



DIGITALIZATION, DATA AND THE DIGITAL ECONOMY IN AFRICA: POSITIONING AFRICAN TECH STARTUPS AS ENGINES OF DEVELOPMENT

Presentation of research findings and policy recommendations on the African Startup Ecosystem at the 11th African School on Internet Governance (AfriSIG2023) Abuja, 13-18 September 2023

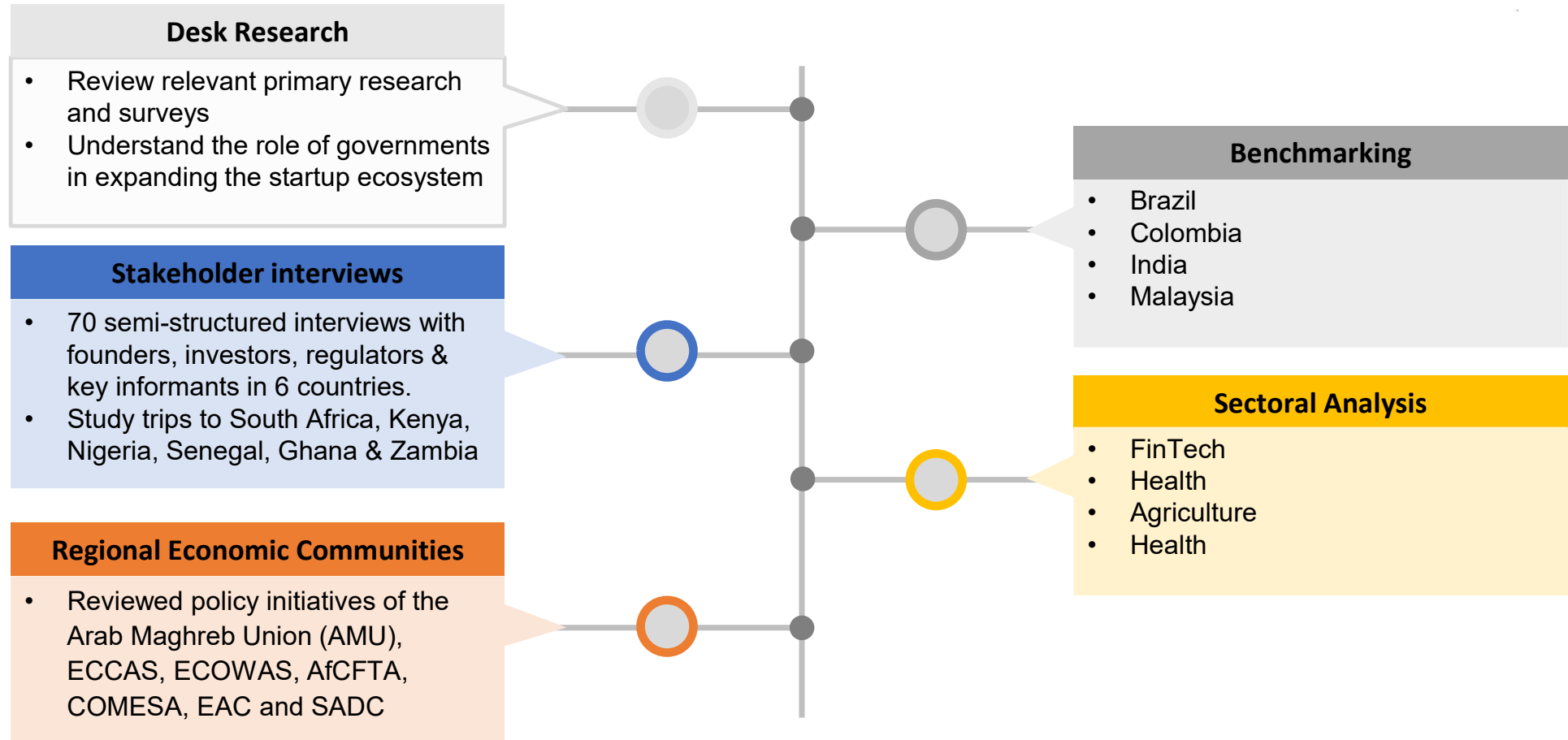
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A silhouette of the African continent is positioned in the top right corner of the slide. The interior of the silhouette is filled with a vibrant, multi-colored pattern of geometric shapes, including triangles, squares, and circles, in shades of blue, orange, yellow, and red. The rest of the slide background is black with a subtle, fine-grained grid pattern.

