# African startups face funding and regulatory hurdles amidst fluctuating success



The global startup ecosystem is currently facing significant challenges, with many high-value private companies, known as “unicorns” (valued at $1 billion or more), encountering existential threats. These challenges stem from a combination of unfavourable regulatory environments, difficult economic conditions, intense market competition, and funding difficulties. This shift marks a change from the earlier perception of unicorns as icons of innovation and disruption to a landscape where numerous startups are struggling to achieve sustainable profitability or market leadership.

In Nigeria, several high-profile startups have recently ceased operations. Notable among them is Quizac, a fast-growing educational technology startup launched in 2021 that revolutionised learning by enabling users to create and participate in interactive quizzes. Despite gaining considerable traction within the students’ and educators’ communities for its user-friendly platform, Quizac shut down in August 2023. Reports indicated that the company had previously declined a $250,000 investment, motivated by a desire to maintain independence and focus on long-term growth rather than short-term financial gains. Nonetheless, Quizac ultimately succumbed to challenges such as intense market competition, difficulty retaining users, funding shortages, operational costs, and allegations of mismanagement.

Another prominent Nigerian startup that shut down recently is 54gene, a genomics research company that raised $45 million from investors including the Bill Gates Foundation and Y Combinator. Founded less than four years ago, the company experienced significant leadership instability, with three different CEOs in a brief period, the last stepping down in July 2023. Sources within the ecosystem attribute 54gene’s downfall primarily to financial mismanagement and competition from established pharmaceutical giants like Pfizer and GlaxoSmithKline.

The fintech sector has also seen high-profile closures. Zazuu, an end-to-end money transfer marketplace focused on facilitating remittance payments to Sub-Saharan Africa, formally shut down in November 2023 after being unable to raise further growth funding. Founded in 2018 by Nigerian entrepreneurs Kay Akinwunmi, Korede Fanilola, Tosin Ekolie, and Tola Alade, Zazuu had raised $2 million earlier in 2023 from angel investors including notable figures like Babs Ogundeyi, CEO of Kuda Bank, and Jason Njoku, CEO of Irokotv. The company sought to deepen its cross-border payment services with this capital but ultimately could not secure additional investments.

The closure of these startups has prompted debate within the venture capital community about investment due diligence practices. Venture capitalists argue that many startups received funding without sufficient scrutiny of their business models and operational viability. With startup failure rates estimated to be as high as 90 per cent within the first five years, there is a growing consensus on the need for more rigorous evaluation before investment decisions.

Despite these difficulties, Africa’s startup ecosystem continues to grow, driven by a youthful and tech-savvy population. Nigeria, Egypt, and Kenya are the leading countries in startup activities on the continent, with Nigeria hosting approximately 3,360 startups, ahead of Egypt’s 2,112 and Kenya’s 1,000. Cities such as Lagos, Abuja, and Ibadan remain hubs attracting significant investment, particularly in fintech, e-commerce, and ed-tech sectors. For example, between 2015 and 2022, Nigerian tech startups raised $2.07 billion in funding, with fintech companies accounting for 36 percent of this amount.

Historical success stories in Africa’s startup ecosystem include Interswitch and M-Pesa. Founded in 2002, Interswitch became Africa’s first unicorn by 2019 after receiving substantial funding, including $200 million from Visa. The company recently celebrated its 20th anniversary and continues to expand its services. Similarly, M-Pesa, launched as a pilot project in Kenya in 2005, has grown into a mobile money service with over 66 million users and $314 billion in yearly transactions, operating across multiple African countries.

Nonetheless, the startup environment in Africa is affected by numerous structural challenges. Common issues include regulatory uncertainties, high taxation, inadequate government support, poor digital infrastructure, and a shortage of skilled talent. The 2023 Startup Graveyard Report highlighted that Nigerian startups had the highest rate of shutdowns on the continent, with 18 closures reported, reducing Nigeria’s lead as the most funded African startup nation. Funding dropped dramatically from $976 million in 2022 to $399 million in 2023 in Nigeria. Other African countries also experienced startup failures, with businesses ceasing operations in Kenya, Ghana, South Africa, and Egypt.

Specific cases exemplify these challenges. LazerPay, a blockchain payment platform co-founded in 2021, ceased operations after its lead investor withdrew support, despite initially raising $1.1 million. Similarly, Pivo, a Nigerian fintech founded by two women, shut down in late 2023 due to economic turbulence caused in part by sudden regulatory policy changes by Nigeria’s Central Bank, including currency redesigns that affected cash flows. Internal conflicts among co-founders also contributed to its closure. Cova, a fintech platform providing financial portfolio management with a subscription model, folded in January 2024 due to financial instability.

