


# Investment Opportunities For Startups In West Africa Sub-Region<sup>1</sup>

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**Abstract:** In this study, the startups concept of West African counties has been analyzed in its whole and the different opportunities and advices in order to reinforce the sector and therefore allow good investments have been highlighted. In the first part, the different actors who help the startups sector in West Africa to grow have been named in the purpose of an analysis of their different sector of activity and by the way, notice the sector where startups in Africa have the most funding sources. In the second big part, it was a matter of highlighting opportunities and advice to revitalize the investment sector in the sub-region and thereby support the growth of West African startups through several leverage and actions to be undertaken within the sub-region.

**Keywords:** Startups, Africa, Opportunities, Leverage

**JEL Classification:** E22

## 1. Introduction

The past decades has been marked by the socio economic situation of African countries especially sub-Saharan countries where the level of poverty is constantly growing every year. The income ratio in other regions of the world like Europe or Asia has increased between 1980 and 1995 meanwhile in Africa this ratio was declining up to 15% (Anyanwu, 2006).

In the same time, according to the World Bank, the African countries have observed 40 to 49 percent of extreme poverty especially with a dominance of sub-Saharan countries (World Bank, 2003).

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<sup>1</sup> This article is derived from the thesis work entitled “ Investment opportunities in West Africa: Challenges and potentials “

In the main purpose to study the opportunities granted to the west African startups; this paper analyze the tenants of startups in this region and highlight the different actors in the region whop are helping these enterprises for growing.

In the late 1990s and early 2000s, it was important for African countries to restore color to their economies, essentially to their macroeconomy. Thus, they multiplied bilateral and multilateral partnerships in order to find ways and means to revive their economies and this consisted in developing the import–export sector in order to save as much capital as possible.

## **2. West African Startups Concept**

### **2.1. Concept of Startups**

The startup phenomenon has raised quickly in West African countries these recent years. Its concept has been defined by many researches and managers in order to build a clear and full understanding in the field. This concept has been defined as a structure or a collaboration seeking for a valuable business model or the exploitation of a niche in a specific sector (Blank, 2010). He is joined by another author who is agree that the main reason why startups are called like that, is because of the new idea they bring and that they are just for a temporary time (Bogers, 2011). Indeed, the small size of startups and they factual position in the time is a particularity that is found everywhere. These particularities also put them in lack of resources as tangibles as intangibles which could conduce to a lack of financial and human sources for the development of their ideas (Kask & Linton , 2013).

In the point of view of certain managers like Nell Blumenthal the Chief Executive Officer (CEO) of Warby Parker, despite the newest idea that a startup bring and explore, it's not obvious that the business will be a success because of the lack of resource and the incapacity to analyze the ROI instrument which is significant as a financial instrument (Forbes, 2016).

Another point of view that one of the biggest accelerator and seed funds highlighted is the growth dimension that take a startup. For Paul Graham, CEO of Y–Combinator, the main issue for startups is growth. And to seek this growth, they need to work with the technology or find an exit which could provide them the tools for a well growth (Paul, 2012).

The definitions of "startup" are based on a global vision of the ability of a startup to build and transform itself rapidly, making a cash flow loss most of the time while it manages to gain new prospects. In addition, according to Steve Blank, the start-up is an entity built with the goal of discovering a new, sustainable and evolving management concept for which the creator has formulated: (i) a product design with a range of functionalities, (ii) a set of proposals related to all aspects of the marketing process: Who will be the consumers or buyers? How is the distribution network? What is the price and status of the product? In what way do we generate demand from our final consumers? who are the different partners? And (iii) a vision on how to proceed with the opening of the company.

