Debt financing in Africa's innovation ecosystem

An overview of drivers, trends, and key takeaways for the ecosystem

Q4 2023

The Authors

Since 2018, Briter Bridges has carved a leading role as a research and market intelligence firm focused on emerging economies. Briter has built a reputation in applying data, visual storytelling, engagement, and nuance to power thought leadership, industry research, and investment strategy across Africa and underserved markets. Briter now boasts a portfolio of over 100 clients, ranging from the World Bank to the Gates Foundation and dozens of venture funds and ecosystem support organisations. Briter Intelligence, its proprietary product and platform, is the fastest-growing business intelligence tool dedicated to the entrepreneurial ecosystem in underserved markets, counting thousands of users from Amazon to Boston Consulting Group, media, investors, and government agencies.

Methodology & Disclaimer

This report serves as an introductory exploration of the landscape of alternative debt for Africa's green and technology companies, focusing on their role, structure and relevance.

In this report, alternative debt encompasses financial instruments beyond traditional options like bank loans and bonds. These alternatives include venture debt, mezzanine debt, and convertible notes, which deviate from conventional lending structures. It is important to note certain limitations within this study. Specifically, there may be gaps in the coverage of disclosed "debt" deals, and we do not consider traditional debt/loans in our analysis.

The methodology employed in this study involves a deliberate decision to provide an overview rather than a deep dive into specific aspects of debt. In addition to leveraging Briter Intelligence data, perspectives and contributions have been obtained from leading debt providers across the continent. Sentimental analysis is also incorporated to provide a nuanced understanding of the prevailing attitudes within the industry.

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Synopsis

Over the last five years debt financing has been on the rise in Africa's innovation ecosystem. From 2019 to H1 2023, debt as a share of the total volume of funding to ventures in Africa increased from 4% to 26%. However, it is not necessarily the exponential rise in debt that is driving this increase. Based on data available, disclosed debt appears to have grown slower than equity from 2019 to 2022. So what is going on? While debt is certainly playing a role in Africa's startup ecosystem and innovations on the financing side making it more accessible, one of the biggest driver of debt's rise in Africa' startup ecosystems may actually be the dramatic fall in equity funding, which fell from $2.6bn in 2022 to $1.4bn in 2023.

A nearly 50% drop off. This is not only affecting companies, but investors as well who are also struggling to raise their funds and showing returns, which results in a greater push towards alternatives to equity. Yet, while debt certainly has a role in Africa's innovative ecosystems, it is not a silver bullet.

In this report we look back at a decade worth of ecosystem data to examine the drivers of debt financing in today's ecosystem, the current state of debt financing and the opportunities and challenges that debt presents for Africa's businesses going forward.

Joshua Murima
Head - Investor Relations

Mariam Adeoti
Data Associate

Contributors

AgDevCo, AHL Venture Partners, Chandaria Capital, iungo capital, Lendable, responsAbility, symbiotics

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Overview

Rise of debt in Africa's innovation ecosystem

Over the past ten years, more than **$2 billion** in disclosed debt funding has been raised by digital, technology-enabled, and green companies in Africa from more than 140 funders for a total of more than 200 deals. This accounts for about 10% of the total funding raised over this period in Africa. Similar to equity, more than three-quarters of debt funding has gone to Nigeria, Kenya, Egypt and South Africa.

Unlike with equity, the majority of debt funding is flowing to companies with collateral. Nearly 75% of debt funding has gone to asset-heavy businesses in cleantech, mobility, agriculture and logistics. Nearly half of all disclosed debt funding went to cleantech companies. The exception is fintech and digital lending. Fintech accounted for around 20% of the total disclosed debt funding. The majority of this went into digital lending products where startups can use their existing loan books as collateral.

The average ticket size for startups raising debt funding was more than $10M, higher than the $8M average ticket size for equity. This was largely driven by a handful of mega-deals for companies offering cleantech products like solar energy and solar home kits and fintech products like digital lending accounted for the majority of debt funding to this ecosystem. For example, just five deals, M-Kopa's $200m , MNT-Halan's $140m, Sun King's $130m, Wave Mobile's $92m and Planet42 $75m debt round accounted for nearly a third of the total funding over the last decade. However, not all debt deals are mega-deals.

Nearly a quarter of all debt deals done were between $1m and $5m. This shows that more and more companies are accessing debt funding at earlier stages of their fundraising journey. Innovations like convertible notes and revenue-based financing are making this possible, helping to increase the role of debt in Africa's startup ecosystem and offer entrepreneurs a much-needed alternative to equity.

Over 2023, debt funding's share has rapidly grown as equity funding declined. While debt funding maintained its growth trajectory, equity dramatically fell, resulting in debt accounting for more than a quarter of the total funding to innovative companies in Africa. In cleantech alone, debt funding represented 50% of the total funding raised. Several investors have raised venture debt funds or are in the process of raising one. Support organisations are pushing more and more startups to consider debt, in addition to equity for financing their growth, even at the early stage. Yet, while diversification of funding is a positive sign for the ecosystem as a whole, questions are emerging around the role of debt financing and when it should be sought.

