Rethinking Venture Capital for the African Market

Whitepaper

Questioning the Status Quo - 2025

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0. Executive Summary

Africa's Venture Capital (VC) landscape is fast-evolving and maturing, yet the fund structures funding it are not. Most African funds still operate under assumptions borrowed from Silicon Valley and the Private Equity industry: decade-long fund cycles, equity heavy capital stacks, liquidity assumptions tied to deep secondary and capital markets, and incentive structures built for large, liquid economies. African founders, however, build in environments defined by fragmented markets, lower purchasing power, scarce infrastructure, and often operationally intensive "phygital" business models. The result is not a failure of venture capital as an asset class, but a failure of fit.

Drawing on the open discussions of a working group of 15+ fund managers, a survey of over 50 fund managers, and interviews with ecosystem builders, this whitepaper identifies four core structural misalignments constraining the development and impact of venture capital across the continent. Firstly, timelines are fundamentally mismatched: 60% of funds surveyed still operate on a 10-year clock, not long enough to accommodate for African businesses' longer maturation cycles, forcing repeated extensions and distorting follow-on strategies. Secondly, capital types do not match business needs. Founders often use expensive equity to finance working capital, asset expansion, or heavy operations because alternatives remain scarce. Thirdly, liquidity pathways are severely constrained. With few natural acquirers, shallow public markets, and underdeveloped secondaries, 58% of fund managers report that fewer than a quarter of their portfolio companies have a visible exit route. Lastly, incentive and fee structures, specifically the 2/20 model and European waterfalls, leave fund managers under-resourced and disincentivized with carry crystallisation for 15-17 years.

This whitepaper discusses potential solutions to these shortfalls and invites African fund managers to experiment with structures better suited to African growth dynamics. These include 13-15 year vehicles launched from the outset; continuation funds and spin-outs for illiquid but high potential assets; permanent capital structures; and hybrid models that pair an evergreen core with SPVs for high growth opportunities. Moreover, it calls African fund managers to build or rebuild the capital stack itself, by incorporating instruments such as asset backed lending, revolving working capital lines, and revenue-based instruments, to reduce founder dilution and generate earlier liquidity. This whitepaper also presses African fund managers to adopt the art and discipline of true exit engineering, and informs them on ways to do so, while exploring ways to better align interests across the ecosystem.

One of the clearest insights emerges when fund managers are asked what structures they would build if they had a guaranteed anchor LP. Their responses were remarkably diverse, from evergreen holding vehicles and blended debt-equity structures, to blind pool funds where each portfolio company is its own legally separate vehicle with independent exit paths, hybrid private credit funds, dual vehicles for secondaries, etc. The message is clear: Africa does not need one new VC model, it needs diversity. The continent requires a portfolio of fund architectures that reflect its business realities, liquidity constraints, time horizons, and operational intensity.

This whitepaper urges fund managers, LPs, and ecosystem partners to challenge long-held assumptions and engage with a broader design palette for African venture capital. The findings do not prescribe a single right model. Instead, they offer the material to rethink how we build, fund, and scale the African tech ecosystem, with structures that match the ambitions and realities of the entrepreneurs shaping the continent's economic future.

1. Setting the Stage: Questioning the Status Quo

The traditional Venture Capital (VC) fund model, developed in mature Western markets, faces several challenges when applied to the African continent, challenges that an increasing number of entrepreneurs, investors, and ecosystem players are bringing to the forefront of the conversation. While the VC ecosystem in Africa is still young - 62% of our survey respondents still managing their first fund - and grappling with growing pains driven by various structural and external factors, critics often attribute its failures to the VC model itself, arguing that the “Silicon Valley model” is fundamentally unfit for African markets.

For clarity and alignment, the Silicon Valley model can be understood as a self-reinforcing ecosystem built on interdependent components that together generate sustained technological innovation, capital formation, and high growth entrepreneurship. At its core, this economic model comprises seven mutually reinforcing pillars, recycling innovation into economic expansion. These pillars are embedded into a risk–reward asymmetry model where a small share of capital deployed across many ventures produces outsized aggregate returns, even if most startups fail:

- Venture Capital: the financial engine that funds high risk, high reward startups and enables experimentation and innovation.
- Human Capital: a highly mobile, globally sourced workforce that flows between startups, large firms, and universities.
- University–Industry Ties: close collaboration between academic research and private enterprises, with top universities drawing top-tier talents from around the world who undertake research, spin out startups, and provide focal points for various actors to meet.
- Government Support: both direct support through research funding and (historically defense procurement) and indirect through tax policy, infrastructure, and education.
- Capital Markets: highly liquid and diversified capital market that channels wealth from institutional and retail investors, while sustaining innovation financing across stages and providing exit opportunities.
- Industrial Structure: established firms acquiring, partnering with, or spinning out startups, creating a fluid continuum.
- Support Ecosystem: dense network of professional service providers (law firms, accountants, accelerators, consultants, etc.) that standardise and streamline startup formation, scaling, and exits.

This ecosystem creates an environment where capital efficiency, rapid scaling, and liquidity events become a driver of growth through positively catalysing economic development overall. In short, the Silicon Valley model is not simply about startups and VC funds, it is an economic system where financial innovation, human mobility, institutional collaboration, and technological disruption produce sustained high growth capital.

Trying to replicate today's Silicon Valley model in Africa disregards the structural conditions that make it a success. In much of Africa, the above-mentioned foundations remain nascent or unevenly developed with limited infrastructure, scarce risk capital, illiquid financial markets, low skilled human capital, nascent government support and an underdeveloped industrial base. Industrial and service ecosystems are also thinner across Africa, meaning startups must build many of the systems their U.S. counterparts take for granted, from scratch. These elements inevitably impact the pace of business building and scaling, meaning the principles of high risk, high reward investments applied over a short timeframe often clash with the need to build fundamental businesses that require more patient capital. Thus, investors who fail to adjust, risk not only having their IRR or MOIC expectations unmet, but also risk missing out on the real outsized opportunities that Africa presents, not as a slower Silicon Valley, but as a different frontier where enduring value takes time to compound.

Fund managers in Africa cannot copy-paste the Silicon Valley model but rather, must think creatively about how capital is structured to reflect the realities on the ground. This is not to say that traditional VC plays no role, far from it, but rather to make the case that it should be complemented by other fund models and investment strategies that better reflect the market realities. Given VC's visibility as the most established risk capital class, it can lend valuable learnings and characteristics to more innovative structures that still need to be developed.

The objective of this white paper is to move beyond the simplistic criticism of the Silicon Valley or traditional VC model, which has received considerable attention already. Instead, it seeks to discuss the main struggles caused by the fundamental mismatch between the traditional VC model and African market realities, specifically the problems of longer timelines, capital mismatch, illiquidity and incentives. More importantly, this white paper is meant to shed light on potential solutions for LPs, GPs, and other ecosystem players. By adjusting different bolts of the model, fund managers can apply common sense adaptation and increase the likelihood of success for investments in African funds.

2. About the Paper

About the authors

- Alyune-Blondin Diop – Alyune's interest in alternative funding models in Africa builds on years of investing across Africa and his conviction that the continent needs models rooted in its own economic realities. Alyune has been working as an investor in the Venture Capital and Private Equity scene across Africa and Europe for the past six years.

- Diego Arias Garcia – Diego's background has been in leading investments in Africa for a global early-stage investor and accelerator, as well as for a boutique VC fund over the past seven years. He has also established partnerships with governments, development institutions and universities to foster ecosystem growth in Morocco and Egypt. Diego now works independently with startups, funds and institutions.

- Desirée Pettersson – Desirée's interest in alternative funding models in Africa was sparked after she conducted her MSc thesis research on the opportunities and shortcomings of Venture Capital in Kenya. Desirée has been working as an investor in an early-stage VC Fund for the past two years, investing in climate solutions in both Europe and Africa.

- Kartik Sharma – Kartik's primary focus is delivering exits for a pan-African venture firm with the largest Seed portfolio on the continent. There, he was an investment professional and subsequently Head of Investments. The firm is concluding its 7th cash exit and 9th stock exit. Kartik also advises other funds on exits, helping GPs with DPI management.

About the 'Questioning the Status Quo' Working Group

Since the start of 2025, a group of fifteen investment professionals actively deploying capital across Africa have convened online bi-weekly to discuss topics related to the challenges previously outlined, but more importantly, find solutions to the challenge of adapting the traditional VC model in Africa. Several participants in the group have hosted sessions on topics they have deep interest or expertise in. The purpose of these conversations has been to have open casual discussions, to foster a safe and trusted environment for the participants to openly share what they think or know, or don't know, about any given topic. This paper is a collection and summary of the insights and knowledge that emerged in these sessions over the course of the year.

About the Survey

Building on the discussions of the Questioning the Status Quo Working Group, we sought to broaden the conversation by capturing a wider and more representative range of investor perspectives. Designed for investment professionals actively deploying capital across Africa, the survey explored key themes such as evergreen and holding company models, blended instruments, fund structures and liquidity pathways. Its purpose is to complement the Working Group's qualitative insights with quantitative data, helping to surface shared realities from 50+ investment professionals actively deploying in Africa. This has offered differing viewpoints, and emerging solutions to the structural challenges of venture capital on the continent.