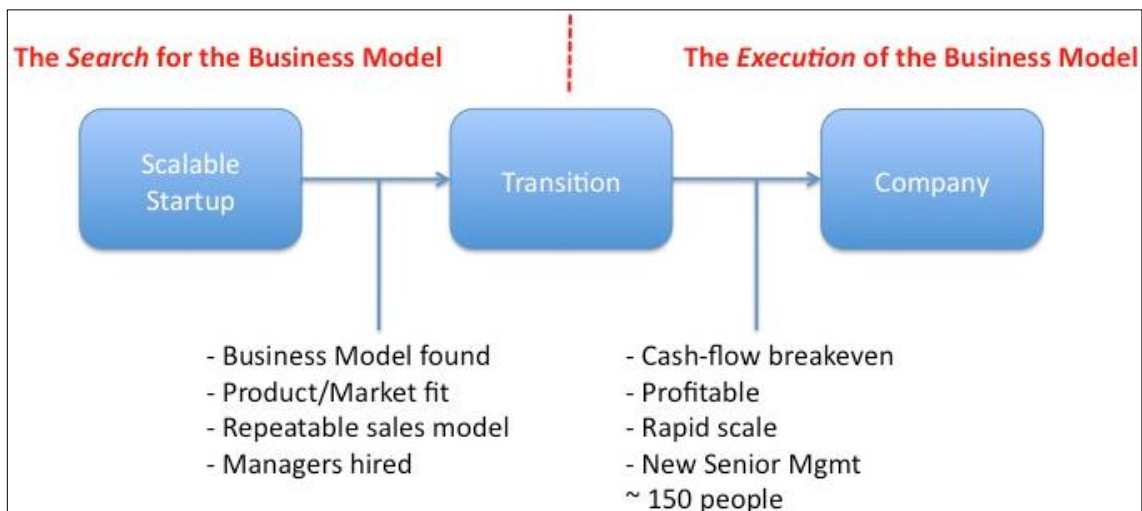


Figure 1. Steve Blank's Startup journey model

## 2.2. West African Startups

During the recent years, west African countries have been present in the top 10 of fastest growing internet population in the worlds. In addition, 81% is the rate of the penetration of internet in the African continent. This expansion of the information and communication technology (ICT) market was made possible by substantial payments in the areas of ICT facilities and improvements in business regulations. These developments have led to the emergence of multiple technology companies in the countries of West Africa.

At the same time, increased access to the Internet is changing the attitudes of West African citizens and leading to the growth of a number of technology companies. Banking, trade, and education are the sectors that are undergoing the greatest

transformation. Within the core banking business, a growing number of fintech startups are impacting the industry as a whole. In Senegal, as an example, **Sudpay** is becoming increasingly successful at conducting financial transactions online.

Retail trade has grown significantly in recent years in West African countries. Indeed, the emergence of online sales sites and mobile applications of online sales have not only contributed to the digital development of West African countries but have also facilitated the daily shopping process of West African consumers. To this effect, we can cite JUMIA which is an e-commerce company in Africa created in Nigeria at Lagos in 2012 and has even did a IPO at the NYSE Stock Exchange. It is present in many African and European countries. In the West African sub-region, Nigeria has the highest ratio of digitalization in terms of growth in recent years.

Another important sector that has made significant progress in West Africa is the agricultural sector. Indeed, this is a sector that provides a great deal of employment in the sub-region and has grown favorably in recent decades. We can see this in Ghana, which stands out with an agricultural technology (agritech) startup called AgroCenta, which provides support to farmers wishing to move into the digital era in West Africa.

### 2.3. Entrepreneurship Index

The Global Entrepreneurship and Development Institute (GEDI) is an institution which helps peoples around the world with data concerning the Global Entrepreneurship Index (GEI) of many countries around the world and provides tools to analyze properly and professionally the status of countries before pretending to an investment. Referring to GEDI, The GEI is an instrument that measures the quality and the strength of an entrepreneurial environment of a country by using in total fourth teen criteria: Capital risk, start-up skills, networking, internationalization, risk acceptance, cultural support, product innovation, technology absorption, opportunity perception, high growth, process innovation, human capital and competition.