Ultimately, the report seeks to increase the visibility of debt financing for startups in Africa and address questions such as what are the different types of debt funding being deployed, what is driving it, where it is being disbursed to and why, and, last, where is it going. It builds on Briter Intelligence data and a collection of inputs from debt funders in the region.

Demystifying “debt” in Africa’s innovative scene

Debt refers to the financial obligation that a company incurs when it borrows money to fund its operations, expansion, or other financial needs. Unlike equity, it is not in return for ownership of a business but rather funding for a certain amount of time for a certain cost. For companies, debt is increasingly attractive for several reasons. First and foremost, equity is becoming increasingly scarce. Second, many startups are finding it cheaper and easier to finance capital expenditures. Third, many founders have heard or seen examples of becoming uninvestable because they have diluted too much equity too early. Last, late-stage businesses are borrowing against predictable revenues or assets without needing to issue new shares.

Over the last decade there have been a number of innovations around debt funding for startups that are increasingly being used. There are five types of debt funding currently active in the startup ecosystem in Africa. that Briter Intelligence tracks.

Joseph Indagasi
AHL VENTURE PARTNERS

> “Alternative debt structures, such as venture debt, are parallel to traditional options in terms of interest rate choices, but notably differ by favouring unsecured debt—an approach typically avoided by conventional lenders.”

1. **Convertible notes.** A type of short-term debt that can be converted to equity at a later stage, often during a future funding round.

2. **Venture and mezzanine debt.** A type of unsecured debt to venture backed companies that lack internally generated cash flows necessary to repay conventional debt. Sometimes construed interchangeably with venture debt, mezzanine debt is essentially traditional/conventional debt that is also usually (not always) unsecured, with variations in the inclusion or exclusion of interest, revenue share components and equity kickers.

3. **Senior secured.** Debt that is backed by collateral or specific assets of the borrower company. These loans have a higher priority of repayment in case of default, providing security to the lending investor.

4. **Revenue Based Financing.** Unlike traditional loans, RBF aligns repayments with a company’s revenue. Businesses typically repay a fixed percentage of their monthly revenue until the agreed-upon amount is met.

5. **Inventory & Invoice financing.** Inventory financing allows businesses to use their existing inventory as collateral to secure a loan. This is particularly beneficial for companies that deal with the movement of physical goods. Invoice financing involves using outstanding invoices as collateral to secure loans. This provides companies with quick access to funds tied up in accounts receivable, improving cash flow.

Drivers

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Fall off in equity

Over the last 18 months, there has been a notable decline in total equity funding volumes and deal flow to startups in Africa. Between January and October of 2023, investment raised hit $2.7 billion across 600+ deals, about a third less funding raised at the same time in 2022.

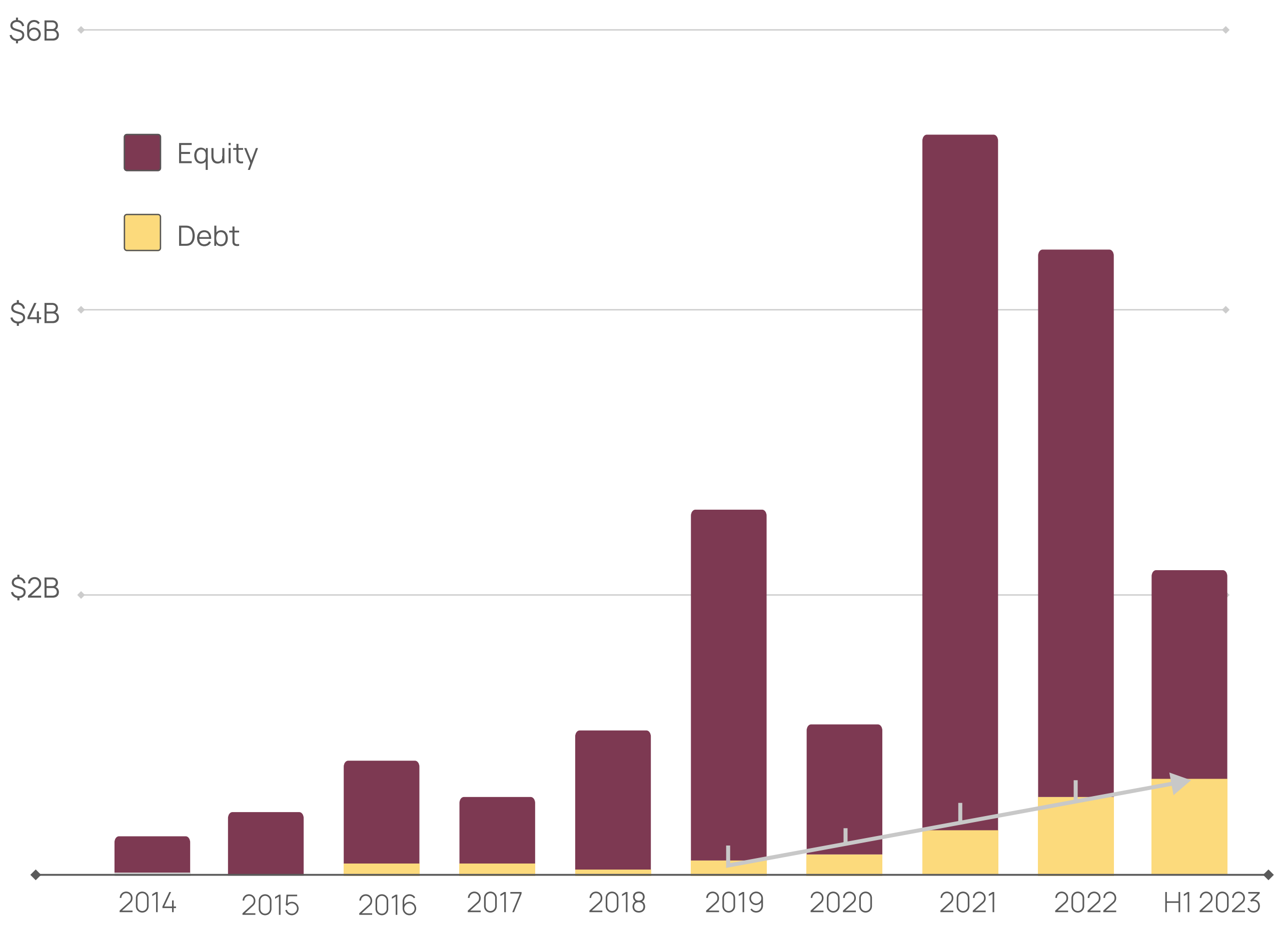
The main driver of this has been the fall in equity funding to startups in Africa which has decreased from $2.6 billion in H1 2022 to $1.5 billion in H1 2023. This is not only driven by deal size, deal flow is also down. Equity deal flow is down from 297 in H1 2022 178 Y in H1 2023. Further the majority of rounds have been unspecified which is often associated with bridge or down rounds.