Outside Nigeria, Kenyan startups such as Sendy, a logistics company established in 2021, and RejaReja, a B2B e-commerce platform, faced operational challenges amid funding droughts and economic pressures. Sendy shifted from consumer to business services before its acquisition and subsequent administration. RejaReja expanded to multiple countries but could not sustain operations despite raising over $64 million through multiple funding rounds.

According to the Startup Graveyard Report, funding issues remain the most significant cause of startup failures, accounting for 39 per cent in 2023 and continuing to be critical in 2024. Additional causes include macroeconomic factors (17 per cent), regulatory obstacles (11 per cent), operational difficulties (11 per cent), and challenges related to customer acquisition costs (6 per cent). Some startups attempted to diversify their service offerings beyond original core products but found limited market fit, leading to strategic pivots or shutdowns, as seen with JumiaFood and BuyCoins Pro.

The nuances of startup challenges vary across African countries. South Africa’s ecosystem is characterised by corporate dominance, inequality, gender disparities, limited market access, monopolistic competition, and infrastructure issues such as frequent power outages. Kenya’s startup landscape is concentrated largely in urban areas, suffering from limited funding, a lack of risk capital, weak startup culture, and gender funding disparities favouring male-led businesses. Nigerian startups encounter political instability, inconsistent regulatory policies, unreliable power supply, and difficulties accessing finance.

Investor confidence in African startups faces hurdles due to these complexities. Regions like Africa are perceived as higher-risk investment zones compared with Asia or Latin America, with investors demanding rapid profitability or significant revenue signals. Despite this, fintech remains the dominant and most established sector in Africa's startup ecosystem, benefitting from steady investment and numerous mergers and acquisitions.

Economic pressures also affect startups and their founders’ well-being. A report titled “Passion and Perseverance: Voices from the African Founder Journey” by Flourish, based on surveys and interviews across 13 African countries, identified inflation and fundraising challenges as major stressors affecting founders. For example, 66 per cent of Nigerian startup founders cited inflation as a key pressure, alongside difficulty in securing funds and currency devaluation. Iyinoluwa Aboyeji, co-founder of Andela and Flutterwave, highlighted the impact of external stressors on entrepreneurs, emphasising the importance of focusing on controllable factors amid market uncertainties.

Alongside the setbacks, Africa’s startup sector includes successful unicorns such as Interswitch, Flutterwave, Opay, Wave, Andela, Chipper Cash, MNT-Halan, Moniepoint, and TymeBank. Flutterwave, founded in 2016, reached unicorn status in 2021 after raising significant funding rounds culminating in a $3 billion valuation by 2022. Moniepoint, originally TeamApt, and TymeBank in South Africa provide innovative financial technology solutions targeting diverse customer bases and have obtained licensing from regulatory authorities.

Recognising the sector’s importance, the Nigerian Federal Government has demonstrated commitment to fostering a thriving startup environment by allocating N10 billion as startup capital. Victoria Fabunmi, National Coordinator of the Office for Nigerian Digital Innovation, under the National Information Technology Development Agency, stressed government efforts to deliver financial support, regulatory clarity, and strategic partnerships aiming to accelerate business growth. She highlighted the launch of a Startup Portal designed as a central resource for ecosystem participants.

The investment community and entrepreneurs alike emphasise the need for sustainable growth strategies in these challenging conditions. Venture capitalist Olumide Ahmadu pointed out that approximately 42 per cent of startup failures result from insufficient market demand for their products or services. Broader economic challenges such as inflation and rising interest rates further strain startups dependent on external investments. He stated, “The current trend serves as a crucial reminder that high valuations and substantial funding do not guarantee long-term success. Sustainable growth, a strong understanding of market needs, and prudent financial management remain essential for survival in the dynamic and often unforgiving landscape of new ventures.”

Survival strategies recommended include fostering collaboration, securing market acceptance, maintaining continuous interaction between founders and customers, ensuring product visibility, and effectively competing in the market. The Startup Graveyard Report also cautioned against partnerships with problematic investors who may impose unrealistic expectations for rapid profitability, thereby placing additional pressure on startup founders post-investment.

Overall, while Africa’s startup ecosystem faces considerable challenges ranging from economic hurdles to funding constraints and regulatory issues, success stories within fintech and other sectors illustrate the potential for innovation and growth. Ongoing government support, coupled with refined investment practices, may contribute to enhancing startup sustainability across the continent.

Source: [Noah Wire Services](https://www.noahwire.com)

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