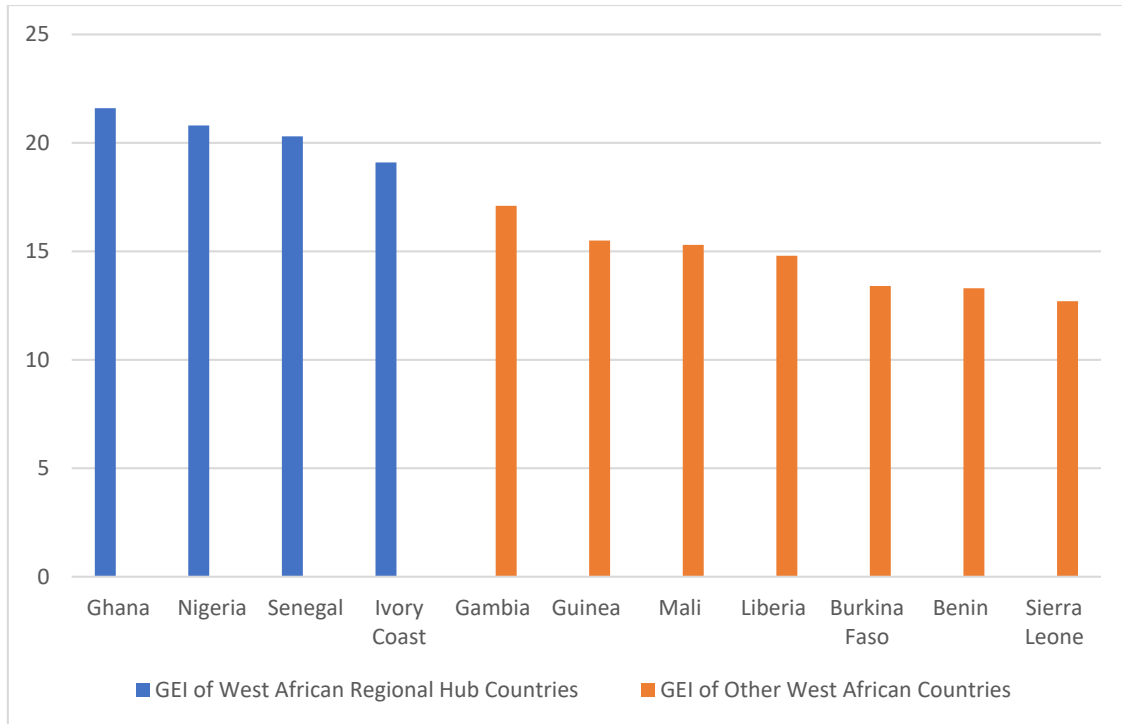
GEDI has published the ranking of 137 countries around the world with their GEI for 2019. This is the most recent ranking due to the difficulty in collecting data with the COVID-19 health crisis that has affected the world. Thus, we perceive the United States in first place with a GEI of 86.8 and in last position Chad with a GEI of 9.8. For West African countries, the ratios are better for the sub-region's hubs than for their neighboring countries.

**Table 1. The Global Entrepreneurship Index Rank of West African Countries, 2019**

Global Rank	Country	Score
91	Ghana	21,6
92	Nigeria	20,8
93	Senegal	20,3
100	Ivory Coast	19,1
113	Gambia	17,1
122	Guinea	15,5
123	Mali	15,3
126	Liberia	14,8
127	Burkina Faso	13,4
128	Benin	13,3
131	Sierra Leone	12,7
-	Togo	-
-	Niger	-
-	Cape Verde	-
-	Guinea Bissau	-

In the 2019 year, the west African countries have been leaded by Ghana in terms of ease of Business doing. This country was also the first one the previous year. This position is kept due to the potentialities and great opportunities of the country and mainly due to its security stability to the opposite of its neighbor Burkina Faso. As the table 1 shows, the highest GEI are shown in the regional hubs countries namely Senegal, Ivory Coast,

Ghana and Nigeria. This is to mean that these places are the best places for investors to make their investments for a good ROI and sustainability.



**Figure 2. GEI ranking of West African regional Hub**

As we can see, the four main players in West Africa, Senegal, Ghana, Nigeria and Cote d'Ivoire, serve as incubators and boosters in the sub-region with their important GEI rates. It should be noted that they stand out from some occidental countries in this regard such as Moldova, Paraguay, Brazil, Guyana and others.

### 3. Financing Instruments for West African Startups

In the creation phase of a startup, project holders have a wide range of capital at their disposal. Indeed, there are several means of financing for startups, depending on the stage they are in. We distinguish between 3 main stages for these companies. In particular the pre-seed stage, the seed stage and the early stage.