About the Interviews

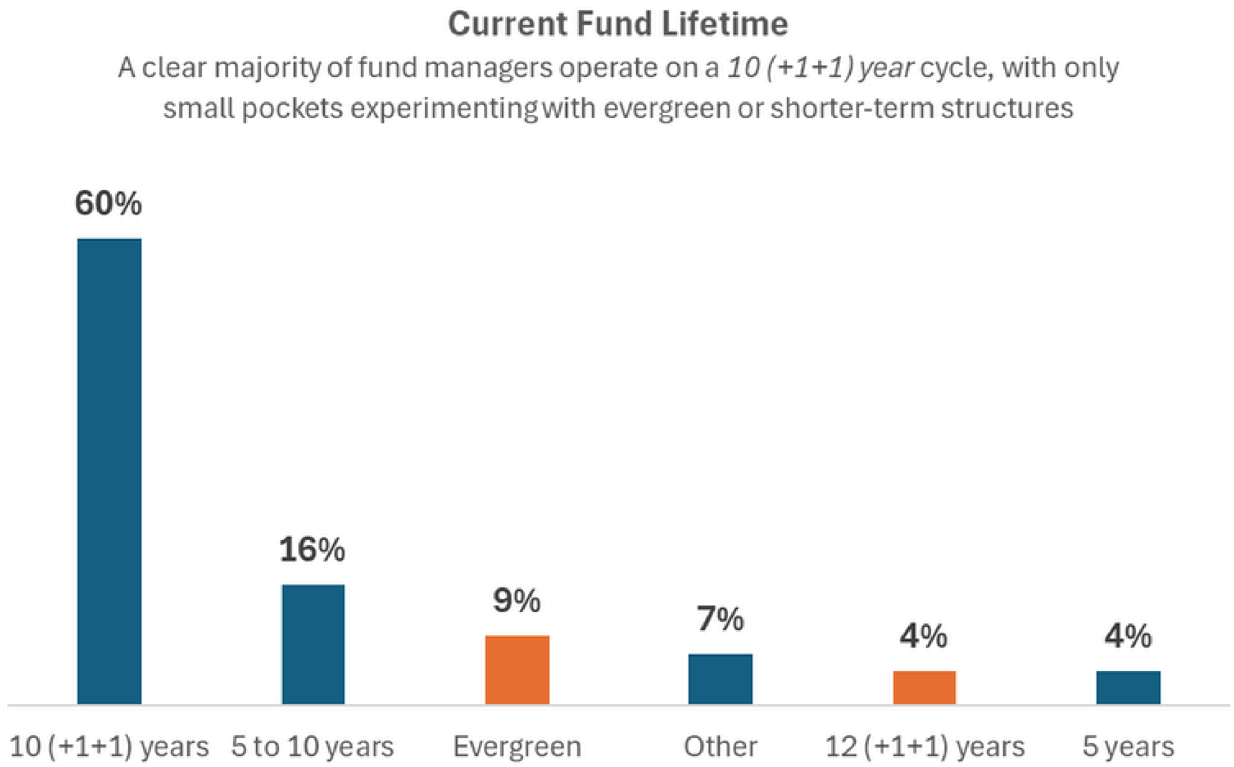
Along with the survey, we conducted a series of written interviews with investment professionals and other actors of the African venture capital ecosystem, operating alternative investment models/structures across Africa. These interviews focused on four archetypes that challenge the conventional structures, e.g., evergreen funds, venture studios, ecosystem support organisations (ESOs)-linked funds, and CVC/institution-linked funds. The questions asked were tailored to understand the operational realities behind these models, and understand the misconceptions and challenges they face across the ecosystem. They also explored comparative strengths and limitations across key dimensions such as liquidity, timeline to exit, market capital needs, return profile, and LP familiarity.

3. State of the Market: Four Core Misalginments

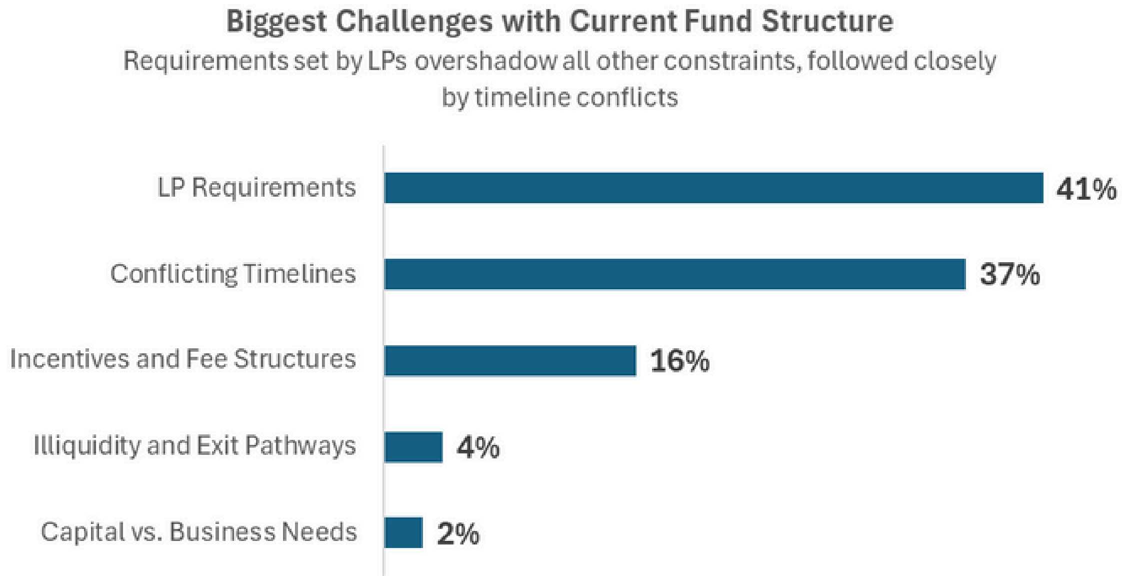
Africa's VC landscape is evolving, but a number of deep structural misalignments continue to constrain the effectiveness of capital. These tensions show up not only in how funds deploy money, but in how founders build, how investors respond, and how liquidity ultimately materialises. In this section, we unpack four interlinked misalignments that collectively shape the performance and durability of the ecosystem.

3.1 Misalignment I: Conflicting Timelines

It takes on average longer to build and scale a company in Africa compared to mature venture markets: Founders must often vertically integrate to compensate for missing infrastructure, build low-margin-high-volume businesses to reach consumers with limited purchasing power, and navigate fragmented regulatory and geographic markets that slow expansion. This reality often extends time-to-product-market-fit and delays scale-up, sometimes beyond the assumptions embedded in the traditional fund lifetimes (10+1+1 years). Meanwhile, 60% of funds surveyed operate on the standard 10(+1+1)-year model. Borrowed from the Private Equity industry, the prominence of the traditional decade-long model reflects both a mismatch and a continued influence from international institutional investors on fund design, with a preference for (on paper-) predictable liquidity horizons.



Resulting from these conflicting timelines, it is not uncommon for VCs to push startups towards a "growth at all costs" strategy, which can undermine a company's long-term health before it has achieved solid product-market fit. In our sample, about a quarter of respondents explicitly referenced time constraints when discussing liquidity and exit challenges, pointing to duration as a first-order constraint rather than a one-off exception. In practice, many African funds have had to extend their lifespan to 15-17 years, after GPs filing for several extensions, a clear signal that the market's operating tempo outlasts its capital model.



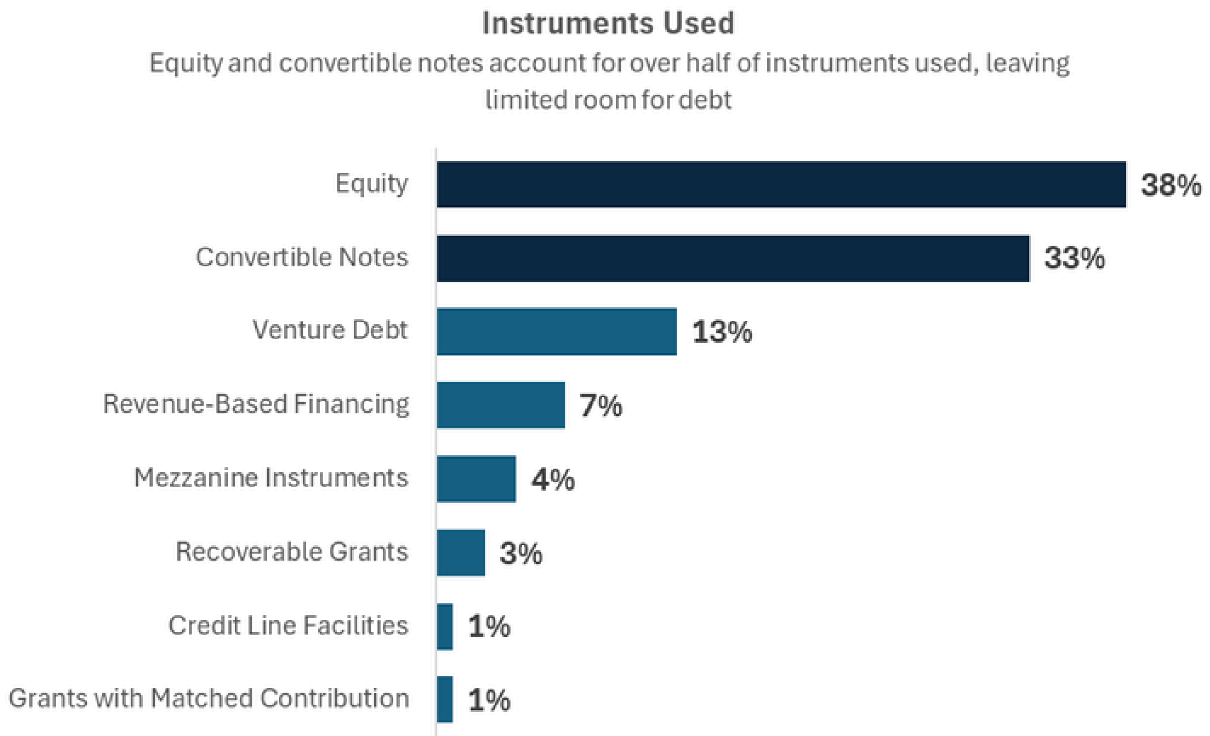
In fact, over two-thirds of surveyed investment professionals identified "misalignment with exit timelines" as one of their most prominent challenges in operating their funds, with several explicitly calling to reshape fund terms rather than relying on ad-hoc extensions. For example, 15(+1+1)-year or evergreen funds, so that the 'fund clock' better matches the 'company clock'. More staggering, 41% of respondents cited LP Requirements as their biggest challenges in the current fund structure they operate. This reflects a fundamental misalignment between LP expectations—rooted in fixed fund cycles, unrealistic expectations on IRR, constrained recycling ability, and most importantly, requirements that shape the investment thesis such as limitations in sectoral and geographical boundaries—and the longer maturation of African startups.