Briter Intelligence data also reveals a 20-25% decline in startups successfully progressing to higher priced rounds, particularly in Series A and beyond. This trend underscores the increasing difficulty for these companies to secure equity rounds.

As the figure below shows, debt funding to startups on the other hand has actually continued to increase on its current trajectory from around $100m in 2019 to $685m in 2023 .

These opposing forces, the drastic fall of equity and the continued rise of debt, means that debt had an outsized impact on Africa's startup ecosystem this year.

Equity and debt deal volumes (2014 → H1 2023)



Rise in debt financing innovations

Venture Debt

Venture debt in its simplest form is unsecured debt offered by venture capital firms to venture-backed businesses. has been on the rise over the last year as investors, similar to startups, struggle to raise equity for their funds. Many investors see venture debt as a way to ride out the equity downturn with their existing portfolio or take advantage of better pricing for attractive startups. They typically target companies that are further progressed at the Series A and beyond stages where Briter data shows the biggest fall-off in equity funding has happened. The result has been a rise in the launch and closing of debt funds.

Joe Indagasi
AHL Venture Partners

> With venture debt, assessing credit starts with pinpointing fast-growing startups that have the capacity to secure future equity capital.

Emerging venture debt facilities:

TLG Capital
AgDevCo
AHL Venture Partners
goodwell invest with impact
NBK Capital Partners
Future Africa

Asset and revenue-based financing

In addition to venture debt, innovation debt financing mechanisms tied to collateral is becoming more accessible, specifically revenue based and asset based finance. This has been a major driver of debt funding in asset heavy sectors like cleantech, agtech, mobility and logistics where products hardware heavy companies in these sectors can raise debt against their underlying assets. At the growth and later stages as these startups mature they can also take on wholesale debt funding to offer credit to their customers to finance the underlying assets they are purchasing, such as a solar energy home kit or an electric bike, in turn stimulating demand for their own products.

Beyond asset heavy startups, companies with predictable recurring revenues have also been able to tap into new revenue-based debt financing mechanisms. This is even happening at the early stage where investors like Untapped are using technology to distribute and manage debt funding for tickets between $50k and $3m.

Seb Wichmann
Lendable

> Debt financing from specialist lenders and alternative lending platforms is more easily accessible, as they leverage innovative approaches to risk underwriting.

Renewed appreciation for the optimal capital stack

The fall off in equity funding in Africa from 2022 to 2023 has forced startups and investors alike to look outside of equity to other funding sources. However, the focus on debt and other financing instruments as an alternative to equity for startup has been a discussion within the ecosystem since long before. Many early stage investors and startups have experimented with convertible notes. Donors and development finance institutions (DFIs) have explored returnable grants as a way to drive startups towards commercialisation without undermining their future fundraising efforts. Further, innovative financing facilities for startups in sectors like climate tech and agriculture are emerging blending together grants, debt and equity to find new ways to sustainably finance previously uninvestable opportunities.

