Rethinking Venture Capital for the African Market

Briefing Note
Questioning the Status Quo - 2025

1. Why This Conversation Matters Now

Africa's venture ecosystem is fast-evolving and maturing, yet the fund structures funding it are lagging behind. Most funds still operate under the premises of a Silicon Valley inspired model, a market with deep capital pools, fast-scaling software businesses, liquid exit windows, strong corporate partners and acquirers, and globally mobile human capital. African founders, however, build in a completely different environment, made of fragmented markets, lower purchasing power and scarce infrastructure, mostly resulting in phygital business models (where digital platforms are inseparable from the physical systems that enable them) and longer journeys to scale.

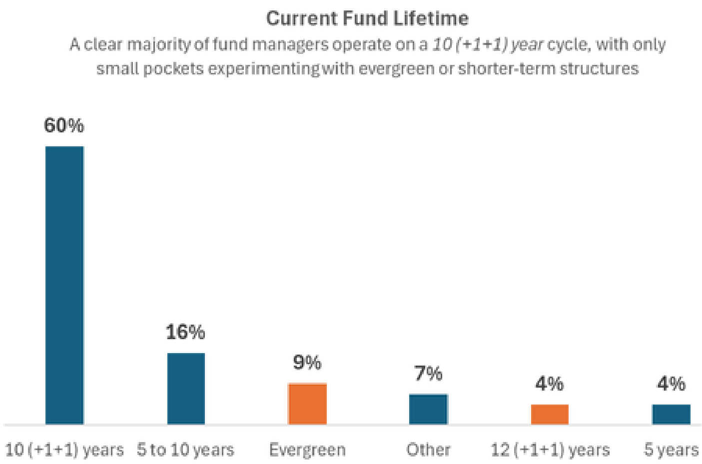
The result is a structural mismatch between how African businesses grow and how most funds investing in Africa are designed. A mismatch that is not a failure of venture capital as an asset class, but a failure of fit. This whitepaper, drawing from a working group of 15+ active fund managers, a survey of 50+ investors, and interviews with ecosystem builders, discusses four core misalignments and potential solutions that African fund managers, LPs and other ecosystem players could pursue. The purpose of this 2-pager is not to summarize the entire white paper, but to highlight the insights that matter most for our upcoming conversation: *what is broken, why it is broken, and what the ecosystem should begin to build in response.*

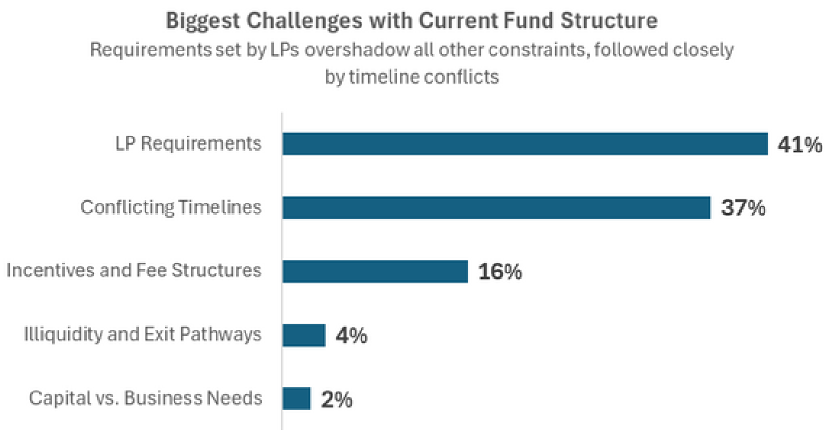
2. The Four Core Misalignments Holding Back African VC

a. Conflicting Timelines

60% of funds surveyed still operate on a 10-year clock borrowed from the Private Equity industry developed in mature capital markets, despite it taking longer to build in Africa.

- Average African funds already lasts 15-17 years in reality, after extensions.
- Late-cycle investments done in year 4-5 have too little time left to mature, which is exacerbated in a more illiquid market, putting these companies at a greater disadvantage compared to earlier investments in the same fund.