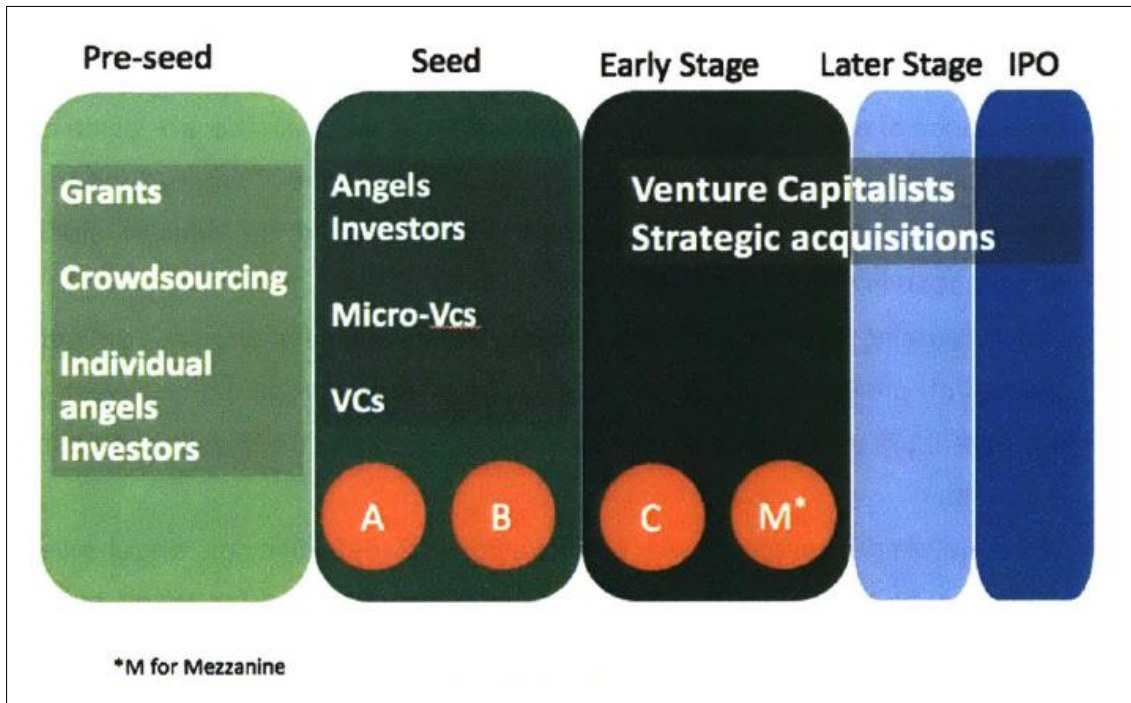


Figure 3. Startups financing stages

The financial instruments that appear in the first two stages have a specific objective, which is to provide the necessary capital to startups at the early stage. Although they have been around for decades, they are becoming well used by startups today despite the difficulties that can often arise in an unstable market like West Africa.

At the first stage, we could observe the financing instruments like grants and crowdsourced finances but the most used in the pre-seed stage by the startups owners is the call for Individual investors mainly called angel investors. In the next stage which is the seed stage, we observe the first moves of venture capitalists into the deals with the owners

### 3.1. Financing instruments in the Pre-seed stage

In this first step of the financing or fundraising process, it is a matter of finalizing the image of the product that the initiator of the product wishes to put on the market. This will include starting to offer the product and even starting to look for the first customers for the product. This will require among other things to choose the distribution network and we generally distinguish three means of financing at this stage.

- **Grants:**

This means of financing is generally found in countries where institutions or governments are showing more and more interest in startups. Indeed, in some regions, there are grants for startups or what is generally called loans with zero interest. This type of financing has emerged because in some regions, it has been observed that there are more and more young entrepreneurs who bring promising projects but often do not have enough capital to take off. It was therefore established in West Africa grants to help startups in order to fight against unemployment, but also to contribute to the development of the economy.

- **Crowdsourcing platforms:**

Having appeared a little late in this region of Africa, crowdsourcing platforms are nowadays a good way to raise capital and are often more appreciated by some project holders. It is a question of looking for collaborators who are ready to finance you at a certain level and it is generally platforms in different fields.

The platforms for crowdsourcing in the field of high-tech are especially dedicated to entrepreneurs with innovative projects in the field of high-tech. This method of financing can be more innovative compared to the traditional method which is the call to angel investors. Indeed, this mode of financing allows especially the entrepreneurs of the sub-region, to be at the dawn of technological changes and to make more and more use of digital and of course technology.

- **Individual angel Investors:**

According to a classic definition, individual angel investors are people who finance the project of startups or new entrepreneurs either to provide them with start-up capital or by supporting them throughout the life of the startup, especially in times of crisis such as a lack of cash flow for example. They are there to prepare the startup for its early stage.

Their financing can be done without taking shares in the company as it can be done in this way too. In the West African sub-region, they are generally private individuals who, after studying and validating your project, finance you at a very specific interest rate, possibly with rights of view on your activities and your accounting statements.



### 3.2. Organizations and Structures Helping West African Startups in the Pre-Seed Stage

Grants are generally sums allocated free of charge without interest to a category of people or companies. In our case, these are grants allocated to startups or small businesses with important economic stakes. These grants are awarded on the basis of competitions. Each participant (startup or small business) follows a process to register and briefly present their project. Afterwards, the funders make a selection of the most reliable and promising projects. They will compete for the biggest prize. These grants are most often in the areas of technology, technology services and agriculture in West Africa because the area is heavily dependent on these three categories of activity.

We can mention some of these organizations that generally provide grants in West Africa:

- **The Agribusiness Africa Window (AAW)**

The program was initiated in November 2014 and was due to end in December 2020. However, in May 2020, GAC, the primary sponsor, agreed upon a 18 month, no-charge continuation to June 2022 in order to complete operations in the aftermath of COVID-19.