This misalignment is not only inefficient, it is structurally unfair to both founders and fund managers. Investments made in Years 4 or 5 (meaning towards the end of a fund's deployment period) have only four to five years left before the vehicle's scheduled end, leaving little time to grow and exit. Meanwhile, companies backed in Years 1–2 benefit from nearly double that time to grow into mature businesses. The result is an uneven playing field that penalises strong late-stage performers and pushes GPs to under-capitalise follow-ons, effectively undermining their own ability to back winners through later rounds. In such conditions, the follow-on strategy becomes moot, not for lack of conviction but for lack of time.

3.2 Misalignment II: Capital vs. Business Needs

Many of the businesses that are being built in African markets do not align with the typical VC growth expectations, as they do not fit the asset-light, software-driven archetype for which traditional VC became the perfect match. Many include a hardware, logistics or operational backbone requiring heavy upfront investment and slower payback cycles. Others must integrate vertically, managing production, distribution, and financing, simply to make their business models viable in low infrastructure environments. This makes SaaS-style scaling and growth metrics fundamentally unrealistic for a large number of ventures across the continent.

The African innovation landscape is, in fact, largely physical-digital (phygital), where digital platforms are inseparable from the physical systems that enable them. Andela, for example, initially positioned as a remote work platform, succeeded only after investing heavily in training, human capital infrastructure, and global delivery systems. Moniepoint, scaled financial inclusion not just through software, but by deploying thousands of point-of-sale terminals and agents to build last-mile payment infrastructure. Moove's fintech model is anchored in vehicle ownership and asset management, blending software with physical fleet logistics. These models thrive precisely because they combine digital leverage with physical execution, but that combination takes longer and costs more to scale. This causes two problems: (1) VC return expectations (10x in 10 years) are often unrealistic with how value is created in such businesses and (2) founders frequently use expensive equity to finance working capital or asset expansion due to the absence or scarcity of cheaper, more appropriate alternative instruments, leading to eroded ownership and constrained follow-on capacity.

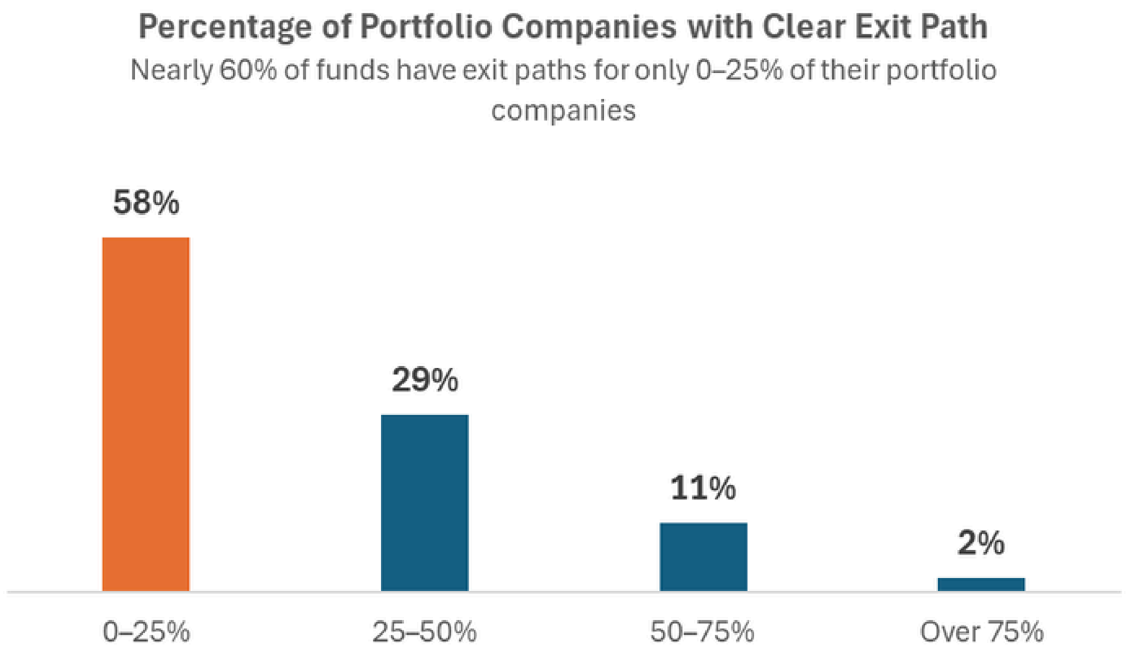


Our survey shows that equity (38%, which include SAFEs) and convertible notes (33%, largely used as a quasi-equity instrument) dominate African VC transactions, while venture debt (13%) and revenue-based financing (7%) remain nascent. This concentration reflects both investor comfort with standard venture instruments and the limited availability of structured finance expertise for alternatives. The result is a capital stack that undermines fund performances by inflating equity entry prices. In an environment where exit valuations are structurally capped, raising equity to finance working capital needs pushes valuations upwards, compounding over time as subsequent rounds build on artificially elevated price points.

3.3 Misalignment III: Liquidity and Exit Pathways

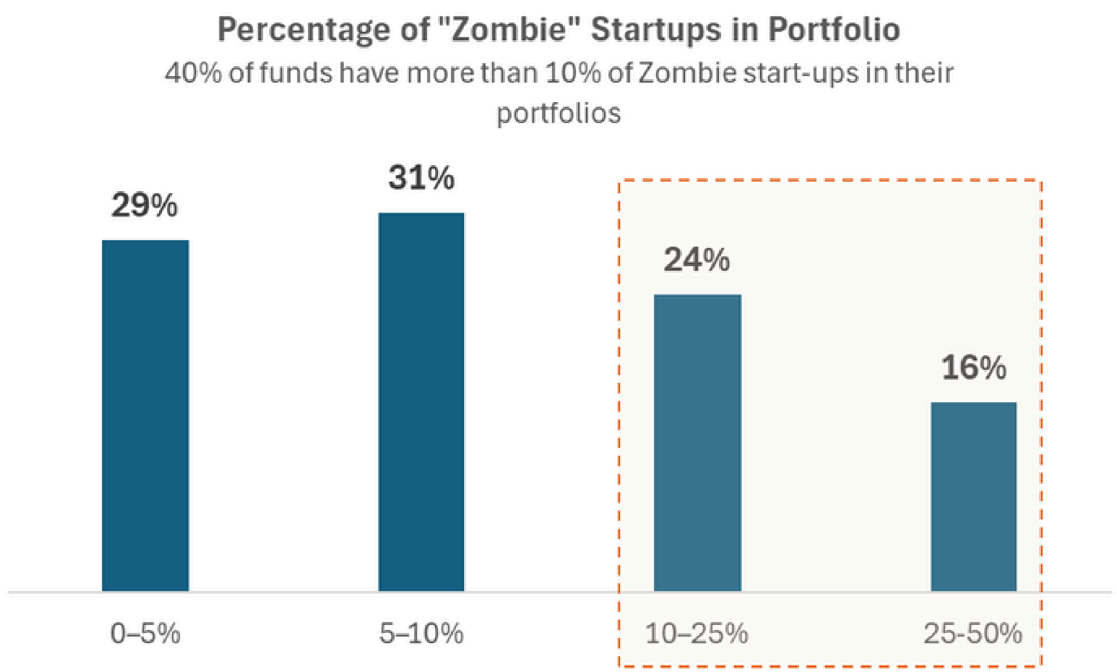
The challenge is both macro and mechanical. On the macro side, the continent's capital markets remain shallow while foreign capital markets poorly perceive and price African risk-reward ratio, local corporates are rarely acquisitive, and global buyers face currency and repatriation risks that deter entry. On the mechanical side, exit timing is constrained by fund duration: even if value is compounding, funds cannot hold long enough to realise it. These structural factors explain why 69% of surveyed investors believe that alternative or structured exit instruments should play a role in the African venture capital ecosystem.

Similarly, 71% of fund managers expressed willingness to use annex funds or SPVs for follow-ons and structured exits, demonstrating a clear need and willingness to extend fund life, manage liquidity, and adapt capital structures to the continent's slower exit dynamics. Finally, the limited adoption of continuation vehicles and intra-fund secondaries means that well-performing assets often remain "paper returns" for years, masking underlying value creation. The result is a systemic paradox: funds can be right on company selection and wrong on liquidity, a failure not of strategy but of structure and approach.



The traditional VC model primarily relies on M&A and IPOs to generate returns. However, in Africa, IPOs are almost non-existent, M&A opportunities are scarce, and secondaries are still emerging. Our survey data confirms the magnitude of this challenge: 58% of respondents estimate fewer than a quarter of their holdings have a visible route to liquidity, while an additional 29% said that only 25-50% of their portfolio had a clear path to exit. This striking distribution underscores the liquidity bottleneck defining African VC: exits remain scarce, unpredictable, and heavily concentrated in a handful of sectors or geographies.