The optimal "capital stack" to sustainably meet the funding needs of startups at different stages of their fundraising journey has re-emerged as a key discussion in the ecosystem.

Katya Kazantseva
symbiotics

"Debt has the potential to increase revenue growth, as it provides working capital to fund daily operations."

John Jakobsson
AgDevCo

"Mezzanine debt suits companies that are further progressed. However, you can structure venture debt or mezzanine debt in such a way that it becomes attractive to a seed stage, a venture stage or a growth stage company. There are features that can be varied so as to suit companies across different stages of growth"

Many startups at the growth stage, from Seed to Series C, and especially those in fintech, agtech and cleantech, are increasingly raising rounds with a combination of debt and equity. Briter Intelligence data shows that between 2014 to 2023 the mix was typically 60% equity and 40% debt with debt having a larger role at later stages.

How to layer grants, debt, and equity to best align with specific business goals, whether it's innovation, scaling, or establishing credibility in partnerships with larger institutions is emerging as a key focus area for the startup ecosystem in Africa with (re)newed appreciation how it differs by startup, sector, stage and product.

For example, a clean tech firm involved in Solar Home Systems (SHS) production requires debt for capital expenditure, manufacturing, and raw material acquisition, while a distribution-focused SHS company relies on debt for inventory financing and working capital

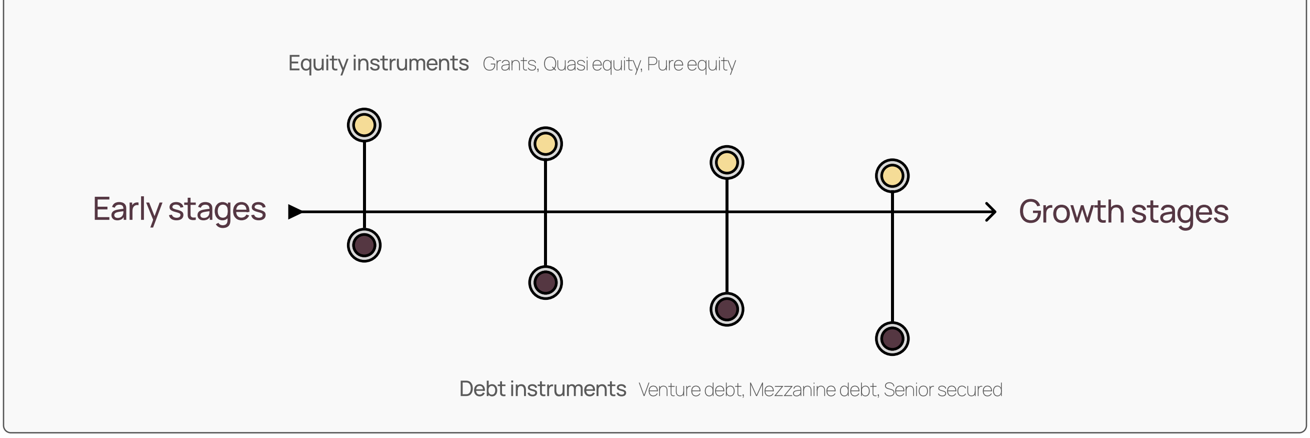
Similarly, a fintech company specialising in personal loans utilises debt for on-lending. Capital stacking also proves essential concerning sectoral fit, as diverse financing instruments address unique needs. .

For small companies with significant funding requirements, particularly in hardware development or infrastructure setup, larger ticket sizes can often be secured through debt financing, provided there's a viable repayment capacity. Ticket size considerations also add a nuanced layer, recognising that certain financial needs might only be addressed by specific types of investments.

This approach is relevant in meeting the financial requirements of startups across sectors, including climatetech, commerce, and agtech.

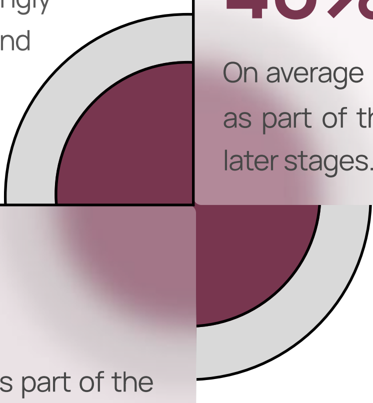
Debt providers are also aligning their expertise and capital with the specific needs of businesses in diverse sectors. These sector-specific debt investment approaches enhance the effectiveness of debt financing, contributing to the sustainability and growth of enterprises within specialised domains.

Spectrum of financing instruments along a startup's journey:



Capital stack at Seed, Series A, Series B, Series C

Startups at growth stages, especially those in Fintech, Agtech and Cleantech sectors, are increasingly raising hybrid rounds, that is a mix of debt and equity.



40% Debt

On average (2014-H1 2023) in debt raised as part of the round size across seed to later stages.