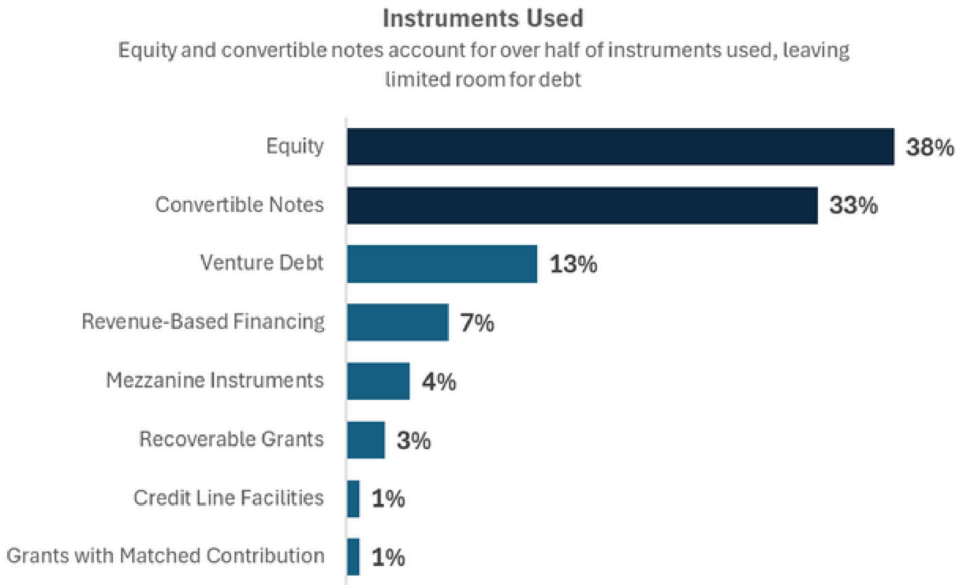




b. Capital vs. Business needs

African startups are rarely pure software plays. They build logistics networks, deploy hardware, finance working capital, or integrate vertically because the ecosystem around them is still forming. Yet, the continent's capital stack remains largely dominated by equity.

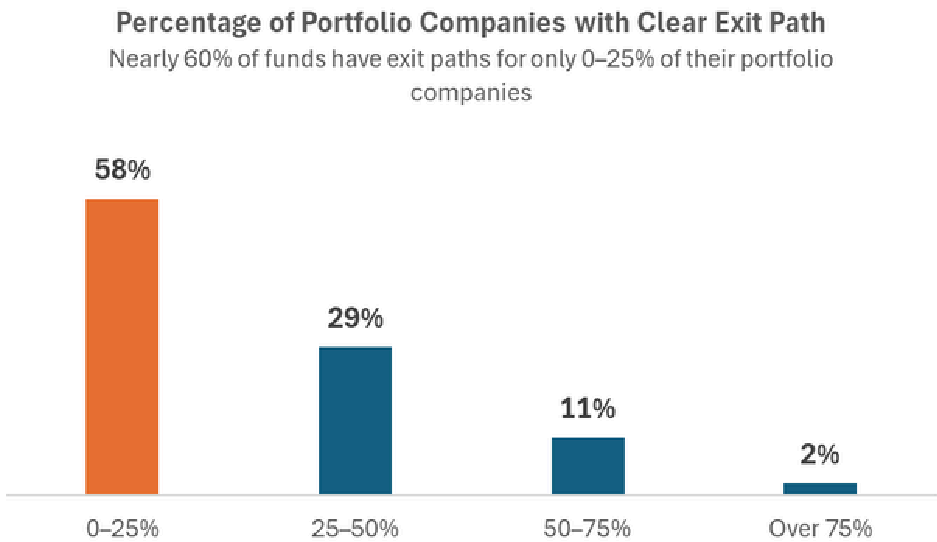
- Founders largely use expensive equity to finance working capital or asset expansion, leading to eroded ownership and constrained follow-on capacity.
- Non equity or quasi-equity products such as venture debt and revenue-based financing remain nascent.



c. Liquidity and Exit Pathways

Liquidity is the ecosystem's biggest bottleneck as African markets have few natural acquirers, shallow public markets, and limited secondary activity.

