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How Covid-19 impacted South Africa's venture capital space

By Philani Sangweni

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A little under a year ago, South Africa confirmed its first Covid-19 case. At the time, there was still hope that the country could isolate and contain the disease, allowing economic activity to continue as normal. Few could've guessed the toll the following months would take on our lives and livelihoods.

Photo by cottonbro from Pexels

Businesses in all sectors of the economy were impacted. Venture Capital (VC) was no exception. After a robust 2019, in which South African tech startups scored over R1.5bn in investments and a record number of exits, sure deals no longer seemed certain.

Was it possible for that retail payments startup to pivot fast enough to cope with the realities of lockdowns? And would it still make sense to invest in that office management software company if everyone was working remotely? And even when there were deals to be done, hashing them out over Zoom presented a completely different proposition to doing so in person.

Despite those challenges, there were bright spots throughout the year. For example, several international investments and acquisitions would have brought serious returns for early-stage investors.

In fact, investment actually grew year-on-year, with startups having raised between US$142m and US$147m (over R2bn either way) in 2020.

Whatever the challenges and successes, there were plenty of lessons to be learned which will carry through the South African VC space for some time to come.

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Innovation and adaptability

One of the first lessons underscored over the past year is that the startups which have innovation and adaptability baked into their DNA will be worthwhile investments, no matter what the circumstances.

From within our own portfolio, Yebo Fresh is a good example of this adaptability. Founded in 2018, Yebo Fresh began as an online grocery delivery company for consumers in South Africa's usually neglected townships. The first year was spent operating from founder Jessica Boonstra's garage.

When Covid-19 and lockdown hit, NGOs and community action networks (CANs) approached the startup to help deliver food parcels to people in poorer neighbourhoods. Orders started piling in by the thousand, forcing Yebo Fresh to expand - and to do so quickly.

Today, the company has outgrown warehouses and now boasts a 30-strong full-time staff complement, with an additional 30 people working flexibly.

This and other examples illustrate how innovation-led entrepreneurs can thrive in even the most challenging of times, creating jobs when they're needed most.

Buying into vision

But they're also reminders that, as VCs, we need to buy into the vision of the entrepreneurs we back, and trust that they'll have the capacity to adapt to changing situations. That does not, however, mean that we should leave them to their own devices.

As VCs, our role isn't simply to provide investment, but to actively provide advice and mentorship where it's needed, also connecting entrepreneurs with expertise when necessary. To my mind, this only underscores the value of VCs having entrepreneurial experience themselves.

While the past year has been unprecedented in our lifetimes, VCs that had been through the entrepreneurial wringer were undoubtedly better-placed to adapt with the entrepreneurs in their portfolios than those who hadn't.

Accepting change, finding opportunity

Ultimately, a year after the pandemic started having a real impact on our lives, it's vital that VCs accept the new reality and that things will never go "back to normal". Having adapted to the changes of the past 12 months, however, it's critical that we don't fail to see the opportunities going forward.

As long as there are problems, there will be innovators trying to solve them. And in order for those innovators to realise their true potential, especially in a country with as big a need for transformation as South Africa, they will require the backing of experienced VCs interested in building up a viable and sustainable ecosystem.

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