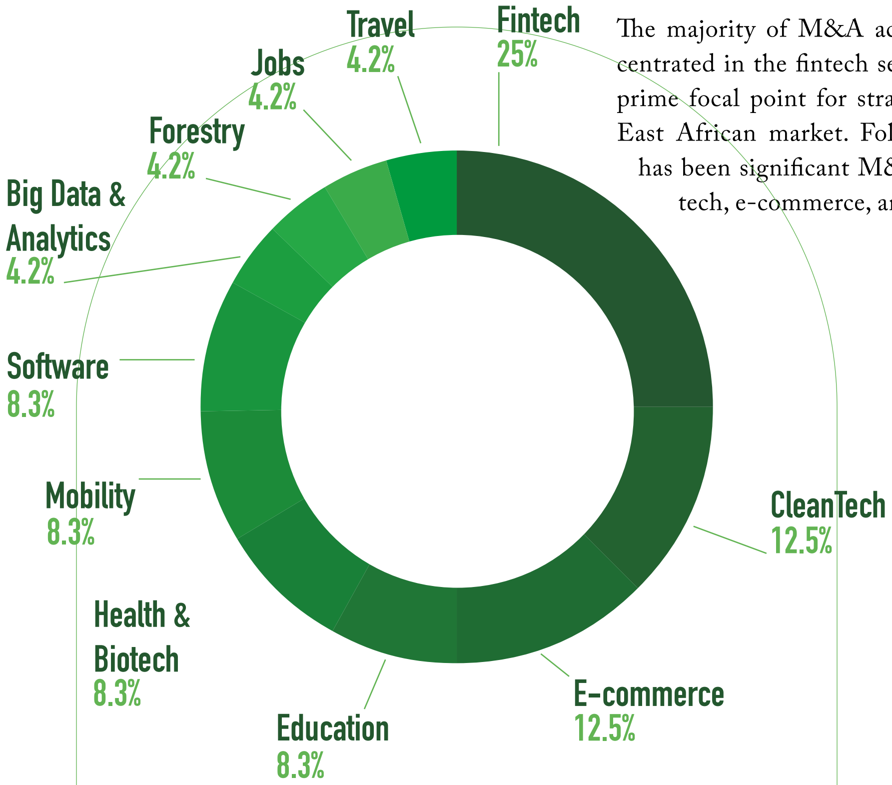
VENTURE CAPITAL EXITS

VC exits and returns in the African context have traditionally been observed through the lens of M&A (mergers and acquisitions) activities and liquidity rounds, rather than being predominantly focused on IPOs.

Within this framework, East Africa has seen over 24 publicly disclosed M&A transactions, overwhelmingly comprising acquisitions, which collectively contribute to a disclosed transaction value exceeding $830 million. Notably, an impressive 97% of these transaction values are concentrated within Kenya, with the remainder distributed across Tanzania. The average duration for companies to reach acquisition has been around 7 years, with the fastest recorded acquisition occurring within a brief 2-year timeframe from the company's foundation.
A noteworthy peak in M&A activity was observed in the year 2020, underscoring a significant surge in strategic transactions within the East African business landscape. This particular period witnessed a pronounced intensification of merger and acquisition endeavors, signifying a dynamic and rapidly evolving market characterized by heightened interest and engagement from both local and international players.



M&A sectoral distribution



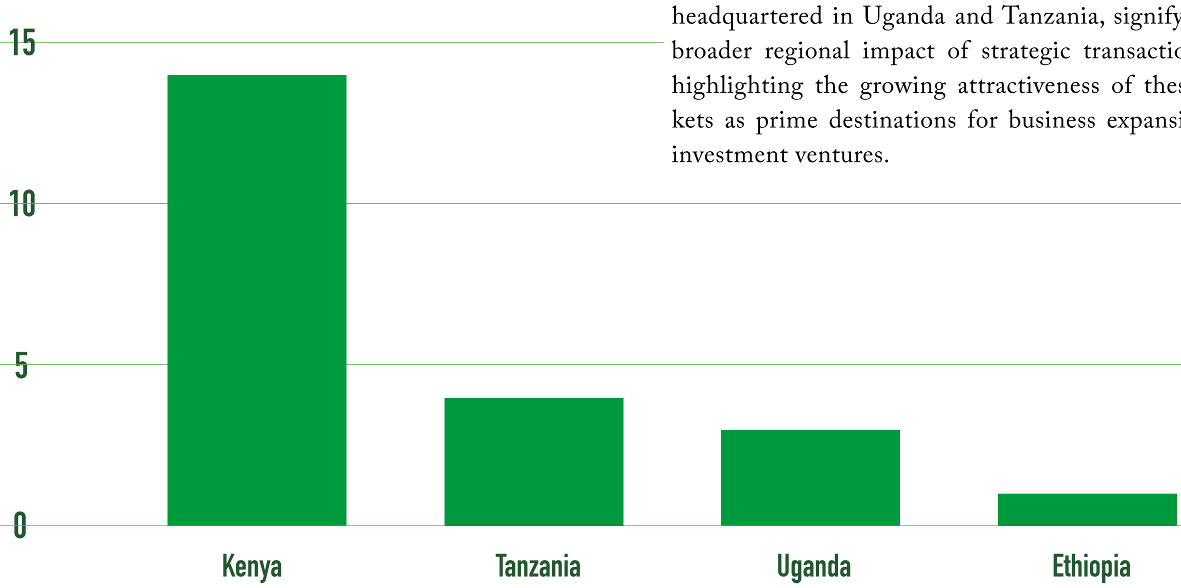
Sectoral distribution

The majority of M&A activity has been notably concentrated in the fintech sector, which has emerged as a prime focal point for strategic transactions within the East African market. Following closely behind, there has been significant M&A engagement in the clean-tech, e-commerce, and education sectors.

Geographical distribution

In terms of geographical distribution, a substantial majority of M&A targets are anchored by their headquarters in Kenya, underscoring the country's central role as a hub for business and investment activities. Following this, there is notable M&A interest in companies headquartered in Uganda and Tanzania, signifying the broader regional impact of strategic transactions and highlighting the growing attractiveness of these markets as prime destinations for business expansion and investment ventures.

M&A geographical distribution



VENTURE CAPITAL SUCCESS STORIES

The East African venture capital (VC) landscape has witnessed its own share of triumphant narratives. On the demand side of capital, a number of companies have charted impressive growth trajectories, culminating in the successful raising of substantial funding rounds. Notably, a dozen of these private capital-backed enterprises have ascended to the remarkable Series C through E stages, showcasing their resilience and potential within the investment ecosystem. This is further complemented by an additional 95+ companies that have garnered notable investments through priced rounds, exemplifying the robust and dynamic nature of East Africa's VC scene. These documented success stories collectively contribute to painting a vivid picture of the region's burgeoning entrepreneurial spirit and the tangible impact of private capital investment in fostering innovation and growth.

Selected companies at the Series E stage

TALA

Selected companies at the Series D stage

sun king

d.light

Bboxx

Selected companies at the Series C stage


GTC
NBO

Methodology and Disclaimer

The research is founded upon the analysis of announced investment deals and disclosed deal values, spanning the period from January 2013 to H1 2023 (Private Equity) and January 2013 to December 2022 (Venture Capital); deployed by and into companies with headquarters in Kenya, Uganda, Tanzania, Ethiopia, Rwanda, Burundi and the Democrat¬ic Republic of Congo, all of which are available to our knowledge partners and collected through secondary research in addition to receiving data directly from founders and in¬vestors.

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Key words and glossary

VC - Venture Capital
PE - Private Equity
DFI - Development Finance Institution

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