

# Funding the rise of the female-led digital economy in Africa

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When it comes to making good business decisions, representation matters. Always. The acknowledgement of this truth is what has led to the wide-ranging racial transformation of businesses across South Africa over the past 20 years, albeit with significant regulatory and investor prompting in terms of equitable-ownership and black economic empowerment commitment.



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But in its concerted drive to secure racial equality, South Africa and Africa as a whole appear to have overlooked another aspect of representation that is just as important, namely gender. It is a concerning, and somewhat confusing, truth that while there have been significant efforts made by many organisations to achieve appropriate levels of female representation and ownership, the will to do so simply does not seem to be nearly as strong as has been the case with racial equality.

## VC funding

Unfortunately, a large portion of the responsibility for this gender transformation inertia seems to lie at the feet of investors – not just in South Africa, but globally. The statistics bear this out. In 2019, only 2% of all global venture capital (VC) investments was allocated to female-founded or co-founded businesses, and just 12% of global VC went towards supporting companies where at least one woman was in a senior management role. Interestingly, the figures for Africa are marginally better, but still dismal. On the continent, less than 5% of all VC funding went to businesses with female founders last year.

Of course, the blame is not entirely with investors, especially given that even the most forward-thinking of them would have been hard-pressed in 2019 to find compelling women-owned businesses to invest in. Within the sought-after tech investment space, just three of the 46 leading tech startups that were funded with more than \$1m in Africa last year had women on their founding teams.

It is a puzzling situation given that extensive evidence exists that businesses with strong female ownership, representation or even just leadership input enjoy a competitive advantage. In Africa, research shows that females in startup founding teams are often more experienced and educated than their male counterparts. And the typically higher empathy levels of female founders mean that they tend to establish businesses with stronger social and developmental mandates, which are vital components for success in emerging economies.



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## Reinvesting back into society

Furthermore, research done by the Boston Consulting Group (BCG) found that female founders are more likely to reinvest up to 90% of revenues into the development of the societies in which they operate, while for their male counterparts this is typically around only 50%. When females invest back into their societies, research shows that their beneficial investment extends to children, the disabled, the elderly and society at large. This chain reaction will unlock exponential benefits for future generations. This social-development focus is not just a feel-good aspect of female leadership. In the African context, it is an important enabler of sustainable success, given the extent to which the survival of businesses on the continent is dependent on the upliftment and support of the communities in which they operate.

And various global studies have shown that the value of female ownership and leadership in the tech startup space goes far beyond the social imperative. Research by the Kauffman Foundation found that private technology companies led by women are more capital-efficient, achieving 35% higher return on investment and, when venture-backed, 12% higher revenue than startups run by men. And an American study based on First Round Capital's portfolio found that women-founded companies outperformed those founded by men by 63%. These findings were confirmed by another BCG study in 2018, which found that venture capitalists could have made an additional \$85m over five years if they had simply invested equally in women- and men-founded startups.

Which begs the question: Given that female representation is such an obvious driver of sustainable value, how can the VC community drive up the levels of female representation in businesses in Africa? There are a number of ways.

## Funding mandates

For one, the funding mandates given to institutional investors need to begin requiring them to allocate a significant portion of their capital towards companies with strong female representation. Not just female ownership and management, but also broad-based female employee representation and even high proportions of females in their customer bases.

This mandate transformation in turn requires a significant paradigm shift within the broader business startup ecosystem, where, according to a 2016 World Bank report, the majority of product design mandates are still being defined by men, with the expectations and requirements of males in mind. Shifting this design mindset to focus more on women will almost certainly result in more inclusive, innovative, executable and 'investable' technology.



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## Seat at decision-making table

It is also high time that women are given real opportunities to own their rightful places at business decision-making tables. Research points to around 65% of funding into businesses where women are included as key decision-makers outstripping funding of companies where only men have a say. Small wonder that Goldman Sachs has now instituted a policy not to fund any company that cannot demonstrate high levels of female leadership representation.

Finally, a key component required in leveraging investment to transform gender representation in business is to ensure a similar transformation among investors first. The good news is that such a gradual shift is becoming evident in Africa, where the historically male-dominated investment ecosystem is now welcoming growing numbers of female investors,

analysts and researchers.



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### Bridging the gap

Given the amount of evidence that already exists on the value of women-owned and influenced businesses, it is clear that there is a gap between knowing the facts and acting on them that needs to be bridged. Hopefully, as the shared value and benefits of greater levels of racial equality in boardrooms and investment houses become increasingly evident, more conversations will start happening about the urgent need for the same transformation from a gender perspective. And the results already being achieved by investors and businesses that are prioritising the role of women make a compelling case for venture capitalists to move quickly to fund the shift to a more female-focused, and driven, digital African economy.

### ABOUT THE AUTHOR

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