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Master's Degree Project in Knowledge-Based Entrepreneurship

Venture Capital flows to fintech innovators in Africa:

How governmental policy and actions affect the ecosystem and capital sources

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Abstract

This master's thesis explores aspects of the current state of fintech and venture capital within Africa as an emerging market, bringing to light the policies and actions of the different governments that contribute to stimulate the market. The study looks at policies and actions that directly relate to fintech and those that relate to venture capital and brings out the connection between both. The study goes further to bring in the issue of political stability and how it contributes to the industry. Through this multiple case study, which focuses on the selected fintech 'hotspot' countries of Nigeria, Ghana, Kenya, South Africa and Rwanda, insights have been gathered as to what factors contribute to these countries achieving higher levels of fintech innovation and venture capital investment. The study is based on data collected from both primary and secondary sources, with the primary data collected through interviews with policy makers of the different countries, venture capital fund managers, investment advisors and other intermediaries. Secondary data was collected through articles, industry reports, websites and other online sources. Furthermore, this study presents a detailed review of relevant concepts, including factors that VC firms consider before investing into a foreign market, which is used as the base of analysis. Based on the empirical findings, there exists a lot of similarities as well as some uniqueness in the way the governments approach policies relating to VC and fintech. The analysis carried out shows that for policies and actions that support innovation, which include fintech, sandboxes and innovation hubs, R&D incentives, innovation funds as well as the design of startup acts, are put in place by the governments of these countries to encourage researchers and entrepreneurs. Regarding actions and policies that support VC transactions, there are exchange controls put in place to regulate the flow of capital, direct investments by governments into VC firms, direct regulations put in place by governments, as well as development of the stock market to encourage high value exits. These actions and policies are similar in all the countries covered in this study but unique in their application and stimulating innovation leads to more deal flow into the VC industry. With regards to political stability, frequent civil conflicts happening in some countries and changes in leadership are the main highlights that influence VC activities and innovation. The study presents that though the countries are making progress in putting in place regulations that stimulate the industry, a lot still needs to be done and considered in making these policies as some of them instead stifle activities within the industry. There is the possibility to use industry actors and intermediaries in the regulatory process, to make use of their experiences and design policies that work.

Keywords:

Venture Capital, Fintech, Africa, Sub-Saharan Africa, Strategy, Fintech Entrepreneurship, Startup Capital, Funding, Investment, Policy, Economic Development

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1. Introduction

1.1 Background

Africa is host to 6 of the world's top 10 fastest growing economies. Over the recent years, Africa's average annual GDP growth has consistently remained higher than the global average, and it is expected to remain at least 6% until 2023 (*although these figures may be impacted due to the COVID-19 pandemic*). Much of Africa's growth is in response to its large working age population and growing consumer markets. Throughout the 21st century Africa, which is considered the world's youngest region, will be the source of the vast majority of global labor-force growth. This implies massive potential for increased production and savings, which could support an economic boom that rapidly reduces poverty while drastically increasing the buying power of the population. It is estimated that by the year 2050, the wealthiest 10% of Africans, around 250 million people, will drive upwards of a five-fold increase in demand for consumer goods and services. Additionally, in 2019 the African Continental Free Trade Area (AfCFTA) was established, which includes nearly every country in Africa, thus becoming the world's largest free-trade area since the establishment of the World Trade Organization in 1995, promising to further boost economic opportunities within the continent. It is estimated that the AfCTA could increase the value of intra-African trade by 15-20% by 2040 and boost the economic output by $29 trillion by 2050. (World Economic Forum, 2019)

While the socio-economic conditions and outlook in Africa have been advancing, the growth of Private Equity (PE) and Venture Capital (VC) investment in Africa has come to reflect the changing nature of, and scope of, external capital flows to the continent, with foreign direct investment (FDI) coming to surpass official development assistance (ODA) funding. PE and VC funding have developed progressively over the last two decades and have simultaneously attracted increased international investment to the continent while also encouraging the development of local venture capital firms and home-grown financing solutions. Growth within the PE and VC industry have been supported by a favorable economic outlook, the magnitude of the market, a fast-growing middle-class consumer base, and the establishment of the massive free trade area of the AfCFTA. (African Private Equity and Venture Capital Association, 2020)

Returns on investment and entrepreneurship are on the rise within Africa with over 400 companies reporting annual revenues of over $1 billion and another 700 companies reporting annual revenues of over $500 million. Africa's political leaders, businesses, and citizens increasingly seem to be recognizing that integrated economies powered by innovative and high-growth companies and strong private investment, are the keys to a prosperous future. (World Economic Forum, 2019)

While Africa boasts some impressive examples of successful business cases, the entrepreneurial space is still considered to be somewhat in its infancy. This is changing however as the culture of entrepreneurship is growing across the continent. Governments across the continent are recognizing the important role that entrepreneurship plays for job creation, poverty reduction and economic development. Hence, various national governments have begun to implement public policy measures aimed to streamline business regulation for start-ups and small businesses. Countries are also implementing policies to encourage more favorable venture capital conditions with the aim of stimulating economic development and building up a more robust entrepreneurial ecosystem, coupled with greater investment opportunity. (African Private Equity and Venture Capital Association, 2020)

Both the number and value of VC deals on the continent have increased every year between 2014 through 2019, with 2014 showing a total of 69 VC deals with a total value of $0.4 billion, while 2019 recorded 139 VC deals at a total value of $1.4 billion. In terms of countries, South Africa, Nigeria and Kenya and Egypt attracted the bulk of VC investments between 2014-2019 and are commonly referred to as the "big four." Sector wise, fintech has dominated the African start-up scene and captured the most venture capital flow on the continent. (African Private Equity and Venture Capital Association, 2020).

The financial sector has undergone a significant shift driven by technological innovations, new customer behaviors, and changes in regulations after the financial crisis of 2008. The *financial technology* industry, popularly known as 'fintech,' refers to firms that leverage technology to deliver financial products, services or capabilities to customers or financial service firms. These products and services tend to be cheaper when compared to related offerings by traditional financial institutions. Diversity and rapid evolution of emerging business models have led to massive growth within the fintech industry. Meanwhile, technology and innovations across different areas have led to disruptions that have enabled the growth of fintech. Some of the enablers responsible for the explosion of fintech are mobile and internet penetration, big data analytics, biometry, a growing use of social media, advancement in artificial intelligence, adapted regulations, population demographics, digitization of national identities, and the interoperability of infrastructures. These enablers have led to three key disruptions within the financial services industry: the use of alternate data in financial services, the rise of peer-to-peer transactions, and the emergence of non-traditional players offering financial services. (*EAVCA Report: Exploring New Investment Frontiers For Fintech in East Africa*, 2018)

Recent years have seen a spike in fintech venture capital around the world. In 2014 the worldwide volume in fintech ventures was $12.21 billion and grew to $27.4 billion in 2017 (*Accenture Annual Report 2018: Innovating in the New*, 2018). According to Cummings and Schwienbacher (2018) the financial crisis of 2008 was a significant factor in spawning the increased interest in the fintech venture capital wave. The authors claim that the crisis created a situation in which many skilled employees of banks and financial institutions were forced to leave their jobs and to seek opportunities in creating new ventures, which led to an increase in appealing investment opportunities within the space. The authors further argue that because incumbent institutions within the space became more subject to scrutiny and strictly regulated since the start of the financial crisis, fintech ventures that develop products and services that are beyond the scope of financial regulators have become even more attractive to investors compared to incumbents. In Africa, fintech has received the bulk of venture capital investment inflow into the continent.

Africa is said to be the land of opportunity for many fintechs. As a continent, it has a large population that tends to quickly adopt new solutions that make life easier, and financial exclusion drives entrepreneurs to generate innovative solutions that cater to a large untapped market (MEDICI, 2020). The World Bank has decided to back Africa's digital transformation through investing $25 billion between now and 2030, which it hopes will be matched by the private sector. Among the key objectives of this investment is expanding access to financial services and e-commerce. While the majority of African's are currently unbanked and without access to financial services, this is seen as a major hurdle for economic development and job creation. But, at the same time this serious challenge also provides an opportunity for fintech companies, telecommunication companies and banks, which aim to bypass legacy structures and roll-out mobile-banking solutions that are cheaper and better suited to local conditions. (Gregson, 2019)

According to MEDICI's Africa Fintech 2020 report, during the two-year analysis period from Jan 2018 - Nov. 2020, the continent has had more than 473 active fintechs, and the sector has received more than $821 million in investments. Early-stage funding (Seed + Series A) claimed the highest position in terms of the number of deals announced, demonstrating a clear trend of growth in the entry of new startups. Out of these deals, 14 were in the payments sector, indicating the continent's focus on money movement internationally as well as domestically. Though over the last two years, most of the companies have raised funds only till Series B, so more money will flow into the later funding rounds as the startups scale and expand (MEDICI, 2020).

Even throughout the tumultuous and uncertain year of 2020 with the onset of the COVID-19 Pandemic, Africa's fintech sector continued to break records. In fact, the pandemic has highlighted the powerful role that digital finances can play in enabling individuals and small businesses throughout African markets to continue to operate and withstand crises while building financial resilience. As the pandemic hit and countries responded, there was a surge in digital transactions conducted, an increase in the adoption of insurance and savings products, and an overall shift towards digital commerce. In 2020 there were a total of 99 fintech startups that raised investments over the year, representing 24.9% of the overall total of venture capital investment within tech in Africa, landing the position of the most funded tech sector. These 99 startups raised a combined $160 million in capital, which was 55.6% more than the second placed tech sector of e-health. The average amount of funding raised by an African fintech in 2020 was $1.6 million and 32 startups reported raising $1 million or more, which was up one-third from 24 in 2019. (Jackson and Mulligan, 2021)

While there is a demonstrated increase of investment flowing into the various emerging market opportunities in Africa, if the continent is to truly reap the benefits of this capital influx as part of a grander culmination of other factors that can continue to support the strengthened economic positioning of Africa; its governments will need to ensure that the citizens have the right knowledge, skills and opportunities. Fortunately, it is reported that many African national governments are working to develop the required infrastructure and institutions. Across the continent, efforts are underway to improve education, foster innovation and entrepreneurship, and implement reforms and policies that are aimed at improving favorable business conditions. (World Economic Forum, 2019)

Most economic development programs focus within three primary areas- attraction of new industry, retention of existing industry, and encouragement of new business formation and entrepreneurship. Historically, programmatic emphasis has been placed on the first two activities and especially that of attraction. However, towards the latter part of the 1970s, new job generation through entrepreneurship rose to the top of many development agendas. Venture capital funds are said to fill the gap between an entrepreneur's personal resources and the funds that might eventually become available through other traditional credit institutions or public stock offerings. In filling this gap, the VC industry has both supported an explosion in entrepreneurial initiatives and high-tech products while at the same time has expanded as an industry through increased demands by rapidly expanding markets for risk capital. (Gibson and Blake, 1992)

Through observing patenting patterns across a variety of industries over a three decade period, Kortum and Lerner (2001) assert that there is a significant positive effect that venture capital has in spurring technological innovation. Arqué-Castells (2012) claims that in addition to spurring innovation, which generally includes the commercialization of novel goods or services, the VC industry encourages invention because during the development stage that the VC firms are funding, portfolio companies are likely to garner even more inventions at least until the product is fully developed. VCs are today regarded as key actors in thriving and well-integrated innovation systems (Arqué-Castells, 2012; Cooke et al., 1997; Kortum and Lerner, 2001). While the presence of strong VC activity within a region can provide great support towards economic development, there are strong disparities across countries in terms of VC activity and international venture capital flows (Baygan and Freudenberg, 2000).

It has been said, "There is no denying that Africa is the world's next big growth market. With little to no legacy investment in technology, African countries are leapfrogging its developed counterparts in the digital world. Funding and finance are perhaps one of the last deterrents to the development of a full-fledged digital reality and alternative finance is at an all-time high" (Scala, 2019). This Master's thesis research project investigates this exciting unfolding, exploring some of the key influential factors contributing to this sharp increase of venture capital flows into the African fintech market. We aim to provide valuable contributions both practically and academically through this research study. While we are focusing this study on fintech and Africa we believe that there could be parallels in conditions within other emerging geographic markets and industry sectors. Furthermore, we hope that this study can be useful for venture capital firms both foreign and domestically based that are interested in investing within Africa, potentially supporting additional flows of capital to and within the continent, furthering economic development.

1.2 Thesis Project Context

This master's thesis project is being conducted as a part of study within the Knowledge-Based Entrepreneurship Master's Program at the University of Gothenburg in Sweden. Core coursework in the educational program focuses upon the critically important role of risk management and finance within innovation and entrepreneurship. During this course, participants learn about the theory of risk and uncertainty, the relationship between risk and reward, and the process of managing risk. Another important focus in the course is that of identifying and exploring the various sources of capital to fund the finance of innovation and entrepreneurship. One key source of capital highlighted within the course is that of venture capital.

One of the thesis authors, Lee Giove, is doing an internship with XBTO Humla Ventures during the time of this thesis project (https://www.xbtohumla.vc/). XBTO Humla Ventures is a venture capital firm and invests in early-stage companies within the 'emerging fintech' industry. They engage in 'pick and shovel' investing, meaning that the companies they invest in are those that provide the goods, services, or technologies needed for the industry to produce a final product. Their investment focus is on early-stage businesses that primarily support decentralized asset eco-systems, artificial intelligence, blockchain related enterprise, Stablecoin-supporting technology, and financial inclusion.
XBTO Humla Ventures is headquartered in Miami, Florida in the United States and has offices in London, New York, Paris, and Gothenburg. They are starting to put focus into investing in both African and non-African based emerging fintech companies that serve the African market, where the implementation of supporting transactions through various innovative fintech solutions can serve in generating potentially strong social benefit impacts while at the same time providing opportunity for exceptional financial investment returns.

Given the stated interests of XBTO Humla Ventures, we have been tasked with performing research to assist XBTO in entering the African investment market. Through our research we hope to be able to provide value to XBTO Humla Ventures and offer practical advice that can assist them in their desire to engage in acquiring and dispersing investment within the sub-Sahara African emerging fintech ecosystem. To better assist them in their goals we aim to not only provide industry and market insights and practical recommendation, but that through our research outreach we will also be able to provide XBTO Humla Ventures with some investor leads and connect them with some VC firms that they could potentially co-invest or collaborate with in various ways.

1.3 Research Questions

In order to explore the various key factors identified to enable the strategizing of XBTO Humla Ventures market entry for African investment, the following research question(s) have been derived:

Primary Research Question: What government policies and actions influence venture capital investment into the fintech sector within Africa?

To help us answer this primary research question, we created three sub-research questions to break up the primary research question and allow us to articulate our research more precisely. Our sub-research questions are as follows:

- What governmental policy and actions influence venture capital investment?
- What governmental policy and actions influence fintech innovation?
- How does the political stability of a country influence VC investment activities?

Through exploring each of these sub-research questions individually, we will provide a strengthened ability to answer the primary research question and this information has been deemed valuable for XBTO Humla Ventures.

1.4 Research Scope

Performing in-depth business research into an entire continent with an extremely diverse set of regional circumstances and within a niched yet incredibly expansive industry such as fintech is a major undertaking, especially within the context of a master's thesis project. One our first tasks in initiating our research project was to have a set of meetings with XBTO Humla Ventures management team to narrow the scope of our research to ensure that we could be directed to focus our research in a way that would allow us to deliver research outcomes valuable to them given our available resources and time constraints.

Because performing investment within Africa was a completely new action for the venture capital firm, it was decided that it would be important to investigate a combination of selected key factors that could strongly influence their investment decisions. The key factors identified were:

- Which countries' markets are the most appealing for fintech investment?
- Which countries or regions have the best suited environments for venture capital investment?
- What are the prominent current fintech trends in the regions that XBTO should be aware of?
- Are there any available existing funds or direct investment schemes that might be able to invest into the XBTO Humla Ventures fund, particularly for investments within Africa?
- Who are the key stakeholders enabling venture capital and fintech activities within the selected markets?

In addition to narrowing down these specific questions for our research focus, we decided to limit our country selection to five countries. We believed it would be most helpful to focus our research on countries that are already highly regarded as fintech 'hotspots' in Africa so that we could learn from successful models within the continent and hypothesized that these countries were also better established with regards to a supportive venture capital ecosystem. The countries finally selected are all listed as fintech 'hotspots' according to the Medici (2020) Africa FinTech Report. The countries selected are:

- Nigeria
- Kenya
- South Africa
- Ghana
- Rwanda

1.4.1 Research Delimitations

COVID-19 Impact

In addition to the narrowing of our research as described in the research scope section, it has also been decided that while the recent COVID-19 pandemic has been an historical and majorly impactful occurrence not limited to but including the venture capital industry and fintech space within Africa, it will not be a major point of research focus for this thesis project. While the impacts of the COVID-19 pandemic may be addressed at times throughout this research, an in-depth analysis of the impacts on the industry are beyond the scope of this thesis.

Digital Finance Institutions Focus
As further explained in the literature review section overviewing the topic of fintech, there are primarily two distinct digital finance institutions that develop and provide fintech solutions. There are companies that are newer entrants into this space that are commonly known as 'fintech companies,' which are either startups or existing ventures, and there are the traditional service providers within this space such as banks. During this study we will not completely ignore established financial institutions and the fintech solutions they are working on, but focus is placed primarily upon what are referred to as fintech companies rather than the traditional service providers. The choice to focus on this group is largely because XBTO Humla Ventures invests in early-stage companies, so the opportunities for their investments, like many other venture capital investors, would be more targeted towards these fintech companies rather than the incumbent service providers.

Digital Currency Focus
A hot topic regarding fintech globally and in Africa is that of the emergence and adoption of both decentralized and centralized digital currencies along with technologies such as blockchain, for one example, that can be utilized to develop and deliver these digital assets. XBTO Humla Ventures and the parent company XBTO are reputable within the digital currency space and therefore it was important to discuss how much specific attention should be given to this aspect within emerging fintech. As is described in the literature review, fintech has quite a broad range of business functions and enabling technologies. Undoubtedly digital currencies will and already are playing a significant role when exploring the fintech environment in Africa, which includes providing interesting opportunities for investors. The regulations regarding the handling of digital currencies in many countries are largely not clearly defined and policies affecting their ownership and usage are currently being determined. We have decided that while this is a fascinating and important aspect that could be addressed, we will rather be focusing on a broader perspective of 'emerging fintech' and not place significant focus on this more narrowed aspect.

Venture Capital Audience Focus
Because this research is being conducted within the context of delivering useful findings to a venture capital firm with the desire to enter a new and emerging market, and we are investigating the types of actions taken by governments that stimulate venture capital activity, we have decidedly chosen to not perform and present this research with the perspective of delivering our results catered to policy makers and economic development or government officials. While we believe that government officials and policy makers may gain value from our research results, our target audience is that of a venture capital firm that wants to invest in the African market. While our research focuses primarily on the fintech industry to customize our research for XBTO Humla Ventures, we believe that other venture capitalists or venture capital firms can benefit from reviewing this research.

2 Theoretical Overview

This chapter serves to provide the reader with a knowledge foundation of the existing relevant academic and theoretical literature related to our research focus. The theoretical overview begins with an introduction to fintech and is followed by an overview of venture capital, the venture capital investment process, and the conditions for venture capital. From there, policies and actions affecting fintech innovation and venture capital within Africa are presented.

2.1 Fintech Overview

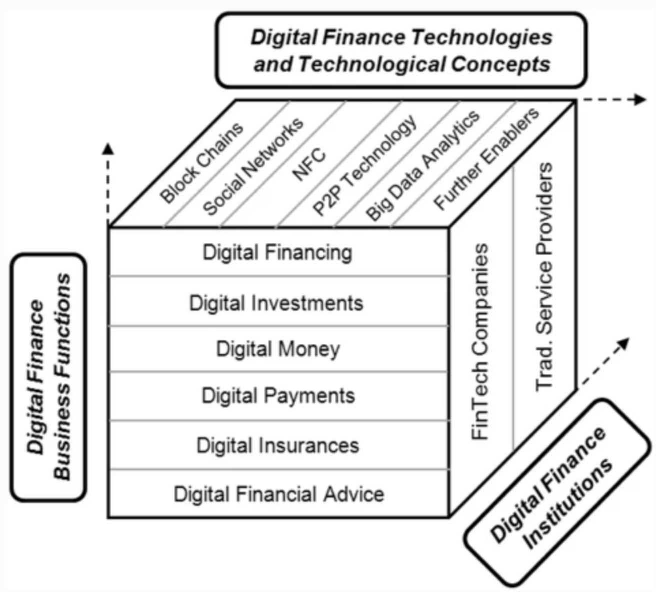
As the age of digitalization has brought expanded connectivity and an increased speed of information processing, there has been a continuous evolution in service delivery within the finance industry. There has recently been a shift in digitalization from improving the delivery of traditional tasks to actually introducing new business opportunities and business models for financial service companies. Digital finance encompasses a wide range of financial products, financial businesses, finance related software, and new forms of customer communication and interaction delivered by fintech companies and innovative financial service providers. Digital finance describes the digitalization of the financial industry in general and includes all electronic products and services of the financial sector, e.g., credit and chip cards, electronic exchange systems, home banking, automated teller machines (ATMs), and all mobile and app services. Particularly in less developed countries with regions that have less access to bank infrastructure, digital finance can provide availability to bank services such as payment systems and credits, that could otherwise hardly be reached. While some of these digital processes are well-established, such as ATMs, there exist other services and business models that are novel and not widely adopted, which pose potential disruption within the financial industry. These innovative services and business models that are based upon new technologies are often referred to as "fintech" solutions. (Gomber et al., 2017)

The term fintech (sometimes written as: Fintech, FinTech or Fin-tech) combines the words "financial" and "technology" and in general it describes the intersection occurring through modern and, mainly, internet related technologies with established business activities of the financial services industry (Gomber et al., 2017). During recent years, fintech has become a popular and broad term encompassing an array of technology-enabled financial solutions like mobile money, cryptocurrencies and online lending platforms (Didenko, 2017). Typically, fintech refers to innovators or disruptors within the financial sector utilizing ubiquitous communication and automated information processing (Gomber et al., 2017). These innovators can be a start-up company, an established technology company, or an established financial service provider, for example, a bank (ibid). According to Didenko (2017) the distinguishing features of fintech include: (1) the different (technology-based) nature and speed of innovation (2) disruption and disintermediation of the traditional methods of financial services delivery (3) convergence of various industries, for example financial and telecommunications (4) relatively low costs and barriers to entry, and (5) borderless operations with the ability to cross national boundaries with ease.