Agribusiness in Africa Window (AAW) is the apex agribusiness program of the AECF (Africa Enterprise Challenge Fund). The program is composed of Cycle 1, which ended in 2020, and Cycle 2, which continues until 2022.

Round 1 of the Agribusiness in Africa window was conceived as a way to alleviate rural poverty by improving the functioning of agribusiness systems for the rural poor in sub-Saharan Africa. It aimed to accomplish that goal through encouraging and enabling business to invest in agribusiness ventures which benefit those who are poor as employees

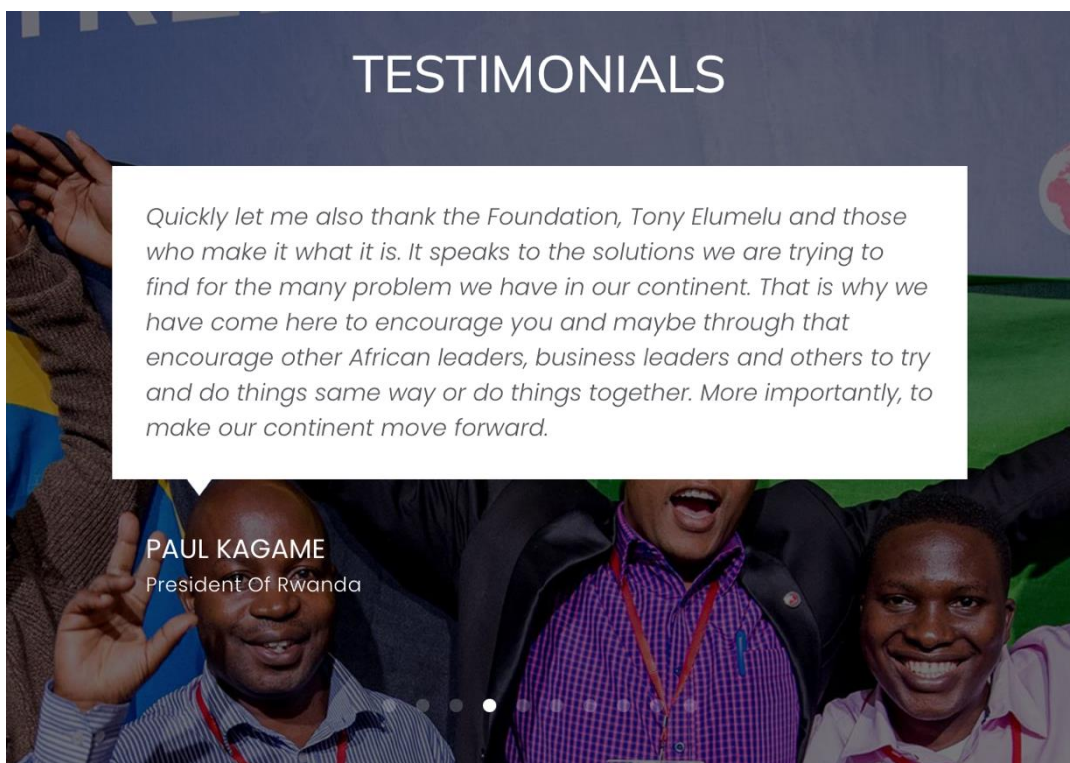
Using catalytic financing, this program is helping to bring to market new ideas, enterprise designs, firms, as well as innovative technologies that increase farm productivity, improve fuel availability, and poverty reduction whilst tackling gender and youth issues as a transversal topic.

The fund is the world's leading investment trust and has refined the business model to find single, groundbreaking commercial opportunities that have a provable positive societal effect.