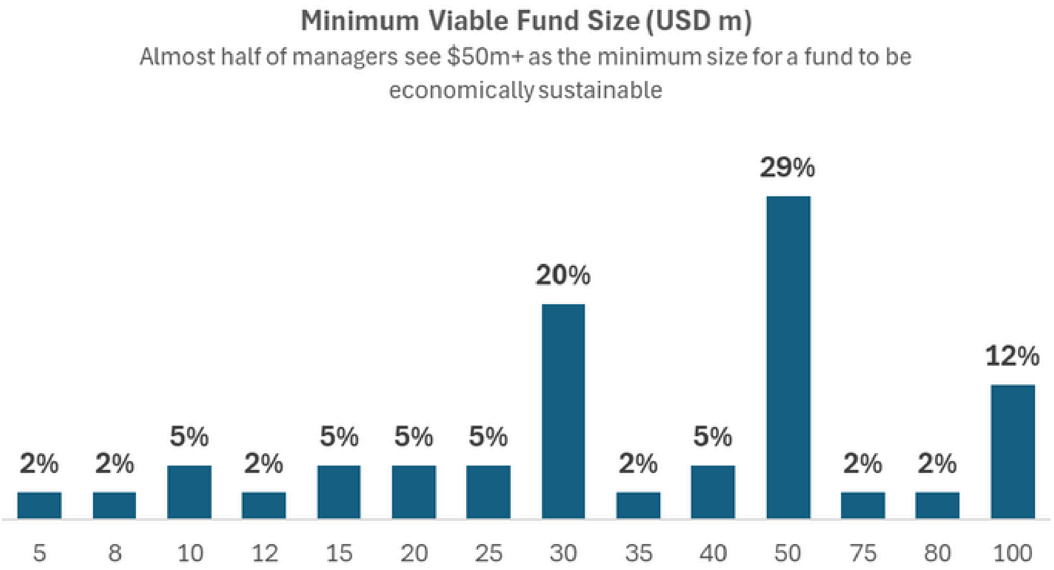
This structural illiquidity has become one of the most binding constraints to venture capital success on the continent. Even funds holding fundamentally strong and growing portfolio companies often show weak DPI (Distributions to Paid-In Capital) as there are no natural buyers or exit windows within their standard fund lifecycle.

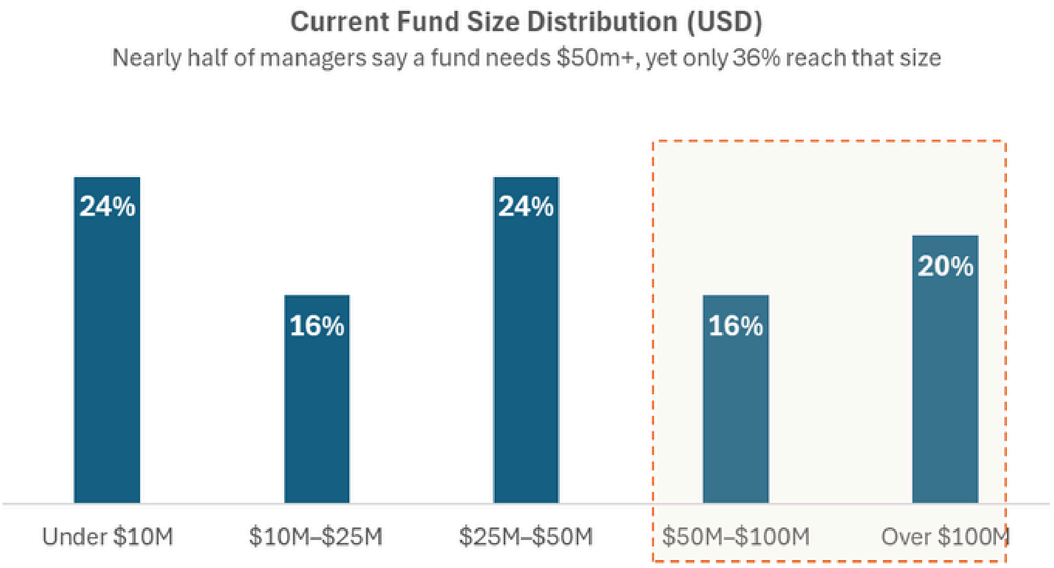


In addition, our survey highlights that 40% of respondents report between 10–50% of their portfolio companies are “Zombies”, currently surviving without scaling or exiting. This high incidence of non-performing ventures correlates closely with the earlier finding that 58% of funds have fewer than a quarter of portfolio companies with a clear exit path. Together, these data points show a deeper liquidity and maturation challenge in African VC: a large share of startups survive without scaling or exiting, tying up capital and extending fund timelines.

3.4 Misalignment IV: Incentives and Fee Structures

The traditional 2% management fee and 20% carried interest model, standardised in mature venture markets, sits uneasily within the African context. With smaller fund sizes, higher operational complexity, and longer investment horizons, this structure neither sufficiently funds operations nor properly aligns incentives between fund managers and investors.





Current fund size distribution from our survey shows that 64% of respondents manage funds below USD50 million, while only 20% of funds exceed USD100 million. Meanwhile, 46% of respondents believe a fund must be at least USD50 million to be economically sustainable, thus highlighting the capital fragmentation that characterises African VC: most funds remain subscale. This consensus around the USD50 million+ fund size reflects a need for large enough funds to cover operating costs and follow-ons, yet small enough to match available LP appetite.

Overall, the data underscores that structural, not market, constraints remain the biggest bottleneck to fund performance and sustainability in African VC. Incentives and fee structures emerges as tertiary concerns from surveyed investment professionals, notably highlighting the strain on GPs operating under management fee models that fail to reflect the intensive post-investment work required locally. This creates two structural distortions. First, when fees are too low to cover real operating costs, GPs are forced to underinvest in talent, governance, and portfolio support, the very ingredients that drive long-term value creation. Second, when performance incentives remain fixed regardless of time horizon or capital efficiency, chasing larger fund sizes to sustain management fees rather than optimising for returns becomes a temptation. Over time, this cycle breeds bloated vehicles, under-deployment, and weak DPI.

4. Main Discussion: Approaching the Problems

Having outlined the structural misalignments that define Africa's current venture landscape, we now turn to the practical question: What can be done about them? Addressing these gaps requires more than marginal adjustments to existing models, it calls for rethinking how capital is structured, deployed, and incentivised. In this section, we discuss a set of solutions corresponding to each misalignment, focusing on approaches that are both context aware and operationally feasible.

The goal is not to replace the existing VC model, but to complement it so that founders, investors, and other ecosystem players can build with greater alignment, resilience, and long-term value creation.

4.1 Misalignment I: Conflicting Timelines

This section focuses on solutions when it comes to adapting the fund vehicle and its timeline.

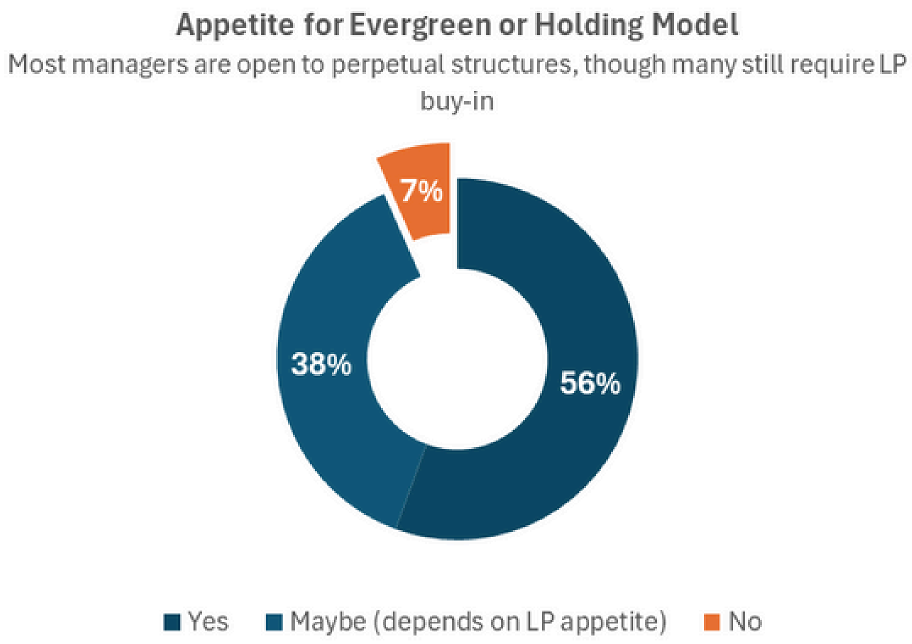
- **Longer Fund Lifetimes:** Across the continent, managers are proposing 13(+1+1)-year to 15(+1+1)-year funds from the get-go to better align with the reality that value realisation takes longer. This approach creates a more levelled playing field between early and late-cycle investments: a company backed in Year 5 can still compound adequately before the fund's end, rather than being rushed toward premature liquidity. In a context where the average African VC fund already lasts 15–17 years after extensions, it is only pragmatic to recognise this reality upfront and structure accordingly.

- **Continuation Funds or Spin-Outs:** Exploring GP-led continuation funds or spin-outs of existing assets into new vehicles, would allow managers to transfer maturing but illiquid assets into a new structure while providing existing LPs with an exit option. This approach transforms paper returns (TVPI) into realised ones (DPI) without forcing company exits in shallow secondary markets. For African funds, where liquidity events are rare but value creation continues, this model creates an adaptive bridge between fund duration and market timing, giving high-performing companies space to mature into genuine acquisition or listing candidates.

- **Permanent Capital Vehicles (PCVs), Evergreen and Mutual Fund structures**
    - PCVs' are structures where investors purchase shares in a holding company rather than committing to a fixed-term fund. This is the capital the fund manager invests in target assets. These evergreen models remove the artificial exit clock, allowing capital to recycle across generations of investments. This type of vehicle suits Africa's slower, compounding growth trajectories, but introduces new complexities: continuous valuation, rolling fundraising, and operational costs that must be sustainably managed. To address these, borrowing concepts from open-ended mutual fund structures, where units can be periodically redeemed or issued based on independently verified NAVs should be explored. Such models introduce measured liquidity without compromising long-term horizons.
    - An additional path toward aligning capital and company timelines is the introduction of mutual fund-style venture vehicles. These are open-ended collective investment schemes that permit periodic subscriptions and redemptions based on independently verified NAVs, allowing investors to enter or exit without forcing underlying portfolio sales. By combining the transparency and liquidity discipline of mutual funds with the long-term compounding potential of venture investing, such models create a continuously renewing pool of capital. For Africa, where local savings remain largely under-mobilised and fund life extensions are now the norm, mutual fund structures could be instrumental in anchoring domestic participation in venture capital. They offer savings and pension funds, family offices, local corporates and retail investors access to professionally managed innovation portfolios while giving GPs a recurring capital base. In doing so, they bridge the divide between illiquid venture assets and the liquidity preferences of institutional LPs. This introduces a scalable, locally anchored model of patient yet flexible capital that aligns well with Africa's long-term growth trajectory.
    - Hybrid approaches that pair a permanent capital "core" with closed-end SPVs for faster-growth investment opportunities also deserve serious consideration as viable middle grounds. A permanent capital base offers stability, patient ownership, and the ability to support businesses through longer build cycles, while SPVs provide the flexibility to pursue high-velocity, traditional venture-style investments without compromising the durability of the overall vehicle. This dual structure enables managers to back the full spectrum of African business models, both operationally intensive companies that require time and working capital depth, and faster growth ventures that benefit from concentrated, time-bound capital.