According to Gomber et al. (2017), while digital finance is often used to describe the widespread digitalization in the financial sector, fintech puts more emphasis on technological innovations and technological development. The authors argue that this discrepancy becomes more apparent given the fact that most fintech companies have their origin not in the financial sector, but rather are IT companies that create new solutions for challenges and tasks within the financial industry.

The digital finance cube, as shown in figure 1, created by Gomber et al. (2017) is a helpful tool to visualize, identify and categorize aspects of the digital finance and fintech space. It highlights the key business functions within digital finance, the primary concepts and technologies that support those functions, and the distinguishing of digital finance institution providers.

From: Digital Finance and FinTech: current research and future research directions



The Digital Finance Cube and its dimensions

Figure 1: Digital finance cube and its dimensions (Gomber et al, 2017)

2.2 Venture Capital Overview

While equity investments in risky new ventures are as old as commerce itself, the modern organizational form of venture capital (VC) is traced back to the mid-1940s and was initiated within the United States (Metrick and Yasuda, 2011). As a component of risk capital, a VC investment gives the investor ownership rights in the company where the investment is made and as such, can contribute to the success of the company (Isaksson, 2006). The venture capitalist often invests in disruptive emerging technologies from incubators, university research labs as well as emerging markets, by engaging directly with the entrepreneur or creating the market.

Investing in these businesses, they contribute not only financially but also business development advice and other value-adding contributions that lead to the success of the company. Often, they contribute in three main ways; first is through strategic advice, second is through the recruitment of qualified executives and third, sharing their huge network of customers, suppliers and other leveraging opportunities (Haislip, 2010).

Isaksson (2006) presents a structure of equity capital, distinguishing public equity and private equity. He further breaks down private equity into informal venture capital, formal venture capital and other private equity as discussed below.

Informal venture capital

Also referred to as business angels, informal venture capitalists are individuals who invest directly in unlisted companies where they have no direct connection. These individuals are recognized for their role in financing entrepreneurial ventures from the idea stage through proof-of-concept, until the venture gets to the stage where classical venture capitalists can become interested (Mason and Harrison, 2000). The investment is usually small, often in the range of 100,000 to 300,000 euros, and further investments or capital injection into the business takes place in the process of its operations (Bonini et al., 2018). These informal venture capitalists do not just contribute financially to the startup. They take part in the management of the company and provide substantially valuable advice, their experiences and network from previous entrepreneurial activities, and ease the search for more funding for the growth of the venture (Tenca et al., 2018).

Formal Venture Capital

Also referred to as institutional investors (Osnabrugge, 2000) or classic venture capital (Isaksson, 2006), formal venture capital involves professionals who provide funding for rapidly growing small and medium size firms (Robbie, 1998) and play and active role in the companies they have invested in by providing strategic guidance, market approach with innovative product, the hiring of managers, and much more. The presence of these VC firms also indicate that the firm has a good market position and as such, high possibilities of succeeding, as the VC helps with governance issues in the company (Denis, 2004).

Other Private Equity

This refers generally to buyouts which involve the entrepreneur giving up a majority part (controlling interest) of the venture to the acquiring company, and it is often at the later stages of the firm's growth process (more mature businesses). Also, the amount of funding is often larger than VC investment funds (Isaksson, 2006).

Though the view of Isaksson does not present any distinction between venture capital (VC) and private equity (PE), there is a clear difference between these concepts in their modes of operation as well as their rationale. Venture capital can be defined as “independent, professionally managed, dedicated pools of capital that focus on equity or equity linked investments in privately held, high growth companies” (Gompers and Lerner, 2001, p. 146). Venture Capitalists (VCs) primarily invest in young high-technology companies that often possess few tangible assets, operate in markets that change rapidly, and that have a capacity for rapid growth (Metrick and Yasuda, 2011). According to (Gompers and Lerner, 2001), these firms are typically plagued by high levels of uncertainty and information asymmetry between the entrepreneurs and the

investors. Venture capital firms finance these high-risk and potentially high-reward projects by purchasing equity or equity-linked stakes while the firms are still privately held (ibid). Bertoni et al (2013) added that VCs do not just have financial roles in these businesses they invest in, but also perform more value adding activities such as advisory and monitoring services.
Private equity investors, on the other hand, invest in businesses that are at an advanced stage of their growth or expansion process. With the PE investors getting involved mainly through buyouts, the direction of their investment in these businesses is towards strategic activities such as capacity and market expansion and other activities that add value to the businesses since they have a proven cash flow generation (Bertoni et al., 2013). Matthew (2019) added that PE investors prefer investing in businesses that are evaluated based on their ability to increase or generate more cash flow after the investment, and as such, the PE endeavors to make the companies within their portfolio grow. Their evaluations are generally done based on earnings before interest, taxes, depreciation, and amortization (EBITDA).

2.3 VC Investment Process

VCs have almost the same investment process in most of the cases, which has been described by many studies. The most significant contribution was made by Tyebjee and Bruno, Fried and Hisrich, as well as a couple of other authors. Tyebjee and Bruno suggested one of the most acceptable models on VC investment process, which highlights the deal origination process, screening process, evaluation process, deal structuring and post investment activities (Bender, 2011; Klonowski, 2007). This model brings together the differences in the investment process over a variety of venture capital investors by detailing out the whole process and indicating important activities that VCs carry out at the different stages of the process (Klonowski, 2007). By building on the model developed by Tyebjee and Bruno, Fried and Hisrich (1994) elaborated the VC decision making process by highlighting that the screening and evaluation of investments is more complex and not a one-process activity. These authors expanded the model to a six-step process (i.e. origination, VC firm specific screen, generic screen, first-phase evaluation, second-phase evaluation and closing). Besides the specific words used to title each phase in the process, the detailed description of these phases narrows down to the same practice, and as such, Bender (2011) restructured the six phases into two broad groups; pre-contractual phases which include deal origination, deal screening, deal due diligence, deal structuring and the post-contractual phases which include investment development and investment exit. Figure 2 shows the different phases of the VC investment process.

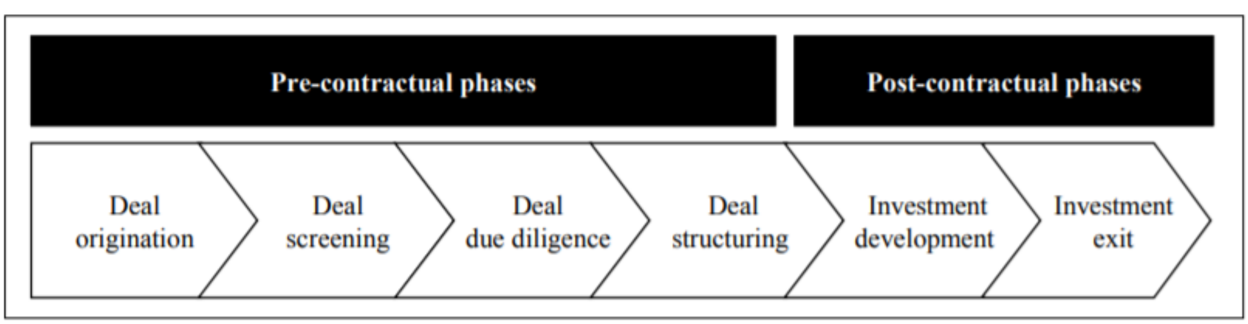


Figure 2: Phases of VC investment process, source: Bender, 2011)

Deal Origination

In an industry such as the VC, where access to information about quality investment opportunities is important for the success of the firm, the reliance on relationships and networks is vital. VC firms therefore depend on their relationship with business consultants, investment banks, managers and other persons they have previously worked with for referrals to high-quality investment opportunities (Klonowski, 2007). High quality here refers to investment opportunities in ventures with very high possibility of adding value to the VC firm. VCs generally receive deals through referrals or directly from the entrepreneurial teams (commonly referred to as cold deals) and, according to Fried and Hisrich (1994), VCs rarely invest in the "cold" deals but prefer referrals for two main reasons. First, referred deals must have gone through some initial screening if the VC firm has some confidence in the referrer, and second, the referrer has a degree of understanding of the deals that could be appealing to the VC firm.

Deal Screening

An important task of the VC investment process is to select the deals with the most propitious value creation opportunities to invest in. VCs generally apply several screening criteria on the large number of investment opportunities they receive in order to reduce the number of deals they have to further scrutinize, usually those with which they can keep their values and strategies (Bender, 2011). This means that VC firms carry out a quick scan of all proposals, reject unsuited ones, and analyze only the most promising opportunities. The further scrutiny looks at the information provided in the business plan by the entrepreneur, the success potential of the business, the financial forecast as well as the key stakeholders. The focus is usually on market share, management profile, the type of product the venture is offering, and its financial situation (return on investment, cash flow, profitability index etc.) as well as other key indicators (Klonowski, 2018).

Deal Due Diligence

The venture capitalists generally do a comprehensive due diligence on deals that passed the initial screening stage by examining the risk underlying the investment opportunities and the desired and/or potential returns (Bender, 2011). Cumming (2010) looks at the different risk possibilities and distinguishes internal, external and execution risks. Internal risk focuses on the competence and trustworthiness of the entrepreneurial team in managing the investment as well as the possibilities of the VC firm monitoring the use of the funds. External risk, on the other hand, is concerned about the competitiveness of the entrepreneurial venture, the acceptance of the product in the market, and other key indicators. Execution risk looks at the strategy of the business and how complicated it is to develop and execute.

Deal Structuring

When the due diligence stage proves favorable, VC firms get into negotiating and designing the conditions of the investments (Cumming, 2010) and the legal documentations are established (Bender, 2011). For the deal to be completed, the VC and the entrepreneur need to agree on certain aspects such as pricing and valuation issues, specifying provisions that protect against agency risks, how the future funding rounds will be staged, representation in the board, and other provisions they find necessary (Cumming, 2010; Klonowski, 2018)**.** The deal structure also outlines the responsibilities of both parties to the agreement and indicates the risks involved if parties fail to perform their duties. These terms differ from one institutional context to another (Burchardt et al., 2016)**.**

Investment Development

After the deal has been concluded and the entrepreneur gets the first phase of the funding, the VC firm starts monitoring the investment while guiding and advising the entrepreneur and possibly finding new management. The VC firm's monitoring actions rely on the analysis and information they received before the deal was finalized and the initial investment made. It is based on the reports and monitoring actions that the VC firm commits to make further investments. The monitoring and advisory role also involves the VC, most often, influencing the top executives in their portfolio companies in both strengthening and improving the existing management team (Kaplan and Strömberg, 2001). However, the degree of control or influence varies from one VC firm to another (Tyebjee and Bruno, 1984) as does the strategy with which the VC firm manages its investments and portfolio companies (Bender, 2011).

Exit Strategy

VC investments in entrepreneurial ventures generally last up to 7 years before they implement their exit plan. The most common options for a profitable VC exit are IPOs and buyout while the other options such as buy-back, secondary sales etc, are less profitable. VC firms therefore choose and plan their exit from the contractual stage, though not part of the contract, and the VC may or may not be revealed to the entrepreneur, in order to make the maximum possible profit on their investment. At the point of exit however, the exit plan made by the VC connects a lot with the contract as the VC often acts as an intermediary between the public shareholders (IPO) or acquiring company/persons (Acquisition) and the entrepreneurial venture, which makes it important to reveal exit plans (Cumming and Johan, 2008). Exiting is a very important stage for a VC firm as they are not long-term investors, and as such, would want to see options of realizing their investments within the shortest time possible. They often take the most profitable opportunity they get since the returns of the firm are largely based on the exit value of their investments. The exit stage is also important because it acts as an indicator of the quality of the VC firm. When the exit value is high, this can be an indication of a high quality VC firm as well, signaling that the firm conducts proper follow-up of the ventures they invest in (Cumming, 2010).

2.4 Conditions for VC Investment Activities

As a very vast continent, Africa has very diverse economies and it is one of the fastest growing markets as far as VC activities and fintech is concerned. This growth has been seen in the number of tech startups that are created within the region, the amount of VC funds that are invested, and the performance of these ventures. These investments have not been evenly distributed across the region as countries like Nigeria, South Africa, Kenya and Egypt have received the better part of the funds as these startup activities look very promising in these countries with more supportive structures (Synced, 2018). Overall, the number of active participants in venture capital activities in Africa has been on a constant increase across the continent, motivated by the visible trends of viability which makes it an investment destination for most VC firms. This sustained economic growth in the continent over time has moved the continent from just a receiver of aid to an investment-focused region and more VC and PE financing of early-stage startups is increasingly being seen as a viable option for businesses, though traditional financing options like bank loans and others are not left out. (Gugu and Mworia, 2017)

2.4.1 Institutional Conditions

According to Guler and Guillén (2010), there is a considerate level of dependency of venture capital firms on institutions in order for them to operate. These institutions range from political, financial, technological, legal and others that contribute in one way or another to permit the VC firm to meet its investment objectives and protect the property of the firm. In examining how the countries hosting VC firms affect their activities, there are some theories and literature that are relevant, and which are attractive to VC firms. These include the support of innovation and technological improvements, the relationship between legal and financial institutions, and how that plays in protecting investors and political stability. The figure below is a model that illustrates the different institutions that influence VC activities and how they relate to each other.

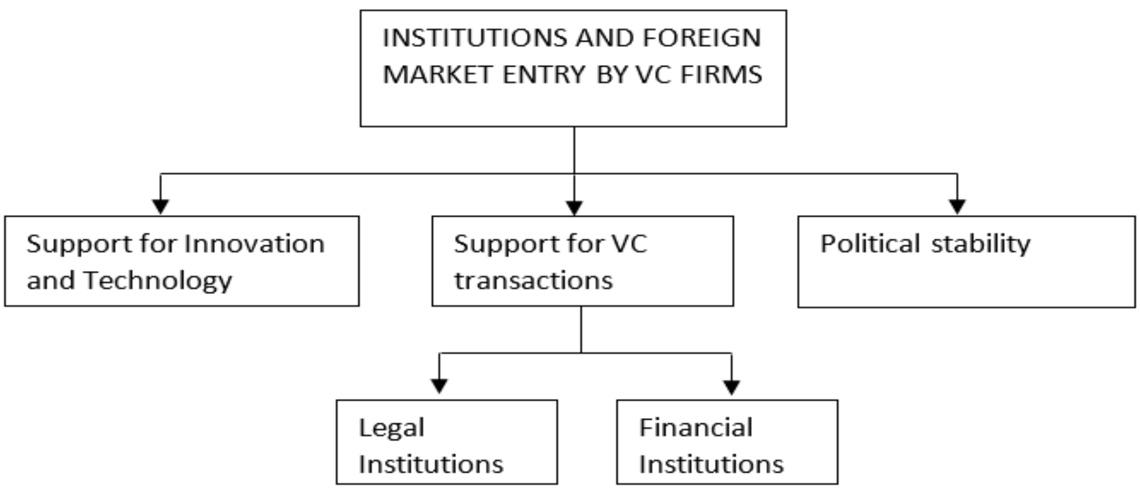


Figure 3: Model of institutional conditions for VC activities - Based on Guler and Guillén (2010)

2.4.1.1 Support for Innovation and Technology

There exist some documented variations in the way countries and regions support the innovation and the use of knowledge and technology, mainly in terms of the efforts and resources allocated towards creating new technologies and innovative services or ideas. These variations are also visible in the attributes of the institutions that are set up to develop these innovative ideas as well as their level of performance. Besides the global nature of innovation and technological solutions and services, which has not completely eliminated the efforts, outcome and knowledge differences, it is still imperative to consider the countries as the appropriate unit of analysis for two main reasons. First, most of the institutions that are involved in supporting or stimulating innovation and technology are national or subnational institutions. Secondly, it is relatively easier for knowledge and innovative ideas to move within the national boundaries than across national territories (Guler and Guillén, 2010). These differences in the level of technology and innovation within a country are more likely to have a direct or indirect effect on the level of entrepreneurial activities within that country, which can influence how attractive the country is to foreign investors. As the entrepreneurial activities gain steam with the support from institutions, new ventures benefit from spillover resources, such as human capital from existing or growing ventures, which then creates a concentration of more entrepreneurial activities. Institutions that support the use of knowledge as well as innovation and technology such as universities, research labs and other incubation facilities also create a similar spillover effect that promotes the growth and creation of more ventures. This is a result of these institutions becoming more aware of each other's activities and creating new knowledge and partnerships, facilitated by their closeness geographically (Audretsch et al., 2004). And according to Alcacer and Chung (2007), the younger ventures, which turn out to be those attractive to venture capital firms, benefit more from these spillover knowledge and partnerships than the big and long existing firms.

2.4.1.2 Support for VC transactions

Public policies towards venture capital primarily come in one of two broad primary forms: (1) law, and (2) direct government investment schemes. One of the most widely recognized instruments for stimulating venture capital markets are capital gains taxes (Cumming, 2007).

Legal institutions: corporate law
Venture capital firms would generally want to invest in a market that has institutions in place that protects their investment, making legal institutions a more focus area and these institutions have different specificities in different countries across the African continent. These legal institutions define legal personalities that go beyond individuals, create conditions for business transactions and the protection of the rights of all parties among others (Guler and Guillén, 2010). Looking at how these institutions contribute to VC activities, Bottazzi et al (2009) highlighted that VC investments in foreign markets will be more visible in areas where there is a strong legal institution that protects the rights of investors, thereby making it a huge factor for the development and expansion of the VC industry. In a study to investigate the effect of credit protection laws on VC investment activities in Africa, Adongo (2016) added that countries with high protection of creditor's rights have a significant increase in VC investment and the higher this protection gets, the more VCs are willing to invest in seed, startup or early stages of ventures. On the other hand, VCs that operate in countries with low or poor protection exert significantly high control over the management of the ventures and increase their ownership positions. Guler and Guillén (2010) went further to add countries with low investor protection may be less attractive because entrepreneurs may have low appetite for funds from VC firms. As the VC firms demand for more equity stakes, the entrepreneurs may in turn prefer other funding options, such as debt financing, especially if the venture has good prospects of succeeding.

Financial Institutions: equity markets
Financial institutions play a serious part in the growth of the venture capital market. As VC investments are more short term, institutions like the stock market are considered very important to facilitate the VC firm's realization of a maximum possible return on investment, which is

more often through an IPO (Guler and Guillén, 2010). The growth level of these institutions and the private equity market in general vary across countries all over the world and though the effect of the different levels of business activities also differ among countries, there is some degree of similarity on the importance of exit options to the development of a bigger and more profitable private equity market (Leachman et al., 2002). To enhance the growth of the private equity space, countries do take different measures as well, such as the creation of special funds like the sovereign wealth fund etc, with the focus on equity investments into different business stages and reducing the dependence on lending, which is often very expensive (Megginson and Gao, 2020).

Sovereign Wealth Funds (SWF)
Sovereign wealth funds (also referred to as sovereign investment funds or social wealth funds) are state-owned special purpose investment funds that invest in real and financial assets such as stocks, bonds, real estate, precious metals, or in alternative investments such as private equity funds or hedge funds. Sovereign wealth funds have received increased attention since the late 2000s and many countries have established SWFs for various macroeconomic purposes (Amar et al., 2019). As of 2017, the aggregated assets under management of all SWFs was around $8 trillion, which is three times the size of private equity funds and is more than twice the size of hedge funds (Megginson and Gao, 2020). The five characteristics that differentiate SWFs from other investment vehicles are: full sovereignty, high currency exposure, high risk tolerance, a long-term investment horizon, and being free of encumbrances (Cieslik, 2014).

According to Bernstein et al. (2013), sovereign wealth funds play three distinct roles. First, they can serve as a source of capital for future generations, especially in nations where future generations may not be able to rely on commodities for steady revenue streams. Secondly, these funds can play a stabilizing role by reducing the volatility of government revenues. Countries that rely on commodity exports can experience severe effects as changes in prices occur, and these funds can help to stabilize the occurrences. Finally, sovereign wealth funds can serve as holding companies, in which the government places its strategic investments. The authors claim that public leaders may see fit to invest in either foreign or domestic firms and that sovereign wealth funds provide a way to hold and manage these investment stakes. According to Cieslik (2014), African SWFs can be beneficial for developing nations if they are utilized and structured in a way that allows them to take advantage of their full potential. The author claims that prudential resource management is a complex issue and, particularly in Africa, the continent's institutional structure and domestic political problems are the main obstacles to building a healthy, sustainable economy.

2.4.1.3 Political Stability

The level of political hazards in a country significantly influences the level of VC activities, just like any other business, as it is an important factor of how attractive a country is especially to external investors. Generally, investors would find attractive a highly stable political environment for their investments as well as one that they can predict the implementation of policies and how they will impact their investments. Investors prefer a high level of predictability because even with good financial institutions to realize capital gains, good laws to protect investors' rights and strong support for innovation and knowledge, it doesn't prevent the lawmakers from changing the law on any of these aspects that could deplete all or part of their investment (Guler and Guillén, 2010). Therefore, the possibility that the law, which can never be completely unambiguous or objective, can be changed quickly or reinterpreted creates a high level of uncertainty in the investors' mind. It is therefore important that firms anticipate little changes in the laws, regulations and even their interpretation as their occurrence would not create an impression of instability (Henisz, 2000).

2.5 Policies and Actions Affecting Fintech and Venture Capital

Kolokas et al. (2020) claim that policy makers around the world are interested in how national support systems and institutions relate to entrepreneurship, and especially those that support the generation of startup companies in industries that have the potential to drastically benefit the shape of the future competitiveness of their economies. One such industry sector with the potential to generate significant benefit toward national economic growth is that of fintech.

2.5.1 Policies and Actions Affecting Fintech in Africa

In a comprehensive study of fintech in sub-Saharan Africa by Yermack (2018), it was determined that one clear pattern is that the infrastructure required for fintech has been built out much more extensively in countries with a common law legal system, compared to those with a civil law system. The author argues that common law countries typically provide better investor protection and achieve lower costs of capital and greater liquidity for investors, and this seems to have been a key factor in supporting the growth of fintech platforms in those nations.

Didenko (2017) notes that fintech in Africa is generally popular due to the extension of basic financial services into many markets that banks and incumbent financial service providers have found to be unprofitable to enter. The author adds four additional motivations for fintech regulation that arise due to the nature and impact of the technology:

- Threats posed by the new technology to market incumbents
- Expanded access to financial services by unsophisticated and underserved customers
- The rapid growth of new platforms
- Disintermediation or anonymization of service providers that formerly provided market oversight

Didenko (2017), claims that most regulators around the world have chosen to adjust existing frameworks to accommodate cryptographic assets rather than write entirely new policies and rules. The author adds that many regulators also adopt a wait-and-see approach, given the incomplete understanding and information available about the new technologies.

