

NOVEMBER 2025

Venture IN AFRICA

PRIMER
FOR AFRICAN
PENSION FUNDS

**HOW INNOVATION CAN
CREATE THE NEXT
MILLION JOBS**

Co-published by First Circle Capital and NSSF

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Foreword

THE VENTURE OPPORTUNITY

By Agnes Aistleitner Kisuule

*Co-Founder & General Partner, First
Circle Capital*

Venture capital has become more than a buzzword in Africa, it has started to establish itself as a billion dollar industry across the continent. At First Circle Capital, we invest in the technologies making financial services more accessible, from payments and credit to the infrastructure that powers digital economies. We believe that technology is not merely a sector; it is a driver that transforms how societies produce, distribute, and create value. Every wave of economic progress, from industrialization to the digital era, has been financed by capital willing to take a long-term view and the risk that comes with investing in technology.



Once a niche, venture capital has become a global growth engine. In 2024 alone, more than \$450 billion were invested by venture capitalists worldwide, while Africa attracted roughly \$5 billion, up 5x from just a few years earlier, highlighting the continent's growing technology sector.

Venture capital has consistently proven to be catalytic: in the United States, venture-backed companies account for over 50% of public market capitalization; in India, a deliberate embrace of venture and private equity funding has helped generate hundreds of “champion” firms, driving job and market creation and technological self-sufficiency.

Africa is home to the youngest population on earth, more than 70% under the age of 35, and an increasingly connected consumer base. Yet despite managing est. over \$455 billion in pension fund assets, less than 1% of this capital is invested in private equity or venture capital, compared with 9-33% in global portfolios.

This conservatism leaves both value and growth unrealized.

For African pension funds, the challenge and opportunity are clear. The primary fiduciary duty, to preserve and grow the savings of today's pensioners, must be complemented by a broader developmental duty: to help create the economies from which tomorrow's contributors will emerge. Allocating even a small portion of long-term assets to well-governed venture and private equity funds can achieve both goals. It diversifies portfolios, enhances long-term returns, and, crucially, fuels job creation, business growth, and the expansion of the pension payer base itself.

At First Circle Capital, we see this alignment every day. By backing fintech infrastructure companies that expand access to financial services, we not only generate returns for investors but also help formalize businesses, strengthen markets, and empower individuals. These are precisely the multipliers Africa needs to unlock sustainable prosperity.

This primer aims to provide practical insight into venture capital and the innovation economy. The data, evidence, and examples within are meant to guide a new conversation, one that views venture capital not as speculative, but as strategic capital for Africa's next century of growth.

Agnes Aistleitner Kisuule



How venture can create a new future for Africa

By Patrick Ayota

Managing Director, NSSF

Paul Collier, a renowned economist, popularized the term “the bottom 1 billion”. It refers to the approximately 700 million people who live in extreme poverty globally. Unsurprisingly, majority call Africa home. Interestingly, over the past 30 or so years that we have lived in the era of globalization, 1 billion people have been liberated from extreme poverty.

Most of them are from East and South Asia. When we analyse how this happened, what we see is a shift of major industries from the west to the east over the course of the 80s, 90s and 2000s, triggered by the pursuit of efficiencies related to lower labour costs in Asia. In the 1980s and 90s, countries like China, India, Vietnam, and Turkey broke into global markets for goods and services other than just primary commodities. It is therefore alarming to see how many countries in Africa are still enslaved by exporting of primary commodities.

Exporting primary commodities is indeed a form of enslavement as the President has reiterated time and again. Typically, it has a high dependency on land exploitation, where the land is often owned by a few large companies and/or landlords. So, while export of commodities does generate significant income for the landowners, it also exacerbates the income inequality gap.

Further, as exports of commodities grow globally, prices tend to turn against the exporters. By contrast, value-addition through manufacturing and services offer much better prospects for equitable and rapid development, because their primary factors of production are labour & entrepreneurship (not land). Furthermore, evidence shows that the opportunity to export manufactured goods significantly raises the demand for labour – translating into more dignified and fulfilling work for poor people.

Knowing what we know about entrepreneurship and its potential to create employment – why have we not gone the extra mile to promote venture capital as a catalyst of growth in Africa?

The All-Africa Pension Summit (AAPS) is a unique platform to place venture capital at the forefront of Africa’s development agenda, and I am particularly excited about releasing this Venture Capital primer, which is a collaboration between NSSF and First Circle. Coming in the wake of the AAPS, here are some important takeaways that it amplifies:

- a) **The moment of convergence for Africa is here** – which is the moment that poor countries start to catch up with industrialized nations. To accelerate convergence, infrastructure, education and entrepreneurship are going to be the most important factors. We must be more deliberate in building these pillars of acceleration.
- b) **The unique opportunity that fintech presents** – Smartphone penetration in Africa is approaching 70%. As mobile money services achieve ubiquity across Africa, the role of fintech as a means of scaling distribution and reducing costs to access financial services will assume greater importance in driving financial inclusion.
- c) **VC-backed firms accelerate job creation** – The biggest gift we can give our young population is jobs. Evidence shows that enterprises backed by venture capital create significantly more jobs – 50% more on average.

How venture can create a new future for Africa

When we started the Hi-innovator program at NSSF, we recognized that early-stage high-growth ventures are perceived as too risky for traditional financial institutions. Our hypothesis was that if we avail patient capital and the right technical support, these early-stage ventures would grow and eventually cross the threshold where traditional funders find them more appealing. Having funded 438 such enterprises since 2020, only 12 have fallen by the wayside.

On the upside, over UGX 2B has come in as NSSF saving contributions through 2,000 new members, and over 10 ventures have gone on to raise follow-on capital. Yet we started this experiment with an expectation that only 1 out of 10 such ventures would eventually succeed, well knowing that this 1 company would deliver exponential success in terms of return and social impact.

This is the unique promise that venture capital offers and why we need a scalable model that works for Africa. We can indeed turn to Warren Buffet for inspiration when he said, “It’s far better to buy a wonderful company at a fair price than a fair company at a wonderful price”.

We look forward to seeing you at the All-Africa Pension Summit, 5th – 7th November 2025!!

Patrick Ayota

“WE STARTED THIS EXPERIMENT WITH THE EXPECTATION THAT 1 OUT OF EVERY 10 COMPANIES FUNDED BY HI-INNOVATOR WOULD FAIL”



01 Why Is Venture Relevant for Africa?



A large, young, and rapidly growing population, combined with double-digit year-on-year smartphone growth, creates an ideal environment for venture capital investment across Africa. Venture capital holds immense potential to drive economic growth on the continent by catalyzing technological innovation and scaling service delivery rapidly, beyond what traditional players could achieve, particularly in sectors such as finance, insurance, and education. VC investments in solutions that are not reliant on traditional infrastructure offer significant upside. By fostering a vibrant tech sector, African countries can overcome physical infrastructure limitations, expand their financial sector, information and communication technology capabilities, and develop homegrown solutions that meet the needs of both domestic and global markets.

Since 2014, the African tech ecosystem has steadily progressed, revealing both challenges and opportunities. The cost-conscious customer base drives entrepreneurs to develop capital-efficient, low-cost solutions, an approach that not only meets local demands but also positions African tech for export to budget-conscious global markets. This dynamic environment presents substantial growth opportunities, especially in fintech, where affordable innovation is crucial. Africa faces a credit-starved landscape, insurance penetration remains below 1%, and the continent endures some of the highest global costs for money transfers.

Venture capital is relevant in Africa today as it has the ability to solve three key problems on the continent:

- 1. Expand Access to Financial Services:** By scaling the distribution and reducing the costs of financial services, such as credit, insurance, and remittance, venture capital can drive financial inclusion and make essential services more affordable.
- 2. Reduce Friction and Leverage Information Arbitrage:** VC-backed innovations can reduce costly inefficiencies by supporting solutions like reconciliation software, aggregators, and cybersecurity, which help streamline operations and capitalize on information gaps.
- 3. Generate Employment for Youth:** Venture capital investments can directly create jobs in the ICT sector and indirectly stimulate job creation across the broader economy, thereby addressing the critical challenge of youth unemployment.

While the U.S. pioneered venture capital, emerging markets have increasingly proven its universality. In countries like India, venture capital has been instrumental in creating technology-enabled enterprises that solve structural challenges, from logistics to payments and education, while generating millions of jobs. The Indian experience shows how private capital, when aligned with innovation, can accelerate formalization and raise national productivity.

Between 2000 and 2020, India attracted tens of billions of dollars in private capital, producing a generation of technology-first firms such as Infosys, Flipkart, and many more.

These companies not only became globally competitive but also helped lift entire industries into the formal economy.

Studies show that venture-backed enterprises generate **50–60% higher employment growth** and exhibit higher productivity and profitability than comparable non-backed firms.

This effect arises because technology-first companies are inherently more efficient:

- They use data and automation to optimize operations and resource allocation.
- They scale faster without proportional increases in cost.
- They formalize value chains, creating second-order employment effects across suppliers, logistics, and services.

Venture capital finances innovation that transforms the structure of an economy. It does not merely fund startups, it funds efficiency, formality, and the diffusion of technology across sectors.

Venture capital is highly relevant to Africa today, as it provides the funding and support necessary to foster innovation, create jobs, and build technological capacity.

VENTURE CAPITAL CAN HELP UNLOCK AFRICA'S ECONOMIC POTENTIAL, CREATE YOUTH EMPLOYMENT AND BOOST PRODUCTIVITY.

The African tech ecosystem has developed considerably since 2014, presenting both challenges and opportunities for venture-backed companies.

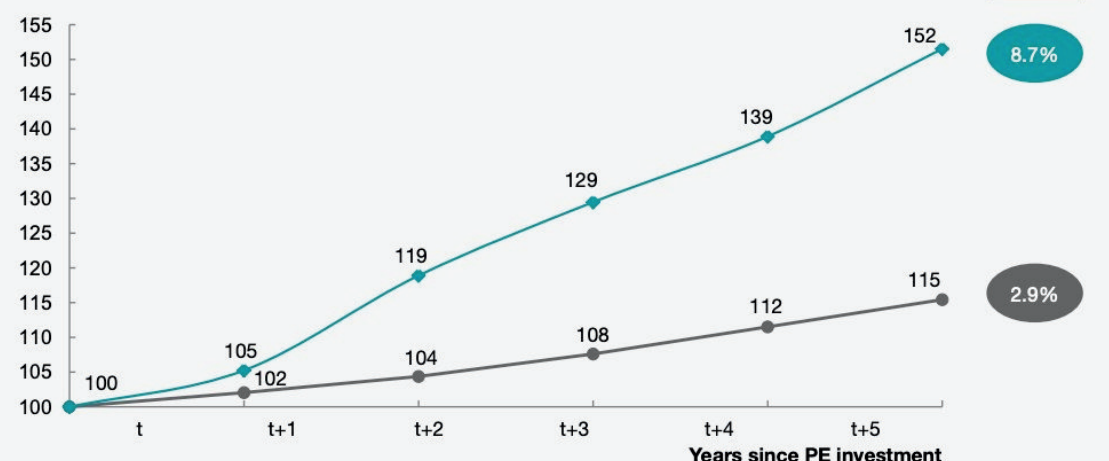
Venture capital has catalyzed high-growth innovations in the U.S. and India. In these countries, venture-backed companies have significantly contributed to economic growth, job creation, and technological advances.

Africa has the potential to follow similar paths if stakeholders align strategically to address the unique dynamics of its diverse markets. However, success will require careful consideration of Africa's varied regulatory and economic landscapes. Countries across the continent differ widely in their development trajectories, necessitating nuanced approaches rather than a one-size-fits-all solution.

Exhibit 1.4: PE investments help accelerate employment when compared to non-PE backed companies

Comparison of direct employment growth between PE backed and non-PE backed companies¹

Growth in direct employment²
Indexed to 100



¹ PE backed sample consists of 52 companies that saw PE investments between 2003 and 2007 while non-PE backed sample of companies consists of 171 private sector companies.