Institutional investors, including DFIs, remain hesitant to back even standard evergreen structures. Their mandates, reporting cycles, and valuation/performance systems are built around fixed-term funds with clear DPI timelines, making open-ended vehicles difficult to

This, coupled with concerns around liquidity, has so far limited institutional appetite despite growing interest from fund managers in more flexible models. Longer fund lifetimes can also create alignment frictions, especially around carry crystallisation under European waterfalls.



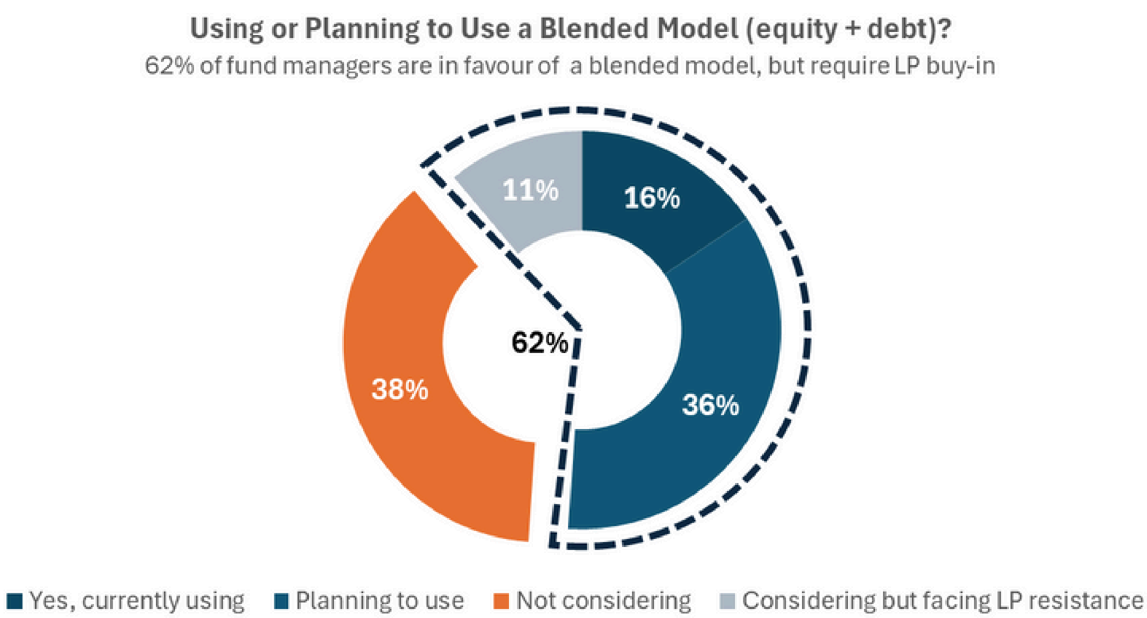
Our survey highlights that 56% of respondents have willingness for adopting evergreen structures, while another 38% would consider it, subject to LP appetite. This highlights a strong appetite among African fund managers for longer-term, flexible vehicles, even if institutional investors have yet to match that enthusiasm. The large “maybe” segment highlights the gap between theoretical interest and practical feasibility: while most managers recognize the model’s relevance to Africa’s longer company development cycles, they remain constrained by LP conservatism and the absence of standardised evergreen frameworks. Overall, while these longer-term models better reflect the realities of African venture markets, their adoption will require both education and innovation, from both investors and fund managers, to make them a reality.

4.2 Misalignment II: Capital vs. Business Needs

This section focuses on product innovation and the links across financing structures.

- **Debt and Hybrid Instruments:** Given that many African startups are asset-heavy and "phygital" (combining digital platforms with physical infrastructure such as logistics, distribution, or energy networks) debt is often more suitable and cost-effective than equity, especially for financing working capital. Products include asset financing, revolving invoice/contract financing, working capital guarantees, offtake-backed lending and overdraft cashflow lending, which can be structured to align repayment with operating cashflows. The development of venture debt funds or compartments, and asset-backed SPVs would allow funds to support operations without diluting founders, while also providing investors with early yield and more predictable liquidity profiles.

- **Blended Debt and Equity:** Funds can pioneer models that combine equity investments with debt facilities, either within the same fund or through parallel SPVs, to better match capital to company needs: equity for growth, debt for operations. This would reduce founder dilution and can provide early liquidity to the fund via interest payments. DFIs and local banks could play a catalytic role by offering first-loss guarantees or co-lending programs, thus crowding in additional liquidity and reducing borrowing costs for startups. Only 36% of respondents are already using such structures. This could increase to 62% when including respondents that are planning to, or are willing to use blended models, but are currently facing LP resistance. This clearly illustrates an appetite to shift towards more flexible, risk-adjusted instruments in African VC, acknowledging that pure equity models often misalign with startup cash-flow realities.



- **Revenue-Based and Structured Equity Instruments:** These should be designed to not be predatorial in nature and could provide returns without relying solely on traditional exits. In a market where M&A and IPOs are limited, these instruments can bridge the liquidity gap by aligning payouts to company performance.
  - Convertible Revenue-Based Financing (RBF): A loan repaid as a percentage of revenue until a pre-agreed multiple (e.g., 1.5-4x) is reached. This model supports startups with steady cash inflows and would allow investors to realise returns over time rather than waiting for binary exit events.
  - Redeemable Equity: Grants founders the right or obligation to repurchase equity at an agreed time or valuation, embedding a structured exit pathway and offering predictability to investors.
  - Innovative SAFE-like Instruments (e.g., D-SAFE): Flexible instruments modeled on SAFE notes, designed for specific needs (like climate projects). These can function as loans, convert to equity, or switch to revenue-share arrangements depending on milestones and capital needs.

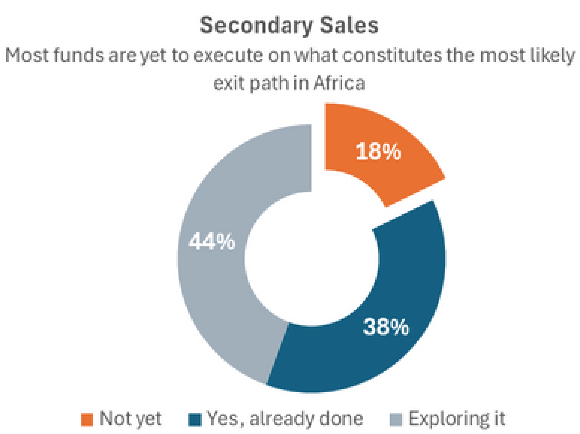
4.3 Misalignment III: Liquidity and Exit Pathways

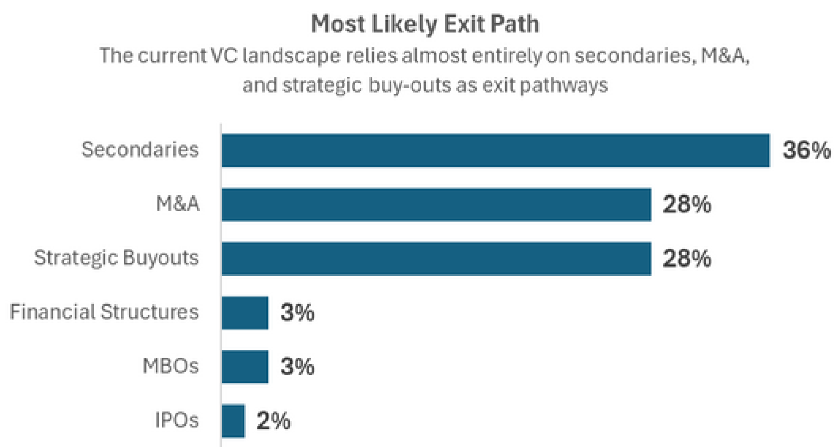
Despite growing maturity across Africa's venture landscape, few funds today dedicate meaningful time or resources to exit management. LPs frequently express frustration over low DPI performance, yet rarely interrogate a more fundamental issue: how much active attention fund managers devote to liquidity creation. In most cases, portfolio management has become synonymous with introductions, quarterly reporting and valuation updates, rather than the strategic and operational work required to convert paper value into realised returns. The reality is that true investment expertise is tested not at the point of entry, but at the point of exit: structuring creative pathways for liquidity, navigating constrained secondary markets, and actively managing portfolio companies toward sustainable outcomes.

In this context, exit management should be viewed as a distinct discipline within fund operations, one that blends financial structuring, relationship management, and market intelligence. For African fund managers, developing this capability is not optional but the difference between perpetually recycling TVPI and building a track record of realised performance. As the continent's venture ecosystem evolves, institutional capital is expected to increasingly reward those managers who demonstrate a proactive, systematic approach to liquidity by treating exits not as opportunistic events, but as the logical and managed conclusion of the investment cycle.