While the fintech industry grows around the world, many countries are setting up various support systems to enhance the competitiveness of fintech companies and technologies to encourage industry growth (Goo and Heo, 2020). Yermack (2018) notes that governments implementing new regulatory schemes within financial technology often make use of a provisional "sandbox" form, which can also be observed within Africa. The author describes sandboxes as offering a safe testing space for innovators to launch new innovative products, services, and delivery mechanisms, while benefiting from temporary regulatory exceptions. Although, one of the usual conditions for participating in a sandbox is that a business must stay small and that once it grows beyond a certain size a more formal regulatory scheme will be invoked. The regulatory sandboxes are expected to nurture innovation within the fintech industry and many experts believe that they will help small firms such as startups to lead innovation and attract investment (Goo and Heo, 2020). Additionally, one of the goals of regulatory sandboxes is to attract the attention of capital investment sources such as banks, private equity, and venture capital funds (ibid).

Goo and Heo (2020), note that the most researched topic regarding fintech industry regulations is primarily focused on how to regulate fintech's activities in the traditional financial markets. The authors argue that this is the most researched topic on fintech regulation for two reasons. Firstly, because many fintech companies have entered the market, many problems have occurred and secondly, because regulation is an important factor in the activation and innovation of fintech.

Goo and Heo (2020) state that an efficient financial sector allocates the surplus resources to the entrepreneurial or investment projects that show the highest expected rates of return. They further claim that business investment is critical to productivity, and so a healthy economy requires sophisticated financial markets that can assist in making capital available for private-sector investment from sources such as loans from a sound banking sector, venture capital, and other financial products. The authors ultimately argue that the adoption of regulatory sandboxes have a very positive influence on the activation of fintech ventures and the growth of fintech venture investment. The authors further claim that sandboxes may play a vital role in increasing the influx of venture capital into the fintech venture ecosystem by removing regulatory uncertainty. They conclude that the findings of their research provide empirical evidence to policy makers supporting the positive impact of regulatory sandboxes.

2.5.2 Policies and actions affecting Venture Capital in Africa

The private equity and venture capital market in Africa is gaining more vibrancy as SME are increasing in number and increasingly require financing every day. Based on the stage they find themselves in the growth process, new ventures rely heavily on venture capital, angel investors and other forms of equity to keep the business running. This has obviously stirred up the need for governments to focus more attention on policies that will not only improve on the number of entrepreneurial activities but also the institutions that provide funding and their operating efficiency. Looking at Kenya and Nigeria for example, a number of policy actions have been taken to regularize and stimulate the venture capital sector.

According to Daramola (2012), the financial sector in Nigeria is mainly dependent on banks and other smaller financial institutions, with the venture capital industry just newly created. With the emergence of new technology ventures, which seem less interesting to banking institutions because most of them are getting into financing deals recently, there was an expansion in the gap for entrepreneurial financing which created the space for venture capital activities. Some of the actions taken by the government to stimulate these technology firms include the liberalization of different sectors of the economy, privatization, encouraging the return of skilled and talented Nigerians from the diaspora, and more as can be seen in the table below.

Policies and programs	VC-directed policy (tick off)	VC-related policy (tick off)
Financial incentives(Tax)	√	
Venture Capital (Incentives) Decree No.89 1993 Act	√	
the Small and Medium Enterprises Equity Investment Scheme (SMEEIS) 2001	√	
Science, Technology & Innovation policy draft (2011)		√
Entrepreneurship Development syllabus introduced into Primary, Secondary, University (2006)		√
Technology Incubation Centres		√
Clusters (Otigba, Nnewi)		√
Support Agencies(SMEDAN, BOI, NOTAP)		√
Establishment of Intellectual Property and Technology Transfer Offices		√
Stable macroeconomic environment (1999-Date)		√
Export Processing Zones(EPZs)		√
Educational and Research Organizations		√
Entrepreneurial characteristics of the diverse tribe in the country		√

Figure 4: Government policies and programs to stimulate VC activities in Nigeria. Source: Daramola (2012)

In Kenya, there are no specific regulations/legislation currently for venture capital/private equity funds, but the Capital Market Authority (CMA) regulates the venture capital fund sector. The CMA is focused on regulating collective investment schemes (CIS) that can be classified under a public offer in the Capital Market Regulation, though there has not been enough clarification about such things as public offers and CIS. With the objective of the government to stimulate the venture capital sector in Kenya, funds do have "special tax regimes." They are placed under the capital market regulations 2007 as well as the income tax act. The CMA, in their regulatory role, specifies the registration or incorporation of venture capital funds, their capitalization (with a minimum paid up shares of USD 1 million), their board composition (a third of which must be independent) and guides their primary investment focus as well as other specifications. Though there are no specific regulations for venture capital funds in Kenya, these funds need to comply with a range of other regulations to establish and operate in the country such as The Company Act - 2015, The Partnership Act - 2012, the Income Tax Act and its subsequent amendments and others. The CMA is also working on reforms to encourage domiciliation of venture capital funds in Kenya, using other more developed markets as benchmarks and working closely with the East African Venture Capital Association (EAVCA). Despite the valuable reforms the CMA is trying to get enacted, Kenyan venture capital funds are most likely to still be incorporated in foreign markets due to the importance of investing in different markets across the region, the use of preferred currency, and other advantages (Divakaran et al., 2018).

3 Research Methodology

The methodology section of this study primarily indicates the chosen research strategy, the research design, method of data collection, data analysis and the quality of the study. The choice of data collection methods and analysis are also further elaborated upon, as well as the reasons for choosing qualitative research.

3.1 Research Strategy

This study adopts an inductive research strategy, which also has some exploratory components as the topic is relatively underexplored in the research area under study. This strategy is further explained and described as exploratory or bottom-line data driven research strategy by Bell et al (2018) and Woo et al (2017), which explains why this strategy is appropriate for this study since the research questions are more exploratory in nature. This inductive research entails explorational search for patterns and reasons for the existence of the patterns which can be used in making generalized theoretical conclusions. In this study, we approached our data analysis and the generation of theoretical conclusions by using existing theories as their base, which are valuable in developing theories out of data collected. Furthermore, this research strategy gave us the freedom to alter the direction of the research as it progressed by changing the research questions to suit the data we obtained and other parts of the research. But it is important to note that we gave considerable attention to theory when phrasing the research questions as the whole process is mainly about making sense of collected data through which theories can be created (Bell et al., 2018).

Furthermore, this study is qualitative in nature looking at the research questions, and as Bell et al (2018) indicated, inductive research strategy that connects data collected with existing theory is strongly related to qualitative study. This further explains why an inductive strategy was selected for this study, plus the description of inductive research by its use of grounded investigation of focused groups, verbal data collected through interviews, and the opinion of participants to gain more understanding of the area under study and generate new theory, which are different aspects observed in the study.

3.2 Research Design

This study is designed as a multiple case study, with a focus on how governmental policies and actions influence venture capital investments within the fintech space. Looking specifically at five fintech hubs in Africa (Nigeria, South Africa, Ghana, Kenya and Rwanda), data was collected from key actors within the venture capital space including fund administrators and policy makers with the purpose of understanding why there are more fintech and VC activities within these countries. The reasoning behind a multiple case study is that these countries are different in their approach towards promoting VC and fintech as well as the volume of activities.

There is therefore the need to investigate different countries to get a variety of approaches and multiple perspectives on what influences VC activities to be able to relate them to the theoretical model adopted for this study. It will also permit the identification of common as well as distinctive practices that explains the differences in activity volume in these countries. This also enables the identification of potential investment locations for VC firms that want to approach the African market. Lastly, a multi case study is best suited for this research because the study covers the key attributes of a case study. Priya (2021) highlighted these attributes, which include: focusing on the explanation of WHY, WHAT and HOW, description of the phenomenon in detail and context, and the researcher's behavior is independent of that of the respondent.

Country selection

In order to carry out this study, we decided to select five (5) African countries and the selection of these countries was based on a number of criteria. 1) the concentration or amount of fintech and VC activities in the countries, commonly referred to as "hotspots". According to the Disrupt Africa report (2020), Nigeria, South Africa, Kenya, Egypt and Ghana are the top five countries with the most concentration of VC funding in tech startups, including fintech. 2) The similarity of the legal system is an important criterion we took into consideration. With the exception of Egypt that practices the Islamic Shariah Law and the French legal system primarily derived from the Napoleonic code, the other countries in the list of top five practice the English Common Law system, which makes it easy for VC firms to operate across those countries as deals are done in the same way and legal matters will be given the same treatment in court. 3) Consideration of the economic blocs in Africa was also an important element in the selection process. Going by the list of "hotspot" countries, taking out Egypt because of the legal system, we can observe the involvement of three economic blocs: East Africa, West Africa and Southern Africa. The agreements that exist among countries in the same bloc permit investors and other actors in the investment ecosystem to move freely to carry out deal related tasks. All these put together indicates why Nigeria, South Africa, Ghana and Kenya were selected for this study and Rwanda was added based on the opinion of actors within the ecosystem that the country is fast gaining speed in terms of entrepreneurial and investment activities, plus the country's closeness to Kenya and a member of the East African bloc, thus meeting the third criterion. Also, from the legal system point of view, though Rwanda generally practices the civil law adopted from Belgium, the country has incorporated the English Common Law into its judicial system, thereby ticking the second criterion as well.

3.3 Data Collection

Data collected for this study includes both primary and secondary data. Primary data was collected through an in-depth interview with policy makers and intermediaries, VC investors and investment advisors, fund managers and other knowledgeable persons about the subject under investigation. Secondary data, on the other hand, was collected from policy documents, literature on the subject, websites, market reports and other online sources.

3.3.1 Primary Data

A semi-structured interview was used to collect primary data and was specifically focused on how policies and government actions in the selected countries contribute to making them the big markets in the region. Interviews were conducted with different actors within the venture capital space in these countries and the interviewees are persons who are/were part of policy setting commission/institutions related to VC or fintech or the actual policy makers at governmental level, investment intermediaries (lawyers/policy advisors and business coaches/advisors), and VC investors (LPs and GPs). The choice of interviewees was motivated mainly by our belief that these persons would be knowledgeable in the scope of the study and would therefore provide relevant information necessary to answer our research questions. These persons were interviewed as soon as they were available, with the contacts obtained mainly on referral basis, from the people we already interviewed.

SN	Interviewee's Name	Country attached to	Organization name	Job function	Interview time
1	Holden Bonwit	Kenya	Open Capital Advisors	Project leader/Investment advisor	50min 32sec
2	Nicole DeMarsh	Uganda/Kenya	Open Capital Advisors	Partner/Head of Ugandan Office	44min 40sec
3	Olivia Bryanne Zank	Rwanda	Ministry of Trade/BeneFactors	Policy Adviser/Fintech Entrepreneur	1H 15min 4sec
4	Laura Bierer	Uganda/Kenya	Multiple organizations	Consultant - Investment and policy	55min 40sec
5	Niraj Varia	Kenya	Novastar Venture	Partner	52min 50sec
6	Grant Rock	South Africa	HAVAIC (VC fund)	Partner	1H 5min 45sec
7	Eva Warigia	Kenya/EAC	East African VC Association	CEO	1H 7min 25sec
8	Carmelle Cadet	Ghana	Emtech	Sandbox developer	43min 23sec
9	Dino Lazaridis	South Africa	Financial Sector Conduct Authority - SA	Fintech specialist	1h 16min 56sec
10	Tonte Lawson	Nigeria	Nigerian Sovereign Investment Authority	Senior Analyst	1h 03min 05sec
11	Tito Cookey-Gam	Nigeria	ECHO VC Partners	Investments and Portfolio Operations	53min 50sec
12	Eric Osiakwan	Ghana	Chanzo Capital	Managing Partner	42min 40sec
13	Anonymous	Whole Africa	African PE and VC Association	Anonymous	55min 06sec

Figure 5: List of interviewees

Semi-structured Interviews

We decided to use a semi-structured interview for this study because it can be easily adapted for a multiple case study like this one as the purpose of the research was to reach out to multiple sources (persons) for data, which might be significantly different in response if not guided. This interview approach also brings some flexibility to the process. This means that the interview process takes a format or structure, consistently from the first to the last interview, while giving the interviewer the freedom to go beyond the prepared question. This often comes as follow-up questions to get into more depth with every interview. Such questions are necessary because they unlock answers or further questions that were not planned but that are important for the study. As Bell et al (2018) highlighted, it is sometimes encouraged to ramble or go off target questions to get details that the interviewees consider relevant for the study. Also, with the possibility of interviewing a person more than once, a semi-structured interview helps keep track of what was discussed previously and in preparing the next interview.

Interview guide

To answer the WHAT and HOW specific research questions, the interview guide was prepared in a HOW, WHAT format and structured to get the interviewees' perspective on the specific variables under investigation. The guide addressed questions such as: What policies in the respondent's opinion stimulates VC activities, and how have government actions encouraged the emergence of fintech solutions? The interview guide starts by providing a background of the thesis to the interviewees and learning more about them, as well as how much time they will be willing to stay on the call. Then it moves directly into the subject matter by letting the interviewees speak more generally about the topic, thereby giving their understanding of the subject and direction of the thesis. The questions address specific research questions followed with the interviewer's guiding and structuring them so as to permit the interviewee to answer within the scope of the thesis. The guide ends with a request of the interviewee's opinion on how best a VC firm can approach the market as well as a request for contacts of persons who can be relevant for the research within their network. See appendix 1 for the interview guide.

Interview setting and transcription

The interviewees' contacts were obtained primarily through referrals, and they were contacted via email with a brief introduction of the thesis. We were introduced to Holden, a former employee of Open Capital Advisors, an investment and business advisory firm based in Kenya, by an Alumni of the Innovation and Industrial Management program. Holden then introduced us to two of his contacts in East Africa and after talking with these persons, they also introduced us to some of their contacts. We searched for contacts of policy makers, such as economic development staff at finance ministries and central bank workers, through their institutional websites and sent them mails directly. A meeting was then set up with them if they expressed interest in participating in our study and the Zoom meeting app was used to conduct the interviews, which permitted the use of videos so we were able to see facial clues as it would be in a face-to-face setting. We did a pilot interview with Holden (our first contact) who gave us good feedback that helped us refine our interview questions and other aspects about interviewing. The interviews were recorded with the permission of the interviewees, which helped the researchers in recalling the answers given in a more accurate manner. The recorded answers also permitted the researchers to listen as many times as desired and reflect on the subject matter to get a better understanding of the case, which would not have been possible without the record. The answers were then transcribed with the assistance of a website called "Otranscribe," with the primary goal of keeping their exact words. This helped avoid changes in meaning as well as biases that may arise in paraphrasing.

3.3.2 Secondary data

Secondary data was extracted from literature, reports from developmental organizations based in Africa, government institutions' websites and public databases. The data extracted from literature was mainly VC and fintech related as well as policies that stimulate both VC and fintech activities. The reports, databases, and websites provided in-depth industry and country specific data. This empirical data was used to fill gaps that existed in both the primary data and literature and helped provide an accurate perspective of the subject. Such gaps consist of things not mentioned by the interviewees as well as data not reported in existing literature, such as country specific statistics of VC and fintech activities in the various countries under study. The choices of which data to gather and present in the charts is based upon key influential factors and drivers for fintech adoption in Africa as discovered through the study, such as mobile phone and internet penetration, access to bank accounts, inflation rates, etc. Additionally, important metrics for venture capital investment were added, such as population and GDP, which can suggest market size potential, along with political indicators and corruption indexes.

The secondary data sources used to collect the statistics, figures and indexes presented in each country case's table are from the following sources:

- Country Maps from: https://agoa.info/
- Total Population, Mobile Connections, Internet Users, Active Social Media Users from: https://datareportal.com/reports/ (2021 Reports)
- Financial Inclusion Factors 2020: https://datareportal.com/reports/ (2021 Reports)
- Overview Digital Payments 2020: https://datareportal.com/reports/ (2021 Reports)
- 2020 GDP & 2020 Inflation Rates compared to previous year from: https://www.statista.com/
- Corruption Index from: https://www.worlddata.info/ based upon annual reports published by Transparency International:
- https://www.transparency.org/en/cpi/2015/index/nzl
- Political Indicators from: https://www.worlddata.info/ based upon the "Worldwide Governance Indicators" project of the World Bank: https://info.worldbank.org/governance/wgi/

3.4 Data Analysis

The data collected through the interviews and empirical findings were analyzed in connection with literature from the review section. The model on institutional factors that influence VC activities was designed based on the article by Guler and Guillén (2010) and used as the literature basis of analysis. The selected countries for this study were presented individually and analyzed more generally to give a picture of what is happening in all the countries since they are very similar. Firstly, thematic analysis was used to identify patterns or themes in the opinions of the different interviewees. This was done by putting together recurring statements from the transcribed interviews in a country-by-country manner, which was used to form theme categories that covered all that is highlighted in the above-mentioned article to bring out the commonality. Secondly, the categorized themes were further analyzed together with the secondary empirical data and the literature on institution and foreign market entry by VC firms. Finally, the research questions were answered, and recommendations were made from the perspective of a VC fund trying to enter the African market.

3.5 Research Quality

To demonstrate the quality of the study, the authors share the perspective of Guba and Lincoln's justification of the trustworthiness of a naturalistic study. Their perspective is divided into four different categories and below is a description of how these categories affect the research and what actions/approaches were used to confirm with each of these categories (Guba and Lincoln, 1982).

Credibility has to do with the interpretations and analysis of the data obtained, which is based on the realities in the minds of the data sources (interviewees) about the phenomena. It also touches on the agreements we had on how to interpret what they observed. In acknowledgement and response to this, we made use of and tried to focus on themes that relate or cover at least one aspect of the model while still giving room for the exploratory nature of the study to get new knowledge.

Transferability relates to how generalizations can be made with the findings of the study in connection with the relevant literature. To provide for possible generalizations, we selected fintech and venture capital "hotspots" to understand the policy structures that make these countries successful. Secondly, the interviewees selected for this study are persons with years of experience within the investment ecosystem and their activities cut across these hotspot countries. For example, the economic development personnel cut across different countries as they work on policies involving the entire continent, trade blocs etc. Likewise, the venture capital funds invested in deals in many or all of these selected countries. Because of this, it is fair to say they have a rich perspective of what is going on in these countries and the findings thereof can be generalized to an extent. Finally, the authors have presented an in-depth analysis or presentation of the context of this study and the region/countries selected for the study. This therefore permits the use or generalization of the results thereof in a similar context of the same nature.

Dependability refers to how the study can be repeated given the same circumstances and methodology. Given that this is a social or naturalistic study, it is difficult to have the same circumstances or context as changes are bound to be built on the first study in the process of conducting the second, with the second researcher(s) making some rational or logical changes which thus prevents an exact replication. To address this, we made a detailed presentation of the methodology used at each stage of the process. Also, the basis of analysis, which is the model developed based on literature, was clearly highlighted with the various sections that make up the model.

Confirmability has to do with the objectivity and reliability of the data collected and how relevant it is to address the research questions. Since one of the authors is doing an internship with a venture capital fund that invests in fintech, and the other author's familiarity of the subject area, it was relatively easy to understand the context and direction of the study and to ask relevant questions that permit quality data from the interviewees. Also, the interviews were recorded and can be replayed to pick out the exact phrases of the interviewees' and eliminate the biases that may tamper with the data quality.

4 Empirical Findings

In this chapter we present key empirical findings. Secondary data has been collected and presented based upon extensive web research, various industry reports and governmental publications. To gain further insights into our research questions, we conducted a total of 13 semi-structured interviews over Zoom with industry actors within both the fintech and venture capital ecosystems. We intentionally gathered interviews with differently positioned industry actors to provide a more robust set of perspectives to enrich our research.

4.1 Fintech in Africa and African Technology Company Exits

4.1.1 Fintech and Financial Inclusion in Africa

Financial Inclusion is said to be the most important aspect of a country's economic development plan because it increases GDP contribution, fosters an improved environment for business and business expansion, and enables the government to better support the well-being of its citizens. In Africa, fintechs are driving digital initiatives focused on financial inclusion in various financial service segments including payments, insurance, lending and more. Fintechs are adopting new business models and unconventional practices while leveraging increasing mobile penetration and internet access. There is a potential for fintechs that focus on financial inclusion in Africa to flourish, as mobile penetration is high and there is still a large percent of the population that is unbanked and underserved. While the total population of the continent of Africa has around 590 million people, of those, 370 million are unbanked and underserved. Due to this massive amount of underserved population, digital financial services are and will continue to play a significant role in accelerating financial inclusion in Africa. (MEDICI, 2021)

According to GSMA's- The Mobile Economy: Sub-Saharan Africa (2019) report, Sub-Saharan Africa has the fastest-growing mobile phone subscriber population in the world. The report states that in 2018 alone there were 50 million new mobile money accounts registered in Sub-Saharan Africa and by the end of 2018 nearly 400 million mobile-money accounts in the region were registered with over 130 live mobile-money services. Mobile payments are one type of financial service that are serving as a catalyst driving financial inclusion, especially in the Sub-Saharan region of Africa (GSM Association, 2019). Although Africa has made significant strides in reducing poverty over the last two decades, a recent estimate by the World Bank states that the results of COVID-19 could push up to 40 million people in Sub-Saharan Africa into extreme poverty (MEDICI, 2021). Innovative fintech solutions may prove to be critical in assisting African countries in both their economic recovery through the COVID-19 pandemic and to further empower their achievement of the high potential of economic development to potentially be captured in the years and decades ahead.
While providing many key benefits, fintech also presents several key challenges and risks including data security risks, fraud risk from agents, risks of over indebtedness, risks of identity fraud, money laundering, lack of interoperability, etc. In response to these risks, a number of regulators in advanced, emerging, and developing economies have responded by innovating themselves. These innovative regulatory initiatives include innovation offices, regulatory sandboxes, and RegTech for regulators. These forms of regulatory innovation can lead to both

improved market conditions and greater financial inclusion. An innovation office is a dedicated function within a regulator that is tasked with the job of providing regulatory clarity to financial service providers. They are a particularly compelling option for regulators that are capacity constrained. In addition to innovation offices some countries have activated regulator/central bank linked accelerators. By providing regulatory clarity to financial service providers innovation offices can advise and inform about relevant consumer protection safeguard requirements, can encourage new entrants, promote innovation and competition, in turn promoting financial inclusion. Several jurisdictions have launched regulatory sandboxes with the explicit purpose of encouraging financial inclusion. Sandboxes can be used to support financial inclusion by removing potential friction points caused by existing rules or regulations that may inhibit financial inclusion efforts. Additionally, sandboxes can help to reduce the time, cost, and uncertainty of launching new products and services into the regulated financial sector. RegTech is becoming an increasingly important tool for regulators to support financial inclusion. While adoption of RegTech is still in its early stage of adoption, a number of effective engagement models are emerging. RegTech is supported by various principles underpinning technologies such as big data, distributed ledger, cloud computing, machine learning, artificial intelligence, digital ID, and application programing interface (API). Regulators can utilize RegTech to better ensure compliance between new and existing institutions and can help regulators improve their ability to monitor the wider marketplace. Improved data collection and analysis from RegTech can provide insights to regulators that can lead to adjustments of rules and guidelines to better support financial inclusion. (*Early Lessons on Regulatory Innovations to Enable Inclusive FinTech*, 2019)

4.1.2 Exits, Mergers and Acquisitions in Africa

As the African venture capital ecosystem is still very nascent, exits seem very rare, but digging deep into the sector there are many start-up exits. There have been a number of exits through acquisition, which seem to be the ideal option for venture capital firms. In January, Actis sold its stakes at C&I Leasing Plc to Peace Mass Transit limited. In 2020, there were a number of exits as well, such as ARCH Emerging Markets Partners' Africa Renewable Power Fund (ARCH ARPF) providing new funds and taking over CrossBoundary Energy (CBE) from its previous investors; Norfund selling all its shares at SN Power to the Norwegian energy company Scatec Solar and a host of others ("AVCA | Exits," n.d.). In 2019, the continent also saw the acquisition of Kenya's OLX by Nigeria's Jiji. There have also been some secondary exits, as some entrepreneurs have been bought out of their companies like the case of Flutterwave. On the other hand, IPO exits have been very rare in the regions with the most recent case of Jumia being listed at the New York Stock Exchange, giving the parent company Rocket Internet and a host of other investors a wave-making exit (Nzekwe, 2019). As for mergers, there has been a lot going on as well despite the pandemic and its effect on businesses. One of the major mergers for the year 2020 was Helios Holdings Limited and Fairfax Africa, forming a Corporation now known as Helios Fairfax Partners Corporation (HFPC). There was also the acquisition of the Tanzanian based fintech company Beyonic by MSFAfrica (Osiakwan, 2020).