Purpose of the study

Comprehensive situational analysis of startup ecosystems in Africa 1H2023 by Fola Odufuwa & Muruiki Mureithi sponsored by Mozilla/AU-NEPAD to develop evidence-driven policy recommendations for the African Union, Regional Economic Communities, and Member States for a more robust and sustainable start-up ecosystem

How we carried out the research



Stark & widening gulf between leading & lagging countries

- ***There is a huge digital inequality paradox in Africa!***
 - African startup ecosystems can be grouped into three categories based on the levels of publicly disclosed venture capital (VC) funding since 2015.

High Startup Activity - TIER 1	Modest Startup Activity - TIER 2	Negligible Startup Activity - TIER 3
Nigeria South Africa Kenya Egypt	Ghana Tunisia Senegal Morocco Uganda Tanzania Algeria Zambia Cote d'Ivoire DR Congo Rwanda	Rest of Africa (40 countries)

Source: Fola Odufuwa & Muriuki Mureithi.

Mapping the African Startup Ecosystem

Emerging Options

Venture Building

Emerging Technologies

Cross-border Growth

Global Expansion

Funding Sources

Bootstrap

Grantors

Angels

Investment Clubs

Crowdfunding

Venture Capital

Stock Exchanges

Alternative Sources

Startup Categories

IDEATION

STARTUP

GROWTH (Scaleup)

EXIT

Innovation Hosting

Co-working Spaces

Tech Communities

Innovation Hubs

Incubators

Accelerators

Ecosystem Builders

Academia

Government Agencies

Big Tech

Development Partners

Support Organisations

Industry Associations

Media & Research

Digital Infrastructure

Subsea Cables

Mobile Broadband

Cloud Computing

Networked Devices

Developer Base

Data Centres

Operating Environment

Government Policies

Macroeconomic Factors

Regulatory Environment

Investment-friendliness

Permits

Licenses

Sandboxes

African startup ecosystems are struggling and need to be lifted



Uneven evolution of startups

- Continent-wide, four countries account for 80% of VC investment.
- At the regional level, limited startup activity especially in the Economic Community of Central African States region.
- Across Africa, negligible ecosystem activity outside the capital city, except in Tier 1 and some Tier 2 markets.

Ecosystem policy leadership is underwhelming

- Government strategy engagement is missing; only four countries have enacted a legal framework for startups (Tunisia, Senegal, Nigeria and DR Congo).
- Regulatory impediments manifested in the home jurisdictions
- Startups register jurisdictions where it is easier to access funding notably Delaware – 70% of overseas-registered African startups

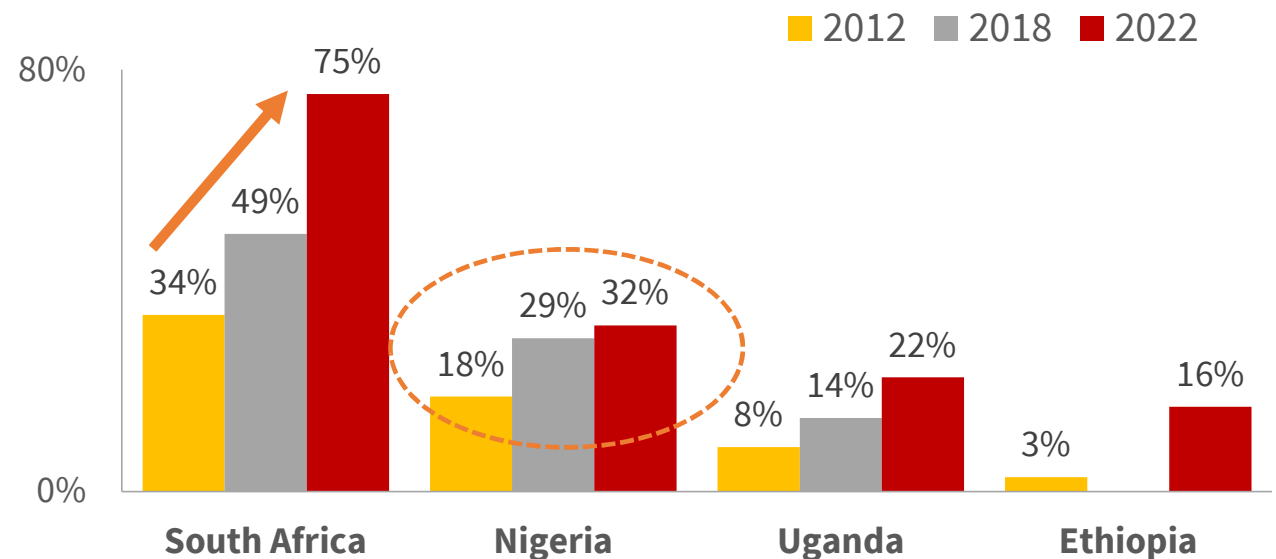
Funding & digital skills capacity is inadequate

- Applicants exceed the spaces available by a large margin. No framework to address those not admitted.
- Only about a third of startups go through acceleration.