- Secondaries are transactions where existing investors sell their shares to a new or existing investor. Independent secondary transactions are typically sourced by the fund manager outside of a funding round and are marked-to-market based on the most recent valuation. These transactions can only occur with the operating team's agreement, as they are usually parties to the documentation governing the share transfer. New terms or information rights may be negotiated depending on incoming investor requests and subject to the company's approval.
    - **Competitively priced secondaries** (15% to 20% liquidity discount) require deliberate sourcing and negotiation, they do not happen organically. Active fund managers must identify and source willing buyers (similar to during their fundraising journey), coordinate with founders, and structure fair, compliant transactions that balance price discovery with governance realities in illiquid markets.
    - **Secondary transactions sourced by the operating team** generally occur alongside a funding round and are priced by the lead primary investor. In these cases, discount-setting power lies with the incoming investors or investor syndicate. Such deals are often initiated by the investor team to lower the blended price per share (PPS) and create a more attractive entry valuation, though selling investors typically have limited negotiating leverage. Two main forms exist:
        - **Investor-led purchases**, where the incoming investor group is allocated a specific quota and PPS, which the operating team then circulates among existing shareholders to determine allocations. This process is usually slow and complex.
        - **Team-led sales**, where the operating team proactively structures a combined primary and secondary round, with clear visibility on seller motivations, quantum, and PPS. This route is typically faster and more transparent, though few teams have the structuring expertise to execute such deals effectively.

Our survey suggests that funder managers expect the Secondary route to be the most common and likely exit path going forward. While only 38% of respondents have already completed at least one secondary transaction, 36% of respondents expect secondaries to be their main route to liquidity, followed by M&A (28%) and strategic buyouts (28%).



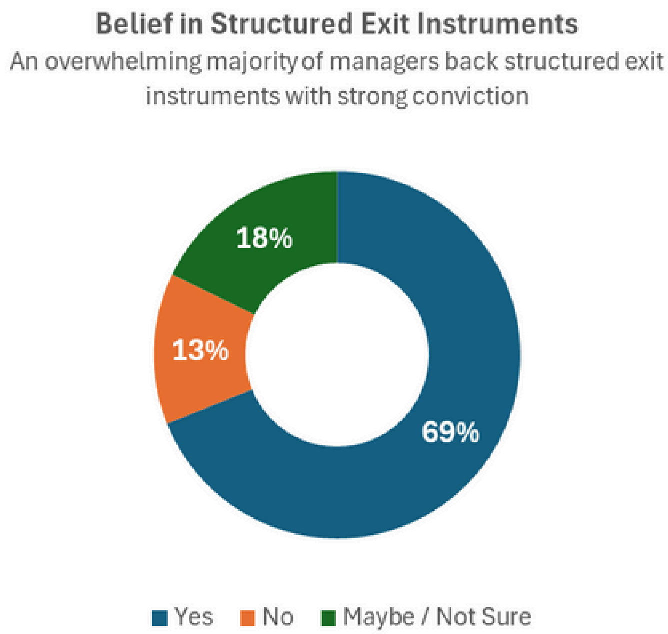


- **Mergers and Acquisitions (M&A)** represent another significant, albeit complex, liquidity channel. Engineering these demand continuous relationship building and timing discipline. Successful exits arise when investors proactively engage potential acquirers, align portfolio companies to strategic fit, and intervene early to guide valuation, control dynamics, and execution.
    - **In team-sourced or acquirer-led M&A**, the operating team is approached by a buyer with an acquisition proposal. Pricing in these cases can be attractive if there is strong strategic fit, yet challenges arise when investor groups (still within their holding horizon) discourage management from pursuing such offers. Investor groups can also be disadvantaged when founders with effective control negotiate terms favoring acquirers while retaining personal upside through earn-outs or rollover equity, rather than increasing the total valuation of the company, thus creating a conflict of interest.
    - Conversely, **investor-led M&A** occurs when the lead growth investor orchestrates the sale process, often in partnership with global investment banks. This approach can yield stronger downside protection and more favorable pricing for performing assets, though it requires coordination and transaction experience that many early-stage investors lack. Moreover, smaller positions can make it tougher for early stage funds to orchestrate this given their effective controlling interest.

- **Continuation vehicles** provide a mechanism for funds to transfer high-potential but illiquid portfolio companies into a new vehicle, offering existing LPs an opportunity to sell their position while allowing managers and select investors to maintain exposure. In theory, this structure aligns long-term value creation with liquidity needs, particularly in markets such as Africa where strong companies require more time to mature and traditional exit pathways remain constrained. The process typically involves a third-party valuation, new capital commitments, and structured liquidity options for existing LPs designed to convert paper gains into realised outcomes without forcing premature exits. However, continuation funds raise important governance and alignment questions. Unlike a clean sale to an external buyer, the GP effectively becomes both the seller and the buyer, creating inherent conflicts around valuation, timing, and deal terms. LPs must evaluate whether this mechanism represents a genuine exit or simply a rollover of risk masked as liquidity. Without robust price discovery, independent fairness opinions, and clear investor choice, continuation vehicles risk being perceived as an accounting solution rather than a true realisation event. For the mechanism to earn credibility in Africa's market context, fund managers must treat them with institutional rigor, ensuring transparent pricing, competitive tension where possible, and LP interests prioritised above the temptation to extend exposure for management fees or optionality.

- **Public listings** remain the most enduring avenue for both capital access and business continuity globally. Although the concept is still nascent for African technology companies, listing on public markets allows founders to maintain operational control while offering liquidity to shareholders. Sole reliance on M&A or secondary sales risks stagnation, concentrating pricing power among a limited set of buyers. Building credible listing pipelines, targeting companies with at least $10 million in ARR / $1–3 million in EBITDA, is therefore critical to maturing the African venture ecosystem.
    - Taking a look at the investor perspective, **listed equity funds** in Africa face a persistent shortage of credible growth stage companies to invest in. While public markets exist in most major economies across the continent, the investable universe remains narrow and dominated by mature, capital intensive sectors like banking, telecoms, and extractives, with few technology or high growth companies entering the pipeline. This scarcity is not due to a lack of entrepreneurial activity, **but rather due to the absence of a consistent transition pathway from venture backed private companies to publicly listed entities**. As a result, listed equity funds are often forced to recycle capital among the same set of blue chip stocks or seek exposure through offshore markets, leaving a structural gap between private innovation and public market participation. Building that pipeline, by preparing late stage venture companies for listing, remains one of the continent's most urgent capital market priorities.

- **Structured exit instruments** also emerge as viable alternatives. 69% of respondents see a role for mechanisms such as redeemable equity, revenue-based financing, or dividend payouts in African VC. This strong endorsement reflects growing recognition that traditional equity exits, via Secondaries, M&A or IPO, are insufficient to achieve liquidity in most African markets.



Beyond investor-led structures, **employee or community buy-outs and management buy-outs should be considered as complementary pathways**. These can arise either as planned structured exits or as strategic options for funds with companies that exhibit more moderate, steady growth rather than hyper-scaling trajectories. Together, these structured exits are increasingly viewed as pragmatic tools to align investor and founder incentives, generate earlier distributions, and adapt to local business realities where profitability, not acquisition, often defines success.

4.4 Misalignment IV: Incentives and Fee Structures

This section focuses on better incentivising and aligning interests between fund managers and their limited partners.

- **Declining Fees Over Time:** This is a declining base management fee structure to reflect the true cost of fund activity over time. For instance, funds may charge 2.5%–3% during the early years to support intensive deployment, due diligence, and portfolio building, then step down gradually as assets mature and monitoring demands decrease.

- **Tiered and Performance-Linked Carry:** Adopting tiered carry models, for example, x% carry up to a given DPI multiple reached, and x% beyond another given multiple reached, to reward outperformance rather than nominal returns. Through linking carry escalation to realised performance, incentives are aligned with capital efficiency and liquidity outcomes rather than paper valuations.

- **American vs. European Waterfall Structures:** A further barrier arises from the dominance of European-style (whole fund) waterfall models, which DFIs frequently mandate. Under this structure, fund managers can only earn carry after the entire fund has returned invested capital and preferred returns to LPs, usually after at least 15-17 years. This unintentionally penalises African fund managers managing small funds with concentrated exposure and staggered liquidity. In practice, it delays carry realisation for a decade or more, even when early exits are strong, eroding incentives and discouraging smaller managers from backing high-risk, high-upside deals. On the other hand, American-style (deal-by-deal) waterfalls distribute carry after each realised deal, once that deal has cleared LP capital and preferred return hurdles. This creates earlier, but still performance-based, rewards for fund managers and enables fund managers to reinvest carry into follow-ons or future funds.

- **Dedicated Operational and Support Budgets:** Since African funds are on average smaller yet more hands-on, fund managers could consider introducing venture building retainers or operational budgets, approved by investors as separate from management fees. These would cover post-investment activities, such as governance support, finance/fractional CFO hire, reporting systems, compliance, and market expansion, that are critical for long-term success but often underfunded under standard fee structures.

- **Models for Evergreen and Hybrid Vehicles:** Continuous capital structures could adopt AUM- or NAV-based fees that adjust to invested capital in order to reflect ongoing value creation rather than one-time fund cycles. This would ensure that fees shrink naturally if performance stagnates and grow only if the underlying portfolio compounds in value.

5. Alternative Models

This section provides an overview of other operational models that, in different ways, address some of the typical challenges that closed-end VC models face across the continent. These alternative approaches illustrate how fund managers are experimenting with new frameworks to bridge the gap between investor expectations and market realities.

5.1 Evergreen Funds

Evergreen structures are permanent capital structures, often operating as holding companies, that eliminate the fixed 10-year fund cycle. They allow fund managers to reinvest proceeds and exit when market conditions are right. The model eliminates the forced exit dilemma that constrains traditional VC funds (10+1+1). Without the ticking clock, managers can hold positions through multiple growth cycles, reinvest proceeds, and prioritise sustainable value creation over short-term growth and chasing valuation mark-ups.

Grounded Investment Company represents one of the more pragmatic adaptations of this model. Grounded initially launched as an evergreen holding company focused on “boring” but essential sectors such as agribusiness and processing. As their founder explains:
(We wanted to) “create companies that can become 'boring' and create stable dividends as a return on investment. We thought this would fit well for the non-unicorn type businesses on the continent.”