4.2 Country Specific Cases

As a multiple case study focusing on the specified African fintech "hotspots" of Nigeria, Ghana, Kenya, Rwanda and South Africa, we now present selected country-specific primary and secondary data relevant to our research focus.

Each of the 5 country cases are presented individually and are organized in the following structure:

Secondary data presentation

1) Table of key influence factors
    a) This table collects and summarizes key secondary data to provide an overall picture of some of the key factors influencing fintech and venture capital activity within that country. These particular data points were selected largely because they reflect what academic literature/frameworks and industry reports deem as the most critical factors for emerging fintech adoption and as highly influential aspects regarding venture capital opportunity particularly within the fintech sector.
    b) Additionally, as specific governmental policies, regulations, and actions have been identified as highly influential within the fintech and venture capital sectors, they have also been listed in the table.

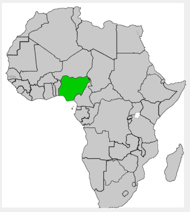
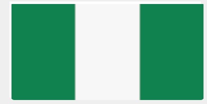
2) Industry reports highlighting an overview of key venture capital activity within tech and fintech over recent years in that country
3) When available, brief listings and explanations of specific policies and actions to stimulate fintech innovation and venture capital activities specific to that country

Primary data presentation

4) Themed presentation of primary data based upon the model of institutional conditions for VC activities in Guler and Guillén (2010). For a more detailed explanation of this model, view the literature review section 2.4.1, the model features:
    a) Support for innovation and technology
    b) Support for VC transactions
    c) Political Stability
5) Presentation of other country specific key findings that fall outside of the scope of the Guler and Guillén (2010) institutional conditions for VC activities model.

4.2.1 Nigeria

4.2.1.1 Secondary Data

	**NIGERIA Demographics + Mobile, Internet, Social Media Use**		
Total Population: 208.8 m Urbanization: 52.3%	Mobile Connections: 187.9 m vs. pop: 90%	Internet Users: 104.4 m vs. pop: 50%	Active Social Media Users: 33 m vs. pop: 15.8%
GDP: 442.98 bn $	Inflation Rate: 12.88 %	Corruption index: 25 (very bad)	
Financial Inclusion Factor 2020			
Has an account with a financial institution: 39.7%	Has a credit card: 2.6%	Has a mobile money account: 5.6%	Makes purchases and/or pays bills online: 6.3%
Percentage of women with a credit card: 1.7%	Percentage of men with a credit card: 3.4%	Percentage of women making online transactions: 2.9%	Percentage of men making online transactions: 9.4%
Overview: Digital Payments 2020			
Number of people making digitally enabled payment transactions: 64.69 m	Total annual value of digitally enabled consumer payments: $9.69 bn	Annual change in the value of digitally enabled consumer payments: +17.2%	Digital payments average value of digital payments per user: $150

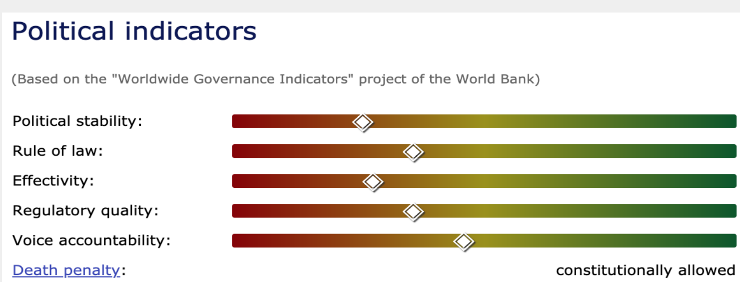


Figure 6: Key indicators for Nigeria

The Disrupt Africa's 2020 report on tech startup funding shows Nigeria as one of the top countries in Africa with the number of tech startups that were funded as well as the total funding secured. The country's tech startups were able to secure a combined sum of USD 150,358,000, which represents 21.4% of the total tech funding throughout the continent. Out of this total raised, the country's fintech company Flutterwave secured one of the groundbreaking figures in 2020 of USD 35 million in a series B funding and Bitfxt also secured USD 15 million, while two other fintechs (Aella Credit and Kuda) each secured USD 10 million. Out of the total amount secured, fintech had USD 89,342,000 raised by a total of thirty-seven startups, making 43.5% of the country's total. These figures show an impressive increase compared to 2019 where fintech startups raised a total of USD 37,645,000 by 11 companies, making 22.9% of the country's total. The funding data for the past five years is presented in the table below.

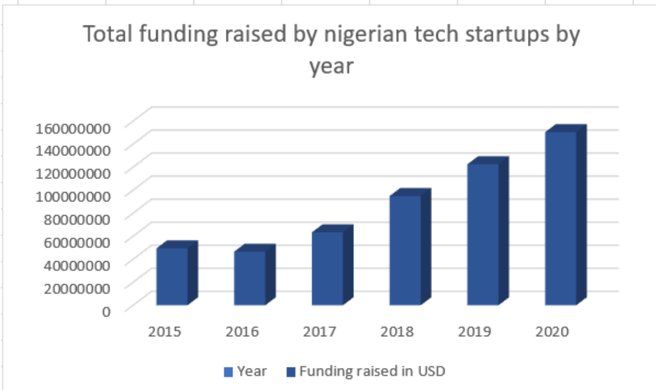


Figure 7: Total funding raised by tech startups in Nigeria (Jackson and Mulligan, 2021) - Disrupt Africa report

Policies for fintech:

Regulations for Open Banking

Open Banking is said to be one of the most important regulations to affect banking in the last decade and in Nigeria it is apparently making a major impact, especially regarding financial inclusion. Open Banking allows banks to share and sell their customers' gathered data to third parties, including fintech companies who are driven to provide innovative solutions that banks are unwilling or unable to develop and offer, often because these new services can eat away at their established revenue models for their existing product and service offerings. While regulators often, rightly so, get a lot of resistance in Africa, the Central Bank of Nigeria is said to be doing all the right things by creating a regulatory framework for Open Banking and this framework will place Nigeria as Africa's pioneer in Open Banking. The CBN's draft regulation creates a regulatory sandbox for companies to test products and services in a safe environment. But one of the most important parts of the draft is that it provides guiding rules for API specifications, including principles for data sharing across the banking and payments ecosystem. It stipulates, amongst other things, data and Application Programming Interface (API) access requirements, principles for API, data, technical design and information security specifications. Banks can benefit from this by allowing them the opportunity to profit and sell the data they have, and also, as fintechs can leverage this data to offer new products and services this increased competition by fintechs may spur innovation and force the incumbents to think differently. (TechCabal, 2021)

Policies for VC:

Actions of the Nigerian Investment Promotion Commission (NIPC)

The increasing efforts of developing countries to attract and stimulate investment have led to some countries establishing Investment Promotion Agencies (IPAs) or similar government institutions with the primary focus of both stimulating domestic investment and attracting foreign investment as well. The Nigerian Investment Promotion Commission is an agency of the Federal Government established in 1995 to encourage, promote and coordinate investments in Nigeria. In a sense the NIPC is an investment facilitation mechanism where relevant government agencies have been brought together to cooperate and provide efficient and transparent services to investors. The purpose is to shorten and simplify various administrative procedures for the issuance of business approvals and permits and licenses, while at the same time removing bottlenecks faced by investors in establishing and running businesses and reducing the costs of doing business within the country. Additionally, the NIPC holds the responsibility of ensuring the maximum benefits of the policies of liberalization and deregulation of the national economy. Furthermore, the NIPC provides statistical data and information about the Nigerian economy, the positive investment climate, legal and regulatory frameworks, as well as industry and sector specific information to aid existing investors and encourage prospective investors in making better informed business decisions. (*NIPC Newsletter report*, 2003)

4.2.1.2 Primary Data

Support for Innovation and Technology

Opportunities provided but not available to be taken
According to Tito there are both government and private individuals who take different initiatives to support innovation through activities like innovation camps. The government also has programs to send people for computer training to learn how to code and other things. These opportunities are there but the important question, which is difficult to answer, is how much of a difference they make. People have so many other things to worry about. For example, many people are living below universal basic income so if they cannot afford to feed their families, they will be struggling to live instead of thinking about coding. There are public policies that promote different sectors but they are not very successful because an average person is trying to survive. But the private sector tends to yield better results.

New regulation increase capital requirement for financial providers
Niraj mentioned that regulations are changing all the time. Nigeria just released a new banking law which fundamentally changed the amount of capital required for all financial institutions. So, one of the companies they were looking to invest in that was raising $6M million now suddenly needed to raise $20 million because otherwise it would be technically insolvent in relation to these new regulations. This particular company is brand new and this would be a massive step change. Niraj said that he understands the need to safeguard, but to go from this level to that level overnight can be very frustrating and this regulation change is difficult for some startup companies. .

Newly Approved Nigerian Innovation Fund
There is a new Innovation Fund that is being set up at the moment and was approved during the

final quarter of 2020. The innovation fund is partly invested by the Nigerian Infrastructure Fund and the Future Generations Fund. It will focus on direct investments in the innovation space in Nigeria with a portion of the funds allocated to venture capital funds and funds of funds investments. Apart from venture capital investments the fund will invest into late-stage technology and basically any innovative ideas that leverage intellectual capital of Nigerian companies, along with technology parks, IT hubs and research parks generally. The fund is in the process of being structured now. Fintech is also being targeted as a sector and one of the early investment deals in the pipeline is a fintech company. The fund was approved with up to $50M and the idea is to build it up to around $200M over time. The Nigerian Sovereign Investment Authority will provide initial capital for the fund and will seek to raise additional capital through future closes – the Central Bank of Nigeria has already indicated interest in this round.

Growing synergy between the Nigerian Sovereign Investment Authority (NSIA), Central Bank of Nigeria (CBN), Securities and Exchange Commission (SEC) and Ministry of Finance
According to Tonte, in the future it can be expected that more synergy will occur between the NSIA, Ministry of Finance, SEC, and CBN in terms of policies that can support innovation and technology. This may be realized due to the Central Bank of Nigeria's interest in the Innovation Fund, which may lead to a vested interest in the success of their portfolio companies. Being positioned as a regulatory entity, they will have incentive to create a regulatory environment that will support the success of these companies.

Government Reaction to Unfamiliar sectors
According to Tito, investors are disrupting Africa and this disruption comes with consequences. Regulations are so old and when regulators don't understand what's going on, sometimes they just change laws. Some examples are the closure of remittance companies accounts just because they were scared of money laundering and not sure about the KYC that goes on in these companies. Because there is a lot of fraud, they are just scared about AML and KYC obligations so instead of looking for a way to fix things they usually just stop them.

Support for VC Transactions

Sovereign Wealth Fund investing into venture capital
Nigeria has a Sovereign Wealth Fund that has three mandates: the Future Generations Fund, the Stabilization Fund, and the Nigerian Infrastructure Fund. The Stabilization Fund and Future Generations Fund are coupled into the externally managed investment team, which are the mandates that have some focus on venture. The Stabilization Fund is a savings fund and Nigeria withdrew $150M from this fund for Covid support. The Future Generations Fund is a multi-asset strategy and invests in Private Equity and started investing into venture capital in 2019. The fund is region agnostic and goes where the value is. It can invest into Nigerian based VC firms along with foreign VC firms. It can invest with emerging managers and is open to investing from pre-seed through pre-IPO stages. In commenting on why VC investments were added to the strategy the interviewee responded,

“Venture Capital in Africa seems to be taking off at a fast pace, so we're trying not to miss out on that value. In my opinion a huge driver is because we have had some remarkable success stories in the last couple of years in Africa.”

Tonte

PE and VC regulations

When asked about what government policies are in place to stimulate VC investments in Nigeria, Tito responded that in the current regulatory set up there are no specific laws that directly encourage the sector, reflected in the following extract:

As I said, it's a really early market [...] But it must be remembered that because it's so early and most VC funds are probably the same size as PE funds, all the policies were already set in place by the preceding PE funds, as a result, the same rules are generally followed. I would say the only rules that have been drafted in Nigeria right now that I know of is under crowd equity funding using platforms like Kickstarter etc. But traditional VC fund management is pretty built out here and I don't think there are any special laws to make us work better or any favorable laws. But laws are pretty set and then everybody knows what to work with.

Tito

Protection of Investments during regulatory uncertainty

In some cases, for VC firms to protect their investments during uncertain times or in situations where there is a predicted change in regulations, it helps to be close to the regulators. In most markets where there are regular changes in leadership and policy makers do change laws more frequently, knowing the people who can influence those laws and how to approach them can be very significant in protecting investment. Tito shared this in the following interview extract:

Like I said, it is firstly about us knowing who's making laws or knowing how they're going to react as well as knowing how the team is invested with these regulators and knowing what the team should say when the regulations come because you just have to point them in a direction that gives them comfort and then usually you can sort it out. That's really the only way you can set yourself and the other way to protect yourself is not investing in those companies.

Tito

Political Stability

Challenge of frequent leadership changing and shifts in policies

When asked about the political implications of political instability toward investment decisions Tonte Replied:

"It affected the investment ecosystem directly. It's one of the main factors when people talk about the hindrances to investments in Africa. In Africa especially, political stability is an issue because there is a lack of continuity in policies, which tend to change whenever there is a new government in power. This has historically led to a lot of policies that are upended after four years or eight years, making it difficult to have continuity in any particular policy direction. It has been the case that investments are looking hopeful to completion and then all of the sudden you have a change of government and the story changes. I think it's one of the biggest worries of investments coming into Africa."

Tonte

4.2.2 Ghana

4.2.2.1 Secondary Data

	**GHANA** **Demographics + Mobile, Internet, Social Media Use**		
Total Population: 3.4 m Urbanization: 57.7%	Mobile Connections: 41.69 m vs. pop: 132.8%	Internet Users: 15.7 m vs. pop: 50%	Active Social Media Users: 8.2 m vs. pop: 26.1%
GDP: 67.34 bn $	Inflation Rate: 10.6 %	Corruption index: 43 (bad)	
Financial Inclusion Factors 2020			
Has an account with a financial institution: 57.7%	Has a credit card: 5.8%	Has a mobile money account: 38.9%	Makes purchases and/or pays bills online: 7.8%
Percentage of women with a credit card: 4.4%	Percentage of men with a credit card: 7.2%	Percentage of women making online transactions: 4.9%	Percentage of men making online transactions: 10.6%
Overview: Digital Payments 2020			
Number of people making digitally enabled payment	Total annual value of digitally enabled consumer payments:	Annual change in the value of digitally enabled	Digital payments average value of digital payments per

transactions: 6.62 M	$2.97 B	consumer payments: +56.2%	user: $449

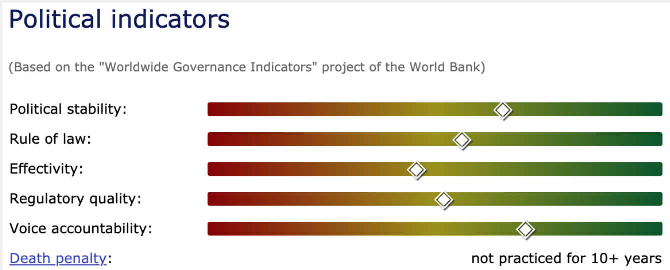


Figure 8: Key indicators for Ghana

Ghana continues to impress the continent with an improved performance and is becoming more and more an active country for venture capital activities as it was 5th position ranked by the amount of funding secured. In 20202, a total of 15 startups were able to secure funding to the sum of USD 19,897,000 with the number of startups increasing by 25% compared to 12 in 2019. Out of the total funding secured, fintech startups secured USD 955,056, representing 4.8% of the country's total while E-health had the greater part of the funds with 85.6%. E-commerce and retail tech had 2.3% of the total while logistics and other startup categories had 1% and 2.7% respectively (Jackson and Mulligan, 2021).

Policies for VC:

The Ghana Venture Capital Trust Fund (VCTF)
The Ghana Venture Capital Trust Fund also known simply as the *Trust Fund* was established by Act 680 in 2004 as a Government of Ghana initiative to promote and support the private sector as an equal partner in achieving the country's developmental goals. The stated purpose of the fund is to develop a well-structured venture capital industry in Ghana, with the aim of leading to a thriving private sector. The trust fund is a Fund of Funds that operates by forming joint-ventures with other institutional partners such as banks, insurance companies, and Development Finance Institutions (DFIs) to establish what they call Venture Capital Finance Companies (VCFCs). These VCFCs act as intermediaries between SMEs requiring funds for viable business projects and the Trust Fund. VCTF invests in fund managers in the business of supporting Small and Medium Enterprises in priority sectors of the economy. These fund managers must have legal capacity, be incorporated in Ghana, must pay taxes and social security contributions, and be Ghana SEC licensed. Since the start of the Trust Fund, an excess of $77M USD has been leveraged for investments. ("Venture Capital Trust Fund," 2021)

Ghana as the AfCFTA Secretariat host country
The AfCFTA, among others, seeks to increase intra-African trade through improved harmonization and coordination of trade within the African continent. It aims to address the challenge of small fragmented markets in Africa by creating a single continental market which will lead to economies of scale. Ghana in hosting the Secretariat of the AfCFTA has the potential to increase the county's standing and potentially position Ghana to become the new commercial capital of Africa. The government of Ghana claims that the AfCFTA will enhance the

government's current Industrial Development Agenda and contribute to the diversification of the Ghanaian economy and open up new market access opportunities. ("Ghana: 'Ghana Set to Benefit From AfCFTA,'" 2019)

4.2.2.2 Primary Data

Support for Innovation and Technology

"What we've been able to work through in the Bank of Ghana, again it's all about framework, it is all about mindset, is that if you want an innovation mindset, how do you mitigate risk while you promote innovation? We've been able to come up with a framework that says, 'OK we might not have a regulatory framework for you right now, however come to the sandbox, go to market, we will be monitoring you on how you're performing, how the solution is being secure, because that allows us to study faster and come up with regulatory guidelines that gives you the regulatory clarity faster...through modern technology you can capture data in real time. You can monitor data that is the same data that you are requiring for the fintechs to give you on an ongoing basis, but now you're factoring that in as part of your test and your analysis for you to come up with new regulatory frameworks and not waiting the other way around, And that's where we think the sweet spot is for fintechs and regulators. We found out that the lack of data is what's stopping them from issuing and providing clarity. They don't know what they're regulating. "

Carmelle

Sandbox as a signal to innovators

"The establishment of the sandbox tells the ecosystem that you're ready to talk, that you're ready to learn, and that you're ready to collaborate. And we work really hard to make the innovation sandbox kind of a low barrier of entry, while there is a filter through a regulatory requirement that you have to go through, which is still much less than a typical licensing requirement, because it is built for go to market faster and to address smaller players and newer players in the ecosystem."

Carmelle

Support for VC Transactions

Sandbox encouraging Foreign Direct Investment (FDI)

With regards to the connection between the innovation and regulatory sandbox being conducted currently in Ghana and venture capital stimulation because of the sandbox, Carmelle explained that when companies sign up to participate in the sandbox one of the questions asked in the application is how the company has been funded and how much capital they have raised. Carmelle notes that this is a leading or lagging indicator of how much money is going to be linked to this particular innovation coming into the country, because if you can tell a regulator that your company is funded then it does a couple of things. One is that it gives them an idea that there is going to be FDI coming. Second, is that you have funds to go to market and that when you do go to market and set up a website there is going to be someone to take care of a problem that a consumer might have and that you are going to be able to hire and run a business. Carmelle continued to say:

"That's a very interesting KPI that we're actually tracking, how much FDI can be driven by the sandbox. That's our personal business KPI. So, it is very very linked and we've talked to other central banks that have their eyes on that. They're looking for that number as well, they want to get that number, that's a big success factor, it's a very clear way to identify success."

Carmelle

Ghana Venture Capital Trust Fund (VCTF) & Ghana Sovereign Wealth Fund

Eric explained that the Ghana Venture Capital Trust Fund cuts across various industries within venture capital and it is just starting to allocate into technology focused funds. He added in fact that the VC firm he manages may be the first tech focused VC firm that they invest in. Eric added that an important impact that the trust fund has contributed is that it catalyzed the Ghana Angel Investor Network.

When asked about the Ghana Sovereign Wealth Fund, Eric stated:

"The Sovereign Wealth Fund in Ghana is pretty new. It hasn't made any VC investment yet but the plan is that it should be able to invest into VC funds and most importantly invest in private equity funds, so alternatives as a way to create diversification in addition to the public market investments."