² Analysis uses employment data from FY04 to FY 13 to compare job growth in PE backed companies over a 5 year period after PE investment with growth of non-PE backed companies over the same period

SOURCE: CMIE Prowess; AVCJ Research; VCCEdge; McKinsey analysis

What Is Venture Capital

INNOVATION FINANCING AND THE BIRTH OF VC

Technological change is the main driver of productivity growth and economic development. But innovation requires financing. In the United States, venture capital as we know it today originated after World War II. The early venture partnerships, such as American Research and Development Corporation, financed the first wave of high-tech companies commercializing innovations from wartime research. These investors took equity risk rather than demanding fixed repayment. Their returns were uncertain, but their upside was unlimited.

By the 1970s, this approach had grown into an emerging yet niche institutional asset class. The U.S. government reinforced it through the Small Business Investment Company program and changes in pension regulation that allowed institutional capital to flow into higher-risk, higher-return strategies.

Since then successful venture-backed companies have had an outsize positive impact on the U.S. economy, creating 25 million jobs since 1977 and accounting for 63% of the market capitalization of public companies formed since 1974.



This dynamic demonstrates that innovation financing is not marginal, it is macroeconomic. Venture capital built entire sectors: semiconductors, software, biotechnology, e-commerce, and more. These industries transformed how economies produce, communicate, and scale.

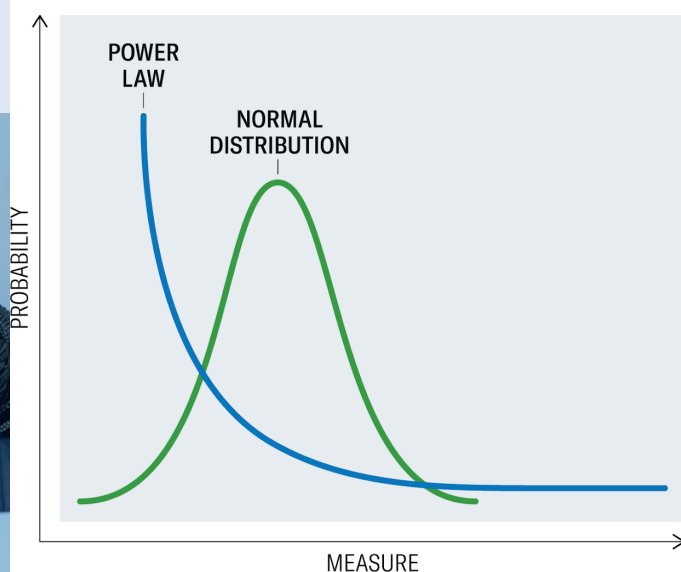
THE LOGIC AND DYNAMICS OF THE VENTURE MODEL

Because innovation is inherently unpredictable, outcomes follow a “power law” distribution: a few investments generate the majority of returns while many do not become outstanding successes.

Early-stage investing accepts that experimentation is essential to discovery. Venture funds assume that up to half their portfolio will underperform or fail, but also that each of them represents a quality bet on an outsized outcome.

A Pareto Distribution vs. a Gaussian Curve

A normal distribution (i.e., a Gaussian curve) is bell-shaped, whereas a Pareto distribution (i.e., power law) is shaped like a hockey stick with long tails.



HBI

Failure, therefore, is not a flaw but a feature of the model.

Venture capitalists mitigate this uncertainty through staged financing: initial small investments test traction; follow-on rounds concentrate capital in the best performers. They also take active roles in governance, strategy, and network building, acting as both investor and mentor.

HOW VENTURE CAPITAL WORKS

A venture fund is a closed-end investment vehicle, typically with a lifespan of 10-12 years, managed by a General Partner (GP) who invests on behalf of Limited Partners (LPs) such as pension funds, DFIs, or family offices.

The process unfolds in three phases:

1. **Fundraising:** LPs commit capital to the GP, which is drawn down over several years.
2. **Investment:** The GP deploys this capital into a portfolio of early-stage firms, holding minority equity stakes.
3. **Exit:** Returns are realized through acquisitions or IPOs; proceeds are distributed back to LPs.

AUTHOR NOTE:

In Africa venture funds are typically incorporated in offshore vehicles, jurisdictions such as Delaware or Luxembourg. As most funds have to attract a significant part of their funding overseas this makes sense, there is no need to prioritise local jurisdictions, the focus has to be attracting capital in the easiest way possible to invest into African companies, not trying to sell a complicated or new jurisdiction to investors. This can follow later there is no value-add at the stage where we are at to push for this.

Venture returns are driven by equity appreciation, not dividends or interest. Liquidity is long-dated, but when successful, returns can be exponential.

Private market returns are highly skewed, with the top quartile of venture funds globally outperforming public market benchmarks by large margins. This outperformance compensates for illiquidity and risk, while building dynamic ecosystems that drive job creation and innovation.

The Venture Lifecycle: From Capital Commitments to Exits:

1. Fundraising

Institutional investors: pension funds, DFIs, endowments, and family offices, commit capital to a venture fund (Limited Partners, LPs).

Fund managers (General Partners, GPs) typically raise a fixed pool of capital with a 10–12 year lifespan.

2. Investment Period (Years 1–5)

GPs deploy the fund into a diversified portfolio of early-stage companies.

Capital is invested in stages (seed, Series A, B) to test traction and scale the most promising ventures.

Average initial check sizes range between USD 250K–2M in Africa's early-stage market.

3. Value Creation (Years 2–7)

GPs work hands-on with founders to refine business models, strengthen governance, and connect companies to follow-on investors, clients, and regulators.

4. Follow-on and Portfolio Concentration

Capital is reserved (often 40–50% of the fund) for follow-on investments in the strongest performers.

Weaker companies may wind down or pivot: failure is expected and priced in.

5. Exits (Years 6–10+)

Returns are realized through:

- Trade sales / acquisitions (e.g. fintech exits to banks or global players)
- Secondary sales (partial stakes sold to growth or PE funds)
- Public listings (IPOs), increasingly on regional exchanges
- Proceeds are distributed back to LPs.

6. Reinvestment Cycle

Successful GPs raise new, larger funds, while experienced founders become the next generation of investors or mentors: creating a self-sustaining innovation ecosystem.

Dimension	Venture Capital	Private Equity
Stage	Early-stage (pre-seed to growth)	Mature or distressed companies
Financing Type	Minority equity, staged investment	Majority ownership, often leveraged
Objective	Growth and innovation	Efficiency and restructuring
Value Creation	Product-market fit, scaling, governance	Operational optimization, financial leverage
Risk Profile	High variance, long horizon	Moderate variance, shorter horizon
Mindset	Build and partner	Acquire and control

VENTURE CAPITAL VERSUS PRIVATE EQUITY

Although venture capital and private equity are part of the same private-markets continuum, they differ fundamentally in objectives, methods, and mindset.

Private equity typically targets mature companies with stable cash flows, using leverage to enhance returns. Venture capital, by contrast, targets young, high-growth firms with uncertain futures and unlimited potential.

Private equity “thinks in spreadsheets”; venture capital “thinks in trajectories.”

Where PE investors evaluate stable performance histories, VCs tend to come in earlier, where there is little data to go with, so they look for patterns of momentum and capability of the founding team, customer adoption, learning rates, and market inflection points. This difference in psychology produces a difference in portfolio design: private equity minimizes variance; venture capital harnesses it.

This distinction explains why venture capitalists are comfortable funding ideas that look improbable but scalable, the kind of ideas that, if successful, change the structure of entire industries.

VENTURE CAPITAL AS A SYSTEM

Beyond its mechanics, venture capital functions as a system of innovation financing. Each fund, startup, and investor contributes to a cycle of experimentation, knowledge accumulation, and reinvestment. Venture capital does not only finance companies; it builds ecosystems. Its spillovers create suppliers, service providers, and knowledge networks that persist long after individual startups have exited.

These spillovers explain why economies with active venture ecosystems, such as the United States, LATAM, or India, experience faster productivity growth and stronger innovation outputs. Venture funding builds not just firms, but the infrastructure of economic dynamism.

For emerging markets, this system offers an accelerated pathway to industrialization without requiring heavy state-led investment. It enables leapfrogging through digital platforms, fintech, and service innovation, creating high-quality employment and improving access to essential services.

Venture-backed companies tend to be technology-first firms that integrate digital processes from the start, making them more efficient, scalable, and resilient. They are able to formalize operations, access regional markets, and create employment far beyond their direct workforce.

WHAT MAKES A COMPANY VENTURE FUNDABLE?

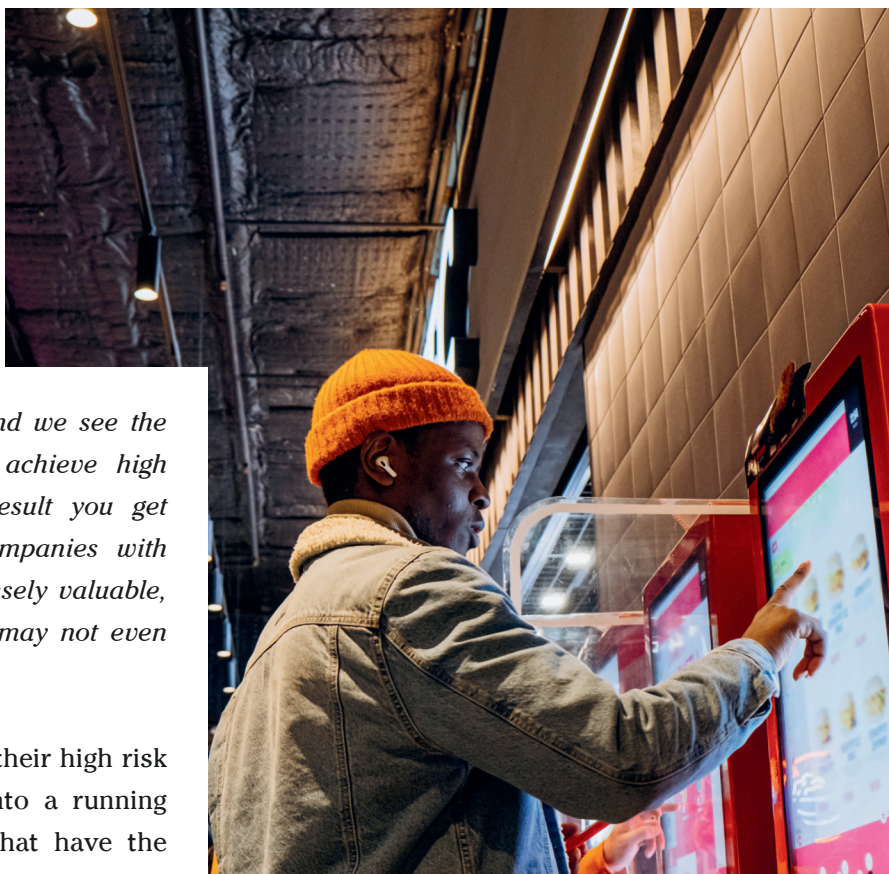
Superior growth potential and high margins

'Startups can also grow exponentially, and we see the same pattern there. Some manage to achieve high growth rates. Most don't. And as a result you get qualitatively different outcomes: the companies with high growth rates tend to become immensely valuable, while the ones with lower growth rates may not even survive.' - Paul Graham

Venture capitalists are looking to offset their high risk of betting on a team versus buying into a running business by investing in innovations that have the potential to scale rapidly and teams that can execute. Technology provides a superior advantage over traditional businesses in terms of margin and the speed of growth with less CAPEX (if we exclude hardware and biotech). The opportunity set a venture capitalist is ideally looking for has the potential for superior growth in a capital-efficient manner by solving a large problem that people/companies are willing to spend money on.

High growth, customer lock-in through high switching costs, network effects, pricing power, and unique market position justify a high future valuation needed to achieve the returns. The total addressable market size (TAM) and purchasing power are critical indicators for the scalability of a product, or if it's on the capital-heavy side, whether it is a unique tech innovation (such as hardware, LLMs, etc.) that will be superior.