60% Equity

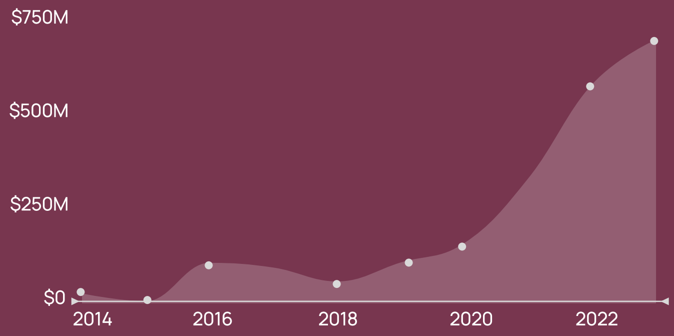
On average (2014-H1 2023) in equity as part of the round size across seed to later stages

Trends

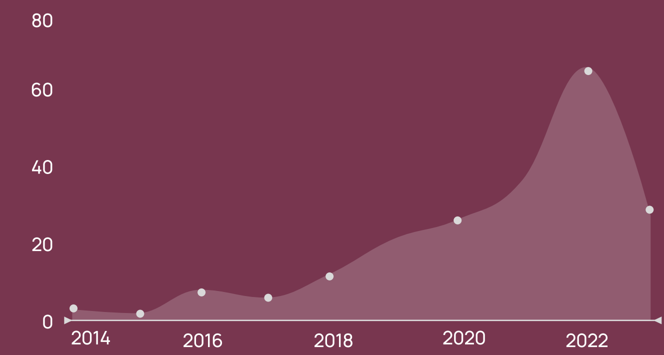
Debt financing for startups in Africa

Total funding raised	Number of deals	Number of companies that have raised	Number of investors that have deployed debt
$2.1B+	**200+**	**150+**	**140+**
disclosed deal values only between the year 2014 and H1 2023	announced deals only between the year 2014 and H1 2023	announced deals only between the year 2014 and H1 2023	announced deals only between the year 2014 and H1 2023

Deal volumes



Deal activity



Geographies by deal volumes

- $800M+
- $415M+
- $280M+
- $190M+
- $95M+

Geographies by deal activity

- 60+
- 40+
- 18+
- 10+
- 10+

Key recipients

75%+

of debt funding volumes are raised by startups in **Nigeria, Kenya, Egypt & South Africa**

Sectors by deal volumes

Cleantech	$995M+	Health	$25M+
Fintech	$480M+	Renewables	$25M+
Mobility	$275M+	Waste Mgt.	$8M+
Agriculture	$150M+	Manufacturing	$5M+
Logistics	$135M+	E-commerce	$4M+

Sectors by deal activity

Cleantech	70+	Health	10+
Fintech	45+	Waste Mgt.	5+
Agriculture	25+	Renewables	5+
Logistics	15+	Education	4
Mobility	15+	E-commerce	3

32%

of H1 2023 deal activity was in **cleantech products**

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Source: intelligence.briterbridges.com | Q4 2023