Eric

Additional Key Findings

Ghana and the AfCFTA

When questioned about the impacts of the AfCFTA especially with Ghana being the secretariat host country, Interviewee Eric Osiakwan said:

"Ghana is the first country to start to open its borders for the free trade protocols. It is making a great impact because you cannot underestimate the common African market. The African common market is currently estimated at $3 Trillion USD. If you take the GDP just of the 'KINGS' countries of Kenya, Ivory Coast, Nigeria, Ghana and South Africa the total GDP is $1.3 Trillion USD and there is a total population of 400 million people. That is a really big market and that is just five of the countries. As you start to expand the market access across Africa the value is much bigger. For me that is the motivation for building pan African companies. That trade block is really going to make a huge impact. There is no doubt about that."

Eric

4.2.3 Kenya
4.2.3.1 Secondary Data

	**KENYA** **Demographics + Mobile, Internet, Social Media Use**		
Total Population: 54.38 m Urbanization: 28.2%	Mobile Connections: 59.24 m vs. pop: 108.9%	Internet Users: 21.75 m vs. pop: 40%	Active Social Media Users: 11 m vs. pop: 20.2%
GDP: 101.05 bn $	Inflation Rate: 5.3 %	Corruption index: 31 (bad)	
Financial Inclusion Factors 2020			
Has an account with a financial institution: 81.6%	Has a credit card: 5.7%	Has a mobile money account: 72.9%	Makes purchases and/or pays bills online: 26.1%
Percentage of women with a credit card: 3.5%	Percentage of men with a credit card: 8.1%	Percentage of women making online transactions: 19.6%	Percentage of men making online transactions: 33.5%
Overview: Digital Payments 2020			
Number of people making digitally enabled payment transactions: 15.59 M	Total annual value of digitally enabled consumer payments: $3.58 B	Annual change in the value of digitally enabled consumer payments: +50.7%	Digital payments average value of digital payments per user: $229

Figure 9: Key indicators for Kenya

According to the Disrupt Africa's 2020 report on tech startup funding, Kenya has kept its record high with the number of tech startups that are funded as well as the total funding secured. The country's startups were able to secure a combined sum of USD 191,381,000, which represents 27.3% of the total tech funding throughout the continent. This is the largest amount ever secured by a single country in the continent and the country continues to hold this record after the 2019 record of USD 149,145,000. Despite the record keeping of secured funds, funding for fintech is still considerably low compared to the other sectors and other leading markets in the continent (like Nigeria and South Africa). Going by sectors in the country, the energy sector secured USD 41 million (21.4% of total), agri-tech USD35.7 million (18.7% of total), logistics space USD 27.3 million (14.3% of total), e-commerce USD 23.7 million (12.4% of total) and fintech USD 16.2 million (8.5% of total). The funding data for the past five years is presented in the table below

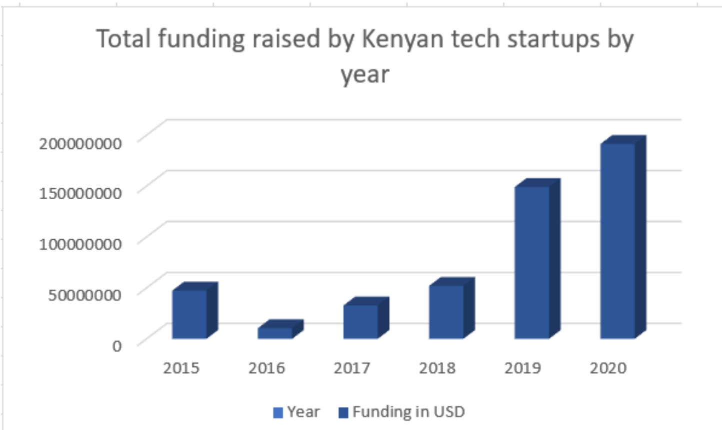


Figure 10: Total funding raised by tech startups in Kenya (Jackson and Mulligan, 2021) - Disrupt Africa report

Policies for VC:

Beneficial Ownership Regulation
Companies incorporated or registered in Kenya are now required to maintain a register of their beneficial owners and must submit a copy of this register to the Registrar of Companies. This new regulation is an amendment to the Companies Act last year and is designed to comply with international standards on transparency ("https://www.sovereigngroup.com/news-and-views/kenya-brings-new-beneficial-ownership-e-register-into-operation/," 2020).

4.2.3.2 Primary Data

Support for Innovation and Technology

Regulatory Sandbox and incubation hubs
A number of government agencies recently did a finance regulatory sandbox in Kenya. The procedure was such that entrepreneurs or innovators got permission to be inside and to test their idea in the sandbox. The entrepreneur or innovator could test new innovations even if they were not technically regulated or legal outside the sandbox. They did it with the permission of the

ministry of finance, It also protects them if subsequently that activity is regulated or is not allowed because they are testing it inside the sandbox and the idea is to encourage innovation like the use of Bitcoins/Blockchains or any kind of innovation. There are a few other things that encourage innovation in Kenya (Interview with Nicole, 2021). Eva also added that in Kenya there are two levels of government: there is the national government which would be federal in other countries and there is also the county government or state government. Looking at the County government there have been a few of those that have created incubation hubs where they encourage and invite early stage innovators to incubate and test their ideas and prototypes and within that hub they use the county's large government resources to fund their ideas.

Unregulated Innovation

In some cases, innovation seems to do better in the market when it is left unregulated by the government. The mobile money in Kenya is a good example because it is absolutely cutting edge. One of the big things that Kenya did was to leave it unregulated for a long time while the banks are highly regulated. Mobile money is outside the Bank of Kenya and it is only those products where account holders send credits on mobile money that are regulated by the Bank of Kenya but the day to day transactions are not (interview with Nicole, 2021).

Development of the business and innovation ecosystem in Kenya and challenges

Besides the trust building that needs to be done in the Kenyan market and the investment readiness, which is a big challenge there as well, there is a huge business development industry in Kenya now and a lot of accelerators This is an indication that there is a lot of work going into this but it is more about the question of how effective it is and whether the right type of support is being offered. There is certainly a good amount of progress in identifying the right business support to offer and which channels will create the better effect, but there is still a long way to go. Despite the much work still to be done, in general, Kenya is always doing a bit better than Uganda and the other East African countries in almost everything. Kenya now has a decent number of funds that are home based and they are developing a good professional base around them. In terms of opportunity development, it is possible for new innovative services or businesses to leverage the assets of already established businesses, which will ease their growth and encourage more startups to emerge. This growth opportunity was highlighted by one of the VC experts we interviewed:

"*In Kenya however, because there's the dominance of Safaricom, agent banking is not that necessary and also it is quite difficult to do it from a regulation point of view. But mobile lending is a big opportunity. Because they can use the M-Pesa infrastructure to grow quickly. and that's growing beyond personal banking and into SME loans"*.

Niraj

Some aspects of Kenya's regulations indicate that the regulators are trying to play catch up rather than implement procedures that facilitate innovation. For example, Kenya and Nigeria both underwent a data protection regulation about two years ago, but Kenya's regulations were only really implemented a few months ago. The regulations have been out but the actual team to implement them is only very new. Also, there are unusual cases where the government actually stands in the way of innovations because of its interest in an incumbent company, like the case of Safaricom. This was expressed by one of the interviewees in the following statement.

"*What's happening really is regulators are trying to play catch up, rather than implement procedures that facilitate. So, for example, Kenya and Nigeria both only about two years ago underwent data protection regulations. and Kenya's regulations were only really implemented a few months ago. The regulations have been out but the actual team etc to implement it is only very new. Kenya is also an unusual case where the government actually ends up getting in the way because it's a very large Shareholder in Safaricom. Safaricom owns M-Pesa. M-Pesa is a big money earner for Safaricom and therefore for the government as such, fintech opportunities that could eat at Safaricom and M-Pesa dominance tend to see some resistance from the government".*

Niraj

The prioritization of fintech/innovation in Kenya

All governments talk about stepping up their game in encouraging innovative solutions. But the general perspective is that there are not any visible policies that actually support that or there are very few. From a lip service point of view, there is a high priority but from an action point of view, it is not particularly a high priority. But some of that is because fintech is not particularly well organized and as with most governments in Africa, the voices that shout loudest are the ones that get heard. Even if governments do announce their actions, most of these countries do not have capacity to do anything meaningful. The closest Kenya got with regards to taking successful action was to get Google to commit $5 million to invest in tech businesses. The Kenyan government tends to approach it that way, rather than making funds available (Interview with Niraj, 2021).

Government Grant and tax burdens

There are some donor-funded programs like the Kenya Innovation Enterprise Program where they give out small grants of $10,000 or $20,000 to 250 companies who go through the application process. The money comes from some donors and it is administered by the government. This is about promoting innovation and startups by providing these funds which they can use as seed capital to develop their ideas. However, the regulations make it difficult for these startups. Kenya just made a minimum tax compulsory for all companies whether they make profit or not. All companies must pay a minimum tax of 1% of their turnover, with or without profit. For startups this regulation increases their cost base by 1% of revenues because they are not yet profitable. This regulation was just implemented because the government needed to raise money so as to avoid increasing the lending rate (Interview with Niraj, 2021).

Support for VC Transactions

PE and VC Regulations in Kenya

Kenya does not have PE Regulations. The big argument was around the public funds side because the suggestion was that public funds should mean government funds, so that essentially PE does not need to be regulated. But most of the people that were on the call said that is not what CMA wants and it is not right. The CMA wants to develop the industry and does not want to impose regulations on the industry that would stifle it. There needs to be regulations to grow the industry and not make transactions and other activities difficult. So, it will be separated into licensing regulations for private equity funds and private equity fund managers. With regards to VC, there are regulations but they are a bit artificial. They have been created with the mindset of encouraging funds to set up by giving them specific tax benefits. However, that has not been successful at all. There have been a handful of funds that have been set up, but it has not had a wider impact as expected (interview with Laura, 2021). Nicole also added that the CMA is developing regulations at the moment, but it's still a little bit unclear on how they're going to look because the law that was passed recently gave the CMA the mandate to regulate funds that attract public funds and there is, at the moment, a debate about what public funds means. Different people in the industry want different definitions depending on their specific needs. There is a study being conducted now looking at what the industry wants these regulations to look like and most actors are in favor of having some sort of regulations largely because it builds confidence in the market. This explains the statement made by an interviewee as she spoke about regulations of the VC industry in Kenya:

"*Most of the governments in the region particularly in East Africa don't have a great handle on VC financing and have done very little to regulate it, monitor it which is why most of this funds a based in Mauritius and in that, a lot of companies that attract venture capital financing have a parent entity in Mauritius because of the tax treaties between the two and so the investment goes from a Mauritius fund into a Mauritius parent company and flows down to the operating company in any of these countries".*

Nicole

In the process of developing these policies, one of the policy spaces that has been worked on is the startup sector in Kenya. For the involvement of the EAVCA, the government wanted to know what it would take for them to support local startups as a party that represents investors. The feedback they got was about supporting the entire ecosystem and that includes acknowledging that Angel investors do not have anything that incentivizes them to make investments in this level of business.

Lack of Exchange Controls in Kenya

Kenya is fairly good in terms of letting outside investment into the country and a lot of money flows in because there aren't really any barriers for a Mauritius based or foreign funds to come into Kenya and invest. Nigeria would be much more difficult because you have capital controls; the currency exchange and getting the money back out would be an issue. But in Kenya, investors do not have that challenge as they can freely transfer money back and forth as they want. So, if you are a Mauritius based fund or anywhere else in the world, technically you can invest fairly easily. The biggest challenge here is the investment readiness of companies. This lack of control has seriously stimulated the VC investment activities in Kenya. A number of interviewees made or agreed with this perspective as can be seen in this statement:

"*I don't know much about the situation in Nigeria and South Africa to be honest but I know Tanzania has exchange controls, where you're limited to the amount of money you can bring in as a company and beyond a certain amount you have to file an application with the Reserve Bank of the central Bank of Tanzania. I don't know if that's how it works in South Africa you can appreciate that it's just another hurdle of doing business and so as an investor who has 55* *countries to choose from, I'm just going to opt to go where there is minimum resistance. We don't have that in Kenya, people can bring in whatever bulks of money they want and I guess if that's what the person is referring to it then means that whether they would bring a deal of 100,000,000 or a billion that's a market that will take you with your value, as opposed to having to jump through another regulatory hoop."*

Eva

Dino added that in looking at countries and how they differ or compare with each other, you don't just consider the regulatory landscape, but customer penetration and markets are considered as well. There are also elements such as exchange control which is important because VC funds can source for funding out of their domiciliation. Bringing the funds into their country of domiciliation could be a worry as it slows down the investment process by adding more procedures.

VC challenges

The stock market in Kenya is largely underdeveloped. Though better than other countries, they have not had any new listings in a while, and a lot of the pension funds hold large proportions of each company that is currently listed there so they are not really proper public investments anymore. Because they hold influencing stakes in those companies, it's not a market they can continue to grow in. This creates a difficult situation for VCs to exit their investments through public offerings and as such have largely resolved to use acquisitions as the way out. However, private equity is developing especially because there is much more drive to grow the companies, and this mainly refers to SMEs.

The other big challenge is taxation. Private equity funds at the moment are not tax transparent which means they could have an extra layer of taxation on top of years of uncleared taxes. Also, capital gains tax is the same as corporate tax in Kenya, which is 30% but there is no indexation to it. It does not take into consideration the time value of money and inflation before the tax is imputed on the capital gain. This makes investing very unattractive for many VCs (interview with Laura, 2021). As for VC exits, Eva added that the businesses are still very young and need more time for VC funds to groom and grow them before thinking of exiting. Also, most of the capital is not local which makes VC funds liable to foreign investors who have little knowledge of local realities and how difficult it is doing business on the ground.

Legal institutions

Though Kenya is generally considered slow in implementing policies, things happen that cause change. For example, ahead of the last election, they slashed the retail lending rate to 8 or 9% on the shilling, making it infeasible for banks to lend to the vast majority of consumers at that rate. It was supposed to be a big win for them in the elections if they offered cheap credit, but they eliminated retail credit because banks couldn't lend (Interview with Nicole, 2021). Another situation of inefficiencies with the Kenyan legal system is the lack of clarity around the competition authority and the change of rules. There exists this weird situation where some investors need to go through the competition authority for approval for every investment within East Africa. This is true even if it is a very small company they want to invest in or only a small sum, because the total amount of their investments in the region exceeds a certain threshold. This alone adds about two months to every transaction even though every one of those transactions comes back with a "Yes it's fine; it's too small for us to worry about" from the authority (interview with Niraj, 2021).

Lack of VC ecosystem actors
Because most of the VC funds are domiciled out of Delaware, Mauritius, London or Netherlands, some African countries have a lack of the skilled professional positions in the VC ecosystem. So that infrastructure does not really exist in Kenya; same with lawyers and accountants and other ecosystem actors who assist in different ways in the VC transaction process. For a Mauritius based fund, there are certainly Kenyan lawyers that can do the work because it is all based on English common law, but again, it is often easy to work with the ecosystem actors where the funds are incorporated (interview with Niraj, 2021).

Direct *Investment and limitations*
In Kenya, there are some funds that invest in private equity but not VC, probably because they always think that VC is riskier. Kenya is also doing quite well with bringing foreign investments into the country, but a lot of other limitations apply. Governments are corrupt and there is an issue of kickbacks that most people in the investment process expect, usually between 10 and 20%. To get access to some government subsidized schemes there is a need to pay kickbacks or have connections with someone who can help in the process (interview with Laura, 2021). Another limiting factor which can be considered a big of loss of opportunity is that a lot of the institutional money (pension funds, insurance funds) are only allowed to invest in local, original entities. This means fund managers cannot invest in any VC funds or Kenya companies that are domiciled in Mauritius or another country. This means there is a huge pool of local money that can only be invested in real estate of a couple of companies that floated on the stock exchange or gov't bonds. In Kenya, and it is the same in Rwanda as well, there is actually a lot of money that needs to be invested, and there are big pension funds, national pension funds, and high net worth individuals that could be a huge source for private equity funds. However, at least on the side of the pension funds, they are restricted from investing in assets outside of East Africa. In Kenya regulations have been a little bit relaxed so they can invest in Mauritius based funds now but insurance companies cannot (interview with Niraj, 2021).

Additional Key Findings

Capital sources
The LP base is very thin and in the VC space, these are the people that matter because they bring in the capital. At the moment, it is predominantly the DFIs. Though there is a bit more when looking at the total capital that goes into the industry but taking a good look at it, about 80% of the capital is DFI, CDC funds, and that means limited capacity not just in terms of money but also in terms of manpower. There's probably like 10 people within the CDC who do this and so there's only a limited amount of time that they can dedicate to new funds. It is a very thin market still. This was really evident last year when COVID happened; everyone suddenly got distracted by trying to save their own companies and adjust to working from home and so on. New investment into the region collapsed from the LPs and from Funds resulting in thin capital markets (interview with Niraj, 2021).

4.2.4 Rwanda
4.2.4.1 Secondary Data

	**RWANDA** **Demographics + Mobile, Internet, Social Media Use**		
Total Population: 13.11 m Urbanization: 17.5%	Mobile Connections: 9.69 m vs. pop: 73.9%	Internet Users: 4.12 m vs. pop: 31.4%	Active Social Media Users: 850,000 vs. pop: 6.5%
GDP: 10.43 bn $	Inflation Rate: 6.9 %	Corruption index: 54 (moderate)	
Financial Inclusion Factors 2020			
Has an account with a financial institution: 50%	Has a credit card: 0.7%	Has a mobile money account: 31.1%	Makes purchases and/or pays bills online: 4.6%
Percentage of women with a credit card: 0.2%	Percentage of men with a credit card: 1.3%	Percentage of women making online transactions: 3.4%	Percentage of men making online transactions: 5.9%

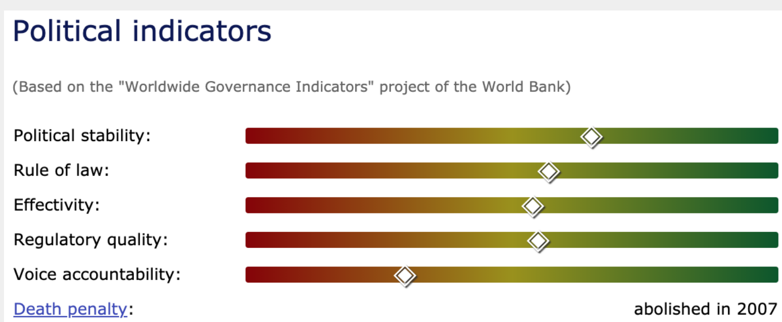


Figure 11: Key indicators for Rwanda

Looking at the funding secured by tech startups as reported by Disrupt Africa for 2020, Rwanda had two startups that raised a total of USD 4 million, which is 248% greater than the USD 1,150,000 secured by two startups in 2019. Though the startups and funding rate is very insignificant compared to neighboring Kenya and other big markets, the country is rapidly gaining steam into the investment ecosystem with the government making efforts to position the country as an investment destination in the continent.

4.2.4.2 Primary Data

Support for Innovation and Technology

Support for local production and Workforce

The Rwandan government runs a response training program, six months before investors can get through subsidy, for all employees that are local. This is to encourage them to hire more local staff. The government also wrote strategies lasting until 2024 specifically around "made in Rwanda" to encourage more domestic production and consumption, import substitution rather than importing from China and other countries, as well as to support local producers to make good quality products to change the perception that locally produced goods are low quality. In addition to this strategy, the government ran a big campaign to support local producers, with the key message that local production can also be as good as imported goods. With regards to encouraging fintech, there is not any visible effort by the government of Rwanda and from a policy perspective, there isn't much optimism in terms of seeing more support into the fintech space from policy makers. Some countries like Nigeria are doing better, but in Rwanda and East Africa, there is not much optimism (Interview with Olivia, 2021).

Sandbox and innovation

In Eastern and Southern Africa, the central banks and the various ministries of finance who set policies are very conservative, which is unfortunate. It kills a lot of potential innovation and it makes things a lot harder for SMEs and innovators to access the information they need. It is interesting how on the one hand there is this stated policy goal around financial inclusion and access to finance both for individuals and also for SMEs, but at the same time the necessary space with regulations is simply not there. It was quite amazing when Rwanda passed the non-depositing financial institution license and tried to formalize the sandbox requirement. It was quite interesting because the sandbox experience for most entrepreneurs was very informal and most of them wouldn't have known to apply for it if it wasn't for friends who went through the same process. But the sandbox experience has not been fully implemented and they have no intention to implement it, which is very discouraging. At the initial phases of the sandbox, it was a very informal process and the government didn't really know how to go about it. The intention to formalize it ended up backfiring and they rejected every single application they received after the regulations. They seem to have no intention of approving any other sandbox license for potential new business models that come up, which of course is a huge problem for the fintech ecosystem. This works directly against their stated policy goals of financial inclusion and innovation. Another instance of government action is the mobile money situation in Rwanda. Everyone has a mobile money account in the country because it does not cost anything to register, but it is not widely used because the fees are quite high. During the first three months of the Covid-19 pandemic, the central bank did pressure the telecommunication companies into removing the transaction fees, and sure enough, it went up several fold just in those three months but then they reinstated the fees and now the clients are reduced. They also had a branding campaign saying that you could get Covid-19 from touching cash because the virus particles can be in the bank notes. This actually pushed a lot of people into accepting more cashless transactions because they thought they would be free from the virus (Interview with Olivia, 2021).

Support for VC Transactions

Regulations and government control

Regulation generally differs from country to country. Some investors would certainly not invest in Rwanda, knowing that the company they want to invest in does not have good relationships with governmental authorities. It generally seems impossible to do business in Rwanda outside the government and that is considered by many as a complete pre-condition for investment. On the other hand, Rwanda is trying to position itself as the financial hub in the continent, like Mauritius. Every company would have offshore accounts in Mauritius and Rwanda is now trying to get a piece of that market. With that objective, they have also issued a several new laws around setting up trusts, and funds. Looking at the government's intervention from that perspective, they are definitely making progress. However, there has not been much visible work done about what it takes to run a VC firm. For example, it is hard to find a lawyer in Rwanda that knows how to deal with VC investments issues, say late stage or Angel investments. This gives investors no option but to use lawyers from outside whenever they need some advice. The same is true with trying to find accountants and auditors. When looking at efforts to promote the VC industry from a policy perspective, it is necessary to have the legal framework in place and a favorable taxation system that the state and other players in the industry can directly influence. This is because, as a VC fund, investors will be looking between different jurisdictions for investment opportunities where all the support services they need to run the business already exist. This includes not just the set up but to actually operationalize it, make investments, and follow up. The investors need to know that if there is a problem, the commercial court can deal with a lawsuit. Do both the courts understand how VC investing works? Is there an arbitration center that can be used? These are some of the questions that need to be answered. (Interview with Olivia, 2021).

