

Raising capital in Africa and crossing the bridge to the US



By [Evan-Lee Courie](#)

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Pardon Makumbe, co-founder and managing partner of [CRE Venture Capital](#) and early investor of [Endeavor](#) entrepreneurs (Flutterwave, Flexclub and SweepSouth) chats about the challenges of raising capital in Africa and shares advice on crossing the bridge to the US...



Pardon Makumbe, co-founder and managing partner of CRE Venture Capital

■ *When you look at raising capital in Africa, what can we see in the current landscape?*

Our continent is a big place made up of regional ecosystems, each with its own unique personality and dynamism. The regions we know the best are South of the Sahara – Southern Africa, West Africa, East Africa.

In Southern Africa, South Africa is the obvious juggernaut. The story of South Africa's early-stage technology entrepreneurship and venture capital ecosystem can be traced back to Mark Shuttleworth building Thawte and selling it to Verisign for \$575m in 1999, at the age of 26. Following that staggering success, Shuttleworth established HBD Venture Capital (Here Be Dragons). You can connect several dots to that genesis and ultimately trace an arc to where we are today.

There have been two very encouraging developments in South Africa over the last few years. First is that access to venture capital has slowly but surely expanded beyond pockets of the Western Cape and has become more accessible to founders of various backgrounds from across the country.

Second is that South African founders are beginning to earnestly engage global investors as sources of capital, expanding beyond their historical focus on local investors. We see these trends not just in the ecosystem at large, but also in our own portfolio: the teams that we have backed at companies like Yoco, Sweep South, Stitch, Flow and FlexClub come from every walk of life and they have cultivated relationships with global investors along the way.

“ We think these two trends of democratisation and globalisation will be game changers. ”

In West Africa, Nigeria is the mother lode. Nigeria’s massive demographics (over 200 million people) translate to a massive local market which translates to massive investor appetite. Seems obvious today, but as recently as five years ago, Nigeria was largely neglected by venture capital investors. Many people dismissed it as too difficult, too this, too that. Some even said it was too African (the nerve!).



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CRE Venture Capital was among a very small number of strong-willed investors who saw the opportunity early on, went against the grain, and sought out high caliber founders in Nigeria. We were fortunate to find and back some incredibly hard-working founders who have since built compelling businesses, most notably Andela and Flutterwave.

Recent landmark financings in Nigeria, such as the Series C financing of our portfolio company Flutterwave - at a valuation of over \$1bn - which was led by Tiger Global, speak to how Nigeria has gone from no-go market to a high conviction market at a global level.

In East Africa, Kenya is the beating heart the technology ecosystem. It is the technology-forward hub for the East African region which has some ~280 million people (including Ethiopia). The strong regional integration of countries of the East African Community is of great significance not only for traditional industries but also for technology companies.

Historically, founders from Kenya’s sizeable global expatriate community in many ways helped kick start the ecosystem in East Africa by using their global relationships to connect pools of venture capital from their home countries (e.g. especially the United States) to ventures that they were building in East Africa.

“ More recently, venture capital funds and investors are finding and backing some formidable businesses built by world-class local African founders as well. ”

So, in a way, venture capital in East Africa was globalized at inception, and is becoming more democratized as part of its ongoing evolution.

■ Why is it so hard to raise capital in Africa?

As a founder, raising capital is as much about finding investment partners that share your vision for the future as it is about presenting a sound business plan. Larger, more established venture ecosystems bring together a wider and more diverse base of potential investment partners – so you are more likely to have the right company/investor fit that gets a deal closed.

“ To illustrate the point, consider that in 2020, the US saw \$150b+ in venture investments and nearly \$300b in venture

exits in 2020. ”

While Africa venture financings have grown 3x+ since 2016, the ecosystem still draws from a dramatically smaller base of potential investors.



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According to Briter Bridges, the continent saw ~\$1.1b in new investments and ~\$1.1b in venture exits in 2020. So you could say there is 150 times as much capital for an American founder as there is for an African founder.

With that said, the best founders will tend to find their way to the best investors even against these difficult odds. It is difficult, but not impossible. In many ways companies in our portfolio are testament to this.

■ **What are some of the challenges entrepreneurs are facing when raising capital?**

Most entrepreneurs are first-timers and they often do not know which investor to talk to, at what stage to engage investors, what narrative to present, what to expect out of an investor meeting, how to follow up with investors and so forth. Layer on top of that; the scarcity of capital in Africa, and you can see how raising capital can be challenging.

