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IN SEARCH OF EQUITY: EXPLORING AFRICA'S GENDER GAP IN START-UP FINANCING

KEY MESSAGES

- **The Africa Gender Innovation Lab (GIL) joined forces with emerging market intelligence firm Briter Bridges to explore Africa's gender gap in start-up financing and its potential drivers.**[1] Data from Briter's industry platform is used to quantify the gender gap and the results of an online survey of 172 randomly selected entrepreneurs is used to highlight differences between female and male co-founders and their companies.
- **All-female founding teams received only 3 percent of the funding to African start-ups; in comparison, all-male founding teams received 76 percent of the funding.** The amount of financing they received is disproportionate, as 11 percent of the 2,400 companies for which demographic information is available are all-female teams.
- **Female founders are not only underrepresented in the industry, but also in key subsectors.** Women are less likely to operate in subsectors that attract more investment, such as financial technologies (fintech).
- **In the sample of 172 entrepreneurs, male and female founders followed different financing paths.** Female founders were less likely than male founders to pitch for equity investments. Conversely, they were more likely to apply for bank loans, or preferred growth from retained earnings.
- **A confidence gap separates female and male founders in the sample.** Female survey respondents showed less confidence in their ability to pitch to investors and in their firms' long-term profitability, even though they were more educated than male survey respondents and experienced similar revenue changes.

GENDER INNOVATION LAB

The Gender Innovation Lab (GIL) conducts impact evaluations of development interventions in Sub-Saharan Africa, seeking to generate evidence on how to close gender gaps in earnings, productivity, assets, and agency. The GIL team is currently working on over 70 impact evaluations in more than 25 countries with the aim of building an evidence base with lessons for the region.

BRITER BRIDGES

Briter Bridges is a market intelligence and research firm focused on underserved economies. Briter has built the largest collection of visual publications on Africa and underserved markets and regularly provides data and insights to corporates, development finance institutions, governments, and investors.

- **The insights of this report raise important new questions and highlight that women's access to finance should be a priority.** This report proposes ideas for future research and possible recommendations targeted to female founders in Africa.

BOX 1. DATA SOURCES

Industry Data: The Briter Intelligence platform includes more than 6,500 companies with an operational focus on Africa, more than 1,100 investors, 900 hubs, and 85 sectors and 430 subsectors. Data points include the sectors in which companies operate, their geographic focus, and funding details, as well as (for a subset of 2,397 firms) the gender and educational backgrounds of all active cofounding members of the start-up teams.[a]

Survey Data: Founders were invited to complete an online survey about their characteristics and their companies' financing paths. One thousand cofounders from Briter's industry data were randomly selected and invited to participate, and 172 respondents (each representing a unique company) completed the survey.[b] Of the 172 respondents, 108 are men (63 percent) and 64 are women (37 percent). They come from 63 all-male-founded companies (37 percent); 24 all-female-founded companies (14 percent); and 85 female/male cofounded companies (mixed teams, 49 percent).[c]

a. It is worth bearing in mind that demographic information is available for a substantial subset of founders, and financing deals are included only if they have been publicly disclosed.

b. Women were contacted first to give them more time to respond and to encourage participation.

c. Although women were overrepresented in the survey data, all other characteristics, such as sector and headquarter country, were similarly distributed as in the industry data.

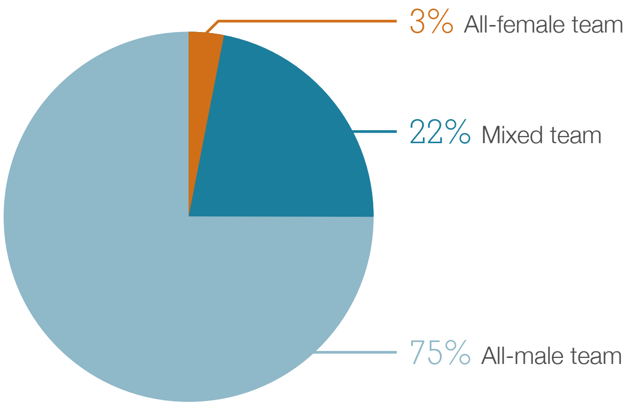
HOW WIDE IS THE GENDER GAP IN START-UP FINANCE AND WHERE IS IT MOST ACUTE?