An underlying new technological innovation can trigger a shift that enables certain business models. What started with first hardware investing, then the internet, then mobile, and now the platform shift to AI enables different business models and creates completely new markets.



Timing is a critical factor in the success of a venture; many ideas that failed during the dot-com era found success later on, as the market size of users using the internet back then was too small but has rapidly increased since then.

In the African context, in many Sub-Saharan countries, infrastructure is an impediment to, for example, e-commerce advancement, where margins are thin and the logistics overhead that comes with patchy roads makes it a slow-growth, low-margin business. Also, sometimes in the African context, an innovation sounds good, especially when it targets low-income earners; however, in most cases, the real-life improvement for the low-income earner is marginal and adoption is difficult (e.g., digital tools for smallholder farmers).

Venture today is not just in the business of funding completely new innovations that enable a technological shift (those are the ultra-outsized return innovations), but often business model innovations that thrive on an underlying technological shift or already established tech business models that take advantage of being in a new market.

Business Models Funded by Venture Capital

- **Hardware:** Unlike software, hardware startups have longer product development cycles and go-to-market timelines, affecting their scaling potential. However, some hardware innovations can create entire industries (e.g., semiconductors, smartphones). The cost-intensive nature of hardware requires significant funding, limiting opportunities, particularly in emerging markets.
- **Pure Software:** Software models are scalable and capital-efficient. They generate recurring revenues and have low marginal costs. SaaS companies like Salesforce provide solutions on a subscription basis, while AI/ML companies automate processes or offer business analytics. Software businesses often build global products, benefiting from the export of successful SaaS models, as seen in India.
- **Tech-Enabled:** Startups leveraging existing technology to sell products or services (e.g., e-commerce, digital insurance) can scale quickly, but face increased competition. Gross margins for these businesses are usually narrow, making it critical to sell at scale. In many African countries, tech-enabled business models face challenges like low purchasing power and high infrastructure costs.
- **Biotechnology and Deep Tech:** Biotech startups often have long product development cycles and regulatory requirements. They can generate revenue through patents or by manufacturing and selling products. Africa has seen some success stories in this sector, such as InstaDeep in Tunisia and South Africa.

A lot of technology investing in emerging markets initially is around business model innovation and localizing an established business model from elsewhere to a new market. The Indian tech ecosystem has developed rapidly due to its initial capacity building through outsourcing services (Infosys, Tata Consultancy Services, Wipro, HCLTech), which led to an increase in developer population and locally available capacity and tech talent at low cost, factors that are critical for the success of a tech ecosystem.

TELECOMS AS CATALYSTS

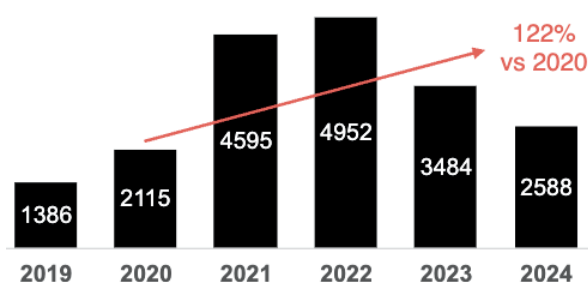
African telecoms have played a crucial role in digitizing the continent. The biggest telecom innovation is mobile money, the rapid adoption of mobile money has significantly altered the financial technology landscape of the region and also driven the adoption of phones and smartphones. The mobile money revolution exemplifies Africa's ability to leapfrog traditional banking infrastructure, moving directly to digital financial services and bypassing the need for extensive physical bank networks.

Telecoms have built trust in digital money, even in the most rural areas. Given the size of different African countries, despite strong annual growth in many nations starting from a very low income base, innovation for the local market alone has limited revenue potential. Only a few propositions can generate large enough revenues to be interesting for the typical venture capitalist.

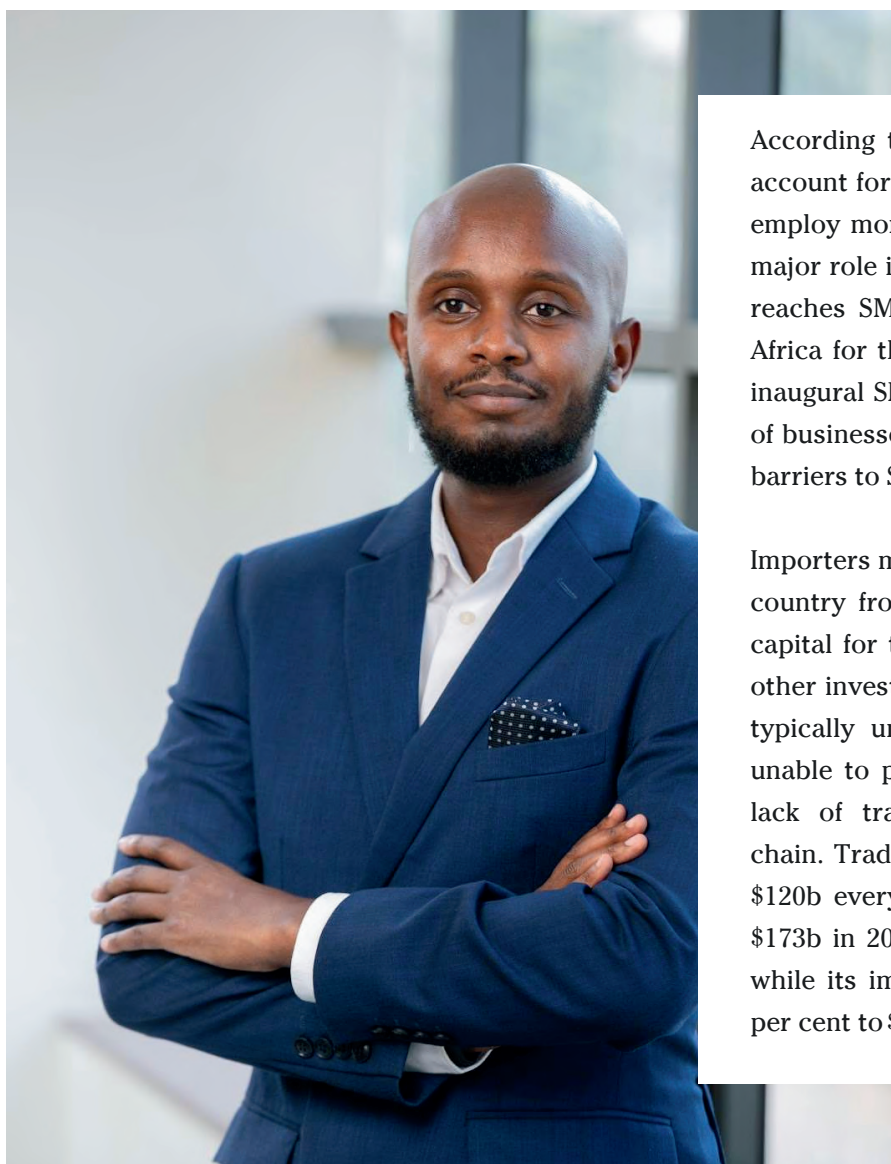
The question for venture capitalists in the African context is more about which innovations can be exported to other countries where African entrepreneurs have or can build a unique advantage.

What capabilities can regionally based fund managers build to help their portfolio companies access other markets? This is the key question that will unlock significant job creation. If an innovation is for the local market only, how cheaply can it be acquired given the size limits? Does tech export present a unique opportunity with massive export potential and job creation potential for Africa, and if so, how? And what role can private asset managers play in this context?

**Total amount raised by African VC startups
from 2019 to 2024 (\$ million)**



Case Study: Credify



According to the World Bank and Mastercard, SMEs account for 90% of registered businesses in Africa and employ more than 60% of the workforce. Despite this major role in the economy, only 30% of bank financing reaches SMEs, resulting in a \$330b financing gap in Africa for this segment of the economy. Mastercard's inaugural SME Confidence Index identified digitisation of businesses and access to credit as two of the major barriers to SME growth.

Importers must pay up front for goods coming into the country from overseas. This typically locks up their capital for two months preventing them from making other investments in their business growth. Banks are typically unwilling to lend to SMEs since they are unable to provide collateral for loans and there is a lack of transparency in the import-export supply chain. Trade finance gap for Africa is estimated to be \$120b every year. Chinese exports to Africa reached \$173b in 2023, an increase of 7.5 per cent over 2022, while its imports from the continent dropped by 6.7 per cent to \$109 b.

Credify provides a platform for coordination and digitisation of SME import-export activities bringing transparency to the supply chain and enabling SMEs to access trade finance. Founded in 2022, the company has already disbursed over USD 1.5m in loans to SMEs and raised a total of USD 800k in pre-seed funding, with a USD 2m seed round currently in progress.

The platform enables SMEs to book and pay for freight, store all trade documents and access financing. Credify is offering frictionless access to credit (financing 50-70% of goods' cost) and is able to minimize defaults by controlling the movement of the goods, holding goods, and releasing goods to the clients as they earn sales and pay down the loan.

THE CASE FOR AFRICAN TECHNOLOGY AS AN EXPORT PRODUCT

Technology Exports as a Route to Venture-Scale Returns

While many African countries face constraints in local market size and purchasing power, the global market provides opportunities for growth and expansion. India is a great success story where technology exports started with outsourcing giants like Infosys, increased local supply of tech talent and then followed to produce global software giants like Freshworks and Zoho. Venture capital is particularly relevant in supporting African startups in their international scaling efforts, providing the funding and expertise necessary to expand into other markets as part of their value add strategies.

The cost-conscious viewpoint of African founders is a key advantage. Solving for budget-conscious consumers and businesses can find customers globally. For instance, companies like Expensya, a Tunisian fintech firm, have achieved success in international markets by offering budget-friendly solutions for cost-conscious consumers worldwide. Similarly, Moove, a Nigerian startup, developed an innovative leasing model for Uber drivers **globally**, offering vehicle financing to individuals who traditionally lacked such access.

Moreover, Africa's unique combination of resource constraints and rapid digitization often leads to leaner, more adaptive innovation, solutions designed for low bandwidth, fragmented markets, or limited infrastructure.

COST-CONSCIOUS VIEWPOINT OF AFRICAN FOUNDERS IS A KEY ADVANTAGE

These "frugal innovations" have growing relevance beyond the continent, resonating in emerging Asia, Latin America, and even in Europe and the US where affordability and efficiency are critical, and local entrepreneurs often overlook this segment. As global companies seek cost-effective, inclusive technologies, Africa's startups, supported by venture capital, can export not only software and services but also entirely new models of digital transformation.

Interview: Building the Infrastructure for Africa's Digital Finance Future

The beauty of African innovation is that it begins with solving real-world constraints, affordability, access, reliability, and ends up creating solutions the whole world can use.

Selma Ribica

Co-Founder & General Partner, First Circle Capital

A conversation between First Circle Capital Partners, Agnes Aistleitner Kisuule and Selma Ribica.

Agnes: Selma, you and I often discuss that the real bottleneck in African financial services isn't consumer demand, it's infrastructure. What's the core challenge as you see it?

Selma: The numbers speak for themselves. Roughly 90 percent of transactions in Africa still happen in cash, and only 5-7 percent of total value moves through digital channels such as cards, mobile money, or wallets.



Selma Ribica has over fifteen years of experience building and scaling digital financial services, and currently serves on the Boards of MTN MoMo Ghana and the Axian Group.

Before founding First Circle Capital, Selma held senior leadership roles with M-Pesa and advised on digital finance and financial inclusion for institutions such as the FMO. She has been an active angel investor in FinTech, achieving a 33x multiple on invested capital (MOIC) across her personal portfolio, a track record that reflects her deep conviction in technology's ability to transform access to financial services.