- **The Tony Elumelu Foundation**

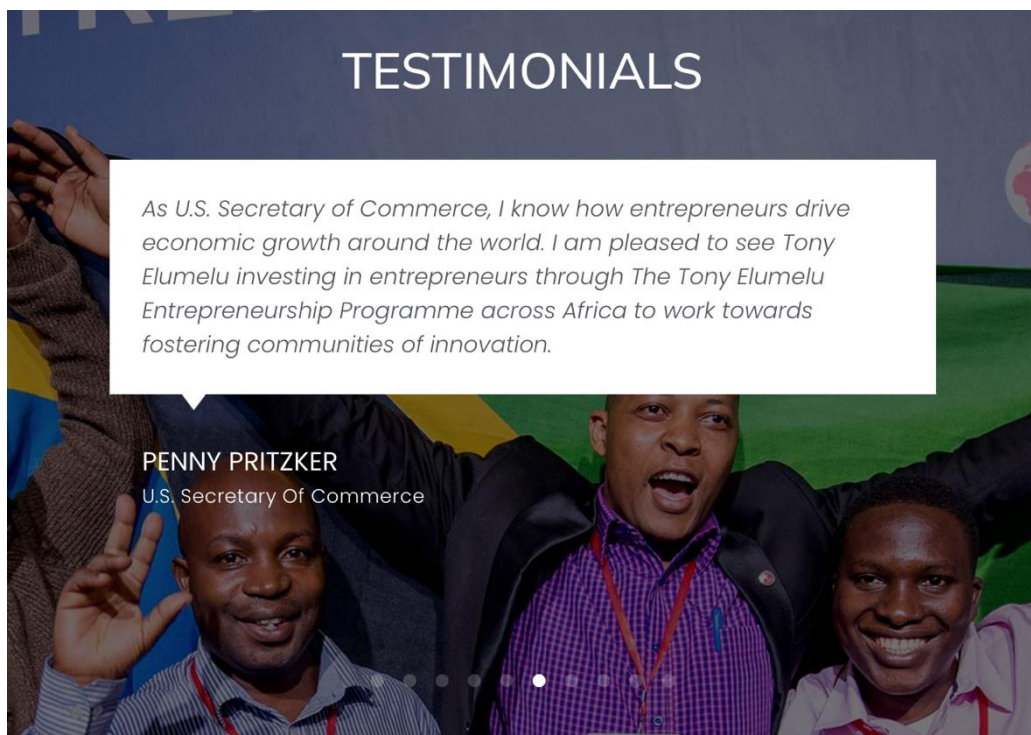
The Tony Elumelu Foundation's program aims to identify and support 10,000 innovative businesses in Africa over a 10-year period. This program is a long-term commitment, with a goal of support, training and financing with a social goal of creating at least one million jobs but also has an important economic challenge to generate at least more than one billion U.S. dollars in revenue across an Africa that he hopes united.

Present in all the countries of the African continent, i.e. 54 countries, the foundation has so far supported more than 15,000 entrepreneurs over the past ten years. Their mission is to make a difference in Africa via the implementation of their programs, training, community outreach, and meetings, including the annual TEF Forum, the biggest entrepreneurial event in Africa, and TEFConnect, the African Networking Hub for the Entrepreneurs. The Foundation draws on its solid connections across government, business, and the broader development sector to carry out its mandate to help build wealth and opportunity within the continent.



**Figure 4. Testimonies of political figures on the foundation**

In the figure 4; we can find a testimony of the current president of Rwanda Paul KAGAME who gave a word on the efficacy of this foundation. As an information, Rwanda has recorded the best rate of development in the African country in 2019 since the president KAGAME took the power. He is very appreciated in the continent as one of the best president that Rwanda has ever seen since a while



**Figure 5. Testimonies of political figures on the foundation: PENNY PRITZKER5**

In the figure 5, another observation is made when it comes to the US secretary of commerce about the effectiveness of this foundation again. These testimonies are very considerable in the fact that they consolidate the importance and the position of this international foundation..

- **Euromena Awards**

Euromena Awards is a competition organized by EUROMENA CONSULTING to reward 3 project leaders. The first edition was held in Abidjan, Ivory Coast and the third and most recent one was held in Dakar, Senegal. This competition aims to gather startups and put

them in competition to discover their action plan and reward the most promising among them.

The winner of this competition receives 6 months of personalized support, including coaching and consulting.

## **4. Opportunities to Reinforce the Investment Sector in West African Countries**

### **4.1. Using diversification as a Way to Minimize Risk Liability**

In order to minimize risk exposure for the West African region as a whole, donors and investors need to diversify their financing activities. There are two sub-blocks in West Africa, as mentioned above, with significantly different macroeconomic conditions: the WAEMU is driven by the Ivory Coast and Senegal while WAMZ is driven by Nigeria and Ghana. Investors should simultaneously invest in cash flow producing firms in both pairs (Senegal/Côte d'Ivoire or Ghana/Nigeria) in order to mitigate their risks and capture a higher level of return potential while reducing losses.

### **4.2. Investing in WAMZ**

The WAMZ states are English speaking states and are part of the block that dominates this part of West Africa. Due to the recession experienced in these countries, West Africa has been impacted and has experienced critical periods. This has been felt more for these English speaking countries; something due to the volatility of their currencies compared to that of the WAEMU countries. It is worth noting that small businesses in WAMZ have over the years attracted more foreign investors than those in WAEMU countries. This preference is due to the political stability of the WAEMU countries and also to the low risk of return on investment.