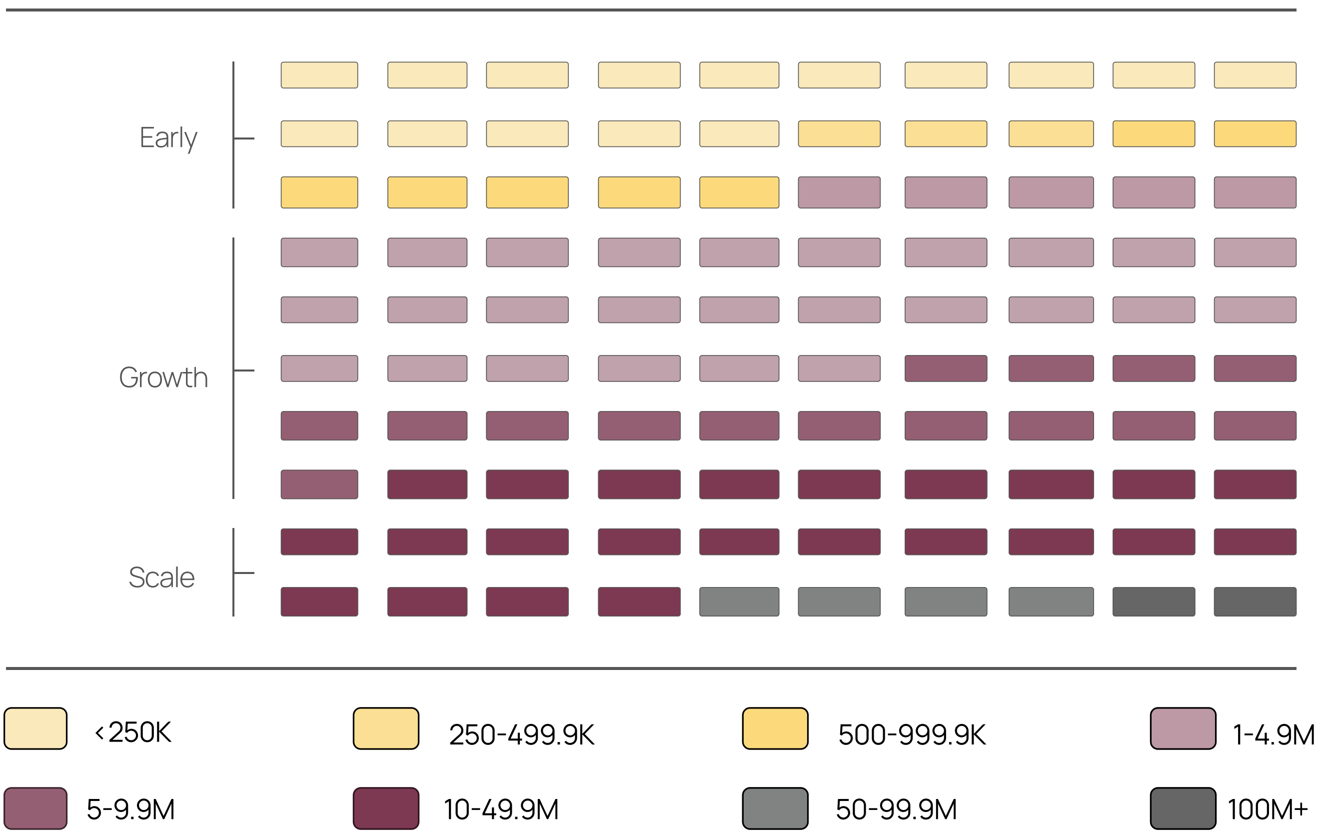
Deal dynamics

Over the past decade, an observable trend has emerged in debt deals, with about a quarter of deal volumes falling within the $1 - $4.9 million ticket size range. Following closely are deals in the $10 - $49 million and $5-$9.9 million ticket size categories, suggesting a steady patterns of an inclination towards growth and later stage investing by debt investors. This inclination toward particular ticket sizes aligns with the broader strategy of extending financing primarily to startups in their mid-growth stages. The correlation between debt ticket sizes and company stages is underpinned by the understanding that companies in the growth and scale-up phases often exhibit more predictable and consistent cash flows, which are integral to debt financing.

The observed dynamics also hint at the risk tolerance levels of debt investors in comparison to their early-stage equity counterparts. Given that debt investors are typically less risk-averse, it logically follows that they would be more inclined to invest in more established companies.

As such, the figure below shows two complementary trends. The first is that a few mega-deals are driving the total volume of debt funding in Africa' startup ecosystem. The second is that more and more debt is being deployed earlier and earlier in Africa's startup ecosystem. While there has been very limited deal activity below $1m, nearly a quarter of deals have been between $1m-4.9 million. Further, several debt funders in Africa's startup ecosystem have noted that they have done debt deals as low as $50k.

Ticket sizes ranges by deal activity



Sector and product trends

While debt funding to startups in Africa has increased, it has not been equally distributed across sectors. Debt has typically flowed to sectors where funding can be collateral against assets or other collateral like loan books. For example, the sectors in which startups have received the most funding are cleantech and fintech. But even within these there are a handful of products driving it.

For example nearly 50% of disclosed debt funding from 2014 to H1 2023 went to cleantech. The majority went to solar home kits and pay-as-you-go products. In fintech, where nearly a quarter of debt funding has gone to asset financing and buy-now-pay-later products. In mobility, it served for electric vehicles, and within agtech, it was used to finance agriculture equipment.