However, liquidity expectations from investors remain a barrier: Grounded ultimately transitioned to a 13+1+1 structure, acknowledging that evergreen vehicles are difficult to fundraise for at scale:
“Liquidity is currently the number 1 concern for LPs. Not only in Africa, but everywhere do they struggle to get capital back from fund investments. Therefore presenting an evergreen (fund) creates many red flags.”

While evergreen models align well with market needs and open up the access to a broader selection of potential investments, including brick-and-mortar businesses, they remain feasible mainly for specialised vehicles with highly trusted GPs, niche LP bases, or hybrid debt-equity strategies that can generate liquidity due to the cyclical nature of debt.

Other managers also highlighted a perception gap in the market. They explained that many ecosystem actors struggle to fit evergreen vehicles with the traditional venture narrative. This creates challenges for positioning. They experienced confusion from co-investors and entrepreneurs about the types of businesses an evergreen structure is expected to fund, how long assets might be held and whether these vehicles still fit within the mental model of “VC” that founders and investors are used to.

5.2 Venture Studios

Venture studios co-create startups from the ground up, combining operational and technical infrastructure, shared talent, hands-on support and early capital. Across Africa, studios like Catalyst Fund and MStudio are adapting this approach to work with idea-stage or early-stage founders that need targeted support to scale.

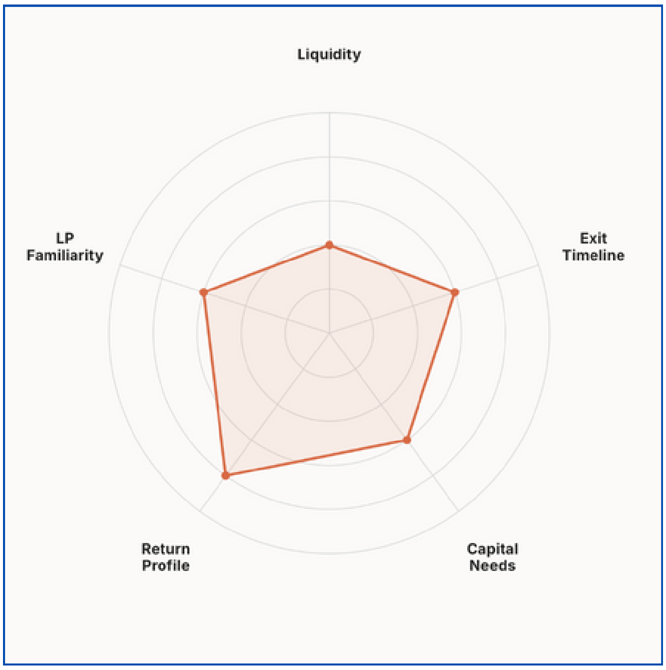
For instance, Catalyst Fund operates as a hybrid (part VC, part embedded venture builder). Its team of former operators dedicates up to 400 hours per startup, helping early-stage founders achieve product–market fit before traditional VC investment. Venture building services are priced as part of their pre-seed investment in exchange for an equity position.

Their unique approach to combining capital with human capital has consistently improved outcomes across their funds:
“88% of our portfolio across Fund I and II remains active, and their survival and growth rates significantly outperform the regional VC average”

This hands-on approach changes the return expectations by generating a more sustainable portfolio with different return profiles rather than relying on a fund returner. Catalyst reports that 30–35% of its companies have achieved between 3–100x CoC returns. As the Managing Partner explains,
“In the African context, where the “unicorn or bust” approach is not viable, our hands-on model creates a portfolio of solid performers, reducing loss ratios and enhancing fund-level IRR stability.”

In Francophone Africa, MStudio takes a different path, focusing on a mix of replication and localisation. The studio adapts proven business models to local contexts and pairs local founders with diaspora co-founders, technical talent, operational playbooks, mentorship, as well as support in business development and potential exit planning. MStudio provides in-kind MVP support while mobilising a fixed ticket size through a pre-seed sidecar fund.

MStudio has *"been positively surprised by the increased speed to market our companies' experience compared to startups operating outside our studio. It also takes less time for our companies to achieve early traction. We attribute this to: our investment thesis of building copy-cats (...), shared learnings from one company to another (...), and the local business relationships we can leverage to support our startups' business development efforts."*



While this model effectively de-risks early-stage investments, they still face their own constraints. Finding and building strong founding teams remains a bottleneck, as does convincing LPs who see studios as operationally heavy or structurally unfamiliar.

The consensus is that this model excels at creating strong businesses that grow faster and more sustainably, but still struggles to attract traditional institutional capital.

5.3 Funds linked to Entrepreneurial Support Organisations (ESOs) and accelerators

ESO-linked funds combine capacity building with investment, often blending catalytic or grant capital with follow-on venture funding. This model strengthens dealflow and de-risks startups before investment.

Flat6Labs describes its structure as "two sides of the same coin." The accelerator functions as a sourcing and validation layer, while the fund deploys follow-on capital to the most promising startups:

"The program is our sourcing and de-risking mechanism: it allows us to identify strong founders early, test their ability to execute, and provide the capacity support they need before we invest further. This linkage creates measurable value: we invest in better prepared startups, with stronger fundamentals and clearer pathways to scale."

This structure blends ecosystem building with commercial capital, allowing these ESOs to create value earlier, crowd in co-investors, and build a more resilient pipeline of startups . However, balancing catalytic and market-driven goals is complex:
"Catalytic capital can be a great enabler, but only if it complements, not replaces, commercial discipline" notes one fund manager. It's also critical to avoid distorting incentives at the startup level: grants should unlock potential, not create dependency."

ESO-linked funds tend to shine in nascent ecosystems, where they help build more resilience, though it comes at the cost of longer liquidity timelines and limited investor familiarity. For these fund profiles, success depends heavily on governance clarity and strong operational execution at the accelerator level.

5.4 Corporate Venture Capital (CVCs) and institution-linked funds

CVCs and institution-linked investment arms are emerging as key players in the tech ecosystem all around the continent. These vehicles invest strategically, with goals that go beyond financial returns.. Universities and research institutions are also adopting similar mechanisms to spin out IP-based ventures or commercialise research outcomes. For both corporate and institutional investors, the goal is clear: to generate long-term value for both their parent organisations and the startups they back.

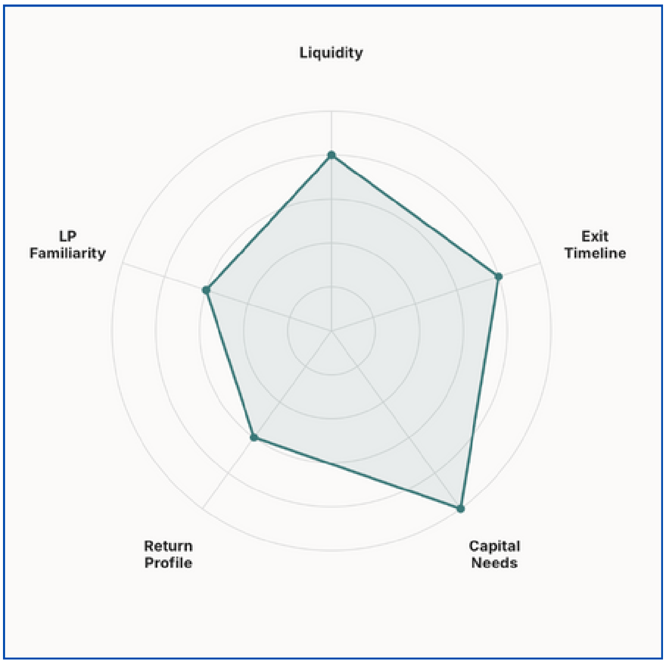
At Axian Group, for instance, the creation of the Axian Innovation Fund was driven by a dual mission: *"mainly strategic, supported by a financial approach to remain sustainable over the long term."* The fund seeks short-term value through partnerships that create cost efficiencies or new revenue channels, mid-term opportunities via M&A pipelines and network building, and long-term insights that position Axian to take advantage of trends and new market opportunities.
However, aligning strategic and financial goals can be complex. As one Axian executive noted, *"financial decisions move fast, but local business teams often have limited bandwidth or long timelines to implement partnerships."*

To balance these dynamics, governance independence is critical. *“The main success factor for any CVC”,* they explained, *“is to separate the investment process and synergies implementation with the parent company. You need to be as independent as possible in terms of governance to align with VC market practices for decision making and be patient with local business teams.”*

CVCs can bring significant value to startups by validating products through internal pilots during due diligence and becoming early commercial partners post-investment. They also benefit from built-in liquidity advantages, operating with corporate budgets rather than external fundraising cycles and, in some cases, serving as the eventual acquirer. In Africa, the CVC model can be *“the most logical route to liquidity.”* Since corporations can act as natural acquirers, this structure is particularly effective for sectors like fintech, telecom, and logistics, where scale partners are critical to distribution.

However, as outlined by our interviews, success depends on speed, alignment and independence. Corporate governance cycles can slow down investment decisions, and strategic motives can sometimes override financial logic, making the VC arm invest in complimentary businesses without a strong financial rationale. Moreover, return variability and changes in corporate leadership can affect continuity.

Despite these risks, CVCs and institution-linked funds represent a growing opportunity, as they embed startups into commercial networks and create tangible exit paths through acquisition or integration.



6. Call to Action

The findings of this white paper point to one clear truth: **there is no single "right" fund model for Africa**. Instead, there is a rich spectrum of combinations and possibilities, each shaped by different philosophies of risk, liquidity, value creation, and the realities of our markets. This diversity is the foundation of a more resilient, more context-aligned, and ultimately more successful investment ecosystem.