Even among those digital transactions, up to 30 percent fail because of fragmentation, limited interoperability, and weak compliance systems. That's an estimated US \$75 billion in failed transaction value. If we want to accelerate inclusion, we need to start by fixing those rails, the infrastructure layer that underpins everything else.

Agnes: *A lot of investors used to gravitate toward consumer-facing models, the next wallet or neobank. Why do you keep emphasizing B2B enablers?*

Selma: Because inclusion doesn't scale without efficiency. The real constraint is not the user's willingness to go digital but the reliability of the systems supporting them. B2B FinTech enablers, open-banking APIs, settlement platforms, reconciliation tools, risk-management and compliance software, are what make the ecosystem work. They reduce the cost of each transaction, lower risk, and allow consumer-facing businesses to grow sustainably.

Agnes: *So, in essence, inclusion becomes a by-product of system efficiency.*

Selma: Exactly. The more seamless digital transactions become, the faster money circulates, that's increased velocity of money, which drives growth and employment. Reliable rails mean SMEs can build credit histories, consumers can access affordable services, and capital can flow more productively.

Agnes: *At First Circle Capital, we've built a very thesis-driven approach to this. How do you refine conviction before we invest?*

Selma: We start by identifying a sub-segment with both monetization potential and structural impact, for example, treasury automation or fraud prevention. Then we map every serious founder building in that space across Africa. Speaking with them helps us test our assumptions and understand what models can scale in our context. It's a mix of research discipline and on-the-ground learning.

Agnes: *You've been investing in financial infrastructure for a long time, both as an operator and as an investor. How does that experience shape your view today?*

Selma: Having built payments systems from within, at M-Pesa and later through advisory work with IFC and CGAP, I've seen how fragile digital ecosystems can be when the plumbing isn't right. As an angel investor, I backed early FinTechs that went on to generate a 33x multiple on invested capital, so I've witnessed firsthand how fast value compounds once infrastructure matures. That experience convinced me that Africa's next leap will come from the "invisible forces", the B2B infrastructure powering everything else.

Agnes: *You now sit on the boards of MTN MoMo Ghana and Axian Group, both central players in the digital finance landscape. What perspective does that give you?*

Selma: It reinforces how intertwined telecoms, banking, and infrastructure have become. These platforms move billions of dollars every month and touch tens of millions of users. From that vantage point, it's clear that the next wave of innovation will come from better integration, APIs, compliance automation, regional interoperability, not from more front-end apps.

Agnes: *Looking ahead, where do you see the biggest opportunity for African FinTech over the next five years?*

Selma: The backbone is still being built. Payments, data, and risk infrastructure will remain the most investable themes. But we're also seeing overlap with climate finance, trade, and supply-chain digitization, all of which need the same rails. Building those connective layers will determine how fast Africa's digital economy can grow, and how inclusive that growth becomes.

Next leap will come from the "invisible forces", the B2B infrastructure powering everything else.

Snapshot: First Circle Capital

First Circle Capital is a pan African early stage fintech focused firm with an office in Kampala, Uganda and one in Casablanca, Morocco.



First Circle Capital's Fund I is a US \$30M female-led, Africa based specialist early-stage fund investing in the most promising Fintech opportunities throughout Africa. The co-founders and managing partners include former M-Pesa executive and FinTech investor Selma Ribica her angel portfolio is at 33X MOIC in early stage fintech and includes companies such as Qonto (France \$5bn valued in 2022), Expensya (Tunisia sold to Medius in 2023), and former emerging markets entrepreneur Agnes Aistleitner Kisuule.

The fund invests at pre seed and seed with tickets starting from 250 000 USD to 1 000 000 USD.

The fund has invested so far in 16 portfolio companies across 8 different countries. 26% of the invested companies have a female cofounder.

The six-person First Circle team stands out as a thesis-led fund rather than one defined by single countries. By leveraging deep expertise and networks in fintech, combined with a proven track record in tech entrepreneurship, the team's focused approach compounds knowledge, relationships and support capabilities helping early-stage businesses get to series A.

First Circle is backed by IFC, FSD Africa, MSMEDA, and prominent family offices and tech entrepreneurs, such as Axian Group, Jens Hilgers, Tim Schumacher, Steve Anavi among others, bringing a wealth of industry experience and business development opportunities for investee companies.

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Venture as an Asset Class for Institutional Investors



The transformation of technology finance into a distinct asset class has systematized it, providing a structured approach that can be adapted across geographies and scaled for local markets. This evolution parallels similar shifts occurring in other alternative asset classes, such as private equity, real estate, and private debt.

Venture capital is now recognized not only as a developmental catalyst but as an indispensable part of institutional portfolio construction. It has benchmarks, indices, and governance standards, and it commands the attention of sovereign wealth funds, pension plans, and university endowments that treat innovation itself as an investable macro-theme.

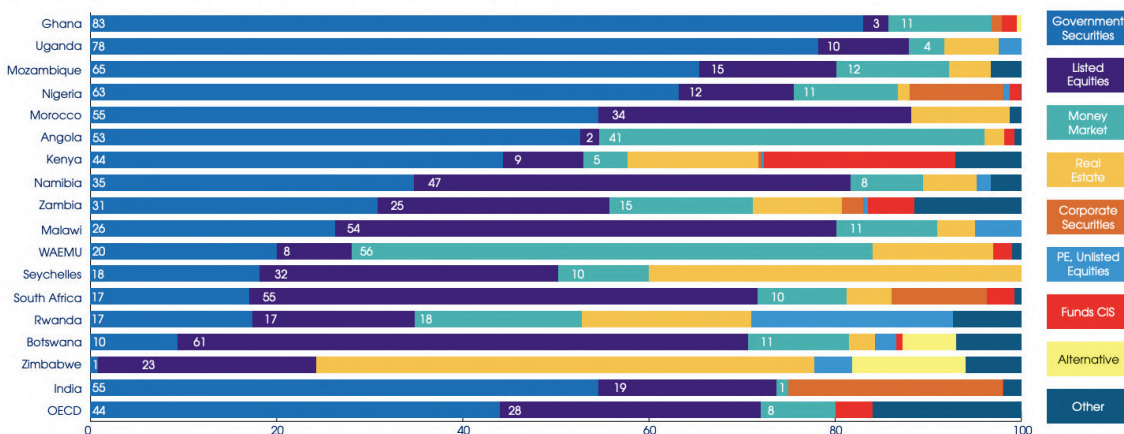
The financial architecture of venture capital differs profoundly from that of conventional investment classes. Its returns follow a power-law distribution in which a handful of exceptional outcomes generate the majority of gains.

Venture is driven by a power-law distribution: out of many companies starting, few attain exponentially greater value than others and capture most of the value created. A great VC has to look for the exceptional only and know his returns are driven by a power-law distribution - and the same goes for LPs they have to identify exceptional managers.

The mathematics of this asymmetry are unforgiving yet extraordinarily productive: they shape not only how VCs invest, but also how returns within the funds themselves are distributed. In a Horsley Bridge dataset spanning three decades, only about six percent of investments accounted for sixty percent of aggregate returns.

Figure 4:

African pension assets are largely allocated to low-risk, short-term instruments
 pension assets allocation in % over 2022-24 (latest year available)



Source: AFC Research based on Central Banks and regulatory agencies data; estimates for WAEMU are drawn from the World Bank's Technical Note (May 2022). Long-term Financing: Role of CIPRES and Contribution of Social Security Institutions to the Development of Capital Markets.

This pattern scales up to fund level: top-quartile venture funds outperform the median by more than ten percentage points, and top-decile managers have historically delivered net IRRs between 18 and 26 percent, compared with single-digit public-market returns. Cambridge Associates' most recent US Venture Capital Index® shows that despite cyclical volatility, long-term venture performance still outpaces the S&P 500 by 400–600 basis points annually. Over fifteen-year horizons, the asset class has compounded at roughly 14 percent net, versus about 9 percent for global equities.

This volatility is not a flaw; it is the price of convexity. Every venture portfolio contains a long tail of losses and a few category-defining winners. A VC has to consider probability and outcome when evaluating whether an opportunity fits the scope. A 5 percent chance of 100× is still a 5× expected value over the fund lifetime. This arithmetic explains why venture embraces failure as part of its process: risk is not merely tolerated; it is the input from which the power law emerges.

TIME, LIQUIDITY, AND THE PATIENCE PREMIUM

Venture capital's long horizon is often portrayed as a constraint, but for long-term investors it is an alignment. The asset class follows a J-curve cash-flow pattern: negative net returns during the investment and build-out years, then accelerating distributions once exits occur.



For institutional LPs, this pacing is predictable and can be managed through vintage diversification - committing to several overlapping funds to create a rolling distribution profile. A small but expanding secondary market, including global platforms and emerging regional players in South Africa, Kenya, and Nigeria, now offers additional liquidity options, allowing partial exit well before fund maturity.

Average emerging-market venture portfolio turns cash-flow positive after year seven

IFC's Mobilizing Institutional Investors in Emerging Markets study finds that the average emerging-market venture portfolio turns cash-flow positive after year seven. Cambridge Associates data show that vintage diversification, holding several overlapping funds across years, smooths this curve and materially reduces volatility.

This is why endowments and sovereign funds have leaned so heavily into venture. Yale's endowment, which began allocating to private equity and venture in the 1980s, now holds more than 25 percent of its portfolio in those strategies; the resulting compounding has produced 11.8 percent annualized returns over 30 years, compared with 8 percent for a traditional 70/30 mix.

For African pension funds, the lesson is clear: venture's liquidity profile is not a barrier but a planning variable. With disciplined pacing, vintage diversification, and access to secondaries, long-term investors can integrate venture exposure within existing liability frameworks - capturing the patience premium while maintaining predictable cash-flow dynamics.

VALUATION, GOVERNANCE, AND FIDUCIARY STANDARDS

The venture industry has matured in how it reports, values, and governs capital. Most institutional-grade managers now provide quarterly NACs prepared under International Private equity and Venture Capital Valuation (IPEV) guidelines, coupled with annual audits from major accounting firms. Portfolio company valuations are typically benchmarked to recent financing rounds, comparable market multiples, or discounted cash-flow analyses adjusted for stage and liquidity.

Governance standards have converged toward institutional norms. Funds maintain formal Investment Committees overseeing deal selection and follow-ons, while Limited Partner Advisory Committees review valuations, reporting, and internal policies. DFIs and development-linked investors have been instrumental in embedding these practices across African funds through side-letter requirements and ESG-aligned reporting.

For pension funds, this evolution matters: it ensures transparency, accountability, and verifiable valuation discipline - three cornerstones of fiduciary oversight. The result is an asset class that is increasingly compatible with the risk, audit, and accountability expectations of pension governance regimes.

REGULATORY FEASIBILITY

Contrary to perception, most African jurisdictions already allow measured allocations to venture capital within prudential frameworks.

In South Africa, Regulation 28 of the Pension Funds Act permits up to 15 percent in private equity, with venture capital typically classified within this bucket. These ceilings allow for controlled exposure while ensuring overall portfolio prudence. In Kenya, the Retirement Benefits Authority Guidelines allows pension schemes to allocate up to 10% to private equity/venture funds. Similar provisions exist in Nigeria, Ghana, and Morocco, typically under the "alternative investments" category.

These frameworks create a policy envelope within which pilot allocations can be structured - often through DFI-anchored fund-of-funds or co-investment vehicles that meet both prudential and developmental mandates. The regulatory challenge is therefore less about permission than about familiarity and execution capacity.

FROM CONCEPT TO IMPLEMENTATION

The combination of improving liquidity options, transparent governance, and enabling regulation means the question for African institutional investors is no longer whether venture is investable, but how to participate prudently.

By starting with small, diversified exposures and building internal capacity over successive vintages, pension funds can capture venture's long-term return premium while reinforcing the continent's innovation and job-creation ecosystem. Venture capital thus becomes not an exception within a conservative portfolio, but a disciplined expression of its long-term mandate.