“ Given the limited amount of venture capital available for Africa, founders have to approach each investor discussion with thoughtful intentionality. ”

And while all that is happening, there is still a business to run: employees to manage, customers to find and serve and keep happy, products to build, and day-to-day blocking and tackling.

So, for many entrepreneurs, fundraising also makes it hard to run the day-to-day business.

■ **What can be done to overcome these challenges?**

Firstly, a point on mindset. Many entrepreneurs start businesses to build products or services that solve specific pain-points. They see fundraising as a necessary evil that takes them away from what they love to do. Truth is, for a venture backed business, fundraising is a core part of actually building the business. We think it is important that founders change their perspective and build that fundraising muscle with a positive attitude.

“ Among other things, investors want to see founders who are energized for what they are building and keen on building a good relationship. ”

Bringing a can-do mindset serves you better than bringing a grudge to the meeting.

Secondly, do your homework and focus on what you can control. Talk to your friends, talk to other entrepreneurs, talk to the local tech hub, incubator, accelerator. As of 2019, there were more than 643 tech hubs across Africa. That's a lot of places to find help.

“ Don't show up at an investor meeting without a clear view of who that investor is, what they focus on, whether or not you may be a good fit for each other. ”

Qualify investor interest early, invest time in the relationships that are a good fit for the current round you are raising, be diligent in your responses to investor inquiries, and leverage your work product.

A diligence FAQ is a great way to preempt common investor Q&A while preserving management bandwidth for more substantive interactions with investors.

🚩 ***I believe investment firms operating in Africa are not actually sourcing funds in Africa. What's your take on this?***

Venture Capital as an asset class is still new in Africa. Most traditional sources of funding – both institutional investors and high net worth individuals – either have limited knowledge or understanding of the asset class, are waiting to see the asset class prove itself out, or have mandates that do not allow them to invest in venture capital funds in Africa.

As a result, most Africa-focused fund managers have to source their capital from global investors who often do so as part of their own portfolio construction. We think that as time passes by and more success stories emerge from Africa, we will see more and more African sources of capital pour into the asset class.



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🚩 ***What advice do you have for raising capital in Africa?***

The best time to raise capital is when you are not raising capital. Exhaust your networks for warm intros, build a community of allies within your specific venture ecosystem, seek input on strategic and investment matters from prospective investors, and prepare to move quickly once interest is confirmed.

🚩 ***What are some of the most successful investment fields right now?***

We have seen significant investment flow into sectors including financial services, supply chain, logistics and fulfilment, healthcare, and education to name a few.

But the beauty of innovation and entrepreneurship is that you can identify a need, build a solution for it, and create your own success. Investor sentiment ebbs and flows across sectors over time, so we encourage entrepreneurs to stay authentic by building solutions for the problems that they understand most, and not try to chase what the hot-money-of-the-day is. In the long term, you as the entrepreneur own your own success.

🚩 ***Many startups wish to reach an international audience as there are more opportunities. In your opinion, what would you advise on crossing the bridge?***

Do your homework. Do the market research to understand what exactly you would offer to which international audience exactly.

“ Build relationships and partnerships in those international markets that can help you find your way around town without burning your fingers. ”

Going it alone in foreign lands is almost always a recipe for disaster.

One of CRE Venture Capital's strengths is that we have deep insights and relationships across different regions in Africa so we are often a great ally to founders looking to expand from one region to another. We also have a global rolodex of relationships, especially in Asia, Europe and the United States – so we are a great ally for founders looking at those

markets too.



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■ **When you look at the US ecosystem, what approach should Africans take to reach those markets?**

We've found that partnering with accelerators, incubators, investors, and other entrepreneur focused networks (like [Endeavor](#)) that have a track record of improving access to the US ecosystem is a great way for founders to stack the odds in their favour.

CRE Venture Capital really walks in between worlds – between Africa and the US principally – so we often do a lot of work to help our founders connect the two worlds.

“ *As with everything else in early-stage companies, the entrepreneur's hustle is the strongest predictor of their success.* ”

[Endeavor](#) is a global high-impact entrepreneurship movement to drive long-term economic growth and build strong entrepreneurship ecosystems in South Africa by selecting, mentoring, and accelerating the best high-impact entrepreneurs.

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