The data shows that for every US$1 going to all-female founding teams, all-male teams received US$25. Briter Bridges deal flow data shows that, between 2013 and 2021, a total of 1,112 start-ups operating across Africa raised the combined amount of US$1.7 billion in early-stage financing (angel investment to Series A).[2] Investments into all-female teams made up only 3 percent of the US$1.7 billion, compared with 76 percent going to all-male founding teams (figure 1).[3] All-female founding teams are also disproportionately underfunded: among all founding teams for which Briter Bridges has collected demographic information, 77 percent are all-male, 11 percent are all-female, and 12 percent are mixed.

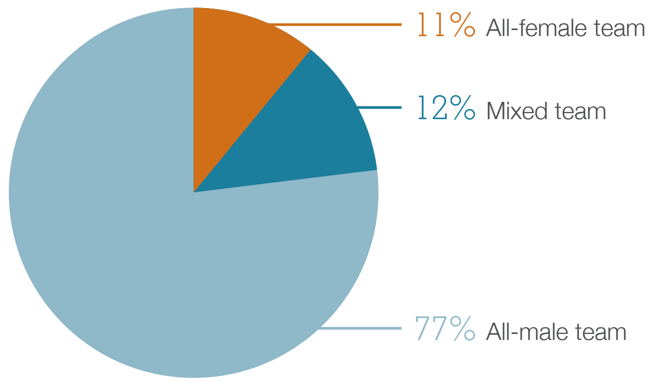
Most of the funding went toward companies operating in fintech, an area that sees even fewer female-led companies than the industry average. A few subsectors (or "verticals"), such as fintech and cleantech (clean technologies), account for the lion's share of total funding in Africa. These subsectors seem to be more male dominated than the industry as a whole. Among the two verticals that received the most investment, all-female founding teams made up just 8 percent (fintech) and 6 percent (cleantech) of the total, compared with an industry average of 11 percent. With regard to their funding share, all-female founding teams make up just 3 percent of the investment into fintech companies, and not even 1 percent of the investment into cleantech.

All-female teams make up less than 1 percent of the total investment once all internationally headquartered companies are excluded. Companies headquartered in the United States and the United Kingdom make up about one-third of all investments.[4] About two-thirds of all-female-founded teams are based in the United States and the United Kingdom, compared with 32 percent of male-founded teams—showing that the number of all-female teams shrinks considerably if the analysis is restricted to companies headquartered in Africa.

FIGURE 1. SHARE OF FINANCING RECEIVED AND INDUSTRY COMPOSITION



Share of financing received



Share of firms in the industry

Source: Briter Intelligence, 2013-2021

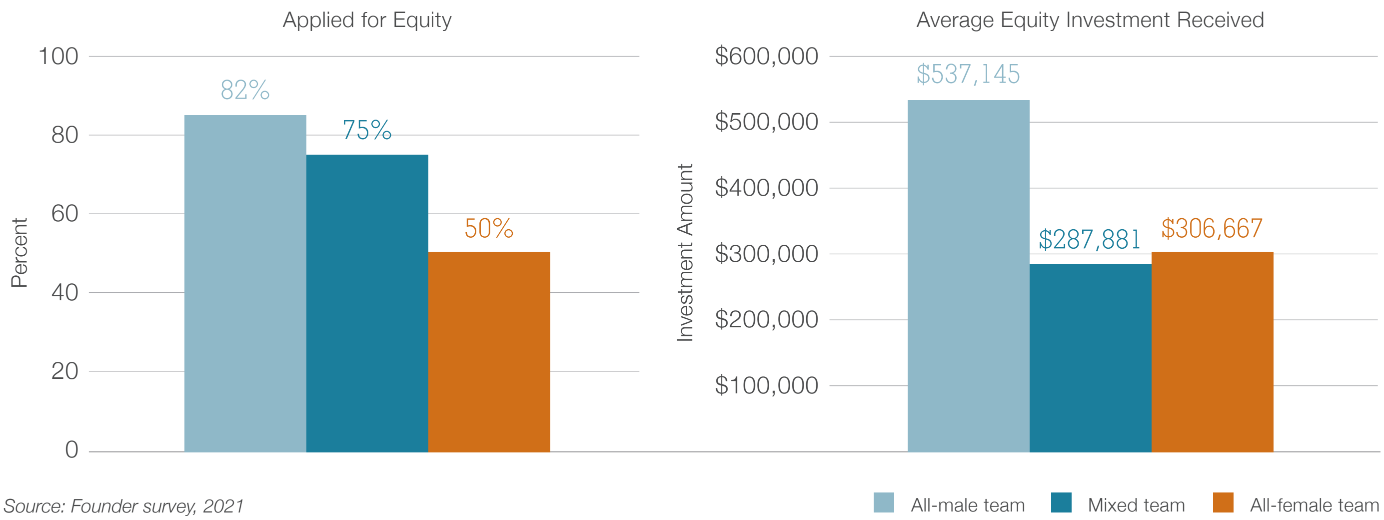
ARE THERE DIFFERENCES BETWEEN FEMALE AND MALE FOUNDERS AND THEIR COMPANIES?