CASE STUDY: MSMEDA

*Egypt's Micro, Small, and Medium
Enterprise Development Agency*

Egypt's MSMEDA demonstrates how a publicly anchored fund-of-funds can catalyze private venture ecosystems. Building on an initial pilot launched in 2015, MSMEDA established a dedicated venture capital FoF in partnership with the World Bank in 2021 to expand access to risk capital for innovative startups and high growth SMEs.

The programme was launched with USD 50 million in anchor capital, now being expanded to USD 150 million, and invests as an LP in local venture funds - including Algebra Ventures, Flat6Labs, Sequence Ventures, First Circle Capital and Egypt Ventures. To date, the FoF has invested USD 35 million, and crowded in USD 136 million in foreign and domestic private capital. More than 130 startups have received investment through participating funds, representing a combined portfolio value of about USD 3 billion.

By providing early institutional capital and risk-sharing, MSMEDA has helped attract private co-investors, professionalize fund management, and build the foundation for future pension and insurance participation in Egypt's innovation economy



BUILDING THE PIPELINE FOR THE FUTURE

Most African pension funds when it comes to equities allocate primarily to domestic public markets, yet these markets remain small, illiquid, and concentrated. The limited supply of listed companies restricts both diversification and return potential.

By participating early in private markets and venture funds, pension investors can help build the future pipeline of listings. As successful private firms mature, they become the next generation of public companies, expanding market depth and liquidity. In this way, institutional participation in venture capital is not only a portfolio decision, it is a nation-building act that strengthens tomorrow's capital markets.

India provides a compelling precedent. Over the past two decades, the country's public markets have been transformed by a wave of technology and venture-backed companies, from Infosys and Wipro to newer entrants like Zomato, Nykaa, and Paytm. Today, technology firms account for more than 17% of India's total market capitalization, and a growing share of those firms trace their roots to venture capital. The 2021–2023 IPO wave alone saw over 25 venture-backed companies list on Indian exchanges, collectively representing more than USD 100 billion in market value.

As African venture ecosystems mature, similar transitions can follow. Each successful venture-backed exit not only delivers returns but also broadens the investable universe for pension funds, linking today's private innovation to tomorrow's public-market growth.

Insights: Collaborative Frontier Finance



Africa's growth and competitiveness is dependent upon a new generation of tech-enabled enterprises.

Note by Drew van Glahn:

Venture Capital funds play a critical role in job creation across Africa. CFF's recent annual survey report highlights how these capital managers bring critical resources along with their capital. This comes in the form of deep knowledge and broad networks across Africa and global markets. As noted in the annual report, capital managers purposefully provide strategic and operational support to their portfolio enterprises as part of their value proposition.

Africa's growth and competitiveness is dependent upon a new generation of tech-enabled enterprises. The innovations coming out of Venture Capital fund portfolio enterprises are driving the application and adaptation of new tools and business processes. In the fintech arena alone, we are seeing the impact of new technologies on risk management tools, portfolio analytics, and service provision allowing Africa's financial sector to support growth-oriented enterprises in ways that were not previously viable. This technology-driven access to capital is beginning to address the well documented gap in funding for Africa's corporate sector.

In First Circle's model, they go beyond capital. The team works with investees to set operational plans and performance milestones, while leveraging an extensive network of international investors and strategic partners to provide follow-on finance. This active approach ensures portfolio companies can access growth capital as they scale, while also creating clearer exit pathways through secondary sales, regional M&A, or IPOs.

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Drew von Glahn, Executive Director of CFF, brings broad experience across capital markets, venture investing, and development finance. His career includes senior roles in investment banking, venture capital, and social finance, as well as oversight of the World Bank's venture-philanthropy portfolio. He also serves on investment committees for Calvert Impact Capital, the Nordic Development Fund's Catalyst Facility, and Nyala Ventures.

About Collaborative Frontier Finance (CFF):

CFF is addressing one of the defining structural challenges of frontier markets: the "missing-middle" financing gap that limits the growth of small and expanding businesses (SGB). CFF builds networks that link fund managers, investors, and field-builders around shared principles and peer learning. It produces actionable research.

By professionalizing local managers and improving market transparency, CFF is laying the groundwork for pensions and other institutional LPs to participate credibly in early-stage capital formation across emerging economies.

Lessons From Other Emerging Markets

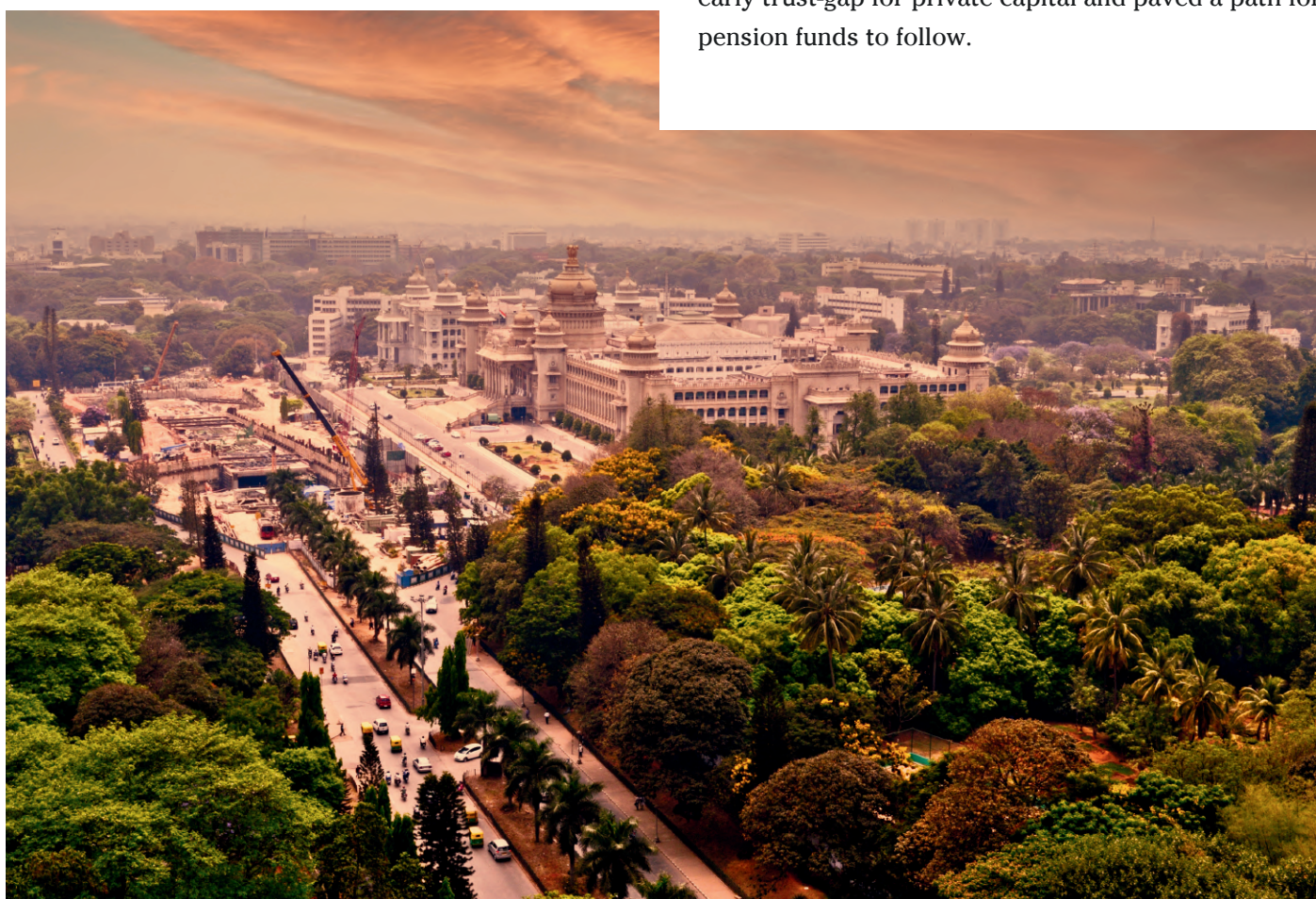
Innovation financing ecosystems do not appear overnight; they are built through sequencing. Other regions that began with similarly fragmented markets and low formal financial participation, India, Southeast Asia, and Latin America, provide useful lessons for Africa on how venture capital matures, how domestic institutions enter, and how the early gap between entrepreneurs and capital is bridged.

The catalytic role of DFIs (Development Finance Institutes)

In each of these markets, development finance institutions acted as the first anchors in emerging fund managers.

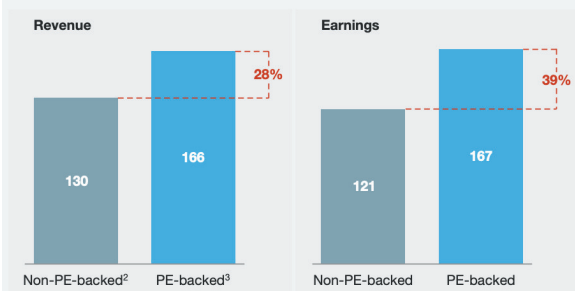
And have played an active role in supporting this space for decades, backing fund managers who employ diverse strategies in developing countries. By assuming early-stage risks and exercising the patience required for an asset class to mature, DFIs have been instrumental in establishing private capital ecosystems in emerging economies. Successful funds create a demonstration effect that encourages additional investments and participation.

This DFI-led catalytic approach is central to how many emerging markets, particularly India, have bridged the early trust-gap for private capital and paved a path for pension funds to follow.



Revenue and earnings grow faster at companies backed by private equity (PE).

Comparison of PE-backed and non-PE-backed companies,¹ year of PE investment indexed to 100 compared with 2 years after investment



¹Analysis compares growth in PE-backed companies 2 years after PE investment to growth in non-PE-backed companies over a comparable period. The weighted average was calculated based on the performance of PE-backed and non-PE-backed companies over FY 2007–15.
²Sample of non-PE-backed companies consists of 1,075 comparable listed companies for FY 2007–15.
³PE-backed company sample is based on 200 PE investments in listed companies between FY 2007–15.

McKinsey&Company | Source: AVCJ Research; S&P Capital IQ; VCCEdge; McKinsey analysis

India's Public Initiatives

Alongside DFI investment, India's venture capital ecosystem benefited early from targeted government programs designed to catalyze private investment. The Small Industries Development Bank of India (SIDBI) launched the Fund of Funds for Startups (FFS) in 2016, capitalized by the Department for Promotion of Industry and Internal Trade (DPIIT). With an initial corpus of ₹10,000 crore (≈US \$1.2 billion), the program invested indirectly through domestic VC funds, helping anchor dozens of first-time managers and crowd in private LPs.

These vehicles laid the groundwork for a more formal institutional market. By de-risking early funds and building local manager capacity, they created a track record that later enabled pension and provident funds to allocate to venture capital through regulated AIF structures. In effect, India's state-led vehicles acted as market makers, bridging the gap between public development finance and private institutional capital.

Latin America: Structured Vehicles, Phased Limits, and Supervision

Latin American pension systems have historically been among the most progressive in opening to alternative assets. Mexico's AFOREs provide a clear example. Since 2007, regulators allowed AFOREs to invest through special instruments called CKDs (Certificates of Development Capital).

These structured vehicles allowed pension funds to commit to private equity or real assets in a regulated, bespoke way. Over time, regulatory reforms introduced CERPIs to allow cross-border PE/VC investments, further expanding the horizon. More recently, AFOREs have been permitted to increase their allocations to structured instruments, with limits gradually raised (into the tens of percent) to support capital formation without destabilization.

WHAT AFRICA CAN LEARN: A NARRATIVE OF PATHWAYS AND PRECAUTIONS

From these experiences, several guiding principles emerge for African pension funds integrating venture capital responsibly.

Start with anchors. Development finance institutions and public funds can de-risk early commitments, offering credibility that crowd in private pensions.

Move gradually. Begin with clear caps, India's 5 percent limit is a good model and restrict investments to licensed, professionally managed funds meeting transparency and governance standards.