Leading countries are not evenly developing

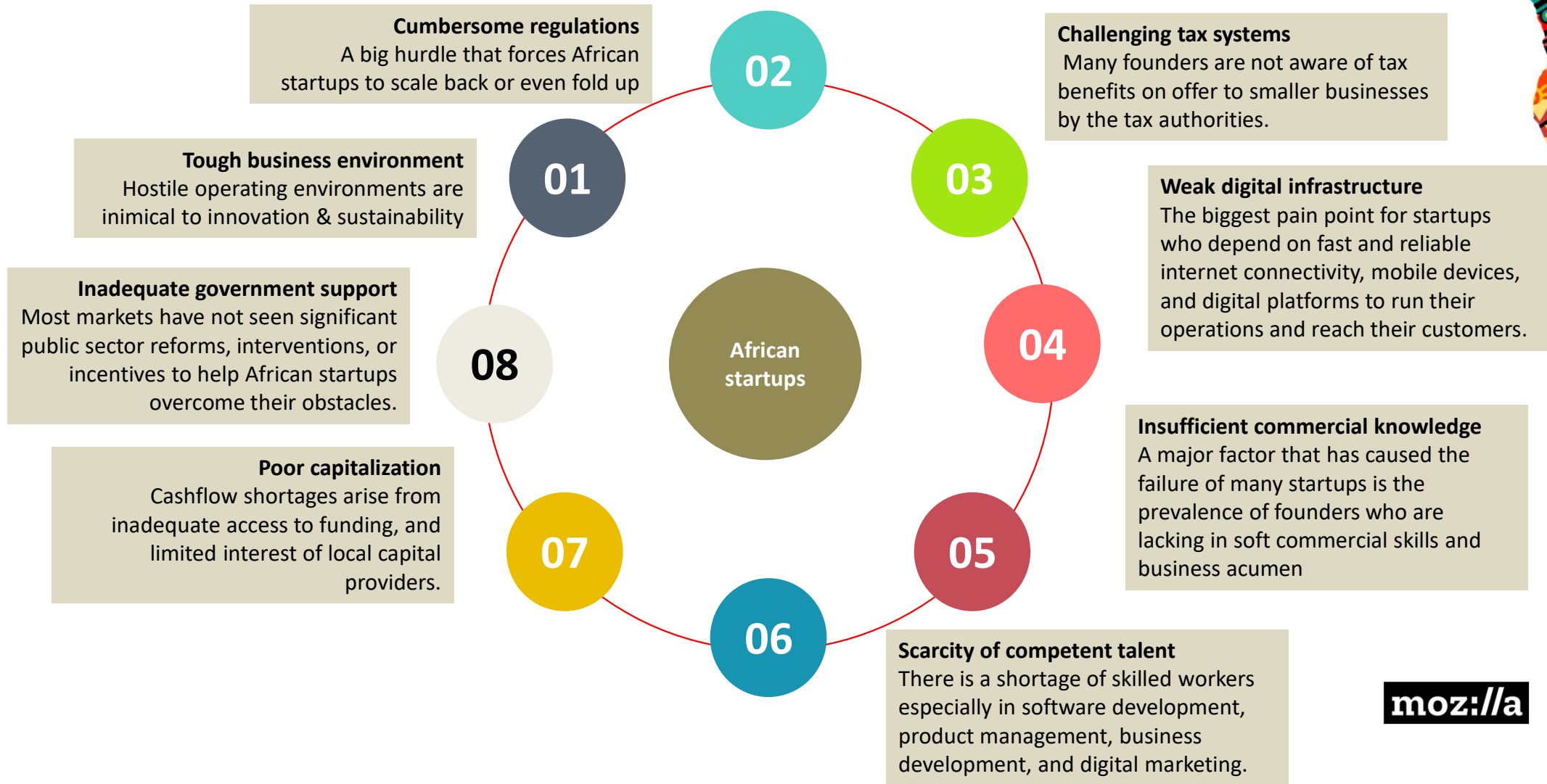
- That a startup ecosystem is “advanced” does not in any way imply that it is fully mature or evenly developed and the ecosystems of even Tier 1 countries need to be strengthened.
- The latest nationally representative data shows that Nigeria’s individual internet usage levels have barely grown since 2018, further increasing the challenge of digital inequality. Yet this is the African country with the most cumulative VC startup funding since 2015 (US\$2.06b – Disrupt Africa)
- African startups emerge and thrive in environments where digital access is relatively easy and widespread and usage levels are constantly rising.