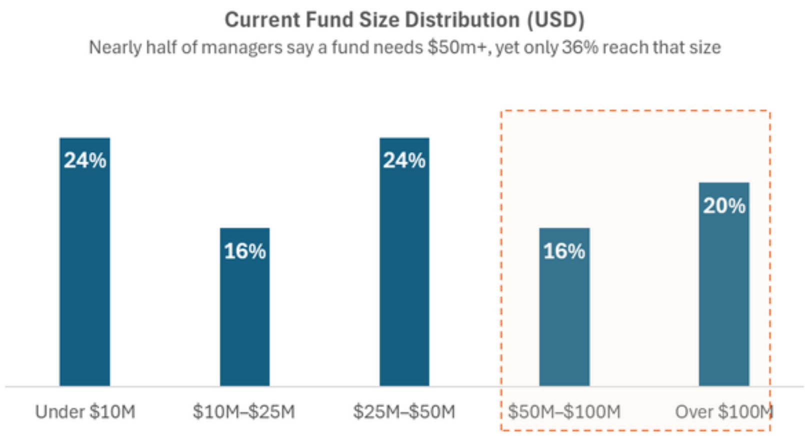
- 58% of investors surveyed said fewer than a quarter of their portfolio companies have a visible exit path.
- 40% report between 10–50% of their portfolio companies are "Zombies", currently surviving without scaling or path to exit.



d. Incentives and Fee Structures

Most funds are small and operationally intensive, operating under a 2/20 model built for large funds, liquid markets and at most, decade-long holding periods. While European waterfalls delay carry distribution for close to two decades, management fees are too thin to support hands-on governance, talent, and portfolio support.

- 64% of respondents manage funds below USD50 million; meanwhile, 46% of them believe a fund must be at least USD50 million to be economically sustainable.
- 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.

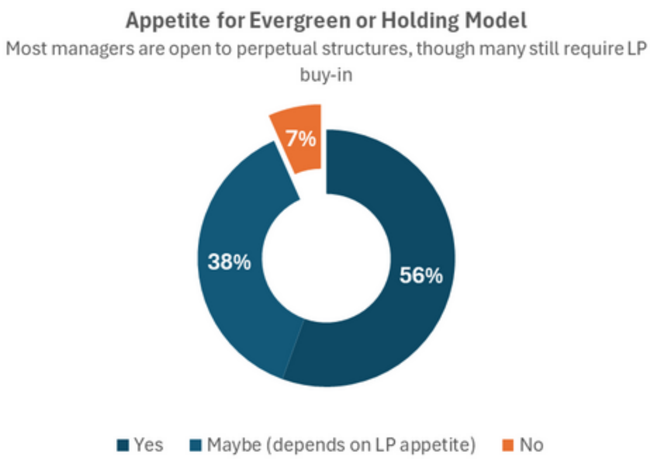


3. Approaching the Problems

Despite these structural constraints, the white paper also reveals an encouraging truth: African fund managers are eager to innovate. Some are already experimenting with models that better reflect the rhythm of African startups.

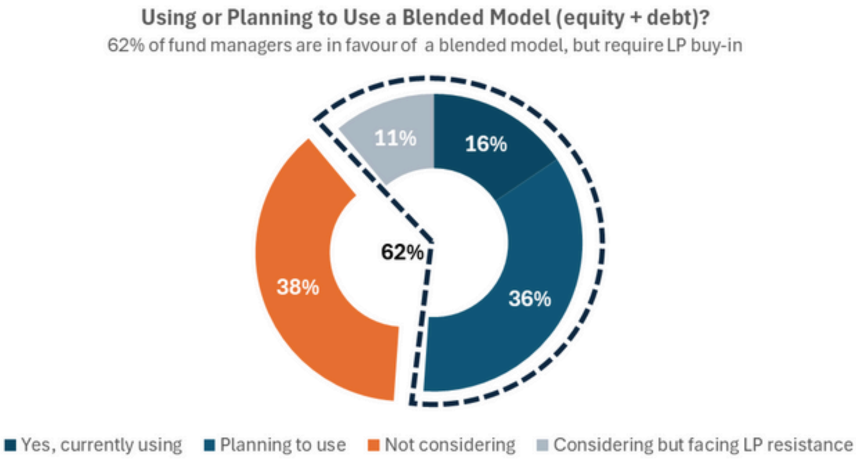
a. Adjusting Fund Structures to Better Match Timelines