Cleantech
SHS, PayGO

47% of total disclosed funding volumes, 2014 - H1 2023

Fintech
Asset finance, BNPL

23% of total disclosed funding volumes, 2014 - H1 2023

Mobility
Electric Vehicles

13% of total disclosed funding volumes, 2014 - H1 2023

Agtech
Agri equipment

7% of total disclosed funding volumes, 2014 - H1 2023

FMCG & logistics
Inventory, supply chain

6% of total disclosed funding volumes, 2014 - H1 2023

Health
Pharmacy chains

ICT Infrastructure
WiFI and connectivity

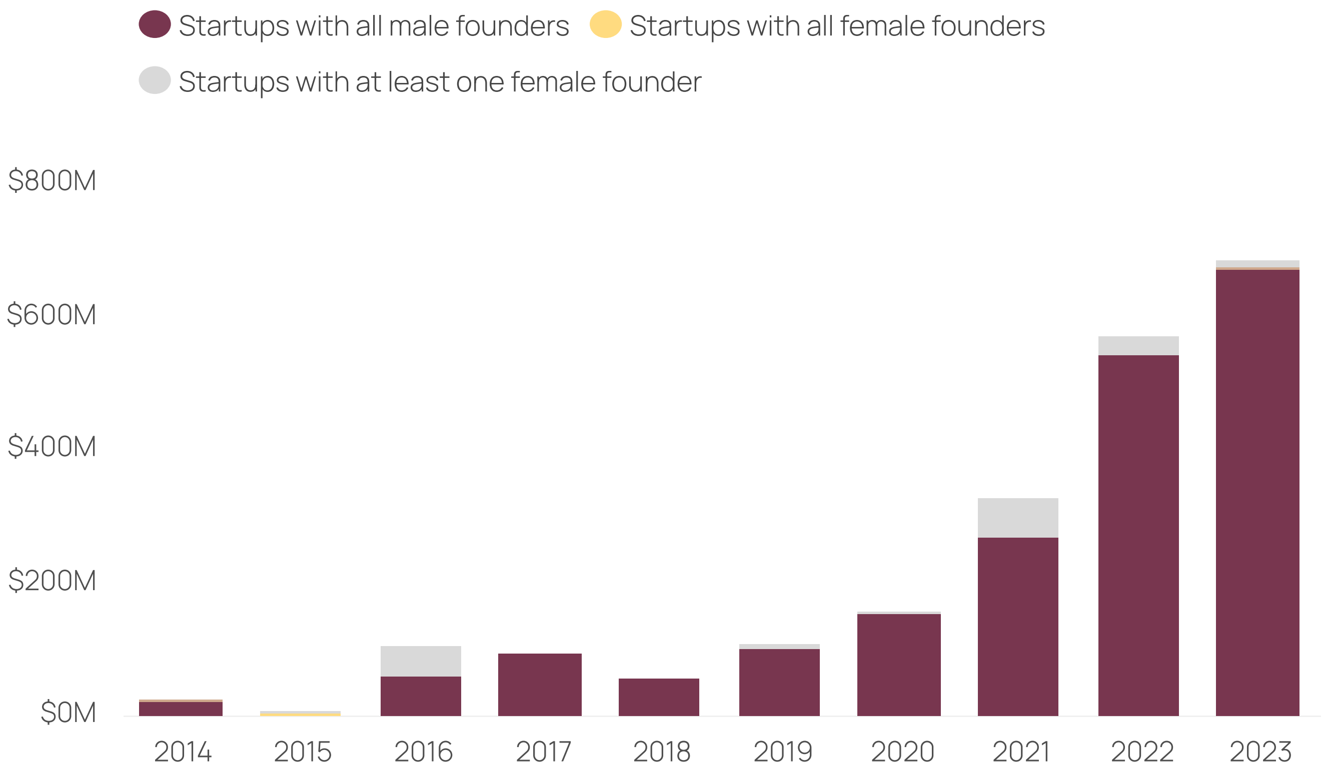
Commerce & Retail
Marketplaces, Inventory

Waste management
Recycling, organic waste

Demographic trends

Similar to equity, startups with all male founders account for the majority of funding. However, unlike with equity, disclosed debt financing to startups with all female founders is basically non-existent.

The figure below shows that funding to startups with all female teams was less than 1% from 2014 to 2023. This is even in sectors with a high proportion of startups with female founders that includes cleantech, fintech and agtech.



Debt providers overview

The alternative debt financing market in Africa is international, with a considerable portion of debt capital being originated overseas. Development Finance Institutions (DFIs), actively participate, and alongside these DFIs, specialised debt-focused investors also operate in the growth and late stage scene, bringing targeted expertise to the debt financing ecosystem.

Debt providers are also aligning their expertise and capital with the specific needs of businesses in diverse sectors. These sector-specific debt investment approaches enhance the effectiveness of debt financing,

The figure on the next page provides an overview of the notable debt providers financing startups in Africa and the page after offers a list of notable deals that these debt providers have been involved in.

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Debt providers overview

Notable debt deals

Cleantech

COMPANY NAME	HQ COUNTRY	DEBT ROUND SIZE	PARTICIPATING INVESTORS
Mkopa	Kenya	$200M+	British International Investment, Nithio, IFC
Sunking	Kenya	$130M+	citi
dLight	Kenya	$50M+	mirova, SunFunder
Lumos	Nigeria	$50M+	DFC
Welity	South Africa	$38M+	Sanlam

Fintech and commerce

COMPANY NAME	HQ COUNTRY	DEBT ROUND SIZE	PARTICIPATING INVESTORS
MNT-Halan	Egypt	$140M+	Undisclosed
Wave Mobile	Senegal	$91M+	Lendable, symbiotics, BlueOrchard, IFC
Zepz	South Africa	$45M+	svb, TriplePoint Venture Growth
Onafriq	South Africa	30M+	symbiotics
Tugende	Uganda	$15M+	symbiotics, Goldfinch, nmi

Agtech and Forestry

COMPANY NAME	HQ COUNTRY	DEBT ROUND SIZE	PARTICIPATING INVESTORS
Thrive Agric	Nigeria	$56M+	Undisclosed
Grainpulse	Uganda	$11M	IFC, GAFSP
Twiga Food	Kenya	$10M+	IFC, TLcom Capital
Yalelo	Zambia	$10M+	FMO
Miro Forestry	Ghana	$10M	FMO

Key takeaways

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Key take-aways

Debt is on the rise in Africa's startup ecosystem driven by a combination of a rapid decline in equity funding, innovations in debt financing and a better understanding of if and where debt can best meet the funding needs for startups.