Use structured access. Semi-liquid or fund-of-funds models, like Latin America's CKDs and CERPIs, bridge liquidity gaps and allow institutional participation under controlled conditions.

Build for stability. Regulation should anticipate risks, over-exposure, valuation opacity, and FX losses, and set predictable rules rather than ad-hoc limits.

Invest in capacity. Training, disclosure, and audit frameworks reduce information asymmetry and raise confidence.

Link to ecosystem growth. Pension allocations should not just seek returns but also strengthen local fund managers, build deal pipelines, and expand exit pathways so innovation finance becomes self-sustaining.

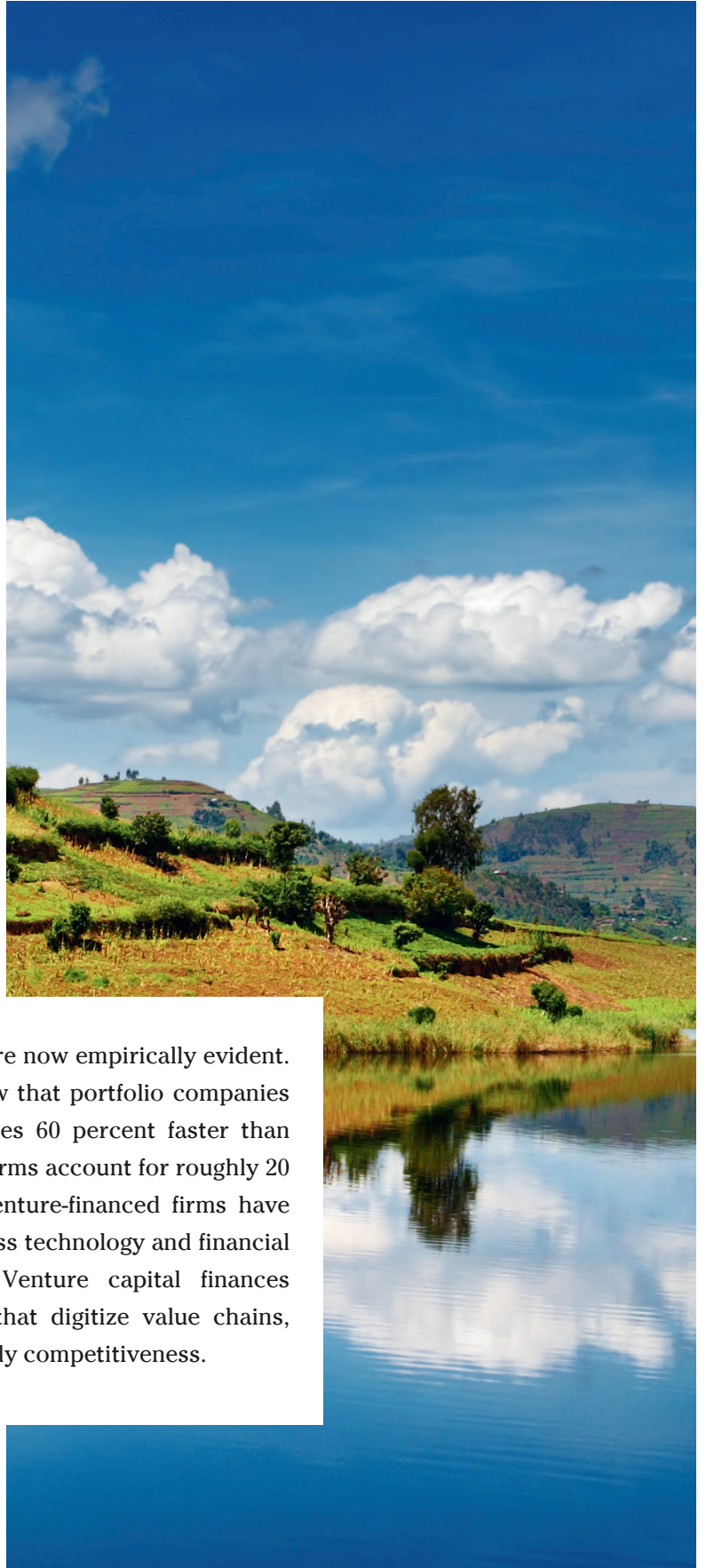
Venture and Job Generation

Economic growth is, at its core, a function of productivity and employment.

Every period of sustained prosperity in modern history has been preceded by a wave of technological adoption that redefined how societies work, produce, and exchange value. Venture capital operates precisely at that intersection: it finances the firms that build new industries, digitize informal systems, and transform inefficiency into opportunity. When we talk about “venture and job creation,” what we are really describing is a process of turning human ingenuity into formal economic participation.

THE EMPLOYMENT MULTIPLIER OF INNOVATION

The developmental spillovers of venture capital are now empirically evident. IFC studies of emerging-market PE/VC funds show that portfolio companies grow employment 50 percent faster and revenues 60 percent faster than their peers. In the United States, venture-backed firms account for roughly 20 percent of GDP and 10 million jobs. In India, venture-financed firms have become the largest private-sector employers across technology and financial services. These outcomes are not incidental. Venture capital finances productivity, not merely profit. It funds firms that digitize value chains, formalize informal markets, and create export-ready competitiveness.



The experience of India offers a striking demonstration of how venture can become a structural employment engine. Between 2015 and 2022, India's startup sector added more than 700,000 direct jobs, according to DPIIT, with total indirect employment effects estimated at 2.6 million.

Many of these were created by venture-backed fintechs and e-commerce platforms that digitized small merchants and service providers. Paytm, Zomato, and Udaan, once small venture-funded startups, now employ tens of thousands directly and support millions of livelihoods indirectly through their marketplaces. The pattern was not spontaneous; it was the product of deliberate ecosystem-building: DFIs seeded early funds, domestic institutions followed, and the result was a self-reinforcing cycle of entrepreneurship and employment.

Latin America followed a similar path. In Brazil and Mexico, the rise of venture-backed platforms such as Nubank, Rappi, and Mercado Libre created hundreds of thousands of new formal jobs and catalyzed adjacent industries in logistics, digital payments, and customer support. A 2023 Inter-American Development Bank study found that every dollar invested in venture-backed startups in the region generated five dollars of incremental GDP and three to five jobs within five years. Perhaps most strikingly, venture activity correlated with a measurable rise in formal labor contracts and tax contributions.

HOW VENTURE GENERATES JOBS DIFFERENTLY

Traditional industries create employment by expanding production; venture-backed companies create employment by expanding possibilities. They build new markets rather than just gaining share in existing ones. Because they rely on technology and network effects, their employment footprint spreads horizontally: engineers and designers are just the start; surrounding them are sales teams, call centers, logistics hubs, SME partners, and gig-economy participants who depend on their platforms.

Moreover, venture-backed firms accelerate the formalization of informal sectors. In Africa and South Asia, where over 80 percent of workers operate outside formal systems, digital platforms funded by venture capital are creating bridges into the formal economy: mobile money agents, logistics entrepreneurs, online retailers, and SME lenders who gain access to credit and record-keeping. The World Bank's Digital Africa Report (2023) estimates that every 10 percent increase in internet penetration raises formal employment by 2 percent, and much of that digital penetration is driven by venture-financed innovation.

THE AFRICAN CONTEXT

Africa's challenge is not a shortage of labor but a shortage of productive employment. Each year, nearly 20 million young Africans enter the workforce, a number projected to double by 2040. Yet formal job creation lags behind population growth.

Venture capital can play an outsized role in bridging this gap. IFC and Partech Africa data show that in 2022 alone, African venture-backed startups directly employed over 300,000 people and indirectly supported more than a million livelihoods through platform effects, especially in fintech, logistics, and agriculture.

When DFIs first began investing in African venture a decade ago, the focus was on infrastructure: mobile payments, connectivity, data centers. Today, the frontier has shifted toward productivity: SME finance, digital trade, supply-chain logistics, and climate adaptation. Each of these domains is labor-intensive in its growth phase and generates multiplier effects across the value chain. In that sense, venture capital in Africa is not just a source of innovation, it is an employment policy.

Funding Innovation the Right Way: Building Africa's Venture Fund Models

WHAT KIND OF FUNDS ARE NEEDED — AND WHEN

Venture ecosystems are built in layers. Each layer funds a different stage of company evolution, from discovery to scale, and together they form the capital continuum that turns ideas into industries. The challenge in Africa is that this continuum remains uneven. Some layers are thin, others missing entirely. Early-stage companies struggle to find patient backers; late-stage investors struggle to find mature pipelines. Understanding what kind of funds are needed, and when, is the starting point for building a sustainable venture market.

The importance of smaller, locally anchored funds cannot be overstated. They match the realities of emerging markets: smaller ticket sizes, higher transaction costs, and the need for close, hands-on support. In many cases, these are the true discovery vehicles, the ones that help institutional investors understand where the real growth is happening.

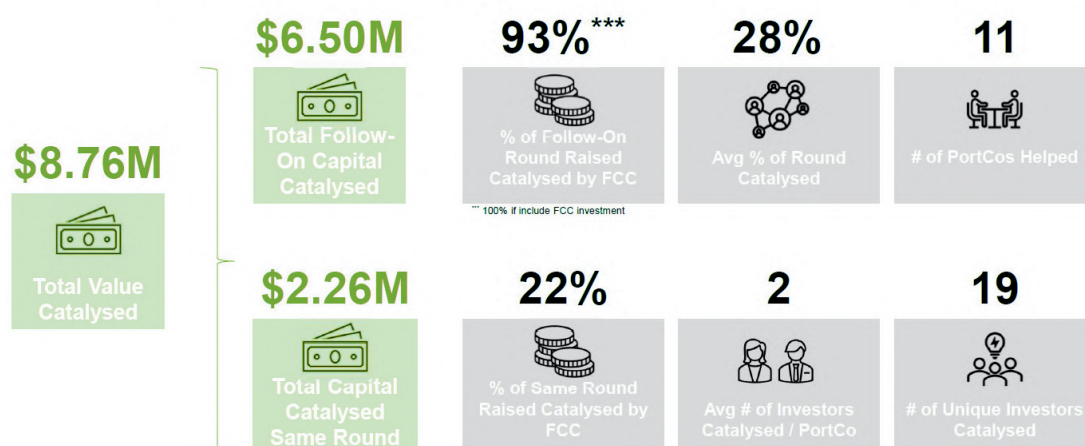
Case Study:

THE LIFECYCLE LOGIC OF CAPITAL

Every company grows through distinct inflection points. The earliest stages, pre-seed and seed, are about experimentation: founders test product-market fit, build small teams, and iterate.

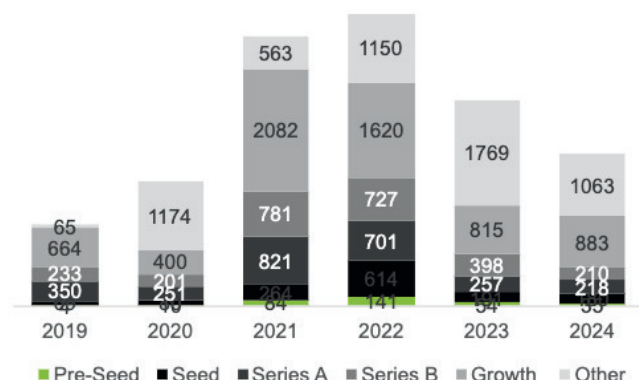
These phases require investors who can write small checks quickly, absorb risk, and add operational value. In developed markets, this layer is dominated by angels and micro-VCs. In Africa, it remains underpopulated, which is why accelerators, innovation hubs, and early-stage funds like First Circle Capital, Future Africa, LoftyInc, Launch Africa, DFS Lab, and Flat6Labs have become key. Their ticket sizes range from USD 50,000 to 1,000,000 and their contribution goes beyond capital: they support entrepreneurs with governance, data, and compliance, best practices creating the foundation for later institutional investment. But more important they connect entrepreneurs to other investors and catalyse additional capital as well as connect them to international networks.

