

Encouraging technology investment in Uganda and Senegal

In many African markets, entrepreneurial ecosystems continue to suffer from systemic challenges that prevent local technology firms from becoming formal, accessing public tenders and achieving scale through cross-border, regional expansion. The problems include lengthy and complicated administrative processes, high company registration fees and disconnection between the public sector and innovators.

Because for most start-ups scaling up remains difficult, domestic revenue streams are limited and the risk of failure is high, investors are reluctant to risk their money. As a consequence, access to seed capital remains a major hurdle in developing technology entrepreneurship in Africa.

Moreover, investors tend to focus on selected markets. In 2018, 164 tech start-ups raised \$1.2 billion, mainly in Kenya, Nigeria and South Africa, according to the annual report on the African venture capital market by Partech Africa, one of the largest venture capital funds active on the continent. Senegal and Uganda raised much smaller amounts, although Senegal led among French-speaking countries, where investing is growing more slowly than in the rest of Africa. These numbers, however, remain low in comparison with regions such as Latin America and South Asia, let alone North America, Europe and South-East Asia.

At the same time, technology hubs are spreading quickly in Africa. The number of active tech hubs grew by 50% between 2016 and early 2018, according to research by the GSMA, which represents mobile operators worldwide. It found that 442 hubs were active on the continent in early 2018, with a dozen more due to launch in the beginning of the same year.¹²⁰ Despite these encouraging numbers, many of these technology hubs are start-ups that struggle to make ends meet. Their capacity to attract investors to the benefit of the start-ups they support remains limited.



Focus on Senegal and Uganda

In Senegal, ITC supports 53 start-ups through the Netherlands Trust Fund IV (NTF IV) programme. According to ITC research, 70% of the start-ups generate revenue and 88% have a 'minimum viable product'. Personal funds are the main source of funding for nearly three-quarters of the start-ups. Investors fund another 16%, business angels support a further 5% and the remaining 5% have other sources of funding, which may include business revenue, grants or loans.

Forty-one per cent of the start-ups are seeking funding below \$100,000, while 46% are looking for funding between \$100,000 and \$500,000. Eleven per cent are seeking more than \$500,000. Only one of the start-ups is not seeking any funding.

In Uganda, 60 start-ups have joined the NTF IV programme. Personal funds are the main source of funding among the Ugandan start-ups, accounting for three-quarters of the total. Business angels and equity financing are the source of another 7%, respectively. Only 3% of start-ups have venture capital financing, while business revenue, grants or loans fund the remaining 8% of start-ups.



Fifty-five of the start-ups are looking for funding of less than \$100,000, 10 are seeking between \$100,000 and \$200,000, six are looking for \$200,000–\$500,000 and 11 for more than \$500,000.

The source of funding for start-ups is similar in both countries, with personal funds at the forefront and the proportion of investors and business angels at a comparable level. Most start-ups in Senegal and Uganda are in pre-seed stage funding, while there are more Ugandan start-ups looking for seed stage funding.

On the other hand, in Uganda most of the ITC-supported start-ups (73%) seek either small funding amounts (below \$100,000) or large amounts (above \$500,000). In Senegal, in contrast, 87% of the start-ups working with ITC seek to raise small to mid-sized amounts of funding, between \$100,000 and \$500,000.

Venture capital sought

ITC's technology sector development team works on addressing the information gap, building trust and connecting investors with promising talent. The start-up directories of NTF IV present the entrepreneurs in an investor-friendly manner, with a focus on the founding team, revenue generated and funding needs, as well as a breakdown of planned expenditures.

ITC also produces social media and video content to build awareness about promising technology start-ups. Networking with investors is key, and takes place at major tech events such as Mobile World Congress, where investors can meet with start-up founders sponsored by the Netherlands Trust Fund or receive briefings by the ITC team on markets, strong industry niches and start-up profiles.

Source: ITC.