In the survey sample, female-founded companies did not seek equity investment as much as male-founded companies and they seemed to rely on debt or revenues for their financing needs.[5] About 50 percent of female-founded companies in the sample tried to raise equity for their companies, compared with 82 percent of male-founded companies. Conversely, more female-founded companies applied for debt financing compared with male-founded companies. Responses from female-founded companies indicate that they either did not try to raise equity because they preferred to reinvest earnings, they did not have the need for it, or they had other reasons. For those who did raise equity, a male-founded team received almost twice as much in equity investments on average compared with a female-founded or mixed-team company in the sample with similar characteristics, such as the company's size, age, and sector and headquarter location (figure 2).

Female founders in the sample have better educational qualifications, but fewer of them have prior entrepreneurial experience. Women were more likely to have a master's degree compared with men (41 percent versus 31 percent) (figure 3). They were more likely to have business degrees and less likely to have engineering degrees compared with male founders. However, more men (69 percent) had been a founder previously compared with women (56 percent). In addition, 15 percent of women reported that their previous company closed, compared with 26 percent of men. So, fewer women in the sample have previous founding experience, and if they do have previous experience, they are less likely to have seen a venture fail.

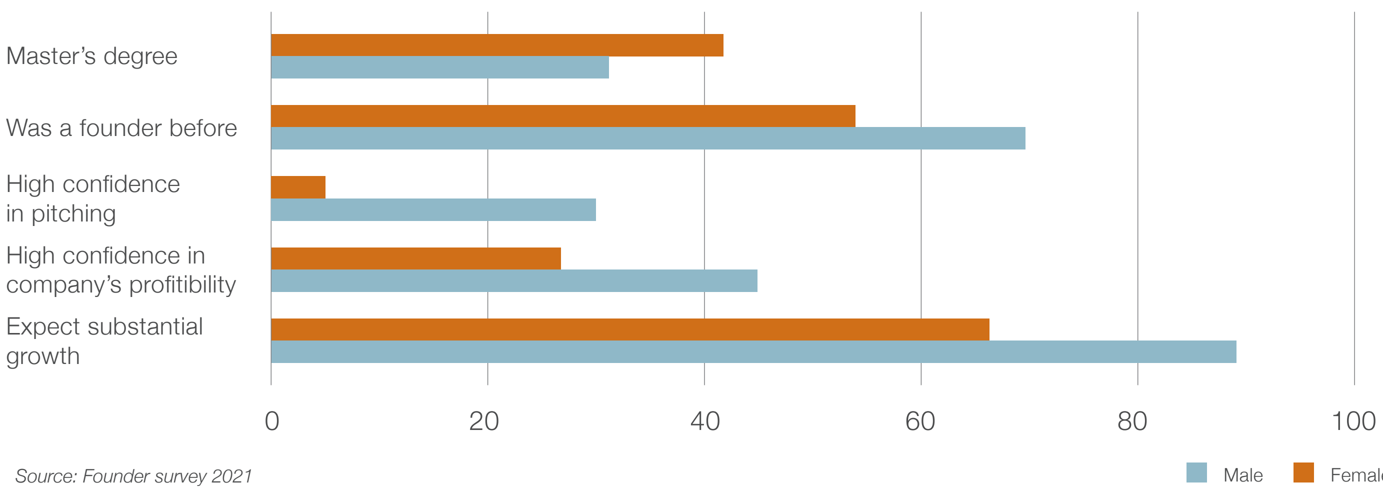
There is a confidence gap between female and male founders in the sample regarding their pitching skills and their companies' profitability, despite similar performance over the past year. Only 5 percent of women reported high confidence in their pitching skills, compared with 30 percent of men (figure 3). Similarly, regarding their companies' prospects of long-term profitability, men were about twice as likely to report very high confidence than women. Although most founders have optimistic expectations, about 66 percent of women in the sample expect substantial growth compared with 88 percent of men. However, men and women report similar business performance over