- **Wide variance from one country to the other in the % of the adult population that use the internet**



Source: Research ICT Africa 2023

African founders face numerous unnecessary challenges



But these regulatory and environmental problems can be solved!

MAIN CATEGORIES	TYPES	POSSIBLE SOLUTIONS	
Regulatory impacts	Cumbersome regulations	<ul style="list-style-type: none"> • Develop continental framework 	
	Challenging tax systems	<ul style="list-style-type: none"> • Liberal national policies 	
	Dispute resolution	<ul style="list-style-type: none"> • Improve tax regimes 	
Operating environment	Market challenges	<ul style="list-style-type: none"> • Conduct policy audit 	
	Inadequate govt support	<ul style="list-style-type: none"> • Prioritize youth development 	
	Weak digital infrastructure		<ul style="list-style-type: none"> • Access to affordable communications • Access to cheap office space • Stable power supply • Reliable front-end & back-end systems
		Difficulty in scaling	<ul style="list-style-type: none"> • Access to markets • Access to public procurements
		Scarcity of competent talent	<ul style="list-style-type: none"> • Access to skilled workers
		Low public trust in new technologies	<ul style="list-style-type: none"> • Build user trust
	Lingering effects of colonialism	<ul style="list-style-type: none"> • National orientation campaigns 	
	Firm-level factors	Insufficient commercial knowledge	<ul style="list-style-type: none"> • Provide training & capacity development
Poor capitalization		<ul style="list-style-type: none"> • Access to funding 	
Low marketing capacity			<ul style="list-style-type: none"> • Develop solid partnerships • Recognize cultural nuances
		Market naivety & inexperience	<ul style="list-style-type: none"> • Mentorship • Managed expectations • Knowledge sharing • Drive & gusto of the founding team
Excessive funding			

Key drivers of policy recommendations

1 / Deal pipeline
Africa is NOT producing enough startups to match investor appetite. What happens when VC funding contracts?

2 / Digital markets
There are NOT enough digital markets to make for a Digital Single Market at the continental level – impacts AfCFTA implementation.