Direct government investments and schemes

There are some direct government investment schemes that VC funds can leverage, but they are not necessarily run by the government but rather by development partners and various donors in international agencies in cooperation with the government. This has improved the flow of VC transactions to a great extent (Interview with Olivia, 2021).

Political Stability

With regards to political stability, Olivia mentioned that one of the things Rwanda portrays and promotes is that it is a stable country in the region; that the currency is stable, the financial sector is stable, the civil situation is stable, the government is stable. This presents the country as a favorable ground for investment

Additional Key Findings

Speed of processes in Rwanda

The Rwandan government is quite effective at moving things quickly once a decision is made. For example, changing the language for primary education will be effective next year. Kenya and Uganda are unable to do things nearly as quickly. Also, Rwanda is quite unique in the sense that the state is everywhere. It has a very centralized economy, a very capable state by comparison in the region, and very competent civil service. They still have capacity issues at the lower levels of administration but at the senior and strategic levels they are capable. The central bank workers have always proven to be extremely competent people but they're also very traditional and not very open to discuss innovation. They are reactionary, very conservative and see their jobs as maintaining stability at all cost.

4.2.5 South Africa
4.2.5.1 Secondary Data

	**SOUTH AFRICA** **Demographics + Mobile, Internet, Social Media Use**		
Total Population: 59.67 m Urbanization: 67.6%	Mobile Connections: 100.6 m vs. pop: 168.5%	Internet Users: 38.19 m vs. pop: 64%	Active Social Media Users: 25 m vs. pop: 41.9%
GDP: 282.59 bn $	Inflation Rate: 4.13 %	Corruption index: 44 (bad)	
Financial Inclusion Factors 2020			
Has an account with a financial institution: 69.2%	Has a credit card: 8.9%	Has a mobile money account: 19%	Makes purchases and/or pays bills online: 14.1%
Percentage of women with a credit card: 8.1%	Percentage of men with a credit card: 9.7%	Percentage of women making online transactions: 11.6%	Percentage of men making online transactions: 16.8%
Overview: Digital Payments 2020			
Number of people making digitally	Total annual value of digitally enabled	Annual change in the value of	Digital payments average value of

enabled payment transactions: 25.6 M	consumer payments: $9.1 B	digitally enabled consumer payments: +20.5%	digital payments per user: $356

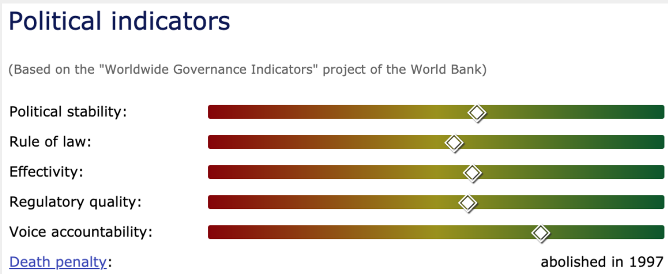


Figure 12: Key indicators for South Africa

The 2020 year was also an impressive one for South African tech startups with a great increase in the amount of funding secured. The country's startups recorded almost double the amount secured in 2019 by securing a total of USD 142,523,000 by 81 companies, compared to USD 73,019,000 secured by 79 companies the previous year. Fintech has kept a leading position over the years with 26 fintech startups securing a total of USD 36,803,000, which shows a fair recovery from the 2019 decline to USD 30,004,000. The funding figures for the last five years are presented below.

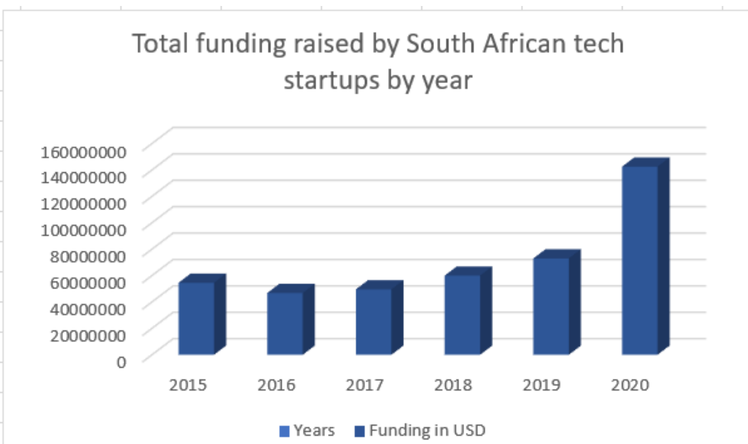


Figure 13: Total funding raised by tech startups in South Africa (Jackson and Mulligan, 2021) - Disrupt Africa report

Policies for fintech:

Formation of the Intergovernmental Fintech Working Group

South Africa is pioneering some world renowned progressive organized efforts regarding fintech innovation and regulation. They have established a world's first intergovernmental fintech working group (IFWG) that brings together seven different regulatory bodies as well as policy makers within the country to help guide, support and regulate fintech developments. The intergovernmental fintech working group is composed of the competition commission, the financial intelligence center (the anti-money laundering regulator), the financial sector conduct authority, national credit regulator, national treasury, national revenue service (tax regulator), and the South African Reserve (Central) Bank. The IFWG works together as South African financial sector regulators to demystify the regulatory landscape, provide a safe space for experimentation and to also actively advance innovation. In 2020, Dr Arif Ismail, Chairperson of the IFWG and head of the fintech unit of the South African Reserve Bank received an award from Central Banking's fintech and regtech global awards. ("IFWG- About us," 2021).

4.2.5.2 Primary Data

Support for Innovation and Technology

Prioritization of fintech for economic development & the Intergovernmental Fintech Working Group (IFWG)

When asked about the prioritization of fintech for South African economic development, fintech specialist in the conduct authority Dino Lazaridis said:

"We've got our big picture plan, our national development plan that was done a few years ago. Our president has spoken about a digital economy and smart cities as well. I think there is a political understanding that it's an engine for growth and job creation. I do think that we are in a position which is probably a lot better and understanding of financial innovation and financial technology than we were five years ago."

Dino

The South African government is pioneering an approach to fintech regulation by bringing together seven different regulatory bodies called the Intergovernmental Fintech Working Group. The working group aims to promote efficiencies in fintech regulation and acts as a single point of contact for fintech innovators.

"In 2016 the regulators all came together to try and understand and to have a coordinated approach to financial technology. Around the world you will see one or two regulators coming together to be a single point of contact for financial innovation, but we're seven and that is a world's first[...]There are additional discussions that the data regulator may also join the fintech working group as well, because the business models and the input into this machine is data."

Dino

Dino further explained that the IFWG tackles their task through three core offerings, one being their guidance unit where fintechs and innovators ask questions and regulators give answers. A second is their regulatory sandbox, where fintechs apply to get exemption to show a proof of concept as well as possibly a way forward after that. A third offering is the innovation accelerator, where they help drive forward selected projects of interest. Dino described this configuration as an accelerated positioning towards innovation.

While the South African IFWG model has received awards and seems to be a global leader with regards to financial regulation and promoting fintech advancement, when asked about the prioritization of fintech, Grant Rock, a South African based VC fund partner stated the following:

"I don't think it is prioritized. There are obviously things like banking regulations and exchange control regulations and central bank regulations around trying to protect consumers from people obviously taking advantage of them...I think that the regulation often follows the innovations, so the innovation happens and the government sort of plays catch up in trying to regulate it".

Grant

The above comment by Grant, expresses a sense that regulators are in a tough position to find the balance in simultaneously encouraging innovation within fintech and protecting consumers. He infers that it is actually the innovation that is playing lead, while the regulators are playing catch up, even with the advanced regulatory configuration as seen in South Africa. Further commenting upon the regulatory landscape within South Africa, Grant added:

"There's a lot of space in the unregulated areas that fintech companies can play in. Obviously a banking license and banking regulations can be a natural barrier to guys starting fintech businesses. But overall I think the regulation is OK. You've probably got more regulation in developed markets. I think we are still fairly less regulated in Africa in various markets than is the case in first world countries."

Grant

The above statement made by Grant addresses the concept that licenses and regulations can become a barrier of entry for fintech startups. While these barriers can stop the progress of some new market players, one important note that Dino mentioned was with regards to whom is considered a fintech and who is not.

Incumbent players and innovation

Regarding who is eligible to receive support through the various offerings and services of the IFWG. Dino said:

"I think it is interesting to consider who or what a fintech is. If you have a look at fintechs, especially in a South African context or from an African context, you could probably motivate that any modern forward looking financial services company which is digitizing is a financial technology company. So, if you have a look at a bank or an insurer you know they all have some elements which are financial technology- finance and technology coming together. So, we've actually opened the innovation hub to all- the incumbents, the large banks and insurers, followed by the small nimble fintechs or technology companies like an IBM or Accenture if they want to apply for regulatory exemption or guidance to possibly facilitate payments on a blockchain or whatever it is. To try and define it is quite hard. How do you tell a big bank which has got a whole digitalization plan and innovation plan pipeline for the next 10 years that they're not a fintech. But the five man garage company by the coast is a fintech."

Dino

Dino's comments above recognize that although as many people consider fintech providers, they tend to exclude incumbent players. At least in South Africa, there seems to be much fintech innovation being generated by banks and established technology companies as well. Expanding upon the topic of contribution by incumbent players, when asked about the role of central banks in fintech innovation within South Africa, Dino reported:

"In South Africa we have a 'Twin Peaks' model. So, there is the prudential authority, which is housed within our central bank and us, the conduct authority. We are equal and we both have fintech units. At the same time, we're both part of the intergovernmental fintech working group. So, there's a lot of collaboration that we have with them. We are jointly supporting the innovation hub. And part of the licensing requirements and our laws is concurrence between the two regulators and if there is a fintech element to it, it needs to be concurrent...So there's this constant collaboration between the regulators, between the conduct authority and the central bank when it comes to innovation, when it comes to applying our minds and putting a certain lens on it. Our lens vs the prudential systemic lens is very different. And it's balancing again. Not sanctioning consumers and protecting consumers, and still enabling them to access this innovation."

Dino

South Africa's Regulatory Sandbox

As many of the countries included in our study have demonstrated, the practice of setting up regulatory sandboxes are becoming more and more popular as a strategy to encourage fintech innovation. The regulatory sandbox in South Africa was launched in May of 2020. At the time of our interview with Dino the first cohort of sandbox participants were to be concluding at the end of the month of April 2021. The sandbox is still in its early stages and at the point of the interview there had been no direct changes in law or standards based upon case studies from the sandbox participants. Dino mentioned that it takes a long time to change a law or standard in South Africa. However, he also mentioned that they have accelerated the process that could have taken many years for regulators to understand and to have a position on, through the benefit of their regulatory sandbox. When asked who wins through a sandbox experience, Dino replied:

"First of all the regulators win because it provides a very detailed understanding of the innovation- forward looking as opposed to not. It's a good opportunity for the applicants, which if successful in the sandbox or not, have an accelerated position on their business model and on their idea. They get to learn if this is something that is going to fly or going to be blocked in the future. So, there's that acceleration that they get by being a part of the sandbox. So, it's to test the status quo when it comes to regulation and to test and see if the benefits outweigh the risk, and motivate change to change the law."

Dino

R&D tax incentive

One of the innovation support structures in place in South Africa is the 11D R&D scientific research incentive, which allows 150% that can be claimed as a tax liability for very niche scientific research. Dino stressed that this incentive was awarded on a case-by-case basis and that there is a very detailed process and investigation for it to be awarded. It was mentioned that to receive this award an applicant must prove the innovation and a company copying Robin Hood from the US or an M-Pesa in East Africa would not necessarily be awarded this, as the innovativeness is called into question because it may be more of a copycat move.

Startup ecosystem support initiative

In addition to the tax incentive and various programs offered by the IFWG, there have also been some government initiatives aimed at building up the startup ecosystem. According to interviewee Grant Rock, in the Western Cape they have an organization called West Grow which is a government entity that promotes and supports the startup ecosystem, particularly in the tech space. He added that they also do a lot in agriculture and other spaces, so they are not only focused on technology startups, but that is one of the areas of focus.

Fintechs do not want regulations and yet they want regulations

An interesting part of our interview with Dino focused on the shifting perspectives of fintech innovators over time. Dino reflected that in his experience if you were to ask an early-stage fintech, they want no regulation. They want to cherry pick what is applicable to them, until that is, it comes time to sell or to attract investments, and at that point they will want to be licensed. Once fintech players have got scale, they want to be licensed because their business is worth more.

The balancing act between nurturing innovation and protecting consumers

Dino eloquently described the balancing act regulators strive to successfully navigate. He said that if you look at financial technology and the regulation environment, there are two primary sides to it. He said,

"If it is only to drive growth, then you wouldn't have any regulation, but unfortunately it would be at the cost of the consumer. And consumers would be ripped off and companies would close and run away and it wouldn't be a great environment in the long run. In the short span it would be a flash in the pan and we would have 500 or 5,000 new companies set up, but at the cost of the consumer. At the same time, we want consumers to have access to products and we don't want to sanction them. And there are some that are a great opportunity for them to access. And then you get to the regulatory landscape that tries to balance the two. So, to try to promote innovation but still promote the consumer. And it's a bit of a balancing act."

Dino

Support for VC Transactions

Capital is risk averse and not as available for seed stage

There has been some research conducted focusing on the VC space within South Africa. In essence the research found that the South African VC and private equity allocators in the country are very risk averse. According to Dino:

"They like to bet on a company which has scale, which is running the race or ahead in the race. That's where they like to bet their money. So, very very conservative when it comes to capital. Because there's a lot of ideas and there's a lot of innovation, but unfortunately capital is scarce. And because of that, they are a lot more picky when it comes to deploying it. Another problem is seed capital or idea stage capital is very limited in the country, not a lot of opportunity there. The capital is very very different to the US or to the UK where they are happy to take a gamble on 20 ideas and two pay off. Here it's more taking on five good cases and four must pay off."

Dino

Grant agreed with Dino's perspective, especially that there is a gap in capital availability for very early-stage companies. Grant said:

"We see in South Africa and I think in Kenya as well, there isn't enough angel investment, there isn't enough early stage seed investment available. There isn't enough capital available for those stages of the company's life cycle. So, unlike the US market where there's a lot of angel funding and you've got a lot of wealthy individuals who will play the role of Angel investor. There's a fraction of that available in the African market. So that certainly is one of the biggest challenges for the very early stage guys to get off the ground. There's not enough capital for them. There's a lot more formalized funding available for companies raising later rounds because the business plan has been proven and the company's got clients, they've got revenue and they're growing at the right pace."

Grant

A winding down 12J VC Tax Incentive

While the capital in South Africa is reputably more risk averse there has been a tax exception that has aimed to stimulate venture capital financing. This tax exemption is known as 12J. Grant and Dino spoke about it and describe it as tax break for people investing into qualifying companies. Eric Osiakwan of Chanzo Capital claimed:

"The section 12J of South Africa helped South Africa grow a strong angel investing and VC ecosystem. South Africa is the most advanced early-stage VC ecosystem on the continent and that (12J incentive) is part of the reason."

Eric

According to Grant the 12J incentive has been active for the last 5 years and it has added a fair amount of liquidity to the markets in terms of money coming in. Grant noted that the incentive provided no downside protection for the risk taken, it was simply a tax break. One thing about the 12J incentive was that it was not made available for financial services or fintech companies. Grant and Dino both mentioned that the 12J incentive was being phased out. When asked about why this was, Dino said:

"The world has changed since the pandemic and I think a lot of government budgets have shifted around quite a bit. A lot of governments have taken up a lot more debt than they projected. They have found that the incentive hasn't really been that effective, because incentives are often used

for purposes not intended, and 12 J is an example of that a s well. There are various cases where it has been being used for nearly the opposite reasonings of the actual incentive purpose."
Dino

Growing Institutional Money

While the tax incentive is being phased out, Grant mentioned that there is some institutional money available in South Africa. He said that certain pension funds, insurance companies and banks have put money into venture capital and that a couple of the big four banks in South Africa have also started their own corporate venture capital funds. This is not the case in all countries, so this can be considered a regulatory policy that supports VC activity. Grant also mentioned that some governments also have direct investment funds but most of it goes through managers. They will appoint a manager to manage the money. They can do direct investments but that would require them to have teams on the ground to make those investments, so quite often they are actually going through local managers who they have given a mandate to invest on their behalf. Grant says:

"We are certainly seeing more interest from larger institutional investors. The pension funds etc. who sit with large pockets of cash, they've just started dipping their toes into venture capital and startups. Whereas in somewhere like North America those institutions with their pension funds or larger financial institutions they've been investing in technology businesses for 20 years and it's become very mainstream. Technology investing is still seen as an alternative asset class and is still quite niche but as we say it's becoming more mainstream. We are seeing some money coming from the institutions certainly in South Africa. I think as more money comes in, more startups will be funded and properly funded and there will be more success stories."
Grant

While the influx of capital into the South African ventures ecosystem through the entry of institutional investment players is having a positive effect on the VC and fintech industries, another action of importance is the regulatory sandbox that has been activated within South Africa to support these areas.

How the sandbox supports VC industry

When asked about the connection between the regulatory sandbox and venture capital investments Dino explained there is an intangible benefit of the sandboxes. As regulators, they would not say it, but it's probably an opportunity for the sandbox applicants to use the participation in the sandbox as a motivation for their pitch deck. Being a part of the sandbox but also the ability to continue on post sandbox, can only be a positive message when it comes to VC funding. In addition to these intangible benefits, he added that especially for sandbox participants that are operating in grey areas or those areas that are less clearly defined by regulatory frameworks, to be part of the sandbox can boost the value of one's company. As a technology company, as an innovator, if you are licensed, your business is worth more. If you are not licensed and you are operating in a grey area your business is worth less.

Matching funders and innovators

According to Dino, over the last years there have been some significant studies conducted within South Africa investigating the VC flows to fintech in the country and the challenges that presents, including interviews and polls with both fintech entrepreneurs and venture capital firms. He said that these studies provided helpful grass roots level information that regulators have been able to utilize and act upon with the hopes of addressing those identified challenges. He said that from the VC's perspective, there is capital to be invested and that they are trying to find opportunity. In terms of startups and early-stage companies, for them to attract capital they need scale and they need to get customers, but they can't because of the regulatory landscape. There was not a single point of entry because they didn't have an innovation hub. Dino said that the collection of these complaints helped put into motion the development of the intergovernmental fintech working group and helped set their priorities for action. He further stated that they identified things like barriers to entry, licensing requirements, and guidance with respect to the regulatory environment and focused on addressing those needs. Dino believes that they have addressed quite a bit of the concerns and the blockages to access the VC capital reported to be available. He and the IFWG are hoping that time will tell that their efforts are helping to develop a more robust venture capital space and fintech industry within South Africa.

4.3 General Findings

Challenges VCs face

Speaking about the challenges that VC funds face, Eric mentioned that seed funding at the very early stages of businesses is a serious challenge. Most entrepreneurial ideas do not get the funding they need to move to the level of developing their first set of cash flows so they can be attractive to VC investors. From his experience with the "Angel Fair Africa" event organized by Chanzo Capital that brings selected African entrepreneurs to pitch to a room of curated investors with the intent of doing deals and supporting the funding gap, angel investors community does not even exist in some countries where they have had their event. Some countries do have an angel investment network, but it is relatively underdeveloped.

"Our events have generated to date around $23M in 46 companies, many of these companies have grown and gone on to raise later stage funding rounds and in terms of impact, in every country that we go to, we help establish an angel investing network there or support the existing angel investment network do deals. In many cases there is no angel investment community and we help make it happen. And we also create seed stage funds in some of these markets after the event."

Eric

Domiciliation:

According to Nicole, Niraj, and Laura, in practice, almost no VC funds are legally registered within the majority of Sub-Saharan African countries. South Africa is different but a majority of these are all registered in Mauritius or overseas because it is too difficult and there are not good regulations to be registered within these countries. Niraj added that almost no one has funds in this country because the regulatory infrastructure does not exist here. He added that the governments are starting to recognize that because they see that there is all this capital coming here but it has always essentially been based out of Mauritius or Luxembourg, Isle of Man, and some in London. Funds are set up in these places because they have fairly sensible tax environments, fairly sensible regulatory environments historically, and transparency. There is however a trend away from Mauritius because they have all the rules in place but they don't actively enforce them and they are getting into trouble for that (Niraj).

Entrepreneurs understanding the VC process:
As entrepreneurs go through the funding process for a number of deals, they become familiar with the VC process and as more entrepreneurs gain that experience, it speeds up the process, and so creates the ecosystem, the entrepreneurial awareness. Because there are more incubators and accelerators coming up, there are more startups (Holden).

Trade Blocs
Looking at the market from a supplier perspective and Africa as a market, there have often been messages about individual countries being quite small. If there was possibly a single point of entry to tap into multiple jurisdictions it would be a lot more viable. Considering Sub-Saharan Africa or East Africa as a region, joint sandboxes, joint licensing or equivalent licensing has not been considered. It would be beneficial if an entrepreneur could get a license in Kenya which would be equivalent to the license in South Africa so the business could operate in both jurisdictions (interview with Dino, 2021). Most foreign investors do not like going through the process of trying to know all individual jurisdictions before they can invest as it takes a lot of time and effort as well as being very expensive. Creating a regional industry and developing the same, common or similar regulations would be much better when trying to attract foreign investments rather than each country working individually (interview with Laura, 2021). But looking at the situation from a practical perspective, Niraj added that there is a lot more politics going on within the trade blocks than actions towards putting in place common regulations and implementing them.

International Development Money/ Partners:
According to Laura, there are many US and European based international development and aid funds directed into certain parts of Africa, especially East Africa. Because they are often impact investment focused, a lot of social innovation companies receive funding that may not be viable in the long term, while there may be many other potentially viable businesses that are not eligible for these funds even though they might be able to create more jobs and boost the economy. Additionally, the aid money can potentially disincentivize the need for a startup to reach viability as they rely on aid money rather than actual revenues and capturing market shares. These international development money partners include the IMF, IFC, European Union, World Bank, French development agency, KFW (Development Banks), GIZ (Germany) AFD (France), US AID (US), UK AID (UK), Enable (Belgian), Nordic Development Fund (Sweden, Finland, Denmark, Iceland) Laura added that they all invest in private equity funds and that is usually what the investments are in African Funds. Additionally, Laura added that sometimes they put stringent requirements on the entrepreneurs to show their impact. So, it is often the entrepreneurs

who need to put time and energy resources into proving, documenting and measuring their impact that could be resources utilized to actually develop their business.