First Circle Capital has Catalysed 2.6x** of Our Invested Amount



**Catalysation multiple: i.e. FCC catalysed 2.6x the amount we invested directly into the same portfolio companies
 *Catalysed: either directly introduced by FCC team and / or contributed to DD process, and advised founders on how to close the round

Total amount raised per stage by African VC startups from 2019 to 2024 (\$ million)



Once companies begin to show traction, they enter the growth validation stage, Series A and B, where capital requirements rise to USD 2-10 million. This is the most fragile link in Africa's funding chain. Too large for angels, too small for most international venture funds, this stage often leaves promising startups stranded between discovery and scale. It is also the stage where local funds have the greatest comparative advantage: they understand market nuance, can underwrite contextual risk, and can provide the mentoring and local networks that global capital cannot.

Smaller venture funds, typically between USD 20-50 million in size, are ideally positioned to operate here. They can deploy 20-30 tickets of USD 1-3 million each, build concentrated but diversified portfolios, and stay close to founders. They create the bridge between innovation and institutionalization, between an idea that works and a company that can last.

Beyond Series B, the capital dynamic changes. Companies now require USD 10-50 million to expand across borders, invest in infrastructure, or acquire competitors. Here, growth equity and crossover investors take over: funds like TLcom, Partech Africa, Algebra Ventures, Norrsken22, and Novastar write larger checks, often in partnership with global co-investors.

Their governance requirements are more formal, their return expectations more disciplined. This stage also begins to attract international private equity funds, corporate venture arms, and strategic investors.

In small GDP economies, large funds often cannot find enough absorptive capacity, and the worst thing that can happen to an ecosystem is that prices overheat without the technological capacity of founders and market adoption picking up, it drives down returns and makes it harder for new capital to come in. The right-sized vehicles, locally managed, \$20-50 million in size, provide not only capital but insight. They are the discovery layer that helps institutional investors learn the terrain.

Smaller funds are also more efficient learners. They operate close to founders, collect granular data on consumer behavior and credit patterns, and test hypotheses that later funds can scale. Their returns are often driven by a few breakout successes, but their strategic contribution lies in building knowledge: they teach markets what works.

WHY LOCAL CAPITAL PARTICIPATION MATTERS

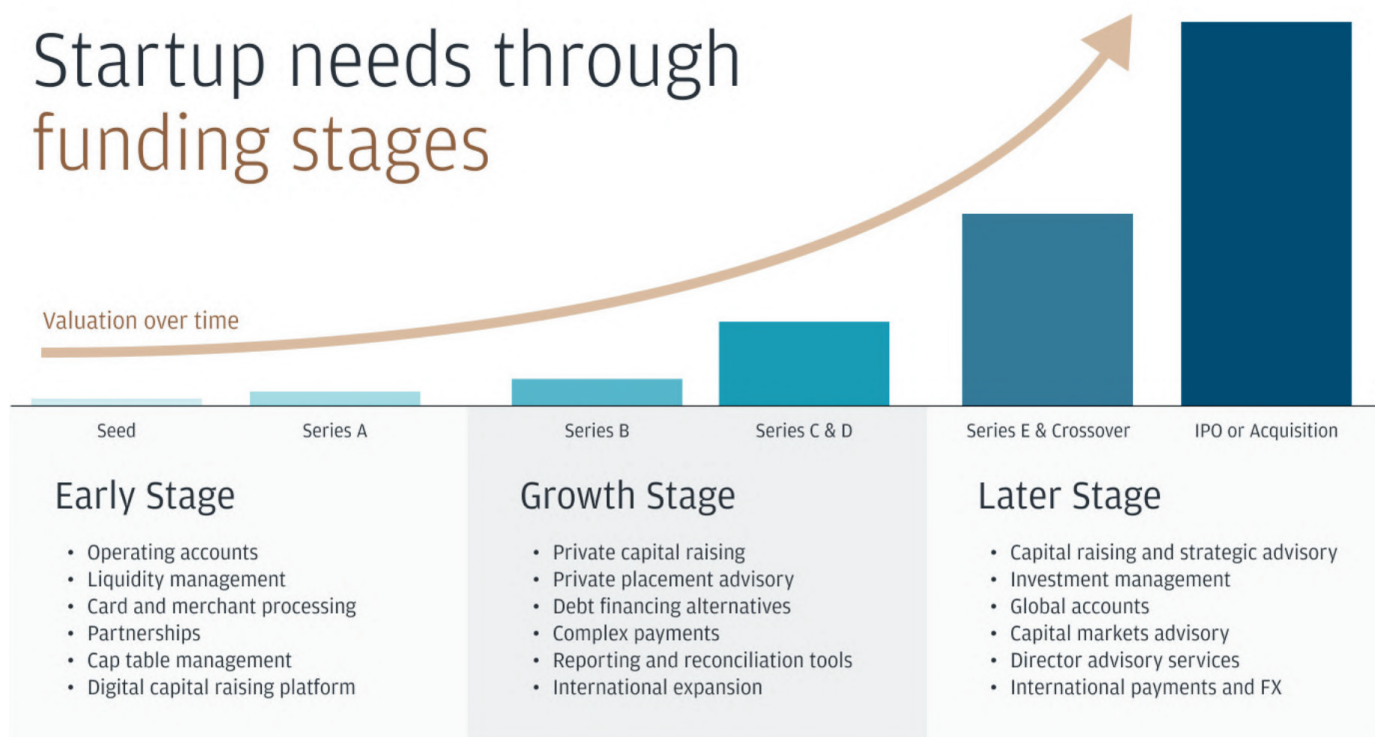
Local institutional participation, from pension funds, insurers, and sovereign investors, does more than supply capital. It aligns incentives across the entire venture ecosystem.

When domestic LPs invest in local funds, they share the same long-term interest as fund managers and entrepreneurs in creating a thriving business environment. These stakeholders collectively benefit from policies that promote innovation, streamline regulations, and attract further investment.

This alignment transforms investors and entrepreneurs into partners in policy improvement, fostering conditions that sustain private enterprise and, ultimately, economic growth.

Over time, this alignment of capital, capability, and context turns venture ecosystems from externally dependent to self-reinforcing, where every dollar invested locally multiplies through better governance, stronger markets, and more resilient institutions.

Startup needs through funding stages



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MAPPING THE AFRICAN FUND LANDSCAPE

According to AVCA and IFC data, Africa today hosts around 350 active venture and private capital funds, of which only 150 have raised more than USD 10 million. Fewer than 40 manage assets above USD 100 million, while over 200 are small, locally run vehicles managing less than USD 50 million. These smaller funds account for over 70 percent of all early-stage transactions on the continent, yet they collectively manage under USD 5 billion, a fraction of what single-country markets like India now deploy annually.

The capital architecture is thus top-heavy: large, foreign growth funds dominate at the upper end, while the domestic base remains thin. Bridging these extremes requires deliberate design, building a ladder of fund sizes that mirror company growth stages.

At the **pre-seed layer**, angels, accelerators, and micro-funds provide discovery capital, cheap but essential experimentation money.

At the **early venture layer**, USD 20-50 million funds (like First Circle Capital, TLcom, CRE Ventures, Launch Africa) supply structured governance and scaling finance.

At the **growth layer**, USD 100-300 million vehicles (Partech Africa, Norrsken22, Algebra Ventures) fund continental expansion.

And at the institutional layer, DFIs, funds-of-funds, and sovereign investors provide catalytic commitments, blended instruments, and first-loss protection to crowd in domestic LPs.

This multi-tiered architecture is what makes venture ecosystems self-sustaining. Each layer depends on the one below it, but no single layer can replace another.

MAKING FUND ECONOMICS WORK FOR INSTITUTIONAL INVESTORS

The tension between small fund sizes and institutional expectations is one of the defining challenges of emerging venture markets. Pension funds, insurers, and sovereign wealth vehicles are built to allocate large sums efficiently and to minimize frictional cost. Venture capital funds, especially in their early generations, are small, operationally intensive, and built for discovery rather than deployment. Bridging that gap is not only possible, it is essential. The institutionalization of African venture depends on designing fund structures that balance agility with accountability, and ambition with prudence.

Realistic expectations around fees, carry, pacing, and governance are key to creating alignment between small fund managers and institutional investors. Blended finance and co-investment models can reconcile these differences by lowering friction for LPs while keeping early funds viable.

Understanding the Economics of a Fund

At its core, a venture fund is a time-bound partnership between capital and capability. It earns two types of income: management fees, typically 2 percent of committed capital per year, and carried interest, usually 20 percent of profits above the principal. These numbers, the famous “2 and 20”, evolved in Silicon Valley but have proven surprisingly universal because they balance incentives: fees sustain operations, while carry rewards performance.

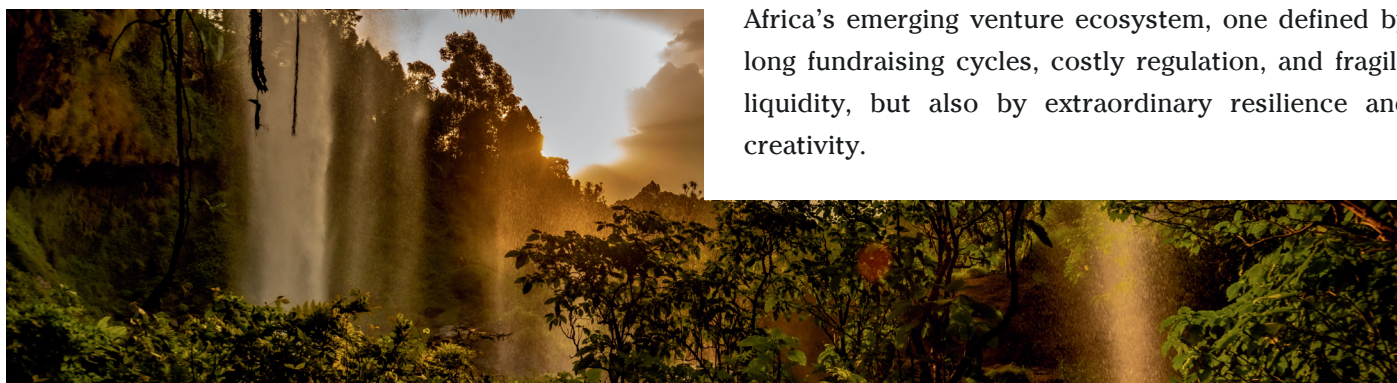
The endgame is not perpetual smallness; it is graduated growth. As ecosystems mature, fund managers raise successor vehicles that are larger, more diversified, and fully institutional. But this growth must be built on sustainable economics. Funds that scale prematurely, before their local markets can absorb capital, risk becoming inefficient and dilutive.

Africa’s next decade of venture capital should therefore be characterized not by explosive fund size growth but by disciplined layering: many small, well-governed funds feeding into a smaller number of mid-sized institutional vehicles, underpinned by DFLs and domestic anchors. This is the pattern that transformed India’s and Brazil’s venture landscapes from experimental to institutional.

A functioning ecosystem is one in which fund size, structure, and strategy fit their context, large enough to be professional, small enough to be relevant. When that alignment is achieved, institutional investors will no longer view African ventures as exotic risk, but as an essential component of a diversified, future-facing portfolio.

CHALLENGES AFRICAN FUNDS FACE

Building a venture fund in Africa today is an act of conviction. It is also an act of endurance. Every new fund manager must operate within a paradox: the ecosystem urgently needs more, smaller, locally rooted funds, yet the economics, timelines, and compliance frameworks that govern capital allocation are calibrated for much larger vehicles. Between this necessity and this constraint lies the lived reality of Africa’s emerging venture ecosystem, one defined by long fundraising cycles, costly regulation, and fragile liquidity, but also by extraordinary resilience and creativity.