FIGURE 2. SEEKING EQUITY AND AVERAGE EQUITY RECEIVED



Source: Founder survey, 2021

FIGURE 3. SELECT SURVEY RESPONSES



Source: Founder survey 2021

the past year, suggesting that the difference in future expectations is not just a function of prior experience.

THE WAY FORWARD

The *In Search of Equity* report lays the groundwork for future research that identifies drivers, explores the role of investor bias, and zooms in on subregions or countries within Africa. The report raises several new questions: Are female founders less likely to seek equity investments because they prefer organic growth, or because they do not expect to pitch successfully? Is investor bias one of the reasons female founders are less likely to raise equity, and to raise smaller amounts when they do? And, how does the situation vary across the main regional hubs of Africa's tech industry? Ongoing GIL research should help address some of these questions.

In the meantime, there are at least five practical takeaways for anyone interested in supporting the ecosystem for female founders in Africa's tech industry:

- **There are too few female founders in high-growth verticals.** One approach to growing the pipeline is to share information on the potential of entering high-growth sectors that are receiving the bulk of investment funds and encourage women to start and grow businesses in these sectors—through targeted incubators, networks, or mentorship programs, for example.
- **More flexible financial products might help reach more female founders.** There is scope for innovative financing instruments that offer an alternative to traditional debt and equity funding. One such option is revenue-based financing, a form of uncollateralized, nondilutive funding that is increasingly popular among software start-ups but has potential for other types of businesses with recurring revenues as well.
- **Traditional business training is unlikely to increase the funding prospects of female founders.** The findings show that women have higher levels of secondary education and business degrees. Organizations that provide traditional business training to female entrepreneurs should pivot their training focus on pitching to investors as well as building entrepreneurial self-esteem (two areas in which GIL is currently piloting new approaches).
- **A more inclusive entrepreneurial culture would help accommodate the diverse backgrounds and aspirations of founders.** The popular perception of start-up life can be rather exclusionary, associated with a high-stakes/high-gains ethos, brash male CEOs, and stereotypical "tech bros." Promoting a more inclusive vision of the industry—by showcasing female role models, highlighting nontraditional paths to success, or normalizing failure as part of the entrepreneurial process—could lower the barriers to entry for women.
- **Access to equitable finance for female and male founders should be on everyone's minds.** The width of the gender gap in African start-up finance is considerable, and it has tangible consequences: the ability to fundraise is not a vanity metric but determines a firm's potential to acquire new resources, to survive critical moments, and to chart a path for growth. Anyone with a mission to build the African entrepreneurial ecosystem should have a perspective on how their investments, policies, or training programs can increase the chances of women-led firms accessing funds. This effort could take the form of gender quotas or targets in training programs, pitch competitions, or financing flows.

FOR MORE INFORMATION, PLEASE CONTACT

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1 You can read the full version of the report here: http://wrld.bg/gjxm50GnOpL

2 The analysis excludes 64 outlier firms. These larger deals and "unicorn" rounds made up a total of US$7.3 billion. Including outliers does not change the funding shares of male and female teams.

3 One percent are unidentified and male/female cofounded (mixed) teams made up the rest.

4 Headquarter reflects the company's place of incorporation, but all companies included have an operational focus in Africa. Where a company is headquartered is not necessarily the same as where the founders are based.

5 Only statistically significant differences are reported in this section.

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