The Maturity of the VC industry in Africa

According to Niraj, in Africa there is a demonstrable pipeline, businesses that get invested in are doing well enough to get follow-up investment, but there is a low number of meaningful exits. This reflects the immaturity of the African market. When Africa starts to see 20 or 30 exits then it can be said that there is a level of maturity across the entire VC chain. He added that the total amount invested in Africa was less than a billion dollars last year in African VC. There are individuals like Stripe that just raised $2Billion, highlighting that an individual company can raise twice the amount of VC investments on the continent (the $1B). Niraj said that this is an indicator that it is still very early on in the African VC industry.

Common legal system
Grant explained that the countries that practice the common law legal system and use of the English language provide greater ease for investors because they are used to this system and language. For example, investors from the US and UK, who are major investors into the region. French speaking, civil law jurisdictions, are very different in terms of how one concludes agreements beyond just dealing with language barriers.

Covid Accelerating fintech
According to Dino, COVID has been great in one sense in that it has accelerated fintech adoption. He said that they are probably 5 to 10 years into the future with mobile payments, mobile money, and digital offerings/platforms. He added that a lot of consumers have shifted both their preference and their understanding. But at the same time there are also risks. There are many people who are excluded from the technology, who are often the most vulnerable, that regulators need to be aware of. Furthermore, he said, there is also the danger of cyber risks, which is a huge problem, too.

Balancing of regulation to protect but not too much to stifle growth
According to Dino there is a delicate balance between regulating to protect consumers and not over-regulating where you can stifle innovation. He said that you can get in certain countries where the regulation is quite low and you see high investments, and high amounts of startups because of that. But there could be unintended consequences such as over indebtedness, consumers being exploited, no recourse for bad practices, and not a great environment for the long run. Then you get examples of the other extreme, where there is too much regulation, where consumers are not offered innovation or personalized experiences, and are actually excluded.

5. Analysis

Chapter 2 of this thesis highlights the primary academic and theoretical underpinnings of this study, while chapter 4 introduces key insights gained during secondary and primary empirical data collection. In this chapter we analyze these combined findings to answer our sub-research questions:

- What governmental policy and actions influence venture capital investment?
- What governmental policy and actions influence Fintech innovation?
- How does the political stability of a country influence VC investment activities?

During our analysis we make use of the *Model of Institutional Conditions for VC Activities* - Based on Guler and Guillén (2010). A thorough explanation of the model is presented in the literature review chapter of this thesis. Briefly, the Guler and Guillén (2010) study contributes to international business research by examining the features of the institutional environment that influence venture capital firms' decisions for entering foreign markets. The authors find that venture capital firms tend to invest in host countries characterized by institutions and national environments that (1) support innovation and technological advancement; (2) provide support for venture capital transactions through the establishment of legal and financial institutions and measures and; (3) provide a base of political stability. The authors note that together these conditions generate innovative opportunities, protect investors' rights, facilitate investment exits, and guarantee regulatory stability. In the following sections we present the answers to our research questions utilizing the Guler and Guillén (2010) model described above.

5.1 Support For Innovation and Technology

Sub RQ1: *What governmental policy and actions influence Fintech innovation?*

Guler and Guillén (2010) argue that national systems of innovation influence the extent of profit-making opportunities and entrepreneurial activity within each market. New ventures choose to operate among markets based upon the existence of institutions that support technological development and innovation (Audretsch et al., 2004; Hall et al., 2003). In turn, as venture capital firms search for attractive opportunities and innovative ideas in which to invest, they often find them in areas that have to do with the application of new knowledge or technology (Gompers and Lerner, 2001). Hence, countries with vibrant institutions that support research and innovation are more likely to become attractive investment destinations for venture capital firms looking to expand internationally (Guler and Guillén (2010).
Our research is limited in that the countries we have selected to explore are all identified as fintech *hotspots* amongst African nations. As previously explained, this was an intentional selection. Although country selection presents research limitations, there are some interesting findings that can be drawn regarding the support for innovation and venture capital investment attraction. An initial finding that confirms the theoretical claims made above is that the countries included within this research that are all deemed fintech (tech) hotspots are amongst the most

investment (both domestic and foreign investment) targeted countries within the African continent. Osiakwan (2017) claims that five countries are leading the continent's technology innovation. He refers to these five countries with an acronym he coined, Africa's "KINGS". KINGS being an acronym for Kenya, Ivory Coast, Nigeria, Ghana and South Africa. The author further claims that these five countries are labeled not only the fastest growing economies on the continent but also the pillars of innovation and high-tech entrepreneurship. He argues that these KINGS countries are leading the development of the digital economy in Africa and setting the pace for the rest of Africa. While our research focuses on four of these five countries and includes Rwanda as an outlier, several industry investment reports confirm that Kenya, Nigeria, Ghana and South Africa along with Egypt receive the bulk of African venture capital investment *(MEDICI, 2020; EAVCA Report: Exploring New Investment Frontiers For Fintech in East Africa*, 2018; Jackson and Mulligan, 2021).

The governmental policies and actions identified through this study that provide the most significant impacts upon the national innovation and technology ecosystems are:

Sandboxes / Innovation Offices & Hubs / RegTech for Regulators

Innovative regulatory initiatives in developed, emerging, and developing markets include creating innovation offices, establishing regulatory sandboxes, and reg tech for regulators. The regulatory objectives of these initiatives are inclusion, stability, integrity, and protection along with market improvements. (*Early Lessons on Regulatory Innovations to Enable Inclusive FinTech*, 2019).

Regulators in all five of the countries focused upon in this research project have implemented some form of innovation office, hubs, or accelerator programs. Nigeria, Kenya, and Rwanda also boast pioneering RegTech models. Additionally, all five countries have activated regulatory sandboxes in an effort to navigate the regulation of fintech in that country. Some of the countries are in their first iteration of their sandboxes while others are in their second. Yermack (2018) notes that governments implementing new regulatory schemes within financial technology often make use of regulatory sandboxes as they aim to offer a safe testing space for innovators to launch new products, services, and delivery mechanisms, while benefiting from temporary regulatory exceptions. Goo and Heo (2020) argue that the use of regulatory sandboxes has a positive influence on the activation of fintech ventures and the growth of fintech venture investment by removing regulatory uncertainty. Additionally, existing research provides empirical evidence to policy makers supporting the positive impact of regulatory sandboxes (Goo and Heo, 2020; Yermack, 2018). The fact that the five countries also considered as fintech hotspots have all enacted regulatory sandboxes supports the literature identifying this as a growing trend. In addition to these regulatory sandboxes Ghana has recently launched an innovation or digital sandbox, in which selected fintech innovators can more easily access the central banks infrastructure to test products in an adjusted environment to remove regulatory uncertainties. The organizer of the Ghanaian innovation sandbox said:

"We see a big opening around linking regulatory innovation, which is something like the sandbox that we are facilitating, with foreign direct investments, with economic development, with financial inclusion, with the policies and priorities that they have aligned and how we mitigate and bring that collaboration together."

Carmelle

Startup Acts

According to an anonymous interviewee there are a handful of countries in Africa including Rwanda, Kenya and Ghana that have begun rolling out newly drafted startup acts. Startup acts are an emerging legislative instrument to package strategic incentives and interventions to accelerate the formation and growth of innovative and high-growth firms especially in the tech-based service industry. The startup acts are intended to lower the barrier of entry for startups while supporting the access to finance and access to markets. Additionally, they aim to create a more predictable business environment for stakeholders including investors as governments support entrepreneurship and job creation. ("Rwanda set to get Startup Act to help spur tech services," 2020) Echoing the value of these important legislative actions the following statement was made:

"The startup acts are going to be probably the strongest policy statements around digitization."
Eric

Funding: Innovation Funds, R&D Grants, Tax Incentives

It is seen that governments have begun to strategically leverage their SWFs with the aim of transforming their economies by adding an economic development component to their fund's mandate. When pursuing an economic development agenda, sovereign wealth fund investment professionals are often faced with the dual challenge of both looking after and improving the performance of their current portfolio and additionally to identify, initiate, and lead in new investment opportunities. When it comes to new investment opportunities, careful consideration should be placed on the detailed understanding of economic and industry sectors and strengths of a country. Once a sector or opportunity has been identified, an in-depth study should be performed to confirm the opportunities' profitability, the landscape of potential stakeholders, risks, and employment potential of the project (Mercer, 2019). Nigeria has just in the last two years begun to invest into venture capital funds through their specific mandates within their Sovereign Wealth Fund as a potential catalyst for economic development. Additionally, both Nigeria and Ghana have introduced Innovation Funds that can invest into venture capital funds, hence strengthening tech innovation within their jurisdictions.

One of the innovation support structures in place in South Africa is the 11D R&D scientific research incentive, which allows 150% that can be claimed as a tax liability for very niche scientific research. Additionally, in South Africa there has been the 12J tax benefit, which is currently being phased out, but from what we have heard in an interview, helped South Africa in generating a stronger seed capital investment outpouring, which has in turn strengthened South Africa's innovation ecosystem.

Strictness of Regulation

According to Yermack (2018), the best practices in regulation for fintech companies in developing markets such as Africa remain largely unknown, partly because of the immaturity of regional political institutions, and partly because of the novelty of the technology, which poses significant challenges for regulators even in advanced economies. This is in part because the technology is often designed to bypass existing regulatory frameworks. The author claims that to a large extent, Sub-Saharan African countries have taken a rather hands-off regulatory posture towards fintech, allowing for private self-regulation. Although Yermack (2018) says that in general, fintech regulation across Sub-Saharan Africa touches on three broad areas: tax collection, consumer protection, and financial stability. The author adds that a fourth area is that of compliance with anti-money laundering regulations, which can be especially problematic for developing nations that receive remittances or crowd funding cash streams from abroad via fintech platforms. We have found that the level of regulatory strictness varies quite drastically between the different countries of our study.

5.2 Support For Venture Capital Transaction

Sub RQ2: What governmental policy and actions influence venture capital investment?

5.2.1 Legal Institutions

Direct Regulations

The governments of these countries under study are making continuous efforts to put in place regulations that encourage the VC industry as well as clarifying issues related to the scope of the activities of different funds that are considered public funds within the industry. This regulatory process is slow in some countries, fast in some, while others seem to be keeping up with the pace of the industry by putting some regulations in place. As the industry is still in its infancy, most of the countries are still trying to find the best way to go about the regulations to at least put some control and at the same time avoid regulations that can stifle the flow of activities. In line with this process, there has been some collaboration with organizations such as the EAVCA that covers the East African community and others, to set up regulations with practical insights and industry realities. Though the process is slow with governments like the case of Kenya, the hope is that when these regulations are finally set up and implemented, they will contribute to stimulate the industry. Looking at another example, Rwanda is an exceptional case with regards to speed in making and implementing policies. With their competent administration in place, policies are put in place and implemented as planned with relative speed, compared to Kenya. This speaks well as the country is moving towards positioning itself as Africa’s next financial and tech hub though there is skepticism about doing business out of the control of the government. So much more needs to be done about the setting up of VC funds, early-stage angel investment sector, and other specific aspects within the VC ecosystem. Much collaboration is still necessary between regulators and VC investors to put in place regulations that work for the good of the industry as that has not always been the case. In Kenya for example, VC funds need to seek approval from the competition authority in order to make additional investment above a certain threshold. This generally does not play well for the funds as it adds some compliance time to their activities.

Taxes/ Legal Provisions

In all the countries covered by this study, very little has been done to lay down legal provisions, systems and actions that directly regulates the VC ecosystem. Most of what has been put in place by governments is directed towards incentives, facilitating procedures and a few others. In terms of facilitating investment procedures, Investment Promotion Agencies have been set up by these governments to oversee the process. One example is the Nigerian Investment Promotion Commission that was setup to help remove bottlenecks, shorten the waiting time in procedures such as license approvals, facilitate administrative processes investors go through, as well as contribute to reducing the cost of doing business. As for incentives, countries do offer different packages to funds to encourage them to set up as well as promote home domiciliation. Some countries also have incentives to encourage wealthy individuals, families and funds to invest in the start-up or early-stage business sector. A typical example is the article 12J in South Africa that gives funds, individuals, and corporate bodies the ability to make investments in VC companies that qualify and are accepted in the program. The investors benefit 45% of their investment which is taken off their income tax burden. As its period of application draws to a close, this tax provision has contributed significantly to adding the amount of capital flow into the VC space in South Africa despite the risk adverseness that characterizes the investment behavior, especially in early-stage businesses. The identified challenge with this tax provision is that it does not provide any form of protection to the investors as it is only an incentive package. This means that investors have nothing to hold on to if their investments go down when they invest in such risky areas as early-stage businesses. This may not be very appealing to investors as they would prefer to invest in a market or country where they get some protection for their investments (Adongo, 2016; Bottazzi et al., 2009). It can also push investors to seek more controlling influence on the businesses they invest in so as to secure their resources (Adongo, 2016).

5.2.2 Financial Institutions

Direct Investments

The creation of different funds that focus on equity investments contributes significantly to improve on the investment landscape by providing a different form of capital other than lending and as such reduce the dependence on lending which is quite expensive for startups (Megginson and Gao, 2020). All the countries covered in this study have funds/investment schemes like sovereign wealth funds, created by the governments that invest either directly into the private equity and VC space or through a VC fund. Some of the funds are not run by the government but by development partners in collaboration with the government. For example, Rwanda has a sovereign wealth fund that invests mainly into securities, and deposits as well as private equity. Kenya also has funds like pension funds, insurance funds and others that invest into private equity and other companies within the country. But these funds for both Rwanda and Kenya cannot invest into VC funds. In South Africa, the situation is a little different. Through government actions, different venture financing as well as start-up support programs and institutions have been created that provide funding and invest in start-up ventures. There are also funds that VC funds can leverage; that is, pension funds, insurance companies and other funds have the ability to make investments into VC funds (selected VC fund managers) to provide more capital flow into the industry. Nigeria also has a sovereign wealth fund that makes direct equity investments into businesses as well as invest in VC funds and so does Ghana. The Ghanaian sovereign wealth fund was recently created and has not made any investments yet but their mandate permits them to invest into VC funds as well as make private equity investments. They also have the trust fund that is primarily focused on investment opportunities within Ghana. All these are institutions created by the government to support the industry, though these institutions have limits to what they can do as well as the geographical scope they can cover. The Nigerian Sovereign wealth fund, for example, can invest globally, mainly looking at opportunities that provide value to the fund, but the newly created innovation fund that is still part of the sovereign wealth fund can only invest in deals and opportunities within Africa and mainly within the innovation space, while the Kenyan funds invest only in local deals (deals within Kenya). These institutions created by governments have significant influence on the VC space within their scope of investment.

Exchanges/ Capital Control

Some of the selected countries in this study like Nigeria and South Africa have policies put in place to regulate the flow of money in and out of the country. The main reason for this control is to check and avoid money laundering and the financing of other illegal activities. This effects investment and venture capital as a whole, which is often not considered in such regulatory setting processes. Countries such as Kenya on the other hand have no control or regulations for the movement of capital in and out of the country. This gives investors the freedom to move any amount of capital without the need to go through any compliance procedures. The absence of regulations in Kenya has contributed significantly to the country's attractiveness to investors, development partners/institutions, and other non-governmental organizations. The huge inflow of capital into Kenya has contributed to the over-valuation of assets and investments, but it has also contributed significantly to stimulate the venture capital sector. This theme was not captured in the literature of the study, including the Guler and Guillen (2010) article, but we learned this from the interview and found it very relevant in answering the research questions.

Stock markets/ Exits

Guler and Guillén (2010) highlighted that as venture capital firms do always invest temporarily with the plan to exit in the near future, the stock or capital market is a very important institution to their activities as the most profitable form of exit is through IPO. This means that the level of development of the equity market in the country or region in which the VC fund operates or is domiciled gives a picture of how successful exits are or will be in that region. South Africa has a more well-developed, sophisticated equity market and investment landscape in general than the other countries covered in this study. Despite the advanced nature of their market, exits through IPO have been rare, just as in the other countries. Most exits within the African continent as a whole have been acquisitions and some of the reasons for this, besides the underdeveloped financial markets, is that the industry is relatively very new and growing. The venture capital industry in Africa is in its infancy and most investments are just a few years old, which makes exits through the IPO options seem very unsuccessful before reaching profitability. The immature nature of the industry also reflects on the amount of capital inflow into the ecosystem. The limited inflow of capital contributes to how rare IPO exits can be as investors have limited amounts to spread across an increasing number of deals. Also, the growth process of businesses in Africa is generally slow compared to other markets. This therefore requires the VC funds to hold their stakes in the businesses much longer than would be desired. This affects the number of possible exits and the flow of IPOs into the market and creates a circle of challenges for the VC industry; the effect of which is more indirect.

5.2.3 Others

VC Ecosystem

Most VC funds in Africa are domiciled offshore and only create a home country office as they expand. The most common reason for offshore domiciliation is the availability of ecosystem actors such as lawyers and other legal personalities, accountants and others who fund managers cannot find in their home countries. As such, these funds get incorporated and are domiciled in countries like Mauritius, where the government has put in much effort to train its work force. The ecosystem players understand how VC transactions are carried out, and the courts have experience and understanding of VC deals in case there are any problems. The governments of these countries under study have not done much in terms of educating/training their workforce in VC transactions to permit them to be able to understand, for example, standard templates used all over the world to draft deals. Though this is the general view, some countries are doing better than others. South Africa for example has a more developed market and is doing better when it comes to the skills and knowledge required in the VC space as the government has taken more action in training/education of the workforce. Another set of ecosystem players is the entrepreneurs themselves who, over time, are becoming more knowledgeable and experienced with the VC investment process. Learning from their first experiences and/or from the experiences of fellow entrepreneurs within their network, entrepreneurs are becoming more familiar with what VC funds expect from an entrepreneurial venture. Though there are no government actions that directly connect startups and VC funds, the government actions towards entrepreneurs produce a multiplying effect as more ventures are created and require funding, which in turn stimulates the VC ecosystem as it increases the deal flow into the system.

5.3 Political Stability

Sub RQ3: How does the political stability of a country influence VC investment activities?

As Metrik & Yasuda (2011) explore why VC activity in certain markets lags behind more developed markets, one of the main explanations they cite is country risks. The authors claim that in emerging markets, many investors are concerned about national-level political factors and how those factors can influence economic risks. Some of the risks due to political instability identified by the authors are that corporate assets can be directly seized, capital controls can prevent foreign investors from collecting profits or proceeds from a sale, and that financial crises can lead to political and social upheaval. In any of these cases, a VC can potentially lose their entire investment, even if the business was performing well. These concerns collectively are termed *country risks* and because of these, many VCs are wary of investment in emerging markets (Metrick and Yasuda, 2011). Investors prefer a high level of predictability because even with good financial institutions to realize capital gains, good laws to protect investors' rights and strong support for innovation and knowledge, there is still the risk that lawmakers change the laws on that could rip away all or part of their investment (Guler and Guillén, 2010).

Prosperity and Progression in Times of Peace

One of our VC interviewees, Grant R, made an interesting point regarding the influence of political stability. He was describing the natural progression taking place within many African markets because of the state of the economies and the state of the consumer. He commented about rising urbanization and that people in urban areas are now earning salaries therefore they need banking, they need to buy goods and services, and they need insurance. He said that this is all just a natural progression from where they have been and that these countries have managed to have stable economies and stable times. In times of war or instability this progression would happen at a slower pace

Difficulties in Conducting Due Diligence

In addition to the more general sense that Grant pointed out, the following statement made by another of our VC firm interviewees describes one practical example about how political instability can hinder a VCs investment process.

"If you have to do due diligence and you can't go to Tigray then frankly nobody is going to invest. When there were companies last year that were raising capital, there were no investors who were willing to go to Ethiopia. But in venture capital you're looking at longer time horizons, so over 10 years if we believe it's a great company and a great team, we take the view that it's going to work itself out. We have chosen to invest here. The bigger challenge is actually the short term stuff."

Niraj

The statement made by Niraj illustrates one way in which challenges through political instability inflict consequence and loss of opportunity upon both the investors and the companies' fundraising as well. The instability created by a conflict can make it dangerous for investors to travel to a particular area to perform their due diligence process. Hence, the companies also lose that potential capital.

Leadership and Regulatory stability

As mentioned in Guler and Guillén (2010), investors generally prefer countries or markets with stable political situations to invest in as well as markets where they can predict upcoming policies and how they will affect their investment. Changes in government always bring about some level of instability in most African countries and this is an aspect that always comes up in investment discussions. An example of leadership changes that also come with changes in regulations is Nigeria. The leadership of the country changes every four years, or eight years if there is a reelection, and this comes with changes in policies that, either directly or indirectly, influence VC investment activities. Over the years, the changes in leadership have led to a lot of policy changes. So much so that as the election period approaches, investors are skeptical to complete pending investment processes for fear of what could happen to their investments. Another example of policy changes during the election period and possible change of government is the case of Kenya where the government reduced the lending rate for banks to 8 or 9% and it was impossible for banks to lend at that rate. This was an unpredicted action by the government which potentially influenced the decisions of investors who were interested in businesses that offer lending services such as fintech companies.

Civil Conflict

The civil conflicts regularly faced by most African countries have a direct effect on VC investment activities. Some of the conflicts are a result of changes in leadership as well as the quest for power and recognition which disturb businesses and investments as entrepreneurs and investors would rather secure their existing investment than making new ones. Though Ethiopia is out of the scope of this study, its closeness to Kenya and involvement in the East African Community add to the reason why it is mentioned in this study. The frequent political unrest in the country, for example, makes investment almost impossible.

6. Conclusion

In concluding this research, this chapter is divided into six sections. First, we answer the research questions, then we list other key findings discovered through the study that fell outside of our research questions. Following this we list practical recommendations. Then we state our contributions to literature, our research limitations, and finally suggestions for further research.

6.1 Answering the Research Questions(s)

While there are clearly factors that heavily influence venture capital activity within jurisdictions, governments can affect the supply of venture capital in a myriad of ways (Bustamante et al., 2021; Cumming, 2007; Humphery-Jenner, 2012; Wonglimpiyarat, 2009). According to Arqué-Castells (2012), persuaded by the belief that VCs are the ideal partners for financing corporate research and development, many governments have sought to promote innovation by channeling public funds to VCs, adopting favorable fiscal and regulatory frameworks, and directly mobilizing VCs in the support of small, innovative firms. The author further claims that many governments regard venture capital as an essential component of a healthy economy, and therefore commit considerable resources to the creation of technology oriented VC firms and markets. Through this research study we investigated what governments are doing in selected countries to both influence venture capital activity and spur innovation. Our research was guided by the following primary research question:

What government policies and actions influence venture capital investment into the fintech sector within Africa?