- Employ 13(+1+1) to 15(+1+1) year vehicles from the outset.
- Use continuation vehicles for illiquid but high-performing assets.
- Include Permanent Capital Vehicles (PCVs), Evergreen and Mutual Fund structures with periodic liquidity windows.
- Many see hybrid models as promising, such as a permanent-capital core for patient ownership, complemented by time-bound SPVs for high-growth opportunities.



b. Rebuilding the Capital Stack

- Debt products such as asset financing, revolving invoice/contract financing, working capital guarantees, offtake-backed lending and overdraft cashflow lending, can be structured to align repayment with operating cashflows.
- Blended models that combine equity investments with debt facilities/mezzanine instruments, either within the same fund or through parallel SPVs.
- Revenue-Based and Structured Equity Instruments such as redeemable equity could provide liquidity earlier in the fund life and finance the operational backbone of African businesses more efficiently.



c. Truly Engineering Exits

- Successful exits through secondaries and M&A arise when investors proactively engage potential acquirers, align portfolio companies to strategic fit, and intervene early to guide valuation, control dynamics, and execution.
- Designing structured exit pathways, sourcing competitive secondaries, orchestrating strategic M&A conversations, planning employee or management buyouts, and setting up continuation vehicles with proper governance.
- 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.
- Structured exit instruments, employee or community buy-outs and management buy-outs should be considered as complementary pathways for funds with companies that exhibit more moderate, steady growth.
- Building a consistent transition pathway from venture-backed private companies to publicly listed entities is a key requirement for increased public listings.

d. Rethinking Incentive Mechanisms

- Declining fees over time, tiered and performance-linked carry allowing to link carry escalation to realised performance, as well as dedicated operational and support budgets should all be considered as part of the mix.

- The European waterfall, under which 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, penalises African fund managers managing small funds with concentrated exposure and staggered liquidity. American-style (deal-by-deal) waterfalls distributing carry after each realised deal, once that deal has cleared LP capital and preferred return hurdles, should be further explored.

e. Exploring Alternative Models

- Evergreen structures eliminate the fixed 10-year fund cycle and allow fund managers to reinvest proceeds and exit when market conditions are right.
- Venture studios combine operational and technical infrastructure, shared talent, hands-on support and early capital; thus generating a more sustainable portfolio with different return profiles rather than relying on a fund returner.
- ESO-linked funds combine capacity building with investment, often blending catalytic or grant capital with follow-on venture funding; thus strengthening dealflow and de-risks startups before investment.
- CVCs and institution-linked investment arms invest strategically, with goals that go beyond financial returns, generating long-term value for both their parent organisations and the startups they back.

4. Where We Go From Here: A Call to Action

One of the most striking findings of the white paper came when we asked investors: *“If you had a guaranteed anchor LP and freedom to design any structure you wanted, what would you build?”*

The answers were unexpectedly 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 many.**

Models that reflect the realities of local markets, the time horizons of African founders, the liquidity constraints of African exits, and the operational intensity required to create value.

As you read this short memo and prepare for the roundtable, we invite you to reflect on a few guiding questions:

- Which fund structure best fits the actual companies you want to back?
- What timeline does your market require and do your current fund terms reflect that?
- What capital instruments would most improve outcomes in your portfolio?
- What liquidity pathways could you realistically institutionalize?
- Which incentives will produce the behaviours we want in both GPs and LPs?
- What alternative models resonate with your thesis and which do not?

This roundtable is not the end of the conversation but the moment we begin designing what African venture capital should truly look like. Africa’s venture future will not be shaped by adjusting the old model but by expanding the menu of options.