THE LONG ROAD TO CAPITAL

Perhaps the most defining feature of the African venture landscape is the prolonged fundraising cycle for fund managers. In most mature markets, an experienced GP can close a fund within 12–18 months. In Africa, even established managers often take 24–48 months to reach final close. Many never do. The reasons are structural. Most global LPs still view Africa as peripheral, allocating experimental capital rather than programmatic commitments.



Exit Timelines and the Patience Premium

If fundraising takes years, exits take even longer. Africa's capital markets remain shallow, and trade buyers scarce. IPOs are rare outside South Africa and Egypt. Median holding periods for venture investments are 8–10 years, compared with 4–6 years in developed ecosystems. For fund managers with ten-year vehicles, this creates constant pressure: investment periods close before realizations occur, distributions lag commitments, and IRR optics suffer.

Yet these longer cycles also hide a deeper truth: value creation in frontier markets compounds slowly but durably. African startups, once they reach scale, often enjoy decades of growth due to low competition and unmet demand. The patience premium exists, but it must be financed. Fund structures need flexibility for longer durations, extension clauses, or evergreen side vehicles that allow fund managers to remain investors of record until liquidity emerges. DFIs and institutional LPs can support this by normalizing longer fund lives and emphasizing MOICs (multiples) rather than short-term IRRs when evaluating performance.

THE ECONOMICS OF SMALL CHECKS

Beyond regulation lies the simple arithmetic of small markets.

African venture funds rarely write checks larger than USD 3 million at early stages, yet the effort required to source, structure, and monitor a USD 1 million investment is not half the effort of a USD 10 million one, it is often the same. Due diligence, legal fees, board participation, and portfolio support all scale poorly at small ticket sizes.

This is why funds below USD 50 million struggle to achieve profitability under the traditional “2 and 20” model. Management fees cover operations only marginally, and carry may take a decade to realize.

Small funds are the most critical players in the ecosystem: they discover talent, nurture early companies, and prepare them for the larger vehicles that follow. Without them, there would be no pipeline for USD 100–300 million growth funds.

The answer, therefore, is not to force small funds into large-fund economics but to recognize their developmental role and design blended models that make their economics viable. Technical-assistance envelopes, co-investment rights, and fee-sharing arrangements can ensure sustainability without distorting incentives. The ecosystem needs its small funds to survive, because without discovery, there can be no scale.

From Promise to Permanence: Making Venture a Pillar of African Capital Markets

For Africa's venture capital industry to endure, it must evolve from a collection of promising funds and founders into a structured and continuous system of capital formation. A long-lasting venture ecosystem aligns domestic savings with innovation over decades, not cycles. It requires disciplined allocation, regulatory predictability, and a long-term commitment by both public and private investors to develop a market that compounds rather than fluctuates with sentiment.

Allocating with a Long-Term Perspective

The foundation of permanence is time consistency. Pension funds and institutional investors must view venture capital not as an experiment but as a strategic, recurring allocation within their alternative-assets programs. In mature markets, venture became stable only when institutional investors allocated consistently across vintages, creating continuity in deal flow and fund manager capacity.

African institutional investors should adopt a similar discipline: start small, remain steady. Rather than large, sporadic commitments, investors should make modest allocations every year, allowing knowledge, networks, and confidence to compound. This is how ecosystems mature, not through surges of capital, but through predictable, long-term participation.



PRUDENT ALLOCATION RANGES

Across most African pension systems, allocations to alternative assets remain extremely low, often below 1 percent of total assets, even though regulatory limits are far higher. IFC and AfDB studies show that pension regulations in several markets allow up to 10–15 percent exposure to private equity or alternatives, yet actual investments remain minimal. By comparison, global pension funds now allocate around 20 percent of assets to alternative investments.

A prudent starting framework for African pension funds would be:

- 1–5 percent of total assets committed to alternative assets (including private equity, venture, and other alternatives); and within that,
- 0.5–2 percent specifically allocated to venture capital funds.

This range recognizes venture's higher risk and longer duration but also its catalytic role in job creation and economic transformation. Gradual scaling within these bounds ensures participation without overwhelming local absorptive capacity. Consistent, incremental allocations build institutional experience, support a generation of local fund managers, and strengthen the capital pipeline for innovation.

ALIGNING ALLOCATIONS WITH MARKET REALITIES

Africa's venture market is young and heterogeneous. Ticket sizes are smaller, exits take longer, and liquidity cycles are slower. Institutional investors must calibrate expectations accordingly. Early-stage funds may hold investments for 8–10 years; valuations and exits unfold at a different rhythm than in developed markets.

Investing too much too quickly can distort markets, driving valuations above fundamentals and weakening fund economics. A sustainable approach is one of measured escalation, increasing allocations as ecosystems mature and demonstrated track records accumulate.

DIVERSIFYING ACROSS THE VALUE CHAIN

A self-sustaining venture ecosystem requires funding across the company lifecycle. Concentrating only on late-stage funds misses the discovery layer that produces tomorrow's growth companies. Pension funds, DFIs, and sovereign investors should therefore design diversified exposure across stages:

Early-Stage and Seed Funds (USD 10–50 million)

These funds finance proof of concept, product-market fit, and early hiring. They are closest to entrepreneurs, most operationally intensive, and most underfunded. Their work builds the discovery layer on which the rest of the ecosystem depends.

Growth-Stage Funds (USD 50–150 million)

These vehicles finance regional expansion, infrastructure, and institutionalization. They bridge the gap between experimentation and scale, transforming promising startups into sustainable businesses capable of attracting institutional and corporate investors.

Late-Stage and Crossover Funds (USD 150–300 million)

These funds provide the scale capital for cross-border growth, acquisitions, and pre-IPO preparation. They attract global co-investors and are instrumental in building exit pipelines through listings and strategic sales.

Allocating across this continuum ensures that innovation capital flows smoothly from idea to exit. The stages reinforce each other: early-stage funds generate the pipeline, growth-stage funds consolidate value, and late-stage investors provide liquidity.

DIVERSIFYING ACROSS MANAGERS

*A healthy ecosystem fosters
competition for performance*

Equally important is diversification across fund managers within each stage. Concentrating capital in a few large funds risks creating dependency and reducing accountability. A healthy ecosystem fosters competition for performance, where access to capital is earned through results, not incumbency.

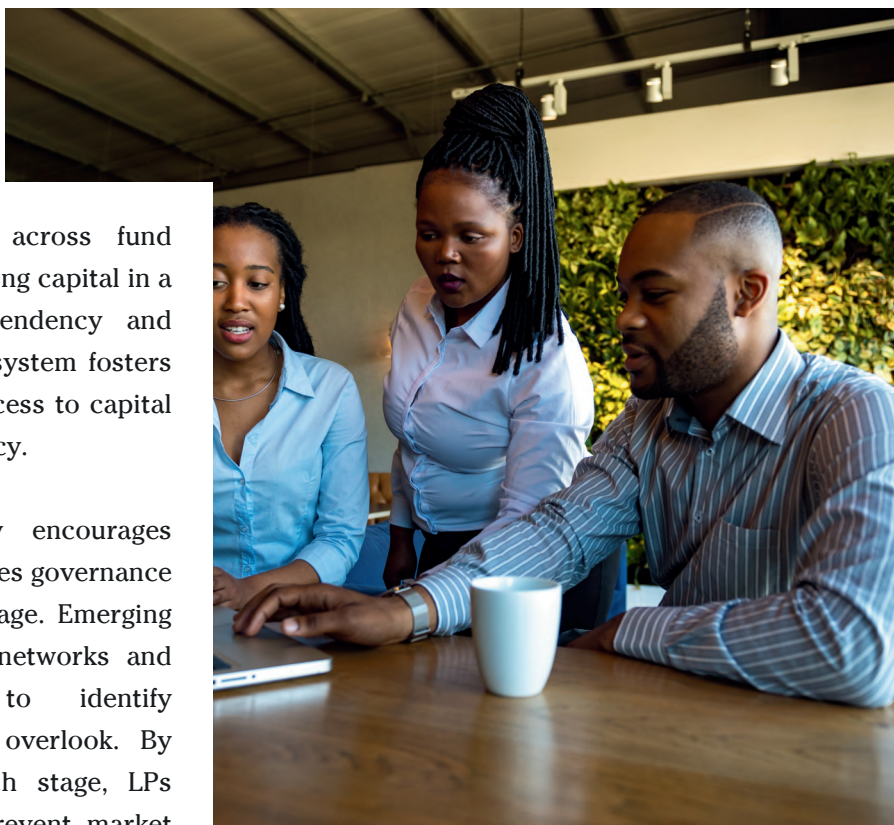
Backing new managers consistently encourages innovation in investment theses, enhances governance discipline, and expands regional coverage. Emerging fund managers often have the local networks and operating experience required to identify opportunities that established firms overlook. By supporting multiple managers at each stage, LPs strengthen the overall pipeline and prevent market concentration.

This competitive dynamic is what sustains performance over time. It keeps fund managers focused on returns, transparency, and portfolio quality, ensuring that venture capital remains an efficient market for innovation rather than an exclusive club. In India and Latin America, the decision by DFIs and pension funds to seed several smaller funds rather than concentrate commitments into a few incumbents proved decisive in driving accountability and long-term outperformance. Africa can follow the same path.

LIQUIDITY AND MARKET REFLEXIVITY

Liquidity remains the central challenge. Liquidity is trust materialized, it is the confidence that value can be realized tomorrow. A market without liquidity is a market without reflexivity.

Expectations can become self-fulfilling, the investment concept of reflexivity states if enough people believe there will be exits, the act of investing itself accelerates the conditions that make those exits possible.



Africa's venture markets are now entering a reflexive phase: every acquisition, secondary sale, or regional IPO strengthens confidence that liquidity is possible, attracting the next wave of founders and investors. This momentum is fragile. Historically, African venture cycles have been highly sensitive to shifts in foreign capital flows. When global conditions tighten, international investors pull back first, not because fundamentals change, but because Africa remains a small allocation in global portfolios.

*‘Only local capital participation can
sustain a market.’*

This is precisely why local capital participation is essential, especially during downturns. If domestic pension funds and long-term institutional investors continue to allocate, even gradually, they prevent the ecosystem from losing the hard-won progress it has made. Local capital keeps companies funded, keeps talent in the market, keeps founders building, and ensures that the learning cycles and track records required for maturity are not interrupted. In short: foreign capital can spark a market, but only local capital can sustain it.

Why Africa Needs Industry Champions That Create Markets

Sustained development requires more than small business activity, it requires industry champions that create markets, drive exports, and build ecosystems around them. Across Asia, countries such as India demonstrate the catalytic power of scale. Firms like Wipro, Infosys, and Tata Consultancy Services didn't just grow into national icons; they created hundreds of thousands of jobs, formalized supply chains, and built global export capacity for services once considered local.

Industry champions create supplier ecosystems and the markets for smaller businesses

In Africa, too much capital and policy attention still flows to micro-enterprises that rarely scale, struggle with informality, and generate limited tax or employment multipliers. By contrast, large, well-governed businesses serve as anchors, aggregating demand, enforcing standards, and opening new regional and international markets. Their impact extends beyond direct employment: they enable thousands of smaller firms to participate as suppliers, distributors, and service partners.

A strong venture and private-capital ecosystem can nurture the next generation of African champions, companies that export software, fintech infrastructure, and creative content globally, while professionalizing domestic industries. Supporting such firms is not about crowding out small businesses; it is about building the platforms on which thousands of others can thrive.

Real economic transformation happens when Africa moves from fragmented micro-enterprise activity toward scalable, competitive businesses capable of creating formal jobs, paying taxes, and exporting innovation.



SPECIAL THANKS TO

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A large, dark silhouette of a person climbing a tree is set against a solid green background. The person is positioned on the right side of the frame, with their body angled upwards and their arms extended, gripping a branch. The tree's branches and leaves are also silhouetted, creating a complex pattern of dark shapes against the green. The overall composition is minimalist and evocative, suggesting themes of growth, progress, and reaching for the future.

BUILDING AFRICA'S FUTURE WITH TECHNOLOGY