It is therefore considerably more advantageous for foreign investors to look at these WAMZ countries than WAEMU countries. In addition to the ROI, investing in WAMZ countries exposes investors to less cash flow risk due to the economic stability of WAMZ countries.

### **4.3. Investing in WAEMU**

WAEMU represents the French-speaking countries of West Africa as a whole, as a sub-bloc. A strong economic growth rate of 4 percent in 2017 and 6 percent in 2018 was achieved in this bloc, according to the Union's Central Bank, significantly greater than

the overall continent's growth of 2.1 percent in 2017 (Kibhora, 2018) The growth achieved has been spurred along by the strong achievements of the two pivotal countries in the region, Côte d'Ivoire and Senegal, whose growth has been more rapid than the other member countries. Consequently, there has been increased capital investment in WAEMU member countries, and business start-ups have increased. If we want to add to these positive results the advantages of investing in this area, we can cite the fact that investing in these regions benefit from an advantage in view of the stability of their currencies in relation to the euro, because given that the CFA franc is linked to the euro, monetary stability is an asset for these countries in the West African French-speaking countries.

#### **4.4. Association with the Leading Business Schools in The Sub-Region**

On the African continent, there are some of the most prestigious universities and business schools in the world. Like these great business schools and faculties, we find some prestigious schools in West Africa that every year, graduate young people who are tomorrow's entrepreneurs and leaders.

Among them we find the Lagos Business School which is listed in the financial times as one of the best business schools in the world. The purpose of this suggestion is as follows. Investors could pay more attention to schools like these in the West African zone and thus, have access to a large network of future leaders and put in place strategies for recruiting or placing these young executives who wish to launch their startups and who need financing.

This is an initiative to be taken into consideration because we observe that more and more university courses or studies are adding modules like innovation and entrepreneurship to their programs of study. This is not without reason because the world of employment has developed a need for creativity and entrepreneurial behavior in the workplace. Thus, to develop and enable the success of startups in West Africa, investors could first start partnering with those prestigious business schools which educate prestigious students who are full of creative and innovative skills.

#### **4.5. Use the Diaspora Network as a Potential Investor Network**

Who better knows the realities and needs than the Diaspora of a country. The diaspora of a country is the set of citizens of that country abroad. Therefore, having left their country of origin for a migration abroad for different reasons, the diaspora generally

refers to a set of people who are supposed to be or not to abuse, are in good conditions abroad (financially speaking).

Among this diaspora that extends all over the world, there are people wishing to build their country and bring some new blood to it. That's why we propose this approach which aims to revitalize the startup sector in West Africa through the use of its Diaspora as a financial hub and carrier of projects or startups.

The logic behind this idea is to set up organizations composed mainly of investors from the Diaspora who wish to contribute to the building of their country and thus, allow young project holders to have easy access to profitable financing funds that are accessible to all regardless of the field of activity.

The second idea of this approach is based on the intellectual level. Indeed, the people of Diaspora have among them experienced business leaders and investors. African immigrants are quickly emerging as one of the most rapidly expanding demographics in the United States according to a Pew Research Center study (Top Business Schools–Africa, 2018). African immigrants aged 25 and older are among America's most highly trained and educated population cohorts. On average, 35 percent have at least a bachelor's degree and many bring their international expertise back to the continent each year

The idea would be to combine strategic coaching and mentoring with funding from the diaspora. As our case study of these ten companies showed, young startup promoters face difficulties with international investors who do not hesitate to slam the door in their face when they have obstacles or do not know how to deal with certain obstacles due to lack of knowledge or experience.

Collaboration with the Diaspora can be a good opportunity to revitalize the investment sector in West Africa because it is a source of several advantages and opportunities.

#### **4.6. Multiply Military and Political Partnerships to Secure the Sub-Region**

This is one of the most pertinent issues facing the investment sector in the West African sub-region.



**Figure 6. Terrorism expansion In Burkina Faso**

Indeed, security is crucial for a safe and favorable investment environment. As Burkina Faso shows in figure 6, the investment sector is very much affected by political instability. Terrorist attacks continue to be perpetrated in this region and this has an impact on the economic and investment sector and the security environment.

To revitalize the economic and investment sector and facilitate investment within the countries of West Africa, the states of each country should multiply the military and political partners in order to have the necessary human and material relations and strength and to eradicate the West African zone of the danger that has been hanging over their heads for years, namely insecurity, Jihadism and terrorism.

As an example, to underline the annoyance of the population and investors in these West African countries, there have been more than 4 military coups in one year in three African countries. This underlines the political and security instability of this West African sub-region.



