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African venture trends to watch in 2020

More fintech, Chinese investment, gig-economy platforms, and creative industry companies are among the trends to watch in 2020

African venture capital had another blockbuster year in 2019, investing **\$1.27 billion** in identified deals. There was plenty of action throughout the year from the emergence of **new unicorns** to mobility apps **battling** for market share and funding. While 2020 will bring new challenges and success stories, four trends are likely to define the African VC space: the continued dominance of fintech investments, the growing role of Chinese venture, the growth of gig economy platforms, and the imminent take-off of African creative industries.

African fintech continued its domination of venture funding in 2019, receiving **more** capital than any other sector. The approximately **\$593 million** in reported fintech deals alone made 2019 a breakout year for the sector, but the players that entered the market are significant as well: notably Visa, Paypal, and Opera. **Visa** paid \$200 million for a stake in Interswitch, putting the company on the path to IPO success. This one deal alone accounted for nearly one-third of the year's deals. **Paypal** invested in a fintech startup operating in East Africa, and Opera entered the fintech space with a \$120 million investment in **OPay**. Firms like **Paystack** and **Flutterwave** will likely continue their reputation for innovation and attract investors with the scalability of their products.

The continent's fintech potential has hardly been tapped, however: **66%** of Africa's population remains unbanked. The multibillion-dollar **informal economy** across the continent struggles to secure working capital, and many firms fall into the "**missing middle**" of finance by being too small for traditional bank loans, yet too large for microfinance programs. Expect VCs to focus

investing in fintech startups, backing their expansion as they develop innovative products needed to compete in this fast-**growing** sector.

Chinese venture investors made a big entrance into African VC in 2019. While their inner workings and strategy are difficult to discern, one thing is undoubtedly associated with Chinese venture capital: scale. In 2019, Chinese investors splashed out \$240 million on three investments alone. Considering that Chinese venture investors weren't significant players in Africa just a year ago, these investment figures are mind-boggling. The Chinese OPay investment caught the Nigerian tech sector **by surprise** with its scale, speed, and aggressive price slashing.

But Chinese investment in African telecoms is nothing new: **Huawei** dominates the African telecom equipment market and **Transsion** has been selling and manufacturing mobile phones in Africa since 2008. Chinese investment in African technology, however, is a new trend. The history of Chinese firms seeking market control and dominance of verticals is likely to influence Chinese VC strategy in tech. The influence is already on display with OPay's rapid expansion into **services** including rideshare, delivery, and wealth management.

But, big-ticket Chinese investment is not yet reaching local founders. According to disclosed investment **information**, Chinese VCs still have a preference for their own, but this is likely to change once Chinese fund of funds turn their attention to Africa. OPay, which raised **\$120 million** in a recent round led by Chinese investors, is owned by Opera, which was purchased by a consortium of Chinese companies in 2016. A Chinese national co-founded **GONA**, a bus hailing startup company based in Lagos which attracted Chinese investment. Large Chinese venture investments across the African startup scene will be a big trend in 2020, but time will tell if local founders will benefit from this new source of capital.

The expansion of gig and training platforms that unlock the potential of the African informal sector and human capital is another trend to watch in 2020. Scalability is the primary attraction of these platforms considering that the informal sector generates an average of **63%** of Sub-Saharan African GDP and employs millions. In Kenya, for example, **80%** of the working population are employed in the informal sector. The Kenyan startup **Lynk** connects these workers to a platform to advertise and sell their services. **Sweepsouth** in South Africa specifically caters toward cleaning services.

But the potential for gig startups goes beyond platforms connecting customers with workers for manual labor. **Gebeya** is an Ethiopian startup that allows tech companies to outsource their software development and programming needs to talented developers. Even mobility companies like **Max.ng**, which provides motorcycle ride-hailing and delivery in West Africa, is providing formal jobs to people who worked in the informal sector. The potential of gig and training platform startups is truly untapped considering they exist in only a few African markets. 2020 will be a pivotal year to see how these types of startups attract capital, expand into new markets, and continue to **formalize** and enable the work of millions of Africans.

The creative and cultural industries (CCI) in Africa are becoming drivers of economic growth. Africa's CCI sector employs approximately half a million people and generates over **\$4 billion** in revenue. But these figures account for less than 3 percent of global CCI revenue, and **8 percent** of global CCI jobs. Formalization of CCI businesses across the continent can provide VCs with attractive investment opportunities. Nollywood, Nigeria's film production hub, generates **\$590 million** a year and employs thousands of Nigerians. Private financing for CCI companies is hard to come by, however, leaving **government grants** as the only options for entrepreneurs in the space. One leader in CCI financing is the East Africa-focused **HEVA** fund which exclusively seeds CCI companies. HEVA has invested in music, film, tourism, fashion, and performing arts

companies. Other VCs will likely seek to replicate HEVA's success, and 2020 may bring major CCI investments.

African venture capital will continue to be an exciting space to watch considering the importance of fintech investments, but also new trends such as Chinese investments and opportunities in the creative industries. Given the massive growth yet to occur in fintech, gig platforms, and the creative sector, VC funding could soar to new heights and easily surpass the \$2 billion mark in 2020.

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