To answer this, we broke the question into three sub-research questions. In the following section we will state and answer each of our sub-research questions based upon our findings that have been gathered through our literature review and primary and secondary data collection and analysis.

Support For Innovation and Technology

Sub RQ1: *What governmental policy and actions influence Fintech innovation?*

The primary policies and actions found to be taken in these identified fintech 'hotspot' countries vary, but in all five of the countries studied there have been efforts put into the development and utilization of regulatory and/or digital innovation sandboxes, the establishment of innovation offices & hubs, and the utilization of RegTech for regulators to leverage access to data to assist in the regulatory process. Some of the countries from the study are in their first iteration of their sandboxes while others are in their second. These regulatory sandboxes aim to offer a safe testing space for innovators to launch new innovative products, services, and delivery mechanisms, while benefiting from temporary regulatory exceptions. Additionally, the governments from this study have enacted small business acts to spur entrepreneurship and several are either in the process of drafting or have recently released policies known as startup acts. These serve as legislative instruments to package strategic incentives and interventions to accelerate the formation and growth of innovative and high-growth firms, especially in the tech-based service industry. The startup acts are intended to lower the barrier of entry for startups while supporting the access to finance markets. Another important area of focus for these governments is that of providing greater access to funding. This can be seen in some countries by allotting a portion of their Sovereign Wealth Funds toward venture capital investment into innovative tech startups. Some of the countries also have established specific innovation funds, R&D grants, and special tax incentives directed toward innovative startups, including fintech companies. Another important component to consider regarding what countries are or are not doing that affects fintech innovation is the degree of regulation in general. While it has been said that to a large extent, Sub-Saharan African countries have taken a rather hands-off regulatory posture towards fintech allowing for private self-regulation, we have also found that some countries in our study have quite thorough and strict regulatory positioning. The regulators we spoke with often cited the importance in balancing the protection of consumer's rights, while at the same time not over-regulating, which can stifle fintech innovation. In general, fintech regulation across Sub-Saharan Africa touches on three broad areas: tax collection, consumer protection, and financial stability.

Support for Venture Capital Transactions

Sub RQ2: What governmental policy and actions influence venture capital investment?

In general our findings show that the governmental policies and actions that influence venture capital investment most significantly tend to focus on the formation of legal institutions, financial institutions, and the encouragement of developing a stronger national venture capital ecosystem. The governments of the countries under study are making continuous efforts to put in place regulations that encourage the VC industry as well as clarifying issues related to the scope of the activities of different funds that are considered public funds within the industry. This regulatory process is slow in some countries, fast in some, while others seem to be keeping up with the pace of the industry by putting some regulations in place. As the industry is still in its infancy, most of the countries are still trying to find the best way to go about the regulations that give some control but at the same time avoid regulations that can stifle the flow of activities. In all the countries covered by this study, very little has been done to lay down legal provisions, systems and actions that directly regulate the VC ecosystem. Most of what has been put in place by governments is directed towards incentives and facilitating procedures. In terms of facilitating investment procedures, Investment Promotion Agencies have been set up by these governments to oversee the process. As for incentives, countries do offer different packages to funds to encourage them to set up as well as promote home domiciliation. Some countries also have incentives to encourage wealthy individuals, families and funds to invest into the start-up or early-stage business sector.

The creation of different funds that focus on equity investments contributes significantly to improve on the investment landscape by providing a different form of capital other than lending and as such reduces the dependence on lending which is quite expensive for startups. All the countries covered in this study have funds/investment schemes like sovereign wealth funds, created by the governments that invest either directly into the private equity and VC space or through a VC fund. Some of the funds are not run by the government but by development partners in collaboration with the government. Some of the selected countries in this study, like Nigeria and South Africa, have policies put in place to regulate the flow of money in and out of the country. The main reason for this control is to check and avoid money laundering and the financing of other illegal activities but this affects investment and venture capital activities as a whole, which is often not considered in such regulatory setting processes. Countries such as Kenya on the other hand have no control or regulations for the movement of capital in and out of the country. This gives investors the freedom to move any amount of capital without the need to go through any compliance procedures. The absence of regulations in Kenya has contributed significantly to the country's attractiveness to investors, development partners/institutions and other non-governmental organizations.

Most VC funds in Africa are domiciled offshore and only create a home country office as they expand. The most common reason for offshore domiciliation is the availability of ecosystem actors such as lawyers, other legal personalities, accountants and others, who fund managers can’t find in their home countries. As such, these funds get incorporated and are domiciled in countries like Mauritius, where the government has put in much effort to train its workforce. The ecosystem players now understand how VC transactions are carried out, and the courts have experience and understanding of VC deals in case there are any problems. The governments of the countries under study have not done as much in terms of educating/training their workforce in the direction of VC transactions to permit them to be able to understand, for example, standard templates used all over the world to draft deals etc.

Political Stability

Sub RQ3: How does the political stability of a country influence VC investment activities?

There is a natural progression taking place within many African markets because of the state of the economies and the state of the consumer has been steadily developing over recent years. There is rising urbanization and the people in urban areas who are now earning salaries need banking, they need to buy goods and services, they need insurance, etc. This is occurring because these countries have managed to have stable economies and stable times. The civil conflicts regularly faced by many African countries have a direct effect on VC investment activities.

Some of the conflicts are a result of changes in leadership as well as the quest for power and recognition which disturb businesses and investments as entrepreneurs and investors would rather secure their existing investments than making new ones. Investors prefer a high level of predictability because even with good financial institutions to realize capital gains, good laws to protect investors' rights, and strong support for innovation and knowledge, lawmakers could still change the laws and that could rip away all or part of their investment.

In an effort to provide greater levels of political stability and also to accumulate greater market size, there are several examples of trade blocs that have been established. These trade blocs are formed by governments establishing agreements and harmonized protocols that aim to create more cohesion through a higher degree of collaboration between the various members of the trade blocs. Most foreign investors do not like going through the process of trying to know all individual jurisdictions before they can invest as it takes a lot of time and effort as well as being very expensive. Creating a regional industry and developing the same, common, or similar regulations (for example that which has been done by the East African Community (EAC)) will be much better when trying to attract foreign investments than each country working individually. But looking at the situation of the different blocs from a practical perspective, there is a lot more politics going on within the trade blocs than actions towards putting in place common regulations and implementing them. Another massive effort to create more stability and support economic development within the continent has been the establishment of the African Continental Free Trade Area (AfCFTA), which includes almost all countries in Africa.

6.2 Other Key Findings

The Maturity of the VC industry in Africa	In Africa there is said to be a demonstrable pipeline and businesses that get invested in doing well enough to get follow up investment, but there is a low number of meaningful exits and this reflects the immaturity of the African market. When Africa starts to see 20 or 30 exits then it can be said that there is a level of maturity across the entire VC chain.
Challenges facing the Venture Capital markets	The overwhelming challenge said to face the venture capital markets in Africa is the lack of capital, particularly for early and seed stage companies. Additionally, as the VC industry is so relatively new within Africa, many entrepreneurs lack the understanding of the VC process. This is improving as more venture capital is flowing to entrepreneurs and they gain more familiarity.

International Development Money/ Partners	There are many US and European based international development and aid funds directed into certain parts of Africa, especially East Africa, and because they are often impact investment focused a lot of social innovation companies receive funding that may not be viable in the long term, while there may be many other potentially viable businesses that are not eligible for these funds even though they might be able to create more jobs and boost the economy. Additionally, the aid money can potentially disincentivize the need for a startup to reach viability as they rely on aid money rather than actual revenues and capturing market shares.
Common Legal System	The countries that practice the common law legal system and use of the English language provide greater ease for investors that also are used to this system and language such as the US and UK, who are major investors into the region. French speaking, civil law jurisdictions are very different in terms of how one concludes agreements beyond just dealing with language barriers.
COVID accelerating fintech	COVID has been accelerating fintech in these countries years into the future with mobile payments, mobile money, digital offerings/ platforms. A lot of consumers have shifted preference and understanding.
Most fintechs want regulatory clarity	Most fintechs want regulatory clarity. The tradeoff is they get to go to market faster but they provide data. Not private data, but performance data. If a fintech company is in compliance, their company is worth more.
Value Proposition between investors and regulators	Global investors want a regulatory space where they know that they will be able to get the money when they need it. They also need to know that they can make dividend calls and that they can get their return when the fintechs need to get out. It requires a viable regulatory

	framework to do that.

6.3 Recommendations

- HAVE PATIENCE: deals take longer on the continent than in developed markets. So, if there is a need for fast paced growth and return speed, one may need to adjust the time horizon a bit. It can be helpful to keep optimism even when the process seems frustratingly slow.
- CONSIDER CLUB DEALS/ HAVE LOCAL PRESENCE: Club deals are prominent in Africa. Club deals are when you have more than two investors in a single transaction, especially for early-stage investment. Clubbing occurs mainly because you want a local partner who understands the landscape who can help unlock the unique aspects of due diligence that probably are not visible to an external party. It is very common to get one local party and then four other non-locals to club in a transaction for the very reason of appreciating risk and having someone who understands their market. Local presence is also very important to understand the customs and actual needs of the local market. Oftentimes investors can approach a market with their own biases and either invest in misses or miss opportunities by not understanding the local market.
- INVEST IN A FOUNDER WHO HAS RELATIONSHIPS WITH REGULATORS: Especially when investing in spaces where the regulatory environment is unclear, investing with a founder that is close to regulators and understands what is going on regarding current regulatory actions can be incredibly valuable and potentially help to mitigate higher risk investments if the company is not in compliance and could possibly be fined heavily or shut down.
- CONSIDER REGISTERING A MAURITIUS BASED ENTITY: This is said to be very inexpensive and can open up African market opportunities. Additionally, as many African based VC firms are based in Mauritius this can provide a smoother entry for collaborations and co-investments with the local VC community.

6.4 Contributions to Literature

The Guler and Guillén (2010) article was used as the base of analysis in this study and the rich literature therein was used to form a model which we titled "Model for Institutional Conditions for VC Activities". This article highlights that for VC firms to operate in any market, they need certain institutions to be in place. These are institutions that facilitate the entrepreneurial environment, institutions with legal responsibility that spell out the terms of contracts between VC firms and the entrepreneurs, institutions that regulate financial transactions as well as the political situation of the country. These different institutions were used as the main sections in the model and were the main focus of our data collections/presentation and analysis. The model as presented in figure 3 is then modified based on the findings of this study with some additions as presented in the figure below.

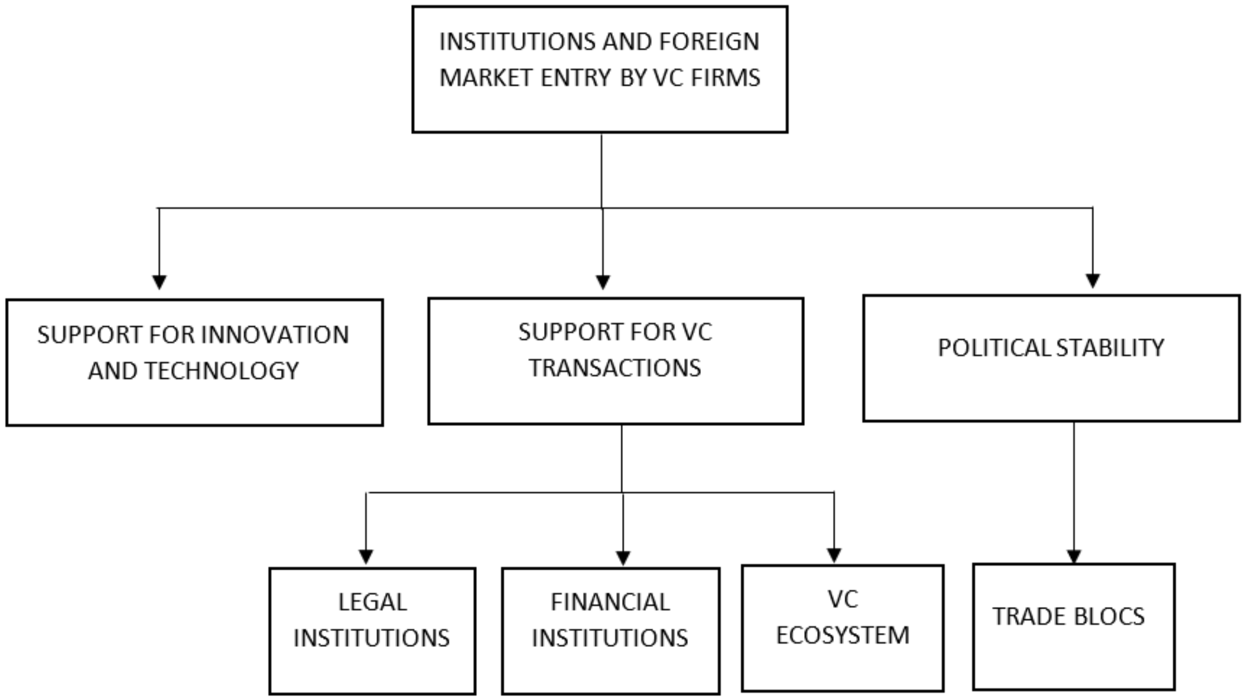


Figure 14: Modified model for institutional conditions for VC activities

Besides the additional sections of the VC ecosystem and trade blocks, other contributions relating to the other sections will be added as we elaborate the respective sections below.

Support for innovation and technology

The Guler and Guillén (2010) article indicates that the nation's level of innovation has an influence on the level of entrepreneurial activities happening within the nation. The nation, states or regions do differ in their level of innovation activities and as a result, experience different levels of business activities. Also, there is a spillover effect when innovation and entrepreneurial activities happen within a particular location such as university research centers. Entrepreneurs gain knowledge and familiarity with the activities of other persons and can build on their knowledge to create more entrepreneurial ventures. This is in line with the study as our findings indicate that innovation hubs and other institutions which facilitate innovation contribute to stimulating entrepreneurial activities and in turn, VC activities. In addition to this, the study found that the use of sandbox technology contributes to the creation of more ventures as procedures are simplified, challenges faced by entrepreneurs are solved or remedied and much more. This study also found that countries go to the extent of passing startup laws to put some order in the sector and provide the legal framework that guides entrepreneurial activities. Furthermore, some governments do set up special funds for innovation activities, offer tax incentives to businesses that invest in research and development and who qualify to apply for the incentives. Leaving a new innovation unregulated sometimes gives it the opportunity to flourish while regulators focus their efforts towards understanding what it is and how to better regulate it without stifling the sector. These are all aspects that stimulate the creation of ventures and as a result, deals flow to the VC industry and are worth considering by VC firms.

Support for VC transactions
In this section, the Guler and Guillén (2010) highlighted that VC firms prefer to invest where there are institutions that can protect their rights and investments and in such settings they are likely to invest more. This protection also encourages VC firms to invest in early stage and seed businesses, while in situations where there is low protection, VC firms tend to protect themselves by buying more ownership rights. As far as the financial service sector is concerned, the article indicates that the more developed the stock market is to permit highly profitable IPO exits, the more attractive it is for VC firms and this also contributes to improving the private equity space. The findings of this study correlate with the above- mentioned institutional concerns of a VC firm with some additions on both the legal aspects as well as the financial sectors and with one additional sector "VC ecosystem actors" based on the themes from the data gathered. On the legal aspect, the study indicates that most VC firms tend to make their initial expansion moves to markets where they are familiar with the legal system in place, such as common law. This gives them a relatively easy start in the market as they understand the legal system. Regarding the protection of investments and investors rights, the study adds that VC firms can also be willing to invest in an area of low protection provided the business owners or the firm itself have a good relationship with lawmakers and can predict their actions. With regards to financial institutions, the study adds that exchange controls and regulations regarding the movement of capital can directly influence VC investment decisions as it adds extra procedures into the investment process. The inflow of capital through development partners can influence VC activities both negatively and positively. Positive influence is with respect to capital available for investment into the ecosystem while negative influence can be the over pricing of assets due to the huge inflow of capital. Ecosystem actors, which is a complete addition to the model, include entrepreneurs, lawyers, accountants, and other persons/professions that are part of VC investment activities. These different actors significantly contribute to facilitating VC activities and increasing deal flow into the ecosystem.

Political stability
As mentioned in the Guler and Guillén (2010) article, the political stability of a market or country or region has significance on the level of VC activities within that territory. The regular conflicts in some countries impair the free flow of VC activities. The findings of the study indicate that frequent changes in leadership contribute to instability as there might be civil riots during and even after election periods. Also, as new leaders are elected, they often come to power with new regulations they want to put in place, and this must be considered in VC decisions. Furthermore, the existing trade blocs are set up with the aim of having a single market with the free movement of people and capital as well as goods and services, which adds value to VC activities. VC firms would generally prefer markets that have such common systems across different countries such that licenses obtained to operate in one country applied to other countries and this gives a larger market, growth for the businesses, and an increase in deals for VC firms.

6.5 Research Limitations

Several limitations were encountered during the course of this study. The first is that this study does not take into consideration the socio-economic situation of these countries which directly or

indirectly could affect the creativeness of entrepreneurs in terms of coming up with innovative solutions that can be interesting for VC firms to fund.
Secondly, we were unable to have enough policy documents that spell out regulations that directly or indirectly influence VC activities in all the countries. This could be a result of poor documentation and circulation of these documents into the VC system which makes its content inaccessible to actors within the space and could have influenced the findings in this study as well as the response from the interviewees.
Thirdly, the interviewee size is not enough for a fast study like this. Though we interviewed thirteen interviewees in total, this seems not enough to get an in-depth multiple country perspective on the subject matter. Also, we could not get enough policy makers as we desired to participate in the study in order to get rich insights on what the governments are doing directly to the VC space.
Fourthly, as we the researchers had very limited knowledge on the VC space before beginning this study, we had little knowledge about what the biases might be from the perspective of the interviewees. And finally, as the study is country specific, with each country having its specificities, the findings of this study might not be loosely generalized.

6.6 Suggestions for future research

Though this research brings both academic and practical contributions to the existing knowledge of how the VC ecosystem functions in that region as well as what influences VC activities, there is still a lot to be discovered. The research raised more questions that need to be answered to gain a better understanding of how policies, government actions, and other factors influence VC investment activities within the region.
Some of the interviewees mentioned the common legal system as a factor influencing their choice of which country to invest in or expand to. A lot of advantages were highlighted about investing in a region where common law is practiced since most of the hot spot countries practice the common law. In another interview, some GPs noted that North of Africa is signaling to be a favorable market and with the North being a very unique market given its close ties with the Middle East, it could be interesting to search further to understand 'what is contributing to the Northern countries, especially Egypt, becoming a fast-growing hotspot region'.
One key aspect of the findings is the protection of investors' rights and investments by investors as well as entrepreneurs being close to policy makers. It could be interesting to investigate further 'how involved are the investors in the policy making, how significant are their contributions to these policies, and how involved are they in the politics itself'? This also relates to the findings of this study that policy makers do cooperate with investors and other institutions that have an objective to contribute to the VC ecosystem.
Finally, despite the instability in some countries, VC activities are still increasing. From the interviews, there seems to be a high dependence on the demographics of these countries for the VC ecosystem to flourish. It could therefore be interesting to research more about how the population contributes to the growth of the VC space and what other demographic factors have significant influence on the level of entrepreneurial activities and in effect, VC activities.

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APPENDIX

APPENDIX 1
Interview Guide:

Policy makers

- What immediately comes to your mind that you think would be the most important information for us to know regarding this research focus?

- When a VC firm is considering entering the African market (especially within fintech), what questions do you think they should be asking in their assessment.
    - Which country best answers these questions?

- In fintech which segments in which countries are the most flourishing opportunities (from a VC perspective to invest in)?

- You seem to be very knowledgeable regarding governmental policies and actions and how they affect both VC and the fintech space. Which countries' policies are you most familiar with?

- Do you have a sense regarding how prioritized fintech is for the economic development strategy in the country you are familiar with?

- Can you highlight some policies and actions that governments can take to encouraging fintech (from a general African emerging market perspective)?
    - Same question with country specific focus

- Can you Highlight policy and actions regarding stimulating VC investment (from a general African emerging market perspective)?
    - Same question with country specific focus

- Are you aware of any direct government investment schemes that can be leveraged by VCs to invest within the countries?
    - Must they be invested within the country?
    - How about foreign investment funds or bodies that can be or are leveraged to encourage VC investment (especially within fintech)

    - Can you 'map out' the ecosystem ('the ladder') as she sees it
      - insight into how these 'ladder rungs' are in relationship/ cooperation with each other? provide us with any insights regarding the 'ecosystem' / chain and relationships of cooperation between policy makers → central banks → wealth funds → LPs/ GPs → entrepreneurs?

    - Any Contacts? (especially in Nigeria)

VC (LP and GP)

- Our thesis is that a disciplined venture capital approach to investing in innovative early-stage businesses serving BoP markets can generate attractive financial returns and large-scale social benefits for low-income households.

- We see you have a BoP focus and your portfolio includes tech in energy, mobility, healthcare, but not noticing any fintech? Have you made any investments into the fintech space?
    - If they do invest in fintech, are there any specific policies that support fintech that you can highlight?
    - Do you have any knowledge about key investors and opportunities within fintech in Africa?
    - How is fintech prioritized in terms of generating economic development?
        - Are you aware of any funds or investment schemes specific to fintech investment in Africa?

- Which markets are you primarily investing in? Is it just East Africa?
    - From the previous interviews it seems that the East African block is trying to harmonize policies for a lot of industries. Would you say the same for the VC industry?
    - OK, so is your discussion relevant to just Kenya or East Africa?

- Do you have VC experience outside of East Africa?

- How mature is the VC industry in Kenya/ East Africa?

- You have been in this industry, how are the policies supporting your investment activities?
    - If nothing is mentioned about policies protecting investors, we can ask about that.

    - Have you noticed changes within this space over the years that you have been active?

- What are the main challenges and opportunities you experience as a VC firm in Kenya?
    - If he doesn't mention anything about exiting investments then we ask him to talk about 'exiting'.

- How could the conditions be improved to stimulate more investment into the VC space?

- Do you consider the political stability of a country before making an investment? Or how does this influence your investment process?

- What advice would you give to a foreign based VC firm that wants to make a few investments within Africa?
    - How about if developing a more long term strategy for investing into Africa?

- It looked to us that NovaStar is domiciled in Mauritius yet operating in Nairobi. Can you explain more about this arrangement and the reason why?
    - What is the general situation? Where are most firms domiciled?
    - Do they have the same reasons?
    - Is there a prospect for change in this issue of domiciliation?
    - Are the other primary domiciles around Africa?
- Request for more contacts (Nigeria, Ghana, South Africa, Kenya)