Cleantech and Fintech startups are attracting the most debt funding but for different reasons. Cleantech has accounted for nearly half of the total debt funding to startups in Africa. It has largely gone to hardware asset heavy businesses that can borrow against the underlying asset. For example, startups that offer solar home solutions or pay-as-you-go-solar. This is similar to mobility startups that offer electric vehicle solutions. Fintech on the other hand has accounted for nearly a quarter of the total debt funding to startups in Africa over the last decade, but have largely raised debt for on-lending for asset financing or BNPL startups or against their existing loan books to extend their business. Debt has had a very limited role to date in software startups.

While there has been innovations around debt financing at the early stage, debt funding largely remains a later stage play for startups in Africa. The majority of specified and disclosed debt deals happened at the Series A and later stages. Total volumes are driven by a few mega-deals and the majority of funding is going to ticket-sizes of at least $1m. However, there are a number of debt funders that are innovating to do deals at smaller ticket sizes and earlier stages. Some have even done deals for as low as $50k. Many early stage startups are attracted to these deals as they are faster and founders do not need to dilute their ownership too early which many have seen create challenges for other startups over the last 18 months.

This does not seem to be slowing down and several early stage debt funders have already closed funds this year.

Lastly, and most importantly, as has just been seen with equity, no single financing instrument should be relied on heavily for Africa's startup ecosystem. They all have trade-offs and debt is not without its risk. Many investors are raising venture debt funds betting that the ecosystem will recover and valuations will be higher over the next few years than they have been over the last one. Interest rates continue to stay high and many startups relying on asset financing will likely feel the impact of this on their cash flow.

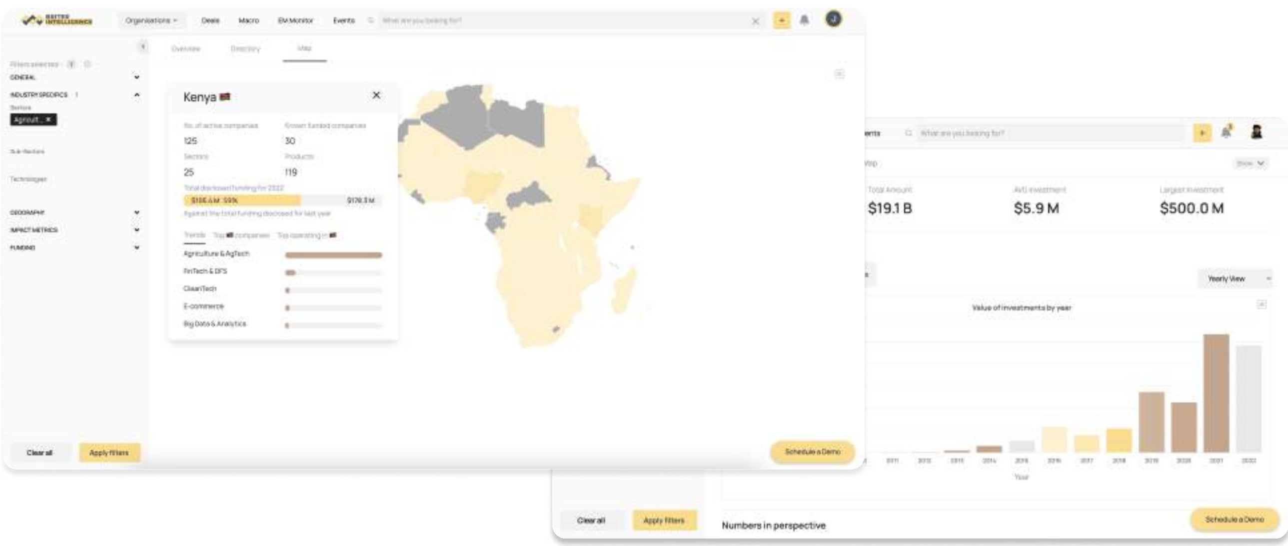
The rise of debt is a positive sign for the ecosystem, but needs to avoid being a hammer in search of nails. It will continue to increase, especially over the next year, but it should be seen as part of a range of funding instruments and support that can best unlock sustainable investment and innovation ecosystems across Africa. In many cases, debt may not be appropriate for startups and in others it may be more appropriate for innovative business and projects that are not startups, such as financing wind or solar farm projects.

The optimal capital stack for startups versus innovative SMEs versus projects is something Briter is thinking a lot about. Over the next year Briter Intelligence will be integrating more data and intelligence beyond equity and startups on its platform and research so our users can explore different ways to unlock innovation and investment in Africa.

Briter Intelligence

The underlying data used to produce this report has been gathered from Briter Intelligence, a leading business intelligence platform dedicated to emerging markets.

Briter Intelligence boasts over two decades worth investment deals' log, over 10,000 organisations listed, events, emerging markets comparisons and integration with a number of global macroeconomic data to allow comprehensive analysis. Startups, investors, corporates, governments, philanthropies and other organisations use it regularly to learn about the ecosystems they work in and find opportunities in these markets.



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Briter Bridges Ltd.

briterbridges.com

intelligence.briterbridges.com

@briterbridges.com