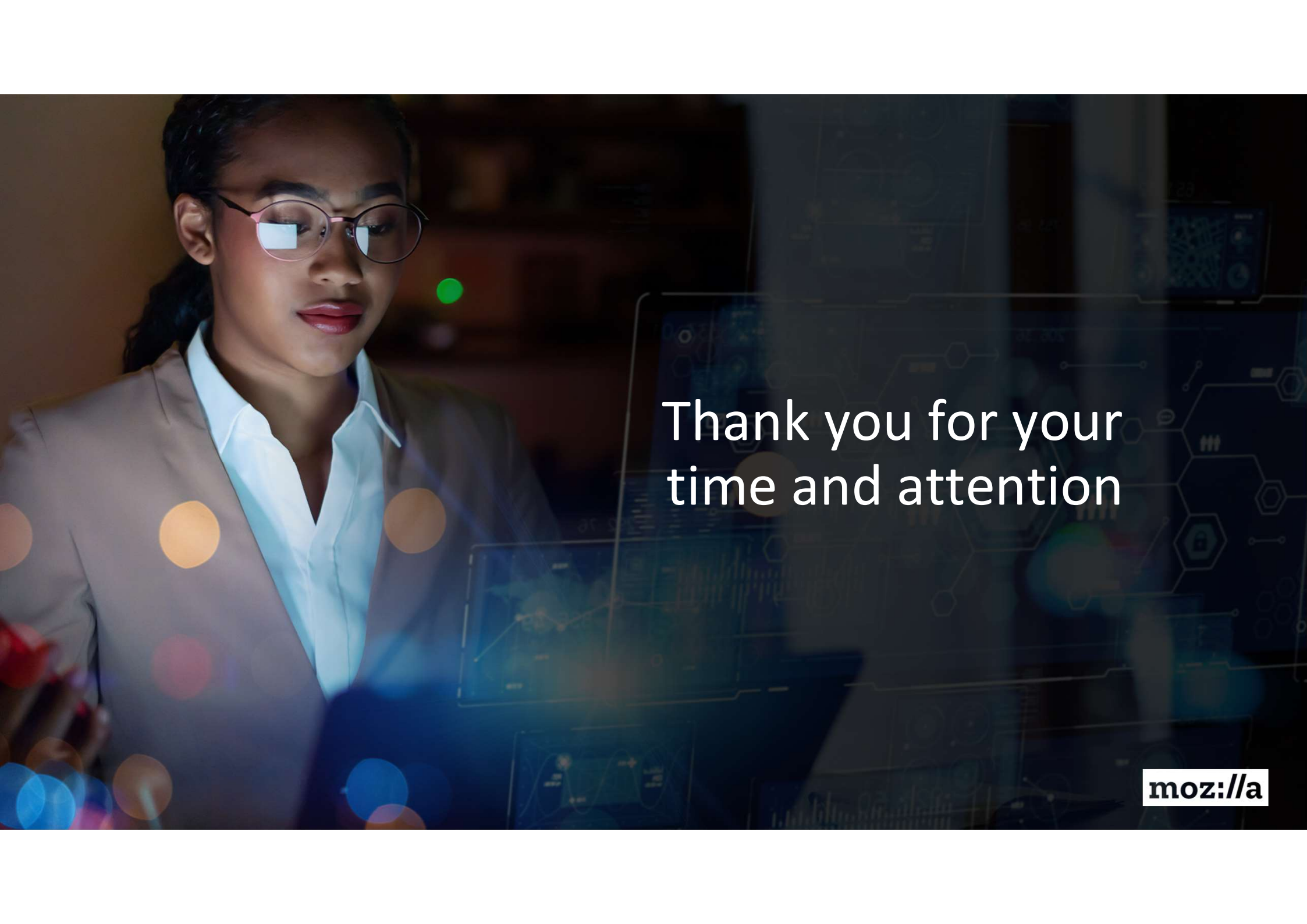
3 / Fragmentation
Wide & growing disparities re markets, digital skills, entrepreneurship, gender, etc. Negligible ecosystem linkages to enable startups scale across borders.

4 / Regulatory coverage
There is NO policy framework to connect & harmonize disparate regulatory systems.

5 / Operating environment
Business barriers & restrictions in the operating environment ARE hostile to innovation and cross-border expansion.

Reading List

1. Disrupt Africa (2023), *The African Tech Startups Funding Report*, Nairobi: Disrupt Africa.
2. Fafunwa, T. & Odufuwa, F. (2022), *African Micro, Small, and Medium Enterprises Need to Digitally Transform to Benefit from the Africa Continental Free Trade Area (AfCFTA)*. Oxford: Taylor & Francis.
3. GSMA (2019) *Digital ECOWAS: Pathways to Investment, Innovation and Inclusion*. London: GSM Association.
4. Intel (2022), *Evaluating the African Deep-Tech Startup Ecosystem*, Santa Clara: Intel Corporation.
5. Kinyugu Ventures (2021), *Chasing Outliers: Why Context Matters for Early-Stage Investing in Africa*, Nairobi.
6. Odufuwa, F. (2023), *The Role of Digitalization in Strengthening Capacities of Micro, Small and Medium-size Enterprises (MSMEs) in Southern Africa to Take Advantage of the AfCFTA*, Addis Ababa: United Nations Economic Commission for Africa.
7. Tony Blair Institute (2022), “Supercharging Africa’s Startups: The Continent’s Path to Tech Excellence” (Available at <https://www.institute.global/insights/geopolitics-and-security/supercharging-africas-startups-continent-path-tech-excellence>).
8. Friederici, N., Wahome, M., & Graham, M. (2020) *Digital Entrepreneurship in Africa: How a Continent Is Escaping Silicon Valley’s Long Shadow* (doi:10.7551/mitpress/12453.001.0001)

A woman with dark hair pulled back, wearing glasses and a light-colored blazer over a white shirt, is looking down at a laptop screen. The scene is dimly lit, with a dark background featuring several out-of-focus, colorful bokeh lights in shades of blue, orange, and green. The laptop screen displays various data visualizations, including line graphs and bar charts. The overall atmosphere is professional and focused.

Thank you for your
time and attention

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