To conclude on this proposal, it would be favorable for the governments of this sub-region to implement partnerships in order to quickly bring back stability in their respective countries because without stability, the investment sector in this region of Africa will never experience a positive development.

#### 4.7. Engage in Partnerships Across Technology Centers in Order for Investors to Meet and Collaborate on Projects with Prospective Business Owners Already Familiar with the Start-Up Industry as Well as with the Educational Background of the Company

The number of technology hubs in West Africa has been increasing over the years. The main hubs are found in countries such as Nigeria and Ghana for the English-speaking zone and in Senegal and the Ivory Coast for the French-speaking zone. For example, we can list more than 100 technology hubs in West Africa during the year 2017 with a major concentration in Nigeria alone which accounts for more than 55 technology hubs like one of the most prestigious which is the CC Hub founded by Tunji Eleso in Nigeria

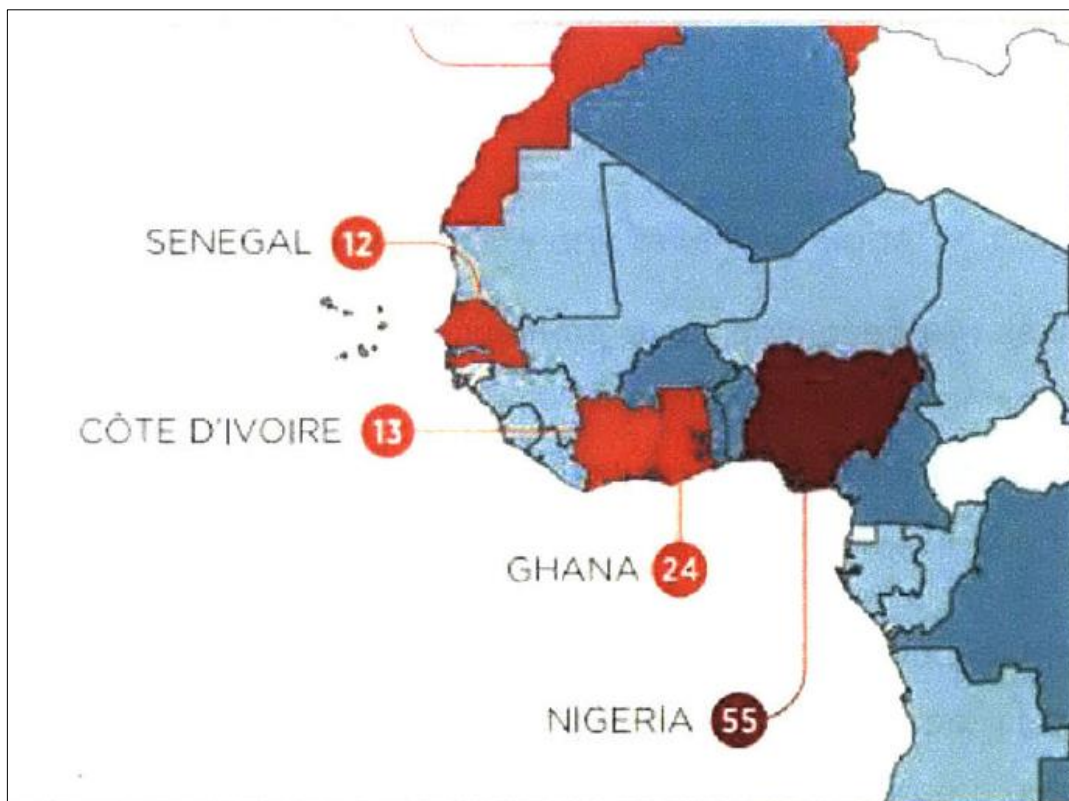


Figure 7. The number of Technological hubs in West Africa in 2017



These different technology hubs are very important for the sub-region because they allow the sharing of knowledge and the improvement of the quality of research through a collaboration in the sense of mutual development through a network of entrepreneurs and potential investors. Thus, the technology hubs would contribute to connect entrepreneurs who are already ready with investors who are already aware of their capabilities because they are already part of these hubs.

## 5. Conclusion

The investment environment in Africa is increasingly in danger given the security situation that has been discussed throughout this document. We are currently witnessing changes in the political powers that aim at multiplying actions in order to overcome this threat.

Thanks to the resources we have used, we have been able to reveal that startups in this region sometimes have a lack of means to overcome their problems, both qualitative, namely knowledge and training in certain areas, and quantitative, namely the lack of funding. However, thanks to the implementation of the means we have proposed and the combination with the support of actors who promise investment in West Africa, the sub-region can emerge from this period of crisis and experience a positive outcome in the years to come.

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