As the survey responses show, when African fund managers are freed from the constraints of conventional structures, and are free to imagine having an anchor LP that can fund whatever they want, their visions expand dramatically. What emerges is not homogeneity, but a striking diversity of visions: some envision evergreen structures or 15-year vehicles with the patience needed to match African growth trajectories. Others propose blended capital stacks that mix equity, debt, mezzanine instruments, recoverable grants, or private credit. Several imagine venture studios, buy-and-build platforms, or hands-on technical assistance models that close capability gaps while accelerating value creation. Many highlight the need for local currency funds, local listings, and the participation of local LPs to better match market realities. Others would rebuild incentives entirely through deal-by-deal carry, aligning performance directly with outcomes rather than waiting a decade for a waterfall to clear. And others call for continuity vehicles, sidecars for secondaries, geography neutral mandates, or high ownership SME-focused funds that better reflect where the continent's most resilient businesses are found.

The breadth is striking:

- permanent capital vehicle deploying equity, debt, and recoverable grants,
- dual vehicle models combining equity/debt funds with secondary SPVs,
- blind pool funds where each portfolio company is its own legally separate vehicle with independent exit paths,
- funds mixing early-stage equity for upside and later-stage debt for liquidity,
- or a $50M evergreen vehicle with 4% management fees designed explicitly for intensive team support and early-stage compounding.

This diversity of ideas is not theoretical. It is a reflection of what African fund managers actually want to build once freed from legacy constraints. It demonstrates that our ecosystem does not lack imagination, but permission, flexibility, and the enabling capital to bring these models to life.

So, what now?

This white paper is not meant to conclude the conversation. It is meant to ignite it. It is not meant to dictate what the new African VC model should be. Instead, it invites every fund manager, limited partner, and ecosystem stakeholder to design their own version. One that reflects their investment appetite, the realities of their markets, founders, and their belief about how value is truly generated across the continent.

Ask yourself:

- What structure would best serve the companies you want to back?
- What timeline matches the reality of your market?
- What capital stack best reflects the businesses you want to back?
- What governance, fee, and carry model truly aligns your incentives with long-term success?
- What liquidity tools unlock value instead of trapping it?

Africa's venture ecosystem cannot afford uniformity. It needs a portfolio of fund models, just as it needs a portfolio of startups: patient capital alongside faster capital, evergreen vehicles alongside closed-end ones, blended structures alongside pure equity, deep vertical studios alongside pan-African generalists. Africa's future will not be financed by one structure, but by **many**.

The call to action is simple:

Use these findings as raw material.
Challenge your current fund's assumptions.
Design your model.
Build it. Fund it.

7. Appendix

Chart 1. Firm Stage Distribution

The high concentration of Fund I managers underscores how early the African VC ecosystem still is. Limited track records constrain access to larger or more diversified LP bases, keeping most funds small and dependent on DFIs or HNWIs.

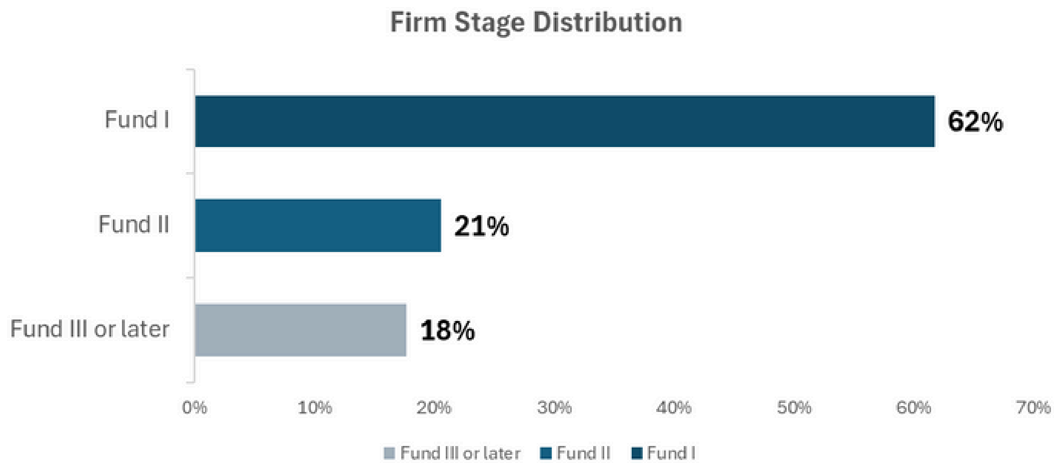


Chart 2. Primary Capital Source

DFIs (26%), HNWIs (25%), and family offices (23%) dominate the investor base in African VC, while sovereigns and pension funds remain marginal. This mix highlights a persistent overreliance on catalytic or relationship-driven capital rather than institutional pools. The limited participation of pension and sovereign funds underscores the untapped potential of domestic institutional investors, whose engagement will be essential for scaling fund sizes and reducing dependence on DFIs.

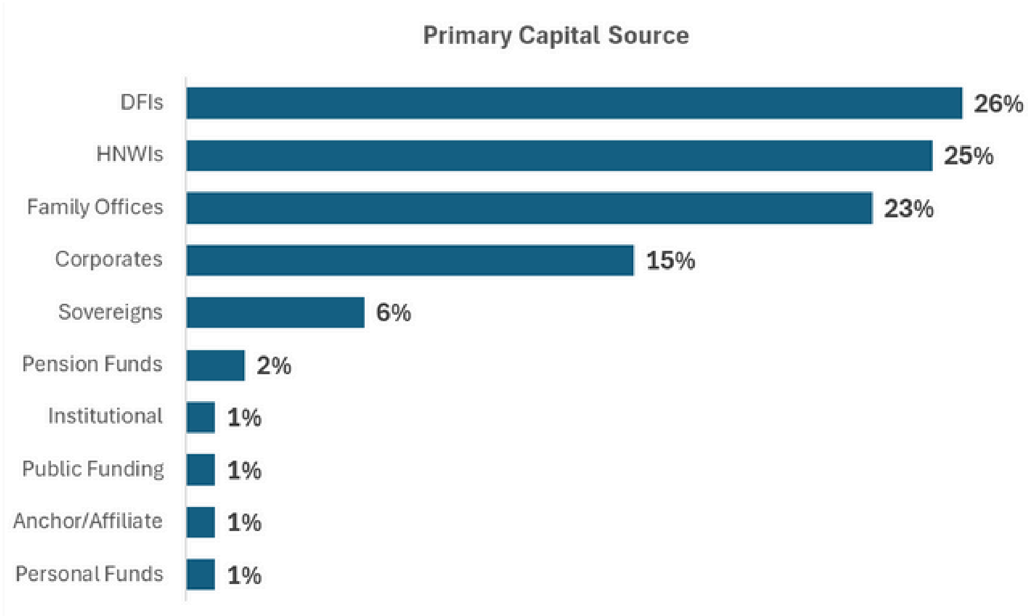
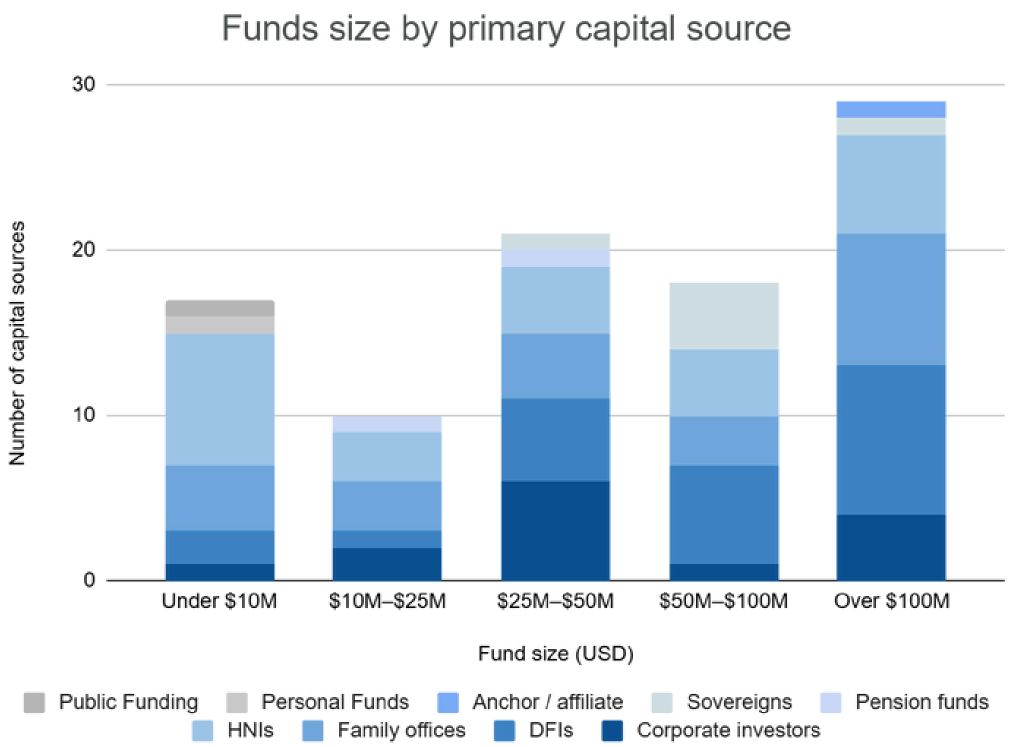


Chart 3. Funds Size by Primary Capital Source

As fund sizes grow, the investor base becomes more diversified, particularly in the USD 50–100m and USD 100m+ categories, where DFIs, corporates and family offices are the biggest contributors. Yet across every fund size segment, DFIs remain a constant presence and become especially dominant beyond the USD 50m mark, underscoring their outsized influence in enabling funds to scale. Smaller funds under USD25m rely more heavily on HNWIs and family offices, reflecting the relationship-driven nature of early vehicles and the difficulty of attracting institutional investors at that stage. Overall, the chart highlights a structural dependence on DFIs as the primary gateway to larger fund sizes, reinforcing both their catalytic role and the need to broaden Africa's institutional investor base over time.



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Alyune, Desiree, Diego, and Kartik

Interactive Whitepaper

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